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DRAFT REPORT

on the future of the European Union's own resources
(2006/2205(INI))

Committee on Budgets

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PR_INI

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MOTION FOR A EUROPEAN PARLIAMENT RESOLUTION

on the future of the European Union's own resources
(2006/2205(INI))

The European Parliament,

– having regard to its resolutions of 22 November 1990 on the future financing of the European Community[1] and of 21 April 1994 on a new system of own resources for the European Union[2],

– having regard to Council Decision 94/728/EC, Euratom of 31 October 1994 on the European Communities' system of own resources[3],

– having regard to the document of 7 October 1998 entitled 'Financing the European Union - Commission Report on the Operation of the Own Resources System' (COM(1998)0560 - C4-0579/1998),

– having regard to its resolution of 11 March 1999 on the need to modify and reform the European Union's own resources system[4],

– having regard to its position of 17 November 1999 on the proposal for a Council decision on the system of the European Union's own resources (COM(1999)0333)[5],

– having regard to Council Decision 2000/597/EC, Euratom of 29 September 2000 on the system of the European Communities' own resources[6],

– having regard to the Commission's Report on the operation of the own resources system[7] and the Commission's proposal for a new Council Decision on own resources, accompanied by a proposal for a Regulation on the implementing measures for the correction of budgetary imbalances[8] presented on 14 July 2004,

– having regard to the Study for the European Parliament: Own Resources: Evolution of the system in a EU of 25 presented on 30 June 2005[9],

– having regard to the Presidency conclusions of the Brussels European Council of 15-16 December 2005,

– having regard to the Commission's proposal for a Council Decision on the system of the European Communities' own resources and to the Commission Working Document on calculation, financing, payment and entry in the budget of the correction of budgetary

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[1] OJ C 324, 24.12.1990, p. 243.
[2] OJ C 128, 9.5.1994, p. 363.
[3] OJ L 293, 12.11.1994, p. 9.
[4] OJ C 175, 21.6.1999, p. 238.
[5] OJ C 274 E, 28.9.1999, p. 39.
[6] OJ L 253, 7.10.2000, p. 42.
[7] COM(2004)0505.
[8] COM(2004)0501.
[9] Study carried out by Study Group for European Policies (SEP), see also Annex: Comments on the revenue adequacy of possible own EU taxes, 30 August 2005.

imbalances in favour of the United Kingdom ("the UK correction") in accordance with Articles 4 and 5 of Council Decision 2006/xxx/EC, Euratom on the system of the European Communities' own resources[1],

– having regard to its resolution of 4 July 2006 on the proposal for a Council decision on the system of the European Communities' own resources[2],

– having regard to the Study for the European Parliament: EU Own Resources - Preliminary assessment of the scope for Member State taxes supporting an EU-wide tax system, presented in January 2007[3],

– having regard to the meetings of the Committee on Budgets with the chairpersons of the national parliaments' committees on budgets which took place on 16 June 2005 and on 21 June 2006,

– having regard to the replies to the questionnaire on own resources sent by the Committee on Budgets on 30 November 2005 to all committees on budgets of the national parliaments of the Member States,

– having regard to the formal and informal exchanges of views between the standing rapporteur on own resources and the relevant parliamentary committees, or representative thereof, which took place at the invitation of the national parliaments interested in discussing this matter in the course of 2006 and 2007,

– having regard to the results achieved in the working groups on the future financing of the European Union of the Joint Parliamentary Meetings of 8-9 May 2006 and 4-5 December 2006,

– having regard to the Interinstitutional Agreement of 17 May 2006 between the European Parliament, the Council and the Commission on budgetary discipline and sound financial management[4], in particular point 8 thereof, and Declaration No. 3 on the review of the financial framework, annexed to that agreement,

– having regard to Rule 45 of its Rules of Procedure,

– having regard to the report of the Committee on Budgets and the opinions of the Committee on Constitutional Affairs, the Committee on Budgetary Control, the Committee on Economic and Monetary Affairs and the Committee on Regional Development (A6-0000/2007),

A. whereas the first European Community, the European Coal and Steel Community established on 23 July 1952, was financed by a genuine system of own resources, based on a levy raised on each ton of steel produced, to be paid directly by the coal and steel producing companies into the ECSC budget,

B. whereas, under the Treaty of Rome of 25 March 1957, the European Economic

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[1] COM(2006)0099.
[2] *Texts Adopted,* P6_TA(2006)0292.
[3] Study carried out by Deloitte and Touche: Phase II Report - Preliminary draft, 12 January 2007.
[4] OJ C 139, 14.6.2006, p. 1.

Community was to be financed by national contributions only for a transitional period to be followed by a changeover to a system of own resources,

C. whereas this changeover finally took place on 21/22 April 1970 when the European Council in Luxembourg agreed on a decision ending national contributions and introducing a new system of financing based on two genuine own resources - agricultural levies and customs duties - complemented by a third resource based on value added tax (VAT),

D. whereas the "Fontainebleau Agreement" concluded by the Heads of State and Government on 25/26 June 1984 created the "British rebate", a correction mechanism for the United Kingdom, stipulating that, from 1985 onwards, the UK would receive 66% of the difference between its share of VAT payments and its share of expenditure allocated for the year in question, whereas the cost of this rebate was to be financed by all Member States with a ceiling being placed on Germany's contribution, whereas this led to the United Kingdom's enjoying a rebate on its annual contributions to the EU budget that has amounted to a yearly average of EUR 4,6 billion between 1997-2003,

E. whereas, at the same summit, the Heads of State and Government also agreed to make eligible for the same type of rebate, in principle and at the appropriate time, "any Member State which should sustain a budgetary burden considered excessive in relation to its relative prosperity",

F. whereas the European Council in Brussels on 11-13 February 1988 established a ceiling for the Community budget of 1.2% of GNP for payments and 1.3% for commitments and decided that Member States could retain 10% of the revenue from traditional own resources to cover their collection cost,

G. whereas, most importantly, the Brussels European Council created a fourth "additional" resource based on GNP which should be drawn upon if and when the amount collected from VAT and from traditional own resources was insufficient to cover the Community's financial commitments,

H. whereas, over the course of time, this resource has become the key resource of the European Union's budget, accounting for an estimated 70% of revenue for the budgetary year 2007, while the VAT resource accounts for about 15% so that the share of traditional own resources (customs duties and agricultural levies together) has decreased to only 15% of revenue,

I. whereas the current Own Resources Decision of 29 September 2000 entered into force on 1 March 2002 and has as its main features: an own resources ceiling of 1.24% of the Union's GNI, an allowance for the Member States for their collection cost of traditional own resources of 25%, a maximum call-in rate of VAT of 0.50%, a value added tax base of the Member States restricted to 50% of their GNP (capping of the VAT base) and a rebate in favour of one Member State with exceptions for some other Member States concerning the financing of this rebate,

J. whereas the Commission's latest proposal presented in 2006[1] aims at implementing the

[1] COM(2006)99.

decisions of the Brussels European Council of 15/16 December 2005 in the area of own resources which are mainly characterised by adding more special arrangements for certain Member States such as reduced rates of call of VAT or gross reductions in annual GNI contributions to the already existing list of exceptions,

K. whereas the European Council has also renewed the decision taken in 2000 to increase the collection premium to be retained by the Member States from 10% to 25% of traditional own resources, despite the undisputable fact that this percentage bears no relation to the Member States' actual collection costs,

L. whereas the Commission proposal for a new own resources decision, although in the meantime accepted by Parliament[1], is still blocked in Council by Member States which were first in favour of it but which are now opposed to applying it themselves,

M. whereas Parliament considers the comprehensive review of EU revenue and expenditure to take place in 2008/2009, as stipulated in the Interinstitutional Agreement of 17 May 2006, as an opportunity - not to be missed - to return to a genuine system of own resources in the spirit of the founding treaties of the European Communities,

N. whereas consultations with those national parliaments interested in discussing this matter have been held since the beginning of 2006 in order to make every effort to establish a common parliamentary basis for this forthcoming review process,

O. whereas, so far, these consultations have been simple exchanges of personal views among parliamentarians, due to the fact that most national political parties and parliaments have not yet had the opportunity to adopt an official position on the issue of own resources,

P. whereas, however, these meetings have allowed to identify, among those participating, several areas of consensus and a widely shared objective of finding a way of working together on the future of EU financing,

Q. whereas, in the meantime, a proposal has been made by the President of the Portuguese national assembly to organise an interparliamentary conference, dedicated exclusively to the Union's own resources, during the Portuguese presidency later in 2007,

Shortcomings of the current financing system

1. Points out that a system in which approximately 85% of the Union's revenue do not originate in genuine own resources but come directly from the national budgets through the VAT and the GNI resource contradicts the provisions and the spirit of the Treaty of Rome, according to which the Community should aim at a system of genuine own resources instead of one fed by national contributions;

2. Emphasises that it is these "membership fees" that have led directly to the net-payer debate regardless of the fact that the concept of "net budgetary balances" is seriously flawed and does not allow for more than pure approximations; underlines that neither revenue side ("Rotterdam effect") nor expenditure side ("Luxembourg effect") of the net balances fully reflect reality;

[1] *Texts Adopted*, P6_TA(2006)0292.

