



Ref. A086/1330

PRIME MINISTER

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Cabinet: Community Affairs

In the absence through illness of the Minister of Agriculture, Fisheries and Food the Foreign and Commonwealth Secretary will report on the results of the marathon Agriculture Council of 21-25 April. The Council agreed on a price fixing package for the marketing year 1986-87 by a qualified majority, with Germany voting against the cereals measures and Spain against the cut in milk quotas. Mr Jopling achieved the two conditions laid down by Cabinet last week (CC(86) 17.5), that the Commission should give an assurance that agricultural expenditure in 1986 and 1987 would be financed within the 1.4 per cent VAT ceiling and that this would have to be considered in the ECOFIN Council on 28 April.

2. The most significant features of the package are -

i. It is basically a price freeze on Community support prices, with cuts on some Mediterranean products. The restraining effect is reinforced by a phased 3 per cent cut in milk quotas and, for cereals, by restrictions on intervention and a 3 per cent coresponsibility levy. The restraining effect is slightly relaxed by green rate changes in countries with negative monetary compensatory amounts (mcas): for United Kingdom farmers mcas are reduced by 1.5 percentage points for crops and 3 percentage points for most livestock products, giving an increase in support prices in sterling of about 1.35 per cent and 2.75 per cent respectively. The Germans, who with the Dutch get absolutely nothing, may give some nationally financed help to their farmers.



ii. It will cut the cost of Community agricultural support by an estimated 777 million ecu (about £500 million) over 1986 and 1987. This saving is about 118 million ecu (£75 million) greater than the saving resulting from the Commission's original package. Since it is a cost-cutting package it is clearly within the financial guideline.

iii. The proposals in the original package which discriminated against United Kingdom farmers have been removed. There is no 500-ewe limit on the sheep premium. There is no new beef premium with a 50-animal limit but the United Kingdom's beef variable premium scheme goes on unchanged. The 25-tonne exemption in the cereals coresponsibility levy has gone; the Ministry of Agriculture, Fisheries and Food estimates that United Kingdom cereal farmers will pay a proportion of the levy which is close to our share of Community cereals production. There is, however, going to be an aid for small cereal farmers, details of which are not yet decided.

3. The agricultural package itself is good both from the point of view of improving the operation of the common agricultural policy and because it cuts the budget cost. The budgetary advantage is, however, offset by the Commission's demand for a substantial extra sum due mainly in their view to the fall in the dollar against the ecu and to some direct effect from the recent realignment of some European currencies.

4. The Chancellor of the Exchequer will report on the ECOFIN Council of 28 April, which dealt with the Commission's outline of its expected proposal for a supplementary budget in 1986 and with the expenditure prospects for 1987. There was a wide measure of agreement that the 1.4 per cent VAT ceiling must be respected in 1986 and in 1987. For 1986 the Commission claimed that mainly because of the fall in the dollar another 1,394 mecu was needed for agriculture, despite the savings arising from the price



package agreed at the Agriculture Council, some 1,170 mecu for the structural funds, 700 mecu for the United Kingdom's extra abatement and 130 mecu for Spain and Portugal. These figures would add up to more than would be available within the 1.4 per cent VAT ceiling and are out of the question (the headroom is about 3,100 mecu if, as we expect, the Council and the United Kingdom win the cases against the European Parliament in the European Court of Justice and about 2,500 mecu if we do not win). The Commission will have to accept this and is likely to propose a 1986 supplementary budget containing about 915 mecu (£585 million) for agriculture, about 750 mecu (£480 million) for the structural funds and the full amount, about 700 mecu (£450 million), for the additional element of our abatement. The existing 1986 budget already contains 1,400 mecu (£900 million) for our abatement and we are already abating our contribution on that basis. Whatever happens, the United Kingdom is likely to be a beneficiary from the supplementary budget. The real problem, however, is that expenditure is not being controlled sufficiently and that the Commission is obviously trying to push expenditure forward into 1987 and again into 1988 rather than to find savings now. The Chancellor of the Exchequer tackled this point directly in the Council. In particular, when the Council agreed the 1987 reference framework, including the financial guideline for agriculture and the maximum rate of increase for non-obligatory expenditure, he argued that in the light of this agreement the Commission and the Agriculture Council should now be asked to identify the savings necessary to stay within the financial guideline in 1987. This was a first round, since there are as yet no formal proposals from the Commission either for a supplementary budget in 1986 or for the budget in 1987. The ECOFIN Council and later the Budget Council will come back to these issues.

5. The Chancellor of the Exchequer may also say that the oral hearing in the European Court of Justice of the Council's case against the European Parliament on the 1986 budget is taking



place today. After the hearing we shall know more precisely when the Advocate General's Opinion may be expected and the judgment be given.

6. There will be an Internal Market Council on 6 May at which the Minister for Trade (Mr Clark) will represent the United Kingdom.

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*for*

ROBERT ARMSTRONG

30 April 1986