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Treasury Chambers, Parliament Street, SW1P 3AG
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PRIME MINISTER

COMMUNITY BUDGET AND LUXEMBOURG COMPROMISE

As you and the Foreign Secretary were otherwise engaged this morning, I chaired an informal meeting of Ministers to discuss the line that Ministers should take in public between now and the OD meeting on Friday to decide the Government's response to the over-riding of our veto in the Agriculture Council yesterday. Peter Walker and Douglas Hurd were present. Peter Walker explained the structure of his statement to the House this afternoon and we agreed that, in response to questions about the future of the Luxembourg compromise, he should say that a very serious situation had arisen in the Community and that the Government would be considering its attitude. On the budget he could report to the House the facts about the state of the present negotiations, namely that the Commission made an informal proposal to apply the 30 May agreement to 1982 and that the UK had responded with revised proposals which were now being considered by the Commission.

2. At OD on Friday you will wish to consider whether we should continue, and aim to complete, the negotiations on the application of the 30 May agreement to 1982 or whether to break off that negotiation and switch back to a search for a longer-term solution. My meeting agreed that, if the first option - which we favour - was to stand any chance of success, the ground would need to be very carefully prepared in advance with the Commission, who in turn would need to prepare the ground with the Germans and the French. Sir Michael Butler proposes that as the first step in

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this process he should arrange a meeting with Monsieur Thorn, Monsieur Davignon and Mr. Tugendhat on Friday evening. As tomorrow is a public holiday in Belgium (Ascension Day) he will need to make the arrangements this afternoon.

3. In order to keep our options open, my meeting agreed that Sir Michael Butler be asked to go ahead, without prejudice to the line that he would take at his talks on Friday evening. Instructions to this effect will be sent to him this afternoon if you agree.

4. I am sending copies of this minute to the Foreign and Commonwealth Secretary, the Minister of Agriculture, the Minister of State, Foreign Office, and Sir Robert Armstrong.

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G.H.

19 May 1982

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