010

MINISTRY OF AGRICULTURE, FISHERIES AND FOOD
WHITEHALL PLACE, LONDON SW1A 2HH

From the Minister

Nigel Spearing Esq MP
Chairman
European Legislation Committee
House of Commons
London SW1A 0AA

15 March 1984

Dear Nigel

CAP PRICES FOR 1984/85

I understand that at their meeting yesterday your Committee formally decided to recommend for debate the documents (4326/84 and addenda) concerning the Commission's proposals for CAP prices for 1984/5. As you know, arrangements have now been made for a debate on the porposals next Thursday, 22 March.

However, there is at least a possibility that the debate could be overtaken by events. As you know, there is to be a further meeting of the Agriculture Council tomorrow and Saturday, with a view to making as complete a report as possible to the European Council on 19/20 March. It is therefore possible that sufficient progress will be made at these two Councils for some kind of package to emerge covering at least some of the CAP issues. The nature of such a package might be such that the Prime Minister would feel it essential, in the national interest, that she gave her agreement to it in the spot, and despite the fact that the price proposals had not been debated by the House. Thus it could be that next Thursday evening's debate will be held when decisions on some or all of this year's price proposals have already been taken.

I hope you will understand the Government's position. I will keep you informed of developments.

I am copying this letter to the Prime Minister, Patricia Llewelyn-Davies, John Biffen, Willie Whitelaw, Geoffrey Howe and Sir Robert Armstrong.

Yours Ever

Michael

MICHAEL JOPLING

10 MAR 1984

AJC.

CONFIDENTIAL

Ref. No: AG (84) 3
Date: 15.3.84

CAP Negotiations - Current Position

This brief should be read in conjunction with Michael Jopling's Statement to the House on Wednesday 14th March 1984. (Hansard col 401)

15th March 1984

Index | Page

Index	Page
Key points on the current position	1
Introduction	3
Monetary Compensatory Amounts	3
- British successes	3
- The proposals	4
- Questions	4
Milk - British Successes	6
- The Proposals	7
- Ireland	8
- Questions	8

Conservative Research Department,
32 Smith Square,
London SW1
Tel. 222 9000

Enquiries on this brief to:
Robbie Browne-Clayton

CAP NEGOTIATIONS - CURRENT POSITION

Key points on the current position on CAP negotiations

A fuller brief is attached on the current position on the CAP negotiations in relation to MCAs and milk. Some of the key points from the UK point of view are as follows:-

1) There will be no reduction in UK farm prices following any MCA changes in 1984/85. This was the top priority for the NFU and one of the critical negotiating objectives for the UK Government.

2) In addition it has been agreed that in the further stages of MCA dismantlement as proposed, the special position of sterling as a floating currency has been accepted. This has been our argument all along.

3) On milk, proposals have at last been accepted to curb the ever increasing surpluses of milk and dairy products in the EEC and the crippling costs of disposing of them. The UK was one of the two net contributors to these ever spiralling costs and it is therefore very much in our interest to have achieve this.

4) There will be no intensive levy as the Commission proposed, which would have hit Britain's industry hard.

5) The national quota is fair to Britain. The base year for allocating quotas within Member States can be 1983, which was a particular concern to UK farmers.

6. There will be no increase in UK butter prices.

7. The UK pressed hard for the inclusion within the system of direct sales of milk and milk products off farm. Without this there would have been an obvious loophole and France, Belgium and Italy would have had special advantages. This objective was achieved.

8. There will be no exemptions from the super levy for small producers which would have particularly benefitted France and disadvantaged the UK.

CAP NEGOTIATIONS - CURRENT POSITION

1. This note outlines the current position on the CAP negotiations. It should be read in conjunction with Michael Jopling's statement to the House on 14 March. It is subject to two major reservations:-

a) The negotiations will be resumed on Friday and Saturday, 16 and 17 March. The UK Government believes it is essential to judge the package as a whole; there are still some crucial issues to be negotiated.

b) A number of issues will have to be decided at the European Summit before a final settlement can be reached.

