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CONFIDENTIAL

NOTE OF A MEETING BETWEEN THE MINISTER AND MR ERTL, FEDERAL GERMAN MINISTER OF AGRICULTURE

ANGLO-GERMAN SUMMIT - 31 OCTOBER 1979: BONN

Present: The Rt Hon Peter Walker, Minister of Agriculture, Fisheries and Food	Mr Ertl, Federal German Minister of Agriculture
Mr Evans - MAFF	Mr Rohr) German Ministry of Agriculture
Mr Waters - MAFF	Mr Genske) German Ministry of Agriculture
Mr McCleary - British Embassy, Bonn	Mr Witt) German Ministry of Agriculture

CAP and the Budget

1. Mr Walker expressed his disappointment at the response of the Council of Agriculture Ministers on 30 October to Mr Gundelach's review of the CAP budget. Mr Ertl acknowledged that a major problem confronted the financing of the CAP. Some savings could be found, perhaps of the order of 500 million units of account, but these were a drop in the ocean. At best, money for the CAP would run out in a year or two and enlargement could not be financed without an increase in revenues.

2. Mr Walker thought that it would be difficult to arrive at an agreed solution of the budget difficulties because the various Member States had such different interests in the CAP. Some were gaining immense benefits from the CAP while others were bearing a heavy cost. Some were more than self-sufficient in agricultural commodities while others were not. Mr Ertl replied that such difficulties had dogged the CAP from the beginning and were now aggravated by the divergence of Member States' economic performances. The "stocktaking exercise" of 1975 had shown that there was no common objective among Member States in their attitudes to the CAP. He recalled his previous conversation with Mr Walker at Bad Wiesse in the summer in which he had explained the central importance of the CAP to the Franco-German pact which had established the EEC. France had expected to gain access to German markets for her agricultural exports and Germany access to French markets for her industrial goods. In practice, German agricultural exports to France had risen at the same rate as French industrial exports to Germany, and agricultural exports from the Benelux countries and Denmark to Germany had also increased. These developments were basic to an understanding of the various Member States' interests in the EEC. France wanted to maintain her agricultural exports not only for the sake of her farmers, but in order to save foreign exchange, as did Denmark, Ireland and Italy. Italy and the United Kingdom wanted to

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in[illegible]ase milk production in order to save foreign exchange. Against this background, a common global solution to the problems of the CAP could not be expected. Compromises had to be found and the problems worsened with time.

3. Mr Ertl recalled that France always favoured heavy intervention régimes in the meat sector. It was not, therefore, surprising that France was pressing for a heavy régime for sheepmeat.

4. Mr Ertl noted that the British Press constantly attacked small German farmers in connection with EEC surplus production. He pointed out that 50% of German farmers could be considered small, but that they accounted for only 20% of agricultural production. Improvements in farm structure would reduce the number of small farmers, but result in increases in production as larger farms were created. 440,000 cows had been slaughtered in Germany in 1978 under the non-marketing scheme, but had reduced the cow population by only 0.5%. This showed that the average herd size was increasing, but larger farms would have higher investment costs and would be unable to withstand an extension of the 1979 price freeze. Even so, milk production in Germany had increased by 2%.

5. Mr Walker argued that a price freeze should reduce farm incomes, but national aids and national financial policies were increasingly coming into play. These were not taken into account in Brussels' decisions. It was clear that national Governments would use such measures to prevent their farmers from being bankrupted by decisions taken under the CAP. Production would therefore be maintained by national aids, with the EEC budget meeting the cost of surplus disposal. If national aids were not brought under closer control, CAP decision taking would gradually decrease in importance. Mr Ertl thought that there was no prospect of bringing these aids within the purview of the CAP unless Member States could agree on an economic union which harmonised economic policies. He did not now believe that such a union could be attained before the end of the century.

6. Mr Walker said that the reason why there was no prospect of changing the CAP was that certain countries, namely the Netherlands, Denmark and Ireland made enormous gains from the budget and others, such as France, benefited from the trade flows of the CAP, and understandably did not want to surrender these advantages. Italy was moving from a position of net loss to one of net gain, having benefited from the generous structural package. Belgium was almost in balance in its transactions. Germany incurred a large net loss but believed that the price was worth paying; the United Kingdom, which would now incur the biggest loss, would argue that it was not.

7. Referring to the discussion at the informal meeting of the Council on 30 October, Mr Walker said that it was clear that the Commission had decided to tackle surplus production by means of quotas. It was still paying lip service to rejection of the quota system, but it was implicit in the proposals for a higher co-responsibility levy on those who increased milk production that quotas should be imposed. The Commission was also proposing

to use quotas to attack surplus sugar production. Mr Ertl replied that the problem of surpluses had been increased by the fall in the value of the US dollar. World prices had dropped, thus increasing the cost of disposal of EEC surpluses, and the dollar fall had also cheapened imports of feedstuffs. He agreed that quotas would not succeed in solving the problems of surplus production. They would have to be applied to farms and dairies and the administrative costs would be excessive. Countries with low historic rates of self-sufficiency would oppose the introduction of quotas. Mr Rohr thought that Commissioner Gundelach was not actually proposing a system of quotas, but rather a graduated co-responsibility levy which would increase with increases in production. He agreed, however, that in practice such a measure would have to be applied on a national basis and further refined to apply to individual farmers and creameries. He too, however, believed that such an approach would be unsuccessful.

