PO-CH/NL/0078
PART A

Part - A.

CONFIDENTIAL

(Circulate under cover and notify REGISTRY of movement)

Begins: 21/4/87.
Ends: 24/7/87.

PO -CH /NL/0078

PART A

Chancellor's (Lawson) Papers:

REFORM OF THE COMMON AGRICULTURAL POLICY WITHIN THE EUROPEAN COMMUNITY

Disposal Directions: 25 Years

26/7/95.

PO -CH /NL/0078
PART A

1 Alex
2 ?
pup

10 DOWNING STREET

LONDON SW1A 2AA

From the Private Secretary

21 April 1987

INCOME SUPPORT FOR FARMERS IN DISADVANTAGED AREAS

The Prime Minister has noted that the Commission have recently published their proposal for a Community framework for income support for farmers in disadvantaged areas. She would be grateful if your Minister would let her have a very early note commenting on the Commission's proposals, their relationship to wider reform of the CAP, and the scope which they offer (or could, if adapted, offer) for securing savings in the CAP. She would also like to know how it is intended that we should respond.

I should be grateful for at least a first reaction by 30 April.

I am copying this letter to Alex Allen (Treasury), Lyn Parker (Foreign and Commonwealth office) and David Williamson (Cabinet Office).

CHARLES POWELL

Mrs. Shirley Stagg,
Ministry of Agriculture, Fisheries and food.

1 MAY 1987 -27

RESTRICTED 1/5/87.

Pos/DT

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

From the Minister

MINISTER OF STATE
REC. -1 MAY 1987
ACTION Mr Bonney
PS/Ch/ex
PS/CST
Mr Burgner
Mrs Imber

CH/EXCHEQUER
REC. 01 MAY 1987
ACTION MST
COPIES TO

We shd examine option (2) for a positive sponge?

mst

PRIME MINISTER

COMMISSION'S PROPOSALS FOR INCOME AIDS TO FARMERS

1. Your Private Secretary's letter of 21 April asked for my first reactions to the Commission's proposals for direct income aid for farmers.

2. The proposals have only just appeared. They were, however, foreshadowed in the Commission's 1985 "green paper" on the CAP and again by Delors during his visit to London in February. On both occasions, we were discouraging. I have no evidence that other Member States were particularly favourable to the idea.

3. There are three separate proposals:

(1) The first provides for EC finance towards income aids for farmers whose incomes (including any non-farm income) are below the average farm income for the Member State concerned, or below 125% of that for the region in which they are situated. The aid, which must not be larger than needed to bring each farmer's income up to the level just mentioned, is to be given on a degressive basis for up to 5 years; and the farm must be such that, on completion of an action plan over this period, it is capable of yielding the average income without further aid. The EC contribution towards the cost varies according to the prosperity of the region concerned and the importance of agriculture to it. For the UK it would be 10% except for Northern Ireland where, by special derogation, it would be 70% to put it in line with the rate proposed for Ireland. The cost to the EC budget would depend entirely upon how many Member States chose to operate the aid and at what level: the Commission put it, very speculatively, at 1.8 billion ECU over 5 years.

As a matter of argument. It could usefully play a part in an overall solution.

(2) The second proposal would set a framework for nationally-financed aids to farm incomes. The apparent intention is to ensure that any national aids given by a Member State (except those authorised by other Community instruments) should go only to its less-prosperous farmers and should be related strictly to income and not production.

(3) The third is a revision of an earlier proposal. It would permit Member States to make an annual payment to farmers aged over 55, in return for either the complete abandonment of production on the land or the release of the land to increase the size of other farms. There would be a contribution from the budget of 50% in the former case and, in the latter case, 50%, 25% or zero depending on the region.

/4. The proposals ...

4. The proposals need further study and inter-Departmental discussion. But my initial comments are as follows.

5. The second proposal is welcome if it would really impose some constraints on the massive national aids which some Member States - particularly France - have been accustomed to give their farmers. But I suspect that, if they are really determined to do so, they would find some way of circumventing it.

6. The first element of the third proposal could help to reduce surpluses. But I would prefer a more systematic, though still voluntary, scheme to take out any land currently used for surplus crops, irrespective of the farmer's age. The second element is meant to benefit Southern Member States with poor farm structure. It would be likely to increase production capacity: there is nothing in it for us.

7. The first proposal, which we believe to be particularly the brain-child of Delors, is the most far-reaching. In theory it could result in over half the farmers in the Community receiving temporary income support, with consequent substantial cost.

8. It would set two major precedents, with potentially serious implications. First, the Community would be intervening in Member States' social security policies. Second, it would firmly establish the principle of radically different rates of EC contribution to national expenditures based, at least in part, on relative prosperity. The 70% contribution rate, for example would apply to Portugal, Greece, and parts of Italy and Spain as well as in Ireland and Northern Ireland. This is clearly part of Delors' plan for "cohesion".

9. Such a proposal might be acceptable if it bought a substantial measure of CAP reform. But I am sceptical whether it would do so. The Commission are not linking it to their proposals for this year's price-fixing which, as usual, most Member States consider to go much too far. In the absence of a specific link with current or future reform proposals, any beneficial impact of the measure would have to be taken entirely on trust. I am doubtful whether, even if other Member States welcome the proposal, it will affect their future attitudes. There is also the question of the "farm adjustment plans" which are an integral part of the measure and are designed to make the farms concerned viable without aid after 5 years. It is difficult to envisage that, in many cases, these plans will not involve increased output as well as substantial administrative problems and costs.

10. Another point of concern is that the payment of income aids to relatively poorer and smaller farms could in many cases delay the natural process of the amalgamation of such farms into larger and more efficient units. It would thus run directly counter not only to one of the stated aims of the CAP but also to the second leg of the third proposal. In fact the Community would be spending money under two different schemes for contradictory purposes.

/11. I am ...

11. I am copying this minute to the Foreign & Commonwealth Secretary, the Chancellor of the Exchequer and Sir Robert Armstrong.

E. M. Mane

for M J
1 May 1987
(approved by the Minister and signed in his absence)

C2/004

RESTRICTED

FROM: A W KUCZYS
DATE: 12 MAY 1987

PS/MINISTER OF STATE

cc PS/Chief Secretary
Mr Burgner
Mr Bonney
Mrs Imber

COMMISSION'S PROPOSALS FOR INCOME AIDS TO FARMERS

The Chancellor has seen the Minister of Agriculture's minute of 1 May to the Prime Minister. He has commented that we should examine the second proposal (setting a framework for nationally-financed aids to farm incomes) in a positive spirit as a matter of urgency. It could well play a useful part in an overall solution.

AWK

A W KUCZYS

EXCHEQUER
12 MAY 1987
MST
COPIES TO

1 Tony (?) (urgent)
2 PMG (?)

PM/87/026

PRIME MINISTER

Commission's Proposals for Income Aids to Farmers

1. I have seen a copy of the Minister of Agriculture's minute of 1 May.

2. I agree that the proposals for income aids put forward by the Commission are not acceptable as they stand. At the same time, we have to find a way to reduce prices radically, and this might well turn out to require some form of income aids. We would be wise, at the least, to avoid excluding this possibility.

3. Any scheme would have to be time limited, degressive, tightly ring-fenced and both linked to, and designed to maximise, price cuts. I recognise the difficulty of meeting all these criteria. But we have already had to accept that we cannot achieve a real reduction in CAP costs by price cuts alone. Our attitude to income aids should be governed by whether it would be possible to secure agreement to a scheme which delivers a net reduction in CAP support costs.

4. I am copying this minute to the Chancellor of the Exchequer, the Minister of Agriculture and Sir Robert Armstrong.

(GEOFFREY HOWE)

Foreign and Commonwealth Office
12 May 1987

CONFIDENTIAL

CHIEF SECRETARY

FROM R J BONNEY
DATE 19 MAY 1987

cc Chancellor
Minister of State
Mr F E R Butler
Mr Lavelle
Mr Monck
Mr Burgner
Mr Edwards
Mr Turnbull
Mr Mortimer
Mrs Imber
Mr Tyrie

28

CAP PRICE FIXING AND GREEN POUND

This submission offers a progress report on the current negotiations in the Agriculture Council. There may need to be Ministerial contacts (particularly on the size of the green pound devaluation) if it emerges that a settlement could be reached this week or next. There is no more than an evens chance that a real negotiation will develop on this timescale.

Timetable

2. The Belgian Presidency tabled a compromise document on its own initiative yesterday. This makes significant concessions to the German position on cereals, oilseeds and agrimonetary issues but retains the oils and fats tax. The present plan is for the Council to continue its current meeting until Thursday (21 May); to break over the weekend and to resume on Monday (25 May) for an extended session which could (if necessary) last all week. If a negotiation develops, the Commission could be expected to table its own compromise proposals (perhaps at the beginning of next week). It is accepted that if the Council fails to reach decisions by the end of next week, it will not meet again formally until 22 June. In that case it seems very likely that some at any rate of the Price Fixing issues (e.g. the oils and fats tax against which there is still a blocking minority) will be referred to the European Council on 29-30 June. As is usual, the Commission's final proposals on green rate changes are unlikely to emerge until the final stages of the negotiation.

Substance

3. The principal elements in the current Presidency compromise are as follows:

(i) cereals

- no change in common prices except a smaller reduction for durum wheat (-2.7% instead of -4.7% proposed by the Commission);

- no increased price discount for feed grains (-2.5% in Commission's proposal);

- intervention period from October to May (February to May in Commossion proposal) but subject to trigger mechanism whereby intervention only available if EC market price less than 93% of intervention price;

- buying in price 93% of intervention price subject to seven monthly increments from November to May;

- maximum moisture content for intervention 14.5% (Commission: 14%)

(ii) oilseeds

- prices reductions: -6% rapeseed, -3% sunflowers, -6% soya (Commission: -3%/0/-5%)
- price reduction limits under maximum guaranteed quantity (MGQ):

1987/88 : 10%
1988/89 : 15%
1989/90 : 20%
1990/91 : abolition
(Commission proposed abolition in 1987/88)

- intervention from October to May with 93% trigger as for cereals (Commission proposed 4 months)

- oils and fats tax: lower rate for fish oil and transitional measures in Spain and Portugal.

(iii) agrimonetary

- return to pre 1984 system (i.e. end strong currency system);

- semiautomatic system for dismantling newly created MCAs partly related to "cost developments" in each Member State;

- further consideration of green rate changes in current price fixing in the light of what is agreed (for positive MCAs) on the agrimonetary system and (for negative MCAs) on the commodity proposals.

Financial implications

4. We have asked MAFF to obtain urgent clarification of the financial implications of these changes and the other elements of the compromise. Provisional calculations suggest that the revised proposals for cereals and oil seeds could reduce the Commission's estimated savings by several hundred mecu. There would also be substantial reductions in any PES savings. The agrimonetary proposals so far elaborated would not themselves impose costs but, if (as seems likely) the Commission eventually concedes most of what each Member State is seeking (e.g. no revaluation for Germany and Holland and larger devaluations for all the rest including the UK), the additional cost could be of the order of 1 becu in a full year. The Commission have of course recently published Budget documents which reveal a potential excess over the available budgetary provision within the 1.4% VAT ceiling of some 5 becu both in 1987 and 1988 on the assumption that their Price Fixing proposals (including the oils and fats tax) are fully accepted.

Green pound

5. The Commission would normally only revise its proposals

for green rate changes in the final stages of the negotiation. If a serious move towards a settlement develops this week Mr Jopling will need to be given a more precise position than the one agreed at the Prime Minister's meeting on 22 April. Against this eventuality I attach our latest assessment of the PES costs by percentage point cut in the MCA and by commodity. (We have copied this attachment only to MAFF, Cabinet Office and FCO, so that, if necessary, Ministers can have a common data base available). We understand that Mr Jopling would still like a 10 point devaluation. It is noteworthy however that at current levels of MCA (ranging from -15.1% for beef to -22. % for cereals) an average devaluation of 5 points would have the same effect on the residual MCAs as the 13 point devaluation proposed by Mr Jopling in February when MCAs were -23% for beef and -31% for cereals.

UK attitude to settlement

6. More generally, if there are signs of a genuine move towards a settlement during the Election campaign Ministers will need to consider where the balance of advantage lies in either promoting or resisting the search for compromise. There is as yet no indication that the Germans will be prepared to compromise on their refusal to revalue the green DM or on their opposition to any significant reduction in support prices for cereals. There is a serious risk therefore that a series of concessions will be made to Germany which still fail to secure their agreement. Any settlement which Herr Kiechle is content to endorse is likely to be very unsatisfactory for the UK, not least because it will increase the pressure for bailing out the Community Budget again with a new intergovernmental agreement and/or an early increase in own resources. Although UK farming interests may to some extent be assuaged by a substantial green pound devaluation, the prospect of increased food prices and higher contributions to the Community may not prove universally popular.

7. I will submit a further report on Friday if there have

been any significant developments.

RB

R J BONNEY

002 1152

ANNEX

GREEN POUND: BACKGROUND STATISTICS

1. <u>Minister of Agriculture's proposals</u>

(i) <u>February</u> (OD(E)(87)6): - 13 points

	Beef	Pigs, etc	dairy	cereals, etc
Existing MCAs (week beginning 16 Feb)	-23.2	-25.4	29.4	- 31.4
resultant MCAs	-10.2	-12.4	-16.4	- 18.4

(ii) <u>April</u> (minute of 15 April): - 10 points

existing MCAs (week beginning 20 Apr)	-16.4	-18.4	-22.4	- 24.1
resultant MCAs	- 6.4	- 8.4	-12.4	- 14.1

(iii) <u>May</u> ?

existing MCAs (week beginning 18 May)	-15.1	-17.1	-21.1	- 22.7
resultant MCAs ?				

2. <u>Government position</u> (Mr Powell's letter of 22 April)

"Summing up the discussion the Prime Minister said that it was essential not to prejudice a firm British position on the need for reform of the common agricultural policy and on continued respect for the 1.4 per cent VAT ceiling. [The] Minister could make clear, however, that we would want to improve on the Commission's proposal for a 4 per centage point reduction in the UK MCA; that we would certainly expect to make a bigger change than France or the Republic of Ireland, with possibly some special effort for beef; and that under no circumstances would we allow these changes to lead to a breach in the 1.4 per cent VAT ceiling or to the introduction of an oils and fats tax. [The] Minister said that he could stand on this position for a time but he wished to make clear that in his view a 10 percentage point MCA change was necessary and that he might need to come back to his colleagues."

Note

Commission proposals for:

	Existing MCA	Proposed MCA	Effect on Prices%
France			
milk	- 4.8	- 3.0	+ 1.7
pigmeat	0	0	0
beef/sheep	- 1.5	- 1.5	0
eggs and poultry	- 3.2	0	+ 3.2
wine	- 2.8	0	+ 3.1
crops	- 8.0	- 3.0	+ 4.7
weighted average	- 5.5	- 2.5	+ 2.9
Ireland			
pigmeat	- 2.8	- 1.6	+ 1.2
crops	- 9.0	- 3.0	+ 5.8
other livestock	- 4.3	- 3.0	+ 1.2
weighted average	- 4.4	- 3.0	+ 1.3

Pes ready reckoner

3. The attached table gives MAFF's latest ready reckoner of the PES costs of a 1 percentage point devaluation by commodity. The ready reckoner distinguishes between programme 3.1 (i.e. the gross costs to the agriculture programme) and programme 2.7 (i.e. the various effects including Fontainebleau rebates on the UK's net contribution to the Community). The final two lines show an overall PES effect (programme 3.1 net of programme 2.7) and a PSBR effect (which extracts the impact on agricultural and sugar levies which are paid by producers and processors not by the Government).

4. To assess the cost of any possible devaluation package it is most practicable to use the programme 3.1 effects which add to £23 million per percentage point. The estimate of these costs has been relatively stable in MAFF's calculation both this year and in 1986 and it is these costs which will have to be absorbed within the agriculture PES programme.

5. The programme 2.7 figures show a substantial change (increase in net receipts) since 1986 which may be due more to an unexplained error in the 1986 calculation than to any change in the real world. In any event the programme 2.7 figure is very sensitive to the assumptions made about trade flows and exchange rates which are inherently unstable. Moreover, by considering the impact of a UK devaluation in isolation it leaves out of account the increased cost to the net contribution of concessions made to other Member States which may be exacted as part of the price for a larger UK devaluation.

Costs of other Member States' green rate requests

6. The costs of other Member States' known or expected requests for enhanced green rate devaluations are set out in the second table. These add to nearly 900 mecu additional FEOGA expenditure in a full year or an impact on the EC Budget of some 750 mecu net of increased own resources receipts. This compares with the Commission's estimate of + 278 mecu (FEOGA) and + 214 mecu (EC Budget) for the cost of its original agrimonetary proposals. A major reason for the increase in costs relative to the Commission's proposals is the assumption that the proposed revaluations for Germany and the Netherlands will be dropped (thus losing a saving of 224 mecu to FEOGA or 199 mecu to the EC Budget). MAFF calculate that the additional 750 mecu expenditure on agrimonetary changes in other Member States would add some £24 m a year to UK public expenditure (programme 2.7) after taking account of increased Fontainebleau rebates.

TABLE I

MAFF READY RECKONER: EXCHEQUER COSTS OF 1% GREENE DEVALUATION (FULL YEAR)

	MILK	BEEF	SUGAR	PIGS	EGGS	POULTRY	CEREALS	OTHERS	OILSEEDS	SHPMEAT	TOTAL
FULLY FUNDED	4.95	3.01	1.22	.00	.00	.00	2.99	1.34	1.06	3.32	17.88
INTERVENTION	.63	.76	.00	.00	.00	.00	3.08	.00	.00	.00	4.48
BVSP	.00	.60	.00	.00	.00	.00	.00	.00	.00	.00	.60
TOTAL 3.1	5.58	4.37	1.22	.00	.00	.00	6.07	1.34	1.06	3.32	22.96
IBAP RECEIPTS	-6.18	-3.76	-1.52	.00	.00	.00	-3.74	-1.68	-1.32	-4.14	-22.36
GROSS CON.VAT	-.11	.19	-.84	-.59	-.01	-.02	.85	.98	.30	1.16	1.92
FONTAINEBLEAU	.40	.84	-2.00	-1.50	-.01	-.06	2.88	2.69	.78	3.01	7.04
TRAD DR	1.26	.64	.35	.03	.00	.00	1.24	.25	.00	.00	3.77
DR REFUNDS	-.13	-.06	-.04	.00	.00	.00	-.13	-.02	.00	.00	-.38
TOTAL 2.7	-4.76	2.16	-4.04	2.06	-.02	-.08	1.11	2.22	-.25	.03	-10.01
PES	.82	2.21	-2.82	-2.06	-.02	-.08	7.18	3.56	.81	3.34	12.95
PSBR	-.44	1.57	-3.18	-2.09	-.02	-.08	5.94	3.32	.81	3.34	9.18

TABLE 2

	FEOGA EXPENDITURE (MECU)				OWN RESOURCES (MECU)				
	Δ COMS Expenditure	Δ MCA on COMS	Δ MCA Expenditure	TOTAL FEOGA	Δ Levy Receipts	Δ MCA Receipts	TOTAL OR	NET POSITION	Assumed change
Belgium/Lux	+14.1	0	0	+14.1	+7.2	0	+7.2	+6.9	Devaluation to parity (0 RMG)
Denmark	+34.4	+9.4	+22.0	+65.8	+2.1	-0.3	+1.8	+64.0	Devaluation to parity (0 RMG)
Germany		-	-	-	-	-	-	-	No change
Greece	+178.5	+12.0	-127.5	+63.0	+3.0	+3.0	+6.0	+57.0	15 pt devaluation across the board
France	+296.3	+110.1	+146.3	+552.7	+36.8	+1.6	+38.4	+514.3	Devaluation to franchise margin (1.5 RMG)
Ireland	+42.5	+17.7	+32.3	+92.5	+1.8	?	+1.8 ?	+90.7	Devaluation to franchise margin (1.5 RMG)
Italy	+223.7	+17.5	-201.3	+39.9	+33.2	+14.1	+47.3	-7.4	Devaluation to parity
Netherlands	-	-	-		-	-	-	-	No change
UK	-	-	-	-	-	-	-	-	No change (excluded from calculations)
Spain	+58.8	+2.0	+8.8	+69.6	+25.5	+9.8	+35.3	+34.3	4.9 pt devaluation across the board
Portugal	+7.9	0	-7.9	0	+2.3	+6.8	+9.1	-9.1	11.3 pt devaluation across the board
TOTAL	+856.2	+168.7	-127.3	+897.6	+111.9	+35.0	+146.9	+750.7	

b/F 6/2

CONFIDENTIAL

From: Mrs V Imber
Date: 4 February, 1987

MR KUCZYS

cc: PS/Chief Secretary
PS/Financial Secretary
PS/Economic Secretary
PS/Minister of State
Sir Peter Middleton
Sir G Littler
Mr F E R Butler Mr Monck
Mr Lavelle Mr Burgner
Mr Edwards Mr Turnbull
Mr Scholar Mr Bonney
Mr Crabbie Mr Mortimer
Mr Cropper Mr Tyrie

Pse confirm to D. Wiggins that the effect will be 0.3 & not 0.4%, & let him know (& not) how soon after the devaluation the food increases this might [illegible] come through, as soon as 'quite quickly'

IMBER TO AWK 4/2

GREEN POUND DEVALUATION: EFFECT ON THE RPI

Your minute of 2 February recorded the Chancellor's request that we establish the definitive RPI effect of Mr Jopling's proposal for a devaluation of the green pound, equivalent to a 13 per cent cut in the UKs negative MCAs. MAFF estimate that this would increase CAP prices by around 11.5 percent, resulting in an increase in the food price index of just over 1.5 percent and an increase in the RPI of just over a third of a percent.

2 Past experience suggests that a 10 percent increase in CAP institutional prices adds between 6 and 7 percent to market prices. CAP commodities account for only about 20 percent of the coverage of the food price index which makes up about 20 percent of the RPI. So a 10 percent increase in CAP institutional prices adds around from a 1.4 per cent to the food price index and about 0.3 percent to the RPI. — which wd feed through quite quickly, Bob Bonney now thinks AWK

VALERIE IMBER

CONFIDENTIAL

OD(E)(87)8: REFORM OF AGRIMONETARY SYSTEM

POINTS TO MAKE (IN INTRODUCING YOUR PAPER, BELOW)

The paper by Treasury officials attached to OD(E)(87)8 was prepared ~~in~~ after close consultation with MAFF. There is no dispute that the 1984 "strong currency" agrimonetary system has worked against UK interests by its ratchet effect on Community expenditure and by disguising the generosity of recent price fixing settlements. Our objective should be to end the strong currency link as soon as possible.

2. In my view we have nothing to lose by suggesting that the 1984 system should be scrapped and that we should revert to the previous arrangements under which both positive and negative MCAs could be created after an EMS realignment. The Regulation provides that this will happen after the Price Fixing, unless the Council decides to retain or amend the present system. In negotiating terms we have only to find two allies to form a blocking minority against any other proposal.

3. A second best solution would be to consolidate the price effects of the 1984 system but to end the strong currency link for the future. This was Andriessen's original proposal and we may be able to mobilise some support for it.

4. The Commission's actual proposal is significantly worse from our point of view and we ~~should not readily~~ cannot accept that it is the best we can do. It retains the artificial split between the agricultural and budget ecus and will allow it to grow wider after each realignment. In practice the Commission's proposals for automatic compensating price reductions are very likely to be set aside, postponed or ignored by the Agriculture Council.

5. Fully understand Michael Jopling's concern that UK farmers might be permanently disadvantaged if most other countries have

BRIEF

positive MCAs. That is why under any of the options we must work for a greater inducement for Member States to revalue their green currencies when their national farm prices are above the Community level (i.e with positive MCAs). Some ideas are set out in paragraph 12 of OD(E)(87)8: essentially they would mean that reluctant revaluers would have to pay the additional cost of maintaining higher prices.

6. I am under no illusions about the difficulties we may encounter in seeking support for these ideas. But I strongly believe that we should at least make the attempt.

The Commission's proposal would not achieve this.

7. For immediate purposes I suggest that Michael Jopling should take the line next week that the UK favours ending the strong currency system now. ~~but that we are not fully convinced that the proposal made by the Commission will be effective in achieving that end.~~ At the same time we should authorise officials to take soundings with other Member States and the Commission to see whether it is possible to mobilise sufficient support for a more rational approach to solving the problem.

BACKGROUND

they would have greater freedom to set their own prices and levels of support than they would [illegible]ivally have under the Commission's proposal, and

8. MAFF and FCO officials would not oppose taking soundings on the lines suggested above, but neither would be very sanguine about the prospects for success. The Germans will, as usual, be the main obstacle: Chancellor Kohl has already written to Delors about the alleged severity of the Price Fixing package (especially the modest 2.5% revaluation of the green DM proposed by the Commission) because of its effects on German farm prices. Our solution is unlikely to be attractive to them except to the extent that they might avoid having to pay through their EC Budget contributions for other Member States raising prices to German levels. Other Member States (such as the French) would in principle benefit from more competitive support prices but are unlikely to regard this as a top priority in the negotiations.

9. We would see little point in a remit for official discussions

and a further report to OD(E)), unless we have the authority to discuss the issues with other Member States. It is their attitudes which will be crucial to the degree of progress we can expect to make.

GRS 500

RESTRICTED

RESTRICTED
FM UKREP BRUSSELS
TO PRIORITY FCO
TELNO 1716
OF 191202Z MAY 87
INFO ROUTINE EUROPEAN COMMUNITY POSTS, WASHINGTON

FRAME AGRICULTURE

AGRICULTURE COUNCIL STARTING ON 18 MAY

MIPT

1. FOLLOWING ARE THE MAIN POINTS OF THE PRESIDENCY COMPROMISE TABLED AT THE START OF THE COUNCIL (FULL TEXT MUFAXED TO THOMAS, MAFF).

(A) CEREALS AND RICE

2. INTERVENTION PRICE FREEZE FOR ALL VARIETIES APART FROM DURUM WHERE THE PRICE CUT WOULD BE REDUCED FROM THE 4.7 PER CENT ORIGINALLY PROPOSED TO 2.7 PER CENT (WITH COMPENSATION INCREASE IN DURUM PRODUCTION AID REDUCED FROM 12.4 PER CENT TO 7 PER CENT). INTERVENTION AVAILABLE FROM OCTOBER TO MAY IF THE AVERAGE EC MARKET PRICE IS BELOW THE INTERVENTION PRICE, WITH A BUYING-IN PRICE SET AT 93 PER CENT OF THE INTERVENTION PRICE. MONTHLY INCREMENTS APPLIED NOVEMBER TO MAY. RICE INTERVENTION TO BE CHANGED IN THE SAME WAY AS CEREALS. 1 PER CENT INCREASE IN RICE TARGET PRICE CHANGED TO FREEZE.

(B) SUGAR

3. 2 PER CENT PRICE CUT CHANGED TO FREEZE. COMMISSION TO PROPOSE AID MEASURES FOR AZORES SUGAR BEET PROCESSORS.

(C) OILS AND FATS

4. OILS AND FATS TAX MODIFIED TO ALLOW FOR LOWER RATE OF TAX ON FISH OIL, PROVISION FOR REVIEWING THE AMOUNT OF THE TAX EVERY THREE MONTHS, USE OF A SPECIFIED RATE TO CONVERT THE TAX INTO NATIONAL CURRENCY, THE TAX TO COME INTO OPERATION ON 1 OCTOBER, 1987 (RATHER THAN 1 JULY), AND POSSIBILITY OF TRANSITIONAL MEASURES FOR SPAIN AND PORTUGAL WHEN TAX APPLIED TO THEM IN 1991. PHASED REMOVAL OF LIMIT ON PRICE CUTS POSSIBLE UNDER THE OILSEEDS GUARANTEE THRESHOLD, WITH MAXIMUM CUT OF 10 PER CENT FOR 1987/88. ON TOP OF THIS, A 6 PER CENT TARGET PRICE CUT FOR OILSEEDS (AS AGAINST THE 2.7 PER CENT ORIGINALLY PROPOSED). 3 PER CENT CUT FOR SUNFLOWERSEED AND 6 PER CENT FOR SOYA (AS AGAINST EARLIER FREEZE AND 5 PER CENT CUT). OILSEEDS INTERVENTION ALTERED IN LINE WITH CEREALS. NEW PRODUCTION AID FOR PORTUGUESE SUNFLOWERSEED. PREFERENTIAL RATE OF OLIVE OIL PRODUCTION AID EXTENDED TO ALL PRODUCERS PRODUCING OVER 200 KG. END OF AREA LIMIT ON ELIGIBILITY FOR OLIVE OIL PRODUCTION AID.

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(D) MILK

5. QUOTA LEASING PERMITTED IN FORMULA B COUNTRIES. INTERVENTION FOR SWEET CREAM BUTTER PRODUCED BY THE NIZO PROCESS. SPANISH WHOLESALE QUOTA TO BE INCREASED BY 100,000 TONNES (HALF TRANSFERRED FROM THEIR DIRECT SALES QUOTA AND HALF COMING FROM AN INCREASE IN THE EC RESERVE). AGREEMENT TO IMITATION PRODUCTS LABELLING REGULATION WITH SANCTIONING UNTIL THE END OF THE QUOTA SYSEM OF PRE-1980 NATIONAL RESTRICTIONS.

(E) AGRI-MONETARY

6. DISMANTLEMENT OF EXISTING POSITIVE MCAS TO BE DISCUSSED IN THE LIGHT OF DECISIONS REACHED ON THE FUTURE OF THE AGRI-MONETARY SYSTEM. DISMANTLEMENT OF CURRENT NEGATIVE MCAS TO BE DISCUSSED IN THE LIGHT OF DECISIONS ON REFORM OF MARKET REGIMES. FUTURE AGRI-MONETARY SYSTEM TO BE BASED ON PRE-1984 ARRANGEMENT WITH SEMI-AUTOMATIC SYSTEM FOR MCA DISMANTLEMENT: 25 PER CENT MCAS RESULTING FROM CURRENCY REALIGNMENT TO BE DISMANTLED IMMEDIATELY, 25 PER CENT NO LATER THAN THE START OF THE SECOND MARKETING YEAR FOLLOWING REALIGNMENT, REMAINDER TO BE DECIDED BY COUNCIL IN THE PRICE FIXING TAKING ACCOUNT OF TRENDS IN PRODUCTION COSTS AND CONSTRAINTS IMPOSED BY CAP REFORMS. PROVISION FOR BASING CEREALS AND MILK MCA CALCULATION ON MARKET PRICES. INTRODUCTION OF A 5 POINT FRANCHISE FOR POULTRY AND NON-ANNEX II PRODUCTS.

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LLEWELYN MAFF
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FRAME AGRICULTURE
AGRICULTURE COUNCIL STARTING ON 18 MAY : THE FIRST DAY

SUMMARY

1. PRESIDENCY PRESENT THEIR COMPROMISE PAPER WHICH MEETS A GENERALLY POLITE RECEPTION FROM DELEGATIONS, BUT NOT ONE WHICH SUGGESTS THAT IT HAS BROUGHT A SOLUTION MUCH CLOSER.

2. AMONG THE OPPONENTS OF THE OILS AND FATS TAX, THE UK AND NETHERLANDS REMAIN OUTSPOKEN IN THEIR OPPOSITION. GERMANY SAYS NOTHING (BUT CLAIMS PRIVATELY NOT TO HAVE CHANGED ITS POSITION). DENMARK, PORTUGAL AND SPAIN NIBBLE AT THE BAIT HUNG OUT FOR THEM BUT DECLINE, SO FAR, TO SWALLOW IT.

3. GERMANY AND FRANCE (SUPPORTED BY MOST OTHER WEAKER CURRENCY COUNTRIES) REMAIN POLES APART ON THE AGRI-MONETARY SYSTEM. THE FORMER CAN ACCEPT REVERSION TO THE PRE-1984 SYSTEM ONLY IF THERE IS NO AUTOMATIC GREEN RATE ALIGNMENT SYSTEM: THE LATTER ONLY WITH MORE AUTOMATICITY THAN THE PRESIDENCY PROPOSE.

4. MOST DELEGATIONS FEEL THAT THE PRESIDENCY'S WEAKENING OF THE COMMISSION'S CEREALS AND OILSEED PROPOSALS ARE A STEP IN THE RIGHT DIRECTION BUT THAT THERE IS MUCH FURTHER TO GO. ONLY THE UK AND THE COMMISSION, WITH SOME SUPPORT FROM THE NETHERLANDS, FEEL THAT THE COMMISSION'S IDEA WOULD BE PREFERABLE.

5. WITH THE END EVIDENTLY A LONG WAY OFF, VIRTUALLY ALL DELEGATIONS REHEARSE THE LONG LIST OF THEIR NATIONAL PREOCCUPATIONS WHICH THEY HAVE SET OUT EARLIER IN COUNCIL OR IN BILATERALS.

DETAIL

6. DE KEERSMAEKER (PRESIDENCY) CIRCULATED A PRESIDENCY COMPROMISE (DETAILS IN MIFT) AND INITIATED A LONG TABLEROUND.

7. GUILLAUME (FRANCE) PREFERRED THE PRESIDENCY APPROACH ON CEREALS TO THAT OF THE COMMISSION BUT WOULD RATHER MAINTAIN THE EXISTING SYSTEM WITH A PRICE REDUCTION. THE PROPOSALS ON DURUM WERE TOO GENEROUS. THE CO-RESPONSIBILITY LEVY SHOULD APPLY TO CEREALS SUBSTITUTES. THE OILSEED PRICE CUTS WERE TOO SEVERE BUT THE PROPOSAL TO FREEZE RATHER THAN REDUCE THE SUGAR PRICE WAS TOO GENEROUS. IF THERE WAS TO BE A SUGAR REABSORPTION LEVY IT SHOULD APPLY EQUALLY TO

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A AND B QUOTAS. HE DID NOT SEE THE SUGGESTION THAT FRANCE BE ALLOWED TO MAINTAIN ITS RESTRICTIONS ON MILK SUBSTITUTES FOR A LIMITED PERIOD AS ADEQUATE IMPLEMENTATION OF THE COUNCIL DECISION TO PURSUE A COHERENT POLICY IN THE MILK SECTOR. ON THE AGRIMONETARY SYSTEM, HE PREFERRED TO KEEP THE STRONG CURRENCY SYSTEM IN OPERATION OR, IF THE PRE 1984 SYSTEM WAS TO BE APPLIED, TO HAVE COMPLETE AUTOMATICITY IN GREEN RATE REVALUATIONS. HE INSISTED THAT EXISTING POSITIVE MCAS SHOULD BE REMOVED AND ALL PIG AND POULTRY MCAS SHOULD DISAPPEAR.

8. PANDOLFI (ITALY) STRESSED THAT THE WHOLE PACKAGE HUNG ON THE DECISIONS ON THE AGRIMONETARY COMPLEX AND THE OILS AND FATS TAX. ON CEREALS HE APPROVED OF THE PRESIDENCY'S APPROACH EXCEPT ON DURUM WHEAT WHERE THE PROPOSALS WERE TOO SEVERE. HE WANTED THE REABSORPTION LEVY ON SUGAR TO APPLY ONLY TO THE B AND C QUOTAS AND OPPOSED THE CUT IN STORAGE REFUNDS. HE THOUGHT THE OILSEED PROPOSALS WERE TOO GENEROUS TO RAPE AND TOO HARD ON SOYA AND MAINTAINED HIS EXISTING OPPOSITION TO THE PROPOSALS ON OLIVE OIL. ON MILK HE WANTED TO ENJOY A SWITCH FROM DIRECT SALE TO WHOLESALE QUOTA LIKE SPAIN AND HE REITERATED HIS CONCERN THAT THE MILK LABELLING PROPOSAL SHOULD BE EXTENDED TO PROTECT ITALIAN NATIONAL RESTRICTIONS ON THE USE OF RE-CONSTITUTED MILK FOR CHEESE PRODUCTION. CUTS WHICH HAD ALREADY BEEN IMPOSED ON FRUIT AND VEGETABLE WITHDRAWAL PRICES SHOULD BE PARTIALLY REVERSED. HE CONTINUED TO INSIST ON INTERVENTION FOR VEAL.

9. MR JOPLING (UK) FOUND THE PRESIDENCY PAPER DISAPPOINTING OVERALL BECAUSE IT FAILED TO FACE UP TO THE PROBLEMS OF THE MARKET AND OF THE BUDGET. ON THE AGRIMONETARY SYSTEM HE WELCOMED THE SUGGESTION THAT THE STRONG CURRENCY SYSTEM SHOULD BE ENDED BUT WANTED MORE RAPID AND AUTOMATIC ADJUSTMENTS TO GREEN RATES FOLLOWING CURRENCY CHANGES. HE COULD NOT UNDERSTAND THE PRESIDENCY'S MAINTENANCE OF THE PROPOSED OILS AND FATS TAX GIVEN THE STATEMENT AGREED TO BY THE COMMUNITY AT THE OECD MINISTERIAL, STRONG REACTIONS FROM SUPPLYING COUNTRIES AND THE STRENGTH OF OPPOSITION WITHIN THE COUNCIL ITSELF. HE THOUGHT THE PRESIDENCY'S PROPOSALS ON CEREALS FAR LESS EFFECTIVE THAN THE COMMISSION'S PROPOSALS. THEY MIGHT ACTUALLY ENCOURAGE INTERVENTION. IT WAS INCONSISTENT TO DROP THE PROPOSED INCREASE IN THE FEEDWHEAT/BREAD-MAKING WHEAT DIFFERENTIAL WHILST MAINTAINING PREMIA FOR HIGH QUALITY BREAD-MAKING WHEAT. AID FOR INDICA RICE COULD ONLY BE CONSIDERED WHEN THE NEW RICE CLASSIFICATION SYSTEM HAD BEEN FULLY AGREED. HE COULD ACCEPT A SUGAR PRICE FREEZE BUT NEEDED A RESOLUTION OF THE PROBLEM OF THE CANE SUGAR REFUND MARGIN. HE COULD UNDERSTAND THE REASON FOR THE PRESIDENCY'S SUGGESTIONS ON THE OPERATION OF THE MAXIMUM GUARANTEED QUANTITIES FOR OILSEEDS BUT DID NOT SEE WHY SOME OILSEEDS WERE GIVEN BETTER PRICE TREATMENT THAN OTHERS AND THOUGHT THAT THE PROPOSAL ON INTERVENTION MIGHT ACTUALLY ENCOURAGE ADDITIONAL QUANTITIES TO BE INTERVENED.

