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EUROPEAN COUNCIL, LUXEMBOURG
27/28 APRIL 1980

CAP PRICES/ECONOMY PACKAGE

Brief by the Ministry of Agriculture, Fisheries and Food

OBJECTIVE

1. To make concessions on agricultural prices only in the context of a satisfactory settlement of our budget problem; and to ensure that any concessions made are consistent with the need to contain the budgetary costs of the CAP and to secure a restructing of the budget.

POINTS TO MAKE

<u>General</u>

2. Discussions in the Agriculture and Finance Councils have underlined serious problems of agricultural surpluses and costs.

3. Recognise problems facing agricultural producers in the Community. UK not immune. Our producers suffered a reduction of income of 17 per cent in real terms in 1979 compared with previous year.

4. Essential that decisions on agricultural prices should also take full account of market and budgetary problems. Hence the line taken by the UK in Agriculture Council.

Economy proposals

5. It is disappointing that agricultural Council has not been able to reach a greater measure of agreement. Latest Commission figures on expenditure show how serious the situation will become unless measures are taken to check expenditure.

Price

6. The increasing cost of the Guarantee section of Budget only emphasises the need for maximum price restraint particularly on surplus commodities. Increases now will only store up greater problems for the future.

Price Formula

7. In the context of a fully satisfactory settlement of our budget problem, ready to discuss on the basis of the report from the Agriculture Council what this Council might say about the terms of a price settlement. Essential that we emphasise the need to bring the market situation under control and the budgetary problems.

 (Page 2(a) over)

BUDGETARY EFFECT OF PRICE INCREASES - FULL YEAR EFFECTS

(a) Increase in common prices		(b) Increase in Guarantee Spending	(c) Increase in UK net budget contribution
1 per cent	=	+ 150 MEUA (+ £100m)	£13 million
2.4 per cent (ie Commission's price proposals)	=	+ 360 MEUA (+ £240m)	£30 million
5 per cent (ie French figure)	=	760 MEUA (+ £500m)	£64 million

The cost figures in columns (a) and (b) are on a static basis and make no allowance for the dynamic effect of price increases on production and consumption. They show only the effect on Guarantee Section spending and take no account of increased levy revenue which gives an offset of 40 MEUA for every 1 per cent. They also relate only to price increases and not to other Commission proposals.

The increase in the UK net contribution is made up of an increase in our VAT contribution and in our effective levy hand-over less additional receipts under the CAP.

BACKGROUND

The Commission's proposals

8. The Commission have made two sets of proposals, one on economies in the CAP and the second on farm support prices for 1980/81 and related measures. Agriculture Ministers have been discussing these as a single package.

9. On prices, the Commission have proposed increases averaging 2.4 per cent and ranging from 1½ per cent (for milk and beef) to 3¾ per cent (for cereals). The "economies" proposals consist mainly of higher revenue from the proposed increased co-responsibility levies on milk producers, which is treated in the Budget as a direct offset to expenditure on the CAP. The various proposals and their financial effects are summarised in Annex III attached. Basic figures on the budgetary cost of the CAP are in Annex IV.

Discussions in the Agriculture Council

10. Agriculture Ministers have had three substantive discussions on the package of proposals as a whole, including the one at this week's meeting. There remain wide differences of view between different Member States on the main price proposals and the individual proposals for economies. On the main issues, the present state of play may be briefly summarised as follows:-

a) on prices, the other eight all appear to want price increases which would produce a higher average than the Commission have proposed, though widely differing views remain on the price increases for individual commodities. The French have stated that they want an average increase of 5 per cent; the others have not stated a firm figure. We have no support for nil increases on surplus commodities.

b) On <u>milk co-responsibility levies</u>, except for an increase in the basic levy to 1½ per cent, there is no sign of a consensus emerging.

c) On <u>sugar</u>, there is no agreement on the need for a cut in quotas; and, if the need was accepted, how large it should be or how it should be applied to individual national quotas.

d) On <u>beef</u>, there is no agreement on the proposed suckler cow subsidy or on the proposed modification in the intervention system;

e) On <u>Mediterranean crops</u>, the Italians and, where they have an interest, the French (eg wine) are seeking decisions which would be expensive to the Community Budget and which would have a substantial adverse effect on net contribution (eg on wine distillation, on the support price for olive oil and the subsidies paid on processed fruit and vegetables).

