

EUROPEAN COMMUNITY

BACKGROUND INFORMATION

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BACKGROUND NOTE

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HOW THE EUROPEAN COMMUNITY'S BUDGET IS FINANCED

From January 1, 1975, a new system for collecting the European Community's ever-increasing budget will come into force, virtually making the Community self-sufficient.

For the past four years, the Common Market's budget has come not only from agricultural levies and a proportion of customs duties but also from direct contributions from member state governments. These direct contributions, from the six original EC countries, were in proportion to the size of the member states' economies, namely (in percentages):

Belgium:	6.8
Germany:	32.9
France:	32.6
Italy:	20.2
Luxembourg:	0.2
Netherlands:	7.3

The three countries which joined the EC on January 1, 1973 -- Britain, Denmark and Ireland -- agreed to pay on a rising scale, taking into account the gradual adoption of EC systems by the three countries.

No Uniform VAT

From January 1, 1975, the budget will come not only from agricultural levies and customs duties, as in the past, but also from a proportion of the base of assessment for the value added tax (VAT) now applied to almost all EC products at different stages in their production and to many services. Because, as yet, not all nine states have a uniform method of assessment of VAT, their contributions to the Community budget is determined by the ratio of each country's gross national product to the GNP of the Community as a whole.

From January 1, 1975, to December 31, 1977, the variation in the financial participation of each member state must not exceed 2 per cent, upward or downward. After January 1, 1978, says a report* by the EC Commission, "financing by own resources will be fully assured without restriction."

The "Act of Accession" concerning British, Danish and Irish membership specifies the proportions which each of the three new members shall contribute to the Community budget. These are (in percentages):

Britain:	19.32
Denmark:	2.46
Ireland:	0.61

These payments by new members will be phased in during the first years of membership, at the following rates:

1973:	45%
1974:	56%
1975:	67.5%
1976:	79.5%
1977:	92%

* Inventory of the Community's Economic and Financial Situation since Enlargement and Survey of Future Developments, Brussels, October 25, 1974.

Accelerating Effects

When describing the budgetary system applicable to the new member states during the accession negotiations, the Community made the following statement to the applicant countries:

"Calculations more or less favorable toward one party or another lose their significance when seen in the perspective of the dynamic effects that the United Kingdom's accession must have, and which constitute the essential factor of economic integration. Experience gained from the Treaties of Paris of 1951 and Rome of 1957 shows that numerous questions and anxieties expressed at the time have been resolved without any provisions or protocols, simply thanks to the general, accelerating effects of the Common Market. The present Community of Six has achieved high and steady growth rates, has seen regular increases in real wages at the same time as in investments, has become the largest partner in world trade, and plays an increasing role in international economic and particularly monetary policies. No one could have calculated in advance during the Fifties the extent and pace of these transformations which everyone was entitled to hope for, and no one is in a position to do so now, with a sufficient margin of credibility, for the future of a Community of^tTen.* Indeed, should unacceptable situations arise within the present Community or an enlarged Community, the very survival of the Community would demand that the institutions find equitable solutions."

For the two years 1976 and 1977, the Accession Treaty fixes the maximum relative shares of the new member countries. The Commission report notes that "in the case of the original member states, it is not possible to give precise figures, particularly in the absence of hypotheses as to the development of the Community budget. The general tendency is likely to be a contradiction in their relative shares as the new member states' contributions approach the level corresponding to that of the definitive system."

* At the time, Norway was also expected to become a member

Impact of Policies

The report says that forecasts of revenue for the years 1978 and 1979 are difficult because the amounts due from fiscal duties and VAT are unpredictable, and that "beyond 1979, forecasts become extremely uncertain."

The report adds: "There being no pre-established limitations, the relative burdens on the member states will vary with the size of the Community budget and the amounts of revenue. The Community has experienced and will continue to experience major developments which are reflected in the size of the Community budget. Some common policies might be adjusted, which would have an impact on the movement of expenditure and revenue; some Community activities might be consolidated in the budget; and new common policies with substantial financial implications might be launched.

"Such changes may have substantial repercussions. The 1975 draft budget submitted by the Commission to the EC Council of Ministers provided for an increase of around 34 per cent in expenditure, assuming that the Community would develop in a way regarded as normal: in the budget sent by the Council to the European Parliament, the increase was only 12 per cent, being confined to policies already decided upon.

"There is a connection between the total amount of the budget and the relative contributions of the individual member states: the size of the budget partly determines to what extent the different categories of resources are called into play - resources to which each member state contributes differently. (See Annex 4).

The report adds: "By 1980, the breakdown of the maximum resources available may change as each category follows its own trend. Customs duties will be affected by the existence of international agreements: in particular, external tariffs might be reduced in the GATT (General Agreement on Tariffs and Trade) negotiations, and will also be influenced by the pace of expansion in international trade and the degree of European trade integration. By and large, the share of customs duties in available resources overall will probably decline.

"VAT is a more buoyant resource than customs duties but is less buoyant than gross domestic product.

"As regards the potential total of own resources, there will thus be a relative swing to value-added tax, but the overall amount available will as time goes on account for a decreasing share in Community gross domestic product."

Four Per Cent Growth

The Commission report concludes: "In the present inflationary situation, and following the upheavals resulting from the soaring price of oil, economic forecasting is exceptionally hazardous. The Commission has nonetheless endeavored to draw some conclusions.

"Preliminary exploratory exercises on the economic development of the Community offer some prospects of an annual growth rate of perhaps 4 per cent in the years ahead. The achievement of this rate is, however, subject to conditions which will be very difficult indeed to meet. It demands vigorous and coordinated action by the member states. During this period some countries must be expected to show below average growth.

