



10 DOWNING STREET  
LONDON SW1A 2AA

*From the Private Secretary*

23 September, 1986.

**WHITE PAPER ON THE 1986 COMMUNITY BUDGET**

Thank you for your letter of 22 September about the White Paper on the 1986 Community Budget. The Prime Minister is content for the White Paper to be published as proposed.

I am copying this letter to the Private Secretaries to the Lord President of the Council, the Foreign and Commonwealth Secretary, the Chancellor of the Duchy of Lancaster, the Lord Privy Seal, the Minister of Agriculture, Fisheries and Food, the Chief Whip, and the Secretary to the Cabinet.

(C.D. Powell)

M.W. Norgrove, Esq.,  
HM Treasury.

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Prime Minister

Agree to publication  
of this White Paper?  
It is routine.

CDJ

22/9.

Treasury Chambers, Parliament Street, SW1P 3AG

Charles Powell Esq  
Private Secretary to the  
Prime Minister  
10 Downing Street  
LONDON SW1

22 September 1986

Dear Charles,

Yes sir

**WHITE PAPER ON THE 1986 COMMUNITY BUDGET**

The Treasury is committed by a past undertaking to the PAC to publish an annual White Paper summarising the Community budget, both after its adoption and after the outturn is known, together with an estimate of the UK's net contribution to it. We normally publish such a White Paper in March. With the delay in adoption of a legal budget for 1986, however, we are only now in a position to publish this year's White Paper. A draft text is attached.

The White Paper is unlikely to attract much press attention. One point that might just provoke some adverse publicity, although the figure was made public some months ago, is the high outturn for our net contribution to the Community budget in 1985, £1.8 billion. On the other hand, there are a number of positive points in the White Paper which we should be able to exploit if the opportunity arises. For example, the 1986 budget is the first to contain a VAT abatement for the UK determined under the Fontainebleau system. The figure for our abatement is 1900 mecu (nearly £1,250 million), and our rate of VAT after abatement is only 0.68 per cent, compared with 1.4 per cent for all other member states except Germany. Another positive point is the relatively low figure for our estimated net contribution to the Community budget in 1986 - £326 million. The main reason for this is the slippage into the first few days of this year of the payment of £439 million of our 1,000 mecu abatement which should have been paid in 1985; but the low figure is welcome nevertheless.

The Minister of State would like to publish the White Paper as soon as possible. Subject to any views which you or other copy recipients might have, he would like to aim for publication at the end of September or in the first few days of October.

I am copying this letter and the draft White Paper to the Private Secretaries to the Lord President of the Council, the Foreign and Commonwealth Secretary, the Chancellor of the Duchy, the Lord Privy Seal, the Minister of Agriculture, Fisheries and Food, the Chief Whip, the Secretary to the Cabinet, and the Chief Press Secretary at No 10.

Yours ever,

Mike Norgrove

M W NORGROVE  
Private Secretary

## THE 1986 BUDGET OF THE EUROPEAN COMMUNITIES

### Introduction

Following a recommendation in the 28th report, 1979-80 session, of the Public Accounts Committee, the Government agreed to present an annual statement giving details of each European Community budget, both after its adoption and after the outturn is known. This white paper, which is the sixth in the series, provides details of the 1985 and 1986 Community budgets as adopted, and the outturn for 1983 and 1984. The Community's budgetary terminology is explained in the annex.

2. In addition to providing a summary of the Community's budgets for 1983 to 1986, the statement provides information on the United Kingdom's gross and net contributions to the European Community budget in these years. The latest public expenditure white paper (Cmnd 9702-II pages 62-65) provides similar information, but on a UK financial year basis.

3. The 1986 budget is the first to allow for the new system for abating the UK's VAT contributions and the increase in the VAT ceiling from 1 per cent to 1.4 per cent agreed at the Fontainebleau European Council in June 1984. Following the accession of Spain and Portugal to the Community on 1 January 1986, it is also the first budget to provide for an expanded Community of 12 member states.

### 1986 Community budget

4. The 1986 Community budget provides for total expenditure of 35 174 million European currency units (mecu) (£22 930 million\*) in payment appropriations and 36 052 mecu (£23 502 million) in commitment appropriations. Compulsory expenditure amounts to 26 638 mecu (£17 365 million) for payment appropriations and 26 552 mecu (£17 309 million) for commitment appropriations. The amounts for non-compulsory expenditure are 8 536 mecu (£5 565 million) for payment appropriations and 9 500 mecu (£6 193 million) for commitment appropriations. The budget uses up virtually all available resources within the new 1.4 per cent VAT ceiling.