MONETARY COMPENSATORY AMOUNTS

2. British successes. A critical factor for the NFU has been that there should be no reduction in British farm prices as a result of any revaluation of the green pound, as originally proposed by the Commission. This view is shared by the Government; Michael Jopling has made it clear throughout that the Commission's proposals were in our view unjustifiable and unacceptable.

Under the MCA arrangements agreed by the Council of Ministers earlier this week, there will be no reduction in UK farm prices following any MCA changes in 1984/85, and our argument that further changes in the next two stages of MCA dismantlement should not apply to sterling because of its special position as a floating currency has been accepted. Thus one of our critical negotiating objectives has been achieved.

3. The proposals. Under the proposals there would be three stages. In the first year the level of the green ECU itself would be raised 3 points. This brings the positive MCAs, including the UK, 3 points down closer to "parity"; but there would be no affect on prices in those countries. Negative MCA countries would similarly find their negative position increased by 3 points, and they have argued that this "disadvantage" must be removed by their being allowed to devalue their green rates by the same amount. The United Kingdom has put a major reservation on this aspect of the proposals, because it would cost 401M ECU (approx £260M) and would thus add to the cost of the settlement (the money is not available). This point will have to be settled at the Summit.

In the second stage, German positive MCAs would be reduced by a further 5 points. To avoid the drop in German prices which would involve, the German Government will be authorised to pay compensation to German farmers through an adjustment in VAT rates. The Germans have asked for an unspecified Community contribution to this compensation; this too will have to be decided at the Summit. There will also be changes in the Netherlands MCAs.

In the third stage, the positive MCAs for Germany and the Netherlands remaining after 1 January 1985 will be dismantled no later than the beginning of the 1987/88 year for each product.

There are many other details, but the above gives the essential outlines.

4. Questions. Q. Does this mean that there will be no changes in prices to UK farmers this year as a result of any revaluation?

A. That is precisely what it means. Decisions on future changes, if any, to the green pound will be taken at the appropriate time in future negotiations.

Q. If the proposals are agreed in this form at the Summit, does this mean a small increase in prices in countries with negative MCAs?

A. Yes, this is part of the principle of the MCA system, to enable farmers in weak currency countries to compensate through price increases for the higher inflation and hence higher costs they are suffering. The NFU argued most strongly for this for the UK when we had negative MCAs under the Labour Government. But farmers in those countries would be no better off as a result than UK farmers, and may well be worse off; in France for example inflation is currently almost double the UK rate so the impact of all the price proposals in the review this year will be severe there as in other high inflation countries. Also devaluation of green currencies can have mixed effects for farmers; for example the benefits to livestock producers would be eroded by the consequent rise and the costs of cereal feed. The main problem about this aspect of the proposal is that it would add to FEOGA costs, which is why the UK has put a reserve on it and insisted that it be decided at the Summit.

MILK

5. British successes. a) Proposals have at last been accepted to curb the ever increasing surpluses of milk and dairy products in the EEC and the crippling costs of disposing of these surpluses, including for example selling butter to the Soviet Union. This now amounts to about 30 per cent of CAP spending and 20 per cent of total EEC spending, to which of course Britain is one of the two net contributors. It is therefore very much in our interest to curb these costs, quite apart from the fact that it is a wasteful and unjustifiable use of resources.

b) There will be no intensive levy as the Commission proposed. This would have hit Britain's relatively efficient industry particularly hard.

c) Despite the opposition of some Member States and the absence of any proposal in the original Commission proposals direct sales will now be included. Without this provision there would have been an obvious loophole and France, Belgium and Italy (which have the highest proportions of direct sales) would have had special advantages.

d) 1983 can be used as the base year for allocating quotas within Member States. This was a particular concern of the UK farmers.

e) There will be no increase in UK butter prices.

f) There will be no exemptions from the super levy for small producers. France was particularly anxious to achieve this. The UK would not have benefitted.

