5.9 The Committee welcomes priority axis 5 ‘Technical assistance’, believing the proposed eligible actions and funding limits to be appropriate.

5.10 The EESC believes that the EFF should also clearly provide for financial support for fishing activities in inland or continental waters, which in some Member States of the European Union represent key fishing grounds. The Committee recommends that the word ‘lakes’ is replaced by the words ‘inland waters’ in Chapter II, Article 4 point (e) and in any other article of the Proposal for a Council Regulation.

5.11 The EESC gives its full support to the Fund’s management, control and monitoring systems, believing them to be highly appropriate and necessary to the effectiveness of the EFF.

5.12 For all the above reasons, the European Economic and Social Committee endorses the draft Regulation on the EFF presented by the Commission, but calls on the Commission to take into account the comments set out in this opinion.


The President
of the European Economic and Social Committee
Anne-Marie SIGMUND

Opinion of the European Economic and Social Committee on the Proposal for a Council Decision on the system of the European Communities’ own resources


On 22 October 2004 the Council decided to consult the European Economic and Social Committee, under Article 262 of the Treaty establishing the European Community, on the abovementioned proposal.

The Section for Economic and Monetary Union and Economic and Social Cohesion, which was responsible for preparing the Committee’s work on the subject, adopted its opinion on 15 April 2005. The rapporteur was Mr Burani.

At its 417th plenary session, held on 12 May 2005, the European Economic and Social Committee adopted the following opinion by 118 votes to 2 with 15 abstentions.

1. Introduction

1.1 Article 9 of the Council Decision on the system of the European Communities’ own resources (1) provides that the Commission should proceed to a general review of the System of the European Communities’ own resources for 2007-2013 by 1 January 2006. If necessary, the review should be accompanied by appropriate proposals. The European Parliament has explicitly requested a review of the criteria for financial contributions. Consequently the Commission, in agreement with the Council, has submitted the present proposal. The Commission’s task in this regard was difficult and technically complex. Moreover, it was politically sensitive in that it concerned relations amongst Member States and between Member States and their citizens.

1.2 The technical part of the document makes difficult reading, even for those who are acquainted with the principles of public finance. Nevertheless, the Commission should be given credit for having done its utmost to ensure that, at least, the document facilitates discussion amongst specialists, and can be understood by the decision-makers. The proposal is in fact accompanied by a report (2) outlining the current situation and evaluating the pros and cons of possible alternatives. A technical appendix (3) outlines the econometric aspects, providing relevant accounting, mathematical, and economic details.

1.3 Consequently, the Committee intends to focus on the points that directly concern the fairness of financial contributions and the mechanisms for profit and burden sharing amongst Member States. This choice is made in the knowledge of the fact that obscure technicalities may sometimes cloud the economic and political significance of their implications. Furthermore the concept of a ‘fair’ own resources mechanism is difficult to define in unequivocal terms since it combines

(2) COM(2004) 505 final
(3) COM(2004) 505 final vol. II
subjective and objective factors. For instance, prosperity levels might be measurable, whereas the indirect benefits of belonging to the EU might not. However, the final outcome will depend on the balance achieved when Council negotiations are concluded — which may prove challenging.

1.3.1 The quality of the solutions will be the proof that a fair balance has been struck between two principles. The first principle concerns ‘a fair return’, i.e. each Member State expects its own contribution to be in proportion to the benefits accruing to it: such benefits are not all quantifiable since they derive directly from that country’s accession to the EU. The other principle concerns solidarity since it calls for sufficient flexibility to make greater or fewer concessions according to the needs of the community as a whole. It should also be borne in mind that these principles have gained general acceptance but are interpreted according to the values of the individual. Each government strives to protect its own finances and knows that national public opinion often plays a pivotal role in its decisions. Achieving a level of consensus that satisfies each and everyone one of the parties is contingent upon accepting solutions inspired by a true spirit of ‘financial federalism’.

2. The current situation

2.1 Own resources are a specific feature of the European Union and one of their functions is to emphasise the autonomous personality of the Community. This implies that the Community must have its own financial resources, which are independent of its Member States. They may therefore be defined as revenue granted to the Community to finance its own budget, and to which it is automatically entitled without further decisions by the national authorities.

