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FRAME AGRICULTURE

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TO IMMEDIATE FCO

TELEGRAM NUMBER 815 OF 5 MARCH

INFO ROUTINE ALL EC POSTS (EXCEPT BRUSSELS), LISBON, MADRID

INFO SAVING BRUSSELS

MIPT

SPECIAL COMMITTEE FOR AGRICULTURE : 4-6 MARCH 1985

PRICE PROPOSALS : GENERAL REACTIONS

SUMMARY

1. SCA HELD FIRST ORIENTATION DEBATE ON PRICES, KEY COMMODITY PROBLEMS AND MCAS. NO SURPRISES OR CONCLUSIONS

2. ON PRICES, ONLY DENMARK, NETHERLANDS AND UK GAVE BROAD SUPPORT FOR A RESTRICTIVE PRICE POLICY. THOUGH FRANCE COULD UNDERSTAND THE LOGIC UNDERLYING THE COMMISSION'S PROPOSALS. OTHERS WANTED MORE GENEROUS PROPOSALS, WITH ITALY AND GREECE SEEKING THE LARGEST INCREASES AND ALSO CLAIMING THE PROPOSALS WERE UNBALANCED BETWEEN NORTH AND SOUTH.

3. THE MAIN COMMODITY POINTS RAISED WERE ON MILK (WHERE IRELAND DEMANDED AN INCREASE IN ITS QUOTA AND GERMANY WANTED TO POSTPONE THE CUT IN THE EC QUOTA AND CORESPONSIBILITY LEVY): CEREALS (WHERE FRANCE WANTED A COMMITMENT TO NEW CEREALS OUTLETS AND GERMANY WANTED HIGHER PRICES AND A REVIEW OF THE GUARANTEE THRESHOLD ARRANGEMENTS): SHEEPMEAT (WHERE FRANCE SOUGHT CHANGES TO THE REGIME): BEEF (WHERE IRELAND AND THE UK PRESSED FOR RETENTION OF THE VARIABLE PREMIUM SCHEME): MARKET MANAGEMENT (WHERE SEVERAL DELEGATIONS PRESSED THE COMMISSION TO KEEP MARKET PRICES MORE IN LINE WITH INSTITUTIONAL PRICES): AND MEDITERRANEAN PRODUCTS (WHERE GREECE AND ITALY CRITICISED ALMOST ALL THE COMMISSION PROPOSALS).

4. THERE WAS A MAJORITY SUPPORT FOR THE PROPOSALS ON POSITIVE MCAS: GERMANY ALONE OPPOSED OUTRIGHT. ON NEGATIVE MCAS, ITALY AND GREECE WANTED A DISMANTLEMENT WHICH REMOVED THE FRANCHISE.

5. THE COMMISSION WOULD NOT YIELD ON PRICES OR ON THE IMPLEMENTATION OF AGREEMENTS REACHED LAST YEAR BUT COULD CONSIDER TECHNICAL CHANGES PROVIDED LITTLE COST WAS INVOLVED. TO THE COUNCIL FOR FURTHER GENERAL DEBATE.

DETAIL

6. THERE WAS A SINGLE LENGTHY TABLE ROUND ON GENERAL REACTIONS TO THE PRICE PROPOSALS, RELATED MEASURES AND MCAS. IN WHAT AMOUNTED TO A DRESS REHEARSAL FOR NEXT WEEK'S GENERAL DEBATE IN THE COUNCIL, THERE WERE NO SURPRISES. THE MAIN POINTS MADE ON PRICES AND ASSOCIATED MEASURES WERE AS FOLLOWS:

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7. IRELAND WANTED A HIGHER OVERALL LEVEL OF PRICES BUT HER FIRST PRIORITY WAS 'A SOLUTION TO THE REMAINING MILK SUPER LEVY PROBLEMS' IE AN INCREASED QUOTA FOR IRELAND. SHE ALSO WANTED THE CORESPONSIBILITY LEVY TO BE PHASED OUT OVER 2-3 YEARS IF QUOTAS WERE TO STAY. THE SECOND PRIORITY WAS CONTINUATION OF ALL THE BEEF SECTOR PREMIUMS AND INTRODUCTION OF SEASONAL BEEF PRICE VARIATIONS. ON CEREALS, LOWER OR ABOLISHED CARRY-OVER PAYMENTS AND LOWER MONTHLY INCREMENTS WOULD GIVE ROOM FINANCIALLY FOR A RISE IN PRICES. THE COMMISSION SHOULD RUN THE MARKETS BETTER TO COMPENSATE FOR LOWER INSTITUTIONAL PRICES: IT SHOULD REVERT TO PRE-1984 ARRANGEMENTS FOR INTER-VENTION PAYMENTS, IMPROVE MARKET MECHANISMS FOR SHEEP AND BE COMMITTED TO MORE EFFECTIVE STOCK DISPOSAL (ESPECIALLY OF BUTTER).