3. Is deeply convinced that the current system of own resources based on Member States' contributions is anti-European and will not provide the Union with sufficient funds for all its policies due to the current budgetary deficits, especially those of the larger Member States; is highly critical of the possibilities being created for individual countries to finance officially only the policies in which they have an interest; fears that this might be the beginning of the destruction of the values that have characterised the European Union's success over the past 50 years;

4. Stresses that the current system, with its four different resources and its several different rebate mechanisms, be they general ones in favour of one Member State such as the British rebate, or special ones such as rebates in financing other rebates, is excessively complex, lacks transparency and is completely incomprehensible to European citizens; underlines that it does nothing towards fulfilling the requirement of establishing a direct link between the Union and its citizens;

5. Notes that the requirement of unanimity in the cases of "own resources" and "financial perspectives" makes any result of negotiations in these areas dependant on the goodwill and financial possibilities of even the most reluctant Member States, rich or poor; finds it not surprising that the results of this are often disappointing;

6. Attributes to this faulty system the inadequacies of the agreement on the new Financial Perspective 2007 – 2013 made at the Brussels European Summit of 14/15 December 2005; believes that the financial package agreed, with its numerous exceptions on the revenue side and its compensation gifts to certain Member States on the expenditure side, is the clearest proof of the complete failure of the current system; considers it unacceptable that all Member States have agreed on important Community activities, such as Galileo or the Transeuropean Networks, and now no-one wants to finance them;

7. Deplores the fact that the 2005 Brussels European Council, instead of creating a simpler and more transparent system, has chosen to make it even more complicated and obscure; regrets the Council's decision to leave the UK correction, the "British rebate", in principle, intact;

8. Points out that, if the Edinburgh Decision of 1988 setting an own resources ceiling of 1.24% of GNI, had been respected, the Community budget would have gained an annual 0.2% of GNI over the last 13 years, equivalent to an increase of approximately EUR 240 billion; considers these funds, which were unanimously adopted by the Member States according to a proposal by the British presidency, necessary in order to enable the European Union to act in line with its growing powers as agreed upon in the treaties of Maastricht, Amsterdam and Nice, let alone in the draft Constitution and for a Union of 27 Member States;

9. Underlines that, since 1995, the European Budget has increased by only 8.2% in real terms and its share in the GNI has decreased, while at the same time the national budgets have increased by an average of 23%, i.e. nearly three times as much;

First phase of the reform: an improved system of national contributions

10. Acknowledges the fact that any reform of the own resources system will be a sensitive and difficult exercise; calls therefore for a two-stage approach aiming, in its first phase, at 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 for elected representatives and citizens alike
- solidarity and equal dignity amongst Member States
- 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
- provisional and transitional character of the system

Equality between Member States

11. Defines “equality between Member States” by the absence of any budgetary privilege for any Member State; admits that the long history of special arrangements on the revenue side (like the British rebate) and of a certain distribution of expenditure (like the CAP) may justify any reform only being progressively applied (“phasing out” of the old system); refuses, however, to accept the long history of budgetary privileges as an argument in favour of maintaining a system which is no longer justifiable;

Simplicity of presentation

12. Underlines the importance of the improved system being presented in a simple way so that it is fully comprehensible and transparent for the European citizens; deplores presentations of decisions affecting all European citizens’ lives which are completely incomprehensible, such as the conclusions relating to EU finances of the Brussels European Council of December 2005;

Solidarity and equal dignity between Member States

13. Calls for a system safeguarding the principles of solidarity and equal dignity amongst Member States; considers these principles are destroyed by keeping up privileges to the advantage of some, while others are compensated through humiliating bargaining behind closed doors at European Council meetings; recalls that, of the 46 articles determining expenditure on new Heading 1b – *Cohesion for Growth and Employment* in the conclusions of the Brussels European Council of December 2005, <u>a full 20</u> are “Additional provisions” handing out “Christmas presents” freely to various Member States or regions;

Political link between reform of revenue and expenditure

14. Is convinced that the political link between a reform of revenue and a review of expenditure is inevitable and perfectly reasonable as long as the logic of financing Community policies through revenue stemming from national budgets is still the Union’s guiding principle;

Provisional and transitional character of the system

15. Points out that any improved current system as a first stage of the suggested two-step approach has to be considered provisional and transitional because the profound weaknesses of the Member States' contributions system make it politically unsustainable;

Recommendations for an improved system of national contributions

Schreyer proposals

16. Recalls that proposals for improving the current system of financing have already been made, for instance, those submitted by Commissioner Michaele Schreyer in July 2004[1] according to which:

    - every Member State, regardless of its wealth, is entitled to a rebate which is triggered when its contribution to the EU budget reaches a threshold of 0.35% of GNI,
    - the refund would be in form of a 66% abatement of the Member State's net contribution, and
    - the overall maximum refund available for all rebates is capped at EUR 7,5 billion per year;

17. Admits that some aspects of the Schreyer proposals were going in the right direction insofar as they would have made the system slightly more transparent by at least abolishing the "rebate on the rebate" principle or as they would have limited compensations and corrections - with the major positive point being that it was only conceived as a transitional system until 2014;

18. Is convinced, however, that generalising the rebate even when accompanying it by a ceiling for the net budgetary balances, would be a double mistake since it would only strengthen the anti-communitarian character of the system and cement the short-sighted approach of a quantifiable "juste retour"; insists that the only possible solution is the abolition of the net balances system once and for all;

Question of structural and cohesion expenditure

19. Rejects categorically the idea included in other reform proposals of excluding structural and cohesion expenditure from all computations for the purpose of establishing Member States' contributions or rebates on these contributions since such a step would bring in differentiation between "noble" and "suspicious" expenditure, thus opening the door for a European Union *à la carte* where policies would ultimately be financed solely by the Member States which have an interest in them;

Conclusion

20. Is in favour of improving the current financing system of the European Union by a GNI based system as similarly proposed by Finland in April 2004[2], taking GNI shares as the basis for the Member States' contributions towards the Union's own resources, abolishing the VAT resource and progressively suppressing the British rebate to zero in 2013;

[1] "Schreyer report": COM(2004)505 and COM(2004)501 of 14 July 2004.
[2] Non-paper, updated by the Finnish government in 2005.

underlines the fact that this system would be simple and transparent 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;

21. Is aware of the fact that an agreement on a new financing system along the lines of the Finnish proposal is only politically acceptable within the framework of a global negotiation process which also includes expenditure; calls on the Commission to consider the GNI based system described above when making any new proposals on EU revenue following the review process as laid down in the Interinstitutional Agreement of 17 May 2006;

22. Underlines once more the link between revenue and expenditure; considers that, if some policies such as the CAP are deemed too expensive in relative terms, the only logical way to guarantee global equity would be an extension of the principle of additionality, which could be applied progressively based on the average income of each Member State[1]; emphasises that, in this case, the cohesion and structural funds would be used to finance the "personal contribution" which the Member States are asked to give in terms of additionality;

23. Calls for every effort to be made to reach a political agreement, so that the first phase of the reform could start with effect from 2009; while keeping the system of national contributions as such, it would become simpler, more transparent and absolutely in proportion with the relative wealth of each Member State;

Second phase of the reform: a new system of own resources

24. Is convinced that the final aim of a reform of Community revenue should be the creation of a genuine own resource for the European Union; recalls that this objective and the proposals to achieve it are not in the least revolutionary but merely seek to revive the letter and spirit of the founding treaties as well as the philosophy of Fontainebleau;

25. Considers the following principles, which have emerged in all contacts with national parliaments, as cornerstones for any future own resources system:

    - Full respect for the 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

Full respect for the fiscal sovereignty of the Member States

26. Insists that a new system shall under no circumstances grant the European Union the right to levy taxes; fiscal sovereignty will remain with the Member States alone who might, however, authorise the Union for a limited period to be revoked at any time, to benefit

[1] For example: For *x* Euro received from Brussels, Poland could be invited to spend *y* Euro and France to spend *2y* Euro.

directly from a certain share of a tax as it is the case in most Member States with regional or local authorities;

Fiscal neutrality

27. Is convinced that, all other things being equal, the new system must not increase overall public expenditure nor the tax burden for the citizens; concludes that, should a new system directly allocate part of a tax to the European Union, an equivalent reduction would have to be made elsewhere; suggests that the national courts of auditors and the European Court of Auditors should be invited to check and guarantee compliance with this principle;

No changes to the order of magnitude of the EU budget

28. Will take for granted the ceiling of 1.24% of GNI which already allows for a sizeable margin of manoeuvre; recalls that no budget has ever come close to this ceiling, agreed by the Member States themselves in 1988 under British presidency, with payment appropriations reaching their maximum level in 1993 at 1.18% of GNP; underlines that, although the financial perspective foresees a percentage of 1.045% of GNI for the years 2007 – 2013, the first budget of this period was adopted at a level as low as 0.99% of GNI;

