COMMISSION OF THE EUROPEAN COMMUNITIES

COM(93) 438 final

Brussels, 14 September 1993

Proposal for a
COUNCIL DECISION

on the system of the Communities' own resources

(presented by the Commission)

COMMISSION OF THE EUROPEAN COMMUNITIES

CORRIGENDUM
au COM(93)438 final du 14/09/93
Lire : 1,335 au lieu de 1,32
à : .l'exposé de motifs
.7ème considérant
.Art. 3.2
CONCERNE TOUTES LES VERSIONS

COM(93)438 final/2

Brussels, 10 November 1993

Proposal for a

COUNCIL DECISION

on the system of the Communities' own resources

(presented by the Commission)

CORRIGENDUM

to COM(93)438 final of 14 September 1993

Should read : - in the explanatory memorandum point A.1 last sentence :

1,335 instead of 1,32

- 7. whereas :

1,335 instead of 1,32

- Article 3.2 :

1,335 instead of 1,32

EXPLANATORY MEMORANDUM

1. Introduction

1.1 At its meeting in Edinburgh on 11 and 12 December 1992 the European Council called on the Commission to prepare a new own resources Decision taking account of the conclusions it adopted on the financing of the Community for the period 1993-99.

The new Decision will have to be approved by the Council in time for a recommendation to be put to the Member States for it to be adopted by 1 January 1995 in accordance with the procedure set out in Article 201 of the Treaty.

In adopting its conclusions the European Council took account of:

- the need for the Community to be provided with adequate resources to finance its policies;
- the need to apply budgetary discipline to all areas of Community expenditure, which involves the definition of expenditure priorities;
- each individual Member State's ability to contribute;
- the need to give effect to undertakings given at Maastricht and Lisbon.

The Council also asked that the case for a fixed uniform rate for the VAT resource should be considered.

1.2 The proposed Council Decision contains:

- the provisions implementing the European Council conclusions relating essentially to the level of own resources available between 1995 and 1999 and to the structure of the Community's financing system. These provisions are described at A below;
- additional provisions amending the existing arrangements. The Commission sees them as being necessary for the consistency of the arrangements from the legal point of view and for the satisfactory operation of the financing system in the years to come. These additional provisions are described at B below.

Annex I sets out the findings of the examination requested by the Council of the application of a fixed uniform VAT rate.

A. Implementation of the European Council conclusions

1. Own resources ceiling

The annual own resources ceiling for payment appropriations is held at 1.20% of Community GNP up to 1994 and will then be raised gradually to 1.27% of Community GNP in 1999:

1995	1996	1997	1998	1999
1.21	1.22	1.24	1.26	1.27

Over the same period commitment appropriations will increase steadily at a pace compatible with the growth in payment appropriations, rising to a maximum of 1.32% of Community GNP in 1999.

2. Uniform rate applying to the VAT resources base

2.1 The European Council decided to lower the ceiling on the uniform rate applying to the VAT own resources base from 1.4% to 1% in equal steps over the period 1995-99.

2.2 As requested by the European Council, the Commission has examined the case for applying a fixed uniform rate; its findings are set out in Annex I.

It is seen that a fixed uniform rate would have major benefits in terms of fiscal consistency, transparency and predictability. Moreover, the definitive application of a fixed uniform rate would not affect the UK correction mechanism and the UK's net payments.

2.3 The Court of Auditors has called for a fixed uniform rate. In its report concerning the financial year 1991 it notes: "The underlying idea of this text (Decision 88/376) is that of the uniformity of the rate of the VAT resource in respect of all contributors. The same rate is to be applied to the VAT assessment base in order to secure equal treatment for all Member States".

It concludes: "it would be preferable for the financing of the United Kingdom abatement to be entirely separate from the VAT resource, so that it would no longer be necessary to calculate a uniform rate which is different from the 1.4% rate or to have actual call-up rates which vary from one Member State to another."

2.4 However, so that the proposed Decision can be adopted rapidly, the Commission has preferred not to make a proposal concerning a fixed rate. This is because by comparison with the present system, the application of a fixed rate, although of limited financial impact, would not be neutral for Member States other than the United Kingdom and in particular those most affected by the reduction in the uniform rate. But if the Member States were to find that the benefits of a fixed rate system outweigh the drawbacks, the Commission would present a further proposal at once.

3. Capping of the VAT base

The VAT resources base of countries whose per capita GNP is less than 90% of the Community average will be capped at 50% of GNP from 1995 onwards. It will also be reduced from 55% to 50% for the other Member States in equal steps from 1995 to 1999 as follows:

1995	1996	1997	1998	1999
54%	53%	52%	51%	50%

4. Study of a possible new resource

The European Council asked the Commission to carry out a study of possible candidates for a new fifth resource. The Commission proposes to report to the Council on the findings of its study before the end of 1999, either together with or separate from the report it will be making on the operation of the own resources system.

B. Adjustments and additions to the 1988 Decision on the own resources system

1. Calling in the resources required to cover reserves

The 1988 Decision provides that the resources required to cover the EAGGF monetary reserve will be called in from the Member States only when the reserve is drawn on. For the sake of consistency this provision is extended to the two new reserves for financing the loan guarantee fund and for emergency aid in non-member countries.

2. Graduated refund of VAT or GNP-based own resources

The partial refunds of own resources payments which Greece enjoyed until 1985 and Spain and Portugal until 1991 constituted expenditure from the general budget. Any adjustments to the VAT and GNP bases for the years 1981 to 1991 may entail further corrections. As these adjustments relate to years which are now well passed, any such corrections should not be large. They may, in fact, be negative and hence constitute revenue.

Experience has shown, however, that it would be better not to count such unpredictable expenditure against the amounts earmarked in the financial perspective for categories of expenditure of an entirely different nature and serving an entirely different purposes. The Commission therefore proposes that an item be set aside in the statement of revenue to accommodate corrections of refunds so that they will be treated as negative or positive revenue.

3. Provisions to be deleted

3.1 The provision concerning the deduction for the United Kingdom in 1988 in respect of earlier years and the calculation of how it is to be financed does not appear in the new Decision as it is now superfluous.

