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RECORD OF THE PRIME MINISTER'S TALK WITH MR. CHRISTOPHER TUGENDHAT  
AT 10 DOWNING STREET ON 13 SEPTEMBER 1979 AT 1500 HOURS

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PRESENT

Prime Minister  
Chancellor of the Exchequer  
Lord President  
Sir K. Couzens  
Mr. M. Franklin  
Mr. M. O'D. B. Alexander  
Mr. T. P. Lankester

Mr. Christopher Tugendhat  
Miss P. Neville-Jones

Community Budget: Italian Attitudes

In reply to a question from the Prime Minister, Mr. Tugendhat said that the hostile Italian reaction to the Commission's reference paper on the Community Budget had been motivated by disappointment on two counts. Despite warnings to the contrary, the Italians had assumed that their budgetary deficit, like that of the United Kingdom, would continue. They had been shocked to learn from the reference paper how seriously they had miscalculated. The improved Italian performance resulted both from a reduction in their contribution to the Budget following the switch from a GNP-based assessment to a VAT-based assessment and from an increase in their receipts as a result of Community action, e.g. on the Regional Fund. The Italians also considered that the second half of the mandate from the European Council in Strasbourg had not been implemented.

Mr. Tugendhat said that he sympathised with the second Italian complaint but that it was not easy to see what could be done about it. They claimed with some justice that the Community tended to operate in a way that benefited the weaker parts of the strong countries at the expense of the stronger parts of the weaker countries.

/(Mr. Franklin

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(Mr. Franklin said the Italians also complained that the CAP favoured agricultural products produced in Northern Europe as opposed to those produced in Southern Europe). The British budgetary problem was relatively clear cut. But it was difficult to envisage a solution to the Italians' difficulties. Moreover, there was little sympathy for the Italians in the Commission at present. The Commission considered that, as the budgetary figures showed, the Italians had done very well in the last couple of years and should not now be asking for more.

Mr. Tugendhat said it would be important for the UK to handle the Italians carefully. There was a risk that in their general irritation they would try to discredit the reference paper and thereby seriously damage British chances of getting a decision in Dublin. There was already a tendency on their part to regard the reference paper as a British paper. The recent story in the Financial Times might well have been the result of a leak by the Italians. It would be important to assure them that HMG recognised their problem and were not seeking to isolate them, but on the contrary, wished to cooperate with them. Bridges needed to be built. Otherwise the Italians, even if they did not succeed in stopping discussion of the reference paper, would certainly sour the atmosphere.

Community Budget: British Tactics

The Prime Minister said that despite any difficulties the Italians might make, it was essential that the Strasbourg timetable should be honoured. HMG were not prepared to put up with the present inequities of the Community Budget any longer. Mr. Tugendhat said that most representatives of the Presidency seemed determined to push ahead with discussion of the reference paper and to try to complete it on 17 September. But there was also some feeling that two meetings might be required. Provision had been made, he thought, for a further ECOFIN meeting on 8 October. As regards the presentation of the British case, Mr. Tugendhat said that it was important to present the British problem as a unique anomaly requiring a sui generis solution. Solutions which appeared to open the door to a general redistribution or to question the underlying philosophy of the Community should be avoided. Arguments which either focussed

/ on the fact

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on the fact that Britain was less prosperous or which suggested that contributions and receipts had to be in balance should be avoided. Arguments in the first category would be resisted because they might set precedents which would be used again by new and less prosperous members of the Community such as Spain. Arguments in the second category tended to undermine the theology of the Community which saw the Budget as no more than a reflection of an agreed range of Community policies.

Mr. Tugendhat believed that the UK should concentrate on the claim that the present situation was inequitable and that a temporary arrangement was required to secure a flow-back of funds. There was no need to define how long "temporary" might be. Its effect might be the same as a permanent solution. The Prime Minister and the Chancellor of the Exchequer pointed out that if there was to be a flow-back into the United Kingdom there would inevitably either have to be a cut in Community programmes or the other members would have to pay more. Mr. Tugendhat accepted this but said that the other members felt now - as they had not felt six months ago - that it was worthwhile to make an effort. They might be prepared to go along with a sui generis solution which would of course need to be clothed in Community language. But they would wish to know soon what sort of solution we envisaged. We should start, e.g. in bilaterals to give some idea of what we had in mind. We should also begin to give an indication of the figure we had in mind, i.e. that we wanted to secure a "broad balance".

