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CABINET

PROCEDURES FOR THE COMMUNITY'S AGRICULTURAL
PRICE-FIXING

Memorandum by the Minister of Agriculture, Fisheries and Food

1. In March the Ministerial Committee on European Questions asked officials to prepare a paper on the Community's machinery for deciding agricultural prices. The ideas and conclusions in the attached paper by my officials have been discussed in that Committee and were broadly endorsed. A study of our strategy for next year's price-fixing (including the question of the Green Pound) is being made separately and will be considered by Ministers before the summer recess. In the meantime I consider that the changes in procedure proposed in the attached paper should be helpful.
2. Changes in procedure to our benefit normally have to be negotiated and it is necessary to judge whether the price would be worthwhile. As we shall hold the Presidency in the first half of 1977, however, we should be able to ensure that the discussion of the price proposals is better structured and that reasonable consideration is given to the Presidency's compromise (paragraphs 10-11 of the attached paper). Similarly we should then be in a good position to reinforce our objective of increasing the Council's awareness of the budgetary cost and the cost to consumers, whether or not our more immediate and specific proposals (paragraphs 8-9 of the attached paper) on these aspects are accepted.
3. On our own arrangements for next year's negotiation Cabinet has already agreed on the need for a clear remit. The timing of the Council meetings in 1977, which I have proposed separately, is intended to allow adequate opportunity for reference back to colleagues. I have also made clear that I would welcome representation from other Departments, particularly in the final sessions when there may be a strong political will on the part of other Member States to reach agreement and, as on the last occasion, it would be disadvantageous to the United Kingdom to break off.
4. I recommend that my colleagues endorse the procedural objectives in paragraphs 9-12 of the attached paper.

T F P

Ministry of Agriculture, Fisheries and Food

8 June 1976

CONFIDENTIAL

PROCEDURE FOR THE COMMUNITY'S AGRICULTURAL PRICE FIXING
NOTE BY THE MINISTRY OF AGRICULTURE, FISHERIES AND FOOD

Introduction

1 The Ministerial Committee on European Questions decided on 18 March that officials should prepare a paper on the Community machinery for deciding agricultural prices. This subject was also dealt with in a memorandum put to the Cabinet by the then Foreign and Commonwealth Secretary (C(76)41).

2 This paper deals only with the procedural questions. A further paper on our strategy and objectives for the 1977 price-fixing has already been requested by the Committee on European Questions and will be provided well before the summer recess. In the meantime we have assumed the continuation of the United Kingdom's basic objectives towards improvements in the operation of the common agricultural policy which were considered in detail by Ministers last year.

Community machinery for deciding agricultural prices

3 On the basis of data supplied by the member states the Commission estimates each year the increase in costs on a sample of "reference farms" and the trend in farm income in relation to incomes outside agriculture. This information is used to calculate the average increase in Community support prices which the Commission will propose, after making allowance for increased productivity and taking account of any changes in the agricultural reference rates for the currency of the different member states. The proposals for price changes, however, also reflect the Commission's financial and political judgement. In particular, the Commission clearly has three important objectives. First, they would not wish to put forward price proposals which are demonstrably unnegotiable or are likely to stir up substantial political discontent. Secondly, they are committed to maintain or improve the balance in the market for individual commodities; experience shows that the Commission (for example, in the sugar shortage and in its

proposals on milk prices) is generally more ready than the member states, taken collectively, to tackle these imbalances. Thirdly, they are conscious of the high budgetary cost of the common agricultural policy although, unlike the United Kingdom, they are perhaps most concerned about the big increases in expenditure resulting from declines in the market value of currencies without corresponding adjustments in the agricultural representative rates. For all these reasons the price proposals may be expected to be heavily tailored from the original crude estimate of agricultural costs and incomes. We can influence the Commission's proposals through our day to day contacts with them and in the final stages through the United Kingdom Commissioners.

