# The European Communities (Finance) Bill

## Research Paper 94/117

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The European Communities (Finance) Bill would give effect to the new Own Resources Decision, amending the arrangements for financing the European Community budget as set out in the 1988 Own Resources Decision.

Sections I, II and III consider the background to the present Own Resources Decision and some of the issues surrounding its adoption and implementation.

Sections IV and V provide a wider discussion of the financing of the European Community as a whole. They also look at the net contributions of member states and those of the UK in particular.



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# I Introduction: The "Delors II" Package and the Edinburgh Agreement

A general debate on the future of the European Community budget was initiated in early 1992 by Commission proposals known as the "Delors II" package. The debate was founded on the need to provide the financial framework for realising the Community's greater internal and external policies following the successful conclusion of the Treaty on European Union ("the Maastricht Treaty"). The future financing of the Community was however constrained by a number of factors: the economic recession at the time; the poor state of national finances (this was a time when public sector deficits in many countries were increasing); and the somewhat hesitant public opinion in some member states surrounding the issue of ratifying the Treaty. The journal *European Economy* clarifies the relationship between the Treaty and the plans for the future of the budget:

> "As it [the Treaty] contains little or no provisions with a clearly quantifiable budgetary incidence, the Treaty did not entail any automatic or obligatory financial consequences. Thus, one cannot consider the agreed increase in the budget from now until 1999 to be the 'invoice of Maastricht' although the media often presented it in this manner."[1]

The financial perspective for the period 1993 to 1999 agreed at the Edinburgh European Council lays the basis for the expenditure of the Community until the end of the century. Overall, it was envisaged that the total appropriations for commitments would increase by 22% in real terms from 69.2 billion ECU in 1993 to 84.1 billion ECU in 1999 (in constant 1992 prices). This increase will not be spread evenly across all areas of expenditure though, as the table below shows.

Table 1
**Financial Perspective 1993 to 1999**
**Appropriations for Commitments**

| | million ECU - 1992 prices | | |
|---|---|---|---|
| | 1993 | 1999 | % change |
| Agricultural Guideline | 35,230 | 38,389 | 9% |
| Structural Operations: | 21,277 | 30,000 | 41% |
| Cohesion Fund | 1,500 | 2,600 | 73% |
| Structural Fund | 19,777 | 27,400 | 39% |
| Internal Policies | 3,940 | 5,100 | 29% |
| External Action | 3,950 | 5,600 | 42% |
| Administrative Expenditure | 3,280 | 3,900 | 19% |
| Reserves | 1,500 | 1,100 | -27% |
| Total Appropriations for Commitments | 69,177 | 84,089 | 22% |
| Appropriations for payments | 65,908 | 80,114 | 22% |
| Appropriations for payments (% of GNP) | 1.20 | 1.26 | |

*Source: Conclusions of the Presidency of the Edinburgh European Council, December 1992; Annex 1 to Part C.*

1 European Economy No. 53 1993, p25

## II The New Own Resources Decision

The Edinburgh European Council had asked the Commission to prepare a new Own Resources Decision (ORD) incorporating the agreed changes for the Council to approve and recommend for adoption in all member states by 1995[2]. The agreement seeks to make the following changes to the calculation of own resource payments:

- to increase the own resource ceiling from 1.20% of Community GNP now to 1.21% in 1995 and by stages to 1.27% in 1999. Based on expected levels of GNP a ceiling of 1.27% would increase potential revenue by some £4 billion by 1999 compared with the current ceiling of 1.2%;

- from 1995 the ceiling on the uniform rate of VAT would be reduced from 1.4% to 1% of the value of the notional VAT base;

- it was agreed that the VAT base would be capped at 50% of GNP rather than the present 55%. For the four poorest member states - Greece, Portugal, Spain and Ireland - the cap of 50% on GNP would be introduced in 1995. For the other member states the reduction will be phased in between 1995 and 1999;

- no change in the UK abatement[3,4].

The overall effect of the changes is to increase the aggregate level of own resources but to reduce the importance of the VAT-based resource in favour of the GNP-based fourth resource. As a result of the changes, contributions will become more income-related. An EC Finance Bill to give parliamentary approval for the new Own Resources Decision made at the Edinburgh Summit in 1992 was published on November 18th 1994 and will receive its second reading on November 28th.