2.2 According to the principles underlying the Community’s own resources system, as stipulated in the conclusions of the Berlin European Council of 24 and 25 March 1999 ‘It should be equitable, transparent, cost-effective … based on criteria which best express each Member State’s ability to contribute.’ This declaration, which is clearly self-explanatory, has been disregarded in different respects and on different occasions.

2.3 The Council decision to establish own resources dates back to 21 April 1970. It was subsequently incorporated into and amended by a decision on 24 June 1988 and finally by the Berlin Council of 1999. At the time of writing, own resources may be divided into the following three categories:

— traditional Own Resources (TOR): mainly from customs duties and agricultural levies.

— VAT-based resources: a levy — initially fixed at 1 % and subsequently adjusted — on national VAT revenues, calculated on a ‘theoretical’ harmonised statistical base, which should not, however, exceed 50 % of Gross National Income (GNI);

— GNI-based resources: a levy proportionate to the GNI of each Member State. There is no limit on this levy for individual Member States. However there is a ceiling that restricts the Community’s total own resources to 1.24 % of EU GNI.

2.3.1 In 1996, total TOR and VAT resources made up 70 % of revenue. In 2003, this figure had reached 38 %. According to Commission estimates, this will be further reduced to 26 % for 2004 and the current year. This gradual downward trend explains a corresponding rise in GNI-based resources (the so called fourth resource).

2.4 The fourth resource mechanism was amended by the Council decision of 7 May 1985, which recognised that the United Kingdom’s quota exceeded its contributive capacity. It was agreed that the UK would receive a rebate corresponding to two-thirds of its net contributions. This decision subsequently underwent various amendments and the Commission considers that the mechanism has now become increasingly complex and less transparent.

2.4.1 The decision to adjust the mechanism had already been taken by the Fontainebleau Council of 1984, albeit expressed in generic terms that seemed to establish a general principle whereby ‘… 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 United Kingdom has remained the sole beneficiary of this correction from the year following the Fontainebleau decision to date. The United Kingdom’s average annual rebate for the period 1997-2003 was EUR 4.6 billion. The Committee wonders what is meant by the expression ‘at the appropriate time’, which seems to imply a temporary provision, subject to periodic review (which has not been the case). The Committee also wonders whether other States may have been entitled to a similar correction at the time.

2.4.2 The concept of ‘excessive burden’ may be attributed in part to the fact that, at that time, the United Kingdom had the lowest gross national income (GNI) per capita in the European Union (2). The European average was 100 whereas the United Kingdom’s GNI was 90.6, compared to France at 92.6, Italy at 104, and Germany at 111.2. Another point that was given due consideration was the fact that the United Kingdom was obliged to pay contributions that were based on a very high VAT base, whereas it

benefited relatively little from agricultural and regional policy contributions. As a result, the United Kingdom emerged as the largest net contributor to the Community budget. The resulting imbalance justified a correction mechanism, which was in fact applied.

2.4.3 The UK rebate was and still is borne by the other Member States, in proportion to their GNP. Needless to say the United Kingdom was excluded from this calculation. The GNP equalisation mechanism underwent another substantial adjustment in 1999, when four of the major net contributors (in relative terms) to the budget (Germany, the Netherlands, Austria, and Sweden) were awarded a 75% reduction in their contributions towards the correction. As a result of the new contribution system, France and Italy became jointly responsible for financing 52% of the UK rebate.

2.4.4 If the current system were to be maintained, estimated developments for the 2007-2013 period would result in a paradoxical situation, i.e. the UK rebate would rise by an average of 50% making it the lowest ranking net contributor and substantially raising the burden of other Member States, including the new members (1). The EESC also believes that the proposal to extend the application of this mechanism to other countries (see point 3.6) makes it necessary to amend the rules. It has therefore become apparent that the correction mechanism — if confirmed as necessary (see point 3.6.4) — must nevertheless be reviewed — as indeed the Commission intends — and should be replaced by equitable and transparent solutions that comply with the Fontainebleau criteria.

