COMMISSION OF THE EUROPEAN COMMUNITIES

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Brussels, 16th March 1984

CREATION OF NEW OWN RESOURCES

(Commission memorandum to the Council)

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Commission memorandum to Council

The Commission considers it essential to the proper functioning of the Community that the new own resources ceiling should be well above 1.4%, the level some Delegations appear to regard as their upper limit. Following the discussions in Council and at the Foreign Ministers' meeting on 12 March the Commission feels it must restate to the Council and the Member States its factual grounds for taking this line.

It bases itself on the following observations, the technical data in support of which are contained in the accompanying memorandum:

(a) When new own resources become available (in 1986) the VAT call-up rate will be between 1.15 and 1.20%. The margin available, if the ceiling is set at 1.40%, is thus only 0.20-0.25%.

(b) Unexpected economic developments apart, the slowdown and subsequent stabilization in expenditure on farm production and the reduction of stocks will proceed gradually. An unduly low own resources ceiling will not afford financial security for long enough to allow the reform of the CAP to produce its full effect on the rectification of the Budget.

(c) A progressive increase in the net cost of enlargement must be expected during the transitional period.

(d) Natural growth in own resources (in the event of a resumption of economic growth) will be limited, and at best will do no more in the coming years than enable policies already in being to be carried on, not make possible any "relaunch" to speak of.

This being so, the Commission considers it imperative to set a new own resources ceiling significantly higher than 1.4%. It would add that this long-term financial security can be provided without risk of the Budget's running out of control, thanks to the tighter financial discipline it has itself proposed.

Brussels, 15 March 1984

Annexes

Annex 1

POINTS BEARING ON THE MOVEMENT OF THE V.A.T. CALL-UP RATE

Size of farm spending

1. The data to hand show that the funds needed to cover agricultural Guarantee expenditure in 1984 (aside from carryovers of expenditure from year to year) will considerably exceed the Budget appropriations. This increase in spending is due to the movement of the markets in several sensitive products, notably dairy produce and beef: current estimates put it at between 800 and 1300 mn Ecus for the whole year.

It is not yet possible to assess all the implications of the Council's coming decisions on CAP reform, monetary compensatory amounts and prices; it seems certain, however, that they will not bring any lessening in pressure on the Budget in 1984 (owing to extra costs involved in the method chosen for dismantling the MCAs).

In a normal budget year these overshoots would have led to a Supplementary Budget and the setting of a new VAT call-up rate, probably of between 1.06 and 1.10% (without prejudice to the consequences of any shortfall in 1984 revenue in relation to predictions).

2. The financial year 1985 will be a year of transition. Not until some time in 1985 will the measures to contain farm spending really make their effects felt, so that expenditure will be merely slowed; furthermore, certain extra expenditure forming part of the package (more particularly in connection with the dismantling of the MCAs) will make its effects felt. So, quite apart from any carryovers of expenditure from 1984, there is likely to be an additional real increase in farm spending.

The Commission therefore considers that 1985 farm spending ought in a normal budget year to involve a VAT call-up rate of 1.10-1.15%, irrespective of any carryovers from one year to the next.

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3. Stocks of some products (butter, milk powder, cereals) rose substantially in 1983 and are bound to rise further this year, given the budget limitations. Once the agricultural reform measures are definitely settled, the Community will have to give thought to how to set about reducing these stocks (so expensive to hold) to normal proportions, and how to finance this action. The decisions should be taken by the end of 1984, and extend over several years.

4. In 1986 all the measures for containing farm spending will be in operation and the additional financial disciplines which will have been agreed meanwhile will be fully effective. The Commission accordingly expects farm spending to stabilize at a level probably equivalent, in real terms, to that of 1985, representing a VAT call-up rate of 1.10-1.15%, that is, about the theoretical level envisaged for 1985.*

This estimate does not take account of carryovers of expenditure from previous years, which would have had to be finally cleared, or of any special measures to dispose of stocks.

In the longer term, the return to stability as from 1986 can be expected to be followed by a real reduction in farm spending. This, being related to producers' behaviour, will necessarily be a gradual process.

Enlargement

5. Subject of course to the outcome of the negotiations, it is likely that, as at the time of the earlier accessions, the new Member States will in the first few years pay substantially reduced Budget contributions, while they will be able to draw fully on the various structural Funds and other Community monies (apart from such special provisions as may be adopted regarding the EAGGF Guarantee section). The Commission calculates that the net cost to the Budget for 1986 and in particular 1987 will amount to at least 500-1000 mn Ecus (representing three-tenths to six-tenths of a point of VAT).

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*The above is based on the Budget structure as it now stands: for the implications of any change in the method of financing the United Kingdom's compensation see para 9.

