



Ref. A085/612

PRIME MINISTER

Cabinet: Community Affairs

You may wish to refer to the Community aspects of your talks with the Italian Prime Minister on 14 February (a record has been circulated to the Ministers mainly concerned).

2. The Foreign and Commonwealth Secretary will report on the Foreign Affairs Council on 18-20 February. This was largely spent on enlargement, particularly on fish. After negotiation with the Spanish, the Commission had put forward a reasonable package on agriculture but had overstepped the mark on fish. Under pressure from the Italian Presidency (clearly influenced by the firm line that you took with Signor Craxi), the Commission eventually began to move closer to the position of the five fishing nations, including the United Kingdom. Subsequently the Commission has made further modifications to its proposals and the Five had agreed cosmetic improvements in theirs. There is, therefore, some progress but it is painfully slow. There will be an extra Foreign Affairs Council beginning on the afternoon of 28 February and an extended Council in March.

3. On the revised own resources decision and the 1985 budget, the Germans remained isolated. They rejected a proposal whereby the new own resources would come into force on 1 January 1986, but with the United Kingdom's abatement being made as soon as the decision was ratified, and the overrun being financed through an intergovernmental agreement. France and Belgium rejected the German counter-proposal for both the new own resources and our abatement to be financed through an intergovernmental agreement. The United Kingdom made it clear

that we could accept a solution which was consistent with Fontainebleau. Since the Council there have been, for the first time, some signs that the Germans may be preparing to modify their position.

4. The Minister of Agriculture, Fisheries and Food will report on the Agriculture Council on 25-26 Febraury. This reached agreement on two major outstanding issues:

- the new market support and structural measures for wine implementing the Dublin European Council conclusions and designed to curb the Community's surplus in preparation for Spanish and Portuguese accession. The cost will be about 300 million ecu less than the earlier estimate;

- amendments permitting more flexible operation of milk quotas. These amendments included some scope for farmers who sell both wholesale to dairies and direct to consumers to make adjustments between the two quotas (a point to which Mr Jopling attached importance) and a provision for some limited transfer of quotas between regions so that the levy is not payable when, as in the case of Northern Ireland, part of a member state is liable to pay levy even though national production is within quota. This may result in some weakening of the system's disincentive effects but will ease the strain of its introduction.

The Republic of Ireland made a strong attempt to secure extra milk quotas, but failed. No doubt they will return to the charge in the price-fixing negotiations, when we shall have to take a firm line again.

5. You are holding talks with the Belgian Prime Minister on 2 March. The special Foreign Affairs Council on 28 February will try to make some progress in the enlargement negotiations, although the prospects are only moderate. Next week the

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Industry Council and an informal Transport Council meet on 5 March, the Environmental Council on 7 March and Social Affairs Ministers on 7-8 March. E(A) is discussing on 1 March the line we should take on vehicle emissions at the Environmental Council.

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ROBERT ARMSTRONG

27 February 1985

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AGRICULTURE COUNCIL - 25, 26 & 27 FEBRUARY 1985

With permission, Mr Speaker, I wish to make a Statement on the Council of Agriculture Ministers meeting in Brussels on 25-27 February. My hon Friend the Minister of State and I represented the United Kingdom.

The Council agreed to certain modifications to the milk supplementary levy regulations in order to ensure the implementation of quotas throughout the Community in 1984/85; two of these are particularly important to our industry.

The first is a provision enabling producers who have two quotas, one wholesale and one for direct sale, to switch between the types of quota according to the marketing needs of their businesses.

In order to avoid abuse, there will be strict administrative controls. This is a change for which I have been pressing at successive meetings. I am delighted that we have now obtained an agreement.

The second important element for milk is a provision, for one year only, to permit unused quota to be switched between producers and between regions. Provided there is no abrupt change in levels of milk production, I would expect this to relieve all liability for levy on wholesale milk sales in the United Kingdom in 1984/85. This is of particular benefit to Northern Ireland. We would also expect liability for levy on direct sales to be substantially reduced, though it is not possible at this stage to say whether it would be eliminated.

The package did not deal with a number of points which are of importance to some other member states, including the Irish request for an additional 58,000 tonnes of quota. This issue will be further discussed in the price fixing. It was made clear that subsequent decisions on this or other matters were in no way prejudiced by the decisions taken at this Council. I emphasised that we remain opposed to the Irish request.

I am also pleased to announce that the Council agreed on a series of important measures to bring wine production under control. These implement the outline agreement reached by the European Council in Dublin last December.

The new measures contain three main elements. The first element is an effective guarantee threshold so that surplus production will be removed by compulsory distillation at low prices, so as to dissuade producers from increasing output.

The second element is a system of aids for producers who grub-up their vineyards and go out of production, thus leading to a permanent reduction of the Community's vineyard area.

The third element is a commitment to a restrictive price policy for as long as a significant structural surplus remains. This is a crucial part of the agreement and was one of the Government's major objectives.

During negotiations I was successful in reducing substantially the cost of the package to the Community without undermining its effectiveness. The Commission's original proposals would have cost over the next five years 740 mecu - about £460M. But this has now been reduced to 435 mecu - about £270M.

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Our calculations show that these decisions will lead to very significant savings for the Community budget by way of reduced distillation costs.

The agreement of the Council will be put into legal form as soon as the European Parliament has given its opinion on a small element of the package, which has only been recently proposed by the Commission, to restructure some Greek vineyards. I made it clear that this element is still subject to scrutiny in this House.

The Council also carried forward discussion on the more general agricultural structures regulations. The Commission formally proposed a new article authorising member states to introduce aids in environmentally sensitive areas. As the House knows, I have been pressing for such a provision. I am glad to say that it had a wide measure of support in the Council. I would expect discussion on the structures package to be resumed at the next Agriculture and Finance Councils, when I hope it will be possible to reach decisions.

The Council adopted a regulation which allows the Commission to acknowledge applications submitted to it for aids for improvement in processing and marketing facilities. Without a prior acknowledgement from the Commission, work in hand is rendered ineligible for aid. This technical change was, therefore, needed in order to allow people to press ahead with investments. This is an important change for many British firms which wish to make improvements urgently.

Finally, I raised the question of the preferential tariff for supplies of gas to the Dutch horticultural industry. The Commissioner told the Council that the Dutch Government have now been informed that this tariff is incompatible with the Community's state aid rules. The Dutch have one

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month to respond to the Commission communication. I emphasised that the Dutch growers had already benefited from reduced heating costs for most of the current season. I said that this was a thoroughly unsatisfactory situation and that the growers should be required to repay the aid. The Commissioner indicated that he would be giving further thought to this in the light of the Dutch response.

This was a highly satisfactory Council for the United Kingdom. The wine decisions are the second major step, after milk, to bringing reality into the common agriculture policy. The modifications of the milk regime are of great importance, as is the proposal on conservation. And the Council has cleared the way to press ahead with the price fixing negotiations.