The UK will tend to make higher gross contributions due to the raising of the ceiling but will benefit from the shift to GNP-based contributions. In both cases the effects will be ameliorated by the operation of the UK abatement. The effect of the new Own Resources Decision on the UK will depend on the total size of the EC budget and the precise pattern of expenditure over the next five years. However, it is expected to add around £75 million to the UK's net contribution in 1995/96, rising to around £250 million a year by the end of the decade, in comparison to what the net contribution would have been under the existing Decision of 1988[4].

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[2] Conclusions of the Presidency, Edinburgh, 12 December 1992, Part C, A(v)
[3] HM Treasury Press Notice, 122/94 "EC Finance Bill: Chancellor writes to MPs"
[4] Bill 1 of 1994/95; Explanatory and Financial Memorandum, paragraph 4

# III Implementing the Edinburgh Agreement

## A. The draft Own Resources Decision: background

The proposal for a Council decision to replace Council Decision 88/376 on the system of the Communities' own resources[5] was accepted by all member states, including Britain. It was debated in Standing Committee B on 15 December 1993. The revised proposal, 5474/94, took account of the Opinions of the European Parliament and the Economic and Social Committee (ECOSOC) but did not appear to reflect the changes the Council had already agreed to in the original proposal or the Council's view of the EP and ECOSOC Opinions.

The British Government objected to the amended proposal on several grounds:

- it gave the impression that the present own resources system was in some way transitory;

- it suggested that the power to change the own resources ceiling lay with the Council and the EP whereas the final say rests with the member states under Article 201 of the Treaty of Rome;

- the Commission had accepted an EP amendment that would allow the Council and EP as budgetary authorities to adjust the upper limit of expenditure commitments without amending the ORD which would mean a shift in power from the member states to the Community institutions, a move which had not been agreed at Edinburgh. The proposed changes would therefore alter the balance of power between member states and Community institutions.[6]

Discussion continued in the Council of Ministers, but on the basis of the original proposal and not the amended one which the Council had considered and rejected. The text that was about to be agreed when Italy lodged its political reserve was more in line with the original one and so would have been acceptable to the British Government.

## B. The Italian Objection

The proposal was blocked for several months by Italy over a dispute concerning milk quotas. The milk quota issue was not directly linked to the ORD and the Italian action in stalling progress on the latter was described as "hostage-taking in EU decision-making"[7]. Some commentators also compared Italy's action with British tactics in delaying agreement on enlargement of the Union to include the four EFTA applicants unless the rules on Qualified

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[5] EC Draft 9298/93

[6] Treasury Explanatory Memorandum, 14 April 1994, on amended proposal for a Council Decision replacing Council Decision 88/376/EEC; EC draft 5474/94.

[7] *Financial Times*, 29 March 1994.

Majority Voting (QMV) were changed. However, the British protest was linked to enlargement and the QMV rules had to be changed in any case, so the comparison is somewhat flawed. A comparison might be made, however, with the French refusal to adopt legislation allowing for extra European Parliament seats until the site of the new EP building in Strasbourg was guaranteed.

The Italian objection could be summed up as follows: Italy did not agree with the Commission's view that it not done enough to comply with an agreement to cut its excess milk production from 11.5m tonnes down to its permitted quota of 9m tonnes, in exchange for which it would get a backdated increase in quota of 0.9m tonnes. According to the Commission, Italy was still 350,000 tonnes short of the approximately two-thirds reduction it had to make in its milk output.

