



Treasury Chambers, Parliament Street, SW1P 3AG

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

1 October 1985

Dear Charles,

1985 COMMUNITY BUDGET WHITE PAPER

Further to my minute of 25 September I enclose an advance copy of this year's Statement on the Community Budget.

Arrangements have been made for copies of the White Paper to be presented to both houses of Parliament at 11am tomorrow. Publication has been arranged for 2pm tomorrow.

I am copying this and its enclosure to the Private Secretaries to the Foreign Secretary, the Lord Privy Seal and Sir Robert Armstrong.

*Yours ever,
Mike Norgrove*

M W NORGROVE
Private Secretary



21K.

Treasury Chambers, Parliament Street, SW1P 3AG

01-233-4749

Private Secretary
Secretary of State for Foreign
and Commonwealth Affairs,
Downing Street East
LONDON
SW1

2nd October 1985

Dear Sir,

The Minister of State to the Treasury has asked me to let
you have ^{advance} a copy of the Statement on the 1985 Community Budget
White Paper which is being laid before Parliament today.

It is to be published at 2.00 p.m. this afternoon.

Copies of this letter and enclosure go to all Private
Secretaries to Members of the Cabinet, Sir Robert Armstrong
and Tim Flesher at No.10

Yours faithfully,

A handwritten signature in dark ink, appearing to read 'B. O. Dyer'.

B O DYER
Parliamentary Clerk

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**Statement on the
1985 Community Budget**

THE 1985 BUDGET OF THE EUROPEAN COMMUNITIES

Introduction

1. Following a recommendation in the 28th Report (1979-80 session), by the Committee of Public Accounts (PAC), 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 fifth in the series, provides details of the 1985 Community Budget as adopted, the 1984 Budget as amended by the Supplementary and Amending Budget, and the outturn for 1982 and 1983. The Community's budgetary terminology is explained in the Annex.

2. In addition to providing a summary of the Community budgets for 1982 to 1985, the Statement provides information on the UK's gross and net contributions to the European Community Budget in these years. The latest Public Expenditure White Paper (Cmnd 9428-II pages 39 and 47-50) provides similar information, but on a UK financial year basis.

3. The 1985 Budget is the first to include an abatement of the UK's contributions as agreed by the European Council of June 1984 at Fontainebleau. Further details of the abatement are given in paragraph 12.

1985 Community Budget

4. The European Parliament rejected the 1985 draft Budget on 13 December 1984. From 1 January 1985 until the budget was finally adopted on 13 June 1985 the Community operated under the "provisional twelfths regime" of Article 204 of the Treaty of Rome. Under those arrangements, expenditure each month is, in general, constrained within one-twelfth of the corresponding expenditure in the budget for the previous year.

5. The 1985 Community Budget provides for expenditure of £16,778 million (28,433 million European Currency Units (ecu)), 98 per cent of which is expenditure by the Commission. Agricultural spending accounts for some £12,215 million (20,700 mecu), 73 per cent of the total budget. Regional Development Fund and Social Fund expenditure together make up a further £1,782 million (3,020 mecu), 11 per cent of the total budget.

Commitment and Payment Appropriations

6. Tables I and IA show commitment and payment appropriations in the 1985 Budget in ecus and in sterling. The tables also show the final 1984 budget appropriations.

7. The outturn figures for 1982 and 1983 shown in tables I and IA have been taken from the Court of Auditors' Annual Report and the Commission's audited accounts. The outturn figures for 1983 differ from the provisional figures shown in the Statement on the 1984 Community Budget (Cmnd 9174) because firm information is now available from the Commission.

Gross Contributions by Member States

8. Tables II and IIA show the estimated gross contributions by member states to the 1985 Budget under the Community's "Own Resources" system. The UK's share of levies and duties is estimated to be some 24.5 per cent compared with some 15 per cent for France and 27.5 per cent for Germany. The corresponding figures for VAT shares after abatement are UK 15 per cent, France 24.5 per cent and Germany 30.5 per cent.

Inter Governmental Agreements

9. Expenditure provided for in the 1984 Budget exceeded the total own resources revenue available. Member states therefore undertook to make special contributions of 1,003 mecu to the 1984 Budget under an Inter Governmental Agreement. The UK's contribution of some £119 million (201.19 mecu) was paid on 24 January 1985, following approval of an Estimate for this sum by Parliament.

10. Member states also concluded on 23 April 1985 a further Inter Governmental Agreement to help finance the 1985 budget. The total amount was 1982 mecu of which the UK's share was 423.1 mecu (about £249.7 million converted at the average exchange rate over the calendar year 1985 to mid-August of £1 = 1.6947 ecu). Parliamentary authority for payment of this sum is being sought through the European Communities (Finance) Bill. That Bill also seeks Parliament's approval of the new Own Resources Decision, which provides for an increase in the VAT own resources ceiling from 1 per cent to 1.4 per cent, with effect from 1 January 1986, together with the VAT abatement system for the UK as agreed at Fontainebleau.

