010

cc/PC 28.

MEETING BETWEEN THE MINISTER OF AGRICULTURE, FISHERIES AND FOOD AND THE FRENCH MINISTER OF AGRICULTURE: 2 JULY 1985

CDP 2/7

Present

Minister	M Nallet
Minister of State (Commons)	M Lachaux
Sir Michael Franklin	M Trunel
Mrs Attridge	French Ambassador
Mr Boswell	M Balnay) French
Mr Llewelyn	M Carnelluti) Embassy

1. After welcoming M Nallet, the Minister suggested that the discussion should concentrate on the forthcoming review of the CAP, which was about to be launched by the Commission. He said that we were firmly of the view that a realistic price policy was the best way of controlling agricultural production. In our view, the alternatives to this were not attractive. In particular, we disliked the idea of any further extension of the quota system; he thought that the French shared our view.

2. M Nallet said that France did not, perhaps, approach the problem in the same way as the UK, but the conclusions they had reached were much the same. In the first place, it was clear that producers did not want an extension of the quota system and he agreed that this was not a practical solution. Secondly, it was essential to maintain the Community's presence on export markets and this meant that the gap between Community and world prices could not be allowed to increase. The Community must adopt realistic prices for all products which it expected to sell on world markets. He was sure that this approach was the correct one and thought that this was coming to be accepted by French producers. He had recently addressed a meeting of cereal growers and explained this policy, pointing out that it implied price reductions. They had not applauded, but they had not booed either. On this issue, France and the UK clearly held similar views, which were opposed by Germany. He thought that there were two aspects to the current German position. One reflected internal political pressures, but the second was more fundamental, and it derived from a different view of the future of the CAP. Germany had benefited from the CAP to the extent that it was now approaching self-sufficiency, but the Germans did not see themselves as exporters. He had been struck by the emphasis that they always placed on disposal on the internal market (for example, alternative uses for cereals) rather than on the world market. Germany, in fact, was primarily interested in maintaining prices and patterns of production so that their producers were guaranteed adequate incomes without any real changes in the existing farm structure. This worried him, as he thought that the logic of this policy led inexorably to quotas. A further point of concern to him was the growing emphasis on social payments, such as income aids. With the accession of Spain and Portugal, the Community would have a substantial agricultural population with an average income little above that of Greece. If the balance in agricultural expenditure moved away from market management measures towards social payments, this would be very expensive in budgetary terms as well as reducing France's receipts from the CAP; the net effect would be a marked increase in their net contribution.

3. The Minister agreed that it was necessary to maintain the Community's share of export markets and that to achieve this Community prices could not be permitted to diverge further from world prices. He commented that the UK was coming to rely to an ever greater extent on exports, and noted that as the UK became more export orientated and France became a net contributor, our views were coming together. Furthermore, our approach was, to a large extent, shared by the Commission and, provided that we kept together, we should be able to have a major influence on the forthcoming review. On the question of income aids, he shared France's reservations; these would only be effective if they were accompanied by a stringent price policy. His fear was that pressures from other Member States would lead to a lax price policy and income aids. He was also concerned about the effect of income aids on agricultural expenditure. Any social payments should be financed from, say, the Social fund rather than FEOGA. M. Lachaux cautioned against antagonising the Federal Republic too much since they were the principal contributors to the budget.

4. The Minister of State (Commons) added that the accession of Spain and Portugal would undoubtedly increase the degree of support in the Community for income support. Sir Michael Franklin commented that most members of the existing Community were aware of the dangers of giving any income commitment to Spain and Portugal. But it would be equally dangerous to provide such a commitment to, say, the part-time Bavarian farmer, as this would mean subsidising the inefficient sectors of Community agriculture at the expense of the market orientated ones, which were the ones where the UK and France were strong.

5. M. Nallet said that he was very aware of all these dangers. Before reaching any decisions, it would be essential to know whether income aids would be paid across-the-board, and whether they would come wholly or in part from the Community budget. He would like to see a projection of their effects on the budget, under various hypotheses within the next 15 years, given current demographic and production trends. Another consideration was the effect income aids would have on farm structures. Here, they would be likely to preserve existing structures and slow down the consolidation of small, fragmented holdings into medium sized farms.

6. Taking up this last point, the Minister asked what progress was being made in France on the rationalisation of milk production. M. Nallet replied that the number of milk producers had already fallen below 400,000. Given the age structure of the industry, this move would accelerate and he expected to see a total of 250,000 producers in five years. Their policy was to aim for holdings producing between 200 and 300 thousands litres a year, ie from 40-60 cows. He went on to say that the introduction of the quota system had provided a valuable opportunity to modernise the French milk industry. The key factor here was that France had chosen to introduce dairy, rather than individual, quotas; this meant that the structure of the industry could continue to evolve and that the trend in favour of the more efficient producer was accelerated. Germany, on the other hand, which had a very similar structure in the milk sector to France, had decided on individual quotas, which froze existing farm structures and patterns of production; this, once

again, illustrated the overall German approach to agricultural policy.