6. The proposals. The main points of the package are:-

a) The system will last for five years with a review after three.

b) In 1984/85 the guaranteed quantity for EEC milk production will be 98.2 million tonnes. Thereafter it will be 97.2 million tonnes. In order to meet the cost of the additional million tonnes in the first year there will be an increase in the rate of co-responsibility levy of 1 percentage point for that year.

c) The division of the quotas among Member States will be based on deliveries in 1981 plus 1 per cent. This gives the UK 16 per cent of the total.

d) Within Member States quotas can be divided either among individual producers or among dairies. For the purpose of allocating national quotas, 1983 can be used as the base year. This will enable us to take the most recent production patterns into account.

e) For quantities above the quota a super levy will be charged. If individual farm quotas are used, the super levy will be 75 per cent of the target price. For dairy quotas it will be 100 per cent. The Government is now having urgent discussions with the Milk Marketing Board and the Farmers Unions about the most suitable system for this country.

f) The system will cover direct sales of milk and products of farms which do not go through dairies.

g) Governments will be able to make arrangements for special cases within their own Member States. These would cover those who have, for example, been struck by animal disease as well as those who have invested substantially in expanding their enterprises. But provision for all these cases will have to be strictly limited and to come from within the national quota.

h) In addition to the Community guaranteed quantity, there will be a further reserve of 600,000 tonnes available to the Commission for special allocation. The UK Government has reserved its position on this and the issue will have to be decided at the Summit.

i) Although the butter subsidy will be reduced, this will be offset by a cut in the butter intervention price. There will therefore be no increase in butter prices in UK shops.

7. Ireland. The Irish Government want to be exempt from the levy. The UK is opposed to this. The issue will be decided at the Summit.

8. Questions. Q. Why the rush? Surely there need to be higher quota levels/ a longer transitional period to enable the UK industry to adjust?
A. Ideally we would have liked this. But the situation has become so grave that the present measures are urgently necessary. The cost to the European tax payer simply of dealing with and disposing of the surpluses is now some £3,000M a year and rising. And even with the proposed levels of quota, there will continue to be substantial surpluses each year which will therefore continue to be costly to dispose of; the surplus of production over consumption, currently 20%, will only be reduced - to around 10%.

Because of our recognition of our farmers' anxiety for a transitional period, the UK Government asked for and got a one year transition. To have gone further would have simply added to the problem.

The plain fact is that we are suffering now from the total failure of earlier Council of Ministers to take decisions at price reviews, as the UK Government urged it to do. But the Council did not face up to these problems which were apparent then and which it was obvious would drastically increase.

Q. Is not the UK quota unfair?

A. No. The 97.2 million tonnes limit (subject to the one year transitional period additional quantity) is the 1981 level of production plus 1 per cent and was the limit agreed by the Council some time ago. The Commission therefore insisted that that should be the basis for national quotas which gives us 16 per cent. Since that was also the year in which the guarantee threshold was introduced, the implication was that from then on over production would be penalised. Looked at in one way, the UK cut back from 1983 levels is slightly higher than some countries, although Germany and the Netherlands face bigger cut backs; but this is a reflection of the fact that UK production has risen faster since 1981 than in those other countries. Had it been based on 1983 the difference would have been 0.18%.

Q. What about producers who have recently expanded on the basis of development plans, some of whom are heavily borrowed and will therefore face bankruptcy?

A. There will be provisions for these special cases, but there will have to be limits. The more you make special provisions, the more the other producers who have not been expanding will find their share cut back because of the overall limitation of the national quota.

