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FM PARIS

TO DESKBY 211500Z FCO

TELNO 653

OF 211254Z JUN 91

INFO IMMEDIATE UKREP BRUSSELS

INFO ROUTINE UKMIS GENEVA, WASHINGTON

INFO SAVING OTHER EC POSTS

FRAME EXTERNAL

MY TELNO 644:

ANGLO-FRENCH SUMMIT, DUNKIRK, 24 JUNE 1991: GATT AGRICULTURE

SUMMARY

1. MITTERRAND, WHO CONTINUES TO HOLD THE KEY TO FRENCH THINKING, IS REPORTED TO BE STILL GIVING PRIORITY TO AVOIDING AGRICULTURAL UNREST IN FRANCE. HIS ADVISERS SEEM UNABLE OR UNWILLING TO GET HIM TO FOCUS ON THE LONG-TERM BENEFITS OF AGRICULTURE CUTS. SUMMIT A USEFUL OPPORTUNITY TO INFLUENCE HIS THINKING.

DETAIL

2. 'MANAGE AS BEST YOU CAN, MERMAZ, BUT I DON'T WANT A SINGLE FARMER ON THE STREET IN THE YEAR AHEAD'. THIS IS THE LATEST TABLET OF STONE SENT DOWN FROM THE ELYSEE FOR THE GUIDANCE OF FRENCH MINISTERS AND OFFICIALS WRESTLING WITH GATT AGRICULTURE AND CAP REFORM. IT IS REPORTED TO HAVE BEEN SAID BY MITTERRAND IN THE MARGINS OF THE FRANCO-GERMAN SUMMIT AT THE END OF MAY. IT IS BEING INTERPRETED BY OFFICIALS AS ALLOWING THEM VERY LITTLE LEEWAY ON GATT. IT LEADS MOST LOGICALLY TO THE CONCLUSION THAT NO AGREEMENT WOULD BE PREFERABLE TO ANY AGREEMENT THAT CAN BE CONCEIVED LIKELY TO SATISFY THE US AND CAIRNS GROUP.

3. ALL THIS IS ONE POSSIBLE EXPLANATION FOR THE ABSENCE OF ANY SIGNS OF FRESH THINKING IN THE FRENCH ADMINISTRATION ON GATT AGRICULTURE. THEY APPEAR TO BE WAITING PASSIVELY FOR DUNKEL'S OPTIONS PAPER, MACSHARRY'S CAP PROPOSALS, AND WHATEVER CLUES TO US THINKING MAY EMERGE IN JULY. IN PARTICULAR THEY HAVE STILL TO MAKE ANY SERIOUS ATTEMPT TO RESOLVE THEIR BASIC DILEMMA: SHOULD THE PRIORITY BE SUPPORT FOR SMALL FARMERS OR PRESERVING AS MUCH AS POSSIBLE OF THE INCOME FROM SUBSIDIES OF SUCCESSFUL CEREALS EXPORTERS. THEY HAVE FOLLOWED RECENT GATT DEBATES IN GENEVA AS IF THEY WERE HYPOTHETICAL. OTHER THAN POCKETING THE MOVE TO INCLUDE US

DEFICIENCY PAYMENTS UNDER VULNERABLE EXPORT SUBSIDIES, THEY HAVE STUCK RIGIDLY TO THE LINE THAT THE EC'S MANDATE REMAINS THAT OF NOVEMBER 1990. THEY HAVE PREFERRED OBJECTIONS TO THE COMMISSION'S PROCEDURES TO DEBATE ON THE SUBSTANCE. THERE ARE NO SIGNS THAT HARD THOUGHT HAS BEEN GIVEN TO WHAT, AT THE END OF THE DAY, THE FRENCH WILL REALLY BE PREPARED TO SIGN UP TO. MME CRESSON'S MORE ASSERTIVE PROTECTIONIST RHETORIC WILL ACT AS A FURTHER DISINCENTIVE TO POSITIVE THINKING BY OFFICIALS HERE.

