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Foreign and Commonwealth Office

London SW1A 2AH

17 May 1985

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Dear Charles,

Prime Minister's meeting with Chancellor Kohl: Agriculture Council and Polish Church Agriculture Scheme

As you know, the German Agriculture Minister (Kiechle) invoked the Luxembourg compromise in the Agriculture Council yesterday in order to avoid being voted down on cereal prices.

In the past, the Germans have always maintained that if agreement cannot be reached in the Council then the Presidency "must have recourse to voting where the Treaties so provide". By blocking a vote on cereals the Germans have acknowledged what we have been saying for months, namely, that whatever the theoretical position of some Member States on the Luxembourg compromise, no government will allow itself to be voted down where it considers its very important national interests to be at stake. I enclose a factual note on use of the Luxembourg compromise in recent years.

The Agriculture Council

Because of the German invocation of the Luxembourg compromise, the cereals part of the price fixing package was left to one side. It will be taken up again when the Council meets, informally, in Siena from 27-29 May and, formally, in Luxembourg on 11-12 June. It would be helpful if the Prime Minister could urge Chancellor Kohl to moderate the FRG's opposition to price cuts for cereals and rapeseed. I attach a checklist of arguments the Prime Minister could use. This has been cleared with the Ministry of Agriculture. ~~I also attach a checklist of arguments the Prime Minister could use. This has been cleared with the Ministry of Agriculture.~~ I also attach a translation of Chancellor Kohl's letter of 13 May to Delors, in which Kohl explains his Government's fear that cereals price cuts could force small farmers in Germany off the land.

If Kohl raises these fears, the Prime Minister might counter that containing CAP costs has been a major objective of both the FRG and UK. It will not be achieved if Member States shy away from difficult decisions to reduce prices in

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line with market realities. German farmers are not the only ones to have suffered cuts in income. UK farm income in recent years has been substantially below that in the 1970s. For cereals, the value throughout the Community of support prices per hectare in real terms rose by 14% between 1979/80 and 1984/85. The income problems of small farmers are something we will have to look at separately in the light of the Commission's current study of long-term perspectives for the CAP.

Polish Church Agriculture Scheme

The Germans have warned us that if Kohl raises this subject with the Prime Minister, he is likely to ask us not to oppose the amendment to the 1985 draft budget proposed by the European Parliament, allocating 5 million ecus for the scheme. In reply, we suggest that the Prime Minister should point out that the Council's Budget Committee voted not to put money in this line, on the grounds that there was no legal basis for expenditure; and that it would be wrong to re-open this question.

I am copying this letter and enclosures to the Private Secretaries to the Minister of Agriculture and Sir Robert Armstrong.

Yours ever,

Colin Budd

(C R Budd)
Private Secretary

C D Powell Esq
10 Downing Street

USE OF THE LUXEMBOURG COMPROMISE IN RECENT YEARS

The following is the position of Member States of the Community on the Luxembourg compromise.

(a) Belgium and Netherlands take the view "that the Presidency must have recourse to voting where the Treaties so provide". Belgium and Netherlands have not invoked the Luxembourg compromise. However, at the Fisheries Council on 14 December 1983, the Commission refused to adopt as its own proposal a Presidency compromise on herring quotas which all Member States, except Belgium and the Netherlands, could agree to. The Commission took this position on the grounds that, unlike the other member states directly concerned, Belgium and Netherlands could not invoke a vital national interest to prevent a decision. A compromise was eventually adopted with Belgium abstaining.

(b) Denmark shares the UK view that "when a Member State considers its very important interests to be at stake, discussion should be continued until unanimous agreement is reached". (Declaration on the signature of the Solemn Declaration in 1983.)

The Danes have frequently invoked the Luxembourg compromise on fisheries questions, the last time being the Fisheries Council on 12 July 1983 on herring quotas.

(c) France The formal French position is that "voting will be postponed if one or more Member States so request in order to defend an essential national interest directly related to the subject under discussion, which they confirm in writing" (declaration of the French Prime Minister on the signature of the Solemn Declaration).