Q. Have not the French farmers got a better deal?

A. The French farmers certainly do not think so. Most of their key requests have been rejected. There will be no exemption from super levy for small producers, which they were particularly keen to have. Their substantial off farm sales of milk and milk products will be brought within the system. They were insistent that there should be a levy on intensive milk production, but at UK insistence this has been dropped. They will therefore have to apply the quota to off farm sales and to all production without exceptions, in contrast to the exemptions they previously got. French milk yields are below ours; the super levy system will ensure that the potential for the French to boost production by 10 per cent by raising their yields will be held firmly in check. French milk producers face a rate of inflation almost double ours. If there is any devaluation of the green franc, they will in addition face higher relative cereal feed costs and will pay correspondingly more for both the super levy and co-responsibility levy.

Q. What guarantees are there that the system will apply fairly in all Member States?

A. The Government attaches great importance to this. There is/a much higher chance of preventing all loopholes and avoidance by having a uniform system throughout Europe instead of, as the French propose, a system of national quotas leaving it to individual Governments to decide how to apply them. That was a particularly important reason for accepting this system. Any country which does not apply it properly will be subject to investigation by the Commission and scrutiny by the Commission auditors, with the risk that FEOGA expenditure for milk in this country could be disallowed; this will be a major deterrence.

Q. Surely the UK should have had special treatment because we are not yet self sufficient in milk?

A. First, not true. In 1982 UK self sufficiency in solids not fat was 131 per cent and in butter fat 91 per cent, and in 1983 was even higher. Second, the UK has substantial amounts of diary products in intervention stores, 120,000 tonnes of butter (142 days supply) and 161,000 tonnes of skimmed milk powder (648 days supply). This is 13.5 per cent and 17 per cent respectively of total EEC stocks. These are the real surpluses which are causing so much of the costs to Community funds. Third, a number of other Member States are able to argue more effectively the non self sufficiency case, so if this principle was accepted they would be the beneficiaries and we would not.

CONFIDENTIAL

Ref. No: AG (84) 4
Date: 21st Mar 1984

Debate on Agriculture

It is hoped that this brief will be of some help to Members during the debate on Thursday 22nd March 1984

INDEX

	Page
1. Introduction	1
2. EEC Price Proposals for 1984-85	2
3. Commission's Proposals to Reform the CAP	2
4. Government's Position during the Negotiations	3
5. The Provisional Agricultural Agreements	3
(a) Monetary Compensation Amounts	3
(b) Milk	5
(c) Oils and Fats Tax	7
(d) Beef	8
(e) Prices for Marketing year 1984-85	8
(f) Future Decisions	8

Conservative Research Department,
32 Smith Square,
London SW1
Tel. 222 9000

Enquiries on this brief to:
R. Browne-Clayton

Debate on Agriculture

1. Introduction

(a) General

This debate on various EEC documents is not the normal annual debate on the EEC Commission's proposals for increases in Agricultural Prices for the coming year.

This year, as the Community rushes towards bankruptcy, the debate incorporates the Commission's proposals for the reform of the Common Agricultural Policy (CAP) (Comm. 500) as well as the Annual Price Review, and therefore the various agreements recently announced by the Council of Agricultural Ministers.

(b) The Problems of the Common Agricultural Policy

Today's crisis in Europe has been foreseen for a long time by successsive British Ministers of Agriculture. The whole political and economic future of the European Community is at risk and the main cause of the problems we face today is the Common Agricultural Policy, one of only two spending policies, the other being the new Common Fisheries Policy.

The first problem is that because of the relative efficiency and structure (larger farms than in the rest of Europe) of British agriculture, total receipts are small when compared with our gross contribution to the European Budget - the CAP takes well over two-thirds of the total European Budget.

The second problem is that the CAP has been too successful since its inception two decades ago. Technical progress and increased productivity in agriculture has been rapid. The long-term trend in the volume of agricultural production in the Community has been an increase of between 1.5 per cent and 2.0 per cent a year, whilst consumption has been about 0.5 per cent a year. As a result, the community has become more than self-sufficient for most of the principle products, and has come to rely increasingly on exports, or on subsidised sales within the Community, for the disposal of its excess production. Even so, the Community is still the World's largest importer of food.

