

COMMISSION OF THE EUROPEAN COMMUNITIES

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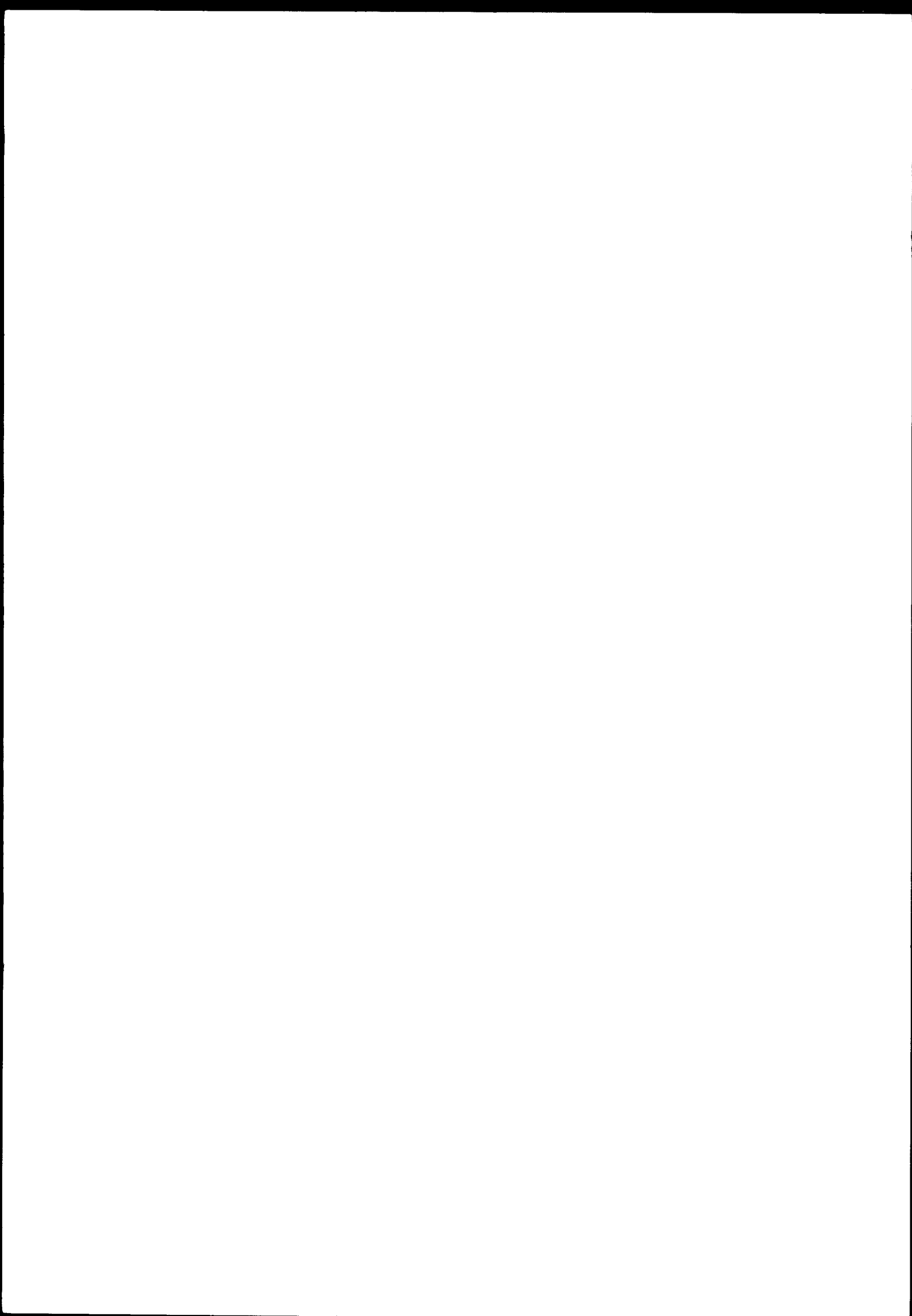
Brussels, 21 February 1985

METHOD

FOR THE CALCULATION OF THE CORRECTION
provided for in Article 3 (3), (4) and (5)
of the amended proposal of 9 July 1984
for a Council Decision on the Communities' system of own resources

(Communication from the Commission to the Council)

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METHOD

PREPARED BY THE COMMISSION
FOR THE CALCULATION OF THE CORRECTION
provided for in Article 3(3), (4) and (5)
of the amended proposal of 9 July 1984
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I. CALCULATION OF THE CORRECTION

According to the decisions taken at Fontainebleau, "the basis for the correction is the gap between the share of VAT payments and the share of expenditure allocated in accordance with the present criteria" (i.e. the criteria used hitherto for calculating Member States' net balances).

