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Treasury Chambers, Parliament Street, SW1P 3AG

Rt Hon Michael Jopling MP
Minister of State for Agriculture, Fisheries and Food
Ministry of Agriculture Fisheries and Food,
Whitehall Place
LONDON SW1

21^y March 1985

Dear Michael,

AGRICULTURAL PRICE FIXING AND BUDGET DISCIPLINE

As you will only be too well aware, it is clear from the first exchange of views in the Agriculture Council last week that the price fixing negotiations are going to be very difficult, with pressure from all other member states, spearheaded by the Germans, to dilute the Commission's proposals.

As was agreed at OD(E) our objective must be to encourage the Commission to stick to their original proposals. So long as we do not join other member states in unanimous demand for amendments, the Commission will remain in a position to resist such pressures. I hope that you will be able to find an opportunity at the outset of the Council next week to speak to Andriessen and tell him that he can rely on your support and that we would regard the consequences of the Commission going along with a serious dilution of their proposals as very grave. The Council's commitment to effective budget discipline is for us an essential part of the Fontainebleau package. Were the agricultural price settlement to constitute a serious breach of budget discipline the Government's task in steering the increase in own resources through the UK Parliament will be made very much more difficult, and I hope you would consider conveying this message also to Pandolfi.

However, we need to do some contingency planning about how we would react if the Commission looked like weakening and a qualified majority were to emerge for amended proposals. As you know the conclusions on budget discipline provide that:

"If in the Commission's opinion the Council of Agriculture Ministers seems likely to take decisions whose cost would exceed that of the original proposals of the Commission, the final decision must be referred to a special Council session attended by both Finance and Agriculture Ministers and can be taken only by that special session."

Article 7.4 of the conclusions provides that these arrangements "shall apply" and the sixth entry in the accompanying Council minutes states that any Member State may seek the opinion of the Commission on whether the circumstances referred to in the above quotation apply, thereby being able to trigger a Joint Council.

I have concluded after careful consideration that if we were faced with the prospect of a significant dilution of the Commission's proposals we should insist that a joint meeting of Agriculture and Finance Ministers should be convened. I recognise that there is a risk that a Joint Council would not prevent an unsatisfactory price settlement and that the new budget discipline arrangements would then be seen to have taken a bad knock. On the other hand, the threat of a Joint Council could help strengthen the Commission's resolve, and the direct involvement of Finance Ministers in the negotiations ought to have some moderating influence. Moreover, we would expose ourselves to even greater criticism at home if an unsatisfactory price fixing were arrived at without our having invoked the budget discipline arrangements which we took the lead in negotiating last year.

The question arises of the circumstances in which you should invoke the possibility of a Joint Council and when it would be best for you to do this. My conclusion on the first point is that you should do this if faced by the prospect of amendments adding significantly to the cost of the Commission's package. The figure I have in mind is around 200 mecu, ie amendments which turned the forecast net savings of 40 mecu in 1986 into a net cost in excess of some 150 mecu. However, a rather smaller net addition to costs might warrant invoking a Joint Council if the particular amendments were very damaging to our objectives on CAP reform and budget discipline, eg involving an unravelling of the milk quota arrangement or backing away from the application of the guarantee threshold for cereals.

I am sure that you will not want to invoke the possibility of a Joint Council until discussions in the Agriculture Council had crystallised into a real threat to the Commission's proposals, and it is difficult to predict whether this stage may be reached next week. On the other hand, immediately such a situation does arise I am sure that you should ask the Commission to comment on the cost implications and make quite clear that you would insist on a Joint Council. By doing this quickly you would maximise any deterrent effect that a Joint Council might have.

I am sending copies of this letter to the Prime Minister, Members of OD(E) and Sir Robert Armstrong.

Yours ever
Ian

IAN STEWART