

# COMMISSION OF THE EUROPEAN COMMUNITIES

COM(87) 420 final

Brussels, 31 July 1987.

## OWN RESOURCES DECISION

COM(87) 420 final

EXPLANATORY MEMORANDUM

1. In its Communication 'Making a Success of the Single Act - A new Frontier for Europe' (COM(87) 100) and the 'report to the Council and Parliament on the financing of the Community budget' (COM(87) 101), the Commission put forward a number of proposals for the future financing arrangements of the Community, for strengthening budgetary discipline and for better budgetary management practices. In legal terms, these proposals necessitate amongst other things revision of the existing Own Resources Decision. This explanatory memorandum describes the attached draft legal text of a new Council decision on the Community's Own Resources.

General Principles and Objectives

2. As described in detail in COM(87) 100 and 101, the Commission's proposals for own resources introduce three major changes:
  - a) they set a ceiling on the Community's own resources expressed in terms of Community Gross National Product. Besides this ceiling of 1.4% of Community GNP, the New Own Resources Decision contains a series of annual ceilings on the maximum level of resources that can be called up and on the maximum level of commitments that can be entered into until 1992;
  - b) they modify the composition of the Community's own resources in order to link own resources more closely to the member states' relative prosperity and hence ability to pay;
  - c) they introduce more flexibility into the Community's own resources, avoiding the structural erosion of certain elements of the present resources. The attached draft Decision provides moreover for the possibility of own resources other than those already defined.

3. The new own resources will provide a period of budget security and allow the financing of common policies, notably those foreseen in the Single Act. They will also provide the means for regularising the Community's present problems relating to agricultural stocks and previous commitments undertaken through structural and other policies. They will permit the controlled growth of EAGGF Guarantee spending within the agricultural guideline and hence a better restructuring of the budget. The Commission's budgetary forecast for the 1988-92 period, attached to COM(87) 101 illustrates the composition and evolution of expenditure over this period. The annual budget provision would be fixed slightly below the annual ceilings to allow a small margin for security. The new own resources should cover not only budgetary expenditure but also the requirements of the correction of the UK's budget imbalance and the budgetisation of the European Development Fund.

Finally, the Commission would recall that its proposals on own resources are inextricably linked to the Commission's other proposals regarding strengthened budget discipline and management, better financial planning by way of multi-annual forecasting and improved Institutional Co-operation.

#### Composition of Own Resources

4. As noted above, various changes are proposed to the composition of the Community's own resources.

#### Traditional Own Resources

5. As in the original Own Resources Decision of 21 April 1970 and the revised Decision of 7 May 1985, customs duties and agricultural and sugar levies remain own resources of the Community. It is now proposed however that customs duties on products linked to the ECSC Treaty should also become the Community's Own Resources. At present these duties are retained by the member states.
6. Under the Decisions of 1970 and 1985, the Community must refund to each member state 10% of the 'traditional' own resources collected (customs duties, agricultural and sugar levies) to cover the

collection costs borne by the member states. It is proposed that these refunds be ended since the actual link with collection costs is uncertain and the operation is more or less neutral in budgetary terms as far as the member states are concerned.

#### VAT

7. In COM(87)100 and 101, the Commission proposed that the present ceiling of 1.4% of a harmonised base of VAT be replaced by a limit of 1% of each member state's actual VAT base. This change would have reinforced the own resource character of VAT payments by linking it to the actual imposition and collection of VAT.
8. During the discussions within the Council, however, it has become clear that this proposal raises various practical difficulties. The Member States consider the present system of basing payments on a harmonised VAT base which is now familiar to national administrations should be retained. The Commission has therefore amended its original proposal to do this, while maintaining the proposed new ceiling of 1% of harmonised VAT. In retaining the harmonised base for VAT, greater efforts will be required by the Member States to ensure uniformity in the definition and calculation of payments under this system.

#### The Complementary Base

9. Within the overall and annual ceilings on own resources, the Commission is proposing the introduction of a new own resource which would be based on a uniform percentage rate applied to the difference between a member state's gross national product and its harmonised VAT base.
10. This new resource will counteract two disadvantages of VAT payments:
  - that VAT payments have a tendency to be regressive to the extent that the share of the VAT base in GNP tends to fall as the standard of living rises;

- that partly for the same reason the VAT base has a tendency to grow less quickly than GNP.

11. The complementary base will therefore increase the fairness of the financing of the Community budget between the member states, particularly as the Community budget continues to develop and the uniform rate increases.

12. The Commission will circulate shortly the necessary amendments required to the own resources implementing regulation to cover the introduction of this new resource. These will ensure that the calculation of GNP will reflect all relevant economic activities; that the payments mechanism will be practicable and verifiable, following uniform and obligatory methods; and that a correction mechanism will be established to take account of changes in GNP and VAT statistics.

#### Correction of Budget Imbalances

13. In COM(87)100 and 101, the Commission has put forward proposals for amending the system for correcting budget imbalances. The attached draft Own Resources Decision in no way prejudices the discussions which have yet to take place on this matter.