(c) CAP Finance

The CAP has traditionally been the major cost of the European Budget, because it has been, up till 1983, the only spending policy of the Community. Expenditure has been fluctuating between 80 per cent and 65 per cent of the total European budget, the high point being in the late 1970's under Labour and the low in 1982/3 under the Conservatives in Britain. Agricultural spending this year is budgeted at 16.5 bn European Currency Units (£10bn) in a total Community Budget of approximately £15 bn.

To add to the problem, overspending of 675m. ECU last year has had to be carried over to this year. This added to current expenditure running at approximately 20 per cent more than last year means that funds will run out by early Autumn at the latest.

Last, the proposals that are outlined below are also expected to add considerably to the budget problem (estimates of upwards of £1000m. in total).

(d) The Annual Price Review

The Annual Price Review proposals (see EEC documents listed for the debate) which each year have led to a Council of Agricultural Ministers' decision to increase support prices to farmers, have been one of the major factors leading to the Community running out of resources. Expenditure under this policy of open-ended support for virtually all agricultural products together with the cost of disposal of surpluses on the world market and subsidised sales within the Community, has outstripped EEC income from import levies and the one per cent of VAT revenue. Twice before Europe nearly ran out of money resulting primarily from excessive increases in support prices. Each time the Community was saved by world shortages which enable the Commission to dispose of the surpluses on World Markets at a reasonable cost.

However, this year, despite a low increase in support prices agreed in May last year by the Council, CAP expenditure is expected to be 30 per cent higher than last year - hence the crisis.

2. EEC Price Proposals for 1984-85

The EEC Commission's price proposals for 1984-85 were published in January and amounted to a virtual freeze in the support prices for the main agricultural commodities. The Commission recommended that the price of milk and cereals should be frozen at the 1983/84 level, while prices for meats should go up by only 1.5 per cent. Overall, the Commission's recommendations amounted to an average increase in ECU (European Currency Unit) terms of 0.8 per cent and in national currencies rather less.

Although the price package appeared more or less neutral in ECU terms, its effects are significantly different when considered in terms of national currencies. The result would have been changes in support prices as follows:

Germany	-5.4%
France	+3.2%
Neth.	-3.1%
Belgium	+2.3%
Lux.	+1.9%
UK	-3.2%
Ireland	+2.1%
Denmark	-0.4%
Greece	+3.4%

The Commission also recommended changes in Green Exchange Rates which would remove half the existing monetary gap between currencies at the beginning of the 1984/85 marketing years.

Some of the more radical proposals were an 11.4 per cent cut in the intervention price for butter and abolishing the consumer butter subsidy.

3. The Commission's Proposals to Reform the Common Agricultural Policy (Comm. 500) - Brief No. AB(83)17 dated 29/11/83 refers.

The European Commission's proposals published in July 1983 as a result of the Stuttgart summit, looked at all aspects of the Common Agricultural Policy and made recommendations for radical changes in its operation. The aims of the proposals were as follows:

"the adaptation of the agricultural policy must be made in accordance with the market conditions prevailing in each product sector; the aim must be not to achieve economies irrespective of the economic and social conditions particular to agriculture, but to streamline expenditure in such a way that the financial resources available are concentrated on the areas where those resources are most needed, where the interest of Community action is most clearly demonstrated and where budgetary intervention can be cost-effective."

The proposals included various mixes of guarantee thresholds, i.e. levies and quotas, price restraint, abolition of various premiums and aids to producers, including the UK Beef premium, limitation on the UK ewe premium and variable premiums etc, removal of the butter subsidy, a new tax on "oils and fats" i.e. margarine ingredients, and radical changes in the Green currency rates including dismantling the UK's positive Monetary Compensatory Amounts (MCA's).

4. The Government's Position during the Negotiations

The Government's twin aims during the negotiations on these proposals for reform of the CAP and this year's price fixing have been:

- To organize the market regimes of the CAP and the financial system of the Community so that the cost of the CAP rises more slowly than the income of the Community;

- and to ensure that the package that is finally worked out is one where Britain is not treated unfairly.

