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Secretary of the Cabinet and Head of the Home Civil Service

Sir Robert Armstrong GCB CVO

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2 December 1983

Dear Sir,

European Community Financing

--- In accordance with the Prime Minister's instructions at the meeting of the Cabinet yesterday I attach a short fact sheet on the financing of the European Community.

I am sending copies to the Private Secretaries of all members of the Cabinet.

(R P Hatfield)
Private Secretary

A J Coles Esq

RESTRICTED

EUROPEAN COMMUNITY: FINANCINGFact Sheet1. The European Community's existing finances

The European Community's finances ("own resources") comprise the import duties, agricultural levies and VAT on a standard basis within a 1% ceiling. In 1984, the Community's maximum available own resources are estimated to be:

Total	£14,600 m
of which VAT (within the 1% ceiling)	£8,500 m

2. Increase in 1% VAT ceiling

On 1984 figures, the effect of an increase in the VAT ceiling on the total own resources available to the Community is as follows:

<u>Increase in VAT ceiling</u>	<u>Additional resources</u>
for each 0.1%	£850 m

3. United Kingdom contribution

Gross The United Kingdom's gross contribution to the Community's budget in 1982 was

£2950
£2,680 m

of which the VAT component was

£1,450 m

£1,600

Net The United Kingdom's unadjusted net contribution to the allocated budget* in 1982 was

£1,180 m

(*which excludes overseas aid and some minor other expenditure)

After taking account of the annual refund which the United Kingdom negotiated, the United Kingdom's adjusted net contribution for 1982 should be

£530 m

4. Effect of an increase in the VAT ceiling on the United Kingdom's contribution

Before the effect of corrections are taken into account, each 0.1% increase in the VAT ceiling would increase the United Kingdom's gross contribution by up to about

£170 m

The effective VAT rate for the United Kingdom will be substantially reduced by the corrective arrangements which we secure under our safety net proposal. For example, if the United Kingdom had received in respect of 1982 the relief under our safety net proposal, the total amount of VAT which the United Kingdom would have transferred to the Community for that year would have been equivalent to a VAT rate for the United Kingdom of 0.4%. Even if the VAT ceiling for the Community were raised to 1.4%, the United Kingdom's VAT contribution after reliefs would be equivalent to less than 1% provided that the relief gave more than about £550 m.

Cabinet Office

2 December 1983

Note: The exchange rate used throughout is 1 ecu = £0.58