Gross and Net Contributions by the UK

11. Table III shows the UK's gross contributions and receipts in 1982, 1983 and 1984 and the resulting net contributions figures. Also shown are estimates of the corresponding amounts for 1985. These are based on the financial year forecasts given in the latest Public Expenditure White Paper, adapted to a calendar year basis, but take account of the 1985 Budget as now adopted and assume an average sterling/ecu exchange rate during 1985 of 1.6947. In contrast with the figures in tables I and II these estimates are based on sums actually contributed or received by the UK during the years in question, and not on contributions and receipts associated with particular Budgets. The receipts for each year include sums carried forward from the previous year's Budget and exclude sums carried forward into the following year.

12. It was agreed at Fontainebleau that the UK's VAT contributions for 1984 should be abated by a lump-sum of 1,000 mecu. Table III assumes that this abatement will be made to our 1985 VAT contributions before the end of this year. For 1985 and later years, the new Own Resources Decision provides for the UK to receive an automatic abatement totalling 66 per cent of the difference between the UK's VAT and receipts shares of the allocated budget payable in equal monthly instalments over the following year.

13. Table III includes an estimate of some £1.2 billion for the UK's net contribution in 1985 (after allowing for the 1,000 mecu lump-sum abatement for 1984 mentioned above). This figure has been inflated by two non-recurring factors. Firstly the payments under the 1984 and 1985 Inter Governmental Agreements will *both* be made in 1985. Some £119 million of the estimate therefore relates to the 1984 Budget. Secondly the change in 1984 in the UK's system for collecting VAT on imports led to an exceptional payment of some £75 million of VAT own resources to the Community, in 1985. These additional payments will increase the UK's entitlement to VAT abatement in 1986 as will most of the other factors which have inflated our net contribution during 1985: our abatement next year is expected accordingly to be much larger than this year's lump-sum, and our net contribution after abatement is expected, correspondingly, to be much smaller. The figure of £1.2 billion also includes some £135 million in respect of the UK's contribution to the Community's overseas aid expenditure which in the Public Expenditure White Paper is attributed to the Aid programme.

14. The estimate of the UK's net contribution for the Community's year ending 31 December 1985 is some £300 million larger than the figure for the UK financial year ending 31 March 1986 shown in the Public Expenditure White Paper (Cmnd 9428-II, page 49, Table 3.2.5). The main reason for the difference is that the 1985 calendar year figure includes the period 1 January to 31 March 1985 during which our net contribution was substantially greater than that expected for the first quarter of 1986 (which is included in the 1985-86 figure). The UK paid its contribution under the Inter Governmental Agreement for 1984 in the first quarter of 1985; in contrast we expect to receive a quarter of our abatement in respect of 1985 in the first three months of 1986. In addition the 1985 budget as adopted and the requirement for funding under the 1985 Inter Governmental Agreement were higher than assumed in Cmnd 9428-II; the UK's contribution under that agreement was consequently some £85 million higher.

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

Million ECUS

	Commitments				Payments			
	1982	1983	1984	1985	1982	1983	1984	1985
COMMISSION								
Administration	713	743	811	885	688	736	811	885
EAGGF-Guarantee	12,372	15,786	18,333	19,955	12,370	15,788	18,333	19,955
EAGGF-Guidance	734	866	724	656	638	720	596	632
Fisheries	69	88	159	154	55	55	112	112
Regional Fund	1,845	2,127	2,140	2,290	973	1,256	1,413	1,610
EMS interest rate subsidies	272	257	0	0	265	311	0	0
United Kingdom refunds	1,804	1,400	991	0	1,819	1,400	991	0
German refunds	0	271	211	0	0	271	211	0
Social fund	1,510	1,878	1,846	2,010	906	891	1,220	1,410
Energy	84	150	225	141	44	45	171	83
Research and investment	443	490	747	839	368	423	511	559
Industry and transport	19	96	151	130	16	45	98	80
Own resources refunds	908	928	1,105	1,070	909	922	1,105	1,070
Transitional refunds to Greece	98	64	45	24	90	59	45	24
Development aid	899	1,061	1,023	1,323	786	811	897	1,044
Miscellaneous	204	222	323	686	174	269	304	516
Reserves	0	0	5	5	0	0	5	5
Total Commission	21,974	26,427	28,839	30,168	20,101	24,002	26,823	27,985
OTHER INSTITUTIONS								
Parliament	199	212	239	238	173	215	239	238
Council	112	121	137	158	110	117	137	158
Court of Justice	26	28	32	33	25	27	32	33
Court of Auditors	14	15	18	19	14	15	18	19
Total other institutions	351	376	426	448	322	374	426	448
TOTAL BUDGET	22,325	26,803	29,265	30,616	20,423	24,376	27,249	28,433

