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F.g. *[Signature]* 4/2

Treasury Chambers, Parliament Street, SW1P 3AG
01-233 3000

31 January, 1980

Dear Michael,

Mr. Christopher Tugendhat spoke to the Conservative Party Finance Committee on 22nd January. Peter Cropper here, who was present, made a record of the discussion, which the Chancellor thought the Prime Minister might like to see.

I am copying this letter, and Peter Cropper's note, to Michael Richardson in the Lord Privy Seal's Office.

yours ever

John Wiggins

A. J. WIGGINS

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No.10.

CONSERVATIVE PARTY FINANCE COMMITTEE 22ND JANUARY 1980

1. The meeting was addressed by Mr Christopher Tugendhat.
2. Mr Tugendhat delivered an impressive and encouraging assessment of the UK's position in the European Community.
3. In May 1979, when the Conservative Government took office, there was little understanding among the other Community members - even at Government level - of the way the British contribution to the EEC budget had developed. Continental reaction tended to be:
 - (i) Britain renegotiated quite happily in 1975. Why were the British griping a mere four years later?
 - (ii) The British were always complaining about something.
 - (iii) The poverty argument was rather pathetic. What Britain needed was to pull its socks up.
 - (iv) Why all this fuss about the CAP: Britain had never used its veto on farm prices.

However, British politicians understood the issue and in Mr Tugendhat's view it was entirely legitimate for them to bring it out into the open.

4. But these attitudes meant that it was very difficult for the incoming Government to (a) get recognition of the problem and (b) obtain a solution. Time was really needed, but time was not there. So risks had to be taken in using forceful methods to gain attention.
5. At this juncture the Commission helped by producing an assessment of the problem which was likely to be accepted by member countries as impartial. This key report confirmed the

existence of the problem; it had not been easy to produce.

6. The Community is a big concern. "It cannot turn round on a sixpence." For the solution of its problems it tends to need an atmosphere of urgency and crisis. But these crises must not be allowed to get out of control. In Mr Tugendhat's view Mrs Thatcher had judged the situation absolutely correctly at Dublin. "I do not believe any other method would have secured more at Dublin." But the crisis was not allowed to boil over.

7. Mr Tugendhat then added: "Post-Dublin, ideas are being considered that were inconceivable a few months ago." In particular, Dublin had two tangible results:

(i) It took the wraps off the machinery negotiated by Wilson;

(ii) It gave clear instructions to the Commission to increase expenditure in Britain.

8. He also reminded Members that the imminent exhaustion of "Own Resources" meant that there would soon have to be a general review of the Community financial structure in any case.

9. In his view the solution must:

(i) be such as the Prime Minister can sell;

(ii) be such as to enable the UK to exert the leadership that it has conspicuously failed to give so far.

10. In question and answer:

Tony Marland asked whether the CAP could not be debudgetised.

Mr Tugendhat regarded that as a policy of despair he preferred a much more vigorous price policy with nationally financed income aids to farmers, paid by national governments, and lower market prices.

Brandon Rhys Williams asked whether expansion of the Community's capital programme was not the answer to Britain's problem.

Mr Tugendhat. No, the time scale is too long.

Jack Page. "It all seems so obvious. Are you surprised at the results of the renegotiations?"

Mr Tugendhat. It was always foreseeable that the UK would have problems with the CAP and the customs levy. But I do not think anyone foresaw how the CAP cost would rise out of control.

Michael Shaw. "I always felt that the Council resented the partnership of the Parliament. Is this still the case?"

Mr Tugendhat. I go along with Michael Shaw, but I believe the way the Council works is a recipe for disaster. Finance Ministers meet. Farm Ministers meet. But nobody answers for the totality of the result.

John Osborne. "What happens now on the Budget?"

Mr Tugendhat. The Council will hopefully conclude its work on agriculture in April and that would suggest finalisation of a new Budget in June or July.

Chris Patten. "How much worse does the imbalance become by the drop in grain prices?"

Mr Tugendhat. We do not know yet, but if American diverts its wheat away from Russia and into other parts of the world that will undoubtedly have an effect.

Esmond Bulmer. "What is the degree of rapport between British Civil Servants and the Commission?"

Mr Tugendhat. I am not aware of any particular problem. But of course, by definition, we have fewer people in top positions who have personal experience of the EEC game. This will rectify itself with time.

Ray Whitney. "What about this energy tax?"

Mr Tugendhat. Certainly it is on the Community agenda, but

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the time scale is far too long to provide a settlement of the present UK problem. The Commission will be coming forward with ideas shortly, and the Community President is likely to refer to the subject in February, in his annual "speech from the Throne". A levy on energy could well be to the UK's advantage, but a lot depends on whether it is a levy on imports or consumption of energy, and on how the proceeds of the levy are disbursed.

PC.

PETER CROPPER
24th January 1980

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