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INFO IMMEDIATE UKREP BRUSSELS
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FRAME ECONOMIC/FRAME AGRICULTURE

FROM UKREP BRUSSELS

ECOFIN COUNCIL, 13 OCTOBER 1986.
AGRICULTURAL SPENDING.

SUMMARY

1. DISCUSSION OVER LUNCH, WITH GENERAL AGREEMENT ON SERIOUSNESS AND URGENCY OF SITUATION. COMMISSION GIVE GLOOMY ESTIMATE OF 1987 SITUATION AND PROMISE DRASTIC REFORM PROPOSALS FOR 1987 PRICE-FIXING. PRESIDENCY CONCLUSIONS ISSUED INCLUDING REFERENCES TO NEED TO TAKE ACCOUNT OF MARKET CONDITIONS, TO MAKE INTERVENTION A SAFETY NET RATHER THAN A PRINCIPAL MARKET AND TO LIMIT RISKS TO PUBLIC FUNDS. GERMAN, DANISH AND DUTCH RESERVES.

DETAIL

3. OVER LUNCH, THE CHANCELLOR OF THE EXCHEQUER OPENED DISCUSSION BY STRESSING THAT AGRICULTURAL EXPENDITURE WAS NOT JUST A SHORT-TERM PROBLEM IN 1987, BUT A LONG-TERM ONE. HE DID NOT WISH TO PRE-EMPT THE AGRICULTURE COUNCIL, BUT ECOFIN WAS CONCERNED ABOUT THE PUBLIC EXPENDITURE AND BUDGET DISCIPLINE ASPECTS. HE HOPED MINISTERS COULD AGREE ON THE NEED FOR EARLY ACTION AND THREE GUIDING PRINCIPLES: THAT PRICES SHOULD MORE CLOSELY REFLECT MARKET CONDITIONS, THAT INTERVENTION SHOULD OPERATE AS A SAFETY NET NOT AS A PRINCIPAL MARKET; AND THAT PRICE POLICIES SHOULD BE MORE FLEXIBLY OPERATED SO PUBLIC FINANCE DID NOT BEAR THE WHOLE RISK. INTERNATIONAL DISCUSSIONS ON AGRICULTURAL TRADE PROBLEMS WERE ALREADY UNDER WAY, BUT COMMUNITY PROBLEMS NEEDED MORE URGENT ACTION.

4. DELORS (COMMISSION) SAID REAL AGRICULTURAL PRICES HAD FALLEN 12% SINCE AGRICULTURE MINISTERS STARTED TAKING 'COURAGEOUS DECISIONS' IN 1984. BUT THE SITUATION WAS STILL NOT TOLERABLE AND THEREFORE THE COMMISSION WOULD PUT FORWARD NEW PROPOSALS BEFORE THE END OF THE YEAR. THE CAP FACED FOUR PROBLEMS: THE BUDGETARY ONE, WHICH HAD TO INCLUDE THE PROBLEM OF STOCKS; THE ECONOMIC AND SOCIAL ASPECT, GIVEN THAT IT WAS NOT CONSISTENT WITH REGIONAL POLICY TO FORCE PEOPLE OFF THE LAND WHEN UNEMPLOYMENT IN THE COMMUNITY WAS ALREADY SO HIGH, THOUGH HE HIMSELF HAD ALWAYS BELIEVED IN CUTTING THE LINK BETWEEN COMMON PRICES AND SOCIAL SUPPORT; EXCESSIVE WORLD PRODUCTION, WHICH WAS NOT JUST A COMMUNITY PROBLEM; AND TRADE POLICY ISSUES. IT WAS NECESSARY TO AVOID ROWS WITH THE U.S, THOUGH THE COMMUNITY CURRENTLY IMPORTED HUGE QUANTITIES OF SOYA FOR FOODSTUFFS WHICH INCREASED MILK YIELDS.

