PM/80/41

PRIME MINISTER

Sheepmeat Regime

I did not put this into you since I knew that you would be consulted about the outcome of OD(E)

Paul

1. The Sub-Committee on European Questions of the Defence and Oversea Policy Committee discussed this morning the (minutes attached.) proposals in the Minister of Agriculture's letter to me of 20 May, which you have seen. We also considered the related letters of 19 and 20 May respectively from the Chancellor of the Exchequer and the Secretary of State for Scotland. Throughout our discussion we had very much in mind the need on the one hand to settle a sheepmeat regime as an indispensable element in a final solution to our budget problem and on the other the need to safeguard both our own interests as the largest lamb producers in the Community and the interests of New Zealand about which, with your agreement, the Minister of Agriculture has now written to Commissioner Gundelach. We also had to take account of the attitudes of the other member states, all of whom are likely to support the main features of the revised Commission proposals including the use of intervention. (I attach an annex in which these main features are set out.)

2. The Sub-Committee concluded that these conflicting objectives might best be reconciled if the Minister of Agriculture sought a contingent agreement on sheepmeat in the 28/29 May Agriculture Council on the following basis. First we should reluctantly accept that intervention in France is unavoidable, but we should strive to get the basic price for sheepmeat - which in turn determines the intervention price - down to as low a level as possible. Second we should propose a system of variable premia for the United Kingdom and Ireland instead of intervention. This would operate much like our present deficiency payment scheme, except that it would be wholly financed by the Community. When the United Kingdom market price fell below a target price (below the French

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intervention price by the approximate equivalent of the transport costs), the Community would pay a variable premium to the producer to make up the gap. This premium would be clawed back on export sales, so that there would be little or no incentive for British farmers to sell into intervention abroad.

3. If these objectives can be secured, the worst features of the Commission's proposals will have been removed so far as the United Kingdom is concerned. There would be no intervention in the United Kingdom. Lamb prices on the United Kingdom market will not be forced up to French levels, so that the consumer will be better off and demand will be sustained (thus helping access for New Zealand lamb). There will be no incentive to expand production solely for intervention although some increased exports are likely. We shall be getting support for our producers from Community funds, with an estimated reduction in our net contribution to the Community budget rising to £66 million a year.

4. If you agree with this line, I think it important that we should make our position known immediately to the Commission and the other member states with the aim of reaching agreement at next week's Agriculture Council, conditional of course on a solution to our budget problem.

5. I am copying this minute to the members of OD(E), to the Secretaries of State for Scotland, Wales and Northern Ireland and to Sir Robert Armstrong.

C

(CARRINGTON)

Foreign and Commonwealth Office
21 May 1980

ANNEX

MAIN FEATURES OF THE COMMISSION'S REVISED PROPOSAL

i. A basic price for sheepmeat should be set annually. For 1980 the Commission propose 345 ECU/100 kg (about the current French market price).

ii. An intervention price should be set at 85 per cent of the basic price (ie for France in 1980, 293 ECU/100 kg, but for the UK and Ireland alone a lower intervention price of 268 ECU/100 kg would be set).

iii. Reference prices should be fixed for five 'regions' within the Community (for France the Commission propose 345 ECU/100 kg, for the UK 265 ECU/100 kg).

iv. If the market price is below the reference price, a premium should be paid to the producer to make up the difference. The maximum premium payable is the difference between the reference and the intervention price.

v. As already agreed, third country suppliers of sheepmeat would be invited to agree to voluntary restraint on their exports to the Community in return for a tariff cut.

vi. There should be a review of the regime not later than 30 September 1983.