3.2. Article 2.7. must be deleted. In effect the existence of tax on the added value should in principle represent a condition for future memberships, possible transitional problems will be settled at that time.

3.3. Treatment of the surplus for the year

Article 7 of the 1988 Decision explains how any surplus of revenue over total expenditure in a given year should be dealt with, and in particular a surplus generated by a transfer from the EAGGF Guarantee chapter to the monetary reserve.

The Financial Regulation, for its part, provides that a surplus for a given year will be entered as revenue for the following year and a deficit as expenditure.

The Commission considers the question to be a matter for the subsidiary legislation. It is therefore proposing that the present Article 7 should not appear in the new own resources Decision.

It has accordingly proposed that a new provision neutralizing the effect of positive or negative balances on the application of the own resources ceiling be inserted in the subsidiary legislation.

4. Controls of VAT resources

Own resources accruing from VAT are currently the Community's main source of revenue and will go on representing a significant, albeit declining proportion of the Community budget up to 1999.

The conditions for determining the base and for collecting this resource must be consistent with the intention expressed by the Heads of State and Government in the Protocol on Economic and Social Cohesion annexed to the Treaty on European Union to take greater account of the contributive capacity of individual Member States.

It is all the more important as VAT fraud and irregularities are the cause of de facto alterations in the distribution of the financial burden of the Community budget.

The existing rules provide that the Commission should mainly carry out compliance tests of operations for centralizing revenue, determining the base and calculating the weighted average rate. Provisions also exist to help improve VAT registration, collection and control procedures in Member States in order to enhance measures for combating fraud.

Without detracting from Member States' responsibility for combating VAT fraud and irregularities, the Commission could make a bigger contribution by carrying out checks of Member States' VAT registration, calculation, collection and control procedures and making any recommendations with a view to enhancing effectiveness.

5. General provisions

The Commission will present a report on the operation of the own resources system by no later than the end of the period covered by the new financial perspective, i.e. in 1999.

The provisions concerning the calculation of resources and the correction of budgetary imbalances applicable to years prior to 1995 will continue to apply for adjustments to resources and corrections concerning these years made after entry into force of the new Decision.

The new Decision will take effect on 1 January 1995.

Proposal for a

COUNCIL DECISION

on the system of the Communities' own resources

THE COUNCIL OF THE EUROPEAN COMMUNITIES,

Having regard to the Treaty establishing the European Economic Community, and in particular Articles 199 and 201 thereof,

Having regard to the Treaty establishing the European Atomic Energy Community, and in particular Articles 171(1) and 173 thereof,

Having regard to the proposal from the Commission,[1]

Having regard to the opinion of the European Parliament,[2]

Having regard to the opinion of the Economic and Social Committee,[3]

1 OJ No C 102, 16.4.1988, p. 8.

2 Opinion delivered on 15 June 1988 (not yet published in the Official Journal).

3 OJ No C 175, 4.7.1988.

THE COUNCIL OF THE EUROPEAN COMMUNITIES,

Having regard to the Treaty establishing the European Economic Community, and in particular Articles 199 and 201

Having regard to the Treaty establishing the European Atomic Energy Community, and in particular Articles 171(1) and 173 thereof,

Having regard to the proposal from the Commission,[1]

Having regard to the opinion of the European Parliament,[2]

Having regard to the opinion of the Economic and Social Committee,[3]

1 OJ No C

2 Opinion delivered on

3 OJ No C

[Whereas Council Decision 85/257/EEC, Euratom of 7 May 1985 on the Communities' system of own resources,[4] as last amended by the Single European Act, raised to 1.4% the limit for each Member State on the rate applied to the uniform value-added tax (VAT) 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[5] hereinafter referred to as 'the Decision of 21 April 1970';]

[Whereas the resources available within the limit of 1.4% are no longer sufficient to cover the estimates of Community expenditure;]

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

[Whereas the Community must possess stable and guaranteed revenue enabling it to stabilize the present situation and operate the common policies; whereas this revenue must be based on the expenditure deemed necessary to this end which was determined in the financial estimates in the Interinstitutional Agreement between the European Parliament, the Council and the Commission, which will take effect on 1 July 1988;]

4 OJ No L 128, 14.5.1985, p. 15.

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

Whereas Council Decision 88/376/EEC, Euratom of 24 June 1988 on the system of the Communities' own resources[4] expanded and amended the composition of own resources by capping the VAT resources base at 55% of gross national product for the year at market prices (hereinafter "GNP"), with the maximum call-in rate being maintained at 1.4%, and by introducing an additional resource, based on the total GNP of Member States, designed to guarantee budgetary balance between revenue and expenditure;

Whereas this system has produced a sounder basis for financing the Community; whereas, however, the structure of the system should make more allowance for each Member State's ability to contribute by correcting the degressive aspects of the system for the least prosperous Member States;

Whereas the Community must have adequate resources to finance its policies; whereas its revenue must match the expenditure judged necessary for those policies, for which the priorities were set in the financial perspective contained in the Interinstitutional Agreement between the European Parliament, the Council and the Commission, which will take effect on 1 January 1995;

