COMMISSION OF THE EUROPEAN COMMUNITIES

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REPORT ON THE APPLICATION OF THE FINANCIAL MECHANISM

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SUMMARY

The Financial Mechanism was set up in 1976 after negotiations during which both the Commission and the European Council recognised that problems of budgetary burden might arise in the future. The Financial Mechanism was designed to prevent "during the period of convergence of the economies of the Member States, the possible development of situations unacceptable for a Member State and incompatible with the smooth working of the Community."

The Financial Mechanism provided that in certain economic and budgetary circumstances, which, though of general application, were intended to fit the United Kingdom, a Member State should receive a payment designed to be a partial compensation for a disproportionate budgetary burden. The mechanism came into operation with effect from 1 January 1976 for a period of seven years; not later than the end of the sixth year (1981) the Commission shall report to the Council on the application of the Financial Mechanism and make suitable proposals if necessary.

At the time of the Accession negotiations it was clear that for all Member States the Own Resources Decision of 1970 would not come fully into operation until 1978; and that for 1978 and 1979 Article 131 of the Treaty of Accession provided for further limitations on the budgetary contributions of the three new Member States. It was therefore not until 1980 that the full effect of the Own Resources Decision would be felt by the United Kingdom.

The establishment of this mechanism was a significant factor in resolving the concerns expressed by the British government over the terms of membership.

As had been foreseen, the mechanism did not operate in respect of any of the years 1976/79 because the budgetary contributions of the United Kingdom were limited by the terms of the Treaty of Accession. The mechanism would, however, have operated in each of these years if the limitations had not been in existence.

In 1979 it became apparent that the United Kingdom would become the biggest net contributor to the Budget in 1980. In looking for solutions the Commission stated that "the starting point for an examination of the action

which the Community might take in respect of the United Kingdom's budgetary problem is logically the existing Financial Mechanism". It also showed that if certain internal restrictions were removed from the existing mechanism a payment of 520 million ECU or roughly one third of the United Kingdom's forecast net contribution could be expected.

The Council of Foreign Ministers on 29/30 May 1980 decided that there would be net payments to the United Kingdom in respect of 1980 and 1981 and that these payments should be made from an amended financial mechanism and special supplementary measures to be proposed by the Commission.

The corresponding amendments in the Financial Mechanism agreed in 1980 related only to the United Kingdom. These did not affect the economic conditions for its operation but provided that if these conditions were fulfilled the payment to the United Kingdom would be greater than under the unamended mechanism. The changes apply only to the years 1980 and 1981. Unless the Council decides to prolong the life of the amended version, the provisions of the original Financial Mechanism will apply in respect of 1982.

In respect of 1980 the United Kingdom fulfilled all the conditions of the Financial Mechanism except that its share in financing the Community Budget was 8.5% greater than its GDP share and thus the financing share did not exceed its GDP share by more than 10%. This was because the GDP share increased substantially as a result of the significant rise of the pound sterling in 1980. A similar situation is likely to occur in respect of 1981.

For 1982 it is forecast that the conditions will be met of growth rate (in real terms) of per capita GDP and of a 10% excess of budget share over GDP share. On the other hand, because of the strength of the pound during the years 1979-81 and in view of the fact that the 1982 assessment is based on the average of the three years 1979, 1980 and 1981, the United Kingdom may not meet the conditions of an average GDP per head below 85% of the Community average and for this reason the financial mechanism may not operate in 1982.

The main factor that underlies the failure of the mechanism to operate as intended is the increase during the period 1979 to 1981 of the United Kingdom's GDP share expressed in ECU. Over this period the rate of real growth in the United Kingdom remained on average significantly below the Community average. At the same time, the value of the pound increased relative to the ECU while the UK had an above average rate of inflation.

Report on the Application of the Financial Mechanism

Introduction

1. Article 10 of Regulation No 1172/76 setting up a financial mechanism provides that the mechanism shall be applicable for a trial period of seven years from 1 January 1976 and that, no later than the end of the sixth year (1981), the Commission shall report to the Council on the application of the financial mechanism and make suitable proposals if necessary.

History of setting up the Mechanism

2. Although the mechanism which finally emerged was of general applicability, the circumstances which led up to its establishment and the factors which were taken into account in determining its nature were related to a specifically British problem.