At this point the Prime Minister left the meeting to meet the delegates to the Constitutional Conference at Lancaster House.

Mr. Tugendhat reiterated that we should do our best to sympathise with the Italians without giving them any opportunity to hold us up. In his view, the Commission would not be able to bring forward its second paper on solutions while the Council was still discussing the analysis. The Commission had been told to produce its proposals "in the light of the debate". If ideas had not been mentioned by us during the debate it would be very difficult for the Commission to include them in their proposals.

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This second paper would be extremely difficult to get through the Commission. This time the Italian members would be active and probably more effective.

The Chancellor said that the British budgetary problem was now established both as a fact and as to its scale. But the French still did not seem to understand the position. He wondered what would be his best tactics at the forthcoming ECOFIN meeting. He understood from what Mr. Tugendhat had said that it would be desirable to set out rather precisely the UK objectives. But would it also be helpful to deal with the "qualitative" arguments which the French tended to introduce against the British position? He also wondered when it would be best for him to speak.

Mr. Tugendhat replied that it would be very desirable if the Chancellor were to shoot down the French arguments in his statement. It was important that the British position was made absolutely clear, and that we could not be accused of not answering the arguments which the French put forward. It would probably be best for the Chancellor to speak early, and definitely before the Italians. Lord Soames added that it would be worth consulting with Mr. Colley before the meeting on this.

Sir Kenneth Couzen's suggested that the Chancellor might indicate what the UK wanted and how it might be achieved. But he might go on to say that the Commission had been entrusted to find a solution. They should now come up with a solution, and they should put a price on the various options. He wondered if this would be a helpful approach. Mr. Tugendhat responded that the Chancellor should certainly refer to the Financial Mechanism and indicate ways in which it can be improved. The Commission had been considering the possibility of weighting the amount of the refund according to relative GNP per capita, and the Chancellor might refer to this. He might also propose the removal of the balance of payments constraint. But he should also make it clear that it was extremely doubtful whether improvements in the Mechanism alone would satisfy our objectives; these could only be a start and more was needed. It was crucial to get this point across. As regards the  
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idea of the Commission putting forward costed options, this was unlikely to be a helpful suggestion from the UK's point of view.

Lord Soames said that if the UK succeeded in achieving its budgetary objectives, the French and the Germans would of course be paying more. They would presumably need to be able to show that they had obtained something in return. He asked whether there were any particular quid pro quos which they might be looking for.

Mr. Tugendhat said that a concession on fish would certainly be looked for. In addition, they would find some positive statements on energy helpful; but these should be gestures rather than specific concessions. The French would welcome some positive remarks about nuclear energy.

The Chancellor then asked whether the UK was doing enough to persuade and educate our partners. Mr. Tugendhat replied that we should be doing more, but this needed to be at the highest political level. In particular it was essential that Giscard and Schmidt should be fully seized of the importance that we attach to the budgetary problem. The UK's attitude with our partners should be - "regret at a common danger"; we should not make threats nor talk about "renegotiation". In this context, the British Press with their rather hostile approach on the budgetary issue were not at all helpful. He understood that there was not much that Ministers could do about this; on the other hand, it would be worth taking great care in briefing the Press after Monday's meeting. The more the British Press carried stories like the sale of butter to the Russians, the more the French Press would be provoked to run stories about the cost to the Community of importing New Zealand butter.

The Prime Minister rejoined the meeting at this point.

#### Common Fisheries Policy

Mr. Tugendhat said that the argument over the CFP presented major dangers. It could seriously impede British chances of securing a satisfactory solution on the budgetary problem. In his

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view a fisheries settlement was a necessary but not a sufficient condition for solving the budget problem. He warned that the French might simply be lulling us if they gave the impression that they were not in a hurry on fish. The Prime Minister said she was not prepared to make any concessions on the CFP. The fisheries situation was already sufficiently unsatisfactory without our making further concessions. The so-called reciprocity of historic rights was meaningless since the French had fished out their own waters and British access to those waters was worthless. She was in any case not prepared to pay a price in order to correct the demonstrably inequitable situation on the Budget.

