COMMISSION OF THE EUROPEAN COMMUNITIES

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REFERENCE PAPER ON BUDGETARY QUESTIONS

(Communication from the Commission to the Council)

I. INTRODUCTION

In the light of the discussion on convergence which the European Council had at its meeting in Strasbourg in June 1979, the Council requested the Commission "to submit to the Council a reference paper describing the financial consequence of applying the budgetary system on the situation in each Member State, especially in 1979 and 1980. The study will have to take into account the economic, financial and social effects of each Member State's participation in the Community and the Community nature of the components contributing to the formation of own resources. For 1980, it will take account of the agricultural prices for the 1979/1980 marketing year.

The Commission will at the same time examine the conditions under which the corrective mechanism decided on in 1975 can play its part in 1980 and the extent to which it fulfils the objectives assigned to it.

The Commission will submit its study to the Council so as to enable the Member States to give their opinions and present their requests in concrete form. In the light of the debate and of any guidelines which may emerge from the Council the Commission will present proposals sufficiently early to enable decisions to be taken at the next meeting of the European Council."

2. In the light of the request of the European Council this paper is in three main parts:

- an analysis of the expenditure and receipts of the Community budget, which includes observations on the nature of own resources
- an examination of the operations of the Financial Mechanism
- certain considerations on the economic, financial and social aspects of participation in the Community.

3. In presenting this reference paper, the Commission wishes to draw the attention of the Council to a number of fundamental aspects of the Community against which the application of the budgetary system on each Member State needs to be seen.

4. First, the Community in itself comprises a number of policies which cannot readily be quantified in financial terms. The advantages of belonging to a single market, the benefits conferred by the Common Commercial Policy, and the political strength which flows from membership of an organization moving steadily towards greater integration are among the more important elements in this respect. Moreover, economic convergence in the Community should be seen not only from a budgetary aspect, if only because the Community budget represents at present only a small proportion of the GNP of the Community. It is also necessary to take into account, for example, the advantages offered by the flow of private capital across the Community which is in itself assisted by an improvement in economic structures. Factors of this kind have indeed led an increasing number of European countries to seek to join the Community since its original creation with six Member States. Moreover countries joining the Community have had to recognize, as did the original founding members, that not all policies are of equal benefit to all Member States and that the advantages or disadvantages of Community membership must necessarily be seen as a whole.

5. Second, the interdependence of the Community's achievements should be borne in mind. The creation of the internal customs union and the contribution which the Community has made to liberal trading policies would not have been possible without the establishment of a vigorous Community agricultural policy. In the same way the Community's social and regional policies have been introduced to correct the effects of the concentration of developments in certain areas which exist despite the economic expansion to which the Community has greatly contributed, thus asserting a solidarity among Member States which is required to diminish the regional and social inequities which can be identified at a Community level. The Commission believes strongly in the value of these policies.

6. Third, in considering the Community budget, the figures cannot in themselves be seen as reflecting the true economic cost and advantage of membership of the Community to a Member State. The Community budget is the financial expression of common policies which comprise expenditure, Community competences in certain sectors, and decisions taken regularly in respect of them by Member States. In this context the budget should not be judged in the light of the position of each Member State, but mainly of the effectiveness with which it ensures the conduct of common policies to the benefit of the entire Community. The Commission recently emphasised this point in the document on convergence which it sent to the European Council in March of this year. The Commission wishes to stress again that the Community instruments which are financed within the budget or through loans have been set up to serve specific policies.

7. The Commission further emphasizes that even if at present the Community budget has a weak redistributive effect it should, as it increases, progressively promote convergence between the economies of the Member States.

8. The considerations in paragraph 6 above apply with particular force to the Common Agricultural Policy. In fact, the main interventions of the Guarantee Section are subordinated to the general objective of maintaining prices for agricultural products on the Community's internal market at a stable level in accordance with Article 39 of the EEC Treaty. The economic consequences of such expenditure are not limited to the country in which it occurs. For example, if a quantity of agricultural produce is removed from the market in a Member State by intervention for public storage, or by export with the benefit of Community refunds, such action supports the market price both in that Member State and throughout the Community. It follows that the budgetary incidences of the agricultural price and market policy are less significant than its wider economic consequences. The latter are necessarily difficult to quantify. However, it may be said that, insofar as the interventions of the agricultural policy succeed in supporting prices at the level necessary to maintain a fair standard of living for the agricultural community, they result in a transfer of income to the agricultural sector from other sectors of the Community economy, and therefore in favour of Member States in which agricultural production is relatively important. The agricultural policy, through its maintenance of the agricultural labour force, is also playing an important role in a period of high unemployment. On the other hand, insofar as the policy assures the stability of markets and the availability of food supplies to consumers at reasonable prices, it

represents an economic benefit and a degree of security for those Member States whose degree of agricultural self-sufficiency is relatively low. This benefit, though difficult to measure, is no less real, as was demonstrated in the period of shortages on world agricultural markets in 1974-75.

9 Finally, the Commission notes that the terms of the request from the European Council required it to concentrate its study on the situation of individual Member States in relation to the Community budget. The Commission stresses that, apart from the above-mentioned difficulties in quantifying this relationship, it takes the view that the expansion of existing and the introduction of new policies as the need arises would be gravely hampered if the notion of "juste retour" were to become the accepted way for Member States to judge them. The Commission believes strongly that the terms of the request of the European Council cannot be allowed to lead to an evaluation of the Community which is confined to a simple analysis of cost and benefit of the budget for each Member State.

Furthermore, calculations based on "juste retour" have even less meaning when it is taken into account that on the one hand certain budgetary expenditure results from Community obligations taken over following the accession of certain Member States (for example the sugar protocol or N.2. butter*) and in the context of the Communities general commercial relations with third countries ; and that on the other hand certain expenditure connected with Community policies has not so far been included in the Community budget, but is financed on national budget on different keys (e.g. EDF, food aid in cereals).

II. ANALYSIS OF EXPENDITURE AND RECEIPTS OF THE COMMUNITY BUDGET

10 In the light of the above considerations this section seeks to analyse by Member State the main features of expenditure and receipts in respect of the Community budget based on tables which will be found at Annex I. These tables record both actual budgetary receipts for the years 1976-78, and forecast receipts and expenditure for 1979 and 1980.

It should be borne in mind that:

(a) The projections for 1979 and 1980 are based on an analysis of significant categories of expenditure in each Member State for the years 1976-78 particularly with the aim of eliminating any anomalies. Nonetheless the resulting expenditure figures in Member States should be regarded essentially as orders of magnitude rather than precise budgetary estimates.

(b) The forecasting of figures for each Member State in the way which has been attempted presents particular difficulties. The Commission has accordingly set out in some detail in a separate document the method which it has used for this exercise.

*For 1979 the budgetary cost for these two items has been estimated at 650 MEUA.

The tables at Annex I:

(a) comprise figures representing estimated percentage shares of expenditure in Member States and estimated actual expenditure for 1979 and 1980 (Tables 1-4).

(b) show the development of customs duties and agricultural levies from 1976 to 1980, and estimates for VAT payments for 1978-80. They also show the percentage shares of each Member State and the relationship between those shares and their shares of Community GNP (Tables 7-9). Table 10 shows for 1976-80 the shares and forecast shares of each Member State in financing the budget as a whole compared with its share in Community gross national product. Adjustments have been made to take account in 1978 and 1979 of the effects of Article 131 of the Act of Accession.

11 It should be noted that the report does not include calculations in respect of the budget o the ECSC due to the fact that a different method of financing this budget is used.

A. ANALYSIS OF EXPENDITURE

12 The Commission has grouped the different types of expenditure from the Community budget into six main categories. The resulting forecast expenditure by Member State is presented in the annexes in terms of both percentages and in absolute amounts. The following concerns the main separate categories of expenditure within the Community budget.