\* Paragraph 5 of the annex explains what exchange rate assumptions have been used for converting ecu figures into sterling.

### The legal dispute on the 1986 budget

5. The adoption of the budget was delayed because of a dispute between the Council and certain member states on the one hand and the European Parliament on the other. The dispute arose because the President of the Parliament adopted on 18 December 1985 a budget which included increases of 629 mecu (£410 million) in payment appropriations and 473 mecu (£308 million) in commitment appropriations above the levels agreed by the Council in its second reading budget of 27 November.

6. In the view of most member states, these additions were incompatible with the Treaty of Rome since the resulting budget breached the maximum rate provisions applicable to non-compulsory expenditure in Article 203 of the Treaty. The Council therefore decided on 20 December 1985, by 7 votes to 3, to bring an action before the European Court of Justice against the European Parliament under Article 173 of the Treaty. The United Kingdom, France, Germany, the Netherlands and Luxembourg also decided to bring separate national actions against the Parliament.

7. The United Kingdom also applied, successfully, for an interim measure order suspending implementation by the Commission of the disputed elements in the budget until the Court had given its substantive judgement. Under the terms of the order of 17 March 1986, the Court decreed that, pending judgement on the substantive cases, the Commission should implement the 1986 budget on the basis of the draft budget established by the Council on 27 November. The Court also ordered the Commission to refund the £18 million which the United Kingdom had already contributed on a without-prejudice basis towards the disputed part of the budget.

8. In its substantive judgement, delivered on 3 July, the Court found that the Parliament had exceeded its powers in adopting a budget for 1986 which made provision for non-compulsory expenditure, and a new maximum rate, at a level which the Council had not agreed. The Court concluded that the 1986 budgetary procedure remained incomplete and should now be completed in accordance with the Treaty.

9. Following the Court's ruling, the Budget Council met on 7 and 8 July under the UK Presidency to consider a new budget for the Community

for 1986. These discussions took account of a draft supplementary and amending budget put forward by the Commission on 20 May which proposed increases of 1 811 mecu (£1 181 million) in payment appropriations, 1 146 mecu (£747 million) in commitment appropriations and 500 mecu (£326 million) in the UK's abatement. On 10 July, the Council and the Parliament reached agreement on the new budget for 1986 which is summarised in this white paper.

10. Compared with the Parliament's December budget, the budget agreed on 10 July increased agricultural expenditure by 1 100 mecu (£717 million) and non-compulsory payment appropriations by 619 mecu (£404 million) but reduced non-compulsory commitment appropriations by 302 mecu (£197 million). The increase in agricultural expenditure was largely due to the exceptional circumstance of the abnormally rapid depreciation of the dollar, which had led to an increase in the gap between world agricultural and CAP support prices. The further increase in non-obligatory expenditure, which includes spending on the regional development and social funds, was required mainly to pay for commitments entered into in earlier years which were now coming forward for payment.

#### Commitment and payment appropriations

11. Tables I and IA show commitment and payment appropriations in the 1985 and 1986 budgets in ecu and sterling. The figures for 1983 and 1984 relate to outturn information and have been taken from the Court of Auditors' annual reports and the Commission's audited accounts. The outturn figures for 1984 differ from the provisional figures shown in last year's white paper (Cmnd 9633) because firm information is now available from the Commission.

12. As the tables show, the 1986 budget provides for agricultural guarantee expenditure of 22 112 mecu (£14 415 million), 62.9 per cent of the total. Regional development and social fund expenditure together make up 4 906 mecu (£3 198 million), 13.9 per cent of the total. Cooperation with developing and non-member countries, including food aid to these countries, accounts for a further 1 172 mecu (£764 million), 3.3 per cent of the total.

#### Community revenue and the United Kingdom's abatement

13. The Community's new Own Resources Decision entered into force

on 1 January 1986. This provides for an increase in the ceiling on VAT contributions to the Community from 1 per cent to 1.4 per cent. It also provides for the VAT abatement system agreed at the Fontainebleau European Council in June 1984. Under this system, the UK's VAT contributions to the Community in 1986 must be abated by 66 per cent of the difference between what we would have paid in 1985 if the whole of the Community Budget had been financed by VAT and our receipts from those parts of the budget which the Commission can allocate to member states (the so-called "allocated" budget which accounts for about 95 per cent of the total budget and includes nearly all items except overseas aid). The UK's abatement in the 1986 budget is 1 900 mecu (£1 239 million). Accordingly, our VAT contributions to the Community are being abated by some 158 mecu (£103 million) per month during the course of the current year.