Italy objected to being fined by the Commission for exceeding its milk quotas. Although the Agriculture Council had not settled the problem of last year's fines on Italy (and to a lesser extent on Spain), it agreed to increase Italy's milk production quota for the present and future and referred the matter to the "appropriate bodies", ie the General Affairs Council or ECOFIN. The Chancellor Kenneth Clarke described the history of the milk quotas issue in his statement on the results of the ECOFIN Council on 21 October 1994:

> EC Finance Ministers met in Brussels on Friday 21 October to discuss the own resources decision and Italian and Spanish milk disallowances.
>
> Italy, and to a lesser extent Spain and Greece, faced disallowance due to their failure to fine fanners who had exceeded EC milk quotas over the period 1989-93. Italy and Spain claimed that this was unfair, as their national quotas had been set too low to begin with. In 1992, it was agreed at a Council of Agriculture Ministers to increase Italian and Spanish milk quotas for 1993-94. Subsequently, in the course of clearing the EAGGF accounts for 1989 and 1990, the Commission decided to disallow only the amounts which would have been payable by Italy and Spain if they had had in those years the extra milk quota which had been awarded them for 1993-94. It indicated that it intended to do the same for 1991, 1992 and 1993. This would have resulted in Italy and Spain paying roughly half the amount for which they were liable at the outset.
>
> The United Kingdom objected to this and brought proceedings before the European Court of Justice on the grounds that the Commission had exceeded its competence by backdating quota, a power which could only be exercised by the Council of Ministers. Italy and Spain also began ECJ proceedings on the grounds that the disallowance decisions were still excessively harsh and claimed that they should make no further repayments at all.
>
> Even had we ultimately won on all aspects of our ECJ cases, on which judgment was still two years distant, the level of the fine would have been a matter for the Council to determine on the basis of a proposal from the Commission. There is no reason to believe the Commission would then have produced any different proposal from the one they had originally made. Therefore Italy and Spain would only have paid roughly half of the penalties for which they were theoretically liable even if we had won our cases in the ECJ on all points.
>
> I therefore negotiated a settlement which resulted in Italy and Spain agreeing to repay much higher sums to the Community budget than they would have paid if we have not brought our

> action in the European Court or if we had allowed our action before the Court to take its course to a possibly successful conclusion over the next two years.
>
> Ecofin on Friday agreed to increase total disallowance from the Commission proposal of 2-1 billion ECU or 16 billion to 3.2 billion ECU or £2-5 billion--an increase of 1-1 billion ECU or £860 million on the level of disallowance fixed by the Commission. This is the largest agricultural fine even levied in the history of the European Community. Payment will start in 1995[8].

Compromise proposals were put forward at the Agriculture Council on 21/22 June 1994. These were unacceptable to Britain, the Netherlands, France and Germany, and Italy's position continued to delay consensus on the text of a definitive ORD. While this remained the position, the 1995 budget could not exceed the ceiling of 1.2 per cent of GNP, although the cuts made by the Council to the draft budget for 1995 would make it possible to stay within the ceiling.

## C. The Spanish Complaint

Another complaint emerged from Spain and threatened to delay the adoption of a Decision. As with the Italian matter, it had no direct links to the ORD itself. The Spanish Government threatened not to ratify the EU Accession Agreement allowing applicant states to join the Union in 1995 unless the decision to raise the Union's revenue ceiling as agreed in Edinburgh was legally secure. This would also have delayed the appointment of the new Commission to include Commissioners from the new member states. Spain was particularly interested in securing substantial structural funding for its poorer regions from the Cohesion Funds provided by the Edinburgh decision.

This situation, in which member states were blocking the adoption of one measure in order to delay the adoption of legislation on a different matter, threatened to bring important EC decision-making procedures (which are already complex and often protracted) to a standstill. The impasse could only be resolved if one or other of the objectors agreed to compromise in a matter unrelated to the ORD. In the end, this is exactly what happened.

## D. The Compromise Solution

ECOFIN made an urgent appeal to Italy to separate the milk quota issue from the ORD and the German Finance Minister Theo Waigel, who is currently President of ECOFIN, was optimistic that a solution could be reached for the EP to discuss Own Resources in plenary on 24 October.

The German Presidency was reluctant to be seen to be condoning Italy's behaviour with regard to the milk quotas issue, but was no doubt also reluctant to be seen to be ineffective

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[8] HC Deb 25.10.94 c510-511W

in finding a solution to the ORD impasse or jeopardising the entry of new member states to the Union. It called a special ECOFIN meeting on 21 October to approve a compromise agreement on Own Resources which would involve all parties agreeing to retract their objections. Thus, Italy would lift its veto on the budget ceiling, Britain and other member states would agree not to pursue their complaint against the Commission in the European Court of Justice and Spain would withdraw its block on ratification of the Accession Treaty.