3. During the negotiations leading up to the enlargement of the Community in 1973, the United Kingdom Government had said that it saw problems in the application of the Own Resources Decision of 1970 which provided that the Community Budget should be financed by Member States through the transfer of customs duties, agricultural levies and (after a transitional period when contributions based on Gross National Product would be paid) by up to 1% levied on a common value added tax (VAT) base. The United Kingdom foresaw that because of its trade and economic structures the payments it would have to make would be disproportionately large. The Treaty of Accession provided in Articles 129 and 130 for the appropriate application to the new Member States of the restriction on rate of growth of budget shares which already existed in the Own Resources Decision and also for a system of gradual payments by the new Member States up to the end of 1977. Article 131 provided for further limitations for the two years 1978 and 1979. In the course of negotiations the Community made the following statement[(1)]:

[(1)] quoted in COM(74)1800

"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."

4. The Government which came to power in the United Kingdom in March 1974 decided to negotiate on certain of the terms of British membership of the Community and to submit the results to a national referendum. One of the principal concerns was the belief of the British Government that the budgetary problem would persist beyond 1979. In June the Council referred the budgetary question to the Commission with a request to "draw up an inventory of the economic and financial situation in the Community since enlargement as well as a survey of future developments".

5. The Commission had a difficult task. What it was asked to examine in 1974 was a potential problem which was quite likely not to arise at all until 1980 and which would certainly not reach its full proportions until then because of the limitations on the budgetary contributions of the three new Member States referred to in paragraph 3.

6. The Commission's implied task was therefore one of forecasting from a 1973/1974 data base right the way through to 1980 the development of each Member State's GNP, its agricultural levies (which would require forecasting the structure of agricultural trade and the level of world-versus-Community agricultural price differentials), its customs duties (requiring a detailed product-by-geographic area projection of trade flows taking into account the progressive adoption by the Three of the Common External Tariff), and its VAT revenues (requiring an estimation and preparation of the taxable base for the VAT in advance of agreement on a common base for this tax).

7. The Commission's answer to the Council's request was contained in a document dated 25 October 1974 entitled 'Inventory of the Community's Economic and Financial Situation since Enlargement and Survey of Future Developments' (COM(74)1800 final).

8. An examination of the relevant economic criteria, in particular GDP per head, showed that the United Kingdom was in a relatively unfavourable economic situation.

9. The Commission illustrated that the United Kingdom's annual rate of increase in Gross Domestic Product in real terms in the years 1966 to 1974 had on average been lower than the Community average or indeed that of any other Member State.

10. Looking into the future, the Commission thought that in the inflationary situation of 1974 and following the upheavals resulting from the soaring price of oil, economic forecasting was exceptionally hazardous. It nevertheless suggested that there were some prospects of an average annual growth of Community Gross Domestic Product of perhaps 4%. During this period there would be significant differences between individual Member States and a continuation of the below average rate of growth of the United Kingdom's GDP - see table below.

GDP RATE OF GROWTH IN VOLUME

AS FORECAST BY THE COMMISSION IN 1974

(annual rates in %)

	1975	Average 1973/1978
Denmark	3.0	3.5 to 4.5
West Germany	3.5	3.7
France	4.6	5.5
Ireland	3.0	5.0
Italy	2.0	5.3
Netherlands	3.6	3.5 to 4
Belgium	3.7	4.3
Luxembourg	3.6	3.5
United Kingdom	2.6	2.5 to 3.5
Community	3.4	4 to 4.5

Source: COM (74)1800, final, I.A. Table I

Although the forecasts turned out as a whole to be overoptimistic the relative position of the United Kingdom has remained unfavourable and its rate of growth has in fact turned out to be low. The average rate of growth for the Community as a whole for the years 1973/78 was 2.7% and the rate of growth for the United Kingdom was 2.2%.

11. The United Kingdom's GDP per capita for the years 1973/1974 was about 76% of the Community average. It was not expected that this would rise because the United Kingdom's rate of growth of GDP in real terms was forecast to be below the average. In fact it turned out that the United Kingdom's GDP per capita for the years 1973/78 was 74.5% of the Community average.

12. As regards the burden of the budget, the Commission decided that it was not sensible to make forecasts of the situation as it would be in 1980. It limited itself to making a simulated estimate of what the budgetary contributions of the Member States would have been in 1973 and 1974 if the Own Resources Decision of 1970 had been fully in operation; and it compared the simulated relative shares of the Member States with their shares in Community GDP. The results are shown in the table below.

	Total budget contribution in million u.a.		Simulated 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
Germany (FR)	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
	4 877	4 995	100	100	100	100

(current market exchange rates)
source: COM (74)1800 final Table XIV p. 29

The Commission concluded, on the basis of information then available, and allowing for certain structural changes which should progressively take place, that it could not exclude the possibility that problems of budgetary burden might arise in the future.