Progressive phasing-in of the new system

29. Calls for a gradual introduction of the new system starting in 2014; is in favour of allowing for a transitional period in order to guarantee a smooth phasing-out of the old financing system with all its historical special arrangements;

Establishment of a clear political link between a reform of revenue and a reform of expenditure

30. Points out that a reform of the structure of EU revenue and a reform of the structure of EU expenditure have to go hand in hand, as foreseen in Declaration No. 3 of the new Interinstitutional Agreement of 17 May 2006;

Possible options for the future

31. Reiterates that, in all contacts with the national parliaments of the Member States, a general consensus has emerged that the time for a genuine new European tax has not yet come; has chosen to respect this wish of an overwhelming majority of the Member States' parliaments and not to pursue this option for the time being;

32. Stresses, however, the interest in examining the creation of a new system of own resources based on a share of a tax already existing in the Member States, the idea being that a certain percentage of an existing tax would be fed directly into the EU budget as a genuine own resource, thus establishing a direct link between the Union and the European taxpayers; underlines that 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 resources;

33. Recalls that the candidate taxes most commonly mentioned for this purpose during the exchanges with the national parliaments are the following:

- VAT
- excise duties on motor fuel for road transport
- excise duties on tobacco and alcohol
- taxes on corporate profits;

34. Considers the suitability of any of these taxes should be judged according to the following criteria[1]:

- Sufficiency: Would the revenues be sufficient to cover the expenditures of the EU in the long run?
- Stability: Would it bring about stable revenues for the EU budget?
- Visibility: Would it be visible to the EU citizens?
- Low operating costs: Would the system be simple to administer and involve low compliance costs?
- Efficient allocation of resources: Would the system lead to an efficient allocation of resources in the EU?
- Vertical equity: Would it involve income redistribution?
- Horizontal equity: Would it have an equal impact on equivalent tax-payers across the EU?
- Fair contributions: Would this resource raise revenues from the Member States in line with their economic strength?

35. Expresses the wish to pursue the examination of these options in close cooperation with the national parliaments before taking its final position; gives high priority to establishing, possibly during the Portuguese presidency, a common basis for discussion with regard to the coming review of EU revenue; will make every effort to arrive at a position on the future of the Union's own resources which can be supported by a majority of the Member States' parliaments;

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36. Instructs its President to forward this resolution to the Council and Commission and to the governments and parliaments of the Member States.

[1] See Study for the European Parliament: Own resources: Evolution of the system in a EU of 25, 30 June 2005.

EXPLANATORY STATEMENT

The current own initiative report on the future of the European Union's own resources has to be seen in the context of preparing for the "full and wide-ranging review of all areas of EU expenditure and revenue, including the British rebate", which the Commission has been invited to undertake by the Brussels European Council of last December, with a view to reporting in 2008 / 2009.

Your rapporteur, in his report on the latest own resources proposal presented by the Commission in early 2006 aiming at implementing the relevant decisions taken by the Brussels European Council, has already stated that the flaws of the current own resources system are fundamental. This is why your rapporteur in 2006 did not even start trying to amend the provisions of that Commission proposal which just make the current system even more intransparent, complicated, unfair and anti-European.

The contents of the own initiative report are very much based on the meetings your rapporteur has had with national parliamentarians since the beginning of 1996. While some national parliaments chose to reply in writing to the questionnaire on own resources sent to them in November 2005, others preferred a more personal exchange of views: So far your rapporteur has been invited to the national parliaments of nine Member States. Regardless of whether these meetings were of a more formal (committee meetings) or a more informal nature (working lunches): At this stage, the opinions expressed on these occasions by the interested national parliamentarians have to be considered the personal views of those taking the floor - so far, no national parliament nor any political party has yet established a formal stance on the question of the future of the Union's own resources!

Nevertheless, these personal encounters and the lively discussions taking place at the multilateral meetings (two joint parliamentary meetings in 2006 and the two COBU meetings with the chairs of the national parliaments' budgets committees in 2005 and 2006) have seemed to allow your rapporteur to draw some first conclusions on the do's, the don'ts and the maybe's in connection with any future reform of EU revenue.

Some first possible points of consensus have slowly but surely started to arise, like for example a general rejection of the idea of a genuine new European tax or of a transfer of any power of taxation to the European level. On the other hand, a vast majority of those national colleagues who expressed themselves were quite open to discuss the possibility of using a part of an existing tax to finance the European Union, even freely pondering on "suitable" candidate taxes ...

A lot of work still needs to be done in order to arrive at a final decision on which option would best serve the need for a new, truly European, own resources system, that is equitable, simple and transparent. Your rapporteur hopes that in the course of 2007 a common dossier can be established in close cooperation with the national parliaments that could be the basis for the future decisions that need to be taken in order to seize the opportunities of the coming review process.

ANNEXES TO THE EXPLANATORY STATEMENT

WORKING DOCUMENT NR. 1 ON THE EUROPEAN COMMUNITIES OWN RESOURCES

27 January 2005

History of the European Community's revenue

Under the current system there are four main sources[1] of revenue for the European Community:

Customs duties are levied at external frontiers on imports under the common customs tariff. The Treaty of Rome had earmarked customs duties as the principal resource to be assigned to the EEC to finance its expenditure. ECSC customs duties have been included since 1988.

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

Customs duties and agricultural levies were the first own resources and became known as traditional own resources (TOR) because they are revenue collected by virtue of Community policies rather than revenue obtained from the Member States as national contributions.

VAT own resources were introduced because the traditional own resources were not sufficient to finance the Community budget. Because of the need to harmonise the VAT base this complex resource did not come into use until 1980. It is obtained by applying a given rate to a base determined in a uniform manner.[2] Thus it is not a true own resource based on a tax levied nationally, but only a way to calculate a Member State's contribution.

The *GNI-based own resource* is 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

[1] In addition, there are some small "specific resources" (results of measures taken by the Commission), such as taxes and contributions paid by staff, income from interest and guarantees, and other miscellaneous charges levied.

[2] From 1988 to 1994 the base could not exceed 55% of the Member States' GNP. After 1995 the limit was lowered to 50% of GNP for Member States with a per capita GNP below 90% of the Community average. Between 1995 and 1999 the new limit was gradually extended to all the Member States. The maximum call-in rate of VAT was originally limited to 1% of the base. From 1986 this ceiling was raised to 1.4% to meet the costs of the Spanish and Portuguese enlargement. The 1994 own resources decision however, for reasons of equity, provided for a gradual return to the 1% limit between 1995 and 1999. In 2002 and 2003, the maximum rate was reduced to 0.75% , and from 2004 to 0.50%.

calculated by reference to the difference between expenditure and the yield of the other own resources. It is the "key" resource, as it determines the cap on the VAT base, how the cost of the UK rebate is shared, and the ceiling on total resources under the financial perspective. The Edinburgh agreement of December 1992, which entered into force at the beginning of 1995, increased this overall ceiling from originally 1.14% to 1.27% of Europe's GNP.

The origins of own resources

1958 - 1970: Contributions from the Member States

Under the Treaty of Rome of 25 March 1957 the European Economic Community was to be financed by national contributions for a transitional period before changing over to a system of own resources[1]. The principle was set down in Article 201 of the Treaty, which stated: "Without prejudice to other revenue, the budget shall be financed wholly from own resources."

In 1965 a first attempt to transfer customs duties and agricultural levies - the "natural" own resources deriving from Community policies (the customs union and the common agricultural policy) - failed in the face of French opposition. The ensuing "crisis" was resolved a year later by the famous Luxembourg compromise but the 1966 target date for the changeover to a system of financing that would guarantee the Community some measure of independence could not be kept. It was not until the Hague summit in 1969 that the Heads of State or Government, in an effort to revive the Community after some years of difficulty, finally took the decision to go ahead with the change.

1970: First own resources decision

On 21 April 1970 the Council adopted a decision assigning to the Communities own resources to cover all their expenditure. This decision marked the end of national contributions, through which the Member States had enjoyed some scope for controlling the policies undertaken by the Communities, and the beginning of an independent system of financing by "traditional" own resources (agricultural levies and customs duties) and a resource based on value added tax (VAT).

The 1970 decision on own resources set the Communities apart from other international organisations, which all rely for funding on contributions from their members.

1985: Second own resources decision - British rebate

In 1984 the Fontainebleau European Council decided to introduce a correction for the United Kingdom. This mechanism gives the United Kingdom a rebate equivalent to 0.66% of its net balance. The cost of financing the UK 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).

[1] Own resources can be taken to mean a source of finance separate and independent of the Member States, some kind of tax revenue assigned once and for all to the Community to fund its budget and due to it by right without the need for any subsequent decision by the national authorities. The Member States, then, would be required to make payments available to the Community for its budget.

1988: Third own resources decision - Introduction of GNP based resource and overall ceiling

Since CAP spending remained unchanged and the revenues from TORs continued to decline, in 1988, the Brussels European Council introduced a new own resource based on the Member States' GNP. It also set up an overall ceiling of 1.14% percent of GNP to the total amount of own resources which could be called to finance the Community's spending.

