

Prime Minister

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Qz.03776

MR POWELL

For meeting on 21
June : but you will want
to see this week-end.

C.D.P. 15/6.

REFORM OF THE COMMUNITY'S FINANCES AND UNITED KINGDOM REFUNDS

The Prime Minister is holding a meeting of Ministers on 21 June in order to discuss the United Kingdom's negotiating position in the period immediately before the European Council and at the European Council itself. The attached paper on the state of the negotiation has been prepared, after discussion with Departments, by the European Secretariat of the Cabinet Office.

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

Df Williamson

D F WILLIAMSON

14 June 1984

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REFORM OF THE COMMUNITY'S FINANCES AND UNITED KINGDOM REFUNDSNote by the European Secretariat, Cabinet OfficeState of the negotiations

1. Since the Stuttgart Declaration of the European Council it has been clear that agreement on the various elements of the "relaunch" of the Community (budget discipline, correction of the budget inequity, new own resources, agriculture, structural funds and new policies) depends on a complete and satisfactory settlement. In Brussels on 20 March the European Council reached a provisional agreement on the texts submitted by the French Presidency but failed to complete the following sentence on the correction of the budget inequity

"For the United Kingdom the application of the above factors to the budget figures for 1983 would have given a net correction amount of X million ecu".

The Presidency text (Annex 1) includes the main elements of the new system and does not refer to any ad hoc fixed refund for the United Kingdom, even for one year.

2. In the European Council, after Herr Kohl's original proposal of five ad hoc years of a 1000 million ecu refund with the system thereafter had been rejected, he proposed that there should be ad hoc refunds of 1000 million ecu for two years (1984 and 1985) followed by the application of the system with 1000 million ecu inserted at X in the text. Our calculations show that the 1000 million ecu base figure could have given refunds to the United Kingdom of about 1594, 1559 and 1662 million ecu for 1986, 1987 and 1988, demonstrating the dynamic effect of the system. At the European Council the Prime Minister said that the base figure to be inserted in the text should be not less than 1250 million ecu. This was not agreed. A base figure of 1250 million ecu could have given refunds of about 1902, 1884 and 2005 million ecu for 1986, 1987 and 1988.

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3. At the Foreign Affairs Council on 27 March the other member states proposed that there should be one ad hoc year (1984 refund 1000 million ecu) followed by the application of the system with the base figure of 1000 million ecu. Because of the favourable effect on the 1985 refund this offer could be worth about 939 million ecu more to the United Kingdom than the other member states' final offer at the European Council. The disagreement over the base figure, however, remained. We believe that at this Council some member states considered whether to propose a base figure of 1100 million ecu but on balance decided not to do so.

4. At the European Council both President Mitterrand and some other member states had not understood that the system would give the United Kingdom refunds markedly higher than 1000 million ecu and that it would substantially protect the United Kingdom against increases in Community expenditure, including the costs of enlargement. Subsequently they have been strongly influenced by the calculations of their Finance Ministries and have dug in more strongly on their base figure of 1000 million ecu. The French have encouraged the doubts of the Italians and others about any form of system and have tried to lead a move away from their own Presidency proposal. In the light of this, other member states may seek to reopen both the number of ad hoc years and the use of the 1983 base year. In particular, they may recall that in the last European Council they never offered less than two ad hoc years and may go back on their position in the Foreign Affairs Council of 27 March. The United Kingdom will need to fight for a single ad hoc year (1984) with the application of the system thereafter. The other member states may also try to shift the base figure off the 1983 reference year. Our task is to ensure that in reality the result of any settlement is equivalent to an acceptable compromise between 1000 and 1250 million ecu on 1983 figures. In general, it is strongly in the United Kingdom's interest to reject any backsliding from the position reached in the last European Council and the Foreign Affairs Council of 27 March.

5. There is an element of tactics in the position of other member states and also a wish to protect their own flank during the European election campaign. We believe that President Mitterrand would prefer to settle this question at the next European Council, if he thinks he can do so on terms acceptable to France. This would enable him to present the Fontainebleau European Council meeting as an unclouded "re-launch" of the Community, even though moves in our direction on financing will expose him to criticism in France. If, on the other hand, President Mitterrand does not believe that agreement can be reached on terms acceptable to France, he will try to maintain a nine to one front against the United Kingdom. This is the French "two-track" approach. If necessary, they can live for some time with the disruption of Community finances which would result from no agreement on the correction of the budget inequity, no increase in the Community's own resources and no agreement on the handling of the Community budget overrun in 1984 and 1985. In such circumstances they would make as much political capital as possible from the Franco-German "moves towards European Union" which President Mitterrand and Herr Kohl are now advocating and would blame the United Kingdom for the Community's financial difficulties. They could not, however, increase the Community's financial resources, although we can expect them to exercise considerable ingenuity in finding ways round this restriction. If the 1983 budget refunds were not paid and the United Kingdom did not withhold an equivalent sum, the Community would have available to it in 1985 the 1202 million ecu (gross) entered in the 1984 budget for this purpose.