3. The Commission proposal: comments on the main articles

3.1 Article 2: own resources. (paragraph 1(a)) retains the present system, with a few changes. The revenues of the first type (TOR) — see point 2.3 — are mainly levies, premiums, additional or compensatory amounts, Common Customs Tariff duties and other duties in respect of trade with non-member countries and other duties from markets in sugar. Member States are to retain, by way of collection costs, 25% of the amounts due. A deduction of such proportions requires clarification. The percentage was originally set at 10% and subsequently raised to 25% in 1999, when it was defined as a ‘collection cost’ for the first time. Needless to say, this was an atypical correction, which mainly benefited the Netherlands and the United Kingdom: an indication that the procedures lack transparency.

3.1.1 TOR revenue is, in percentage terms of total Community revenues, in constant decline, having in fact gone down from 19% in 1996 to 11.4% in 2003 (the figures cited under this point are based on a Commission report entitled Financing the European Union (2)). Even with lower customs duties, considerable resources — including financial — would still be required to obtain the necessary statistics on which to calculate the amounts due.

3.1.1.1 The EESC wonders whether there is really any point in retaining this contribution system and whether it would be better to drastically reduce it and replace it by adjusting the GNI rate. Furthermore, the EESC notes that the Commission has adopted the opposite approach, basing itself on the premise that tax revenue belongs to the European Union as a matter of course, and that the Commission does not intend to change this approach, particularly since most Member States would appear to support it.

3.2 Under Article 2(1)(b), a uniform rate valid for all Member States is to be applied to the harmonised VAT assessment bases. The assessment base may not exceed a 50% ceiling of GNI for each Member State. The uniform rate is fixed at 0.30% under Article 2(4). The reduction in the relative importance of this revenue for the Community budget — from 51.3% in 1996 to 14% (projected) in 2004 and 2005 — is significant.

3.2.1 The EESC has often criticised the VAT system, which entails far greater collection, administrative and monitoring costs than TOR. According to OLAF, VAT is also the most widely evaded tax and, as such, has a negative impact on the Community budget, (which is offset by raising the burden on GNI).

3.2.2 Yet again, the EESC finds cause to question the logic behind retaining this levy, which the Commission would appear to prefer even though it intends to transform it into a real fiscal resource, as originally foreseen. It should be possible to adjust the percentage levy on GNI so that own resources deriving from VAT revenue are replaced by GNI contributions. Given the close correlation between VAT revenue and the size of GNI, this should not result in any significant change in the distribution of contributions between Member States. However, the calculation of statistics and the collection of VAT-based contributions to the Communities’ own resources would cease. In the above-cited report on financing the European Union (see point 3.1.2), the Commission did, in fact, consider abolishing VAT-based resources but decided against it.

3.2.2.1 The EESC is aware of the complexities involved but maintains that it would be worthwhile to take a closer look at the nature and numerous shortcomings of this duty and has already carried out several analyses of this nature. In addition to the comments made in the preceding point, it should be mentioned that VAT has been a ‘provisional system’ for decades.

(1) See Table 4 of the above-mentioned document
(2) COM(2004) 505 final
3.3 Article 2(1)(c) is the most significant component of the proposal since it provides for the application of a rate, 'to be determined pursuant to the budgetary procedure', to the sum of all the Member States' GNIs. The procedure is a specialised matter that the Committee does not intend to comment upon. Moreover, the EESC would stress that this levy is outstripping other resources, and is by far the cheapest source of revenue to administer. The Commission reiterates, in its report, that administrative costs are one criterion to be taken into consideration, but not necessarily the main one. The EESC takes note of this and would point out that, in matters pertaining to budget contributions, principles must often give way to economic considerations.

3.4 The three sources cited above (Article 2(1)(a), (b) and (c)) constitute a mix (complemented by 'revenue from any other new charges introduced' under Article 2(2)) that could vary considerably from year to year. The Council and the Commission have, for some time, debated whether or not this system should be retained. The abovementioned Commission report (†) on financing the European Union looks at ways of identifying an optimal structure. It examines three options: retaining the current system, adopting an exclusively GNI-based system, and adopting a predominantly tax-based system. It is likely that the matter will be discussed and a final conclusion reached during the forthcoming year. The EESC hopes to be kept abreast of developments but warns against a tendency that has emerged in recent studies, i.e. an unduly technical and accountancy-based approach that overlooks the political aspects of decisions.