1994: Fourth own resources decision - Deduction of collection costs for traditional own resources

Own resources are collected by the Member States on behalf of the Community. Therefore, the 1994 decision allowed for the Member States to retain 10% of the traditional own resources they collected in order to cover their collection costs.

2000: Fifth own resources decision[1] - "Equitable, transparent, cost-effective and simple"

In 1999, the Berlin European Council called on the Commission to prepare a new own resources decision which should provide the Union with adequate means for the period 2000-2006 while at the same time adhering to strict budgetary discipline. The new system should be “equitable, transparent, cost-effective and simple”, and based on criteria which express best the member States' ability to contribute to the financing of the Union.

This latest Own Resources Decision of 29 September 2000 has entered into force on 1 March 2002. The revision clause it contains calls on the Commission to undertake a general review of the own resources system before 2006 in the light of the effects of enlargement. The review is also to explore the possibility of modifying the structure of the own resources system by creating new autonomous resources and examining the correction of budgetary imbalances granted to the UK.

The main features of the system currently in force are:

- the own resources ceiling remains at 1.27% of the Union's GNP (=1.24% of GNI)[2];
- the allowance for the collection cost of own resources has risen from 10% to 25%;
- the maximum call-in rate of VAT was reduced to 0.75% in 2002 and 2003, and to 0.50% from 2004;
- the value added tax base of the Member States continues to be restricted to 50% of their GNP (capping of the VAT base);
- Germany, the Netherlands, Austria and Sweden pay only 1/4 of their normal share of the cost of the UK rebate. The remaining 3/4 are financed by the other 10 Member States;
- two technical adjustments were made to the UK rebate to offset the windfall effects arising from the increase in collection costs and pre-accession expenditure.

[1] Council Decision 2000/597/EC, Euratom, of 29 September 2000 on the system of the European Communities' own resources, OJ L 253, 07.10.2000.

[2] As from the year 2002, the concept of gross national product (GNP) has been replaced by the concept of gross national income (GNI) in the EU budgetary and own resources area. Thus, percentages for years before 2002 relate to the GNP, later ones to the GNI. For example: The EU expenditure ceiling of 1.27% of GNP corresponds to 1.24% of GNI using the new statistical approach.

British rebate

The so-called British rebate was established by the Fontainebleau European Council in 1984, which stated in its conclusions:

> *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 origin of the problem was the special situation of the United Kingdom which was characterised by two factors:

- a small agricultural sector resulting in very low Community agricultural spending in the UK
- a large contribution to the financing of the Community budget because of the large proportion of the country's GNP accounted for by the VAT base.

Under the current compensation mechanism, two thirds (66%) of the difference between the United Kingdom's percentage share of VAT payments and its percentage share of allocated Community expenditure, applied to total allocated expenditure, is refunded to the United Kingdom by way of a reduction in its VAT base.

Since 1985 the United Kingdom has thus been receiving a rebate on its yearly contribution to the budget, amounting to a yearly EUR 4,6 billion average over 1997-2003.

This rebate is financed jointly by all the other Member States in accordance with their respective percentage of VAT payments with Germany, the Netherlands, Austria and Sweden only paying a quarter of what their shares ought to be.

Despite the general approach the Fontainebleau Council took ("any Member state sustaining an excessive budgetary burden"), this correction mechanism has ever since applied only to the UK. Over the years, slowly but surely, it has become obvious that the presence of the UK rebate has noticeably reduced the desired correlation between the ability of each Member State to contribute to the EU budget and its own resources payments. In addition, the complexity of the correction mechanism has also considerably diminished the transparency of the whole own resources system.

Shares of the main own resources components

From the introduction of the GNP-based resource in 1988 until today the share of each individual component in the Community's revenue has undergone a dramatic change:

Type of revenue	**88**	**89**	**90**	**91**	**92**	**93**	**94**	**95**	**96**	**97**	**98**	**99**	**00**	**01**	**02**	**03**	**04 ***	**05 ****
Agricultural duties and sugar levies	6,2	5,2	4,0	4,4	3,3	2,9	3,1	2,6	2,2	2,4	2,3	2,5	2,3	2,1	1,5	1,5	1,2	1,5
Customs duties	22,3	22,5	22,1	20,4	18,9	16,8	16,9	16,7	14,5	15,2	14,4	13,5	13,0	14,5	10,7	10,2	10,2	9,8

VAT resource	57,2	57,3	59,1	55,8	58,0	52,5	50,4	52,2	41,8	42,5	39,2	35,9	38,1	32,7	23,6	23,5	14,4	14,0
GNI based resource	10,6	9,8	0,2	13,3	13,9	25,2	26,8	18,9	29,0	33,4	41,4	43,2	42,3	37,5	48,7	55,5	73,4	73,8
Miscellaneous - Surplus from previous year	3,7	5,2	14,6	6,1	5,8	2,6	2,7	9,7	12,5	6,5	2,7	5,0	4,3	13,1	17,6	9,2	0,8	0,9
TOTAL %	100	100	100	100	100	100	100	100	100	100	100	100	100	100	100	100	100	100

* based on Budget 2004
** based on PDB 2005

Clearly, the GNI based resource has become overwhelmingly important while the share of traditional own resources has shown a trend to decline dramatically (accelerated by the fact that the percentage Member States were permitted to retain to compensate for their collection costs was raised from 10% to 25% with effect of 1 January 2001). VAT contributions have also declined due to the reforms limiting the VAT base of the Member States to 50% of their GNI.

With the introduction of the GNP resource and the reduction in the VAT call-up rate, Member States' contributions have become more closely correlated with national GNPs; this means improved equity[1] in gross budget contributions. While this development might lead to a closer correlation of the Member States' ability to contribute with their actual levels of contributions, at the same time, the decline of traditional own resources has resulted in a loss of financial autonomy for the European Union.

[1] In the sense of "proportionality of gross contributions to income across Member States"; it has to be noted, however, that under the current system perfect equity cannot be expected since the VAT resource will continue to yield revenues which will not be correlated with national income.

WORKING DOCUMENT NR. 2 ON THE EUROPEAN COMMUNITIES OWN RESOURCES

27 January 2005

The current Own Resources system - Problems and shortcomings

The net-payer debate

Traditional own resources are the only true own resources of the Union (although Member States tend to also regard them as national contributions). The lower their share becomes, the more the EU will depend on what is considered classical intergovernmental transfers. This, in turn, will almost automatically lead Member States to try and maximise concepts of the national benefit from the EU budget. The more it is generally felt that it is the Member States' money that is transferred to Brussels rather than the EU's genuinely own resources, the more Member States will concentrate on what they get in return. This is why the concept of "budgetary balances", the roles of "net payers" and "net receivers", have become so important.

Budgetary balances

Nevertheless, it has to be pointed out that - although there is an established system of calculating Member States' budgetary balances[1] - this is merely an accounting exercise of the purely financial costs and benefits that each Member State derives from the Union. It does not take any account of many of the other benefits gained from EU policies such as those relating to the internal market and economic integration, not to mention political stability and security.

Bearing in mind these limitations, what do the budgetary balances actually show? They show the relation between the share of a Member State in total payments of the VAT-based and GNP/GNI-based own resources and its share in total EU operating expenditure (i.e. excluding administrative expenditure) allocated to the Member States.

The following table gives a picture of these "operational" budgetary balances (after deduction of the UK rebate) between 1997 and 2003:

[1] The method used by the Commission is based on the same principles as the method used for the calculation of the correction of budgetary imbalances in favour of the UK. This is the only method that has a degree of formal recognition, based on the June 1984 Fontainebleau agreement. Accordingly, traditional own resources being pure Community revenue are not included in the calculation of the balances. Instead, it is the allocation key of Member States' VAT-based and GNP/GNI-based payments which is used for the calculations.

