

Prime Minister :

Budget

1. Christopher Tugendhat's comments on our formula are:
 - (a) it welds Italy and the UK too firmly together; this could cause us problems if the Italians are bought off;
 - (b) more emphasis should be placed on the equity argument, less on the hindrance to convergence;
 - (c) the Commission should be asked specifically to study the net transfers implicit in the 1980 Budget;
 - (d) the request to the Commission should be in two stages (i) actual analysis by end September (ii) proposals presented in good time before Dublin.

2. My comments are :

- (a) I am doubtful about Tugendhat's (a). In the initial stages you will need Andreotti's support;
- (b) in any case the Commission study proposed in Christopher's (c) will show that the Italian budgetary problem will not exist next year;
- (c) his (b) and (d) seem reasonable.

cc Lord Carrington
Sir K Conzen
Mr Franklin
Mr Butler

Donald Maitland
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Prime Minister

Agriculture Council : Luxembourg

1. At one point last night it seemed likely that the issues under discussion would be referred to the European Council.
2. The situation changed at 2 am when a new proposal was tabled. The components are:
 - (a) 2% price rise on all products except milk;
 - (b) this means an adjustment of 1% in the German MCAs (except milk) and $\frac{1}{2}$ % in BENELUX MCAs (except milk);
 - (c) no date is set for a German commitment on the milk MCA;
 - (d) 1% on the co-responsibility levy for everyone. (The Commission wanted 3%.) But there would be a commitment to a higher percentage if milk production increased.
3. Of course Mr Walker fully reserved his position on this proposal. Hard negotiation will take place today; the Council was due to resume at 10.30 am.
4. On the face of it there is no reason for these issues to be raised at Strasbourg, at any rate today.
5. We will continue to monitor progress at Luxembourg.

cc Lord Carrington

Mr Franklin

Donald Maitland 21
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