3.4.1 The ideas aired in the context of the 'revenue from any other new charges introduced' cited under the preceding point, or even as an alternative to VAT resources, included a tax on pollutant energy sources in favour of the Community budget but specifically earmarked for bettering the environment. The EESC is opposed to such a solution insofar as there is no rule authorising the appropriation of contributions for specific purposes. In addition, the international political situation excludes decisions that could have an impact on future dynamics.

3.5 Article 3: resources and commitments. This article establishes the ceiling for payments and commitments for own resources at 1.24 % of total GNIs of the Member States. The ceiling for appropriations for commitments is fixed at 1.31 % of total GNIs of the Member States. The balance should be provided by other payments of different types. Regarding commitments, dialogue between Member States reveals the existence of different methods for calculating the maximum ceiling foreseen in the financial perspectives. The outcome will depend on the balance struck between those members who want a stronger Commission and ambitious programmes for socio-economic progress, and those in favour of greater autonomy for the Member States and consolidation policies, i.e. endorsing the status quo or even a reduction of current resources (unlikely). However, particular consideration should be paid to the challenges that face the new Member States. To a large extent, future trends will be determined by global solidarity and global development: concepts that are easy to describe but much more difficult to translate into budgetary terms.

3.6 Article 4(1): the generalised correction mechanism (GCM). Article 4(1) establishes the Fontainebleau decision concerning the United Kingdom as a general provision. The GCM is thereby extended to all Member States to correct a negative budgetary imbalance exceeding a certain percentage of their GNIs. No threshold has been established in the proposal but its explanatory memorandum mentions the figure -0.35 % of GNI. Furthermore, overall correction should not exceed the maximum available refund volume. The Council will lay down the implementing measures for the calculation of the corrections and available financing in accordance with procedures laid down under Article 279(2) of the EC Treaty. The correction is calculated for each Member State on the difference between overall payments and total amounts received and multiplying the difference by the total allocated expenditure. The result (if positive) is multiplied by a refund rate fixed at a maximum of 66 % of total payments and, if necessary, reduced proportionally to respect the maximum available refund volume. In the final analysis, the formula is difficult to understand and its outcome is even more difficult to verify. If this is not another example of lack of transparency then it is certainly indicative of the need for simplification.

3.6.1 The EESC notes that the questions raised in point 2.4.1 and the proposals mentioned in point 2.4.4 have in fact been addressed insofar as an albeit justified measure, which was applicable to only one Member State and with no clear expiry date, has been extended to all. Moreover, the GCM has transmuted the concept of 'excessive burden' into a mathematics-accountancy approach, which, while it has the advantage of eliminating subjective interpretations, does not take into account considerations that might be described as 'quasi-qualitative' such as competitiveness, social protection levels and the hidden economy, in addition to per capita income. It is true that figures alone do not reflect the real situation in a country. Nevertheless, a generalised mechanism that takes into account extraneous assessment factors would risk introducing subjective criteria that would be incompatible with transparency. There is therefore no alternative to applying the GCM as it stands, knowing that it will not always lead to optimum results.

† COM(2004) 505 final
3.6.2 Article 4(1) has the merit of abolishing direct contributions by Member States to cover 'correction' financing and channelling them through the Community budget. This brings to an end, a system that had little to do with logic or, at any rate, transparency. The Commission’s explanatory memorandum is thick with calculations that are not always easy to follow and comments that help to shed light on the scope of the proposal for a decision. These helpful clarifications include an explanation of how the application of a -0.35% threshold of GNI will generate an estimated average volume of gross corrections of around EUR 7 billion. The Commission believes that the application of the GCM, combined with the amendment to the financing provisions, will mean that the correction level within the framework of the current system will not be at all clear. If the system and parameters proposed are adopted, the Commission’s calculations will produce quantitative results contained in comparative tables showing the different alternatives, which will be submitted to Member States for assessment and decision. The EESC does not have the resources needed to comment on this complex matter.

