

SUBJECT

RECORD OF A CONVERSATION BETWEEN THE PRIME MINISTER AND
MR. CHRISTOPHER TUGENDHAT AT NO. 10 DOWNING STREET ON THURSDAY
19 FEBRUARY AT 1730 HOURS

Present:

Prime Minister	Mr. C. Tugendhat
Mr. M. Franklin	Miss L.P. Neville- Jones
Mr. M. O'D. B. Alexander	

* * * * *

The Prime Minister asked how the Commission was progressing in its thinking about Budget restructuring. It was essential that the Commission should stick to the agreed timetable. Their report had to be tabled during the Dutch Presidency and in time for consideration by the European Council in June. It would, however, be wrong to raise the subject in an unstructured way at Maastricht. She was determined to ensure that the 1% VAT ceiling was not breached. So was Chancellor Schmidt. She hoped therefore that the Commission would not be tempted by grandiose schemes involving an increase in the ceiling. It would be necessary to have a thorough look at all aspects of the Budget: proposals for reform of the CAP would not suffice.

Mr. Tugendhat said that he thought it would be helpful to begin by discussing this year's agricultural price fixing. The Commission's proposals seemed to him to represent a reasonable start. They represented a rate of increase lower than the rate of increase in own resources. This was not simply because the growth in own resources had been better than expected. The package was a balanced one and included sensible measures for savings. Britain's butter subsidy remained untouched. It was to be hoped that the Council of Ministers would not undo the Commission's proposals. If they did so, it would take the Community closer to the 1% ceiling and risk squeezing out the British refund in the third year.

Mr. Tugendhat said that his staff had recently completed their estimates for the 1980 outturn. It seemed likely that Britain's unadjusted contribution would be 1654 mua as opposed to

CONFIDENTIAL

- 2 -

the original estimate of 1784 mua. The figures for the Federal Republic would be a good deal worse than expected. Instead of a contribution of 1192 mua it seemed likely that their unadjusted contribution would be 1594 mua. This would undoubtedly affect German attitudes. France's position seemed likely to be better than expected. Their unadjusted receipts were likely to be 441 mua. This would mean that even after the British refund had been paid, they would remain net beneficiaries. Looking forward to the 1983 Budget, Mr. Tugendhat said that the unadjusted British contribution seemed likely to be well over 2500 mua. It was also apparent that the 1983 Budget would be very close indeed to the 1% ceiling. Britain's partners would be looking at the question of the third year refund with this point much in mind.

The Prime Minister said that she would not be prepared to entertain any arguments about the British refund. If there were any question of the refund being "squeezed out" she would simply withhold an appropriate sum. As regards the 1% VAT ceiling she would stand firm with the Germans. It was essential that the restructuring discussions should produce a fair deal for the Germans. The present arrangements were producing a situation which was as unacceptable to the Germans as to the United Kingdom. This could have serious implications for the future of the Community. Those who were at present net beneficiaries would have to accept that the existing situation could not continue.

Mr. Tugendhat indicated that he took the point. He asked when the Prime Minister intended raising the question of Britain's third year refund. Did she, for instance, intend to wait until the European Council meeting in November? Whenever action was taken it was essential that there should be close liaison with Mr. Tugendhat's staff. HMG should keep itself absolutely up to date with the developing situation. The Prime Minister said that the November Council might be too late. If necessary the issue could be pursued in the Council of Ministers. Mr. Franklin commented that it would be important not to raise the issue too soon lest we cast doubts on the restructuring exercise as a whole.

/ Mr. Tugendhat

CONFIDENTIAL

Mr. Tugendhat said that he hoped it would prove possible to avoid an accumulation of problems within the Community. It would be very helpful if it were possible to do some kind of deal with the French which included agricultural prices. The Prime Minister referred to the reaction of farmers' representatives in this country to the Commission's price proposals and observed that the French farming industry, which would get a 7% price increase plus national aids, seemed to have less cause for concern. Mr. Tugendhat said that he hoped the Commission would take action against the French under Article 93. The Commission had had no option but to propose a reduction in the positive MCAs. Had they not done so there would have had to have been a much larger price rise.

Turning to the question of own resources, Mr. Tugendhat said it would be very difficult for the Commission if they had to try to find a solution to the British budgetary problem while opposing any increase in own resources. It would be untenable for him, as Budget Commissioner, to close off that option. The Prime Minister said that it was closed. Mr. Tugendhat said that he accepted the Prime Minister's position. He was not asking her to resile from it. But he thought that it would be wise not to take too strong a position against any increase in own resources. It was necessary to think of the position of other Member States. If HMG were too openly hostile, it would make it difficult to look at other ideas for resolving the problem. At present there was a willingness to look at a number of possible approaches. The Prime Minister repeated that it would be necessary to think constructively. In particular, it would clearly be necessary to have a redistributive mechanism in place of the present miscellany of policies. Nonetheless, she was not prepared to shift her position on the 1% ceiling. Nor was she prepared to give the appearance that her position had moved. Mr. Tugendhat, taking note, commented that we could not necessarily rely on the support of the French in defending the ceiling. The Prime Minister said that since it appeared the French might after all be net recipients even after payment of the UK refund, she could understand this.

/ Turning

CONFIDENTIAL

- 4 -

Turning to the Commission's implementation of its mandate on restructuring, Mr. Tugendhat said that it was still too soon to say what kind of report would be produced. He was certain, however, that the report would be produced in good time for discussion before the June Council. As regards its content, there was encouraging willingness within the Commission to think adventurously, at least about the CAP. It seemed to him that there would be a choice between the production of a report containing fully worked out, but probably rather superficial, proposals and a report containing more radical but less fully elaborated ideas. The Prime Minister thought that the latter approach sounded too tentative. The report should contain definite proposals on two or three different patterns. The Commission still had three months in hand: this should be sufficient to do a thorough job. She hoped that time would not be wasted on extensive analytical work or a "Royal commission" approach. Surely the main options were already clear?

Mr. Tugendhat said that they were not clear to everyone. There would certainly be a trade off between the innovative content of the proposals and the degree to which they were worked out.

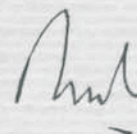
Mr. Franklin argued that what mattered was that the propositions produced by the Commission should not fall below the measure of the problem. The Prime Minister and Mr. Tugendhat agreed.

Mr. Tugendhat suggested that if the British Presidency was to be a success, Ministers should be seen to be giving Community affairs a high priority; and they should coordinate their work closely with that of the Commission. He also considered that there were two essentially presentational measures which, if taken, would be helpful. A visit from the Prime Minister to the European Parliament in July to report on the June meeting of the European Council would be very well received. So would the appointment of a junior Minister with specific responsibility for relations with the European Parliament. The Prime Minister took note.

The discussion ended at 1815 hours.

20 February 1981

CONFIDENTIAL



CONFIDENTIAL

055

file



cc: HMT
MAFF
Co

10 DOWNING STREET

From the Private Secretary

20 February 1981

EURO. POL

CALL BY MR. CHRISTOPHER TUGENDHAT

As you know, Mr. Christopher Tugendhat called on the Prime Minister yesterday evening. I enclose a record of the discussion.

I am sending copies of this letter and its enclosure to John Wiggins (HM Treasury), Kate Timms (MAFF) and David Wright (Cabinet Office).

M. O'D. B. ALEXANDER

Francis Richards, Esq.,
Foreign and Commonwealth Office.

CONFIDENTIAL

055