Before the Transport Council on 10 June 1982, the French representative said that decisions (on inland waterways where the French were in a minority of one) should be taken in the Council "in accordance with established practice, within which the

Luxembourg compromise maintained, for the French government, all its value". In the event, no move to a vote was made.

In November 1984, in a speech in Germany, M. Dumas said it was "indispensable to maintain the possibility for a Member State to invoke a vital interest provided that the Member State justifies it objectively in the Council".

(d) Germany takes the view that "the Presidency must have recourse to voting where the Treaties so provide". However, in the Agriculture Council on 16 May, the Agriculture Minister said that, if a vote were to be proposed on cereal prices Germany would have to ask that it be deferred because a very important national interest was at stake. The Presidency then declined to move to a vote on the basis that Germany had invoked the Luxembourg compromise. On 13 May, Chancellor Kohl had written to the President of the Commission using Luxembourg compromise language: "This issue of price reduction is an essential question in which very important interests in our agriculture and thus our economy are at stake, and with regard to which we would find it very difficult to allow ourselves to be overruled in the Council."

(e) Greece takes the view that discussion of a subject should be continued "until unanimous decision is reached in cases where vital and essential national interests of a Member State are at stake and written notification has been made to this end".
(Declaration in the context of the Stuttgart Declaration, 1983.)

At ECOFIN in June 1982, the Greeks had difficulties over a compromise package for the renewal of OECD export credit consensus rules. The Greek representative said that since very important national interests were at stake, a vote should be deferred. No vote was called.

In the Agriculture Council in September 1983, the Greeks refused to accept a one-year roll-over of the dried fruit regime with subsequent introduction of a guarantee threshold. When the Dutch

representative proposed a vote, the Greek representative immediately intervened to say that this was a matter of vital national interest and that a vote would not be appropriate. No vote was taken.

(f) Ireland takes the view that "voting will be postponed where one or more Member States so request in order to defend an essential national interest directly related to the subject under discussion, which they confirm in writing". (Declaration on signature of the Solemn Declaration, 1983.) At the Agriculture Council on 26 March 1984, Ireland invoked the Luxembourg compromise over the proposed size of its milk quota. The Irish confirmed their position in writing. No vote was taken.

In a speech on 22 March 1985, Dr Fitzgerald said: "The outstanding issue of providing for the exceptional case where a genuine vital national interest of a member country might be overridden by other members should be capable of resolution ..."

(g) Italy takes the view that the Presidency "must have recourse to voting where the Treaties so provide".

At the Steel Council on 25 July 1983, Italy reminded other Ministers of the existence of the Luxembourg compromise without formally invoking it. In a restricted session outside the Council chamber, Italian Minister made it clear that if a vote seemed likely he would formally invoke the Luxembourg compromise to prevent the adoption of steel quotas unacceptable to Italy. Agreement was reached on a compromise without a vote.

It is also unlikely that the Italians would in practice accept to be voted down on the olive oil or wine regimes.

(h) Luxembourg shares the view that the Presidency "must have recourse to voting where the Treaties so provide". There is no recent record of Luxembourg invoking a very important national interest. The question of a permanent seat for the European

institutions is the most commonly quoted example of a Luxembourg "vital national interest". Since the question of the institutions is covered by one of the unanimity articles of the Treaty (Article 216) there is no possibility of their having to invoke the Luxembourg Compromise on this issue. We believe however that Luxembourg would be opposed to a Treaty amendment of this article, or to giving the European Parliament joint decision-taking rights in this field because this would increase the chances of their being voted down. Luxembourg could almost certainly not accept to be outvoted on steel quotas and migrant workers.