(i) FEOGA Guarantee Section

This section represents by far the biggest category of expenditure within the Community budget, amounting for 1979 and 1980 to some 70% of the total. This is due to the relatively low degree of development of other policies. The Common Agricultural Policy is a highly developed policy based on Community solidarity and it has taken over virtually all the financial consequences of the regularisation of agricultural markets. The geographical distribution of its expenditure therefore determines to an important extent the pattern of total budgetary expenditure in Member States. Whereas some

25% of the expenditure takes place in Germany, 20% in France and 16-17% in Italy, in 1980 only about 8% will take place in the United Kingdom[1]. However these figures need to be judged essentially in the light of the considerations advanced in paragraph 8. The relatively low level of expenditure in the United Kingdom reflects the share of United Kingdom agricultural production in the Community (some 10-11% of those products subject to a system of common prices under the CAP), and is also influenced by the generally deficit nature of the United Kingdom market and, until recently, high negative MCA's, both of which limit intervention expenditure. It should be noted that in conformity with the Council Regulation governing the operation of the financial mechanism, negative MCA's paid in the exporting country have been treated as if they had been spent in the importing country. (However, tables on pages 14-15 show the different results which are produced depending on how the MCA's are attributed). But over the past few months the importance of MCA's in trade between the United Kingdom and the rest of the Community has been considerably reduced due to devaluations of the green pound and to a strengthening of sterling. So long as the current situation is maintained (United Kingdom MCA's of under 3.5%) then the attribution of MCA's will be of little practical significance.

(ii) Structural Funds

This category of expenditure represents some 12% of the budget and covers the social fund, the FEOGA guidance section, the regional development fund, and the 200 MEUA interest rebates allotted for Italy and Ireland over five years within the EMS. In general the distribution of expenditure from these funds corresponds to the relative needs in respect of the policies concerned as between the Member States of the Community. Thus Italy is by far the biggest recipient from these funds taken as a whole (32-33%) followed by the United Kingdom (21%). Moreover Ireland, which represents only some 0.6% of Community GDP, receives some 10% of this expenditure on structures. Expenditure in all other Member States is less than their share of Community GDP, amounting to less than half in the case of Germany and the Netherlands.

(iii) Other Intervention Payments

These have been growing fast in recent years but still represent only some 2% of total expenditure, covering research, energy and industry. Moreover their economic significance for individual Member States is more difficult to

[1] The expenditure figures in Tables 1-4 are based on the budget of 1979 and the preliminary draft budget for 1980. These figures will be updated as necessary through the normal budgetary procedures. One effect of the updating which should be noted in the present context is the further diminution of United Kingdom MCA's.

evaluate. For example, the results of research benefit the Community as a whole and not just the Member State in which the expenditure takes place. Some 27% of this expenditure is forecast to be made in Italy and some 12-13% in the United Kingdom, although this proportion will increase over the next few years principally as a result of a build up of expenditure on the JET.

(iv) Reimbursements

Three categories of reimbursement representing some 5% of budgetary expenditure can be calculated precisely in respect of Member States. These are the automatic reimbursement of 10% of customs duties and agricultural levies to cover the cost of collection; the repayment to the United Kingdom of its contribution to the interest rebate scheme within the EMS; and the financial mechanism. (However latest forecasts indicate that the Financial Mechanism will not now come into play in respect of 1979, although it may operate for the first time in 1981 in respect of 1980)[1]. The share of Italy in these reimbursements is relatively small (11-12%) whereas it is substantially and rapidly increasing for the United Kingdom (1979: 27%, 1980: 34%).

(v) Administrative Expenses

Despite the difficulty of satisfactorily attributing these expenses to individual Member States, the Commission has nonetheless attributed some 90% of them representing some 6% of total budgetary expenditure.

(vi) Expenditure in respect of third countries

This currently represents some 5-7% of the budget and covers essentially co-operation expenditure in respect of developing countries including food aid (without restitution). This expenditure has not however been

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(1) In this context see also paragraph 27.

divided between Member States since the principal beneficiaries are outside the Community. For example food aid, whose market value is recorded as having been spent in the Member State which furnished the product, gives no more advantage to the country concerned than a commercial export of the same product. As regards investment projects the indirect economic benefit which Member States receive would be extremely difficult to quantify.

General Considerations

13 The above presentation of expenditure from the Community budget should be seen in the light of the following comments:

(a) Delays in payments.

As regards those parts of the budget divided between commitments and payments credits, a significant gap between the use by Member States of commitments credits as opposed to those for payments is quite normal. The former represent a coverage of part of the total cost of operations which are finalised over several years, while the latter reflect the actual expenditure taking place year by year. However the gap between commitment and payment does vary between Member States. This is due to two principal reasons.

Firstly, the social and structural situation is not identical in each Member State and national policies often vary greatly. This means that certain Community instruments respond in differing degree to the true needs of each Member State and that the capacity of Member States to take up the available payments credits varies accordingly. Secondly, the institutional and administrative arrangements in some Member States can also be a factor of delay.

These factors lead for example to greater delays in the take up payments credits on the part of Italy (although this is less the case in respect of the regional fund) than on that of the United Kingdom, where the situation appears to be normal. There are also certain delays in the case of France. However given the relatively small proportion of the Community budget which is represented by the structural funds, delays in respect of the use of payments credits do not significantly affect the position of the Member States concerned as regards the overall application of the Community budget.

The Commission is nonetheless aware of the political importance, as regards the general impact of the structural funds, of avoiding cumulative delays over the years in the use of available payments credits. This whole matter is currently under study within the services of the Commission.

(b) Development of Commitments.

At the same time it is important in considering the levels of payments to take into account the volume of commitements which have been made or are forecast in respect of the structural funds (Tables 5 and 6). The figures make clear that the volume of commitments is considerably greater in absolute figures thatn the volume of payments and that the commitments are developing considerably from one year to the next. This is the result of significant increases in these credits in recent budgets.

The percentage figures also show that these funds benefit essentially those Member States within the Community which have the lowest gross national product per head. Nearly 70% of this expenditure is forecast to go to Ireland, Italy and the United Kingdom in 1979 and 1980.

14 The expenditure figures demonstrate that the division of expenditure among Member States is relatively stable as regards the majority of them. The changes from 1979 to 1980 do not exceed 10% and are therefore relatively minor. The only exception is the United Kingdom whose relative share of expenditure falls from 13.5% to 10.3%, i.e. a reduction of 25%. This change is due largely to the reduction of monetary compensatory amounts referred to in paragraph 12(1).

Community Loans

15 Full account also needs to be taken of the element represented by loans and their contribution to economic development within Member States as well as to the Community's financial operations. A table (Table 11 and 11b) gives the volume of loans from Community sources to Member States for 1976-78. Loans are clearly not in the same category as transfers

from the Community budget. But given the constantly increasing loan activities of the Community and the EIB it seems likely that despite the charges incurred through them, loans will produce a growing flow of capital to the countries which benefit from them especially Italy and the UK.

The balance of payments benefits and their contribution to economic development are also significant if difficult to quantify.

B. ANALYSIS OF BUDGETARY RECEIPTS AND THE NATURE OF OWN RESOURCES

16 The Council Decision of 21 April 1970 on the replacement of financial contributions from Member States by the Community's own resources provided that the Communities shall be allocated resources of their own in order to ensure that their budget is in balance. The own resources were to consist of customs duties and agricultural levies, supplemented by financial contributions which were to be replaced by payments based on VAT. Thus the customs duties and agricultural levies constitute resources which belong to the Community as a result of its basic characteristic as an integrated commercial area; and while the different national administrations are for reasons of administrative convenience asked to collect the resources, they cannot be said to belong in any sense to any particular Member State. The same Decision of 1970 placed limits on the variation which could take place from one year to the other in the relative shares of all Member States in financing the budget up to the end of 1977. Articles 130-132 of the Act of Accession also put limitations on the amount to be paid by Denmark, Ireland and the United Kingdom until 1979. In fact therefore it is not until 1980 that the Community's own resources will be paid in full by each Member State without modification.

17. Because the Community is a customs union and has a common agricultural policy, some duties and levies are collected at the periphery on goods which are finally consumed in another Member State. Where this happens the customs duties and agricultural levies collected by the Member States at the place of import overstate its real contribution to the Community budget, and the contribution of the Member State which consumes the goods is understated. For example a significant proportion of goods imported into Germany from outside the Community and consumed in Germany have the relevant customs duties and agricultural levies collected at Rotterdam or Antwerp. The burden of the duties falls on Germany but the transfer to the Community is shown as having been made by the Netherlands or Belgium. On the

other hand the United Kingdom imports directly from third countries and also consumes the great majority of its imports; therefore the customs duties and agricultural levies which it transfers to the Community represent a reasonably accurate measure of trade movements which actually take place between the United Kingdom and third countries.

