The UK rebate – or rethinking the EU budget?

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ABSTRACT

Ever since its formation, the budget of the European Union has been the reason for numerous discussions between the participating countries attempting to receive substantial subsidies and contributing as little as possible. When Britain in 1984 negotiated its famous UK rebate, the other member countries reluctantly agreed to grant Britain a rebate of 66% on its contributions to the EU. The rebate was given, since the country was one of the poorer countries of the EU and that it did not receive subsidies according to its contributions to the EU. This was due to the fact that the Common Agricultural Policy (CAP) took up more than 70% of the EU budget. Since Britain had a relatively small agricultural industry, most of the CAP subsidies were allocated to other agricultural countries such as France and Italy. The growing wealth of Britain has given rise to discontent with the UK rebate among the other EU countries demanding the rebate to be abolished in order to treat all countries equally. This discontent has resulted in harsh negotiations over the budget, but Britain has so far been able to retain its rebate.

In addressing the issues regarding the UK rebate and the Common Agricultural Policy, this paper examines the main British arguments for retaining the rebate and the arguments from the other EU member countries for abolishing the rebate. The future prospects of the rebate are discussed in relation to the enlargement of the EU, the size of the CAP and the British prosperity in general. In order to cover the arguments and statements in the debate, mainly articles from English and Danish newspapers are being used as sources. Furthermore, a selection of reports by EU-, financial- and economic experts and the official document from 1984 regarding the UK rebate form the basis of this examination.

In the period 2007-2013 the UK rebate will amount to 7.5 billion Euro annually, and the rebate is financed by all the other member countries. Moreover, Britain´s contributions to the EU budget are not corresponding to its current level of prosperity. The other member countries argue that the rebate must be abolished, since Britain is one of the richest countries in the EU and no other country has a similar rebate. They also argue that the rebate is a distortion of EU resources; the CAP share has decreased from 71% in 1984 to 40% in 2010; and, that all member countries should contribute equally to the financing of the EU budget. The British Government rejects to abolish the rebate on the grounds that Britain would pay far more to the EU than it receives due to the distortion of the CAP; the size of the CAP must be downsized and the countries should (to a certain extent) finance their own agricultural industries; it is only fair that the new countries who are net recipients pay to the UK rebate; and, some countries have a rebate on their contribution to the UK rebate. In the debate, it seems as if Britain is using the CAP as an excuse for holding on to its rebate. On the other side, the rebate has become France´s strongest weapon in the fight for retaining the CAP in its present form.
The negotiations on the rebate and the CAP have therefore reached a deadlock, and only flexibility from British side can solve the problem. The French and German negotiators on the other side must also show some willingness to reduce the size of the CAP to break the deadlock. The new poor Eastern European countries might also put pressure on for reform of the CAP – and the UK rebate. However, the agreement about the UK rebate can only be changed by unanimity in the European Council, and if Britain rejects to change the agreement, no one can force them. During the last round of negotiations, Britain showed willingness to cut off 20% of its rebate in the period 2007-2013. Therefore, it remains to be seen, whether this is a sign of the end of the UK rebate or just a smart move in order to make the CAP-friendly countries downsize the CAP. Definitely, recent years of financial crisis leading to European economies on the brink of a collapse, has once more emphasized the need of rethinking, how should the members of the European Union share the burdens of the EU budget.
1. INTRODUCTION

Some countries are easily integrated into the European Union (EU), others keep struggling to maintain their independence (and) at the same time enjoying the benefits of being part of the common European market with access to millions of consumers. Britain is of the latter kind. Since Britain joined the EU in 1973 (at that time called the EEC) the relationship between Britain and the EU has been troublesome for numerous reasons. From the start, it was foreseen that Britain was going to be a net-contributor to the EU budget, but the small agricultural industry in Britain caused imbalances between the size of Britain’s contributions and how much the country received from the EU (Morrison, 2005). At the same time, the British people felt their former worldwide influence being constrained by European laws and institutions. As a former imperial power and with its close relationship with the USA, Britain has found it particularly difficult to adjust and narrow its political interests to only Europe. Many British Prime Ministers have disliked having a supranational authority above the nation-states represented by the High Authority. Even though Winston Churchill spoke of a “United Europe” in 1946 (Churchill, 1946), former Prime Minister Margaret Thatcher saw the “united” Europe merely as an economic union, not as a political community (Patterson, 2005). So from the very start, Britain was a “reluctant” member, sceptical and discontented; and this discontent was to culminate a mere decade after entry.

In 1984, Britain negotiated its so-called “UK rebate”, which resulted in an agreement that Britain would get 66% of its net contribution to the EU budget back each year – the sum being funded from the contributions of the other member states1 (European Council, 1984). The rebate was given, since Britain had a relatively small farming sector and few poor regions, which meant that Britain contributed too much to the European budget compared to other member states2. Ever since the formation of the agreement, most EU leaders3 have argued for the rebate (called “cheque Britannique” by French politicians) to be scrapped, claiming that Britain today is one of the wealthier countries in the EU. Yet the rebate has survived for two decades (Cutberth & Cuthbert, 2006). And once again, the question of the UK rebate is now very near the top of the EU political agenda. Thus, in the recent round of budget negotiations (in 2006), the rebate came under particularly close examination, with demands from all Britain’s EU partners to give up the rebate in the interests of fairness and European solidarity (Waterfield, 2010). In 2006, constant pressure on the British Government, forced Prime Minister Tony Blair to accept giving up 20% of the rebate for the period 2007-2013 (Council of the European Union, 2007). The question is, 

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1 Appendix 1
2 In 1984 the Common Agricultural Policy (CAP) took up more than 70% of the EU subsidies (Finansministeriet, 2005).
3 In this paper, the expression “EU leaders” is used for the heads of governments of the EU member countries.
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whether Britain, completely isolated from the other EU countries in the issue of the rebate, will be able to continue to defend the UK rebate. The partial concession on the rebate might be construed as a possible sign of the beginning of the end for the rebate. However, every member country has a veto in the seven-yearly EU budget negotiations, so the outcome of future budget negotiations remains open.

This paper will examine the main British arguments for retaining the rebate at the current level and the way various British Prime Ministers have refuted any EU leader´s arguments for abolishing the rebate. In addition, the future prospects of the rebate will be discussed in relation to the enlargement of the EU and the pressure from all the other member countries for the rebate to be phased out.

Issues such as the 2010 British election, the financial crisis, the close relationship with the USA have affected the discussion of the rebate. However, this paper will only address or comment on these issues where it is relevant. Nevertheless, in order to understand certain problems within the discussion of the EU budget and the UK rebate, isolated references to the above-mentioned issues might occur. Furthermore, the technicalities surrounding the calculation of the UK rebate are omitted, since they will not contribute positively to an understanding of the arguments and opinions in the ongoing debate.

This paper is divided into two parts:

1) Background: To show what kind of community Britain joined in 1973, this part of the paper gives an overview of the EU from its formation and up until today. Secondly, Britain´s reasons for joining the EU are exposed. Thirdly, the EU budget and the Common Agricultural Policy are examined in order to assess how they will evolve in the future. Finally, arguments from Britain´s EU partners on the UK rebate and the corresponding backlash from the British government are presented in order to be able to compare the argumentations.

2) Discussion/Conclusion: Examining the wording of the UK rebate agreement from 1985, this part addresses the issue of, how long Britain will be capable of resisting the pressure from its EU partners to give up the rebate and based on the facts presented in the background part, the paper looks at whether or not the British EU rebate is still justified in 2011.