10. ON MILK, MR JOPLING COULD ONLY AGREE THE PROPOSAL ON NIZO BUTTER IF INTERVENTION FOR SALTED BUTTER WAS MAINTAINED. HE COULD AGREE TO THE ADOPTION OF A LABELLING PROPOSAL BUT THE TEXT NEEDED FURTHER WORK IN SCA. HE DOUBTED THE LEGALITY OF ALLOWING FRANCE AND GERMANY TO MAINTAIN THEIR EXISTING MARKETING RESTRICTIONS. HE FELT

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THAT THE PRICE REDUCTION PROPOSED FOR PEAS AND BEANS WAS OUT OF LINE WITH WHAT WAS PROPOSED FOR OTHER MORE EXPENSIVE SECTORS. MORE GENERALLY, HE NOTED THAT THE PACKAGE NEITHER MET THE UK'S MAJOR CONCERNS NOR ANY OF OUR DETAILED POINTS - FOR EXAMPLE ON THE GREEN POUND AND ON OUR INSISTENCE ON THE REMOVAL OF THE 500 HEAD LIMIT ON THE EWE PREMIUM. AND HE THOUGHT THAT A SETTLEMENT WAS A LONG WAY OFF.

11. BARRETO (PORTUGAL) WELCOMED THE PRESIDENCY PAPER AND HIS RESERVATIONS WERE MAINLY LIMITED TO POINTS OF DETAILED CONCERN TO PORTUGAL, E.G. THE SIZE OF THE DEVALUATION OF THE GREEN ESCUDO, THE NEED FOR A SOLUTION TO BE REACHED ON SUGAR IN THE AZORES, THE TRANSITIONAL ARRANGEMENTS FOR DURUM WHEAT, THE APPLICATION OF ACCESSION COMPENSATION AMOUNTS TO TOMATOES. ON THE AGRIMONETARY SYSTEM, HE PREFERRED TO MAINTAIN THE STRONG CURRENCY SYSTEM BUT IF IT WAS ENDED WANTED STRONGER AUTOMATICITY PARTICULARLY FOR THE REMOVAL OF NEGATIVE MCAS. HE ADMITTED THAT THERE WAS NO ALTERNATIVE TO THE OILS AND FATS TAX BUT DID NOT REGARD THE CONCESSION ON FISH OIL AS ADEQUATE TO REMOVE PORTUGUESE RESERVATIONS.

12. KIECHLE (GERMANY) SAW THE PRESIDENCY PAPER AS SOME IMPROVEMENT ON THE COMMISSION'S PROPOSALS BUT WARNED THAT VERY IMPORTANT INTERESTS WERE AT STAKE IN THE AGRIMONETARY PROPOSALS. HE COULD ACCEPT THE ENDING OF THE STRONG CURRENCY SYSTEM BUT NOT AUTOMATICITY IN GREEN RATE CHANGES WHICH COULD ONLY BE CONSIDERED ON THE BASIS OF DEVELOPMENTS IN COSTS. THE DETAILED CHANGES PROPOSED IN PIGMEAT, POULTRY, EGG, CEREALS AND MILK MCAS AND IN THE FRANCHISES WERE ALL UNACCEPTABLE. ANY SOLUTION NEEDED TO TAKE ACCOUNT OF THE GENTLEMEN'S AGREEMENT. HE SAW NO NEED FOR ANY CHANGE IN THE CEREALS PRICE SYSTEM OR FOR FURTHER PRICE CUTS. THE OILSEED PRICE CUTS WERE ALSO TOO SEVERE AND THERE SHOULD BE NO CHANGE IN THE 5 PERCENT LIMIT TO THE APPLICATION OF THE MAXIMUM GUARANTEE QUANTITY. HE REPEATED WELL-KNOWN GERMAN POINTS ON THE FLAT RATE AID FOR DRIED FODDER, THE NEED FOR AID FOR DRIED POTATOES, THE REDUCTION IN THE SUGAR STORAGE REFUND, THE APPLICATION OF THE WINE REPLANTING BAN TO QUALITY WINES AND THE EXTENSION OF THE SUCKLER COW PREMIUM TO PART TIME FARMERS.

13. MRS HOLBERG (DENMARK) COULD ONLY ACCEPT THE ENDING OF THE STRONG CURRENCY SYSTEM IF THERE WAS A FULLY AUTOMATIC GREEN RATE REVALUATION SYSTEM. THE GREEN KRONE SHOULD BE ALIGNED WITH THE MARKET RATE. PIGMEAT, POULTRY AND EGG MCAS SHOULD BE MAINTAINED UNTILL ALL GREEN AND MARKET RATES HAD BEEN ALIGNED. THE CHANGES PROPOSED FOR CEREALS WERE TOO COMPLEX AND INVOLVED FAR TOO BIG A PRICE CUT AS DID THE PROPOSALS FOR OILSEEDS. THE CHANGE PROPOSED FOR FISH OIL WAS NOT SUFFICIENT TO SECURE HER AGREEMENT TO THE OILS AND FATS TAX. SHE HAD A LONG LIST OF MINOR POINTS: OPPOSITION TO THE CUT IN THE SUGAR STORAGE REFUND, BIGGER MONTHLY INCREMENTS FOR PEAS AND BEANS, MORE AID FOR SEEDS, AN INCREASE IN THE SCHOOL MILK SUBSIDY AND RELAXATION IN THE RULES FOR PURCHASE OF PART QUOTAS UNDER THE MILK OUTGOERS SCHEME, AN ASSURANCE ON THE MANAGEMENT OF THE PIGMEAT MARKET AND CHANGES IN THE ADMINISTRATION, OR PREFERABLY THE ENDING, OF THE AID FOR SMALL CEREAL PRODUCERS.

14. ROMERO (SPAIN) THOUGHT THAT THE CEREALS PROPOSALS WERE STILL FAR TOO SEVERE FOR HIM TO ACCEPT, THOUGH HE HINTED THAT HE MIGHT BE ABLE TO DO SO IF SPANISH ACCESSION COMPENSATORY AMOUNTS WERE REDUCED. HE COULD GENERALLY ACCEPT THE PRESIDENCY OILSEED PROPOSALS THOUGH HE WANTED MONTHLY INCREMENTS ON INTERVENTION PRICES MAINTAINED. HE SOUGHT CLARIFICATION OF THE TRANSITIONAL RELIEF OFFERED FOR SPAIN ON THE OILS AND FATS TAX BUT STILL THOUGHT THE PROPOSAL PREMATURE. ON THE AGRIMONETARY SYSTEM, HE WOULD PREFER TO KEEP THE STRONG CURRENCY SYSTEM AND COULD ONLY ACCEPT A REVERSION TO THE PRE-1984 SYSTEM IF THE AUTOMATICITY IN GREEN RATE CHANGES WAS STRONGER THAN THE PRESIDENCY PROPOSED. HE HAD A LONG LIST OF SPECIFICALLY SPANISH POINTS: SPECIAL AID FOR SPANISH CANE SUGAR BY ANALOGY WITH WHAT WAS PROPOSED FOR PORTUGUESE SUGAR IN THE AZORES, AID FOR SPANISH SOYA TO MATCH WHAT WAS BEING OFFERED TO PORTUGUESE SUNFLOWER SEED, A HIGHER CEILING FOR THE SMALL PRODUCER AID FOR OLIVE OIL, AN INCREASE IN THE COTTON MAXIMUM GUARANTEE QUANTITY, SPECIAL TREATMENT FOR SPANISH VARIETIES OF TOBACCO, WIDENING OF THE SCOPE OF THE AID FOR PEAS AND BEANS TO COVER DRIED LENTILS.

15. BRAKS (NETHERLANDS) WAS GENERALLY POSITIVE ON THE PRESIDENCY PAPER, THOUGH HE CONTINUED TO OPPOSE THE OILS AND FATS TAX AND THOUGHT SOME OF THE DETAILS OF THE CEREALS PROPOSALS TOO GENEROUS AND HE WANTED BIGGER PRICE CUTS FOR OILSEEDS. HE WAS ATTRACTED BY THE PRESIDENCY'S AGRIMONETARY PROPOSALS EXCEPT FOR THE INCREASES IN THE FRANCHISES AND THE REMOVAL OF PIGMEAT AND POULTRY MCAS. HE OPPOSED THE PROPOSAL TO ALLOW MILK QUOTA LEASING TO COUNTRIES OPERATING SYSTEM B. DISCRIMINATION BETWEEN SYSTEMS A AND B WAS NOT JUSTIFIED GIVEN THAT BOTH NOW INVOLVED A 100 PER CENT RATE OF SUPERLEVY. FRESH TOMATOES SHOULD BE EXEMPT FROM THE PRICE REDUCTIONS IMPLIED BY THE TOMATO WITHDRAWAL CEILING.

16. FISCHBACH (LUXEMBOURG) THOUGHT THAT THE PRESIDENCY'S CONCESSIONS ON CEREALS AND OILSEEDS DID NOT GO FAR ENOUGH. HE THOUGHT THAT LABELLING WAS NOT A SUFFICIENTLY STRINGENT MEANS OF DEALING WITH MILK SUBSTITUTES. HE OPPOSED THE VINE REPLANTING BAN AND SOUGHT THE RIGHT TO CONTINUE WINE ENRICHMENT. HE STRONGLY SUPPORTED THE OILS AND FATS TAX AND OPPOSED THE PRESIDENCY'S SUGGESTION THAT ITS IMPLEMENTATION SHOULD BE DELAYED UNTIL OCTOBER. HE GENERALLY SUPPORTED KIECHLE'S POSITION ON THE AGRIMONETARY SYSTEM.

17. O'KENNEDY (IRELAND) WAS ATTRACTED TO THE PRESIDENCY'S IDEAS ON CEREALS BUT WANTED BETTER PROTECTION FOR REGIONS WITH ESPECIALLY LOW PRICE LEVELS AND, LIKE KIECHLE, WANTED A HIGHER MOISTURE CONTENT. HE COULD ACCEPT THE PRESIDENCY'S IDEAS ON THE AGRIMONETARY SYSTEM PROVIDED THAT A BETTER GUARANTEE WAS GIVEN OF SWIFT REMOVAL OF ALL NEGATIVE MCAS, AND STRESSED THE IMPORTANCE OF THE APPLICATION OF MCAS TO NON-ANNEX II AND PROCESSED FOOD PRODUCTS. HIS LIST OF SPECIFICALLY IRISH POINTS INCLUDED EXTENSION OF AID UNDER REGULATION 355/77 TO HORTICULTURAL MARKET MACHINERY, AID FOR PRODUCER GROUPS IN IRELAND, A HIGHER FEOGA CONTRIBUTION TO STRUCTURAL EXPENDITURE AND AN ASSURACNE OF INTEREST PAYMENTS IF FEOGA GUARANTEED EXPENDITURE WAS REIMBURSED AFTER A DELAY.

18. POTTAKIS (GREECE) HAD NO GENERAL COMMENT ON THE AGRIMONETARY SYSTEM BUT REFERRED TO A MEMORANDUM ON SPECIFICALLY GREEK MCA PROBLEMS WHICH HE HAS APPARENTLY SUBMITTED TO THE COMMISSION. HE SOUGHT AN INCREASE IN THE COTTON MAXIMUM GUARANTEED QUANTITY, BETTER TREATMENT FOR GREEK TOBACCO, GREATER TOLERANCE FOR SOFT WHEAT IN THE DURUM WHEAT QUALITY RULES AND HINTED THAT HE MIGHT ACCEPT THE OLIVE OIL MAXIMUM GUARANTEED QUANTITY PROVIDED THAT PRICE REDUCTIONS WERE BASED ON THREE YEAR AVERAGE PRODUCTION AND NOT INDIVIDUAL YEARS.

19. VAN DE MOORTEL (BELGIUM) - KEEPING A STRAIGHT FACE DESPITE HIS AUTHORSHIP OF THE PAPER CLAIMED THAT THE CEREALS PROPOSALS WERE STILL TOO SEVERE AND INSISTED ON STRONGER AUTOMATICITY IN GREEN RATE CHANGES IF THE STRONGEST CURRENCY SYSTEM OF MCAS WERE TO END. THE PROPOSED WITHDRAWAL THRESHOLD WOULD HAVE TOO SEVERE AN EFFECT ON FRESH TOMATOES. THE OILSEED PROPOSALS WERE THE TOUGHEST HE COULD CONTEMPLATE SO THE OILS AND FATS TAX WAS AN ESSENTIAL MEANS OF MAKING ENDS MEET.

20. REACTING TO THE DEBATE, ANDRIESSEN (COMMISSION) CONTRASTED THE ATTITUDES TAKEN BY THE MAJORITY OF DELEGATES WITH THE COMMITMENT THE COMMUNITY HAD JUST UNDERTAKEN IN OECD TO REDUCE AGRICULTURAL SUPPORT. MANY DELEGATIONS WERE SIMPLY FAILING TO RECOGNISE THE SERIOUSNESS OF THE MARKET, BUDGET AND INTERNATIONAL SITUATION. HE THOUGHT THAT THE PRESIDENCY PROPOSALS WERE TOO WEAK ON CEREALS AND OILSEEDS, YET MANY MINISTERS FELT THEY WERE TOO SEVERE. IN RESPONSE TO QUESTIONS FROM MR JOPLING ABOUT THE COST OF THE PRESIDENCY PACKAGE, HE SAID THAT IT WOULD COST 550-600 MECU MORE THAN THE COMMISSION'S PROPOSALS IN 1987, MAINLY BECAUSE OF THE PROPOSED DELAY IN THE IMPLEMENTATION OF THE OILS AND FATS TAX. THE CHANGE WOULD BE MUCH LESS SIGNIFICANT IN 1988. THE BUDGET SITUATION IN 87 AND 88 WAS CRITICAL, WHICH UNDERLINED THE IMPORTANCE OF THE OILS AND FATS TAX WHICH HE CONTINUED TO SEE AS AN ESSENTIAL PART OF THE OILS AND FATS PACKAGE.

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FROM: JILL RUTTER
DATE: 20 MAY 1987

MR R J BONNEY

cc: Chancellor/2
Minister of State
Mr F E R Butler
Mr Lavelle
Mr Monck
Mr Burgner
Mr Edwards
Mr Turnbull
Mr Mortimer
Mrs Imber
Mr Tyrie

CAP PRICE FIXING AND GREEN POUND

The Chief Secretary was grateful for your minute of 19 May.

2. The Chief Secretary has commented that the concessions on cereals are worrying - especially the move on the intervention period (your third indent). The Chief Secretary thinks it is a pity that this shift was made.

3. The Chief Secretary looks forward to your further note on Friday and will look at the Annex again over the weekend.

4. The Chief Secretary would be grateful if in that further report you could include more detail on the "semi-automatic system of dismantling newly created MCAs partly related to cost developments in each Member State".

Jill Rutter

JILL RUTTER
Private Secretary

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FRAME AGRICULTURE
AGRICULTURE COUNCIL OF 18-20 MAY 1987 : PRODUCT DISCUSSIONS
MY 2 IPTS

(A) OILS AND FATS

1. MOST DELEGATIONS REPEATED THEIR WELL KNOWN POSITIONS BUT BRAKS (NETHERLANDS) CAME UP WITH A NEW IDEA. HE SUGGESTED RETURNING TO THE 1984 LEVEL OF OILSEEDS PRODUCTION WHICH HE RECKONED WOULD SAVE 1,250 MECU. HE CIRCULATED A PAPER ILLUSTRATING THE POINT (WITH NASH, MAFF).

2. KIECHLE (GERMANY) ACCEPTED THE COMMISSION'S ANALYSIS OF THE SECTOR'S PROBLEMS BUT GERMANY FELT THAT A TAX WOULD CAUSE FOREIGN POLICY PROBLEMS. (HE HINTED THAT THIS MIGHT NOT BE A FINAL POSITION.) AN ALTERNATIVE WAY OF SUPPORTING OILSEEDS MIGHT BE BY A PREMIUM PER HECTARE.

3. MR JOPLING (UK) WAS PREPARED TO GO AT LEAST AS FAR AS THE PRESIDENCY PROPOSED ON MARKET SUPPORT PROVIDED THAT THE BURDEN WAS DISTRIBUTED FAIRLY. HE AGAIN CRITICISED THE IDEA OF AN OILS AND FATS TAX WHICH RISKED A TRADE WAR, HAD BEEN STRONGLY CRITICISED BY THE ACP, WOULD PARTICULARLY PENALISE POORER CONSUMERS AND WOULD BE TOTALLY CONTRARY TO THE COMMITMENT THE COMMUNITY HAD MADE IN THE OECD AS RECENTLY AS LAST WEEK. BRAKS HAD SUGGESTED AN ALTERNATIVE TO THE TAX: THE UK COULD ADD FURTHER IDEAS FOR ECONOMIES.

4. BARRETO (PORTUGAL) SAID THAT HIS GOVERNMENT WAS AGAINST THE TAX AND HE WAS OBLIGED TO MAINTAIN THIS POSITION BECAUSE OF THR RISK OF US RETALIATION (FOR EXAMPLE AGAINST PORTUGUESE TEXTILE EXPORTS) AND BECAUSE THE LOW RATE OF PORTUGUESE SELF-SUFFICIENCY MEANT THAT THE TAX WOULD RESULT IN A NEGATIVE FINANCIAL BALANCE FOR PORTUGAL.

5. ANDRIESSEN (COMMISSION) VIGOROUSLY DEFENDED THE TAX. THERE WAS NO LEGAL PROOF THAT IT WAS NOT GATT WORTHY OR CONTRARY TO THE PUNTA DEL ESTE STANDSTILL AGREEMENT OR THE OECD COMMUNIQUE. THE REACTIONS OF THIRD COUNTRIES WOULD CHANGE WHEN THE MEASURE HAD BEEN FULLY EXPLAINED TO THEM. THERE WAS NO ACCEPTABLE ALTERNATIVE AND BRAKS' IDEA WAS UNREALISTIC. THE DRAFT 1988 BUDGET ASSUMED A 1.69 PERCENT VAT BASE. DROPPING THE OILS AND FATS TAX AND LOSING 122 MECU OF SAVINGS IN THE OILS AND FATS SECTOR IN 1988 THROUGH THE PRESIDENCY COMPROMISE WOULD PUSH THE VAT BASE UP TO 1.8 PERCENT. THERE COULD BE NO AGREEMENT TO THE 1988 BUDGET WITHOUT THE TAX. THE AGRICULTURE COUNCIL COULD NOT IGNORE THE BUDGETARY REALITIES.

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(B) CEREALS

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6. IN ANOTHER LONG DISCUSSION THERE WERE SOME ADDITIONS TO INITIAL REACTIONS TO THE PRESIDENCY COMPROMISE.

7. KIECHLE AND FLORIAN REJECTED PRICE CUTS WHICH WERE THEN OFFSET BY GREEN RATE DEVALUATIONS. INTERVENTION SHOULD BE AVAILABLE FROM OCTOBER TO APRIL AND NOT SUBJECT OT THE CONDITIONS PROPOSED BY THE PRESIDENCY. 16 PERCENT SHOULD BE THE MAXIMUM MOISTURE CONTENT FOR INTERVENTION. THE WAY TO TACKLE THE CEREALS SURPLUS WAS THROUGH EXTENSIFICATION, EARLY RETIREMENT AND TAKING LAND OUT OF PRODUCTION. FLORIAN WAS CONCERNED ABOUT THE DIFFERING IMPACT OF THE CORESPONSIBILITY LEVY OWING TO CURRENCY DIFFERENCES. (DE KEERSMAEKER EXPLAINED THAT THE PRESIDENCY'S INTENTION WAS FOR THE COMMISSION TO TAKE MEASURES FOR THE 1987/88 MARKETING YEAR TO ADJUST THE LEVY TO TAKE ACCOUNT OF DIFFERING EXCHANGE RATES AND TO IRON OUT TECHNICAL PROBLEMS.)

8. ROMERO (SPAIN) WAS PARTICULARLY CONCERNED ABOUT THE POSSIBILITY OF NO INTERVENTION UNTIL OCTOBER AND WANTED TO KNOW PRECISELY WHAT THE COMMISSION WOULD DO TO AVOID SERIOUS MARKET DISTURBANCES AT THE START OF THE MARKET YEAR.

9. GUILLAUME (FRANCE) WANTED CHANGES IN THE CORESPONSIBILITY LEVY WITH STORAGE AGENCIES PAYING A TAX EQUIVALENT TO THE LEVY.

10. MRS HOLBERG (DENMARK) SUPPORTED GUILLAUME'S EARLIER CASE FOR EXTENDING THE CORESPONSIBILITY LEVY TO CEREAL SUBSTITUTES (O'KENNEDY DID TOO). SHE WANTED THE AID FOR SMALL CEREAL PRODUCERS TO BE ENDED. THERE SHOULD BE A 15 PERCENT MAXIMUM MOISTURE REQUIREMENT.

11. POTTAKIS (GREECE) WANTED A SEPARATE PROVISION OF 2 MONTHS INTERVENTION FOR SOUTHERN COUNTRIES. SMALL PRODUCERS SHOULD BE EXEMPT FROM THE CORESPONSIBILITY LEVY. HE OPPOSED A 120:100 RATIO AS THE LONG TERM TARGET FOR THE DURUM : SOFT WHEAT PRICE RELATIONSHIP. THE EMPHASIS MUST BE ON DURUM QUALITY TO DISCOURAGE NORTHERN PRODUCTION.

12. MR JOPLING AGREED WITH FLORIAN THAT TAKING LAND OUT OF CEREALS WOULD HELP BUT A STRICT PRICE POLICY WAS NEEDED AT THE SAME TIME. IF THE PRESIDENCY'S APPROACH ON INTERVENTION WERE FOLLOWED, THE BUYING IN PRICE SHOULD BE SET AT 90 PERCENT (RATHER THAN 93 PERCENT) OF THE INTERVENTION PRICE TO DISCOURAGE EXCESSIVE SALES INTO INTERVENTION IN ANTICIPATION OF ITS BEING SUSPENDED. THERE SHOULD ALSO BE SEPARATE MARKET PRICE CALCULATIONS FOR INDEPENDENTLY TRIGGERING BREAD AND FEEDWHEAT INTERVENTION AT THEIR RESPECTIVE PRICES. SELLING WHEAT OUT OF INTERVENTION SHOULD BE AT THE PRICE IT WAS BOUGHT IN. THERE SHOULD BE NO MAJOR CHANGES IN THE CORESPONSIBILITY LEVY UNTIL THE COMMISSION'S REPORT ON ITS OPERATION HAD BEEN STUDIED.

13. BRAKS WAS CONCERNED ABOUT THE DISADVANTAGE SUFFERED BY STRONG CURRENCY COUNTRIES IN THE OPERATION OF THE CORESPONSIBILITY LEVY. ACCOUNT SHOULD BE TAKEN OF THE EFFECT ON THE SEEDS FOR SOWING SECTOR OF CHANGES IN THE CEREALS REGIME.

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14. ANDRIESSEN SAID THAT THIS YEAR'S WORLD CEREALS CROP LOOKED LIKE BEING LOWER BUT THERE WOULD BE A BUMPER COMMUNITY HARVEST. THE PRICE FIXING DECISIONS MUST THEREFORE BE RIGOROUS. HE COULD NOT AGREE TO WATER DOWN THE COMMISSION'S PROPOSALS MORE THAN HAD ALREADY BEEN DONE IN THE PRESIDENCY COMPROMISE. HE FOUND IT DIFFICULT TO ACCEPT A 14.5 PERCENT MOISTURE CONTENT MAXIMUM. THE CORESPONSIBILITY LEVY COULD BE EXTENDED TO CEREAL SUBSTITUTES BUT HE FOUND IT ODD THAT THE DANES SUPPORTED THIS WHEN THEY HAD OPPOSED THE OILS AND FATS TAX BECAUSE OF THE INTERNATIONAL CONSEQUENCES. HE WAS HESITANT ABOUT THE BUDGETARY CONSEQUENCES OF FURTHER EXEMPTIONS FOR SMALL PRODUCERS.

15. DE KEERSMAEKER (PRESIDENCY) CONCLUDED THAT THERE WAS A QUALIFIED MAJORITY FOR A CEREALS PACKAGE BASED ON THE PRESIDENCY COMPROMISE WITH SOME ADJUSTMENTS.

FRUIT AND VEGETABLES

16. PANDOLFI (ITALY) PRESSED FOR A TEMPORARY ATTENUATION OF THE CUTS IN WITHDRAWAL PRICES WHICH HAD BEEN IMPOSED UNDER COMMISSION COMPETENCE. THIS WAS A FUNDAMENTAL POINT FOR ITALY. GUILLAUME WANTED A SMALLER PRICE CUT FOR PEACHES AND APRICOTS. BARRETO RAISED AGAIN HIS CONCERN OVER ACCESSION COMPENSATORY AMOUNTS ON TOMATOES.

17. MR GUMMER (UK) WANTED A SUBSTANTIAL PRICE CUT FOR CAULIFLOWERS. ON TOMATOES, HE COULD ACCEPT THE PRESIDENCY COMPROMISE IF THERE WAS A LOWER THRESHOLD: SAY 100,000 TONNES.

18. ANDRIESSEN SIMPLY DEFENDED THE COMMISSION PROPOSALS APART FROM SHOWING A WILLINGNESS TO RECONSIDER THE TOMATO ARRANGEMENTS NEXT YEAR AND PURSUE PORTUGAL'S POINT BILATERALLY.

OTHER PRODUCTS

19. IN A BRIEF DISCUSSION ON SUGAR, ANDRIESSEN DEFENDED HIS PROPOSALS BUT AGREED, UNDER PRESSURE, TO FOLLOW UP BILATERALLY THE UK'S CONCERN OVER THE REFINING MARGIN, PORTUGAL'S OVER AZORES SUGARBEET AND SPAIN'S OVER ITS CANE PRODUCTION.

20. FLORIAN ATTACKED THE PROPOSALS ON OBLIGATORY DISTILLATION OF WINE AND VINEYARD REPLANTING AS BEING CONTRARY TO THE DUBLIN AGREEMENT. THE PROPOSALS WERE TOO HARSH ON ALTERNATIVE CROPS LIKE DRIED FODDER AND PEAS AND BEANS. ANDRIESSEN WAS UNMOVED.

HANNAY

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MCADAM CAB	BODRELL MAFF
HADLEY MAFF	HOLLIS MAFF
THOMAS MAFF	BONNEY TSY
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FRAME AGRICULTURE

AGRICULTURE COUNCIL OF 18-20 MAY 1987.

SUMMARY.

1. FOLLOWING THE GENERAL DEBATE ON THE PRESIDENCY PAPER (MY TELNO 1715), THE COUNCIL DEVOTED ITS REMAINING TWO DAYS TO DETAILED DISCUSSIONS, ALMOST ALL OF THEM CONDUCTED IN SESSIONS RESTRICTED TO MINISTERS PLUS 1, CONCENTRATING MAINLY ON AGRIMONETARY ISSUES, CEREALS, OILS AND FATS AND MILK SUBSTITUTES. IT WILL RESUME ON SUNDAY 24 MAY.

2. ON THE AGRIMONETARY SYSTEM, THE DISCUSSION TENDED TOWARDS A SOLUTION INVOLVING SOME DEGREE OF AUTOMATICITY IN GREEN RATE CHANGES WITH COMPENSATION FOR COUNTRIES WHO WERE FORCED TO REVALUE, BUT THE DETAILS OF SUCH A SYSTEM ARE STILL VERY UNCLEAR. AS REGARDS THIS YEAR'S GREEN RATE CHANGES, GERMANY IS CONTINUING TO RESIST ANY CHANGE IN HER RATE AND THE COMMISSION IS CONTINUING TO OPPOSE DEVALUATIONS WHICH OFFSET THE EFFECT FOR THE COUNTRIES CONCERNED OF REFORMS IN THE CEREALS SECTOR.

3. FOR CEREALS, IT NOW SEEMS LIKELY THAT A SOLUTION BASED ON THE PRESIDENCY SUGGESTIONS HAS A BETTER CHANCE OF BEING ADOPTED THAN ONE BASED ON THE COMMISSION'S PROPOSALS.

4. THE WAY FORWARD ON OILS AND FATS REMAINS UNCLEAR. THE ALTERNATIVES AS SEEN BY THE PRESIDENCY ARE ADOPTION OF THE TAX OR STILL DEEPER CUTS IN SUPPORT FOR COMMUNITY PRODUCTION, WITH STRONG OPPOSITION WITHIN THE COUNCIL TO EITHER SOLUTION.

5. TECHNICAL PROBLEMS STILL REMAIN IN THE PROPOSAL ON MILK SUBSTITUTE LABELLING, BUT THE MAJOR POLITICAL DIFFICULTY IS ONE OF DEALING WITH GERMAN AND FRENCH INSISTENCE ON THE MAINTENANCE OF THEIR NATIONAL MARKETING RESTRICTIONS IN THE FACE OF ADVICE FROM THE COUNCIL LEGAL SERVICES THAT THE ONLY JURIDICALLY SOUND MEANS OF ACHIEVING THIS WOULD BE A REGULATION WHICH ENVISAGED TRANSITION TO COMMUNITY WIDE RESTRICTIONS - SOMETHING WE AND OTHERS WOULD FIND UNACCEPTABLE.

6. AGRIMONETARY DISCUSSION IN MIFT. DISCUSSION OF DIFFERENT PRODUCTS IN MY SECOND IFT. ALL OTHER DETAIL BELOW.

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DETAIL.

MILK SUBSTITUTES.

7. FOLLOWING ON SCA HELD IN THE MARGINS OF THE COUNCIL (REPORT BY HAND OF TAPLIN, MAFF), THE COUNCIL DISCUSSED A SLIGHTLY REVISED TEXT OF THE DRAFT MILK SUBSTITUTES TEXT.

8. PANDOLFI (ITALY), SUPPORTED BY GREECE AND SPAIN, ARGUED FOR THE REGULATION TO SANCTION NATIONAL RULES FORBIDDING THE PRODUCTION OF CHEESE FROM RECONSTITUTED MILK AND WAS OPPOSED BY KIECHLE (GERMANY), BRAKS (NETHERLADNS) AND OTTOSEN (DENMARK).

9. GUILLAUME (FRANCE) INSISTED THAT NATIONAL RESTRICTIONS ON MILK SUBSTITUTES BE MAINTAINED UNTIL THE END OF THE MILK QUOTA SYSTEM AND THAT THE COMMISSION'S COURT CASES BE WITHDRAWN. HE WANTED A LESS GENEROUS EXEMPTION FOR NON CONFUSING ''DAIRY TYPE'' NAMES. HE COULD NOT AGREE TO DAIRY PRODUCTS BEING REFERTRED TO IN THE DESCRIPTION OF MIXED-PRODUCTS. CONSUMERS SHOULD READ THE INGREDIENT LIST.

10. MR GUMMER (UK) ARGUED FOR THE EXCLUSION OF EXPORTS, EXCEPT PERHAPS TO CERTAIN DESTINATIONS SPECIFIED UNDER THE MANAGEMENT COMMITTEE PROCEDURE. HE SAW NO CASE FOR INCLUDING ANIMAL FEED, EXCEPT PERHAPS PET FOOD. HE COULD AGREE TO THE DRAFTING OF THE EXEMPTION FOR NON CONFUSING TRADITIONAL TERMS BUT SOUGHT AN ASSURANCE THAT THE WORDS COVERED ICE CREAM. HE INSISTED THAT DAIRY PRODUCTS WHICH FORMED PART OF MIXED PRODUCTS SHOULD BE ALLOWED TO BE MENTIONED AS PART OF THEIR DESCRIPTION, NOT JUST IN INGREDIENT LISTS. IF THERE WERE TO BE A STANDSTILL ON NATIONAL RESTRICTIONS ON SUBSITITUES, IT MUST BE TIME LIMITED AND APPLY ONLY TO EXISTING RESTRICTIONS. THERE SHOULD BE NO IMPLICATION THAT FURTHER COMMUNITY RULES WERE NEEDED.

11. KIECHLE SUPPORTED GUILLAUME ON EXISTING NATIONAL REGULATIONS AND PRESSED FOR THE INTRODUCTION OF A DEFINITION OF SUBSTITUTE PRODUCTS AND FOR THE REMOVAL OF THE EXEMPTION FOR DIETARY PRODUCTS. FODDER AND EXPORTS SHOULD BE EXEMPT.

12. O'KENNEDY (IRELAND) AGREED WITH THE UK ON THE EXCLUSION OF FODDER AND EXPORTS AND ON THE DESCRIPTION OF MIXED PRODUCTS, AS DID DE ZEEUW (NETHERLANDS).

13. FISCHBACH (LUXEMBOURG) SUPPORTED GUILLAUME ON EXISTING NATIONAL RESTRICTIONS, WANTED THE EXEMPTION OF DIET PRODUCTS REMOVED AND PRESSED FOR A LESS GENEROUS EXEMPTION FOR NON CONFUSING TRADITIONAL NAMES.

14. ANDRIESSEN (COMMISSION) SAID THAT THE COMMISSION'S POSITION WAS OPEN ON FODDER AND DIETARY PRODUCTS, AND COULD COMPROMISE ON

EXPORTS. HE FELT THAT THE FACT THAT THE EXEMPTION FOR NON CONFUSING PRODUCTS WAS TO BE SUBJECT TO A MANAGEMENT COMMITTEE PROCEDURE WAS A SAFEGUARD AGAINST ABUSE. ICE CREAM WOULD NOT BE AFFECTED. ITALIAN NATIONAL RULES WERE REASONABLE IF THEY RESTED ON THE RESTRICTION OF NAMES LIKE PARMESAN CHEESE MADE FROM LOCALLY PRODUCED MILK: OTHERWISE NOT. THE COMMISSION WAS MAKING NO PROPOSAL ON FRENCH AND GERMAN NATIONAL RESTRICTIONS SO THIS WAS A MATTER FOR THE COUNCIL, BUT HE PERSONALLY AGREED WITH THE UK THAT ANY DEROGATION SHOULD HAVE A TERMINAL DATE. THE COMMISSION HAD NOT DECIDED TO WITHDRAW ITS CASES AGAINST THESE RESTRICTIONS.

15. AT THE INVITATION OF THE CHAIR, SACCHETTINI (COUNCIL LEGAL SERVICES) SAID THAT A REGULATION ALLOWING RESTRICTIONS ON MARKETING WHICH ACTED TO RESTRICT INTRA-COMMUNITY TRADE WOULD BE AT RISK OF BEING OVERTHROWN IN THE COURT. ALTERNATIVE POSSIBILITIES WOULD BE A REGULATION INVOLVING TRANSITION TOWARDS COMMUNITY-WIDE RESTRICTIONS ON MILK SUBSTITUTES OR A COUNCIL RESOLUTION GIVING POLITICAL, NOT LEGAL, SUPPORT FOR THE CONTINUANCE OF FRENCH AND GERMAN RESTRICTIONS.

16. GUILLAUME PRETENDED TO BE AMAZED BY THIS INFORMATION AND APPEARED TO THINK THAT THE WAY FORWARD WAS FOR ANDRIESSEN TO CONVINCE HIS COLLEAGUES THAT HE SHOULD MAKE A COMMISSION PROPOSAL TO PROTECT FRENCH AND GERMAN RULES NOW THAT HE HAD ''UNITED'' BACKING FROM THE COUNCIL.

17. DE KEERSMAEKER, HOWEVER, CONCLUDED THAT THE COUNCIL SHOULD REFLECT ON THE ALTERNATIVES SUGGESTED BY SACCHETTINI.

CONCLUDING SESSION.

18. DE KEERSMAEKER SAID THAT THE PRESIDENCY HAD IDENTIFIED WHERE POSSIBLE SOLUTIONS MIGHT LIE FOR ALL SECTORS EXCEPT OILS AND FATS. ON THIS AN ALTERNATIVE HAD BEEN SUGGESTED BUT IT WOULD HAVE TO BE POLITICALLY ACCEPTABLE. THE COUNCIL MUST WEIGH THE CONSEQUENCES AND ASSUME ITS RESPONSIBILITES. THERE WERE, HOWEVER, FACTORS OUTSIDE AGRICULTURE: INDUSTRIAL AND TRADE POLICY. WHAT THE AGRICULTURE COUNCIL WAS DOING COULD NOT BE SEPARATED FROM THESE OR THE FAC'S DISCUSSION OF THE DELORS' PACKAGE.

19. THE PRESIDENCY WOULD NOW PREPARE A SECOND COMPROMISE DOCUMENT ON THE PACKAGE AS A WHOLE, TO BE MADE AVAILABLE AT LUNCHTIME ON

SUNDAY 24 MAY SO THAT SERIOUS NEGOTIATIONS COULD START ON THE SAME DAY (AGAIN IN RESTRICTED SESSION OF MINISTERS PLUS ONE). THERE MAY BE BILATERAL CONTACTS BEFORE THEN. REPLYING TO MR GUMMER'S REQUEST FOR A FINANCIAL STATEMENT TO ACCOMPANY THE NEW COMPROMISE PROPOSAL, DE KEERSMAEKER SAID THAT THE FINANCIAL IMPLICATIONS WOULD NOT BE OVERLOOKED AND HE WOULD BEAR THE REQUEST IN MIND.