18 In view of the significant increase which has taken place in industrial and agricultural trade among the six original members of the Community since its creation it is worth examining whether a similar evolution can be identified in the case of the new Member States and with a consequent effect on contributions to the budget in levies and customs duties. The share of external trade of Ireland and Denmark which is directed to the Community has regularly increased and is around the level (or above in the case of Ireland) of the Community average. As regards the United Kingdom, imports from the EEC as a percentage of the United Kingdom's total imports have risen from around 34% in 1972 to 35% in 1976, and to 43% in the first three quarters of 1978. This has not however led to a consequent decline in for example the proportion of Community customs duties originating in the United Kingdom over recent years. These duties, which are substantially more important than agricultural levies as an own resource have in fact shown a steady increase since 1976. The high proportionate level of these duties has been due to the United Kingdom's rate of imports in proportion to her GNP and to her continuing volume of imports from third countries. However with progress in Community integration, a growing part of the external trade of the United Kingdom will take place with its Community partners and the result should be a relative reduction in the United Kingdom's share of financing the budget.

19 Although customs duties and agricultural levies belong automatically to the Community and there are uncertainties about their financial impact on the Member States, they have been attributed throughout this paper to the Member State in which they were collected. This is in conformity with the Decision of 1978 which provided that they should be considered as contributions by the Member States in the application of the "relative share" method of financing the Community budget which ended on 31 December 1977. Moreover the Community's financial mechanism (see III below) provides that they should be included in the assessment of whether or not a Member State is bearing a disproportionate burden in the financing of the budget.

20. In 1979 six Member States have replaced the financial contributions related to their share of Community GNP which are made in order to balance the budget by payments related to the application of a Community rate (not to exceed 1%) to a uniform VAT basis of assessment. It is expected that in 1980 all Member States will be paying to the Community on the basis of customs duties, agricultural levies and VAT.

21. The financial consequences of VAT payments are clearer than those of the levies and the duties. VAT is a tax on consumption within each Member State and the transfers to the Community are therefore a more accurate measure of the financial consequences for each Member State of this method of financing the Community budget than are customs duties and levies. But the VAT contribution does not necessarily reflect a Member State's ability to pay. This is because the share of value added (i.e. the VAT tax base) in the GNP of a Member State is influenced by the level of investment and the balance of trade, because investment and exports are not included in the tax base although imports are included. Member States with at any given time a low investment rate and/or a balance of trade deficit have a high VAT tax base in relation to their GNP shares and vice versa.

Evolution of Receipts from Member States

22. The share of each Member State in the financing of the Community budget for the years 1976 to 1980, by comparison with its GNP share, is shown in Table 10. It will be seen that the shares have changed considerably over the years because of the phasing out of the limitations in the method of financing up to the end of 1977, and of the application of Article 131 of the Treaty of Accession in 1978 and 1979[1]. Only the shares for 1980 are free of restraints and

[1] Under this Article the United Kingdom and Ireland received payments, outside the budget and financed by the other Member States, of 481 MEUA and 18 MEUA respectively for 1978. The payments for 1979 are expected to be about 410 MEUA and 3 MEUA respectively.

can be taken as a guide for the future. However, in order to present comparable figures for more than one year table 10A has been constructed which shows what the shares would have been from 1978 to 1980 if Article 131 had not been applied and if all Member States had been contributing to the budget on the basis of VAT.

This table could be expected to show the effects on shares of Member States of increases in the size of the budget. As the budget increases the proportion financed by VAT increases, because additional expenditure is financed solely by VAT. If customs duties and agricultural levies remained relatively constant, and if exchange rates were stable, one could therefore expect that the overall shares of Member States (Belgium/Luxembourg,Italy,Netherlands, United Kingdom) whose VAT is less than their customs duties/ agricultural levies share would decrease, that the overall shares of Member States in the reverse position (France) would increase, and that those whose customs duties/agricultural levies share is broadly equal to their VAT share (Denmark, Germany and Ireland) would remain in the same position.

23. Table 10A confirms this expectation, after allowing for currency movements, except in the case of the United Kingdom whose share is not forecast to fall as could have been expected. This is because the United Kingdom is the only Member State whose share of customs duties and agricultural levies has risen steadily between 1976 and 1980; this has more than offset the benefit which could otherwise have been expected from a lower VAT share.

24. All the tables in this paper have been constructed for the years 1976 to 1978 on the basis of converting payments to the budget, in national money, into European Units of Account at the average exchange rates for the years in question. For 1979 the rates used are those of 1 February 1978 (used for the 1979 budget)and for 1980 they are those of 1 February 1979 (used for the 1980 budget).

25. It is important to note that the figures for 1979 and 1980 will be different if there are significant changes in the relative values of national money. For example, the rise in the value of the pound sterling increases the share of the United Kingdom in financing the budget but increases also its share in Community GNP. Over a period of years these increases will be broadly self-compensating

and will not significantly affect the gap between GNP share and budget share. But in 1979 (and to some extent in 1980) the increase in budget share will be less than the increase in GNP share and the gap will become narrower. This is because of the method of paying the VAT element which is fixed in EUA in the year in question and corrected in national money in the following year. Table 10B shows, as an illustration, the effect on the forecast shares if the average exchange rates for August 1979 were to be the average rates for the whole year.

C. BALANCE OF BUDGETARY RECEIPTS AND EXPENDITURE

26. The tables below summarise percentage budgetary receipts as shown in Table 10 and expenditure in Member States in respect of categories I-V for the years 1979 and 1980. As regards 1979 the receipts take account of extra-budgetary payments under Article 131. It should be noted that the net balances which have been calculated are forecasts based on a method which means that they cannot be compared with figures which the Commission has earlier produced for previous years on the basis of actual monetary transfers. The tables should therefore be seen as showing a trend for 1979-80, rather than as indicating absolute balances.

27. The following observations may be made in respect of the three Member States with below average GDP in the Community:

(i) Italy's share of Community expenditure in categories I-V is 17.9% for 1979 and 17.3% for 1980. This compares with forecast receipts from Italy of around 12%. Given a share of Community GNP of 14% this indicates that Italy's share of expenditure is more than 3% above her GNP share, while her payments to the budget are some 2% below. The positive balances forecast for Italy in 1979 and 1980 contrast with her position in 1978 when, in cash terms, she was a net contributor, having been a net beneficiary in previous years. The situation in 1978 arose mainly because that year Italy's contribution to the budget increased sharply because of the end of the "relative share" system of financing which had previously held down her total payments; at the same time expenditure in Italy from the structural funds actually fell slightly. In 1979 on the other hand, Italy started to make VAT

Table : Total appropriations for payments, and financing by each Member State in 1979

Sector	B	DK	D	F	IRL	I	L	N	UK	Sub-total	Other	Total
	1	2	3	4	5	6	7	8	9	10	11	12
A. As a percentage												
1. Expenditure broken down into Categories I-V (1)												
(a) (2)	9,3	4,2	21,8	17,5	3,6	17,9	2,0	10,2	13,5	100		
(b) (3)	9,5	6,0	22,8	19,3	5,2	15,18	2,1	11,3	8,0	100		
2. Financing, including Article 131 (see Table 10)	6,68	2,51	30,63	20,00	0,75	12,11	0,14	9,60	17,58	100		
3. Balance (1)-(2)												
(a)	+ 2,6	+1,7	-8,8	-2,5	+2,8	+5,8	+1,9	+0,6	-4,1	0		
(b)	+ 2,8	+3,5	-7,8	-0,7	+4,4	+3,7	+2,0	+1,7	-9,6	0		
B. In m EUA												
1. Expenditure broken down into Categories I-V												
(a)	1.209	551	2.837	2.285	463	2.333	269	1.323	1.764	13.034		
(b)	1.239	782	2.974	2.517	676	2.060	269	1.480	1.037	13.034		
2. Financing, including Article 131	871	327	3.992	2.607	98	1.579	18	1.251	2.291	13.034		
3. Balance (1)-(2)												
(a)	+338	+224	-1155	-322	+365	+754	+251	+72	-527	0		
(b)	+362	+455	-1012	- 90	+578	+481	+251	+229	-1254	0		
C. Not included in calculations												
Chiefly expenditure not broken down (4) (Category VI)											683	
D. Grand total (for reference)												13.717

(1) I - EAGGF Guarantee Section; II - Improvement of agricultural structures; III - Other intervention appropriations, broken down; IV - Refunds; V - Operating expenditure, part broken down.