METHODS AND MATERIAL

In the background part of this paper, as much relevant background material as possible is presented in order to provide the reader with the necessary knowledge of issues related to the debate on the UK rebate. Furthermore, an examination of arguments in the debate of the UK
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The UK rebate is carried out assessing Danish and foreign newspaper articles, official EU documents, reports by EU-, financial- and economic experts and a few relevant books within this field. The selection criteria has been that only books and documents from more official sources are been used. In doing so, only opinions and arguments generally accepted are being presented. Moreover, most of the arguments in the debate are found in newspapers. The collection of data is primarily carried out through the internet, since searching for relevant material in most foreign newspapers can be done quicker and more systematically via the internet.

In order to understand the different argumentations, the main arguments are discussed and evaluated in the Discussion/Conclusion part. Displaying the status of today and prospects of the future, an analysis and discussion of the justification of the rebate is carried out.
2. BACKGROUND

FORMATION AND EVOLUTION OF THE EU

In order to convey a clearer picture of the core of creating a whole new world order and providing the basic knowledge for understanding the different often problematic issues related to the EU, this part of the paper is intended to give an overview of the evolvement of the EU in relation to the surrounding world.

In 1951, Belgium, France, Germany, Italy, Luxembourg and the Netherlands formed the European Coal and Steel Community (ECSC) as a way to prevent further war between France and Germany (Europa.eu, History of the European Union, 2011). The aim of the ECSC was to create a common market for coal and steel.

In 1957, the six members urged for a closer union, and the Treaties of Rome were signed (Europa.eu, History of the European Union, 2011). These treaties established the European Economic Community (EEC) and the European Atomic Energy Community (Euratom). The objectives of the EEC were firstly to transform the trade and manufacture conditions within the Community by establishing a customs union, and secondly, to develop common economic and social policies that would improve living and working conditions within the EEC.

At the beginning of the 1960’s, Europe saw shortages on food for their citizens. Thus, to provide enough food for the people of Europe, in 1962, the EEC launched its agricultural policy, which is known as the Common Agricultural Policy (CAP) (Europa.eu, Agriculture, 2011). Subsidizing food production and buying up surpluses, the emphasis of this policy was to secure food security and improve the living standards of the farmers within the EEC.

In 1972, the exchange rate mechanism (ERM) was created, allowing the member states´ currencies to fluctuate against each other only within certain limits (European Central Bank, 2011). 1973 saw an energy crisis with shortages on oil caused by the Arab-Israeli war in October 1973, which resulted in economic problems to Europe and its citizens. But it was also the year of enlargement of the EEC with Denmark, Ireland and Britain.

In 1984, at the Fontainebleu European Council, Britain´s Prime Minister Margaret Thatcher negotiated the UK rebate, resulting in a rebate of 66% of Britain´s net contribution to the EEC (European Council, 1984).

The enlargement of the EEC continues, and the free trade within the EEC was deeply troubled by differences in national regulations. Thus, the Single European Act (SEA) was launched in 1986 allowing the Council to take decisions by qualified majority voting instead of unanimity, except...
issues concerning taxation, the free movement of persons, and the rights and interests of employed persons (Europa.eu, 1986).

The name “European Community” officially replaces “European Economic Community”, when the Treaty on European Union (the Maastricht Treaty) was signed in the spring of 1992. It regulates areas on defence, justice and home affairs. This inter-governmental co-operation created a new structure of the EU (Europa.eu, Treaties and law, 2011). In 1993, the Single Market was established, providing the “four freedoms”: the free movement of goods, services, people and capital. In 1999, a monetary union, the euro, was introduced for commercial and financial transactions only, but in 2002 the euro notes and coins were introduced in 12 countries (Danmarks Nationalbank, 2007).

The EU is enlarged with Cyprus, Malta and eight countries of central and Eastern Europe in 2004. Bulgaria and Romania followed in 2007. To streamline democratic decision-making and create a European Foreign Minister, a constitutional treaty was signed in the autumn of 2004. However, France and the Netherlands voted “No” to the constitution in referendums in 2005, so the EU leaders decided for a “period of reflection” (Europa.eu, 2007).

In December 2010, the 27 EU countries signed a limited amendment to the Treaty of Lisbon, making EU more democratic and establishing a mechanism to safeguard the financial stability of the euro area. The amendment must be ratified in the member countries before 1 January 2013 (Council of the European Union, 2011).
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BRITAIN’S REASONS FOR JOINING THE EU

When the British Prime Minister Winston Churchill in his major speech, given to the academic youth at the Zurich University in 1946, brought forward his vision of a “United States of Europe”, in his own words, he believed in a structure, where “Small nations will count as much as large ones and gain their honor by their contribution to the common cause” (Churchill, 1946). He kept on saying: “If at first all the States of Europe are not willing or able to join the Union, we must nevertheless proceed to assemble and combine those who will and those who can”. This passage is still valid today, when some of the most pro-EU-members claim that they want to continue the integration and development of the EU, notwithstanding the complaints from other member countries.

Ironically and regardless of the British Prime Minister speaking warmly of the United States of Europe, one of the countries, most reluctant to the fast speed of integration and harmonization, tend to be Britain, because of its great euro-scepticism both among the British people and within the political parties of Britain. Britain’s exceptional historical, traditional, institutional and strategic background compared to many other EU member countries may account for this special attitude towards the EU. Perhaps some see Britain as “The cat that walked by himself” (story by Rudyard Kipling) (Kipling, 1912).

The road for Britain to become member of the EU has been long and potholed due to Britain’s idea of its role in the world, its identity and the way it sees itself in relation to other countries. The British parties are influenced by The British Empire in the way they see Britain’s role and position in the EU (Perisic, 2010). Beginning its colonization at the end of the 16th century, Britain soon became the greatest world empire in history, having colonies on every continent and in all the oceans. But during the 20th century, all former colonies became independent, and in 1997 Hong Kong was returned to China. In the first half of the 20th century, the British Commonwealth was established as a voluntary intergovernmental association, which composed of the former colonies of the British Empire. Though the colonies now had their independence and their own sovereign governments, they remained symbolically loyal to the British Crown, and they still do (Perisic, 2010).

For more than three centuries, Britain shaped the history of the world, which could explain, why many British politicians and a large part of the British people still feel somewhat superior to the other European countries. Contrary to people of most EU member countries, who saw the entry into the EU as an advantage or an opportunity to improve their unfavourable image, the British people felt constrained by European laws and institutions. Moreover, Britain, as a country who mainly trades with overseas countries and former colonies, felt that the focus only on Europe would narrow Britain’s opportunities. Perisic (2010) has called it “a psychological barrier, which results in a considerable difficulty for the relationship between Britain and Europe”.

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Another obstacle for a successful entry of Britain into the EU was that Britain, despite several chances, did not partake in the founding and the shaping of the EU. In the 1950’s, when the negotiations on the creation of the European Coal and Steel Community (ECSC) took place, the British Prime Minister Clement Atlee stayed away, since the British Government disliked having a supranational authority above the nation-states represented by the High Authority (George, 1998). Again in 1955, the six members of the ECSC talked about an economic community, and Britain sent an observer, Russell Bretherton, from the Department of Trade and Industry rather than a foreign ministry representative. However, the government in London withdrew the observer, since it strongly disliked the discussion of supranational institutions, customs unions and agricultural policy¹. In 1957, these discussions led to the creation of the European Economic Community, but the British government refused to sign the treaty, since they saw the Community’s plans as too ambitious (George, 1998).

The six EEC members experienced economic growth, while Britain suffered continuous economic decline. Thus, in 1961, Britain was ready to join the EEC and applied for membership, but it was vetoed by the French President Charles de Gaulle, who argued that Britain’s strong link to the USA and the British Commonwealth could hinder the country’s commitment to the EEC (Pickard, 2003). In 1967, Prime Minister Harold Wilson applied once more for joining the EEC, but again the French President rejected the application. It looked like, Britain would never be let into the Community, but in 1969 the new French President George Pompidou removed the veto, and Britain joined the EEC in 1973.

