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1
Prime Minister

Inky Clerk
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Qz.03660

MR COLES

THE COMMUNITY BUDGET: ESTIMATES OF UNITED KINGDOM NET
CONTRIBUTIONS AND REFUNDS

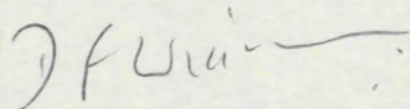
I submit

- doc 1. A table, prepared by the Treasury, showing estimates of United Kingdom net contributions and refunds in 1985-88 expressed in million ecu. For the purpose of these estimates it is assumed that the agricultural "overspending" is pushed forward from 1984 and then financed on the Community budget in the normal way. We cannot yet be sure whether this will be the case. It is also assumed that the United Kingdom's excess share of levies and duties will rise in proportion to GDP. This assumption is not accepted by all Departments.
- doc 2. The main elements of doc 1 expressed in £.
- doc 3. A comparative selection of the figures from doc 2 and a calculation of the effects of the Davignon proposal on some different assumptions, in particular that the United Kingdom excess share of levies and duties will not rise in proportion to GDP.
- doc 4. An estimate of the net benefits and contributions of other member states, using the same material as in doc 1.
- doc 5. An estimate of the amount which other member states will contribute towards the United Kingdom refunds.

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- doc 6. A summary of the Davignon proposal.

2. I am sending copies to Janet Lewis-Jones (Lord President of the Council's Office), Roger Bone (FCO), John Kerr (Treasury) and to Sir Robert Armstrong.



D F WILLIAMSON

4 April 1984

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REFUNDS AND NET CONTRIBUTIONS 1985-1988

(All figures in million ecu)

Year	Unadjusted Net Contribution	System to give 1250 million ecu refund in 1983 (95% compensation rate)			System to give 1250 million ecu refund in 1983 (90% compensation rate)		
		Refund	% Refund	Adjusted Net Contribution	Refund	% Refund	Adjusted Net Contribution
1985	2310	1520	66	790	1518	66	792
1986	3090	2208	71	882	2176	70	914
1987	3390	2434	72	956	2397	71	993
1988	<u>3530</u>	<u>2505</u>	<u>71</u>	<u>1025</u>	<u>2471</u>	<u>70</u>	<u>1059</u>
Total	12320	8667	70	3653	8562	69	3758

Year	Unadjusted Net Contribution	System to give 1100 million ecu refund in 1983 (95% compensation rate)			System to give 1100 million ecu refund in 1983 (90% compensation rate)		
		Refund	% Refund	Adjusted Net Contribution	Refund	% Refund	Adjusted Net Contribution
1985	2310	1342	58	968	1340	58	970
1986	3090	2015	65	1075	1983	64	1107
1987	3390	2226	66	1164	2189	65	1201
1988	<u>3530</u>	<u>2280</u>	<u>65</u>	<u>1250</u>	<u>2246</u>	<u>64</u>	<u>1284</u>
Total	12320	7863	64	4457	7758	63	4562

Year	Unadjusted Net Contribution	Davignon Proposal (with marginal compensation of 77% up to 0.4% of GDP and 90% thereafter)			Davignon Proposal modified so that . 0.5 compensation of 80% up to 0.33% of GDP with 90% compensation thereafter		
		Refund	% Refund	Adj. Net Contribution	Refund	% Refund	Adjusted Net Contribution
1985	2310	1283	56	1027	1333	58	977
1986	3090	1866	60	1224	1979	64	1111
1987	3390	2064	61	1326	2185	64	1205
1988	<u>3530</u>	<u>2107</u>	<u>60</u>	<u>1423</u>	<u>2238</u>	<u>63</u>	<u>1292</u>
Total	12320	7320	59	5000	7735	63	4585

Notes on doc 1.

1. These figures assume that the United Kingdom's excess share of levies and duties over our VAT share rises in proportion to GDP.