13. The Council of Foreign Ministers meeting on 11 November 1974 failed to reach any conclusions on the Commission's document and it was referred to the Paris Summit of 9 and 10 December 1974. At this meeting, the European Council made the following statement:

> 'The Heads of State or Government recall the statement made during the accession negotiations by the Community to the effect that "if unacceptable situations were to arise, the very life of the Community would make it imperative for the institutions to find equitable solutions".'
>
> They confirm that the system of own resources represents one of the fundamental elements of the economic integration of the Community.'
>
> 'They invite the institutions of the Community (the Council and the Commission) to set up as soon as possible a correcting

mechanism of a general application which, in the framework of the system of own resources and in harmony with its normal functioning, based on objective criteria and taking into consideration in particular the suggestions made to this effect by the British Government, could prevent during the period of convergence of the economies of the Member States, the possible development of situations unacceptable for a Member State and incompatible with the smooth working of the Community.'

14. On 30 January 1975 the Commission presented a document entitled "The Unacceptable Situation and the Correcting Mechanism". At the Dublin Summit on 11 March 1975 the European Council agreed to a mechanism which was finally embodied in Regulation 1172/76 and became known as the 'financial mechanism'.

15. The establishment of this mechanism was a significant factor in resolving the concerns expressed by the British Government over the terms of membership.

Description of the Mechanism as adopted in 1976

16. As adopted in 1976 the mechanism provides that if a Member State is a net contributor to the Budget, it will receive a compensation if it fulfils simultaneously the following conditions:

(a) its per capita GNP is less than 85% of the average per capita GNP of the Community measured as a moving average over the three preceding years;

(b) its growth rate of per capita GNP in real terms is less than 120% of the Community average measured as a moving average over the three preceding years;

(c) its share in financing the Community Budget exceeds its GNP share by more than 10%.

Where the balance of payments of a Member State, calculated from a moving average of the three years of the preceding financial year in progress, shows a surplus, the amounts to be taken into consideration for the calculation of the excess contribution should be :

- the payments by the Member State to the Budget of the Community in respect of Value Added Tax;
- the amount which that Member State would have had to pay on the basis of the proportion of its GNP to the total GNP of the Member States to finance the part of the budget not covered by customs duties and agricultural levies.

Any excess contribution is then divided into slices, each of 5 percentage points, which are subject to a progressive rate of refund - the first 5 points receiving no refund, the second 50% and so on up to 30% excess, above which the refund is 100%.

The mechanism came into operation with effect from 1 January 1976 for a "trial period" of seven years. Since payments in respect of year N are to be made in year N + 1, the last payment, if any, for the trial period to 1982 will be made in 1983.

17. It was envisaged that conditions (a) - (c) would enable the mechanism to apply to the United Kingdom by the time the full effect of the Own Resources Decision was felt in 1980.

18. A detailed explanation of the mechanism agreed in 1975 is given in Appendix A to this report.

The application of the mechanism in 1976 and 1977

19. In 1976 and 1977, the limitations on the rate of growth of budget shares of all Member States, contained in the Own Resources Decision of 1970 and applied to the three new Member States by Article 129 and 130 of the Treaty of Accession, were still in operation. It will be seen from Appendix B (1) that the United Kingdom fulfilled the conditions of the financial mechanism at (a) and (b) of paragraph 15, but that its share in financing the Community budget was less than its GNP share because of the limitations referred to. In 1976 the United Kingdom was a net contributor to the budget but was on the other hand a net recipient in 1977 because of high receipts due to negative monetary compensatory amounts.

20. No other Member State fulfilled all the conditions.

21. It is very difficult to give precise figures, but it is clear from the high level of the United Kingdom's customs duties and agricultural levies that it would have fulfilled all the conditions (including that of being a net

(1) Appendix B provides data concerning the fulfilment by the United Kingdom of the conditions of the Financial Mechanism

contributor) if the limitations of the Own Resources Decision (as applied by Article 130 of the Treaty of Accession) had not been in operation.

The application of the mechanism in 1978 and 1979

22. In 1978 and 1979 the special limitations on the budget contributions of the three new Member States (Article 131 of the Treaty of Accession) were in operation.

23. In 1978 the United Kingdom was a net contributor to the Community Budget and fulfilled the conditions at (a) and (b) of paragraph 15. It did not however fulfil the condition at (c) that its budget share should exceed its GNP share by 10% (Appendix B).