<u>Conclusions of Agriculture Council on 21/24 April</u>

11. Discussion at this week's meeting concentrated on the problems of the milk sector and on the preparation of a document for submission to the European Council. The document which finally emerged and which was described as "the outcome of the Council's discussion" is attached at Annex I. The main points in it are:-

a) On prices, a statement that "there must be some increases in prices", with no commitment on what the increases should be or, indeed, whether they should apply to all commodities.

b) On <u>milk co-responsibility levies</u>, acceptance that the disposal cost of additional milk over a base period should be met by linear (basic) levy of at least 1½ per cent, plus an additional element. There was no agreement on the amount of the additional element or on how it should be applied, and some Member States have attached specific conditions relating to the method of implementing the additional element.

c) Acceptance that the "budgetary situation in the Community should be a fundamental factor in the decisions to be taken", with reference to the ECOFIN conclusions of 11 February last (copy at Annex II).

Proceedings at the European Council

12. It is assumed that discussion will focus on the document recording the outcome of the discussions in the Agriculture Council. The French can be expected to press for a more detailed statement, particularly on the principles underlying the CAP and on the price increase in this year's settlement. It is impossible to know how discussions will develop. But the most likely areas for discussion seem likely to be:-

a) the principles of the CAP;

b) the price increase;

c) the budget problem including co-responsibility levies.

Principles

13. In the text of a general statement on the CAP and the principles underlying it, we should want to avoid the following:-

a) Any implication that CAP measures should discriminate against larger farmers and farmers who produce intensively; or in favour of the maintenance of family farms (the French and some others have been pressing for exemptions from co-responsibility levies for small farmers and progressively higher rates for large farmers and/or those who rely on bought-in feed).

b) Any statement in favour of an active export policy to third country markets (this would be highly unwelcome to third countries (eg New Zealand) and implies bigger export subsidies

c) Any references to stronger guarantees or higher returns for "Mediterranean" producers, or any implication that they are unfairly treated. (Signor Cossiga will want this; but concessions on Mediterranean products are very costly to the UK - their cost will be multiplied by enlargement - and benefit France as well as Italy. It would also imply abandoning the proposed economies on processed fruit and vegetables and could be understood to endorse relatively higher increases for "Mediterranean" products such as olive oil and wine).

d) Any references to strengthening the policy on farm structures in Mediterranean/poorer Community countries/regions. (A very expensive package of market and structural measures mainly favouring Italian agriculture was agreed in 1978; the further structures package which is before the Agriculture Council would be expensive for the UK. Italy and Ireland are seeking to have those items which would benefit them - covering beef and sheep production in Italy and agricultural production in the West of Ireland - adopted. These would cost the UK £10 million and £11.6 million respectively over the five years 1981/85).

e) Any reference to "financial solidarity". (The French are likely to press for this. It would inhibit us from arguing in the future for an element of national financing of the CAP).

f) Any commitment to reduce automatically positive monetary compensatory amounts. (We have resisted accepting so-called Gentleman's Agreement under which new positive MCAs have to be phased out over the 2 years provided prices allow this to be done without reduction in prices in national currencies).

Price increase

14. The French have indicated that they are looking for a commitment to an average price increase of 5 per cent. There is no consensus among Agriculture Ministers on this figure; and others may argue against the French approach on the grounds:-

a) that it is impossible to know what is a sensible overall increase without considering the price levels for individual commodities. A 5 per cent overall increase would imply relatively large increases for other commodities if price restraint was maintained on the surplus commodities;

b) that the increases in institutional prices are only meaningful if considered with the green rate changes (eg reduction in the German MCAs) and decisions on the co-responsibility levies.

15. Rather than accept the French approach, it would be preferable to agree to a firming up of the text of paragraph 2 of Annex I. This might be done by placing a full-stop at the end of the second line after "....... maintained in the common policy" and substituting the following for the remainder of this paragraph:-

"For this purpose an overall increase [somewhat/rather] above that in the Commission's proposals can be accepted provided that due regard is given to the market situation in fixing the price levels for individual commodities; that measures are taken to start the restoration of a better balance in certain markets, in particular for milk; and that the budget constraints are respected".

16. If it is concluded that an overall price increase in 1980 should be accepted, the aim should clearly be to keep the figure as low as possible - preferably 4 per cent though it seems unlikely that anything below 5 per cent would secure general acceptance.

