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THE SPINELLI GROUP

Document 4

Spinelli MEPs Briefing Paper

Future Financing of the Union and Own Resources Conference

The European Parliament within the SURE Committee is currently preparing its contribution to the revision of the Multi-Annual Financial Framework (MFF) that needs to be in place by 2013. Parliament intends to produce its final contribution by June 2011.

The European Commission is also set to produce its own proposals on the MFF and own resources by June 2011.

The Spinelli MEP Group has discussed this and believes that once these proposals have been tabled, they should be discussed within a wider conference. This conference should include the participation of national parliamentarians and representatives of the heads of states and governments, as well as the Commission and European Parliament.

The conference would have to examine in detail the future financial needs of the Union as well its revenue and to produce proposals for examination by the European Council.

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The Spinelli MEP Group calls on the competent committees of the Parliament (AFCO & BUDG) to draw up an own initiative report setting out such a proposal.

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Χρύσα Ιωακειμίδου
Αγγλικά ή γαλλικά να στείλω σε 15 ημέρες

Document 2

Note on the system of own resources

1. Description of the current own resources system

- The current European system of own resources consists of 4 main categories of revenue:

- Customs duties: levied at external borders on imports under the common customs tariff.

- Agricultural levies: introduced under the CAP in 1962 they are charged on trade in agricultural products with non-member countries and they vary according to price levels on world and European markets. Besides agricultural levies, there are also levies on the production and storage of sugar and isoglucose, which unlike the levies on agricultural imports are internal to the Community.

- VAT own resources: introduced in 1980 because traditional own resources, i.e. customs duties and agricultural levies, were not sufficient to finance the Community budget.

- the GNI-based own resource: obtained by applying a rate fixed each year under the budget procedure to a base representing the sum of the gross national products at market prices. It is calculated by reference to the difference between expenditure and the yield of the other own resources.

Decisions on own resources are decided by the Council at unanimity. The budgetary power of the European Parliament is limited to EU spending, it does not have decisional power on EU revenue.

2. History of the EU revenues

Initially, under the **Treaty of Rome**, the EEC was to be financed by national contributions for a transitional period before changing over to a system of own resources[1]. In **1965** a first attempt to transfer customs duties and agricultural levies failed because of the opposition of France. The ensuing crisis, called "the crisis of the empty seat"[2], lasted until the Luxembourg compromise agreement of 1966. However it was only in **1969**, at the Hague Summit, that the heads of state and of government finally took the decision to go ahead with a change to the system of financing.

1970: Council's decision assigning to the Communities own resources to cover all their expenditure. The decision marked the end of national contributions and distinguished the Communities from other international organisations (which rely for funding on contributions from their members).

1984: Fontainebleau Summit. Introduction of a correction for the United Kingdom[3]. The UK is given a rebate equivalent to 0.66% of its net balance and the cost of the rebate is shared

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[1] Article 201 of the Treaty of Rome: "without prejudice to other revenue, the budget shall be financed wholly from own resources".

[2] due to the decision of President Charles de Gaulle to boycott the Council's meetings.

[3] According to the conclusions of the European Council of Fontainebleau: "Expenditure policy is ultimately the essential means of resolving the question of budgetary imbalances. However, it has been

1984: Fontainebleau Summit. Introduction of a correction for the United Kingdom[3]. The UK is given a rebate equivalent to 0.66% of its net balance and the cost of the rebate is shared between the other Member States according to their share of GNP (except in the case of Germany, whose share is reduced by a third).

1988: Introduction of a GNP based resource and of an overall ceiling of 1.14% of GNP to the total amount of own resources which could be called on to finance the Community's spending.

1994: Deduction of collection costs for traditional own resources. Member States are allowed to retain 10% of the traditional own resources they collected in order to cover their collection costs.

2000: Fifth revision of the own resources, whose main features are the following:

- Own resources ceiling: 1.27% of the Union's GNP (or 1.24% of the EU's GNI)
- Allowance for collection costs: 25% (against 10% initially)
- Maximum call-in rate of VAT : 0.50%[4].
- The VAT base of the Member States is restricted to 50% of their GNP (capping of the VAT base).
- Germany, the Netherlands, Austria and Sweden pay only ¼ of their normal share of the cost of the UK rebate. The remaining part is financed by the other Member states.

3. Shortcomings of the current system of own resources

- **The share of the GNI based own resource has become overwhelmingly important**

As shown in the table annexed to this note, in parallel to the increase of the share of the GNI based own resource, the traditional own resources have dramatically decreased, as has the VAT contribution.

As a direct consequence of this evolution in the structure of EU own resource, the influence of net payers in budgetary decisions has increased; indeed, the more it is felt that it is Member States' money that is transferred to the EU budget, the more Member States concentrate on what they get in return.

- **The current system of own resources is complex and lacks transparency:**

Today:

- around 80% of EU revenues come from national RNB contributions and a rather statistical VAT contribution, calculated according to complex rules,
- and the national contributions result from various corrections and rebates, which do not necessarily coincide with reality, and which are negotiated secretly behind closed doors.

This complexity makes the system incomprehensible to the European citizen.

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[3] According to the conclusions of the European Council of Fontainebleau: "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".

[4] initially set at 1%, it was increase to 1.4% in 1986 and then consecutively decreased to 1% in 1995, to 0.75% in 2002 before to be further diminished to a level of 0.50% today.

- **The EU budget is in stagnation**

As a result of a budget depending around 80% on national contributions, the debate between net payers and net beneficiaries has taken such importance that this has clear consequences on the size of the EU budget.

