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Prime Minister
CDP 6/7

Qz.03814

MR POWELL

IMPLEMENTATION OF THE FONTAINEBLEAU AGREEMENT: REVISED OWN
RESOURCES DECISION

The Commission has now formally proposed the text of the revised Own Resources Decision implementing the Fontainebleau agreement. In all important respects it matches what the Prime Minister said in presenting the agreement. In particular, the text includes:-

(i) the systematic correction of the budget inequity (refund of 66 per cent of the United Kingdom's VAT share/expenditure share gap on a payments basis) in a form which will continue unless there were a unanimous decision of member states and their parliaments to alter it;

(ii) an increase in the VAT ceiling to 1.4 per cent but no reference to 1.6 per cent.

The juridical effect of (i) and (ii) is that the United Kingdom has a veto on any further increase in the VAT ceiling and on any proposal to change the system of budget correction. If adopted in this form the revised Own Resources Decision would ensure that, if there were a disagreement when the question was reviewed later, the 66 per cent refund and the 1.4 per cent VAT ceiling would continue. On the principle of "what we have, we hold", the United Kingdom's negotiating position would be markedly stronger than in the recent negotiation.

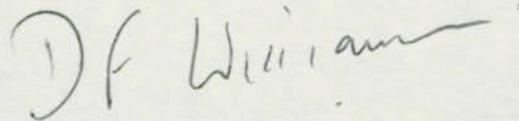
2. The preamble to the revised Own Resources Decision states that any member state bearing an excessive budgetary burden in relation to its relative prosperity should benefit from a

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correction at the appropriate time but no member state other than the United Kingdom actually benefits, except that Germany's contribution to the United Kingdom refund is abated by one third and the resulting cost is passed on to the remaining member states other than the United Kingdom. This is in line with the Fontainebleau text which in this respect was more favourable than the earlier Brussels text.

3. The Commission proposes that the revised Decision should enter into force on 1 October 1985 and thus be applicable to Community spending in 1985. In consequence, they also propose that the United Kingdom's 1984 ad hoc refund of 1000 million ecu should be paid by deduction from our VAT contribution in 1985 after the revised Decision has entered into force.

4. I am sending copies to Janet Lewis-Jones (Office of the Lord President of the Council), Roger Bone (FCO), David Peretz (Treasury) and to Sir Robert Armstrong.



D F WILLIAMSON

6 July 1984



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cc R

10 DOWNING STREET

From the Private Secretary

MR. WILLIAMSON
CABINET OFFICE

Implementation of the
Fontainebleau Agreement:
Revised Own Resources Decision

Thank you for your minute of 6 July on this subject. The Prime Minister has noted it.

I am sending copies of this minute to Miss Lewis-Jones (Lord President's Office), Mr. Bone (Foreign and Commonwealth Office), Mr. Peretz (HM Treasury) and Mr. Hatfield (Cabinet Office).

(C.D. Powell)

9 July 1984

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TO IMMEDIATE FCO

TELEGRAM NUMBER 2275 OF 04 JULY 1984

INFO BRUSSELS, COPENHAGEN, THE HAGUE, ROME, DUBLIN, PARIS,
BONN, LUXEMBOURG, ATHENS.

NEW OWN RESOURCES DECISION AND 1984 SUPPLEMENTARY BUDGET

1. LEVER HAS TOLD US THAT THE COMMISSION AGREED TODAY ON A DRAFT OWN RESOURCES DECISION. THEIR CONCLUSIONS ON THE MAIN POINTS ON WHICH WE HAVE BEEN LOBBYING TUGENDHAT WERE:

- (A) PROVISION IN THE DECISION FOR MAKING 1984 REFUNDS THROUGH THE EARLY INTRODUCTION OF OWN RESOURCES IN 1985;
- (B) A DEFINITION OF VAT SHARES, AS REPORTED EARLIER IN THE WEEK TO FITCHEW, WHICH CLEARLY SPECIFIES A PAYMENTS BASIS;
- (C) A REFERENCE TO RELATIVE PROSPERITY IN THE PREAMBLE;
- (D) NO DEFINITION OF THE ALLOCATED BUDGET IN THE DECISION BUT A CROSS-REFERENCE TO AN IMPLEMENTING REGULATION WHICH WOULD CONTAIN A DEFINITION.

2. THE TEXT OF THE DRAFT OWN RESOURCES DECISION WILL PROBABLY BE SENT TO THE COUNCIL NEXT MONDAY. WE EXPECT TO OBTAIN A PRIVATE ADVANCE COPY TOMORROW.

3. THE COMMISSION ALSO AGREED ON A DRAFT SUPPLEMENTARY AND AMENDED BUDGET FOR 1984. THE FIGURES WILL BE BASED ON COM(84) 250 EXCEPT FOR A REDUCTION IN EXPENDITURE DUE TO THE GREATER THAN EXPECTED STRENGTH OF THE DOLLAR AGAINST THE ECU (100-150 MECU) AND SOME REDUCTION IN THE PROVISION FOR TURKEY AND STAFF COSTS. THE PROPOSAL MAY BE RELEASED ON FRIDAY.

4. THE COMMISSION AGREED ON THE TEXT OF A CONTINGENCY ARTICLE 235 REGULATION FOR FINANCING THE 1985 OVERRUN. THEY ALSO AGREED TO CERTAIN AMENDMENTS TO THEIR EXISTING ARTICLE 235 REGULATION FOR FINANCING THE 1984 OVERRUN. THESE WILL BE ISSUED AS A WORKING DOCUMENT RATHER THAN AS A REVISED PROPOSAL PENDING AN OPINION FROM THE PARLIAMENT.

FCO ADVANCE TO:-

FCO - RENWICK, FAIRWEATHER, WALL
CAB - WILLIAMSON, STAPLETON
MAFF - ANDREWS
TSY - UNWIN, FITCHEW, MORTIMER, HOPKINSON

BUTLER

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AS ADDRESSEES.

REPEATED AS REQUESTED

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