4 OJ No L 185, 15.7.1988, p. 24.

Whereas the European Council meeting [in Brussels on 11, 12 and 13 February 1988] reached certain conclusions;	Whereas the European Council meeting <u>in Edinburgh on 11 and 12 December 1992</u> reached certain conclusions;
Whereas, in accordance with these conclusions, the Community will, by [1992], be assigned a maximum amount of own resources corresponding to [1.2%] of the total of the Member States' gross national product for the year at market prices, hereinafter referred to as 'GNP';	Whereas, in accordance with these conclusions, the Community will, by <u>1999</u>, be assigned a maximum amount of own resources corresponding to <u>1.27%</u> of the total of the Member States' GNP;
Whereas observance of this ceiling requires that the total amount of own resources at the Community's disposal for the period [1988 to 1992] does not in any one year exceed a specified percentage of the sum of the Community's GNP for the year in question; whereas that percentage [shall correspond to application of the guidelines established for growth in Community expenditure as laid down in the European Council conclusions concerning budgetary discipline and budget management, and a safety margin of 0.03% of Community GNP aimed at coping with unforessen expenditure;]	Whereas observance of this ceiling requires that the total amount of own resources at the Community's disposal for the period <u>1995 to 1999</u> does not in any one year exceed a specified percentage of the sum of the Community's GNP for the year in question; whereas that percentage <u>has been set by reference to the expenditure ceilings agreed by the Community institutions;</u>
Whereas a global ceiling of [1.30%] of the Member States' GNP is set for commitment appropriations; whereas an orderly progression of commitment appropriations and payment appropriations must be ensured;	Whereas <u>an overall ceiling of 1.32%</u> of the Member States' GNP is set for commitment appropriations; whereas an orderly progression of commitment appropriations and payment appropriations must be ensured;
Whereas these ceilings should remain applicable until this Decision is amended;	Whereas these ceilings should remain applicable until this Decision is amended;

Whereas, 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 should be amended and enlarged; whereas it is necessary for this purpose:

- to fix at 1.4% the maximum rate to be applied to each Member State's uniform base for value added tax, limited where appropriate to 55% of its GNP;

- to introduce an additional type of own resource to balance budget revenue and expenditure, based on the sum of Member States' GNP; for this purpose, the Council will adopt a Directive on the harmonization of the compilation of gross national product at market prices;]

[Whereas the customs duties on products coming under the Treaty establishing the European Coal and Steel Community should be included in Community own resources;]

[Whereas the conclusions of the European Council of 25 and 26 June 1984 on the correction of budgetary imbalances continue to apply for the duration of this Decision's validity; whereas the present compensation mechanism must, however, be adjusted to take account of the capping of the VAT base and the introduction of an additional resource and must provide for financing of the correction on the basis of a GNP key; whereas this adjustment should ensure that the VAT share

Whereas, with a view to matching the resources paid by each Member State more closely with its ability to contribute, the European Council of 11 and 12 December 1992 decided to amend the composition of Community own resources:

- by lowering the ceiling for the uniform rate to be applied to the uniform value added tax base of each Member State from 1.4% to 1.0% in equal steps between 1995 and 1999;

- if necessary, by capping at 50% of GNP from 1995 onwards the value added tax base of the Member States whose per capita GNP is less than 90% of the Community average and by reducing the capping of the base from 55% to 50% in equal steps over the period 1995-99 for the other Member States;

Whereas the European Council of 11 and 12 December confirmed the formula for the calculation of the correction of budgetary imbalances defined in Decision 88/376/EEC, Euratom;

of the United Kingdom is replaced by its share of payments under the third and fourth resources (those provided by VAT and GNP respectively) and that the effect on the United Kingdom, in respect of a given year, of the capping of the VAT base and of the introduction of the fourth resource which is not compensated by this change will be offset by an adjustment to the compensation in respect of that year; whereas the contributions of Spain and Portugal should be reduced in accordance with the rebates provided for in Articles 187 and 374 of the 1985 Act of Accession;]

Whereas the budgetary imbalances should be corrected in such a way as not to affect the own resources available for the Community's policies;

Whereas [the conclusions of the European Council of 11, 12 and 13 February 1988 provided for the creation, in the Community budget], of a monetary reserve, hereinafter referred to as the 'EAGGF monetary reserve', to offset the impact of significant and unforeseen fluctuations in the ECU/dollar parity on the expenditure under the Guarantee Section of the European Agricultural Guidance and Guarantee Fund (EAGGF); whereas that reserve [should be] covered by specific provisions;

Whereas, by virtue of Article 127 of the 1979 Act of Accession and Articles 187 and 374 of the 1985 Act of Accession, Greece until 1985 and Spain and Portugual until 1991 were refunded a proportion of their payments of VAT own resources, the GNP-based resource and GNP-based financial contributions; whereas these refunds constituted expenditure from the general budget;

Whereas any adjustments of VAT and GNP bases for the years from 1981 to 1991 will entail corrections of the amounts of the refunds; whereas arrangements should be made to take account of such adjustments in the general budget;

Whereas the budgetary imbalances should be corrected in such a way as not to affect the own resources available for the Community's policies;

Whereas the monetary reserve, hereinafter referred to as the 'EAGGF monetary reserve', is covered by specific provisions;

Whereas the conclusions of the European Council of 11 and 12 December 1992 provided for the creation in the Community budget of two reserves, one designed to respond rapidly to emergency aid requirements in non-member countries, the other to finance a loan guarantee fund; whereas those reserves should be covered by specific provisions;

Whereas provisions must be laid down to cover the changeover from the system introduced by Decision [85/257/EEC, Euratom] to that arising from this Decision;

Whereas the European Council of [11, 12 and 13 February 1988] provided that this Decision should take effect on [1 January 1988,]

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

Article 1

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

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

Whereas the European Council of Copenhagen of 22 and 23 June 1993 underlined the importance of continuing to combat fraud and irregularities in connection with the Community budget; whereas more detailed provisions should be laid down concerning the Commission's role in improving national VAT registration, calculation, recovery and control procedures;

Whereas the European Council has asked the Commission to carry out a study on the possibility of creating a fifth resource;

Whereas provisions must be laid down to cover the changeover from the system introduced by Decision 88/376/EEC, Euratom to that arising from this Decision;

Whereas the European Council of 11 and 12 December 1992 provided that this Decision should take effect on 1 January 1995;

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

Article 1

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

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 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 uniform rate valid for all Member States to the VAT assessment base which is determined in a uniform manner for Member States according to Community rules; however, the assessment base [for any Member State to be taken into account for the purposes of this Decision shall not exceed 55% of its GNP;]

Article 2

1. Revenue from the following shall constitute own resources entered in the budget of the 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 uniform rate valid for all Member States to the VAT assessment base which is determined in a uniform manner for Member States according to Community rules; however, the assessment base to be taken into account for the purposes of this Decision shall not exceed 50% of GNP in the case of Member States whose GNP

(d) the application of a rate - to be determined under the budgetary procedure in the light of the total of all other revenue - to the sum of all the Member States' GNP established in accordance with Community rules [to be laid down in a Directive adopted under Article 8(2) of this Decision.]