	1997		1998		1999		2000		2001		2002		2003	
	Mio ECU	% GNP	Mio ECU	% GNP	Mio EUR	% GNP	Mio EUR	% GNP	Mio EUR	% GNP	Mio EUR	% GNI	Mio EUR	% GNI
BE	-395.7	-0.18%	-406.5	-0.18%	-314.6	-0.13%	-214.1	-0.09%	-629.5	-0.25%	-373.2	-0.14%	-775.1	-0.28%
DK	131.0	0.09%	7.1	0.00%	122.6	0.08%	240.5	0.15%	-229.0	-0.14%	-162.7	-0.09%	-213.7	-0.11%
DE	-10 552.9	-0.58%	-8 044.2	-0.43%	-8 494.0	-0.44%	-8 280.2	-0.42%	-6 953.3	-0.34%	-5 041.0	-0.24%	-7 651.8	-0.36%
EL	4 360.5	4.09%	4 735.7	4.36%	3 818.0	3.29%	4 433.3	3.66%	4 513.2	3.52%	3 389.8	2.39%	3 368.2	2.22%
ES	5 782.8	1.20%	7 141.1	1.40%	7 382.4	1.35%	5 346.8	0.91%	7 738.3	1.23%	8 880.0	1.29%	8 733.2	1.21%
FR	-1 284.3	-0.11%	-864.5	-0.07%	30.0	0.00%	-739.4	-0.05%	-2 035.4	-0.14%	-2 163.6	-0.14%	-1 910.9	-0.12%
IE	2 814.4	4.43%	2 379.2	3.38%	1 978.7	2.38%	1 720.8	1.77%	1 203.1	1.16%	1 578.2	1.51%	1 564.6	1.40%
IT	-229.6	-0.02%	-1 410.6	-0.14%	-753.9	-0.07%	1 210.1	0.11%	-1 977.9	-0.17%	-2 868.5	-0.23%	-793.6	-0.06%
LU	-54.3	-0.34%	-76.6	-0.44%	-85.0	-0.44%	-56.6	-0.27%	-144.1	-0.71%	-48.6	-0.24%	-56.2	-0.28%
NL	-1 087.5	-0.33%	-1 539.8	-0.45%	-1 827.0	-0.50%	-1 540.3	-0.39%	-2 256.8	-0.54%	-2 181.7	-0.50%	-1 956.1	-0.43%
AT	-779.8	-0.43%	-629.2	-0.34%	-628.8	-0.32%	-447.8	-0.22%	-536.4	-0.26%	-223.5	-0.10%	-336.2	-0.15%
PT	2 717.3	2.98%	3 018.9	3.10%	2 858.2	2.72%	2 168.5	1.95%	1 794.2	1.52%	2 694.0	2.13%	3 482.0	2.66%
FI	39.8	0.04%	-102.4	-0.09%	-194.8	-0.17%	274.5	0.22%	-150.4	-0.11%	-4.1	0.00%	-20.7	-0.01%
SE	-1 097.7	-0.54%	-779.9	-0.37%	-897.3	-0.40%	-1 059.5	-0.44%	-973.3	-0.42%	-743.4	-0.29%	-950.4	-0.36%
UK	-242.6	-0.02%	-3 489.3	-0.28%	-2 826.7	-0.21%	-2 985.9	-0.19%	707.5	0.04%	-2 880.0	-0.17%	-2 763.3	-0.16%
EU	121.4	0.00%	-60.9	0.00%	167.8	0.00%	70.8	0.00%	70.3	0.00%	-148.2	0.00%	-280.1	0.00%

Letter of the Six

As can be clearly seen, this division among the Member States between net-contributors and net-receivers, as little indication as it might give on the overall benefits of EU-membership, has not significantly changed over the last few years. It provides the context for the famous letter signed by six Heads of State - all net-contributors - after the European Council of Brussels on the future EU expenditure level:

> *We see in this context no room for a EU-budget near the current ceiling for own resources. Average expenditure during the next financial perspective should in our view be stabilised around current expenditure levels, and should not exceed 1.0% of GNI, including agriculture spending within the ceiling set by the European Council in October 2002. This would still allow for annual increases on the EU-budget well above growth rates of national budgets in most Member States, and permit a sufficient margin for policy-implementation in the enlarged Union.*

With this letter the main net-contributors to the EU budget have made a strong statement which has become almost an official starting point for the negotiations on the new financial perspectives 2007-2013. In the meantime, the discussion has even gone so far as to imply that the figure of 1.0% of GNI, as mentioned in the letter, refers to commitment appropriations and not to payments as initially taken for granted.

Comparison EU budget - national budgets

Judging from the Letter of the Six it might seem as if the EU budget has gone totally out of control in the recent past. However, a closer look at the development of the EU budget over the last few years reveals that during the period 1996[1]-2002 the EU budget only increased by 8,2 % while the national budgets increased by an average of 22.9 %:

[1] 1996 was the first year when the entire EU budget involved all 15 current Member States.

Current prices, € million

	1996	2002	Increase
B	112,371	131,281	16.8 %
DK	86,187	101,989	18.3 %
D	944,279	1,023,870	8.4 %
GR	48,170	66,266	37.6 %
E	210,036	276,507	31.6 %
F	678,048	812,935	19.9 %
IRL	22,802	43,070	88.9 %
I	516,521	599,804	16.1 %
L	6,515	9,909	52.1 %
NL	161,044	211,162	31.1 %
A	103,542	112,094	8.3 %
P	40,459	59,573	47.2 %
FIN	60,051	69,795	16.2 %
S	139,206	149,420	7.3 %
UK	403,057	675,191	67.5 %
TOTAL	**3,532,288**	**4,342,866**	**22.9 %**

	1996	2002	Increase
EU budget	**77,032**	**83,371**	**8.2%**

This very modest increase is even more remarkable considering the fact that, in the meantime, the Union has become responsible for more and more policies. It has thus gained a great number of competencies while at the same time its financial resources have remained very limited.

Discrepancy between expenditure ceilings and actual expenditure

Not only has the EU budget grown much more slowly than the budgets of the Member States: Concerning payments[1], the EU budgets of the last few years have not only remained considerably under the maximum own resources ceiling of 1,27% of GNP/1,24% of GNI set by the Member States but also under the payment ceilings of the current financial perspective which range from a minimum of 1,07% of GNI in 2000 to a maximum of 1,11% of GNI for 2003 and 2004:

Payments in % of GNP/GNI[2]		Payments in % of GNP/GNI	
1986	0.99	1996	1.14
1987	0.96	1997	1.12
1988	1.03	1998	1.08
1989	0.94	1999	1.03
1990	0.94	2000	0.99
1991	1.03	2001	0.92
1992	1.09	2002	0.93

[1] Of course, the same is true for commitments where the actual budget figures have never even come close to the ceiling established by the decision on the system of own resources of 1.31% of GNI and 1.24% in payment appropriations of GNI.
[2] 1986 to 2002 based on the outturn in payments. 2003 to 2005 based on the budget.

1993	1.18	2003	0.96
1994	1.04	2004	0.98
1995	1.04	2005	1.00

This means that the EU has spent millions of euro less than, according to the decision of the Member States, it could have. Especially after the budgetary procedure for 2005, when the 1% threshold introduced by the Letter of the Six for the first time played such a prominent role, the question remains how the gap between the own resources ceiling of 1,24 % and the actual payment expenditure can be justified. What is the margin left for?

Criticism of Parliament's agreement to the financial perspectives with their rigid classification of expenditure and their rather inflexible heading ceilings, has always been countered by pointing out that at the same time the financial perspectives would guarantee the steady growth of expenditure necessary to finance new policies important to the European citizens. However, the real figures (see table above) indicate that this has not been the case.

Small margin for manoeuvre

Overall, the structure of EU-expenditure has remained more or less the same over the past few years. Despite all efforts to the contrary, agricultural expenditure still accounts for around 50% of the European Union's budget[1]:

	1997	1998	1999	2000	2001	2002	2003	2004*	2005*
Share of agricultural spending in total EU expenditure	50,63%	48,08%	49,53%	48,61%	51,93%	51,11%	49,01%	46,91%	46,20%

* Budgets EU 25

The agriculture share in expenditure together with the structural funds payments leave very little room for manoeuvre for flexibility with regard to the financing of new policies or priorities.

For example, will the resources at hand truly allow for efforts towards reaching the Lisbon goals for growth, employment and competitiveness? Or even more general, will it be at all possible to finance the needs of 25 (or 27) Member States with regard to maintaining the acquis communautaire, enhancing cohesion and strengthening new neighbourhood policies?

Given this financial framework, can the Union fulfil the provisions of article 6, paragraph 4, of the Nice Treaty according to which *"the Union shall provide itself with the means necessary to obtain its objectives and carry through its policies"*?

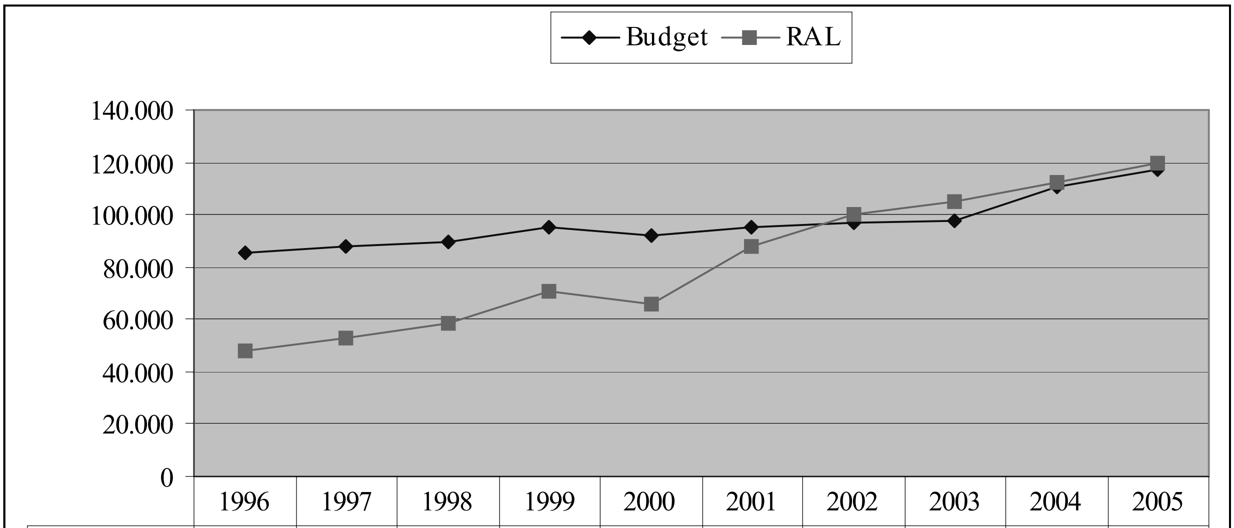
Accordingly, in its proposals for the new financial perspectives, the Commission moves between two options: to give the Union the means to realise its objectives (Lisbon process) on the one hand and to consider threats of budgetary cuts expressed in the Letter of the Six after the European Council of Brussels on the other.