Community and foreign policy implications

6. The decisions at the next European Council will have significant implications for the United Kingdom's Community and foreign policy -

(i) no agreement on Community finances or UK refunds.

There would be a lot of rhetoric and some real hostility to the United Kingdom. It would be unwise to assume that it will be easier to reach agreement in the autumn. In the interim France and Germany might try to press ahead strongly with various ideas for cooperation which they would present as if they represented important steps

towards greater political unity in the Europe of the Six. We doubt whether in the short term at least attempts to move ahead without the United Kingdom would get very far. Nor is it likely that the United Kingdom would be excluded from discussion of any measures which went wider than bilateral Franco/German understandings. It should be our objective to play a full part in examining such measures and, where appropriate, to propose our own ideas. The other member states are already showing the first signs of resentment at a possible Franco/German hijack.

Since there would be no increase in the Community's own resources and no agreement on special measures to finance the Community 1984 and 1985 budget overruns, other member states would be forced to at least a temporary element of national financing. The most likely sequence would be that the Commission would run out of money in October this year and would cease to make the normal monthly advances to member states which fund the payments to farmers and traders. If so, member states would make the payments and reclaim them from the Community budget in January 1985. If the same pattern were repeated in 1985, the Commission could run out of money earlier in the year even if the sum earmarked for the United Kingdom's 1983 refunds were at their disposal. This would impose a substantial, short term financing burden on member states which would be very unwelcome to most of them. If there were a period of temporary national financing, we should be paying only about 13 per cent compared with about 20 per cent under Community budget financing. Other member states would no doubt put strong pressure on the Commission to propose supplementary budgets or to ask for advances above the level of the ceiling on the Community's own resources. Both these actions are in our view clearly illegal but we cannot rule them out in the political circumstances foreseen.

The absence of more financial resources for the Community would have repercussions on the enlargement negotiations. Although the United Kingdom would claim that the negotiations

should continue to completion in the expectation of a satisfactory budget settlement, the French in particular might take the opportunity to block the negotiations altogether while seeking to pin the blame for the blockage on us. This in turn would make it much more difficult for the Spanish Government to launch and succeed in a referendum on Spanish membership of NATO.

We believe that on the basic question of a long term reform of the Community finances and the United Kingdom refunds, the other member states would in due course return to the negotiating table. On the assumption that the 1983 refund of 750 million ecu had not been paid, however, the United Kingdom Government would need to decide at the end of 1984 whether it would take countervailing action by withholding Community funds.

(ii) a settlement at the June European Council. There would no doubt be continuing arguments about the details of the mechanism to correct the budget inequity and about the implementation of budget discipline, because there would be no final agreement on the submission of the package to governments and national parliaments for ratification until we were fully satisfied on the legal texts. In general, however, a fair and defensible settlement at the European Council of the reformed financing system to be included in a revised Own Resources Decision would achieve some change in the balance of power in the Community. The policy of the United Kingdom, as a continuing net contributor, to make Community policies more cost-effective and more useful for Britain would continue unchanged but our hand in negotiations on the whole range of Community subjects would be stronger. We would be freed from the particular blockage and blackmail associated with our need for ad hoc refunds. We could forge more effective alliances, particularly with France and Germany as net contributors.

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The public expenditure consequences

7. Any settlement reached at Fontainebleau would have adverse public expenditure consequences compared with the figures published in the last public expenditure White Paper, Cmnd 9143. The 1984 refund of 1000 million ecu provisionally agreed at Brussels is less than the figure assumed for public expenditure purposes which was based on the stylised assumption that we would receive budget refunds equivalent to some two-thirds of our net contribution to the Community's allocated budget. In addition, if future refunds are implemented (as we wish ourselves) by abatement of our VAT contribution, this could give a delay of a few months. This would affect the financial year costings, particularly in respect of 1984-5 and 1985-6. Thus, with the system based on a 1250 million ecu refund from 1985 onwards, our net payments to Community institutions could be of the order of £650 million, £925 million and £500 million in 1984-5, 1985-6 and 1986-7 compared with £375 million, £550 million and £600 million in the public expenditure White Paper. With a system based on a smaller notional 1983 refund, the public expenditure additions would be greater (about £100 million a year if the settlement were based on 1100 million ecu).