The ECOFIN meeting on 21 October agreed a compromise solution to the crisis which provoked angry reactions from British Euro-sceptics who called it "one of the most appalling cases of international blackmail"[9].

The joint Council and Commission compromise was as follows:

- The Council agreed to extend its decision increasing milk quotas to the 1991/1992 and 1992/1993 marketing years. The Commission would make the relevant proposals.

- The Commission would revise its clearance decisions for 1989 and 1990, for which an annulment has been asked in the European Court of Justice, in such a way that the financial adjustments for the states concerned were based on the quotas allocated at the time and on the most reliable statistical data. It would take a similar decision regarding clearance for 1991.

- The appeals against the clearance decisions pending before the European Court of Justice will be withdrawn as being unnecessary in the context of this overall solution.

- The additional costs to be borne by the states affected by the increase in the financial adjustments for 1989 to 1991 shall be recovered in four equal payments from 1995 to the end of 1998 on the basis of the existing rules governing the clearance of accounts[10]

The result of the compromise is that the total amount of fines imposed on Italy and Spain for exceeding milk quotas in recent years are (in billions of Ecus) 1,905 for Italy and 1,285 for Spain, to be paid in four instalments in both cases. This, according to Kenneth Clarke, was better than pursuing the case in the ECJ, and meant a higher fine than the ECJ would have imposed (see above statement). He said: "This is the largest agricultural fine ever levied in the history of the European Community".

## E. The EU Procedure and Timetable

According to the Edinburgh Conclusions, the new ORD was supposed to be implemented by the end of this year to take effect on 1 January 1995. However, the Conclusions only

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[9] *Times*, 22 October 1994.
[10] *Agence Europe*, No 6342, 22 October 1994.

**recommend** that it be adopted this year to apply at the beginning of 1995.

The draft ORD had to be submitted to the European Parliament under the consultation procedure[11]. The EP was entitled to be consulted if the original proposal had been substantially modified. However, the EP did not have to vote on the draft and the Council was not obliged to alter the proposal to take account of any EP amendments. The final adoption of the ORD lay with the Council acting unanimously under Article 201 of the Treaty.

At the EP's first reading of the Draft Budget on 24 October, the Budgets Committee spokesman Terry Wynn (Socialist) welcomed the Council agreement on milk quotas but explained that "as the necessary ratification will have to pass through all twelve national parliaments, the process was unlikely to be completed before the middle of next year [1995]".

The new ORD[12] was adopted on 31 October 1994. It states in Article 11 that "The Decision shall enter into force on the first day on the month following receipt of the last of the notifications .... It shall take effect on 1 January 1995". Once the ORD has been adopted by member states "in accordance with their respective constitutional requirements", it will apply retrospectively from 1 January 1995. Ratification will probably not be achieved by all member states until around mid-1995 and in the meantime, the current ORD provisions will continue to apply and extra contributions will presumably be collected in arrears.

The EP's amendments and modifications to the Draft Budget will be considered at the Second Budget Council on 16 November and a revised Draft will then go to the EP for a second reading in mid-December.

## F. UK legislation

UK legislation is needed to include the Own Resources Decision within the scope of the European Communities Act 1972 as a "Community Treaty" as defined by the Act. This will make it effective in UK law and provide for financial obligations incurred under it to be met out of the Consolidated Fund. The ORD changes EC Treaty rules and resembles a treaty more than an item of EC legislation. It thus requires ratification in each member state according to its own constitutional provisions.

The Edinburgh timetable and implementation of the 1995 budget have of necessity been

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[11] Article 201 of the Treaty, which states:

Without prejudice to other revenue, the budget shall be financed wholly from own resources.

The Council, acting unanimously on a proposal from the Commission and after consulting the European Parliament, shall lay down provisions relating to the system of own resources of the Community, which it shall recommend to the Member States for adoption in accordance with their respective constitutional requirements.