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5. ANDRIESEN (COMMISSION) SAID THE COMMISSION HAD BEEN WARNING OF THE POTENTIAL PROBLEMS SINCE 1981. THE 1986 PRICE-FIXING HAD SAVED 457 MECU, BUT THERE WAS NOW A POTENTIAL OVERSPEND OF FAR MORE THAN THE 1.4 BECU IN 1987 EARLIER ENVISAGED, AS A RESULT OF THE RECENT FALL IN THE DOLLAR, AGRI-MONETARY CHANGES, AND A PROBABLE CARRY-OVER FROM 1986 TO 1987. WORLD MARKET PRICES WERE FALLING WHILE PRODUCTION RACED AHEAD. THE COMMISSION HAD DONE ALL IT COULD ON ITS OWN AUTHORITY, SO FURTHER ACTION WOULD DEPEND ON COUNCIL DECISIONS. THE COMMISSION HAD ALREADY MADE PROPOSALS ON BEEF AND MILK, BUT WOULD HAVE TO GO FURTHER. IT WAS WORKING ON SOME REALLY DRASTIC NEW PROPOSALS TO COME FORWARD FOR THE 1987/88 PRICE-FIXING. THE PROBLEM OF STOCKS REMAINED. CURRENT STOCKS, OFFICIALLY VALUED AT 12 BECU, HAD A MARKET VALUE ONLY HALF THAT. THEY WERE COSTLY TO KEEP AND OVERHUNG THE MARKET. A DISPOSAL PROGRAMME WAS ESSENTIAL, COMBINED WITH MEASURES TO ENSURE THEY WOULD NOT BE BUILT UP AGAIN (THOUGH SOME FARMERS WERE STILL AIMING FOR INCREASED PRODUCTION AND HIGHER PRODUCTIVITY.) ALL THIS NEEDED FINANCE.

6. CHRISTOPHERSEN (COMMISSION) WELCOMED THE PRESIDENCY'S INITIATIVE. THE AGRICULTURAL GUIDELINE DID NOT GUIDE ANYTHING. IF NOTHING WAS DONE THERE WOULD BE INSUFFICIENT FUNDS TO PAY MEMBER STATES' ADVANCES IN 1987, RESULTING IN A HUGE CARRY-OVER TO 1988. TO PROVIDE FOR THE CAP AND SQUEEZE DNO WOULD BE UNACCEPTABLE TO THE PARLIAMENT. THEY COULD RUN UP STOCKS IN THE SHORT-TERM, BUT THAT MERELY ADDED TO BUDGET PROBLEMS IN 1988. A 3-5 YEAR PROGRAMME OF STOCK DEPRECIATION AND DISPOSAL WAS NECESSARY, WITH A NEW ACCOUNTING SYSTEM BASED ON THE REAL MARKET VALUE OF STOCKS. THE PRICE FIXING WOULD AIM FOR SAVINGS, BUT THEY COULD NOT FIND 3 BECU AT ONE PRICE-FIXING. BUT CAP MONEY WENT LESS AND LESS TO FARMERS AND MORE AND MORE TO TRADERS, BANKERS AND THIRD COUNTRIES.

7. STOLTENBERG (GERMANY) EMPHASISED THE PROBLEM OF OVER-PRODUCTION AND STOCKS. DECISIONS ON A MEDIUM-TERM STRATEGY TO DISCOURAGE PRODUCTION WERE NECESSARY COVERING (NEXT WORD UNDERLINED) ALL SECTORS, BUT STOCK DISPOSAL MUST BE GRADUAL. SOMETHING SHOULD BE DONE ABOUT THE IMPORT OF SUBSTITUTES. THERE WAS MUCH EXAGGERATED TALK OF RE-NATIONALISATION, BUT PERHAPS SOME MEASURE OF IT WAS POSSIBLE WITHOUT DESTROYING THE CAP - E.G A NATIONAL MILK QUOTA FOR EACH MEMBER STATE. HE WAS SURPRISED THAT SOME AGRICULTURE MINISTERS SEEMED TO WANT STILL MORE SUBSIDIES ON SURPLUS PRODUCTS. THIS MUST BE STOPPED. HE COULD NOT, HOWEVER, AGREE COUNCIL CONCLUSIONS TODAY.

8. BALLADUR (FRANCE) SAID AGRICULTURE WAS FUNDAMENTAL TO SOCIETY AND THE FINANCIAL ANGLE WAS ONLY ONE ASPECT. THE REAL PROBLEM WAS THE WORLDWIDE STRUCTURAL SURPLUS.

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9. THE MINISTER OF STATE COMMENTED THAT ON THE 1987 BUDGET THE COUNCIL WAS TAKING A TOUGH LINE ON DNO AND THE E.P WOULD INSIST ON EQUAL PAIN FOR AGRICULTURE.

