RESTRICTED

ANGLO-GERMAN SUMMIT - 20/21 FEBRUARY 1989

MINISTER OF AGRICULTURE'S MEETINGS WITH GERMAN AGRICULTURE MINISTER MR KIECHLE

Present:

Minister of Agriculture
Mr D A Hadley

Mr Kiechle
Mr Kittel
Mr Genske
Mr Heynen
Dr Buhner

1. Discussion between the Ministers was frank and although some similarities in approach were found (i.e. sugar and milk quotas) there was a stark contrast in approach on CAP reform, GATT and MCAs. However, none of this was surprising and the meeting was helpful in developing working relationships.

1989 Price Negotiations

2. A recurrent theme throughout the discussions was special pleading for the difficulties faced in Germany given declining farm incomes. Mr Kiechle said that last year had been a bad year on farm incomes. This year had compensated for what had been lost last year and incomes were now just above 1980 levels. Four years of "negative price policy" had left them in an intolerable position. Farmers still represented a considerable voting force in Germany and thus the problems on farm incomes represented a serious political situation. Thus they could not accept the Commission price proposals. Stabilisers had to be respected; but anything beyond was neither necessary nor acceptable. As far as cereals was concerned we had the stabiliser and set aside. Germany would be taking out 170,000 hectares this year - equivalent to 700,000 tonnes of cereals, however set aside had not yet been uniformally implemented throughout the Community. The overall effect of the Commission proposals would be a 7-8 per cent price cut in cereals. Some Member States would be able to reduce this cut through action on MCAs. This was not open to Germany. "Time was running out" for their small family farms and further cuts in incomes were not acceptable.

3. The Minister replied that this year's price negotiations had to be looked at in the GATT context. The UK faced far greater pressure on farm incomes than Germany: there had been a 28 per cent drop in real terms over the past year (largely due to cereals). According to Eurostat figures over the ten years to 1988 Germany showed a tiny decline in real terms, whereas the UK

had faced a substantial decline. This caused political difficulties for the UK too. However, it was not in the longer term interests of farmers to avoid facing up to difficult decisions and the need for continuing CAP reform now. Thus our objectives for this year's price fixing were to carry forward CAP reform, to continue with price restraint and discipline and to further reduce the role of intervention. Four years of price restraint and cuts had still left us with 30 million tonnes cereals surplus which was potentially exportable. Unless we carried forward CAP reform we could find that we were returning to serious world surpluses with export trade wars. This was why he supported price restraint while acknowledging that it would squeeze marginal cereals producers out. On cereals the UK was pressing for tougher measures with the full 3 month delay in intervention: this would encourage producers to seek market outlets while confining intervention to its proper role as a safety net. We had to continue with rigorous disciplines in the cereals sector if we were not to face even more difficult problems in 2 or 3 years time. The Minister mentioned that some of our farmers were farming both in the UK and in Germany: an analysis had been done of their returns on cereals taking account of all relevant factors. These figures demonstrated that there was a higher income per hectare in Germany than in the UK. These farmers therefore felt that a small MCA adjustment was very desirable to produce a fairer balance between our two countries. The Minister acknowledged that the UK and Germany were in the lead in implementing set aside. We saw this essentially as a complement to price restraint. One or two per cent of cereals land would be coming out of production this year under the scheme. However, there had been a very high response on registrations. Sixty per cent of the response had come from the main cereals growing area.

4. Mr Kiechle disagreed with the Minister's perception of the role of the price negotiations in the GATT context. Third countries were more interested in quantities that we were producing and exporting than in their domestic situation within the Community and this should be the basis for further discussions. He agreed with the Minister that quotas were not the way ahead. However, both were agreed that set aside needed to be implemented throughout the Community and he wondered whether set aside might not be more effective if it were made compulsory. The Minister made clear that he saw compulsory set aside as being at one end of the spectrum of possible quota systems. As such it would inhibit the competitive growth and development of the cereals sector and was undesirable. While accepting the need to watch how cereals policy developed given the risk of the world cereals surplus getting out of control, he would be very much opposed to any type of quota system in the near future. We had to gain greater experience of the set aside system. Nonetheless, he welcomed the idea of putting pressure on other colleagues to operate the set aside scheme more effectively in the coming year. Mr Kiechle

said that since we did not yet have a quantitative system which worked a compulsory set aside scheme might well be for discussion in 1 or 2 years time. Mr Kittel added that farming organisations throughout Europe seemed to favour a more rigid system of set aside and he thought this would inevitably come up for discussion in the next 8/10 months.

5. Mr Kittel raised the issue of the moisture content of cereals: a 1 per cent change in moisture content meant plus or minus 2-2½ per cent income. This was why they wanted 15.5. per cent moisture content as the upper limit. The Commission had not made any proposal on moisture content this year and they wondered what the UK approach would be on this issue. The Minister said that in principal he supported a 14.5 per cent moisture content level since this fitted with the general principle of reducing the role of intervention. However, in practice the UK had faced serious difficulties over the past 2 years and he had agreed to the raising of the level in these exceptional circumstances. We had not yet decided what our final position would be this year.