4 The Commission aims to present its proposals on agricultural support and prices to the Council of Agricultural Ministers in December. Even after one or two general discussions, at least two substantive negotiating sessions of the Council are needed before agreement can be reached in February or March. It is very difficult and uses a large stock of negotiating capital for a single member state to introduce into the package a completely new element. We are much more likely to be successful if we work by trying to steer existing arrangements or proposals in a direction which suits us rather than to oppose them outright and put forward something quite different. It is better, for example, to exert pressure to contain increases in support through the existing mechanisms than to argue for exactly comparable support through a different mechanism.

5 Under the present procedure there are normally two opportunities for adjustment of the Commission's proposals - the Presidency's compromise and the Commission's own compromise which forms the basis of the final negotiation. The Presidency's compromise is a trial balloon used by the Commission but it does give a chance to introduce a very limited number of new elements and to restrain the more excessive demands.

Possible changes in procedure and machinery

6 We have considered possible changes in the machinery for fixing Community agricultural prices under four headings - the preparation and use of data; bringing to bear the budgetary consequences; bringing to bear the consequences for resource costs; and the organisation of the negotiations and use of the Presidency compromise. Some of these changes could be useful. They can never be, however, a substitute for progress on the issues of substance. It is not possible to substantially disturb the balance without a major political row within the Community which would spill over not only into the monetary arrangements from which we benefit but also into other areas of Community policy.

7 Preparation and use of data. We have already taken steps to follow up our suggestion during the last price negotiations that there should be fuller consultations with the member states about the Commission's objective method calculations before the results are carried forward as the basis for price proposals. Improvements can be made in the preparatory work on the objective method for determining the level of support price increases judged to be necessary to keep earnings on modernised farms moving in line with non-farm earnings. Work is in hand in the Agricultural Departments to consider whether we could suggest to the Commission improvements in the data and the methodology. Other Departments with an interest in agricultural price questions are welcome to participate fully in this work. We have already taken part in discussions on the construction of an index of agricultural incomes, which could provide a useful check on the Commission's particular price proposals or on demands by other member states for bigger changes.

8 The budgetary consequences of changes in agricultural support and prices. Although the Commission sets out the budgetary consequences of its proposals, we believe that this can be improved and applied to a longer period of years. We have considered whether the final package might be negotiated in a joint session of Agriculture and Finance Ministers but, whether or not this would be beneficial to us, we are sure that it would not be negotiable with other member states. We believe, however, that it would be advantageous to us to have an arrangement by which the collective view of Finance Ministers could be brought to bear on all member states and

on the Commission at the time when price proposals are being formed. This points to a joint meeting of Finance and Agriculture Ministers in the late autumn to consider the economic and budgetary factors which should influence the price proposals and the subsequent decisions on them. Such a meeting could reinforce the arguments for restraint on public expenditure but we must recognise that it could not set specific limits within which expenditure would be contained. The idea also has some risks for the United Kingdom since the expenditure on monetary compensatory amounts, from which we are currently one of the chief beneficiaries through import subsidies on our food, would inevitably be one of the first areas where the Council would look for savings, and there are other areas where we have favoured higher budgetary costs in the interest of consumers. The proposal had a mixed reception at the Joint Foreign/Finance Ministers' Council in April when the Irish and the French objected to it but we should pursue it, while recognising the potential problems for us. Alternatively, there could be a meeting of Finance Ministers after the proposals are published. This would be easier to arrange next year, as we have the Presidency, but on balance it would probably increase the risk of pressure on the monetary arrangements.

9 The resource costs of the common agricultural policy. In joining the Community the United Kingdom accepted the fundamentals of the common agricultural policy and its central place in Community politics. Although we sought improvements in renegotiation and are continuing to seek improvements, we have to recognise that other member states regard the overall resource costs as tolerable, even though they may be critical of particular aspects of the arrangements. They regard some misuse of resources by economic standards as part of the price to be paid for political stability. Against this background our approach must be to secure recognition that the extreme cases of resource misuse lie in the production of surpluses. We should continue to press for the improvement of market regimes - and we have already made progress in this direction in the beef sector - but it would be wrong to concentrate on mechanisms to the exclusion of better price decisions. In all the sectors where surpluses arise at present - milk, durum wheat, olive oil and tobacco - it is the level of returns available to the producer rather than the mechanism for achieving those returns which is the primary cause. We should therefore continue to press