The six founding members established rules, and new members had to adapt to the rules already in place. Since Britain did not have a say when these rules were negotiated, the European Communities Act of 1972 (Parliament of the United Kingdom, 1972) was hardly passed in Britain, stating that the European law has supremacy over all domestic sources of law of the individual member countries. The question of transferring sovereignty to the Community has always been an issue of conflict between the Community and Britain. Being a member of the EEC, Britain continued to define its cooperation with Europe as intergovernmental rather than as a political integration. Surveys of public opinion have shown widespread disillusionment with the European Integration in nearly all member countries, but in Britain both people and politicians share this discontent. However, recent surveys in Britain show, that the British people are becoming more and more positive towards the EU (EU-Commission, 2006).

¹ Bretherton reportedly left the six ministers with this advice: The future Treaty which you are discussing a) has no chance of being agreed; b) if it was agreed, it would have no chance of being ratified; c) and if it were ratified, it would have no chance of being applied. And ... if it were applied, it would be totally unacceptable to Britain. You speak of agriculture, which we don’t like, of power over customs, which we take exception to and of institutions which horrifies us ... au revoir and bonne chance (Archer, 2008).
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In 1975, the new Labour Government kept its promise from the election campaign and held a referendum on withdrawal from the EEC, but the majority voted for staying in. But when the new Conservative Prime Minister, Margaret Thatcher, was elected in 1979, the negative attitude towards the EEC progressed, and an increasing political isolation of Britain from Europe had begun. This discontent resulted in Margaret Thatcher demanding money back from the European Community, which is also known as the UK rebate, and in 1984, after having threatened to withhold Britain’s contributions, she won the rebate (Morrison, 2005). The rebate was given due to Britain’s low level of receipt of Common Agricultural Policy subsidies compared to its contributions to the Community budget. It was agreed that Britain should be paid a rebate of 66% of its net contribution.

Not even the UK rebate could mark the end of British discontent with the Community, and Margaret Thatcher kept criticizing and arguing that Britain was losing its independence and sovereignty by transferring the power to the EU commission in Brussels. In her “Bruges Speech” in 1988, she spoke against a “European conglomerate”\(^5\). Like her predecessors in office, Thatcher saw the united Europe merely as an economic union rather as a political community.

When John Major was elected Prime Minister in 1990, he ratified the Maastrict Treaty, which established the EU in 1993. However, Britain opted out of some sections of the treaty, as well as of joining the monetary and economic union, so again Britain was self-imposed sidelined in relation to the EU (George, 1998).

Under the governance of Prime Minister Tony Blair and Gordon Brown as well, the image of Britain has improved dramatically. However, the strong link to the USA could sometimes jeopardize the relation to the EU, since many Europeans see the EU as a counterweight to the USA. Tony Blair is of the opinion, that British interests are best guarded by remaining “shoulder to shoulder” with the American government (Seldon, 2007).

As described above, the relationship between Britain and the EU might be seen as a relationship of challenge, where both sides have to adjust to reach agreements in the future.

\(^5\) Bruges Speech: “To try to suppress nationhood and concentrate power at the center of a European conglomerate would be highly damaging and would jeopardize the objectives we seek to achieve. (...) Working more closely together does not require power to be centralized in Brussels or decisions to be taken by an appointed bureaucracy” (Thatcher, 1988).
THE EVOLUTION OF THE EU BUDGET AND THE COMMON AGRICULTURAL POLICY (CAP)

In this section, a picture of the EU budget, its structure and the negotiation process is conveyed to provide an overview of the complex system. The CAP, which is an essential part of the budget, is also described in relation with the debate on the UK rebate and the CAP in the background part.

Up to 1970, the Community budget was financed by direct financial contributions from the member countries. However, from 1970, the EU has financed itself through an own resources mechanism, which is revenue in the form of customs duties, agricultural duties, the value added tax (VAT) and the gross national income (GNI) base. The contribution of these various sources is highly uneven. As shown in table 1, agricultural duties and sugar levies make up only 1.2% of the EU budget, while GNI resources account for 72% and VAT resources for 14.2%. Customs duties contribute to the EU budget with 11.5% (Hausner, 2007).

Table 1

<table>
<thead>
<tr>
<th>Revenue Categories</th>
<th>EU Revenue in 2006</th>
<th>% of EU Budget</th>
</tr>
</thead>
<tbody>
<tr>
<td>Customs duties</td>
<td>12,905</td>
<td>11.5</td>
</tr>
<tr>
<td>Agricultural duties and sugar levies</td>
<td>1,320</td>
<td>1.2</td>
</tr>
<tr>
<td>VAT resource</td>
<td>15,891</td>
<td>20.2</td>
</tr>
<tr>
<td>GNI-based resource</td>
<td>80,563</td>
<td>72.0</td>
</tr>
<tr>
<td>Other revenue¹</td>
<td>1,299</td>
<td>1.2</td>
</tr>
<tr>
<td>Total</td>
<td>111,973</td>
<td>100.0</td>
</tr>
</tbody>
</table>

¹ Miscellaneous + surpluses, balances and adjustments.
³ Differences due to rounding.

Source: European Commission: General Budget of the European Union for the Financial Year 2006; Luxembourg, 2006; p. 24; own calculations.

The agricultural duties have been sharply criticised by the World Trade Organisation (WTO), since these duties restrict the free trade in agricultural products. These special duties are levied when agricultural products with prices below those determined by the EU member countries are imported into the EU from third countries. The WTO claims that this raises the prices of the agricultural imports to the intra-community price level and is a measure to protect the European agricultural industry against competition from the world market. From the start, it was a principle of the Community that it would be self-sufficient in staple foods at reasonable and stable prices to the consumer (article 32 to 38 of the Treaty of Rome)(Europa.eu, 1957). Thus, agricultural subsidies were to make up a substantial proportion of the Community’s budget – more than 70% in 1980, but 43% today (Hausner, 2007).

The second resource, the VAT resource introduced in 1979, is a share of the VAT base of the member countries. The VAT base covers the consumption of goods and services at the final consumer. Since its introduction, the share is reduced from 1% in 1979 to 0.5% in 2007 (Hausner, 2007).
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The third resource, the GNI resource, was introduced in 1988 and in the 2007-2013 budget period it accounts for 72% of the EU budget. This resource has now become the most important form of revenue and since the GNI measures the wealth of the member countries, the economic growth of each country will raise the GNI proportionally. How to measure the percentage of which each country has to pay in relation to its GNI is highly complex. Some experts have raised the question of how will the EU budget be able to finance the enlargement of East European countries such as Hungary and Slovenia that are poor and have a very low GNI (Swinnen, Johan F.M., 2003).

The process of the EU budget is that the budget must pass both the Council of Ministers and the European Parliament (EP), and the 7-year budget plans are called “Financial Perspectives”. When voting, the Financial Perspectives require unanimity in the Council, but the annual budgets are passed on the basis of qualified majority voting (QMV). For both the Financial Perspectives and the annual budgets, EP decision-making is based on simple majority. Due to this process, in particular in relation with agreement on the 7-year budget plans, which require unanimity in the Council, the British Prime Ministers have succeeded in maintaining the UK rebate. This issue will be analysed and discussed later in this paper. Some EU observers claim that the enlargement in 2004 was a trick to manipulate the budget numbers and negotiate limited budget allocations to the new countries. In this way, the enlargement was made more acceptable to the old member countries who then voted in favour of the enlargement. Had the new members been offered allocations in size of that of the old members, then it might have been difficult to agree on enlargement (Baldwin, 2005).

THE FUTURE EU BUDGET

As mentioned above, the coming enlargements with relatively poor Eastern European countries will undoubtedly affect the size of the EU budget and the allocation of spending. This section focuses on the recent budget negotiations and the implications of the future budget(s).