(2) Expenditure under the EAGGF Guarantee Section - part of monetary compensatory amounts (MCAs) but not pursuant to Article 2a of Regulation 974/71.

(3) Taking into account Article 2a of Regulation 974/71 whereby exporting Member States pay certain MCAs granted by the UK or Italy on their imports. Estimate based on the following assumptions:
- trade in agricultural products between the UK and Italy, and therefore the proportion of trade involving intra-MCAs, will be negligible;
- in 1979 and 1980 the proportion of UK and Italian intra-MCAs going to the various exporting countries will be the same as in 1978.

(4) Expenditure not broken down (Category VI) and a very small proportion of operating expenditure.

Table : Total appropriations for payments, and financing by each Member State in 1980

Sector	B	DK	D	F	IRL	I	L	N	UK	Sub-total	Other	Total
	1	2	3	4	5	6	7	8	9	10	11	12
A. As a percentage												
1. Expenditure broken down into Categories I-V (1)												
(a) (2)	9,6	4,3	22,8	19,2	3,8	17,3	2,0	10,7	10,3	100		
(b) (3)	9,7	4,9	23,2	19,9	4,3	16,3	2,1	11,1	8,5	100		
2. Financing, including Article 131 (see Table 10)	6,07	2,42	30,12	19,99	0,90	11,52	0,13	8,36	20,49	100		
3. Balance (1)-(2)												
(a)	+3,5	+1,9	-7,3	-0,8	+2,9	+5,8	+1,9	+2,3	-10,2	0		
(b)	+3,6	+2,5	-6,9	-0,1	+3,4	+4,8	+2,0	+2,7	-12,0	0		
B. In m EUA												
1. Expenditure broken down into Categories I-V												
(a)	1.460	651	3.471	2.917	573	2.621	312	1.629	1.561	15.195		
(b)	1.472	738	3.530	3.018	650	2.484	312	1.692	1.299	15.195		
2. Financing, including Article 131	922	368	4.578	3.037	137	1.750	20	1.270	3.113	15.195		
3. Balance (1)-(												
(a)	+538	+283	-1107	-120	+436	+871	+292	+359	-1552	0		
(b)	+550	+370	-1048	- 19	+513	+734	+292	+422	-1814	0		
C. Not included in calculations												
Chiefly expenditure not broken down (4) (Category VI)											1.118	
D. Grand total (for reference)												16.313

(1) I - EAGGF Guarantee Section; II - Improvement of agricultural structures; III - Other intervention appropriations, broken down; IV - Refunds; V - Operating expenditure, part broken down.

(2) Expenditure under the EAGGF Guarantee Section - part of monetary compensatory amounts (MCAs) but not pursuant to Article 2a of Regulation 974/71.

(3) Taking into account Article 2a of Regulation 974/71 whereby exporting Member States pay certain MCAs granted by the UK or Italy on their imports. Estimate based on the following assumptions:
- trade in agricultural products between the UK and Italy, and therefore the proportion of trade involving intra-MCAs, will be negligible;
- in 1979 and 1980 the proportion of UK and Italian intra-MCAs going to the various exporting countries will be the same as in 1978.

(4) Expenditure not broken down (Category VI) and a very small proportion of operating expenditure.

payments to the budget instead of GNP contributions; since the Italian VAT share in 1979 is forecast as 10.5% as against a GNP forecast of 14.3%, this change benefits Italy to the extent of about 250 MEUA; also, although customs duties are expected to increase by about 50 MEUA, agricultural levies are forecast to fall by about 150 MEUA. There is thus a reduction in payments by Italy to the receipts side of the budget of about 350 MEUA. On the expenditure side Italy is expected to benefit from a series of improvements, the most important of which are the new FEOGA provisions concerning olive oil and processed fruit an vegetables (some 350 MEUA), forecast increases in the general level of payments from the structural funds of at least 150 MEUA and the interest rebate scheme instituted in the framework of the European Monetary System (133 MEUA).

(ii) The share of the United Kingdom in the same categories of Community expenditure is forecast at 13.5% in 1979 and 10.3% in 1980, compared with a forecast share of financing the budget of 17.6% in 1979 and 20.5% in 1980. This compares with a share of Community GNP of about 16%, so that the United Kingdom's forecast percentage of the expenditure is more than 2% below her GNP share in 1979, falling to more than 5% below in 1980; while United Kingdom financing rises from 1.6% above her GNP share in 1979 to over 4% in 1980. The reduction in the MCA's means that her share of expenditure from the budget will diminish in 1980 since increases in expenditure from other parts of the budget will not match the foreseeable decline in the MCA's. Moreover from 1980 on the cessation of extra-budgetary payments in the context of Article 131, which amount to more than 400 MEUA in the forecast for 1979 will effect even more the budgetary situation of the United Kingdom.

The United Kingdom's forecast deficit for 1980 is attributable in respect of roughly one half to financing the budget in excess of her GNP share, and in respect of around one half to a below average share of expenditure. The main factor of imbalance is the expenditure under the FEOGA guarantee section which accounts for some 70% of the preliminary draft budget for 1980, and of which the United Kingdom is forecast to receive only 7.6%.

The forecast United Kingdom net deficit of 1552 MEUA for 1980 includes a forecast payment to the United Kingdom of 68 MEUA in respect of 1979 through the Financial Mechanism (see however paragraph 29 below). It should be borne in mind that the budget for 1981 may include a further payment through the Mechanism in respect of 1980 (see paragraph 30).

(iii) Ireland's share of Community expenditure is forecast at 3.6% in 1979 and 3.8% in 1980, compared with forecast receipts from Ireland of 0.75% and 0.90%. Her share of Community GNP is forecast at 0.67%. Thus although her share in financing is rather above her GNP share, this is offset by her share in expenditure, which is considerably higher.

III. FINANCIAL MECHANISM

28. At the Summit meeting in Dublin in March 1975, a correcting mechanism was agreed which preserves intact the own resources system but gives, on the expenditure side of the budget, a payment to a Member State which is in a certain economic situation and which makes a disproportionate contribution to Community financing. The economic situation is measured in terms of the relationship of national wealth to the Community average and whether or not the national economy is growing faster than the average Community rate of growth - i.e. whether convergence of economies is in progress. The disproportionate burden is measured in terms of the relationship between the total contribution to the budget (customs duties, agricultural levies and VAT) and the contribution which would have been made if it had been calculated on the basis of the share of the GNP of a Member State in the total GNP of the Community. If the conditions of an unacceptable economic situation and a disproportionate contribution to Community financing are met, a payment is made which compensates for part of the disproportionate contribution. The payment is limited to the amount of the VAT contribution or to the net transfers of the Member State to the budget, whichever is the lower. Moreover if a Member State has a balance of payments surplus, the whole calculation is related only to its VAT contribution; and the total payment to one or more Member State cannot exceed 3% of the budget. A full description of the Financial Mechanism is given at Annex III to this document.

29. The Financial Mechanism did not apply in 1976, 1977 or 1978 because no Member State fulfilled the conditions. Particularly, Ireland did not make net transfers to the Community budget; Italy's budget share has not exceeded 110% of its GNP share; and the United Kingdom's budget share, after taking account of the Article 131 adjustments, was also less than 110% of its GNP share. In 1979, however, forecasts made in May indicated that the United Kingdom would fulfil the criteria and an amount of 68 MEUA was provisionally entered in the preliminary draft budget for 1980 as a compensating payment to the United Kingdom. (Since the United Kingdom has to contribute to this expenditure the net benefit would have been reduced to about 56 MEUA.) However, the United Kingdom published on 3 September revised balance of payments figures which indicate that there was a surplus calculated as a moving average for the years 1976, 1977 and 1978 (as a result in part of the growing revenues from North Sea oil). The calculation of the financial mechanism in respect of 1979 has therefore now to be made in relation to the VAT payments only. It is also necessary to take account of the rise in the value of sterling which increases the United Kingdom's share of Community GNP. The Commission's view is now that because of these factors there will be no payment from the financial mechanism due to the United Kingdom in respect of 1979 (i.e. from the 1980 Budget).