6. The Minister probed the German view on the proposed 5 per cent cut on sugar. We had not yet taken a final position on this. However, we were concerned by some aspects of the proposal: the relationship with the ACP countries had not yet been thought through and we had to look at its budgetary effect. Mr Kiechle said that they had not yet taken a final position but gave a very strong indication that they would not support the 5 per cent cut. The sugar regime was self-financing. Sugar farmers were often also involved in cereals where we had taken tough action. He therefore strongly disagreed with the need to reduce the sugar price. Mr Kittel added that it looked as if France would be the only country supporting a cut on the basis that the sugar price should be cut if cereals was being cut. However the French seemed to be reconciled to the fact that we would not have the full price cut but one somewhat lower than 5 per cent. The sugar regime would be reviewed in 1991 and that was another argument for leaving the regime alone. In any case the price reduction would not have a big effect on consumers. The Minister agreed with this.

7. The Minister said that he had some concerns about the proposals for oilseeds in the Commission document: the proposed cut in the monthly increments could encourage more producers into cereals production. Mr Kittel agreed with this: the oilseed stabiliser was very rigid and tough. They did not think a reduction as proposed by the Commission was appropriate.

8. There was some brief discussion of the milk regime with the Germans probing our approach on an increase in the protein component of the milk prices. Mr Kiechle thought that the action in the milk sector had been a big achievement. He did not favour cuts in aid for skimmed milk powder. They had asked the Commission to produce a report on the dismantling of the co-responsibility levy system. They thought that this could have a very positive psychological effect in this sector. They were completely opposed to the idea of Community quotas replacing national quotas. The

Minister pointed out that dairy sector was still the most expensive regime. We were still spending too much on disposal subsidies which was leading to distortions. The UK very much disliked the co-responsibility levy; however it was realistic to remove it only when we saw the costs of the regime coming down. It was more or less inevitable that quotas would continue and we ought to address ourselves quickly to this issue. Flexibility was important in the quota system and this issue became even more important if quotas were here to stay. Mr Kiechle agreed that we should take a long term decision on the continuation of the quota system as quickly as possible. He also agreed on the need for greater flexibility.

GATT

9. The Minister urged on Mr Kiechle the need for greater flexibility from the EC in working towards the April GATT meeting. However, the Germans were clearly entrenched in their resistance to this. The Minister pointed out that it was most important to have a successful outcome to the GATT Round. The April meeting had to come out with clear agreement on the future programme. Since Montreal the US had moved towards the Cairn's Group position. All had agreed on the need for the Community to resist the US position on the long term and their insistence on elimination. However, now that they had moved on the long-term the EC would come under pressure to move. The Commission would need to be given sufficient flexibility for the negotiations. We might have to be ready to make commitments in terms of specific policy changes (not just aggregate measure terms); to explore the possibilities for specific commitments on import access and export subsidies; and finally the EC should take credit for reforms made so far. Time was short; but we had to give flexibility to the Commission on the short-term if we were to avoid a breakdown in April - a breakdown would be in nobody's interest.

10. Mr Kiechle agrees that it was important to get agreement in April; however he would not be subjected to dictated conditions by another party. It was important for the US and the Cairn's Group to accept the EC's achievements in the past (eg in the dairy sector). As far as the scope of the EC's flexibility was concerned the system of levies and refunds should not be touched. While he agreed in principle that we should not add to external protection, we could certainly not weaken it. Exports onto the world market were too high and possibly the quantities should be reduced; but time was needed. If we altered external protection our farmers would face import pressures and would be obliged 'to give up all hope'. Efforts had been made in the past few years to reduce the problem of Community exports - export refunds was possibly an area where they might be ready to make concessions. But our partners must be ready to make efforts too and give credit for what we had done. We had to clarify what was meant by 'subsidies'. We needed to show flexibility; but others also needed to show this. Mr Kittel added that if additional flexibility was required then we could change our proposal for a reference year from 1984 to an average of 1984-1986. There were various other ideas which might be developed within the framework of the aggregate measure system. Using the system gave the EC a credit

of 15-20% without us needing to make further cuts. The US had to put its proposals on the table: we could not water down our position. Any necessary flexibility could be reflected in the reference year; but we had to make clear that there were limits to our flexibility. Mr Genske also emphasised their attachment to the aggregate measure system. The Minister responded that an over-riding concern for him was the US Farm Bill and what it might contain; Germany should think very hard on this when reflecting on their position. Mr Hadley added that we had to be careful that the Community in turn could not be criticised for having too rigid a position on GATT. The EC position was generally believed to be unclear and vague. Mr Andreissen himself had said that the Community had to be more specific.

MCAs

11. Mr Kiechle made clear that he could no longer accept the agri-monetary system as it now stood: each re-alignment of currencies gave them price reductions in national currency terms. He pleaded that we should take account of their difficulties: with elections in the European Parliament this year and a general election for the Federal Parliament next year they could not accept additional burdens in terms of price cuts. He understood that negative MCAs had to be dismantled; but they could not put up with further reductions in prices. The Minister responded that he too had difficulties with the system as it stood. He was criticised by his farmers because the system gave them an unfair competitive disadvantage. This would all be discussed in March. The Council and Commission had rightly recognised that monetary gaps should be eliminated by 1992 and they had agreed on a phased approach. The question now was what would happen beyond 1992. We had to have a common price level with no charges on trade between Member States. Insofar as these changes had effects for strong currencies it would clearly be possible to explore the possibility of national aids. These would have to have clear conditions attached. However he would not be adverse to engaging in discussion on this. Mr Kiechle thanked the Minister for his understanding and agreed that national aids was an approach that it would be helpful to discuss further.

SHIRLEY STAGG (MRS)
PPS/Minister
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