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Treasury Chambers, Parliament Street, SW1P 3AG
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FOREIGN AND COMMONWEALTH SECRETARY

**OUR 1984 ABATEMENT AND THE PROVISION OF
SUPPLEMENTARY FINANCE IN 1985**

I have been giving further thought to the best way of:

(i) securing our 100 mecu abatement for 1984. At Fontainebleau, it was agreed that this money should be paid in 1985 by abatement of VAT so as to avoid interference from the European Parliament;

(ii) providing a limited amount of supplementary finance in 1985. At the 2/3 October Foreign Affairs Council, you agreed with other Member States to meet the Community's additional budgetary requirements this year - including not only our 1000 mecu abatement, but an anticipated agricultural overrun of 1315 mecu. These issues will be on the agenda at this week's Anglo German Summit (which, as you know, I am not able to attend) and at the Foreign Affairs Council at the end of January.

Options

2. We are agreed that the ideal solution from our point of view, would be to provide for both supplementary finance and the UK abatement in a revised Own Resources Decision (ORD), which would be implemented once the ORD had been ratified by national Parliaments. In order to limit the amount of supplementary finance, the VAT ceiling for 1985 would be set, as the Irish Presidency proposed last October, at 1.2 per cent. It would then rise to 1.4 per cent from 1 January 1986, as agreed at Fontainebleau.

CONFIDENTIAL



3. The Germans, however, have steadfastly refused to bring new own resources into 1985. Unless they change their position in the next few weeks, it will not be possible to ratify the new ORD in time to obtain additional revenue before the Community runs out of money under the provisional twelfths regime. While we still need to maintain pressure on the Germans to change their position at the Anglo-German Summit later this week, we must plan on the basis that some other approach will be required.

4. The next best option seems to me to be an arrangement where we would provide for supplementary finance by way of a second IGA, while including our 1000 mecu abatement in the ORD. Although the Germans have recently said they would not accept an arrangement on these lines, there is a good chance that they could be persuaded to change their position. Tietmeyer has in the past indicated that they will be prepared to go along with an arrangement of this sort, and it should be possible to make the Germans face up to the fact that provision in a new ORD is the only way of implementing what was actually agreed at Fontainebleau, ie payment of our 1000 mecu by abatement of our VAT contributions in 1985. The main point to be made to them later this week is that the Fontainebleau commitment must be honoured. We would, of course, have to ensure that our contribution to the IGA was fully covered by the Fontainebleau mechanism.

5. I share the Prime Minister's view (Mr Flesher's minute to David Williamson of 27 December) that, while financing the 1985 overrun through a second IGA is not attractive in itself, it should not be excluded, as part of a package securing our 1000 mecu abatement. This option would be improved if we could secure agreement to the idea that the IGA should only be implemented by the Community as a whole once the ORD had been ratified and our abatement made. In practice, however, we are

CONFIDENTIAL



unlikely to be able to secure an agreement on these lines. What probably would be negotiable - and what I propose we should insist on - would be a repeat of the type of provision we had in the first IGA, whereby the UK would not be obliged to contribute its share of the IGA money until the ORD had been ratified and our abatement made.

6. It is, of course, possible that - notwithstanding what was agreed at Fontainebleau - the Germans will continue to resist any arrangement involving the implementation of the new ORD in 1985 even for effecting our abatement. In these circumstances, we need to consider what other options are available. The Germans have indicated that they would be prepared to provide for everything - ie both the agricultural overrun and the UK's 1000 mecu - in one large IGA. Presumably, our 1000 mecu would be paid as an off-budget, lump-sum cash payment. The problem with this idea is that it is most unlikely to be acceptable to other Member States. France, Belgium and Italy have already voiced their objections. They say they could not get the approval of their national Parliaments to a second IGA if nearly half the money was to be paid to the UK - though it is difficult to see why this is more objectionable to them than the converse is for us.

Tactics

7. As a matter of tactics, I think it would be most unwise for us at this stage to advocate a solution on these lines - we should stick as closely as possible to what was agreed at Fontainebleau. If the Germans propose it to us this week, we can say that it is inconsistent with the Fontainebleau agreement that the 1000 mecu should be paid by abatement of our VAT contribution; and that our impression is that it is unacceptable to other Member States.

CONFIDENTIAL



8. I understand that there has been some discussion in Brussels of the possible use of one or more Article 235 regulations to provide for either or both supplementary financing and our abatement. I am not attracted to the use of these regulations for revenue purposes, for the reasons we have discussed in the past. It is possible, however, that they could help secure early payment of our abatement if no other avenue is open. For this reason, it would probably be wrong to rule out their use completely at this stage.

9. I am copying this to the Prime Minister, Michael Jopling and Sir Robert Armstrong.

A handwritten signature, likely of the Chancellor of the Exchequer, consisting of stylized initials.

(N.L.)

16 January 1985

6 JUN 1985



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JRRARW
bcPC



10 DOWNING STREET

From the Private Secretary

21 January 1985

OUR 1984 ABATEMENT AND THE PROVISION OF
SUPPLEMENTARY FINANCE IN 1985

The Prime Minister has noted the Chancellor's minute of 16 January on this subject to the Foreign Secretary.

I am copying this letter to Colin Budd (Foreign and Commonwealth Office) and David Williamson (Cabinet Office).

(C.D. POWELL)

Miss Rachel Lomax,
HM Treasury.

A handwritten signature in dark ink, appearing to be 'JRP' or similar, located in the lower right quadrant of the page.

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