30. As regards 1980 (when Article 131 ceases to apply) the United Kingdom may qualify for payment in the 1981 Budget of about 300 MEUA (net 250 MEUA) if the pound sterling stays around its present level. However because of the balance of payments criteria within the financial mechanism a payment of this size can only be made if the United Kingdom has a balance of payments deficit calculated as a moving average for the three years 1977-79. If there is a balance of payments surplus for this period, there will be no payment. As regards the Italian position over the period under review, only in 1978 will Italy's contribution to the Community budget have been marginally in excess of her share of Community GDP. Italy's contributions for both 1979 and 1980 are forecast at rather more than 2% below her share of Community GDP.

31. The Financial Mechanism as proposed by the Commission and as agreed at the European Council in 1975 was conceived in order partially to correct an imbalance in contributions made to the Community to the extent that the situation of the contributing Member State conformed to certain criteria. One of the key elements was that the correction would be a partial one, as is demonstrated by the tranche system on which payments are calculated. The final discussions in the European Council at Dublin introduced certain supplementary conditions, such as the limit of 3% of the budget and the balance of payments limit.

32. The principle of partial repayments is illustrated by the forecast for 1980. If the whole of the British contribution exceeding 110% of the British share of the Community GNP which is foreseen for 1980 could be subject to repayment, this would be of the order of 630 MEUA (net benefit 520 MEUA) instead of the payment of some 300 MEUA (250 MEUA net) which is currently foreseeable provided that the balance of payments criterion is met. If the limit of 3% of the budget were to be applied the amount of the payments would be reduced to about 480 MEUA (net 400 MEUA) if, as is likely, no other Member State were to benefit in the same year.

33. It should be noted that a further increase in the rate of exchange for the pound sterling which could reduce the difference between the British share in financing the budget and Britain's share of Community GNP (see paragraph 29 above) would reduce the possibilities of future recourse to the Financial Mechanism. However with the further likely movements in the sterling rate it is not possible at this stage to make any reliable judgements on this point.

34. The above considerations show that the application of the Financial Mechanism has so far been too limited to judge its scope and effectiveness. Among the economic criteria which have to be met if the Mechanism is to operate, the two limitations introduced into the regulation concerning the ceiling of 3% of the budget and restricting payments in the case of a balance of payments surplus may severely further restrict its effects. This is particularly the case in respect of the second of these conditions.

IV. THE ECONOMIC, FINANCIAL AND SOCIAL ASPECTS OF MEMBER STATES' PARTICIPATION IN THE COMMUNITY

35. The progressive creation of the Common Market has had very beneficial effects on each of its constituent economies. In the six original Member States it has assisted a general improvement in the standard of living; steady growth, resulting at least in part from the development of intra- Community trade (from 5% of Community GDP in 1958 to about 12% in 1978); greater specialisation through a better distribution of productive resources; and economies of scale which have led to great increases in productivity and a wider choice for consumers. Moreover the existence of the Common Market has brought about a fundamental change in the way of life of those Member States whose activities were in 1958 still largely devoted to agriculture.

36. The accession to the Community of Denmark, Ireland and the United Kingdom coincided with the crisis of 1973. It is therefore difficult to draw clear lessons from the ensuing brief and troubled period. It is however certain that those three Member States broadly benefited from their membership of the Common Market.

37. The Community has thus been largely responsible for the exceptional economic advance which the countries of Europe have seen. But dispite this progress regional problems continue to exist. Greater efforts including financial solidarity, will be necessary to bring about further progress in this domain. Such efforts would be to the benefit of the entire Community.

38. Action has been taken over many years at the national level with the aim of correcting regional imbalances. Moreover a Community regional policy has been initiated and is being progressively developed. In addition to the regional development fund there are other budgetary and financial instruments, such as the operations of the ECSC and the EIB, which are designed to tackle the problems of underdeveloped or declining regions. However despite a rapid growth in recent years the Community's own funds such as the regional and social funds, and the FEOGA Guidance Section still have financial resources which are too limited

39. The introduction of Community policies may not always have a beneficial impact on the structurally weaker parts of the Community. The need to take into account the regional consequences of the application of Community policies was emphasised as recently as the beginning of 1979, in a Resolution of the Council of 6 February[1] in which the Council noted the intention of the Commission to take more systematic account of regional implications, and in particular the consequences for employment in the initiation and in the conduct of policies. The Council further expressed its intention to take account itself of these implications when it took decisions in respect of Community policies.

40. The need to pay greater attention to the regional consequences of certain Community policies was emphasised by certain Member States during the discussions on convergence which preceded the meeting of the European Council at Strasbourg. Reference was also made to the effects of the common agricultural policy, and to the Community's budgetary policy.

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[1] OJ C.36/10

41. Despite the importance of agricultural expenditure as shown by the earlier analysis it must be emphasised that the benefits and costs resulting from the operation of the market mechanisms of the agricultural policy cannot be measured simply by a budgetary assessment of the distribution of expenditure from the Guarantee Section. The distribution of this expenditure between Member States is determined by a complex series of factors. These include the size of the agricultural production and the degree of self-sufficiency of different Member States; the pattern of trade within the Community; the location from which agricultural exports to third countries take place; and different types of production in different Member States as well as their market organisations. The incidence of budgetary expenditure is therefore no valuable indicator of the economic consequences of the policy. It should also be borne in mind that the Common Agricultural Policy has different economic and employment effects within Member States of the Community depending on differences in structures and the volume of production, and the rate of consumption.

42. As regards common policies in respect of agricultural structures the responsibility is shared with Member States. These policies take account of the particular nature of agricultural activity and increasingly of the particular needs and characteristics in the agricultural domain of particular regions. The Community has recently taken a series of decisions on structural measures which will particularly help the Mediterranean regions. It is intended that a total of about 200 MEUA per year of additional resources should be committed from the guidance section of the FEOGA over the next five years in respect of these regions. Thus whereas from 1973-77 about 15% of the FEOGA guidance section was devoted to the poorest regions of the Mezzogiorno, western Ireland and southern France, in 1979-82 these regions should account for about 42% of the guidance section.

At the same time it should be borne in mind that expenditure from the guidance section on structures represents only some 5% of the expenditure from the guarantee section. Moreover the results of these structural measures can be seen only in the medium and long term. Their effectiveness is closely linked with the degree of growth in the regions concerned which, assisted by other Community policies such as social and regional policies, can create new employment.

43. As regards income within the agricultural sector, the agriculture policy has had positive effects. Nonetheless disparities of income within the agricultural sector remain considerable. These are in part due to disparities between receipts from different types of production and differences in structure. At present three-quarters of the farm holdings within the Community represent only a quarter of Community agricultural production. On the other hand, the Mediterranean regions of the Community have levels of income well below those in other parts of the Community and while they cover only some 17% of agricultural land they support some 30% of those in the Community employed in agriculture. The system of price support has not in itself reduced these disparities but first steps have already been taken in the shape of structural measures.

44. The Commission underlines the necessity of continued efforts to reduce income disparities. At the same time, the Commission again emphasizes the need to correct certain features of the Common Agricultural Policy and in particular the need to reduce and finally eliminate the structural surpluses, the budgetary cost of whose disposal at present weighs more heavily on the economies of certain Member States. The effects of this policy will affect the share of FEOGA expenditure in the budget and therefore the geographical distribution of expenditure among Member States.

45. The economic and financial effects of operations of the budget within individual Member States of the Community need to be assessed with great prudence. . The Commission has already drawn attention to the fact that figures relating to the geographical distribution of budgetary operations, both in respect of receipts and of payments, can produce a distorted picture of economic realities.

46. It should be borne in mind that while the Community budget comprises in itself a considerable volume of financial resources, it constitutes only a small proportion of the gross product of the Community. This proportion represents 0.8% in 1979 whereas public expenditures approach 50% of the national product of Member States. It would however be wrong to conclude that the financial operations of the Community have no significant impact on Member States. For example, as regards Ireland, net budgetary transfers represented some 3.5% of GNP in 1978. The impact is thus particularly noteworthy for certain of the smaller economies and indeed for all Member States in certain sectors of intervention.