3.6.3 The EESC would draw attention to two considerations that might call into question the very mechanism of the GCM. In the first place, the mechanism is inflexible and unrestricted in time. In this regard, it is important to recall the dangers of basing rules on current realities that could undergo drastic changes in the future — the Stability and Growth Pact is a case in point. In the second place, it does not appear feasible to impose contributions that are subsequently adjusted through 'correction mechanisms' which, for the sake of transparency, might be better termed as 'reimbursements'.

3.6.4 Finally, the EESC recalls one of its recent opinions, wherein it expresses serious reservations regarding the institutionalisation of the GCM (*) and wonders whether it would not be more appropriate to drastically alter the concept of 'correction' by making the GCM an integral part of the criteria for contributions. More specifically, the same GCM parameters should form part of contribution calculations. The Commission has already adopted this procedure in practice and would be well advised to formalise it, in conjunction with a clause for a periodic review, for instance every seven years.

3.7 Article 4(2)(a): the United Kingdom correction. This paragraph provides transitional measures whereby the United Kingdom, in addition to the corrections resulting from the application of Article 4(1), will retain its rights under the Fontainebleau decision until 2011, on a descending scale: EUR 2 billion in 2008, EUR 1.5 billion in 2009, 1 billion in 2010 and 0.5 billion in 2011. These payments would be decoupled from the GCM. In practice they would be financed under the current financing rules, i.e. the United Kingdom does not participate in the financing, and the share of Germany, the Netherlands, Austria and Sweden is restricted to 25% of their normal share (see points 2.4.3 and 2.4.4) The Commission considers that phasing in these new measures in four gradual steps will alleviate the financial impact of the GCM for the United Kingdom. In recent years (1997-2003), the UK has received a net average rebate of EUR 4.5 billion per annum, whereas under the GCM it should receive an average EUR 2.1 billion a year. The transitional measures will raise the annual average amount to EUR 3.1 billion (Fontainebleau and GCM).

3.7.1 The proposed provision is clearly a combination of various elements: recognition of developments to date, the need for transparency and political expediency. It is not the first time that derogations from the Common Rules have been introduced. Accession treaties, both old and new, are proof of this. It may be difficult for external observers and those not directly involved to accept the rules under consideration. However the situation that we are obliged to live with could, perhaps, persuade decision-makers to put forward balanced solutions that are, above all, transparent and well substantiated. In this case, the negotiators would not only have to find a compromise between fair return and solidarity mentioned under point 1.4 but also to show particular political sensitivity by taking into account public opinion in Europe, and especially public opinion in the new Member States.

3.8 Article 4(2)(b): phasing-in of the GCM. The rules establishing the GCM should be phased in gradually. The maximum refund rate of 66% mentioned under Article 4(1) (see point 3.6) will not become applicable until 2011. The refund rate will be introduced at 33% in 2008, will rise to 50% in 2009 and 2010 and will reach its maximum rate the following year. The Commission considers this measure necessary 'in order to offset the increased cost brought about by the proposed top-up payments for the UK so as to limit the overall financing cost during the transitional period'. This is a clear indication of the difficult circumstances currently underlying European debate and it would be a grave error to conceal them from the European citizen. The EESC cannot but emphatically reiterate its comments under point 3.7.1.

3.9 Article 5: accountancy procedures for the correction. The costs of the correction are to be distributed amongst Member States according to each State's share in the total EU GNI. The correction will be granted to any eligible Member State via a reduction in its payments. The costs borne by all Member States will be added to their payments resulting from the application of a rate based on the sum of all the Member State’s GNIs. The EESC has no comments in this regard: once the mechanism is in place, its implementation cannot be otherwise.
3.10 Articles 6, 7 and 8: non-accountancy procedures regarding own resources. Similarly, these rules do not invite comment insofar as they comply with the general principles of public accountability: the earmarking of revenue for specific expenditure is not allowed, surplus to be carried over to the following year, arrangements for collecting own resources.

3.11 Article 9: modification of own resources structure. Under this article, if it is approved, the Commission commits itself to presenting a genuinely tax-based own resource that will enter into force on 1 January 2014.

