

RESTRICTED

MEETING BETWEEN THE MINISTER OF AGRICULTURE, FISHERIES AND
FOOD AND THE ITALIAN MINISTER OF AGRICULTURE: ROME
8 JANUARY 1985

Present

Minister
Sir Michael Franklin
H M Ambassador
Mr Llewelyn
Mr Evans

Signor Pandolfi
Signor Moroni
Signor Fontana-Giusti
Signor Calabro

Price Fixing

Signor Pandolfi said that, as President of the Council, he aimed to conclude the price fixing negotiations by the end of March. If he was not successful, he feared that agricultural problems would be drawn into discussions in other areas, such as enlargement, which would greatly complicate matters. On the other hand, if the Agriculture Council could show political will and reach decisions this month, as it did last year, open the door to major political decisions. He hoped that the Minister was ready to help reach a settlement rapidly and would be prepared to attend additional meetings of the Council in March.

The Minister agreed that we should certainly aim to conclude the price fixing as rapidly as possible; after the shocks of last year, the less uncertainty the industry faced over the price fixing, the better. Sir Michael Franklin commented that much would depend on the complexity of the Commission's price proposals. If these were expressed principally in terms of price changes, a rapid settlement would be possible. If, on the other hand, they included a large number of additional proposals, such as cereal quotas, quick decisions would be difficult to achieve. Signor Pandolfi agreed; after the complexities of last year's package, the Commission would be wise to make simple proposals this year. The CAP should not face major upheavals every year.

On procedure, Signor Pandolfi said that he wished to avoid repetitious tours de table. After preliminary expositions of national positions, therefore, he intended to move straight to bilaterals. He intended to make a tour of all Community capitals once the Commission's proposals were available. So far as the February Council was concerned, he would be concentrating on structures and wine, in the hope of deciding both before the price-fixing.

Turning to financial discipline, the Minister said that it was essential, now that a system had been agreed, that Agriculture Ministers kept to its rules and made it work. Sir Michael Franklin added that in this respect it was important that the

Commission made proposals that fell well within the guideline, leaving the Council some room for manoeuvre. Signor Pandolfi replied that, legally, the financial guideline did not apply until 1986. However, he acknowledged that decisions taken this would influence the workings of the guideline. He then asked for the UK's view on the best way of dealing with the European Parliament over the 1985 budget. He felt that it was essential that this dispute was resolved rapidly, as it would be difficult to reach a price settlement if other Councils were still discussing this issue. He added that the UK refunds also depended on the 1985 budget being settled. Personally, he was in favour of the rapid implementation of the refund agreement and he had been making a certain effort on the Italian side to resolve the dispute. He also made the point that the growing involvement of ECOFIN in agricultural issues made it essential to maintain close links between the two Councils; the Presidency would do its best to ensure that such co-ordination took place. The Minister said that he did not feel that there was much that the Agriculture Council could do to deal with the question of the 1985 budget, but he agreed that the present uncertainties should be resolved as rapidly as possible.

On prices, the Minister said that last year we had gone a long way to accustom farmers to a restrictive price policy; it would be foolish now to give the impression that all the CAP's problems had been solved and that production could be expanded once more. We needed to maintain a very strict price policy, with no increase for milk and minus 5% for cereals (ie full implementation of the guarantee threshold). For other commodities we would need to see what the Commission proposed, but, as he had said at his meeting with Signor Pandolfi in October, we did not believe that there was any case for increasing prices for Mediterranean products by more than for northern ones.

Signor Pandolfi said that the Italian position on milk was close to that of the UK. They had accepted a price reduction for wine, and would have been prepared to do so for milk. A substantial increase now would be quite wrong. For other commodities, he did not feel that there should be a single, across-the-board price increase; instead, prices should be modulated to take account of the circumstances affecting individual commodities. So far as Mediterranean products were concerned, it should be borne in mind that support for these had been weakened. The price for compulsory distillation for wine had been reduced, the regime for olive oil had been altered and a guarantee threshold had been introduced for processed tomatoes. Before, there had been a danger that increased prices would lead to increased costs. Now that support arrangements had been weakened, there was some scope for movement. Indeed, given these reductions in support it would be difficult to have no price increase.

The Minister said that it was essential that the guarantee threshold system should be implemented fully. In particular, the effects of the thresholds should not be diluted by making compensatory price increases. Signor Pandolfi replied that

he accepted that the decisions taken last year must be confirmed. However, he did not feel that a small price increase would be inconsistent with a much larger price cut derived from a guarantee threshold.

Signor Pandolfi went on to say that the Community needed to consider other ways of reducing the cost of the CAP. One would be to reduce the scope for fraud. On this point, he hoped that the olive oil control agency would reduce the cost of that regime by 10%. The planned vineyards register should have similar effects. Another possibility was to adopt new policies for the disposal of surpluses. For milk powder for example, the study on enrichment had nearly been completed and it should in future be possible to send much greater quantities to third countries. Even more promising was the use of grain for the production of ethanol. Studies had shown that 1 ton of wheat could produce 288 kg of ethanol and 350 kg of gluten feed, and the current Community wheat surplus of 24 million tonnes would thus produce enough ethanol to add it, at a rate of 10%, to all petrol sold in the Community. This would reduce the cost of the surplus from 2.5 billion ecu to 1.5 billion ecu.