1. The United Kingdom's share of VAT payments

This share will be calculated from actual VAT payments and any GNP-based financial contributions, including balances, adjustments and corrections in respect of VAT and the GNP-based financial contributions of previous years which would have been paid if the uniform rate had been applied (see, for example, the revenue and expenditure account and balance sheet, Vol. 1, 1983, Table 2, page 20, column 9, which is contained in Annex 1).

Theoretical example: The United Kingdom's share of VAT payments is 20%.

2. The United Kingdom's share of expenditure allocated "in accordance with the present criteria"

(a) Definition of expenditure

Utilization of the year's appropriations for payments

Example: 1985 expenditure = payments in 1985 against the new 1985 appropriations for payments plus payments in 1986 against (new) 1985 appropriations carried over to 1986.

(b) Definition of allocated expenditure

For the definition of allocated expenditure a distinction should be made between:

- the "present criteria" and
- the way in which they are applied.

Under the present criteria, all expenditure, except that ruled out for reasons of principle, is allocated between the Member States. The latter category - expenditure ruled out for reasons of principle - consists of development cooperation appropriations, which, it is assumed, go to non-member countries.

Hitherto, this principle has been applied in such a way (see Table 1 in Annex 2) as to exclude certain other expenditure, first of all because of the practical difficulties in providing a quick breakdown of some relatively insignificant budget headings and subsequently in order to ensure some continuity in the basic figures; the ad hoc solutions adopted by the Council for 1982 and 1983 followed on from the conclusions of 30 May 1980.

A simplistic approach was adopted for allocating the Communities' administrative expenditure: according to the information available, the Commission's expenditure for the budget headings listed in Table 1 were mainly allocated to Belgium and Luxembourg. The Council's expenditure was attributed to Belgium, and that of Parliament, the Court of Auditors and the Court of Justice mainly to Luxembourg.

As for the future, the final objective should be to apply the criteria in full, i.e. to eliminate the exceptions made for practical reasons.

The final objective will be achieved as rapidly as possible, as set out in Table 2 in Annex 3:

- for chapters in the first column: immediately, that is when the breakdown of expenditure for 1985 is calculated;
- for chapters in the second column: gradually.

¹In the past (figures for 1980, 1981, 1982 and 1983) compensation to the United Kingdom granted in the form of specific expenditure was also based on principle.

The non-allocated expenditure will then be limited to those activities which are excluded on principle:

- development cooperation and
- similar measures which will be excluded by Council decision.

This is the only approach which appears to comply fully with the Fontainebleau Council's statement that "expenditure policy is ultimately the essential means of resolving the question of budgetary imbalances".

The total appropriations involved at the various stages of implementation of the "present" criteria are set out in the table in Annex 4.

Theoretical example: Allocated expenditure totals 22 000 million ECU, of which 2 860 million ECU is for the United Kingdom.

(c) The United Kingdom's share of allocated expenditure

In the theoretical example, $\frac{2\ 860}{22\ 000} = 13\%$.

3. Percentage difference between the United Kingdom's share of VAT payments and its share of allocated expenditure (Article 3(3)(b)(i))

In the theoretical example, $20 - 13 = 7\%$.

4. Absolute difference (Article 3(3)(b)(ii))

In the theoretical example, 7% of total allocated expenditure, i.e.
7% of 22 000 million ECU = 1 540 million ECU.

5. Correction (Article 3(3)(b)(iii))

The correction is made by multiplying the absolute difference by 0.66.
The correction in the theoretical example is thus:

$$0.66 \times 1\ 540 = 1\ 016.4 \text{ million ECU.}$$

II. ENTRY OF THE CORRECTION IN THE BUDGET; FINANCING

In principle, the correction is entered in the budget for the next financial year.

1. Correction in favour of the United Kingdom

(a) Correction in million ECU

The entry in the budget will take place in a number of stages.

For the correction for 1985 the procedure will be as follows:

- the preliminary draft budget for 1986 will include an initial assessment of the correction due. At this point, the United Kingdom's VAT share for 1985 will relate to that year only, since the balances and corrections for previous years will still not be known. The United Kingdom's share of the carryovers from 1985 to 1986 will also have to be estimated;
- a preliminary draft amending budget presented in September 1986 would update the correction in line with the information then available on the 1985 VAT balances and corrections and the utilization of carryovers in the first six or seven months of 1986;
- the final calculation will have to be made when the carryovers from 1985 to 1986 have all been used, i.e. by 1 June 1987.

The resulting adjustments will be incorporated in a preliminary draft amending budget for 1987 presented in September 1987.

(b) Correction to the uniform VAT rate

The amount of the correction is divided by 1% of the United Kingdom's VAT base.