Throughout the negotiations there has been a new feeling of realism in the Council that decisions must be made to resolve the budget crisis of the Community.

5. The Provisional Agricultural Agreements

(see also Brief No. AG (84)3 dated 15/3/84)

As the Brussels summit failed to agree on these agricultural proposals, Ministers will have to go back to the Agricultural Council for further discussions next week. Below are the main issues agreed in principle - most of them have major national reserves on them which need to be removed before agreement.

(a) Monetary Compensatory Amounts

(i) The Proposals Under the proposals there would be three stages. In the first year the level of the green ECU itself would be raised 3 points. This brings the positive MCAs, including the UK, 3 points down closer to "parity"; but there would be no effect on prices in those countries. Negative MCA countries would similarly find their negative position increased by 3 points, and they have argued that this "disadvantage" must be removed by their being allowed to devalue their green rates by the same amount. (The United Kingdom has put a major reservation on this aspect of the proposals, because it would cost 401m ECU (approx £260m) and would thus add to the cost of the settlement - the money is not available).

In the second stage, German positive MCAs would be reduced by a further 5 points. To avoid the drop in German prices which it would involve, the German Government will be authorised to pay compensation to German farmers through an adjustment in VAT rates. The Germans have asked for an unspecified Community contribution to this compensation; this too will have to be decided at the Summit. There will also be changes in the Netherlands MCAs.

In the third stage, the positive MCAs for Germany and the Netherlands remaining after 1 January 1985 will be dismantled no later than the beginning of the 1987/88 year for each product.

This means that there will be no changes in prices to UK farmers this year as a result of any revaluation.

(ii) British Successes A critical factor for the NFU has been that there should be no reduction in British farm prices as a result of any revaluation of the green pound, as originally proposed by the Commission in this year's Price Proposals. This view is shared by the Government and Michael Jopling has made it clear througout that the Commission's proposals were in our view unjustifiable and unacceptable.

Under the MCA arrangements agreed by the Council of Ministers, there will be no reduction in UK farm prices following any MCA changes in 1984/85, and our argument that further changes in the next two stages of MCA dismantlement should not apply to sterling because of its special position as a floating currency has been accepted. Thus one of our critical negotiating objectives has been achieved.

(iii) Questions

Q. Does this mean that there will be no changes in prices to UK farmers this year as a result of any revaluation?

A. That is precisely what it means. Decisions on future changes, if any, to the green pound will be taken at the appropriate time in future negotiations.

Q. If the proposals are agreed in this form Summit, does this mean a small increase in prices in countries with negative MCAs?

A. Yes, this is part of the principle of the MCA system, to enable farmers in weak currency countries to compensate through price increases for the higher inflation and hence higher costs they are suffering. The NFU argued most strongly for this for the UK when we had negative MCAs under the Labour Government. But farmers in those countries would be no better off as a result than UK farmers, and may well be worse off; in France for example inflation is currently almost double the UK rate so the impact of all the price proposals in the review this year will be severe there, as in other high inflation countries. Also devaluation of green currencies can have mixed effects for farmers; for example, the benefits to livestock producers would be eroded by the consequent rise and the cost of cereal feed. The main problem about this aspect of the proposal is that it would add to FEOGA cost, which is why the UK has put a reserve on it.

Milk

(i) The Proposals: the main points of the Milk package are:-

- The system will last for five years with a review after three.

- In 1984/85 the guaranteed quantity for EEC milk production will be 98.2 million tonnes. Thereafter it will be 97.2 million tonnes. In order to meet the cost of the additional million tonnes in the first year there will be an increase in the rate of co-responsibility levy of 1 percentage point for that year.

- The division of the quotas among Member States will be based on deliveries in 1981 plus 1 per cent. This gives the UK 16 per cent of the total.