(i) United Kingdom takes the view that "when a Member State considers its very important interests to be at stake, discussion should be continued until unanimous agreement is reached". At the Agriculture Council in May 1982, the UK invoked the Luxembourg compromise on the grounds that the Commission's proposed price package would result in a ten per cent increase in the cost of the CAP and would substantially and unacceptably increase the UK net contribution to the budget. No vote was taken but at the Agriculture Council on 17/18 May, despite repeated use of Luxembourg compromise language by the UK Minister, the Belgian Chairman proceeded to a vote. Denmark and Greece refused to participate in voting. All other Member States voted in favour of the price package. France claimed that the UK had been overruled for misusing the Luxembourg compromise, ie making a false link between its budget problem and the agricultural price fixing.



CHANCELLOR KOHL'S VISIT TO CHEQUERS, 18-19 MAY

CHECKLIST OF ARGUMENTS ON 1985 CAP PRICE FIXING

- Cereals surplus growing rapidly (excess of production over internal consumption 30% or 35m tonnes in 1984/85; Commission estimate similar surpluses up to 1991 even assuming restrictive price policy).
 - Cost of storage and disposal nearly 2 becu in 1984 and would shoot up were dollar to fall.
 - Essential to reduce support prices so as to contain costs and give clear signal to producers.

- Failure to implement guarantee threshold rules for cereals would undermine application of guarantee thresholds for other products, notably Mediterranean ones.

- Know you are concerned to set future shape of Community before enlargement.
 - If CAP is to be sustainable after enlargement, impetus of reform must be maintained.
 - Otherwise all old problems will persist in much worse form.

- Failure to reduce Community cereals prices will exacerbate agricultural trade problems with US in particular.
 - Possibly serious consequences for battle against protectionism.
 - FRG and UK would be among worst hit by such developments.

3 May 1985

(for the personal attention of Mr Jacquot, Cabinet of Mr Delors,
President, Agricultural Council)

To the President of the Commission of
the European Communities,
Mr Jacques Delors

Mr President,

I have the honour to communicate to you, below, the text of a
letter from the Federal Chancellor:

"Bonn, 13 May 1985

Mr President,

I am approaching you in what is a very difficult situation for us
to seek your support.

The negotiations of the Agricultural Ministers of the EEC on
agricultural price fixing for the year 85-86 have reached a
decisive stage. The Commission proposals and the result of the
negotiations so far make it impossible for us to agree to
the overall compromise as it now stands.

In the extremely difficult situation in which our agriculture
finds itself with regard to revenue, the Commission has
proposed a series of price reductions for a series of
agricultural products; according to the Commission information*,
in addition to budgetary economies, the market equilibrium in
sectors in surplus should be established by means of significant
price reductions.

*Translator's note: my reconstruction of the syntax; the French
does not follow on logically here.

I do not dispute that a measure of this kind can in fact lead to the desired result. In the view of all the specialists, however, the price reductions necessary would have, for that purpose, to be made on such a scale as to ruin a significant number of farmers. Marginal or token downwards price adjustments result only in irritating farmers. It is the fear of the Federal Government, which I head, that the price reductions currently proposed will result in developments triggering competition which will lead to the elimination of certain categories by means of a deliberate policy of price pressure. In the long run, only the best-situated and best-structured farms would survive. Farmers handicapped by their situation, their region and their agricultural structures would be eliminated from the market. The Federal Republic would be particularly affected by developments of this kind. That is why we cannot agree to any policy which would compel our farmers to give up as a result of a policy of price pressure. Moreover, that would affect our agricultural workers in what is a difficult situation where the prospects of finding work outside the agricultural sector are very poor. The consequences for social peace in our country would be incalculable.

You will understand that for us this issue of price reduction is an essential question in which very important interests in our agriculture, and thus our economy are at stake, and with regard to which we would find it very difficult to allow ourselves to be overruled in the Council.

I would therefore be very grateful to the Commission if it could do all in its power to enable the German delegation to agree to a final compromise.

that end, it would be necessary for the Commission to abandon price reductions in its final compromise, in particular for cereals, colza and butter.

Thank you in advance for your understanding.

Yours etc"

Helmut Kohl

[Complimentary close]

Poensgen

Permanent Representative of the FRG

Dismond

EC -

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Report for Nth.
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