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MEETING WITH THE MINISTER OF AGRICULTURE, FISHERIES AND FOOD AND THE ITALIAN MINISTER OF AGRICULTURE: 14 FEBRUARY 1985

Present

The Minister	Signor Pandolfi
Minister of State (Commons)	Signor Pricolo
Sir Michael Franklin	Signor Di Pace
Mr Andrews	Signor Quarandotto
Mrs Attridge	Signor Zezza (Italian Embassy)
Mr Llewelyn	Signor Fricchione (Council-Secretariat)
	Mr Trojan (Chef de cabinet Andriessen)

Signor Pandolfi thanked the Minister for agreeing to see him; as the Minister was aware, he was making this visit in his capacity of Chairman of the Agriculture Council. At the Council on 25/26 February, he expected to concentrate on agricultural structures, wine and amendments to the supplementary levy scheme. He would also hold a first table-round on the price proposals. These were the issues he wished to discuss with the Minister.

Agricultural Structures

Signor Pandolfi said that the Commission was preparing a new compromise on the financial aspects of agricultural structures and of IMPs. This would bring FEOGA Guidance expenditure and expenditure on IMPs together in a single financial framework. The new package had not yet been finalised by the Commission, but would be likely to have the following elements:

(a) Additional expenditure in the Mediterranean, primarily in Greece, (ie IMPs) of some 1.3 to 1.5 billion ecu;

(b) Guidance section expenditure of 5.997 billion ecu (ie the figure currently on the table), but with a different balance of expenditure to give more to the Mediterranean and less to the North.

This would give a total figure of 7.5 billion ecu for structural expenditure over 5 years. The package would also include transfers within the Social and Regional Funds from the North to the Mediterranean (worth some 100-150 MECU a year), and loans at subsidised interest rates to the Mediterranean countries under the Ortoli facility. He hoped that the Commission would adopt a package on these lines next week, and that at the next Agriculture Council it would be possible to reach agreement on the technical aspects of the existing structures proposals, with a general reserve on the financial aspects. The whole package would go to ECOFIN, which was meeting on the same date as the Agriculture Council on

11/12 March, for final agreement. Following this procedure, he thought that it should be possible for the Agriculture Council to resolve the two main areas of disagreement in the efficiency regulation, aids for the pig and dairy sectors. He foresaw no difficulty in reaching agreement on the UK's conservation initiative, and was confident that the Commission would propose an article in the Regulation. This would be the first stage of the two step approach he had discussed with the Minister in Rome. He added that a number of other countries, including France, were now interested in a provision on the environment (at the end of the meeting Mr Trojan handed over the text of a possible draft Article, emphasising that it had not yet been cleared by Mr Andriessen or the Commission; this is annexed). Signor Pandolfi concluded by saying that the new package, and his timetable for dealing with it, were ambitious, and would entail a considerable sacrifice for Italy. Much would depend on the attitude adopted by Greece, but he hoped that he could convince them that it was in their interest to settle this issue rapidly rather than take it to the next European Council.

Mr Trojan then explained the Commission's thinking in more detail. So far as the existing structural proposals were concerned, they did not propose to alter the current compromises on the efficiency regulation or the wine structural measures. They hoped, however, to find additional transfers to the Mediterranean from the 1.44 billion ecu for marketing and processing and the 700 million ecu for new regional measures; from these it should be possible to find an additional 800 million ecu for the Mediterranean. The additional 1.5 billion ecu for IMPs would include both agricultural and non-agricultural expenditure. The agricultural element would constitute about two thirds of the total.

The Minister said that the new figures suggested would create very great problems in ECOFIN. We continued to take the view that total expenditure under the Guidance Section should be set at a maximum of 5.5 billion ecu, including IMPs. We would, of course, consider any new proposals that came forward, but he was not at all optimistic that figures of the magnitude suggested would provide a basis for agreement.

Signor Pandolfi then asked whether the UK would insist on a ceiling for guidance expenditure, or could accept another formula, such as that of a montant estimé necessaire. Sir Michael Franklin replied that we continued to want a ceiling, so that any other formula would not make an overall agreement easier to reach.

