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G. R. D.

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PRIME MINISTER

THE LUXEMBOURG COMPROMISE AND NEXT STEPS ON THE BUDGET

I am afraid that I shall be unable to attend tomorrow's meeting of OD.

I agree with the broad approach of Francis Pym's Memorandum, OD(82)39. But the plain fact is that we are unlikely to get much satisfaction from the Community so long as it continues to be dominated by the Franco-German axis. Meanwhile, we have to make the best of a bad job.

To the extent that the Luxembourg Compromise was undermined at the Agriculture Council on 18 May, France (and hence the axis) and a number of other Member States will be anxious to reaffirm it as quickly as possible. It is too important to them to leave uncertain. It is equally important to us, and I agree that we should seek to have it codified and entrenched as Francis suggests.

I agree, too, that our immediate aim must be to secure a satisfactory solution of the Budget problem for 1982, along the lines of the 30 May agreement. This might well be easier in the immediate aftermath of the events of 18 May; a number of Member States (and some of the Commission) will be reluctant to press us too far at present, particularly if they can be made to appreciate the likely effect on public opinion here in relation to the crisis in the South Atlantic. Some Members may even show a hint of contrition if we for our part behave with restraint.

But there remains the Budgetary problem for subsequent years and this is the main issue to which, I believe, we must now address ourselves. We must also recognise that Budget restructuring, however desirable and helpful in the long run, cannot solve the financial problem in the medium term. For that there must be a financial solution, along the lines we have been seeking hitherto.

Our only lever to date has just crumbled in our hands. Although the Luxembourg Compromise will no doubt survive, its form will be changed and it will not be usable in future farm price settlements. We must therefore look for a fresh

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lever of which there is, I believe, only one available - the withholding of UK contributions. We should now work out how best to use this lever at the most appropriate time, perhaps in the New Year, in order to secure a satisfactory medium-term solution to the Budget problem.

I would hope that, in parallel, we will also try to devise some positive 'Communautaire' initiative of our own. I would be happy to look again at energy to see what might be offered in this area, which remains one of considerable interest to our Community partners.

I am copying this minute to Members of OD, the Minister of Agriculture, Fisheries and Food, the Secretary of State for Industry, the Attorney General and Sir Robert Armstrong.

S. D. →

Approved by the Secretary of State for Energy
and signed in his absence.

20 May 1982