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FRAME AGRICULTURE
AGRICULTURE COUNCIL OF 18-20 MAY 1987 : AGRIMONETARY DISCUSSION.
MIPT

(A) AGRIMONETARY REVIEW

1. THERE WAS MUCH REITERATION OF PREVIOUS COMMENTS ON THE PRESIDENCY COMPROMISE (MY TELNO 1715) BUT THE FOLLOWING ADDITIONAL POINTS WERE ALSO MADE.

2. GUILLAUME (FRANCE) WOULD WANT MORE THAN 50 PERCENT OF MCA DISMANTLEMENT UNDER THE PRESIDENCY PROPOSAL TO BE AUTOMATIC. ANOTHER OPTION WOULD BE TO KEEP THE STRONG CURRENCY SYSTEM BUT WITH APPLICATION OF THE PRESIDENCY'S IDEAS TO NEGATIVE MCA DISMANTLEMENT. FISCHBACH (LUXEMBOURG) SUPPORTED THIS APPROACH.

3. KIECHLE (GERMANY) REMAINED READY TO RETURN TO THE PRE-1984 ARRANGEMENTS SO LONG AS THE GENTLEMEN'S AGREEMENT WAS RETAINED BUT HE WAS NOW READY TO BRING AN OBJECTIVE MEASURE OF COST ADVANTAGE INTO CONSIDERATION SO LONG AS THIS DID NOT LEAD TO AUTOMATIC DISMANTLEMENT. COMPENSATION WOULD BE NECESSARY FOR ANY FUTURE DISMANTLEMENT OF GERMANY'S POSITIVE MCA SINCE A COMMON PRICE INCREASE WAS NOT POSSIBLE. THERE MUST BE EQUAL TREATMENT UNDER THE AGRIMONETARY SYSTEM BETWEEN POSITIVE AND NEGATIVE MCA COUNTRIES.

4. MRS HOLBERG (DENMARK) OBJECTED TO THE SUGGESTION OF COMPENSATION BUT NO-ONE ELSE SUPPORTED HER.

5. PANDOLFI (ITALY) SUPPORTED THE APPROACH IN THE PRESIDENCY COMPROMISE AND WAS ALSO WILLING TO LOOK SYMPATHETICALLY AT KIECHLE'S POINTS ON CRITERIA AND COMPENSATION.

6. POTTAKIS (GREECE) WAS READY TO SUPPORT THE PRESIDENCY APPROACH SO LONG AS THERE WAS AUTOMATIC DISMANTLEMENT OF NEGATIVE MCAS.

7. ROMERO (SPAIN) THOUGHT THAT, IF THE PRESIDENCY APPROACH WERE PURSUED, ACCOUNT SHOULD BE TAKEN OF COST DIFFERENCES, TRADE BALANCES AND INTEREST RATES.

8. BARRETO (PORTUGAL) COULD NOW FOLLOW THE PRESIDENCY APPROACH FOR NEGATIVE MCAS.

9. VAN DER MOORTEL (BELGIUM) THOUGHT THAT THE NON-AUTOMATIC PART OF THE PRESIDENCY APPROACH SHOULD HAVE A TIME LIMIT OF TWO YEARS. /10.

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10. ANDRIESSEN (COMMISSION) RULED OUT AUTOMATIC ELIMINATION OF ALL NEGATIVE MCAS BECAUSE OF THE INFLATIONARY EFFECT. THE DETAILS OF THE NON-AUTOMATIC PARTS OF THE PRESIDENCY APPROACH NEEDED THINKING ABOUT, INCLUDING THE IDEA OF A DEADLINE. CHANGING THE MCA CALCULATION BASE WOULD EFFECT THE SIZE OF NEW MCAS. RESPONDING TO THE FRENCH IDEA, HE WONDERED WHETHER AN ALTERNATIVE OPTION WOULD BE TO OPERATE THE PRESIDENCY COMPROMISE ON THE UNDERSTANDING THAT, IF THIS DID NOT RESULT IN COMPLETE MCA DISMANTLEMENT WITHIN A FIXED DEADLINE, A SWITCHOVER CO-EFFICIENT WOULD APPLY.

11. DE KEERSMAEKER (PRESIDENCY) CONCLUDED THAT HE AND THE COMMISSION WOULD REFLECT FURTHER. THE MAJORITY FAVOURED SOME DEGREE OF AUTOMATICITY AND HAD NOT RULED OUT SOME FORM OF COMPENSATION AS SUGGESTED BY GERMANY.

(B) GREEN RATE CHANGES

12. THE FOLLOWING POINTS WERE ADDED TO THOSE MADE ON THE COUNCIL'S FIRST DAY.

13. KIECHLE MAINTAINED THAT ANY DISMANTLEMENT OF GERMANY'S MCAS THIS YEAR WAS POLITICALLY UNTHINKABLE. ELECTIONS WERE COMING UP AND FARMERS WERE BEING ALIENATED. THIS WAS A MATTER OF VITAL INTEREST TO GERMANY. IN FUTURE YEARS THE ISSUE COULD BE TACKLED, WITH ASSOCIATED COMPENSATION.

14. O'KENNEDY (IRELAND) PRESSED STRONGLY FOR COMPLETE DISMANTLEMENT OF HIS MCAS THIS YEAR. IF, HOWEVER, THIS CAUSED DIFFICULTIES FOR GERMANY, HE WOULD NOT OBJECT TO DISMANTLEMENT OF HIS MCAS BEING DONE OVER A PERIOD WITH SOME COMPENSATION FOR THE DELAY, EG THROUGH THE CORESPONSIBILITY LEVY.

15. MR GUMMER (UK) QUESTIONED O'KENNEDY'S LAST POINT. SO FAR AS THE UK WAS CONCERNED, THERE SHOULD BE A LARGER DEVALUATION THAN PROPOSED BY THE COMMISSION IN ORDER TO DIMINISH THE UK'S COMPETITIVE DISADVANTAGE AND TO OFFSET INCOME DECLINE. THE DEVALUATION SHOULD BE ACROSS THE BOARD. ALTHOUGH PROBLEMS WERE MOST ACUTE IN THE LIVESTOCK SECTOR, THEY WOULD BE IMPROVED BY BASING THE BEEF MCA ON 70 PERCENT OF THE INTERVENTION PRICE. REFLECTING THEIR GREATER SIZE, THE UK'S MCAS SHOULD BE DISMANTLED BY MORE POINTS THAN THOSE OF FRANCE AND IRELAND. THIS WOULD NOT UNDERMINE THE IMPACT OF CHANGES IN THE CEREALS REGIME WHERE IT WAS UNACCEPTABLE THAN THE BURDEN OF ADJUSTMENT SHOULD FALL ON WEAKER CURRENCIES AND WHERE THE SOLUTION LAY IN REDUCING COMMON (UNDERLINED) PRICES.

16. GAUTIER SAUVAGNAC (FRANCE) COULD BY AND LARGE ACCEPT THE COMMISSION PROPOSALS FOR FRANCE'S MCA BUT WOULD HAVE TO REVISE HIS POSITION IF OTHERS GOT A LARGER DEVALUATION. GUILLAUME ADDED THAT POSITIVE MCAS MUST BE DISMANTLED AND, TO OVERCOME THE POLITICAL DIFFICULTIES, SUGGESTED THAT THIS COULD BE DONE WITHOUT INVOLVING A PRICE REDUCTION IN POSITIVE MCA COUNTRIES AND WITHOUT AFFECTING NEGATIVE MCAS.

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17. BARRETO WANTED TOTAL DISMANTLEMENT OF HIS MCA. POTTAKIS WANTED A LARGER DEVALUATION OF THE GREEN DRACHMA THAN PROPOSED. PANDOLFI WANTED A LARGER DEVALUATION TO INCLUDE PART OF THE NEW MCAS CREATED IN THE JANUARY EMS REALIGNMENT.

18. RESPONDING, ANDRIESSEN RAN THROUGH THE VARIOUS ANGLES IN FAMILIAR FASHION BEFORE CONCLUDING THAT THE ISSUE OF BOTH POSITIVE AND NEGATIVE MCAS WAS EXTREMELY DIFFICULT AND NEEDED FURTHER DISCUSSION.

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CHIEF SECRETARY

FROM R J BONNEY
DATE 22 MAY 1987

b/f 29/5

cc Chancellor
Minister of State
Mr F E R Butler
Mr Lavelle
Mr Monck
Mr Burgner
Mr Edwards
Mr Turnbull
Mr Mortimer
Mrs Imber
Mr Donnelly
Mr Tyrie

PA

CAP PRICE FIXING AND GREEN POUND

I undertook to submit a further report on this week's Agriculture Council.

X 2. UKREP telegrams Nos 1746-1748 attached (not to all) report the outcome: the details of the first day's discussions and the text of the current Presidency compromise are in telegrams Nos 1715 and 1716; the agrimonetary discussion is in telegram No.1747. The Council is due to resume on Sunday afternoon and to begin another marathon session which may last at least until Wednesday 27 May (Thursday is Ascension Day and a holiday in many Member States). There seems to have been little movement on the substance of the proposals this week. The Commission are due to table a further compromise on Sunday. This is unlikely to be a significant improvement from the UK standpoint.

EC Budget implications

3. The attached costings (table 1) based on material supplied by MAFF suggest that in EC Budget terms the present compromise would reduce the estimated savings from the Commission's original proposals by some 600 mecu in 1987 (mostly because of the delayed introduction of the oils and fats tax) and 100-200 mecu in 1988. However, if all Member States' green rate demands are conceded and the oils and fats tax is rejected, the net savings proposed by the Commission of 1.1 becu in 1987 and 3.6 becu in 1988 will be virtually eliminated in both years leaving potential overspends

on FEOGA alone of 3.7 becu in 1987 and 7.0 becu in 1988 (16% and 31% of the financial guideline provision respectively). If a settlement on these lines is reached, the pressure on Member States to provide additional contributions whether through an intergovernmental agreement or a substantial increase in own resources is likely to become intense.

PES implications

4. The second table shows our current assessment of the PES position. The first part shows the effects on the agriculture programme (3.1): although the Presidency compromise would substantially reduce the forecast savings from the Commission's original proposals (mainly because of the weaker arrangements for cereals intervention) this still shows a net reduction in expenditure because of estimating savings in IBAP's latest PES forecast. It should, however, be noted that these calculations assume only a 4 point green pound devaluation (which remains the current proposal): each additional point will cost about £16 m in 1987-88 and £23 m in a full year. Moreover, the IBAP estimating savings could easily be reversed later in the year if, for example, there is a good harvest and a large volume of intervention purchases. In any event as the second part of the table reveals any saving on programme 3.1 is likely to be more than offset by an increase in expenditure on the net contribution (programme 2.7). In 1987-88 it is now more or less certain that IBAP will lose some £250 million receipts either because the Council decides on a regular move from advance funding to reimbursement or simply as a result of the Community running out of funds. The £250 million additions in 1988-89 and 1989-90 make the rather conservative assumption that on current trends the Community will spend at least 4 becu a year above the current financial guideline provision for agriculture. (As stated above the Commission's present forecast for 1988 is for an excess of 5 becu with the oils and fats tax receipts or 7 becu without).

Assessment

5. You will wish to consider in the light of these somewhat

depressing statistics whether you should advise Mr Jopling to distance himself from any move towards a genuine negotiation when the Council resources on Sunday. Arguments in favour of such a course would be:

(i) any settlement reached next week is likely to be very unsatisfactory from a financial point of view;

(ii) a settlement which included the oils and fats tax in particular would be extremely difficult to defend in political terms;

(iii) that there is perhaps a slightly better chance of shaming the Germans into a more acceptable outcome if the key issues were referred to Heads of Government at the European Council at the end of June.

On the other hand Cabinet Office and UKREP take the view that other Member States would make every effort to avoid a reference to the European Council even if the Council fails to reach agreement next week; that the negotiating position of any UK Minister in the immediate aftermath of the Election would be particularly difficult (especially if there were a change of Minister at MAFF); and that the outcome of a European Council discussion would in any case be uncertain and (unless confined, say, to the oils and fats tax) not necessarily favourable.

6. Should you nevertheless decide that it would be desirable to write to colleagues warning of the risks involved in acquiescing in a compromise settlement, I attach a draft letter to Mr Jopling. This would need to issue this evening if it is to have any effect.

(not sent)

Green pound

7. If on the other hand you are content to let the negotiation take its course, Mr Jopling may well wish to discuss with you a more definitive position on the green pound. Given the tight PES position described above, we would not recommend you to agree

to any very significant increase in the 4 point devaluation offered by the Commission. As my submission of 19 May indicated, a 5 point devaluation across the board would be sufficient to reduce the UK MCAs to the level which Mr Jopling envisaged when he proposed a 13 point devaluation in February. It would also be comfortably higher than the average devaluations proposed for France (2.9%) and Ireland (1.3%). The Commission have clearly indicated that they would be more receptive to a higher devaluation for beef than for crops (a high devaluation for the latter would largely negate the proposed common price cuts). Each percentage point off the beef MCA is reckoned to cost £4.37 million in a full year. On this basis a 10 point devaluation for beef together with 4 points for all other products would cost £118 million some £3 million more than an across the board 5 point devaluation. The possible permutations are obviously virtually limitless and probably best left to the ingenuity of Mr Jopling's officials. But, if you were minded to agree to an average 6 point devaluation (cost £137.8 million), it would be possible to reduce the beef MCA by 10 points and the MCAs for other products by 5. We would not advise you to go further than this.

RJB

R J BONNEY

DRAFT LETTER

FROM: CHIEF SECRETARY

TO: MINISTER OF AGRICULTURE

COPIES TO: FOREIGN SECRETARY
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SECRETARIES OF STATE FOR SCOTLAND, WALES AND NORTHERN IRELAND

CAP PRICE FIXING

I have seen the telegrams reporting the outcome of this week's Agriculture Council which, I see, is to resume on Sunday afternoon with a view to reaching an overall settlement during the course of next week.

2. The details of the revised package which is now emerging seem to me to be seriously weaker than the Commission's original proposals and experience suggests that they will only get worse, if a genuine negotiation begins when the Council resumes next week. Officials calculate that by comparison with the Commission's original proposals the additional cost to the EC Budget of the Presidency's present compromise would be 600 mecu in 1987 and 200 mecu in 1988. In PES terms excluding the oils and fats tax receipts the effect will be to reduce the original estimate of savings from £212m. in 1987-88 and £77m. in 1988-89 by £191m. and £32m. respectively thus leaving very little room from any increase in the proposed green pound devaluation. Moreover, the oils and fats tax remains part of the proposals and the telegrams suggest that the German opposition to the tax (which is essential if it is to be defeated) may be wavering.

3. I think that we ought to consider very carefully at this stage whether we should be prepared to cooperate in any move towards a compromise settlement next week. In my view any settlement which Kiechle would be willing to endorse is likely to be very

unattractive to us. The British press will almost certainly report that any settlement is likely to increase pressure for additional EC Budget contributions this year and for an early and substantial increase in the own resources ceiling. Any good publicity we receive about the level of green pound devaluation we may achieve will be offset by comments on its impact on food prices - particularly if we have been unable to prevent the adoption of the oils and fats tax, which would itself have a significant effect on the RPI.

4. In the circumstances I believe that it would be right for you to state at the outset when the Council resumes on Sunday that the UK will not be prepared to cooperate in the usual bargaining process if this seems likely to result in a compromise which is significantly weaker than the Commission's original proposals and that our opposition to the oils and fats tax remains unequivocal. If other Member States are not prepared to negotiate responsibly within the general parameters set by the Commission's proposals, it would be preferable to put off decisions until after the British and Italian general elections. If it proves unavoidable, substantive areas of disagreement such as the oils and fats tax will have to be referred to the European Council at the end of June. Although I am sure that Heads of Government would not wish to get too deeply embroiled in the details of the Price Fixing, they would be able to set some general parameters within which the Agriculture Council should take decisions. And a reference of this sort to the next European Council would provide a graphic illustration of the need to make substantial progress on CAP reform and the effective control of agricultural expenditure in the context of the discussions on future financing.

5. I am sending copies of this letter to......

JM

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TABLE I

FEOGA

	1987	becu 1988
Expenditure		
Preliminary Draft Budget/Financial Guideline	23.0	22.8
Latest Forecast of Spending	26.9	30.7
Commissions Price Fixing Proposals	25.8	27.1
Presidency Compromise	26.4	27.2
Overspend		
1. Before Price Fixing	3.9	7.9
2. After Commission Proposals	2.8	4.3
3. After Presidency Compromise	3.4	4.4
plus		
4. Likely additional Agrimonetary changes	.3	.5
5. Presidency compromise after Agrimonetary Changes	3.7	4.9
6 If oils and fats tax rejected	3.7	7.0

TABLE 2

S COSTS

A Programme 3.1 (Agriculture)

		1987-88	1988-89	1989-90
				£m
1.	IBAP baseline	1621	1756	1852
	Changes from baseline:			
2.	latest forecast	- 20	-144	- 99
3.	suckler cow premium increase	+ 10	+ 10	+ 10
4.	offsets to ALURE	-	+ 20	+ 25
5.	Commission proposals	-212	- 77	-122
6.	1st Presidency compromise (compared to line 5)	+191	+ 32	+ 66
7	net change to baseline (programme 3.1)	- 11	-159	-120

B Programme 2.7 (Net Contribution)

		1987-88	1988-89	1989-90
8.	Price Fixing proposals	-125	-103	- 67
9.	1st Presidency compromise (compared to line 8)	0	0 (not significant)	0
10.	likely further concessions on green rates to other Member States	+ 15	+ 24	+ 24
11.	advance to reimbursement switch	+250	-	-
12.	increased contribution to higher FEOGA expenditure	-	+250	+250
13.	net change in baseline (programme 2.7)	+140	+171	+ 207
14.	net change in baseline (total PES)	+129	+ 12	+ 87

Memo item

		1987-88	1988-89	1989-90
15.	Cost per extra point green £ devaluation (programme 3.1)	+ 16	+ 23	+ 23

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FRAME AGRICULTURE

AGRICULTURE COUNCIL 24-26 MAY 1987 : THE FINAL TWO DAYS.

SUMMARY.

1. COUNCIL BROKE UP WITHOUT AGREEMENT AND WILL RESUME ON 15 JUNE, WHICH WILL ENABLE IT TO HAVE A JOINT SESSION WITH ECOFIN, WHICH HAS ALREADY PLANNED A MEETING ON THAT DAY.

2. THE MAIN REASONS FOR THE FAILURE TO AGREE WERE THE STRONGLY DIVERGENT FRENCH AND GERMAN POSITIONS ON THE PHASING OUT OF EXISTING POSITIVE MCAS AND THE FUTURE OF THE AGRIMONETARY SYSTEM AND THE CONTINUED EXISTENCE OF A BLOCKING MINORITY (UK, NETHERLANDS, GERMANY AND PERHAPS DENMARK) ON THE OILS AND FATS TAX. THERE WERE PERSISTENT RUMOURS THAT GERMANY WOULD HAVE DESERTED THIS MINORITY HAD SHE OBTAINED A SATISFACTORY SOLUTION ON MCAS BUT IN THE END THIS WAS NOT PUT TO THE TEST.

3. IN THE ABSENCE OF AGREEMENT THE MARKETING YEARS FOR MILK, BEEF, DRIED FODDER, CERTAIN HORTICULTURAL PRODUCTS AND EGG AND POULTRY MCAS WERE, IN EFFECT, EXTENDED FOR A MONTH, ON THE SAME BASIS AS LAST TIME.

4. EARLIER SESSIONS REPORTED IN MY TELNOS 1827 AND 1845.

5. THE COUNCIL ON 25 MAY WAS MAINLY CONDUCTED IN BILATERALS THE RESULTS OF WHICH WERE REPORTED TO A MEETING RESTRICTED TO MINISTERS ONLY LATE IN THE EVENING. DE KEERSMAEKER'S (PRESIDENCY) GENERAL MESSAGE WAS THAT THE NEGOTIATIONS WERE VERY DIFFICULT BECAUSE THE MAJORITY OF DELEGATIONS WERE STICKING TO OR EVEN INCREASING THEIR LISTS OF DEMANDS. IN PRACTICE THERE WAS LITTLE ROOM FOR MANOEUVRE. ONLY MINOR TECHNICAL CHANGES WERE POSSIBLE IN THE PRESIDENCY'S COMPROMISE ON MARKET SUPPORT REGIMES. FLEXIBILITY WAS NEEDED TO FIND A SOLUTION ON MCAS. THE OILS AND FATS TAX WAS AN ESSENTIAL PART OF THE PACKAGE.

6. ANDRIESSEN (COMMISSION) CONFIRMED THIS ASSESSMENT. ECOFIN'S DEMAND FOR A 4 BECU SAVING WAS HOPELESSLY UNREALISTIC BUT THE BUDGET PROBLEM WAS VERY REAL AND SUGGESTIONS THAT IT COULD BE RESOLVED BY REMOVING THE PROVISIONS FOR DESTOCKING AND STOCK DEPRECIATION SHOWED THAT CERTAIN DELEGATIONS WERE NOT TAKING THE PROBLEM SERIOUSLY.

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7. THE ENSUING DEBATE WAS DOMINATED BY CONFLICTING EXCHANGES BETWEEN KIECHLE (GERMANY) AND GUILLAUME (FRANCE) ON THE AGRIMONETARY SYSTEM AND SOME REPETITION OF EARLIER POSITIONS ON THE PRESIDENCY PACKAGE FROM OTHERS. EVENTUALLY AT ABOUT 2 AM DE DEERSMAEKER CONCLUDED THAT ALTHOUGH EFFORTS SHOULD CONTINUE TO REACH DECISIONS, FURTHER PROGRESS IN THAT SESSION WAS NO POSSIBLE. THERE SHOULD BE FURTHER EXCHANGES THE FOLLOWING MORNING BETWEEN THE PRESIDENCY, COMMISSION AND THE MOST INTERESTED DELEGATIONS ON THE AGRIMONETARY PROBLEMS AND A WORKING GROUP COULD CONSIDER PURELY TECHNICAL ADAPTATIONS OF THE PRESIDENCY COMPROMISE ON MARKET SUPPORT REGIMES. MR JOPLING (UK) MADE CLEAR THAT WE WOULD WISH TO BE INCLUDED IN THE CONTACTS ON AGRIMONETARY ISSUES AND THAT SOME OF OUR RESERVATIONS ON THE PRESIDENCY PROPOSALS ON MARKET SUPPORT REGIMES WERE NOT SIMPLY TECHNICAL.

8. OVERNIGHT, HOWEVER, THE PRESIDENCY CHANGED ITS PLANS. THE PROPOSED MEETING OF OFFICIALS RESOLVED ITSELF INTO A NUMBER OF BILATERAL CONTACTS AND THE DISCUSSIONS ON AGRIMONETARY QUESTIONS BETWEEN THE FRENCH AND GERMANS WERE SO UNPRODUCTIVE THAT OTHER DELEGATIONS WERE NOT INVOLVED.

9. WHEN THE COUNCIL RESUMED, TROJAN (CHEF DU CABINET TO ANDRIESSEN) GAVE A REPORT ON HIS UNPRODUCTIVE DISCUSSIONS WITH CERTAIN DELEGATIONS. THESE HAD SHOWN SOME SIGNS OF PROGRESS ON THE PRINCIPLE OF SOME AUTOMATIC DISMANTLEMENT ON MCAS, BUT THERE WERE DIFFERENCES OVER THE PERIOD, THE AMOUNT AND COMPENSATION AND A STRONG DISAGREEMENT OVER THE QUESTION OF WHETHER THERE SHOULD BE ANY DISMANTLEMENT OF POSITIVE MCAS THIS YEAR.

10. GUILLAUME OUTLINED A VARIANT OF THE SYSTEM PROPOSED BY THE PRESIDENCY AND SAID THAT HE COULD RELUCTANTLY ACCEPT COMPENSATION PROVIDED IT WAS NOT LINKED TO PRODUCTION. HE WAS SUPPORTED BY BRAKS (NETHERLANDS), AND ON COMPENSATION BY MR JOPLING, THOUGH HE PREFERRED THE PRESIDENCY'S MODEL FOR MCA DISMANTLEMENT. FLORIAN (GERMANY) AND KIECHLE (GERMANY) OPPOSED. THEY MIGHT BE ABLE TO ACCEPT AUTOMATIC DISMANTLEMENT OF 20 PERCENT (COMPARED WITH THE PRESIDENCY'S 30 PERCENT) OF FUTURE MCAS BUT COULD NOT MOVE ON EXISTING MCAS THIS YEAR AND NEEDED A GUARANTEE OF COMPENSATION.

11. ANDRIESSEN CRITICISED BOTH THE FRENCH AND GERMAN POSITIONS AND MADE CLEAR THAT FOR THE COMMISSION THE CHOICE WAS BETWEEN MAINTAINING THE STRONG CURRENTY SYSTEM WITH THE INFLATIONERY EFFECTS OFFSET BY PRICE REDUCTIONS OR THE PRESIDENCY'S PROPOSAL. THE SIMPLE MAINTENANCE OF THE STRONG CURRENCY SYSTEM AS IT EXISTED AT PRESENT WAS NOT ON OFFER. IT WAS ALSO ESSENTIAL TO HAVE A TARGET DATE FOR GETTING RID OF MCAS. THE COMMISSION COULD TOLERATE SOME FORM OF COMPENSATION.

12. AFTER A BREAK, DE KEERSMAEKER CONCLUDED THAT BOTH BECAUSE OF THE AGRIMONETARY IMPASSE AND BECAUSE OF THE MAJOR PROBLEM OF THE OILS AND FATS TAX FURTHER PROGRESS WAS IMPOSSIBLE. THE IMMINENCE OF ELECTIONS IN SOME MEMBER STATES WAS ALSO A FACTOR. ON THE REST OF THE PACKAGE A QUALIFIED MAJORITY WAS IN SIGHT ALTHOUGH MINOR CHANGES

IN THE PRESIDENCY'S SUGGESTIONS MIGHT BE MADE. ALTHOUGH INFORMAL CONTACTS, IN PARTICULAR IN THE MARGINS OF NEXT WEEK'S INFORMAL COUNCIL, SHOULD CONTINUE IN AN EFFORT TO PAVE THE WAY FOR A FINAL SOLUTION, THIS COULD NOT NOW BE ACHIEVED UNTIL THE JUNE AGRICULTURE COUNCIL, WHICH HE PROPOSED SHOULD BE POSTPONED FOR TWO DAYS UNTIL 17 JUNE.

13. ANDRIESSEN SAID THAT THE COMMISSION HAD DECIDED TO REQUEST A JOINT MEETING OF AGRICULTURE AND FINANCE MINISTERS BECAUSE OF THE CONFLICT BETWEEN ECOFIN'S DECISIONS ON THE 1988 GUIDELINE WHICH WAS 4 BECU BELOW THE COMMISSION'S MINIMUM ESTIMATE AND THE PRESIDENCY COMPROMISE WHICH WOULD REDUCE THE SAVINGS PLANNED BY THE COMMISSION.

14. ON THE BASIS OF PREVIOUS EXPERIENCE OF JOINT COUNCILS GUILLAUME, BRAKS, KIECHLE, O'KENNEDY (IRELAND) AND ROMERO (SPAIN) WERE ALL SCEPTICAL. COORDINATION WAS A MATTER FOR CAPITALS. FINANCE MINISTERS PROBABLY WOULD NOT TURN UP. IT WAS NOT NECESSARY TO LISTEN IN THE COUNCIL TO AMBASSADORS REPEATING WHAT THEY COULD SAY IN COREPER.

15. DE KEERSMAEKER WAS SYMPATHETIC BUT SUGGESTED THAT THE AGRICULTURE COUNCIL SHOULD REVERT TO ITS PREVIOUS PLANNED DATE OF 15 JUNE WHEN ECOFIN WAS MEETING ANYWAY. THERE COULD THEN BE A COUPLE OF HOURS OF JOINT SESSION.

16. ANDRIESSEN THEN MADE AN ANNOUNCEMENT ABOUT THE PRODUCTS WHOSE MARKETING YEARS WOULD END BEFORE THE NEXT MEETING, MILK, BEEF, DRIED FODDER, CAULIFLOWERS, LEMONS, PEACHES AND APRICOTS AND POULTRY AND EGG MCAS. FOR MILK AND BEEF HE PROPOSED A FURTHER MONTH'S EXTENSION OF THE 1986/87 MARKETING YEARS. FOR DRIED FODDER HE SAID THAT THE COMMISSION WOULD TAKE MEASURES TO ALLOW THE CONTINUED CALCULATION OF THE VARIABLE AID ON THE CURRENT BASIS. FLAT RATE AID WOULD CONTINUE TO BE SUSPENDED BUT WOULD BE PAID RETROSPECTIVELY IF THE COUNCIL FAILED TO ADOPT THE COMMISSION'S PROPOSAL TO END IT. FOR FRUIT AND VEGETABLES EXISTING PRICES WOULD BE MAINTAINED SUBJECT TO RETROSPECTIVE ADJUSTMENT IF THE PRESIDENCY'S PROPOSALS TO ADJUST COEFFICIENTS WAS ADOPTED. FOR POULTRY AND EGG MCAS HE TABLED A DRAFT REGULATION EXTENDING PARTIAL SUSPENSIONS FOR ONE MONTH. O'KENNEDY AND MRS HOLBERG (DENMARK) VOTED AGAINST THE POULTRY MCA REGULATION AND THE CHAIR CONCLUDED THAT THE COMMISSION'S PROPOSALS HAD BEEN ADOPTED.

HANNAY

ADVANCE

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MCADAM CAB
HADLEY MAFF
R THOMAS MAFF
ANDREWS MAFF
FRANKLIN MAFF
BONNEY TSY
UCLNAN 8532
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ECD (I)

(ADVANCED AS REQUESTED)

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CHIEF SECRETARY

FROM R J BONNEY
DATE 29 MAY 1987

'X'

1 note para 6.

BIF Tony 1/6

cc Chancellor
Minister of State
Mr F E R Butler
Mr Lavelle
Mr Monck
Mr Burgner
Mr Edwards
Mr Turnbull
Mr Mortimer
Mrs Imber
Mr Donnelly
Mr Tyrie

B/F 12/6

CAP PRICE FIXING

UKREP telegram No. 1864 of 26 May below reports the inconclusive outcome of this week's Agriculture Council which broke up on Wednesday. The Presidency concluded that the Council should resume its discussions in joint session with ECOFIN on Monday 15 June. Despite the obvious inconvenience of this date we would advise the Chancellor* to attend if at all possible. Full briefing will be submitted nearer the time.

*Ch At your request, however, we also have contingency plans for the CST (if it is still Mr MacGregor) to attend AWK

2nd Presidency compromise

2. The text of the second Presidency compromise tabled on 24 May is at Annex A. Significant changes to the previous proposals (my minute of 19 May) include:

X

(i) a concession on allowing access to cereals intervention from August in Italy, Greece, Spain and Portugal;

(ii) a commitment to seek a solution to the problem of the cane sugar refining margin (UK interest);

(iii) special production aid for sunflowers in Portugal;

(iv) Commission to prepare comprehensive study of various forms of non-utilisation of agricultural land (UK interest);

(v) continuation of milk quota transfer arrangements (UK interest);

(vi) net 50,000 tonne increase in Spanish milk quota;

(vii) authorisation for Member States to retain limitations on imitation milk products until 1990 (French and German interest);

(viii) various detailed changes on particular fruits and vegetables (costed by MAFF at +5 mecu in 1987 and +10 mecu in 1988) (Mediterranean interest);

(ix) one point reduction in German and Dutch positive MCAs by increasing agricultural co-efficient (and thereby increasing all negative MCAs);

(x) increase in UK green devaluation to -6.5 points for beef and -5 points for all other products. Compensating increased devaluations for France, Ireland and Italy for beef and for Belgium, Denmark and Spain for all products;

(xi) revised compromise on "ending" strong currency system with semi-automatic dismantlement of newly created MCAs including in some circumstances an increase in agricultural co-efficient (referred to as "switchover" mechanism on page 9 of compromise); and

(xii) special aid for Greece to counter effects of cold weather in March 1987.

As can be seen from this (not exhaustive) list the usual process of buying off individual Member States by particular concessions to their special interests is already well underway.

EC Budget Implications

3. At Annex B is a note tabled by Commissioner Andriessen on the budgetary implications of the present compromise. The gist of this is that by comparison with the Commission's original

proposals (which were forecast to reduce expenditure by 1.1 becu in 1987 and 3.5 becu in 1988) the latest compromise would increase costs by some 760 mecu and 840 mecu in 1987 and 1988 respectively. Taking account of the current conjunctural forecasts the Commission now estimates that the potential excess on agricultural expenditure only above the 1987 Budget provision is some 3.8 becu and the potential overspend above the financial guideline provision for 1988 is 5.1 becu (assuming that the oils and fats tax is approved) or 7 becu (if it is not). The Commission propose to use these estimates to justify calling a joint Council with ECOFIN on 15 June in accordance with the terms of the 1984 Budget Discipline agreement. It is far from certain, however, that a joint Council will turn out to be an effective forum for taking responsible decisions on the expenditure consequences.

PES implications

4. MAFF's latest estimate of the PES consequences of the latest Presidency compromise excluding the oils and fats tax compared with the Commission's original proposals is as follows:

			£m
programme 3.1 (Agriculture)	1987-88	1988-89	1989-90
1. Commission proposals	- 212	- 77	- 122
2. 1st Presidency compromise (compared with line 1)	+ 186	+ 18	+ 46
3. 2nd Presidency compromise (compared with line 1)	+ 215	+ 56	+ 93
B programme 2.7 (net contribution)			
1. Commission proposals	- 125	- 103	- 67
2. 1st Presidency compromise (compared with B1)	- 10	- 9	- 4
3. 2nd Presidency compromise (compared with B1)	+ 20	+ 28	- 6

[illegible] allowance has been made in these calculations for any increase in the green pound devaluation proposed by the Presidency or any further concessions to other Member States.

<u>Main outstanding issues</u>

5. Ministers will need to consider immediately after the Election the tactical position they should adopt at the joint Council on 15 June. There will clearly be substantial pressure from many Member States to reach a settlement before the European Council on 29-30 June. But any settlement which the Agriculture Council is likely to reach will be bound to increase the pressure on the Government to concede some form of supplementary finance in 1987 and an early and substantial increase in own resources next yea.r One possible option would be for the UK to dissociate itself from the Council's decision by allowing itself to be outvoted. MAFF are likely to be very wary of this tactic, as it might risk losing some of the special concessions to the UK's farming interests (eg continued intervention for salted butter and dropping the proposed headage limit on the annual ewe premium) which they might otherwise collect in the final stages of the negotiations. There would clearly be no question of further concessions on the green pound, if we seemed likely to vote against the package. There is no realistic prospect that other Member States would allow the UK to delay decisions by invoking the Luxembourg compromise on any of the issues currently under discussion. There is an unfortunate precedent for the UK's veto being ignored when in 1982 Mr Walker tried to delay the adoption of the Price Fixing settlement for financial reasons. It is just possible that, if the present blocking minority holds, the oils and fats tax might be separated from the rest of the package and submitted to the European Council for a political decision.

6. We will submit detailed briefing to the Chancellor immediately after the Election.

R J BONNEY

007 1153

CHANCELLOR OF THE EXCHEQUER

Best speak when I come back from the PM...

Ch

Following your private conversation with the new Agriculture Minister in Luxembourg yesterday, are there any points I can usefully pass on to Bob Bonney (who is briefing the new CST on CAP, etc this afternoon)?

In particular, shd Mr Major rather than you now take the lead (in the Treasury) in discussions with MAFF?

AWK

Yes...

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FRAME AGRICULTURE

FROM UKREP BRUSSELS

COUNCIL OF AGRICULTURE MINISTERS STARTING ON 15 JUNE 1987: THE FIRST DAY.

SUMMARY

1. CONCILIATION PROCEDURE WITH EUROPEAN PARLIAMENT ON THE SOCIO-STRUCTURAL PACKAGE COMPLETED AND THE REGULATIONS, AMENDED BY THE ADDITION OF IMPROVING EFFICIENCY TO THE OBJECTIVES, FORMALLY ADOPTED.

2. ANDRIESSEN ANNOUNCES THAT, FOLLOWING DISCUSSION WITH THE COMMISSION THIS MORNING, HE WILL TABLE A COMMISSION COMPROMISE ON THE PRICE FIXING PACKAGE THIS AFTERNOON. NO OTHER DISCUSSION OF PRICE FIXING ON FIRST DAY.

3. JOINT SESSION WITH ECOFIN REPORTED SEPARATELY.

DETAIL

SOCIO STRUCTURES: CONCILIATION WITH EUROPEAN PARLIAMENT

4. FOR THE PARLIAMENT CLINTON AND THAREAU WANTED THE SOCIO-STRUCTURES PACKAGE AGREED BY THE COUNCIL IN MARCH TO BE AMENDED TO MAKE IMPROVING EFFICIENCY THE FIRST OBJECTIVE IN ARTICLE 1 OF REG 797/85. THEY ALSO SOUGHT A JOINT DECLARATION WITH THE COUNCIL AND COMMISSION (DOC SN 1902/87) UNDERLINING THE NEED FOR STRUCTURES POLICY TO SUPPLEMENT PRICE POLICY, FOR OUTPUT TO BE REDUCED BY CONTROLLING INPUTS DETRIMENTAL TO HEALTH AND THE ENVIRONMENT, FOR AN OVERALL VIEW OF RURAL PROBLEMS, FOR REVITALISATION OF RURAL AREAS WITH AN AGEING POPULATION AND FOR MAINTAINING FAMILY FARMS. ONCE THE PARLIAMENTARY DELEGATION HAD WITHDRAWN, DE KEERSMAEKER (PRESIDENCY) SOUGHT AGREEMENT TO THEIR DEMANDS.

