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SECRET

A COMMON ORGANISATION OF THE MARKET FOR SHEEPMEAT

NOTE BY THE MINISTER OF AGRICULTURE, FISHERIES AND FOOD

At this week's meeting of the Council of Agriculture Ministers we put a series of questions to the Commission directed to exposing the serious short-comings of the sheepmeat proposals they tabled during the European Council in Luxembourg. Following an unconvincing response from Vice-President Gundelach, other Member States offered no comments and at our insistence the Commission's proposals were remitted for detailed examination by the Special Committee. We now need to consider what approach we should adopt in further discussion of these proposals.

2. The Commission has now moved to a position of recommending unlimited intervention throughout the Community from mid-July to mid-December, the main marketing season, with the possibility of further intervention at other times of the year. They have further suggested an initial basic price at the high French price level and an intervention price above the forecast average Community market price with free trade. Although export refunds are not specifically included in the Commission's latest proposals, Gundelach has confirmed at the Council of Ministers that he saw a role for them in the scheme he has put forward which implies that provision for the use of export refunds would be included in the Council regulation we would be expected to accept. There would also be large premiums for French producers, but little or no such aid for ours, and no firm timetable for phasing out such compensatory payments and establishing a common reference price and common premium.

Attitude of other Member States

3. The French are determined to have intervention to put a floor in the Community market above the current weighted average Community market price, to be supplemented by compensatory premiums to maintain French producers' revenues at their present

level. Until recently other Member States, except Ireland, have fully supported us in opposing an interventionist regime but they will now find it difficult to pull back from their acceptance in Luxembourg of the Commission's proposals which they saw as a means of allowing them Farm Price increases they desperately need. It will now be very difficult for us to secure any significant modification to these proposals despite their obvious shortcomings.

Implications of the Commission's Proposals

4. Our estimates of the intervention and financial consequences of the Commission's proposals are in Appendix I. These show that in the first year of the regime some 18,000 tonnes could go into intervention, mainly in the UK. The UK would secure no premium benefits while contributing to the cost of premiums for France and other Member States. This contribution would be more than offset by receipts from the Community for the cost of intervention incurred in the UK. Thereafter if in subsequent years the initial intervention level were maintained in real terms we could see the quantities purchased rising over several years up to about 100,000 tonnes (two-thirds in the UK) due to a combination of rising production but declining consumption caused by the level of intervention price. The regime would become increasingly costly, but our net receipts from the Community budget would rise because the larger part of the increasing intervention would occur in the UK. Were intervention confined to France the effect would be to attract a large, and increasing, quantity of British lamb away from the domestic market into France over and above our increased exports resulting from free circulation.

5. The disposal of stocks of frozen sheepmeat on this increasing scale would not only be extremely expensive but could disrupt the markets on which they were sold. New Zealand is currently sending the Community as a whole around 250,000 tonnes of frozen lamb, mainly to the UK. She will benefit from the strengthening of UK prices under a common market with free circulation. But any disposal of intervention stocks at the increasing levels foreseen in our estimate on the Community market would be very

damaging to New Zealand's sales and returns. Similarly to dispose of stocks on this increasing scale with the aid of export refunds in North Africa and the Middle East could seriously disrupt these markets which in the case of the Middle East are becoming very important to New Zealand.

6. These implications of the Commission's proposals are only too evident to New Zealand as Mr Muldoon's recent message to the Prime Minister shows. The negotiation of a voluntary restraint agreement would be seriously prejudiced. In the absence of a sufficient moderation of the Commission's proposals to satisfy New Zealand that the consequences discussed above would be avoided, she would presumably refuse to sign up to a voluntary agreement. The French would then seek a deconsolidation of the GATT binding.

UK Approach in Further Negotiations

7. Our main objectives should be to secure arrangements which would give us a resource gain and to avoid heavy intervention with all the adverse consequences this would carry with it. In the note on the Commission's proposals submitted in Luxembourg by the Agricultural Council to the last European Council, UK objections were recorded to -

i) the principle of public intervention
ii) the method of calculating premiums and in particular reference prices
iii) the principle of export refunds (French request for their inclusion)
iv) the level of the basic price (the Commission having proposed 345 ECU/100 kg).

8. Ensuring a resource gain for the UK and eliminating the present discrimination against our sheepmeat sector requires securing premium arrangements which will give a proportionate benefit to our producers. We should in particular seek a firm timetable for phasing out discriminatory premiums, in not more than 2/3 years, and for establishing a common reference price and common premium.

9. As regards <u>export refunds</u>, we should press for complete exclusion from the Council regulation. Otherwise decisions on their use would rest with the Commission under the Management Committee procedure. If we are unable to secure agreement to exclusion permanently the only acceptable fall back would be to accept initial exclusion but with a review after a period.

10. As regards <u>intervention</u>, we should of course seek all means of restricting its scope and minimising the likely disruption of markets which would result from the disposal of large stocks of frozen sheepmeat. The idea of providing for the re-sale at subsidised prices of stocks purchased, still in fresh or chilled form, to areas of the Community where little sheepmeat is now consumed might be tested out in discussion. What would be essentially a commercial operation by intervention agencies would however present formidable administrative problems. And even if means could be found for preventing such subsidised meat being sold back into the French market, other Member States would not welcome the sale of cheap mutton and lamb in their meat markets.

