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PRIME MINISTER

YOUR MEETING WITH MR. TUGENDHAT

I attach the briefs for your meeting with Mr. Tugendhat on Thursday 13 September at 1500 hours. They cover the two specific points which Mr. Tugendhat has said he hopes to discuss with you, viz the Community Budget and the Common Agricultural Policy. More generally, Mr. Tugendhat said he hopes to hear your views on Britain's role and position in the Community in the longer term.

I shall, if you agree, sit in on the meeting to take a note. You may think it would be helpful for one other official, e.g. Mr. Franklin or Mr. Butler, to sit in on the meeting.

11 September 1979

10 DOWNING STREET

Prime Minister.

(a) Chancellor's claim that our net contribution in 1982 will be £1500m EUA is a national estimate: the Treasury that may not agree.

(b) 1% VAT limit may be reached in 1981 rather than 1982 but it may not be wise for UK to attempt to precipitate discussions of the issue too soon.

11/9

Foreign and Commonwealth Office

London SW1A 2AH

10 September 1979

Dear Michael,

Prime Minister's Meeting with Mr Tugendhat

/// I am attaching three briefs on the main subjects which Mr Tugendhat's cabinet have told us he is likely to raise with the Prime Minister on 13 September.

Yours ever

Paul

(P Lever)
Private Secretary

M O'D B Alexander Esq
10 Downing Street
LONDON

CALL OF MR TUGENDHAT ON THE PRIME MINISTER: 13 SEPTEMBER

COMMUNITY BUDGET

POINTS TO MAKE

1. Problem

The Commission reference paper confirms all that we have been saying about the scale and gravity of the problem of our budget contribution. A net contribution of something approaching, even on the Commission's figures, £1,000 million for 1980 is quite incompatible with our position as seventh out of nine in terms of per capita GDP. A solution must be found quickly, to take effect on the 1980 Budget.

2. Timing

The Strasbourg European Council agreed that a solution should be found at the meeting of the next European Council. If this is to be done - and it can only be done on the basis of proper preparation - Finance Ministers on 19 November and Foreign Ministers (whose duty it is to prepare European Council meetings) on 20 November will need to see the paper putting the issues to Heads of Government. Working backwards this means that the Commission's proposals for a solution should if possible be available at the time of the 15 October Finance Ministers meeting. It is accordingly vital that the 17 September Finance Ministers meeting should complete discussion of the reference paper and invite the Commission to prepare a draft on solutions. Were the Commission representative to be well disposed, he could help to achieve this by intervening at the end of the discussion to propose that the Commission now start work on proposals. Who is the representative likely to be? Mr Jenkins? Mr Ortoli?

3. Solution

Given our position as a Member State with below average GDP per capita, we could logically seek a net benefit but what we are in fact seeking is a broad balance. We are flexible on the precise nature of a solution, though we do know what will not do:-

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(a) minor tinkering with the existing mechanism (which up to now has proved totally inadequate);

(b) increased Community programmes - these will not operate quickly enough or on the requisite scale;

(c) loans: they have to be repaid. Interest is payable on them and they can anyway be obtained elsewhere. They are not a permanent transfer of resources in the way that our budget contribution is.

The only effective answer we see is a corrective mechanism dealing both with our unfairly large gross contribution and our inadequate receipts and free from the deficiencies of the present financial mechanism. Does he agree? And if so, what form of mechanism is most likely to prove acceptable?

4. Commission Reference Paper

Thank Mr Tugendhat for considerable efforts made by him and his Cabinet; unhelpful last-minute changes not his fault.

5. Inability of Commissioners to agree a conclusions section regrettable, but much of the paper still supports our arguments and the tables of net contributions show our position to be as bad as we had expected.

6. Most worrying aspect of recent developments is extreme hostility of our opponents in Commission: what effect is this likely to have on finding a consensus on a solution?

/FACTUAL BACKGROUND

FACTUAL BACKGROUND

1. Our latest thinking on the Community Budget problem is contained in a memorandum by the Chancellor of the Exchequer [which has now been seen by the Prime Minister].