14. Tables II and IIA show estimated gross contributions (after allowing for the UK abatement) to the 1986 budget. The figure for total Community revenue from levies and duties is 12 399 mecu (£8 083 million). Total VAT and GNP contributions are 22 468 mecu (£14 647 million).

15. The uniform, or average, rate of VAT is 1.2505 per cent. The highest rate of VAT in the Community (after allowing for contributions towards the UK abatement), and the rate paid by all other member states except Germany, is 1.39996 per cent, just inside the 1.4 per cent VAT ceiling. Germany's VAT rate is 1.33697 per cent. The UK's VAT rate after allowing for the Fontainebleau abatement is 0.67663 per cent. The UK's share of total VAT contributions is 10 per cent compared with 22.8 per cent for France and 27.4 per cent for Germany.

16. The UK's share of total contributions is 14 per cent. That for Germany is 26.5 per cent and for France 19.6 per cent.

17. The 1985 budget contained a flat rate VAT abatement for the UK of 1 000 mecu (£605 million), payable in respect of our contribution in 1984. £166 million of this was received by the end of December 1985. The balance, £439 million, was received in the first few days of January 1986. This 1 000 mecu abatement was the last of the ad hoc arrangements for offsetting our excessive net contributions to the Community budgets.

## Spain and Portugal

18. Spain and Portugal joined the Community on 1 January 1986. The Treaties of Accession were signed on 11 and 12 June 1985, and were subsequently ratified by the national Parliaments of all member states. Both the new member states benefit from transitional arrangements designed to allow them to adjust over a period of years to Community regimes and financing provisions. In 1986, for example, Spain will be refunded 87 per cent of its VAT contributions to the Community at the uniform rate, and Portugal will be refunded the same proportion of its financial contributions. The restitutions for Spain and Portugal in the new 1986 budget amount to 1 809 mecu (£1 179 million).

## Gross and net contributions by the UK

19. Table III gives figures for the UK's contributions to and receipts from the Community budget in the years 1983 to 1986. The figures for 1986 are estimates. The 1986 figures assume that our share of receipts from each of the main Community programmes will be as in the latest public expenditure white paper (Cmnd 9702-II). For consistency with that white paper, the same exchange rate for 1986 is used, £1=1.7 ecu. In contrast with the budget figures in tables I and II, the figures in table III are on a "payments" or "cash flow" basis - they represent the sums contributed or received by the UK during the years in question, and not necessarily the contributions and receipts associated with the budgets of the same years. The Community rules provide that budget expenditure appropriations may if necessary be carried forward to the following year.

20. On the assumptions outlined above, the UK's net contribution to the Community budget in 1986 is estimated to be £326 million (see table III). This compares with the estimate for 1986/87 of £796 million in the last public expenditure white paper (Cmnd 9702-II). The main reason why the calendar year figure is less than that for the financial year is that it takes account of the receipt in the first few days of January 1986 of £439 million of our 1000 mecu (£605 million) abatement payable in respect of our excessive net contribution in 1984. This receipt is not included in the financial year estimate.



21. Table III also contains a revised estimate of £1 808 million for our net contribution to the Community budget in 1985. This compares with the estimate of £1 212 million in last year's white paper (Cmnd 9633). The reasons for the abnormally high level of our net contribution during 1985 were set out in that white paper. The latest estimate is higher still for two main reasons. First, the earlier estimate assumed that we would receive by the end of 1985 all the 1000 mecu (£605 million) abatement payable in respect of our excessive net contribution in 1984; in fact, as explained above, only £166 million was received by the end of the year. Second, our share of Community expenditure (particularly FEOGA guarantee expenditure) in 1985 turned out lower than expected: our share of FEOGA guarantee expenditure fell from about 11½ per cent in 1984 to about 9½ per cent in 1985.

22. There are a number of reasons why our net contribution to the Community budget in 1986 is expected to be very much less than in 1985. Our 1985 net contribution was inflated because we contributed during 1985 to both the 1984 and the 1985 inter-governmental agreements; part of our 1985 contribution therefore relates to the 1984 Community budget. Our 1986 net contribution, on the other hand, is the first to be abated according to the Fontainebleau system. The abatement in respect of 1985 and payable in 1986 is considerably larger, at 1,900 mecu, than the flat rate abatement of £605 million payable in respect of 1984. In addition, the slippage into the first few days of 1986 in the payment of £439 million of our abatement payable in respect of 1984 reduces our net contribution in 1986 while increasing the 1985 figure.