2. Revenue deriving from any new charges introduced within the framework of a common policy, in accordance with the Treaty establishing the European Economic Community or the Treaty establishing the European Atomic Energy Community, provided 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 has been followed, shall also constitute own resources entered in the budget of the Communities.

3. Member States shall retain, by way of collection costs, 10% of the amounts paid under 1(a) and (b).

is less than 90% of the Community average; for Member States not fulfilling this condition the assessment base to be taken into account shall not exceed:

- 54% of their GNP in 1995
- 53% of their GNP in 1996
- 52% of their GNP in 1997
- 51% of their GNP in 1998
- 50% of their GNP in 1999;

(d) the application of a rate - to be determined under the budgetary procedure in the light of the total of all other revenue - to the sum of all the Member States' GNP established in accordance with the Community rules laid down in Council Directive 89/130/EEC, Euratom.[5]

2. Revenue deriving from any new charges introduced within the framework of a common policy, in accordance with the Treaty establishing the European Economic Community or the Treaty establishing the European Atomic Energy Community, provided 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 has been followed, shall also constitute own resources entered in the budget of the Communities.

3. Member States shall retain, by way of collection costs, 10% of the amounts paid under 1(a) and (b).

5 OJ No L 49, 21.2.1989, p. 26.

4. The uniform rate referred to in 1(c) shall correspond to the rate resulting from:

(a) the application of [1.4%] to the VAT assessment base for the Member States, and

(b) the deduction of the gross amount of the reference compensation referred to in Article 4(2). The gross amount shall be the compensation amount adjusted for the fact that the United Kingdom is not participating in the financing of its own compensation and the Federal Republic of Germany's share is reduced by one-third. It shall be calculated as if the reference compensation amount were financed by Member States according to their VAT assessment bases established in accordance with Article 2(1)(c). [For 1988, the gross amount of the reference compensation shall be reduced by 780 million ECU.]

5. The rate fixed under paragraph 1(d) shall apply to the GNP of each Member State.

4. The uniform rate referred to in 1(c) shall correspond to the rate resulting from:

(a) the application to the VAT assessment base for the Member States of:
- 1.32% in 1995
- 1.24% in 1996
- 1.16% in 1997
- 1.08% in 1998
- 1.00% in 1999, and

(b) the deduction of the gross amount of the reference compensation referred to in Article 4(2). The gross amount shall be the compensation amount adjusted for the fact that the United Kingdom is not participating in the financing of its own compensation and the Federal Republic of Germany's share is reduced by one-third. It shall be calculated as if the reference compensation amount were financed by Member States according to their VAT assessment bases established in accordance with Article 2(1)(c).

5. The rate fixed under paragraph 1(d) shall apply to the GNP of each Member State.

6. If, at the beginning of the financial year, the budget has not been adopted, the previous uniform VAT rate and rate applicable to Member States' GNP, without prejudice to whatever provisions [may be adopted] in accordance with Article 8(2) by reason of the entry of an EAGGF monetary reserve in the budget, shall remain applicable until the entry into force of the new rates.

[7. By way of derogation from 1(c), if, on 1 January of the financial year in question, the rules for determining the uniform basis for assessing VAT are not yet applied in all the Member States, the financial contribution which a Member State not yet applying this uniform basis is to make to the budget of the Communities in lieu of VAT 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 in the first three years of the five-year period preceding the year in question. This derogation shall cease to have effect as soon as the rules for determining the uniform basis for assessing VAT are applied in all Member States.]

8. For the purposes of applying this Decision, GNP shall mean gross national product for the year at market prices.

6. If, at the beginning of the financial year, the budget has not been adopted, the previous uniform VAT rate and rate applicable to Member States' GNP, without prejudice to <u>the provisions adopted in accordance with Article 7(2) as regards the EAGGF monetary reserve, the reserve to finance the Loan Guarantee Fund and the reserve for emergency aid in non-member countries</u>, shall remain applicable until the entry into force of the new rates.

7. For the purposes of applying this Decision, GNP shall mean gross national product for the year at market prices.

Article 3

1. The total amount of own resources assigned to the Communities may not exceed [1.20%] of the total GNP of the Community for payment appropriations.

The total amount of own resources assigned to the Communities may not, for any of the years during the [1988 to 1992] period, exceed the following percentages of the total GNP of the Community for the year in question:

[- 1988: 1.15,
- 1989: 1.17,
- 1990: 1.18,
- 1991: 1.19,
- 1992: 1.20.]

2. The commitment appropriations entered in the general budget of the Communities over the period [1988 to 1992] must follow an orderly progression resulting in a total amount which does not exceed [1.30%] of the total GNP of the Community in [1992.] A [precise] ratio between commitment appropriations and payment appropriations shall be maintained to guarantee their compatibility and to enable the ceiling mentioned in paragraph 1 to be observed in subsequent years.

3. The overall ceilings referred to in paragraphs 1 and 2 shall continue to apply until such time as this Decision is amended.

Article 3

1. The total amount of own resources assigned to the Communities may not exceed <u>1.27%</u> of the total GNP of the Community for payment appropriations.

The total amount of own resources assigned to the Communities may not, for any of the years during the period <u>1995 to 1999</u>, exceed the following percentages of the total GNP of the Community for the year in question:

- <u>1995: 1.21,</u>
- <u>1996: 1.22,</u>
- <u>1997: 1.24,</u>
- <u>1998: 1.26,</u>
- <u>1999: 1.27.</u>

2. The commitment appropriations entered in the general budget of the Communities over the period <u>1995 to 1999</u> must follow an orderly progression resulting in a total amount which does not exceed <u>1.32%</u> of the total GNP of the Community in <u>1999</u>. <u>An orderly</u> ratio between commitment appropriations and payment appropriations shall be maintained to guarantee their compatibility and to enable the ceiling mentioned in paragraph 1 to be observed in subsequent years.

