

Euro 1981
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COMMUNITY BUDGET

1. I took the opportunity of calling on Mr Tugendhat while I was in Brussels for the Foreign Affairs Council. Miss P Neville-Jones was present.
2. I said that the ECO/FIN Council had gone very much as Mr Tugendhat had predicted during his meeting with the Prime Minister last Thursday. We regretted that the discussion had to run over to the October Council but, provided this timetable was strictly adhered to it would still allow decisions to be taken in Dublin. I asked what M Ortoli had in mind in saying that the Commission would wish to prepare its position for the 15 October meeting.
3. Mr Tugendhat said he thought the outcome of the ECO/FIN discussion had been satisfactory. The Chancellor had made an impression and we had said enough to make our position clear. The German intervention arguing against linking the budget with other issues had been helpful. The Dutch intervention, which he had expected to involve a direct link with the 1 per cent VAT ceiling had, in the event, been couched more in terms of finding ways of reducing expenditure so as to accommodate the cost of doing something for the UK. He believed that M Ortoli's intervention had been related to the Italian problem and that he had no intention of advancing the Commission's position on our budget contribution before the 15 October Council. In the follow up, it would be important for the UK not to re-open discussion of the Commission's reference paper e.g. by challenging the mca figures. Equally it would not in his view be in the UK's interests to provoke too much controversy over e.g. the resource costs of the CAP although he accepted that we would be bound to support the Italians by providing some data ourselves. So far as he was concerned, the Chancellor's statement had given the Commission enough material and, while we might wish to put it in written form and

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elaborate on it somewhat, there was no need for us to feel that we had to go into much greater detail. It would be important to use the extra time for the UK to pursue intensive bilateral contacts at the highest possible level and Miss Neville-Jones mentioned in particular the need to talk to the Danes who could be extremely awkward.

4. I said that I thought the meeting with the Prime Minister, the Chancellor and the Lord President last week had been very useful and Mr Tugendhat would have seen a reflection of his advice in the way the Chancellor had spoken in the ECO/FIN Council. There was however one point which I felt I should draw to his attention. At the meeting he had deliberately not mentioned any figure of what he thought we might achieve but had referred to his written brief, copies of which he had left with the Prime Minister and the Chancellor. If he had said at the time that we were likely to get a reduction in our net contribution from 1500 meua to about 800 meua I was quite confident that there would have been a strong reaction from UK Ministers. Although, as the Chancellor had told him, the Government had taken no decision, I was sure that the figure he had mentioned in his document would not be acceptable. I did not know what figure at the end of the day we could accept - this would in any case be influenced by whether it was a fixed figure or a proportion of a growing budget and for how long the commitment would last, but even if he had chosen to mention a figure half as large as the one quoted I did not believe it would have been greeted with any enthusiasm at all. The stated aim was a broad balance and any outcome would have to be consistent with that. Mr Tugendhat said what I had told him came as no surprise: he wanted only to stress that the figure had been "illustrative".

5. Finally, in reply to my question, Mr Tugendhat said that during the next stages of preparing a Commission position on solutions it would be important for us to cultivate (apart from our contacts with the two British Commissioners) M Ortoli who had so far been remarkably helpful,

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Mr Natali who would be watching the Italian interests but was basically well disposed and M Davignon whose opinion was much respected by the President. Mr Gundelach was also important and might, at the next stage, be brought into the small group of Commissioners charged with pursuing this dossier.

MDM

M D M FRANKLIN

19 September 1979

cc ✓ Mr Alexander (No 10)
Mr Lever (FCO)
Mr Battishill (Treasury)
Mr Buckley (Lord President's Office)
Sir K Couzens (Treasury)
Mr Butler (FCO)
Sir D Maitland (UKREP)

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