OIO

AT

GDP 24/i

MEETING BETWEEN THE MINISTER OF AGRICULTURE, FISHERIES AND FOOD AND THE BELGIAN MINISTER OF AGRICULTURE: BRUSSELS, 21 JANUARY 1985

Present

The Minister	Mr de Keersmaeker
Minister of State (Commons)	Mr Dobbelaire
Mr Andrews	Mr Carmeliet
Mr Llewelyn	Mr Biron
Mr Coltman (Embassy)	Mr Keymeulen

After welcoming the Minister to Brussels, Mr de Keersmaeker said that the Community's price policy must be considered in the framework of its financial problems. Ministers had to do their best to keep within current financial limits, but, at the same time, they should not endanger the principles of the CAP; this would lead to a renationalisation of agricultural policy. He commented that there had been moves in that direction recently, which he considered to be extremely dangerous. Ministers had to approach the price fixing with political realities in mind, in a way that gave farmers some hope for the future. So although they must continue to exercise restraint, budget discipline could not be applied mechanically. In Belgium farm incomes had fallen by 7% in 1984. They had accepted difficult decisions last year but it would be almost impossible to say to farmers now that the measures taken last year to limit production, via guarantee thresholds, should be followed by a price freeze this year.

The Minister said that he shared Mr de Keersmaeker's concern about the dangers of renationalising agricultural policy; member states must work within the CAP. Recent developments in Germany were particularly worrying, as the Germans seemed to have unlimited funds to use to bypass Council decisions. Turning to the general points made by Mr de Keersmaeker, he was glad that Belgium seemed to accept the need for budgetary discipline. This had to be the starting point for the price negotiations. It was essential that the Community respected the financial guideline and that the new procedure was observed in the current negotiations. On prices, it would be wrong to throw away what had been achieved last year by reverting to an over-generous price policy. In the past, the Council had always taken action too late; this year, it was essential to send a clear signal to farmers that the Council did intend to control the level of production. There was, therefore, a continued need for price restraint across the board. This applied particularly to milk, where it would be foolish to use quotas as an excuse for price increases. He added that he had never been enthusiastic about quotas and hoped that the Community would be able to revert to a simple price policy for milk after five years; this would not be possible if prices increased substantially over this period. He believed that it was also essential for the Council to observe the rules it had agreed on guarantee thresholds. These had to be made to work, especially in the cereals sector, where he believed they would have an effect on the level of production if they were implemented in full. This would avoid the need to employ artificial constraints on production such as quotas, which would be disastrous in this sector. Finally, he believed that the price settlement would have to take account of the balance of expenditure between member states and between various parts of the Community; Mediterranean products had benefited from large increases in expenditure over recent years and further price increases were not justified.

Mr de Keersmaeker agreed that decisions taken last year should not be weakened. However, if the Community's approach on agricultural policy was to succeed, it needed to be reinforced by progress in other sectors which could contribute to the prosperity of Community agriculture. More progress was needed on harmonisation, both in the monetary and internal market sectors. In particular, measures protecting national markets needed to be removed (he observed that no one was free from criticism here). Another area where more needed to be done concerned Community preference; for example, a consumption tax on oils and fats should be introduced. Turning to the others points made by the Minister, he was sceptical about the possibility of controlling production via price policy. This had not proved effective in the past. He was doubtful, therefore, whether it would prove possible to abandon the quota system for milk and revert to a straightforward price policy. Similarly, he doubted whether price reductions would in fact reduce production of cereals. He had noted what the Minister had said about quotas in this sector and confessed that he did not know the answer here. Nevertheless, he did not believe that the present system would prove effective, adding that politically it would be very difficult to rely on prices alone if this meant such severe price reductions that small producers could no longer survive. Finally, he agreed with the point the Minister had made about Mediterranean products; we had to bear in mind the implications of enlargement here.

Discussion then turned to individual commodities. On cereals, Mr de Keersmaeker said he had already put his view in general terms. He accepted that the guarantee threshold should be implemented in full, but it would be difficult not to have at least a small offsetting price increase. There should be no further increase in quality standards.

The Minister replied that with the current large surplus of cereals, and the possibility of another substantial harvest this year, now was the wrong time for any price increase. The guarantee threshold arrangements should be applied in full. He had already made clear his opposition to quotas but he was equally strongly opposed to any co-responsibility levy. He agreed with the Belgian line on quality standards. For wheat, he would like to see the gap narrowed between bread-making and feed wheat prices. He would continue to seek the abolition of carry-over payments. On the external side, the introduction of the new Farm Bill in the USA had created new problems and the Community had to be careful not to provoke a price war.

Mr Andrews added that despite cuts in price levels, real returns to cereal producers had continued to rise because of continuing increases in productivity. In view of this, and of the profitability of the cereals sector recently, in our view prices could be significantly reduced without drastically affecting incomes and we believed that the continuing application of guarantee thresholds would control production. On quality standards, we were particularly opposed to quality standards on exports. Mr de Keersmaeker said that he fully agreed with this last point. He was equally opposed to tightening other quality standards as this would discriminate against countries such as Belgium and the UK which had relatively unfavourably climates. On the external side, he agreed that developments in US agricultural policy were likely to prove of key significance. He was opposed to ending carry-over payments.

The Minister of State (Commons) commented that in the UK there was a continuing imbalance between the cereals and livestock sectors; the recent fall in cereal prices had helped to remedy this, although more needed to be done. A co-responsibility levy would not contribute to improving the balance, since it would hit cereal producers' margins without helping the livestock sector. Mr de Keersmaeker said that they had not yet reached conclusions on the merits of a co-responsibility levy and of other methods of limiting production, although they would probably end up sharing our point of view. He noted that there was interest in some parts of Belgium and in France in a quantum system, whereby only certain quantities would be eligible for intervention.

