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16 APRIL 1980

EUROPEAN COUNCIL, LUXEMBOURG

27/28 APRIL 1980

SHEEPMEAT

Brief by Ministry of Agriculture, Fisheries and Food

Objective

1. To avoid concessions on interim or permanent support arrangements for sheepmeat.
2. If essential to make concessions to secure a satisfactory settlement of our budget problems to ensure that they are held within the limits set out in paragraph 6.

Points to Make

3. Sheepmeat Regime

(i) Linkage with budget unjustified. Regime must be decided on its merits.

(ii) We remain ready to negotiate constructively for either interim or permanent arrangements.

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(iii) Any support measures must recognise that we have the major interest in sheepmeat production and consumption and give the UK a fair share of receipts. It would be quite ridiculous if the regime failed to bring financial benefit to the UK where production is 47% of the Community total and when the budgetary imbalance against us is so strong. Our producers would lose the support of our own national support measures (Fat Sheep Guarantee) and must have an adequate replacement.

(iv) Must have a proper common market for sheepmeat and a common support level which does not encourage surplus production.

(v) Intervention quite unsuitable for sheepmeat:

(a) If operated anywhere near existing French price levels would be well above beef support level which is particularly high already. This would discourage consumption and damage the development of the industry.

(b) Makes no sense for deficit commodity, especially as (unlike beef) no manufacturing demand. Could be very expensive and disposal would disrupt Community and world markets. Not operated for pigmeat or poultry and not suitable for sheepmeat.

(vi) Could not agree to unbinding GATT-bound tariff. This already gives Community 20% preference. Voluntary restraint quite adequate to meet French concern.

4. French Import Controls

(i) Must respect EEC Treaty. Difficulties arise for all of us but this is price of Customs union.

(ii) Six months since Court ruled clearly that France's closure arrangements and levies were illegal. When ruling that no interim injunction required, Court again made clear that French Government must comply whether or not sheepmeat regime has been agreed.

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(iii) We would not object to French Government introducing its own legal measures of support to cushion effect on producers in view of very real political problems. Impression that French public think this would be reasonable and that French consumers would welcome additional supplies of excellent UK lamb.

5. Interim arrangements

At the Agriculture Council on 3-4 March France alone rejected a compromise interim measure. In addition to receiving her share of Community aid towards support for sheep producers France would have been able to carry out intervention at her own expense. This proposal was acceptable to all other 8 Member States. By quite unreasonably rejecting this proposal, France alone has blocked progress in resolving the present crisis arising from her refusal to comply with Community law.

6. If the Prime Minister judges it essential to make concessions to obtain French endorsement of a satisfactory budget solution

Prepared to contemplate arrangements involving Community-financed premiums which initially assist France and limited form of intervention if they also provide for:

- (i) Immediate and permanent removal of illegal French restrictions on UK exports.
- (ii) Support arrangements to be at a common level after a short transitional period.
- (iii) UK to receive proportionate share of benefits.
- (iv) No unbinding of the GATT-bound tariff.

Agriculture Ministers should be left to settle the precise arrangements.

Background

7. General

France has nearly one-third of Community sheepmeat production: the UK nearly half. The French have refused to end their illegal import restrictions until Community measures are agreed which include intervention and would prevent a fall in the revenues of their sheep producers. At the Agriculture Council on 3-4 March France alone rejected a compromise interim proposal, acceptable to all other 8 Member States. Following the ending of French import restrictions this would have made available Community aid towards national measures to support sheep farmers and France as well as the UK would have got her fair share of the Community aid. In addition France would have been allowed to carry out intervention at her own expense. The French, however, insisted on Community-financed intervention and would not give a clear assurance that given such an interim measure they would not in the future re-impose their illegal import controls.

8. The French have linked progress on sheepmeat with a solution to the budget problem. They are likely to press, with Irish support and probably the acquiescence of other Member States, for agreement on arrangements, either permanent or if temporary which will continue until a permanent regime is agreed, which include Community-financed intervention and will prevent a fall in the revenues of their sheep producers following the ending of their import restrictions. Community intervention is not in the UK interest nor are Community arrangements which would perpetuate the present discrimination against our sheepmeat sector and deprive the UK of a fair share of Community aid.