Indeed, the Letter sent in December 2003 by six heads of state and government[5] - all net payers - following the Brussels European Council, set the limit of EU spending for the Multiannual Financial Framework (MFF) 2007-2013 to 1% of GNI from the beginning of the negotiations for those financial perspectives.

Last December, five heads of state and government[6]-again net payers - used the same process by sending a letter to President Barroso requesting the freezing of EU spending in the next MFF post 2013.

Judging from those 2 letters, it could be thought that the budget has gone out of control in the recent past. However, a close look at the development of the EU budget reveals, for instance, that during the period 1996-2002 (15 Member States) the EU budget increased by 8.2% while national budgets increased by an average of 22.9%.

4. Preparation of the next EU Multiannual Financial Framework: towards a reform of the own resources system?

To put an end to the shortcomings listed below, it is necessary to reform the system of own resources with the aim of providing the EU budget with more autonomous revenues.

- **Commission's proposals**

In October 2010, the Commission issued a communication entitled "the Budget Review" in which it acknowledged the need to revise the own resources system and listed 6 possible options for a new own resource to the EU budget, namely:
- financial sector taxation,
- auctioning of greenhouse gas emission allowances,
- aviation charge,
- EU VAT,
- EU energy levy
- EU Corporate Income Tax

The Commission also committed itself to present by June a proposal for a new own resources decision.

- **Parliament's position:**

The Lamassoure Report

In its initiative report on the future of own resources[7], the European Parliament asked for a reform of own resources and called for a progressive approach which could be introduced in two stages but which should form part of a single decision.

[5] United Kingdom, Germany, France, Netherlands, Austria, Sweden.
[6] United Kingdom, Germany, France, Netherlands, Finland.
[7] Lamassoure report, adopted on 29 March 2007. (P6_TA(2007)0098). Adopted with 458 votes in favour, 117 against, 61 abstention

The provisional and transitional first phase would lead to an improvement of the current system of national contributions, for which the following political principles should be applied: equality between Member States; simplicity of presentation; solidarity and equal dignity amongst Member States; and establishment of a political link between a reform of revenue and a review of expenditure as it is already correctly included in the Interinstitutional Agreement.

The second phase of the reform would see a new system of own resources, with the following principles as cornerstones: full respect for the principle of fiscal sovereignty of the Member States; fiscal neutrality; no changes to the order of magnitude of the EU budget; progressive phasing-in of the new system; establishment of a clear political link between a reform of revenue and a reform of expenditure.

Parliament stressed that it would be vital in a second phase to examine the creation of a new system of own resources based on a tax already levied in the Member States, the idea being that this tax, partly or in full, would be fed directly into the EU budget as a genuine own resource, thus establishing a direct link between the Union and European taxpayers.

It pointed out that this would also serve to approximate national tax laws. This kind of solution would only mark a return to the principle laid down by the Treaty of Rome, whereby European expenditure has to be financed by European own resources. This system would have the advantage of being simple and transparent and of constituting a possible step towards the establishment of a genuine own resources system for the Union and that all Member States contributing to the UK rebate at the moment would benefit, as would the UK itself, through the abolition of the VAT resource in its current form. Parliament stressed that this does not prejudice the long-term inclusion of an altered VAT in the financing of the European Union.

The Parliament also called for the progressive abolition of the UK rebate by 2013.

The candidate taxes, in whole or in part, which were taken into consideration for this purpose during the exchanges with the national parliaments or in the Commission's reports on the reform of the own resources system included the following: VAT; excise duties on motor fuel for transport and other energy taxes; excise duties on tobacco and alcohol ; taxes on corporate profits.

Annexe 1

Resolution of the European Parliament on the adoption of Budget 2011

The European Parliament resolution of 15 December 2010 on the draft general budget of the European Union for the financial year 2011, states in its second paragraph:

"2. Considers the way the EU system of own resources has evolved, gradually being replaced by national contributions and consequently being perceived as an excessive burden on national public finances, renders its reform more necessary than ever; takes note of the Commission's Declaration; reiterates nevertheless the importance of the Commission presenting by 1 July 2011 substantive proposals for new own resources for the EU, based on Article 311 TFEU, and calls for a commitment by the Council to discuss these proposals with Parliament within the negotiating process for the next multiannual financial framework (MFF), in line with Declaration No. 3 of the Interinstitutional Agreement of 17 May 2006;".

Annexe 2

Table: EU Revenue 1988-2008, by type of resource (in % of total revenue).
(Source: data provided in the Lamassoure Report and updated with latest data available in the EU Budget 2008 Financial report).

	1988	**1990**	**1992**	**1994**	**1996**	**1998**	**2000**	**2002**	**2004**	**2006**	**2008**
Agricultural and sugar levies	6,2	4,0	3,3	3,1	2,2	2,3	2,3	1,5	2.2	1.8	2.2
Custom levies	22,3	22,1	18,9	16,9	14,5	14,4	13,0	10,7	13.6	16.7	16.8
VAT-resources	57,2	59,1	58,0	50,4	41,8	39,2	38,1	23,6	13.4	15.9	15.7
GNI-based resource	10,6	0,2	13,9	26,8	29,0	41,4	42,3	48,7	66.6	64.7	61.4
Other	3,7	14,6	5,8	2,7	12,5	2,7	4,3	17,6	4.2	0.9	3.9
TOTAL %	100	100	100	100	100	100	100	100	100	100	100

The Shadow Council of 22 March 2011 will elaborate a point of view on this subject.

Brussels, 10/01/2011.