- Within Member States quotas can be divided either among individual producers or among dairies. For the purpose of allocating national quotas, 1983 can be used as the base year. This will enable the UK to take the most recent production patterns into account.

- For quantities above the quota a super levy will be charged. If individual farm quotas are used, the super levy will be 75 per cent of the target price. For dairy quotas it will be 100 per cent. the Government is now having urgent discussions with the Milk Marketing Board and the Farmer's Unions about the most suitable system for this country.

- The system will cover direct sales of milk and products of farms which do not go through dairies.

(ii) British Successes - Proposals have at last been accepted to curb the ever increasing surpluses of milk and dairy products in the EEC and the crippling costs of disposing of these surpluses, including for example selling butter to the Soviet Union. This now amounts to about 30 per cent of CAP spending and 20 per cent of total EEC spending, to which of course Britain is one of the two net contributors. It is therefore very much in our interest to curb these costs, quite apart from the fact that it is a wasteful and unjustifiable use of resources.

- There will be no intensive levy as the commission proposed. This would have hit Britain's relatively efficient industry particularly hard.

- Despite the opposition of some Member States and the absence of any proposal in the original Commission proposals, direct sales will now be included. Without this provision there would have been an obvious loophole and France, Belgium and Italy (which have the highest proportions of direct sales) would have had special advantages.

- 1983 can be used as the base year for allocating quotas within Member States. This was a particular concern of the UK farmers.

- there will be no increase in UK butter prices.

- There will be no exemptions from the super levy for small producers. France was particularly anxious to achieve this. The UK would not have benefitted.

(iii) <u>Ireland</u> - the Irish Government had a major reserve on these proposals claiming exemption from the super levy because it would entail a 13.3 per cent cut in dairy earnings. A draft compromise plan which would have allowed Ireland a further 700,000 tonnes above their original quota proposal for 4.6 million tonnes was rejected by the Irish Premier, Mr. Garret FitzGerald. He is insisting on total exemption for five years, and allowing an increase of about 40 per cent. The UK, Denmark and Holland all rejected both the compromise and the Irish Government's demands for exemption.

(iv) <u>Questions</u>

Q. Why the rush? Surely there need to be higher quota levels/ a longer transitional period to enable the UK industry to adjust?

A. Ideally we would have liked this. But the situation has become so grave that the present measures are urgently necessary. The cost to the European tax payer simply of dealing with and disposing of the surpluses is now some £3,000m a year <u>and rising</u>. And even with the proposed levels of quota, there will continue to be substantial surpluses each year which will therefore continue to be costly to dispose of; the surplus of production over consumption currently 20%, will only be <u>reduced</u> - to around 10%.

Because of our recognition of our farmers' anxiety for a transitional period, the UK Government asked for and got a one year transition. To have gone further would have simply added to the problem.

The plain fact is that we are suffering now from the total failure of earlier Council of Ministers to take decisions at price reviews, as the UK Government urged it to do. But the Council did not face up to these problems which were apparent then and which it was obvious would drastically increase.

Q. Is not the UK quota unfair?

A. No. The 97.2 million tonnes limit (subject to the one year transitional period additional quantity) is the 1981 level of production plus 1 per cent and was the limit agreed by the Council some time ago. The Commission therefore insisted that that should be the basis for national quotas which gives us 16 per cent. Since that was also the year in which the guarantee threshold was introduced, the implication was that from then on over production would be penalised. Looked at in one way, the UK cut back from 1983 levels is slightly higher than some countries, although Germany and the Netherlands face bigger cut backs; but this is a reflection of the fact that UK production has risen faster since 1981 than in those other ocuntries. Had it been based on 1983 the difference would have been 0.18%.

Q. What about producers who have recently expanded on the basis of development plans, some of whom are heavily borrowed and will therefore face bankruptcy?

A. There will be provisions for these special cases, but there will have to be limits. The more you make special provisions, the more the other producers who have not been expanding will find their share cut back because of the overall limitation of the national quota.

