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Qz.05441

MR NORGROVE

Agriculture: meeting of Ministers after Cabinet
on 13 November

This meeting has been called to discuss alternative uses of agricultural land and prospects for rural employment (ALURE) but we understand that the Foreign and Commonwealth Secretary and possibly other Ministers may refer at the end of the discussion to the need for decisions within the Community on milk products and beef. I attach a note for the Prime Minister.

D F Williamson

D F WILLIAMSON

12 November 1986

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② CDP to see

Prime Minister
CDP



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MEETING OF MINISTERS ON AGRICULTURE: 13 NOVEMBER 1986

COMMON AGRICULTURAL POLICY: BEEF AND DAIRY PRODUCTS

NOTE FOR THE PRIME MINISTER

At the end of the meeting of Ministers after Cabinet on 13 November the Foreign and Commonwealth Secretary is likely to ask the Minister of Agriculture, Fisheries and Food for a progress report on Community discussions on the reform of the beef regime and major modifications to the dairy regime. Both are due to be discussed substantially at the Agriculture Council on 17/18 November. Dairy products present the biggest current CAP problem because of the very high cost of this sector and the rate at which intervention stocks are rising; the Commission has proposed a substantial weakening of intervention and is expected shortly to propose a further cut in quotas from the beginning of the next milk year. In addition, because the Agriculture Council failed to tackle the problems of beef at the 1986 price fixing, it set a deadline of the end of 1986 for reform of the beef regime; the Commission has made a proposal for changing intervention to a safety net only and partly compensating by premia for beef farmers. The Foreign and Commonwealth Secretary is rightly concerned that the Agriculture Council should take substantive decisions on milk and/or beef under our Presidency.

Beef

The main issue here is how to reduce the level of intervention. Earlier this year the Commission proposed an end to permanent (automatic) intervention: buying in programmes would be introduced only in circumstances

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of serious market disturbance. This would be to revert to the original Community beef regime. Purchases into intervention have been running at about 16,000 tonnes per week since the summer and Community stocks now stand at 511,000 tonnes. Discussions on the Commission's proposals have shown a wide-spread recognition of the problem of excessive stocks but, as has been the case before in the Agriculture Council, division over what action should be taken to tackle it. One group of member states, led by France, has argued for reducing (but not sufficiently) the prices at which beef may be brought into intervention. Germany, being opposed to any reduction of prices in a pre-election period, has argued for the imposition of quotas on the amount which might be brought into intervention, but with no reduction in support prices. Our preference is for the Commission's approach of ending permanent intervention: that is by no means a lost cause.

It is clear that if the measures are to have any real effect - and we, like the Commission, have in mind a reduction in intervention purchases of at least 100,000 tonnes per annum - then there will be a reduction in producers' returns. To offset this the Commission proposed the replacement of the Community calf premium and our Beef Variable Premium, by a new premium for specialist beef animals with a continuation also of the premium for suckler cows. Because - deliberately - the premium would not be set at a high level it has not been seen by a number of member states as an adequate substitute for intervention. It was not meant to be and should not be if the costs of the beef regime are to be significantly lowered.

Mr Jopling is putting together a possible Presidency package for tabling if it seems advantageous at the November Council. He will be able to report on this and on the discussions on 12 November held in the High



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Level Group of senior officials, which is preparing the next stage of the negotiations on beef (and on dairy products). We believe that the correction of the imbalance in the beef market can be made. Some factors are favourable (world markets quite good) and, if intervention were weakened, the market would begin to correct itself. Our order of priority should be:

- (1) weakening of intervention and greater play of the market;
- (2) reduction in intervention prices;
- (3) a satisfactory and, of course, non-discriminatory premium system.

Dairy Products

Despite the introduction of milk quotas, there is still a structural surplus of milk products. With the market heavily over-supplied and demand static or falling, intervention stocks of butter and skimmed milk powder are at absurd and indefensible levels. In the first half of this year a further 570,000 tonnes were added to the Community butter mountain at a cost of nearly £2,000 per tonne. Total stocks are now just under 1.5 million tonnes. Skimmed milk powder stocks stand at 1m tonnes. In September the Commission put forward emergency proposals designed:

- (a) to tighten-up the operation of the quota scheme; and
- (b) to suspend permanently purchases of skimmed milk powder into intervention during the winter, with the power to suspend intervention of butter at any time and with similar action for skimmed milk powder if necessary during the summer months.



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In discussions so far a clear majority of member states has supported the Commission's analysis and has been prepared to consider changes to the intervention regime. At one point it looked as if agreement could have been sealed on the permanent suspension of purchases of skimmed milk powder, but this has not been achieved. It now seems likely that the Commission will have put forward at the High Level Group supplementary proposals designed to tighten up the impact of the quota scheme; to reduce production by a further 6½m tonnes (a 6 per cent reduction in production to add to the 3 per cent cut made at the 1986 price fixing); and possibly to promote disposal of the stocks that over-hang the market. We should be pressing for action in the Agriculture Council. Our immediate order of priority should be:

- (1) a further cut in quotas;
- (2) weakening of intervention;
- (3) other measures, eg a higher levy on over-production.

After decisions affecting production have been taken, it is imperative for the Commission to start to get rid of some stocks. They have clearly lost control of the market.

Conclusion

You may like to invite Mr Jopling to report to you after the November Agriculture Council and before the European Council on the state of the negotiations on milk products and on beef, on the understanding that we remain determined to achieve under our Presidency decisions which will contribute to some correction of the imbalance in the milk product and beef markets.