2. On this basis, the VAT share/expenditure share gap in 1985 is 1964 mecu (0.33% of GDP) and not 2300 mecu (0.4% of GDP) as assumed by Davignon.

3. The VAT share/expenditure share gap is assumed to be 1622 mecu in 1983 (ie on a payments basis)

4. If Davignon proposal is modified only to increase the lower rate of compensation from 77% to 80% without changing the point at which the higher rate of compensation commences, the benefit would be about 70 mecu a year. The average refund over 1984-88 would be 61.5%

REFUNDS AND NET CONTRIBUTIONS 1985-88

(All figures in million £)

Year	Unadjusted Net Contribution	A			B		
		System to give 1250 million ecu refund in 1983 (95% compensation rate)			System to give 1250 million ecu refund in 1983 (90% compensation rate)		
		Refund	% Refund	Adjusted Net Contri- bution	Refund	% Refund	Adjusted Net Contri- bution
1985	1363	897	66	466	896	66	467
1986	1823	1303	71	520	1284	70	539
1987	2000	1436	72	564	1414	71	586
1988	2083	1478	71	605	1458	70	625

Year	Unadjusted Net Contribution	C			D		
		System to give 1100 million ecu refund in 1983 (95% compensation rate)			System to give 1100 million ecu refund in 1983 (90% compensation rate)		
		Refund	% Refund	Adjusted Net Contri- bution	Refund	% Refund	Adjusted Net Contri- bution
1985	1363	792	58	571	791	58	572
1986	1823	1189	65	634	1170	64	653
1987	2000	1313	66	687	1291	65	709
1988	2083	1346	65	737	1325	64	758

Year	Unadjusted Net Contribution	E			F		
		Davignon Proposal			Davignon Proposal (modified)		
		Refund	% Refund	Adjusted Net Contri- bution	Refund	% Refund	Adjusted Net Contri- bution
1985	1363	757	56	606	787	58	576
1986	1823	1101	60	722	1168	64	655
1987	2000	1218	61	782	1289	64	711
1988	2083	1268	60	839	1321	63	762

A. 1250 million ecu refund on 1983 figures (90% compensation rate)

£ million

	<u>Refund</u>	<u>%</u>	<u>Adjusted net contribution</u>
1985	896	66	467
1986	1284	70	539
1987	1414	71	586
1988	1458	70	625

(Treasury figures)

B. 1100 million ecu refund on 1983 figures

(Davignon modified proposal)

1985	786	58	576
1986	1168	64	655
1987	1289	64	711
1988	1320	63	762

(Treasury figures)

C1. 1100 million ecu refund on 1983 figures

(Davignon proposal)

£ million

	<u>Refund</u>	<u>%</u>	<u>Adjusted net contribution</u>
1985	757	56	606
1986	1101	60	722
1987	1218	61	782
1988	1243	60	839

(Treasury figures)

C2. 1100 million ecu refund on 1983 figures

(Davignon proposal)

1985	778	57	585
1986	1139	62	684
1987	1270	64	729
1988	1315	63	767

(Cabinet Office figures)

Difference between system on base A and system
on base C1

£146 million a year over 5 years

Difference between system on base A and system
on base B

£97 million a year over 5 years

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ESTIMATES OF APPROXIMATE NET BALANCES OF
OTHER MEMBER STATES AFTER ADJUSTMENT (IMPROVED DAVIGNON)

All figures in million ecu

	<u>1985</u>	<u>1986</u>	<u>1987</u>	<u>1988</u>	
Belgium	200	200	200	200	
Denmark	350	400	450	450	-
Germany	-2900	-3700	-4150	-4450	-
Greece	1000	1250	1350	1350	
France	-350	-500	-650	-850	-
Ireland	825	1000	1100	1100	-
Italy	1250	1500	1550	1500	-
Luxembourg	300	350	400	400	
Netherlands	350	400	400	400	
Spain and Portugal	--	200	600	1200	
U.K.	977	1111	1205	1292	1300