17. Each 1 per cent price increase above the Commission's proposal would in a full year add some 150 MEUAs to the budgetary cost of the CAP. In 1980 the cost would be around 50 MEUAs. These figures, however, take no account of the dynamic effect of price changes on levels of production or consumption which would be expected to work through over time.

Budgetary ceiling

18. There could be discussion about the possibility of fixing a ceiling for the budgetary cost of the CAP in 1980. This could be seen as an alternative way of putting a constraint on Agriculture Ministers.

19. In their new 1980 Budget submitted in February, the Commission estimated Guarantee Section spending at 10,400 MEUAs, a reduction of 800 MEUAs on the figure in the draft Budget rejected by the Parliament. Of this saving, 370 MEUA depended on the 1980/81 price settlement and the remainder was due to short term movements in world prices and market management measures. In the event, spending has been running at a higher level than expected (14 per cent above the 1979 level on the basis of forecasts to the end of May). The Commission latest view is that spending is already likely to reach 11,000 MEUAs and that the figure might be 11,600 MEUAs unless

the Council takes the necessary measures to control production.

20. It follows that a ceiling of 11,000 MEUAs would be very difficult to keep to in 1980 unless the full package of economy measures which the Commission have proposed (including the super levy) was adopted. There is no prospect of this or of alternative savings in the current year of equivalent amount.

21. A ceiling on the 1980 expenditure on the CAP would, moreover, not in itself check the longer term upward trend since the commitments in the current year on some commodities will not become payable until the early part of 1981. Among the most vulnerable areas of expenditure are those which would benefit us (including the 100 per cent butter subsidy and our efforts to achieve overdue repayments of rebates on cereals used in whisky).

22. It is difficult to see how a ceiling at a level which would seriously constrain expenditure will be acceptable to those Member States who are looking for larger price increases.

23. Nevertheless, if it is judged necessary, we could accept a ceiling on overall Guarantee expenditure in 1980 of 11,000 MEUAs.

24. It is difficult to see how the Council can make progress in reconciling the differences between Member States on the arrangements for applying increased <u>co-responsibility levies</u>. We must continue to resist any commitment to accept new exemptions or levies with a progressive element. We must also avoid any implication that the increased co-responsibility levies would be offset by price increases.

Ministry of Agriculture, Fisheries and Food
24 April 1980

EXTRACT FROM PRESS RELEASE OF AGRICULTURAL COUNCIL 2?/24 APRIL 1980

AGRICULTURAL PRICES FOR 1980/81 AND RELATED MEASURES

1. The outcome of the Council's discussion on the Commission proposals concerning the fixing of agricultural prices for 1980/81 and related measures and the proposals relating to changes in the CAP to help balance the markets and streamline expenditure was as follows:-

i) The general principles on which a settlement must be based are as follows:-

a) In order that the CAP can play its full role in the Community it is essential to recreate a climate of confidence and stability in the policy. In this way Community farmers must be reassured about the continuity and permanence of the policy. It is in this context that the decisions on prices must be seen;

b) if confidence and stability are to be restored, it is also important that certain disciplines must be accepted in order to re-establish a market balance where imbalances now threaten the common policy through their financial consequences.

2. The necessary pre-conditions, therefore, of any settlement are that confidence should be re-established and maintained in the common policy; that for this purpose there must be some increases in prices; that measures are taken to start the restoration of a better balance in certain markets, in particular for milk; and that the budget constraints are respected.

3. The decisions on prices must take account of producers' incomes, the market balances and the relationships between support prices for different products. It follows that the price decision must be modulated by product. It should also be recalled that structural policy (on which the Commission has made a series of proposals) is also an essential element in the maintenance and fair distribution of income. There was a large majority in favour of a higher level of price increases than proposed by the Commission.

4. The most essential factor for market balances is that for milk there should be both a disincentive for increases in milk production above the level for a reference period and sufficient funds to finance the extra cost of disposal without putting an extra charge on the budget. There is a consensus that under these conditions of surplus production the disposal cost to any additional milk delivered to dairies by comparison with the reference period (Commission assessment 515 MEUA on base 1979 - 1 per cent; Suggestion of certain delegations 346 MEUA on base 1979) should be the responsibility of producers themselves, which should be implemented by a linear levy, at least at the level of the 1979 decision, plus an additional element. There are still certain differences of view over the form and the arrangements for applying the additional element.