TABLE I  
EXPENDITURE FROM THE COMMUNITY BUDGET  
COMMITMENTS AND PAYMENTS BY INSTITUTION AND TYPE OF EXPENDITURE

	MILLION ECUS							
	COMMITMENTS				PAYMENTS			
	1983	1984	1985	1986	1983	1984	1985	1986
COMMISSION								
ADMINISTRATION	743	811	885	1049	736	798	885	1049
AGRICULTURAL GUARANTEE	15786	18331	19955	22112	15788	18328	19955	22112
AGRICULTURAL GUIDANCE	866	796	656	807	720	647	633	733
FISHERIES	88	96	155	241	55	57	112	190
REGIONAL DEVELOPMENT FUND	2127	2383	2290	3098	1256	1351	1610	2373
EMS INTEREST RATE SUBSIDIES	257	0	0	0	311	0	0	0
UNITED KINGDOM REFUNDS	1400	991	0	0	1400	991	0	0
GERMAN REFUNDS	273	211	0	0	271	211	0	0
SOCIAL FUND	1878	1854	2010	2290	891	1606	1410	2533
ENERGY	150	205	141	156	45	90	83	42
RESEARCH AND INVESTMENT	490	593	839	661	423	441	559	625
INDUSTRY AND TRANSPORT	96	61	130	154	45	4	80	95
OWN RESOURCES REFUNDS	928	1038	1070	1240	922	1110	1070	1240
TRANSITIONAL REFUNDS TO GREECE	65	44	24	0	59	40	24	0
TRANSITIONAL REFUNDS TO SPAIN*	0	0	0	1645	0	0	0	1645
TRANSITIONAL REFUNDS TO PORTUGAL*	0	0	0	164	0	0	0	164
REPAYMENT OF ADVANCES	0	0	0	251	0	0	0	251
DEVELOPMENT AID	1061	1199	1323	1264	811	1151	1044	1172
MISCELLANEOUS	222	299	686	359+	206	281	516	390
RESERVES	0	0	5	5	0	0	5	5
<b>TOTAL COMMISSION</b>	<b>26430</b>	<b>28912</b>	<b>30169</b>	<b>35496</b>	<b>23939</b>	<b>27106</b>	<b>27986</b>	<b>34619</b>
OTHER INSTITUTIONS								
PARLIAMENT	212	235	238	306	215	246	238	306
COUNCIL	121	130	159	186	117	127	159	186
COURT OF JUSTICE	27	30	33	40	27	29	33	40
COURT OF AUDITORS	15	17	19	24	15	17	19	24
<b>TOTAL OTHER INSTITUTIONS</b>	<b>375</b>	<b>412</b>	<b>449</b>	<b>555</b>	<b>374</b>	<b>419</b>	<b>449</b>	<b>555</b>
<b>TOTAL BUDGET</b>	<b>26805</b>	<b>29324</b>	<b>30618</b>	<b>36051</b>	<b>24313</b>	<b>27525</b>	<b>28435</b>	<b>35174</b>

\* INCLUDING SMALL AMOUNTS TO COMPENSATE SPAIN AND PORTUGAL FOR THE SMALL ELEMENT OF THEIR OWN RESOURCES CONTRIBUTIONS WHICH IS USED TO FINANCE THE REPAYMENTS TO OTHER MEMBER STATES OF THE ADVANCES MADE TO THE COMMUNITY BEFORE 1 JANUARY 1986 UNDER THE 1984 INTER-GOVERNMENTAL AGREEMENT.

NEGATIVE RESERVE

+ NETTED OUT WITHIN THIS FIGURE IS A PROVISION FOR COMMITMENT APPROPRIATIONS OF 150 MECU. THE INTENTION IS THAT THIS RESERVE SHOULD BE EXTINGUISHED BY THE TRANSFER INTO IT OF UNUSED COMMITMENT APPROPRIATIONS IN THE NON-COMPULSORY LINES.

