no CDP

C. NO

NOTE OF A MEETING BETWEEN THE MINISTER OF AGRICULTURE, FISHERIES AND FOOD AND THE NETHERLANDS MINISTER OF AGRICULTURE - BRUSSELS: 10 DECEMBER 1984

~~AT~~ to see (NBPM)

PRESENT:

Minister	Mr Braks
Minister of State (Commons)	Mr De Zeeuw
Mr Andrews	Mr Pierhagen
Mrs Attridge	
Mr Llewelyn	
Mr Anderson (UKREP)	

12/XII

1985 Price Fixing

The Minister asked what approach the Netherlands intended to adopt in the forthcoming price-fixing negotiations. Mr Braks replied that they would be seeking the lowest possible price increases. Villain was thinking of a general increase of 2-3%, while Kiechle was already touting increases of 5-8%. Against such ideas, they had produced a paper suggesting that the overall level of increase should be linked to the rate of inflation in the countries with the strongest currencies; this would mean increases of around 2%, but increases in productivity should also be taken into account and as these averaged some 2% a year, a zero price increase would be justified. Mr Pierhagen added that the new green currency arrangements gave most countries with weaker currencies scope for additional national price increases via green rate devaluations; in these circumstances there could be no justification for using the Community's average rate of inflation (currently 4-5%) to determine the general level of price increase, particularly as this would give Germany a substantial real price boost.

Mr De Zeeuw went on to explain that the Netherlands wished to break the link between prices and incomes. The Community should adopt a market orientated price policy, and income problems should be dealt with via structural measures. Such measures would be particularly necessary in peripheral regions with poor farm structures since if the Community did adopt a tough prices policy and nothing was done to help these areas, there would be constant pressure for above average price increases for, in particular, Mediterranean products. IMPs were of relevance here. Mr Andrews said that IMPs should be regarded as a separate issue. He noted that outlying regions already received substantial structural assistance, adding that in our view particular income problems could only be dealt with via structural measures on a regional basis; horizontal measures, such as general assistance for small farmers, had to be avoided. Mr Braks accepted this point and added that it would be necessary to consider structural measures of this kind and the price proposals as a single package.

The Minister asked whether the Netherlands believed that there would be pressure for the introduction of further production controls under the CAP, adding that in his view price policy was the only realistic way of controlling production in the long term. Mr Braks fully agreed; the Community must return to a system that relied on prices. In this context he was concerned that some of his Community colleagues already accepted milk quotas as permanent and were pressing for higher prices on the strength of this; increased milk prices would make it impossible subsequently to abandon quotas. He would therefore prefer a price freeze, covering both intervention and target prices - which would have presentational advantages internationally - coupled with a reduction in the co-responsibility levy. The financial effects of reducing the levy could be met by abolishing some of the minor subsidies in this sector.

On the superlevy, there was agreement that although the total Community quota was still well above the level of consumption, further reductions next year, beyond the 1% already decided, were not realistic. There should, however, be no increase in the Community reserve.

Turning to cereals, Braks said that Germany had traditionally supported the cereals sector via a quota system and seemed to be moving in favour of quotas once again. He did not believe they would receive any support for this idea, even from France. The Minister wondered whether there would be more support for a co-responsibility levy for cereals. Mr De Zeeuw thought that France might well be ready to consider this, if Germany insisted on maintaining current price levels.

On tactics, it was agreed that both the UK and the Netherlands should seek a zero basic increase on cereals and the full implementation of the guarantee threshold system, which would mean an additional reduction of 5%. Mr De Zeeuw thought that if this was not attainable, it might be better not to agree to new prices for cereals and to roll-over current prices. It was,in any case, important to avoid giving an increase in price to offset the effect of the guarantee threshold, since any price increase would tend also to be applied to other commodities, particularly Mediterranean ones. It would be better, therefore, to go for a zero price increase and, if necessary, a smaller guarantee threshold reduction. Mr Andrews acknowledged the force of these arguments, but pointed out there would be adverse implications for guarantee thresholds in other sectors if the threshold for cereals was not implemented in full.