11. Measures to restrict the scope of intervention will not however in themselves remove the risk of intervention buying on the increasing scale foreseen in our estimates unless we can secure a significant reduction in the proposed <u>basic price</u> of 345 ECU/100 kg, and the derived intervention price which would be above the current weighted average of the Community market price. To remove the likelihood of heavy intervention the basic price needs to be reduced to not more than 315 ECU which would bring the derived intervention prices down to 268 ECU (Continent) and, say, 263 ECU (UK and Eire). The estimates in Appendix I indicate that with prices at these levels intervention would be initially minimal and subsequently should be held to moderate levels.

12. We could go for the options of not operating intervention in the UK at all or of setting the intervention price in the UK much lower than in France. Neither however would overcome the problem posed by an over-high intervention price in France which would draw large quantities of lamb from the UK to France

over and above the requirements of free trade unless there was some counter-balancing support in the UK. There would still be very large quantities in intervention and the fact that it was concentrated in France would make it no less objectionable to New Zealand.

12. The only possible means of offsetting these effects of a high intervention price in France would be to operate a FEOGA financed variable premium in the UK linked to seasonalised target prices at a level comparable with the seasonalised intervention price in France. Under this alternative in any week when the average market price is below the seasonalised target price a premium equal to the gap between the two prices is paid on eligible sheep marketed for slaughter. The return to the producer is maintained; there is no adverse impact on consumption: and, if the premium is recouped on export there is no risk of heavy exports into French intervention. Provision for such an alternative was included in working proposals circulated by the Commission last year. It will be difficult to secure, but some other Member States would like to avoid heavy intervention and they are all committed to 100% FEOGA funding of whatever measures are agreed.

Conclusion

13. Public intervention is both unnecessary and inappropriate for the Community sheepmeat sector; but France is insisting on an intervention-based sheepmeat regime as part of her price for a settlement of the budget issue. If she sticks to this, we shall have to negotiate the best arrangements for sheepmeat that we can, reducing as far as we can the adverse effects for ourselves and for New Zealand. Our main objectives, reflecting the reservations on the Commission's proposals we have already lodged, should be the following -

1) we should seek a substantial reduction in the proposed basic price and derived intervention price to avoid the risk of heavy intervention particularly in the UK;

2) we should also seek maximum limitations on the scope of intervention and explore whether there is any possibility of avoiding the freezing of meat bought into intervention;

3) if we are unable to secure a sufficient reduction in the basic price we should seek a variable premium for the UK to avoid the over-high intervention price leading either to heavy intervention in the UK or to exports of our sheepmeat into French intervention;

4) we should seek the exclusion of export refunds from the regime;

5) we should seek a basis for calculating the premiums proposed by the Commission which will give proportionate benefits to the UK: and in particular a firm timetable for the early achievement of a common reference price and premium.

PRELIMINARY ESTIMATE OF COST OF SHEEPMEAT REGIME

A COMMISSION'S PROPOSALS IN ANNEX 2 TO AGRICULTURAL PRICES DOCUMENT

Year 1	MECU	£m
Premiums	94	61
Intervention	39	25
Total EC Expenditure	133	86
UK Gross Contribution	24	15
UK Receipts	29	19

Longer Term

Premiums - expenditure would depend on movement of market prices and alignment of reference prices

Intervention costs:	MECU	£m
Total EC Expenditure	217	140
UK Gross Contribution	39	25
UK Receipts	132	85

B ASSUMING INTERVENTION PRICE BELOW CURRENT WEIGHTED AVERAGE MARKET PRICE

Year 1	MECU	£m
Premiums	112	72
Intervention	1	1
Total EC Expenditure	113	73
UK Gross Contribution	21	14
UK Receipts	0	0

Longer Term

Premiums - expenditure dependent on market price and reference price changes

Intervention:	MECU	£m
Total EC Expenditure	32	21
UK Gross Contribution	6	4
UK Receipts	19	12

NOTES:

i. Commission indicated at Council that they envisaged basic price of 345 ECU/100kg. Costs at A are based on intervention price of 295 ECU/100kg for Member States except UK and Eire where 288 ECU/100kg is assumed to take account of transport costs. Costs at B are based on basic price of 315 ECU/100kg; intervention prices of 268 ECU/100kg on the Continent and 263 ECU/100kg in UK and Eire.

ii. Estimated quantities taken into intervention (tonnes);

A

First Year		Long-term	
UK	13,500	Total	100,000
Eire	2,500	(UK about 65,000)	
Others	2,500		

B

First Year		Long-term	
Total	less than 500 (all in Eire)	Total	17,000 (10,000 in UK)

iii. Assumes intervention all the year round as French are insisting. Commission propose that intervention would operate from 15 July to 15 December with intervention at other periods of year on a temporary basis if necessary. Limiting intervention in this way could reduce the quantities bought in somewhat, but would tend to encourage production in the intervention period.

iv. Year 1 market price assumption as in 6448/80.

v. Cost of intervention 1720 ECU (£110) tonne (Commission estimate). Cost of export refunds equals difference between the intervention price in each Member State, minus the loss of value in intervention, and the world price. This varies between 450 ECU (£290) per tonne and 94 ECU (£61) per tonne.

vi. Private storage is unlikely to be made use of as currently proposed and no estimate is therefore included.

vii. A tariff cut as envisaged under VRAs of say 10%, could save the UK some £20m a year in gross payments to Brussels and some £15m a year in public expenditure.