3. The overall ceilings referred to in paragraphs 1 and 2 shall continue to apply until such time as this Decision is amended.

Article 4

The United Kingdom shall be granted a correction in respect of budgetary imbalances. This correction shall consist of a basic amount and an adjustment. The adjustment shall correct the basic amount to a reference compensation amount.

1. The basic amount shall be established by:

(a) calculating the difference, in the preceding financial year, between:

- the percentage share of the United Kingdom in the sum total of the payments referred to in Article 2(1)(c) and (d) made during the financial year, including adjustments at the uniform rate in respect of earlier financial years, and
- the percentage share of the United Kingdom in total allocated expenditure;

(b) applying the difference thus obtained to total allocated expenditure;

(c) multiplying the result by 0.66.

2. The reference compensation shall be the correction resulting from application of (a), (b) and (c) below, corrected by the effects arising for the United Kingdom from the changeover to capped VAT and the payments referred to in Article 2(1)(d).

Article 4

The United Kingdom shall be granted a correction in respect of budgetary imbalances. This correction shall consist of a basic amount and an adjustment. The adjustment shall correct the basic amount to a reference compensation amount.

1. The basic amount shall be established by:

(a) calculating the difference, in the preceding financial year, between:

- the percentage share of the United Kingdom in the sum total of the payments referred to in Article 2(1)(c) and (d) made during the financial year, including adjustments at the uniform rate in respect of earlier financial years, and
- the percentage share of the United Kingdom in total allocated expenditure;

(b) applying the difference thus obtained to total allocated expenditure;

(c) multiplying the result by 0.66.

2. The reference compensation shall be the correction resulting from application of (a), (b) and (c) below, corrected by the effects arising for the United Kingdom from the changeover to capped VAT and the payments referred to in Article 2(1)(d).

It shall be established by:

(a) calculating the difference, in the preceding financial year, between:

- the percentage share of the United Kingdom in the sum total of VAT payments which would have been made during that financial year, including adjustments in respect of earlier financial years, for the amounts financed by the resources referred to in Article 2(1)(c) and (d) if the uniform VAT rate had been applied to non-capped bases, and

- the percentage share of the United Kingdom in total allocated expenditure;

(b) applying the difference thus obtained to total allocated expenditure;

(c) multiplying the result by 0.66;

(d) subtracting the payments by the United Kingdom taken into account in the first indent of 1(a) from those taken into account in the first indent of 2(a);

(e) subtracting the amount calculated at (d) from the amount calculated at (c).

3. The basic amount shall be adjusted in such a way as to correspond to the reference compensation amount.

It shall be established by:

(a) calculating the difference, in the preceding financial year, between:

- the percentage share of the United Kingdom in the sum total of VAT payments which would have been made during that financial year, including adjustments in respect of earlier financial years, for the amounts financed by the resources referred to in Article 2(1)(c) and (d) if the uniform VAT rate had been applied to non-capped bases, and

- the percentage share of the United Kingdom in total allocated expenditure;

(b) applying the difference thus obtained to total allocated expenditure;

(c) multiplying the result by 0.66;

(d) subtracting the payments by the United Kingdom taken into account in the first indent of 1(a) from those taken into account in the first indent of 2(a);

(e) subtracting the amount calculated at (d) from the amount calculated at (c).

3. The basic amount shall be adjusted in such a way as to correspond to the reference compensation amount.

Article 5

1. The cost of the correction shall be borne by the other Member States in accordance with the following arrangements:

the distribution of the cost shall first be calculated by reference to each Member State's share of the payments referred to in Article 2(1)(d), the United Kingdom being excluded; it shall then be adjusted in such a way as to restrict the share of the Federal Republic of Germany to two-thirds of the share resulting from this calculation.

2. The correction shall be granted to the United Kingdom by a reduction in its payments resulting from the application of Article 2[(1)(c)]. The costs borne by the other Member States shall be added to their payments resulting from the application for each Member State of Article 2[(1)(c) up to a 1.4% VAT rate and Article 2(1)(d).]

3. The Commission shall perform the calculations required for the application of Article 4 and this Article.

4. If, at the beginning of the financial year, the budget has not been adopted, the correction granted to the United Kingdom and the costs borne by the other Member States as entered in the last budget finally adopted shall remain applicable.

Article 5

1. The cost of the correction shall be borne by the other Member States in accordance with the following arrangements:

the distribution of the cost shall first be calculated by reference to each Member State's share of the payments referred to in Article 2(1)(d), the United Kingdom being excluded; it shall then be adjusted in such a way as to restrict the share of the Federal Republic of Germany to two-thirds of the share resulting from this calculation.

2. The correction shall be granted to the United Kingdom by a reduction in its payments resulting from the application of Article 2. The costs borne by the other Member States shall be added to their payments resulting from the application for each Member State of Article 2.

3. The Commission shall perform the calculations required for the application of Article 4 and this Article.

4. If, at the beginning of the financial year, the budget has not been adopted, the correction granted to the United Kingdom and the costs borne by the other Member States as entered in the last budget finally adopted shall remain applicable.

Article 6

The revenue referred to in Article 2 shall be used without distinction to finance all expenditure entered in the budget of the Communities. However, the revenue needed to cover in full or in part the EAGGF monetary reserve, entered in the budget of the Communities, shall not be called up from the Member States [until the reserve] is implemented. Provisions for the operation of that reserve shall be adopted as necessary in accordance with Article 8(2).

The preceding subparagraph shall be without prejudice to the treatment of contributions by certain Member States to supplementary programmes provided for in Article 130L of the Treaty establishing the European Economic Community.

[Article 7]

[Any surplus of the Communities' revenue over total actual expenditure during a financial year shall be carried over to the following financial year. However, any surplus generated by a transfer from EAGGF Guarantee chapters to the monetary reserve shall be regarded as constituting own resources.]

