

Qz.03634

MR COLES

MILK

The Prime Minister asked -

- (1) whether a significant number of French dairy farmers will avoid payment of the superlevy by selling more milk directly to consumers
- (2) how discriminatory is the basic co-responsibility levy?

I have spoken to the Ministry of Agriculture, Fisheries and Food on these questions.

2. On point (1) the Minister of Agriculture, Fisheries and Food has obtained a Community agreement that the superlevy will apply to direct deliveries. There will therefore be penalties on cheating. The question at issue is how practical will be the control, for example in France. It is important to bear in mind that -

(i) the Community's support system by intervention does not apply directly to milk. It applies to butter and skimmed milk powder. A small farmer does not have the processing facilities to produce butter and skimmed milk powder in the quantities, packing etc which would make the products eligible for intervention. Only a dairy can do this. In a surplus situation, therefore, the direct market support goes to the production of processing dairies;

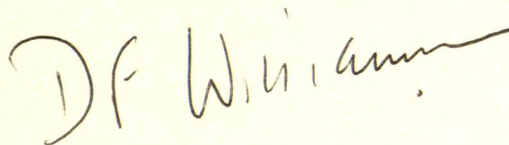
(ii) it is, of course, possible that some more milk may be sold around villages but the great volume of French, German or Dutch milk production cannot be handled without the processing facilities of the large co-operatives or companies (Union Laitière Normande, Kraft, Nestlé etc). The percentage of milk deliveries in France which passes



through processing dairies is about 95%. The dairy co-operatives, in particular, will have a strong incentive to see that their own position is not undermined by any avoidance of the levy due on direct sales.

3. On point (2), the basic co-responsibility levy is not paid in Greece, Southern Italy and the high mountain areas. There is a partial advantage for milk from less favoured areas (from which the United Kingdom also gets some benefit). The net effect is that United Kingdom farmers pay about 18.8% of the co-responsibility levy, while producing about 15.3% of the Community's milk. Some of the "co-responsibility money" is used for specific promotional and other projects, including promotion of milk consumption in the United Kingdom. Our principal objection to the basic co-responsibility levy has been that it has been used in the past to make possible unjustified support price increases. That is not the case this year.

4. I am sending a copy to Ivor Llewelyn (MAFF) and to Sir Robert Armstrong.



D F WILLIAMSON

15 March 1984