



From the Minister

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

The Rt Hon Sir Geoffrey Howe QC MP
Secretary of State for
Foreign and Commonwealth Affairs
Foreign and Commonwealth Office
Downing Street
London SW 1

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COO
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Geoffrey Howe
COMMON AGRICULTURAL POLICY - MILK AND BEEF

You might find it helpful to know how I see the prospects for making progress on milk and beef at the High Level Group meeting this week and the Agriculture Council next week.

First on milk, we now have the outline of the further proposals which the Commission are likely to bring forward. In addition to insisting on their original emergency package, it now seems that the Commission will propose that the cut in quotas agreed at the last price fixing should be doubled to achieve a 4% reduction in 1987/88 and a 2% reduction in the following year. They also intend to propose a single rate of supplementary levy of 100%, thus removing the 75% rate which applies at the moment to Formula A countries. At the same time, they will make proposals to end Formula B (the system which allows under-production of quota by some producers to reduce the levy paid by those who over produce within the same area) and to end the arrangements for inter-change between direct sale and wholesale quota. They estimate that the overall effect of their proposals would be to reduce milk production by some 6½ million tonnes which would mean, taking account of the 3% cut back already proposed, a 9½ million tonne reduction over the two years.

At the same time, they are apparently envisaging an increase in the milk coresponsibility levy in 1987/88 to finance any proportion of this cut back which will not be achieved next year. Broadly speaking, each one percentage point increase in the coresponsibility levy would produce finance equivalent to the cost of handling about one million tonnes of surplus.

We would have preferred to see bigger direct cuts in quota than the Commission are proposing together with a higher, more dissuasive rate of supplementary levy. Instead, the Commission's approach is to impose a rigid system of on-farm quotas by removing not only the Article 4(A) provision (which allows inter-regional transfers of unused quota) but also Formula B. There will be very strong resistance to each of these changes to the

system. The further proposal to discontinue the arrangement under which direct sellers are able to vary their quota between direct sale quota and wholesale quota would particularly penalise those sections of the industry which have shown themselves to be most progressive in seeking out new markets for fresh products and selling directly to consumers. The latter provision would have a particularly harsh effect on a section of the UK industry and would give rise to a great deal of political flack. There would also be strong resistance from our industry generally to a substantial increase in the coresponsibility levy unless some of the money was clearly earmarked for promotional activities.

In the negotiations we must clearly support the Commission's overall aim of achieving a substantial cut back in production over the next two years. We should deploy the case for bigger quota cuts and a larger increase in the supplementary levy. This would enable them to accept the continuation of Formula B (the removal of which would cause great difficulties for a number of Member States including ourselves). We must also oppose the proposal on direct sale/wholesale quota inter-change which, as I have said, would have a bad effect on a section of our industry without making very much difference to the overall problem. Nor should we go along with the idea of a large increase in the coresponsibility levy since this could simply amount to an excuse for failing to face up to the surplus problem. A package along these lines would avoid the inefficiencies which would result from a rigid quota regime, and would be more satisfactory from our own point of view.

As to beef, we are not expecting any new proposals, though the Commission may be ready to show some flexibility over the methods of achieving their aims. The negotiations at official level have proved to be as difficult as expected. The Commission has stood firmly by its proposals, emphasising that the package had to be seen as a whole: without large savings on intervention, there can be no prospect of introducing any new premium scheme. Only the Netherlands has been prepared to support the Commission package as it stands. Most Member States can agree in principle that intervention intake needs to be reduced but there remains wide disagreement as to how this might be achieved. The French have argued for price cuts. But in practice they may be looking for only small reductions and they are keen to retain the concept of permanently available intervention. A Germany proposal for quotas on intervention purchases has met with very little support. On the premium side, those Member States who are most anxious to preserve high levels of intervention have argued against the introduction of any new premium arrangements, preferring instead to rely on extensive intervention, including the purchase of sides and not just quarters of beef.

... In the light of the official level discussions, we have prepared the attached Presidency document which would form the basis for discussion at the High Level Group. It proposes a Community intervention ceiling of 250,000 tonnes per annum, a cut of 200-250,000 tonnes from the level otherwise likely to be reached in 1987. Such a cutback would produce bigger savings than those estimated in Table B to OD(E)(86)16 where a cut of only 100,000 tonnes was estimated with no change in buying prices.

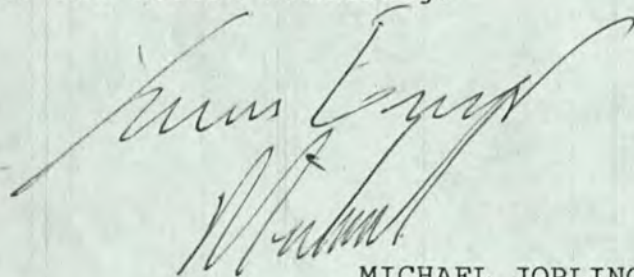
A cut of 200,000 tonnes in Community intake in each of the years 1987 and 1988 would lead to intervention costing some 760 mecu and 540 mecu in 1987 and 1988 (instead of 995 mecu and 840 mecu on unchanged policies) thus providing savings of some 235 mecu and 300 mecu respectively. If buying-in prices were cut, there would be additional savings. Thus this compromise would result in additional savings in 1987 and 1988 of some 100 to 150 mecu per year beyond the savings already costed in the OD(E) paper. On the premium side, we are anxious to ensure that, within the reduced level of support, aid is concentrated on producers.

We have made progress on the question of a possible provision for payment at slaughter. But the coverage of the premium scheme is proving very difficult. There is little sympathy on the part of other Member States for the inclusion of heifers (to which the UK industry attaches considerable importance) even on some restricted bases and the level of the premium has still to be tackled. Since the coverage and the rate will have to be restricted, the suckler cow premium scheme could play a very important part in any final compromise. This scheme, with an increase in the rate, would be welcome to the specialist sector and would, to some extent, offset the loss of basic premium support on heifers. The costs at the Community level could be relatively modest given that only 5.5 million animals qualify under the scheme each year.

The overall cost of these ideas depends on what levels of premia and what depth of intervention price cuts are negotiable. It is tougher than the option which was put to OD(E); and I should emphasise that it would be hard for our industry to swallow. As we noted in the earlier OD(E) discussion, some element of national top-up of premia could be needed to make it defensible in the UK. This is not an option we have yet raised but it is one which we shall need to keep open as the negotiation proceeds.

There are a lot of difficulties to be overcome before we have the basis of agreement on either milk or beef. It will be necessary to decide on our handling of our discussions at the Agriculture Council next week when we see the outcome of this week's meeting of the High Level Group. The prospects are not good for reaching firm decisions at next week's Council, though we must make every effort to do so on one or other of the dossiers. But, in any case, I shall do my best to pave the way for conclusions at the December Council.

I am sending copies of this letter to the Prime Minister, to members of OD(E), to the Secretaries of State for Northern Ireland, Wales and Scotland and to Sir Robert Armstrong.



MICHAEL JOPLING