

# COMMISSION OF THE EUROPEAN COMMUNITIES

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## COMPENSATION FOR THE UNITED KINGDOM: THE SUBSEQUENT SOLUTION

(Communication from the Commission to the Council)

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Compensation for the United Kingdom: the subsequent solution

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I. Paragraph 7 of the Conclusions of the Foreign Affairs Ministers on compensation for the United Kingdom for 1982 states: "The Ministers undertake to take a decision before the end of November 1982 on the subsequent solution". The present communication sets out the Commission's basic approach for this subsequent solution.

II. The Commission recognises that the reasons which led to the budgetary arrangements of 1980 and 1982 in favour of the United Kingdom will continue to exist after 1982. It believes, as it stated in its Mandate Report, that this problem should be resolved in the long run by the development of Community policies in the non-agricultural field which would introduce a better balance of expenditure into the Community's Budget. In the Mandate Report the Commission made proposals for such policies, including for example, for the substantial development of the Regional Fund.

The Commission believes that in any event it is important that the process of developing new policies which the Mandate Report set in action should continue. It should be pushed ahead in its own right and in the interest of the Community as a whole.

As a complement to its proposals in the Mandate Report on the expenditure side of the Budget, the Commission now intends to conduct a thorough review of the Community's financing system. This too is a matter of general Community interest and should be conducted on that basis. In the light of this review the Commission will, in the spring of 1983, present proposals designed to:

- a) provide the Community with the necessary resources and with the necessary financial flexibility and autonomy to respond to the increasing budgetary demands of its policies;
- b) develop the Community's financing system in such a way as to stimulate the further development of these policies;
- c) establish a financial framework which allows enlargement by Spain and Portugal to take place without prejudice to the *acquis communautaire* as it now exists and as the Commission has proposed it should be developed in the context of enlargement;
- d) reinforce the Community's internal cohesion and solidarity.

It is within the context of this new financing system, and the development of Community policies which it should generate, that the British budgetary problem must eventually be resolved.

III. Meanwhile, until the process of developing the Community's Budget yields tangible results, the timing of which is likely in practice to coincide with that of the Community's third enlargement, the Commission proposes, in the light of the conclusions of Foreign Ministers regarding the 1982 solution, a further *ad hoc* arrangement for the United Kingdom.

Such an arrangement should be provided on the basis of a new agreement at the Community level. It should cover a period of two years (1983 and 1984). In the light of the developments in the Community referred to above it could be extended to a third year (1985). In this case, the arrangement for the third year should follow the same principles as that for 1983 and 1984.

The arrangement must also take into account paragraph 2 of the conclusions of the Foreign Affairs Ministers about corrections to be made.

The arrangement should be based on a simple system. In its Mandate Report the Commission proposed a mechanism which directly reflected the problem of the low level of the United Kingdom's receipts from EAGGF Guarantee expenditure. The Council was however not disposed to follow this approach. Hence this interim arrangement is based on the understanding that, as in previous years, the United Kingdom's contribution to the Community Budget will be reduced by the financing through the Community Budget of a basic compensation to the United Kingdom, plus a risk-sharing adjustment.

More precisely the arrangement should in the Commission's view contain the following elements relating to each of the years in question:

- a) as base reference a figure on the contribution of the United Kingdom;
- b) in respect of this base reference figure, an amount of compensation which takes account of corrections to be made for 1980 and 1981 in the light of the actual figures;

- c) a risk-sharing adjustment (upwards and downwards) in the event that the actual figure turns out to be significantly different from the base reference;
- d) the level of appropriations to be entered in the Community Budget in order to implement this compensation.

IV. In accordance with paragraph 2 of the conclusions of the Foreign Affairs Council of 26 October 1982, "corrections to be made for 1980 and 1981 in the light of the actual figures will be taken into account when negotiating the subsequent solution".

A simple comparison between the figures contained in the 30 May 1980 agreement and the actual figures does not provide any single or clear basis for determining the possible magnitude of these corrections. This appreciation is a political, not a legal one.

In fact, if on the one hand the 1980 agreement has been carried out in strict accordance with its text, on the other hand it has not had the generally expected outcome that the United Kingdom, after compensation, would still sustain a certain level of contribution.

The Commission would prefer that the Council should first enter into a discussion of the method of a further compensatory arrangement for the United Kingdom, and then deal simultaneously with the level of such compensation and the level of the corrections to be applied to it. The Commission hopes that, at an appropriate moment, an overall settlement, encompassing both elements, could be reached on the basis of a political understanding acceptable to all Member States. The Commission may in due course provide a reasoned view on what constitutes a fair overall level of compensation in the light of both these elements.

V. In some respects therefore the further interim arrangement in favour of the United Kingdom would follow the pattern of the agreements of 1980 and 1982. But the Commission believes that it should be effected in a form corresponding more closely to true Community policies.

VI. In making these suggestions, the Commission is conscious of the criticisms which have been expressed, not least by the European Parliament, of the system of special measures established under the agreements for the years 1980 to 1982 whose genuine Community character has sometimes been questioned.

For this reason, the Commission is of the view that this further interim arrangement should help promote the development of true Community policies. The Commission would not like to see any further prolongation beyond the present proposed arrangement of ad hoc solutions of this kind. But this means that the Community must make more strenuous efforts to develop a wider array of policies at the Community level and must be prepared to diversify and extend its financing system along the lines described in paragraph II above.