5. MR MACGREGOR (UK), KITTEL (GERMANY) AND BRAKS (NETHERLANDS) OPPOSED THE AMENDMENT TO ARTICLE 1 BECAUSE IT DID NOT TAKE SUFFICIENT ACCOUNT OF THE NEED TO AVOID INCREASING SURPLUSES. ROMERO (SPAIN), PIETROMARCHI (ITALY), KOLIRIS (GREECE) AND GAUTIER SAUVAGNAC (FRANCE) SUPPORTED THE PARLIAMENT'S REQUEST, WHILE ANDRIESSEN DID NOT MIND EITHER WAY. EVENTUALLY A COMPROMISE WAS REACHED BY ADDING THE PARLIAMENT'S POINT ON IMPROVING EFFICIENCY AS THE SECOND OBJECTIVE IN THE REGULATION AFTER THE FIRST OBJECTIVE OF RESTORING EQUILIBRIUM BETWEEN PRODUCTION AND MARKET CAPACITY.

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6. MR MACGREGOR OPPOSED THE PART OF THE DRAFT JOINT DECLARATION WHICH STATED, WITHOUT QUALIFICATION, THAT SOME AGRICULTURAL INPUTS WERE DETRIMENTAL TO HEALTH AND THE ENVIRONMENT, PROPOSING INSTEAD A TEXT STATING THE NEED TO 'REDUCE SURPLUS OUTPUT BY IMPROVED CONTROL OF ANY FACTORS OF PRODUCTION WHICH ARE DETRIMENTAL TO HEALTH AND THE ENVIRONMENT, INCLUDING CHEMICAL INPUTS'. DE KEERSMAEKER MADE IT 'EXCESSIVE USE OF CHEMICAL INPUTS' AND, ON GAUTIER SAUVAGNAC'S SUGGESTION, ADDED A FURTHER REFERENCE TO REDUCING SURPLUS OUTPUT BY ENCOURAGING EXTENSIFICATION AND ALTERNATIVE CROPS. THIS WAS THE FORM FINALLY AGREED.

7. MR MACGREGOR ALSO OBJECTED TO SINGLING OUT AREAS WITH AN AGEING POPULATION FOR SPECIAL TREATMENT. THIS WENT WELL BEYOND WHAT THE COUNCIL HAD AGREED. BRAKS SUPPORTED WHILE KOLIRIS AND GAUTIER SAUVAGNAC OPPOSED, WANTING SOME FORM OF COMMITMENT TO HELPING YOUNG FARMERS SET UP BUSINESS. IN THE END AGREEMENT WAS REACHED ON A COMMISSION COMPROMISE WHICH DROPPED THE REFERENCE TO AGE STRUCTURE AND SIMPLY REFERRED TO REVITALISING ECONOMIC AND SOCIAL ACTIVITY IN SENSITIVE AGRICULTURAL REGIONS BY IMPROVING STRUCTURES AND ENCOURAGING THE DEVELOPMENT OF JOB CREATING ACTIVITIES.

8. WHEN THE PARLIAMENTARY DELEGATION WAS CALLED BACK IN, CLINTON ACCEPTED THE COUNCIL'S AMENDMENTS TO ITS DEMANDS. HE PARTICULARLY REGRETTED THE LACK OF ANY REFERENCE TO HELPING YOUNG FARMERS BUT ON THE WHOLE SAW THE REVISED AMENDMENT TO ARTICLE 1 AND THE REVISED JOINT DECLARATION AS REPRESENTING A CONSTRUCTIVE RESPONSE BY THE COUNCIL AND AN IMPORTANT CONTRIBUTION TO GREATER CO-OPERATION BETWEEN THE COMMUNITY INSTITUTIONS.

9. THE FULL CONCILIATION PROCEDURE TOOK 3 AND A HALF HOURS. IMMEDIATELY AFTERWARDS THE COUNCIL FORMALLY ADOPTED THE SOCIO-STRUCTURE REGULATIONS AS AMENDED.

MILES

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MCADAM CAB
THOMAS MAFF
MELVILLE MAFF
NEVILLE-ROLFE MAFF
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FROM: A W KUCZYS
DATE: 16 June 1987

PS/CHIEF SECRETARY

cc PS/Paymaster General
Mr Lavelle
Mr Monck
Mr A Edwards
Mr Burgner
Mr Crabbie
Mr Mortimer
Mr Bonney
Mr Cropper

GREEN POUND

The Chancellor spoke privately to the new Agriculture Minister in Luxembourg yesterday. Mr MacGregor fully accepted that the 10 per cent or greater devaluation in the green pound for which Mr Jopling had been pressing was not Government policy, and he would not be pursuing this. He would rest on what had been agreed at the Prime Minister's meeting before the Election, viz:

(i) a green pound devaluation greater than 4 per cent;

(ii) skewed in favour of beef; and

(iii) better than the deal on offer for the French and the Irish.

2. The Chancellor argued that the latest Presidency compromise (a 5 per cent devaluation generally, with 6½ per cent for beef) fitted the requirements. Mr MacGregor was not clear whether in fact the third requirement (that the deal should be better than those for France and Ireland) was met. He later consulted his officials, and told the Chancellor he was "virtually satisfied". On this basis, he expected to accept the Presidency compromise on the strict understanding that the other countries did not then receive a better offer. The Chancellor suggested that the sooner we accepted, on this basis, the better.

A W KUCZYS

~~E2 / 1028~~

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FRAME AGRICULTURE

FROM UKREP BRUSSELS

COUNCIL OF AGRICULTURE MINISTERS STARTING ON 15 JUNE: SECOND DAY

SUMMARY

1. COMMISSION TABLE A COMPROMISE (DETAILS IN MIFT) BROADLY FOLLOWING THE LINES OF THE PRESIDENCY COMPROMISE TABLED AT THE LAST COUNCIL WITH SOME DETAILED AMENDMENTS, SOME HELPFUL FROM THE UK POINT OF VIEW (POSTPONEMENT OF THE DECISION ON THE EWE PREMIUM CEILING AND AN EXTRA YEAR FOR SALTED BUTTER) SOME UNHELPFUL (A WORSE TEXT ON MILK SUBSTITUTES). THE MOST SIGNIFICANT CHANGE WAS A PROPOSAL ON THE AGRIMONETARY SYSTEM CLOSER TO THE COMMISSION'S ORIGINAL IDEAS (RETENTION OF THE STRONG CURRENCY SYSTEM BUT WITH THE INFLATATIONARY EFFECTS OFFSET BY ECU PRICE REDUCTIONS).

2. A BLOCKING MINORITY (UK, GERMANY, NETHERLANDS, DENMARK) AGAINST THE OILS AND FATS TAX AS PROPOSED BUT DANES WAVERING AND DUTCH THINKING CAREFULLY ABOUT A VARIANT SUGGESTED BY ANDRIESSEN UNDER WHICH THE TAX WOULD BE APPLIED ON A TEMPORARY BASIS AND THIRD COUNTRIES WOULD BE OFFERED COMPENSATION IF THEIR TRADE SUFFERED.

3. SOME PROGRESS ON THE REST OF THE PACKAGE BUT THREATS OF GERMAN VETOES ON THE AGRIMONETARY AND CEREALS AND OILSEED PRICE PROPOSALS.

4. DISCUSSIONS RESUMING AT 3 PM TODAY.

5. IN THE AFTERNOON OF 16 JUNE ANDRIESSEN (COMMISSION) TABLED A COMPROMISE, HAVING OBTAINED A MANDATE AT THE COMMISSION'S MEETING IN STRASBOURG THAT MORNING (DETAILS IN MIFT). HE SAID THAT THE PROPOSAL WAS CLOSELY BASED ON THE IDEAS OF THE PRESIDENCY AND WOULD COST ROUGHLY THE SAME IN 1988 AND ABOUT 20 MECU MORE IN 1987. THIS WAS THE VERY LIMIT OF THE BUDGETARY POSSIBILITIES. TECHNICAL CLARIFICATIONS OR IMPROVEMENTS MIGHT BE POSSIBLE BUT NO CHANGES OF SUBSTANCE COULD BE MADE. IN PARTICULAR THE OILS AND FATS TAX WAS CRUCIAL. IF IT WAS OMITTED BOTH THE REVENUE OF 2 BECU IN 1988 AND SOME 700 MECU IN SAVINGS WOULD BE LOST. THE STAND STILL ON GERMAN AND FRENCH RESTRICTIONS ON IMITATION PRODUCTS COULD NOT BE PROPOSED BY THE COMMISSION BUT MIGHT BE ADDED BY THE COUNCIL. 16

6. AFTER A BRIEF SESSION FOR FACTUAL QUESTIONS IN THE COURSE OF WHICH SIR MICHAEL FRANKLIN (UK) ELICITED THE CLARIFICATION THAT THE RULES FOR THE ELIMINATION OF NEW MCAS OF FLOATING CURRENCIES WOULD BE BASED BY ANALOGY ON THOSE APPLIED TO FIXED CURRENCIES, DE KEERSMAEKER ASKED FOR DELEGATIONS TO GIVE THEIR OVERALL REACTIONS ON THE LATEST IDEAS SO THAT HE COULD REACH CONCLUSIONS ON WHETHER IT WOULD FORM THE BASIS FOR A SETTLEMENT. VAINLY HE ASKED DELEGATIONS TO REFRAIN FROM REPEATING THEIR WELL KNOW SHOPPING LISTS.

7. MRS HOLBERG (DENMARK) WARNED THAT THE IMMEDIATE ELIMINATION OF ALL NEW PIGMEAT MCAS IN ADVANCE OF THE MCAS IN OTHER SECTORS WAS NOT ACCEPTABLE AND AFFECTED A VERY IMPORTANT DANISH INTEREST.
THE CEREALS AND OILSEED PRICE CUTS WERE TOO SEVERE. SHE WANTED BOTH THIS YEAR AND IN FUTURE TO BE ALLOWED TO KEEP THE DANISH GREEN AND CENTRAL RATES ALIGNED. SHE OPPOSED AUTOMATIC REDUCTIONS IN ECU PRICES TO OFFSET THE ELIMINATION OF ARTIFICIAL NEGATIVE MCAS THOUGH SHE COULD ACCEPT THAT MONETARY FACTORS BE TAKEN INTO ACCOUNT BY THE COMMISSION IN MAKING ITS PRICE PROPOSALS. HER OPPOSITION TO THE OILS AND FATS TAX WAS UNCHANGED.

8. KIECHLE (GERMANY) FOUND THE CEREALS, OILSEED AND FRUIT AND VEGETABLE PRICE CUTS EXCESSIVE, OPPOSED THE OILS AND FATS TAX AND COULD NOT ACCEPT THE AGRI-MONETARY PROPOSALS. MCA DISMANTLEMENT COULD BEGIN IN 1988 BUT ONLY ON THE BASIS THAT NO NATIONAL PRICES WOULD BE REDUCED. THE CHANGES IN THE CALCULATION OF CERTAIN MCAS WERE UNACCEPTABLE AS WAS THE INCREASED FRANCHISE FOR POULTRY AND PROTEIN CROPS. HE DID NOT WANT TO GIVE A COMMITMENT ON THE SUGAR REFINING MARGIN AND REPEATED HIS WELL KNOWN POINTS ON THE FLAT RATE AID FOR DRIED FODDER, INWARD PROCESSING FOR WHEY, VINE REPLANTING RIGHTS AND PROTECTION OF THE MILK MARKET FROM SUBSTITUTES.

9. POTTAKIS (GREECE) WANTED CONCESSIONS ON THE COTTON GUARANTEE THRESHOLD, TOBACCO PREMIA AND DURUM WHEAT QUALITY STANDARDS, A BIGGER GREEN RATE DEVALUATION FOR SHEEP AND STRUCTURES AND A BIGGER FRANCHISE FOR OLIVE OIL MCAS. HE COULD ONLY ACCEPT THE MCA SWITCHOVER SYSTEM IF ARTIFICIAL NEGATIVE MCAS WERE ELIMINATED IMMEDIATELY. OTHERWISE THE PACKAGE WAS ACCEPTABLE PROVIDED THE OILS AND FATS TAX WAS RETAINED.

10. ROMERO (SPAIN) OPPOSED THE LIMITING OF VINE REPLANTING RIGHTS AND THE INTRODUCTION OF OLIVE OIL MCAS UNLESS THE FRANCHISE WAS RAISED TO 10 PER CENT. HE SOUGHT SENSITIVE AREA STATUS FOR SHEEP AND CONCESSIONS ON TOBACCO, FRUIT AND VEGETABLE AND LENTILS. /11

11. GUILLAME (FRANCE) MOUNTED A PASSIONATE DEFENCE OF THE OILS AND FATS TAX. ON THE AGRI-MONETARY SYSTEM HE WANTED QUICKER ELIMINATION OF NEW MCAS AND SOME MOVE THIS YEAR ON EXISTING POSITIVE MCAS. HE SOUGHT THE REDUCTION OF CEREALS MONTHLY INCREMENTS, A SUBSIDY ON THE USE OF CEREALS FOR ANIMAL FEED, THE RETENTION OF VINE REPLANTING RIGHTS, A DECISION BY THE COUNCIL (NOT THE COMMISSION) ON THE PERCENTAGE USED FOR DISTRIBUTING WINE OBLIGATORY DISTILLATION, ACTION ON MILK SUBSTITUTES AND THE APPLICATION OF THE SUGAR ELIMINATION LEVY EQUALLY TO A AND B QUOTAS.

12. O'KENNEDY (IRELAND) WANTED A BIGGER GREEN RATE DEVALUATION AND QUICKER ELIMINATION OF FUTURE MCAS. HE WANTED MCAS FOR SOFT DRINKS, IMPROVEMENTS IN THE RULES FOR NON ANNEX II MCAS AND NO CHANGE IN THE CALCULATION OF BEEF MCAS. THE CONCESSION ON NIZO BUTTER SHOULD APPLY TO OTHER SIMILAR PROCESSES. NATIONAL CEREAL MARKETS SHOULD BE BETTER PROTECTED AND THE STUDY ON SET ASIDE SHOULD COVER OTHER MEANS OF SUPPLY CONTROL. THE OILS AND FATS TAX WAS ESSENTIAL AND DELORS' CLAIM THAT HE HAD ANSWERED U S CRITICISM WAS SIGNIFICANT.

13. PANDOLFI (ITALY) ECHOED THIS POINT BUT SUGGESTED THAT THE COMMISSION TABLE AN ALTERNATIVE VERSION OF THE TEXT TO PACIFY ITS FEW OPPONENTS. OTHERWISE HE AGREED WITH GUILLAME. HE HAD HIS OWN LIST OF DEMANDS (EG THE RETENTION OF VINE REPLANTING RIGHTS) BUT WOULD PUT THEM TO THE COMMISSION BILATERALLY).

14. FISCHBACH (LUXEMBOURG) WANTED TO RETAIN VINE REPLANTING RIGHTS AND EXISTING RULES ON WINE ENRICHMENT. THE CEREALS AND OILSEED PRICE CUTS WERE TOO SEVERE. THE PROPOSED MECHANISM ON MCAS WAS GENERALLY ACCEPTABLE EXCEPT THAT THE 30 PER CENT AUTOMATIC ADJUSTMENT WAS TOO HIGH AND THERE SHOULD BE NO REDUCTION IN ECU PRICES TO OFFSET THE ELIMINATION OF NEGATIVE MCAS. NOR SHOULD THE MCA CALCULATION BASE BE REDUCED.

15. BRAKS (NETHERLANDS) CONTINUED TO OPPOSE THE OILS AND FATS TAX. A MORE HONEST APPROACH WOULD BE TO NEGOTIATE THE APPLICATION OF AN IMPORT LEVY IN GATT. THE PROPOSAL FOR THE MCA SYSTEM WAS GENERALLY ACCEPTABLE BUT HE WOULD HAVE LIKED QUICKER ADJUSTMENTS. THE SUGAR ELIMINATION LEVY SHOULD APPLY EQUALLY TO A AND B QUOTAS.

16. BARRETO (PORTUGAL) WANTED NO CHANGE IN VINE REPLANTING RIGHTS, ASSISTANCE TO SUGAR REFINERS ON A COMMUNITY-WIDE BASIS AND A 10 PER CENT FRANCHISE FOR OLIVE OIL MCAS. HE COULD NOW ACCEPT THE OILS AND FATS TAX DESPITE U S PRESSSSURE AND COULD AGREE THE PROPOSED AGRI-MONETARY SYSTEM.

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17. MR MACGREGOR (UK) STRESSED OUR CONTINUED OPPOSITION TO THE OILS AND FATS TAX AND GAVE A NUMBER OF ALTERNATIVE WAYS OF MAKING GENUINE SAVINGS. HE OPPOSED EVEN PERMISSIVE CHANGES IN THE CEREALS CO-RESPONSIBILITY LEVY, AND SOUGHT A COMMITMENT TO A DECISION ON THE SUGAR REFINING MARGIN AT THE SAME TIME AS THE ADOPTION OF THE MANDATE FOR NEGOTIATIONS WITH THE ACP. HE OPPOSED THE PROPOSAL TO INCREASE THE SPANISH MILK QUOTA AND FOUND THE EXTENSION OF ONE YEAR IN THE AVAILABILITY OF INTERVENTION FOR SALTED BUTTER INSUFFICIENT. HE HAD TECHNICAL PROBLEMS WITH PART OF THE TEXT ON MILK SUBSTITUTES AND NEEDED CONFIRMATION ABOUT THE CONTINUED ACCEPTABILITY OF THE DESIGNATION 'ICE CREAM'. HE WELCOMED THE PROPOSAL TO POSTPONE A DECISION ON THE CEILING ON EWE PREMIA AND WARNED THAT OUR OPPOSITION WOULD REMAIN. ON EXISTING MCAS, HE THOUGH THE PROPOSAL TOO GENEROUS TO GERMANY AND NOT GENEROUS ENOUGH TO THE UK. HE SOUGHT AN ASSURANCE THAT THE UK DEVALUATION WOULD APPLY TO SHEEPMEAT. ON THE SYSTEM FOR FUTURE MCAS, HE DISLIKED THE IDEA OF CONTINUING THE SWITCHOVER BUT SAID THAT, IF IT DID REMAIN, THEN THE SYSTEM OF OFFSETTING ECU PRICE REDUCTIONS WOULD BE NECESSARY. THERE SHOULD BE A MINUTES ENTRY NOTING THAT ANY SUCH REDUCTIONS WOULD HAVE TO BE CARRIED THROUGH INTO THE PRICES GUARANTEED TO THE ACP SUGAR PRODUCERS. HE DISLIKED THE EXTENSION OF MCAS TO CERTAIN PROCESSED PRODUCTS AND COULD ACCEPT MDAS FOR PEAS AND BEANS ONLY WITH A 10 PER CENT FRANCHISE AND AFTER THE REMOVAL OF QUALITY PREMIA.

18. VAN DE MOORTEL (BELGIUM) FOUND THE CEREALS AND OILSEED PRICE REDUCTION TOO BIG AND STRESSED THAT THE OILS AND FATS TAX STILL HAD THE FULL SUPPORT OF THE BELGIAN GOVERNMENT.

19. ANDRIESSEN DID NOT ATTEMPT TO DEAL WITH THE DETAILED POINTS WHICH HAD BEEN RAISED. HE COMPLAINED THAT REPEATING FAMILIAR POINTS WAS NOT NEGOTIATION. THE 1ST OF JULY AND THE NEW CEREALS CROP YEAR WERE CLOSE. IF THE COUNCIL FAILED TO REACH A DECISION THE COMMISSION WOULD RELUCTANTLY ASSUME ITS RESPONSIBILITY TO FILL A LEGAL VACUUM.

20. AFTER A BREAK THE COUNCIL RESUMED DISCUSSION IN A HIGHLY RESTRICTED SESSION AND ESTABLISHED THROUGH AN INDICATIVE VOTE, THAT A BLOCKING MINORITY (UK, GERMANY, NETHERLANDS AND DENMARK, WITH SPAIN WAVERING) OPPOSED THE OILS AND FATS TAX.

21. ANDRIESSEN THEN SOUGHT VIEWS ON THE IDEA OF TEMPORARY TAX, WITH AN OFFER OF COMPENSATION FOR ANY LOSS OF TRADE. BRAKS DID NOT THINK THAT CHANGES OF DETAIL WOULD HELP, BUT WAS READY TO CONTINUE TALKING THOUGH HE COULD NOT CHANGE HIS POSITION NOW. MR MACGREGOR SAID THAT THE PRINCIPLE OF THE TAX HAD TO BE CONSIDERED IN A FINANCIAL AND NOT AN AGRICULTURAL CONTEXT. MRS HOLBERG HINTED THAT

/ SHE

SHE MIGHT BE ABLE TO CHANGE HER POSITION IF SHE WAS CONVINCED THAT THE TAX WOULD NOT CREATE TRADE PROBLEMS AND IF SHE GOT SATISFACTION ON SOME TECHNICAL POINTS. KIECHLE THOUGHT THAT THE TAX WOULD BREAK SUCCESSIVE UNDERTAKINGS BY THE COMMUNITY IN PUNTA DEL ESTE, OECD AND VENICE. (HE LATER ADDED THAT THE CONCEPT OF GUARANTEE THRESHOLDS WAS FLAWED. OTHER MEANS OF SUPPLY CONTROL WERE NEEDED). PANDOLFI SUGGESTED THAT THE COMMISSION TABLE A DRAFT NEGOTIATING MANDATE FOR DISCUSSIONS WITH THIRD COUNTRIES.

22. DE KEERSMAEKER CONCLUDED THAT PROGRESS HAD BEEN MADE AND THAT THE SUBJECT SHOULD BE RECONSIDERED WHEN THE PAPER SUGGESTED BY PANDOLFI HAD BEEN PREPARED AND ONE DELEGATION HAD REFLECTED. HE THEN SOUGHT TO ESTABLISH WHETHER THERE WAS A QUALIFIED MAJORITY FOR THE PROPOSAL ON THE FUTURE OF THE AGRIMONETARY SYSTEM.

23. WITH GREATER OR LESER RELUCTANCE, ALL COULD ACCEPT EXCEPT KIECHLE (WHO GAVE A CLEAR WARNING THAT HE WOULD VETO THE PROPOSAL), FISCHBACH AND MRS HOLBERG (WHO OPPOSED AUTOMATIC REDUCTIONS IN ECU PRICES) AND POTTAKIS AND O'KENNEDY (WHO WANTED QUICKER DISMANTLEMENT OF NEGATIVE MCAS)

24. DE KEERSMAEKER NOTED THAT, ALTHOUGH THERE HAD BEEN NO VOTE, THE VIEWS EXPRESSED SUGGESTED THAT THIS WOULD BE A QUALIFIED MAJORITY IF GREECE AND IRELAND COULD BE SATISFIED ON THE PACE OF MCA DISMANTLEMENT. HE THEN SOUGHT VIEWS ON THE PROPOSAL ON THE DISMANTLEMENT OF EXISTING POSITIVE MCAS.

25. MR MACGREGOR RESERVED HIS POSITION UNTIL THE OVERALL AGRIMONETARY DECISION WAS CLEARER AND KIECHLE WANTED CLEARER WORDING ON COMPENSATION BUT ONLY GUILLAUME WAS FIRMLY OPPOSED.

26. DE KEERSMAEKER CONCLUDED THAT AGREEMENT SEEMED POSSIBLE AND SOUGHT VIEWS ON THE PROPOSAL ON NEGATIVE MCAS.

27. O'KENNEDY, GUILLAUME, POTTAKIS, MRS HOLBERG AND MR MACGREGOR ALL WANTED BIGGER DEVALUATIONS, AND MRS HOLBERG AND VAN DER MOORTEL HAD SPECIAL DIFFICULTIES WITH THE PROPOSAL FOR EXTRA DEVALUATIONS FOR PIGMEAT. 128

28. DE KEERSMAEKER CONCLUDED THAT THERE WERE STILL MANY PROBLEMS TO BE RESOLVED AND ASKED FINALLY FOR AN INDICATION OF WHETHER THE REMAINING ELEMENTS OF THE PRICES PACKAGE WERE A BASIS FOR A SETTLEMENT. ONLY KIECHLE SUGGESTED THAT THE PROPOSAL ON PRICES COULD NOT FORM A BASIS FOR A SETTLEMENT AND AGAIN HINTED STRONGLY THAT HE WOULD VETO. SEVERAL OTHER DELEGATIONS MADE CLEAR THAT THEIR DETAILED RESERVATIONS STILL STOOD. DISCUSSION WAS THEN ADJOURNED UNTIL 3 PM TODAY (TO FOLLOW DISCUSSION ON THE INTERNAL MARKET ITEMS ON THE AGENDA).

MILES

YYYY
ADVANCE
HARRISON FCO
MCADAM CAB
JOHNSON DTI
THOMAS MAFF
NASH MAFF
PACKER MAFF
HOLLIS MAFF
MORDUE MAFF
BONNEY TSY
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RP

FROM: A C S ALLAN
DATE: 17 June 1987

MR BONNEY

cc PS/Chief Secretary
PS/Paymaster General
Mr Burgner
Mr Edwards
Mr Crabbie
Mr Mortimer

AGRICULTURE COUNCIL

The Minister of Agriculture rang the Chancellor this morning to report on progress at the Agriculture Council.

Oil and Fats Tax

2. The Minister of Agriculture reported that the Portuguese had now gone over to accepting an oils and fats tax; the Spanish were ambivalent, but likely to support if the rest of the package was acceptable. Ministers had been asked to consult capitals about two rather vague propositions:

(i) from the Commission, that an oils and fats tax should be introduced for two years only; and that they should consult with trading partners and offer compensation if they suffered damage;

(ii) from the Dutch, that Ministers should take a decision in principle to introduce a tax, but should only go ahead if agreement was reached with trading partners (there is apparently some cereals precedent for this approach).

MAFF officials would be consulting officials in the Cabinet Office and other Departments this morning.

3. The Minister of Agriculture said that while others had emphasised the dangers of a trade war, he had also brought out our other concerns about the cost to poorer families and the effects on the RPI. But he felt we needed to consider what our position should be if we were isolated; the Commission's legal advice seemed to be

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that we could not sustain a veto. It was clearly critical to keep the Dutch on side; they, with the Germans and ourselves, constituted a blocking minority. If we were isolated, he thought there were three options:

(i) vote against the proposal but be outvoted;

(ii) try to put it off to the European Council;

(iii) use our veto.

He had reservations about using our veto and felt that the best option would be to push the proposal off to the European Council.

4. The Chancellor said that in his view our top priority must be to block the proposal if we possibly could. If we were isolated, his instinctive reaction was that we should not at the end of the day use our veto. But it was very important not to let others know that we would not: we must use their fear of our veto to extract as many concessions as possible. He agreed with the Minister of Agriculture that he should aim to push this off to the European Council, on the grounds that the issues went far wider than agriculture alone.

5. The Chancellor would be grateful if you could consult with other Departments and the Cabinet Office on developments, and keep him in close touch.

<u>Green pound</u>

6. The Minister of Agriculture reported that new Commission proposals benefited the Irish more than the UK on one commodity (cereals); the Irish had said the whole package was unacceptable and were asking for more. Under questioning from the Chancellor, the Minister of Agriculture admitted that the Commission proposals were better for the UK than the Irish in aggregate, and on the most sensitive commodity, beef. The Chancellor said that the proposals therefore satisfied the remit at the Prime Minister's last meeting.

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We should stiffen the Commission to refuse to give any ground to the Irish.

7. The Minister of Agriculture said he took the Chancellor's point; but there were various other complications, which he would enlarge on later.

ACSA

A C S ALLAN

ECOFIN + AGRI COUNCIL

LAVELLE TO CH/EX 17/6

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CHANCELLOR

FROM : R G LAVELLE
17 June 1987

cc Chief Secretary
Paymaster General
Sir G Littler
Mr Edwards
Mr Bonney
Miss Barber

CABINET : 18 JUNE

Monday's meeting was not an exhilarating start to the new session. However, given the likelihood of some discussion of subsequent developments in the Agriculture Council, especially on oils and fats, it might be appropriate to recall how the week began:

i. Commission had called for joint meeting of ECOFIN and Agriculture Council under the 1984 Budget Discipline agreement;

ii. own statement set out UK views on amount of savings needed; agrimonetary reform; 1987 problems, notably the switch from advances to reimbursement of guarantee expenditure; and the oils and fats tax ("regulatory amounts");

iii. subsequent country statements (two each), largely dispiriting recapitulation of known national positions;

iv. strong attack on German position on MCAs by Dutch and French;

v. at subsequent ECOFIN, secured final adoption of 1988 Reference Framework;

vi. in EMS discussion, main development was link alleged by French, for negotiating reasons, between further capital liberalisation and technical improvements in EMS.

R

R G LAVELLE

From: Mrs V Imber
Date: 17 June, 1987

Noted at end

1 MR BONNEY
2 CHIEF SECRETARY 17/6

cc: Chancellor
Minister of State
Mr F E R Butler
Mr Lavelle Mr Monck
Mr Burgner Mr Edwards
Mr Turnbull Mr Mortimer
Mr Tyrie

CAP PRICE FIXING: COMMISSION COMPROMISE

At yesterday's session of the Agriculture Council, the Commission tabled a compromise on the Price Fixing Package. With the exception of changes to the oils and fats tax which was covered by Mr Bonney's submission* earlier today, the package is broadly similar to the second Presidency compromise outlined in Mr Bonney's minute of 15 June, and would have approximately the same financial effects on both UK public expenditure and the Community Budget.

2 The most significant changes occur in the agrimonetary proposals, which are on the whole slightly better than those in the Presidency compromise. The existing Dutch and German positive MCAs are to be dismantled over a three year period but only 0.5 of a percentage point is to be removed by an increase in the agricultural coefficient, which is implicitly less costly than the Presidency proposal for a 1 percentage point increase in the coefficient. Most of the green rate devaluations proposed in the Presidency compromise remain unchanged except for small increases for Spain and Portugal.

3 On the agrimonetary system, the Commission have reverted to a variant of their original proposal, under which the strong currency (switchover) system is retained but its inflationary effect on

*Ch
You have seen — further copy below AWK

national prices in countries with negative MCAs is to be offset by automatic reductions in common prices. Although not fully satisfactory, this is an improvement on the existing system and the Presidency proposal.

4 Agriculture officials are inclined to settle on the package excluding the oils and fats tax, now that their problem over the proposed headage limit has been met by wrapping the final decision up with the review of the sheepmeat regime scheduled for July. They hold out no prospect of achieving our objective of restoring the level of savings originally proposed by the Commission. If it proves possible to isolate the oils and fats tax, we doubt whether it would be advantageous to attempt to block the rest of the package. The Minister of Agriculture should, however, make a statement registering the view (as expressed by the Chancellor to the joint Council) that the budgetary savings proposed are inadequate.

Valerie Imber.

VALERIE IMBER

The fact that the Commission have now tabled a revised proposal suggests that they are hoping for an early settlement. MAFF are aware that any change in the green pound proposal will need prior clearance with Treasury Ministers.

17/6

CHANCELLOR

FROM R J BONNEY
DATE 17 JUNE 1987

cc Chief Secretary
Paymaster General
Mr Lavelle
Mr Burgner
Mr Edwards o.r.
Mr Crabbie
Mr Mortimer
Mrs Imber

Thanks: Do we have a proper account of the outcome of the Agric Council? I would like to see it.

Luxembourg Telno 102

AGRICULTURE COUNCIL: OILS AND FATS TAX

The questions on the oils and fats tax referred to in Mr Allan's minute of today were discussed by officials under Cabinet Office chairmanship this morning. The Treasury, FCO, DTI, MAFF, Treasury Solicitor and the Law Officers' Department were represented.

2. The chairman drew the following conclusions as representing the consensus at official level:

(i) the Government has repeatedly made clear its fundamental objections to the tax on a number of grounds and our main objective should be to find some way of killing it;

(ii) the preferred course would be to seek to delay any decision at least until the European Council had had the opportunity to discuss the issues (the chances of killing it there seem marginally better);

(iii) our tactics in the Agriculture Council should be guided by these considerations and not overly influenced by our views on the rest of the package (which MAFF now regard as acceptable).

3. There are three possible situations in the Council:

either (i) we could take advantage of other Member States' objections to other parts of the Price Fixing package to ensure that none of it is adopted. (This would have the advantage of not isolating the UK in opposing the tax, though we could end up with some strange bedfellows);

or (ii) we could press for the individual elements of the package (including the oils and fats tax) to be considered separately. In this case (subject to the Foreign Secretary's views) we might begin using Luxembourg compromise language on "very important issues" being at stake and arguing for delaying a decision until the European Council;

or (iii) if Presidency refuse to split the package and it was acceptable to most other Member States, the UK would be obliged to oppose the whole compromise regardless of our attitude to the rest of the proposals. It would be for Ministerial consideration whether to invoke the Luxembourg compromise (and risk the veto being ignored by the others) or to vote against (and risk being outvoted by qualified majority). But the Minister of Agriculture would need to use all available procedural devices to avoid such a situation: for example insisting on returning to London to consult Cabinet colleagues before participating in a vote.

4. If the Council fails to tke any decisions on the Price Fixing proposals, the likelihood is that the Commission (as in 1985) would act on its own initiative to fix price levels for the main commodities on the basis of their current proposals. (This has to be done before the start of the cereals marketing year on 1 July). They would not however be able to put into effect the oils and fats tax without a Council decision or (probably) change the existing agrimonetary arrangements.

Luxembourg compromise

5. It is possible that the Minister of Agriculture and/or the Foreign Secretary will wish to speak to you later today about whether to invoke the Luxembourg compromise either to block a

decision on the oils and fats tax alone (the scenario in paragraph 3(ii) above) or to block decisions on the whole of the Price Fixing package as in paragraph 3(iii). This is essentially a matter for political judgement but, as we see it, the principal considerations are as follows:

for invoking compromise

-the Government has made known its fundamental objections to the tax on grounds of the likely damage to external trade relations, the regressive effect on consumers and the principle of introducing a new tax not subject to ratification by national Parliaments;

- given this public position it will be very difficult to defend subsequently a decision not to use all possible means to prevent adoption of the tax;

- failure to invoke the Luxembourg compromise in these circumstances will expose the ineffectiveness of the UK right of veto when major issues are at stake;

- the Opposition will no doubt make great play of the Government's Election pledges not to increase taxes on food.

against invoking compromise

- FCO take the view that there is a serious risk that the UK veto would be ignored (as it was in 1982) if we sought to use it on this issue. In practice we would only need to invoke the compromise if German opposition to the tax had been bought off and in those circumstances we could only rely on the Danes (and possibly the Greeks) to refuse to participate in voting. (This would not form a blocking minority);

- the Foreign Secretary's view is that it would be more difficult to defend a decision to invoke the compromise which failed than a decision to allow ourselves to be outvoted;

- other Member States would no doubt claim that the very important issues raised by the tax do not affect the UK more than other Member States;

- it might help presentationally to be in a position to say that we are prepared to challenge the introduction of the tax in the European Court. Official lawyers take the view that there is a reasonable prime facie case for a challenge on the grounds that the Regulation should be based on Article 201 of the Treary (which requires unanimity). However, this is only a provisional view which would need to be confirmed by a Law Officers' opinion;

- alternatively we could take the line that the question of the tax will in practice need to be resolved in the inevitable GATT negotiations with external trading partners.

6. I understand that the Foreign Secretary has now spoken to the Minister of Agriculture. Mr MacGregor is fully persuaded of the need to get the tax referred to the European Council. Given that German opposition is still apparently firm, there seems a reasonable chance that this will be achieved. Mr MacGregor apparently volunteered that he is anxious not to invoke the Luxembourg compromise in case his veto is ignored.

RJB

R J BONNEY

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MR LAVELLE

FROM R J BONNEY
DATE 18 JUNE 1987

cc PPS
PS/Chief Secretary
PS/Paymaster General
Mr Edwards o.r.
Mr Burgner
Mr Crabbie
Mr Mortimer
Mrs Imber

AGRICULTURE COUNCIL: CAP PRICE FIXING

I have heard conflicting reports about the outcome of the Agriculture Council which has now broken up without taking any decisions. No reporting telegram has yet arrived and it may be pretty sketchy when it does, as the final exchanges were apparently conducted in superrestrictive session. The next steps will be for discussion at the Williamson/Hannay meeting tomorrow. But you may want to suggest that a separate meeting on tactics in any resumed Agriculture Council and at the European Council would be desirable.

2. Both my informants told me that the Presidency attempted to take an indicative vote on the Commission's revised proposals last night and tried to conclude that, leaving aside the oils and fats tax (which would need to be referred to the European Council because of continued opposition from the UK, Germany and the Netherlands), there seemed likely to be a quantified majority in favour of the rest of the package. The Germans are, however, reported as having begun to use Luxembourg compromise language about "very important national interests" both in relation to the agrimonetary proposals and on the price cuts proposed for cereals and oilseeds.

clearly falls to UK

3. One of my sources suggested that in the indicative voting on the specific green rate changes both the UK and Ireland said that they were not content with the current proposal. (I understand that the Commission have proposed an additional ½% off the MCAs of all devaluing countries to compensate for the

proposed ½% increase in the switchover co-efficient. This gives a green pound devaluation of -7% for beef and -5.5% for other products. It remains unclear what devaluation is proposed for sheepmeat). My other source did not confirm this: UK opposition to the green rate changes proposed would seem inconsistent with the reported exchanges between the Chancellor and the Minister of Agriculture, unless the latter was registering that he considered that the additional ½% was unnecessary.

4. The Presidency drew no specific conclusions about further meetings of the Agriculture Council to resolve the outstanding issues. It seems clear that the oils and fats tax and agrimonetary reform will be referred to the European Council. But the Germans may insist on raising other matters there too (including cereals and oilseeds). The Presidency may decide to reconvene the Agriculture Council to try to make further progress on some of the issues before, during or immediately after the European Council. If cereals and oilseeds prices have not been fixed before 1 July, the Commission may (as in 1985) act to give effect to the latest compromise through management decisions.

<u>Tactical choices</u>

5. On the <u>oils and fats tax</u> our objective for the European Council is fairly clear: we should <u>either</u> get the proposal definitively rejected because of its wider policy implications <u>or</u> (more realistically) argue that it should be treated on its merits as a revenue raising device in the context of the future financing review. We should no doubt suggest further contacts with external trading partners to demonstrate that even the Commission's revised proposal would be unacceptable to them.