TABLE IA  
EXPENDITURE FROM THE COMMUNITY BUDGET  
COMMITMENTS AND PAYMENTS BY INSTITUTION AND TYPE OF EXPENDITURE

£ MILLION

	COMMITMENTS				PAYMENTS			
	1983	1984	1985	1986	1983	1984	1985	1986
COMMISSION								
ADMINISTRATION	436	479	521	684	432	471	521	684
AGRICULTURAL GUARANTEE	9261	10831	11751	14415	9263	10829	11751	14415
AGRICULTURAL GUIDANCE	508	470	386	526	422	382	373	478
FISHERIES	52	57	91	157	32	34	66	124
REGIONAL DEVELOPMENT FUND	1248	1408	1349	2020	737	798	948	1547
EMS INTEREST RATE SUBSIDIES	151	0	0	0	182	0	0	0
UNITED KINGDOM REFUNDS	821	586	0	0	821	586	0	0
GERMAN REFUNDS	160	125	0	0	159	125	0	0
SOCIAL FUND	1102	1095	1184	1493	523	949	830	1651
ENERGY	88	121	83	102	26	53	49	27
RESEARCH AND INVESTMENT	287	350	494	431	248	261	329	407
INDUSTRY AND TRANSPORT	56	36	77	100	26	2	47	62
OWN RESOURCES REFUNDS	544	613	630	808	541	656	630	808
TRANSITIONAL REFUNDS TO GREECE	38	26	14	0	35	24	14	0
TRANSITIONAL REFUNDS TO SPAIN*	0	0	0	1072	0	0	0	1072
TRANSITIONAL REFUNDS TO PORTUGAL*	0	0	0	107	0	0	0	107
REPAYMENT OF ADVANCES	0	0	0	164	0	0	0	164
DEVELOPMENT AID	622	708	779	824	476	680	615	764
MISCELLANEOUS	130	177	404	234	121	166	304	254
RESERVES	0	0	3	3	0	0	3	3
<b>TOTAL COMMISSION</b>	<b>15506</b>	<b>17082</b>	<b>17766</b>	<b>23140</b>	<b>14045</b>	<b>16015</b>	<b>16481</b>	<b>22568</b>
OTHER INSTITUTIONS								
PARLIAMENT	124	139	140	199	126	145	140	199
COUNCIL	71	77	94	121	69	75	94	121
COURT OF JUSTICE	16	18	19	26	16	17	19	26
COURT OF AUDITORS	9	10	11	16	9	10	11	16
<b>TOTAL OTHER INSTITUTIONS</b>	<b>220</b>	<b>243</b>	<b>264</b>	<b>362</b>	<b>219</b>	<b>248</b>	<b>264</b>	<b>362</b>
<b>TOTAL BUDGET</b>	<b>15726</b>	<b>17326</b>	<b>18031</b>	<b>23502</b>	<b>14264</b>	<b>16263</b>	<b>16745</b>	<b>22930</b>

\* INCLUDING SMALL AMOUNTS TO COMPENSATE SPAIN AND PORTUGAL FOR THE SMALL ELEMENT OF THEIR OWN RESOURCES CONTRIBUTIONS WHICH IS USED TO FINANCE THE REPAYMENTS TO OTHER MEMBER STATES OF THE ADVANCES MADE TO THE COMMUNITY BEFORE 1 JANUARY 1986 UNDER THE 1984 INTER-GOVERNMENTAL AGREEMENT.

NEGATIVE RESERVE

+ NETTED OUT WITHIN THIS FIGURE IS A PROVISION FOR COMMITMENT APPROPRIATIONS OF 150 MECU. THE INTENTION IS THAT THIS RESERVE SHOULD BE EXTINGUISHED BY THE TRANSFER INTO IT OF UNUSED COMMITMENT APPROPRIATIONS IN THE NON-COMPULSORY LINES.

TABLE II  
COMMUNITY BUDGET REVENUES

MILLION ECUS

	AGRICULTURE AND SUGAR LEVIES				CUSTOMS DUTIES				VAT/FINANCIAL CONTRIBUTIONS			
	1983	1984	1985	1986	1983	1984	1985	1986	1983	1984	1985	1986
BELGIUM	360	295	235	266	424	470	494	537	432	473	555	726
DENMARK	46	46	50	51	160	197	218	239	274	290	343	483
GERMANY	414	509	430	473	2020	2310	2500	2600	4039	4234	4694	6154
GREECE	55	36	37	42	107	99	119	130	216	220	264	504
SPAIN	0	0	0	389	0	0	0	580	0	0	0	2113
FRANCE	373	501	419	452	1052	1100	1206	1256	3082	3202	3788	5121
IRELAND	19	24	20	22	100	127	135	161	151	136	149	210
ITALY	418	373	346	384	657	751	860	920	1923	2320	2502	3504
LUXEMBOURG	0	0	0	0	5	6	5	5	39	45	44	59
NETHERLANDS	218	209	215	261	633	741	790	835	714	738	824	1144
PORTUGAL	0	0	0	11	0	0	0	128	0	0	0	211
UNITED KINGDOM	394	445	353	348	1831	2160	2270	2310	2860	2824	2300	2240
TOTAL	2297	2438	2105	2699	6989	7961	8597	9701	13730	14482	15463	22469