CONCLUSION

4. I CONCLUDE THAT THERE REMAINS A SERIOUS RISK THAT THE FRENCH WILL ONCE AGAIN PROVE A MAJOR OBSTACLE TO OUR URUGUAY ROUND OBJECTIVES. SINCE IT IS MITTERRAND'S VIEWS WHICH CONTINUE TO DETERMINE THE BROAD LINES OF FRENCH POLICY, THE OPPORTUNITIES TO GET AT HIM PRESENTED BY THE BILATERAL SUMMIT ON MONDAY AND THE G7 SUMMIT IN LONDON ARE PARTICULARLY VALUABLE. IN THE END ONLY HE CAN DECIDE THE PRIORITY BETWEEN DOMESTIC POLITICAL MANAGEMENT AND THE WIDER ISSUES. HIS OWN MINISTERS ARE PATENTLY RELUCTANT OR UNABLE TO GET HIM TO SEE THAT THE LONG-TERM BENEFITS OF CUTS IN AGRICULTURAL PROTECTION SHOULD OUTWEIGHT SHORT-TERM DIFFICULTIES. BUT THEY ALL SHARE WITH HIM THE NERVOUSNESS OF THE IMPACT ON POLITICAL SUPPORT OF A FURTHER SEASON OF AGRICULTURAL DISTURBANCE.

5. SEE MIFT FOR CAP REFORM (NOT TO ALL)

FERGUSSON

FCO PLEASE PASS SAVING ATHENS, BONN, BRUSSELS EMBASSY, COPENHAGEN DUBLIN, LISBON, LUXEMBOURG, MADRID, ROME, THE HAGUE
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INFO ROUTINE UKREP BRUSSELS

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FRAME AGRICULTURE

MIPT: ANGLO-FRENCH SUMMIT, 24 JUNE: CAP REFORM

SUMMARY

1. MERMAZ HAS YET TO FORM CLEAR OBJECTIVES FOR CAP REFORM. HE IS UNDER PRESSURE FROM THE FARMING INDUSTRY TO DO SO. HE WILL WELCOME THE OPPORTUNITY TO EXPLORE IDEAS WITH MR GUMMER. THERE ARE SEVERAL AREAS, EG MODULATION, WHERE A COMMON INTEREST HAS ALREADY BEEN ACKNOWLEDGED AND SEVERAL OTHERS, EG ENVIRONMENT AND COST, WHERE THE FRENCH MAY BE OPEN TO PERSUASION.

DETAIL

2. MR GUMMER WILL FIND MERMAZ KEEN TO DISCUSS CAP REFORM. HE DESCRIBED APRIL'S PRICE-FIXING AS CLEARING THE WAY FOR THIS AND IS GENUINELY ANXIOUS TO NEGOTIATE A CAP WHICH FUNCTIONS MORE SATISFACTORILY.

3. MERMAZ'S PROBLEM IS THAT HE HAS NO CLEAR IDEA OF HOW THE REFORMED CAP SHOULD LOOK. HIS MINISTRY WORKING PARTY IS SHOWING NO SIGNS OF PRODUCING SUBSTANTIAL NEW IDEAS, DESPITE SEVERAL PROMISES. THE FRENCH FARMING WORLD HAS BECOME INCREASINGLY IMPATIENT WITH THEIR MINISTER'S LACK OF CONCRETE SUGGESTIONS. THIS, TOGETHER WITH HIS INABILITY TO EXTRACT DOMESTIC CONCESSIONS FROM THE FINANCE MINISTRY, HAS DENTED MERMAZ'S CREDIBILITY. THE FARMING UNIONS HAVE CALLED A MASS DEMONSTRATION FOR LATER IN THE YEAR. SO, FOR MERMAZ, THE STAKES ARE HIGH.

4. IN ANY EVENT, RADICAL REFORMS MIGHT WELL NOT SUIT THE FRENCH. THEY ARE LIKELY TO FAVOUR MINOR ADJUSTMENTS TO A POLICY WHICH BASICALLY SUITES THEM WELL. FOR EXAMPLE, THEY WILL NOT SUPPORT ANY RADICAL MOVE FROM THE CAP'S TRADITIONAL FORMS OF SUPPORT, EVEN IF IN SOME SECTORS (EG BEEF) DIRECT PAYMENTS COULD HAVE A ROLE TO PLAY. THE BENEFITS WHICH FRANCE ACCRUES FROM INTERVENTION AND

EXPORT REFUNDS COULD NOT BE REPLICATED UNDER A SYSTEM OF DIRECT PAYMENTS WITHOUT BUSTING THE EC BUDGET. MOREOVER, ALTHOUGH THERE IS JUSTIFICATION FOR SOME ACCOMPANYING PAYMENTS (LFA SUPPORT: OUTGOERS), THE FRENCH REMAIN SCEPTICAL ABOUT THE TANGIBLE MERITS OF WIDESPREAD SCHEMES SUCH AS FOR THE ENVIRONMENT.