3.11.1 The previously mentioned report on financing the European Union (9), provides a detailed analysis of this issue. Briefly, the Commission proposes to radically reduce the GNI-based resource by substituting it with a corresponding increase in the tax-based resource. Three alternatives may be roughly — and inevitably simplistically — summarised as follows: a tax on energy consumption, a VAT levy based on actual rather than statistical receipts, corporate tax. Partially replacing the fourth resource with a tax-based system would, according to the Commission (point 4.1.3 of the report), have the advantage of making the EU more ‘visible’ for citizens and establishing a direct link with them. Under the current system, which is predominantly based on the fourth resource, Member States, and net contributors in particular, tend to judge European policies and initiatives exclusively in terms of their own national allocations, and with little regard for the substance of Community policies, with the risk of obscuring their ‘value added’.

3.11.2 The EESC reiterates its previous comments regarding this report, which warrants special attention. However, the EESC believes it to be at an intermediate stage and considers that it warrants further discussion. Without wishing to discuss the three tax proposals mentioned under the previous point (the first of which is apparently to be discarded at the outset (10)) the Committee would draw attention to the Commission’s comment mentioned under the previous point, which eminently sets out the premise for Article 9. In the Commission’s opinion, transparent and readily applicable solutions would consist in:

— A gross contribution based on GNI per capita: the EESC has already raised this point in its Opinion on the Communication from the Commission to the Council and the European Parliament — Building our common future: Policy challenges and budgetary means of the enlarged Union 2007-2013 (10).

— A net contribution calculated on the basis of the gross contribution and corrected in accordance with the GCM, thereby avoiding subsequent rebates and adjustments.

An approach of this type, whilst remaining open to future adjustments and corrections, would have the advantage of always reflecting the prevailing situation in each country, whilst obviating the need to revise the contribution structure.

4. Concluding comments

4.1 The EESC realises that the final decision, which will undoubtedly be influenced by political considerations, lies with the Member States. It is in its capacity as representative of civil society, in other words, of those who will ultimately bear the burden of contributions to the European budget, that the EESC puts forward these recommendations and proposals, hoping that they may be taken into consideration.

(9) COM(2004) 505 final of 14.7.2004

(10) A tax on energy would be anachronistic in the light of the current situation. (See EESC opinion on Tax policy in the European Union – Priorities for the years ahead, published in OJ C 48 of 21.2.2002, point 3.1.2.1.1. With regard to a tax on energy to protect the environment, the Committee has pointed out repeatedly that the introduction of eco-taxes must not be allowed to lead to European firms becoming less competitive and to jobs being lost, especially in energy-intensive sectors)

(10) Of C 74 of 23.03.2005, p 32, point 5.5
4.2 Civil society and, ultimately, the European citizen would point out that the mechanism for contributions to the EU's own resources is little-known, but more importantly, it lacks transparency. A GCM that is designed to reimburse contributions that have already been made, at the expense of other Member States rather than of the Community budget, would appear even less transparent. If we genuinely intend to ‘bring the citizen closer to Europe’, Member States must be aware of their responsibilities in respect of this frequently reiterated and acclaimed objective: communication must be based on clarity and accessible language. This responsibility lies primarily with individual national governments rather than with the Commission. National governments alone are in a position to communicate with their citizens since they understand their mentality and needs. Ultimately, the credibility of the European Union is the specific responsibility of the national authorities.

4.3 If the above-mentioned conditions are fulfilled, the proposal to set up a contribution system based on ‘European’ taxation might have some rational foundation. However, failing this, the proposed mechanism seems premature, to say the least.

Brussels, 12 May 2005

The President
of the European Economic and Social Committee
Anne-Marie SIGMUND

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APPENDIX

The following amendment was defeated during the course of the discussion:

**Point 3.1.1.1**
Delete.

**Reason**
There will be no change in the calculation of customs revenue or the cost of running the customs service, even if customs duties cease to be part of the EU’s own resources. As trade policy falls within EU competence, it seems only natural that EU policy should embrace all aspects of it, including customs collection and customs revenue.

**Outcome of the vote**
For: 38
Against: 51
Abstentions: 18.