The new member countries will push for more structural spending, since structural spending is proposed by member governments itself, and it goes to specific projects in the country. In this way the politicians can reward allies among their voters. In addition, they are probably willing to downsize the CAP spending, because they will still receive a substantial part of the allocated money for their poor agricultural industry (Baldwin, 2005).

During the negotiations on the EU budget for the period 2007-2013, the net current contributors, Britain, Germany, France, Sweden, the Netherlands and Austria demanded a decrease of expenditure to 1% of total GNI, although the Commission argued for an expansion to 1.14%. Since these countries are all net contributors, their motivation in trying to set a 1% limit was obviously to limit their own financial contributions. Blankart & Koester (2009) argue that we are in a situation of a persistent deadlock on the expenditure as well as on the revenue side of the EU
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budget. Some member countries randomly become winners and some become losers in the budgetary process. Being a winner or a loser has depended on the country’s ability – in the early years of the Community – to exert threat in order to influence the division between those who receive and those who pay (Blankart & Koester, 2009). Due to the unanimity or close to unanimity rules, the changes of this status quo were difficult to achieve, since the potential losers could exert their veto power. It is quite known that stable coalitions have dominated either side of the budget and are likely to block any substantial changes in the EU. An example of this is the recurring debate on the British EU rebate, which can only be changed unanimously – or blocked by Britain.

The financial perspectives of the 7-year period 2007-2013 was agreed and signed on 4th April 2006 with a precondition that the Commission should undertake a full, wide ranging review of EU spending, including the CAP and of resources, including the UK rebate. Without this precondition, it would not have been possible to reach an agreement (Becker, 2008). The negotiations were characterized by several conflicts:

1) The “net payers” wanted to downsize the budget and the “net recipients” would like to expand the budget.

2) The member countries quarrelled about the existence and level of the British rebate, complaining that all member countries have to contribute more to finance the increasing rebate.

The enlarged EU called for an increase in the budget, but the “net recipients” were outnumbered, and the “net payers” made a cost/benefit analysis dominated by fiscal considerations. Each country tries to increase spending in those policy fields where it can count on high inflow of funds. Obviously, the country will call for cuts in policy fields where the country is not receiving substantially funds (Becker, 2008).

The negotiations were difficult, since they required a large number of quid-pro-quo deals and the agreement was generally perceived as the lowest common denominator. According to Becker (2008), the agreement, dominated by fiscal interests, prevents solutions orientated on a common European interest.

In its conclusions of December 2004, the European Council proposed a general added value, but the member countries could not agree upon this. However, they agreed on the necessity of some kind of tax.
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WHY AND HOW DID BRITAIN NEGOTIATE ITS UK REBATE?

In this section the reasons and motives behind giving the so-called UK rebate to Britain at the Fontainebleau Summit in 1984 is described and illustrated using sources from EU observers, experts and official documents. The rebate, which has caused problems and been the cause of an often harsh debate among the EU leaders whenever the EU budget was negotiated, is still in force.

In 1973, when Britain joined the European Economic Community (EEC), a possibility of correcting for an adverse net balance was already envisaged, and during the renegotiations in 1974-75, led by Secretary of State for Foreign and Commonwealth Affairs, James Callaghan (Prime Minister 1976-79), a correction mechanism based on gross contribution was established, but this measure was not sufficient for solving the imbalances (Patterson, 2005). Britain faced a fait accompli⁶ that made Britain a large net contributor despite its below-average income. Three main reasons account for the fact, that Britain from the start, and entirely predictable in advance, was going to be a net contributor to the EEC budget.

First, Britain was trading with countries outside the EEC area to a greater extent than other EEC countries, and since the customs and agricultural levies collected was paid into the EEC, Britain contributed proportionally more than other EEC member countries. Due to declining tariffs on goods being imported into the EU the last 40 years Britain’s part of this kind of contribution has declined as well (Morrison, 2005).

Second, Britain’s agricultural industry was a relatively small part of its economy compared to other EEC member countries, and due to this it received little of the Community’s spending on agriculture. In 1973, the agricultural spending accounted for more than 70% of the EEC budget, since the founding principle of the EEC focused on self-sufficiency in staple foods and reasonable and stable prices to the consumer (Morrison, 2005). Today, this share has declined to 41.3% (The European Parliament, 2010). Thus, Britain had to contribute proportionally more to the EEC budget than other countries with no prospect of getting a, certainly in the eyes of the British people, fair share of the spending.

Third, in 1984, the average income in Britain was 90.6% of the Community average, and Britain’s contribution was just under 0.5% of Gross National Income (GNI) – marginally larger than that of Germany, whose GNI was 109.6% of the average. This made Britain the least prosperous country of the net contributors of the EEC (Patterson, 2005).

As mentioned previously, the UK rebate was negotiated by Prime Minister Margaret Thatcher in 1984, but as early as 1979, Prime Minister James Callaghan and his government began to agitate for a reduction in Britain’s contribution. After successive meetings of the European Council and

⁶ Fait accompli = An accomplished fact; an action which is completed before those affected by it are in a position to query or reverse it (French phrase) (www.phrases.org.uk/meanings)
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demanding “my money back”, Margaret Thatcher had her way, and Britain was given a substantial rebate for the years 1980-83 (Morrison, 2005).

In March 1984, at the EEC common market summit in Brussels, Thatcher was under attack for the breakdown of the negotiations of a new EEC budget, since she refused an annual rebate of £580m. Thatcher claimed that unless a rebate of £730m was given, she would veto any further expansion of spending (BBC, 1984). She also argued that Britain as a relatively poor country contributed proportionally more to the EEC than other countries. In addition, since Britain had a small agricultural industry, the country received a substantially low proportion of the spending from the Common Agricultural Policy (CAP). This caused the British budget imbalances, and Thatcher was determined not to back down on her demands. Due to the breakdown, Italian and French authorities threatened to block Britain’s £450m rebate from last year, and the Greek leader Andreas Papandreou said: “It would be a great relief if Britain left the EEC” (BBC, 1984). Other member countries considered contributions as taxes, and nobody could claim back what they put in.

Then the same year, at the Fontainebleau Summit, Margaret Thatcher threatened to withhold Britain’s contributions to the EEC budget forcing the set up of a new arrangement, under which around two thirds of Britain’s net contribution was reimbursed at the end of each year (European Council, 1984). The calculation of the rebate is very complex, but in short: The rebate is deducted from Britain’s VAT contributions, and if this is not sufficient the rest is deducted from the Gross National Income (GNI) contributions (EU-oplysningen, 2010). According to Nigel Lawson, Chancellor of the Exchequer in 1984, the threat to withhold the contributions was never spoken in public, but “it was discretely made known to those who we negotiated with that this is what would happen if we did not get satisfaction” (Morrison, 2005). Nigel Lawson keeps on: “Almost certainly the European Court would have eventually decided that this was illegal and it would be struck out, but that would have lasted a long time and would have been quite an effective measure in the context of these negotiations”.

WHO PAY FOR THE REBATE?

The EU budget must balance, and when one country has a rebate on its contributions to the budget, all the other countries have to contribute more in order to finance the UK rebate. However, since 2000 Germany, Austria, The Netherlands and Sweden have all been given a rebate of 75% on their share of the financing of the UK rebate (EU-oplysningen, 2010). These rebates will also have to be financed by the other member countries through an increase in their contributions. In 2010, the UK rebate is estimated at around 4 billion Euro (EU-oplysningen, 2010). In the light of the enlargement of the EU, all things being equal, estimates show that the size of the UK rebate will rise to 7.5 billion Euro annually in the period 2007-2013, since the budget will have to be increased by the spending in the new relatively poor Eastern European countries
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(Finansministeriet, 2005). France and Italy finance almost half of the UK rebate, and Germany is, despite its rebate, a large contributor to the UK rebate as well. The countries advocating most strongly for an abolishment of the UK rebate are also the greatest recipients of the CAP: France, Italy, Germany and Spain! On the other side, these countries also want to maintain the current level of spending from the CAP (Hausner, 2007).
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40 YEARS OF DEBATE: HOW HAVE THE EU PARTNERS COPED WITH THE REBATE?