Article 6

The revenue referred to in Article 2 shall be used without distinction to finance all expenditure entered in the budget of the Communities. However, the revenue needed to cover in full or in part the EAGGF monetary reserve, <u>the reserve to finance the Loan Guarantee Fund and the reserve for emergency aid in non-member countries</u>, entered in the budget of the Communities, shall not be called up from the Member States until the <u>reserves are</u> implemented. Provisions for the operation of <u>those reserves</u> shall be adopted as necessary in accordance with Article 7(2).

The preceding subparagraph shall be without prejudice to the treatment of contributions by certain Member States to supplementary programmes provided for in Article 130L of the Treaty establishing the European Economic Community.

Article 8

1. The Community own resources referred to in Article 2(1)(a) and (b) shall be collected by the Member States in accordance with the national provisions imposed by law, regulation or administrative action, which shall, where appropriate, be adapted to meet the requirements of Community rules. The Commission shall examine at regular intervals the national provisions communicated to it by the Member States, transmit to the Member States the adjustments it deems necessary in order to ensure that they comply with Community rules and report to the budget authority. Member States shall make the resources under Article 2(1)(a) to (d) available to the Commission.

2. Without prejudice to the auditing of the accounts and to checks that they are lawful and regular and as laid down in Article 206a of the Treaty establishing the European Economic Community, such auditing and checks being mainly concerned with the reliability and effectiveness of national systems and procedures for determining the base for own resources accruing from VAT and GNP and without prejudice 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, the making available to the Commission and payment of the revenue referred to in Articles 2 and 5.

Article 7

1. The Community own resources referred to in Article 2(1)(a) and (b) shall be collected by the Member States in accordance with the national provisions imposed by law, regulation or administrative action, which shall, where appropriate, be adapted to meet the requirements of Community rules. The Commission shall examine at regular intervals the national provisions communicated to it by the Member States, transmit to the Member States the adjustments it deems necessary in order to ensure that they comply with Community rules and report to the budget authority. Member States shall make the resources under Article 2(1)(a) to (d) available to the Commission.

2. Without prejudice to the auditing of the accounts and to checks that they are lawful and regular and as laid down in Article 206a of the Treaty establishing the European Economic Community, such auditing and checks being mainly concerned with the reliability and effectiveness of national systems and procedures for determining the base for own resources accruing from VAT and GNP and without prejudice 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, the making available to the Commission and payment of the revenue referred to in Articles 2 and 5. <u>On the basis of these provisions, the</u>

Article 9

The mechanism for the graduated refund of own resources accruing from VAT 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 1985 Act of Accession shall apply to the own resources accruing from VAT and the GNP-based resource referred to in Article 2(1)(c) and (d) of this Decision. It shall also apply to payments by these two Member States in accordance with Article 5(2) of this Decision. In the latter case the rate of refund shall be that applicable for the year in respect of which the correction is granted.

Article 10

The Commission shall submit, by the end of [1991,] a report on the operation of the system, [including a re-examination of the correction of budgetary imbalances granted to the United Kingdom], established by this Decision.

Commission shall examine the VAT registration, calculation, recovery and control procedures applied in the Member States and shall, if necessary, make recommendations for enhancing the effectiveness of those procedures.

Article 8

The mechanism for the graduated refund of own resources accruing from VAT or GNP-based financial contributions introduced for Greece up to 1985 by Article 127 of the 1979 Act of Accession and for Spain and Portugal up to 1991 by Articles 187 and 374 of the 1985 Act of Accession shall apply to the own resources accruing from VAT and the GNP-based resource referred to in Article 2(1)(c) and (d) of this Decision. It shall also apply to payments by the two last-named Member States in accordance with Article 5(2) of this Decision. In the latter case the rate of refund shall be that applicable for the year in respect of which the correction is granted. Corrections of refunds resulting from any adjustments of VAT and GNP bases for the years from 1981 to 1991 shall be entered as negative or positive revenue, as appropriate, in the general budget.

Article 9

The Commission shall submit, by the end of 1999, a report on the operation of the system established by this Decision. Together with this report or separately, it shall also present a report on the findings of a study on the possibilities for creating a fifth own resource.

Article 11

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 [(b) and (c),] Decision [85/257/EEC, Euratom] shall be repealed as of [1 January 1988.] Any references to the Decision of 21 April 1970 or to Decision 85/257/EEC, Euratom shall be construed as references to this Decision.

(b) Article 3 of Decision 85/257/EEC, Euratom shall continue to apply to the calculation and adjustment of revenue accruing from the application of rates to the uncapped uniform assessment basis for value added tax in 1987 and earlier years. [For 1988 the deduction in

Article 10

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 1995.

2. (a) Subject to (b), Decision 88/376/EEC, Euratom shall be repealed as of 1 January 1995. Any references to the Decision of 21 April 1970, to Decision 85/257/EEC, Euratom or to Decision 88/376/EEC, Euratom shall be construed as references to this Decision.

(b) Article 3 of Decision 85/257/EEC, Euratom shall continue to apply to the calculation and adjustment of revenue accruing from the application of rates to the uncapped uniform VAT base for 1987 and earlier years. Articles 2, 4 and 5 of Decision 88/376/EEC, Euratom favour of the United Kingdom in respect of previous financial years shall be calculated in accordance with points (b)(i), (ii) and (iii) of Article 3(3) of the said Decision. The distribution of the cost of financing it shall be calculated in accordance with Article 5(1) of this Decision. The amounts corresponding to the deduction and the distribution of the cost of financing it shall be dealt with in accordance with Article 5(2) of this Decision.] When Article 2(7) has to be applied, the value added tax payments shall be replaced by financial contributions in the calculations referred to in this paragraph for any Member State concerned; this system shall also apply to the payment of adjustments of corrections for earlier years.

[(c) Article 4(2) of Decision 85/257/EEC, Euratom shall continue to apply to the financial contributions needed to finance the completion of the supplementary programme for the operation of the HFR (high-flux reactor) reactor of 1984 to 1987.]

Done at [Luxembourg, 24 June 1988.]