[1] 1997 to 2002 based on the outturn in payments. 2003 to 2005 based on the budget.

RAL

At the same time as the 1%-discussions have gained momentum, the RAL (outstanding commitments as a consequence of level of payments lower than level of commitments)[1] have kept increasing at a steady pace, in fact, much faster than the budgets.

The following table shows the evolution of overall RAL against the budget (Section III, 1996-2005, in EUR million):



	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005
Budget	85.094	87.651	89.503	95.349	91.647	95.278	96.846	97.815	111.013	116.821
RAL	47.912	52.523	58.847	70.927	65.596	87.651	99.821	104.883	112.225	119.366

In 1996, overall RAL represented only 56% of the budget, while in 2003 it had already increased to 107% of the budget. Since Headings 1 and 5, which together represent some 50% of the budget, are mainly composed of non-differentiated appropriations and have thus no RAL, the outstanding commitments concentrate in Headings 2, 3, 4 and 7.

Even considering the fact that there has always been some controversy as to which amount/percentage of RAL is "normal" and which is "abnormal", the general perception of RAL as "unspent appropriations" is undoubtedly a factor that will be raised in the coming discussions on the future of own resources.

Political responsibility

The current situation with the European Union's finances is also characterised by the fact that political responsibility for EU revenue and expenditure is split up among a number of

[1] RAL, in the first place, thus are a direct and "normal" consequence of differentiated appropriations. However, besides this normal RAL, overall RAL as the total of outstanding commitments which remain to be paid once the conditions for payment are fulfilled also contains potentially abnormal RAL and actually abnormal RAL. Per definitionem, potentially abnormal RAL are dormant commitments in respect of which no payment has been made for the last two financial years or old commitments that have been in the accounts for at least five financial years. In contrast, actually abnormal RAL is the sum of commitments recorded in the accounts which lack a legal or factual justification for payment.

independent key actors.

While it is the national parliaments which, in addition to their involvement in the own resources decisions per se, determine the Union's revenue via the tax policies of their countries, it is the European Parliament and Council which decide upon the Union's expenditure.

Here again, there is a splitting of responsibilities - which is anything but transparent - according to the nature of EU-expenditure being obligatory or non-obligatory. The difference between obligatory expenditure where Council has the last say and non-obligatory expenditure where it is up to Parliament to take the final decision may have historical reasons but is not logical anymore and makes the system even more obscure.

The European Council, on the other hand, more and more often takes decisions on new policies or new priorities with far-reaching financial consequences seemingly without giving too much thought to how the budgetary authority is going to make the necessary funds available within the tight framework of the headings of the financial perspective.

WORKING DOCUMENT NR. 3 ON THE EUROPEAN COMMUNITIES OWN RESOURCES

27 January 2005

Scenarios for the future of the European Communities' own resources

The current Council Decision of 29 September 2000 on the system of the European Communities' own resources[1], in its Article 9, contains a revision clause according to which

> *The Commission shall undertake, before 1 January 2006, a general review of the own resources system, accompanied, if necessary, by appropriate proposals, in the light of all relevant factors, including the effects of enlargement on the financing of the budget, the possibility of modifying the structure of the own resources by creating new autonomous own resources and the correction of budgetary imbalances granted to the United Kingdom as well as the granting to Austria, Germany, the Netherlands and Sweden of the reduction pursuant to Article 5(1)*[2].

In response to a request from the European Parliament and in agreement with Council, the Commission committed itself to present the above mentioned report on the functioning of the financing system at a much earlier date.

On 14 July 2004 it published its Report on the operation of the own resources system[3] together with a proposal for a new Council Decision on own resources, accompanied by a proposal for a Regulation on the implementing measures for the correction of budgetary imbalances[4].

What Parliament expected from a new own resources system it had already formulated in its amendments to the proposal of 1999, stating the need for the European Union

- to create a system that must be "simple and readily understood by the public"
- to base it on criteria that best express "the ability to contribute of the citizens of Europe" while, at the same time, avoiding "recourse to compensation mechanisms for purposes of revenue" but instead correcting imbalances "by reforming the structure of expenditure"
- to "move steadily away from dependence on transfers from Member States"
- to "correct those features of its existing own resources which generate confusion because of the derogations applicable to national contributions".

Generalised correction mechanism

The Commission's own resources proposal does not foresee the introduction of new sources

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[1] OJ L 253, 7.10.2000, p. 42
[2] Article 5(1) restricts the financing share in the cost of the British rebate of Austria, Germany, the Netherlands and Sweden to one fourth of their normal share resulting from the calculation method.
[3] COM(2004) 505 final
[4] COM(2004) 501 final

of funding for the next financial perspective. The major change introduced by the proposal concerns the correction mechanism for Member States' excessive budgetary burdens acknowledged as a principle in Fontainebleau in 1984.

The Commission argues in favour of replacing the current system with a generalised correction mechanism (GCM). This proposal for a GCM is based on the fact that despite the very positive evolution of its relative prosperity it remains only the United Kingdom which receives a partial refund of its contribution, while other net contributors with similar or lesser prosperity do not.

The changes in the degree of prosperity enjoyed by EU net contributors since 1984 are outlined in the following table:

GNI per capita of net contributors (EU-15 average = 100)		
	2003	**1984**
United Kingdom	111.2	90.6
Denmark	111.1	104.0
Austria	109.8	--
Netherlands	106.6	95.0
Sweden	104.6	--
France	104.2	104.0
Germany	98.6	109.6
Italy	97.3	92.9

The main characteristics of the generalised correction mechanism applicable to any Member State are

- triggering if net contributions exceed 0,35% of a Member State's GNI (this threshold would represent the maximum accepted level of financial solidarity between Member States)
- refunding of contributions above this at a rate of 66% (the refund rate would be phased in for all Member States except the UK at the rate of 33%, 50%, 50% and 66%)
- limitation of the total refund volume to a maximum of EUR 7,5 billion a year, financed by all Member States based on their relative share of GNI.

In order to alleviate the impact of the introduction of the new system, the UK would receive, in addition to the ordinary correction, degressive top-up payments totalling EUR 5 billion over a four-year period ending in 2011.

The cost of the financial corrections entailed by the introduction of the 0,35% triggering threshold is estimated at max. EUR 7,5 billion for the period 2008-2013, comparable with what would be the overall cost of the current rebate mechanism under the future financial perspective.

The outcome of the system would be that the net balances of the largest net contributors would be at comparable levels, as shown below:

Estimated net budgetary balances (average 2008-2013)			
	in % of GNI		
	New correction mechanism	Current mechanism	No correction
United Kingdom	-0.51%	-0.25%	-0.62%
Netherlands	-0.48%	-0.56%	-0.55%
Germany	-0.48%	-0.54%	-0.52%
Sweden	-0.45%	-0.50%	-0.47%
Austria	-0.41%	-0.38%	-0.37%
Italy	-0.35%	-0.41%	-0.29%
France	-0.33%	-0.37%	-0.27%
Cyprus	-0.33%	-0.37%	-0.28%
Denmark	-0.25%	-0.31%	-0.20%
Finland	-0.19%	-0.25%	-0.14%
Spain	0.26%	0.23%	0.32%
Ireland	0.51%	0.47%	0.56%
Malta	1.10%	1.06%	1.16%
Belgium	1.27%	1.21%	1.32%
Slovenia	1.34%	1.31%	1.40%
Portugal	1.54%	1.50%	1.60%
Greece	2.20%	2.16%	2.25%
Hungary	3.09%	3.06%	3.15%
Czech Republic	3.21%	3.17%	3.26%
Slovakia	3.31%	3.27%	3.36%
Estonia	3.79%	3.76%	3.85%
Poland	3.80%	3.76%	3.85%
Lithuania	4.44%	4.41%	4.50%
Latvia	4.45%	4.40%	4.51%
Luxembourg	5.84%	5.80%	5.89%

Genuinely tax-based own resource as from 2014

As shown above, the Commission's new own resources proposal does not foresee the introduction of new sources of funding for the next financial perspectives but rather tries to update the national contribution shares via the generalised correction mechanism. Nevertheless, in its Report on the operation of the own resources system, the Commission argues in favour of introducing as from 2014 a genuine fiscal own resource.[1]

With this new tax based resource the Commission aims at "forging the link between citizens and the EU budget". It would increase understanding by citizens of the resources going to the EU budget and would make decision makers more accountable. The fiscal resource would be introduced progressively as a replacement to the current VAT resource, alongside a more limited GNI resource. Since it would thus replace existing resources it would be neutral in terms of the level of EU funding.