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NOTES ON DOCUMENTS 4 AND 5

The figures in the documents 4 and 5 can only be approximate, particularly as far as the figures on net balances are concerned. In particular, the following assumptions were made:-

1. The net balances before adjustment are based on the 1983 net balances, increased for other member states in line with the increase in the Community budget. The United Kingdom's net contribution, however, has on Treasury assumptions increased faster than the rate of growth of the Community budget.
2. Member states contribute to United Kingdom refunds in proportion to their 1983 VAT shares. Thus Germany contributes fully to United Kingdom refunds, and Spain and Portugal do not contribute.
3. The net costs of enlargement (and thus the net benefits to Spain and Portugal combined) are assumed to be 200 mecu in 1986, 600 mecu in 1987, 1200 mecu in 1988.

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ESTIMATES OF APPROXIMATE CONTRIBUTIONS
TO UNITED KINGDOM REFUNDS

All figures in million ecu

	<u>1985</u>	<u>1986</u>	<u>1987</u>	<u>1988</u>
Belgium	60	90	100	100
Denmark	30	50	60	60
Germany	490	720	800	820
Greece	30	40	40	40
France	380	580	640	650
Ireland	20	20	30	30
Italy	230	340	380	390
Luxembourg	--	10	10	10
Netherlands	90	130	140	150
Spain and Portugal	--	--	--	--

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NOTES ON DOCUMENTS 4 AND 5

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1. The net balances before adjustment are based on the 1983 net balances, increased for other member states in line with the increase in the Community budget. The United Kingdom's net contribution, however, has on Treasury assumptions increased faster than the rate of growth of the Community budget.
2. Member states contribute to United Kingdom refunds in proportion to their 1983 VAT shares. Thus Germany contributes fully to United Kingdom refunds, and Spain and Portugal do not contribute.
3. The net costs of enlargement (and thus the net benefits to Spain and Portugal combined) are assumed to be 200 mecu in 1986, 600 mecu in 1987, 1200 mecu in 1988.

The Davignon proposal

The Davignon proposal is understood to be as follows -

1. Qualifying condition The VAT share/expenditure share gap must be at least 0.1% of gross domestic product (500 million ecu on 1983 figures)
2. UK threshold 0.05% of gross domestic product (250 million ecu on 1983 figures). Any unadjusted net contribution up to the threshold is not compensated.
3. Rate of compensation above the threshold (band 1) 77% of the United Kingdom's unadjusted net contribution will be compensated, up to 0.4% of gross domestic product (about 2300 million ecu)
4. Rate of compensation above the threshold (band 2) 90% of the United Kingdom's unadjusted net contribution will be compensated above band 1.
5. Enlargement Reference to be clarified or deleted.
6. No other changes in the Presidency text.

NET CONTRIBUTIONS (-) AND RECEIPTS (+) BY MEMBER STATE

(Allocated budget)

million ecus

I. <u>Net positions before UK refunds</u>	1975	1976	1977	1978	1979	1980	1981	1982 (provisional)
	Belgium/Luxembourg	+135	+346	+329	+337	+610	+439	+515
Denmark	+237	+294	+293	+381	+380	+327	+279	+294
Germany	-1007	-1054	-1467	-597	-1430	-1526	-1684	-2085
Greece	--	--	--	--	--	--	+173	+698
France	+35	+58	-310	-371	-78	+431	+576	+14
Ireland	+175	+158	+212	+326	+545	+650	+582	+721
Italy	+40	+248	+294	-334	+534	+737	+788	+1586
Netherlands	-27	+222	+88	+41	+288	+454	+239	+302
United Kingdom	+104	-90	+126	-228	-849	-1512	-1419	-2040
[Residual]	[+308]	[-179]	[+435]	[+445]	[--]	[--]	[--]	[--]

