



Treasury Chambers, Parliament Street, SW1P 3AG  
01-233 3000

Prime Minister.

16 May 1984

To be aware.

A J Coles Esq  
Private Secretary  
No 10 Downing Street

A.J.C.  $\frac{16}{5}$

Dear John,

COMMUNITY CREDIT RATING ON NEW YORK MARKETS

The Prime Minister will wish to know that a problem has arisen over the Community's credit rating and that we are currently engaged in a difficult negotiation with the Commission about the response to be given to the New York Credit Rating Agency, Standard and Poor's (S & P).

In brief, S & P have addressed a number of specific questions about the Community's ability to meet its guarantee obligations. In the absence of an early and satisfactory reply, there is a risk that S & P will down-grade the Community's present triple A ranking.

We have made clear our anxiety to maintain the Community's credit rating at the highest level and to co-operate in ensuring this. We see serious difficulties, however, in the Commission's proposed reply, to which they have sought agreement by all member states at short notice and without prior consultation (which would have been possible since the Commission have been in discussion with S & P for some time).

In essence, the Commission are seeking to assert unconditionally that the "overdraft" facility provided under Article 12(2) of Regulation 2891/77 could be used to call up sums required to meet guarantee obligations in excess of the 1 per cent VAT ceiling. We cannot accept this. To do so would clearly undermine our resistance to any increase in the 1 per cent VAT ceiling and to the special loans for which the Commission have asked this year.

We have, therefore, suggested amendments to the Commission's reply to relate its terms to the overall budgetary constraint. At the same time, to meet S & P's underlying concern, we have undertaken to subscribe to an additional statement to the effect



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*If we agree that we have cut the ground for negotiations from our own feet*

that in the unlikely event of the Article 12(2) arrangements not being sufficient to meet a Community guarantee obligation, member states would take the appropriate steps to meet any such obligation. We are also proposing that urgent consideration should be given to the precise action that would be necessary in such circumstances; some limited amendment - that does not prejudice the 1 per cent ceiling - to the existing Regulation may be necessary.

Although the Commission are taking the high-handed view that no amendments can be accepted and that only the UK is causing problems, we have established that both the German (fully) and Dutch (in large measure) Finance Ministries share our concern. At our request, they have instructed their representatives in Brussels to concert their position with us. We hope, therefore, that, with their support, we shall be able to secure amendments to the Commission's reply on the lines we have proposed. If not, we shall have to find a way of disassociating ourselves from the Commission's reply. A fall-back possibility would be a strong entry - with as much support as we can muster - in the Council minutes, and we are giving contingency thought to this.

I will keep you in touch with further developments.

I am copying this letter to Roger Bone in the FCO.

*Yours ever,  
Aldrich Simpson*

Private Secretary

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Treasury Chambers, Parliament Street, SW1P 3AG  
01-233 3000

Prime Minister.

22 May 1984

To note.

A J Coles Esq  
10 Downing Street  
LONDON  
SW1

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Dear John,

**COMMUNITY CREDIT RATING**

During Cabinet last Thursday, the Chancellor reported to colleagues that Standard and Poor had been questioning the Community's credit rating in New York and that the form of reply proposed by the Commission was not satisfactory, especially in that it implied that the Commission had unlimited authority to overdraw funds under Article 12.2 of Regulation 2891/77. It was agreed that, in order to protect the UK's position in relation to the ceiling on the Community's own resources it should be made clear that the Commission's power to overdraw in excess of the 1 per cent ceiling was confined to honouring the Community's loan obligations.

The Prime Minister will wish to know that we have gained our essential points and have been able to ensure that our negotiating position in the main budget negotiations is entirely protected, despite the little support we received from other states.

We have obtained an agreed entry in the minutes which makes clear that the Commission's ability to overdraw its Accounts under Article 12(2) of Regulation 2891/77 beyond the ceiling on the Community's own resources is restricted to the extreme case of a loan default. Moreover the letter to Standard and Poor has also incorporated an appropriate reference. The Commission now have no grounds for interpreting Article 12(2) as giving any general or unlimited power to draw on funds beyond the 1 per cent VAT ceiling. Its powers under that Article have been appropriately circumscribed.

The Chancellor believes that this outcome has safeguarded our position fully.

I am copying this to Roger Bone at the FCO.

Yours ever,

MISS J C SIMPSON  
Private Secretary



23 May 1984

Community Credit Rating

Thank you for your letter of 22 May,  
the contents of which the Prime Minister  
has noted.

AJC

Miss J.C. Simpson,  
H.M. Treasury.

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