6. On <u>agrimonetary reform</u> our position in principle is also clear: we should continue to oppose any prolongation of the strong currency/switchover system and advocate automatic dismantlement of any future positive MCAs. This outcome is, however, unlikely to be negotiable and the risk is that the Germans

and French will cook up a mutually acceptable deal (possibly involving withdrawal of German opposition to the oils and fats tax). We may need to be prepared to accept some rather unsatisfactory compromise on the lines of the Commission's proposal, if the alternative seems likely to be continuation of the present even more unsatisfactory system. Ideally we would want to introduce the principle that any Member State (such as Germany) which insisted on keeping an undervalued green currency more than, say, one year after an EMS Realignment should be obliged to contribute to the additional cost to the EC Budget. (We are pursuing how this idea might work with MAFF).

7. On commodity issues the view in MAFF is that the longer the negotiation drags on the worse the package will get from a financial point of view. If the current proposals were put to the vote and the UK's vote was necessary to ensure their adoption, the sensible course might be to vote in favour (because of the operational need to set prices before 1 July) but to make an explanatory statement on the need for the Council and the Commission to find further savings this year. If the package gets significantly worse because the Commission make more concessions to the Germans, it would be preferable to vote against, even at the risk of blocking decisions: Commission action to implement the current compromise would be a preferable outcome, even though it would offend some in MAFF.

8. On the green pound it would be pointless to continue to press for a higher devaluation as this will only encourage others to do the same and remove any credibility from our position on the need for further budgetary savings.

9. Of course, if the Germans actually invoke the Luxembourg compromise on any of these issues (as distinct from threatening to do so), current UK policy would prevent us from participating in a vote, even if we were ourselves prepared to accept the proposals and even if (as is clear) the Germans would not feel

similarly obliged to prevent a vote if we were to invoke it (say, on the oils and fats tax). As suggested above, the implication of failing to reach decisions on the commodity issues would probably be that the Commission would effectively enact the latest compromise through management action. On agrimonetary reform the situation is less clear: strictly the current Regulation provides that the "switchover system" will end this year unless the Council takes a positive decision to renew it but the Commission would almost certainly act to prevent any changes in MCAs.

10. On procedure, although the Germans cannot be prevented from raising issues such as agrimonetary reform and commodity prices at the European Council, I presume that the Prime Minister would not wish to engage in a detailed negotiation there. The best outcome would be to remit all the detailed points (except the oils and fats tax) back to the Agriculture Council, preferably with a message that they should not take decisions which add to the Community's existing budgetary problems.

RJB

R J BONNEY

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Cathy Ryding, Chancellor's Office

MINISTRY OF AGRICULTURE
FISHERIES AND FOOD

WITH THE COMPLIMENTS
OF
THE PRIVATE SECRETARY

Liz Monie

18/6

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MR PICKFORD.

AGRICULTURE COUNCIL : 15-17 JUNE 1987

~~DRAFT~~ PRESS STATEMENT

Mr John MacGregor, the Minister of Agriculture, Fisheries and Food, made the following statement today in London on the outcome of this week's Council of Agriculture Ministers:-

"I regret that it was not possible to reach agreement this week on the prices and related measures for 1987/88; but it would not have been right to agree to a package which included the oils and fats tax to which the UK Government is opposed on a number of important grounds. My opposition to this measure was supported by sufficient other Member States to prevent its adoption.

It was clear, however, that agreement could not have been reached for a further reason: the German Government made it clear that they regarded the proposed mechanism for achieving a staged removal of MCAs created by future currency movements and proposed price changes as being ~~an~~ issues of vital importance to which it would apply the veto.

I would have been prepared to accept the price proposals themselves with the improvements which the UK had obtained. The proposals produce savings to the Community Budget for 1987 and 1988 and carry forward the process of reforming the Common Agricultural Policy. At the same time they would improve the competitive position of UK farmers and traders in relation to their main competitors in the Community. The package included for the UK reductions in monetary compensatory amounts of 7 points for beef and 5.5 points for other commodities. In addition, our farmers and traders would benefit from changes in the method of calculating MCAs on beef, cereals and dairy products, for which we have pressed in the negotiations. I made clear that my acceptance of the green rate proposals for this year was dependent on there not being further changes in the devaluations proposed for other Member States.

In the negotiations I also secured a number of important changes of benefit to the UK. In particular I have fought off any decision to place a limit on the number of ewes per farm which can receive annual premium.

The package now includes an undertaking by the Commission to make a proposal which will provide for a system of milk quota leasing. I also secured an additional year up to April 1989 for intervention on salted butter.

The Council would accept the need to take rapid measures to ensure an adequate refining margin for raw cane sugar in the UK.

The overall effect of the package on consumers (without the oils and fats tax) would be very small, less than ½% on the Food Price Index.

No date was fixed for a further meeting of the Agriculture Council. But the Commission stated that it would take necessary measures to avoid market difficulties from 1 July when the new cereal, oilseed and sugar marketing years begin.

The outstanding issues are likely to come up at the end of this month when the European Council is due to discuss the future financing of the Community."

18 June 1987

REVISE

~~D26/E2~~

GRS 2000

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FM LUXEMBOURG
TO IMMEDIATE FCO
TELNO 102
OF 180700Z JUNE 87
INFO IMMEDIATE UKREP BRUSSELS, WASHINGTON
INFO PRIORITY EUROPEAN COMMUNITY POSTS

Ch/
You asked to see the [illegible] proper account of the outcome of the Agriculture Council. Sorry for delay — our original copy of this went astray.
[illegible] 22/6

PART 1 OF 2
FROM UKREP BRUSSELS
FRAME AGRICULTURE
COUNCIL OF AGRICULTURE MINISTERS : 15-18 JUNE 1987
FINAL DAY

SUMMARY

1. COUNCIL ENDED WITHOUT AGREEMENT BECAUSE THERE WAS A BLOCKING MINORITY OPPOSED TO THE OILS AND FATS TAX AND BECAUSE GERMANY INDICATED THAT SHE WOULD USE THE VETO TO PREVENT FORMAL VOTES, IN WHICH QUALIFIED MAJORITIES WOULD HAVE EXISTED, ON THE FUTURE AGRIMONETARY SYSTEM AND ON THE PRICES PACKAGE.

2. OPPOSITION TO THE OILS AND FATS TAX CAME FROM UK, GERMANY AND THE NETHERLANDS, WITH DENMARK NOT PREPARED TO SUPPORT THIS OR ANY PART OF THE TOTAL PACKAGE IN ISOLATION FROM OTHERS.

3. THE PRESIDENT CONCLUDED THAT A FURTHER COUNCIL WOULD BE CONVENED TO TAKE FORMAL VOTES AND THAT HE WOULD REPORT TO THE EUROPEAN COUNCIL, LEAVING IT AMBIGUOUS WHETHER THE FURTHER COUNCIL WOULD PRECEDE OR FOLLOW THE EUROPEAN COUNCIL.

4. THE COMMISSION, WHO HAD ANTICIPATED THIS KIND OF OUTCOME FROM THE OUTSET, ANNOUNCED THAT THEY WOULD ASSUME THEIR RESPONSIBILITY TO FILL THE LEGAL VACUUM WHICH WILL EXIST WHEN NEW MARKETING YEARS BEGIN ON 1 JULY IN A DYNAMIC MANNER SO AS TO ACHIEVE SOUND MARKET MANAGEMENT - IMPLYING THAT THEY WILL NOT SIMPLY EXTEND THIS YEAR'S PRICES.

5. SEPARATE CONFIRMATION OF AGREEMENT ON ARRANGEMENTS FOR IMPORT OF US CEREALS INTO SPAIN IN MIFT WITH OB ITEMS. PREVIOUS DAYS ON COUNCIL AND INTERNAL MARKET ITEMS REPORTED SEPARATELY. ALL OTHER DETAILS BELOW.

While the Germans curtly threatened the veto @ Y, there was challenge on German votes on agrimonetary @ X. It may well be desirable to put it to the test next time round.

DETAIL

(A) OILS AND FATS TAX

6. ANDRIESSEN (COMMISSION) INTRODUCED A NON-PAPER ON THE OILS AND FATS TAX. THIS INVOLVED:

(1) THE TAX APPLYING FROM 1 OCTOBER 1987 TO 31 DECEMBER 1989 WITH COUNCIL DECIDING ON ITS CONTINUATION OR ALTERATION BEFORE 1 JULY 1989.

(2) IN THE EVENT OF DISTORTION BETWEEN DIFFERENT PRODUCTS, THE

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/COUNCIL

COUNCIL TO MODIFY THE LIST OF PRODUCTS COVERED OR INTRODUCE ABATEMENT IN THE RATE OF LEVY FOR PARTICULAR PRODUCTS.

(3) IF IT HAD BEEN ESTABLISHED BY 1 OCTOBER 1988 THAT THE TAX HAD LED TO A REDUCTION IN IMPORTS FROM THIRD COUNTRIES, THE COMMUNITY WOULD IMMEDIATELY NEGOTIATE WITH THESE COUNTRIES TO DETERMINE ANY APPROPRIATE COMPENSATION FOR THE LOSSES AND WOULD TAKE THE MEASURES NECESSARY TO PREVENT RECURRENCE OF SUCH LOSSES.

ANDRIESSEN SAID THAT THIS WAS NOT A PROPOSAL BUT AN ILLUSTRATION OF COMMISSION THINKING. IT WOULD REMOVE ANY EXCUSE FOR RETALIATION AGAINST THE TAX BY THIRD COUNTRIES AND REPRESENTED A MAJOR CONCESSION. THE SECOND POINT WOULD MEET DANISH CONCERNS ABOUT THE EXCLUSION OF COCOA BUTTER FROM THE TAX. OPPONENTS OF THE TAX SHOULD BE ASKED TO CONSULT THEIR GOVERNMENTS ABOUT THE NON-PAPER.

7. MR MACGREGOR (UK) SAID THAT HIS POSITION WAS UNCHANGED. HIS OBJECTIONS WERE WIDER THAN TRADE POLICY AND THE PAPER DID NOT IN ANY CASE OVERCOME THOSE TRADE CONCERNS. THE ISSUE NEEDED TO BE DISCUSSED IN A WIDER CONTEXT.

8. DE ZEEUW (NETHERLANDS) SAID THAT HIS CONCERNS ALSO WENT WIDER THAN TRADE POLICY. A CONSUMPTION TAX WAS NOT AN APPROPRIATE WAY TO RAISE REVENUE. THE DUTCH POSITION HAD BEEN DECIDED BY CABINET AND COULD NOT BE CHANGED AT THIS STAGE.

9. KIECHLE (GERMANY) WAS READY TO DISCUSS THE COMMISSION'S IDEAS AT THE NEXT CABINET MEETING. BUT THERE WAS NO IMMEDIATE CHANGE IN BONN'S ATTITUDE.

10. MRS HOLBERG (DENMARK) WAS STILL AGAINST THE TAX BUT THE NON-PAPER DID GO SOME WAY TO MEET HER CONCERNS (EVEN THOUGH IT DID NOT SATISFY HER ON COCOA BUTTER). HER FINAL POSITION ON THE TAX WOULD DEPEND ON THE REST OF THE PACKAGE.

11. ROMERO (SPAIN) STILL HAD RESERVATIONS ABOUT THE TAX, ESPECIALLY THE POSSIBILITY OF A TRADE DISPUTE WITH THE US AND CONCERNS OVER THE IMPACT ON ARGENTINA. ON THE OTHER HAND, THE NON-PAPER COULD PROVE A BASIS FOR AGREEMENT. HE COULD NOT TAKE A DEFINITIVE POSITION YET.

12. GUILLAUME (FRANCE), PANDOLFI (ITALY) AND O'KENNEDY (IRELAND) PRESSED STRONGLY FOR ADOPTION OF THE TAX AS AN ESSENTIAL PART OF THE PACKAGE.

13. ANDRIESSEN STRESSED THAT THE TAX FORMED PART OF THE COMMISSION'S PLAN FOR FUTURE FINANCING. ITS NON-ADOPTION WOULD CAUSE PROBLEMS FOR OTHER SECTORS OF THE BUDGET AND IMPLEMENTATION OF THE SINGLE EUROPEAN ACT AS WELL AS THE CAP. MINISTERS SHOULD EXPLAIN THE COMMISSION'S POSITION TO THEIR GOVERNMENTS AND THERE SHOULD BE AN IN-DEPTH DISCUSSION AT THE APPROPRIATE LEVEL WITH GOVERNMENTS WHICH REMAINED UNCONVINCED OF THE NEED FOR THE TAX.

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/14. DE

14. DE KEERSMAEKER (PRESIDENCY) CONCLUDED THAT THERE WAS NO AGREEMENT AS YET BUT THE COUNCIL HAD NO CHOICE ON THIS ELEMENT OF THE PACKAGE. DISCUSSION OF IT SHOULD BE PUT ON ''HOLD'' FOR THE TIME BEING.

(B) FUTURE AGRIMONETARY SYSTEM

15. ANDRIESSEN TRIED TO APPEASE CRITICS OF HIS COMPROMISE BY STATING THAT THE COMMISSION HAD NO INTENTION OF MAKING EXCESSIVE USE OF THE DELAYING ELEMENTS IN MCA DISMANTLEMENT. THE PRINCIPLE SHOULD BE THAT MCAS WERE DISMANTLED AS SOON AS POSSIBLE.

16. GUILLAUME SOUGHT AUTOMATIC DISMANTLEMENT OF 30 PERCENT OF NON-ARTIFICIAL NEGATIVE MCAS IMMEDIATELY AFTER CURRENCY REALIGNMENTS. POTTAKIS (GREECE) AND O'KENNEDY STILL WANTED QUICKER DISMANTLEMENT OF NEGATIVE MCAS AND FISCHBACH (LUXEMBOURG) STILL OPPOSED AUTOMATIC ECU PRICE REDUCTIONS. THE STRONGEST CRITIC, HOWEVER, WAS KIECHLE. HE ARGUED AT LENGTH THAT THE ONLY OPTION WAS TO EXTEND THE PRESENT SYSTEM AND TO USE THE COMING YEAR TO WORK OUT A NEW SYSTEM WHICH DID NOT UNDERMINE GERMAN FARM INCOMES. HE WOULD FIGHT WITH ALL THE MEANS AT HIS COMMAND. IF AN UNACCEPTABLE
X DECISION WAS TAKEN, GERMANY WOULD HAVE TO FIND ITS OWN FINANCIAL SOLUTION.

(C) EXISTING POSITIVE MCAS

17. DE KEERSMAEKER FELT THAT AGREEMENT ON THE FUTURE SYSTEM MIGHT BE EASIER IF AGREEMENT COULD BE REACHED ON EXISTING MCAS BUT THERE WERE CONTINUING DIFFICULTIES OVER POSITIVE MCAS. APART FROM GAUTIER SAUVAGNAC'S (FRANCE) TOTAL REJECTION OF THIS PART OF THE COMPROMISE, BRAKS (NETHERLANDS) AND DE KERSMAEKER QUESTIONED ANY CONTINUATION OF GERMANY'S VAT SUBSIDY AS A FORM OF COMPENSATION BECAUSE IT COVERED MORE PRODUCTS THAN THE MCA SYSTEM. O'KENNEDY COULD ONLY AGREE THE 0.5 POINT POSITIVE MCA DISMANTLEMENT BY THE SWITCHOVER MECHANISM IF IT WAS ACCOMPANIED BY A 0.5 PERCENT GREEN RATE DEVALUATION. MR MACGREGOR OPPOSED THIS BUT SUPPORTED BRAK'S POINT ON VAT.

18. KIECHLE PRESSED FOR AN AGREEMENT TO CONTINUE THE PRESENT VAT SUBSIDY IN 1988/89 AND 1989/90. HOWEVER, RESPONDING TO ANDRIESSEN'S EXPLANATIONS OF THE COMPROMISE, HE EVENTUALLY SAID THAT HE MIGHT BE ABLE TO ACCEPT A DECISION NOW PERMITTING VAT AND STRUCTURAL AID COMPENSATION FOR 1988 WITH COMPENSATION FOR 1989 DECIDED LATER DEPENDING ON THE DISMANTLEMENT DECISION TAKEN THEN. DE KEERSMAEKER CONCLUDED THAT AGREEMENT WAS CLOSE.

(D) NEGATIVE MCA'S AND OTHER AGRIMONETARY POINTS

19. ANDRIESSEN OUTLINED A SERIES OF FRESH CONCESSIONS : A GREEN RATE DEVALUATION OF 0.5 PERCENT FOR ALL SECTORS WITH MCAS AS A RESULT OF THE 0.5 PERCENT DISMANTLEMENT OF POSITIVE MCAS USING THE SWITCHOVER MECHANISM : ROUNDING UP ITALY'S DEVALUATION TO THE NEAREST WHOLE NUMBER : INCREASING GREECE'S DEVALUATION TO 15 PERCENT FOR CROPS, 10 PERCENT FOR PROCESSED PRODUCTS, 7 PERCENT FOR MILK AND THE POSSIBILITY OF SOMETHING HIGHER THAN THE 15 PERCENT ALREADY ON OFFER FOR STRUCTURES : CONSIDERATION OF OUTSTANDING REQUESTS FOR

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SHEEPMEAT

SHEEPMEAT GREEN RATE DEVALUATIONS DURING THE REVIEW OF THE REGIME : INCREASING OLIVE OIL MCA FRANCHISE FROM 5 TO 10 PERCENT : INCREASING THRESHOLD FOR DETERMINING WHICH NON-ANNEX II PRODUCTS SHOULD BE SUBJECT TO MCAS FROM 1 TO 2 OR 3 ECU/100 KG.

20. OTTOSEN (DENMARK) REMAINED STRONGLY OPPOSED TO THE COMPROMISE ON PIGMEAT MCAS AND QUESTIONED THE APPLICATION OF MCAS TO JAM. BRAKS SUPPORTED HIM AND ALSO OPPOSED THE PROPOSAL TO DISMANTLE THE APPLIED FRANCHISE ON POSITIVE MCAS AT THE START OF 1989. GAUTIER SAUVAGNAC WANTED AT LEAST A 2 POINT SHEEPMEAT MCA DISMANTLEMENT. ROMERO ALSO WANTED A CONCESSION ON SHEEPMEAT NOW RATHER THAN LATER. O'KENNEDY WANTED A BIGGER DEVALUATION OF THE GREEN IRISH POUND ACROSS THE BOARD. MR MACGREGOR REGRETTED THAT OTHERS HAD BEEN OFFERED LARGER DEVALUATIONS THAN THE UK WHERE SUPPORT PRICES WERE LOWER THAN IN EVERY OTHER MEMBER STATE BAR ONE. HE WAS DISAPPOINTED THAT SHEEPMEAT WAS TO BE EXCLUDED FROM THE GREEN POUND DEVALUATIONS. THE UK WOULD PURSUE AT A TECHNICAL LEVEL ITS POINTS ON EXTENSION OF MCAS TO NEW PROCESSED PRODUCTS AND RAISING THE NON-ANNEX II PRODUCTS THRESHOLD.

(E) REST OF THE PRICES PACKAGE

21. ANDRIESSEN OFFERED FURTHER DETAILED CONCESSIONS : A COMMISSION DECLARATION THAT IT WOULD TAKE APPROPRIATE ACTION OF PROBLEMS AROSE IN THE BURLEY TOBACCO SECTOR : PROPOSAL ON VINEYARD REPLANTING LIMITATIONS TO STAY ON TABLE FOR DECISION AS SOON AS POSSIBLE OUTSIDE THE PACKAGE : A COMMISSION UNDERTAKING TO CONSIDER GREEK REQUEST THAT FOR 1987/88 DURUM WHEAT BE ACCEPTED FOR INTERVENTION CONTAINING 14 PERCENT OF ELEMENTS NOT OF THE REQUIRED QUALITY, OF WHICH OVER 5 PERCENT WERE OTHER CEREALS AND OVER 6 PERCENT BROKEN GRAINS : EXTENSION OF CLAWBACK EXEMPTION FOR SHEEPMEAT EXPORTS TO THIRD COUNTRIES TO BE CONSIDERED IN REVIEW OF REGIME : A DRAFTING AMENDMENT TO MEET AN IRISH POINT ON THE COMPROMISE PROPOSAL TO PERMIT RESELLING OF MILK QUOTA : (TO MEET THE IRISH POINT ABOUT NIZO TYPE BUTTER) PH OF BUTTER ELIGIBLE FOR INTERVENTION TO BE DEFINED IN MANAGEMENT COMMITTEE : COMMISSION TO CONSIDER SPANISH REQUEST ON DAIRY RESTRUCTURING PROGRAMME UNDER REG 355/77 : POSSIBILITY OF A FURTHER CONCESSION ON CEREALS MOISTURE CONTENT IF IT SECURED AN OVERALL AGREEMENT.

22. THE COUNCIL DISCUSSED THIS FINAL EFFORT AT COMPROMISE THROUGH THE EARLY HOURS OF 18 JUNE WITH DE KEERSMAEKER PRESSING FOR MOVEMENT TOWARDS A DECISION.

23. FOR THE MOST PART WELL ESTABLISHED SHOPPING LISTS WERE REPEATED, WITH KIECHLE ADDING COLOUR BY FURIOUSLY DENOUNCING THE PRESIDENCY'S PROCEDURE AND THE CONTENT OF THE COMMISSION'S PROPOSAL. WITHOUT CLEAR GUIDANCE FROM HEADS OF GOVERNMENT, HE SAW NO POSSIBILITY OF THE PACKAGE BEING AGREED.

24. MR MACGREGOR OPPOSED THIS PART OF THE PACKAGE IN ITS PRESENT FORM. AS WELL AS BEING CONCERNED ABOUT THE BUDGETARY IMPLICATIONS, HE SOUGHT SIX FURTHER POINTS : INTERVENTION FOR SALTED BUTTER TO CONTINUE FOR THREE YEARS WITH A REVIEW TO DECIDE ARRANGEMENTS THEREAFTER, COMMISSION CONFIRMATION THAT MILK QUOTA LEASING COULD CONTINUE AS NOW, SOME TECHNICAL AMENDMENTS TO THE IMITATION DAIRY PRODUCTS PROPOSAL, AN ASSURANCE IN THE MINUTES THAT THE TERM ICE CREAM COULD CONTINUE TO BE USED, A DECISION ON THE SUGAR REFINING MARGIN BEFORE DECIDING THE MANDATE FOR NEGOTIATING 1987/88 ACP GUARANTEED PRICES AND ABOLITION OF QUALITY PREMIA FOR PEAS AND BEANS (SO SAVING 20 MECU PER YEAR).

25. ALTHOUGH WILLING TO CONSIDER FURTHER SOME OF THE POINTS RAISED, ANDRIESSEN CONCEDED NONE APART FROM THE UK'S DRAFTING POINT ON IMITATION PRODUCTS.

(F) CONCLUSION

26. AFTER FURTHER INCONCLUSIVE DELIBERATION, DE KEERSMAEKER DECIDED THAT NO MORE CHANGES COULD BE MADE AND CALLED INDICATIVE VOTES ON THE FIVE DIFFERENT ELEMENTS OF THE PACKAGE : OILS AND FATS TAX, FUTURE AGRMONETARY SYSTEM, EXISTING POSITIVE MCAS, EXISTING NEGATIVE MCAS AND THE REST OF THE PRICE PROPOSALS. MRS HOLBERG SAID THAT SHE WAS NOT ABLE TO GIVE AN INDICATION ON INDIVIDUAL ELEMENTS. THE REST PARTICIPATED. ON THE OILS AND FATS TAX, UK, NETHERLANDS AND GERMANY WERE AGAINST, WITH KIECHLE SAYING HOWEVER THAT HE WOULD PUT THE COMPROMISE TO HIS GOVERNMENT. ON THE FUTURE AGRIMONETARY SYSTEM, GERMANY AND LUXEMBOURG WERE AGAINST, THE FORMER CITING VITAL NATIONAL INTEREST. ON POSITIVE MCAS ONLY FRANCE WAS AGAINST. ON NEGATIVE MCAS, GERMANY AND IRELAND WERE AGAINST. MR MACGREGOR SAID THAT HE COULD ACCEPT THE LATEST PROPOSALS IF OTHERS DID. ON THE REST OF THE PACKAGE GERMANY WAS OPPOSED AND CITED VITAL NATIONAL INTEREST. MR MACGREGOR COULD AGREE IF HIS MILK POINTS WERE MET.

27. AFTER TAKING THE OTHER BUSINESS ITEMS, DE KEERMAEKER CONCLUDED THAT A COMPREHENSIVE DECISION WAS NOT POSSIBLE BECAUSE THERE HAD BEEN NO Q.M. ON THE OILS AND FATS TAX (ALTHOUGH SOME OPPOSING DELEGATIONS HAD INDICATED A WILLINGNESS TO PASS ON THE LATEST IDEAS TO THEIR GOVERNMENTS). A DECISION HAD ALSO BEEN HAMPERED BECAUSE VITAL NATIONAL INTEREST HAD BEEN INVOKED ON TWO OTHER ELEMENTS OF THE PACKAGE. THE PRESIDENCY WOULD NOW WORK WITH THE COMMISSION TO FORMALISE DECISIONS AND A COUNCIL WOULD BE CALLED AT AN UNSPECIFIED DATE TO TAKE A FORMAL VOTE. THE FAILURE OF THE COUNCIL TO ACT CAUSED DIFFICULTIES BUT SOME TIME WAS LEFT AND THE PRESIDENCY WOULD REPORT TO THE EUROPEAN SUMMIT.

28. ANDRIESSEN SAID THAT THERE WERE VERY SERIOUS PROBLEMS FOR PRODUCTS WHOSE MARKET YEARS BEGAN IN A WEEK'S TIME. THERE WAS ALSO AN UNPRECEDENTED BUDGETARY CRISIS. THE CAP COULD BE THREATENED. THE COUNCIL WAS RESPONSIBLE. THE COMMISSION HAD ATTEMPTED TO REACH A REASONABLE COMPROMISE BUT HAD FAILED. IT WOULD NOW SHOULDER ITS RESPONSIBILITIES TO ENSURE SOUND MARKET MANAGEMENT, ACTING ON THE

BASIS OF A VERY DYNAMIC APPROACH TO ITS RESPONSIBILITIES. IT WOULD NOTIFY MEASURES TO APPLY FROM 1 JULY. THE AGRICULTURAL CRISIS WOULD NOW PUT A STRAIN ON WIDER EFFORTS TO ACHIEVE POLITICAL REFORMS. IT WAS ESSENTIAL THAT AN AGREEMENT BE REACHED WITH OR WITHOUT THE SUMMIT.

MILES

YYYY
ADVANCE
HARRISON FCO
MCADAM CAB
JOHNSON DTI
HADLEY MAFF
MYERS MAFF
MURPHY MAFF
WENTWORTH MAFF
NASH MAFF
THOMAS MAFF
LLEWLYN MAFF
HOLLIS MAFF
BONNEY TSY
ESSORY DAFS
CHALMERS DANI
DAVIES WOAD
MAIN
FRAME AGRICULTURE
UKREP BRUSSELS DIST
ROBERTS
ROBBS
NORTON
BOSTOCK
SPENCER
WESTCOTT
AG/ECON/EXT

LMLNAN 1489

FRAME AGRICULTURE

ECD(I)

(ADVANCED AS REQUESTED)

Restricted

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

From the Minister

FINANCIAL SECRETARY
REC. 23 JUN 1987
ACTION Mr. Bonney
COPIES TO PPS, CST, PMG, EST
Mr. Beckwick.

Rt Hon John Wakeham MP
Lord Privy Seal
Privy Council Office
Whitehall
LONDON
SW1

23 June 1987

Dear John,

DRAFT EUROPEAN LEGISLATION TO LAY DOWN THE LEVEL OF THE FEES TO BE CHARGED FOR HEALTH INSPECTIONS AND CONTROLS FOR RED MEAT AND POULTRY MEAT. (EC 8006/86)

DRAFT EUROPEAN LEGISLATION TO LAY DOWN HEALTH RULES FOR FRESH MEAT IN THE DOMESTIC MARKET AND THE LEVEL OF FEES TO BE CHARGED IN RESPECT OF SUCH MEATS PURSUANT TO DIRECTIVE 85/73 EEC. (EC 10530/86)

At its meeting on 10 December 1986, the House of Commons Committee on European Legislation recommended EC proposal 10530/86 for Debate. The Committee considered this proposal suitable for Debate in Standing Committee with document 8006/86. The Ministry's memorandum on the latter proposal was considered by L Committee on 9 December 1986 and I am writing to request that the Debate should deal with both proposals. Negotiations have moved forward quickly over the last few weeks and I hope it will be possible to arrange the Debate before the summer recess.

Document 8006/86 contains the Commission's proposals for minimum levels of charges for the health inspections and controls required in respect of red meat for intra-Community trade and for poultry meat. Document 10530/86 proposes that the health inspections and controls required in respect of red meat for intra-Community trade and the charges proposed by draft instrument 8006/86 also be applied to red meat produced for national markets.

/I propose that...

I propose that the Motion for Debate should be on the following lines:-

"That this House takes note of European Community documents 8006/86 and 10530/86 and supports the Government's intention to argue for arrangements which take full account of the UK position and for charges which do no more than recover actual costs incurred".

Subject to your views and those of colleagues I propose that Donald Thompson should take the Debate for the Government.

The Government's line in the Debate should be to argue that the GB system needs to be recognised and that the resulting wide range of costs which occur needs to be taken into account. We should argue that it would be preferable if no figures were included in the proposal but that if figures were included they should do no more than reflect actual costs incurred.

It would be unwise to accept any commitments as to how far we can achieve what we are attempting as there is an apparent majority among other Member States who would wish to see the charges set at a level substantially higher than the lowest costs in UK.

I am copying this letter to members of L Committee: to Geoffrey Howe and members of OD(E); to the Secretary of State for the Environment; to the Chief Whip and to Sir Robert Armstrong.

Yours ever,

JM

JOHN MacGREGOR

Ch

I'm afraid I didn't really follow the point you were making here. Have I correctly minuted it?

AK

Yes

ps3/65K

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FROM: A W KUCZYS
DATE: 24 June 1987

pap

MR BONNEY

cc PS/Chief Secretary
PS/Paymaster General
Mr Lavelle
Mr Burgner
Mr A Edwards
Mr Crabbie
Mr Mortimer
Mrs Imber
Mr Cropper

COUNCIL OF AGRICULTURE MINISTERS: 15-18 JUNE 1987

The Chancellor has now seen Luxembourg Telegram No.102 of 18 June (not originally copied to us). He has commented that, while the Germans certainly threatened the veto on the future agrimonetary system, as at paragraph 26 of the telegram, this was clearly not the German view on agrimonetary matters earlier on (final sentence of paragraph 16). It may well be desirable to put it to the test next time round.

AWK

A W KUCZYS

GRS 900

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1/7/87

RESTRICTED
FM UKREP BRUSSELS
TO IMMEDIATE FCO
TELNO 2249
INFO PRIORITY BRUSSELS, COPENHAGEN, THE HAGUE, ROME, DUBLIN, PARIS
INFO PRIORITY BONN, LUXEMBOURG, ATHENS, LISBON, MADRID

FRAME ECONOMIC/AGRICULTURE

MY TELNO 2244

CONCLAVE DINNER DISCUSSION : 27 JUNE : AGRICULTURE

1. ELLEMANN-JENSEN (DENMARK) SAID ALL WOULD AGREE THAT IF WE WERE STARTING FROM SCRATCH WE WOULD BUILD A DIFFERENT CAP. PROBLEM WAS HOW TO GET THERE FROM WHERE WE NOW WERE. PRICES HAD TO BE CUT, BUT THEY WERE ONLY ONE ELEMENT: OTHER INSTRUMENTS WERE NEEDED TO EG SET ASIDE. THE COMMUNITY HAD TO MOVE AT A PACE WHICH AVOIDED ANY COUNTRY RESORTING TO NATIONAL MEASURES. HE UNDERLINED DENMARK'S OPPOSITION TO THE OILS AND FATS TAX, PARTICULARLY BECAUSE OF ITS IMPACT ON THE US. WE SHOULD DO NOTHING TO UNDERMINE THE US PRESIDENT'S VETO ON PROTECTIONIST LEGISLATION.

2. ANDREOTTI (ITALY) SAID THAT SINCE IT WAS CLEAR WE WERE NOT GOING TO HAVE AN OILS AND FATS TAX, WE SHOULD EXTRACT SOME BENEFIT FROM THE US FOR DROPPING IT.

3. FERNANDEZ-ORDONEZ (SPAIN) AGREED, AND CONFIRMED SPAIN'S OPPOSITION TO THE OILS AND FATS TAX.

4. GENSCHER (GERMANY) SAID WE MUST DISTINGUISH TWO PROBLEMS:-

- HOW TO CUT SURPLUSES? BEYOND ACTION ON PRICES AND QUOTAS, WE NEEDED OTHER POLICIES, EG SET ASIDE AND EXTENSIFICATION. GERMANY WOULD HAVE ITS OWN CONTRIBUTION TO MAKE ON ALL THIS.

- THE COMMUNITY HAD AN EMS BUT NO EMU. UNTIL EMU WAS ACHIEVED, PROBLEMS OVER AGRICULTURE WERE INESCAPABLE. THIS HAD BEEN UNDERSTOOD WHEN THE EMS WAS FOUNDED. THE CLOSER MEMBER STATES STUCK TO THE RULES, THE LESS PROBLEM THERE WOULD BE OVER MCAS. AS LONG AS MCA'S CONTINUED, WE NEEDED A SYSTEM THAT FINANCE MINISTERS COULD WORK WITH. IF THAT COULD BE ACHIEVED, IT WOULD ALLOW FRG TO TAKE PART IN PRICE ADJUSTMENTS. THE GERMANS WERE HAPPY WITH THE PRESENT POSITION.

5. ANDRIESSEN (COMMISSION) IDENTIFIED TWO PROBLEMS TO OCCUPY THE EUROPEAN COUNCIL:

- WHAT TO DO WITH THE OILS AND FATS TAX
- WHAT TO DO WITH MCAS.

WHAT WAS NEEDED WERE GLOBAL GUIDELINES, NOT DETAILED DISCUSSION. HE WENT ON TO ARGUE AT LENGTH THE CASE FOR THE OILS AND FATS TAX, BASED ON THE DIFFICULTY OF INSTALLING A GUARANTEE THRESHOLD FOR SOYA, AND PLAYING UP THE TAX'S STABILISING ROLE. ON MCA'S HE SAID THE SYSTEM

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/HAD

HAD BEEN DESIGNED FOR AN INFLATIONARY ECONOMY. IN A DEFLATIONARY WORLD, IT COULD NOT BE FOLLOWED IN THE SAME WAY.

6. YOU SPOKE IN FAMILIAR TERMS ABOUT THE NEED FOR PRICE AND NON-PRICE MEASURES, STABILISERS ETC. YOU REITERATED OUR ARGUMENTS AGAINST THE OILS AND FATS TAX, AND ARGUED FOR A GUARANTEE THRESHOLD FOR SOYA.

7. ELLEMANN-JENSEN (DENMARK) USED AN ELABORATE ANALOGY ABOUT A SHOE MAKER IN BADEN-BADEN SELLING SHOES TO STRASBORUG TO QUESTION WHY THE FARM SECTOR SHOULD HAVE AN MCA SYSTEM WHEN OTHER INDUSTRIES DID NOT (TOO FEW SHOE MAKERS : TOO MANY FARMERS).

8. VAN DEN BROEK (NETHERLANDS) SAID THAT IF WE AGREED THE OECD GUIDELINES, THEN SOCIAL CONSEQUENCES WERE UNAVOIDABLE. THE COMMUNITY WAS LIVING IN AN ARTIFICIAL SITUATION. IF PRODUCTION WAS NO LONGER REQUIRED, THEN A SOCIAL MECHANISM WAS NEEDED. THE COMMISSION'S PROPOSALS DID NOT GO FAR ENOUGH. GIVEN THE MEANS, FARMERS WOULD ALWAYS PRODUCE AT COMMUNITY EXPENSE AND THE COMMUNITY COULD NOT ESCAPE PAYING. BUT BETTER TO DO SO ON THE BASIS OF LOWER PRICES, FEWER SURPLUSES AND SOCIAL COMPENSATION TO FARMERS.

9. TINDEMANS (PRESIDENCY) SPOKE AT LENGTH ON THE LINES OF YOUR FOOD SPEECH LAST YEAR.

10. LENIHAN (IRELAND) SAID PREDICTABLY THAT AGRICULTURAL ADJUSTMENT HAD TO BE TACKLED SLOWLY.

11. DELORS (COMMISSION) SAID THAT THE EUROPEAN COUNCIL SHOULD DECIDE ON A TWO STAGE APPROACH, TACKLING THE 87/88 AGRICULTURE/ FINANCE PROBLEMS FIRST AND LEAVING THE LATER ISSUES FOR THE LONGER TERM FUTURE. YOU PROTESTED, ARGUING THAT SUCH A TWO STAGE APPROACH WOULD REMOVE THE SENSE OF URGENCY NEEDED TO RESOLVE THE LONGER TERM ISSUES OF FINANCIAL CONTROL AND AGRICULTURAL REFORM.

12. DURING THE SECOND DAY OF THE CONCLAVE, DELORS TOLD ME THAT THE GERMANS HAD ACCEPTED HIS IDEA THAT THE DISPOSAL OF EXISTING AGRICULTURAL STOCKS SHOULD BE FUNDED IN 1988 BY MEANS OF A LOAN. THIS IMPLIED THAT THE GERMAN POSITION WAS BASED ON FOUR ELEMENTS:
- 1.6 PERCENT VAT FROM 1 JANUARY 1988.
- MORE OWN RESOURCES LATER
- LOANS FROM MEMBER STATES TO COVER STOCK DISPOSAL
- A WEAKENING OF THE CEREALS PACKAGE IN THE 1987/88 PRICE FIXING.