In this section the international debate concerning the UK rebate is conveyed mostly through articles in English and Danish newspapers. To show how the rebate has been debated and criticized during the last 40 years, the statements from Britain’s EU partners and the corresponding backlash from the British government are described in chronological sequence by year. In the structure of this section, it has been of great importance to provide the reader with the best overview of the debate. Thus, the statements from foreign leaders are presented first followed by the British response to these statements.

Even before Prime Minister Margaret Thatcher “won” the UK rebate, EU-leaders were revolted at the British demand of £730 million annually in rebate and the prospects of Britain retaining this rebate for several years. When the negotiations at the EEC summit on March 21 1984 broke down, the Italian leader Bettino Craxi put the blame on Britain: “The British government bears the entire responsibility for this failure” (BBC, 1984). Furthermore, the Greek leader Andreas Papandreou would like Britain to leave the EEC (BBC, 1984). On the other hand, Mrs. Thatcher described the situation as “frustrating” since the members had come so close to a settlement. But she also called the actions of the European Community as “reprehensible”. Mrs. Thatcher remained firm on her demands and in June 1984 an agreement on the budget and the UK rebate was reached.

In December 1998, at the EU foreign ministers meeting in Brussels the French President, Jacques Chirac, made it clear that the unique multi-billion pound deal limiting Britain’s annual EU payments was up for renegotiation. Furthermore, the Austrian foreign minister, Wolfgang Schüssel, followed up by saying: “Every delegation must be expected to go beyond its existing positions. That sort of flexibility is extremely important” (Meade, 1998). The British Foreign Secretary, Robin Cook, replied: “It would take unanimity to change it. It is not going to change. We need the rebate”. The British government claimed: “...while the national economy may be stronger than when the rebate was agreed, Britain is still a relatively poor EU member state”.

The British government has not only been under attack from its EU partners, also within the political parties in Britain criticism has been raised. On the issue about the UK rebate, some parties in the House of Lords fear that the government will recreate the politics of confrontation in Europe, since it will not take a more flexible approach on the rebate. At the same time in 1999, the German chancellor, Gerhard Schröder, urged the British government to take a more flexible approach to the rebate. Faced with these statements, Prime Minister Tony Blair’s spokesman said: “We are making clear the abatement is justified on its own merits. It exists because British government had to pay an unfair share. It is still justified”. Moreover, the spokesman rejected a proposal from the House of Lords about a reformed CAP and increased EU expenditure in Britain. As the spokesman explained: “Any deal which looked good today could look pretty awful in three years” (Peston, 1999).
In 2004, the European Commission is proposing to generalize the principle of correcting any member state’s excessive net budgetary burden (Europa.eu, 2004). The budgetary imbalance should be avoided through a certain correction mechanism, and it should be triggered if net contributions exceed 0.35% of each country’s GNI. Contributions above this would be refunded by 66%. A transitional period of 4 years for Britain is proposed. Britain’s budgetary balance before the transitional period would be -0.25% and -0.51% after. In the proposal it says:

“Despite the very positive evolution of its relative prosperity, the UK continues to receive a partial refund of its contributions. Other net contributors with similar or lesser prosperity do not. The enlargement of the EU to 10 new – on average less prosperous - Member States will justifiably shift expenditure to these new partners. Only the UK will be largely shielded from the extra cost thanks to the rebate, funded by all its partners including by the poorest Member States.”

The proposal from the commission did not question the prosperity of Britain, but political commentators did not expect Britain to accept this proposal, since France would continue to benefit from the CAP. It was expected that Britain would demand further reform of the CAP in exchange for accepting the new correction mechanism (The Economist, 2004).

In the spring of 2005, the French President, Jacques Chirac described the rebate as “unjustified”, forecasting that unless it was reviewed agreement on future financing would be impossible. The Foreign Secretary, Jack Straw, replied: “There can be no deal on future financing which does not protect the rebate” (Patterson, 2005). It should be noted, that the French President, Jacques Chirac persuaded the German chancellor, Gerhard Schröder, to agree to keep CAP spending unchanged up to 2013. The British government did not block this agreement, since it had to concentrate on defending its rebate (Peet, 2005)! At the London School of Economics in May 2005, the EU Commission President Jose Manuel Barroso said, that “the rebate is no longer justified”. Again Tony Blair’s spokesman replied: “The rebate was hard-won by Margaret Thatcher and saves British taxpayers billions of pounds a year. The rebate is fully justified, full stop” (BBC.co.uk, 2005).

At the European Council meeting in Brussels in June 2005, Tony Blair refused to make any modification to the rebate for the budget period 2007 – 2013 without a reduction in CAP spending (Morrison, 2005). After the meeting, the EU President, Jean-Claude Juncker was very upset by Tony Blair´s behaviour over the budget. He said: “…some delegations did not have the political will to succeed. Those who, just before concluding, were calling for a full review of Europe’s budgetary structures, were well aware that it was impossible for 25 countries to agree on a complete restructuring, disregarding all the agreements we reached in the past” (Morrison, 2005). The British EU commissioner Peter Mandelson warned the British government of behaving like nothing has happened since 1984 (Kragh & Nielsen, 2005). Due to the fact that Blair in 2002 did not block an agreement on CAP funding up to 2013, meant that he was in a weak position in demanding a revision of it in 2005. Furthermore, Blair opposed to the Generalized Corrective Mechanism
proposed by the Commission, which would double Britain’s contribution to the EU budget. All other net contributors supported the proposal (Morrison, 2005).

In December 2005, the British Foreign Secretary, Jack Straw said that Britain was prepared to reduce its rebate by £1 billion a year in the period 2007-2013. British government sources admitted that it was difficult to defend the rebate if it was not changed at the end of the next budget period. Should the rebate not be changed Britain would be the second smallest net payer straight after Cyprus (Rasmussen, Annegrethe, 2005). In April 2006, Blair agreed to give up approximately 20% of the rebate for the period 2007-2013, on condition that the funds were only to the new member countries, and that the European Commission should conduct a full review of all EU spending (Wikipedia.org, 2011).

At the beginning of 2007, the budget commissioner Dalia Grybauskaite said to a Spanish newspaper: “The British cheque is a distortion of the EU resources. Currently the relation between wealth and what different countries contribute is fairly balanced, except in the United Kingdom. At the time it had an income below the community average, but now this is 115 percent of the average and continues to receive the cheque” (Beunderman, 2007).

September 2010 saw another row over the disputed UK rebate, when the new budget commissioner Janusz Lewandowski said that “The rebate for Britain has lost its original justification”. According to Mr. Lewandowski, the much smaller CAP share of the budget (about 40%) compared to 71% in 1984 weakens the British case for a rebate, when the EU budget for the period 2014-2020 has to be negotiated. The budget commissioner said, that “The level of farm subsidies in 2020 has to be lower than today” (Hewitt, 2010). The response from a British spokesman did not come as a surprise: “The rebate remains fully justified. It’s a matter of fairness”. The spokesman made it clear, that “The UK’s net contribution (in percentage of GNI) would be twice as big as France’s because of expenditure distortions from policies such as the CAP, which still accounts for more than 40% of the EU budget” (Hewitt, 2010).

Britain’s Chancellor of the Exchequer, George Osborne had to respond to a comment from a member of the European Commission on September 7, 2010, when the member stated: “The British rebate is no longer justified as Britain is more prosperous than during the 1980s”. Mr. Osborne replied: “The people who call the rebate into question will be wasting their time” (Kanter, 2010).

