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MEETING BETWEEN THE MINISTER OF AGRICULTURE, FISHERIES AND FOOD AND THE FRENCH MINISTER OF AGRICULTURE, BRUSSELS: 14 JANUARY 1985

Present

Minister	Monsieur Rocard
Minister of State (Commons)	Monsieur Lachaux
Sir Michael Franklin	Monsieur Perreau
Mr Llewelyn	Monsieur Blanchemaison
Mr Anderson (UKREP)	Monsieur Trunel
	Monsieur Hasson

PRICE-FIXING

The Minister said that in view of the mood of uncertainty among farmers, it would be very useful to have early price decisions. It would be helpful if the proposals were straightforward. In our view it was also essential that they did not go back on the decisions taken last year.

M. Rocard agreed. In his view the key decisions to be reaffirmed were the further 1% cut in milk quotas and the revised rules on wine agreed in Dublin. He wondered, however, whether the Italian Presidency was really interested in an early settlement; the marketing years for most of the commodities of interest to them started later in the year and, given the problems they faced on wines, a delay might suit them well. The Minister commented that Signor Pandolfi's professed desire for an early settlement had seemed to him to be genuine.

Turning to financial discipline, M. Rocard said that he was not sure that it would be possible to implement the system fully this year. At the moment it was impossible to envisage how the guidelines would effect individual regimes. Wine was the crucial sector here; a future policy had been agreed at Dublin, but this would entail considerable costs, at least in the short term. Given the political importance of wine domestically and its significance for enlargement, he could not agree to anything that would restrict the finance necessary for this sector. In his view the financial guidelines could only be fully implemented when the changes needed to the individual commodity regimes had been completed; we were not yet at that stage. A further complication related to stock levels; for the purpose of the financial guideline calculation, should one take the cost of disposing of normal stock levels, or of current, exceptionally high, stocks?

The Minister replied that we believed it to be essential to meet the terms of the financial guideline in the price-fixing. Sir Michael Franklin added that the French point about stocks begged the question of what "normal" stock levels were; stock levels fluctuated and in our view the disposal costs of actual stocks were part of the normal costs of the CAP.

Milk

The Minister agreed that the 1% cut in quotas must be implemented, as should the related cut in the co-responsibility levy. We were opposed to any increase in price in this sector, given the substantial surplus that still existed and the danger of becoming locked into a permanent quota system if the existence of quotas was used as an excuse for higher prices. M. Rocard replied that the UK's implied objective, to reduce the level of milk production to below that of the Community's overall quota, would be politically intolerable. He did not believe the Agriculture Council would accept a price freeze for milk. This year we should concentrate on cereals, wine and beef and we could not do this and take a very hard line on milk. Ministers could not afford to be unpopular everywhere all the time. He was, therefore, thinking in terms of at least an average price increase for milk, with, if possible, the average plus 1%. So far as ending the quota system was concerned he doubted whether this was possible; if it was the key would be to increase production of cheese and fresh products for which there was a market at the expense of butter and SMP.

Cereals

The Minister said that we believed that guarantee thresholds must be made to work in all sectors. For cereals, this meant a price reduction of 5%; we did not think that there should be a compensatory price increase. M. Rocard agreed that the guarantee threshold for cereals should be implemented, adding that a quota system in this sector was not acceptable. However, he doubted whether a price cut of 5% was negotiable, particularly with Germany, and he was inclined to favour implementing the guarantee threshold through a price cut of, say, 3% linked to a 2% co-responsibility levy. The proceeds of the levy would be used to increase disposal opportunities for cereals. In his view this would be preferable to reducing the price by the full 5% but off setting this with a 2% price increase, since he was anxious to avoid an increase in the basic price for cereals which would serve to push up the overall average price increase and so lead to unnecessary increases in other sectors, such as wine (where a price rise would greatly increase the cost of exceptional distillation). Moreover, it would be easier for producers to accept a price reduction if some of it was seen to go, via a co-responsibility levy, towards a special fund to improve uptake of cereals.

M. Rocard then went on to explain the philosophy underlying his approach. For products for which the market was essentially restricted to Europe, such as milk and meat, the Community had no option but to reduce production. For cereals and sugar, however, there was a global market and it was, therefore, possible to increase the rate of disposal rather than reduce production. There were strong social reasons for trying to maintain production levels where possible, in order to maintain the viability of rural Communities. Given this background, he believed that a key part of any strategy for cereals must be an attempt to increase uptake and, in particular, the amounts of cereals exported and used in industry and animal feed; the proposed fund would undertake research and investment in these areas.

The Minister said that the UK would be strongly opposed to a co-responsibility levy on cereals. This would increase costs to livestock farmers and consumers and would be unlikely to prove more acceptable to cereal producers than a simple price cut. Furthermore, a co-responsibility levy on the scale M. Rocard was suggesting would raise very substantial amounts of money, far more than was needed for research, and would be likely to become a revenue raising devise. Sir Michael Franklin added that the administrative problems of introducing a co-responsibility levy should not be underestimated. However, there were areas of agreement between the UK and France in this sector; both countries wanted to implement the guarantee threshold, maintain price pressure and increase uptake of cereals. It would be helpful if officials could explore these points further. M. Rocard agreed; at a later stage farmers representatives and research interests might usefully be involved in any discussions. It was left that officials would arrange to meet next week.