#### Agriculture

Mr. Tugendhat said that there was some suspicion among other members about British intentions on agricultural prices. In the past we had been able to argue for limitations in price rises in the Community while giving our own farmers price rises through the devaluation of the Green Pound. But this escape route was no longer open: a Community price freeze now meant a price freeze in the UK. Since it seemed that HMG wished to expand domestic production, it was being asked in Europe whether we would not in the end follow the Germans in accepting price rises. This suspicion could make for difficulties in Dublin since it would not be understood if we appeared to be attempting to push up overall Budget expenditure in defence of sectoral interests while reducing our own net contribution.

The Prime Minister said that she was ready to tell British farmers that food prices would not be allowed to rise in the next two years. The farmers had done very well in the last two years and her concern was now less for them than for the housewife.

Mr. Tugendhat welcomed what the Prime Minister said and expressed the hope that arrangements would be made to ensure that her views became known. He referred to his intention to try to get the Finance Ministers more involved in the fixing of agricultural prices. He hoped that it would be possible to arrange

/ a "guidance debate"

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a "guidance debate" in which the Finance Ministers could examine the consequences for the Budget as a whole of any given set of agricultural price proposals, and set a global financial limit within which the Agriculture Council would have to operate. (The Prime Minister commented that this was a very good idea). The proximity of the Budget to the 1 per cent VAT ceiling - which would certainly be reached in 1981 and might on some assumptions be 1980 - provided a good reason for pressing for the involvement of Finance Ministers. While he would not do so before the Dublin meeting, the Commission would have to bring forward proposals for raising the 1 per cent VAT ceiling before the New Year.

The discussion ended at 1645.

*Paul*

17 September 1979

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Mr Franklin (about office)

Herewith combined  
notes of Messrs Alexander  
& Lancaster. Corrections  
or additions gratefully  
received.

MA

14/9

Mr. Alexander.

~~I have suggested  
some changes. Should you  
not indicate that the  
Prime Minister was absent for  
"pages 3 & 5".~~ W.A.



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issue.

MR ~~ALEXANDER~~

MEETING WITH MR TUGENDHAT

Phu!

1. I have suggested a few additions.
2. You may feel that the note should indicate that the Prime Minister was absent from the discussion recorded from the middle of page 3 to the end of page 5.
3. I have added a second additional paragraph on page 5 about what Mr Tugendhat (in the Prime Minister's absence) actually said about the eventual outcome. What the annex to Mr Tugendhat's brief reveals is that he thinks that "if the UK could cut her deficit in half (in 1980 from 1500 MUCE to, say, 800 MUCE) she would be doing very well". The Prime Minister will not have seen this document but I think you should draw her attention to this assessment. It is certainly not good enough and I hope to have the opportunity during my visit to Brussels today and tomorrow to tell Mr Tugendhat so. But you will wish to consider whether this exchange should be included in the circulated record or not. In view of its sensitivity you may prefer to exclude it.

*Franklin*

M D M FRANKLIN

17 September 1979

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*From the Private Secretary*

17 September 1979

BSG  
Euro Pol.

CALL BY MR. CHRISTOPHER TUGENDHAT

As you know, Mr. Christopher Tugendhat, the EEC Budget Commissioner, called on the Prime Minister on Thursday, 13 September. I enclose a record of their conversation.

I apologise for the delay in the appearance of the record. My absence for the middle part of the discussion somewhat complicated the note-taking arrangements!

I am sending copies of this letter and its enclosure to Tony Battishill (HM Treasury), Garth Waters (Ministry of Agriculture, Fisheries and Food) and Martin Vile (Cabinet Office).

M. O'D. B. ALEXANDER

*KRB*

G. G. H. Walden, Esq.,  
Foreign and Commonwealth Office.

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