In October 2010, the Commission President, Jose Manuel Barroso proposed plans to abolish complicated contribution systems such as the UK rebate in favour of a more “transparent” system of new European taxes. These plans were immediately opposed by British members of Parliament, stating that “With the rebate and tax proposal, the EU is making demands that are completely unacceptable to the British people” (Waterfield, 2010).
In Denmark, the discontent with the UK rebate has been uttered loudly by different ministers and members of the national parliament of Denmark. In 2012, the country will hold the Presidency of the Council of the EU. During its presidency, Denmark has to conclude the overall negotiation of the multiannual financial framework for the EU in the period 2014-2020 (Ministry of Foreign Affairs of Denmark, 2011). The Danish Minister for Finance, Claus Hjort Frederiksen, said to a newspaper this year that he will initiate negotiations on abolishing any rebates, including the UK rebate (Pedersen, 2011). According to several sources, Denmark has a financial deficit on the membership of the EU of £800 million (EU-oplysningen, 2010). In addition, Denmark finances the UK rebate by approx. £115 million annually. Claus Hjort Frederiksen stated: “The EU rebates must be abolished. All member countries should contribute equally to the financing of the EU budget” (Pedersen, 2011). The British Chancellor of the Exchequer, George Osborne, bluntly rejected this proposal by stating: “We remain firm on the rebates. Undoubtedly, he and others will put forward the issue in the negotiations, but they are wasting their time” (Pedersen, 2011).
3. DISCUSSION/CONCLUSION

FUTURE PROSPECTS OF THE UK REBATE

In this section the arguments presented in the background section above are assessed in order to shed light on the dispute over the UK rebate and the CAP. The discussion in this section seeks to set out possible prospects of the UK rebate in relation to the debate about the size of the CAP and will conclude by looking at whether or not the British EU rebate is still justified in 2011.

EXAMINING THE WORDING OF THE UK REBATE AGREEMENT

In order to be able to understand and discuss the background for the British arguments and those of the EU partners, respectively, it is necessary to look at the exact wording of the agreement about the rebate, which was made at the Fontainebleu European Council in 1984. The essentials are as follows:

“However, it has been decided that any Member State sustaining a budgetary burden which is excessive in relation to its relative prosperity may benefit from a correction at the appropriate time.”

“As far as the United Kingdom is concerned, the following arrangement is adopted:.... (ii) from 1985 the gap (base of the correction) as defined in paragraph 1 is, for the period referred to in paragraph 4, corrected annually at 66%.”

Source: (European Council, 1984)

In the dispute of the UK rebate both sides refer to the text of the agreement to back their arguments. However, having different interests and goals, they interpret the text differently. The first part of the agreement is rather vague, since it does not specify the size of the “budgetary burden which is excessive in relation to its relative prosperity”. In fact, every country could claim that its contribution to the EU exceeds far more than what the country receives from the EU and should therefore benefit from a correction like Britain’s.

The second part of the agreement is quite precise, specifying a 66% refund of Britain’s annual contribution to the EU. However, no date of expiry is included in the agreement. Given the fact that any changes to this correction mechanism must be agreed unanimously by all EU member countries, British Prime Ministers have succeeded in retaining the UK rebate unchanged for more than 20 years.

CONFLICTING ARGUMENTS

In the following, the main arguments are presented to provide a better insight into the debate.
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Some member countries have argued that all countries must show flexibility in the negotiations of the EU budget, to which Britain’s former Foreign Secretary, Jack Straw, replied: “We need the rebate. ...It is justified...Britain is still a relatively poor EU member state” (Meade, 1998). However, statistics from Eurostat show a different picture of Britain’s prosperity (Table 2): In 1998, Britain was not one of the poor members of the EU. In fact, Britain’s GDP per capita was above average of the 15 old EU member countries and above France’s as well. Another British argument has been that “...it is justified on its own merits. It exists because British government had to pay an unfair share. It is still justified” (Peston, 1999). This argument does not take into account that the general economic situation of Britain has improved since 1985, but solely refers to the wording of the agreement of the rebate.

Table 2.

GDP per capita (EU-27=100)

Source: Eurostat

Since 2004, the European Commission has put pressure on Britain to abolish the UK rebate. This pressure was executed by proposing a generalized correction mechanism which should be triggered if net contributions exceed 0.35% of each country’s GNI. Contributions above this would be refunded by 66% (Europa.eu, 2004). The proposal would end the UK rebate and double Britain’s contribution to the EU. This mechanism was meant to provide equal treatment of all countries and shift expenditure to the new member countries. Not surprisingly, Britain rejected this proposal arguing that Britain would demand reforms of the CAP in exchange for accepting this
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correction mechanism. However, this argument was not brought forward during the actual negotiations, so Britain could not be held responsible for it at the coming budget negotiations.

When looking at the various arguments some tendencies become clear. On the British side the arguments for retaining the UK rebate are:

- The rebate is fully justified. It is a matter of fairness. Without the rebate Britain would pay far more into the EU than it receives due to the distortion of the CAP – in fact twice as much as France (Hewitt, 2010).
- The size of the CAP must be downsized and the national governments should (to a certain extent) finance their own (agricultural) industries (BBC.co.uk, 2005).
- It is only fair that the new countries who are net recipients pay to the UK rebate (BBC.co.uk, 2005).
- Germany, Austria, the Netherlands and Sweden have a rebate on the rebate, i.e. their contribution to the UK rebate is limited to only 25% of the original contribution (BBC.co.uk, 2005).

The other member countries argue:

- Britain is one of the richest countries in the EU (Beunderman, 2007).
- No other country has a similar rebate (Europa.eu, 2004).
- The British cheque is a distortion of EU resources (Beunderman, 2007).
- The CAP share has decreased from 71% in 1984 to 40% in 2010 (Pop, 2010).
- All member countries should contribute equally to the financing of the EU budget (Pedersen, 2011).

All these sources show a picture of a country fighting hard to retain its hard-won rebate and allies are few or not existing. Some EU observers argue that the EU leaders set an elaborate political trap when the UK rebate was agreed. The rebate deal specifies exactly how much each country should contribute to the rebate. The trap was that it ensures that whenever the rebate is raised in isolation, the argument is always Britain versus the rest (Baldwin, 2005). Nevertheless, it is a fact that no other country – even one less prosperous than Britain – has a similar rebate.

CAN THE UK REBATE BE JUSTIFIED TODAY?

In order to assess if the UK rebate is justified today, the following will examine the individual arguments more thoroughly one by one.

British arguments:

“The rebate is fully justified. It is a matter of fairness. Without the rebate Britain would pay far more into the EU than it receives due to the distortion of the CAP – in fact twice as much as France” (Hewitt, 2010). Seen in isolation, it is true that Britain would contribute twice as much as France to
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The EU if the UK rebate was abolished. It is also true that Britain would pay far more into the EU than it receives. However, it may be questionable if the so-called distortion of the CAP affects the British contribution, since the CAP has been downsized in favour of structural funding in less prosperous areas. Due to the fact, that CAP funding has been transferred into structural funding, the size of the EU budget is the same (Hausner, 2007). In this respect, it might not be fair to claim that the CAP is to blame for the size of British contribution to the EU budget.

“The size of the CAP must be downsized and the national governments should (to a certain extent) finance its own (agricultural) industry” (BBC.co.uk, 2005). Ever since its entry into the EU, Britain has complained about the size of the CAP saying that Britain is paying to protect inefficient French farmers. According to Morrison (2005), the CAP is important to the vast majority of EU countries, especially to the new Eastern European member countries. Due to Britain´s small agricultural sector, it is not surprising to observe this argument. To link the CAP to other issues, such as budget rebates, does not take into account the very far reaching and significant reforms already made to the CAP (Morrison, 2005). On the other hand, it might not prove completely wrong when asserting that some French farmers could manage without subsidies, since a large part of the subsidies goes to large farms. The British argument of downsizing the CAP may be relevant, since the current system of subsidising consumer products in order to be competitive towards imported products from third countries distorts market prices and raises the consumer prices. The CAP is ruinous for agricultural producers outside the EU, because the products are levied with duties to raise prices to the level of the Community´s (Hausner, 2007).