#### Complementary Financing

14. As with the Own Resources Decision of 7 May 1985, the new Decision allows the possibility of including in the budget complementary research programmes financed by certain member states.

#### Possible Further Own Resources

15. The Commission considers that the Community should retain the possibility of adding a further resource between now and 1992 to those listed in the draft New Own Resources Decision, within the overall ceiling of 1.4% of Community GNP. The attached text therefore provides for this possibility.

Report on Functioning of Own Resources System

16. Finally, the new Decision provides for the submission by the Commission before the end of 1991 of a Report on the functioning of the system.

COUNCIL DECISION

on the system of the Communities' own resources  
( /EEC, Euratom, ECSC)

THE COUNCIL OF THE EUROPEAN COMMUNITIES,

Having regard to the Treaty establishing the European Economic Community,  
and in particular Article 201 thereof,

Having regard to the Treaty establishing the European Atomic Energy  
Community, and in particular Article 173 thereof,

Having regard to the proposal from the Commission,<sup>1</sup>

Having regard to the opinion of the European Parliament,<sup>2</sup>

Having regard to the opinion of the Economic and Social Committee,<sup>3</sup>

Whereas the Council Decision of 7 May 1985 on the Communities' system  
of own resources,<sup>4</sup> hereinafter referred to as 'the Decision of 7 May 1985',  
raised to 1.4% the limit on the rate applied to the uniform value  
added tax base previously set at 1% by the Council Decision of  
21 April 1970 on the replacement of financial contributions from  
Member States by the Communities' own resources,<sup>5</sup> hereinafter referred  
to as "the Decision of 21 April 1970"; whereas the 1.4% limit is  
no longer sufficient to cover all Community expenditure;

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OJ No L 128, 14.5.1985, p. 15.

5 OJ No L 94, 28.4.1970, p. 19.

Whereas the Community must be provided with stable and guaranteed financial means to be able to operate the common policies, improve the present situation and ensure a sufficiently lengthy period of budgetary security;

Whereas the signature of the Single European Act opens up new possibilities to the Community; whereas Article 8A of the Treaty establishing the European Community provides for the completion of the internal market by 31 December 1992;

Whereas, on this date, the Community will have to have available a maximum amount of resources corresponding to 1.4% of the Member States' total GNP; whereas this ceiling on resources must comprise the own resources established under this Decision and the contributions provided for in Council Regulation (EEC) No .../87 on the correction of budgetary imbalances; whereas the progression towards this ceiling must be gradual, with intermediate annual limits being set and used as the reference for each year's maximum payment appropriations;

Whereas observance of this ceiling is based on maintenance of a strict relationship between commitment appropriations and payment appropriations throughout the period 1988-92, with the total allocation of commitment appropriations being kept below 1.4 % of GNP in 1992 ;

Whereas, subject to this ceiling and with a view to matching the resources paid by each Member State more closely with its ability to contribute, the composition of Community own resources must be enlarged and a greater degree of flexibility introduced; whereas it is necessary for this purpose:

- to include in Community own resources the customs duties on products coming under the Treaty establishing the European Coal and Steel Community;
- to fix at 1% the rate to be applied to each Member State's uniform VAT base;
- to introduce an additional type of resource to balance budget revenue and expenditure, the base for calculation being the difference between total GNP and the total actual VAT bases in the Member States;
- to provide for the possibility of new resources connected with economic and tax harmonization in the Community;

Whereas the European Council of 29 and 30 June 1987 stipulated that final approval of this Decision should take place before the end of 1988 with retrospective effect from 1 January 1988,

Whereas provisions must be laid down to cover the changeover from the system introduced by the Decision of 7 May 1985 to that arising from this Decision;

HAS LAID DOWN THESE PROVISIONS, WHICH IT RECOMMENDS TO THE MEMBER STATES FOR ADOPTION:

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Article 1

The Communities shall be allocated resources of their own in accordance with the following Articles in order to ensure that their budget is in balance.

The budget of the Communities shall, irrespective of other revenue, be financed entirely from the Communities' own resources.

Article 2

1. Revenue from the following shall constitute own resources entered in the budget of the European Communities:
  - (a) levies, premiums, additional or compensatory amounts, additional amounts or factors and other duties established or to be established by the institutions of the Communities in respect of trade with non-member countries within the framework of the common agricultural policy, and also contributions and other duties provided for within the framework of the common organization of the markets in sugar;
  - (b) Common Customs Tariff duties and other duties established or to be established by the institutions of the Communities in respect of trade with non-member countries and customs duties on products coming under the Treaty establishing the European Coal and Steel Community;
  - (c) the application of a rate of 1% to the assessment basis for value added tax which is determined in a uniform manner for Member States according to Community rules;
  - (d) the application of a rate - to be determined under the budgetary procedure in the light of the total of all other revenue - to an additional base representing the difference between:
    - the sum of the gross national product at market prices and
    - the sum of the bases referred to in point (c) of all Member States;
  - (e) any new charges introduced within the framework of a common policy, subject to the procedure laid down in Article 201 of the Treaty establishing the European Economic Community or in Article 173 of the Treaty establishing the European Atomic Energy Community having been followed.
2. The Council, acting unanimously on a proposal from the Commission and after consulting the European Parliament, may amend the rate fixed in point 1(c).
3. The rate fixed in point 1(d) shall be applied to each Member State's additional base representing the difference between its gross national product at market prices and its base referred to in point 1(c) above.