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9. Only if it is the price of French endorsement of a satisfactory and final budget solution, should we agree to the negotiation of Community measures which provide for some intervention at a modest level as well as Community-financed premium aid which initially assists France, subject to the provisions in paragraph 6 above.

10. Careful negotiation will be required to protect our interests and detailed consideration of either interim or permanent measures should be remitted to the Agricultural Ministers.

11. The Minister of Agriculture, Fisheries and Food held a bilateral discussion with the French Minister of Agriculture on 15 April, at which the French Minister and his officials described their ideas on the operation of a sheepmeat regime, including use of premiums, private storage aids, intervention and export refunds. The talks revealed the need for further clarification of these ideas and this is being pursued at official level as a matter of urgency.

12. Sheepmeat Regime

(i) The Treaty envisaged a common market organisation for all agricultural products including sheepmeat although it gives latitude as to what form these might take. The Commission's formal proposals, tabled in 1978, were for a light market-related regime, but protectionist modifications have been put forward in discussion. The Dublin Council called for a rapid Community solution to the organisation of the market in sheepmeat.

(ii) Internal

There are two main questions outstanding:

(a) whether there should be support of market prices through intervention as proposed by the French (who dislike direct aids);

(b) how far Community-financed premiums should compensate producers for any fall in market returns due to free trade.

The majority favour full compensation in the first year with gradual degression of premiums thereafter.

The UK has totally opposed Community-financed intervention, has a reserve on Community financing of premiums, and has argued that premium arrangements and prices should align quickly to a common level, so as to end present French discrimination against the UK, and that our interests as the main producer should be recognised. The proposals as they stand meet neither of these requirements and would result in no UK receipts in the first year and little in later years (see Appendix III).

(iii) External The Commission rejected French pressure for unbinding of the 20% GATT tariff and in December the Agriculture Council agreed a mandate authorising the Commission to open negotiations for voluntary restraint agreements under which the principal suppliers, notably New Zealand, would limit sendings to the level of the last three years in exchange for a tariff cut. These are only just getting under way. New Zealand is willing to negotiate, but will not commit herself until the form of the regime is known; she is very concerned at the possibility of intervention. If the tariff cut were 10% this could save the UK some £20m a year in payments to Brussels and some £15m a year in public expenditure.

13. French Import Controls

On 25 September the European Court ruled illegal France's levy/closure system of controls on imports of all UK sheepmeat. Since

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the New Year the Commission have brought two further cases for non-compliance with the ruling. They also applied for an interim injunction under Article 186 of the Treaty, but on 28 March the Court ruled that this was not needed since it had already issued a clear condemnation of the French restrictions in its original judgement. It did not endorse the French argument that they were entitled to a reasonable period of grace before complying.

MINISTRY OF AGRICULTURE, FISHERIES AND FOOD

16 APRIL 1980

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WORKING DOCUMENT

Forecast cost of premiums to producers
(in accordance with point 2 of the Commission
communication to the Council of 10 December 1979)

Region	(1) 1979 market price (ECU/100kg)	(2) 1980 reference price (ECU/100kg)	(3) Forecast price for 1980 (ECU/100kg) (b)	(4) Difference between (2) and (3) (ECU/100kg)	(5) Forecast production in 1980 (in thousands of tonnes)	(€) Cost in MECU
1. Italy	371.39	375	341.68	33.32	42	13.99
2. France	340.72	345	299.83	45.17	150	67.76
3. Benelux Denmark FRG	309.29 (a)	315	272.18	42.82	44.5	19.05
4. Ireland	306.88	310	260.85	49.15	37.5	18.43
5. United Kingdom	232.04	265	255 to 266	10 to 0	250	25 to 0
EEC	292.77		283.83 to 288.98		524	144.23 to 119.23

- (a) On the basis of the following market prices: Belgium: 317.59; Netherlands: 312.12 (excluding VAT); FRG: 310.00; Denmark: 255.13.
(b) On the basis of the following estimates by comparison with the average price for 1979:

Region 1: - 8%
Region 2: - 12%
Region 3: - 12%
Region 4: - 15%
Region 5: + 10% (Commission assumption) to + 15% (United Kingdom delegation assumption).