2. The Commission Reference Paper which came out on 7 September contains tables which confirm the gravity of our Budget problem; we are estimated to be the largest net contributor to the Budget in 1979 and 1980 when MCAs are attributed to exporters (at 1245 mEUA and 1814 mEUA - £780 million and c£1,125 million respectively). The text of the paper, however, is less helpful for while it acknowledges that we have a problem, it also contains a number of red herrings introduced by M. Ortoli: e.g. the pattern of the Budget is simply the result of common policies; resource transfers are neglibible when compared with the total size of Community GNP; those who complain about the effects of the Budget are failing to take into account important general benefits of Community membership. These unhelpful disclaimers, written into the paper at a late stage, are likely to be cited by those unsympathetic to the UK line when this paper is discussed in the Finance Council on 17 September. Nevertheless, the figures provide an incontravertible case that there is a major UK problem, and the paper acknowledges that the Financial Mechanism will not give us a significant level of refund to balance our excessive level of gross contribution and our lack of receipts.

3. Recent bilateral contacts have revealed a widening recognition of the existence of our problem, though a considerable reluctance to do anything significant about it. Present net recipients like the Netherlands who are in principle sympathetic have budgetary constraints and are concerned about the size of the bill arising from a solution. The Irish, in the Presidency, are theoretically disposed to be helpful, but are in fact apprehensive that any solution is likely to be damaging to their position as the major net recipient. The French are now ready to recognise the existence of the problem, but will be firm in defending their own interests. The Italians acknowledge that their problem is of a different kind (i.e. non-budgetary resource transfers): as far as the Budget is concerned, the Commission estimates that they will be major net recipients in both 1979 and 1980. However, they have made clear to us in recent bilateral contact at official

/level

level that they are keen to maintain an understanding with the UK. The problem will be finding adequate common ground to keep this alliance alive.

Foreign and Commonwealth Office
London SW1

10 September 1979

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CALL MR TUGENDHAT ON THE PRIME MINISTER: 13 SEPTEMBER

COMMON AGRICULTURAL POLICY

POINTS TO MAKE

1. (a) We must continue to keep the issue of CAP reform separate from the immediate UK budget problem. Clearly the two are related in that the CAP accounts for three-quarters of the Community budget. But our case for a more equitable financial arrangement stands on its own, as does the case for a reduction in the cost of the CAP.

(b) The first priority is to reduce the structural surpluses which are the main cause of the excessive cost of the CAP. The only effective means of doing this is to hold down the prices guaranteed to producers over a period so that they will fall in real terms with inflation. The price settlement this year was a useful first step. We need to continue this process until surpluses are eliminated.

(c) Milk is the most serious problem - it accounts for 40% of Community agricultural expenditure. This year's freeze on prices was a major step but production is still rising and further action is needed to cut the level of producers' support. Whatever the Commission propose, it is essential that they should not discriminate against the larger and more efficient producers; we could not accept such discrimination. Mr Tugendhat may argue that the UK did not accept the Commission's proposed producer co-responsibility levy in the last price negotiations. If so the Prime Minister could say that the UK was the only country to stand firm in support of a milk price freeze, and she could remind Mr Tugendhat that we told Mr Gundelach that, because of its discriminatory nature, it would have cost the UK more to accept the co-responsibility levy than to reject it.

(d) For sugar it is vital that the Commission seize the opportunity of the renegotiation of the Community regime to put forward proposals which will effectively reduce surplus production - currently running at more than one-quarter of Community consumption.

(e) The imminent exhaustion of own resources when the 1% VAT ceiling is reached should help to impose some discipline on the CAP. How does Mr Tugendhat best think this opportunity can be exploited?

/Defensive

Defensive

2. [If Mr Tugendhat suggests that UK is likely to be weak on CAP prices in future because the reduction in our MCA leaves us little scope to increase our prices through a green pound devaluation]

The strength of the pound makes no difference to our determination to control the cost of the CAP, and for it to operate in such a way that food importing countries like Britain do not have to pay a vast cost to subsidise less efficient agriculture in exporting countries.

