



Prime Minister.

To note.

A.J.C. 12.12

Treasury Chambers, Parliament Street, SW1P 3AG
01-233 3000

PRIME MINISTER

NET PAYMENTS TO EUROPEAN COMMUNITY INSTITUTIONS:

PUBLIC EXPENDITURE WHITE PAPER FIGURES

file with A.J.C.

When we agreed, on 10 November, on the figures to be shown in the Autumn Statement for net payments to Community Institutions in 1984/85, we also agreed that I would consult you again in due course about the figures, and relevant text, for the Public Expenditure White Paper.

2. We now plan to publish the White Paper in mid-February, and I propose that it should contain the following figures:-

£m cash	1983/4	1984/85	1985/6	1986/7
UK net payments to Community Institutions	500	375	550	600
Figures contained in last White Paper and in Autumn Statement	380	450	530	
Difference	+120	-75	+20	

3. These figures take account of a new estimate of our likely payments to and receipts from the Community budget. For 1983-84 it is assumed, despite the current problems with the European Parliament, that we shall receive the bulk (90 per cent) of the 1983 refunds agreed at Stuttgart (worth about £440 million net) along with the whole of the disputed balance of our 1982 risk-sharing refunds (worth £42 million net). Since no agreement was reached at Athens, or is likely to be reached by mid-February, the assumptions for future years are those adopted in the last White Paper and in the Autumn Statement ie. budget refunds



of two-thirds of our uncorrected net contribution to the allocated Community budget (this will be described in the White Paper as a "stylised" assumption rather than a forecast or a negotiating objective); and a Community budget constrained by the 1 per cent VAT ceiling.

4. On 10 November we considered and rejected the idea of showing in the Autumn Statement our 1984/85 net EC contribution "uncorrected" - ie. without any refunds. The objection to this approach was that it would represent a change from past practice, add some £700 million to expenditure planning totals in 1984-85 (which would be difficult to explain), and weaken our negotiating position vis a vis the Community. These arguments remain valid for the White Paper. It is true that there is some risk that the figures I propose may be regarded as the negotiating target, but the presentation in the text of the White Paper (see attached draft) is designed to reduce the risk.

5. The 1983-84 figure is £120 million higher than the one in this year's White Paper. The main reason for this is that we now have to base the figures on the Stuttgart agreement rather than the "stylised" assumption used in the White Paper. As a partial offset, however, we now expect higher agricultural receipts.

6. The projected budget contribution for 1984-85 is somewhat lower than that contained in the Autumn Statement, and lower too than the 1983-84 figure. This partly reflects the use of the stylised assumption on budget refunds, but also a quirk in the way our VAT payments to the Community (which constitutes half our total payments) are calculated (using a low sterling/ecu "budget" exchange rate). This depresses our overall budget contribution in respect of 1984.

7. The draft White Paper text refers to four tables, two of which I enclose. The first, as in the last White Paper, shows net payments to European Community Institutions; and the second payments to and receipts from the European Community budget. The latter will have a footnote referring to the "stylised assumption" used for estimating budget refunds in 1984-85 and later years. The other tables, described in the text, have not yet been finalised. One will give figures for our net contribution in respect of particular Community Budgets in past years; the other will give a breakdown of the estimated figures for gross receipts in future years.

8. Copies of this minute go to Geoffrey Howe and Sir Robert Armstrong.

(N.L.)

16 December 1983

N.L.

WHITE PAPER TEXT: CONTRIBUTIONS TO EC INSTITUTIONS

The UK's net payments to European Community Institutions, shown in table 1, are made up of three components: net payments to the European Community budget (excluding our share of the cost of the Communities' overseas aid expenditure, which is included within the aid programme); contributions to the capital of the European Investment Bank (EIB); and receipts from the European Coal and Steel Community (the ECSC). As shown in table 1, the main component is our net payments to the European Community budget. These are calculated as the difference between our gross payments to, and receipts from, the budget. Since 1980-81, our EEC net contribution has been much reduced by budget refunds, which are enabling other areas of public expenditure in the UK to be maintained at higher levels than could otherwise be afforded.

2. The latest estimate of our net contribution to European Community Institutions in 1983-84 is £500 million, compared with £616 million in 1982-83. The estimate for 1983-84 takes account of the agreement reached at the European Council Meeting in Stuttgart in June 1983 that the UK would receive refunds of 750 million ecus net (about £440 million) in respect of our contribution to the Community budget in 1983. These refunds have been entered in the 1984 Community budget and it is assumed that the bulk will be paid by 31 March 1984. The remainder should be paid by the end of 1984. The Stuttgart refunds will finance expenditure in the UK on energy, transport and employment measures. The effect of the agreement reached at Stuttgart is that, on average since the first refund in 1980, the UK's net contribution to the budget has been reduced by around two-thirds. The estimate for 1983-84 also includes payment of the UK's full 1982 "risk-sharing" refund. This compensates the UK because our uncorrected net contribution in 1982 turned out to be greater than was originally expected. At present some £42 million (net) of this is outstanding.