HANNAY

YYYY
ADVANCE
PS/S OF S FCO
PS/MRS CHALKER FCO
KERR FCO
WALL FCO
WILLIAMSON CAB

RESTRICTED

/ BUDD.

BUDD CAB
MERCER CAB
PS/MINISTER MAFF
ANDREWS MAFF
HADLEY MAFF
DICKINSON MAFF
~~PS/CHANCELLOR TSY~~ (ADVANCED AS REQUESTED)
PS/MINISTER OF STATE TSY
LAVELLE TSY
EDWARDS TSY
BONNEY TSY
MAIN
FRAME ECONOMIC/AGRICULTURE

UCLNAN 9035

FRAME ECONOMIC / AGRICULTURE
ECD (1)

RESTRICTED

P

Ministry of Agriculture, Fisheries and Food
Whitehall Place London SW1A 2HH

From the Minister's Private Office

CH/EXCHEQUER	
REC.	01 JUL 1987
ACTION	MR BONNEY - WITH ATTATCHMENT
COPIES TO	CST PMG SIR P MIDDLETON SIR G LITTLER MR F E R BUTLER MR LAVELLE MR MONCK MR BURGNER MR A EDWARDS MR TYRIE

Mr Lyn Parker
Private Secretary to the
Secretary of State
Foreign and Commonwealth Office
Downing Street
London SW1

1 July 1987

JOHN MacGREGOR STATEMENT 1 JULY.

Dear Lyn

AGRICULTURE COUNCIL 30 JUNE - 1 JULY

I enclose a final version of the statement which my Minister is making today on the Agriculture Council which finished early this morning. I also enclose some supplementary speaking notes which you may find helpful to see.

I am copying this letter and enclosures to Charles Powell (No 10), Private Secretaries to other Cabinet Ministers, to Murdo MacLean (Chief Whip's Office) and to Trevor Woolley (Cabinet Office).

Yours

SHIRLEY STAGG (MRS)
Private Secretary

STATEMENT

With permission, I will make a statement about the meeting of the Council of Agriculture Ministers of the European Community, which took place during last night.

After four months of negotiations, the Council finally took decisions on support prices and other measures for 1987/88.

The compromise agreement marks a further significant step towards achieving a reformed common agricultural policy which is more market orientated, with reduced price support and with intervention systems operating to provide a safety net and not an alternative market outlet. The changes in the cereals and oilseeds regimes complement the substantial reforms which were achieved last December in the milk and beef sectors. The Agreement will produce savings for the Community budget in 1987 and 1988; and it is a relatively favourable settlement for the United Kingdom improving the position of our farmers and traders relative to their main competitors in the Community.

The decisions include substantial changes in the support arrangements for a number of commodities. There will be cuts in the prices at which cereals, oilseeds, rice and olive oil are bought into intervention. The periods of the year during which intervention is available for these products will be shortened. Guarantee threshold arrangements are introduced for olive oil, soyabeans and tomatoes, and the existing threshold arrangements for oilseeds will operate more effectively. The Council also cut support for wine, protein crops and for those fruit crops which place the biggest burden on the budget.

Following the discussion in the European Council earlier in the day, there was no question of the oils and fats tax being adopted. The Commission has not withdrawn its proposal and intends to hold discussions with overseas suppliers. But our position of strong opposition to the tax was re-emphasised and I made clear that our attitude is unchanged.

The package includes a number of decisions in the agrimonetary area. These include a devaluation of the green pound so as to reduce UK monetary compensatory amounts by 7 points for beef and 5½ points for other commodities with the exception of sheep. Green rate changes for sheep will be considered as part of the review of the sheep regime later this year. Besides the devaluations, our farmers and traders will benefit from changes in the method of calculating MCAs for beef, cereals and dairy products, for which we pressed during the negotiations.

Following discussion by Heads of Government, the Council adopted new arrangements for phasing out existing positive MCAs and continued the present system that prevents new positive MCAs from arising but with some adaptations which should be of some assistance in reducing the inflationary effects and which provide for the more automatic removal of new negative MCAs. This new system will be reviewed after one year.

I estimate that, taking the prices and the green rate changes together, this package will itself leave UK farm incomes unchanged. The effect on consumers will be very small.

In the negotiations I secured a number of welcome changes to the Commission's original proposals. I fought off any decision on the proposal to limit the number of ewes per farm which can receive annual premium. The Commission promised to make a proposal for a system of milk quota leasing; this is now being discussed in Brussels. I negotiated an additional year, up to April 1989, for the acceptance of salted butter into intervention. The Commission has agreed to present an overall study of alternative land use for consideration by the Council in the Autumn. And the Council has accepted the need to take rapid measures to ensure an adequate margin for the refining of raw cane sugar in the UK.

This Agreement is a further important step in the direction of reform. But the problems of surplus production remain, and with them the heavy budgetary burdens that result. There is no doubt that further decisions will be needed later in the year to correct the unacceptable budgetary situation.

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1987 PRICE FIXING

OUTCOME: GENERAL	A significant move towards a more realistic, market oriented CAP:
	Produces savings for the Community Budget in 1987 and 1988, although further action will be needed to deal with budgetary problems for these years:
	Most important, however, the outcome means an improvement in the competitive position of UK farmers and traders relative to our main Community competitors.
EFFECT ON UK FARMERS	Have always said burden of CAP reform must be shared. But UK farmers have emerged in a better position than the Community average, in particular better than producers in France, Germany and Italy.
EFFECT ON CONSUMERS	Our successful resistance of the oils and fats tax is particularly good news for consumers. Overall the package will add less than ½% to average retail food prices.
KEY POINTS FOR UK	No oils and fats tax. Continuing CAP reform, major improvements in cereals and oilseeds regimes.
	Green rate devaluation of 7 points for beef and 5.5 points for other commodities.
	I fought off any decision to place a limit on the number of ewes per farm which can receive annual premium.
	The Commission have agreed to propose a system of milk quota leasing.
	I secured an additional year up to April 1989 for intervention on salted butter.

The Council agreed to take urgent measures to ensure an adequate refining margin for raw cane sugar in the UK.

OILS AND FATS TAX

European Council earlier this week agreed this should set aside now and reconsidered at the end of the year. Entirely appropriate to deal with this when we discuss future financing. It is a tax, not an agricultural measure, and we fought hard to have it extracted from discussion on the agricultural price fixing. We will continue to resist it.

LAND DIVERSION

I welcome the Commission's promise to present a study of the various options for alternative land use for consideration by the Council in the autumn. This is an important mechanism of CAP reform.

NOTES FOR SUPPLEMENTARIES

FINANCIAL EFFECTS OF PACKAGE

The package will produce substantial savings in the cost of the CAP - a saving of some 800 mecu (£560 m) over the two years 1987 and 1988. In addition there will be extra revenue of some 200 mecu of the Community's own resources, giving a net saving to the budget in these years of about 1 billion ecus (£700 m).

FINANCIAL GUIDELINE

The 1987 budget for EAGGF gaurantee expenditure is at the financial guideline level. The Euroepan Council agreed that 1987 expenditure would have to be kept within this amount. For future years the level of the financial guidcline will be considered further as part of the wider review of Community financing

1987 BUDGET

The Commission forecast that expenditure requirements for the CAP this year exceed the budget provision by some 4 billion ecus. The prices settlement will reduce the overrun but a substantial gap will remain. The European Council agreed that the agricultural overrun should be dealt with by changing the rpesent system of advance funding of national expenditure on the CAP. Discussion will continue on the precise form which these changes should take.

There should be no interruption in payment to farmers and traders.

1988 BUDGET

Discussions will continue in the Budget Council on the level of provision for agriculture next year, taking account of the price fixing decision.

CAP PRICE SETTLEMENT : BRIEFING ON PRODUCER AND CONSUMER EFFECTS

Estimated impact on UK producer returns

The impact of the package as a whole on UK producer returns is estimated to be broadly neutral. [The green £ devaluation is estimated to increase producer returns in a full year by around £250m: the effect of the remainder of the package is a reduction in returns of a similar amount]. The green pound devaluation and lower cereal feed prices will benefit livestock producers.

Farm incomes in 1987. It is too early to predict aggregate farm income for 1987. The outcome will depend on the size and quality of the coming harvest; the way in which farmers adjust to reductions in milk quotas: changes in producer prices during the rest of the year, and the development of production costs, including interest rates.

Estimated effect on UK consumers

The package is estimated to add under one half-penny in the pound to retail food prices on average. The impact will be spread over several months. The effect on the Retail Price Index is likely to be less than one-tenth of one percent.

Estimated impact on retail prices of specific foodstuffs

Estimates of the effect on retail food prices implied by the proposed changes in support price levels are:-

Sugar	+ under 2pp kg
Bread	negligible
Butter	+ around 2pp 250 gram pack
Cheese (Cheddar)	+ about 4pp lb
Pork, bacon, poultry)	- downward pressure on prices
Eggs)	reflecting cheaper cereal feedingstuffs
Beef	- depends on market conditions: supplies are currently plentiful: possible increase averaging 2pp lb.

Why is the impact on retail food prices on average relatively small?

- not all food raw materials are affected by the CAP.
- some commodities covered by the CAP are only "lightly" supported (pigs, eggs, poultrymeat and eggs) and others (eg oilseeds, sheepmeat and beef) receive deficiency payments: changes in support prices for these commodities are not fully reflected in higher market prices
- over one half of consumers' expenditure on food at retail relates to the cost of processing, packaging, distribution and retailing: these costs are not directly affected by changes in CAP support prices.

Estimated change in average support price levels

The estimated effects of the package, including green rate changes on average support prices are shown below. These must remain approximate until full details of new green rates are available.

Estimated changes in average support prices

Germany	- 2.4%*
Netherlands	- 1.8%*
France	+ 0.2%
Italy	+ 1.5%
Belg/Lux	+ 0.8%
Ireland	+ 2.0%
Denmark	+ 0.1%
Greece	[+ 9% or more]
UK	+ 2.4%
EC10	about+ ½% (about - 2½% in real terms)

* including 1% point revaluations with effect from 1988/89.

Effect of package on cereal and oilseed support : 1987/88

Cereals

The reduction in support price in ECU terms is around 10% (6% cut in intervention price and modification of seasonal scale).

After allowing for the green £ devaluation, the effect in the UK could be a reduction of about 6%.

Oilseed rape

The reduction in the support price in ECU terms is approximately 14% (price cut, seasonal scale, 10% Maximum Guarantee Threshold effect).

After allowing for the green £ devaluation, the effect in the UK would be a reduction of about 10%.

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CEREALS

PRICE FIXING

1. CONTENT OF AGREEMENT?	Key elements are:
	(i) intervention price freeze;
	(ii) intervention to be open between October and May only if average Community prices fall below the intervention price;
	(iii) when intervention is open, grain can only be bought in at 94% of the intervention price;
	(iv) no change in the rate of corres-ponsibility levy.
2. EFFECT OF AGREEMENT?	(i) It reduces EC common support levels for cereals by 10%.
	(ii) In the UK it means a support level reduction of 6% because of the devaluation of the green pound.
	(iii) The effect on market prices depends on the influence of other factors as well, such as the size of the harvest.
3. GOVERNMENT ATTITUDE?	Agreement is very welcome. Vindication by the Agriculture Council of our long-held view that lower levels of support are necessary if cereals sector

is to be brought into better balance. 10% cut in common support levels is a major step towards realism in the EC cereals sector.

4. DELAY IN SETTLEMENT	Regrettable. Appreciate difficulties this has caused for the trade. But it makes sense to get tough decisions taken and not pushed off for a further year if we are to avoid a disorderly descent into chaos.
5. CORESPONSIBILITY LEVY TO MOVE TO FIRST SALE BASIS ?	Welcome no change in levy rate. Method of application is for careful consideration with all the trade interests concerned in the context of the review of the levy system during the forthcoming marketing year.
6. LOWER SUPPORT PRICES DID NOT LEAD TO LOWER MARKET PRICES LAST YEAR	Accept that market prices did not fall as expected but this was due to the special circumstances of a drought in Southern Europe and consequent strong export demand. Feed grain prices were low in historic terms: real price for feed wheat in April (latest figures available) was 36% lower than in 1977.
7. LOWER SUPPORT PRICES AND UNCERTAINTY OVER TRIGGERING OF INTERVENTION WILL LEAD TO MARKET COLLAPSE	No. Mechanism will ensure that if EC average market price falls below intervention price, intervention will be open. No question of there not being a floor to the market. Have specially negotiated separate trigger mechanism for feed wheat.

8. WILL UK MOVE TO MOISTURE CONTENT INTERVENTION STANDARD OF 15½%?

At present I am aware of no grounds for changing from current practice of 14½%.

NOTES FOR SUPPLEMENTARIES: PRICE FIXING DECISIONS

SUGAR

<u>Why no price reduction for this surplus crop?</u>

1. The decision to freeze sugar prices, rather than reduce them, takes account of the fact that export refund expenditure is funded by levies on production. Nevertheless Community sugar beet prices have now been frozen for four successive marketing years, which is a considerable achievement.

<u>Sugar elimination levy</u>

2. The new sugar elimination levy will claw back from Community sugar producers the deficit of nearly 200 MECU which has arisen on the production levy/export refund account in 1986/87. It is intended to restore the self-financing nature of the sugar regime. Because of the way the levy is shared between producers the UK industry will contribute only 5.8% of the total cost.

<u>The refining margin</u>

3. The Council has recognised for the first time "the need to take measures rapidly in order to solve the problem of the refining margin for cane sugar in the United Kingdom". I now look to the Commission to abide by its undertaking to submit proposals in good time to deal with this problem.

OILSEEDS

<u>Oils and fats tax</u>

4. I am delighted to say that, due to the firm opposition of the United Kingdom and some other Member States the Commission's oils and fats tax has not been adopted. The Commission's

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proposal will now be further studied, and a report made to the European Council meeting at the end of the year. I very much hope that the tax will be formally abandoned as soon as possible. In any case the UK's stout opposition to it will remain.

Oilseeds economy measures

5. Several significant, genuine economy measures were achieved in the oils and fats sector. Guarantee threshold systems will be introduced for the first time in the olive oil and soya beans sectors thereby helping to control costs in those sectors. The guarantee threshold arrangements for rapeseed and sunflowerseed have been strengthened. The intervention arrangements for olive oil and oilseeds have been substantially weakened.

Cumulative price cut for rapeseed

6. The cumulative price reduction for rapeseed as a result of the 3% direct price reductions, strengthening of the guarantee threshold system and reductions in monthly increments is about 14%. It should be remembered however that this will be partly offset by the green pound devaluation and that rapeseed is one of our most profitable crops. It will remain an attractive crop.

PEAS AND BEANS

Why reduce prices by 10% for this valuable deficit crop?

7. Expenditure in the peas and beans sector is increasing rapidly with rising production and low world prices. This sector must therefore make its contribution to the necessary CAP economies. Nevertheless, I recognise the crop's value as an alternative to surplus cereals and would expect a rather modest growth in UK production, after the dramatic increases in recent years.

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<u>Why did we accept the introducitons of monetary differential amounts (MDAs) in the peas and beans?</u>

8. We had to accept that trade distortions were being caused by the lack of monetary correctives in this sector. The introduction of MDAs will help stabilise this market to the long-term benefit of all in the industry.

MILK POINTS

Quota Leasing

The provision for a system of quota leasing is a significant advance. I expect it to permit leasing system to operate in the UK during the 1987/88 milk year.

Intervention for salted butter

Intervention for salted butter will remain available until 1 April 1989 - a year longer than originally proposed by the Commission. In addition, intervention will be generally available for unsalted butter produced from sweet cream.

Naming of milk and dairy products

The regulation which was adopted on the designation of milk and dairy products will provide useful additional protection for the consumer against the use of misleading descriptions in this sensitive area. But at the same time we have been successful in securing the exclusion of provisions which would have unreasonably restricted the marketing of competing products. We have also secured satisfactory assurances about the continued use of the description "ice cream" for products containing non-dairy ingredients.

Beef

Producers will gain the advantage of the 7 point green rate devaluation which raises support levels and increases the variable premium.

MCAs for beef will fall because of the green rate devaluation. In addition they will fall because the Commission will be reducing the percentage of the intervention price used to calculate MCAs from 85% to 80% which is a significant move in the direction we were seeking.

The reduction in our beef MCAs will improve our trading position in relation to Irish imports. It will also help our exports and so improve the tone of our market.

Sheepmeat

We have ensured that the proposed limits on the ewe premium were not adopted. The Commission intends to maintain this proposal but I have made it clear that I shall continue to resist such discriminatory limits.

NOTES FOR SUPPLEMENTARIES

AGRIMONETARY ISSUES

A : GREEN POUND

SETTLEMENT?	Green pound devaluations reduce UK MCAs by 7 points for beef, 5.5 points for other commodities with no change in the green rate for sheep.
WHY NOT SHEEP?	Green rate changes for sheep will be taken up in the Review this Autumn. The Commission withdrew their proposal for devaluations in the green rate for sheep for Ireland and Italy. However devaluations were agreed for Greece and Portugal.
NOT ENOUGH?	Taken with the strengthening of sterling in recent months this represents a very significant improvement in the UK position. Since February cereals MCAs will have fallen 14½ points and beef MCAs have fallen almost 16 points.
LESS THAN IRELAND?	In the sectors, which matter for our trade with Ireland, the UK has achieved bigger devaluations especially in the hard pressed beef sector. For crops, Ireland gets a 6.5 point devaluation.
MORE NEEDED?	Green rate devaluations raise support prices and directly benefit most farmers. However they also raise consumer prices and increase the burden on UK public expenditure and on the Community budget. A balance has to be struck and the reduction in MCAs caused by the strengthening of sterling has to be taken into account. I believe the settlement is a very fair one.
EFFECT ON FARMERS?	Support prices from the settlement as a whole will rise by about 2.4%: producer returns will increase by about £250 m in a full

B : AGRIMONETARY REVIEW

COUNCIL DECISION

The Council has adopted rules for the phased removal of existing Dutch and German positive MCAs. This removal is overdue. It also agreed, subject to review after a year, to continue the existing system under which common farm prices are tied to the strongest currency. But changes have been incorporated to reduce the inflationary effect. In addition, a system has been set up for dismantling the new MCAs created by future currency realignemnts.

INFLATIONARY EFFECT

This arises because countries with weaker currencies have been able to press for green rate devaluations so as to move their prices towards the rising German level. Such moves should in future be offset by cuts in the common prices themselves.

INCREASED FRANCHISES

The Council agreed increased franchises to apply in the poultry and olive oil sectors. These help to reduce MCAs and increase market influence. This will help our poultry exports.

CHANGES IN THE CALCULATION OF MCAs

The Council agreed that the calculation of MCAs should be based on a lower percentage of the intervention price in the dairy, beef and cereals sectors, so as to reflect market price levels more closely. The percentages will be 95% for milk, 92½% for cereals and 80% for beef, instead of 100%, 100% and 85% at present. We welcome the change which will increase the competitiveness of our exports of these products: the benefit should feed back to farmers themselves.

year because of the devaluation. Taken with the commodity price settlement the effect on farm incomes will be broadly neutral.

EFFECT ON CONSUMERS? | Effect on Food Price Index of the settlement as a whole will be 0·7 % when all the changes have worked through. The effect on the RPI will be too small to be calculated accurately.

COST TO BUDGET/PE: | In a full year the cost is estimated at 606 mecu (£439m) on the Community budget and about £70 m in UK public expenditure.

[illegible] : EUROPEAN MONETARY SYSTEM

The Government has always recognised that joining the ERM would have advantages and disadvantages. We will not join until we are satisfied that the balance is clearly and sustainably in favour of doing so.

ERM membership has no automatic effect on green rates. These would still be reviewed at each price fixing, and exceptionally at other times.

MINISTRY OF AGRICULTURE, FISHERIES AND FOOD
WHITEHALL PLACE, LONDON, SW1A 2HH
DIRECT LINE 01-233
OR SWITCHBOARD 01-233 3000

URGENT COMMENTS PL.

CH/EXCHEQUER	
REC.	01 JUL 1987
ACTION	MR BONNEY.
COPIES TO	CST PMG. SIR P. MIDDLETON SIR G. LITTLER MR LAVELLE. MR A EDWARDS MR BURGNER.

Mark Addison Esq
No 10 Downing Street
London SW1

1 July 1987

Dear Mark

I enclose a copy of the draft statement that my Minister intends to make in the House this afternoon. I should be grateful for immediate clearance.

I am copying this to Bernard Ingham (No 10), Steven Wood (Lord Privy Seal's Office), Murdo MacLean (Chief Whip's Office), Rhodri Walters (Chief Whip (Lords) Office), Trevor Woolley (Cabinet Office), Andrew Lansley (Chancellor of the Duchy of Lancaster's Office), Joan MacNaughton (Lord President's Office) and to Private Secretaries to other Agriculture Ministers and to the Treasury.

Yours sincerely

(MRS) S A STAGG
Private Secretary

Ch

Bob Bonney thinks this is OK, subject to two additions (pencilled in below) which I have already 'phoned through to Mr MacGregor's office.

(And David Norgrove has taken on your line on VAT supplementaries)

I agree with Mr B's ~~changes~~ additions.

JOHN MACGREGOR STATEMENT 1 JULY

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The compromise agreement marks a further significant step towards achieving a reformed common agricultural policy with reduced price support and which is more market orientated, with intervention systems operating to provide a safety net and not an alternative market outlet. It complements the substantial reforms which were achieved last December in the milk and beef sectors. The Agreement will produce savings for the Community budget in 1987 and 1988; and it is a relatively favourable settlement for the United Kingdom, improving the position of our farmers and traders relative to their main competitors in the Community.

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I estimate that, taking the prices and the green rate changes together, this package will itself leave UK farm incomes unchanged.

The effect on consumers will be very small.

In the negotiations I secured a number of welcome changes to the Commission's original proposals. I fought off any decision on the proposal to limit the number of ewes per farm which can receive annual premium. The Commission promised to make a proposal for a system of milk quota leasing. This is now being discussed in Brussels. I negotiated an additional year, up to April 1989, for the acceptance of salted butter into intervention. And the Council has accepted the need to take rapid measures to ensure an adequate margin for the refining of raw cane sugar in the UK.

This Agreement is a step forward in the direction of reform. But the problems of surplus production remain, and with them the heavy budgetary burdens that result. There is no doubt that further decisions will be needed later in the year, to correct the unacceptable budgetary situation.

745/76

FROM: ROBERT CULPIN
DATE: 7 JULY 1987

CHANCELLOR

cc Chief Secretary
Paymaster General
Sir P Middleton
Sir T Burns
Sir G Littler
Mr Lavelle
Mr Burgner
Mr H Evans
Mr Mountfield
Mr Mortimer
Miss O'Mara
Mr Pickford
Mr Redley

AGRICULTURE

Why are we allowing ourselves to be upstaged by Americans - see today's cuttings below?

2. At pretty well every recent international meeting, you have made a major speech about the need to get some discipline into agriculture. You have made it a priority, taken pride in taking the lead, and said that it is a No.1 issue for the GATT. Yet here is the GATT meeting, and it looks from today's papers as if you are leaving the practical running to Americans and Australians. The British are nowhere to be seen.

3. I know the GATT negotiations are a matter of Community competence. And I know the Community is hobbled by its own crazy policies. But shouldn't you be seen urging the Europeans either to welcome the initiative on offer or, if that's not realistic, to propose something better?

4. I don't pretend that the world waits on the answer. But it may come to look hypocritical if you only bang on about the lunacy of subsidies at meetings where they are not being negotiated, and keep quiet when they are.

5. Is it worth asking the GATT experts for a note on where we are and what you might say when?

RC

ROBERT CULPIN

FINANCIAL TIMES

US seeks sweeping reform of farm trade policies

BY WILLIAM DULLFORCE IN GENEVA

THE US yesterday put on the table a sweeping proposal for phasing out in 10 years all subsidies affecting agricultural trade and for doing away with all import barriers during the same period.

Marketing of farm produce with the aid of export subsidies would be frozen at its present levels and then phased out over the same period.

Washington's proposal was submitted to the group negotiating farm trade under the Uruguay round of the General agreement on tariffs and Trade

It would eliminate all kinds of farm support except for direct income payments not linked to production and marketing or bona fide aid programmes. It would cover not only farm produce but also foods, beverages, forest products, fish and fish products.

In addition, the US called for the harmonisation of health and sanitary regulations. Domestic regulations should be based on internationally agreed standards.

Gatt negotiators would tackle a two-tier programme under the US proposal. First, they would agree on ways of measuring farm support to zero over 10 years.

Second, each country would be expected to indicate the policy changes it would introduce to meet its commitment under the schedule and these changes would have to be accepted by the other countries.

The measure of support for agriculture proposed by the US is the producer subsidy equivalent (PSE) introduced last May in a study by the Organisation for Economic Co-operation and Development (OECD). A PSE is essentially a measure of the income benefit to producers derived from the policies in operation in each country.

PSEs are calculated by measuring government budget outlays and other financial benefits to farmers. They include the benefit to farmers' incomes of restrictive border measures, calculated as the difference between domestic and external prices.

These components are combined to give a PSE for each country's overall support to agriculture.

The list of price supports that the US wants negotiators to take into account is extremely comprehensive. It includes all market price supports such as the variable levies used by the European Community, export subsidies and credits, import quotas and government payments to marketing boards.

Government contributions to stabilisation funds and inventory costs and interest subsidies would be covered.

Deficiency payments to farmers would also be included in the measure as would other forms of income support such as payments for storage, headage or acreage and negative payments such as producer levies.

In determining the level of farm support the US paper also lists for inclusion subsidies to crop insurance, concessional farm credits, fuel and fertiliser subsidies and some capital grants.

Marketing programmes, research and advisory services would come within the net to be covered by the PSE measure.

In the second phase of the negotiations under the Uruguay Round, when each country would indicate the policy changes it would introduce to meet the overall schedule of reductions, governments would retain some flexibility in their choice of means.

However, the US proposes that each country's 10-year plan would be "bound" under Gatt, no exceptions or second thoughts being allowed. But, each year the specific commitments would be examined to determine whether modifications were needed in the light of the overall progress being made by the country towards the overall schedule.

Some mechanism would have to be established for monitoring progress, deciding on enforcement and settling disputes during the 10-year period.

When they are negotiating their implementing schedules, governments would be able to claim credit for measures they had introduced to reduce the imbalance between production and demand since the declaration with which trade ministers launched Gatt's Uruguay Round at Punta del Este last September.

Washington's proposal would eliminate all kinds of farm support except direct income payments not linked to production and marketing or bona fide aid programmes. It would cover not only farm produce but also foods, beverages, forest products, fish and fish products.

Conversely, countries would be charged with "debits" for measures taken since Punta del Este which had worsened the situation. They would have to remove those measures before receiving credit for reductions.

When governments are ready to present their implementing plans, the group should also begin negotiating changes to GATT rules to conform with the "trading environment" that would exist after the 10-year phase-out of subsidies.

Finally, the US suggests that the rules and procedures governing technical barriers to trade should be expanded, to apply more explicitly to processes and production methods.

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Sowing the seed of farm reform

OUTLOOK

Like many a White House initiative, the United States Administration's plan to wipe out farm subsidies deals in distinctly round numbers. Maybe in 10 years, maybe by the year 2000, President Reagan proposes that all farm subsidies affecting world trade should be eliminated.

At the headquarters of General Agreement on Tariffs and Trade in Geneva, where a special two-day meeting on agriculture was just beginning, the plan was expounded — and duly given a welcome by Gatt's Secretary-General, Arthur Dunkel. It was also welcomed by the Australian delegation — chief mover, with the US, in the effort to speed up negotiations on farm trade within the latest Gatt round.

A thousand ages is but an evening gone, in Gatt negotiations as much as in the sight of God; so the timetable of the US plan matters little. It is, however, further evidence of American determination to turn up the heat on agriculture. The European Community's reaction was predictable, if still disappointing: commission officials described the US plan as er, not fully realistic.

Europe's position on the question of farm subsidies is becoming increasingly unattractive. It is not, of course, the only spendthrift; studies published by the Organisation for Economic Co-operation and Development in the spring (a major breakthrough) demonstrated the spectacular scale of Japanese producer subsidies. The United States is not free of farm protection, as the OECD studies made clear; indeed it was the OECD estimates of the scale of US subsidies that encouraged others to hope they would not lose from agricultural disarmament.

Nor does the US plan propose the removal of all farm support. With details still unclear, its aim is discernible: to "decouple" support for farmers from encouragement to them to over-produce. This is the essential first step; maybe a sufficient one. But it has to be taken in consort.

For all industrial governments still remain sensitive to their farming minorities (though none perhaps as sensitive as the German political establishment). In a speech that could have been made almost anywhere in the developed world, Britain's new farming minister, John MacGregor, illustrated the dilemma yesterday. In his speech at the opening of British agriculture's biggest annual event, the Royal Show, he argued that he would protect Britain's farmers from "unfair competition" and that it was no part of his purpose to contain British, or even European agriculture if others did not do the same. And he, as an ex-Chief Secretary to the Treasury, is more than aware than most of his kind of just how much it all costs.

TUESDAY, JULY 7, 1987

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PAPER C

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EUROPEAN COMMUNITIES

Brussels, 8 July 1987
II/166/87-EN (final)

Economic Policy Committee

REFLECTIONS ON THE COMMON AGRICULTURAL POLICY OF THE COMMUNITY FROM A GENERAL ECONOMIC POINT OF VIEW

Chairman's Report to the Council (Economic and Financial Affairs)

Introduction:

The Economic Policy Committee sees it as one of its tasks to take a position on pressing questions of economic policy in order to assist and orient policy-makers in their decisions. It therefore considers it appropriate to comment on agricultural policy from a general economic point of view. It is clearly not the business of the Committee to present detailed specific proposals for the reform of the Common Agricultural Policy.

The Committee has asked me to report to the Council (Economic and Financial Affairs) on the outcome of its dicussions on agricultural policy. This could be useful in view of the deliberations on this matter which will follow the European Council of the end of June 1987.

The current situation and fundamental problems

1. The Common Agricultural Policy (CAP) has certainly achieved most of the aims listed in the Treaty of Rome. But in recent years it has itself resulted in serious imbalances. As long as the Community had a shortage of most of the main agricultural products, supporting for farm incomes via prices - the salient feature of the CAP - meant that the cost was paid for essentially by the consumer. This helped to disquise budgetary and other problems. As the Community became increasingly self-sufficient in food, however, substantial production surpluses also came into existence since year by year supply was on average increasing far more sharply than demand. This led to the build-up of huge stocks, placing an ever-heavier burden on the Community budget. The CAP also led to a distorted allocation of economic resources and intensified certain trade conflicts. At the same time it still failed to prevent large

PAPER C

sections of the agricultural population from regarding their incomes as unsatisfactory. Besides the Community, almost all the other industrialized nations share responsibility for the present situation on the agricultural markets. World-wide protectionism in agricultural policy led to a collapse of world market prices and to distortions in international agricultural trade.

Budgetary and macroeconomic aspects

2. It is true that reform of the CAP has become a pressing need as a result of the high costs and the financing difficulties besetting the Community budget. However, reform should not be confined to this one aspect of the situation, however important it may be. It should be geared to reducing progressively the present distortions without at the same time creating new ones.

3. Prolonged maintenance of support or guarantee prices above their equilibrium level has the effect of retaining too many workers and too much capital in agriculture and produces excessive costs for the other sectors of the economy. This results in distortions between agriculture and these other sectors. Moreover, if some products are afforded greater protection than others, it also results in distortions even within agriculture.

4. When agricultural prices are held above equilibrium levels, they also directly impair the competitiveness of the industries processing agricultural products. High prices and support costs place a burden on other sectors, reducing the competitiveness of the economy as a whole. As a result of the wider effects of agricultural protection on international trade, agricultural policy has also had an adverse effect on producers of other tradeable (especially manufactured) goods.

Guidelines for reform

5. The main pillar of the reform of the CAP must be to make agriculture once more subject to the rules of the market economy. Prices which do not reflect the market situation give rise to the misallocation of resources. This is why genuine market signals must again, and to an increasing degree, determine farmers' decisions, and the conditions for this must be established. Price policy should not be the only tool of ensuring proper incomes for those engaged in agriculture. A more market-oriented policy is needed to bring about a balanced relationship on a lasting basis between the supply of and demand for agricultural products and the more efficient allocation of resources. Such a policy requires certain transitional arrangements and should be accompanied by appropriate socio-structural measures.

The adjustment process

6. The existing imbalances have built up over a long period. They are so great that they cannot be corrected in the short term. Because prices on world agricultural markets have been distorted by manifold interventions, internationally concerted action is necessary so that the conditions for market equilibrium can gradually be restored. The distorting elements of the policy of agricultural intervention must be eliminated step by step. This applies to the Community but also to other countries which determine world trade in agricultural products.

7. The reform of the agricultural policy will require an adjustment process stretching over several years. During this phase it will very probably be difficult to avoid measures working in the same direction as the necessary shift of official prices such as a limitation of intervention obligations and the introduction of co-responsibility levies. In cases where supply takes too long to respond to the gradual adjustment of prices, and surpluses build up, temporary recourse to instruments of administrative control may be justified, such as measures restricting the output of products qualifying for price guarantees (quotas), or the use of certain factors of production (setting aside of land). In doing so, special situations in Member States should be taken into account.

8. When products are subjected to quotas, a gradual alignment of producer prices on equilibrium prices is also necessary. Views differ on the most appropriate way to relate the process of price adaptation to the phasing out of quotas.

The policy of setting farmland aside requires the utmost caution because it distorts factor prices. It boosts the value of the agricultural land which is allowed to be used and prevents land from being used for alternative purposes (agricultural or otherwise). It can also lead to more intensive use of the land remaining in production, and partly frustrate the objective of reducing production.

9. As regards the adjustment of prices, two further considerations should be taken into account:

On the one side, it would be desirable gradually to harmonize the degree of protection enjoyed by the various agricultural products, so as to reduce the distortions within the agricultural sector. This would mean that, as far as possible, the most heavily protected products should be dealt with first.

On the other side, price differences resulting from monetary compensatory amounts should be gradually reduced and disappear altogether with the completion of the internal market. The European Council has introduced a system which goes in this direction.

Social and structural policy

10. The reform of the CAP by a gradual transition to a policy more reliant on market forces must be accompanied by measures, dealing with the following in particular :

- greater mobility of the factors of agricultural production;
- social welfare measures to support this reorientation;
- an appropriate policy on agricultural structures.

The Comittee is aware that structural adjustment in agriculture, as in other sectors of the economy, is easier to undertake in an environment of economic growth and high employment.

a) Factor mobility

11. Labour mobility could be encouraged by an improved training policy, backed up by appropriate aid for conversion and restructuring. These aids should not, wherever possible, be linked to the quantities produced, or to farm inputs. They need not depend on whether or not the farmer leaves the sector. Non-agricultural jobs should be created by encouraging the expansion of other industries or services.

Moreover, care should be taken to ensure that there is no further distortion of relative factor costs in the agricultural sector and that there are no artificial and short-sighted incentives favouring the use of capital rather than labour, such as aids to investment or for the more intensive use of land following set-asides.

b) Aids of a social nature

12. The Committee acknowledged the value in principle of such aids for an appropriate transitional period. Aids should be person-related. The basis for determining aid should be the total income of persons employed in agriculture (including subsidiary earnings) and not only their income from agricultural activity. The Committee felt that it is not part of its remit to express a detailed view on the manner in which, or the level at which, such aids could be granted. Given the diversity of farmers' situations in the Community, implementation by national authorities within a Community framework would be most appropriate. This should not be seen as a step towards the renationalisation of the CAP. These measures should not be such as to increase agricultural output.

c) Policy on agricultural structures

13. Policy on agricultural structures should, as a general rule, be designed to be consistent with a policy directed towards reducing distortions and surpluses. Above all it should not encourage investments designed to increase production when this is inappropriate. This basic stance should not rule out social or other policy measures insofar as these seem necessary for reasons to do with the structure of society, the environment and

regional development. In this context, the Comittee pointed to the need to take account of the problems of regions which would be particularly affected by the adjustments in agriculture.

Incorporation of new objectives

14. In recent years, increasing importance has been attached to concerns such as the protection and improvement of the environment and of landscapes. In these respects farmers may perform a service to society without receiving payment via producer prices. New tasks could properly be defined for them for which they would be paid - insofar as this is not already the case. Compensation could be envisaged in cases where the permanent abandonment of farmland or its conversion to other uses is entailed. If, for ecological reasons or for the purposes of landscape improvement, it seems desirable to preserve agricultural activities in specific areas, provision should be made for the appropriate measures.

15. In order to prevent over-intensive use of the soil, ecologicially undesiderable production methods, the inadequate rotation of crops or high-density stockfarming from entailing risks and costs to the environment, the same principles should as far as possible be applied to agriculture as are applied in environmental policy generally, among which the principle that "the polluter pays" plays a key role.

Summary

16. The main considerations are the following:

- It is essential to obtain a better adjustment of supply to demand through measures enabling the market to play a greater role.

- A more strongly market-related pricing policy should be the central pillar of the reform of the CAP. In particular, pricing policy must gradually be detached from the objective of income support; other instruments should be used to ensure proper incomes for those engaged in agriculture. Prices should again be more strongly determined by the aim of balancing supply and demand than they are in the present system. This would help to ensure the better allocation of resources whilst reducing the overall budgetary burden. It can only be brought about by an adjustment process stretching over several years.

- Since the reorientation of agricultural policy requires radical adjustments on the part of farmers, it requires corresponding back-up measures. These could in particular comprise aids for restructuring and conversion as well as social measures, the overall budgetary costs of which should be lower than the savings obtained by the price reductions.

- New or broader tasks in the field of environmental and landscape protection and improvement might provide employment and reduce the extent of the necessary structural adjustment.

- World agricultural markets are at present characterized by distortions caused by various interventions in most countries. The progressive removal of interventions which work against a more balanced relationship between supply and demand is thus also a matter for international negotiations and will call for contributions from all participating in them.