10. EYSKENS (BELGIUM) AGREED THE SITUATION WAS UNTENABLE, AND ELECTORAL PROBLEMS WERE NO JUSTIFICATION FOR IT, BUT RE-NATIONALISATION WOULD DESTROY THE COMMUNITY. PRICES MUST BE ALLOWED TO GET THROUGH TO PRODUCERS, BUT SOCIO-ECONOMIC PROBLEMS WOULD REQUIRE DIRECT SUBSIDIES NOT BASED ON MARKET PRICES. ESPER LARSEN OPPOSED RE-NATIONALISATION OR ECOFIN INTERFERENCE IN PROPOSALS THE COMMISSION WAS PREPARING.

11. BRUTON (IRELAND) OPPOSED ANY RE-NATIONALISATION AND WONDERED WHETHER IT WAS NOT POSSIBLE TO LIMIT FERTILISERS AND BAN FACTORY FARMING. CHRISTOPHERSEN COMMENTED THAT ALLOWING CARRY-OVERS TO BUILD UP WAS DE-FACTO RE-NATIONALISATION, AS FARMERS WOULD INSIST ON BEING PAID. PAPANTONIOU (GREECE) OPPOSED THE BUDGETARY APPROACH ALTOGETHER. ECOFIN SHOULD NOT BE INVOLVED IN RETHINKING THE CAP, THOUGH IT WAS CLOSELY LINKED TO THE NEW OWN RESOURCES PROBLEM.

12. THE CHANCELLOR SUMMED UP THAT EVERYONE AGREED ON THE SERIOUSNESS OF THE SITUATION AND THE NEED FOR URGENT ACTION FOR THE LONGER TERM AS WELL AS 1987. RE-NATIONALISATION WAS NOT A SOLUTION, THOUGH SET ASIDE MUST BE CONSIDERED. ALL MUST REFLECT WITH COLLEAGUES AT HOME, AND THE PRESIDENCY WOULD TRY TO PRODUCE SOME CONCLUSIONS ON THE GENERAL DIRECTION THE COMMUNITY SHOULD GO TO HELP THE COMMISSION WITH FUTURE WORK.

13. THE CHANCELLOR CIRCULATED DRAFT PRESIDENCY CONCLUSIONS DURING THE FORMAL COUNCIL SESSION. MINISTERS REPEATED MANY OF THE COMMENTS THEY HAD MADE OVER LUNCH. THERE WAS GENERAL SUPPORT FROM SCHEER, GORIA, SOLCHAGA AND THE PORTUGUESE REPRESENTATIVE, THOUGH THEY, LIKE OTHERS MADE CLEAR THAT THEY HAD NOTED THAT THESE WERE PRESIDENCY CONCLUSIONS WHICH DID NOT BIND THE COUNCIL. PAPANTONIOU (GREECE) DISOCCAIATED HIMSELF FROM THE TEXT. TIETMEYER (GERMANY) AND ESPER LARSEN (DENMARK) ASKED THAT THE MINUTES RECORD THAT THEY DISSOCIATED THEMSELVES FROM PARAGRAPH 3, TIETMEYER SPECIFYING THAT THE GERMAN OBJECTIONS STEMMED FROM THE POLITICAL DIFFICULTIES INHERENT IN THE PRINCIPLES SET OUT RATHER THAN FROM THEORETICAL OBJECTIONS.

14. TEXT OF PRESIDENCY CONCLUSIONS (WHICH WERE SLIGHTLY AMENDED IN DISCUSSION TO REFER TO STOCKS AND TO ARTICLE 39 OF THE TREATY) IN M I F T.

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15. THE CLOSE WORKING RELATIONSHIP THE TREASURY HAVE DEVELOPED WITH THE FRENCH ON THESE CONCLUSIONS OVER THE LAST COUPLE OF WEEKS CONTINUED TODAY, WITH VILLAIN CONTRIBUTING HELPFULLY BEHIND THE SCENES.

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ADVANCE:

RENWICK FCO

WALL FCO

HARRISON FCO

RICHARDSON ECD(P) FCO

WILLIAMSON CAB

JAY CAB

MERCER CAB

MCADAMS TSY

HADLEY MAFF

PERRINS MAFF

PS/CHANCELLOR TSY

PS/MST TSY

LAVELLE TSY

EDWARDS TSY

CRABBIE TSY

BONNEY TSY

DONNELLY TSY

MAIN:

FRAME ECONOMIC

FRAME AGRICULTURE

UKREP DIST: 46/29/31/42/ROBERTS/AG/ECON

(ADVANCED AS REQUESTED)

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FRAME ECONOMIC
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