6. This net burden should progressively increase during the transitional period. On the basis of a model of the 1983 financial year, the Commission has calculated the mechanical impact of enlargement on the Budget to be 0.10-0.12 of a point of VAT; given the "dynamic" effects of enlargement on the new Member States and the effects also on some of the old ones, the net burden of enlargement towards the end of the transitional period would come to between 0.15 and 0.20 of a point of VAT.

Overall forecast for 1986

7. On the basis of the foregoing, 1986 thus looks like being the first financial year when farm spending will be stabilized, and the first when the Budget will have to bear extra costs in connection with enlargement (which will thereafter rise steadily).

Taken together, these two circumstances indicate a VAT call-up rate of between 1.15 and 1.20%, which must be regarded as the starting-point for the new provision of own resources.

It should be borne in mind that this calculation does not take account of contigency expenditure for that particular year as referred to above, stemming in particular from possible carryovers from year to year.

8. Were the new own resources ceiling to be set at 1.4%, there would be very little room for manoeuvre indeed, of the order of 0.20-0.25% of a point of VAT. The Community would be back in the same precarious position as that which has existed since 1982, which has made it necessary to embark on the process of expanding own resources.

As from 1986 the Community would therefore be at the mercy of any unforeseen economic developments, particularly as the margin available will shrink steadily as the cost of enlargement increases. It will not have the financial security that would have enabled it to wait for the long-term consequences of more efficient containment of farm spending and the reduction of agricultural stocks to reasonable levels.

9. If the United Kingdom's compensation were eventually funded from revenue revenue and not from expenditure, this would mean that the United Kingdom's VAT payment would be reduced by the amount of compensation agreed. The volume of the Budget would be reduced accordingly, but the lower VAT payments by the United Kingdom would have to be offset by a higher VAT call-up rate for the other Member States. The margin between the ceiling and the initial call-up rate would thus still be as estimated in the preceding paragraph.

Movement of volume of own resources in line with economic development

10. It may be wondered whether improvement in the state of the economy will not produce a natural increase in the amount of Community resources enabling Community activities to be expanded without needing to change the VAT call-up rate. It is difficult to forecast the medium-term movement of the Community's economic situation. In its most recent communication on the future financing of the Community the Commission assumed a moderate recovery and fairly modest rate of growth: given this assessment, the following conclusions may be drawn:

Economic growth has an immediate impact on the VAT yield of roughly the same order - although it varies from one Member State to another.

On the other hand, customs revenues have for some years been levelling off in real terms, and this is not likely to change significantly as the scaling-down of the duties in the common customs tariff will counterbalance the expansion of trade. The steady real decline in levy revenue (1.9% p.a. over the last five years) can likewise be expected to continue.

Hence real growth in own resources will be some way below the rate of growth in the economy.

11. Farm spending is set to increase over the next few years at about the same rate as own resources, owing to the requirements of Article 39 of the EEC Treaty and because the containment of agricultural production and expenditure resulting from the present reforms will not be fully effective for some years to come. So no significant budget possibilities can be expected to emerge during that time.

Even if non-compulsory expenditure remained within the maximum rate of increase under Article 203(9) of the EEC Treaty, this would still, according to the findings from the previous financial years, mean a rate of increase above that in own resources. Adherence to the maximum rate practically rules out the launching or development of new projects and policies: at most it will allow existing policies to be proceeded with and undertakings honoured as regards increasing the value of the structural Funds in real terms.

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12. Of course it is always possible that economic developments will be more favourable than expected,that as a result VAT revenues will rise considerably faster and that the Community will be financially in easier circumstances. But even then the corpus of measures for controlling agricultural production and expenditure and imposing strict financial discipline would continue to operate, and the containment of the Community Budget would not be affected. So the Commission feels that it is acting rightly in basing its forecasts on fairly modest assumptions as to growth, these being at all events the most likely.

Brussels, 15 March 1984

Annex 2

CALCULATION OF 1984 BUDGET DEFICIT

1. The latest estimates of available own resources indicate a probable revenue shortfall of about 500 mn Ecus in 1984.

Carryovers of EAGGF Guarantee expenditure from 1983 amount to 675 mn Ecus.

The state-of-market drag on farm spending may be put at 800-1300 mn Ecus. It is due in particular to the upsurge in dairy production and in expenditure in respect of beef. This estimate allows for the management measures the Commission has already taken, which have brought real savings of some 200 mn Ecus.

From the latest proceedings of the Agriculture Ministers' Council it appears unlikely that the forthcoming decisions will mean any lowering of the above estimate.

2. As appears from paragraph 1, the EAGGF Guarantee appropriation will fall 1500-2000 mn Ecus short of requirements.

3. The Commission intends to ensure that the funds for non-compulsory expenditure are managed with the same strictness as the agricultural funds.

4. It reserves the right to propose to the Council in due course the necessary measures to provide the budget cover required.

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