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BACKGROUND STATISTICS

SUPPLIES - 1979

	Sheep numbers* '000 head	% of Nine	Indigenous Production '000 tonnes (estimate)	% of Nine	Consumption '000 tonnes (estimate)	% of Nine	% Self-Sufficiency
West Germany	1,136	2.4	19.5	3.9	48	6.2	40.6
France	11,450	24.7	150	29.7	206	26.7	72.8
Italy	8,998	19.4	40	7.9	68	8.8	58.8
Netherlands	540	1.2	19	3.8	5	0.6	380.0
Belgium/Lux	90	0.2	4	0.8	20	2.6	20.0
United Kingdom	21,740	46.8	235	46.5	394	51.1	59.6
Irish Republic	2,418	5.2	37	7.3	27	3.5	137.0
Denmark	57	0.1	0.5	0.1	3	0.4	16.7
Nine	46,429	100	505	100	771	100	65.5

* 1978 figures

Source: (i) EC Commission;
(ii) MAFF (UK figs.)

VALUE OF UK PRODUCTION AND TRADE (1979)

	£m
Production (Fat Sheep and Lambs)	321
Imports) including live sheep	174
Exports)	73

UK PUBLIC EXPENDITURE ON SHEEP SECTOR

(£m)

	1975/76	1976/77	1977/78	1978/79	1979/80	1980/81
Fat Sheep Guarantee	7.5	0.2	0.4	0.1	11 ⁽ⁱⁱ⁾	5 ⁽ⁱⁱ⁾
Hill Livestock Compensatory Allowances	10.8	38.8	24.8	18.4	51.9 ⁽ⁱⁱ⁾	33.5 ⁽ⁱⁱ⁾
Wool (Net payments to Wool Marketing Board under stabilisation fund arrangements)	2.0	-2.4	-2.2	-	-	-

Source: (i) UK Annual Review
(ii) MAFF forecast

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SHEEPMEAT IMPORTS 1978

'000 tonnes

	Imports from 3rd countries	% of Nine	Imports from EEC
United Kingdom	225.8*	85.1	0.2
Irish Republic	0	-	0
Denmark	2.5	0.9	0
France	2.3	0.9	44.2
West Germany	16.9	6.4	11.5
Italy	15.4	5.8	2.0
Netherlands	1.0	0.4	1.0
Bel/Lux	1.3	0.5	14.0
Nine	265.2	100	72.9

*1979 = 208

Source: Commission

SHEEPMEAT (including live animals as carcase equivalent)
EXPORT TRENDS FOR UK AND IRISH REPUBLIC

'000 tonnes

	'1973	1974	1975	1976	1977	1978	1979
United Kingdom	29.9	28.5	37.9	38.8	51.0	52.0	49.0
of which to France	21.8	20.6	26.7	15.8	19.9	10.5	5.2
Belgium/Luxembourg	2.7	1.7	4.0	8.9	12.4	17.4	14.7
Germany	1.0	1.7	2.7	7.3	10.2	12.3	16.5
Irish Republic	11.1*	11.0*	15.5	9.2	8.5	17.1	13.3
of which to France	3.6*	3.6*	3.4	1.2	2.0	14.6	12.2

* Excluding live exports

NEW ZEALAND SHEEPMEAT EXPORTS TO UK AND EEC

'000 tonnes

	1973	1974	1975	1976	1977	1978	1979
To United Kingdom (i)							
Mutton	8.5	3.7	5.6	13.1	5.5	15.1	3.6
Lamb	230.7	199.9	229.6	201.2	207.8	198.9	196.3
To Nine (ii)	251.1	209.3	245.4	222.5	220.6	231.8	199.9