3. [If Mr Tugendhat suggests that the UK was soft in the 1979 price fixing negotiations - an idea promoted by the Agricultural Commissioner Gundelach]

This is an absurd suggestion. We were firm in support of the Commission's proposals for price freezes in milk products - much the most important area and this was achieved. We would have preferred to see a price freeze on all products in surplus, but the eventual package achieved was in our view the best negotiable. We regard the Commission's estimate of the cost to the Community Budget of the price fixing (1300 mEUA or £880 million) as unrealistic. This high estimate arose mainly because the Commission, in presenting their Budget for 1980, had assumed receipts of 880 mEUA (£595 million) from a very heavy tax on milk producers which was contained in the Commission's original proposals but was never likely to be acceptable to the Council, in conjunction with a price freeze.

CALL BY COMMISSIONER TUGENDHAT ON THE PRIME MINISTER:
12 SEPTEMBER

COMMUNITY ISSUES: STAFFING

POINTS TO MAKE

1. Remind Tugendhat HMG concerned at imbalance against UK nationals in middle senior grades (A4-A7) of Commission: we ~~shall seek to improve position~~ whenever possible, eg. in implemention of Spierenburg proposals.

FACTUAL BACKGROUND

2. Tugendhat is Commissioner responsible for staffing of the Commission. Lord President has raised with him orally and in writing significant imbalance against UK nationals in middle/ senior (A4-A7) staffing grades of Commission (see attached table). Tugendhat recognises problem but offers little hope of immediate prospect for correction by appointment of external candidates. Increasingly Commission favour internal promotions rather than external appointments, except at most senior grades. While all recognise informally that balanced quotas need to be respected, in practice this is not always easy to achieve except for the top grades.

3. Report by Commission Internal Review Body (Spierenburg Committee) due to Commission 24 September. Body appointed by Commission end of 1978 to examine internal staffing and structure of Commission. Likely to recommend radical solutions, in particular, reduction number of Commissioners and Directorates General, and numerous detailed staffing changes aimed at improving internal career structure, mobility, rational use of personnel, etc. Implementation of proposals may be opportunity for UK to begin to rectify imbalance against us.