Wine

Signor Pandolfi said that at the next Council he hoped that it would be possible to reach agreement on the technical changes needed to the wine regulations to implement the Dublin Declaration. There were still difficulties over compulsory distillation, but this was primarily a Franco/Italian issue. However he was prepared to accept penal sanctions to ensure that this was effective. Despite this, enforcement would not be easy, and a comprehensive vineyard register, with a small element of Community financing, would be an essential element of any agreement for Italy. Both France and Italy also needed to balance agreement on compulsory distillation by the introduction of structural measures. Final agreement on the structural measures was, however, linked to all the other structures proposals, and so could only be agreed finally at ECOFIN, although a number of technical problems, such as the rate of FEOGA contribution and restrictions on replanting, could be resolved at the next Agriculture Council. He hoped, therefore, to reach agreement in principle, on 25/27 February, subject to a financial reserve on the structural measures; this could then be lifted at ECOFIN on 11/12 March. It was thus clear that agreement on structures by ECOFIN would unblock the wine package; equally, a continuing impasse on structures would prevent the implementation of the Dublin agreement on wine.

The Minister asked Signor Pandolfi whether he had made progress in his discussions with M. Rocard. Signor Pandolfi, taking this to refer to Italy's bilateral relations with France, said that they had been trying to improve the climate between the two countries, and were thinking of organising a joint meeting of wine producers. Both Italy and France faced similar problems in implementing compulsory distillation; it would be relatively easy for the 60% of production (in Italy) that came from co-operatives and large-scale producers, but it would be very difficult so far as small producers were concerned. M. Rocard had made it clear that a real effort by Italy to improve their controls, by means of penal sanctions and the introduction of a vineyard register, would improve the climate of opinion in France considerably. It was now suggested that the register should be a joint venture between France and Italy, and M. Rocard had offered the use of a new French satellite to speed up its introduction. M.Rocard had also suggested that Italy should introduce nationally financed grubbing-up premiums, in advance of the adoption of Community measures.

The Minister commented that he was disturbed by Signor Pandolfi's statement that compulsory distillation would be difficult to control. We would find it difficult to accept expenditure on structural measures if these were not balanced by properly enforced compulsory distillation. Politically, failures by other member states to observe Community rules could cause major difficulties in the UK. Sir Michael Franklin added that, on prices, we interpreted the Dublin declaration as requiring a price freeze for as long as compulsory distillation was necessary. This was an important signal to producers. Signor Pandolfi took the point, but observed that compulsory distillation could last a very considerable time, and in the long term a price freeze would create difficulties.

Milk Quotas

Signor Pandolfi said that two types of change to the present regulations were currently being considered: the five amendments proposed by the Commission to deal with anomalies in the first year of the system and permanent modifications to the regime. Among the latter was the demand by Ireland for an increase of 58,000 tonnes in their basic reference quantity; Mr Deasy had made it clear that this was a major priority for him, and it was possible that he would block any package, perhaps by invoking the Luxembourg compromise, unless this demand was met. In addition, M. Rocard would be pressing for two permanent changes; annual payments of levy and a permanent system to transfer spare quota between regions. He added that the Commission was strongly opposed to the latter request.

The Minister replied that the Irish demands were intolerable; the amount Ireland had already obtained had caused us severe political problems, and there was no way we could accept even more. Sir Michael Franklin added that the changes being sought fell into separate categories. We should seek to deal with the temporary amendments for the current year as soon as possible, then turn subsequently to permanent changes. It would be wrong to include some of the permanent changes in any short term package. Signor Pandolfi agreed; he would be aiming for agreement on the immediate changes required at the next Council, and on a package of longer term changes in the price fixing. So far as the latter were concerned, there seemed to be two basic choices. Either the Community could insist on individual quotas, which, for statistical reasons, meantthat milk production would be likely to be below reference quantities, or it could acknowledge that the present system entailed major administrative difficulties for some countries and move towards a system allowing free transfer of spare quota, which would enable production to be maintained at reference quantity levels. France, Italy, Denmark, Greece and Ireland were in favour of the second option.

The Minister said that the second option meant the introduction of national quotas; this had been rejected by the Council in the earlier negotiations. We would need to consider the implications of this idea. Mr Trojan said that it was most unlikely that the Commission would be prepared to make proposals for a system of national quotas, and if the Council went down this route the Commission would probably withdraw its existing proposals.