In further discussion on this idea, Signor Pandolfi explained that the purpose of adding ethanol to petrol would be to replace lead. The Community had already decided to move towards lead-free petrol, and research in the USA and France had shown that ethanol (or, indeed, methanol) could be substituted for lead in petrol. Use of ethanol required no modifications to be made to car engines, and in Italy car manufacturers, (including Fiat) and the oil industry were in favour. Moreover, wheat was not the only product that could be used in this process; any sort of cereal was suitable (he particularly mentioned sorghum) and reeds. At the end of this discussion, the Minister said that we would be interested to study this idea, and to see any material that Italy could provide. However, we would have to look carefully at the costs involved; we would not wish to see a process of this sort used to maintain surplus levels of production artificially.

Agricultural Structures

Signor Pandolfi said that in his view it would be technically difficult now to modify the draft regulation in order to introduce provisions on conservation. However, a possible solution to this problem might be for the Council, when it finally adopted the new regulation, to mandate the Commission to put forward a specific new regulation providing for assistance to farmers for environmental reasons; this would include a financial commitment by the Council to fund such a measure. He added that in Italy there was growing interest in the link between agriculture and the environment.

The Minister that he was most interested in this idea, but he needed something in the draft regulation that would enable him to adopt measures for conservation reasons immediately.

A possible way forward might be for the Council to acknowledge that money was not available now for conservation measures but nevertheless to include in the regulation a provision enabling member states to introduce schemes on conservation grounds, provided that these were approved by the Commission. This would be pending a more comprehensive long term measure, of the kind suggested by Signor Pandolfi. He handed Signor Pandolfi the latest text of our proposed new Title in the regulation. Signor Pandolfi commented that this would be an excellent solution.

The Minister reminded Signor Pandolfi that it would not be possible for the Council to adopt the proposal on structures until ECOFIN had reached a decision on the question of finance. Signor Pandolfi said that he it was his intention to reach final decisions on the structures package at the Council meeting on 25/26 February; this would give ECOFIN two opportunities to discuss the matter. At next week's Council he anticipated only a brief discussion on structures. He would explain his ideas for handling this dossier and invite comments but he would try to avoid an extensive debate.

On other aspects of the draft regulation, the Minister made it clear that he could not accept any ceiling on HLCAs; this was a crucial point. He also ran briefly over our other points of difficulty.

Review of Medium Term Agricultural Strategy

Signor Pandolfi said that he believed that such a review was essential, after the turning point in agricultural policy reached last year. It was now generally accepted that the Community could not continue to provide unlimited guarantees for agricultural production but Ministers had to show that this did not mean the death of European agriculture. What was needed was a positive, as well as a negative, approach to future agricultural policy. Most of his Community colleagues shared this view. On procedure, he thought that the Council should give a mandate to the Commission or possibly to the Commission and other independent experts, to prepare guidelines for future policy. The European Council itself should be involved in this initiative, given the importance of the CAP to the Community. He intended to put a short Presidency paper to the Agriculture Council in due course, setting out these ideas.

The Minister noted what Signor Pandolfi had said. He commented that in his view the Commission was not the body to undertake such a review, as their views would be tempered by their past mistakes. A small group of outsiders would be better, although the Commission would, of course, have to be involved. Signor Pandolfi said that the Commission could not be excluded. However, this would be a Council initiative. He added that he had already discussed his ideas with a number of his colleagues and he would be raising it again during his tour of Community capitals.

Wine

Signor Pandolfi said that no problems of substance remained on this issue. The task of implementing the guidelines agreed in Dublin was essentially a technical one. It was essential to reach agreement on regulation before the price-fixing marathon, he would be seeking to do this in February. This would enable the Community to settle the agricultural chapter in the enlargement negotiations in March.

IMPs

Signor Pandolfi said that the Agriculture Council had only a limited role so far as IMPs were concerned. The main decisions on this issue would be political and financial and would have to be reached by Foreign Ministers. The Minister replied that the UK stood by the commitment reached by the European Council, but the potential costs of these measures did present a problem. ECOFIN would need to consider the financial aspects, as for agriculture the necessary resources would have to be included within the structures budget.

Signor Pandolfi replied that the European Council at Stuttgart had agreed that IMPs should be funded from a separate chapter. Signor Fontana-Giusti added that the proposal for IMPs had raised high political expectations in Italy. He had recently discussed this issue with Signor Andreotti, who was convinced that it was politically essential for Italy to preserve its proposed share of total expenditure (44.5%). However, Italy might be able to concede payment of the total over a longer period or modulation of the rates of payment to enhance the initial impact of the programmes in Greece, provided that, Italy's total share over the period of the whole scheme was preserved. Signor Pandolfi concluded that the Agriculture Council would not be directly involved in these discussions. It would be responsible for implementing the agricultural elements of the IMPs, but not for deciding total expenditure or the proportion to be devoted to agriculture.

Milk Supplementary Levy

Signor Pandolfi said that Italy would have no problem in implementing the quota system fully for the next four years. He was still considering the details, but he would probably choose Formula A, with provision for quotas to be allocated to associations of producers, at least in some parts of the country; such a system was provided for by the regulations. He hoped to be in a position to make an announcement within a month. However, it was absolutely necessary to reach a solution that would legitimise the arrangements that Italy, and France, had made in the current year. He was confident that milk production in Italy would remain within the national quota, but he was not able to allocate individual quotas. One possible solution, which would help other member states as well as Italy, would be to have a derogation throughout the Community, cancelling all liability to supplementary levy in the first year.

The Minister replied that such a solution would be very difficult for the UK to accept. We have already cut back milk production by more than was necessary to fulfil our quota, and would benefit only to a very limited extent from a cancellation of liability to levy. It would be inequitable if those who had not cut back their milk production now escaped without any penalty. Signor Pandolfi suggested that some way would have to be found to compensate producers in the UK and others in similar circumstances. Nevertheless, it was clear that an equitable solution would have to be found to deal with the problems that had arisen throughout the Community in the current year.

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