[12] Council Decision of 31 October 1994 "on the system of the European Communities' own resources", 94/728/EC,Euratom, OJL 293, 12 November 1994.

delayed for the whole Community. For the UK, the delays in the Council of Ministers meant that a Bill could not be introduced during the last parliamentary session to authorise the increase in own resources to take effect on 1 January 1995. The Edinburgh agreement to increase Own Resources was discussed in 1993 in the context of the debate on Community finance during the passage of the European Communities (Amendment) Bill concerning the Maastricht Treaty[13].

This is not, of course, the first occasion on which the own resources regime has been amended. Previous decisions were also accompanied by similar UK legislation. The last EC (Finance) Act in 1988[14] took the form of a short Act to extend the meaning of "the Treaties" and "Community Treaties" in the European Communities Act 1972 to take account of the new Own Resources Decision and an additional Intergovernmental Agreement on the Community's general budget for 1988. The new Bill is drafted along similar lines. It amends the definition of the EC Treaties to include the own resources decision of 31 October 1994 and it repeals the European Communities (Finance) Act 1988.

The Bill does not refer to the Edinburgh agreement, which was expressed in the Presidency Conclusions of the European Council and is politically rather than legally binding. The Council Decision which the Edinburgh European Council had asked the Commission to prepare is designed to be legally binding once all the member states have notified the Council of Ministers that they have carried out their respective constitutional requirements - which in the case of the UK means the passage of the present legislation. Failure to adopt this Decision by one or more member states would delay or prevent its implementation.

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[13] HC Deb, 19 April 93, Volume 223, cc54-98
[14] cap 46, 1988.

# IV The Expenditure and Revenue of the European Community

## A. Expenditure

The expenditure of the European Community is divided into five sections relating to the five institutions: Parliament (Section I), the Council, including the Economic and Social Committee (Section II), the Commission (Section III), the Court of Justice (Section IV) and the Court of Auditors (Section V). Appropriations under sections I, II, IV and V are exclusively for administrative expenditure, as is Part A of the Commission section. Part B of the Commission section covers operating appropriations, and is divided into eight subsections, which are outlined briefly below.

Subsection B1 is the largest single item of expenditure, which contains all the guarantee expenditure for the European Agricultural Guidance and Guarantee Fund (EAGGF). This is the main vehicle for funding the common agricultural policy. B2 covers structural operations, including the operations under the European Regional Development Fund (ERDF), the European Social Fund (ESF), the Financial Instrument for Fisheries Guidance (FIFG) and, since 1993, the Cohesion Fund. Expenditure on some other regional and agricultural operations, and transport and fisheries, are also included under this heading.

Subsection B3 covers expenditure on youth policy, education, training and culture, whilst subsection B4 is concerned with the environment, energy and nuclear safeguards. The next subsection covers consumer protection, the internal market, trans-European networks, industry, and statistical information. Subsection B6 provides for expenditure on research and technological development.

The seventh subsection relates to external policies, covering a wide range of activities. These include financial, technical and economic assistance to developing countries and to the former communist states of Eastern Europe; initiatives for democracy and the protection of human rights, and emergency food and humanitarian aid. The final subsection, B0, contains the guarantees and reserves. The budget headings in this subsection will be used in the event of a country defaulting on a loan guaranteed by the Union, or to fund appropriations which had no legal basis when the budget was adopted but which are expected to be required during the course of the year.

The table overleaf outlines the amounts payable under each of these headings in respect of the 1994 general budget.

