OLO

Italy Pol[illegible]

2PPS

MEETING BETWEEN THE MINISTER OF AGRICULTURE, FISHERIES AND FOOD AND SIGNOR PANDOLFI, ITALIAN MINISTER OF AGRICULTURE

A.L.C. 30/1 f.a.

ROME: 27 JANUARY 1984

Present: The Minister of Agriulture, Fisheries and Food
Mr D H Andrews
Mr B Evans
Mr C I Llewelyn

Signor Pandolfi
Dr Calabro
Dr Boschi
Dr Dal Sasso

1. Most of this one and a half hour meeting was devoted to taxation of spirit drinks, which I am reporting separately; only half an hour was spent on the Post-Athens negotiations and the price fixing.

2. The Minister said that it was clear that the UK and Italy agreed that the CAP was in difficulties and that action had to be taken to stop the continued build-up of surpluses and return production to prudent levels. There was less agreement on how this should be done. The UK believed that the Community's budgetary process should include a financial guideline to control the share of expenditure allocated to agriculture and to ensure that this did not increase at a rate faster than the increase in Own Resources. Specific measures also had to be taken for individual commodities, of which milk was clearly the most important. Pandolfi observed that the time scale over which action to reduce production was taken was also of fundamental importance.

3. There was a brief exchange of views on cereals. Pandolfi said that Italy had no real problems here, and could in principle accept the

Commission's proposals. The Minister commented that we would have preferred to see a reduction in nominal prices. Pandolfi agreed in principle, and added that Italy wished to see more emphasis placed on quality considerations and to see an effective test of breadmaking wheat introduced. The Minister then explained our position on quality standards for export and for barley and said that we supported the Commission's proposal to reduce the gap between the prices of bread making and feed wheat.

4. Turning to milk, the Minister said that we/have preferred to see price reductions proposed here as well. Pandolfi said that he too favoured a reduction of intervention prices. Italy could also agree to halt production at its current (ie 1983) level. However, Italy was not responsible for the dairy surplus, nor was it self-sufficient in milk products and he could not, therefore, accept any cut-back in production below the 1983 level. In his view it was not logical to cut back production by the same extent throughout the Community; those countries which were chiefly responsible for the surplus should accept larger reductions in production. Moreover, he did not believe that it would be possible to reduce production to the desired level in one step; the first stage should be to freeze production levels, and then action should be taken over a number of years to reduce production gradually.

5. The Minister said that he could not agree that Italy should be exempted from the requirement to reduce production. The UK was not self-sufficient in dairy products either, but in our view all were responsible for/current surplus and all had to contribute to its elimination. It was essential that production for the

Community as a whole should be brought back to 97 million tonnes, as production above this level could not be financed in the current year. How did Italy propose to pay for continued production at the 1983 level?

6. Pandolfi replied that they would in the first place propose that expenditure should be reduced on other commodities and all extra expenditure avoided. Secondly, an oils and fats tax should be introduced. If, despite these measures, there was still a shortfall, Member States should be asked to make special national contributions under Article 200 of the Treaty. These should be introduced for a transitional period until the Community's financial arrangements were regulised.

7. The Minister made it very clear that the UK would not be able to accept the suggestions put forward by Pandolfi. We agreed thatthe various commodity regimes should be revised to reduce expenditure, although we weould be likely to differ on the details on how this should be done. We could not, however, agree to an oils and fats tax nor could we accept special financial arrangements of the sort Italy appeared to have in mind. There could thus be no doubt that unless action was taken rapidly to reduce production levels, the Community would run out of money.

8. Pandolfi questioned the logic of the UK's approach. An immediate cut back on the scale we were proposing could only be achieved by arbitrary across-the-board cuts that would penalise producers at random; furthermore it would be impossible to fund any new items of expenditure, even if these were fully justified (he cited the proposal to extend the UK Less Favoured Areas). He could support immediate action to hold production at its present level, followed by a considered revision of

the various commodity regimes to reduce expenditure but thought it unrealistic to try to solve in one year problems that had been building up over a number of years. Italy was anxious to secure agreement on the reform of CAP and was prepared to make sacrifices to achieve this (he was already taking firm action to control expenditure on olive oil and processed tomatoes), but he did not believe that agreement would be possible unless it was also agreed that the necessary changes should be made gradually.

C I LLEWELYN
30 January 1984

Distribution

Private Offices
Mr Andrews
Mrs Attridge
Mr Packer
Mr Dixon
Mr Hadley
Mr Wentworth
Mr Lowson
Mr Wilson
Mr Dickinson
PS/Secretary of State for Scotland
Mr McKay DAFS
PS/Secretary of State for Northern Ireland
Mr Chalmers DANI
PS/Secretary of State for Wales
Mr Hall-Williams WOAD
PS/Foreign Secretary
PS/Chancellor of the Exchequer
Mr Coles, No.10
Mr Williamson, Cabinet Office
Mr Anderson, UKREP
Mr Evans, Rome