	INTER GOVERNMENTAL AGREEMENTS				TOTALS			
	1983	1984	1985	1986	1983	1984	1985	1986
BELGIUM	0	35	65	0	1216	1273	1349	1529
DENMARK	0	20	40	0	480	553	651	773
GERMANY	0	289	571	0	6472	7341	8195	9227
GREECE	0	15	31	0	378	371	451	676
SPAIN	0	0	0	0	0	0	0	3082
FRANCE	0	229	442	0	4507	5031	5855	6829
IRELAND	0	9	17	0	270	295	321	393
ITALY	0	154	292	0	2999	3597	4000	4808
LUXEMBOURG	0	3	5	0	44	54	54	64
NETHERLANDS	0	50	96	0	1565	1738	1925	2240
PORTUGAL	0	0	0	0	0	0	0	350
UNITED KINGDOM	0	201	423	0	5085	5630	5346	4898
TOTAL	0	1005	1982	0	23016	25883	28147	34869

NOTES

1. THE FIGURES FOR 1983 AND 1984 ARE DERIVED FROM THE COURT OF AUDITORS REPORT. THE FIGURES FOR 1985 AND 1986 ARE TAKEN FROM THE COMMUNITY BUDGETS.
2. MISCELLANEOUS ITEMS OF REVENUE AND CARRY-FORWARDS OF SURPLUSES AND DEFICITS FROM PREVIOUS YEARS ACCOUNT FOR THE DIFFERENCES BETWEEN TOTAL BUDGET EXPENDITURE GIVEN IN TABLE I AND THE REVENUE FIGURES GIVEN IN TABLE II.
3. FOR 1986, THE FIGURES IN THIS TABLE ARE THOSE IN THE 1986 BUDGET. THE FIGURES IN TABLE III ARE THE MOST UP TO DATE ESTIMATES OF WHAT WE SHALL ACTUALLY PAY THIS YEAR AND MAY BE DIFFERENT FROM THE BUDGET FIGURES.
4. THE FIGURES FOR THE 1985 AND 1986 VAT CONTRIBUTIONS ARE AFTER ABATEMENT, THEY DO NOT INCLUDE VAT ADJUSTMENTS.

TABLE IIA

## COMMUNITY BUDGET REVENUES

£ MILLION

	AGRICULTURE AND SUGAR LEVIES				CUSTOMS DUTIES				VAT/FINANCIAL CONTRIBUTIONS			
	1983	1984	1985	1986	1983	1984	1985	1986	1983	1984	1985	1986
BELGIUM	211	174	138	173	249	278	291	350	254	280	327	473
DENMARK	27	27	29	33	94	116	128	156	161	171	202	315
GERMANY	243	301	253	308	1185	1365	1472	1695	2370	2502	2764	4012
GREECE	32	21	22	27	63	59	70	85	127	130	155	329
SPAIN	0	0	0	254	0	0	0	378	0	0	0	1377
FRANCE	219	296	247	295	617	650	710	819	1809	1892	2231	3338
IRELAND	11	14	12	14	59	75	80	105	89	80	88	137
ITALY	245	220	204	250	386	444	506	600	1129	1371	1473	2284
LUXEMBOURG	0	0	0	0	3	4	3	3	23	27	26	38
NETHERLANDS	128	124	127	170	371	438	465	544	419	436	485	746
PORTUGAL	0	0	0	7	0	0	0	83	0	0	0	138
UNITED KINGDOM	231	263	208	227	1075	1277	1337	1506	1678	1669	1355	1460
TOTAL	1348	1441	1240	1759	4102	4705	5063	6324	8058	8559	9107	14647

	INTER GOVERNMENTAL AGREEMENTS				TOTALS			
	1983	1984	1985	1986	1983	1984	1985	1986
BELGIUM	0	21	38	0	713	752	794	997
DENMARK	0	12	24	0	282	327	383	504
GERMANY	0	171	336	0	3798	4338	4826	6015
GREECE	0	9	18	0	222	219	266	441
SPAIN	0	0	0	0	0	0	0	2009
FRANCE	0	135	260	0	2644	2973	3448	4452
IRELAND	0	5	10	0	158	175	189	256
ITALY	0	91	172	0	1759	2126	2356	3134
LUXEMBOURG	0	2	3	0	26	32	32	42
NETHERLANDS	0	30	57	0	918	1027	1134	1460
PORTUGAL	0	0	0	0	0	0	0	228
UNITED KINGDOM	0	119	249	0	2983	3326	3148	3193
TOTAL	0	594	1167	0	13507	15299	16577	22731