Table 2
**The 1994 EC Budget: Income and Expenditure**

| | | Million ECU | £ million (a) | % of total |
|---|---|---|---|---|
| A. Section III - Commission (Part B) | | | | |
| 1 EAGGF Guarantee Section | B1 | 37,465 | 28,290 | 53.5% |
| 2 Structural operations, other regional and agricultural operations, transport and fisheries | B2 | 21,529 | 16,257 | 30.7% |
| 3 Training, youth, culture, audiovisual, information and other social operations | B3 | 540 | 407 | 0.8% |
| 4 Energy, Euratom nuclear safeguards and environment | B4 | 174 | 132 | 0.2% |
| 5 Consumer protection, internal market, industry and trans-European networks | B5 | 464 | 351 | 0.7% |
| 6 Research and technological development | B6 | 2,555 | 1,930 | 3.6% |
| 7 Co-operation with developing and other non-member countries | B7 | 3,348 | 2,528 | 4.8% |
| 8 Repayments, guarantees and reserves | B0 | 320 | 242 | 0.5% |
| Section III Part B - sub-total | | 66,396 | 50,137 | 94.8% |
| *B. Section III - Commission (Part A)* | | 2,428 | 1,833 | 3.5% |
| Section III - sub-total | | 68,824 | 51,970 | 98.3% |
| *C. Sections I, II, IV and V (Other Institutions)* | | 1,190 | 898 | 1.7% |
| TOTAL EXPENDITURE | | **70,014** | **52,868** | **100.0%** |
| Miscellaneous revenue (titles 4 to 9) | | 516 | 390 | 0.7% |
| Appropriations to be covered by the own resources referred to in Article 2 of Decision 88/376/EEC; Euratom | | 69,498 | 52,479 | 99.3% |
| of which: | | | | |
| *Net agricultural levies (90%)* | | *921* | *696* | *1.3%* |
| *Net sugar and isoglucose levies (90%)* | | *1,118* | *844* | *1.6%* |
| *Net customs duties (90%)* | | *12,619* | *9,529* | *18.0%* |
| *VAT own resources at uniform rate* | | *35,931* | *27,132* | *51.3%* |
| *GNP own resources not including reserves* | | *17,378* | *13,122* | *24.8%* |
| *GNP own resources (reserves)* | | *1,530* | *1,155* | *2.2%* |
| TOTAL INCOME | | 70,014 | 52,868 | 100.0% |

*Source: Final adoption of the general budget for the European Union for the financial year 1994 (94/56/ECSC, EC, Euratom)*

Notes: (a) converted to sterling at rate prevailing at end of December 1993 (£1 = 1.3243 ecu)

## B. Revenue

### 1. Own Resources

The Community budget is currently financed almost exclusively by what are known as *own resources* as agreed by the European Council in June 1988[15]. These four *own resources* are as follows:

*Agricultural and sugar levies* - agricultural levies are charges on imports from non-Community countries of certain agricultural products to offset the difference between world and Community price levels. Charges are also levied on sugar producers to ensure that they contribute towards market support expenditure, and also to finance the storage cost equalisation system, which ensures a regular flow of sugar onto the market. In 1994 this resource will account for about 3% of the Community's own resources.

*Customs duties* - these derive from the application of the Common Customs Tariff to imports of goods from non-Community countries. In 1994 this resource will account for about 18% of the Community's own resources.

*VAT based contributions* - these are not a proportion of VAT receipts as some believe. VAT contributions are payments up to a level equivalent to 1.4% of a common, harmonised VAT base. This hypothetical base is, in turn, capped so as not to exceed 55% of any country's GNP.

The UK also receives an abatement under the Fontainbleau arrangement. The abatement is calculated through a rather complex formula which, in broad terms, is equivalent to 66% of the difference between, on the one hand, what we would have paid if the Community had been financed entirely by VAT and, on the other, UK receipts from the budget. The abatement applies only in respect of spending within the Community (and excludes expenditure outside the Community - mainly aid); and is deducted from the UK's VAT contribution a year in arrears.

In 1994 VAT based contributions will account for 52% of the Community's own resources.

*GNP based contributions ("the fourth resource")* - this is based on the application of a common rate to the aggregate GNP of all member states. It was introduced as a variable resource to ensure that revenue and expenditure balance in the budget, and is intended to cover the amounts not yielded by other budget revenue. In 1994 this resource will account for 27% of the Community's own resources but, as it is effectively a *top up* facility to make sure that income is sufficient to meet expenditure, this proportion can alter considerably from year to year.

In 1994 the UK is expected to pay some £173 million to the Community Budget under the

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[15] Council Decision 88/376

first of these headings, £2,025 million under the second, £4,319 million under the VAT-based resource (before abatement) and £1,971 million under the fourth. After a VAT abatement of £1,758 million and other adjustments in respect of VAT and GNP contributions for earlier years, our gross contribution stood at £5,445 million. Public sector receipts in the UK from EC funds amounted to £4,101 million leaving a net public sector contribution of around £1,344 million. In addition to these public sector funds, the private sector is expected to receive £430 million in 1994[16].

