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TO IMMEDIATE FCO

TELEGRAM NUMBER 698 OF 19 MARCH

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EC-US TALKS ON AGRICULTURE, 17-18 MARCH.

SUMMARY

1. THE TALKS ON WHICH THE COMMISSION WILL BE REPORTING TO THE EUROPEAN COUNCIL HAVE BEEN QUOTE A LIMITED SUCCESS. UNQUOTE THEY WILL BE RESUMED AT MORE TECHNICAL LEVEL (LYNG AND VILLAIN) AT THE END OF APRIL. THE COMMISSION DID NOT MAKE ANY SIGNIFICANT NEW PROPOSALS BUT THE ATMOSPHERE AT THE TALKS WAS GOOD AND WORKMAN-LIKE AND THE AMERICANS APPEAR TO BE MILDLY ENCOURAGED BY THE OUTCOME. IN A SEPARATE CALL ON SHULTZ, HAFERKAMP WAS ASSURED OF HIS PERSONAL INTEREST IN THE MATTER AND CONCERN TO PREVENT IT SPILLING OVER INTO WIDER TRADE AND ECONOMIC ISSUES AND DISRUPTING THE ALLIANCE. SOME ANXIETY REMAINS, HOWEVER, ABOUT THE INTENTION BEHIND BLOCK'S SCHEDULED VISIT TO FOUR N.AFRICAN AND MIDDLE EASTERN

THE ALLIANCE. SOME ANXIETY REMAINS, HOWEVER, ABOUT THE INTENTION BEHIND BLOCK'S SCHEDULED VISIT TO FOUR N.AFRICAN AND MIDDLE EASTERN COUNTRIES (INCLUDING EGYPT AND SAUDI ARABIA) AT THE END OF THE MONTH. BLOCK WAS NOT AT THE TALKS.

DETAIL.

2. HAFERKAMP AND DALSAGER BRIEFED EC AMBASSADORS AND AGRICULTURAL REPRESENTATIVES THIS AFTERNOON ON THEIR TALKS WITH MEMBERS OF THE ADMINISTRATION YESTERDAY AND VARIOUS CALLS TODAY. THE U S TEAM HAD BEEN LED BY BROCK (USTR) WITH LYNG AND AMSTUTZ (USDA) SMITH (USTR) MCCORMACK (STATE) AND VEST (US MISSION TO EC). ACCOMPANYING HAFERKAMP AND DALSAGER HAD BEEN FIELDING (DGI) VILLAIN (DGUI) AND DENMAN.

3. HAFERKAMP SAID THERE HAD BEEN QUOTE A CONSTRUCTIVE SPIRIT UNQUOTE ON BOTH SIDES IN THE TALKS AND A RECOGNITION THAT ALTHOUGH SOLUTIONS WOULD BE DIFFICULT TO FIND, THERE WAS A SERIOUS RISK THAT, WITHOUT RESOLUTION, AGRICULTURE WOULD EXACERBATE EC-US RELATIONSHIPS AND SPILL OVER INTO OTHER PROBLEM AREAS. THE COMMISSION HAD EMPHASISED ITS WILLINGNESS TO CO-OPERATE WITH THE U S TO PREVENT THAT HAPPENING BUT WARNED THAT IF THERE WERE A REPETITION OF THE WHEAT FLOUR SALE, FURTHER CO-OPERATION WOULD BE IMPOSSIBLE. IF THE AMERICANS WERE OBLIGED TO TAKE EXTRA MEASURES TO BOOST EXPORTS THEY SHOULD CONCENTRATE ON PRODUCTS AND MARKETS WHICH DID NOT DAMAGE THE EC.

4. SHULTZ HAD PERSONALLY ASSURED HAFERKAMP THAT HE WOULD USE HIS INFLUENCE TO PREVENT ESCALATION OF THE TENSIONS, BUT HAD WARNED THAT THERE WOULD BE STRONG PRESSURE FROM THE FARM LOBBY IN THE RUN-UP TO NEXT YEAR'S ELECTIONS AND UNDERLINED THE NEED FOR A CONSTRUCTIVE CONTINUATION OF THE TALKS INITIATED IN DECEMBER.

5. HAFERKAMP SAID THAT THE TALKS WOULD BE RESUMED AT THE END OF APRIL AT TECHNICAL LEVEL (IT WILL BE BY LYNG AND VILLAIN) AS THE DETAILED SCOPE FOR ACCOMMODATION ON INDIVIDUAL COMMODITIES NEEDED FURTHER EXAMINATION. A MEETING BETWEEN SHULTZ AND THORN WOULD NOT BE APPROPRIATE AT THIS STAGE.

