

PRIME MINISTER

EUROPEAN COMMUNITY: THE AGRICULTURAL PRICE PACKAGE

CAP  
24/2

You were keen to have a fairly early discussion both of this year's price fixing and of longer-term strategy on the reform of the CAP.

I have discussed this with David Williamson. He has prepared the attached note. There are two essential points.

1 Day  
the  
Agrees  
discuss  
with  
+ Min  
before  
meeting

1 see On procedure, OD(E) are to consider this year's price package on 6 March. The proposal is that the Foreign Secretary as Chairman should report to you; and you should thereafter have a meeting with a few senior colleagues to discuss the conclusions. Agree to a meeting in mid-March? (There is no great hurry, because there will be no significant progress in the Community until after the French elections.)

On substance, the Commission's proposals for this year are generally quite sensible and would reduce the budget. For this reason most other member States will oppose. There are proposals which we dislike because they discriminate against British farmers. You said in your NFU speech that we would not accept discrimination. But we must plan our tactics skilfully so that we do not

- (a) undermine the good parts of the Commission's proposals (by encouraging others to unpick them);
- (b) end up being out-voted in isolated opposition.

C.D.P.

CHARLES POWELL

21 February 1986

LSB/WT



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FRAME AGRICULTURE

GERMAN REACTION TO CAP PRICE PROPOSALS

SUMMARY

1. PREDICTABLE EXPRESSIONS OF OUTRAGE FROM THE FARMER'S UNION.  
AGRICULTURE MINISTER KIECHLE SAYS THAT HE DID NOT ENTER A VETO  
AGAINST A POLICY OF PRICE CUTS LAST YEAR ONLY TO ACCEPT THEM THROUGH  
THE BACK DOOR THIS YEAR.

DETAIL

2. THE PRESIDENT OF THE GERMAN FARMER'S UNION HAS DESCRIBED THE  
PRICE PROPOSALS AS A BITTER DISAPPOINTMENT. THEIR IMPLEMENTATION  
WOULD LEAD TO UNACCEPTABLE FALLS IN INCOME AND THE END OF MANY  
FARMS. THE PROPOSED CORESPONSIBILITY LEVY FOR CEREALS AND REDUCTION  
IN THE BUTTER INTERVENTION PRICE WERE SINGLED OUT FOR PARTICULAR  
CRITICISM.

3. A STATEMENT ISSUED BY THE FEDERAL MINISTRY OF AGRICULTURE  
CRITICISED THE PROPOSALS AS TAKING TOO LITTLE ACCOUNT OF THE INCOME  
SITUATION OF THE INDUSTRY. THE PROPOSED CHANGES IN INTERVENTION  
STANDARDS FOR CEREALS WOULD LEAD TO APPRECIABLE INCOME LOSSES.  
ADJUSTMENT OF THE BUTTER/SMP RATIO WAS ALSO A MISTAKE. THE  
GOVERNMENT WOULD FIGHT HARD FOR THE LEGITIMATE INTERESTS OF GERMAN  
FARMERS.

4. KIECHLE HAS SINCE BEEN ENLARGING ON THIS STATEMENT IN SPEECHES IN  
LOWER SAXONY, WHERE ELECTIONS ARE DUE IN JUNE. DESCRIBING THE  
PROPOSALS AS QUOTE TO PUT IT MILDLY, NOT VERY HOPEFUL UNQUOTE HE  
ACCUSED THE COMMISSION OF RETURNING TO ITS POLICY OF REDUCING EC  
PRICES TO WORLD LEVELS AND REITERATED HIS BASIC TENET THAT PRODUCERS  
SHOULD OBTAIN AS MUCH OF THEIR INCOME AS POSSIBLE FROM THE MARKET.  
THERE SHOULD BE SOME REWARD FOR THE SACRIFICES BROUGHT ABOUT BY  
QUOTAS FOR MILK AND SUGAR. WHAT WAS MISSING WAS A REAL EFFORT TO  
STRIKE OUT IN NEW DIRECTIONS, PARTICULARLY TOWARDS THE PRODUCTION OF  
CROPS FOR ENERGY OR INDUSTRIAL RAW MATERIALS. THE CEREALS PROPOSED  
WOULD LEAD TO PRICE CUTS OF TEN TO THIRTEEN PER CENT AND WERE  
UNACCEPTABLE.

5. THE CONSUMERS' ASSOCIATION HAS WELCOMED THE PROPOSALS AS OFFERING  
A WAY OUT OF THE SPIRAL OF INCREASING COSTS AND RISING SURPLUSES  
WHILE ARGUING FOR A FURTHER CUT IN PRODUCTION OF WINE, SUGAR AND  
MILK.



6. NEWSPAPER COMMENT HAS MOSTLY RECOGNISED THAT REFORM IS PAINFUL, NECESSARY AND FAR FROM CERTAIN TO BE ACHIEVED. FEW COMMENTATORS HAVE FAILED TO SPOT THE REALITY UNDERLYING THE COMMISSION'S CLAIM THAT THE PROPOSALS REPRESENT A PRICE FREEZE. THE GOVERNMENT'S REACTION IS KEENLY AWAITED.

