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From the Minister

CONFIDENTIAL

PRIME MINISTER

1985 CAP PRICE FIXING

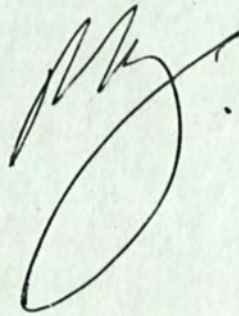
In his minute to me of 26 April, the Foreign and Commonwealth Secretary referred to the extreme position which Kiechle, the German Minister, is taking up on cereals in the price fixing negotiations. *wmcDD*

I had a meeting last evening with Pandolfi and Andriessen. Pandolfi, who had been to Bonn earlier for a meeting with Kiechle, reported that there was no move in the German position. He spoke of seeking a way forward by maintaining the guaranteed threshold mechanism but with a smaller reduction in the cereals price for 1986 than the 3.6% which the Commission have proposed, justifying this by reference to the exceptional 1984 harvest. But the Germans left Pandolfi with the message that they would agree to no reduction at all in cereal support prices and might invoke the Luxembourg compromise if faced with a line up against them. It was evident that Pandolfi at present sees no way out at the impasse on cereals. I made it very clear that the cereals settlement was of central concern to us. I said that it was essential to maintain pressure on the German Minister and that it would be wholly wrong to give way to their unreasonable demands.

There is no sign at the moment that the Germans will move their ground. But it is important that we leave them in no doubt that the position they are taking up is not tolerable. It is contrary to the decisions reached in the Council on the implementation of guaranteed thresholds generally and to cereals in particular; and it is also potentially very damaging to the Community's trade relations with the US. You are being briefed to speak to Chancellor Kohl on this subject in the margins of the Economic Summit. I understand that Mitterrand will also be advised to raise the issue with Kohl. But, given that the price negotiations are being resumed on Thursday, you may care to write to Chancellor Kohl in advance of the Summit. A suggested draft is attached.

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

A handwritten signature in black ink, consisting of a large, stylized 'M' followed by a large, sweeping loop that ends in a small dot.

M.J.
30 April 1985

CONFIDENTIAL

DRAFT LETTER TO CHANCELLOR KOHL FOR THE PRIME MINISTER'S SIGNATURE

I am much looking forward to seeing you in Bonn later this week. There is one matter, however, about which I feel I should write to you now.

Agriculture Ministers are, as you will know, resuming negotiations later this week on the Commission's proposals for agricultural prices for 1985/86. Progress towards an agreement is being made particularly difficult by the stance which Herr Kiechle is taking over cereals prices. As I understand it, your Government's position is that there can be no reduction at all in the support prices for cereals. The Commission have proposed a reduction which is less than we consider necessary in order to reflect our market and the budgetary requirements. As we see it, your Government's position would involve ignoring the guarantee threshold mechanism for cereals which the Council has already agreed. It would imply substantial additional budgetary costs particularly in future years which is contrary to our mutual concern to see expenditure on agriculture brought under control. We cannot ignore also the importance of the outcome of the cereals negotiations on the attitude of the United States Administration and Congress. It is a concern of all of us to avoid the United States Government, under pressure from its Congress, taking actions which would be disruptive of world markets and which could have serious implications for our Community.

I understand the pressures on your farmers' incomes. But farming incomes here are also under considerable pressure.

We have had to take very hard decisions in the last year on milk because the Agriculture Council failed in the past to face up to its responsibilities in this sector. Failure now to carry through the agreed policy on cereals would be a serious matter which would store up even greater difficulties for us all in the future.

I hope you will understand my writing to you in this way. But the cereals problem in the Community, and its wider implications, is a matter of great concern to us. I would urge you, therefore, to reconsider the stance which your Government is taking on cereals.