ANNEX I: REVENUE AND EXPENDITURE

Table 1: Breakdown of expenditure by Member State in 1979 - Total appropriations for payments - in %

SECTOR	B	DK	D	F	IRL	I	L	N	UK	Sub-total	Miscellaneous	TOTAL
	1	2	3	4	5	6	7	8	9	10	11	12
I. EAGGF Guarantee												
1. Common organization of markets	6,5	5,6	27	23	3,5	16	0,25	13	5,2	100	-	100
2. MCAs												
3. Total (1) + (2)	6,0	5,1	24,4	19,6	3,0	17,2	0,23	12,2	12,3	100	-	100
II. Improvement of structures												
1. Social Fund	3	3	15	18	8	25	-	3	25	100		100
2. EAGGF Guidance (including Chapter 86)	1,7	4,0	27,2	20,1	6,3	17,1	0,3	3,9	19,4	100		100
3. ERDF	1,4	1,2	8,0	16,9	7,0	36,9	0,09	1,6	27,0	100	-	100
4. EMS interest rate subsidies					33,3	66,7				100		100
5. Total (1) to (4)	1,8	2,4	14,3	16,0	10,4	31,5	0,1	2,4	21,1	100		100
III. Other intervention credits broken down												
1. Research and Investment	13,6	1,3	21,6	10,5	0,4	31,5	0,2	9,9	11,0	100	-	100
2. Energy	1,1	0,9	23,7	33,8	1,7	9,3	-	10,3	19,2	100	-	100
3. Industry	8	0,2	18	23	0,3	27,5	-	11	12	100	-	100
4. Total (1) to (3)	11,4	1,3	21,8	14,8	0,7	27,3	0,2	9,8	12,7	100		100
IV. Reimbursements	8	2	26	13	0,9	12	0,05	11	27	100		100
V. Administration - part broken down	64,2	0,1	1,7	0,9	0,4	1,0	30,3	0,6	0,4	99,6	0,4	100
VI. Not broken down											100	100
VII. GRAND TOTAL	8,8	4,0	20,6	14,7	3,4	17,0	2,0	9,6	12,9	95,0	5,0	100

Table 2: Breakdown of expenditure by Member State in 1980 - Total appropriations for payments - in %

SECTOR	B	DK	D	F	IRL	I	L	N	UK	Sub-total	Miscel-laneous	TOTAL
	1	2	3	4	5	6	7	8	9	10	11	12
I. EAGGF Guarantee												
1. Common organization of markets	6,6	5,5	27,4	23,0	3,5	15,5	0,25	12,8	5,5	100	-	100
2. MCAs												
3. Total (1) + (2)	6,5	5,3	26,3	21,7	3,4	16,1	0,24	12,9	7,6	100	-	100
II. Improvement of structures												
1. Social Fund	3	3	15	18	8	25	-	3	25	100	-	100
2. EAGGF Guidance (including Chapter 86)	2,2	2,3	20,0	22,3	7,2	27,1	0,3	3,5	15,1	100	-	100
3. ERDF	1,4	1,2	8,0	16,9	7,0	36,9	0,09	1,6	27,0	100	-	100
4. EMS interest rate subsidies					33,3	66,7				100	-	100
5. Total (1) to (4)	1,9	1,9	11,8	16,4	10,5	34,5	0,1	2,2	20,7	100	-	100
III. Other intervention credits broken down												
1. Research and investment	13,9	1,4	21,1	10,5	0,5	32,7	0,3	9,8	9,8	100	-	100
2. Energy	1,1	0,9	23,7	33,8	1,7	9,3	-	10,3	19,2	100	-	100
3. Industry	8	0,2	18	23	0,3	27,5	-	11	12	100	-	100
4. Total (1) to (3)	10,6	1,1	21,5	16,8	0,9	26,8	0,2	9,9	12,2	100	-	100
IV. Reimbursements	7	2	23	12,5	0,8	11	0,05	9,5	34 (1)	100	-	100
V. Administration - part broken down	63,9	0,1	1,7	1,0	0,4	1,0	30,3	0,6	0,5	99,5	0,5	100
VI. Not broken down											100	100
VII. GRAND TOTAL	8,9	4,0	21,3	17,9	3,5	16,1	1,9	10,0	9,6	93,2	6,8	100

(1) These percentages are based on the preliminary draft budget for 1980. The reimbursement percentage for the United Kingdom should allow for a reduction of 68 m EUA since it is now clear that the Financial Mechanism will not operate in 1980 in respect of 1979.

Table 3: Breakdown of expenditure by Member State in 1979 - Total appropriations for payments - in m EUA

SECTOR	B	DK	D	F	IRL	I	L	N	UK	Sub-total	Miscellaneous	TOTAL
	1	2	3	4	5	6	7	8	9	10	11	12
I. EAGGF Guarantee												
1. Common organization of markets	570	491	2.365	2.018	307	1.404	22	1.140	456	8.773	-	8.773
2. MCAs	+ 5	-	- 28	- 139	- 26	+ 244	-	+ 30	+ 723	809	-	809
3. Total (1) + (2)	575	491	2.337	1.879	281	1.648	22	1.170	1.179	9.582		9.582
II. Improvement of structures												
1. Social Fund	16	16	79	85	42	132	-	16	132	528	-	528
2. EAGGF Guidance (including Chapter 86)	7,2	17,0	117,5	86,7	27,2	73,5	1,3	16,9	83,7	431	-	431
3. ERDF	6,7	5,8	38,6	81,4	33,8	178,0	0,44	7,5	130,6	483	-	483
4. EMS interest rate subsidies					66,7	133,3				200	-	200
5. Total (1) to (4)	30	39	235	263	170	517	1,8	40	346	1.642	-	1.642
III. Other intervention credits broken down												
1. Research and investment	30	3	46,5	23	1	68	0,5	21	24	217	-	217
2. Energy	0,5	0,5	12	16	1	5	-	5	10	50	-	50
3. Industry	0,3	0	0,7	0,9	0	1,1	-	0,5	0,5	4	-	4
4. Total (1) to (3)	31	3,5	59	40	2	74	0,5	26,5	34,5	271		271
IV. Reimbursements	56	16,5	192	96	6,5	86	0,4	82	202	737		737
V. Administration - part broken down	517	1	14	7	3	8	244	5	3	802	4	806
VI. Not broken down											679	679
VII. GRAND TOTAL	1.209	551	2.837	2.285	463	2.333	269	1.323	1.764	13.034	683	13.717

Table 4: Breakdown of expenditure by Member State in 1980 - Total appropriations for payments - In m EUA

SECTOR	B	DK	D	F	IRL	I	L	N	UK	Sub-total	Miscel-laneous	TOTAL
	1	2	3	4	5	6	7	8	9	10	11	12
I. EAGGF Guarantee												
1. Common organization of markets	717	597	2.975	2.495	380	1.683	27	1.390	597	10.861	-	10.861
2. MCAs	+ 12	-	- 16	- 47	-	+ 131	-	+ 68	+ 260	408	-	408
3. Total (1) + (2)	729	597	2.959	2.448	360	1.814	27	1.458	857	11.269	-	11.269
II. Improvement of structures												
1. Social Fund	16,5	16,5	82,5	99	44	137,5	-	16,5	137,5	550	-	550
2. EAGGF Guidance (including Chapter 86)	7,5	8,1	69,7	77,5	25,0	94,2	1,2	12,1	52,7	348	-	348
3. ERDF	8,3	7,2	48	101	42	221	0,5	9,5	162	600	-	600
4. EMS interest rate subsidies					66,7	133,3				200		200
5. Total (1) to (4)	32	32	200	278	178	586	1,7	38	352	1.698		1.698
III. Other intervention credits broken down												
1. Research and investment	43	4	65	32	1,5	100	1	30	30	307	-	307
2. Energy	1	1	24	34	2	9,5	-	10,5	20	102	-	102
3. Industry	3,5	0,1	7,7	9,9	0,1	11,8	-	6,7	5,2	43	-	43
4. Total (1) to (3)	48	5	97	76	4	121	1	45	55	452		452
IV. Reimbursements	58	16	199	106	7	90,5	0,4	82	292 (1)	851		851
V. Administration - part broken down	593	1	16	9	4	9	282	6	5	925	5	930
VI. Not broken down											1.113	1.113
VII. GRAND TOTAL	1.460	651	3.471	2.917	573	2.621	312	1.629	1.561	15.195	1.118	16.313

(1) These figures are based on the preliminary draft budget for 1980. In respect of the reimbursement figure for the United Kingdom, 68 m EUA should be subtracted since it is now clear that the Financial Mechanism will not operate in 1980 in respect of 1979.