Q. Have not the french farmers got a better deal?
A. The French farmers certainly do not think so. Most of their key requests have been rejected. There will be no exemption from super levy for small producers, which they were particularly keen to have. Their substantial off farm sales of milk and milk products will be brought within the system. They were insistent that there should be a levy on intensive milk production, but at UK insistence this has been dropped. They will therefore have to apply the quota to off farm sales and to all production without exceptions, in contrast to the exemptions they previously got. French milk yields are below ours; the super levy system will ensure that the potential for the French to boost production by 10 per cent by raising their yeilds will be held firmly in check. French milk producers face a rate of inflation almost double ours. If there is any devaluation of the green franc, they will in addition face higher relative cereal feed costs and will pay correspondingly more for both the super levy and co-responsibility levy.

Q. What guarantees are there that the systm will apply fairly in all Member States?
A. The Government attaches great importance to this. There is a much higher chance of preventing all loopholes and avoidance by having a uniform system throughout Europe instead of, as the French propose, a system of national quotas leaving it to individual Governments to decide how to apply them. That was a particularly important reason for accepting this system. Any country which does not apply it properly will be subject to investigation by the Commission and scrutiny by the Commission auditors, with the risk that FEOGA expenditure for milk in this country could be disallowed; this will be a major deterrent.

Q. Surely the UK should have had special treatment because we are not yet self sufficient in milk?
A. First, not true. In 1982 UK self sufficiency in solids not fat was 131 per cent and in butter fat 91 per cent, and in 1983 was even higher. Second the UK has substantial amounts of dairy products in intervention stores, 120.000 tonnes of butter (142 days supply) and 161,000 tonnes of skimmed milk powder (648 days supply). This is 13.5 per cent and 17 per cent respectively of total EEC stocks. These are the real surpluses which are causing so much of the costs to Community funds. Third, a number of other Member States are able to argue more more effectively the non self sufficiency case, so if this principle was accepted they would be the beneficiaries and we would not.

(c) Oils and Fats Tax

There was no decision in either of the Council of Agricultural Ministers' meetings over the last week or so on the introduction of an Oils and Fats tax as proposed in the Commission's document (Comm. 500) on reform of the CAP. The Government has a major reserve on this as it means a direct tax on margarine to the consumer.

(d) Beef

The Council of Ministers and the European Commission have for some time been pushing for the removal of the UK's Variable Beef Premium which was negotiated by the Labour Government in 1975. It is an essential mechanism to the UK economy in that it first, gives farmers a support price similar to the rest of the Community; second, allows consumers to benefit from the true market price for beef and third, reduces the need for costly intervention buying. At the moment it costs almost 100 ECU split 60-40 between the Community and the National Exchequer.

The Government has fiercely resisted all proposals to remove this beneficial system of support for the Beef industry and will continue to do so.

(e) Proposed Prices for Marketing year 1984-85

On the 16th and 17th March, the Council of Agricultural Ministers agreed in principle prices for the coming marketing year as follows:-

1% reduction in prices for the following products

- wheat, barley, rape, maize, sugar, olive oil, dehydrated fodder, peas and beans, flax and hemp, table wines, beef and veal and pig meat.

Freeze in prices for the following products:

- Intervention price for durum wheat, target price for milk.

Changes in prices for the following products:

- Rice, target price	+2.9%
intervention price	+2.5%
- durum wheat, target	+0.6%
- Cotton, target	+1.5%
minimum	+1.5%
- Tobacco, guide and intervention between	-3.0 and +2.0%
- Other products between	-2.0 and +2.0%

(f) Future decisions

An important change in policy and indeed attitude of the council of Ministers took place at the last meeting. A decision was taken that in future price increases would be linked to guaranteed thresholds for products in surplus or going into surplus. This means roughly that through quotas, as surpluses increase, the guaranteed price would be accordingly reduced.