FOREIGN AND COMMONWEALTH OFFICE
10 September, 1979

Officials and temporary staff by nationality, category and grade

Situation at 31 December 1978

Administrative appropriations + research appropriations

Category and grade	FRG D	%	UK	%	F	%	It. I	%	BNL B	%	N	%	L	%	DK	%	IRL	%	Other	%	Total
A 1	7	16·3	7	16·3	8	18·6	8	18·6	6	14·0	3	7·0	1	2·3	2	4·7	1	2·3	—	—	43
A 2	24	16·7	22	15·3	30	20·8	26	18·1	16	11·1	12	8·3	5	3·5	5	3·5	4	2·8	—	—	144
A 3	74	19·9	55	14·8	68	18·3	64	17·3	45	12·1	27	7·3	11	3·0	11	3·0	14	3·8	2	0·5	371
A 4	189	25·1	81	10·8	137	18·2	137	18·2	116	15·4	51	6·8	20	2·7	4	0·5	11	1·5	7	0·9	753
A 5	174	21·8	81	10·2	119	14·9	220	27·6	90	11·3	47	5·9	20	2·5	22	2·8	17	2·1	8	1·0	798
A 6	70	17·6	53	13·3	75	18·8	85	21·4	64	16·1	19	4·8	8	2·0	13	3·3	7	1·8	4	1·0	398
A 7	47	13·7	66	19·2	87	25·3	50	14·5	40	11·6	14	4·1	5	1·5	19	5·5	12	3·5	4	1·2	344
Total A	585	20·5	365	12·8	524	18·4	590	20·7	377	13·2	173	6·1	70	2·5	76	2·7	66	2·3	25	0·9	2 851
B 1	112	20·6	21	3·9	110	20·2	85	15·6	113	20·7	51	9·4	37	6·8	9	1·7	2	0·4	5	0·9	545
B 2	161	22·4	22	3·1	132	18·4	134	18·7	160	22·3	67	9·3	31	4·3	4	0·6	2	0·3	5	0·7	718
B 3	122	21·1	48	8·3	85	14·7	128	22·2	125	21·7	32	5·5	16	2·8	14	2·4	6	1·0	1	0·2	577
B 4	51	10·5	33	6·8	65	13·3	135	27·7	123	25·3	40	8·2	10	4·1	11	2·3	8	1·6	1	0·2	487
B 5	34	13·8	19	7·7	27	10·9	45	18·2	70	28·3	17	6·9	15	6·1	12	4·9	7	2·8	1	0·4	247
Total B	480	18·6	143	5·6	419	16·3	527	20·5	591	23·0	207	8·0	119	4·6	50	1·9	25	1·0	13	0·5	2 574
C 1	105	13·2	8	1·0	101	12·7	272	34·3	218	27·5	43	5·4	42	5·3	3	0·4	1	0·1	—	—	793
C 2	193	13·3	10	0·7	154	10·6	484	33·3	472	32·4	57	3·9	80	5·5	1	0·1	2	0·1	2	0·1	1 455
C 3	96	10·1	57	6·0	95	9·9	189	19·8	339	35·5	43	4·5	55	5·8	34	3·6	32	3·4	15	1·6	955
C 4	28	7·1	33	8·3	24	6·1	103	26·0	129	32·6	12	3·0	27	6·8	25	6·3	11	2·8	4	1·0	396
C 5	9	4·3	32	15·2	9	4·3	40	19·0	65	31·0	2	1·0	25	11·9	16	7·6	9	4·3	3	1·4	210
Total C	431	11·3	140	3·7	383	10·1	1 088	28·6	1 223	32·1	157	4·1	229	6·0	79	2·1	55	1·4	24	0·6	3 809
D 1	18	8·1	1	0·4	10	4·5	111	49·8	67	30·0	7	3·1	9	4·0	—	—	—	—	—	—	223
D 2	1	0·8	3	2·5	1	0·8	67	55·4	42	34·7	—	—	6	5·0	—	—	—	—	1	0·8	121
D 3	5	4·1	6	5·0	5	4·1	46	38·0	34	28·1	2	1·7	20	16·5	1	0·8	1	0·8	1	0·8	121
Total D	24	5·2	10	2·2	16	3·4	224	48·2	143	30·8	9	1·9	35	7·5	1	0·2	1	0·2	2	0·4	465
LA 1																					
LA 2																					
LA 3	3	20·0	2	13·3	4	26·7	—	—	—	—	2	13·3	1	6·7	1	6·7	—	—	2	13·3	15
LA 4	38	25·0	15	9·9	27	17·8	23	15·1	19	12·5	24	15·8	2	1·3	4	2·6	—	—	—	—	152
LA 5	59	23·6	25	10·0	29	11·6	40	16·0	36	14·4	33	13·2	2	0·8	20	8·0	1	0·4	5	2·0	250
LA 6	22	10·9	42	20·8	9	4·5	34	16·8	45	22·3	18	8·9	—	—	24	11·9	4	2·0	4	2·0	202
LA 7	50	13·5	62	16·8	34	9·2	66	17·8	48	13·0	30	8·1	3	0·8	54	14·6	7	1·9	16	4·3	370
LA 8	11	10·7	31	30·1	6	5·7	17	16·5	13	12·6	4	3·9	2	1·9	12	11·7	2	1·9	5	4·9	103
Total LA	183	16·8	177	16·2	109	10·0	180	16·5	161	14·7	111	10·2	10	0·9	115	10·5	14	1·3	32	2·9	1 092
Grand Total	1 703	15·8	835	7·7	1 451	13·4	2 609	24·2	2 495	23·1	657	6·1	463	4·3	321	3·0	161	1·5	96	0·9	10 791
Local Staff	32	4·4	21	2·9	81	11·2	162	22·4	233	32·2	17	2·3	54	7·5	12	1·7	6	0·8	106	14·6	724