II. <u>Net positions after UK refunds</u>	1980	1981*	1980	1981	1982
	As expected at time of 30 May agreement		Actual	Actual	Provisional
Belgium/Luxembourg	+709	+846	+377	+441	+447
Denmark	+389	+523	+294	+242	+262
Germany	-1623	-1836	-1957	-2185	-2442
Greece	--	--	--	+161	+682
France	-335	-421	+81	+139	-366
Ireland	+524	+656	+639	+568	+708
Italy	+598	+589	+527	+549	+1373
Netherlands	+347	+463	+376	+94	+245
United Kingdom	-609	-730	-337	-9	-883

Source: Commission

As the residuals show, the figures for 1975 to 1978 are unsatisfactory, but they give some guidance as to the orders of magnitude; the figures for 1982 remain subject to revision.

* These figures give rise to a residual of -90, reflecting a last-minute revision to the United Kingdom figure which the Commission made without revising the figures for other member states.

REFUNDS AND NET CONTRIBUTIONS 1985-1988

(All figures in million ecu)

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1986	3090	2208	71	882	2176	70	914
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1988	<u>3530</u>	<u>2505</u>	<u>71</u>	<u>1025</u>	<u>2471</u>	<u>70</u>	<u>1059</u>
Total	12320	8667	70	3653	8562	69	3758

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1986	3090	2015	65	1075	1983	64	1107
1987	3390	2226	66	1164	2189	65	1201
1988	<u>3530</u>	<u>2280</u>	<u>65</u>	<u>1250</u>	<u>2246</u>	<u>64</u>	<u>1284</u>
Total	12320	7863	64	4457	7758	63	4562

Year	Unadjusted Net Contribution	Davignon Proposal (with marginal compensation of 77% up to 0.4% of GDP and 90% thereafter)			Davignon Proposal modified so that compensation of 80% up to 0.33% of GDP with 90% compensation thereafter		
		Refund	% Refund	Adj. Net Contribution	Refund	% Refund	Adjusted Net Contribution
1985	2310	1283	56	1027	1333	58	977
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1987	3390	2064	61	1326	2185	64	1205
1988	<u>3530</u>	<u>2107</u>	<u>60</u>	<u>1423</u>	<u>2238</u>	<u>63</u>	<u>1292</u>
Total	12320	7320	59	5000	7735	63	4585

	1	2	3	4	5	6	7	8	9	10	11	12	13	14
	VAT 1% BASE MECU	VAT (GNP) PAYMENTS MECU	VAT (GNP) SHARE %	LEVIES MECU	SHARE %	DUTIES MECU	SHARE %	GDP B ECU	GDP SHARE %	POPULATION SHARE %	GDP PER HEAD IN CURRENT YEAR AS A RATIO [EC12=100]	GDP PER HEAD 3 YEAR MOVING AVERAGE [EC12=100]	FEOGA GUARANTEE EXPENDITURE %	NET CONTRIBUTION MECU
UNITED KINGDOM	2140.0	1685.2	18.05	395.5	22.63	1550.9	24.26	446.0	20.30	20.68	106	97	9.85	- 1419
BELGIUM	490.0	374.6	4.01	206.2	11.80	408.4	6.39	85.2	3.88	3.64	116	124	4.46	+ 276
DENMARK	250.0	212.3	2.27	29.4	1.68	135.2	2.12	52.1	2.37	1.89	136	141	4.63	+ 279
GERMANY	3620.0	2759.3	29.55	306.8	17.55	1943.8	30.41	612.2	27.87	22.77	133	139	18.54	- 1684
GREECE (1)	(195.0)	(151.4)	(1.62)	18.4	1.05	84.6	1.32	33.0	1.50	3.59	45	45	1.33	+ 173
FRANCE	2840.0	2236.0	23.94	257.7	14.74	977.3	15.29	510.2	23.22	19.92	126	127	27.50	+ 576
IRELAND	88.0	70.9	0.76	8.9	0.51	81.9	1.28	15.0	0.68	1.27	58	55	4.00	+ 582
ITALY	1460.0	1333.8	14.28	310.0	17.74	633.0	9.9	313.8	14.28	20.86	74	72	19.09	+ 788
LUXEMBOURG	22.0	20.7	0.22	0.1	0.01	4.5	0.07	3.5	0.16	0.14	128	132	0.04	+ 239
NETHERLANDS	600.0	494.9	5.30	214.5	12.28	572.8	8.96	125.9	5.73	5.26	118	125	10.56	+ 190
EC (10)	11705.0	9339.2	100	1747.5	100	6392.3	100	2196.9	100	100 (2) (270.9m)			100 (3) (10960.2 MECU)	0