For the Council

The President

[M. BANGEMANN]

<ins>shall continue to apply to the calculation and adjustment of revenue accruing from the application of a uniform rate valid for all Member States to the VAT base determined in a uniform manner and limited to 55% of the GNP of each Member State and to the calculation of the correction of budgetary imbalances granted to the United Kingdom for the years 1988 to 1994.</ins> When Article 2(7) has to be applied, the value added tax payments shall be replaced by financial contributions in the calculations referred to in this paragraph for any Member State concerned; this system shall also apply to the payment of adjustments of corrections for earlier years.

Done at

For the Council

The President

ANNEX I

Fixed uniform VAT rate in new Decision on own resources

The Edinburgh European Council concluded that a fixed uniform rate for the VAT resource should be considered in the context of discussions on the new own resources Decision.

The Commission presents in this Annex a number of questions relevant to taking a decision about a fixed uniform VAT rate. These questions are:

1. The case for fixing the uniform VAT rate
2. Fixing the uniform rate
3. The effects on the correction and the UK's payments
4. The effects on other Member States' payments
5. How to set the level of the fixed rate
6. Conclusions

1. The case for fixing the uniform VAT rate

The uniform VAT resource rate is currently calculated by deducting from the maximum VAT resource rate specified in the own resources Decision (currently 1.4%) the gross amount of the UK correction for the preceding year (as percentage of the capped VAT assessment base).

It is so calculated to allow in principle for the UK correction to be financed by the remaining Member States within the maximum VAT rate. The correction is in fact financed according to adjusted(1) GNP shares. The results of the analysis carried out by the Commission are as follows:

Taking into account the UK compensation in fixing the VAT rate is not in accordance with three basic tax policy criteria.

(a) Consistency

In fact, the amount of the correction depends on the UK's relative share in VAT resources payments. This fluctuates according to the UK's cyclical evolution, relative to that of the other Member States.

It further depends:

- on the UK's share in allocated budgetary expenditure;
- on the share of allocated vs non-allocated budgetary expenditure (mainly aid to third countries);
- on the size of the budget.

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(1) Taking into account that the United Kingdom is not participating in the financing of its own compensation and the Federal Republic of Germany's share is reduced by one-third.

The amount of the correction also depends on forecasting discrepancies of the VAT and GNP assessment bases.

There is no reason why these elements should be influential in fixing the call rate on the VAT basis. Therefore, the consistency of the Community system of financing would improve, were the level of the VAT call rate dissociated from the determinants of the UK corrections.

(b) Transparency

Because of the inclusion of the UK compensation in the calculation of the VAT base, the financing system lacks transparency.

While it is well known that the maximum VAT rate is 1.4%, it is often not understood that the actual uniform VAT rate applied to the VAT basis, resulting from the own resources decision, is lower. Furthermore it fluctuates every year and even during the same budgetary procedure.

In fact, since 1988 the VAT rates have been the following:

Year	APB	MODIFICATIONS	
1988	1.19560418	1.26609511 (1)	
1989	1.28135274	1.27792363 (2)	
1990	1.24650363	1.25566288 (3)	
1991	1.21793530	1.20386297 (4)	1.21409234 (5)
1992	1.24986485	1.27093317 (6)	1.26498526 (7)
1993	1.24422066	1.24562045 (8)	
1994	1.26727653		

(1) BRS No 1/88
(2) APBRS No 1/89
(3) APBRS No 2/90
(4) BRS1/91
(5) LR1/91
(6) LR3/92
(7) BRS1/92
(8) BRS1/93

(c) Predictability

Fixing the uniform rate would make the financing of the budget more predictable, since the dependence on the above-mentioned exogenous variables would be removed for all its elements, except for the UK corrrection.

2. Fixing the uniform VAT rate

The VAT uniform rate would be fixed by deducting a fixed amount from the annual ceilings set by the European Council at Edinburgh.

The fixed uniform rate and the GNP call rate would then be the same for all Member States. The UK correction would, as now, be deducted from its VAT payments. Should the correction exceed the UK's VAT payments, the balance would be deducted from its GNP payments. The shares in the financing of the UK correction would be payed by Member Sates in addition to their GNP payments.

The amount of the deduction should be set so as to ensure neutrality, that is, so as to maintain the relative shares of the third and fourth resources determined by the current system.

3. The effects of a fixed rate on the correction and the UK's payments

Fixing the VAT rate would not require any change to the calculation of the correction. This conforms with the conclusions of the European Council.

UK payments for a specific year (i.e. VAT and GNP payments for a given year and correction relative to the same year, payable the following year) will not change even if the fixed uniform rate differs from the rate that would result from the current system.

In fact, any change to UK payments (before correction) due to the change of the current system to a fixed uniform VAT rate would be compensated in full by an equal change to the correction for that year. This is due to the balancing item in the calculation that corrects for the advantage the UK gets from the 1988 system.

For example, if the fixed uniform rate turned out to be lower than the actual one, then the UK's VAT and GNP payments (before correction) would be lower than under the current system and the correction relative to that year would also be smaller by the same amount.

This can be demonstrated by applying alternatively a call rate to the expected situation in 1999 of 0.900% and 0,855%(1) (other things being equal): for the UK the VAT and GNP payments before correction, the correction, and the total are illustrated in Table 1:

Table 1

The neutrality of a fixed uniform VAT rate for the UK payments (1999)

Fixed VAT call rate	VAT+GNP payment (before correct.)	Correction	Total UK payments
0.855	11,878	2,571	9,307
0.900	11,886	2,579	9,307
Difference in %:			
5.8%	0.07%	0.3%	0%

(1) 0,855 is the fixed uniform rate consistent with a 1% ceiling and the average gross amount of compensation over the period 1988-1994.

4. The effects of a fixed rate on other Member States' payments

While neutrality is always guaranteed for the UK, slight changes are likely to occur for the other Member States in the new system by comparison to the present system if the uniform rate is fixed rather than dependent on the variable UK correction.

If the fixed uniform VAT rate were lower than the rate under the present system, less of the third resource would be paid, which is disadvantageous for Member States whose share of the VAT base is smaller than their share of GNP (at present, B, DK and I). If the fixed uniform VAT rate were higher, the opposite would be true and it would be advantageous for these Member States. The converse applies to the other Member States.

