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PRIME MINISTER

                         Community Affairs

        You might wish to inform the Cabinet of the main outcome of your
<u>talks in Rome on 4th-5th October</u> with the Italian Prime Minister.
Signor Cossiga showed himself to be sympathetic to our budgetary objectives
but anxious also to ensure that the Dublin European Council did not send Italy
away empty-handed.   He wants a commitment that more of the Community
Budget should be spent on the regional and social funds and support for
Mediterranean agricultural producers, and less on price guarantees under the
CAP.   On Theatre Nuclear Force modernisation he was reasonably
encouraging, though he was worried about the timing of NATO decisions.

2.   The <u>Chancellor of the Exchequer</u> might be invited to report on the
second and final round of discussions at the 15th October Finance Council of
the Commission's Reference Paper on the <u>Budget problem</u>.   The Germans
and others stressed the need to build on the existing Financial Mechanism;
the French were predictably negative.   The Commission agreed to produce
their proposals for a solution in good time before the 19th November Finance
Council.   You will be talking to Mr. Roy Jenkins on Monday; and OD will be
discussing the budget question again on 24th October.

3.   The <u>Minister of Agriculture</u> will wish to report on the <u>sheepmeat</u>
discussions at the 15th-16th October Agriculture Council, at which he secured
the backing of all seven other member states and the Commission for pressing
France to comply with the European Court ruling condemning her import
restrictions on British lamb and mutton.   Agriculture Ministers are to hold a
special meeting in the margins of the 29th-30th October Fish Council to take
forward the long standing discussions on a possible sheepmeat regime.
OD(E) will consider later on 18th October what tactical use can be made of
the sheepmeat lever in the Budget context; and Mr. Walker plans to clear
his detailed line for the special sheepmeat meeting in OD(E) next week.

                                                    John Hunt

17th October 1979