The Minister of State (Commons) pointed out that if longer term changes to the regime were being considered in the price-fixing, we would want the question of transferability of quota to be included. The Minister commented that there would be advantages in not complicating the price fixing negotiations with discussions on changes in the quota system.

Price Proposals

The Minister said that we were generally pleased with the Commission's proposals, which we felt were prudent and maintained the progress made last year. In some respects, indeed, we felt that they were not restrictive enough. In particular, we believed that cereals prices should be reduced by the full 5% required by the guarantee threshold system and that there should be a price freeze for milk. We could accept the freeze proposed in the meat sector; our principle complaint there was the absence of any proposal to continue the Beef Variable Premium. On sheep, we would oppose anything which led to discrimination between UK producers and those in other member states and were seeking changes in the seasonal scale. We supported the Commission's approach on Mediterranean products; in view of the marked increase in expenditure on these over recent years, further increases were not justified.

Returning to milk, the Minister said that any increase in producers' returns should come from a reduction in the co-responsibility levy rather than an increase in prices. Mr Andrews added that we believed it important to maintain the key decisions reached on the quota system last year; this meant reducing both the total reference quantity and the co-responsibility levy by 1% and maintaining the Community reserve unchanged; on the latter, it was clear that if this question was re-opened, most member states, including the UK, would put in claims. Mr Trojan observed that small producers in less favoured regions would not benefit from a reduction in the co-responsibility levy, whereas they would gain from an increase in price.

Signor Pandolfi said that it was clear that Germany would cause major difficulties in the coming negotiations; they wished to avoid any reductions in price and to put off the 1% reduction in quota agreed last year. On cereals, M. Rocard had told him that he could only accept a reduction in price of 3.6% if 1% of this was by means of a co-responsibility levy; the proceeds of this would be used to fund research into and promotion of the use of cereals for the production of starch and ethanol.France was thus seeking a price reduction of 2.6% and the introduction of a 1% co-responsibility levy. The Minister replied that we would have the strongest objections to any co-responsibility levy in this sector. So far as the use of cereals for the production of ethanol was concerned, we had looked into this and our preliminary conclusion was that it was not economic.

Signor Pandolfi asked whether the UK would be seeking a devaluation in the green pound. The Minister replied that the situation on the currency market was volatile; we wished to await further developments before reaching any decisions on this point.

Finally, the Minister said that the UK attached great importance to the financial guideline. Were the Commission intending to produce the appropriate figures? Any indication that the guideline was not being observed would make it more difficult to secure Parliamentary approval for the increase in Own Resources.

Mr Trojan replied that the Commission had produced estimates of the cost of their proposals. They did not yet have an agreed budget for 1985, nor had the increase in Own Resources been ratified, so that they were not formally in a position to carry out the financial guideline calculation. However, even on the most pessimistic assumptions the increase in expenditure would be well below the limit set by the guideline . He added that if the Commission did produce the figure in the form the UK was seeking, these would show how much room for manoeuvre there was below the guideline and make clear to othermember states the scope for additional expenditure.

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C I LLEWELYN
15 February 1985

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ANNEX II

draft (not seen by Mr. Andriessen and Legal Service)

Article

Member States are authorised to introduce special systems of national aids in environmentally sensitive areas in order to maintain or improve the environment of such areas.

In the meaning of this Article environmentally sensitive areas are areas classified in national or international lists and mainly important for reasons of wildlife, existence of rare plants and plant compositions or landscape.

The special system ~~environmentally sensitive areas~~ shall be limited to areas not exceeding 2 % of the territory of any Member State.

The payments may be made to farmers committing themselves for at least 3 years on the basis of a management contract to manage the environmentally important areas in order to maintain or improve their environment. The management contract shall include as conditions at least that there is no further intensification of agricultural production and that the stocking rate and the use of agro-chemicals are compatible with the environmental needs of the particular site concerned.

The payments are to be restricted to the real net loss of income or of development potential.

Member States shall submit the draft of all such schemes to the Commission together with the list of areas to benefit under the system as well as at the request of the Commission all information necessary for their justification.

The Commission shall decide on the approval of the whole system of aid planned including the application areas within 3 months following its notification according to the procedure provided under Article 25. The provisions of Article 29 apply to the special systems of this Article.

15 FEB 1985