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

£ Million

	Commitments				Payments			
	1982	1983	1984	1985	1982	1983	1984	1985
COMMISSION								
Administration	399	436	479	522	386	432	479	522
EAGGF-Guarantee	6,931	9,261	10,832	11,775	6,929	9,263	10,832	11,775
EAGGF-Guidance	411	508	428	387	358	422	352	373
Fisheries	39	51	94	91	31	32	66	66
Regional Fund	1,033	1,248	1,265	1,351	545	737	835	950
EMS interest rate subsidies	153	151	0	0	148	182	0	0
United Kingdom refunds	1,011	821	585	0	1,019	821	585	0
German refunds	0	159	125	0	0	159	125	0
Social fund	846	1,102	1,091	1,186	507	523	721	832
Energy	47	88	133	83	25	26	101	49
Research and investment	248	287	441	495	206	248	302	330
Industry and transport	11	57	89	77	9	26	58	47
Own resources refunds	508	545	653	632	509	541	653	632
Transitional refunds to Greece	55	38	26	14	50	35	26	14
Development aid	504	622	604	781	440	476	530	616
Miscellaneous	114	131	191	405	98	158	180	305
Reserves	0	0	3	3	0	0	3	3
Total Commission	12,310	15,505	17,039	17,802	11,260	14,081	15,848	16,514
OTHER INSTITUTIONS								
Parliament	111	124	141	140	97	126	141	140
Council	63	71	81	94	62	69	81	94
Court of Justice	14	16	19	19	14	16	19	19
Court of Auditors	8	9	11	11	8	9	11	11
Total other institutions	196	220	252	264	181	220	252	264
TOTAL BUDGET	12,506	15,725	17,291	18,066	11,441	14,301	16,100	16,778

TABLE II
COMMUNITY BUDGET REVENUES

Million ECUS

	Agriculture and Sugar Levies				Customs Duties				VAT/Financial Contribution			
	1982	1983	1984	1985	1982	1983	1984	1985	1982	1983	1984	1985
Belgium	283	360	403	235	404	424	467	493	461	432	473	555
Denmark	33	46	57	50	142	160	195	218	227	274	289	343
Germany	392	413	626	430	1,967	2,020	2,285	2,500	3,340	4,039	4,231	4,694
Greece	77	55	118	38	109	107	96	119	196	216	222	263
France	282	372	554	419	1,071	1,052	1,083	1,206	2,873	3,082	3,198	3,788
Ireland	13	19	23	20	88	100	124	135	107	151	136	149
Italy	369	418	536	346	660	657	716	860	1,458	1,924	2,227	2,502
Luxembourg	0	0	0	0	4	5	6	5	26	39	46	44
Netherlands	231	218	347	215	585	633	737	790	650	714	738	824
United Kingdom	548	394	394	354	1,785	1,831	2,205	2,270	2,783	2,859	2,819	2,300
TOTAL	2,228	2,295	3,058	2,107	6,815	6,989	7,914	8,596	12,121	13,730	14,379	15,462

	Inter Governmental Agreement				Total			
	1982	1983	1984	1985	1982	1983	1984	1985
Belgium	0	0	35	65	1,148	1,216	1,378	1,348
Denmark	0	0	20	40	402	480	561	651
Germany	0	0	288	571	5,699	6,472	7,430	8,195
Greece	0	0	15	31	382	378	451	451
France	0	0	229	442	4,226	4,506	5,064	5,855
Ireland	0	0	9	17	208	270	292	321
Italy	0	0	154	292	2,487	2,999	3,633	4,000
Luxembourg	0	0	2	5	30	44	54	54
Netherlands	0	0	50	96	1,466	1,565	1,872	1,925
United Kingdom	0	0	201	423	5,116	5,084	5,619	5,347
TOTAL	0	0	1,003	1,982	21,164	23,014	26,354	28,147

1. For 1985 the VAT figure for the United Kingdom reflects the abatement agreed at the Fontainebleau Council, but not the VAT adjustment.
2. United Kingdom revenue figures for 1984 reflect actual payments made to the community in that year. Other member states' contributions are derived from supplementary and amending budget number 1, 1984.
3. Miscellaneous revenue and expenditure carry-forwards account for the differences between the total expenditure shown in Tables I and the total revenue from own resources shown in Tables II.