- (1) Greece paid on the basis of GNP share, the balance was divided amongst the other nine member states by VAT shares.
- (2) Total population of the EC.
- (3) Total FEOGA - Guarantee expenditure.

Euro Budget

1982														
1	2	3	4	5	6	7	8	9	10	11	12	13	14	
VAT 1% BASE MECU	VAT (GNP) PAYMENTS MECU	VAT (GNP) SHARE %	LEVIES MECU	SHARE %	DUTIES MECU	SHARE %	GDP B ECU	GDP SHARE %	POPULATION SHARE %	GDP PER HEAD IN CURRENT YEAR AS A RATIO [EC12=100]	GDP PER HEAD 3 YEAR MOVING AVERAGE [EC12=100]	FEOGA GUARANTEE EXPENDITURE %	NET CONTRIBUTION MECU	
UNITED KINGDOM	2900.0	2680.7	21.98	548.3	24.61	1784.5	26.18	480.3	20.05	20.64	105	103	10.33	- 2036
BELGIUM	510.0	468.0	3.84	283.0	12.70	403.7	5.92	84.6	3.53	3.63	105	115	4.33	+ 253
DENMARK	265.0	244.5	2.00	32.9	1.47	142.6	2.09	57.4	2.40	1.89	138	136	4.50	+ 295
GERMANY	3610.0	3347.1	27.44	392.0	17.60	1966.5	28.85	672.3	28.07	22.71	134	135	16.39	- 2086
GREECE (1)	(230.0)	(197.0)	(1.61)	76.6	3.44	108.7	1.60	38.2	1.59	3.61	48	45	5.53	+ 685
FRANCE	3150.0	2914.8	23.90	281.9	12.65	1071.2	15.72	549.6	22.95	19.98	124	126	23.17	- 19
IRELAND	100.0	92.4	0.76	13.0	0.58	87.8	1.29	17.8	0.74	1.28	63	59	4.01	+ 732
ITALY	1725.0	1592.2	13.05	368.6	16.55	660.8	9.70	351.5	14.68	20.87	76	74	20.23	+ 1616
LUXEMBOURG	24.0	22.0	0.18	0.1	0.01	4.3	0.06	3.6	0.15	0.13	121	127	0.02	+ 256
NETHERLANDS	690.0	638.6	5.24	231.4	10.39	585.2	8.59	139.8	5.84	5.27	120	121	11.45	+ 304
EEC (10)	13204.0	12197.4	100	2227.8	100	6815.3	100	2395.1	100	100			100	0
								(271.432m)					(12369.5 MECU)	

(1) Greece paid on the basis of gnp shares, the balance was divided amongst the other nine member states by vat shares.