Some delegations made their agreement to the principle of the producers' responsibility subject to the condition that the burden of marketing additional quantities should be covered by an additional levy on products that are placed in intervention. Other delegations made their agreement conditional on the application of a progressivity element.

5. The Commission emphasised that its proposal was intended to supplement the Council's decision of 1979 on the increase of the basic rate to 1.5 per cent.

6. Action on the budget cost is clearly important in other sectors.

7. The budgetary situation of the Community is also the fundamental factor in the decisions to be taken. The Council referred in this connection to the conclusions reached at the Council meeting on economic and financial questions on 11 February 1980.

STATEMENT OF ECONOMICS & FINANCE COUNCIL OF 11 FEBRUARY

11.II.80

FINANCIAL
~~FINAL~~ IMPLICATIONS OF THE COMMON AGRICULTURAL POLICY

I. The Council, bearing in mind the conclusions of the European Council in Dublin, took note of the proposals made by the Commission on 4 December 1979 for improving the common agricultural policy with a view to helping to balance the markets and streamlining expenditure. It approved the Commission's objective of resolving the specific problems arising, in the interests of safeguarding the common agricultural policy and its economic and social merits, while respecting its principles and taking account of current budgetary difficulties. This goal presupposed substantial savings and a prudent price policy.

II. The Council considered it to be desirable that the discussions on the Commission's proposals should be guided by the following principles:

1. An improvement of the common agricultural policy with the aim of considerably reducing the growth rate of agricultural expenditure was absolutely essential also in order to ensure that the 1% own resources limit was not exceeded, having regard to the resources required for other policies.

2. Subject to the examination of the assessment announced by the Commission of the foreseeable development of market organization expenditure in the event of its proposals

being implemented and taking growth in expenditure over the last few years as a basis, it would be necessary to take measures leading to substantial savings, reaching the order of magnitude proposed by the Commission.

3. In this connection, the Council was of the opinion that the measures should be directed particularly at surplus products; it requested the Commission to see whether further savings might be achieved by means of the more efficient use of the market organization instruments.

III. The Council requested the Permanent Representatives Committee and the AGRI/FIN Working Party to continue examining the financial aspects of the improvement of the common agricultural policy and to report back to the Council at the very earliest opportunity, in preparation for further discussions.

ANNEX III

CAP PRICES AND ECONOMIES PACKAGE

FINANCIAL EFFECTS

1 The Commission estimate that the effects of the package would be a saving of 700 MEUA (£450m) in a full year of which 670 MEUA (£430m) are accounted for by the revenue from the increased milk co-responsibility levies. If adopted without amendments, the proposals would bring about a reduction in the United Kingdom's net contribution to the Budget of about £15 million in 1980/81 and about £5 million in a full year. Producers' incomes, after allowing for higher food costs, would fall by about £27 million in a full year and the food price index would go up by 0.3%, assuming that the UK butter subsidy continued at its present level. Public expenditure would be reduced by about £30 million 1980/81 and by over £50 million in a full year. There would also be a reduction of about £70 million in the PSBR in a full year.

THE PROPOSALS

MILK AND MILK PRODUCTS

2 The Commission propose an increase of 1.5% in the target price for milk, zero on the butter intervention price and +2.8% for skimmed milk powder. The UK butter subsidy currently 100% financed by FEOGA would be abolished but the 75% FEOGA financed subsidy would be available to us. Revenue would come from a 1% point increase in the basic co-responsibility levy to 1.5% (exemption for first 60,000 kg produced by herds in Less Favoured Areas) and huge supplementary levy of 18 ECU/100 kg on deliveries to dairies in excess of 99% of their 1979 throughput.

3 The UK wants a price freeze for milk. We consider the exemption from the basic levy to be discriminatory and the supplementary levy

more so, as our "dairies" are the Milk Marketing Boards which gives us less scope for adjusting deliveries to avoid the levy. The 75% FEOGA financed butter subsidy maintained at the current level would add £22 million to our net budget contribution and require an increase of £28 million in public expenditure. The abandonment instead of the subsidy would lead to a price increase for butter in the UK of 13 pence per lb. Obviously therefore, it is strongly in our interest to retain the 100% FEOGA financed subsidy if at all possible.