VAT and GNP based contributions are calculated on the basis of estimated data for the forthcoming year. Adjustments are made in later years to reflect outturn data, which may be different from the earlier forecasts because of changes in say economic growth and/or changes in exchange rates. At present there is a ceiling on own resources of 1.20% of Community GNP.

#### 2. Other Revenue

The vast majority of the European Union's revenue (99.3% in 1994) is obtained through the appropriation of own resources as described above. Other revenue is raised through the deductions of taxes and social security contributions from the salaries of Community officials; interest on late payments; fines; and revenue generated from the operations of the Community institutions (such as the sale of publications).

#### 3. Method of Payment

Own resources are usually paid to the Commission within two months of the entitlement being established. In the case of agricultural and sugar levies and customs duties, 10% is deducted to cover the member states' collection costs. VAT and GNP-based resources are paid every month when one-twelfth of the amount given in the budget for the year in question is transferred. An adjustment is then made after the year-end in line with the actual bases determined for that year[17].

## V Net Contributions

## A. The Twelve Member States

The EC budgets provide estimates of member states' gross contributions, but do not give a breakdown of each member state's expected receipts from that budget. This information only becomes available after the year in question, in the annual Court of Auditors' report on the

[16] Statement on the 1994 Community Budget, HM Treasury, March 1994; Cm 2486 (table 3)
[17] The Community Budget: the facts in figures. European Commission, 1994 (SEC (94) 1100 - EN)

implementation of the budget[18]. The table below shows member states net contributions for 1993.

Table 3
**Net contributions to the EC Budget 1993**

| Country | Own resources paid £m (b) | Payments received £m (b) | Net contribution Total £m (b) | Net contribution Per capita £ |
|---|---|---|---|---|
| Belgium | 1,864 | 1,911 | -46 | -5 |
| Denmark | 939 | 1,233 | -293 | -57 |
| Germany | 14,851 | 5,641 | 9,210 | 113 |
| Greece | 787 | 4,008 | -3,220 | -311 |
| Spain | 4,027 | 6,433 | -2,406 | -62 |
| France | 8,988 | 8,195 | 794 | 14 |
| Ireland | 442 | 2,288 | -1,847 | -519 |
| Italy | 7,991 | 6,804 | 1,188 | 21 |
| Luxembourg | 130 | 278 | -148 | -375 |
| Netherlands | 3,138 | 2,105 | 1,033 | 68 |
| Portugal | 708 | 2,661 | -1,953 | -209 |
| United Kingdom | 5,937 | 3,504 | 2,433 | 42 |
| Total of above | 49,804 | 45,060 | 4,744 | 14 |
| Unallocated (a) | na | 4,927 | .. | .. |
| Total budget | na | 49,986 | .. | .. |

Notes: (a) Expenditure on administration, aid, etc. which cannot be allocated to a member state.
(b) converted using average market exchange rate for 1993 (£1 = 1.2845 ECU)
*Sources: Court of Auditors Report for 1993 (advance copy)*
*Eurostat Demographic Statistics 1994, table B1*

As some payments (some administration, development aid, research, etc.) are not allocated to a member state, the average net contribution was around £14 per head[19]. In 1993 Germany was the largest net contributor in both absolute and per capita terms, with a net payment in excess of £9.2 billion. The UK was the second largest contributor in absolute terms, making a net payment of £2.4 billion in 1993. The other net contributors were Italy (£1.2 billion), the Netherlands (£1.0 billion) and France (£0.8 billion). The other member states were net recipients with Greece being the largest beneficiary (£3.2 billion).

The UK was the third largest contributor in per capita terms, with a net payment of £42 per head. Only Germany, the Netherlands, the UK and Italy made a net contribution in excess of £14 per capita. Greece - in absolute terms - and Ireland - in per capita terms - were the largest net recipients.