6. DALSAGER SPEAKING FROM A PREPARED STATEMENT (TEXT BY BAG TO CROWE ECD(E)) AND HADLEY (MAFF) SAID THE AMERICANS HAD ACKNOWLEDGED THAT WITHOUT A SOLUTION, FURTHER ACTION ON THEIR PART COULD NOT BE LIMITED TO ONE PRODUCT OR MARKET AND WOULD LEAD TO QUOTE WAR UNQUOTE. ON WHEAT THE COMMISSION HAD REAFFIRMED ITS WILLINGNESS TO STABILISE ITS WORLD MARKET SHARE AND EXCHANGE DATA MORE COMPREHENSIVELY WITH THE MAIN EXPORTERS. ON DAIRY THE AMERICANS HAD ASKED THE EC TO DISPOSE OF MORE OF ITS SURPLUSES INTERNALLY RATHER

TO STABILISE ITS WORLD MARKET SHARE AND EXCHANGE DATA MORE COMPREHENSIVELY WITH THE MAIN EXPORTERS. ON DAIRY THE AMERICANS HAD ASKED THE EC TO DISPOSE OF MORE OF ITS SURPLUSES INTERNALLY RATHER THAN THROUGH EXPORT AND PROMISED IN RETURN RESTRAINT ON ITS OWN EXPORTS. THE COMMISSION HAD UNDERLINED THE DIFFICULTIES BUT POINTED TO ITS MODEST PRICE PROPOSAL FOR THE DAIRY SECTOR THIS YEAR AND OFFERED CLOSER TRI-LATERAL CO-OPERATION WITH NEW ZEALAND ON POULTY THERE HAD BEEN AGREEMENT ON THE NEED FOR TALKS WITH BRAZIL. THE COMMISSION HAD RAISED THE POSSIBILITY OF STABILISING EC IMPORTS OF MAIZE GLUTEN THE AMERICANS WILL CONSIDER.

7. IN ANSWERING QUESTIONS, DALSAGER SAID THAT WHILST THEY HAD RECEIVED NO COMMITMENT FROM THE U S NOT TO MAKE FURTHER SUBSIDISED SALES BEFORE THE NEXT ROUND OF TALKS THE COMMISSION HAD MADE IT QUITE CLEAR THAT ITS POSITION WOULD BECOME UNTENABLE IF THE AMERICANS WENT AHEAD. BOTH SIDES NOW RECOGNISED THE DANGER THAT, IF NOT DEFUSED BEFORE, AGRICULTURE COULD BECOME A DISRUPTIVE ISSUE AT THE WILLIAMSBURG SUMMIT. DALSAGER THOUGHT THAT THE AMERICANS HAD ONLY VERY RECENTLY DISCERNED THE EXTENT OF COMMUNITY CONCERN OVER DETERIORATING RELATIONS WITH THE U S ON AGRICULTURE. HE HAD SOUGHT AND GOT AN ASSURANCE THAT BLOCK'S ABSENCE FROM THE TALKS DID NOT MEAN THAT HE WAS DISSOCIATING HIMSELF FROM THE OUTCOME AND THAT LYNG HAD FULL NEGOTIATING AUTHORITY. HE HAD BEEN TOLD THAT BLOCK'S N.AFRICAN TOUR WOULD NOT BE QUOTE A SALES TOUR UNQUOTE. THE COMMISSION HAD ALSO BEEN ANXIOUS TO DISPEL ANY FEELING IN THE WHITE HOUSE THAT THE EC WAS NOT IN A POSITION TO RETALIATE AGAINST SUBSIDISED U S SALES. HIS CONCLUSION ON THE TALKS WAS THAT THE EC HAD GAINED A LITTLE MORE TIME AND THAT SHULTZ WOULD NOW BE ACTIVELY INVOLVED IN TRYING TO SECURE A RESOLUTION.

8. FIELDING HAS TOLD US IN CONFIDENCE THAT THE MEETING HAD BEEN QUOTE A LIMITED SUCCESS UNQUOTE (SHULTZ HAD SAID HE GAVE IT A SILVER RATHER THAN A GOLD MEDAL). THE COMMISSION HAD PUT ONE OR TWO MORE COUNTERS ON THE TABLE THOUGH NOT ALL THAT THEY HAD IN THEIR POCKET. THE AMERICANS HAD LISTENED MUCH MORE ATTENTIVELY TO THE DETAILED EC ARGUMENTS ON INDIVIDUAL COMMODITIES, THOUGH DAIRY REMAINED A MAJOR PROBLEM AREA. THE AMERICANS HAD NOT PRESSED THEIR CASE ON CITRUS AND RAISINS NOR SHOWN WILLING ON MAIZE GLUTEN FEED. HE EXPECTED, HOWEVER, THAT THERE WOULD BE RATHER MORE DAY-TO-DAY CO-OPERATION BETWEEN THE TWO SIDES ON MARKET AND PRODUCTION PROSPECTS AND POSSIBLY SOME CONSULTATION WITH NEW ZEALAND ON DAIRY. VILLAIN HAD TALKED TO THE FRENCH AMBASSADOR, TO PERSUADE HIM THAT THE DISCUSSION WERE ON TRACK. THE COMMISSION WERE COUNTING ON SUFFICIENT PROGRESS HAVING BEEN MADE TO KEEP MITTERAND QUIET AT THE EUROPEAN COUNCIL. HIS OWN VIEW WAS THAT THE SITUATION HAD BEEN CONTAINED FOR TWO MONTHS AND THAT THE ADMINISTRATION WAS BEGINNING