8. On the other hand, if no agreement were reached at Fontainebleau, the public expenditure consequences would also be substantial, depending on whether the United Kingdom continued to pay its full contribution. If the United Kingdom continued to pay its contribution and received no further refunds, the United Kingdom's net payments to Community institutions over the next few years (assuming the 1 per cent VAT ceiling remained in place) could be of the order of £1300-£1700 million a year.

Basis of the settlement

9. The Prime Minister has indicated to President Mitterrand and Herr Kohl that, if it would clinch a settlement and not give rise to further bargaining, the United Kingdom would be prepared to move, although the margin for manoeuvre is small.

/Herr Kohl

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Herr Kohl has shown some flexibility in response and has recently made clear on the record that, if a settlement is to be reached, movement will be needed by both sides. Thus the area within which an agreement can be reached is now quite clearly defined. The difficulty of restarting the negotiation is considerable, but it appears that the French are now ready to relaunch the dialogue. The negotiating situation, which is illustrated by figures in annexes 2 - 5 (all the figures are on the so-called payments basis, which it is in our interest to obtain) may be as follows -

either

(i) settlement of the "base figure". The simplest solution would be to carry on where we left off and to get a settlement on the basis of one ad hoc year (1984 refund 1000 million ecu) and as high a base figure as possible between 1000 and 1250 million ecu to be inserted in place of X in the Presidency text. The United Kingdom's objectives should clearly be the highest negotiable figure (which gives us the best protection in the long term) and the earliest negotiable start to the system (which gives us substantial extra money in the short term). This second point should not be underrated. It is worth noting that one ad hoc year at 1000 million ecu and a base figure of 1100 million ecu in place of X in the Presidency text would be more favourable to the United Kingdom over the next five years than two ad hoc years at 1000 million ecu and a base figure of 1250 million ecu. It would not be until about 1990 that the cumulative refunds under a system based on 1250 million ecu with two ad hoc years would exceed the refunds under a system based on 1100 million ecu with one ad hoc year;

or

(ii) fixing the threshold and the compensation rate. If the system in the Presidency text is to be adopted, it will be necessary at some stage to fix the threshold and the percentage compensation above the threshold. It would be consistent with the Presidency text to have a single threshold and a single compensation rate above it, which would of course vary with relative prosperity. For the United Kingdom a solution which fixed now the

threshold and rate of compensation above the threshold would have the advantage of cutting out potential later argument. For other member states it would have the advantage that they could move above the figure of 1000 million ecu without making this too apparent to their public opinion. In negotiation we should have to keep the base figure on the table because it is this figure which constrains the freedom of manoeuvre of other member states to propose an unacceptably high rate of United Kingdom contribution above the threshold. The United Kingdom's objective must be:

- to have only one ad hoc year before the system is put into effect;
- to seek the lowest possible United Kingdom rate of contribution (highest possible rate of compensation) above the threshold.

Monsieur Davignon suggested a more complicated version of this approach. Under it, the system would be described in terms of a threshold and two compensation rates, with the switch to higher compensation rate taking place at a step point set in terms of gross domestic product.

Provided that the result is a real compromise between 1000 million ecu and 1250 million ecu (preferably biased in our favour) and provided that the decision on the threshold and percentage contribution above the threshold is constrained by the resulting figure, the other variations between different formulations are not so significant. For example, the "improved Davignon formula" (illustrated at (b) in Annex 4A) would give the United Kingdom an average refund over the period 1985-88 which represents 63 per cent of the total unadjusted net contribution; the "1100 million ecu notional figure formula" with a threshold of 0.05% of gross domestic product and a compensation rate of 80 per cent above the threshold would give the United Kingdom an average refund over the period 1985-88 which represents 62 per cent of the total unadjusted net contribution; and the least favourable version of the "1100 million ecu notional figure formula" would still give

over the same period an average refund equivalent to 61 per cent of the total unadjusted net contribution. For practical purposes we can assume that within these constraints the United Kingdom would be contributing not less than 2 per cent and not more than 6 per cent of any increases in Community expenditure (ie between 10 and 30 per cent of our normal contribution).

