

NOTE OF A MEETING BETWEEN THE MINISTER OF AGRICULTURE, FISHERIES
AND FOOD AND THE GERMAN MINISTER OF AGRICULTURE: BONN -
14 DECEMBER 1984

Present

The Minister	Herr Kiechle
The Minister of State (Commons)	Herr Florian
Sir Michael Franklin	Herr Specks
H M Ambassador	Herr Brüss
Mr Andrews	
Mr Elliott (Embassy)	
Mr Llewelyn	

*ends
18/12*

1985 PRICE FIXING

Cereals

Herr Kiechle said that Germany faced a major difficulty over the guarantee threshold for cereals. In 1985/86, this would, if implemented in full, involve a 5% price cut. The German Government knew that they could not reject this system, but their farmers were opposed to it and that they had serious political problems. For example, a large area (some 80,000 hectares) had had a disastrous harvest; if the UK was in the same situation, what would they do?

The Minister replied that poor weather was one of the normal hazards of farming; it had to be expected once in a while. Governments had to consider the overall position. At the moment there were massive surpluses of cereals, and although the Community could compete on third markets now because of the strength of the dollar, the position could change. Last year the Community had taken an initial step towards an even more prudent agricultural policy, and it was essential that this was followed up next year. The guarantee threshold arrangements should be implemented in full. // Herr Kiechle commented that Germany wanted to reduce the quantity of cereals produced eventually, but without penalising farmers. In any case, he did not think that price reductions would bring down levels of production, since farmers would continue to produce the same amounts, even at lower prices; the only effect of a severe price policy would be lower farm incomes. What we needed to consider in the first instance were ways of using more of what we produced; we could then look, in the longer term, at ways of cutting back production levels. Herr Florian then explained Germany's thinking on cereals. Cereals production in the Community was increasing (largely through increases in yields) while consumption was stagnant. There was little opportunity to increase human consumption, exports of wheat (the principal problem) were limited to 30 million tonnes a year, so the only alternative was to increase the quantities used for animal feed. This could be done by reducing imports of cereal substitutes, but this was not a realistic option. Equally, a simple price reduction would be politically unacceptable.

** the reference price system for breadmaking wheat should be abolished and that

Given, in fact, the political necessity of avoiding a reduction in nominal prices, a completely different system of cereal support was needed; the present system was, in any case, ineffective. Germany was now proposing that** the intervention price for wheat should be linked automatically to that for barley, at a level which reflected only half the higher feed value of wheat, thus if the intervention price for barley was 100, that for wheat would be 104. Introducing this price ratio should increase the amounts of wheat used for animal feed and an automatic system would mean that it would be not be necessary to discuss separately the intervention price for wheat. This would enable Germany to satisfy their most important political aim in the forthcoming negotiations, which was to avoid a nominal price reduction for wheat, although there would be real price reductions in some sectors. He hoped that experts in the two countries could discuss these ideas further.

Commenting on these lengthy interventions, the Minister said that he did not agree that reductions in price would not eventually reduce production. There might be a temporary production increase, as producers tried to maintain their gross returns, but in the long term the classic effects of lower prices would work through and production levels would fall. In particular, marginal cereal growing areas would tend to revert to grass. A price freeze would not be enough given the underlying increase in productivity (about 2% a year). In these circumstances, he could see no alternative but to reduce prices by the full 5% required by the guarantee threshold system. Other options, such as quotas, co-responsibility levies or compulsory incorporation of cereals in feedingstuffs would not provide satisfactory alternatives. Nevertheless, we would be prepared to discuss the new ideas that had just been put forward. Finally, he hoped that we could agree to oppose any proposal to impose standards on exports of cereals.

Sir Michael Franklin added that a restrictive price policy for cereals had never been tried. In real terms, the price per hectare for cereals had risen over the last few years. There was no evidence that a price cut in real terms would not have an effect on production. Moreover, both Germany and the UK had an interest in maintaining the principle of guarantee thresholds. If the system was not made to work for cereals, it would not be applied to Mediterranean products. Herr Kiechle repeated that a 5% nominal price cut was unthinkable. Furthermore, in a great majority of cases, where there was no alternative to grain production, such a reduction would not reduce the level of production. Even in marginal areas, where he accepted that farmers might be forced to switch from cereals, alternative crops were also under severe pressure; politically this had little to commend it. Herr Florian added that the two sides were not far apart in their analysis of the current situation. He agreed that the guarantee threshold system had to be maintained. However, there was disagreement about how this should be achieved. The German view was that

the only option was to increase feed usage and that this, in turn, could only be achieved by reducing real prices. This solution could be sold to producers, provided that nominal prices were not reduced. He repeated that Germany had no desire to abandon the guarantee threshold system and they wanted it to continue to apply in other sectors, such as olive oil. Their proposals would preserve the system, which had proved unsuitable for cereals in its present form.