Table 2 illustrates the recent evolution of the correction and its impact on the uniform rate. Notwithstanding large percentage deviations of the correction from its average, the variations of the uniform rate have been relatively small. The figures of the 7-year period 1988-1994 show that, while the correction deviated by approximately 17% from its average, the uniform rate deviated by only 2.4% from its average.

Table 2

Effect of changes of the UK abatement on VAT uniform rates

	UK CORRECTION			UNIFORM RATE		
	Value mln ECU	Deviat. from average	Growth previous year	Value in % of VATbase	Deviat. from average	Growth previous year
1988	2195	-18.35%		1.28	2.40%	
1989	2151	-19.99%	-2.00%	1.26	0.48%	-1.88%
1990	2516	- 6.41%	16.97%	1.26	0.08%	-0.40%
1991	3528	31.23%	40.22%	1.20	-4.05%	-4.13%
1992	2627	- 2.28%	25.54%	1.27	0.82%	5.08%
1993	3101	15.35%	18.04%	1.25	-0.73%	-1.53%
1994	2701	0.47%	-12.90%	1.27	1.00%	1.73%
Average	2688	±16.88%		1.255	±2.35%	

The effects of these fluctuations on Member States' payments is illustrated in Table 3 below.

Table 3

Effects of fixing the uniform rate at 0.855%
(0.145% under the ceiling) in 1999

	Fixed uniform VAT rate	Difference	Difference
Uniform rate % VAT base	0.8550	+(-) 2%	+(-) 3%
Total paymt. (mln ECU)	Payments	Difference in payments	Difference in payments
B	3,121	-(+) 2	-(+) 2
DK	1,599	-(+) 2	-(+) 2
D	23,222	+(-) 6	+(-) 10
GR	952	+(-) 1	+(-) 1
E	6,108	+(-) 2	+(-) 3
F	15,771	+(-) 6	+(-) 9
Irl	617	-(+) 0	+(-) 0
I	12,111	-(+) 12	-(+) 20
Lux	151	-(+) 0	+(-) 0
NL	4,578	+(-) 1	+(-) 2
P	1,051	-(+) 0	+(-) 0
UK	9,307	0	0

Tables 2 and 3 show that, had a fixed VAT uniform rate existed in the past, neutrality could not have been fully achieved. Divergences, though relatively very minor, would not have been negligible.

5. How to set the level of the fixed rate

As discussed in Section 2 above, the VAT uniform rate would be fixed by deducting a fixed amount from the annual ceilings set by the European Council at Edinburgh.The deduction represents the value of the gross amount of the correction as percentage of the VAT assessment base (called "gross equivalent ratio" below).

5.1. One option could be to set the deduction on the only objective data available, i.e. by calculating the average historic values of this ratio from 1988 to 1994, or **0.145** (rounded to 0.15). The fixed VAT uniform rates would then be as follows:

	1995	1996	1997	1998	1999
Ceiling	1.32	1.24	1.16	1.08	1.00
Fixed VAT uniform rate	1.17	1.09	1.01	0.93	0.85

5.2. Yet, the actual effects of fixing the uniform rate will depend on the future evolution of the UK correction and its gross equivalent ratio. Because these depend on a number of exogenous variables, they are difficult to forecast. However, the simulations made in the context of the Delors II package yield a relatively stable value for the UK correction around 2700 mln ecu, and an average gross equivalent ratio of **0.118** (rounded to 0.12) for 1995-1999. The fixed uniform rates consistent with this ratio are the following:

Fixed uniform VAT rates based on the Delors II simulations

	1995	1996	1997	1998	1999
Ceiling	1.32	1.24	1.16	1.08	1.00
Fixed VAT uniform rate	1.20	1.12	1.04	0.96	0.88

These rates are significantly higher than those based on historic data. Hence setting the fixed VAT uniform rate on historic data is likely to introduce a further bias against Member States whose share in the VAT assessment base is lower than that in GNP.

5.3. A third option would be to set the rate taking into account the past experience as well as the likely evolution for the future. That would produce a gross amount ratio of **0.132** (rounded to 0.13) yielding the following fixed uniform VAT rates.

Fixed uniform VAT rates based on past experience and future

	1995	1996	1997	1998	1999
Ceiling	1.32	1.24	1.16	1.08	1.0
Fixed VAT uniform rate	1.19	1.11	1.03	0.95	0.87

The Commission is of the opinion that this solution could strike a reasonable balance between the advantage of certainty of the past data, and the present knowledge of the likely future evolution of the uniform's rate basic determinants.

5.4 Should the Council decide that a uniform rate ought to be fixed, the Commission would make the following changes to its proposal:

- After the tenth recital, insert the following:

  "Whereas for the sake of simplicity and transparency, the financing of the correction of budgetary imbalances should be excluded from the calculation of the uniform rate to be applied to the uniform value added tax base and hence a fixed uniform rate should be adopted taking account of this; whereas, however, the adoption of a uniform rate must not affect the financial balance created by the system; whereas the share of financing the correction in the ceiling of the uniform rate should therefore be deducted from this ceiling, taking into account past experience and foreseeable developments, i.e. the ceilings planned for the uniform rate should be lowered by 0.13 over the period 1995-99;"

- Article 2(4) is replaced by the following:

  "The uniform rate referred to in 1(c) shall be as follows:

  - 1.19% in 1995
  - 1.11% in 1996
  - 1.03% in 1997
  - 0.95% in 1998
  - 0.87% in 1999."

6. Conclusions

The consistency and transparency of the Community financing system would be enhanced if the uniform VAT resource rate were fixed in advance.

But as experience has shown that the UK correction varies substantially, no attempt to neutralize it in advance can be guaranteed to work.

Such a system would fully safeguard the interests of the United Kingdom. It would not, however, be wholly neutral for the other Member States and in particular those most affected by the changes in the balance between the VAT resource and the GNP-based resource.

It is nevertheless obvious that the amounts involved are very limited. They could be reduced even further by incorporating in the advance-fixing of the uniform rate not only the historical data concerning the UK correction but also expectations of the future amount.

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