Theoretical example: if 1% of the United Kingdom's 1986 base was 3 500 million ECU, the result would be $\frac{1\ 016.4}{3\ 500} = 0.2904\%$.

The VAT rate applicable to the United Kingdom would thus be equal to the uniform rate less 0.2904%.

2. Financing. VAT rates applicable to the other Member States

The correction is financed by adjusting the VAT rates applicable to the other Member States.

First of all, the share of the other Member States in VAT payments is calculated.

The share calculated in this way for Germany is then reduced to two thirds and this reduction - the one third deducted - is divided among the other Member States (apart from the United Kingdom) in proportion to their VAT shares. The result is an adjusted VAT scale.

The application of this scale to the correction in favour of the United Kingdom - 1 016.4 million ECU in the example - gives the absolute amounts to be financed by the different Member States.

Dividing the absolute amounts by 1% of the VAT base of the Member States concerned gives the increase in the uniform rate resulting for the other Member States from the correction in favour of the United Kingdom.

Annexes: 4

MEMBERS PAID BY THE MEMBER STATES TO FINANCE THE 1983 BUDGET

	Agricultural levies		ECT duties	VAT resources and financial contributions (1)	Balance of VAT resources and adjustments to financial contributions for 1982 (1)	Corrections to balance of VAT resources and adjustments to financial contributions for 1981 (1)	Corrections to balance of VAT resources for 1980	Corrections to balance of VAT resources and adjustments to financial contributions for 1979	Total VAT resources and financial contributions	TOTAL
	Sugar and isoglucose levies	Other levies								
	1	2	3	4	5	6	7	8	6+5+8+7+8)=9	10
BELGIUM	65.801.373	793.889.373	423.740.989	479.809.102	- 11.297.332	- 1.514.639	-1.333.760	-	432.463.951	1.215.915.686
DENMARK	38.952.141	6.870.540	159.824.377	278.711.479	- 4.286.905	- 190.325	-	-	274.234.250	479.861.708
GERMANY	270.446.172	142.970.750	2.019.795.393	4.003.484.648	79.597.572	- 782.579	3.926.999	2.641.387	4.638.865.978	6.472.098.306
GREECE	16.891.543	37.968.435	107.345.950	217.727.744	- 2.130.697	174.837	-	-	215.721.824	377.727.791
FRANCE	293.666.225	78.859.748	1.951.827.532	3.199.743.907	-216.771.036	1.195.122	464.557	6.478.670	3.052.709.265	4.508.464.269
IRELAND	11.371.255	7.074.228	100.392.171	133.998.275	13.598.022	6.547.332	7.447.743	50.934	150.636.307	289.673.982
ITALY	71.704.362	323.107.350	657.130.385	1.915.757.389	- 32.584.454	23.987.119	16.185.982	-	1.923.346.034	2.998.643.081
LUXEMBOURG	-	127.789	4.545.549	30.804.620	8.336.350	51.374	-	18.274	39.210.617	43.833.947
NETHERLANDS	82.254.758	135.843.702	433.176.304	729.552.283	- 11.559.637	- 2.129.003	- 225.042	-1.936.887	713.651.711	1.564.944.474
UNITED KINGDOM	73.591.066	129.337.136	1.830.827.818	2.936.380.954	- 96.463.289	4.536.761	15.196.239	-	2.839.650.644	5.084.406.526
TOTAL	967.900.833	1.347.063.547	6.938.646.860	13.914.768.439	-256.566.449	26.825.977	35.607.318	7.255.378	13.729.000.663	23.813.561.903

(1) Only Greece paid a GNP-based financial contribution.

Table 1: Expenditure allocated in accordance with the method used hitherto for applying the "present criteria"