[1] This reflects in a single article (Art. 9) of the actual own resources proposal which reads: *The Commission shall submit to the Council a proposal to modify the own resources structure by introducing a genuinely tax-based own resource to be operational from 1 January 2014.*

At the current stage of EU integration a fully tax-based system is considered not realistic by the Commission and is therefore not proposed.

The Commission's three options

The Commission's three main candidates as tax based own resource are

- a share of the tax rate on energy consumption, limited to motor fuel for road transport ("eco-tax") with consideration also being given to aviation fuel and related emissions as a possible future development to end the current tax exemption for jet fuel;
- a share of the national VAT rate, making the financing of the EU more understandable to citizens (EU and national VAT should appear as separate taxes on the invoices or receipts);
- a share of the corporate income tax as a longer term option.

By chosing any of these three options the concept of the EU as a Union of Member States and citizens would be transposed into the area of financing the EU budget. Strengthening the direct link of citizens to the budget would also help focussing expenditure debates on substance rather than on purely national budget net positions.

Feasibility of the Commission's options

As to the feasibility of the three options the following remarks can be made:

Option 1: Own resources system with fiscal resources related to energy consumption

The introduction of a fiscal resource based on road transport fuel would be technically possible in around 3 - 6 years. It would be relatively simple from an administrative point of view as the tax base is already harmonised at EU level by the new directive on energy taxation.[1]

EU rates below half of the minimum rates set by the directive would be enough to finance half of the EU budget.

Option 2: Own resources system with a fiscal VAT resource

The introduction of an EU VAT rate would be technically possible in around 6 years. Contrary to the current "statistical" VAT resource, it would create a clear direct link between the financing of the EU budget and the citizen and would increase awareness of the costs of the Union. Potential difficulties with this proposal are related to incomplete harmonisation of Member States' VAT systems mainly linked to zero-rated goods. If the effects of zero-rates could be neutralised, the EU rate would have the same impact on comparable consumers across the Union.

[1] Directive 2003/96/EC of 27.10.2003 of the Council restructuring the Community framework for the taxation of energy products and electricity (OJ L 283 of 31.10.2003).

An EU rate of 1% would be enough to cover about half of the financing needs of the EU budget.

Option 3 - Own resources system with a fiscal resource based on corporate income

This alternative would take longest to implement, both from a political as well as from an administrative perspective. It would need a common consolidated tax base with a minimum tax rate instead of 25 separate national tax systems and a multiplicity of tax laws, conventions and practices.

Since revenue from corporate income taxes is significant (with total revenue in the EU currently representing on average 2,6% of total EU GNI), for the needs of the EU budget less than a quarter of that revenue would need to be assigned to the EU.

WORKING DOCUMENT NR. 4 ON THE FUTURE OF THE EUROPEAN UNION'S OWN RESOURCES

8 November 2006

Starting point

Background

Parliament's demands …

In its opinion[1] to the 1999 Commission proposal on which the current own resources system is based, Parliament asked for a system of EU revenue that should be

- simple and readily understood by the public,
- based on criteria that best expressed the ability to contribute while, at the same time, avoiding recourse to compensation mechanisms for purposes of revenue,
- independent of transfers from Member States and
- that should do away with those features of the existing system which generate confusion because of the exemptions applicable to national contributions.

… and Council's response

The Council decision[2] that was finally adopted on 29 September 2000, entering into force on 1 March 2002, did anything but fulfil these demands: It has codified the UK rebate as well as the adjustments of the financing shares for the rebate of Austria, Germany, the Netherlands and Sweden - instead of planning for a phasing-out of the UK rebate a similar mechanism was extended to other Member States. By raising the share of traditional own resources that can be retained by the Member States to compensate for their collection costs from 10% to 25%, the "traditional own resources"-part of EU revenue was further reduced.

However, despite all these arrangements that were not welcomed by Parliament, the Council decision also contained some chances for a "better" future in form of a detailed revision clause.

The "Schreyer proposals" of 2004

In July 2004, in accordance with Article 9 of the Council decision, the Commission presented its Report on the operation of the own resources system[3] as well as proposals for a new decision on the system of own resources and for an implementing regulation for the correction of budgetary imbalances[4].

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[1] Resolution of 11 March 1999, on the need to modify and reform the European Union's own resources system (Haug report).
[2] Council Decision 2000/597.
[3] (COM(2004)0505).
[4] Both proposals contained in COM(2004)501final/2

In its report, the Commission proposed that the Council reflect on the introduction by 2014 of a new funding system for the EU, centred around a main fiscal resource based on either energy, VAT or corporate income tax. This tax based resource would replace existing resources and would therefore be neutral in terms of the level of EU funding.

Three main candidates as a tax based own resource were listed, namely a share of:

- the tax rate on energy consumption, limited to motor fuel for road transport[1]
- the national VAT rate, making the financing of the EU more understandable to citizens[2]
- a corporate income tax[3].

A fully tax-based system was not considered realistic at this stage of EU integration and not proposed by the Commission. The fiscal resource would be introduced progressively as a replacement to the current VAT resource, alongside a more limited GNI resource.

As for the question of the British rebate, the Commission proposed to adjust the existing correction mechanism so as to apply it to all main contributors, while giving assurances to those not benefiting from such a correction that the cost for them would not soar, by limiting the volume of corrections to a maximum amount.[4]

Your rapporteur thought the Commission's ideas very interesting and worth serious reflection. However, the Member States seemed not willing to pursue them and the new Commission, instituted in 2005, made no serious effort for progress. Of course, this standstill was mainly due to the ongoing negotiations for the new multiannual financial framework and to the fact that EU expenditure and revenue could not be considered isolated from each other.

At the Brussels European Council in December 2005, Member States could finally agree on a new financial perspective for 2007 – 2013, an agreement on expenditure that had only become possible by granting far-reaching concessions for this, that and the other Member State on the revenue side.

The "reform" proposed by the Brussels European Council 2005

In consequence, the Commission proposal of 2006 aiming at implementing the results of the European Council's conclusions makes the financing of the European Union's budget certainly not more, but less, transparent, so that not even the adherence to the principle of equity can be judged easily. The requirements for a new system as adopted by the European Parliament in its position of 1999 again are certainly not met.

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[1] Consideration was also given to aviation fuel and related emissions as a possible future development to end the current tax exemption for jet fuel.

[2] There would be no additional tax burden as the EU rate would be offset by an equivalent decrease of the national VAT rate. The EU and national VAT should appear as separate taxes on the invoices or receipts.

[3] This alternative would take longest to implement since a political agreement would be needed on the principle of achieving harmonization of the tax base, before setting a minimum rate.

[4] This general correction mechanism would be triggered if net contributions exceeded 0.35% of each country's GNI. Contributions above this would be refunded at a rate of 66%. The total refund volume would be limited to a maximum of EUR 7.5 billion a year. The introduction of the mechanism should be accompanied by transitional measures for the UK in order to alleviate the financial impact of the changeover, over a 4-year period.

According to this proposal, some Member States were to benefit, between 2007-2013, from reduced rates of call of VAT or from gross reductions in their annual GNI contributions. These gross reductions would be financed by all Member States, including the two beneficiaries themselves.

The proposal, in principle, leaves the UK correction, the "British rebate", intact except for expenditure in the new Member States (which will be excluded from total allocated expenditure for the purpose of calculating the UK correction). However, CAP market expenditure in the new Member States shall be excluded from this exception, i.e. be part of the total allocated expenditure that is used for calculating the UK rebate.

Parliament's opinion - Lamassoure report 2006

Because this latest Commission proposal does anything but meet the criteria set out by Parliament in its 1999 resolution and is running against his own personal conviction on the need for a profound reform towards more simplicity, equity and transparency, your rapporteur in his report adopted on 4 July 2006[1] has limited himself to additions to the text stressing the importance of the review process to come.

His amendments have simply indicated the conditions for the review and Parliament's involvement, as laid down in the new Interinstitutional Agreement of 17 May 2006 on budgetary discipline and sound financial management. Special provisions for certain Member States may be unavoidable in the current system. They are, however, anything but desirable and should only be considered a necessary evil until a new, genuinely fair system has been devised in the review process.

In his report your rapporteur also pointed out that the conclusions of the dialogue on the own resources topic that has been led between the national parliaments and the European Parliament for some time now should be duly taken into account for the review. He concluded that he intended to present the results of the work conducted jointly by the national parliaments and the European Parliament in a comprehensive own initiative report on the future of the EU's own resources in the months to come.