Source: (i) UK Trade Statistics
(ii) Commission

COST OF PREMIUMS AND INTERVENTION

1. The Commission estimate that the Commission proposals set out at Appendix I would cost about £77 million (UK would contribute £14 million). This assumes no UK premium receipts (compared to receipts of £44 million in France) which are unlikely given the reference price proposed for the UK. To obtain receipts in the first year the UK needs a reference price above the forecast market price, but other Member States are strongly opposed to UK producers obtaining premiums on top of extra income from the market. To secure a resource balance would involve further expenditure of £17 million, all in the UK, implying a reference price about 10 ECU/100 kg above the forecast market price.
2. Assuming reference prices were adjusted upwards each year in the annual price fixing, UK receipts would be most unlikely, on the Commission's proposals, to match UK contributions until reference prices had aligned over the 5 year transitional period, after which most Member States see premiums disappearing altogether. The scale of cost could gradually reduce.
3. Our objective is to get support on a common level quickly. Once achieved this would give us 47% of total expenditure, or 39% allowing for Greece, reflecting our share of the Community flock, compared to a UK contribution rate of about 17%. The total cost to the Community (and UK) and the UK resource gain would depend on the common level of support. If this is at or near the market level, which is our objective, significant expenditure would only occur in a year of weak prices and on average might total about £10 million a year (UK receipts £4-£5 million, UK contributions £2 million).

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4. If the common level were set above the market level then all costs and receipts would be higher. The extreme case would be convergence on the proposed French reference level (held at the same distance above the Community market average price as in the first year). This could cost around £240 million a year (UK receipts around £100 million, UK contribution £40 million). This illustrates the importance of our objective of convergence on a market related reference level.

5. Intervention costs cannot be estimated because they will vary enormously according to the scale of intervention intended, the intervention level and the loss per tonne actually experienced in disposing of intervention lamb. Some limited intervention could save premium expenditure provided the intervention level was moderate (more so than currently envisaged for France). In the longer term intervention could, unless kept within extremely strict limits, lead to a very high cost regime.

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EHG(L) (80)5 ADDENDUM

COPY NO.

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24 APRIL 1980

EUROPEAN COUNCIL, BRUSSELS

27/28 APRIL 1980

SHEEPMEAT

Additional brief by Ministry of Agriculture, Fisheries and Food.

Purpose

To up-date the main brief in the light of very recent developments, notably the proposals for sheepmeat the French have now put forward.

Objective

2. To avoid concessions on interim or permanent support arrangements for sheepmeat.

3. If essential to make concessions to secure a satisfactory settlement of our budget problems to ensure that they are held within the limits set out in paragraph 7.

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Points to Make (Revised)

4. Sheepmeat Regime

(i) Linkage with budget unjustified. Regime must be decided on its merits.

(ii) We remain ready to negotiate constructively for either interim or permanent arrangements.

(iii) Any support measures must recognise that we have the major interest in sheepmeat production and consumption and give the UK fair share of receipts. Quite ridiculous if the regime failed to bring financial benefit to the UK where production is 47% of the Community total and when the budgetary imbalance against us is so strong. Our producers would lose support of our own national support measures (Fat Sheep Guarantee) and must have adequate replacement.

(iv) Must have a proper common market for sheepmeat and a common support level which does not encourage surplus production.

(v) Intervention quite unsuitable for sheepmeat:

(a) If operated anywhere near existing French price levels with aim of forcing up prices in a common market would discourage consumption and damage the development of the industry.

(b) Makes no sense for deficit commodity, especially as (unlike beef) no manufacturing demand. Could be very expensive and disposal would disrupt Community and world markets. Not operated for pigmeat or poultry and not suitable for sheepmeat.

(vi) Could not agree to unbinding GATT-bound tariff. This already gives Community 20% preference. Voluntary restraint quite adequate to meet French concern.

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5. French Import Controls

(i) Must respect EEC Treaty. Difficulties arise for all of us but this is price of Customs union.

(ii) Over 7 months since Court ruled clearly that France's closure arrangements and levies were illegal. When ruling that no interim injunction required, Court again made clear that French Government must comply whether or not sheepmeat regime has been agreed.

6. Interim arrangements

At the Agriculture Council on 3-4 March, France alone rejected a compromise interim measure. In addition to receiving her share of Community aid towards support for sheep producers France would have been able to carry out intervention at her own expense. By quite unreasonably rejecting this proposal, France alone blocked progress in resolving the present crisis.

7. If the Prime Minister judges it essential to make concessions to obtain French endorsement of a satisfactory budget solution

Prepared to contemplate arrangements involving Community financed premiums which initially assist France and limited use of intervention provided that:-

- (i) All support arrangements to be at a common level after a very short transition period;
- (ii) Essential to avoid heavy intervention buying and consequent market disruption. Limit role of intervention strictly to that of a safety net. Intervention prices seasonalised and not above likely market equilibrium level and intervention limited to part of year.
- (iii) No export refunds.