BEEF

4 The Commission propose an increase of 1.5% in the guide and intervention prices and a suckler cow subsidy of about £37 per head limited to the first 15 cows in full-time holdings from which no milk is sold. There is no proposal to continue the UK variable beef premium or Italian calf subsidy. Suspension of intervention arrangements in April-August has also been proposed.

5 We can accept the price increase but the suckler cow subsidy discriminates against our larger herds. However, even as proposed, we would get a small net benefit and so could accept it, if possible having removed or raised the cut-off. We need to have the variable beef premium or a convincing alternative, especially if Italy gets her calf subsidy. We can accept the suspension of intervention only if our market is safeguarded against imports mainly from Ireland which would otherwise have been sold into intervention there.

SUGAR

6 The Commission propose an increase of 1.5% on the minimum beet prices with 2.8% on target and intervention prices for white sugar. The production quotas expire at the end of this crop year and the new ones (reduced overall by 1.3m tonnes) would be based on the two best harvests between 1975 and 1979 and reduced by a factor of 0.9279. No Member States would get less than 90% of its present "A" quota. The production levy on "B" quota sugar would be increased from 30% to 40% of the intervention price. These proposals have not met with general acceptance and the Commission have now floated a revised proposal which would be based on a reduction coefficient of 0.95 and preservation of"A"quotas. Even this is likely to discriminate heavily against the UK industry which has been expanding steadily since acreage controls were lifted when we joined the EEC and has just completed a £150m expansion and modernisation programme.

7 As sugar is in surplus we want a price freeze. We support the reduction in total quotas as a means to cut back the surplus but oppose the discriminatory allocation to the UK. We have said we are prepared to take a fair share of the cut. Other Member States have difficulties and we may have to accept the continuation of existing quotas for a further year to allow negotiations to continue.

CEREALS

8 The Commission propose to increase the target prices for all grains by 3.75%. Intervention prices would generally increase by

2.0% with only a 1.75% increase in the reference price for bread-making wheat and a reduction of 7% in the rye intervention price to align it with other feedgrains. Starch production refunds would be phased out over 3 years.

9 We will seek the smallest possible price increases and oppose the widening of the gap between target and intervention prices which would put up the price of imported cereals relative to those produced in the Community. The proposal to end starch production refunds, together with the target price increase, would damage our efficient maize starch industry, but we would be prepared to see some reduction (say one third) in the level of refunds coupled with a satisfactory outcome on wheat and maize target prices.

WINE

The Commission propose increases in the guide prices for the various sorts of wine averaging 3%.

As wine is in structural surplus, we want a price freeze.

OTHER COMMODITIES

Price increases ranging generally between 1.5% and 5% have been proposed. We wish to have restraint on prices in all sectors, particularly where the budgetary costs are high eg olive oil, oilseeds, tobacco.

ANNEX IV

KEY FACTS ON THE COMMON AGRICULTURAL POLICY

COST OF THE CAP - 1979 and 1980 (revised) Budget Figures

	1979			1980(1)		
	MEUA	£m	% of total Budget	MEUA	£m	% of total Budget
Total cost of CAP - total	10700	7150	74	10700	7150	73
- guarantee	10400	6940	72	10420	6950	71
Estimated cost of surplus disposal	705	4700	49		na	na
Gross UK contribution to CAP	1875	1250	13	2140	1430	15
Gross UK contribution to surplus disposal	1245	830	9		na	na

Cost of major commodities

	1980(1)		
	MEUA	£m	% of CAP total
Milk(2)	3885	2590	36
Cereals and rice	1658	1110	15
Beef	1168	780	11
Sugar	895	600	8
Oils and Fats	705	470	7
Fruit and Vegetables	564	380	5

(1) Provisional Budget taking into account effect of proposals on CAP prices and economies

(2) Net expenditure taking account revenue from co-responsibility levies

SIZE OF INTERVENTION STOCKS (AS AT OCTOBER 1979) (thousand tonnes)

	Intervention Storage	Aided Private Storage	Total
Skimmed Milk Powder	353	-	353
Butter	319	244	563
Cheese	-	62	62
Beef	222	49	271
Wheat	1255	-	1255
Barley	54	-	54
Rye	511	-	511
Durum Wheat	152	-	152
Olive Oil	48	-	48