1983

	1	2	3	4	5	6	7	8	9	10	11	12	13	14	VAT/ EXPENDITURE GAP.
	VAT 1% BASE MECU	VAT (GNP) PAYMENTS MECU	VAT (GNP) SHARE %	LEVIES MECU	SHARE %	DUTIES MECU	SHARE %	GDP B ECU	GDP SHARE %	POPULATION SHARE %	GDP PER HEAD IN CURRENT YEAR AS A RATIO [EC12=100]	GDP PER HEAD 3 YEAR MOVING AVERAGE [EC12=100]	FEOGA GUARANTEE EXPENDITURE %	NET CONTRIBUTION MECU	
UNITED KINGDOM	2925.6	2919.6	20.99	394.1	16.19	1910.0	26.40	499.9	19.45	20.60	103	105		-1913	-1680*
BELGIUM	481.0	480.0	3.45	349.1	14.34	435.0	6.01	93.0	3.62	3.64	109	110		207	636
DENMARK	279.3	278.7	2.00	45.6	1.87	160.0	2.21	62.5	2.43	1.88	141	139		331	350
GERMANY	4011.7	4003.5	28.79	485.8	19.96	2080.0	28.75	733.8	28.55	22.66	138	135		-2300	-2451
GREECE (1)	(227.0)	(217.0)	(1.56)	60.0	2.47	120.0	1.66	38.9	1.51	3.64	46	47		942	962
FRANCE	3203.2	3196.7	22.98	371.9	15.28	1105.0	15.27	574.0	22.34	20.04	122	125		5	-777
IRELAND	134.8	134.5	0.97	18.9	0.78	100.0	1.38	19.7	0.77	1.29	65	62			
ITALY	1920.4	1916.5	13.78	451.2	18.54	690.0	9.54	395.8	15.40	20.89	81	77		1324	1150
LUXEMBOURG	30.9	30.8	0.22	0.1	0.00	4.6	0.06	3.6	0.14	0.15	114	119		269	262
NETHERLANDS	732.1	730.6	5.25	257.2	10.57	630.0	8.71	148.8	5.79	5.30	120	119		368	732
EEC (10)	13946.0	13908.0	100	2433.9	100	7234.6	100	2569.9	100	100 (271.9m)					

(1) Greece paid on the basis of GNP share, the balance being divided amongst the other nine member states by VAT shares

X 1622 m.ecu on "payments" basis

1984

	1	2	3	4	5	6	7	8	9	10	11	12	13	14
	VAT 1% BASE MECU	VAT (GNP) PAYMENTS MECU	VAT (GNP) SHARE %	LEVIES MECU	SHARE %	DUTIES MECU	SHARE %	GDP B ECU	GDP SHARE %	POPULATION SHARE %	GDP PER HEAD IN CURRENT YEAR AS A RATIO [EC12=100]	GDP PER HEAD 3 YEAR MOVING AVERAGE [EC12=100]	FEOGA GUARANTEE EXPENDITURE %	NET CONTRIBUTION MECU
UNITED KINGDOM	2927.0	2927.0	20.04	491.6	16.66	1920.0	25.19	550.2	20.05	20 55	107	105		
BELGIUM	504.0	504.0	3.45	385.2	13.06	451.0	5.92	100.4	3.66	3.63	111	109		
DENMARK	291.0	291.0	1.99	52.6	1.78	166.0	2.18	67.0	2.44	1.87	143	141		
GERMANY	4200.0	4200.0	28.76	558.4	18.93	2180.0	28.60	784.1	28.58	22.61	139	137		
GREECE (1)	(231.5)	(227.8)	(1.56)	116.3	3.94	130.0	1.71	41.0	1.49	3.63	45	47		
FRANCE	3327.0	3327.0	22.78	464.5	15.75	1257.0	16.49	596.8	21.75	20.07	119	122		
IRELAND	126.0	126.0	0.86	20.2	0.68	105.0	1.38	20.3	0.74	1.32	62	63		
ITALY	2238.0	2238.0	15.32	529.2	17.94	800.0	10.49	423.3	15.43	20.88	81	79		
LUXEMBOURG	36.0	36.0	0.25	0.2	0.01	4.5	0.06	3.9	0.14	0.15	116	115		
NETHERLANDS	728.0	728.0	4.98	332.7	11.28	610.0	8.00	156.9	5.72	5.28	118	119		
EEC (10)	14608.5	14604.8	100	2949.9	100	7623.5	100	2743.9	100	100 (272.5m)				

(1) Greece is paying on the basis of GNP share, the balance being divided amongst the other nine member states by VAT shares.