## NOTES

1. THE FIGURES FOR 1983 AND 1984 ARE DERIVED FROM THE COURT OF AUDITORS REPORT. THE FIGURES FOR 1985 AND 1986 ARE TAKEN FROM THE COMMUNITY BUDGETS.
2. MISCELLANEOUS ITEMS OF REVENUE AND CARRY-FORWARDS OF SURPLUSES AND DEFICITS FROM PREVIOUS YEARS ACCOUNT FOR THE DIFFERENCES BETWEEN TOTAL BUDGET EXPENDITURE GIVEN IN TABLE I AND THE REVENUE FIGURES GIVEN IN TABLE II.
3. FOR 1986, THE FIGURES IN THIS TABLE ARE THOSE IN THE 1986 BUDGET. THE FIGURES IN TABLE III ARE THE MOST UP TO DATE ESTIMATES OF WHAT WE SHALL ACTUALLY PAY THIS YEAR AND MAY BE DIFFERENT FROM THE BUDGET FIGURES.
4. THE FIGURES FOR THE 1985 AND 1986 VAT CONTRIBUTION ARE AFTER ABATEMENT. THEY DO NOT INCLUDE VAT ADJUSTMENTS.

TABLE III

## UNITED KINGDOM CONTRIBUTIONS TO AND RECEIPTS FROM THE COMMUNITY BUDGET

	MILLION ECUS				£ MILLION			
	1983	1984	1985	1986	1983	1984	1985	1986
GROSS CONTRIBUTION								
AGRICULTURAL AND SUGAR LEVIES	395	440	321	348	232	263	189	204
CUSTOMS DUTIES	1833	2160	2193	2310	1075	1276	1291	1359
VAT OWN RESOURCES INCLUDING VAT ADJUSTMENTS AND BEFORE ABATEMENTS	2845	2819	3550	4587	1669	1665	2091	2698
U.K. ABATEMENT OF VAT	0	0	- 282*	-2646	0	0	- 166*	-1557
INTER GOVERNMENTAL AGREEMENT 1984	0	0	202	0	0	0	119	0
INTER GOVERNMENTAL AGREEMENT 1985	0	0	425	0	0	0	250	0
<b>TOTAL CONTRIBUTIONS</b>	<b>5072</b>	<b>5418</b>	<b>6409</b>	<b>4599</b>	<b>2976</b>	<b>3204</b>	<b>3774</b>	<b>2704</b>
RECEIPTS								
RECEIPTS OTHER THAN REFUNDS	2440	3134	2879	3778	1392	1855	1758	2222
OWN RESOURCES REFUNDS	221	280	250	266	130	165	147	156
UNITED KINGDOM NEGOTIATED REFUNDS	1376	894	103*	0	807	528	61*	0
<b>TOTAL RECEIPTS</b>	<b>4037</b>	<b>4308</b>	<b>3232</b>	<b>4044</b>	<b>2329</b>	<b>2548</b>	<b>1966</b>	<b>2378</b>
<b>NET CONTRIBUTION</b>	<b>1035</b>	<b>1110</b>	<b>3177</b>	<b>555</b>	<b>647</b>	<b>656</b>	<b>1808</b>	<b>326</b>

1. FOR ALL YEARS STERLING FIGURES REFLECT ACTUAL PAYMENTS MADE DURING THE YEAR, NOT PAYMENTS IN RESPECT OF PARTICULAR BUDGETS. THE CORRESPONDING ECU FIGURES ARE CONVERTED FROM STERLING AT THE APPROPRIATE ANNUAL AVERAGE EXCHANGE RATE.

2. SINCE 1985 REFUNDS HAVE BEEN REPLACED BY ABATEMENT OF VAT CONTRIBUTIONS.

3. PAYMENTS BY THE UNITED KINGDOM UNDER THE TWO INTER GOVERNMENTAL AGREEMENTS WERE BOTH MADE IN THE 1985 CALENDAR YEAR AND ARE SHOWN AS PAYMENTS IN THAT YEAR. IN TABLE II, THE 1984 IGA IS RECORDED AS A PAYMENT TO THE 1984 BUDGET AND THE 1985 IGA AS A PAYMENT TO THE 1985 BUDGET.