“It is only fair that the new poor countries who are net recipients pay to the UK rebate” (BBC.co.uk, 2005). Britain justifies this by arguing that it is just as fair to contribute to the UK rebate as to the “French rebate”, i.e. contribution to the French farmers. A British expert claims that it is merely a “book-keeping issue” (BBC.co.uk, 2005). Once again, the argument is linked to the CAP, although one might question the relation between the two issues.

“Germany, Austria, the Netherlands and Sweden have a rebate on the rebate, i.e. their contribution to the UK rebate is limited to only 25% of the original contribution” (BBC.co.uk, 2005). The British argument does not respond to the issue that the contribution to the UK rebate from these large net payers is an additional contribution coming on top of what the countries pay according to their GNI.

Arguments from other member countries:
“Britain is one of the richest countries in the EU” (Beunderman, 2007). According to statistics from the EU, Britain is one of the richest members of the EU. In 2010 Britain´s GDP per capita was above average of the 27 EU member countries and above France´s as well (Table 2).

“No other country has a similar rebate” (Europa.eu, 2004). This is true. Until 2001, Denmark had a rebate on its contribution to the EU but gave it up to show solidarity with all the other member
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countries that had to pay for the rebate (Pedersen, 2011). Contrary to Denmark, Britain has not shown willingness to give up its rebate.

“The British cheque is a distortion of EU resources” (Beunderman, 2007). Because of the rebate, Britain is currently not paying according to its wealth measured in GNI. It might cause other countries to press for a similar agreement if the UK rebate is not abolished.

“The CAP share has decreased from 71% in 1984 to 40% in 2010” (Pop, 2010). The CAP share of the budget has decreased since 1984 and according to the budget commissioner Janusz Lewandowski, in September 2010, the level of farm subsidies has to be even further lowered. Nevertheless, Britain is of the opinion that the CAP share of 40% is still too high and justifies the UK rebate (Hewitt, 2010).

“All member countries should contribute equally to the financing of the EU budget” (Pedersen, 2011). This statement from the Danish Minister for Finance, Claus Hjort Frederiksen, is backed by other member countries. If Britain or any other country has a rebate on their contribution to the EU, other member countries will have to pay more in order to make the EU budget balance.

In addition to this, since 1985, when the UK rebate was negotiated, Britain has used the argument that the UK rebate is fair, because Britain, due to its relatively small agricultural industry, does not receive a substantial part of the CAP. Even though the size of the CAP has decreased to only 40% of the EU budget, Britain still uses the same arguments as in 1985. It may seem that Britain is holding on to its rebate just for being able to do so – and of course for economic reasons. This was illustrated in a statement by Tony Blair’s spokesman in 1999: “We are making clear the abatement is justified on its own merits. It exists because British government had to pay an unfair share” (Peston, 1999). This argument relates to Britain’s economic situation in 1985 but completely fails to respond to the current situation. Again in 2005, a British spokesman said: “The rebate was hard-won by Margaret Thatcher and saves British taxpayers billions of pounds a year. The rebate is fully justified, full stop” (BBC.co.uk, 2005). This is no argument at all.

In conclusion, based upon the available sources and arguments in the debate, it may be said that no simple answer exists to the question of whether or not the British EU rebate is justified or not. Seen in isolation, the UK rebate might not be justified today, since the prerequisites on which Britain was given the rebate have changed considerably. The CAP share of the budget has decreased from more than 70% to 40%. This means that the size of the CAP, which seems to be the cornerstone of the British arguments for retaining the EU rebate, has lost its original impact on the British imbalance on the EU budget. Britain keeps linking the UK rebate to the existence of the CAP, meaning that they will only accept to abolish the rebate if the CAP is scrapped too, or if other member countries do not receive a larger part of the CAP than Britain does. Britain knows that the large CAP receivers, i.e. France and Germany, are not fond of accepting a decrease in the size of subsidies to their agricultural industries. Seen in this perspective, Britain will without
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consequences continue to be able to claim that the size of the CAP is still too high and that scrapping the UK rebate is not fair.

Britain’s wealth is above average of the other EU members (see table 2 in section “Conflicting arguments”), so Britain cannot constantly say that the country is less prosperous than other member countries. The Eastern European member countries are much poorer than Britain, but still they have to pay to finance the UK rebate. When Poland for example joined the EU, it agitated for a reduction in its contribution to the British rebate, but it was rejected, probably because other countries would want a similar reduction. Objectively seen, reasonable arguments for a poorer country to support a richer country are hard to find, but the British government does not regard this as a contradiction.

Moreover, no other country has a similar rebate. It looks as if Britain is playing “pretend” when the British Prime Minister constantly demands an abolishing of the CAP or just some kind of reduction without having to say how much the UK rebate is “worth” for Britain. In 2004, the European Commission proposed a generalized correction mechanism which should be triggered if a country’s net contribution exceeds 0.35% of its GNI. Contributions above this would be refunded by 66% (Europa.eu, 2004). But Britain was apparently not interested in a system where all member countries have the same conditions and access to refunds, meaning that every country would be treated equally. The proposal was rejected by Britain who once again demanded reforms of the CAP. Should the rebate not be changed Britain would be the second smallest net payer straight after Cyprus (Rasmussen, Annegrethe, 2005). If the rebate is abolished completely, Britain would double its contribution to the EU without receiving subsidies corresponding to those of other member countries. On the other hand, all countries would be treated equally in terms of calculation of the contribution to the EU coffers.

It might be difficult to assess the fairness of how much each country should contribute and receive from the EU. A country like Denmark for example has an imbalance of almost £1 billion a year – one of the largest imbalances in the EU. Therefore, the Danish Minister for Finance, Claus Hjort Frederiksen, who is strongly opposed to rebates in the EU, is aiming at scrapping all rebates when Denmark holds the Presidency of the Council of the EU in 2012. If he does not succeed in this, he has a plan B, which means, that he will go for as many subsidies as possible for Denmark (Pedersen, 2011). As a consequence, the existence of the UK rebate encourages countries to pursue individual goals and not overall goals for the EU. It nourishes a growing mistrust and lack of solidarity among the EU partners.

To assess if the British imbalance is fair compared to its general state of its economy and wealth, might be quite difficult. One can only relate to the fact that Britain has a special privilege and no other member country has a similar one. Another complicating aspect is that the EU wants to provide the new relatively poor member countries with subsidies in order to create overall wealth
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in the whole of the EU. Therefore, the richest countries of the EU, like Britain, have to contribute above average. This is the idea of showing solidarity with each other within the EU region. In his speech in June 2005, Prime Minister Blair said: “I believe in Europe as a political project. I believe in a Europe with a strong and caring social dimension. I would never accept a Europe that was simply an economic market” (European Council, 2005). What happened during these negotiations was that he cut off 20% of Britain’s refund during the next seven years, but since the overall EU budget was expected to increase the British refund increased similarly. Therefore it did only have a minimal effect. Moreover, Blair had been able to retain the UK rebate and had shown some kind of willingness to reduce the rebate. It should be mentioned, that Blair was under an enormous pressure from all member countries and it was very important for Blair to reach an agreement, since Britain held the Presidency of the Council of the EU during the negotiations. However, he managed to reach an agreement, where only the new poor member countries would receive additional subsidies. In this way, France and Germany did not benefit from the reduced UK rebate. More importantly, Blair is the first Prime Minister to say that the EU is more than just an economic community. Former British Prime Ministers have stated that Britain only saw the EU as an economic and not as a political community.