24. In 1979 the United Kingdom asked for application of the mechanism and the Commission, on the basis of the figures and exchange rates available at the time of preparation of the preliminary draft budget 1980, accepted that the conditions were met and entered an amount of 68 million ECU. The United Kingdom was due to be a net contributor to the Community budget and its situation as regards the other criteria for the application of the mechanism was forecast as follows:

Per capita GNP	:	72% of the Community average
Rate of growth (in real terms) of per capita GNP	:	88% of the Community average
Budget share	:	17.4%
GNP share	:	15.7%
Excess of budget share over GNP share	:	11.2%

Moreover, calculated from a moving average, the balance of payments for the United Kingdom was forecast to be in deficit for the years 1976, 1977 and 1978. This forecast turned out to be right.

However, the pound sterling increased in value against the ECU in 1979 and by the time the draft budget 1980 was adopted the United Kingdom's share in Community GNP had consequently increased to 16.7% and it no longer met the condition that its budget share would be more than 10% above its GNP share. See Appendix B. The amount was therefore withdrawn from the draft budget.

25. No other Member State fulfilled all the conditions.

26. If the provisions of the Treaty of Accession, limiting in 1978 and 1979 the budget contributions of the three new Member States, had not been in operation the United Kingdom's budget share would have been 19.4% in 1978 and 21.1% in 1979. It would therefore have fulfilled easily the condition that its budget share should be more than 10% above its GNP share and the mechanism would have operated. This indicates that it was correct to have assumed in 1974 that the full application of the Own Resources Decision of 1970 would produce a situation in which the financial mechanism would operate. (1)

The 1980 amendment of the mechanism in favour of the United Kingdom

27. The British Government reopened discussions of its budgetary problem in 1978 in the light of the ending by 1980 of the limitations of the Treaty of Accession. The discussions continued into 1979 and the European Council of 21/22 June 1979 at Strasbourg asked the Commission to study the situation of each Member State in respect of the Community budget for the years 1979-80.

28. The Commission produced three papers (2) during the period leading up to the European Council in Dublin on 29/30 November 1979. The reference paper indicated that the United Kingdom would become the biggest net contributor to the Budget in 1980 with a net deficit, on certain hypotheses, of about 1550 million ECU. Document COM(79) 620 - paragraph 11, said that "the starting point for an examination of the action which the Community might take in respect of the UK's budgetary problem is logically the existing financial mechanism". It showed also (paragraph 14) that the existing mechanism would produce a net payment of no more than 250 million ECU but that if certain restrictions were removed the payment would be increased to about 520 million ECU or one third of the United Kingdom deficit.

29. The Dublin European Council did not reach an agreement but the conclusions stated: "It was agreed that the Commission's proposals concerning the adaptation of the Financial Mechanism could constitute a useful basis for

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(1) It is interesting to note that the forecast 1979 GNP share of 15.7% (before the full rise in the value of the pound sterling was known) was close to the 1974 simulation figure of 15.9% in paragraph 11 and that th 1979 budget share of 21.1% (after eliminating the effects of the Treaty Accession) was close to the simulation figure of 22.0%

(2) COM (79) 462 (Reference Paper), COM (79) 620 and COM (79) 680

a solution which would respect Community achievement and solidarity".

30. The meeting of the Council of Foreign Ministers on 29/30 May 1980 decided that there would be net payments to the United Kingdom in respect of 1980 and 1981 - mainly from the Community Budgets of 1981 and 1982. It was envisaged that these payments should be made firstly from an adapted financial mechanism, with the balance being covered by the special supplementary measures to be proposed by the Commission.. So far as the adapted financial mechanism was concerned, this decision of the Council was incorporated in Regulation No.2473/80 which amended Regulation No. 1172/76.

31. The substantive changes agreed in 1980 related only to the United Kingdom and were:

(i) The abolition of the tranche system of assessing the payment and replacing it by a simple payment of the whole of the excess if the U.K's contribution exceeds by 10% the amount it would have paid under a GDP system.

(ii) The removal of the limitation that the payment may not exceed 3% of the Budget.

(iii) The removal of the balance of payments rule.

Although some doubt was expressed by the United Kingdom about the three conditions (a), (b) and (c) in paragraph 18, they were not changed because the Commission's view was that "in present circumstances, however, it is unlikely that they would disqualify the United Kingdom from a repayment, at least before the enlargement of the Community". (COM (79) 620, paragraph 16). The changes for the United Kingdom apply to the financial years 1980 and 1981. Unless the Council decides to prolong the life of the amended version, the provisions of the original financial mechanism will apply in respect of 1982.