4. If, at the beginning of the financial year, the budget has not been adopted, the previous rate applying to the additional base shall remain applicable until the entry into force of the new rate.

5. By way of derogation from paragraph 1(c) and (d) if, on 1 January of the financial year in question, the rules determining the uniform basis for assessing value added tax have not yet been applied in all Member States, the financial contribution to the budget of the Communities to be made by a Member State not yet applying this uniform basis shall be determined according to the proportion of its gross national product at market prices to the sum total of the gross national product of the Member States at market prices. The balance of the budget shall be covered by revenue accruing from value added tax and the additional base in accordance with paragraph 1(c) and (d) and collected by the other Member States. This derogation shall cease to have effect as soon as the rules for determining the uniform basis for assessing value added tax are applied in all Member States.

### Article 3

1. The total amount of own resources assigned to the Communities may not exceed:

- 1.20% of the Community's total GNP in 1988;
- 1.22% of the Community's total GNP in 1989;
- 1.24% of the Community's total GNP in 1990;
- 1.27% of the Community's total GNP in 1991;
- 1.30% of the Community's total GNP in 1992.

These annual ceilings are within an overall limit on own resources of 1.4% of GNP.

2. Observance of this ceiling shall be based on a strict relationship between commitment appropriations and payment appropriations throughout the period 1988-92.

This shall involve a orderly progression in commitment appropriations culminating, in 1992, in a total allocation of commitment appropriations of less than 1.4 % of GNP.

3. The ceiling of 1.4 % shall apply until this Decision is amended. Before the end of 1991, the Commission shall present a report on the operation of the own resources system and the application of budgetary discipline.

### Article 4

The revenue referred to in Article 2 shall be used without distinction to finance all expenditure entered in the budget of the Communities. This provision shall be without prejudice to the treatment of contributions by certain Member States to supplementary programmes provided for in Article 130 L of the Treaty.

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Article 5

Any surplus of the Communities' own resources over the actual expenditure during a financial year shall be carried over to the following financial year.

Article 6

1. The Community resources referred to in Article 2 shall be established and collected by the Member States in accordance with national provisions imposed by law, regulation or administration action, which shall, where necessary, be adapted to meet the requirements of Community rules. Member States shall make these resources available to the Commission.

2. Without prejudice to the auditing of accounts provided for in Article 206a of the Treaty establishing the European Economic Community, or to the inspection arrangements made pursuant to Article 209(c) of that Treaty, the Council shall, acting unanimously on a proposal from the Commission and after consulting the European Parliament, adopt the provisions necessary to apply this Decision and to make possible the inspection of the collection, making available to the Commission and payment of the revenue referred to in Article 2.

Article 7

The mechanism for the graduated refund of own resources accruing from value added tax or GNP-based financial contributions introduced for the Kingdom of Spain and the Portuguese Republic up to 1991 by Articles 187 and 374 of the Act concerning the conditions of accession of the Kingdom of Spain and the Portuguese Republic and the adjustments to the Treaties shall apply to the own resources accruing from VAT and the additional resource referred to in points (c) and (d) of Article 2(1) of this Decision.

Article 8

1. Member States shall be notified of this Decision by the Secretary-General of the Council of the European Communities; it shall be published in the Official Journal of the European Communities.

Member States shall notify the Secretary-General of the Council of the European Communities without delay of the completion of the procedures for the adoption of this Decision in accordance with their respective constitutional requirements.

This Decision shall enter into force on the first day of the month following receipt of the last of the notifications referred to in the second subparagraph. It shall take effect on 1 January 1988.

2.(a) Subject to points (b) and (c) below, the Decision of 5 May 1985 shall be repealed on the same date. To the extent necessary, any reference to the Decision of 21 April 1970 or to the Decision of 5 May 1985 shall be understood as referring to this Decision.

(b) Article 3 of the Decision of 7 May 1985 shall continue to apply to the calculation and adjustment of revenue accruing from the application of rates to the uniform assessment basis for value added tax in 1987 and earlier years.

For 1988 the correction in favour of the United Kingdom and the shares for financing it shall be calculated in accordance with points (b) and (c) of Article 3(3) of the Decision of 7 May 1985. The corresponding amounts shall be assigned to the amounts due from each Member State in respect of the additional own resource referred to in point (d) of Article 2(1) of this Decision and, where necessary, to the amounts due in respect of the VAT own resources referred to in point (c) of Article 2(1). When Article 2(5) has to be applied, the value added tax payments shall be replaced by financial contributions in the calculations referred to above for any Member State concerned. This system shall also apply to the payments of adjustments of corrections for previous years.

(c) Article 4(2) of the Decision of 7 May 1985 shall continue to apply to the financial contributions needed to finance the completion of the supplementary programme for the operation of the HFR reactor 1984-87.

Done at

For the Council  
The President