TABLE IIA
COMMUNITY BUDGET REVENUES

£ Million

	Agriculture and Sugar Levies				Customs Duties				VAT/Financial Contribution			
	1982	1983	1984	1985	1982	1983	1984	1985	1982	1983	1984	1985
Belgium	159	211	238	139	226	248	276	291	258	254	280	327
Denmark	18	27	34	29	80	94	115	129	127	161	171	202
Germany	219	243	370	254	1,102	1,185	1,350	1,475	1,871	2,369	2,499	2,770
Greece	43	32	69	22	61	63	57	70	110	127	131	156
France	158	219	327	247	600	617	640	712	1,609	1,808	1,890	2,235
Ireland	8	11	14	12	49	59	73	80	60	88	80	88
Italy	206	245	317	204	370	386	423	507	817	1,128	1,316	1,477
Luxembourg	0	0	0	0	2	3	4	3	15	23	27	26
Netherlands	130	128	205	127	328	371	435	466	364	419	436	486
United Kingdom	307	231	233	209	1,000	1,074	1,303	1,339	1,559	1,678	1,665	1,357
TOTAL	1,248	1,347	1,807	1,243	3,818	4,100	4,676	5,072	6,790	8,055	8,495	9,124

	Inter Governmental Agreement				Total			
	1982	1983	1984	1985	1982	1983	1984	1985
Belgium	0	0	20	39	643	713	814	796
Denmark	0	0	12	24	225	282	332	384
Germany	0	0	171	336	3,192	3,797	4,390	4,835
Greece	0	0	9	18	214	222	266	266
France	0	0	135	261	2,367	2,644	2,992	3,455
Ireland	0	0	5	10	117	158	172	190
Italy	0	0	91	172	1,393	1,759	2,147	2,360
Luxembourg	0	0	1	3	17	26	32	32
Netherlands	0	0	30	57	822	918	1,106	1,136
United Kingdom	0	0	119	250	2,866	2,983	3,320	3,155
TOTAL	0	0	593	1,170	11,856	13,502	15,571	16,609

1. For 1985 the VAT figure for the United Kingdom reflects the abatement agreed at the Fontainebleau Council, but not the VAT adjustment.
2. United Kingdom revenue figures for 1984 reflect actual payments made to the community in that year. Other member states' contributions are derived from supplementary and amending budget number 1, 1984.
3. Miscellaneous revenue and expenditure carry-forwards account for the differences between the total expenditure shown in Tables I and the total revenue from own resources shown in Tables II.

TABLE III
UNITED KINGDOM CONTRIBUTIONS TO AND RECEIPTS FROM THE COMMUNITY BUDGET

	Million ECUS					£ Million				
	1982	1983	1984	1985		1982	1983	1984	1985	
GROSS CONTRIBUTION										
Agricultural and sugar levies	548	395	394	354		307	232	233	209	
Customs Duties	1,787	1,832	2,205	2,270		1,001	1,075	1,303	1,339	
VAT own resources including VAT adjustments and before abatements	2,775	2,845	2,819	3,545		1,555	1,669	1,665	2,092	
U.K. abatement of VAT	0	0	0	-1,000*		0	0	0	-590*	
Inter Governmental agreement 1984	0	0	0	201		0	0	0	119	
Inter Governmental agreement 1985	0	0	0	423		0	0	0	250	
Total Contributions	5,110	5,072	5,418	5,793		2,863	2,976	3,201	3,419	
RECEIPTS										
Receipts other than refunds	1,971	2,372	3,135	3,375		1,105	1,392	1,852	1,991	
Own resources refunds	239	221	280	262		134	130	165	155	
United Kingdom negotiated refunds	1,820	1,376	894	104*		1,019	807	528	61*	
TOTAL RECEIPTS	4,030	3,969	4,309	3,741		2,258	2,329	2,545	2,207	
NET CONTRIBUTION	1,080	1,103	1,109	2,052		605	647	656	1,212	

1. For all years sterling figures reflect 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. From 1985 refunds are replaced by abatement of VAT contribution.

* In accordance with the Fontainebleau agreement, the United Kingdom's net budgetary contribution will in future be 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 detailed 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.

Sterling Figures

4. The sterling figures for 1982 to 1984 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 used¹ to convert ecu figures to sterling. The 1985 sterling figures have been constructed using the average sterling rate for the calendar year to mid-August 1985 (£1= 1.6947 ecu).

Own Resources

5. The Community Budget is financed, apart from the exceptional Inter Governmental 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 a notional rate of VAT levied on a Community harmonised expenditure base. For all years covered by this White Paper this rate was subject to a 1 per cent ceiling; as from 1 January 1986 (subject to ratification by member states of the new Own Resources Decision) the ceiling will be 1.4 per cent.

(¹) The annual average rate for 1982 is £1 = 1.7851 ecu
The annual average rate for 1983 is £1 = 1.7045 ecu
The annual average rate for 1984 is £1 = 1.6925 ecu



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