32. A detailed explanation of the amended (1980) financial mechanism is given in Appendix C.

<u>The application of the revised mechanism to the United Kingdom in respect of 1980, 1981 and the situation as regards 1982.</u>

33. In respect of 1980, the assessment made by the Commission at the time the 1981 preliminary draft budget was prepared showed that the United Kingdom would qualify under the revised financial mechanism. This was because its average per capita GDP was 76% of the Community average (i.e. less than 85%) and its average growth rate of per capita GDP was 50% of the Community average

(i.e. less than 120%). Also, the United Kingdom's GDP share was forecast as 17.82% and its budget share as 20.94%; on this basis, its share of financing the Budget would exceed its share under a GDP system by 17.49% (i.e. more than 10%). An entry was therefore made in the 1981 Budget of the whole of the 17.49% (469 million ECUs).

34. However, a recent reassessment of the situation (required under Article 7(2) of Regulation 1172/76) shows that the forecast excess of 17.49% has fallen to 8.53%. This is mainly because the United Kingdom's share of Community GDP in 1980 is now calculated as 18.92% as against the forecast of 17.82% made in early 1980 - an increase of 6.2%; this rise is almost entirely due to the increase in the value of the pound sterling against the ECU and therefore to an increase in the number of ECU represented by the United Kingdom's GDP expressed in national money. Also, the forecast budget share of 20.94% which was based on the 1980 budget turned out to be 20.53% when the budget (including the second supplementary budget) was executed. The reassessment showed that the United Kingdom continued to fulfil the other two conditions (see Appendix B).

35. Since the United Kingdom's share of financing the Budget is no longer 10% more than its share on the basis of GDP the entitlement to a payment under the financial mechanism no longer exists and the appropriations concerned must be transferred from Chapter 41 of the 1981 Budget to Chapter 58 relating to supplementary measures.

36. In respect of 1981, the Commission's assessment is that the United Kingdom will meet the conditions of average GDP per head (with 82% of the Community average) and growth rate (in real terms) of per capita GDP (with 34% of the Community average). The UK's share of the Budget is forecast, however, as only 6.3% higher than its share on a GDP basis and therefore no payment has been entered in the 1982 preliminary draft budget. The Commission will reassess the situation in early 1982 when more up-to-date figures are available.

37. It should be noted that a parallel movement between a Member State's GDP share and its share in financing the Budget cannot necessarily be expected. There are a number of reasons for this, both economic and budgetary, of which the main one is the fact that GDP shares are converted into ECU at the average annual rate of exchange, whereas this is not the case for own resources and, in particular, VAT which is directly payable in ECU calculated from forecasts in national monies which are converted into ECU at the rate of 1 February of the preceding year.

38. In respect of 1982, the Commission's present assessment is that the conditions will be met of growth rate (in real terms) of per capita GDP and of a 10% excess of Budget share over GDP share; but that the average of the three years 1979, 1980 and 1981 (on which the 1982 assessment is based) will give a share of GDP per head on the basis of the average annual value of the ECU of about 89%. If this turns out to be correct, no payment would be payable to the UK in respect of 1982 under either the original or the adapted mechanism.

39. The main factor that underlies the failure of the mechanism to operate as intended is the increase during the period 1979 to 1981 of the United Kingdom's GDP share expressed in ECU. Over this period the rate of real growth in the United Kingdom remained on average significantly below the Community average. At the same time, the value of the pound increased relative to the ECU while the UK had an above average rate of inflation.

Description of the Financial Mechanism (Regulation No.1172/76)
(This was amended by Regulation No. 2473/80 - the main changes affecting only the United Kingdom - see paragraph 20 of the main text).

1. On a resaoned application from a Member State, submitted not later than 30 June, the Commission assesses the facts of the situation having established that the following conditions are met simultaneously:

(a) the per capita gross domestic product (GNP) of the Member State is less than 85% of the average per capita GNP for the Community (averages of the figures for the three years preceding the financial year in progress, calculated at current market exchange rates);

(b) the growth rate of the per capita GNP in real terms of the Member State is less than 120% of the average rate for the Community (average of the figures for the three preceding years);

(c) The total payments made by the Member State to the Communities' Budget for the financial year in progress, net of any financial compensations the Member State may have received under Article 131 of the Act of Accession, exceed by more than 10% the amount it would have to pay if the part of the Budget covered by the Decision of April 1970, (i.e. by customs duties, agricultural levies, VAT resources or GNP-based contributions) were financed by the Member States on the basis of the proportion of their GDP to the total GNP of the Member States. The figures for GNP relate to the financial year in progress and are therefore estimates.