[1] T6-0292/2006

WORKING DOCUMENT NR. 5 ON THE FUTURE OF THE EUROPEAN UNION'S OWN RESOURCES

13 November 2006

Towards the review

"If we, as parliamentarians, want a say on the finances of the Union, as to both revenue and expenditure, the review process 2008 - 2009, will be our opportunity, but the formulation of that [our] input needs to begin right away."

Lord Grenfell in his summary of Working Group 4 of the Joint Parliamentary Meeting on the Future of Europe, 8-9 May 2005

The need for reform

The negotiations for the new Financial Framework 2007-2013 have shown that the current system of own resources does not provide the European Union of 25 (27) Member States with a solid and coherent financial basis for implementing its political choices. The Member States' contributions still come out of the national budgets. They are calculated according to a method that has become increasingly obscure, unfair and impossible for the citizens to understand. Besides, the modalities of the current system are decided behind closed doors without any parliamentary control.

Your rapporteur is deeply convinced that EU revenue needs to be thoroughly reformed in a way which prevents Member States from only wanting to spend Community funds in those areas where they themselves profit most instead of concentrating the money available on those policies beneficial to Europe as a whole and most important for its future.

The "full and wide-ranging review of all areas of EU expenditure and revenue, including the British rebate"[1], which the Commission has been invited to undertake by the Brussels European Council of last December, with a view to reporting in 2008 / 2009, may offer a last chance in the foreseeable future, to create such a new and truly European system which could then become operational at the beginning of the next financial framework starting in 2014. For all past efforts to steer the Union towards a more transparent system that is fair by its own virtue have failed so far.

Cooperation with the national parliaments

When studying the proposals made by the Commission in 2004[2], your rapporteur came to the conclusion that any work of the European Parliament on the own resources topic with an aim to finding an equitable, simple and transparent solution would need to be done in close

[1] Revision clause included in the Interinstitutional Agreement of 17 May 2006 - see ANNEX.
[2] "Schreyer proposals", COM(2004)505 and COM(2004)501

cooperation with the parliaments of the Member States because it was them, that in the end, would need to agree on any proposal made.

This was why the own resources topic was put on the agenda of the June 2005 meeting of the EP Committee on Budgets with the national parliaments' budget committees. The positive reaction of the representatives of the national parliaments to having the own resources item on the agenda and the interesting and open discussions led on this occasion encouraged your rapporteur to proceed in this direction.

In November 2005, a questionnaire drafted by the rapporteur was sent to all budget committees of the national parliaments. The objective of this questionnaire was to begin to explore whether some central basic principles for a reform of the own resources system could be established which could be supported by the European Parliament and a representative majority of the parliaments of the Member States ("old" and "new" ones, "net-payers" and "net-contributors", Southern and Northern ones, etc.).

The reactions to this questionnaire were manifold: Some parliaments, for one reason or another, chose not to reply at all, some parliaments replied in writing and some parliaments invited the rapporteur for a personal exchange of views. So far, the rapporteur has been given the opportunity to speak to the budget committees, or their representatives, of Luxembourg, Portugal, Finland, France, Germany, Spain, Belgium and Hungary.

In analysing the written replies to the questionnaire as well as the results of the bilateral meetings, some general points of possible agreement have slowly begun to emerge. These were further developed by the Working Group on Own Resources of the Interparliamentary meeting of 8 – 9 May 2006, jointly organised by the European Parliament and the Austrian Parliament in Brussels.

Many participants of this meeting considered the idea of supporting a future informal working group of parliamentarians to feed suggestions into the review planned for 2008 / 2009 as a good way to ensure that parliaments were fully involved in the process[1]. This positive assessment on establishing a working group was also shared by the participants of the annual meeting between the chairs of the national parliaments' committees on budget and the EP's Committee on Budgets which took place on 21 June 2006 in Brussels and which provided an excellent opportunity for another round of talks.

In your rapporteur's view, the next Joint Parliamentary Meeting of 4 - 5 December 2006 will offer the opportunity to promote the involvement of the European Parliament and the national parliaments in the review process and steer the dialogue into a more structured phase. "The future financing of the Union" will again be the topic of one Working Group. Interesting and productive discussions on the basis of the work already done jointly will certainly follow.

If parliamentary contacts, be they on a multilateral or bilateral level, continue in the spirit of mutual trust and openness they have started in, your rapporteur is convinced that some common understanding on basic principles how the own resources system of the future should look like could be achieved between the European Parliament and the parliaments of the Member States.

[1] Summary of Working Group 4 as presented to the plenary of the JPM on 9 May 2006

Own initiative report on the future of the EU's own resources

Your rapporteur intends to include the results of the work conducted jointly by the national parliaments and the European Parliament in his own initiative report on the future of the EU's own resources, to be debated and voted in plenary in spring of 2007. This report could then provide some common guidelines for the Commission's review work, thus giving a clear signal to the Heads of State and government of what their parliaments' concepts for the future may be.

Basic principles for any new system

With the Schreyer proposals of 2004 as a starting point and the study on own resources commissioned by Parliament in 2005[1] as some further food for thought, your rapporteur, in his numerous discussions with representatives of the national parliaments, would hope for a consensus emerging on the following cornerstones for a reform:

- Full respect of the fiscal sovereignty of the Member States

Under no circumstances shall a new system grant the European Union the right to levy taxes. Fiscal sovereignty will remain with the Member States alone who might authorise the Union for a limited period of time to directly benefit from a certain share of a tax. This decision by the Member States can be revoked at any time.

- Fiscal neutrality

All other things equal, the transfer of a policy to the European level must not increase overall public expenditure nor the tax burden for the citizens. Should a new system directly allocate part of a tax to the European Union, an equivalent reduction will have to take place elsewhere.

- No changes to the order of magnitude of the EU budget

The ceiling of 1,24% of GNI will be taken for granted. Reforming the own resources of the Union shall not result in any increase in the level of magnitude of the budget, which is a different issue.

- Progressive phasing-in of the new system

Transition periods for a gradual introduction of the new system have to be foreseen. If political agreement could be achieved, a first phase of the reform could start from 2009. While keeping the system of national contributions as such, it could be modified to become more simple, transparent and absolutely in proportion with the relative wealth of each Member State.

- Establishment of a clear political link between a reform of revenue and a reform of expenditure

[1] Study Group for European Policies (SEP), 30 June 2005: *Own resources: Evolution of the system in a EU of 25. Study for the European Parliament*.

A reform of the structure of EU revenue and a reform of the structure of EU expenditure have to go hand in hand, as foreseen in Declaration 3 of the new Interinstitutional agreement. Changing from a system of Member States' contributions to a system of genuine own resources directly allocated to the Union will also free EU expenditure from having to comply with any "I want my money back!" requirements.

Further considerations

While it is clear to your rapporteur that the time for a genuine European tax has not yet come, in the long term, the possibility of returning to a system as originally intended by the Treaty of Rome should be considered. The burden on national treasuries of contributing to EU finances could be reduced by directly attributing to the European Union a fiscal resource, decided upon within a national framework but closely linked to community activities. Such a second phase could be progressively introduced from 2014.

In order to have up-to-date reliable data to explore concrete possibilities for future components of EU revenue, your rapporteur is also looking forward to the results of a study commissioned by the European Parliament in October 2006 which will focus on some taxes that might be candidates for a new Own resources system. To clearly establish the political choices available, the Commission could also be invited to present a detailed account of the advantages and disadvantages of existing national taxes that could be used for this purpose while fully respecting the basic principles as listed above.

In his initiative report on own resources that is scheduled to go to plenary in spring 2007 your rapporteur, on the basis of the work done in the last year, in close cooperation with the national parliaments, expects to be in a position to present some concrete ideas on how a future system of own resources that is fair and easily understandable for our citizens and can do without compensation mechanisms and national exemptions, could look like.

ANNEX

Interinstitutional Agreement on budgetary discipline and sound financial management

3. Declaration on the review of the financial framework

1. In accordance with the conclusions of the European Council, the Commission has been invited to undertake a full, wide-ranging review covering all aspects of EU spending, including the Common Agricultural Policy, and of resources, including the United Kingdom rebate, and to report in 2008/2009. That review should be accompanied by an assessment of the functioning of the Interinstitutional Agreement. The European Parliament will be associated with the review at all stages of the procedure on the basis of the following provisions:

- during the examination phase following the presentation of the review by the Commission, it will be ensured that appropriate discussions take place with the European Parliament on the basis of the normal political dialogue between the institutions and that the positions of the European Parliament are duly taken into account;
- in accordance with its conclusions of December 2005, the European Council "can take decisions on all the subjects covered by the review". The European Parliament will be part of any formal follow-up steps, in accordance with the relevant procedures and in full respect of its established rights.

2. The Commission undertakes, as part of the process of consultation and reflection leading up to the establishment of the review, to draw on the in-depth exchange of views it will conduct with European Parliament when analysing the situation. The Commission also takes note of the European Parliament's intention to call for a conference involving the European Parliament and the national parliaments to review the own-resources system. It will consider the outcome of any such conference as a contribution in the framework of that consultation process. It is understood that the Commission's proposals will be put forward entirely under its own responsibility.