A FUTURUS Briefing on the EU referendum

THE END OF EU BUDGET CONTRIBUTIONS

On 30 July 2015 The Survation polling company revealed that ***"lowering the cost of membership so the money could be spent at home"*** was the third most important item the voters wanted to see changed in the EU.

Of course, the costs of membership do not include just the cost of EU budget contributions, they also include contributions and liabilities to other EU institutions, higher food costs, fishing losses, some regulation costs when these are EU specific, the costs of free movement of people, etc.

However, just focussing on the EU Budget, this paper shows how the UK would save £11 billion if it left the EU but remained in the Single Market like Norway and Iceland with participation levels in EU programmes at a similar level to Norway. Against this, there would have to be deducted whatever the UK government decided to spend on agricultural support, rural development and EU funded infrastructure, plus some minor programmes as these areas would no longer get EU funding.

Up to now, the EU Treaties mean that the EU budget has been 'protected' from UK government cuts in the same way as the budgets for the NHS and overseas aid. Once the programmes, inherited from the EU, are entirely funded by the UK government, they will fall into areas where the UK government is targeting big cuts.

At present, the EU budget contribution is 'protected' from any cuts whatsoever.

A MASSIVE REDUCTION IN THE UK'S CONTRIBUTION TO THE EU BUDGET

If the UK leaves the political, judicial and monetary structure of the EU and other Common Policies, but remains in the Single Market via membership of EEA [European Economic Area], what would this mean for the future UK contribution to the EU budget?

The UK, under this proposal, would be roughly in the same position as Norway.

What exactly does Norway pay to the EU budget?

Norway makes various payments to EU programmes and payments to parallel development projects, agreed with some EU states, but **no** direct contribution to the general EU budget.

1) 'Norway grants'. Norway paid euro 804 million over the period 2009-14 to support development projects in Eastern Europe EU states. These payments are not part of the EU budget but are administered by the Norway Ministry of Foreign Affairs and allocated to projects agreed by Norway and the Eastern European states. They form part of Norway's co-operative policy towards other European states.

2) 'EEA grants'. Approximately euro 900 million was paid by Norway over 2009-14. These are not part of the EU budget but are administered by an Independent Financial Commission, once again, for development projects in low income EU states. They are part of the EEA agreement but are not payments for access to the Single Market but simply part of Norway's co-operation with the EU.

3) Norway participates in various EU programmes and takes part in various EU agencies. From 2007-12 these cost Norway euro 1.63 billion. These payments are not part of the general EU budget but payment for certain services provided by EU agencies as well as for participation in EU programmes Norway has joined voluntarily.

4) There is also the EFTA budget which is about £16 million, of which Norway pays 55%. This includes costs relating to participation in the EEA.

There is, therefore, no actual legal contribution to the general EU budget but a small part of the EFTA budget relates to the workings of the EEA (the Single Market).

Therefore, the cost to each Norwegian of the part of the EFTA budget relating to the Single Market is at most £2 per Norwegian per annum.

All other payments to the EU are determined by Norway on a programme-by-programme basis, or are for services rendered by EU agencies.

It should be noted that the EEA grants and the Norway grants are **time limited** – each programme is for five years – and, no doubt, will be terminated when income levels rise in Eastern Europe.

What exactly does the UK pay to the EU budget?

Contrary to Norway, the UK taxpayer hands over an enormous amount directly to the EU budget over which it has no further control, except for the budget review every seven years and is **committed to make further contributions in perpetuity**.

This sum in 2013 amounted to approximately £17 billion (all figures in EU accounting are opaque and difficult to interpret) and is substantially based on UK GDP relative to the rest of the EU.

It is often said that Britain gets a substantial amount refunded.

As regards the rebate negotiated by Margaret Thatcher in Fontainebleau, this is perfectly correct and the approximate amount of the rebate should be deducted from the amount paid by the UK taxpayer as it is returned one year later. This rebate is about £3.5 billion per annum in 2013.

It should be noted that no further payments were made **to the UK taxpayer** from the EU budget but the EU does spend money in the UK on the Agricultural Guarantee Fund, on rural development and on other public projects part-financed by the EU. However, these do not return to the credit balance of the UK taxpayer. They are simply extra government expenditure recycled through the EU. (Similarly, the EU does spend money in Norway relating to Norway's participation on EU programmes it has joined, but I have taken no account of this spending.) It is a common error to compare Norway's **gross** financial support in Europe with the UK's purported **net** contribution.

For the UK, as for Norway, it is false also to consider these amounts of EU spending in the UK as permanent legal deductions from future UK contributions to the EU budget. These EU spending items in the UK are **independent variables**. The whole concept of 'net contributions' is flawed accounting. It is based on post-facto outcomes, not on proper budgeting.

Consider if every farmer in the UK went out of business, would that mean that the UK would still get agricultural refunds? The answer is 'No'. However, the UK's gross payment to the EU budget would be unaffected.

The level of EU spending on UK agriculture, rural development or public works, depends on the configuration of the British economy, including income levels, but there is no legal right to a quantum of EU spending in the UK. Payments by the UK to the EU budget, based on relative national income, are a legal obligation under the EU Treaties.

Indeed, higher-than-world food prices, set by the Common Agriculture Policy have to be offset against the inflow of EU agricultural support spending in the UK. Again, these are **independent variables** but must be taken into account.

Therefore, the legal cost of the EU budget per head for the UK is £17 billion, less the rebate £3.5 billion, which totals £13.5 billion or about £270 per head before the rebate (approximately £215 per head after the rebate).

When considering the UK's future contribution to the EU budget, some contributions to EU spending would be reasonable. These would be for the UK's voluntary participation in EU programmes as well as payments for services rendered by some EU agencies. How much would these amount to? If the UK participated in these to the extent Norway does at present and the current rates of National Income per head in the UK and Norway are maintained, it would be reasonable to budget for a figure of 5x the Norway contribution of euro 1.63 billion over seven years – which is approximately £1 billion per annum for the UK. Additionally, it might be British policy to make similar grants in Eastern Europe as Norway does even if only for political reasons and these pro rata would amount to about £1.5 billion per annum.

Conclusion

The legal cost of the current EU budget is, therefore, £270 per head before the rebate (£215 after rebate) in the UK but the cost to Norway of participation in the Single Market is £2 per Norwegian.

Any money the UK gets back from the EU budget is not a legal right (except the rebate) but is dependent on the configuration of the British economy, how much agricultural activity there is and how many and what value public sector programmes are worth which attract EU funding.

If the UK stands in the same position as Norway and withdrew from the EU but remained in the Single Market, the UK would pay about £100 million instead of £13.5 billion to belong to the Single Market. However, there would certainly be EU programmes the UK would wish to be part of, and the UK would also wish to avail itself of certain EU agency services which would have to be paid for. Additionally, it would be politic to offer to contribute to carefully monitored time-limited development programmes as Norway does in Eastern Europe. A rough estimate, based on Norway, is that all these would cost the UK about £2.5 billion per annum to start with. (It should be noted that Norway's GDP per capita is about 150% higher than that of the UK.) Some of the spending under these EU programmes would be in the UK as occurs in Norway.

Therefore, the future saving to the UK taxpayers would be £13.5 billion, less £2.5 billion = £11 billion per annum. However, the UK government might then wish to increase expenditure in the UK to subsidise UK agriculture, rural development and infrastructure projects. The cost of these would have to be offset against the £11 billion savings.

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