TABLE 5: Total appropriations for commitments out of the aggregate for "Structural improvements" by Member State for 1979

SECTOR	B	DK	D	F	IRL	I	L	N	UK	Sub-total	Other	TOTAL
	1	2	3	4	5	6	7	8	9	10	11	12
I. In m EUA												
1. Social Fund	15	15	77	123	61,5	269	-	15,5	192	768	-	768
2. EAGGF-Guidance Section (incl. Chapter 86)	15,5	18,4	121,2	123,7	29,6	179,3	0,8	21,7	58,8	569	-	569
3. ERDF	12,5	10,8	54,0	151,7	58,1	354,5	0,81	14,2	243,3	900	-	900
4. EMS interest subsidies					66,7	133,3				200		200
5. Total	43,0	44,2	252,2	398,4	215,9	936,1	1,6	51,4	494,1	2.437		2.437
II. %												
1. Social Fund	2	2	10	16	8	35	-	2	25	100	-	100
2. EAGGF-Guidance Section (incl. Chapter 86)	2,7	3,2	21,3	21,7	5,2	31,5	0,2	3,8	10,4	100	-	100
3. ERDF	1,4	1,2	6,0	16,86	6,46	39,39	0,09	1,58	27,03	100	-	100
4. EMS interest subsidies					33,3	66,7				100		100
5. Total	1,8	1,8	10,3	16,3	8,9	38,4	0,1	2,1	20,3	100	-	100

TABLE 6: Total appropriations for commitments out of the aggregate for "Structural improvements" by Member State for 1980

SECTOR	B	DK	D	F	IRL	I	L	N	UK	Sub-total	Other	TOTAL
	1	2	3	4	5	6	7	8	9	10	11	12
I. In m EUA												
1. Social Fund	20	20	100	160	80	350	-	20	250	1.000	-	1.000
2. EAGGF-Guidance Section (incl. Chapter 86)	10	11	89	120	39	149	1,5	15,5	72	507	-	507
3. ERDF	15,9	13,7	68,4	192,2	73,6	449,1	1,0	18,0	308,1	1.140	-	1.140
4. EMS interest subsidies					66,7	133,3				200		200
5. Total	46	45	258	472	259	1.081	2,5	53,5	630	2.847	-	2.847
II. %												
1. Social Fund	2	2	10	16	8	35	-	2	25	100	-	100
2. EAGGF-Guidance Section (incl. Chapter 86)	2,1	2,3	17,6	23,6	7,6	29,3	0,3	3,1	14,1	100	-	100
3. ERDF	1,39	1,20	6,00	16,86	6,46	39,39	0,09	1,58	27,03	100	-	100
4. EMS interest subsidies					33,3	66,7				100		100
5. Total	1,6	1,6	9,0	16,6	9,1	38,0	0,09	1,9	22,1	100	-	100

TABLE 7: TRENDS IN CUSTOMS DUTIES

	BLEU	DK	D	F	IRL	I	NL	UK	Total
1976									
m EUA	284,2	140,5	1288,1	654,8	40,6	407,5	395,6	980,2	4191,5
%	6,8	3,4	30,7	15,6	1,0	9,7	9,4	23,4	100,0
% GNP	4,98	2,88	31,49	24,77	0,58	13,26	6,37	15,67	100,0
1977									
m EUA	307,5	134,0	1378,8	669,6	42,4	426,1	441,5	1059,0	4458,9
%	6,9	3,0	30,9	15,0	1,0	9,6	9,9	23,7	100,0
% GNP	5,11	2,84	32,14	23,88	0,59	13,43	6,68	15,33	100,0
1978									
m EUA	299,2	107,9	1376,0	649,5	46,7	400,8	444,3	1066,5	4390,9
%	6,8	2,5	31,3	14,8	1,1	9,1	10,1	24,3	100,0
% GNP	5,10	2,82	32,22	23,88	0,62	13,16	6,62	15,58	100,0
1979									
m EUA	322,6	118,9	1445,8	718,1	50,0	451,3	448,7	1190,1	4745,5
%	6,8	2,5	30,5	15,1	1,0	9,5	9,5	25,1	100,0
% GNP	4,87	2,81	30,70	23,69	0,67	14,25	6,31	16,70	100,0
1980									
m EUA	341,5	125,0	1535,0	775,0	60,0	450,0	477,0	1370,0	5133,5
%	6,7	2,4	29,9	15,1	1,1	8,8	9,3	26,7	100,0
% GNP	4,87	2,84	30,92	24,36	0,67	13,94	6,36	16,04	100,00

TABLE 8: TRENDS IN AGRICULTURAL LEVIES
(including sugar levies)

	BLEU	DK	D	F	IRL	I	NL	UK	Total
1976									
m EUA	149,8	18,2	254,8	116,7	8,2	220,3	322,5	82,8	1.173,3
%	12,8	1,6	21,7	9,9	0,7	18,8	27,5	7,0	100,0
% GNP	4,98	2,88	31,49	24,77	0,58	13,26	6,37	15,67	100,0
1977									
m EUA	265,3	31,9	447,7	178,8	16,3	480,7	449,8	267,2	2.137,7
%	12,4	1,5	20,9	8,4	0,8	22,5	21,0	12,5	100,0
% GNP	5,11	2,84	32,14	23,88	0,59	13,43	6,68	15,33	100,0
1978									
m EUA	204,4	29,1	434,0	259,7	8,7	553,8	428,5	361,0	2.279,2
%	9,0	1,3	19,0	11,4	0,4	24,3	18,8	15,8	100,0
% GNP	5,10	2,82	32,22	23,88	0,62	13,16	6,62	15,58	100,0
1979									
m EUA	239,0	46,5	468,3	239,1	14,7	409,9	371,3	377,0	2.165,8
%	11,0	2,2	21,6	11,1	0,7	18,9	17,1	17,4	100,0
% GNP	4,87	2,81	30,70	23,69	0,67	14,25	6,31	16,70	100,0
1980									
m EUA	242,4	35,3	453,1	288,6	9,9	454,8	341,1	416,9	2.242,1
%	10,8	1,6	20,2	12,9	0,4	20,3	15,2	18,6	100,0
% GNP	4,87	2,84	30,92	24,36	0,67	13,94	6,36	16,04	100,0

Table 9: V A T Estimates

		B	DK	D	F	IR	I	L	N	UK	TOTAL
1978	Payment (MEUA)	275,6	147,6	1.735,9	1.330,8	40,5	566,0	11,7	340,6	881,0	5.329,7
	%	5,17	2,77	32,57	24,97	0,76	10,62	0,22	6,39	16,53	100,00
	% GNP	4,86	2,82	32,22	23,88	0,62	13,16	0,24	6,62	15,58	100,00
1979	Payment (MEUA)	306,9	172,5	2.165,9	1.600,6	51,4	697,5	14,0	422,2	1.211,4	6.642,4
	%	4,62	2,60	32,61	24,10	0,77	10,50	0,21	6,35	18,24	100,00
	% GNP	4,64	2,81	30,70	23,69	0,67	14,25	0,23	6,31	16,70	100,00
1980	Payment (MEUA)	398,1	230,1	2.875,4	2.163,2	75,2	955,5	17,7	530,9	1.521,8	8.767,9
	%	4,54	2,62	32,80	24,67	0,86	10,90	0,20	6,05	17,36	100,00
	% GNP	4,64	2,84	30,92	24,36	0,67	13,94	0,23	6,36	16,04	100,00

Note : These are all macro-economic estimates modified by information obtained from the individual Member States. The rates of exchange used are those of the Budget for the year in question i.e. 1978 Budget 1.2.77 : 1979 Budget 1.2.78. 1980 Budget 1.2.79