8. Mr Walker said that a quota system could not be applied on an EEC basis. It would clearly be unacceptable to German farmers that they should be penalised for increases in UK milk production and vice versa. The penalty would have to be applied to those who actually increased production: and this meant individual quotas. As for sugar, most countries would oppose cuts in the 'A' quotas for their own production. It was depressing that Mr Ertl and he should agree that quotas would not succeed but be unable to propose measures that would succeed.

9. Turning to the problem of the financial ceiling on expenditure, Mr Ertl said that both the enlargement of the Community and the maintenance of the CAP would require increases in EEC revenues. He could not believe that any Member State would oppose the maintenance of the CAP in the last resort. Ways would have to be found of soldiering through the financial crises of the next year or two until revenues were increased. Mr Walker replied that decisions could not be deferred for two years: the problems were already here. Mr Rohr argued for a pragmatic approach to the problems of the next two years. An increased co-responsibility levy, cuts in the sugar quotas and reductions in the cost of other commodities might enable the Community to get by. It would be over-ambitious to plan as far ahead as 1985. Mr Evans reminded him that both the French and German Presidents had firmly said that the 1% ceiling could not be increased. Measures such as the co-responsibility levy were transparent devices to avoid the application of the ceiling and would be immediately perceived as such by the British Parliament. Mr Walker added that Britain would not be able to agree to price increases to be offset by co-responsibility levies in order to finance the CAP. In practice such levies were taxes on the consumer. In the sugar sector production levies could be set to reduce surplus production, but in the milk sector levies would have no effect if they were offset by price increases.

10. Turning to the prospects for the next price fixing, Mr Ertl said that no Member State would be able to accept price

cuts. Farmers' incomes had already been reduced as costs of production increased, while intervention prices were frozen. Quotas would be so difficult and take so long to negotiate that they would not provide a solution in time. It was not likely that agreement could be reached to tackle the problem of cheap imports of feedstuffs which substituted for Community grain. In summary, the problems seemed so large that Agricultural Ministers would be unable to solve them. If imports of cheap feedstuffs could be cut by 5% or 10% the costs of the dairy sector could be brought under control. But such measures were taboo for Germany and farmers, who would actually benefit from a better balanced milk market, could not be expected to cut down their use of cheap concentrates voluntarily. German farmers tended to point out that if they switched to the intensive livestock production systems used in the Netherlands, German milk production would increase dramatically. Access to cheap feedstuffs was a major illogicality of the system.

11. Mr Ertl said that the German approach to the price fixing would be guided by the principle of increasing farmers' incomes in line with the increases in other sectors of the economy. Farmers' incomes would have to be increased by about 6% to 7% which would mean a 3% price increase. He could not be expected to reduce German farmers' incomes in an Election year.

12. Mr Rohr confirmed that these calculations took into account only the position of full-time farmers.

Fisheries

13. Mr Ertl asked whether the United Kingdom would ratify the Canadian Framework Agreement. Mr Walker explained that the United Kingdom would ratify the 1979 Agreement in December by which time it would almost have ended. He regretted that this point had not been the subject of bilateral consultation before the last Council. He explained that British fishermen were nervous of making third country agreements before the CFP was settled and that the British Government had to carry British fishermen with it to reach a satisfactory settlement.

14. As for the prospects of agreement on a CFP, Mr Walker asked whether Mr Ertl thought that France wanted to make progress. He recalled that he had twice asked for a bilateral meeting with the French Minister and had twice been refused. Finally Mr Le Theule had offered a bilateral meeting one hour before the Fisheries Council but even that had not taken place because the British delegation had been delayed by fog. In Luxembourg Mr Le Theule had agreed to have talks with the British, but Mr Walker was not sure that France wanted to make progress. He thought that it should be in the French interest to settle the CFP before Spain joined the Community. Agreement could be reached within the next six months if France would co-operate, but friction between the Gaullists and the Giscardiens was complicating the issue. Mr Ertl replied that he would seek to discover whether France wanted to make progress. He contrasted favourably Mr Le Theule's readiness to talk with Mr Mehaignerie's fixed positions. He pointed out that Mr Le Theule was pre-occupied with his transport responsibilities and that he had not really mastered his fisheries brief.

15. Mr Walker agreed that this was the case, but recalled that Mr Le Theule had pressed for the June Fisheries Council to take place despite opposition from the United Kingdom, Germany and the Netherlands and the Commissioner. At the lunch before that meeting, Mr Le Theule had shown some understanding of the British approach, but at the Council itself he had embarrassed the United Kingdom and had pressed the Commission to take legal action against Britain's fisheries measures after the Council. He seemed to have sent in his fishing boats to get arrested and even to have promised his fishermen that the Government would pay their fines. Britain's fisheries measures were based on scientific evidence and were not discriminatory. The mesh sizes found in use by the French boats that had been arrested were much smaller than those that the French Minister himself had agreed should come into force from 1 September. Mr Walker said that he had faced constant provocation from Mr Le Theule which had been repeated at the last Fisheries Council. He therefore had the impression that Mr Le Theule, for some reason, did not want a settlement. It would be useful if Mr Ertl could persuade him to try to reach one; otherwise France alone would prevent the agreement that everyone else wanted.

