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EUROPEAN COUNCIL, DUBLIN

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THE COMMON AGRICULTURAL POLICY

Brief by: Ministry of Agriculture, Fisheries and Food

Economies on CAP costs substitute for action on budget.

OBJECTIVE

1. To avoid our budget objectives being prejudiced by discussion of the CAP an d resist the argument that economies on the CAP could substitute for action on the budget.

Commission's CAP proposals damaging.

2. To avoid being committed to the Commission's principles for changing the CAP; to the Commission proposals based on them, which for both milk and sugar discriminate damagingly against the UK; or (except in the context of a settlement on the budget) to further structural expenditure to benefit Italy and Ireland.

POINTS TO MAKE

Balance of the budget

3. Agree there should be a change in the balance of the budget. But any additional expenditure on structural measures must be found from savings on the CAP and within 1% ceiling.

4. Prepared to consider increased aid for Mediterranean agriculture and increased spending on farm structures, in context of solution to UK budget problem. But must be offset by genuine cuts in other CAP expenditure.

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Commission's Four Principles (para 4 of CAP paper)

5. Agree CAP should be reformed, not attacked, and welcome Commission's objective of reducing expenditure. But surprised and alarmed that Commission paper makes no mention of prices. Holding down common support prices must be central feature of CAP strategy.

6. Commission's four principles partly acceptable, partly not. Could not endorse them as they stand, because some of their implications for policy unacceptable or in need of qualification:-

First principle. Agree that priority must be given to getting better balance for milk and sugar. But methods of restraining production must be fair (which Commission's sugar proposals are not) and economically sound (proposal for supplementary levy on dairies which increase milk purchases would penalise efficiency). Aim of increasing consumption outside Community sounds like increasing already excessive export subsidies.

Second principle. Only acceptable if levy to finance surplus disposal falls on all producers without discrimination, whether large or small and irrespective of whether increasing production; and if accompanied by price freeze.

Third principle. Special measures to help small and medium-sized producers would mean discriminating against larger and more efficient, and go against objective of reducing surpluses. Essentially social aid which should not be charge on Community funds.

Fourth principle. Concentration of structural aid on poorest farms and least developed regions would reduce still further UK's meagre receipts from budget. Aims and likely cost of structural policy need careful consideration.

Commission's Proposals (para 5 of CAP paper)

7. Milk package has grave defects. No mention of need to hold down price. Supplementary levy on dairies which increase purchases of milk risks penalising efficient and protecting inefficient. New sugar regime would discriminate unacceptably against UK, whose production in base period for new quotas was held down by bad weather and previous Government's green pound policy. Adaptations in other sectors need careful consideration by Agriculture Council. Commission proposals for structural measures (para 7) are costly and have not yet been discussed in Agriculture Council.

8. [If raised] Do not agree that imports of New Zealand butter should be cut further. Accepted from outset that UK accession should not wreck New Zealand's economy. New Zealand cannot export elsewhere in competition with low-priced Community exports.

Italian proposals

9. Agree there should be a change in the balance of the budget. But if there is to be additional expenditure on structural measures this must be found from savings on the CAP.

10. [If necessary] Prepared to consider increased aid on farm structures, but only if it is cost-effective and is accompanied by genuine cuts in other CAP expenditure. Need for caution on cost of structural schemes in view of enlargement.

BACKGROUND

11. The CAP is likely to arise in discussion in two ways. First, the Commission propose to circulate a paper arguing that savings of 1,000 million ecus annually can be achieved through economies on the CAP, including

i) an increase from 0.5% to 1.5% in the standard milk co-responsibility levy and a new "super levy" (of about 4%) applied to all dairies which increase their milk purchases from farmers above the level of a defined base period;

ii) sharp reductions in national sugar quotas based on production in recent years;

iii) less reliance on intervention for beef;

iv) the elimination of production refunds on starch and a reduction in export restitutions on rye;

v) reduced aid for processed fruit and vegetables.

If adopted these proposals would certainly produce economies and we shall be studying them in detail in preparation for discussion in the Agriculture Council in December. But as they stand they are not acceptable.

12. On milk, it makes no sense to increase the co-responsibility levy and then subsequently (as we know Gundelach intends) to increase the CAP support price. We want to see action which helps both the consumer and the taxpayer; i.e. as a first priority to hold down the support prices to increase consumption and to cut the unit cost of surplus disposal. A "super levy" on increases in production will penalise efficient farmers who are capable of

increasing at the expense of the less efficient, and would be unfair to UK producers who have been held back by the previous Government's green pound policy. The co-responsibility levy as proposed will bite more here than in other countries because our system will enable it to be administered more efficiently. This discrimination against the UK could well be worsened as a result of negotiations in the Agriculture Council where there will be strong pressure from most other Member States for small producers to be exempted. For sugar the Commission plan to cut the quotas by over 1 million tonnes has been worked out in such a way that the UK would be required to take a proportionately greater reduction than any other country.

13. Secondly, the discussion of Italian ideas for changing the balance of the Community Budget and diverting more resources to "structural" objectives will inevitably touch on the CAP. We can support the Italian contention that the CAP share of the total budget should be reduced, provided this is done within the 1% ceiling. But great caution is needed on the idea of a "better balance" within the CAP. The Italians are adept at using the European Council to obtain vague commitments to increased expenditure or protection for Mediterranean products, which inevitably mean bigger UK payments into the budget and/or higher consumer prices. A large package of measures agreed last year, mainly for Italy's benefit, will cost the UK about £250m. All experience shows that, while the increased expenditure is real, the promised savings on "northern" products never materialise. Moreover special schemes for Italy risk having to be extended to the new Member States.