2. The excess referred to in (c) above is refunded in the following proportions:

The portion from	0%	to	5%	nil
" " "	5,0001%	to	10%	50%
" " "	10,0001%	to	15%	60%
" " "	15,0001%	to	20%	70%
" " "	20,0001%	to	25%	80%
" " "	25,0001%	to	30%	90%
Above 30%				100%

3. The payment calculated as indicated in point 2 may not exceed the smaller of of the following two amounts:

(a) The amount of the negative balance for the Member State concerned between its transfers of funds to the Communities' Budget and the transfers received from the Budget (1). This balance is established without taking account

(1) If the balance is positive for the Member State concerned, the mechanism becomes inapplicable.

of the payments made under the financial mechanism. Payments received by the Member State include payments made on its behalf by other Member States as MCAs.

(b) The payments by the Member State to the Budget for the current financial year after deduction of customs duties and agricultural levies.

4. Where the balance of payments of a Member State, calculated from a moving average of the three years preceding the financial year in progress, shows a surplus, the amounts to be taken into consideration in the calculation of the excess amount referred to in 2 (c) above shall respectively be replaced by:

- The payments by the Member State to the Budget of the Communities in respect of Value Added Tax.

- The amount which that State would have had to pay on the basis of the proportion of its GNP to the total GNP of the Member States to finance the part of the Budget not covered by customs duties and agricultural levies.

5. The total amounts of the payments for a given financial year shall not exceed 3% of the total expenditure chargeable to that year.

6. At the request of the Member State concerned an advance equal to 75% of the provisional amount of the payment is paid at the beginning of the following year. On the basis of the final data, the Commission then calculates the final amount of the payment.

APPENDIX B

Fulfilment by the United Kingdom of the Conditions of the Financial Mechanism

Year	Net Contributor	Per capita GNP/GDP as percentage of average	Growth rate per capita GNP/GDP as % of average	Budget share in relation to GNP/GDP share		
				Budget share %	GNP/GDP share %	Difference
1976	Yes	77	100	10.7	15.7	- 31.6*
1977	No*	75	27	12.2	15.4	- 20.9*
1978	Yes	74	74	15.4	15.7	- 2.5*
1979	Yes	72	88	17.5	16.7	+ 5.0*
1980	Yes	74	60	20.5	18.9	+ 8.5*
1981	Yes	82	34	21.2	20.2	+ 5.2*
1982	Yes	89*	negative	22.3	19.3	+ 15.5

* Does not meet the condition.

Description of the Financial Mechanism as applied to the United Kingdom for the years 1980 and 1981 (Regulation No.2473/80)

1. On a reasoned application from a Member State, submitted not later than 30 June, the Commission assesses the facts of the situation having established that the following conditions are met simultaneously:

(a) the per capita gross domestic product (GDP) of the Member State is less than 85% of the average per captia GDP for the Community (averages of the figures for the three years preceding the financial year in progress, on the basis of the average annual value of the ECU);

(b) the growth rate of the per capita GDP in real terms of the Member State is less than 120% of the average rate for the Community (average of the figures for the three preceding years);

(c) The total payments in ECU made by the Member State to the Communitie's Budget for the financial year in progress exceed by more than 10% the amount it would have to pay if the part of the Budget covered by the Decision of April 1970, (i.e. by customs duties, agricultural levies, VAT resources or GNP-based contributions) were financed by the Member States on the basis of the proportion of their GDP to the total GDP of the Member States. The figures for GDP relate to the financial year in progress and are therefore estimates.

2. The excess referred to in (c) above is refunded in full.

3. The payment calculated as indicated in point 2 may not exceed the smaller of the following two amounts:

(a) The amount of the negative balance for the Member State concerned between its transfers of funds to the Communities' Budget and the transfers received from the Budget (1). This balance is established without taking account of the payments made under the financial mechanism. Payments received by the Member State include payments made on its behalf by other Member States as MCA s.

(b) The payments by the Member State to the Budget for the current financial year after deduction of customs duties and agricultural levies.

4. At the request of the Member State concerned, an advance equal to 75% of the provisional amount of the payment is paid at the beginning of the following year. On the basis of the final data, the Commission then calculates the final amount of the payment.

(1) If the balance is positive for the Member State concerned, the mechanism becomes inapplicable.