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NOTE OF A MEETING BETWEEN THE MINISTER OF AGRICULTURE, FISHERIES AND FOOD AND THE ITALIAN MINISTER OF AGRICULTURE: 19 OCTOBER 1984

Present

The Minister of Agriculture, Fisheries and Food	Signor Pandolfi
Mr Andrews	Dr Moroni
Mr Llewelyn	Signor Varvesi (Italian Embassy)

1985 Price Negotiations

The Minister of Agriculture, Fisheries and Food noted first that Italy's views on the 1985 price fixing would be of particular significance, given that they would be holding the Presidency during the negotiations. There were three principal points that he wished to make. First, it was essential that next year's price fixing built on the progress that had been achieved in 1984. The price fixing this year had been the most realistic for a long time and it was most important that the Community did not slip back into its bad old habits. In this connection, he had been concerned to hear rumours that the Commission services, at least, were considering excessive price increases, in particular for milk, where 5% had been mentioned. As Signor Pandolfi knew, he had always preferred the price route to quotas as a means of controlling milk production, and he feared that excessive price increases now would create the conditions for an explosion of milk production if quotas were ever removed, thus making it impossible to end the systems after five years. His second point was that the Community must respect what had been agreed on guarantee thresholds and make the system work. Where products were in surplus, likely to be in surplus or were becoming excessively costly, guarantee thresholds must be imposed and existing guarantee thresholds must be implemented. Third, a sensible balance must be struck between supporting commodities in the northern and the Mediterranean parts of the Community. In this connection, we would not find it easy to accept further large increases of Mediterranean products.

Signor Pandolfi agreed that the 1984 price fixing had been a major turning point and that next year's price negotiatons should not undo what had been achieved. The Community now had to ensure that the decisions taken last year were implemented. Guarantee thresholds must be made to work, but without modifying what had already been agreed. The Community must now decide prices for 1985 without unravelling or reopening the package agreed last year. It was essential for him to be able to give some assurances as to the future to his producers. He would thus find it very difficult to convince farmers that the CAP represented a realistic policy for agriculture if further major changes were made next year. So, before next year's negotiations all outstanding points from this year's agreement, including wine, needed to be settled. For the future, it would be useful to have a policy document setting out guidelines for the medium term. As he had said, it was now necessary to give producers some guidance for the future, and such a document would also be useful for negotiations with third countries, for example under the GATT. He intended as President of the Agriculture Council to ask the Commission to present a paper on the future course of the CAP over the next five or so years, which the Council could then discuss. Turning to the points made by the Minister, he agreed that it was better to control production through prices rather than by physical limitations, and that it would be unwise to give an excessive price increase for milk. On prices in general, however, he noted that it was necessary to take account of monetary factors and of the level of proposed prices in national currencies. He also accepted the need to maintain a balance between northern and Mediterranean commodities; he had no wish to modify the present equilibrium but wished to avoid any significant changes in either direction for either group of commodities.

The Minister commented that the UK and Italian positions on next year's price negotiations were not far apart. He would report this to the plenary. He agreed too that a paper on future policy would be useful; he had already discussed this idea with a number of his colleagues in the Council. He thought, however, that it would be better if such a paper was a Council, rather than a Commission, initiative; a small group of independent experts could be commissioned to produce it. He was sure that Italy would be able to put forward a suitable name.

Milk Quotas

The Minister said the imposition of milk quotas had been deeply unpopular with producers, and he was under great pressure to ensure that the quota system was observed throughout the Community. He had been disturbed to hear reports that producers in Italy had been assured that they would not have to pay the supplementary levy this year even if milk production exceeded the quota.