Mr Andrews agreed that German and UK perceptions of the current market situation were similar. However, we were more concerned than Germany seemed to be about the long term prospects for cereals. If current trends continued, the surplus would become unmanageable and there would be no prospect of disposing of it on the internal market, while exports were not likely to present a realistic alternative. Moreover, it was difficult to see how the German proposals would increase uptake of feed wheat, given that cereal substitutes would continue to come in and, as by products, could always be priced to compete with cereals. However, we would welcome detailed discussions with the Germans at expert level.

Milk

The Minister said that he was concerned that some member states might argue that since quotas placed a ceiling on production, there was now scope to increase prices. However, since price increases would make it impossible to remove quotas after five years he believed that we should continue to exercise severe price restraint; it was also essential to ensure that the further 1% reduction already agreed for next year took place.

Heer Kiechle agreed that production in the Community had to be brought down to the 98 million tonnes agreed at the price fixing. However, it would be difficult to achieve the additional 1% reduction in one year. In the longer term, he agreed that we should aim to abandon the quota system; an alternative might be to pay premia to those prepared, on a voluntary basis, to reduce production. So far as prices were concerned he felt that politically it was necessary to disregard strict economics and go for a small price increase.

The Minister said that he was most concerned to hear that Germany was going back on last year's agreement and advocating a delay in moving to 98 million tonnes. He thought that a price increase would be a serious mistake. In the longer term, however, a general, and voluntary system of outgoers premiums might be a sensible option. Herr Kiechle replied that it was clear that a number of member states would not have reduced their milk production to their current quota level by April 1985 and there was little chance that they would implement a further 1% reduction. To ensure that everyone moved together, the Community must move at a realistic rate. If, on the other hand, it insisted on sticking to the letter of its decisions at the price fixing, the whole system might break down. On prices, he reiterated that a price freeze was not politically feasible, adding that most other Member States were agreed on this point.

Beef

Herr Florian said that Germany was concerned at recent increases in production, which were partly due to cut backs in the dairy herd. Prices in Germany were well below the target price, so it would be difficult to ask farmers to accept nominal price reductions. They were therefore seeking a price increase for political reasons, but hoped to link this with changes to the intervention system to restrict its scope in Germany, for example, they already operated a quota limiting access to intervention. He also asked for views on the beef balance sheet. There were two points that had to be considered. First, in trade policy terms it would be difficult to curb imports at a time when the Community was exporting 800,000 tonnes of beef. Second, given the current surplus, could we continue to maintain the existing level of imports. Germany and the UK had always agreed on this issue in the past, and needed to adopt a common approach now.

The Minister replied that he did not think that a price increase could be justified. He agreed that the intervention system was unsatisfactory for beef and suggested that Germany look at the variable premium scheme as a possible alternative. On the balance sheet, he commented that there was a requirement for imports of manufacturing beef; we would be in touch with Germany about our approach on this issue. Herr Florian saw a number of problems with a Community wide variable premium scheme: other member states would find it difficult to accept; there would be problems of control, particularly in Italy and Greece; it would mean an obligation on the Community to dispose of all beef on the internal market, without any limit on costs. The Minister repeated that he was only asking Germany to examine the implications of such a scheme on a Community wide basis.

Budget Discipline

The Minister said that he had been most alarmed at the arguments put forward by some member states earlier in the week, that the Agriculture Council should demonstrate its independence of ECOFIN by ignoring that body's interest in structures and adopting the structures package. Germany and the UK must insist that the Council and the Commission observed the rules agreed at Fountainebleau and that, in particular, the Commission put forward price fixing proposals that accorded with the principals of the financial guideline and allowed scope for negotiating flexibility. The two countries should emphasise this point to Mr Andriessen.

Herr Kiechle replied that Mr Jopling was right in principle. However, the Community's financial position was obscure, now that the European Parliament had rejected the 1985 budget, and he feared that if the Agriculture Council tried to comply with the letter of the financial guideline there would be no scope for price increases. He felt it essential for the Council to have some scope to exercise its discretion to award increases; if it did not, Agriculture Ministers might as well stay at home.

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17 December 1984

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