Mr de Keersmaeker said that the Commission's latest proposals on starch were completely unacceptable, since they would discriminate between different types of starch. The Minister agreed that the proposal raised a number of difficulties; it should be kept out of the price fixing negotiations. Mr Andrews added that the proposal would discriminate both between materials used and between end uses. Furthermore, it would be difficult to implement the new arrangements without any transitional period. It was right to try to remove the present distortions in the starch regime, but an even handed approach was needed and an adequate transitional period. In our view this proposal was related to the one on sugar for the chemical industry, where we believed that quota sugar should be eligible. Mr de Keersmaeker promised to look into this point.

Turning to milk, Mr de Keersmaeker said that the Community must implement what had been agreed last March; in particular, Ireland's bid for extra quota must be resisted. Moreover, this implementation must be on a uniform basis in all member states. For this reason he regretted that it had been agreed that quotas could be based on either Formula A or Formula B; he felt that this needed to be reviewed, as should the Community reserve, where it was necessary to look at the real purpose of the reserve. He also had doubts about levy collection every three months; a longer period was needed. On price, he had accepted the quota system in order to be able to continue to apply a realistic price policy. He was aware of current budgetary restraints, but it would be politicly extremely difficult to apply a price freeze; this would have a severe effect on farm incomes. He added that he did not wish to use the argument that 1985 was an election year in Belgium, but this point should be borne in mind. The co-responsibility levy should be reduced by the 1% agreed last year, but to do more would create financial problems. The corresponding 1% reduction in quota should go ahead.

The Minister agreed that it was essential that the existing rules were fully implemented. He noted Mr de Keersmaeker's comments on the Formula A and B systems, commenting that if changes were made to the current arrangements we needed to ensure that we did not move to a system of national quotas. He did not accept the Belgian arguments on prices. As he had explained earlier, we were seeking a price freeze. If it was necessary to increase producers returns, we would much prefer to see this done by reducing the co-responsibility levy further. He would, however, like to see another adjustment in the fat/non-fat ratio to reduce the price of butter and so boost consumption. So far as the Community reserve was concerned, he did not think that the existing level or allocation should be changed. It would be easy for all Ministers to find areas that might benefit from the reserve if it was re-opened. Finally, he agreed that the Irish claim to extra quota was outrageous.

Mr de Keersmaeker accepted the Minister's arguments on the Community reserve. If this issue was re-opened, producers in the Belgium province of Luxembourg (who felt agreived because of the favourable treatment granted to the Grand-Dutchy) would undoubtedly press to be included. He also agreed that the Community should not move to a system of national quotas. However, the different ways in which the two existing formulas were being applied was leading to discrimination between producers in different member states, and he believed that it would be better to have a single system. He agreed, too, that a better fat/non-fat raio was needed, to place butter in a more competitive position with regard to other fats. He added that this was one of the purposes of the proposed oils and fats tax.

Mr Andrews replied that an oils and fats tax would be likely to lead to problems in GATT and, at the level proposed by the Commission, would have little effect on the balance between vegetable fats and butter. It would also be difficult and expensive to administer. Mr de Keersmaeker denied that such a tax would be contrary to GATT if it was a broad-based consumption tax; this would be the equivalent of the milk co-responsibility levy. He accepted that at the level proposed it would do little to help butter consumption, but claimed that psychologically and politically it would be helpful and that it would improve the Community's financial position. Given its political, commercial and financial advantages, it should certainly be kept on the table.

The Minister of State (Commons) noted what Mr de Keersmaeker had said about collection of levy, and said that we were considering this point. Collection every six months might be sensible. Mr de Keersmaeker replied that annual collection would be better.

Mr de Keersmaeker said that a prudent price policy was needed for beef. The introduction of milk quotas had created difficulties in this sector and an unjustified increase would lead to additional problems. He would like to see all premiums other than the Suckler Cow Premium abolished.

The Minister agreed that a prudent price policy was required for beef. However, the Community should take the next step in the implementation of the Beef Carcase Classification Grid. So far as the Beef Variable Premium Scheme was concerned, this had advantages over intervention in that helped maintain levels of consumption; it also was less costly to the Community. With the introduction of clawback, distortion of competition was no longer a possible problem. Mr de Keersmaeker said that he would consider the Minister's arguments. If the premium system was preferable to intervention, it should apply throughout the Community. He was in favour of a uniform, rather than an à la carte, regime.

The Minister explained the UK's position on sheepmeat. We were in favour of a prudent price policy and not seeking major changes to the regime, although we did want something done to facilitate exports. Mr de Keersmaeker took note.

There was no time to discuss other commodities, although it was agreed that price restraint was needed for fruit and vegetables, olive oil, wine and sugar. On sugar, the Minister commented that we were looking for a small increase in processors' margins.

CIL

C I LLEWELYN
23 January 1985

Circulation

Private Offices
Deputy Secretaries
Commodity Under Secretaries
Mrs Attridge
Mr Wilson
Commodity Assistant Secretaries

Mr Packer
Mr Melville
PS/Foreign Secretary
PS/Chancellor of the Exchequer
PS/ S of S for Wales
PS/ S of S for Scotland
PS/ S of S for Northern Ireland
Mr Powell/ No.10
Mr Williamson/ Cabinet Office
Mr Coltman (Embassy, Brussels)
Mr Blackley (Embassy, The Hague)