8. FRANCE RESERVED SPECIFIC COMMENT ON PRICES FOR THE COUNCIL THOUGH RECOGNISING THE LOGIC OF THE COMMISSION'S PROPOSALS. SHE WARNED, HOWEVER, AGAINST A PRODUCER BACKLASH IF THE SETTLEMENT WERE TOO HARSH. TO HELP AVOID THIS THERE SHOULD BE A PROMISE OF NEW OUTLETS AS WELL AS PRICE CUTS. PRODUCERS WOULD BE WILLING TO CONTRIBUTE

TO THE COST OF RESEARCHING SUCH OUTLETS. PROPOSALS ON STARCH SHOULD BE ADDED TO THE DISCUSSION BALANCING OF THE CEREALS MARKET. FRANCE SUPPORTED A 1 PER CENT CUT IN MILK QUOTAS AND THE CORESPONSIBILITY LEVY. ON SHEEP, SOME OF THE MEASURES IN THE FRENCH MEMORANDUM MUST BE AGREED, OTHERWISE THE FRENCH MIGHT HAVE TO CHANGE TO THE UK SYSTEM WHICH WOULD INCREASE COSTS. FOR WINE, A RESTRICTIVE PRICE POLICY NEED NOT BE INTERPRETED AS A FREEZE AND, FOR BEEF, THE COMMISSION SHOULD SHOW FLEXIBILITY OVER THE INTERVENTION RULES.

9. GREECE FOUND THE PROPOSALS BIASED AGAINST MEDITERRANEAN PRODUCTS AND CALLED FOR HIGHER PRICES. INSTEAD OF CUTTING FRUIT AND VEGETABLE PRICES, THE WITH-DRAWAL COEFFICIENTS COULD BE ADJUSTED. SHE COULD NOT ACCEPT BOTH A PRICE CUT AND QUOTAS FOR PROCESSED TOMATOES. TOBACCO PRICES SHOULD BE HIGHER AND THE HIERARCHY ADJUSTED. DURUM SHOULD NOT BE ADDED TO A GENERAL CEREALS THRESHOLD QUANTITY AND A PRICE INCREASE WAS NEEDED FOR MINIMUM QUALITY BREADWHEAT. ANY CHANGES TO THE SHEEP REGIME MUST MEET GREECE'S SPECIAL NEEDS. SHE MIGHT ALSO NEED A SEPARATE MEASURE TO HELP SMALL PRODUCERS GENERALLY.

10. GERMANY CONCENTRATED ON CEREALS AND MILK, STRESSING THAT VIEWS EXPRESSED WERE THOSE OF THE FEDERAL GOVERNMENT AS A WHOLE. FOR CEREALS, THERE WAS NO WAY SHE COULD ACCEPT THE PROPOSED PRICE CUTS. THE GUARANTEE THRESHOLD ARRANGEMENTS SHOULD ALSO BE REVIEWED SINCE IT WAS UNFAIR THAT CUTS RESULTING FROM ITS APPLICATION THIS YEAR SHOULD AUTOMATICALLY LOWER THE STARTING POINT FOR PRICE CALCULATIONS IN SUCCEEDING YEARS. ON MILK, THE QUOTA SYSTEM WAS CAUSING GREAT POLITICAL AND LEGAL PROBLEMS. THE 1 PER CENT CUT AGREED LAST YEAR SHOULD BE POSTPONED AND THE CORESPONSIBILITY LEVY SHOULD ACCORDINGLY STAY AT 3 PER CENT.