16. Mr Ertl said that he had told Commissioner Gundelach that agreement could not be reached by legal action. He had been unable to see the French Minister himself, but Gundelach reported that he had encountered difficulties with France. The French had told Gundelach that they had not promised to pay the fines of fishermen that were arrested. Mr Ertl had pointed out that he had never promised to pay the fines of German nationals, whatever the provocation of other Member States had been. The French had said that they had not deliberately set up confrontation with the United Kingdom. Mr Ertl would try to persuade Mr Le Theule to agree to seek progress, but he did not at that moment know what his real intentions were.

17. Mr Walker pointed out that Denmark was the country most adversely affected by the British conservation measures. The Pout Box presented a major difficulty for Denmark, but even so he had managed to have a good bilateral discussion with the Danish Fisheries Minister. The Danish Election had then intervened, but the Danish Government had decided not to make a campaign issue out of the Pout Box. Mr Walker would meet the new Danish Minister of Fisheries to see if a rational solution could be found to the difficulties of the Pout Box. He was sure that a settlement could be reached that would be satisfactory to France ahead of Spanish accession. If France did not respond, it would be because President Giscard, the Gaullists and the Communists were fighting for votes.

18. Mr Ertl agreed that the EEC, and fish stocks, would be the losers if a common approach could not be established. The EEC would strengthen its position in negotiations with third countries if it could reach internal agreement on the CFP;

otherwise its negotiating position would be weakened. He accepted that a common approach was essential to effective conservation measures. He promised to use his good offices in the search for a common solution which would take some time to work out, possibly until next Spring. He had assured his Bremen fishermen that the United Kingdom Government sought a common approach, but needed to carry its own fishermen with it. Similarly, Mr Ertl had to show his own fishermen that he was not surrendering on all fronts. The German Ministry had elaborated the lines of a possible settlement. He was anxious that the British Government should not be criticised by Mr Silkin for having surrendered on fisheries. German fishermen realised that political point.

19. Mr Ertl said that he and Mr Gundelach agreed that the present CFP proposals did not provide scope for movement. He agreed that bilateral discussions were needed to facilitate progress and he did not mind if the decision was deferred until January or February of 1980. He advised against mixing up fisheries with agriculture.

20. Mr Walker agreed with this point. It would be advantageous for Europe if progress could be made on a new Common Fisheries Policy at a time when the Common Agricultural Policy was undergoing immense difficulties. He thought that British fishermen could be satisfied without damaging the vital interests of other countries. The Dutch had privately expressed understanding of the British problems. They too would have to negotiate in tough terms so as not to lose the support of their fishermen. Denmark knew that the British Government was prepared to seek a solution which allowed the pout fishery to continue without damaging stocks of whitefish.

21. Mr Walker therefore saw no basic difficulties with the Netherlands, Denmark, Italy, Germany or Belgium, which had a small but important industry. His main fear was that the French Government would seek to maximise their electoral advantage from the negotiations. Mr Ertl again offered to use his good offices in an attempt to ascertain French intentions.

Sheepmeat

22. Mr Ertl said that he had been shocked at the suggestion at the last Agriculture Council that an intervention system would be cheaper than a premium system in supporting the sheepmeat market. Germany could not accept the introduction of intervention for sheepmeat. He would like British and German officials to discuss whether the assertion was true or not. He was not convinced that it was true and thought that the real situation should be fully exposed. Mr Walker assured Mr Ertl that he would never agree to intervention for sheepmeat. It could be shown at a particular moment of time that intervention was cheaper than premiums, but all experience showed that intervention was the most expensive support system.

23. He recalled that Germany had originally supported the United Kingdom in opposing Community financing of premiums. If there were to be Community financing, Mr Walker could not be expected to tell British farmers that they would have to pay for premiums for the Irish and the French to compensate them for their past illegalities. Britain could only agree to Community financed premiums if British producers were treated in the same way as Irish ones. British producers and the British balance of budgetary transfers would benefit to the tune of £400 million from such a scheme. It would be much cheaper for the EEC to allow France to maintain the prosperity of her sheep farmers by means of nationally financed premiums. Mr Rohr suggested that the best solution might be to provide a basic premium (possibly set at zero) to be financed from the EEC with Member States allowed to make supplementary payments at their own expense. Mr Ertl thought that such a move would put at risk the principle of common policies.

Conclusions

Finally, Mr Ertl and Mr Walker agreed on the terms of the report of their bilateral discussion to be presented by Mr Walker to the Plenary Session. A report of the Plenary Session will be circulated separately.

Carl R Waters

G R WATERS
Principal Private Secretary
1 November 1979

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