"As regards the burden of the budget, on the basis of information presently available and even allowing for certain structural changes, which should progressively take place, one cannot exclude the possibility that problems may arise in the future."

Annex I

RELATIVE SHARES OF MEMBER STATES IN THE FINANCING OF THE
COMMUNITY BUDGET

(figures rounded to first decimal place;
Budget rates of exchange)

	1973	1974	1975
Budget total to be apportioned (in '000 million u.a.*)	4.9	5.2	5.7
Denmark	1.1	1.4	1.7
West Germany	29.0	28.5	28.1
France	24.8	24.3	23.0
Ireland	0.3	0.4	0.4
Italy	19.0	18.2	17.2
Netherlands	9.4	9.0	8.9
Belgium	7.4	7.0	6.9
Luxembourg	0.2	0.2	0.2
United Kingdom	8.8	11.0	13.6
Community	100.0	100.0	100.0

* One unit of account (u. a.) equals \$1.20635 at current rates.

Annex 2

RELATIVE SHARES OF MEMBER STATES IN THE FINANCING OF THE
COMMUNITY BUDGET

(figures rounded to first decimal place,
current market exchange rates (1))

	1973	1974	1975 (2)
Budget total to be apportioned (in '000 million u.a.)	4.9	5.0	5.5
Denmark	1.1	1.4	1.7
West Germany	32.3	33.4	32.9
France	24.9	23.5	22.7
Ireland	0.2	0.3	0.3
Italy	16.5	14.8	13.8
Netherlands	10.0	10.0	9.9
Belgium	7.6	7.4	7.3
Luxembourg	0.2	0.2	0.2
United Kingdom	7.2	9.0	11.2
Community	100.0	100.0	100.0

Annex 3

RELATIVE SHARES OF MEMBER STATES IN FINANCING OF THE COMMUNITY BUDGET

(Budget rates of exchange)

	1975	1976	1977
Denmark	1.7	2.1	2.4
West Germany	28.1	26.5-27.6	24.8-26.9
France	23.0	21.7-22.6	20.3-22.0
Ireland	0.4	0.5	0.6
Italy	17.2	16.3-16.9	15.2-16.5
Netherlands	8.9	8.4-8.7	7.8-8.4
Belgium	6.9	6.5-6.8	6.1-6.6
Luxembourg	0.2	0.2-0.2	0.1-0.2
United Kingdom	13.6	16.3	19.2
Community	100	(100)	(100)

Annex 4

RELATIVE SCALE OF THE CATEGORIES OF OWN RESOURCES

ACCORDING TO THE SIZE OF THE BUDGET

(1974 prices and market exchange rates)

	Maximum resources available		Resources in line with actual Budget	
	Million u.a.	Relative shares	Million u.a.	Relative shares
Agricultural levies and sugar contributions	333	4.4	333	6.7
Customs duties	2 456	32.2	2 456	49.2
VAT	4 833	63.4	2 206	44.1
Total	7 622	100.0	4 995	100.0

Annex 5

SIMULATED DISTRIBUTION OF RELATIVE SHARES IN
THE COMMUNITY BUDGET AND COMMUNITY GROSS
DOMESTIC PRODUCT, 1973 AND 1974
 (current market exchange rates)

	Total Budget contribution in million u.a.		Relative share in Budget %		Relative share in Community gross domestic product	
	1973	1974	1973	1974	1973	1974
Denmark	109	120	2.2	2.4	2.6	2.8
West Germany	1 514	1 509	31.0	30.2	33.0	33.6
France	897	908	18.4	18.2	23.9	23.2
Ireland	32	30	0.7	0.6	0.6	0.6
Italy	668	662	13.7	13.2	13.2	13.2
Netherlands	425	389	8.7	7.8	5.8	6.0
BLEU	264	278	5.4	5.6	4.5	4.7
United Kingdom	968	1 099	19.9	22.0	16.4	15.9
Community	4 877	4 995	100	100	100	100

Annex 6

SIMULATED BREAKDOWN OF THE FINANCING OF THE BUDGET UNDER THE DEFINITIVE OWN RESOURCES SYSTEM,1973 AND 1974

(current market exchange rates)

		Agricultural levies and sugar contributions		Customs duties		VAT		Total	
		million u.a.	%	million u.a.	%	million u.a.	%	million u.a.	%
Denmark	1973	5	.9	39	1.9	65	2.8	109	2.2
	1974	7	2.0	50	2.0	64	2.9	120	2.4
West Germany	1973	144	26.6	621	30.7	749	32.4	1 514	31.0
	1974	118	35.4	711	29.0	679	30.8	1 509	30.2
France	1973	87	16.1	329	16.3	481	20.8	897	18.4
	1974	72	21.5	371	15.1	466	21.1	908	18.2
Ireland	1973	3	.7	10	.5	18	.8	32	.7
	1974	3	1.0	8	.4	18	.8	30	.6
Italy	1973	127	23.4	236	11.7	305	13.2	668	13.7
	1974	53	16.0	307	12.5	302	13.7	662	13.2
Netherlands	1973	94	17.4	197	9.7	134	5.8	425	8.7
	1974	22	6.7	239	9.7	128	5.8	389	7.8
BLEU	1973	30	5.5	130	6.4	104	4.5	264	5.4
	1974	17	5.2	164	6.6	97	4.4	278	5.6
United Kingdom	1973	51	9.4	461	22.8	456	19.7	968	19.9
	1974	41	12.2	606	24.7	452	20.5	1 099	22.0
Total	1973	541	100	2 023	100	2 312	100	4 877	100
Total	1974	333	100	2 456	100	2 206	100	4 995	100