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11. DENMARK WAS BROADLY CONTENT WITH THE PRICES PROPOSED AND LOOKED FOR BETTER MARKET MANAGEMENT AS THE MEANS TO INCREASE RETURNS. HOWEVER, THE BONUS FOR PP RAPESEED VARIETIES SHOULD NOT BE HALVED AND MONTHLY INCREMENTS SHOULD BE INTRODUCED FOR PEAS AND BEANS. FOR SEEDS, THERE SHOULD BE A RETURN TO ANNUAL PRICE FIXING. COMMUNITY INSPECTORS FOR FRUIT AND VEGETABLES RAISED PROBLEMS OF NATIONAL COMPETENCE. STARCH SHOULD BE DEALT WITH AFTER THE PRICES SETTLEMENT.

12. BELGIUM SAID A 4/5 PER CENT PRICE INCREASE WAS JUSTIFIED BUT COULD ACCEPT 2 PER CENT. SHE SUPPORTED DENMARK ON IMPROVEMENTS IN MARKET MANAGEMENT AND ON STARCH. SHE AGREED WITH GERMANY ON THE NEED FOR REVIEW OF THE CEREALS THRESHOLD (WHICH SHOULD NOT BITE THIS YEAR ON TARGET PRICES). SHE OBJECTED TO COMMISSION IDEAS ON CEREALS INTERVENTION QUALITY. THE MILK PROPOSALS WERE ACCEPTABLE BUT THE SYSTEM OF QUARTERLY ADVANCES CAUSED PROBLEMS. THE OILS AND FATS TAX SHOULD BE AGREED TO COVER THE COST OF THE PRICE INCREASES SOUGHT.

13. THE UK SUPPORTED RESTRICTIVE PRICES BUT SAID THE COMMISSION SHOULD HAVE GONE FURTHER TO MAINTAIN THE PROGRESS ACHIEVED LAST YEAR. EOGA GUARANTEE EXPENDITURE IN 1985 MUST NOT EXCEED THE 19.3 BECU IN LAST OCTOBER'S DRAFT BUDGET: ALL MEMBER STATES HAD ALREADY RECOGNISED THE NEED FOR FINANCIAL DISCIPLINE AND THE OPERATION OF A FINANCIAL GUIDELINE FOR AGRICULTURE. LAST YEAR'S DECISIONS ON CEREALS AND MILK MUST BE RESPECTED IN FULL, AND -5 PER CENT ANDO WERE THE PRICES JUSTIFIED RESPECTIVELY. THERE SHULD ALSO BE AGREEMENT ON NO INCREASE IN CEREALS NORM PRICES FOR THE NEXT THREE YEARS, AND THE LIMIT IN THE MAXIMUM ABATEMENT UNDER THE THRESHOLD ARRANGEMENTS SHOULD BE SCRAPPED. THERE SHOULD BE A FREEZE FOR WINE AND BIGGER CUTS FOR TOBACCO AND FRUIT AND VEGETABLES. THE SUPPLEMENT TO THE SUCKLER COW PREMIUM COULD BE ENDED BUT THE BEEF VARIABLE PREMIUM SCHEME SHOULD CERTAINLY CONTINUE. ANY CHANGES TO THE SHEEPMET REGIME SHOULD NOT DISCRIMINATE AGAINST BRITISH PRODUCERS.

14. NETHERLANDS GENERALLY SUPPORTED THE PROPOSALS BUT THE MILK PRICE SHOULD BE FROZEN, AS SHOULD THE SHEEPMET PRICE AT JANUARY 1986

15. LUXEMBOURG HANKERED AFTER HIGHER PRICES ESPECIALLY FOR MILK. SHE DOUBTED WHETHER THE MILK CORESPONSIBILITY LEVY SHOULD CONTINUE AND WANTED A MORE GRADUAL ADJUSTMENT IN THE BUTTER/SKIM MILK POWDER RATIO. THE TIGHTENING OF CEREALS QALTIY CRITERIA HAD GONE TOO FAR.

16. ITALY COMPLAINED BITTERLY AT DISCRIMINATION, BEWAILING AT ENGTH HER HIGH INFLATION AND INCREASED COSTS. CITRUS, TOMATOES, DURUM, RICE AND SUNFLOWER SEEDS SHOULD ALL HAVE HIGHER PRICES. DURUM SHOULD ALSO BE KEPT OUTSIDE A GENERAL CEREALS THRESHOLD. WINE NEEDED THE SAME LEVEL OF INCREASE AS MILK. THE CALF PREMIUM SHOULD CONTINUE.