If the new Own Resources Decision is adopted, the UK is expected to drop down the list of

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[18] HC Deb 13.1.94 c246W

[19] The definition of net contributions here varies from that used in, for example, the UK Statement on the Community Budget.

net contributors on a per capita basis. As the Chancellor of the Exchequer stated:

> "In terms of net contributions per head, Germany already pays much more than we do and France and the Netherlands are expected to pass us by the end of the century. Italy will pay significantly more than in the past and will become a serious net contributor for the first time. And Austria (and Sweden and Norway if they join) will also be bigger contributors to the Community Budget than us."[20]

## B. The United Kingdom

Table 4 opposite shows the contributions to and receipts from the EC budget for each year since 1973. The UK has made a cumulative gross contribution of £76 billion since joining the Community; has received a cumulative abatement of VAT (negotiated by Mrs Thatcher at Fontainbleau) of £16 billion, and public sector receipts of some £35 billion. After refunds of £3 billion, the UK has made a cumulative net contribution of almost £22 billion since 1973 (all figures at cash prices).

The Chancellor of the Exchequer's Departmental Report[21] includes details of the UK's expected contributions to and receipts from the EC budget for the next three years. The table below outlines the cash plans to 1996/97. These estimates assume the implementation of the new Own Resources Decision from 1st January 1995 but are based on the current twelve-member Community.

Table 5

**Forecast Payments to EC Budget** *£ million, cash*

| | 1991/92 out-turn | 1992/93 out-turn | 1993/94 estimated out-turn | 1994/95 plans | 1995/96 plans | 1996/97 plans |
|---|---|---|---|---|---|---|
| Gross Payments | 6,129 | 6,970 | 8,961 | 7,411 | 9,500 | 10,258 |
| Public Sector Recipts | -2,757 | -2,810 | -4,295 | -4,166 | -4,385 | -4,494 |
| UK Abatement | -2,428 | -1,993 | -2,500 | -1,531 | -1,658 | -2,224 |
| Net Contribution | 943 | 2,228 | 2,166 | 1,714 | 3,458 | 3,540 |

*Source: Departmental Report of the Chancellor of the Exchequer's Departments, Cm 2517 table 11.1*

[20] HM Treasury Press Notice, 122/94 "EC Finance Bill: Chancellor writes to MPs"

[21] The Government's Expenditure Plans 1994/95 to 1996/97: Chancellor of the Exchequer's departments; Cm 2517 table 11.1

Between 1994/95 and 1995/96 the UK's net contribution after abatement and public sector receipts is planned to increase from £1.7 billion to £3.5 billion. This increase has been the subject of some recent media coverage[22], and also a certain amount of confusion. It is important to note that these increases are not solely a reflection of the provisions of the European Communities (Finance) Bill, and are *not* payments in respect of particular budgets; they show the expected cashflows to and from the EC over the next three financial years. For a number of reasons the net value of UK payments to the EC budget can vary considerably from year-to-year:

- there is a mismatch between the financial years in the UK and the Community (which works on a calendar year basis);
- there can be changes to the precise timing of payments between years;
- the UK's abatement is paid a year in arrears;
- VAT and GNP contributions are paid on the basis of forecast GNP and exchange rates and are adjusted in subsequent years in the light of outturn data.

Some of the large increase in net contributions between 1994/95 and 1995/96 can be attributed to these factors. There is, however, some underlying growth in the UK's contributions reflecting factors such as the strong growth of GDP in the UK in 1994 and 1995 relative to other member states and the new Own Resources Decision.

## C. Enlargement

At present the EC budgetary process is assuming a 12 member Community; however, it is hoped that Austria, Finland, Norway and Sweden will join the Union on 1 January 1995. (Member states have now passed the national legislation necessary to allow the admission of the four new countries. So far, Austria Finland and Sweden have held referenda which have all resulted in these countries being in favour of joining. Norway will hold its referendum on November 27th-28th.) In this case total spending under the budget will increase. As Austria, Norway and Sweden are expected to be net contributors to the budget and Finland is likely to be broadly in net balance, the net contributions of the existing member states, including the UK, will tend to be reduced. However, given the relatively small size of the applicants, the effects will modest.

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[22] See, for example, *Euro-sceptics plan fight on "£3.5 billion contribution"*; Guardian 10.8.94

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