A number of more minor points on cereals were also raised. It was agreed that the last step should be taken to eliminate the premium for bread-making wheat. Mr Andrews said the UK was opposed to the introduction of a fibre content standard for barley, to quality standards for exports and to the continuation of the end-of-season carry-over payments.

Mr Pierhagen said that the Netherlands could live with the last point. So far as fibre content was concerned, they regarded this simply as a method of reducing the price and, as a non-producer, they had no objections. Mr Andrews responded that the administrative costs would be very high and that if the aim was to reduce prices, this would be better done by a straight price cut.

On beef, Mr Braks was concerned at the burgeoning cost of the regime. The Minister agreed, adding that measures should be taken to encourage consumption. In this context, he asked the Netherlands why they were opposed to the Beef Variable Premium.

Mr Braks said that they were opposed to all national concessions of this kind; for example, they were equally opposed to the continuation of the calf subsidy. The Minister then asked whether they would be against variable premiums if they applied throughout the Community. Mr Braks replied that this would be a different matter. In principle, the variable premium system was closer to their desire for a regime linked to the free market, and they were, in any case, opposed to intervention for beef. They would, of course, need to compare the cost of a Community-wide variable premium scheme to the cost of the existing intervention system; they would be interested to see a study of these comparative costs. They were, however, very doubtful that such a fundamental change would ever prove acceptable to the rest of the Community.

So far as the existing intervention arrangements were concerned, Mr De Zeeuw thought that there should be no price increase, with the intervention price set at a reduced percentage of the target price. In addition, the coverage of the intervention system should be reduced.

On sheepmeat, Mr Andrews said that we were not seeking a price increase, although France was likely to press for higher prices. Our real problem in this sector was that the level of support for our producers had been reduced in comparison with the support available to producers in other parts of the Community. This was clearly unacceptable and we would be seeking to rectify the situation. Among other things, were were pressing for changes to the seasonal scale. Mr De Zeeuw commented that the price level should be determined by reference to developments in lowlands areas; problems in disadvantaged regions should be dealt with by other measures.

Concluding this part of the discussion, Mr Braks said that the UK and the Netherlands were clearly in agreement so far as the principle commodities were concerned. It was essential that they kept in close contact during the negotiations.

Dutch Gas Prices

The Minister said that he was under very heavy pressure to ensure that the arrangements recently introduced by the Netherlands were ended. It was disappointing that the Netherlands had breached a clear agreement; this set a bad precedent and made it more difficult to argue that Community agreements should always be respected.

Mr Braks denied that the recently announced prices breached the agreement with the Commission. It had always been known that a new three year contact would be negotiated this autumn; the new contract was on similar lines to the previous one, except that a ceiling on price changes had been introduced. The Commission had asked them for information on the new prices; they were doing their best to comply with this request. The Minister said that he would continue to press the Netherlands on this point.

Collection of Milk Supplementary Levy

There was a discussion of how this issue should be handled in the Council and it was agreed that it was essential to obtain full information from the Commission on the implementation of the quota system in the other Member States. The Netherlands and the UK would need to keep in touch about the next steps to take, in the light of the Commission's statement.

CIL

C I LLEWELYN

11 December 1984

Circulation

Private Offices
Mr Andrews
Mrs Attridge
Mr Dickinson
Mr Hadley
Mrs Archer
Mr Cann
Mr Wentworth
Mr Packer
Mr Lowson
Mr Hunter
Mrs Pickering
Mr Mordue
PS/Foreign Secretary
PS/Chancellor
Mr Powell/No.10
PS/S for S for Scotland
PS/S of S for Wales
PS/S of S for Northern Ireland
Mr Anderson, UKREP
Mr Blackly, The Hague