or

(iii) a straight percentage of the VAT share/expenditure share gap. The French and other member states may present the proposal that the system should be operated to give the United Kingdom a straight-forward two-thirds rebate on the whole of the VAT share/expenditure share gap. This would yield an inadequate refund on the whole gap. A 75 per cent rebate of the VAT share/expenditure share gap would give the United Kingdom refunds equivalent to about 66.5 per cent of our unadjusted net contribution over the period 1985-88. A 70 per cent rebate would give us refunds equivalent to about 62 per cent of our unadjusted net contribution over the same period. The marginal rate of compensation would be lower than for the other solutions discussed, leaving the United Kingdom more vulnerable to surges in Community expenditure if budgetary discipline is less effective than we hope. Even so, under a scheme of this sort, the United Kingdom's marginal contribution to additional expenditure would be 25 per cent or 30 per cent of our normal contribution.

If a proposition of this sort is advanced we should respond by saying that the system has been the product of a long and hard negotiation, and that we are looking for an agreement on the basis of the system in the Presidency text either by setting a notional figure or the rate of compensation and the threshold.

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Basis of the figures

10. This paper, and the figures in the annexes, assume that VAT is measured on a payments basis, representing the actual amount of VAT own resources paid over to the Commission in the year in question. This amount will include corrections and adjustments in respect of earlier years. The alternative assiette basis attributes these adjustments back to the year to which they relate. The payments basis is to be preferred, mainly because it would ensure that the prospective large VAT adjustments to be paid in 1985 in respect of 1984 would qualify for refund under the system on the assumption that we obtain no more than one ad hoc year. On an assiette basis these adjustments would be attributed to 1984 and so would not qualify for refund. This could make a massive difference (up to 450 million ecu) to our 1985 refund. There are also technical arguments for a payments basis, although the Commission favour an assiette basis, also for technical reasons. We can support our case by recalling that discussion at the March European Council was on a payments basis (the 1622 million ecu VAT/expenditure share gap in 1983, a figure which we should maintain).

Budget discipline

11. Agreement on an effective and binding system of budgetary discipline, especially for agricultural expenditure, is an essential part of the package, without which we have refused to consider any increase in own resources. Discussion on the implementation of the arrangements provisionally agreed in the Presidency text at Brussels has been carried forward in the ECOFIN Council and a high level official group. Although there is still a long way to go to secure our objectives of making the arrangements for budgetary discipline effective and legally binding, we have managed to keep open all options including Treaty amendment. For Fontainebleau, it should be sufficient to note the progress which has been made in these discussions and encourage them to continue to examine all options for making budgetary discipline effective and binding with a view to securing agreement on detailed texts on budget discipline at the same time as agreement on the detailed texts on own resources and imbalances. The United Kingdom will need to make clear that the current text needs a considerable amount of

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further work in order to be turned into a satisfactory implementing text, and that we expect the implementing text to be completed and come to Governments for approval at the same time as the other texts arising from agreement in the negotiations. We should not allow others the opportunity to water down the existing text.

Conclusion

12. At the Fontainebleau European Council on 25-26 June the United Kingdom should seek -

- (i) agreement on a system for correcting the budget inequity, which will form part of the revised Decision on Own Resources, the correction being effected by deduction from the normal share of VAT (Presidency text satisfactory on these points);
- (ii) not more than one ad hoc year at 1000 million ecu, with application of the new system thereafter;
- (iii) a base figure for the new system (ie the figure to replace X in the Presidency text) which is an acceptable compromise between 1250 million ecu and 1000 million ecu. If the settlement is expressed not in terms of this figure but in terms of the threshold and rate of compensation above the threshold the result must give figures which are equivalent to an acceptable compromise between 1250 million ecu and 1000 million ecu in 1983. Ministers will wish to consider whether they would be prepared, if other member states made such an offer, to accept a system giving an acceptable result in 1983 which was based on a straight percentage of the VAT share/expenditure share gap with no threshold;
- (iv) agreement that work should continue on budget discipline with a view to having a satisfactory implementing text presented for approval at the same time as the detailed texts on budget imbalances and own resources.

PRESIDENCY TEXT OF 20 MARCH 1984 ON BUDGETARY IMBALANCES

Control of expenditure and rebalancing of the budget constitute in the long term the essential means for resolving the problem of budgetary imbalances.

However, pursuant to the Stuttgart Declaration, any Member State which bears an excessive budgetary burden in relation to its relative prosperity may benefit from a correction at the appropriate time.