7. At the end of the meeting Nallet said that he was glad that there was such a wide measure of agreement between the two countries. There were, however, likely to be differences of view on how rapidly prices should be reduced, given the differing farm structures in the UK and France. The Minister replied that there, would, no doubt, be some differences of view. But the important point, on which he thought they were agreed, was that the Community could not adopt policies which were against the interests of efficient producers if it was to compete effectively on world markets.

8. Discussion continued over dinner. (The Minister of State (Commons), Mr Boswell and M Carnelluti were not present). The following points were raised:

a) there was general agreement that the new Presidency would have no option but to return to the question of cereal prices at the next Council, but no one was optimistic that any decisions would be reached;

b) M. Nallet said that there was some enthusiasm among French cereal producers for the idea, contained in the draft Commission "Perspectives" paper, of an organisation to fund cereal exports and alternative uses of cereals; this would be financed by a co-responsibility levy. M. Lachaux added that in any case more flexibility was needed in the price system for cereals; returns to producers should vary according to the size of the harvest and the variations should take effect in the same, rather than the following, marketing year. He implied that a co-responsibility levy, linked to the costs of disposal, would achieve this. On this point Sir Michael Franklin pointed out that institutional prices only provided a framework for market prices; in reality, market prices in Community did vary considerably according to the size of the harvest;

c) on alternative uses for cereals, such as the production of ethanol, the Minister made it clear that he remained a sceptic. Given that even countries that could produce cereals at world prices did not find this economic, he doubted that it would ever be an economic proposition in the Community. M. Nallet tended to agree; in particular, it was essential that the possibility of finding alternative uses for cereals was not used as a pretext for postponing a realistic price policy or reducing the emphasis on export orientated policies;

d) there was some discussion of US agricultural policies. M. Nallet thought that the Administration were having to take a particularly tough line because the Farm Bill was currently before Congress. Once this was out of the way, the situation should become easier. He felt that Mr Block's export enhancement programme was not part of a long term strategy, but a response to Congressional pressure. In his view, this made it important for the Community to responde to US moves. If the Community could match the US offer to Algeria, and any subsequent offers, he did not think that Congress would be prepared to finance a prolonged offensive. In any case, the Community needed to maintain a share of the Algerian market; indeed, Algeria did not wish to be dependent on a sole supplier. He added that the United States' tactics were clearly to divide the Community. In this connection, he had been struck by the way that the Community Ministers had maintained a common line, without any prior co-ordination, at the dinner Mr Block had given in Paris recently. He thought that the dinner had proved useful and had made it clear to the Americans that the Community was united on this issue. He had told Mr Block on that occasion that he had no wish to be involved in an all out trade war, as this would be a disaster for all the participants and would be a very bad way to prepare for major trade negotiations;

e) On the question of trade negotiations, M. Lachaux said that the nature of Community institutions put the Community at a dis-advantage compared to the US. US negotiators were able to negotiate a provisional agreement and then seek the endorsement of Congress. Community negotiators, on the other hand, were bound by a strict Council mandate, which was invariably well known to their opponents, and had very little flexibility. Both Sir Michael Franklin and Mrs Attridge thought that this over-stated the case. In practice, the Commission had a good deal of flexibility to explore possible compromises informally, while US negotiators were often at a disadvantage in that they could not guarantee to win over Congress. In any case, we would be happy to iive the commission rather more flexibility on agriculture trade policy matters, but would France?

9. Two other matters were raised during dinner. The Minister asked M. Nallet whether he had reconsidered his attitude to the SEC scheme for ewes. He reminded M. Nallet of the efforts we had made to meet French pre-occupations. M. Nallet replied that he was meeting sheep producers throughout France and would reach conclusions in September. Conditions varied, but there was no doubt that in general the situation remained very serious and he was extremely concerned. Large numbers of producers had made it clear that prices were at levels that would not permit them to continue in business.

10. Finally, M. Lachaux revealed that France does not intend to reduce the period of delay on payment for butter bought into intervention.

CIL

C I LLEWELYN
4 July 1985

Private Offices
Mr Andrews
Mr Hadley
Mrs Attridge
Mr Capstick
Mr Wilson
Mr Dickinson
Mrs Archer
Mr Packer
Mr Lowson
Mrs Pickering
Mr Wentworth

Mr Cruickshank
PS/Foreign Secretary
PS/Chancellor
PS/SofS for Scotland
PS/SofS for Wales
PS/SofS for Northern Ireland
Mr Powell/No 10
Mr Williamson/Cabinet Office
Mr Anderson/UKREP
Miss Timms/Paris