\* IN ACCORDANCE WITH THE FONTAINEBLEAU AGREEMENT, THE UNITED KINGDOM'S NET BUDGETARY CONTRIBUTION IS NOW BEING REDUCED BY MEANS OF AN ABATEMENT OF OUR VAT CONTRIBUTIONS INSTEAD OF BY NEGOTIATED REFUNDS. THE VAT ABATEMENT AND NEGOTIATED REFUNDS LINES IN THE TABLE NEED THEREFORE TO BE CONSIDERED TOGETHER.

## EUROPEAN COMMUNITY BUDGET

The rules which define the structure and implementation of the Community Budget are mostly to be found in Part 5, Title II of the Treaty establishing the European Economic Community and in the Financial Regulation of 21 December 1977, as amended. There are several important differences between the Community's budgetary process and the UK's.

2. The UK presents its Public Expenditure Plans in a multi-annual form: the Community presents its expenditure plans in its annual Budget proposals, together with the necessary revenue for the year. The Community's financial year runs from 1 January to 31 December.

### Commitment and payment appropriations

3. The Budget distinguishes between appropriations for commitments and appropriations for payments. Commitment appropriations are the total cost of legal obligations which can be entered into in the current financial year for activities which will lead to payments in the current and future financial years. Payment appropriations are the amount of money which is available to be spent in that year arising from commitments entered into in the current or preceding years. In general, unused payment appropriations may be carried forward to the following year.

### Compulsory and non-compulsory expenditure

4. Community expenditure is regarded as either "compulsory" or "non-compulsory". Compulsory expenditure is expenditure resulting from the Treaty of Rome or from acts adopted in accordance with the Treaty. It includes agricultural guarantee expenditure, some agricultural guidance expenditure, expenditure on own resources' refunds and rebates of VAT and national financial contributions for Spain and Portugal. Non-compulsory expenditure includes expenditure on the regional development and social funds along with some other items. In the course of the budget procedure, the Council has the last say in fixing the total of compulsory expenditure. Within limits laid down in the 'maximum rate' provisions of the Treaty, the Parliament

has the last say in determining the amount and pattern of non-compulsory expenditure.

### Sterling figures

5. The sterling figures for 1983 to 1985 are based on actual sterling cash receipts or payments where these took place and are known; elsewhere the appropriate average annual sterling/ecu exchange rate has been used<sup>1</sup> to convert ecu figures to sterling. The 1986 sterling figures have been constructed using the average sterling rate for the calendar year to mid-September 1986 (£1=1.5340 mecu) except in table III, where the rate used is £1=1.7 ecu so as to preserve consistency with the 1985 public expenditure white paper.

### Own Resources

6. The Community Budget is financed, apart from the exceptional Intergovernmental Agreements for 1984 and 1985, almost entirely by 'own resources'. These include agricultural levies and customs duties on imports into the Community from the rest of the world; sugar levies which are taxes on the production and storage of sugar; and VAT 'own resources' which are the product of applying notional rates of VAT to a Community harmonised expenditure base. Under the provisions of the new Own Resources Decision, as from 1 January 1986, the rate of VAT paid by member states may not exceed 1.4 per cent.

### The Fontainebleau abatement system

7. The rates of VAT applicable to each member state are determined as follows. First, a uniform rate is determined which, if applied throughout the Community, would just raise sufficient revenue to balance the budget after taking account of all other available revenue. The rate applicable to the UK is found by abating or reducing the uniform rate by an amount sufficient to reduce the UK's VAT contribution by 66 per cent of the difference in the previous year between what we would have paid if the Community budget had been financed entirely by VAT and our receipts from the allocated budget (which is about 95 per cent of the total budget and includes nearly all items other than overseas aid). The reduction in our VAT contribution is what is generally known as our Fontainebleau abatement. The rate applicable to other member states is determined in a two-stage process. First,



the uniform rate is increased by an amount which, assuming the UK did not contribute, would just pay for the UK abatement. By way of partial compensation for its large net contribution to the budget, only two-thirds of the increase in the uniform rate is applied to Germany. The rate applicable to the other ten member states is found by raising the uniform rate again so as to pay for both the UK abatement and the limited relief given to Germany.

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- (1) The annual average rate for 1983 is £1=1.7045 ecu  
The annual average rate for 1984 is £1=1.6925 ecu  
The annual average rate for 1985 is £1=1.6981 ecu

