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Budget with notes
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MEETING BETWEEN THE MINISTER OF AGRICULTURE, FISHERIES AND FOOD
AND MR KOFOED, DANISH MINISTER OF AGRICULTURE

COPENHAGEN 24 JANUARY 1984

Present: The Minister of Agriculture, Fisheries and Food
H M Ambassador
D H Andrews
Mr S Sadowski
Mr C I Llewelyn

Mr Kofoed
Mr Kristensen
Mr Ottosen
Mr Baerentsen

1. Mr Kofoed said that Denmark recognised that, in the current budgetary system, strict price proposals were inevitable. They were not, therefore, seeking to increase the total cost of the package, but they did wish to alter the balance. They were particularly unhappy about the proposals on milk and on MCAs. So far as the rest of the proposals were concerned, informal discussion with the Minister over the course of the day had shown that the UK and Denmark agreed on a number of points; he mentioned quality criteria for cereals.
2. The Minister replied that on cereals they both opposed the introduction of quality criteria and of a limit for cellulose in barley, They also agreed that / ^{the} gap between the reference prices for bread making and feed wheat should be reduced, and, indeed, that a separate price for breadmaking wheat was unnecessary. However, the UK went further than Denmark in wishing to see a reduction in nominal prices for cereals. Kofoed said that they felt that the balance between the animal production and cereals sectors was about right, and that a reduction in cereal prices would in fact lead to increased levels of

animal production. The Minister disagreed; in the UK, at least, there was still/^{an} imbalance between arable and livestock, with the former doing consistently better than the latter. A further point to be borne in mind was that action on cereal prices would be the most effective way of reducing the level of imports of cereal substitutes. Kofoed was unconvinced by this last point, and wondered whether it was in the Community's interest to reduce imports of cereal substitutes. Ottosen commented that in the pig sector a reduction in cereal prices would lead to reduced levels of protection, since the minimum import price for pigmeat was linked to the price of cereals.

3. Turning to the milk sector, Kofoed was concerned about the proposed change in the butter/skimmed milk powder ratio. A similar change had proved ineffective in 1974, and had led to the creation of a large surplus of skimmed milk powder. The Minister thought that the situation had changed since 1974; now a very restrictive price policy was also being proposed and this should check the development of additional surpluses. Mr Andrews commented that this proposal raised a number of issues, which we had yet to consider fully. We were, therefore, not in a position to adopt a definitive line on it.

4. On the super levy, Kofoed said that the key question was how milk production could best be reduced. One way was through the price mechanism. They could agree with the UK that in principle this was the best way, but in their view it was impossible politically. For this reason they preferred the super levy route; introduction of a super levy would, in any case, have a more immediate effect on production levels than would a reduction in price. It would be important, however, to

get the threshold level right if the objective was to move to a balanced market as quickly as possible. They had doubts about a threshold of 97 million tonnes, since in negotiation this would be likely to be pushed up to over a 100 million tonnes. Kofoed went on to say that in his view it would be preferable to have a significantly lower threshold (he mentioned 92 million tonnes as a starting point for discussion), with correspondingly higher price levels (we were told beforehand that Kofoed would probably push this idea, which is very much his own; it does not represent Danish Government policy).

5. The Minister did not agree that action on prices was impossible. In our view a reduction of 8 to 10% would be needed. He acknowledged that there might be a small production increase immediately after a price reduction on this scale, but in the long term production would be bound to fall in line with prices. Mr Andrews added that although the Danes were right to suggest that the super levy would, if effective, be the most immediate way of reducing production levels, a super levy system would only work if it was accompanied by a strict price policy. High prices within a quota system would make it impossible to end the system without a production explosion.

6. Both Ministers agreed that there should be no exemption from a super levy and that an intensive levy should be opposed.

7. Ottosen said that it would be very useful if the UK and Denmark could reach some measure of agreement on the mechanisms of a super levy, despite our differences of approach. They wanted quotas to be set at dairy levels they thought that individual farm quotas would be impractical. Their objective was a decentralised system. Each dairy should have a

guaranteed quantity, and if its production exceeded this, it would be responsible for paying a super levy. The dairy would of course pass the super levy on to its producers, but it would have a certain flexibility in how it did this. They envisaged national rules here, which would be subject to approval by the Commission. Replying to a question from the Minister, he said that in his view a simple linear levy on all producers selling to a dairy would not be permitted. Mr Andrews commented that the Danish approach did not deal with producers who did not deliver to dairies. ^{Moreover} we were not convinced that it would be desirable to leave too much to the responsibility of the various Member States, even under Commission supervision. We felt that the only way to avoid distortions in the application of the super levy would be to have a uniform system throughout the Community. Nevertheless, given the difficulty of achieving a uniform approach, he could see advantages in the system that required ^{Member States} to pass on the levy to individual producers, but left them free, within certain limits to devise how this should be done.

8. Both sides agreed that if individual quotas were adopted, they would want these to be freely marketable; the Minister commented that some limitations on transfers between regions might be needed. Ottosen added that under their system they envisaged transfers of quotas between dairies. Both sides also agreed that much more work was needed on the mechanism of a super levy.

9. Kofoed confirmed that Denmark was opposed to a financial guideline on agricultural expenditure. In his view such a proposal approached the problem of over-expenditure from the wrong end; policies should

determine expenditure and if policies proved too expensive, they should be changed; this would be ^{more} effective than placing artificial restraints on expenditure. The Minister disagreed. A financial guideline was an essential part of any final package for the UK, as we were determined to ensure that future spending on the CAP did not grow faster than Own Resources. The financial guideline was not intended to be a rigid ceiling or to preclude additional measures for emergencies but it was meant to lay down the share of Community expenditure that agriculture could normally expect to receive. Mr Andrews added that all national Governments operated under financial constraints and it was not unreasonable to suggest that the Community should do likewise. Ottosen then recalled that Denmark had produced a comprehensive list of economy measures, and commented that it was disappointing that the UK did not seem interested in actual ideas for saving some money. Mr Andrews replied that we did not disagree with the Danish approach; indeed, we could accept most of their ideas although we disagreed with some and some we did not feel would turn out to be savings. Nevertheless, economies of this sort should not be seen as an alternative to a financial guideline, but as complementing it. Kofoed indicated disagreement here.

10. In the course of the discussion of possible economies, Kofoed said that Denmark was proposing the abolition of the variable slaughter premium for beef. The Minister challenged the claim that this would be an economy; on our calculations it would increase Community expenditure. Moreover, the variable slaughter premium helped maintain consumption levels, while there was no evidence that it caused distortions of trade.

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C I LLEWELYN
26 January 1984

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