Whether this shift in attitude towards the EU will lead to a more solidary approach to the EU budget and to the UK rebate in the future remains to be seen. Anne E. Jensen, vice chairman of an EU committee who assesses the economic EU needs after 2013, says: “The UK rebate preserves the CAP and limits completely Britain in the negotiations over the CAP. And the rebate has become France’s strongest weapon in the fight for retaining the CAP in the present form” (Thomsen, Jens, 2010). In March 2010, the French President, Nicolas Sarkozy, claimed that he was prepared to start a crisis in Europe, before he would accept to scrap the CAP. Nevertheless, Anne E. Jensen expects the CAP to be reduced, since the EU budget seems to be downsized due to the economic crisis in Europe. “The pressure from the new Eastern European countries for receiving the same size of agricultural subsidies like the “old” EU member countries will enhance the pressure for reforms of the CAP”, she says (Thomsen, Jens, 2010).

In conclusion, it seems as if the negotiations of the UK rebate and the CAP have reached a deadlock. Britain is content with its UK rebate, and the French-German side is content with the size of the CAP. Britain is protesting against the preservation of the CAP status quo both to maintain the public justification of the UK rebate and to obtain support for the UK rebate through house trading with CAP-friendly member states (Zahrnt, Valetin, 2011). To break the deadlock, Britain will have to be more flexible on its rebate, since no other country has a similar rebate. Due to the fact, that the UK rebate can only be changed by unanimity, Britain has and is using the rebate as a “hostage” for accepting status quo on the CAP. In other words, it is a quid pro quo where Britain keeps its famous rebate if the CAP remains unchanged.
Britain has been the great winner for 40 years, and what could change that? If the British Prime Minister rejects proposals for scrapping the rebate, the other member countries cannot impose economic sanctions on Britain. The British politicians are very much aware of this favourable situation, and already in 1999 an official Labour representative said, when he was rejecting a “realistic negotiating result for the UK” which meant giving up the rebate in favour of increased EU expenditure in the UK: “Any deal which looked good today could look pretty awful in three years” (Peston, 1999). Obviously, Germany and France also need to rethink the way their agricultural industries are financed and show solidarity by allocating additional subsidies to the poorer Eastern European member countries. But the key to break this deadlock lies in the hands of the British Prime Minister. A solution can only be found if Britain is willing to give up the UK rebate and play by the same rules like the rest of the EU.
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Fontainebleau European Council (25 and 26 June 1984)  
Conclusions of the Presidency

The European Council, meeting at Fontainebleau on 25 and 26 June 1984, adopted the decisions on the questions left in abeyance at its meeting in Brussels on 19 and 20 March 1984.

The European Council also confirmed the points of agreement which it has reached in Brussels. It took note of the progress made in regard to new policies and discussed environment and health issues. It adopted new guidelines for the reactivation of European cooperation.

1. Budgetary imbalances

1. Expenditure policy is ultimately the essential means of resolving the question of budgetary imbalances.

However, it has been decided that any Member State sustaining a budgetary burden which is excessive in relation to its relative prosperity may benefit from a correction at the appropriate time.

The basis for the correction is the gap between the share of VAT payments and the share of expenditure allocated in accordance with the present criteria.

2. As far as the United Kingdom is concerned, the following arrangement is adopted:

(i) for 1984, a lump sum of 1 000 million ECU is fixed;

(ii) from 1985 the gap (base of the correction) as defined in paragraph 1 is, for the period referred to in paragraph 4, corrected annually at 66%.

3. The corrections foreseen in paragraph 2 will be deducted from the United Kingdom's normal VAT share in the budget year following the one in respect of which the correction is granted. The resulting cost for the other Member States will be shared among them according to their normal VAT share, adjusted to allow the Federal Republic of Germany's share to move to two thirds of its VAT share.

4. The correction formula foreseen in paragraph 2 (second indent) will be a part of the decision to increase the VAT ceiling to 1.4%, their durations being linked.

One year before the new ceiling is reached, the Commission will present to the Council a report setting out the state of play on:

(i) the result of the budgetary discipline;

(ii) the Community's financial needs;

(iii) the breakdown of the budgetary costs among Member States, having regard to their relative prosperity, and the consequences to be drawn from this for the application of the budgetary corrections.

The Council will re-examine the question as a whole and will take the appropriate decisions ex novo.

2. Own resources and enlargement

The maximum rate of mobilization of VAT will be 1.4% on 1 January 1986; this maximum rate applies to every Member State and will enter into force as soon as the ratification procedures are completed, and by 1 January 1986 at the latest.

The maximum rate may be increased to 1.6% on 1 January 1988 by unanimous decision of the Council and after agreement has been given in accordance with national procedures.
Appendix 1

The European Council confirms that the negotiations for the accession of Spain and Portugal should be completed by 30 September 1984 at the latest. Between now and then the Community will have to make every effort to create the right conditions for the success of this enlargement, both in the negotiations with Spain on fisheries to ensure the conservation of fish stocks and also by reforming the common organization of the wine market to ensure that the quantities of wine produced in the Community are controlled and by means of a fair balance between agricultural and industrial agreements.

3. Financing of the 1984 budget

The European Council agreed that, pending national parliaments' ratification of the increase in own resources, steps will be taken at the next (Budget) Council meeting to cover the needs of the 1984 budget to ensure that the Community operates normally.

4. Dismantling of positive monetary compensatory amounts in the Federal Republic of Germany

The European Council asks the Commission to propose, and the Council to decide on, measures which will enable VAT relief for German agriculture under the German national budget to be increased from 3% to 5% with effect from 1 July 1984 until 31 December 1988 in compensation for dismantling the monetary compensatory amounts; the compensation shall not exceed the amounts dismantled.

5. Social policy

The European Council asks the Commission to carry out the work programme set out in the Community's medium-term social action plan and to forge ahead with the work stemming from the Council's conclusions on technological change and social adjustment and with that on production organization.

6. A people's Europe

The European Council considers it essential that the Community should respond to the expectations of the people of Europe by adopting measures to strengthen and promote its identity and its image both for its citizens and for the rest of the world.

An ad hoc committee will be set up to prepare and coordinate this action. It will be composed of representatives of the Heads of State or Government of the Member States.

The European Council approves the agreement reached on the principle of creating a European passport and asks the Council to take the necessary decisions to ensure that this passport is actually available to Member States' nationals by 1 January 1985 at the latest.

It asks the Council and the Member States to put in hand without delay a study of the measures which could be taken to bring about in the near future, and in any case before the middle of 1985:

(i) a single document for the movement of goods;

(ii) the abolition of all police and customs formalities for people crossing intra-Community frontiers;

(iii) a general system for ensuring the equivalence of university diplomas, in order to bring about the effective freedom of establishment within the Community.

The Committee will examine inter alia the following suggestions:

(i) symbols of the Community's existence, such as a flag and an anthem;

(ii) formation of European sports teams;

(iii) streamlining procedures at frontier posts;
(iv) minting of a European coinage, namely the ECU.

It would also like Member States to take steps to encourage young people to participate in projects organized by the Community beyond its frontiers, and in particular to support the creation of national committees of European volunteers for development, bringing together young Europeans who wish to work on development projects in the Third World.

The ad hoc committee will also examine the following suggestions:

(i) measures to combat drug abuse;

(ii) the twinning of children's classes.

The Commission will contribute to the proceedings of the committee within the limits of its powers.

7. Ad hoc Committee on Institutional Affairs

The European Council decided to set up an ad hoc committee consisting of personal representatives of the Heads of State or Government, on the lines of the 'Spaak Committee'.

The committee's function will be to make suggestions for the improvement of the operation of European cooperation in both the Community field and that of political, or any other, cooperation.

The President of the European Council will take the necessary steps to implement that decision.