The arrangements for the correction will be adopted by the Council of Ministers before June taking account of the following factors:

- the basis for correction is the gap between the VAT share and the share in expenditure allocated in accordance with present criteria.

A part of the administrative expenditure will be charged to each Member State in accordance with the present formula.

- correction will only occur beyond a certain threshold, to be determined, which will be expressed as a percentage of absolute GDP. This percentage will vary as a function of relative prosperity as indicated by per capita GDP in a Community of 12; the rate of correction beyond the above-mentioned threshold will vary in inverse proportion to relative prosperity;

accordingly, a Member State benefiting from compensation will bear a percentage of the additional cost arising from the increase in the basis of the correction, including the expenditure linked to enlargement;

- the correction will be deducted from the normal share of VAT of the Member State concerned in the budget year following that in respect of which the correction has been made; the resulting burden for the other Member States will be allocated according to their normal share of VAT;

- the above correction mechanism will form part of the decision on new own resources, their durations being linked.

One year before the new ceiling is reached, the Commission will submit a report on the results of budgetary discipline, the Community's financial requirements and the operation of the correction mechanism. The Council will take the necessary steps to ensure the continuity of the Community's financial system.

For the United Kingdom the application of the above factors to the budget figures for 1983 would have given a net correction amount of X million ECU; for 1984 this correction will be fixed by advance application of the correction arrangements to be applied from 1986. It will be paid in 1985 in accordance with procedures to be determined which will not affect the level of Community expenditure.

SYSTEMS WITH A THRESHOLD AND A SINGLE RATE OF COMPENSATION

I. SYSTEM BASED ON BASE FIGURE FOR REFUND OF 1250 MILLION ECU90% Compensation rate (threshold of 0.045% of GDP or 230 million ecu in 1983)

	Adjusted net contribution	Refund	Refund as percentage of unadjusted net contribution
1985	579	2230	79
1986	878	1902	68
1987	908	1884	67
1988	971	2005	67
Average			
1985-88			71

II. SYSTEM BASED ON BASE FIGURE FOR REFUND OF 1000 MILLION ECU90% Compensation rate (threshold of 0.1 per cent of GDP or 510 million ecu
in 1983)

	Adjusted net contribution	Refund	Refund as percentage of unadjusted net contribution
1985	870	1939	69
1986	1186	1594	57
1987	1233	1559	56
1988	1314	1662	56
Average			
1985-88			59

I. REFUND OF 1150 million ecu(a) Threshold 250 million ecu (consequential compensation rate: 84.2%)

	Adjusted net contribution	Refund	Refund as percentage of unadjusted net contribution
1985	748	2061	73
1986	1027	1753	63
1987	1057	1735	62
1988	1127	1849	62
Average			
1985-88			65

(b) Threshold 200 million ecu (consequential compensation rate 81.2%)

	Adjusted net contribution	Refund	Refund as percentage of unadjusted net contribution
1985	773	2036	72
1986	1038	1742	63
1987	1066	1726	62
1988	1139	1837	62
Average			
1985-88			65

(c) Threshold 100 million ecu (consequential compensation rate: 75.6%)

	Adjusted net contribution	Refund	Refund as percentage of unadjusted net contribution
1985	825	1984	71
1986	1064	1716	62
1987	1085	1707	61
1988	1160	1816	61
Average			
1985-88			64

ANNEX 3 (Continued)

II REFUND OF 1125 million ecu(a) Threshold. 250 million ecu (consequential compensation rate: 82.4%)

	Adjusted net contribution	Refund	Refund as percentage of unadjusted net contribution
1985	792	2017	72
1986	1064	1716	62
1987	1095	1697	61
1988	1169	1807	61
Average 1985-88			64

(b) Threshold. 200 million ecu (consequential compensation rate: 79.4%)

	Adjusted net contribution	Refund	Refund as percentage of unadjusted net contribution
1985	819	1990	71 →
1986	1077	1703	61
1987	1104	1688	60
1988	1180	1796	60
Average 1985-88			<u>63</u>

(c) Threshold. 100 million ecu (consequential compensation rate: 74.0%)

	Adjusted net contribution	Refund	Refund as percentage of unadjusted net contribution
1985	867	1942	69
1986	1100	1680	60
1987	1121	1671	60
1988	1199	1777	60
Average 1985-88			62

III REFUND OF 1100 MILLION ECU(a) Threshold: 250 million ecu (consequential compensation rate: 80.5%)

	Adjusted net contribution	Refund	Refund as percentage of unadjusted net contribution
1985	839	1970	70
1986	1104	1676	60
1987	1134	1658	59
1988	1211	1765	59
Average			
1985-88			62