General Background

14. The worst aspect of the CAP for us is its effect on our net contribution to the budget. If we were to achieve broad balance, the need to reform the CAP would be reduced. But we would still want to reduce the trade costs which it imposes on us, to make the policy less protectionist, and to reduce the damage which the cheap export of surpluses does to the Community's trading relationships with other countries.

15. Expenditure on the CAP, which accounts for over 70% of the budget, has been rising by 17% per year on average: by 1980 it will have doubled since 1976 and trebled since 1973 in units of account (in terms of sterling the increase is a lot more). Relevant figures are:

	1978	1979*	1980ø	1981≠ A	1981≠ B
Total budget	12.2	14.5	15.3	20.5	19.1
CAP	9.0	10.8	11.5	14.2	12.5
Increase in CAP cost over previous year	+ 27%	+ 20%	+ 7%	+ 24%	+ 9%
Rate of VAT required for whole budget	0.64%	0.82%	0.76%	1.19%	1.05%

* including supplementary budget at present before Parliament

ø based on draft budget but not including Parliament's amendments

≠ Commission projections, based on two different assumptions for CAP expenditure.

Ministry of Agriculture, Fisheries and Food

26 November 1979

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COMMISSION OF THE EUROPEAN COMMUNITIES

COM(79) 690 final

Brussels, 22 November 1979

The Common Agricultural Policy: the urgent need for a better equilibrium

(Communication to the European Council - Dublin,
29 and 30 November 1979)

COM(79) 690 final

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The Common Agricultural Policy: the urgent need for a better equilibrium

1. A year ago the European Council discussed the future development of the Common Agricultural Policy. The Commission had submitted its views in document COM(78) 700 of 29 November 1978, stating in particular that

> "The Common Agricultural Policy is and always has been a cornerstone in the construction of the Community...
> In recent years the application of the Common Agricultural Policy has met with serious difficulties...First, the imbalance between supply and demand in several major agricultural markets is worsening. Secondly, incomes disparities within the agricultural sector remain substantial. Thirdly, monetary upheavals have disrupted the common agricultural market."

2. Since then the Community has successfully launched the European Monetary System. The common agricultural market has consequently benefitted from greater exchange rate stability. Monetary compensatory amounts - which generate artificial distortions in competition – are now about half of last year's levels. On the other hand, the difficulties which result from serious market imbalances in certain sectors - particularly milk - still remain. These specific difficulties reflect adversely on the real advantages of the agricultural policy generally and cause problems for the budget. It is therefore necessary to tackle them in the interest of sustaining the policy for the 1980s.

3. The Commission has just submitted to the Council of Ministers a further package of measures with this essential objective: to strengthen and not to attack the Common Agricultural Policy but to adapt it so that it is not undermined by a failure to deal with the known specific problems. These problems must be tackled in any event but a solution to them can also help to reduce the pressures on the Community's budget and, in particular, to avoid the difficulties associated with the ceiling imposed by income from own resources. The package would lead to a substantial cut - of the order of 1 000 million UCE in a full year - in Community expenditure and should avoid the Community quickly exhausting its own resources. In addition, the Commission itself is seeking

savings through rigorous management of existing policies. The new measures would also permit a larger proportion of budgetary spending to be devoted to the improvement of structures and to general investment purposes, including a better balance between the Guarantee and Guidance Sections of the European Agricultural Guidance and Guarantee Fund.

4. In making its proposals the Commission has been guided by the following principles: No written detail

- high priority must be given to bringing balance to agricultural markets, especially for milk and sugar. This should be done by increasing internal consumption inside and outside the Community where this is feasible; and by restraining production

Export restitution

No reduction of price [illegible] [illegible] [illegible].

- for products in structural surplus, the cost of getting rid of future increases in production must fall on producers themselves

Cost

Costly increase: producers

must fall on producers

- unbearable income effects for small and medium-sized producers with no alternative types of production must be alleviated. The Commission is undertaking immediately a further examination of the situation of these producers

Diminishing system of levels. Cost of this should not fall on the CAP?

- available resources for the restructuring and development of agriculture should be concentrated on poorer farms and less developed regions. Italy Ireland

£370-

£430- 770.

5. The Commission's proposals include three main elements:

a) a milk package involving a new approach to co-responsibility which would comprise a basic co-responsibility levy and a supplementary levy related to the costs of new surplus disposal. The existing premiums for conversion to other lines of production would continue. The Commission also notes that a more coherent policy for animal and vegetable fats and proteins may be needed particularly in the context of enlargement;

b) a new sugar régime with reduced quotas;

c) adaptations in the common market organizations for beef, processed fruit and vegetables, starch and rye.

.../...

Submitted to M.A.F.F.

Social objective

6. These actions should ensure that the milk budget will not increase and justifiable savings will be made elsewhere.

7. These proposals must be seen in relation to the Community's action programme for Mediterranean regions and to the Commission's recent proposals on policy with regard to agricultural structures (COM(79) 122 of 19 March 1979). These structural measures aim to concentrate resources on poorer farms and less developed regions which will be of particular importance to certain Member States including Italy and Ireland. The Commission also envisages accelerating the implementation of some parts of the Mediterranean action programme (afforestation, irrigation).

No 8. If these measures are not taken, the Community's own resources will soon be exhausted by the agricultural budget. Other more drastic measures adversely affecting the CAP would then be necessary. No.

Other measures Yes.

The Commission, therefore, invites the European Council to endorse the broad objectives in paragraph 4 and to ensure that early decisions are taken on the new proposals, with a view to alleviating the budget and to strengthening the Common Agricultural Policy.

Surplus production should be eliminated by holding the price down. Any difficulties caused for individual countries must be borne by them.

France — 1 year test — [illegible]

— milk — steps