SECTOR	Title, chapter, article, item	
	new (from 1982)	old
I. EAGGF Guarantee Section, including food aid refunds (MCAs paid by exporters on behalf of importers are reallocated to importers)	<u>Part B:</u> Titles 1 and 2	Titles 6 and 7
II. Improvement of structures	<u>Part B:</u>	
1. Social Fund	Chapters 60-62	Chapters 50-52
2. EAGGF Guidance Section	Chapters 30-33, 46	Chapters 80-86
3. ERDF quota section	Chapter 50	Article 550
4. EMS interest subsidies	Article 520	Article 570
III. Other operating appropriations allocated	<u>Part B:</u>	
1. Research and investment	Chapter 73	Chapter 33
2. Energy	Chapter 70	Chapter 32
3. Industry	Chapter 77	Articles 370-376 (i.e. Chapter 37 without transport)
IV. Refunds	<u>Part B:</u>	
1. 10% of own resources paid over	Chapter 80	Chapter 40
2. EMS financial compensation	Articles 820, 821	Article 571
3. Refunds to Greece (Article 127 of Act of Accession)	Article 860	Article 490
V. Administrative expenditure (broken down)		
1. Expenditure relating to persons working with the institution	<u>Part A:</u> Title 1	Title 1
2. Investments in immovable property, rental of buildings and associated costs	<u>Part A:</u> Chapter 20	Chapter 20
3. Expenditure on data processing	<u>Part A:</u> Chapter 21	Chapter 21
4. Movable property and associated costs, current administrative expenditure	<u>Part A:</u> Chapter 22 Chapter 23	Chapter 22 Chapter 23
5. European schools	<u>Part A:</u> Article 289	Chapter 289
6. European Centre for the Development of Vocational Training (Berlin)	<u>Part B:</u> Article 632	Item 3010
7. European Foundation for the Improvement of Living and Working Conditions (Dublin)	<u>Part B:</u> Article 641	Article 359
8. Total expenditure by the other institutions: Parliament, Council (and ESC), Court of Justice and Court of Auditors		
Total broken down by Member State		

Annex 3

Table 2: Expenditure still to be allocated and expenditure to be excluded, by chapter
Original 1984 budget

Part Title Chapter	Heading	Chapters to be incorporated:		Difficult or impossible to allocate	Chapters to be excluded on principle
		Immediately	Gradually		
		1	2	3	4
PART A					
Title 2					
Chap. 24	Entertainment and representation expenses			650,000	
Chap. 25	Expenditure on formal and other meetings		15,480,000		
Chap. 26	Studies		12,000,000		
Chap. 27	Publishing and information		36,740,000		
Chap. 28	Subsidies for balancing budgets		54,320,650		
Chap. 29	Subsidies and financial contributions	3,473,200			
PART B					
Title 3					
Chap. 38	Expenditure in the agricultural sector	79,520,000			
Title 4					
Chap. 40	Organization of the market	42,875,000			
Chap. 41	Specific measures		1,373,000		
Chap. 42	Fisheries agreements		13,060,000		
Chap. 43	Social measures	250,000			
Chap. 45	Improvement of structures	30,500,000			
Title 5					
Chap. 51	Specific measures	100,000,000			
Chap. 54	Other operations	32,300,000			
Chap. 55	Mediterranean programmes	10,000,000			
Title 6					
Chap. 63	Education and vocational training	12,266,000			
Chap. 64	Social protection		15,752,000		275,000,000 ¹
Chap. 65	ECSC	62,500,000			
Chap. 66	Environment		16,214,000		
Chap. 67	Cultural action	2,140,000			

¹ Expenditure in 1984 specifically for the United Kingdom.

Part Title Chapter	Heading	Chapters to be incorporated		difficult or impossible to allocate	Chapters to be excluded on principle
		Immediately	Gradually		
		1	2		
Title 7					
Chapter 70	Energy policy				456.000.000 ¹
Chapter 71	Nuclear safeguards		3.300.000		
Chapter 72	Research and technology		3.740.000		
Chapter 75	Information and innovation		23.185.000		
Chapter 78	Transport	33.750.000			471.000.000 ¹
Title 8	REPAYMENTS AND AID TO THE MEMBER STATES				
Title 9	DEVELOPMENT COOPERATION				897.148.000
TITLE 10	OTHER EXPENDITURE				
Article 101	Contingency reserve			5.000.000 ²	
	TOTAL	409.574.200	195.164.650	5.650.000	2.099.148.000

¹ Expenditure in 1984 specifically for the United Kingdom and Germany.

² This appropriation will either be transferred to another budget heading, in which case it will be included with that expenditure and broken down by Member State if the original expenditure is, or it will lapse.

Definition of allocated expenditure - total appropriations involved
at the various stages of application of the "present criteria"

HEADING	Total appropriations for payments in original 1984 budget	
	million ECU	%
A. <u>Expenditure allocated according to present criteria</u>		
I. As applied hitherto (for budget headings concerned, see Table 1)	22 651.9	89.3
II. Chapters which could be included in allocated expenditure without difficulty (see Table 2, column 1)	409.6	1.6
III. Chapters which will be incorporated gradually in allocated expenditure (see Table 2, column 2)	195.2	0.8
IV. Total future "allocated expenditure"	23 256.7	91.7
V. Headings which it would be very difficult or impossible to include	5.6	(0.02)
B. <u>Expenditure excluded on principle</u>		
Development cooperation (Title 9)	897.1	3.5
Specific expenditure for the United Kingdom and Germany (see Table 2, column 4)	1 202.0	4.8
C. GRAND TOTAL	25 361.4	100.0