(b) Threshold: 200 million ecu (consequential compensation rate: 77.6%)

	Adjusted net contribution	Refund	Refund as percentage of unadjusted net contribution
1985	864	1945	69
1986	1116	1664	60
1987	1142	1650	59
1988	1221	1755	59
Average			
1985-88			62

(c) Threshold: 100 million ecu (consequential compensation rate: 72.4%)

	Adjusted net contribution	Refund	Refund as percentage of unadjusted net contribution
1985	909	1900	68
1986	1137	1643	59
1987	1157	1635	59
1988	1237	1739	58
Average			
1985-88			61

SYSTEMS GIVING REFUNDS OF 1150, 1125 AND 1100 MILLION ECU WITH A 90% COMPENSATION RATE

(a) 1150 million ecu (consequential threshold: 345 million ecu)

	Adjusted net contribution	Refund	Refund as percentage of unadjusted net contribution
1985	699	2110	75
1986	1004	1776	64
1987	1041	1751	63
1988	1112	1864	63
Average			
1985-88			66

(b) 1125 million ecu (consequential threshold: 372 million ecu)

	Adjusted net contribution	Refund	Refund as percentage of unadjusted net contribution
1985	728	2081	74
1986	1036	1744	63
1987	1075	1717	62
1988	1147	1829	61
Average			
1985-88			65

(c) 1100 million ecu (consequential threshold: 400 million ecu)

	Adjusted net contribution	Refund	Refund as percentage of unadjusted net contribution
1985	756	2053	73
1986	1065	1715	62
1987	1105	1687	60
1988	1179	1797	60
Average			
1985-88			64

SYSTEMS WITH A THRESHOLD AND TWO RATES OF COMPENSATION (DAVIGNON-TYPE SCHEMES)

- (a) BASIC DAVIGNON-GIVING REFUND OF 1052 IN BASE YEAR (1983) (threshold of 0.05% of GDP or about 250 million ecu in 1983, with compensation rate of 77% up to 0.4% of GDP and 90% thereafter)

	ANC	Refund	Refund as % of UNC
1985	875	1934	69
1986	1177	1603	58
1987	1206	1586	57
1988	1287	1689	57
Average			
1985-88			60

- (b) IMPROVED DAVIGNON-GIVING REFUND OF 1093 IN BASE YEAR (1983)
with threshold of 0.05% of GDP or about 250 million ecu in 1983,
with compensation rate of 80% up to 0.35% of GDP and 90% thereafter)

	ANC	Refund	Refund as % of UNC
1985	784	2025	72
1986	1094	1686	61
1987	1136	1656	59
1988	1211	1765	59
Average			
1985-88			63

SYSTEMS, WITH A SINGLE RATE OF COMPENSATION AND NO THRESHOLD

(a) Compensation of 75 PER CENT of the VAT share/expenditure gap

	ANC	<i>Refund</i> Threshold	Refund as % of UNC
1985	752	2057	73
1986	984	1796	65
1987	1000	1792	64
1988	1070	1906	64
Average			
1985-88			66

(b) Compensation of 70 PER CENT of the VAT share/expenditure gap

	ANC	<i>Refund</i> Threshold	Refund as % of UNC
1985	889	1920	68
1986	1104	1676	60
1987	1119	1673	60
1988	1197	1779	60
Average			
1985-88			62

I. WHAT A STRAIGHT PERCENTAGE REFUND MEANS?

- (a) By comparison with the 1000 mecu (position of the Nine) and 1250 mecu (UK position) on 1983 figures it means

% of VAT share/ expenditure share gap (1622 mecu on payments basis)	mecu
70	1135
69	1119
68	1103
67	1087
66.66	1081
65	1054

- (b) The average return on the UK's full unadjusted net contribution over the period 1985-88 given by the straight percentage refund is estimated to be

% of VAT share/ expenditure gap	% of the full unadjusted net contribution
70	62
68	60
66.66	59

III. ADJUSTED NET CONTRIBUTION IN REAL TERMS

If there were a settlement on an 1125 mecu refund on 1983 figures (II(b) in annex 3 to the paper of 14 June), the estimated United Kingdom adjusted net contribution to the Community in real terms (deflated to 1983 prices) would be as follows -

	Adjusted net contribution, mecu
1983	1163
1984	1011 (ad hoc year)
1985	739 (advent of the system)
1986	935
1987	926
1988	956