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17. ON POSITIVE MCAS, BELGIUM, DENMARK, FRANCE, IRELAND, LUXEMBOURG, ITALY AND NETHERLANDS SUPPORTED THE COMMISSION PROPOSALS (NETHERLANDS DOING SO ON THE UNDERSTANDING THAT THE DUTCH ELEMENT WOULD ONLY BE APPLIED IF THE GERMAN ELEMENT WERE). GREECE HAD AN OPEN POSITION. GERMANY OPPOSED THE PROPOSALS AND QUESTIONED WHETHER THE LACK OF ANY MCA OVER 2.5 PER CENT WOULD LEAD TO THE TOTAL DISAPPEARANCE OF ALL MCAS.

18. ON NEGATIVE MCAS, DENMARK AND IRELAND SUPPORTED THE COMMISSION PROPOSALS (IRISH SUPPORT BEING CONDITIONAL ON FUTURE AVAILABILITY FOR THE OPTION OF STOPPING DISMANTLEMENT AT THE FRANCHISE). ITALY AND GREECE WANTED DISMANTLEMENT TO ELIMINATE THE FRANCHISE. BELGIUM, NETHERLANDS AND LUXEMBOURG RECOGNISED THE CASE FOR THIS BUT TOOK NO DEFINITIVE VIEW. UK, FRANCE AND GERMANY HAD NO COMMENTS AT THIS STAGE.

19. POOLEY (COMMISSION) OFFERED NO SYSTEMATIC RESPONSE BUT GAVE SOME POINTERS TO ANDRIESSEN'S POSSIBLE LINE. HE WOULD BE FLEXIBLE ON TECHNICAL ADJUSTMENTS IF THEY HAD WIDE SUPPORT, (EG MONTHLY INCREMENTS FOR PEAS AND BEANS CEREALS QUALITY REQUIREMENTS AND POSSIBLY A PRICE FREEZE FOR SHEEP IN 1986) SO LONG AS THEY HAD A NEUTRAL COST. BUT THERE WOULD BE NO FLEXIBILITY TOWARDS ANY MOVES TO GO BACK ON LAST YEAR'S AGREEMENTS ON MILK AND CEREALS. THERE MUST BE A RESTRICTIVE PRICE POLICY BOTH BECAUSE OF MARKET CONDITIONS AND BECAUSE EACH 1 PER CENT INCREASE WOULD COST 100 MECU. STARCH MEASURES WERE VERY COMPLICATED AND LINKED WITH THE REVIEW OF SUGAR QUOTAS AND SHOULD THEREFORE BE DEALT WITH AFTER THE PRICE SETTLEMENT. THERE WAS NO PROSPECT OF AN OILS AND FATS TAX IN THIS YEAR'S PACKAGE. THE COMMISSIONER WAS NOT LIKELY TO GIVE UNDERTAKINGS ON HOW HE WOULD MANAGE MARKETS BUT, IN THE MEDIUM TERM REVIEW, IT WOULD BE WORTH CONSIDERING HOW TO PENALISE CEREALS PRODUCERS IN THE YEAR OF SURPLUS PRODUCTION RATHER THAN THE YEAR AFTER. ON WINE, THE COMMISSION WAS COMMITTED TO NO PRICE INCREASE. IT HAD AIMED AT A NORTH-SOUTH BALANCE BUT PRICES FOR TOMATOES AND CITRUS HAD TO BE CUT MOST BECAUSE THOSE REGIMES WERE DISASTER AREAS. DURUM HAD TO BE INCLUDED IN A GENERAL CEREALS THRESHOLD BECAUSE HIGH PRICES HAD ENCOURAGED SUBSTITUTION BY SOFT WHEAT. THE MCA PROPOSALS HAD BEEN PHRASED TO AVOID THE AUTOMATIC DISAPPEARANCE OF ALL MCAS.

20. DISCUSSION THEN TURNED TO MORE DETAILED EXAMINATION OF INDIVIDUAL COMMODITIES, THE MAJOR POINTS OF WHICH ARE RECORDED IN MY IFTS.

FCO ADVANCE TO:

FCO - CLEMENTS

CAB - HARDING

MAFF - PACKER, WILSON, HADLEY, CANN, MYERS, DICKINSON, ARCHER, THOMS
ON

DAFS - DG MACKAY

DANI - CHALMERS

WOAD - HALL-WILLIAMS

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