5. ALTHOUGH HE MIGHT GO ALONG WITH LIMITED MODULATION (E.G. SHEEP), MERMAZ IS UNLIKELY TO SUPPORT THE PRINCIPLE OF MODULATING PAYMENTS. ABOVE ALL, HE HAS TO CONSIDER THE NEGATIVE EFFECT IT WOULD HAVE ON FRANCE'S VITAL CEREALS INDUSTRY AND ON THE IMPROVEMENT IN FARMING STRUCTURES TO WHICH HE PUBLICLY RECOMMITTED HIMSELF ONLY LAST WEEK.

6. MERMAZ IS UNDER PRESSURE FROM THE INDUSTRY TO THINK MORE RADICALLY ABOUT SUPPLY CONTROL. ALTHOUGH HE IS LIKELY TO BE WARY OF CONSTRAINING THE CEREALS SECTOR, HE WILL LOOK MORE FAVOURABLY THAN IN THE PAST ON TOUGHENING UP SET-ASIDE AND EVEN PREMIUM QUOTAS FOR EG SHEEP. A RECURRING THEME WILL BE THAT, IN THE ABSENCE OF CEREALS QUOTAS, DEVELOPING ALTERNATIVE, INDUSTRIAL OUTLETS MUST BE A TOP PRIORITY.

7. MERMAZ IS UNLIKELY YET TO HAVE FIRM VIEWS ON WHAT THE NEW CAP SHOULD COST. ALTHOUGH THE MINISTRY OF FINANCE WILL NEED CONVINCING OF CLEAR BENEFITS TO FRANCE IF THERE IS TO BE ANY INCREASE IN CAP COSTS. HE ARGUES THAT SINCE FRANCE'S FEOGA GUARANTEE ACCOUNT IS ROUGHLY BALANCED, COST IS NOT THE KEY QUESTION.

8. ON TIMING, MERMAZ IS CLEAR ON THE NEED TO AVOID ANY LINK WITH GATT. FOR BOTH SUBSTANTIVE AND PRESENTATIONAL REASONS, CAP REFORM SHOULD NOT BE DICTATED BY THIRD COUNTRY INFLUENCES. IDEALLY, COMPLETION OF THE REFORM PROCESS WOULD FOLLOW A GATT AGREEMENT, THEREBY AVOIDING ANY DOUBLE PAYMENT BY THE EC.

COMMENT

9. THERE IS SOME COMMON GROUND ON WHICH MR GUMMER WILL BE ABLE TO BUILD, BOTH ON SUBSTANCE AND TACTICS. HE MAY WISH TO SEEK TO TIE MERMAZ DOWN TO OBJECTING ON PRINCIPLE TO MODULATION, THEREBY MAKING MORE DIFFICULT ACCEPTANCE IN ANY SPECIFIC SECTOR. ON TACTICS, THE COMMON DESIRE FOR A REFORM SEPARATE FROM THE GATT ROUND SHOULD LEAD TO AGREEMENT ON A RESPONSE TO THE COMMISSION'S PROPOSALS WHICH AVOIDS RAISING THIRD COUNTRY EXPECTATIONS. ON COST, MR GUMMER MAY WISH TO PRESS HOME THE NEED TO TAKE VERY SERIOUSLY THE RISING EXPENDITURE. QUITE APART FROM THE WIDER ECONOMIC CASE, IT IS UNLIKELY THAT, UNDER ANY REALISTICALLY REFORMED CAP, INCREASED

COSTS WILL BE OF NET BENEFIT TO FRANCE. ON SPECIFICS, IT WOULD BE INTERESTING TO ESTABLISH WHAT FORM OF DIRECT PAYMENTS ARE JUSTIFIED IN FRENCH EYES, PRESSING THEM ON OUR OWN ENVIRONMENTAL GOALS, AND TO EXPLORE THE EXTENT OF COMMON VIEWS ON THE ROLE OF SET ASIDE (EG NATIONAL TARGETS) AND THE MOVE TO A PREMIA-BASED BEEF REGIME.

10. PLEASE ADVANCE MAFF PS/MR GUMMER, PS/ANDREWS, PACKER

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