Signor Pandolfi replied that he accepted that it would create political difficulties elsewhere if Italy was observed not to be implementing the quota system. However, the large number of small farmers in Italy and the extensive powers held by the regions created enormous administrative problems. The first ever census of milk production had now been completed, however, and this had shown that total milk production in 1983 had been 10.1 million tonnes, as compared to the previous estimate (on which Italy's quota was based) of 9.9 million tonnes. More significantly, the census had shown that of the 10.1 million tonne total 9.4 million tonnes was delivered to dairies and 0.7 million tonnes were direct sales; the previous estimate had been 8.2 million tonnes to dairies and 1.7 million tonnes direct sales. In view of these new figures, he was asking the Commission to modify the regulations to provide greater flexibility between wholesale and direct sales quota, on similar lines to those requested by Belgium. He also thought that it would be reasonable to increase Italy's basic quota to take account of the new figure for total production. Nevertheless, whatever the basic quota, he was confident that total production in Italy in 1984 would not exceed it. Production trends for 1984 were down, and he was now introducing an outgoers scheme designed to take 100,000 dairy cows (5% of the total) out of the national herd. This scheme would be in the form of a slaughter premium for dairy cows, payable to producers going out of milk production. The total cost of the scheme would be some 120 billion lire, or about 70 million dollars.

Given the trend in milk production, this should be enough to ensure that the quota was not exceeded.

The Minister said that he could not accept any increase in Italy's basic quota; Ireland had made a similar request, which we were firmly opposing. He was concerned at what Signor Pandolfi had told him. He would never have accepted the quota system if he had not believed that the rules would be applied strictly throughout the Community. His position would be very difficult if Italy were to exceed its quota.

Signor Pandolfi said that if by any chance the Italian quota was exceeded, he would discuss with the Commission how super levy should be imposed. However, in these circumstances Italy would have to be treated as a single unit, since it was not possible to impose individual quotas on farmers in the current year. He had, in fact, told the Commission that he was not yet in a position to choose between formulae A and B. He was now ready to discuss with the Commission a viable system for Italy for the remaining four years of the quota scheme; this might, for example, be based on treating Italy as a single dairy. For the present, however, he would have to depend on the global arrangements he had already outlined to ensure that production did not exceed the quota.

Mr Andrews commented that even if this was so, difficulties would remain. For example, there was no provision in the regulations for direct sellers to be treated on a global basis, yet this was likely to happen in Italy. Moreover, Italy should not imagine that the whole of the UK was regarded as a single dairy for quota purposes. It was true that England and Wales was a single unit, and that wholesale producers there were unlikely to pay quota, but in Northern Ireland formula A had been chosen and quota would be payable. The Minister concluded that there were clearly problems ahead in this sector, but life would certainly be easier for everyone if Italy did not exceed its global quota.

Wine

The Minister asked Signor Pandolfi what prospect he saw of an agreement on wine; in his view, an effective guarantee threshold and a price freeze were essential ingredients. Mr Andrews added that an overall package was needed. We understood Italy's desire for structural measures, but unless they were coupled with measures to control production, the money spent on them would be wasted. So far as distillation was concerned the present rules had not worked satisfactorily, and we believed that changes were needed.

Signor Pandolfi agreed that a balanced package of market and structural measures was needed. The latter would have to include restrictions on enrichment - Germany could not be allowed a veto on this point. So far as market measures were concerned, he thought that the present regulation was a good one; the problem was to implement it. However, the Commission had important new powers, which should improve matters. He pointed out that the existing regulations already included a guarantee threshold. There was no reason to introduce a second guarantee threshold; in his view it made little difference whether the total surplus was calculated according to levels of stocks or levels of production, since these figures were related. In general, he appreciated that France had political problems in this sector, and was ready to try to help. But he was not prepared to accept restrictions on the production of Italian wine simply because it was more competitive than French wine; for many northern commodities other member states were more competitive than Italy, and this lead to substantial imports. He was not prepared to see different rules applied in the one sector where Italy was competitive. He did not preclude some changes to the current range of prices for distillation, but he would not agree to a second guarantee threshold. Mr Andrews commented that reform of the wine regime was important from a point of view of enlargement; Spain at present had very low yields, which would be bound to increase once they joined the Community if nothing was done to prevent this. Signor Pandolfi replied that the present dispute was more concerned with bilateral relations between France and Italy than with enlargement.

D Whitbread

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