THE EUROPEAN COUNCIL. HIS OWN VIEW WAS THAT THE SITUATION HAD BEEN CONTAINED FOR TWO MONTHS AND THAT THE ADMINISTRATION WAS BEGINNING TO RECOGNISE THE COST OF A TRADE WAR E.G. TO ITS SOYA BEAN PRODUCERS AND THE DANGERS OF DISRUPTION WITHIN THE ALLIANCE. LYNNG WHO HAD BEEN VERY PESSIMISTIC BEFORE THE TALKS HAD PERFORMED WELL AND SEEMED TO BE ENCOURAGED BY THE OUTCOME.

9. LYNNG TOLD BRAITHWAITE THAT THE TALKS WERE MAKING PROGRESS IN THE RIGHT DIRECTION THOUGH THERE WERE NO QUICK SOLUTIONS AND THE FARM INTERESTS WERE BECOMING IMPATIENT. HE, LIKE THE COMMISSION, WAS DELIBERATELY BEING CAUTIOUS IN HIS PUBLIC STATEMENTS SO AS NOT TO ROUSE PARTICULAR COMMODITY LOBBIES. IT WOULD SIGNIFICANTLY BOLSTER THE POSITION OF THE MODERATES IN THE ADMINISTRATION IF THE COMMISSION COULD BE PERSUADED TO ANNOUNCE ITS INTENTION TO STABILISE WHEAT EXPORTS AND INCREASE ITS STOCK-HOLDING. THE EC MUST MAKE A BETTER RESPONSE ON DAIRY IF PRESSURE IN CONGRESS FOR SUBSTANTIAL DAIRY EXPORTS WAS TO BE RESISTED. HE THOUGHT THE AMERICANS WOULD BE ABLE TO LEAN ON THE BRAZILIANS TO TAKE PART IN TALKS ON POULTRY.

COMMENT

10. THE MOOD OF GUARDED OPTIMISM HERE MAY QUICKLY EVAPORATE WITHOUT CONTINUING SIGNS OF THE COMMUNITY'S CONCERN TO DEFUSE TENSIONS. BLOCK'S NORTH AFRICAN VISIT REMAINS AS A WORRYING CLOUD ON THE HORIZON. FOR DOMESTIC POLITICAL REASONS THE AMERICANS WILL CONTINUE TO PRESS THEIR CASE ON DAIRY WHERE THE COMMISSION HAVE SO FAR FAILED TO COME UP WITH A SUFFICIENT COUNTER OFFER, BUT THEY NOW APPEAR TO RECOGNISE THAT THE COMMISSION OFFER ON WHEAT EXPORT RESTRAINT IS IMPORTANT AND WORTH SECURING. THE AMERICANS ALSO APPEAR RELIEVED AT THE CLEAR EVIDENCE OF COMMUNITY CONCERN OVER AGRICULTURAL TRADE TENSIONS. EVEN THOUGH THEY BELIEVE THAT THIS WOULD NOT HAVE HAPPENED WITHOUT THE WHEAT FLOUR SALE, IT IS NOW CLEAR TO THEM THAT FURTHER SALES OF THIS KIND ARE NOT NECESSARY AS A WAY OF GETTING THE COMMUNITY'S ATTENTION. SHULTZ'S CLOSER PERSONAL INVOLVEMENT IN THE AGRICULTURAL ISSUE SHOULD ENSURE THAT THE DISRUPTIVE POTENTIAL OF A TRADE WAR IS NOT LOST SIGHT OF. ANY RENEWED IMPETUS WHICH THE EUROPEAN COUNCIL CAN GIVE TO THE SEARCH FOR A PRACTICAL ACCOMMODATION WILL BE TIMELY.

11. FCO RESIDENT CLERK PLEASE INFORM NO.10, AND ADVANCE TO DUTY OFFICER (MAFF). AND CROWE (ECD/E).

WRIGHT