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Ref. A0399

MR. ALEXANDER

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Sales of Butter to the USSR

The Minister of Agriculture has now circulated OD(E)(79) 34 in response to the suggestion in the third paragraph of your letter of 24<sup>th</sup> September to Mr. Waters. Because of the Party Conference it will not be possible to arrange an OD(E) meeting to discuss it before next week's Agriculture Council. Members of the Sub-Committee have been asked to comment by close of play on 11th October.

2. Mr. Walker proposes to raise this issue again at the 15th-16th October Agriculture Council. If, as expected, he gets no support for a ban on these exports, he will propose a change in the export arrangements for dairy products limiting the present freedom of traders to export any quantities they wish, an urgent re-examination of current export refund levels, and a better balance in disposals between fresh butter and old stocks. For the longer term, he will urge effective measures to cut surpluses in the dairy sector.

3. Any attempt unilaterally to impose an export ban on our traders would be subject to challenge in the European Court. An effective ban in the United Kingdom alone would in any case be difficult to impose, since it is believed that most United Kingdom butter which ends up in the USSR is shipped to the Netherlands and re-exported from there.

4. Agreement on the introduction of a Community system of export licensing has been reached, but this is to enable refunds in respect of exports to third countries to be adjusted quickly if necessary rather than to facilitate a ban on exports to the USSR. There is no Commission proposal to discriminate in any way as between various destinations of dairy products. This being the case, the most effective action would be a sharp reduction in export refunds on all exports to third countries, which will be strongly resisted by the French, Dutch, Danes and Irish. A reduction in the export refunds - like the exports to

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USSR themselves - eases the pressure on third markets to the benefit of New Zealand. On the other hand, our criticism of export sales will strengthen the opportunity of the same member States to continued access for New Zealand butter imports into the Community market, now under discussion in Brussels.

5. The short answer is that the elimination of subsidised exports to the USSR depends on reducing the Community dairy surplus e.g. through a budgetary constraint on CAP expenditure of the kind the Prime Minister discussed with the Italians last week. Meanwhile, Mr. Walker's proposed line for the 15th-16th October Agriculture Council will make our opposition to these sales plain, both to the other member States and domestically.

MJV.

(M. J. Vile)

11th October, 1979