Oilseeds

M. Rocard said that it would be difficult to apply the full guarantee threshold to rapeseed, since if a price reduction was applied to that product but not to sunflower seed (for which no price cuts were required), the balance between the two commodities would be adversely affected. The Minister said that we would find it very difficult to agree not to apply the guarantee threshold in full to rapeseed. An alternative approach might be to find some way of effectively reducing the price for sunflower seed. M. Rocard then indicated that this issue was unlikely to be a sticking point for him.

Sugar

The Minister said that both countries had a number of difficulties in the sugar sector, in particular on sugar for industrial use and isoglucose. He suggested that the officials meeting to discuss cereals should consider this sector as well. M. Rocard agreed.

Fruit and Vegetables

M. Rocard said that the budgetary significance of the fresh fruit and vegetable sector was very slight. He would be seeking a price increase here for political reasons. The Minister replied that expenditure on Mediterranean products has risen markedly over recent years and he did not feel that further price increases were justified. M. Rocard denied that fresh fruit and vegetables had received favourable treatment. However, this was undoubtedly true of processed fruit and vegetables; here he agreed that guarantee thresholds (including that for dried vine fruits) should be implemented and, to be effective, should be applied on a national basis.

Beef

The Minister said that we remained convinced that the Beef Variable Premium Scheme was the most effective method of supporting the beef market. The introduction of clawback last year had removed the possibility of any distortion of competition. He reminded M. Rocard that when he had last discussed this with him, he had promised to consider the merits of a variable premium scheme. M. Lachaux replied that the existence of the BVPS depressed average beef prices throughout the UK, which in turn drove down the price of cow beef, which was not subject to clawback. This gave it a competitive advantage on the French market. The Minister argued in return that the cow and clean beef markets were largely separate and rejected the idea of clawback on cow beef.

M. Rocard said that he could see the advantages of a deficiency type scheme over intervention in this sector. If the Commission could be persuaded to propose a variable premium scheme on a Community wide basis, he would be happy to accept it, although the potential cost would have to be carefully considered. So far as the BVPS was concerned, there was clearly disagreement about its effects on competition; perhaps experts should meet to explore this further. M. Lachaux said that experts had studied all aspects of the BVPS exhaustively last year. Nine member states had agreed that it did distort competition and was undesirable, the UK had not. There seemed little point repeating the exercise.

The Minister asked what was happening about the French beef aid package. M. Lachaux replied that the Commission were now examining these proposals; no money had yet been paid out. He claimed that the difficulties of the French beef sector, which made the proposals necessary, were partly due to the BVPS and to the lack of a ceiling on HLCAs in the UK. M. Rocard added that it was essential to do something to improve incomes in the beef sector in France. If these aids were forbidden, he would have to take a tougher line on the meat generally in the price fixing. The Minister emphasised that he remained firmly opposed to the payment of illegal aids to French producers in this sector.

Sheepmeat

The Minister said that there had been major changes to the regime last year, some of which had caused us difficulties. He hoped that France would agree that further substantial alterations should be avoided. M. Lachaux replied that France had put forward a memorandum to the Commission setting out certain changes that they would like made. M. Rocard said that he had not yet focused on this particular sector yet; he would, however, be considering it carefully. M. Lachaux then suggested that it would be helpful if he could discuss sheepmeat further with Sir Michael Franklin; this was agreed.

Wine

M. Rocard confirmed the importance he attached to securing the fully implementation of the agreement reached at Dublin. This was a major point for him. The latest Commission text was inadequate in two or three respects; this would have to be remedied.

General

At the end of the meeting M. Rocard said that his main pre-occupation over the last few weeks had been international trade and, in particular, developments in the USA. As a result he had not yet focused on the price fixing and his views were still provisional. It would be some two weeks before he would be in a position to confirm the views he had put forward during the discussion.

OTHER MATTERS

In the course of the meeting, M. Rocard said that he had become increasingly concerned at the potential effects of enlargement on the Community's policy towards Mediterranean third countries, in particular Tunisia, Morocco and Israel. It was not possible for Spain to receive less favourable treatment than third countries, so Spanish entry, given the competitiveness of Spanish agriculture, would inevitable devalue the Community's Mediterranean trade concessions. Tunisia's exports of olive oil and Morocco's exports of citrus would be especially hard hit. The only compensation the Community would be able to offer would be financial, and he feared that this, combined with IMPs, would mean that enlargement would be accompanied by heavy additional budgetary costs. He did not believe that the Community had yet woken up to this. He was also concerned at the Commission's failure to take adequate account of the GATT implications of enlargement. He intended to raise all these matters in the Agriculture Council.

Over lunch, discussion covered, among other things, the payment of milk supplementary levy and agricultural structures. On the first point, M. Rocard said that France was determined to implement the quota system. However, it was essential that a way be devised to enable milk to be transferred from dairies that had not fulfiled their quota to those which had over produced. Once this was done and it was possible to resolve the worst anomalies of the quota system, he would be ready to collect levy. M. Lachaux pointed out that what France was seeking was what, in effect the MMB were able to do in England and Wales. The <u>Minister</u> was highly critical of the French position. All member states were aware of the potential difficulties when they adopted the quota system last year; no one should now say that they would only implement it if changes were made restropectively. We did not reject the idea of changes to the system; indeed,we were seeking some changes ourselves. But we could not agree that the system should not be implemented until these changes had been made. On structures, <u>M. Rocard</u> showed interest in the UK conservation initiative, agreeing that conservation was likely to assume increasing importance throughout the Community. <u>M. Lachaux</u> was more sceptical; he feared that it would open the way to the introduction of state aids with only tenuous claims to be related to conservation (indeed, he pointed out that it will possible to justify parts of the French beef aid package in this way).

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C I LLEWELYN
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