7. THE PROPOSALS WERE PUBLISHED AT ALMOST THE SAME TIME AS THE GOVERNMENT'S ANNUAL AGRICULTURAL REPORT WHICH SHOWED A 15.4 PER CENT INCREASE IN FARM INCOMES IN 1984/85 COMPARED WITH A FALL OF 12.2 PER CENT THE PREVIOUS YEAR. BUT A FURTHER FALL OF BETWEEN 4 AND 8 PER CENT IS ANTICIPATED IN 1985/86.

BULLARD

YYYY

FCO PLEASE ADVANCE TO: MAFF - HADLEY, WENTWORTH

BPLNAN 0447

*FRAME AGRICULTURE*

*ECD(1)*

[ADVANCED AS REQUESTED]





cc Sir P. C. Cook

MR POWELL (10 Downing Street)

EUROPEAN COMMUNITY : THE AGRICULTURAL PRICE PACKAGE

We spoke yesterday about the handling of Ministerial consideration of the Community agricultural price package for 1986/87. The Commission's proposals have now been tabled and we propose the following arrangements for settling the United Kingdom's approach:-

- (i) the Sub-Committee on European Questions (OD(E)) of the Defence and Oversea Policy Committee will meet on 6 March and will have before it two papers: one from the Minister of Agriculture, Fisheries and Food recommending the line to take on the specific proposals of the Commission and another from the Cabinet Office Secretariat, based on discussions in a working group of officials, on measures to support a policy of price restraint;
- (ii) thereafter the Cabinet Office Secretariat will recommend to the Foreign and Commonwealth Secretary, as Chairman of OD(E), to submit to the Prime Minister a minute which will not only record the approach agreed or proposed on the major points in the price package but also the strategy and priorities which we should follow throughout this probably long drawn-out price fixing and over the next year or two.

If you agree with this proposal, you may wish to set up a meeting at which the Prime Minister could discuss these conclusions with the Foreign and Commonwealth Secretary, the Chancellor of the Exchequer, the Minister of Agriculture, Fisheries and Food, the Secretary of State for Trade and Industry and, I would suggest, the Lord President of the Council.

The price fixing this year is clearly going to be very difficult both in substance and in tactics. It will be important to keep these main elements in mind:

- (i) on price support the Commission's proposal is quite courageous, being an almost complete price freeze in money terms and thus a significant fall in real terms. Where there are variations, they tend to be downwards eg minus 4%





on the intervention price for butter and cuts in support for tobacco. On intervention the proposals are also quite tough. The Commission proposes that cereals intervention should no longer be available throughout the year and, in particular, that it should not be available immediately after the harvest - this would be bound to cut the price, as significant quantities would be unloaded on to the unsupported market - and, in addition, the basic intervention price for feed wheat would in any event be cut by 5%. On beef the Commission proposes to abolish permanent public intervention from the end of 1987 and thereafter to use it only in exceptional circumstances. The price and intervention proposals should have a significant effect over a period of time in cutting the cost of the Common Agricultural Policy. It is important that our approach on other related matters does not have the effect of weakening these proposals. In the present circumstances it is in the British interest that restraint should be achieved as far as possible by price and less rigid intervention, because the other methods now being favoured in Brussels tend to have a disproportionate effect on the larger farmers.

(ii) On other measures the proposal to knock another 3% off the milk quota by buying it up through an outgoers scheme seems sensible. The problems arise over the way in which three other proposals have been framed

- the proposed co-responsibility levy (3% this year and 6% next year) on cereals is applied only to cereals sold off the farm and the first 25 tonnes are excluded. There is a good deal of steam behind the co-responsibility levy because it produces money which the Commission and other Ministers are desperately seeking.

- a new grant would be paid from the end of 1987 on the first 50 head of cattle over 6 months old on farms which are not also selling milk

- the ewe premium would be paid in future on the first 500 ewes (1000 in a less favoured area).

It is no good wringing our hands over these proposals. We must fight our corner and find allies (eg the combined effect of the two conditions on the beef premium would discriminate against the Netherlands). If we cannot demolish these proposals we must transform them. For example, the co-responsibility levy might be put on an acreage basis or, failing that, each member state could determine within broad criteria how its cereal farmers should raise their share.



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What we must do, however, is to avoid boxing ourselves into a corner in which we would be voted down or, worse still, invoke the Luxembourg compromise and still be voted down.

(iii) the Commission's price proposals are estimated to reduce the budget by about 400 million ecu in 1986 and by about 800 million ecu in 1987. Although for other reasons - principally the fall in the dollar - the Commission is still expressing the need for a supplementary budget in 1986, the budgetary effect of the price package is still well worthwhile.

I am sending a copy to Sir Robert Armstrong.

*DF Williamson*

D F WILLIAMSON

20 February 1986



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