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(iv) UK to receive a fair, proportionate share of Community aid to producers.

(v) Immediate and permanent removal of illegal French import restrictions.

(vi) No unbinding of the GATT-bound tariff.

Implications for negotiation of Voluntary Restraint Agreements must be very carefully considered. Agriculture Ministers should be left to settle the precise arrangements.

Background

8. In bilateral discussions last week between the Minister of Agriculture and M. Mehaignerie, followed by a meeting between officials, the French explained to us their proposals for a sheepmeat regime. At this week's meeting of the Council of Agricultural Ministers the Commission circulated the main modifications to their formal proposals for a sheepmeat regime which they have put forward in the last few months and also a document on possible support arrangements adapted from the French proposals. There was no discussion of the Commission documents which the French would not accept. It was decided that a French paper and also a UK note setting out our approach to internal support arrangements should be circulated for further discussion.

French proposals

9. The French are now proposing permanent intervention throughout the Community all the year round. The intervention price, seasonalised to reflect the pattern of marketings over the year, would be 85% of a "basic price" set initially at about the present (high) French price level. There would be export refunds and discretionary

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private storage aids. This arrangement, along with Voluntary Restraint Agreements with third country suppliers, would constitute the permanent common regime to be implemented from the outset.

10. In addition the French want compensatory premiums on the basis already proposed by the Commission to make up producers' revenues, which are reduced by lower prices due to free circulation, to reference prices reflecting pre-regime market prices. The reference prices could be up-dated, account being taken of cost movements and the aim of price rapprochement within a common market. UK producers would not, under the Commission's proposals, be likely to benefit from premiums: the French argue such benefits would not be justified because our producers would get improved prices with free access to the French market.

11. All the proposed support measures would be financed by the Community. The French insist that all elements of the above arrangements, external as well as internal, must be put into effect before they will remove their import restrictions so that there can be free circulation.

Comment

12. The French are thus bidding for a full scale intervention regime, as for beef, to support the internal market. It is an approach which has so far been unacceptable to most other Member States, notably Germany, and is a rejection of the concept of a light, market related regime inherent in the Commission's original, formal proposals.

13. The main implications to note are -

- (a) This would go well beyond the concept of limited use of intervention during the period of heaviest marketings which the Commission has floated;
- (b) the French claim to be aiming at intervention support in France at about the level the market should be at with free circulation, and are proposing both seasonalisation and a slightly lower intervention level in the surplus countries (UK and Eire). Nevertheless the actual level they are proposing looks too high and could generate substantial intervention buying;
- (c) export refunds would be costly and if paid on any scale would be likely to disrupt the relatively small world market available to New Zealand and other third countries producing sheepmeat;
- (d) the French insist that Voluntary Restraint Agreements must be in place before there is a common market with free circulation. But were their internal support proposals adopted, this would seriously prejudice the chances of negotiating these Agreements. New Zealand could well flatly refuse to participate in the negotiations;
- (e) our producers would receive no premium benefits, despite the fact that we provide nearly half total Community production. The UK would therefore be contributing to the cost of compensatory premiums for producers elsewhere in the Community. Although the French envisage these should be phased out as market prices move up with inflation there is no provision to ensure a quick degression and if in addition reference prices are up-dated compensatory premiums could continue for many years.

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Conclusion

14. The French approach is therefore unacceptable. The concessions which have been contemplated, and only if they were the essential price for French endorsement of a satisfactory and final budget settlement, were to agree to negotiation of Community measures which provided for some limited intervention as well as Community-financed aid which initially assists France. The French proposals for a full-blooded intervention regime, instead of the market-related, common premium safety net we have suggested, would go well beyond this and would not allow the UK a proportionate and fair share of Community aid to producers. The introduction of export refunds would be deeply objectionable to third countries and would probably negate attempts to negotiate Voluntary Restraint. If any concessions have to be made it is therefore important to ensure that they meet the conditions set out in paragraph 7. The wording of the section on sheepmeat in the draft communique prepared by the group of representatives chaired by Senor Ruggero would not conflict with the conditions in paragraph 7.