EUROPEAN COMMUNITIES

ECONOMIC POLICY COMMITTEE

The Chairman

Brussels, 8 July 1987

ECONOMIC REFLECTIONS ON THE COMMUNITY'S AGRICULTURAL POLICY

REPORT TO THE COUNCIL

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2. It is true that reform of the CAP has become a pressing need as a result of the high costs and the financing difficulties besetting the Community budget. However, reform should not be confined to this one aspect of the situation, however important it may be. It should be geared to reducing progressively the present distortions without at the same time creating new ones.

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wider effects of agricultural protection on international trade, agricultural policy has also had an adverse effect on producers of other tradeable (especially manufactured) goods.

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MR 4/14

UNCLASSIFIED

bf 21/7.

FROM: A P HUDSON
DATE: 10 July 1987

MR H P EVANS

cc: CST
PMG
Sir P Middleton
Sir T Burns
Sir G Littler
Mr Lavelle
Mr Burgner
Mr Mountfield
Mr Mortimer
Mr P G F Davis
Miss O'Mara
Mr Culpin
Mr Pickford
Mr Redley
Ms Symes x4497

AGRICULTURE

The Chancellor has seen Mr Culpin's minute of 7 July.

2. The Chancellor agrees with Mr Culpin, and in particular the point in his paragraph 4. He would indeed be grateful for a note on the current state of play and what public comments he should make. (I understand that IF are in the lead on this aspect of the GATT negotiations.)

APH

A P HUDSON

3874/20

CONFIDENTIAL

PM

1. SIR P MIDDLETON

2. CHANCELLOR

FROM : R G LAVELLE
24 July 1987

cc Chief Secretary
Paymaster General
Sir G Littler
Mr Byatt
Mr Monck
Mr Edwards
Mr H P Evans
Mr Bonney
Mr Cropper

LAVELLE
CH/EX
24 JULY

CAP REFORM : MEETING ON 28 JULY

There are three papers for this discussion, with an annotated agenda on top.

2. The first paper, prepared largely by Mr Edwards and Mr Bonney, sets out the main agricultural issues that we will be grappling with in the run-up to the Copenhagen European Council.

3. Improved budget discipline and the bid for effective commodity stabilisers are central to our strategy. But this paper seeks for the first time to look at the nexus of agricultural issues - including in some detail the guideline problem and the safety valve idea: plus also income aids and setaside. We circulated a draft to the Hannay/Williamson mafia and will report more fully on others' views (still pretty divergent) at the meeting. Until the Commission produce their stabiliser proposals, we can scarcely go firm on a strategy. But we would find it helpful to talk over this complex of questions, not least how best, later on, to play the safety valve idea.

4. The second paper, which Mr Byatt and EI have prepared, and was discussed in PCC a couple of weeks ago, is concerned not so much with immediate negotiating issues as the long term framework for CAP reform: and in particular the case for a policy based more overtly on market prices. The EPC

has recently agreed a reflective piece, the third paper attached, containing a number of notably similar themes: with only occasional traces of foreign accent. It would be useful to consider how far the underlying analysis in the Byatt and EPC papers should inform what we say and do. Specifically, should we encourage, for example, ECOFIN discussion of the EPC paper?

R

R G LAVELLE

3874/19

ANNOTATED AGENDA

CAP REFORM

1. The EC paper outlines a possible negotiating strategy in the run-up to the Copenhagen European Council:

- Would it be realistic to look for more radical (market oriented) objectives over the next few months?

- Is a deal on the lines of paragraph 43(b) the most promising in view?

- How important do we rate income aids in the adjustment process? What approach would suit us best?

- What are the principal tactical considerations? How and when should we introduce our ideas on safety valves?

2. Looking further ahead, the EI paper sets out a long-term framework for CAP reform. How far should we be prepared to deploy these arguments? In particular is it useful:

NB - To argue that agriculture should be treated more like other sectors of the economy?

✓ - To emphasise the resource costs as well as the budgetary costs of the CAP in judging proposals for reform?

✓ - To stress the importance of getting progressive reductions in agricultural prices to get closer to world market prices and to try to ensure that other ways of restricting output (eg quotas and compulsory setaside) have only a transitional function?

? A number of these points are contained in the EPC paper. Should we encourage this paper to be tabled and discussed at ECOFIN?

3. How does all this fit with other domestic/international preoccupations? Are there some general themes to which we need to give greater weight?

24/7/87 PAPER A.

CONFIDENTIAL

PAPER A

BUDGET DISCIPLINE AND CAP REFORM: TOWARDS A NEGOTIATING STRATEGY

This note considers what the UK's strategy on budget discipline for agriculture and CAP reform should be in the remaining stages of the future financing negotiation. The strategy for the negotiation needs to have regard to the very large economic and financial losses which the UK is making as a result of current CAP policies (see Annex A), the past history of attempts to reform the CAP (Annex B) and the realities of what is likely to be achievable given the attitudes of other Member States in the negotiation (Annex C). The UK has already tabled a paper in Brussels on agricultural stabiliser mechanisms (Annex D).

2. The UK's main leverage on agricultural policy and budget discipline is the need for unanimous agreement for any increase in the Community's own resources. The note focuses accordingly on changes which might most fruitfully be sought in that context. In the medium term the focus of agricultural policy reform may shift to the GATT round. But substantive negotiations in GATT could take four or five years, and we cannot afford to wait that long before seeking improvements in the Community's policies.

Objectives

3. The UK's economic and financial objectives with regard to the CAP can be summarised as follows:

(i) reduction or limitation of the UK's economic and financial burdens from the CAP, including budgetary, trading and resource allocation losses;

(ii) to that end, greater market orientation in the CAP through lower support prices, further dilution of open-ended guarantees and restoring intervention buying to a safety-net role (all this subject to preserving a healthy farming sector in the UK and avoiding unnecessary discrimination against our industry); and

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(iii) substitution of national for Community financing to the greatest extent possible, not least for income support and other supplementary measures, but stopping short of open advocacy of "renationalisation" which would be counterproductive.

repatriation

There are some unresolved differences between Departments on how best to achieve these goals in the current negotiation. Further Ministerial discussion will be necessary in the autumn, by which time the Commission will have tabled its detailed proposals following the June European Council and their implications will have been assessed.

Basic problems

4. There are two basic problems which have tended to bedevil our efforts to make progress: the **negotiating problem** of how to persuade other Member States to accept unpalatable changes and the **expenditure problem** of how to cash limit a programme which is largely demand-led.

5. The only solution to the **negotiating problem** will be to come to some kind of a deal with the other Member States under which they will reluctantly agree to some of our requirements in return for our reluctantly agreeing to some of theirs. Although our agreement will be required before the own resources ceiling can be raised, the number of quids pro quo which we can secure in return will inevitably be limited, and it will be important to select carefully what we go for. We shall also need to distinguish carefully between changes in the CAP which we wish to see ourselves and those which we might be willing to concede in return for our own desiderata.

6. The **expenditure problem** of how to contain a largely demand-led programme is also exceptionally difficult. Essential elements in a solution will be establishing an appropriate financial limit, together with provisions whereby price fixing and other decisions must be consistent with that limit, and introducing stabiliser mechanisms into the individual regimes to improve the prospects for respecting the limit. It has

however to be recognised that even these measures may not suffice to ensure that the prescribed limits are respected. The only way of clinching this would seem to be through some provision whereby any unavoidable excess expenditure would be financed nationally and not by the Community budget. In the absence of agreement on this, an alternative approach which might be considered (if it did not get in the way of any other objectives we might have for the UK abatement) would be to insist that the UK should receive 100 per cent compensation for any increase in its net contribution caused by an overrun in agricultural expenditure. The difficulties of achieving such outcomes should not be underestimated, especially given the statement in the European Council conclusions that "any risk of movement towards renationalisation" should be avoided.

not on

(dreams)

Elements in a possible deal

7. Against the above background the best deal we could hope to achieve at the end of the negotiation might include the following elements. We would trade

(a) some increase in the financial guideline limit (preferably with an agreement on how to cover inter alia the costs of depreciating old stocks) in the context of an agreed increase in the own resources ceiling, and

(b) something on income aids, so long as these are production neutral and as far as possible nationally financed,

in return for

(c) the introduction of satisfactory stabiliser mechanisms, regime by regime, and

??

(d) a safety-valve provision whereby any [unavoidable] excess of expenditure over the guideline limit would be borne nationally (or at least not be permitted to increase the UK's net contribution).

The following paragraphs discuss each of these items in turn.

Financial guideline limit

8. It is clear that some increase in the financial guideline limit on agricultural guarantee expenditure will be an unavoidable element in the final outcome of the future financing negotiation.

9. The case on merits for raising the guideline limit may be less than compelling from a UK standpoint. If other Member States were prepared to take the kind of decisions which we would like to see on support prices, other subsidies, intervention practices, stabiliser mechanisms and means of financing, then the existing guideline limit, based on the average level of actual market support expenditure in 1984-85 uprated annually in line with the increase in total available own resources, might in principle suffice for future years as well. But we would need to be ready to accept across the board price cuts of 20 per cent now to respect the current guideline in 1988.

10. In practice no other Member State will be willing to leave the guideline limit at its present level. They will all insist that containing expenditure within the present limit would require drastic decisions on prices or quantitative restrictions which they would find totally unacceptable and that the limit must be raised to a 'realistic' level. It is precisely the shortage of resources available for agricultural support that has persuaded France, Germany and others of the need for an increase in the own resources ceiling. They will be determined to ensure that agriculture receives a good share of such an increase. The southern Member States and Ireland will be no less concerned to ensure that other kinds of expenditure receive a good share; but they too will see a raising of the agricultural guideline limit as essential.

11. In keeping with this, the June European Council conclusions, not accepted by the UK, already provide that "the starting base of the agricultural norm must be redefined to take account of the current situation". The text continues with an obscure reference to "exceptional circumstances" and the influence

!!! ho! ho!

of exchange rates: "The effect of exceptional circumstances will have to be better defined and in particular the monetary factor will have to be neutralised in both directions." More reassuringly, the conclusions also provide for effective and binding budgetary discipline, including continuation of the existing budget discipline provision whereby agricultural expenditure must not progress at a rate exceeding that of the own resources base.

not the case when SS figures taken both ways

12. As a general rule, agriculture is the area of Community spending which disadvantages the UK most. Our receipts share of around 8 per cent is far below our share of contributions to the budget of around 18 per cent, leaving us as heavy net contributors even after allowing for the Fontainebleau abatement, which reduces the gap from about 10 to about 3½ percentage points (see Annex A). Our marginal contribution to extra agricultural spending may fall slightly if the Commission's 'fourth resource' proposal is adopted but is virtually certain in practice to remain substantial. The agriculture programme is also extremely costly in terms of UK public expenditure (see Annex A again).

13. Against the above background, it will be an important UK objective to contain the once-for-all increase in the agricultural guideline limit, and the annual growth of the limit thereafter, as far as possible. The main issues in this connection, on which MAFF and Treasury officials are now working intensively, are as follows:

(i) New base-level. The Commission's proposals earlier in the year envisaged a once-for-all increase of 15-20 per cent in the level of the guideline, raising the 1988 figure from some 23 billion ecu to some 27 billion ecu. This proposal was based on amounts needed in 1987 as then perceived. The Commission may well argue, however, that the Council's failure to adopt the oils and fats tax and other measures proposed in the price fixing will require a substantial upward revision of this figure. Officials are in the process of evaluating the Commission's figures and projecting future needs, which will continue to be affected by movements in the exchange rate and by policy on stock depreciation.

(ii) Annual growth of guideline limit. If we accepted the Commission's proposals, endorsed by the other eleven Member States at the June European Council, that (a) the own resources ceiling should in future be expressed as a percentage of Community GNP and (b) the guideline limit should continue to grow in line with total available own resources, then the agriculture guideline limit (as well as the total of available own resources) would grow over time faster than at present, in line with Community GNP. The UK will need to reach a view on whether it could accept expressing the own resources limit as a percentage of GNP and, if so, whether we would be content to let market support expenditure grow at this rate, too: the alternative would be to provide that the limit on market support expenditure should grow at some fraction (say two-thirds) of the rate of growth of available own resources.

Yes OK in principle

or slightly less than

(iii) Relationship between guideline and own resources limits. The relationship between the new agricultural guideline limit and the new limit on total own resources is likely in practice to be a key determinant of the future distribution of the Community budget as between agriculture and other policies. For that reason among others, the final decision on the guideline limit will need to be taken simultaneously with that on the own resources limit. The effect of the present guideline, if it had been observed, would have been to limit market support expenditure, as defined for guideline purposes, to 56.7 per cent of the own resources base (again as defined for this purpose). After allowing for other elements of agricultural expenditure, this ratio rises to 60.4 per cent, and the actual underlying level of expenditure has in practice been about 65 per

Don't push this

cent. We may wish at a later stage in the negotiation to oppose any increase in the guideline limit which would involve a higher ratio of agricultural expenditure to available own resources, provided that the ratio is improved by keeping down the agricultural guideline limit rather than increasing other elements in expenditure.

14. As implied above, three important technical issues which will also affect the level of the guideline are (a) the arrangements for depreciating stocks, both past and present, (b) the provisions for exceptional circumstances (where the Commission have proposed a monetary reserve to deal with the consequences of currency fluctuations) and (c) the definition of expenditure covered by the guideline, which at present nets out the proceeds of co-responsibility levies. Officials are working on these aspects as well.

15. In addition we shall need to consider the scope for building on the European Council conclusions to make the current budget discipline conclusions on agriculture more binding and effective. Possibilities include turning the current Council "conclusions" and supplementary Commission statement into legally binding Regulations; improving and clarifying the drafting as far as possible and incoporating the procedural changes (ie the Commission's undertaking to make its price fixing proposals within the guideline and the need for prior agreement of ECOFIN to exceed it) proposed in the paper circulated by the UK in Brussels.

Income aids

16. Although production-neutral income support could have a part to play in the final settlement, as the European Council conclusions note, the UK has in general no interest in such measures except as a quid pro quo for changes which we do want to see such as price cuts and the introduction of stabiliser mechanisms. We shd certainly not be demandeurs for income aids.

17. The Commission's rather incoherent proposal for part-EC funded aids has been generally attacked and it is quite possible that a new and simpler proposal from the Commission would

be necessary if income aids were to make progress in the autumn.

18. While we have welcomed the framework proposal to control nationally paid aids and prevent distortions of competition between member states, we have opposed the part-EC funded proposals. The latter seem likely, in practice, to lead to increased production and expenditure. There are also serious problems about introducing a preferential social security scheme for one sector of the population only. All three schemes are optional on member states. Even if a scheme were implemented in the UK, it is inevitable that our net contribution position would deteriorate in consequence of the introduction of measures of this kind elsewhere in the Community. The trend would be particularly acute if there was significant take-up in the southern member states where there are serious problems over proper control of expenditure.

?

<u>Other measures</u>

19. The European Council conclusions also refer to the possibility of "other measures, such as, for example, encouragement of the setaside of land or more extensive farming". The UK has taken a more advanced position on ideas of this kind, because it is clearly better to secure cost-effective, production-reducing measures which are of interest to the UK than expensive, at best production-neutral income aids, which are not. The recent socio-structures measures adopted by the Agriculture Council provide that member states should introduce incentive schemes for farmers willing to "extensify" their production (that is, to reduce it by 20 per cent). The Commission has now undertaken to produce a further study on such schemes in the autumn partly at the British request. It is obviously essential that they should be cost-effective in the sense of reducing production and expenditure, and facilitating reduction in the level of support. From the UK's point of view, it is important that such schemes should be substantially nationally financed, as with the "extensification" scheme. Subject to this, we should not rule out the possibility of making progress with such measures in the context of the future financing negotiations.

Workable? (rackets) (people, [illegible])

!!!

20. Other Departments have differing views on the merits of supplementary measures. The FCO in particular seem anxious to launch some sort of UK initiative on income support while MAFF (who regard income support as anathema) spend much time plugging the merits of setaside. This is one of the issues on which Ministers may need to focus in September.

CAP stabilisers

21. The UK has already made clear that we regard the introduction of effective CAP stabilising mechanisms, regime by regime, as a sine qua non for agreeing to raise the own resources ceiling. This ought clearly to remain our position.

22. The June European Council conclusions contain helpful language in this connection. The section on budget discipline invites the Council, "acting on a Commission proposal, to adopt the additional regulations which will enable the Commission, in the context of the management of the market, to keep the level of expenditure within the budget framework". The agricultural section of the conclusions states: "The Commission and the Council will have to draw up an inventory of the various adjustments made to the common agricultural policy and on that basis the Council will adopt the requisite supplementary measures, including measures to ensure that the budgetary discipline is fully observed." Since the European Council, UKREP has tabled the UK's own ideas on stabilisers (see Annex D), which include some guiding principles as well as specific options.

23. The UK's main immediate aim should be to insist that the Agriculture Council must take decisions on at least the major problem commodities, including cereals and oil-seeds, in November before the Copenhagen European Council.

24. On substance, we shall wish to press the Commission hard to put forward proposals which conform with our own guiding principles. We shall also wish to ensure if we can that any inventory of existing measures includes a commentary on their effectiveness in curbing surplus production and controlling expenditure.

25. Although we have mostly based the UK's suggestions for stabilisers on existing mechanisms, other Member States and some parts of the Commission are unlikely to have much enthusiasm for them. The Commission claim that their proposals will be less "timid" than the UK's ideas. But in practice they are likely to include devices which UK agricultural interests will find unattractive such a the wider use of co-responsibility levies on producers and a significant extension of the Commission's management powers. Given the usual tempo of negotiations in the Agriculture Council/and the reforms made to a number of key regimes over the last years, it will be difficult in practice to achieve substantive decisions before December. Nearer the time we shall need to consider whether sufficient progress has been made to justify movement elsewhere in the negotiation. But we should certainly not appear to relax the momentum on stabilisers at least until the Agriculture Council on 19-20 October which, according to the Danish Presidency, is scheduled to take decisions on the Commission's proposals.

has quite good track record

<u>A "safety-valve"</u>

26. It is perhaps unlikely in practice that the Community will be able to reach agreement on CAP stabiliser mechanisms which are adequate in themselves to ensure that any future guideline limit will be respected. There must be a high risk that the Council will not have the collective will to take the necessary measures to ensure this. The UK would then be faced once again with a substantial increase in our net contribution, reflecting our low share of agricultural expenditure relative to our contribution share. This has happened once. It could all too easily happen again.

Agree, but tactful phrase

27. Against this background, the UK would seem amply justified in seeking agreement that the Community budget should no longer have to bear the cost of any expenditure by national intervention agencies in excess of the guideline limit. We could describe this, quite reasonably, as a kind of <u>safety-valve</u>. If good agreements on stabilisers were in prospect, we could point out that the safety-valve would be unlikely to be much used in practice. If on the other hand the agreements in prospect on stabilisers were less than adequate, we could argue with some force that this reinforced the case for having a safety-valve.

28. The mechanics of the safety-valve would be relatively simple. If the guideline limit were X becu and actual expenditure during the year were X + Y becu, the Commission would pay out to each individual Member State a proportion of its total eligible expenditure over the year given by $\frac{X}{X+Y}$, so as to limit total Community budget expenditure to X becu.

29. A new Community Regulation would be needed to give effect to this formula. Enshrinement of the guideline limit and the safety-valve in a Regulation would be compatible with the language in the June European Council conclusions about the need for effective and binding budget discipline, including Regulations.

30. A safety-valve along these lines would benefit principally Germany and the UK, as being the only two countries whose shares of agricultural guarantee expenditure are lower than their shares of own resources. In both cases our percentage share of guarantee expenditure is some 10 percentage points below our percentage share of own resources. The relief to Germany from this change would be approximately three times as great as the final relief to the UK because the Germans have no Fontainebleau abatement. On the other hand, this relief for Germany might well substitute for the politically contentious relief proposed by the Commission whereby Germany would contribute to the UK's correction at only one-quarter of its normal rate (see further below).

31. The great problem about a safety-valve on these lines is that other Member States apart from Germany would resist it strongly. Eminently reasonable as the concept may be from a UK standpoint, we would have to expect a vehement reaction. Their unspoken objection would be that such a device would place a limit on their net profits from the agricultural budget: the relative shares of individual Member States in agricultural guarantee expenditure and VAT are summarised at Annex C. This objection would probably be framed in terms of 'financial solidarity' as provided for in the 1962 Regulation on the financing of the CAP. Member states declared objections would probably be threefold:

(a) the safety-valve would be tantamount to renationalising the CAP, which is anathema;

(b) it would invite trade distortion abuses, in that Member States would have an incentive to unload their agricultural surpluses into the markets or intervention authorities of neighbouring countries rather than risk having to part-finance the necessary export refunds or other subsidies themselves; and

(c) it would be too favourable to the Germans and might encourage them to argue for even higher support prices than now.

not really true

32. Our ability to secure acceptance of a general safety-valve on the lines sketched above would depend on how willing we were to withhold agreement to the rest of the future financing package until the others accepted our proposal and on the willingness of Germany in particular, qua the Community's other paymaster, to join forces with us. Our answers to the specific objections listed above would be:

(a) There would be no question of renationalisation: the Community would continue to decide market support policies exactly as now. The only difference would be that, in the hopefully rare circumstances where guarantee expenditure exceeded expectations and stabiliser mechanisms were inadequate to deal with the problem, the Community budget would finance the expenditure as to somewhat less than 100 per cent. There are many precedents in other Community programmes, including FEOGA guidance, for shared financing.

(b) On the question of trade diversion, our main point would be that we doubt whether this would be a serious problem. Only Governments would have any incentive to cheat. Farmers and traders individually would have no different incentives from at present. A further consideration is that the main sufferers from any trade diversion which did occur would probably be the scheme's main beneficiaries, Germany and to a lesser extent the UK. If the problem did turn out to be serious, ways of dealing with it could be investigated.

(c) On the question of treating Germany too well, the Germans have insisted that they must have some alleviation of their ever-growing budgetary burdens. However, the French and others have objected to the Commission's proposal whereby the Germans would contribute to the financing of the UK's relief at only one-quarter of their normal rate of contribution. The proposed safety-valve would arguably be a much better way of providing some protection for Germany. It should also be much less objectionable to the French, who would not in any event suffer major losses as a result of the safety-valve (see Annex C table).

The argument that the safety-valve would encourage the Germans to hold out for still higher support prices is harder to rebut.

33. On past experience, the Germans might well decline on political grounds to support the quest for a safety-valve. For this and other reasons we might find that there was no prospect of reaching agreement on a general device of this kind. In that event, we could consider suggesting instead that the UK, at least, should not be expected to bear any additional net contribution as a result of expenditure in excess of the guideline limit. In other words, the suggestion would be that we should receive 100 per cent abatement in respect of our net contribution to expenditure in excess of the guideline limit. Specifically, if the guideline figure were X becu and excess expenditure were Y becu, we would receive 100 per cent abatement in respect of Y/(X+Y) of our net contribution to agricultural guarantee expenditure.

non-starter

34. The case for floating this alternative option would clearly depend on what other changes in the abatement we were seeking and whether it would be compatible with or get

in the way of these. There are some indications that other Member States, including Germany, will press hard for replacing the Fontainebleau abatement formula with a more generous variant of the Commission's formula, whereby our relief would be calculated as 50 per cent of the difference between our GNP and actual shares of agricultural expenditure. If the UK were prepared to discuss such a possibility, we would already need to seek a compensation rate of around 90 per cent for broad equivalence with the Fontainebleau system.

Just not on status quo

35. Given the vehemence of the likely objections to a 'safety valve' scheme, presentation would be particularly important. It might be preferable not to be too specific, initially at least, about how the arrangement would work. We might simply say, at the appropriate time, that the guideline limit must be a limit and must set an absolute ceiling on the amount of expenditure which can be charged to the Community budget. We could underline the need to achieve a better balance between the various categories of Community expenditure. We could make the point that the idea was less radical than Delors' idea, in the introduction to the 1987 PDSAB, for 70 per cent Community financing of CAP advances during 1987.

<u>Timing and tactics</u>

36. Officials are still studying many of the ideas discussed in this paper. The timing and tactics of deploying them will also need careful consideration.

37. The Presidency are certain to arrange in any case for discussion of stabilisers and the guideline limit. Our aim should be to ensure that the work on <u>stabilisers</u> should be pressed forward quickly so that a broad political deal may be attainable at Copenhagen in December, even if (as with the Fontainebleau agreement) the legal instruments and other details have to be cleared up subsequently.

38. The new <u>guideline limit</u> formula is so closely connected with the decision on the overall own resources limit that we shall have to insist that the two elements be decided simultaneously. Preparatory work on many of the important

technical issues discussed earlier should however be acceptable and indeed desirable.

39. The presence on the table of the Commission's proposals on income aids will ensure that these, too, feature in the autumn agenda. Some Member States may see income aids as a quid pro quo for agreement on stabilisers. For the technical reasons discussed earlier, the UK should be careful not to appear as a demandeur for income aids but should play hard to get.

40. The most difficult strategic and tactical issue of all will be whether to go for a safety-valve on the lines described above, and if so how and when to float the idea. There seems no prospect that the Commission would be willing to float it. On past form, the Germans would not be willing either. If we decide to float it ourselves, the best approach might be -

(a) to prepare the way by means of an intervention in ECOFIN or the General Affairs Council to the effect that there has to be a limit on the amount of agricultural support that the Community budget can finance, and then

(b) to circulate a paper setting out our idea for consideration by COREPER in the first instance.

41. The launch-date would need careful consideration. An early launch might divert attention from stabilisers, and the idea might lose its freshness before the Copenhagen European Council. With a late launch, shortly before Copenhagen, on the other hand, other Member States might feel too uncertain about the proposal to go along with it. We shall almost certainly want to await the outcome of the Agriculture Council on 19-20 October before floating any new ideas which could detract from our position on stabilisers.

42. It is too early to reach firm judgements. A possible approach would be to prepare the way at the October General Affairs Council or ECOFIN and to circulate a note to COREPER early in November, about a month before the Copenhagen European Council. This is not, however, the only possibility.

Conclusions

43. The main points from this paper can be briefly summarised as follows:

(a) We shall need a considered strategy for achieving progress on agricultural budget discipline and CAP reform.

(b) The most promising deal from the UK's point of view would be one under which we reluctantly accepted (i) some increase in the guideline limit in the context of an increase in the own resources ceiling and possibly (ii) a strictly limited programme of income aids, in return for (iii) the best obtainable package of stabiliser mechanisms and (iv) a safety-valve arrangement whereby expenditure in excess of the guideline limit would be financed nationally or, failing that, the adverse effect on the UK's net contribution would be totally offset.

Realism

(c) As regards the guideline limit, we should seek the lowest possible once-for-all increase which can be represented as realistic given the projected future expenditure requirements: we may wish to argue that there must be no increase, and preferably a reduction, in the ratio of total permitted agricultural expenditure to total available own resources.

don't you rely on this

(d) If the Community agrees to express the future own resources ceiling in terms of GNP, we should consider seeking to limit the growth in the guideline limit to some fraction of the growth in total available resources, perhaps two-thirds.

less than

(e) On income aids, we should not be demandeurs but should be prepared to consider limited concessions at the end of the day if our essential conditions are met.

needs examination

(f) As regards other measures, we should consider whether the developing negotiation provides opportunities to make progress on effective, production-reducing measures without adding to EC expenditure.

(g) We should press for decisions by November on an effective package of stabilisers reflecting the principles in our own circulated paper.

(h) We should consider launching at the appropriate time, perhaps early in November after some general preparation in an October Council meeting and preferably with German support, the idea of a safety-valve as in (b) above.

(i) If the idea of a general safety-valve does not prosper, we could consider falling back on the idea of 100 per cent protection for the UK in respect of increases in our net contribution associated with expenditure in excess of the guideline limit, provided that this would not get in the way of any other objectives we may then have for improving the UK's abatement.

Optimistic!

HM Treasury
24 July 1987

24/7/87

270agpol

ANNEX A

ANNEX A

AGRICULTURAL POLICY COSTS TO THE UK

	1986-87 (i)	£million 1987-88
1 Total expenditure on agriculture in UK		
(a) Domestic agriculture	895	856
(b) CAP market support UK prefunded	266	543
(c) CAP market support EC prefunded	903	1058
(d) Total (a) + (b) +(c) (rounded)	~~2064~~ 2050	~~2457~~ 2450
2 Community Budget items		
(a) UK's share of FEOGA -guarantee	1355	1163
(b) UK's share of FEOGA -guidance	65	72
(c) UK's gross contribution to FEOGA	~~3349~~ 3350	3450 ~~3464~~
(d) UK net contribution to FEOGA (ii) (~~before~~ after Fontainebleau abatements)	~~1929(ii)~~ 650	~~2229~~ 750
3 Total public expenditure effects (2(c) + 1(d))	~~3993~~ 2700	~~4686~~ 3200
4 UK net losses outside Budget on intra-Community trade in CAP products (1985 figure)		375
~~5 Resource allocation loss (1980 figure)~~		~~1600(iii)~~

Assumptions:
1. UK spending on domestic agriculture as in PEWP
2. UK spending on CAP market support as in latest IBAP forecast
3. FEOGA receipts as in PEWP except Guarantee in 1987-88
4. Guarentee receipts in 1987-88 are 7% of average guideline expenditure in 1987 and 1988
5. UK contribution is 20% of FEOGA budget
6. £1= 1.38 mecu

Notes:
(i) UK intervention expenditure in 1986-87 was untypically low due to exceptional factors (notably bad weather in Spain leading to high UK cereals exports.)

(ii) ~~No account is taken of the effect of Fontainebleau rebates, which should result in the refund of 66% of each year's net contribution to FEOGA in the following year~~

~~(iii) Resource allocation loss in 1980 was calculated at £1.6 billion. There is no more recent figure than this, but the current figure is likely to be much higher.~~

Fontainebleau abatement received in same year.

DEVELOPMENT OF THE CAP

Since the inception of the CAP in the early 1960's there have been substantial changes in the structure of European agriculture. Despite successive enlargements of the Community agricultural employment has declined from 15 million (20% of the EC 6 labour force) in 1960 to 10 million (8.8% of the EC 12 labour force) in 1984. Output has increased rapidly under the combined influence of high support prices, the amalgamation of small inefficient farms and improved technology moving the Community's self-sufficiency ratio in agricultural products from around 80% to more than 120% for major products over the period. EC consumption per head has been static and expenditure on food has fallen as a proportion of average income. EC budget expenditure on agricultural support has grown dramatically as the Community has exceeded 100% self sufficiency in most temperate products but aggregate farming income and farm income per labour unit has not significantly improved over the last decade.

ANNEX B

2. The difficulty of sustaining the policy of maintaining farm incomes through successive annual price rises became apparent when the resulting expenditure on surpluses threatened to breach the limits of the Community's own resources. Some hesitant steps towards tackling the problem of overproduction began to be taken in the late 1970s and early 1980s. These included:

(i) the imposition of quotas on milk production in 1984 (subsequently reduced in 1986 but still set well above the level of Community consumption);

(ii) acceptance of the principle of guarantee thresholds for products in surplus, under which price cuts are triggered in the following year if production exceeds the threshold (the operation of the guarantee threshold for cereals was effectively blocked by the Germans in 1985 and was subsequently withdrawn);

(iii) the introduction of co-responsibility levies on milk (1977) and cereals producers (1986) intended to discourage overproduction and help pay for the disposal of surpluses; and

(iv) the establishment of maximum guaranteed quantities (MGQ) for certain products (for example oilseeds) involving automatic reductions in aid payments in years in which it is forecast that production will exceed the MGQ.

In addition, as part of the Fontainbleau settlement increasing the ceiling on own resources from 1% to 1.4% VAT the Council agreed on budget discipline conclusions including a financial guideline which was intended to limit the growth of agricultural spending to no more than the growth in the Own Resources base.

3. Developments since 1984 have demonstrated that the guideline is not itself effective in constraining expenditure and that most of the techniques for controlling production have not secured the desired results. Despite a succession of very modest price fixing settlements by past standards the gap between Community and world prices has widened and expenditure has continued to grow unchecked giving rise to an excess of some 900 mecu in 1986 and threatened overspends of 4 becu and 7 becu in 1987 and 1988 respectively. The Commission blame these developments on a combination of circumstances outside their control, including:

(i) the 35% depreciation of the dollar against the ecu since 1984;

(ii) the costs of realignments within the EMS; and

(iii) an autonomous decline in world prices.

Whatever the reason the continued rise in agricultural spending is the main factor responsible for the need for another EC financing review this year.

EC INDICATORS

1. FEOGA Expenditure trend

	1980	1981	1982	1983	1984	1985	1986	1987 Budget	1987 unconstrained forecast	1988 PDB	1988 Unconstrained forecast
becu	11.3	11.0	12.4	15.8	18.3	19.7	22.2	23.0	27.0	27.0	30.3
% growth		-3%	13%	27%	16%	8%	12%	4%	21%	17%	32%
% EC Budget	-	62.6%	59.7%	63.1%	67.3%	69.8%	62.9%	63.3%	66.9%	68.1%	70.5%

1984-85 base

	1984	1985	1986	1987	1987 unconstrained forecast	1988 PDB
Guideline	18.3	19.7	21.2	23.0	-	23.5
% growth		7.7%	7.6%	8.5%	-	2.2%

2. Annual changes in CAP support prices

	1980	1981	1982	1983	1984	1985	1986	1987 (1)
(i) % in ecus	4.6	9.0	10.2	4.1	-0.8	0.1	-0.5	~~0.5~~ -0.2
(ii) % in national currencies	8.7	10.1	9.3	6.3	1.5	1.7	3.1	~~0.5~~ 2.6
(iii) % in national currencies in real terms	-2.0	-0.4	-0.8	-1.3	-4.1	-3.5	-2.2	~~-2.5~~ -1.1

(1) because of non-price constraints, effective support was cut by 1.9% in terms @ 1987 price-fixing.

3. CAP/world price ratio trends

	1980	1981	1982	1983	1984	1985	1986
Wheat	1.48	1.41	1.56	1.31	1.11	1.29	2.38
Barley	1.59	1.34	1.50	1.48	1.17	1.19	2.87
Sugar	0.92	1.42	2.34	2.15	3.24	3.84	3.66
Butter	1.86	1.52	1.54	1.72	1.68	1.94	2.44
SMP	1.53	1.40	1.41	1.59	1.84	1.89	2.04
Beef	3.62	14.51	5.27	3.97	3.75	3.56	3.27

4. EC self sufficiency ratio trends

		1980/81	1981/82	1982/83	1983/84	1984/85	1985/86
Cereals	EC10	106	106	115	107	127	122
(exc rice)	EC12	102	96	105	98	119	115
Sugar	EC10	127	154	146	122	132	124
	EC12	120	144	139	118	125	-
Wine	EC10	100	94	111	101	97	93
	EC12	Not available					

		1980	1981	1982	1983	1984	1985
Beef	EC10	103	103	102	105	112	107
	EC12	103	103	101	105	111	106
Butter	EC10	120	118	128	146	129	125
	EC12	119	118	127	145	128	124
SMP	EC10	135	142	151	133	106	-
	EC12	133	138	148	132	104	-

5. EC intervention stocks trend

'000 tonnes

	1980	1981	1982	1983	1984	1985	1986
Cereals	2,710	3,480	2,740	7,386	4,510	16,610	15,730
Beef	268	195	176	359	548	639	547
Butter	169	10	113	691	840	997	1,323
SMP	244	271	569	981	617	519	832
Olive Oil	-	-	157	171	83	8	261
							m. litres
Wine alcohol	-	-	139	149	186	323	418

6. Real net income from agriculutral activity of family labour input - per annual work unit

1980 = 100 (based on average of 1979, 1980 and 1981)

	1974-79	1979	1980	1981	1982	1983	1984	1985	1986
EC10	122	112	94	94	111	101	110	94	98

ANNEX C

OTHER MEMBER STATES' POSITIONS ON THE CAP

To the other Member States the CAP is the Community's first and, still to some extent, only fully developed policy. Its introduction was part of the original bargain between France and Germany when the Community was first established. Its objectives are enshrined in the Treaty of Rome and any full frontal attack on these or its three guiding principles (of a single internal market, Community preference and financial solidarity) would be regarded as a wrecking tactic by the rest of the Community.

2. The UK is virtually alone in its approach to the CAP. All other Member States have substantially larger agricultural sectors in terms of proportion of employment (if not, in the case of Germany, proportion of GDP). Only Germany and the UK make significant net contributions to the budgetary costs of the CAP. Only Germany, Italy and the UK are substantial net importers of agricultural products. The average size of holdings in the UK (at 65 ha.) is twice as large as in any other Member State (4 times that of Germany, 10 times that of Italy); average farm incomes are higher in the UK in any other Member State except the Netherlands and Denmark. Given these statistics it is perhaps not surprising that most Member States are less exercised by the need to reform the CAP than the UK and that most of them are more concerned to prevent any reforms which may be agreed from damaging the perceived interests of their farmers.

ANNEX C

3. As the other major contributor with a relatively small agricultural sector Germany could be expected to share the UK's interests in reform. However, the strength of the German farm lobby is such that German governments have continuously insisted that national farm prices in Germany should in no circumstances be reduced in nominal terms. It is for this reason that the Germans have resisted adjustments to the Green DM (used for agricultural purposes) to reflect revaluations of the DM in the EMS; and that the agrimonetary system has been distorted to avoid the need for such adjustments, with consequential inflationary effects in the other Member States. Moreover, the German attitude has been largely responsible for the Council's inability to adopt sufficiently restrictive price policies or to implement those which it has agreed.

4. On the other side of the spectrum France shares some interests with the UK as a relatively efficient producer but, although the French pay lip service to the need for CAP reform and say that they are prepared to accept restrictive

prices, in practice they show more concern for maintaining parity between French and German farm prices and their ideas for budgetary control tend to include proposals for an increase in Community protection (eg by unbinding the duty free access for cereals substitutes) or revenue raising measures such as the oils and fats tax, to both of which the UK has strong objections.