the Commission to set out in their price proposals their assessment of resource costs, especially in those sectors where they are proposing special measures to restore or maintain a balance in the market. The need to deal with the structural surplus in the milk sector is of particular importance and our objective must be to ensure that the proposed arrangements for the financial co-responsibility of producers, which the Council is due to discuss before September, are effective and are not subsequently undermined by price decisions. We need also to represent to the Commission the need to consult thoroughly with consumer as well as producer representatives when their price proposals are being drawn up. This may help us in attempting to represent the consumer point of view when the Council considers prices. It would also be helpful if our negotiating team included a representative from the Department of Prices and Consumer Protection.

10 Organisation of the negotiations. In the past the Council discussions have often been badly structured. Occupying the Presidency, we should be well placed to influence this so that the Commission's proposals are considered as methodically as possible by the Council and its subordinate bodies. From the practical point of view we should seek to improve the working hours of the Council. It could also be useful to seek for a wider measure of delegation to the Special Committee on Agriculture of decisions on the smaller issues. It is obvious that the final package considered by Ministers is not only substantial but also very complicated. It is possible that through our own Presidency we can make some small progress in reducing this load. While in the Presidency we may be able, however, to provide more time for consideration of the various compromise packages which tend to emerge during the final stages and to ensure that attention is given to the economic and budgetary implications, it will also be part of our duties to ensure that a settlement is reached without undue delay.

11 We shall need to consider further our tactics during the Presidency. In particular, we shall have to decide how we handle the presentation and content of the Presidency's compromise proposal during the negotiation of the package. The two most recent compromises from the Presidency fell very flat indeed.

We cannot lay down any fixed rules in advance but we should try as far as possible to ensure that the Presidency's compromise is properly considered at a full meeting rather than lost in the final melée. We have proposed a pattern of Council dates which would allow for this. On balance it seems likely to be to our advantage to try to increase the importance of the Presidency's document next year as the most likely opportunity for continuing to exert restraint on price increases in the final stages.

12 The Cabinet agreed on 11 March that it would be desirable for the Ministerial Committee on European Questions to be as precise as possible about negotiating limits when giving guidance to negotiations about farm prices and the extent to which reference back might be required. We believe that the pattern of Council meetings which we have proposed for the 1977 price-fixing will make clear when the final settlement is likely to be reached. The Minister of Agriculture, Fisheries and Food has already indicated that he would welcome the presence of Ministers or senior officials from other interested departments at the point when decisions on the final package may have to be reached in Brussels if we are to get the best settlement.

CONCLUSION

13 This paper deals only with the procedural issues. A further study of our strategy for the 1977 price-fixing, including our handling of the Presidency and the monetary questions, will be required. In the meantime we consider that -

- (i) we should press for fuller consultation between the Commission and member states before the results of the Commission's statistical and economic studies are carried forward as the basis for price proposals;
- (ii) we should seek improvements in the Commission's presentation of the budgetary consequences of price proposals;
- (iii) we should seek to establish regular joint Councils of Finance and Agriculture Ministers to consider the budgetary and economic implications of Community agricultural support before the Commission's price proposals are finalised;
- (iv) we should press the Commission to set out in their price proposals an assessment of resource costs and to consult consumer organisations when they are formulating their proposals;
- (v) we should try to make the maximum use of the Presidency's compromise in the negotiation of the price package;

(vi) we should so arrange the meetings of the Councils of Ministers (Agriculture) during our Presidency that there is adequate opportunity for reference back to capitals in the negotiating stages. In the final sessions it would be desirable for junior Ministers or senior officials of other interested Departments to be in the United Kingdom negotiating team.

We recommend that these proposals, set out more fully in paragraphs 7 to 12, should help towards the efficient conduct of the price negotiations in our interest and that we should therefore put them forward.

7 June 1976