3. For future years, 1984-85 to 1986-87, it has been conventionally assumed that the UK will continue to receive a refund of two-thirds of our estimated net contribution to that part of the Community budget which the Commission allocate between Member States (the so called "allocated" budget, which excludes Community expenditure on overseas aid and certain other items). This follows the approach used in the last White Paper. It is, as before, a stylised assumption, not a forecast nor a negotiating objective. The Stuttgart European Council decided that, for the future, the Community should seek to agree "measures which, taken as a whole, will avoid the constantly recurrent problems between the Member States over the financial consequences of the Community's budget and its financing". Discussions are continuing within the Community on how this might be achieved. The UK has proposed that a "safety net" arrangement be introduced to ensure that no Member State bears an unreasonable burden. The estimate of the UK's net contribution to the Community budget in future years would be subject to revision in the light of the precise arrangement agreed.

4. Tables 2 and 3 [not yet finalised] present the latest estimates of our net budget contribution on a "payments" and "budget" basis, respectively. Table 2 shows the net payments actually made during UK financial years, irrespective of the Community budget to which they relate or from which they are financed. Table 3 shows our net contribution in respect of a particular Community budget, regardless of when the payments and receipts actually take place. It shows our refunds against the year to which they relate. Thus our refunds for 1981 are shown against our net contribution to the 1981 budget (excluding refunds), even though they were mostly paid from the 1982 budget.

5. Tables 2 and 3 show gross contributions and gross receipts, including negotiated refunds, as well as our net contributions. Gross contributions are made under the "own resources" system, established by a Council decision on 12 April 1970. Under this system, which has applied to the 6 original Member States in full since 1978 and the UK, Denmark and Ireland in full since 1980, Member

States pay over monthly to the Community agricultural levies, customs duties and the yield of a value added tax not exceeding 1 per cent of the value of transactions included in a harmonised base agreed in 1977. The budget is financed almost entirely from these own resources. The projections in this White Paper assume that the existing basis of own resources will be maintained, and in particular that the 1 per cent limit on VAT own resources will remain in force. The European Commission have proposed that this limit be increased to 1.4 per cent and this proposal is supported by a number of Member States. The UK has made it clear that it would be prepared to consider an increase in the Community's own resources limit only if both a "safety net" mechanism and an arrangement for ensuring effective control of agricultural expenditure were introduced as well.

6. Gross receipts from the budget by UK public sector bodies (other than negotiated refunds) come mainly from the Agricultural Guidance and Guarantee Fund, the Social and Regional Funds, and refunds in respect of own resources collection costs. The expenditure by the Intervention Board for Agricultural Produce and other public authorities in the UK which gives rise to these receipts scores as public expenditure in the programmes concerned. The UK's share of total receipts (other than negotiated refunds) in 1984 is expected to be of the order of 12½ per cent. Table 4 provides a break down of the UK's receipts from the budget for past periods. Also shown are the Government's expectations as to future receipts.

7. The projections for future years of both our gross contributions and our gross receipts - and hence of our net contribution to the Community budget - are very uncertain. The forecast of our gross contributions is dependent on, amongst other things, changes in imports and import prices (particularly the prices of certain agricultural products), while the forecast of our gross receipts is dependent on future changes in the level and pattern of expenditure within the Community as a whole. Agricultural receipts are particularly difficult to predict accurately.

8. The final element in the calculation of the UK's net payments to European Community Institutions is the exclusion of the UK's contribution to the overseas aid element of the Community budget. This expenditure is attributed to the overseas aid programme, Programme 2.5.

TABLE 1

£ million cash

NET PAYMENTS TO EUROPEAN COMMUNITY INSTITUTIONS (EXCLUDING OVERSEAS AID)

	1983-84	1984-85	1985-86	1986-87
Net payments to Community Budget	622	485	665	725
Contributions to the capital of the European Investment Bank	11	20	20	20
Grants received from European Coal and Steel Community	- 33	- 20	- 20	- 20
<u>Less:</u> Contributions to Community Budget expenditure on overseas aid included in programme 2.5	-100	-110	-115	-125
TOTAL	500	375	550	600

TABLE 2

EUROPEAN COMMUNITY BUDGET

UK PAYMENTS AND RECEIPTS BY UK FINANCIAL YEARS

£ million cash

	Gross Payments	Public Sector Receipts	Negotiated Refunds	Net Payments including Overseas Aid(2)	Net Payments excluding Overseas Aid(3)
1978-79	1323	555	-	768	743
1979-80	1665	781	-	884	837
1980-81	1900	970	645	285	255
1981-82	2330	1128	959	243	157
1982-83	2787	1240	836	711	616
1983-84	3087	1656	809	622	512
1984-85 ⁽⁴⁾	3171	1625	1061	485	375
1985-86 ⁽⁴⁾	3493	1680	1148	665	550
1986-87 ⁽⁴⁾	3761	1785	1251	725	600

Notes

- (1) For 1983-84 onwards, an exchange rate of 1.73 ecus to the £ is assumed.
- (2) Payments in respect of overseas aid are included within programme 2.5 of table 2.2.
- (3) Included within programme 2.7 in table 2.2.
- (4) The figures for 1984-85 and after reflect the stylised assumption on budget refunds explained in paragraph [] .

20 December 1983

Net Payments to European Community Institutions:
Public Expenditure White Paper Figures

The Prime Minister has noted the contents of the minute of 16 December on the above subject which she received from the Chancellor of the Exchequer.

JOHN COLES

John Kerr, Esq.,
H.M. Treasury.