5. The other Member States all have strong agricultural interests and only the Netherlands consistently supports the UK's approach towards the CAP. As the UK and the Netherlands cannot by themselves form a blocking minority in the Council (and most agricultural decisions can be adopted by qualified majority), there is a risk that UK views which the others regard as extreme are ignored. The Council has consistently weakened the force of any relatively stringent proposals which the Commission tables on CAP reform (cf. most recently the outcome of the 1987 Price Fixing). And the Commission will itself have taken a view on the likely consensus in the Council in formulating its proposals. All this reemphasises the desirability of capitalising on the clear link which has been established between CAP reform and the future financing review, where it is accepted that unanimous decisions will be required. But it will also clearly be necessary to devise UK positions which take some account of the strongly held views of other Member States.

MEMBER STATE INDICATORS

BASIC AGRICULTURAL DATA EC12

	Belg	Den	Germ	Gre	Fra	Ire	Ital	Lux	Neth	UK	Spain	Port	EC12
1. Number of holdings (000) (1983)	103	99	768	959	1130	22	2832	5	139	262	2213	782	9511
2. Average size of holding ha (1983)	14	29	16	4	26	23	6	28	15	65	11	6	12
3. Persons engaged (1984) -000	106	205	1370	1028	1659	182	2426	7	248	622	1947	975	10775
- as % total employment	2.6	7.4	5.1	27.0	7.1	14.0	10.6	4.6	4.4	2.3	14.7	23.6	7.9
4. Agriculture as % total GDP (1983)	2.6	4.7	1.8	15.5	4.0	10.7	6.4	3.1	4.4	2.1	5.9	6.5	3.8
5. Value of final production (BECU) (1984)	5	7	28	8	40	4	33	0.2	14	20	16	2	177
6. Agriculture and food exports as % total exports (1984)	12.1(1)	33.8	6.1	33.1	17.7	27.1	7.4		23.2	7.5	16.6	14.1	8.7
7. Agriculture and food imports as % total imports (1984)	14.4(1)	14.9	14.6	15.7	13.6	13.9	14.9		17.3	14.9	15.4	19.1	12.4
8. External trade balance in agric. and food BECU (1983)	-2.1(1)	+3.5	-14.2	-	+2.5	+1.3	-10.7		+5.3	-9.5	-1.3	-1.0	-16.6

(1) Includes Luxembourg

Source Eurostat and other Community sources.

DISTRIBUTION OF GUARANTEE RECEIPTS AND OWN RESOURCES CONTRIBUTIONS BY MEMBER STATE

%

	B	DK	GE	GR	F	IRE	IT	LUX	NL	UK
OR rate	5.0	2.4	28.8	1.5	20.4	1.1	13.9	0.2	7.2	19.5
OR marginal rate (after) adjustments)	3.6	2.2	30.4	1.7	24.5	1.0	16.2	0.3	5.3	14.9
FEOGA receipts	4.6	4.2	18.4	6.0	23.5	5.9	17.3	0.0	10.4	9.6

Forecast position after transitional period

	B	DK	GE	GR	F	IRE	IT	LUX	NL	UK	Spain	Port
OR rate	4.2	2.3	26.5	1.3	19.3	1.1	13.9	0.2	6.4	15.7	7.4	1.3
FEOGA receipts	4.2	3.8	16.7	5.5	21.3	5.4	15.6	0.0	9.5	8.0	9.0	1.0

ANNEX D

(2)

AGRICULTURAL STABILISERS : NOTE BY THE UNITED KINGDOM

1. The European Council requested the Council to prepare, on a proposal from the Commission, binding legal measures to establish budgetary discipline for agricultural expenditure, including additional regulations which will enable the Commission, in the context of the management of the market, to keep the level of expenditure within the budget framework. This note is intended as a contribution towards the work which the Commission and Council have been asked to undertake.

2. Measures of stabilisation to reduce market imbalances and control costs have been introduced into a number of Community agricultural regimes. The Commission has undertaken to bring forward proposals for a wider application of such stabilisers. The United Kingdom welcomes this undertaking, since stabilisers help both to make the CAP more market-oriented and to restrain its cost. In particular stabilisers help reinforce the guideline on agricultural spending. The Annex contains an illustrative list of options for the main CAP regimes, either building on mechanisms which are already in place or introducing new stabilisers.

ANNEX D

3. The United Kingdom favours arrangements which relate support to the quantities for which there are economic outlets available. We do not favour measures such as coresponsibility levies, which just raise money - effectively at consumers' expense. In the UK view CAP stabilisers should:

(i) progressively help to restore public intervention to its intended role as a safety net rather than an alternative market outlet;

(ii) be adapted to the characteristics of each commodity regime and be triggered by the main factors responsible for excess expenditure (eg the levels of production, world prices and intervention stocks);

(iii) wherever practicable operate on expenditure within the year in which overspending is forecast without the need for further Council decisions: and

(iv) not involve revenue raising devices likely to reduce consumer demand through increased prices or to conflict with the Community's obligations in the GATT.

3. In specific regimes it may be desirable to delegate to the Commission closely defined powers to implement stabilisers according to agreed criteria in the event of production or cost overruns.

London
2 July 1987

(4)

EXISTING AND SUGGESTED STABILISERS IN CAP REGIMES

MILK (26% of 1987 CAP Budget)

Expenditure trend

mecu

1984	1985	1986	1987 Budget	1987 (forecast)	1988 PDB
5442	5933	5406	6153	5819	6571

Existing control mechanisms

- coresponsibility levy introduced 1977;
- quotas introduced 1984;
- weakened intervention introduced 1987.

Possible further stabilisers

- 5½% temporary suspension of quota to be converted into definitive cuts as soon as possible;
- quota to be set as a function of EC consumption and net third country trade

BEEF (10% of 1987 CAP Budget)

Expenditure trend

mecu

1984	1985	1986	1987 Budget	1987 (forecast)	1988 PDB
2547	2746	3482	2370	2823	3171

Existing control mechanism

- weakened intervention introduced 1987.

Possible further stabiliser

- reduce further the role of intervention so that it acts only as a safety net.

(5)

CEREALS (16% of 1987 CAP Budget)

Expenditure trend

1984	1985	1986	1987 Budget	1987 (forecast)	mecu 1988 PDB
1650	2310	3391	3669	4610	5844

Existing control mechanism

- coresponsibility levy introduced 1986.
- weakened intervention introduced 1987.

Possible further stabilisers

- shorter intervention period and/or lower buying-in prices;
- cost-effective cereals land diversion policy;
- maximum guaranteed quantity system with in-year price adjustment if forecast production exceeds the maximum set by the Council: alternatively adjustments in support levels to reflect major developments affecting the basis on which the price fixing decisions were taken.

RICE (0.4% of 1987 CAP Budget)

Expenditure trend

1984	1985	1986	1987 Budget	1987 (forecast)	mecu 1988 PDB
48	50	94	95	105	112

Existing control mechanisms

- weakened intervention introduced 1987.

Possible stabilisers

- limit on export refund expenditure;
- quantitative limit on purchases into intervention.

(6)

OILSEEDS (8% of 1987 CAP Budget)

Expenditure trend

mecu

1984	1985	1986	1987 PDB	1987 (forecast)	1988 PDB
656	1111	2028	1891	2746	2583

Existing control mechanism

- maximum guaranteed quantity (MGQ) for rapeseed and sunflowerseed introduced 1986, and for soya 1987.

Possible further stabilisers

- strengthen the operation of the MGQ system;

- replace existing system of support by a flat rate aid per hectare or per tonne, which would be reduced if actual area or quantity produced exceeded a specified level.

SUGAR (7% of 1987 CAP Budget)

Expenditure trend

mecu

1984	1985	1986	1987 Budget	1987 (forecast)	1988 PDB
1632	1805	1726	1653	2023	1975

Existing control mechanism

- quota;
- production levies.

Possible further stabiliser

- revise calculation of production levies to ensure that the revenue covers expenditure on an annual basis.

(7)

FRUIT AND VEGETABLES (6% of 1987 CAP budget)

Expenditure trend

mecu

1984	1985	1986	1987 Budget	1987 (forecast)	1988 PDB
1455	1231	986	967	992	1137

Existing control mechanisms

- guarantee threshold for processed tomatoes and dried grapes, introduced in 1985;
- maximum guaranteed quantities for pears and cherries in syrup, introduced in 1985.
- maximum quantity for withdrawals of tomatoes with reduction in withdrawal price in following year if MGQ exceeded.

Possible further stabilisers

- extension of guaranteed quantity system to further processed products;
- extend maximum quantity for withdrawals to other products and introduce price reduction in year concerned.

WINE (6% of 1987 CAP Budget)

Expenditure trend

mecu

1984	1985	1986	1987 Budget	1987 (forecast)	1988 PDB
1223	921	631	1278	1494	1492

Existing control mechanisms

- Quantitative limits on certain distillation schemes.
- Single reduction in the rate payable for Obligatory Distilliation when it exceeds a specified volume.

Possible stabilisers

- Establish stricter quantitative limits for all distillation schemes and progressive reduction in prices for excess production.

(8)

OLIVE OIL (5% of the 1987 CAP Budget)

Expenditure trend

1984	1985	1986	1987 Budget	1987 (forecast)	mecu 1988 PDB
1096	692	604	1165	1324	1451

Existing control mechanisms

- maximum guaranteed quantity introduced in 1987.

Possible stabiliser

- relate MGQ more closely to consumption

TOBACCO (4% of 1987 CAP Budget)

Expenditure trend

1984	1985	1986	1987 Budget	1987 (forecast)	mecu 1988 PDB
776	863	782	828	894	940

Existing control mechanisms

- none

Possible stabilisers

- premia should be paid only where there exists a prior contract to purchase the tobacco concerned;
- limit on total expenditure on premia; the rates of premia should be reduced if necessary to observe this limit.

PROTEIN CROPS (3% of 1987 CAP Budget)

Expenditure trend

1984	1985	1986	1987 Budget	1987 (forecast)	mecu 1988 PDB
216	373	460	683	762	721

Existing control mechanism

- none.

Possible stabiliser

- maximum guaranteed quantity system: the quantity would be set at a level which would enable production to reach but not surpass the requirements of the market.

SHEEPMEAT (2% of 1987 CAP Budget)

Expenditure trend

1984	1985	1986	1987 Budget	1987 (forecast)	mecu 1988 PDB
434	502	617	551	519	924

Existing control mechanism

- none.

Possible stabiliser

- adjustment to basic price to contain total cost of regime.

TEXTILES (2% of 1987 CAP Budget)

Expenditure trend

1984	1985	1986	1987 Budget	1987 (forecast)	mecu 1988 PDB
108	241	565	460	510	508

Existing control mechanism

- maximum guaranteed quantity for cotton, which should not be increased beyond its present level.

Possible further stabiliser

- replace existing system by a flat rate aid per hectare or per tonne, which would be reduced if the actual area or quantity produced exceeded a specified level.

008/06

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UK FRAMEWORK FOR REFORM OF THE CAP

SYNOPSIS

1. Agricultural policy has become a significant element in economic policy. The CAP is costly in budgetary and resource terms. It distorts Community and world economies. It hampers supply side improvements and hinders counter-inflationary policies.

2. The strategy for reform over the short and medium term within the CAP itself and in GATT needs to be consistent with and contribute to a long term aim. Communique language promises a stronger market orientation, but there is no agreement over what this means.

3. The attached paper argues that the UK's long term aim must be to allow the allocation and use of agricultural resources to be determined largely by market mechanisms. Agriculture would then in principle be treated no differently from any other sector of economic activity; in practice, there might still be more intervention than elsewhere because of the particular characteristics of agriculture and the rural communities.

4. Reductions in guaranteed prices are already sought by the UK and contribute to this long term aim. Commitment to price reductions must be sustained and reinforced. But price reductions are not enough. There must also be commitment to the dismantling of other interventions.

5. Reliance on the market mechanism does not prohibit interventions. But it does require that specific policies should be assessed and implemented as departures from market principles. This is the prevailing policy framework elsewhere in the economy; it should be adopted for agriculture.

PAPER B

6. There are two reasons for doing so. First, the objectives of the Rome Treaty can be met more cost effectively by reliance on market forces supplemented by specific targeted interventions to cope with market failure and income distribution questions. Some of these might be appropriate at the Community level; others, like any significant degree of direct income support, might be more appropriately handled at national level.

7. Second, without this policy framework, short term solutions may be implemented which reduce imbalances and budgetary costs, but do little for the significant resource costs of the current regime. They are likely to increase the complexity of the CAP and reduce its transparency.

UK FRAMEWORK FOR THE COMMON AGRICULTURAL POLICY (CAP)

A. Introduction

1. The need for a new policy framework in agriculture has already been recognised in a series of international meetings: including OECD, GATT and the Venice Summit. The Chancellor has said "industrial countries - not just the European Community - must reduce all forms of intervention, including subsidies". Recent OECD Ministerial and Summit communiques refer to the need to give a bigger role to market forces.

2. The complexity of the CAP, the diversity of interests within the Community and the intricacy of Community relations have created enormous difficulties in negotiating reform of the CAP. Communique language promises greater market orientation in the CAP, but there is no agreed view of what this means in terms of the long term aim of reform. Yet short and medium term policies for reform have to be judged by their consistency with and contribution to an agreed long-term objective. This paper argues that the long term aim should be an agricultural policy based on market prices and targeted interventions to deal with any specific economic, environmental and equity issues arising in the agricultural sector. This policy framework is new for agriculture; but it is the prevailing one for other sectors of the economy.

B. The Objectives of the CAP

3. The formal objectives of the CAP are set out in Article 39 of the Treaty of Rome (Annex 1). These objectives reflected the following concerns at the time:-

- a fragmented industry structure would not provide for optimal technical progress and efficiency;

- the characteristics of the sector create particularly severe uncertainties and instabilities;

- supplies of foodstuffs need to be assured;

- ensuring a fair standard of living for the agricultural community contributes to the above but also secures the social and environmental advantages of rural communities;

- and all the above need to be secured at the same time as delivering supplies to the consumer at reasonable prices.

The Community has sought to achieve the objectives with a diversity of instruments but primarily with guaranteed prices above the market clearing level.

4. How has the policy delivered against its objectives?

a. **Increase agricultural productivity and ensure the rational development of agricultural production and optimum utilisation of factors of production.**

Labour productivity has risen rapidly spurred by technical change and more intensive farming methods - brought about partly as a consequence of high prices. But scale economies remain under-exploited and there is over-production and misallocation of resources between supported and non-supported produce. This is not a rational development of production; it is certainly not optimum utilisation of factors of production.

b. **A fair standard of living for the agricultural community.**

Shd distinguish [illegible] farmers: [illegible] major farmers

This has often been taken to mean parity of national farm incomes with incomes in other sectors. But relative agricultural income per head in the Community has remained unchanged for the last 25 years. Furthermore, the form of CAP support has squeezed the incomes of small and medium sized farmers despite higher output prices. While most output is produced at a profit, most farmers operate at a loss. If there had been more downward pressure on individual farmers' incomes, more resources would have left agriculture. Over the longer term, the average incomes of those remaining in agriculture could have been closer to those in other sectors.

c. **Stabilise markets**

While the Community has achieved price stability, it has not achieved stability in the sense of matching supply and demand at going price levels. Moreover, Community farmers face relative price shifts between supported and unsupported produce (and even within the supported sector) and the uncertainties created by Community attempts to deal with imbalances as the budget situation becomes increasingly unsustainable (eg quotas). For

[illegible]

producers, any advantage from stable prices has been largely nullified by uncertainty over quotas, while consumers are obviously more interested in lower rather than stable prices.

d. **Availability of supplies**

This has been wrongly interpreted as self-sufficiency. The policy has over-delivered; the Community is more than self-sufficient in agricultural produce. By any more stringent definition of assuring the availability of supplies, the extent of the over-delivery has been correspondingly greater.

e. **Reasonable prices for consumers.**

main point, tho' [illegible] prices w'd be higher [illegible]

The Community supports sugar, beef, butter, cereals and oilseeds at between 2-4 times world prices. The price of a large uncut white loaf has doubled in real terms over the last thirty years despite significant technical progress and productivity growth. Clearly, prices to consumers are higher than they would have been without the CAP. The charts at Annex 2 demonstrate the steady increase in CAP guaranteed prices since 1980 and the divergence from world prices. Therefore, no-one could claim that the CAP has delivered agricultural produce to the consumer at reasonable prices.

C. Changing Circumstances

5. Circumstances have changed within the Community and the agricultural sector. OECD and other work has demonstrated that the costs of the current regime are high and widespread. The policy can only be maintained at ever increasing costs.

a. Increases in production have far out-stripped slowly growing demand creating increasingly costly stocks of surplus products. Attempts to control the budgetary implications have bred their own uncertainties for farmers and the EC.

b. The expansion of the Community to include economies with larger, less modern agricultural sectors and generally lower incomes will increase the strains on the CAP. It is unreasonable for the Community to aim for parity of farm incomes in Portugal with manufacturing wages in West Germany.

but does it?

c. International trade tensions and protectionist inclinations have been exacerbated by the sustained commitment to agricultural support. The debt problems of Third World countries have served to highlight the costs imposed on them by agricultural policies in the Community and elsewhere. The GATT Uruquay round has brought into focus growing international pressure for liberalisation of agricultural policy across the world. Reform of the CAP is seen as a necessary condition for obtaining paralled reforms in other countries, notably US and Japan.

d. The increased intensification of farming (eg the intensive use of fertilizers) as a result of excessive encouragement to production has caused environmental damage.

e. The agricultural sector has grown in sophistication and flexibility. It no longer needs to be feather-bedded against market forces.

f. When Community countries are seeking to strengthen the supply side of their economies, the wider consequences of support in terms of inefficiency in resource allocation and use have become matters of serious concern.

6. The current regime has over-delivered against some of the Treaty objectives. It has failed to deliver on others. Changing circumstances in the world, the Community and agriculture require reinterpretation of the objectives. The high and ever increasing budgetary and resource costs incurred by the regime demand its reform. The extent and pervasiveness of the costs need to be clearly understood.

D. The Costs of the CAP

7. The prices of Community agricultural produce are held above the levels that would prevail if Community producers (consumers) had to compete in (had access to) world markets. All the wider effects outlined below are as a consequence of this.

8. The budgetary costs include the export restitutions needed to support the guaranteed prices as well as the intervention storage and disposal costs. In 1986 these stood at 23 billion ecu, some two-thirds of the Community's total budget. The figure is spiralling upwards: the cost in 1988 could be over 30

becu. According to OECD figures the total contribution made by Community taxpayers to the agricultural sector in the 1980s was about 40% of the value-added of the sector and about 1% of Community GDP. There are also substantial **national** expenditure programmes on agriculture.

9. The consumer also foots the bill through higher food prices. These excess costs to the consumer were estimated by the OECD to amount to 60% of Community agricultural value-added and 1.8% of Community GDP(some 65 becu equivalent to £550 a year for a family of four). On these estimates, almost all Community agriculture value-added is made up of transfers from the taxpayer and excess costs to the consumer.

10. A regime which sustains approximately zero agriculture value-added in this way must be imposing real resource costs on the rest of the economy. In other words, the growth of living standards and possibly employment in the economy as a whole will be slower than it otherwise would be. Resources are not just transferred; they are lost. On recent estimates, it is possible that for every £100 transferred to the farmers about £35 is lost to the economy in resource costs. This represents resource losses of up to 1% of GDP in the Community. This can translate into lower productivity or lower employment growth.

11. These resource costs come about in the following variety of ways:-

a. Higher output prices hold resources in the agricultural sector. They induce higher prices for inputs, above all land. This displaces other uses and development of rural land and employment opportunities (an increasingly important consideration as the urban-rural shift of economic activity continues). Capital and R&D get locked into agriculture which could be better used elsewhere.

b. Higher prices for agricultural products adversely affects those industries using them as inputs (eg food-processing). More generally, a regime which maintains high prices and tends to increase them (the political pressure from the large number of marginal farmers) increases inflationary pressures.

c. Upward pressure on the real exchange rate, ie lower competitiveness, brought about by the positive shift in the balance of trade in agricultural products (induced by agricultural support) will reduce the balance of trade in non-agricultural products. Consequently we forfeit the benefits of comparative advantage and Community manufacturing has suffered.

higher costs [illegible]

d. Third World countries' incomes are reduced both by the downward pressure on world prices from Community andother countries' surpluses and by lack of access to Community markets. This exacerbates debt problems with implications for world growth and stability. It undermines demand for manufactured goods of the Community in developing countries. The effect of this and the impact on the real exchange rate has been estimated by an Australian study to be a loss of up to 1 million jobs in the Community, about 40% in the UK.

f. Subsidies breed subsidies. Higher agricultural output and intensification generates environmental costs, displaces other rural development and indirectly non-agricultural output with increased pressure for the public sector to intervene to compensate.

E. A Revised Policy Framework

12. There has been such a political, financial and institutional investment in the current regime and such an inter-weaving of its various strands that a negotiated unravelling of the regime is bound to be difficult. International communiques refer to the need to establish a greater market orientation in a longer term regime. But there is no underlying agreement within the Community on what this means. It sometimes just means avoiding surplus production, ie achieving self-sufficiency but no more.

[illegible] CAP

13. The worst excesses of the current regime would be significantly reduced and the concerns about the agricultural sector and community embodied in the Treaty would be satisfied by a revised policy framework. This would be based on a system where in general market prices determined the allocation of resources. Agricultural policies would be assessed and implemented as specific departures from market principles to cope with market failure and environmental and social matters. In principle, agriculture would then be treated no differently from any other sector of economic activity; in practice, the particular characteristics of agriculture and rural communities might warrant rather more intervention than prevails elsewhere.

14. The objectives within this framework would be as follows:-

a. There must be a gradual and progressive reduction of the gap between CAP guaranteed prices and world market prices, year on year, until taking one year with another it is eliminated.

b. Other forms of agricultural support and intervention must be reduced to allow the allocation of resources within the Community and internationally to be determined largely by the force of the market.

And insofar as interventions are called for:-

c. Proposals for short-term palliative action, such as quotas, set asides and co-responsibility levies, must be assessed in terms of their contribution to the reduction of resource as well as budgetary costs, must be temporary and must either be associated with price reductions or made contingent on them.

d. Interventions to secure Treaty objectives must be appraised as departures from the general principle that the allocation of resources is best left to market forces, that is, they must be seen as coping with market failure or income distribution issues.

15. There are three reasons for revising the policy framework. First, a number of Treaty objectives will be much better served.

- It will deliver lower (and hence more reasonable) prices to the consumer. Clearly, world prices are likely to be somewhat higher under a liberalised regime but not significantly compared with the current divergence between CAP and world prices.

- It would deliver better use and allocation of agricultural resources. It is unlikely to depress productivity in the sector since it would permit fuller exploitation of scale economies.

Disagreement

16. Second, the other objectives of the Treaty could be met by specific and well defined departures from the basic market principle.

- A 'fair' standard of living will clearly have to be reconsidered anyway with the enlargement of the Community. Social and rural policies already exist in member countries, designed to achieve income redistribution and/or the creation of self-sustainable local economics. A fair standard of living for agricultural communities can be secured by direct income transfers (decoupled from agricultural production) related to the total income of those least well-off engaged in farming and by encouraging the diversity of land use currently inhibited by inflated land prices.

- Stable markets in world terms are more likely to be achieved the more open is world trade. Producers within the Community may have to confront greater risks. But three points are worth noting. Other industries experience seasonal fluctuations and market instability and governments don't generally intervene just for this reason. Secondly, it is not obvious how unstable agricultural prices would be; fluctuations in world prices are currently exacerbated by interventionist measures. Thirdly, there are several ways in which risks can be reduced, shared and transferred. There may be justification for temporary government intervention to encourage farmers to reduce risks, eg through crop diversification, and to share risks through insurance and future markets which would develop further in the absence of intervention.

- Security of supplies does not require generalised self-sufficiency. The increased flexibility of agriculture, the possibilities for substitution (in consumption as well as production) and access to world markets ensure supplies except in extreme warfare conditions. Making allowance for the possibility of war does not mean having to produce at war-time levels. A more active and stable world market would of itself improve security of supply.

17. Third, without a revised policy framework, solutions will be sought and adopted ad hoc without reference to an underlying rationale and the criteria which it generates. Thus, proposals for reform within the Community have focused mainly on measures to control expenditure and production rather than reduce prices, resource costs and support more generally. This may reduce the burden on the taxpayer of financing agriculture. But the less visible costs to consumers would be increased and some extra public expenditure may be induced elsewhere (eg transfers to consumers to meet higher food prices). It does little for resource costs. It is likely to increase the complexity and uncertainty of the regime and render it less transparent.

18. Table 1 summarises how Treaty objectives could be met under the revised policy framework. Table 2 indicates how the restrictive pricing policy outlined

in this paper is likely to be more favourable in its effects than other policy Options. These other options may reduce surplus stocks and budgetary costs but they don't get to the heart of the problem, namely a fundamental misallocation of resources in agriculture and the economy as a whole. This reallocation will occur and be sustained only if it is allowed to be driven largely by the forces of the market place.

19. In addition, a restrictive pricing policy would not discriminate against the UK which has a more efficient and relatively much smaller agricultural sector than other Community countries. Policies such as direct income support to farmers (decoupled from production) would certainly be worth consideration as part of a package including price cuts since the UK stands to gain in net resource cost terms. Any significant degree of income support should be provided at national level within a Community framework. It would be necessary to ensure that the costs of any income support were more than outweighed by the reduction in the cost of the present arrangements.

F. Conclusion

20. Whatever short-term palliatives are adopted, they must be firmly embedded in a revised policy framework which sees intervention in agriculture as a departure from market principles rather than as the current regime does as a natural state of affairs. We have far too long ignored market prices at the cost of the taxpayer, the consumer, the Third World and the non-agricultural economy.

Annex 1

Extract from Treaty of Rome

Article 38

1. The common market shall extend to agriculture and trade in agricultural products. "Agricultural products" means the products of the soil, of stockfarming and of fisheries and products of first-stage processing directly related to these products.

2. Save as otherwise provided in Articles 39 to 46, the rules laid down for the establishment of the common market shall apply to agricultural products.

3. The products subject to the provisions of Articles 39 to 46 are listed in Annex II to this Treaty. Within two years of the entry into force of this Treaty, however, the Council shall, acting by a qualified majority on a proposal from the Commission, decide what products are to be added to this list.

4. The operation and development of the common market for agricultural products must be accompanied by the establishment of a common agricultural policy among the Member States.

Article 39

1. The objectives of the common agricultural policy shall be:

(a) to increase agricultural productivity by promoting technical progress and by ensuring the rational development of agricultural production and the optimum utilisation of the factors of production, in particular labour;

(b) thus to ensure a fair standard of living for the agricultural community, in particular by increasing the individual earnings of persons engaged in agriculture;

(c) to stabilise markets;

(d) to assure the availability of supplies;

(e) to ensure that supplies reach consumers at reasonable prices.

2. In working out the common agricultural policy and the special methods for its application, account shall be taken of:

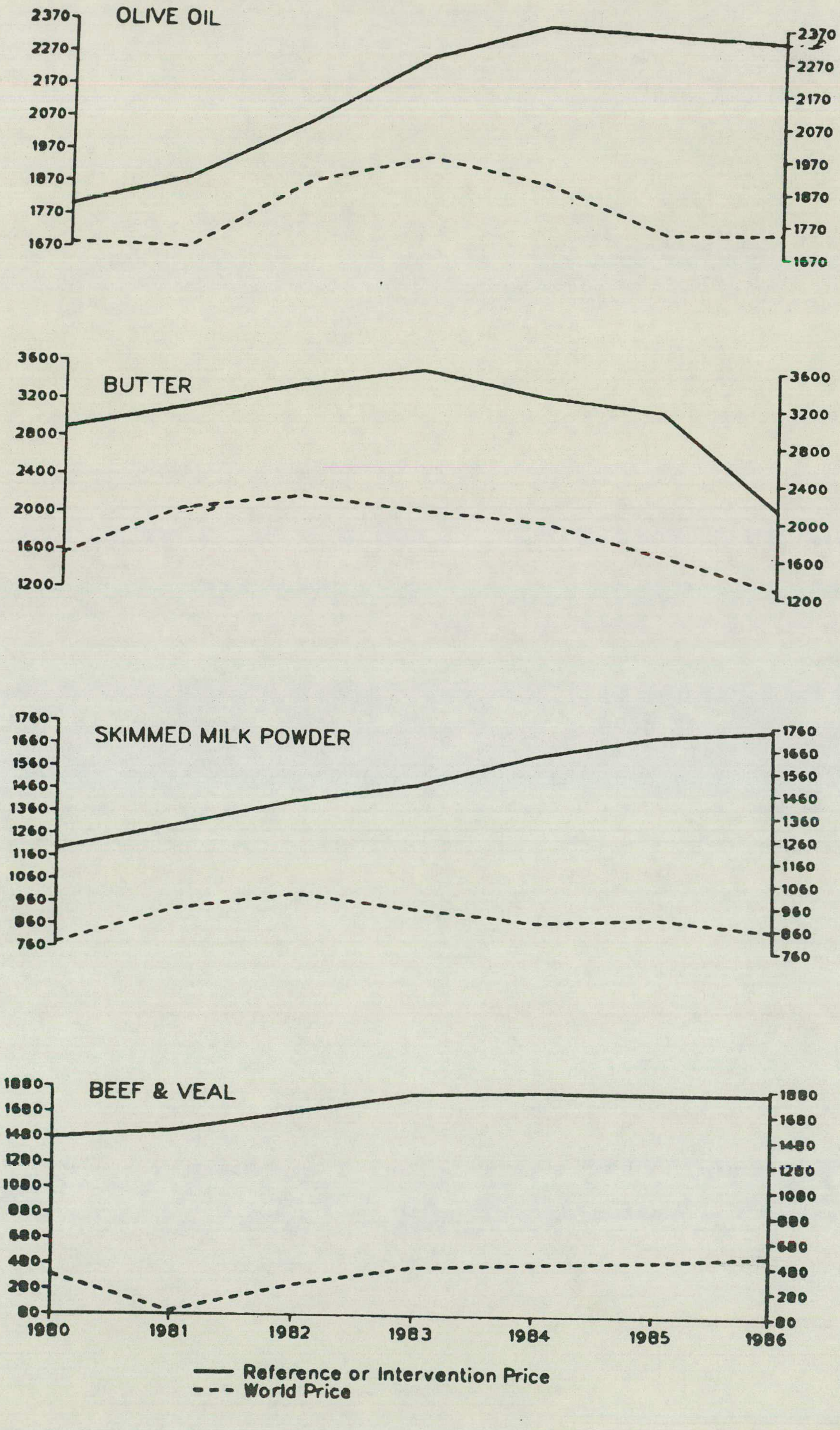
(a) the particular nature of agricultural activity, which results from the social structure of agriculture and from structural and natural disparities between the various agricultural regions;

(b) the need to effect the appropriate adjustments by degrees;

(c) the fact that in the Member States agriculture constitutes a sector closely linked with the economy as a whole.

ANNEX 1

COMMUNITY PRICES AND NOTIONAL WORLD PRICES



COMMUNITY PRICES AND NOTIONAL WORLD PRICES

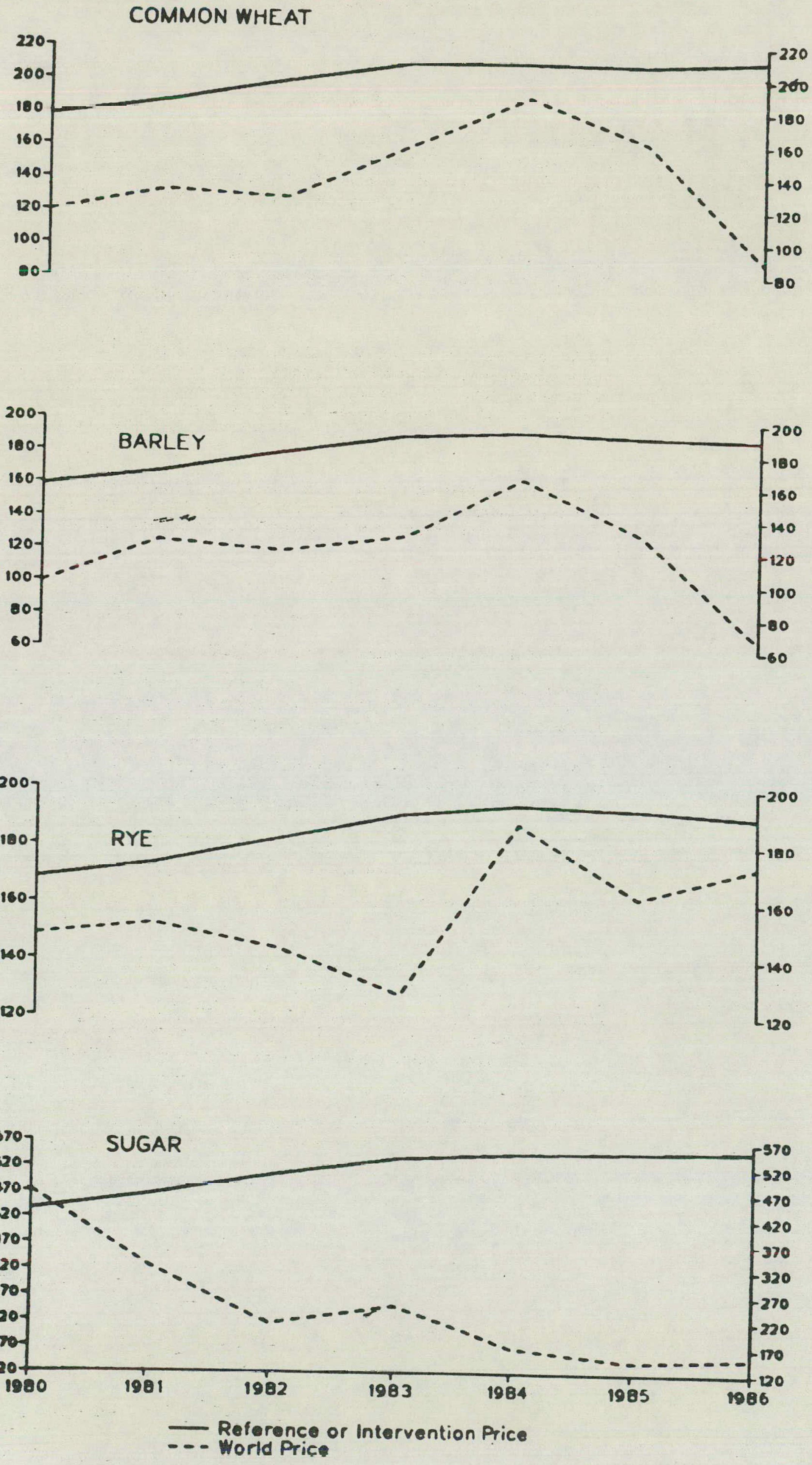


TABLE 2: IMPACTS OF ALTERNATIVE POLICIES

EFFECTS (medium term)	Restrictive Price Policy	Production Quotas	Set*** Aside	Co-responsibility Levies	Switch from Output to Input Subsidy
Effects in line with Treaty Objectives*					
1. Lower consumer prices	✓	X	?X	?X	? ✓
2. Productivity of agriculture	?✓	?	X	?X	X
3. Reasonable Income for Farmers**	X	?X	?	?X	?
Other beneficial effects					
4. Reduced Production	✓	✓	?X	✓	X
5. Reduced Budgetary Outlays	✓	✓	?X	✓	✓
6. Reduced Resource Costs	✓	?	?	?X	? ✓
7. Reduced Numbers in Agriculture	✓	?	?X	? ✓	X
8. Increased Budgetary Control	X	✓	?	?X	X

* The objectives of market stability and supply availability are not included here. Their interpretation is complex (see the text).

** All the policies should reduce the income of farmers to some extent, and the table therefore refers to the degree to which they are reduced (a tick indicating 'not much'). Additionally if resources leave agriculture as a result of the policy (see row 7) then income for those remaining may be kept at a high level.

*** Experience from the USA indicates that set-aside policies usually fail to reduce production because intensification takes place elsewhere, effectively being subsidised by the set-aside payment. If an effective set-aside policy was introduced then some of the question marks and crosses would drop out.

TABLE 1 APPROPRIATE POLICY INSTRUMENTS FOR CAP OBJECTIVES

Overriding priority is for prices to be freely determined by market forces. This means no border measures, no government policy to fix prices or quantities, and no intervention purchasing. Even if policy instruments are employed to shift demand and supply curves, domestic prices will be close to world prices and domestic producer prices will provide the right signals to the agricultural sector most cost effectively.

Article 39 Objectives	**Appropriate policy**
(a) to increase agricultural productivity by promoting technical and by ensuring the rational development of agricultural production and the optimum utilisation of the factors of production, in particular labour;	(1) Incentives to producers to jointly fund R&D subject to normal criteria for such support to industry (2) Start up assistance for cooperative ventures in production and marketing (3) Encouragement of schemes that promote, and encourage small producers to participate in, commodity futures and options markets
(b) thus to ensure a fair standard of living for the agricultural community, in particular by increasing the individual earnings of persons engaged in agriculture;	(4) Primarily an issue about distribution, not efficiency. Policy should be targeted to low income farmers, not tied to output, and take account of total earnings not just agricultural income.
(c) to stabilise markets;	(5) Options and futures markets allow the private sector operators to choose the amount of stabilisation that they want (some assistance may be needed: see (3) above)
(d) to assure the availability of supplies;	(6) For developed countries, the only real need is emergency wartime stocks. But usually argued (including by MAFF) that each member must be close to self sufficient in key commodities
(e) to ensure that supplies reach consumers at reasonable prices	(7) For developed countries, free access to world markets is best way of ensuring this. To the extent there are concerns about particular groups of consumers these should be met by targeting policies on them.