Table 10

Share of the Member States in financing the Budget and in the Community's GNP

	B	DK	D	F	IRL	I	L	NL	UK	Total
1976										
% of the Budget	7,40	2,26	35,13	22,01	0,34	11,34	0,18	10.60	10,74	100,00
% of GNP	4,77	2,88	31,49	24,77	0,58	13,26	0,21	6,37	15,67	100,00
1977										
% of the Budget	7,69	2,57	35,60	20,01	0,39	10,33	0,18	11,02	12,22	100,00
% of GNP	4,90	2,84	32,14	23,88	0,59	13,43	0,21	6,68	15,33	100,00
1978 (2)										
% of the Budget	6,46	2,29	31,14	19,29	0,58	14,45	0,12	10,31	15,36	100,00
% of GNP	4,86	2,82	32,22	23,88	0,62	13,16	0,24	6,62	15,58	100,00
1979 (1)(2)										
% of the Budget	6,68	2,51	30,63	20,00	0,75	12,11	0,14	9,60	17,58	100,00
% of GNP	4,64	2,81	30,70	23,69	0,67	14,25	0,23	6,31	16,70	100,00
1980 (1)										
% of the Budget	6,07	2,42	30,12	19,99	0,90	11,52	0,13	8,36	20,49	100,00
% of GNP	4,64	2,84	30,92	24,36	0,67	13,94	0,23	6,36	16,04	100,00

(1) The rates of exchange used are those of the budgetary estimates in the previous year, i.e. 1979 Budget 1.2.1978: 1980 Budget 1.2.1979.

(2) With Article 131.

Shares of the Member States in the financing of the Budget and in the Community's GNP

Assuming that Article 131 did not apply and that all Member States paid VAT.

	1978		1979 (1)		1980 (1)	
	% of the Budget	% of the GNP	% of the Budget	% of the GNP	% of the Budget	% of the GNP
Belgium	6,48	4,86	6,40	4,64	6,07	4,64
Denmark	2,37	2,82	2,49	2,81	2,42	2,84
Germany	29,55	32,22	30,10	30,70	30,12	30,92
France	18,66	23,88	18,87	23,69	19,99	24,36
Ireland	0,80	0,62	0,86	0,67	0,90	0,67
Italy	12,67	13,16	11,50	14,25	11,52	13,94
Luxembourg	0,13	0,24	0,13	0,23	0,13	0,23
Netherlands	10,11	6,62	9,16	6,31	8,36	6,36
United Kingdom	19,23	15,58	20,49	16,70	20,49	16,04
	100,00	100,00	100,00	100,00	100,00	100,00

(1) Rate used for budget estimating, i.e. that of 1 February 1978 for 1979 and that of 1 February 1979 for 1980.

TABLE 10 B

Shares of Member States in financing the Budget and in Community GNP

For 1979 assuming that the average exchange rates for August 1979 will be equal to the average rates for the whole year.

1979			
	% of the present Budget	% of the Budget No Art. 131; all MS paying VAT	% GNP
BELGIUM	6,74	6,47	4,76
DENMARK	2,39	2,37	2,56
GERMANY	31,40	30,87	32,77
FRANCE	19,51	18,38	22,39
IRELAND	0,73	0,84	0,66
ITALY	11,20	10,59	12,36
LUXEMBOURG	0,14	0,13	0,24
NETHERLANDS	9,64	9,20	6,41
UNITED-KINGDOM	18,25	21,15	17,85
	100,00	100,00	100,00

Note In this table the first and third columns should be compared with the 1979 columns in Table 10. The second and third columns should be compared with the 1979 columns in Table 10 A.

ANNEX II: THE FINANCIAL MECHANISM

General description of the financial mechanism

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 national product (GNP) of the Member State is less than 85% of the average per capita GNP for the Community (moving average of the three years preceding the current financial year 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 (moving average of the previous three years);

(c) the total payments made by the Member State to the Budget of the Communities for the financial year in progress, pursuant to the Decision of 21 April 1970, exceed by more than 10% the amount it would have had to pay if the part of the Budget covered by the aforementioned Decision (i.e. customs duties, agricultural levies, VAT or GNP-based contributions) were financed by the Member States on the basis of the proportion of their GNP to the total GNP of the Member States. The figures relating to the GNP refer to the financial year in progress and are thus estimates.

2. However, where the balance of current payments of the Member State, as calculated at current market exchange rates from a moving average of the three years preceding the financial year in progress, shows a surplus, the total payments by the Member State (total customs duties, agricultural levies and resources from VAT or GNP-based contributions) are not taken into consideration, but only its VAT or GNP payments. The condition set out at point 1(c) is thus met where these payments exceed by more than 10% the amount the Member State would have had to pay (to finance the expenditure not covered by customs duties and agricultural levies) on the basis of the proportion of its GNP to the total GNP of the Member States, these figures being estimates relating to the financial year in progress.

3. The excess amount referred to at point 1(c) (or at point 2) is divided into tranches equal to 5% of the amount which the Member State would have had to pay on the basis of its GNP. The payment is determined as follows:

Tranches	Payment
from 1% to 5%	nil
from 5,0001% to 10%	50%
from 10,0001% to 15%	60%
from 15,0001% to 20%	70%
from 20,0001% to 25%	80%
from 25,0001% to 30%	90%
above 30%	100%

4. The payment, as calculated under point 3, may not exceed the smaller of the following two amounts:

(a) the amount of the deficit for the Member State in question between its payments to the Community Budget and the payments to it from the Budget(1). This balance is determined without taking account of payments made through this mechanism.

Payments received by the Member State include payments made on its behalf by other Member States in the form of monetary compensatory amounts(2).

All the payments referred to above relate to the financial year in progress and are therefore estimates.

(b) the amount of the VAT or GNP-based contributions made by the Member State to the Budget for the financial year in progress.

The total amount of the payment (or payments, if several Member States receive them) may not exceed the greater of the following two amounts:

250 m EUA; or 3% of the expenditure chargeable to the financial year in progress.

Should the total amount of the payments exceed that ceiling, the payments are reduced proportionally for the Member State(s) concerned.

5. At the request of the Member State concerned, an advance equal to 75% of the provisional amount is paid at the beginning of the following year. When the Commission has the final data at its disposal, it calculates the final amount of the payment.

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(1) Where the Member State concerned registers a surplus, this mechanism is not applicable.

(2) Article 2a of Regulation No 974/71.

27.7.79

LOANS GRANTED BY THE COMMUNITY'S FINANCIAL INSTRUMENTS

Breakdown by country, 1976-78 (gross sums in million EUA)

		TOTAL	D	F	I	NL	B	L	UK	DK	IRL
EIB	1976	1 086,6	110,8	60,1	382,6	30,4	17,9		417,6	9,1	57,4
	1977	1 352,5	28,4	296,5	425,7	-,-	-,-	-,-	489,5	32,7	79,7
	1978	1 966,6	45,5	359,3	845,1	-,-	62,2		430,7	106,3	117,5
ECSC	1976	1 063,8	186,9	133,2	147,7	38,6	37,4		519,3	-,-	0,7
	1977	741,5	115,5	174,5	173,6	0,5	15,8	0,6	260,3	0,5	0,2
	1978	798,-	140,-	127,-	127,-	43,-	75,-		273,-	13,-	-,-
EURATOM	1976	-,-	-,-	-,-	-,-	-,-	-,-	-,-	-,-	-,-	-,-
	1977	96,1	74,9	21,2	-,-	-,-	-,-	-,-	-,-	-,-	-,-
	1978	70,3	34,4	-,-	35,9	-,-	-,-	-,-	-,-	-,-	-,-
Community loans	1976	1 152,-	-,-	-,-	886,-	-,-	-,-	-,-	-,-	-,-	266,-
	1977	442,-	-,-	-,-	442,-	-,-	-,-	-,-	-,-	-,-	-,-
	1978	-,-	-,-	-,-	-,-	-,-	-,-	-,-	-,-	-,-	-,-
Total	1976	3 301,8	297,7	193,3	1 416,3	69,-	55,3		936,9	9,1	324,1
	1977	2 632,1	218,8	492,2	1 041,3	0,5	15,8	0,6	749,8	33,2	79,9
	1978	2 834,9	219,9	486,3	1 008,-	43,-	137,2		703,7	119,3	117,5