Opinion of the European Economic and Social Committee on the ‘Amended proposal for a Council Decision on the system of own resources of the European Union’

COM(2011) 739 final — 2011/0183 (CNS)

and the ‘Amended proposal for a Council Regulation laying down implementing measures for the system of own resources of the European Union’

COM(2011) 740 final — 2011/0184 (APP)

(2012/C 181/09)

Rapporteur: Mr DANTIN

On 19 October 2011 the Council decided to consult the European Economic and Social Committee, under Article 311 of the Treaty on the Functioning of the European Union, on the

Proposal for a Council Decision on the system of own resources of the European Union

COM(2011) 510 final — 2011/0183 (CNS)

and the

Proposal for a Council Regulation laying down implementing measures for the system of own resources of the European Union


On 9 November 2011 the Commission adopted amended proposals and on 15 December 2011 the Council decided to consult the European Economic and Social Committee, under Article 311 of the Treaty on the Functioning of the European Union, on the

Amended proposal for a Council Decision on the system of own resources of the European Union

COM(2011) 739 final — 2011/0183 (CNS)

and the

Amended proposal for a Council Regulation laying down implementing measures for the system of own resources of the European Union

COM(2011) 740 final — 2011/0184 (APP),

replacing the aforementioned proposals.

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 the amended proposals on 7 March 2012.

At its 479th plenary session, held on 28 and 29 March 2012 (meeting of 29 March), the European Economic and Social Committee adopted the following opinion by 165 votes to 21 with 11 abstentions.

1. Conclusions and recommendations

1.1 A system under which approximately 75 % of the EU’s resources is taken directly from national budgets departs from the letter and spirit of the Treaty of Rome (1).

1.2 The current system, based mainly on a GNI contribution, has fuelled budget-related debates focused on the concept of fair return and compensation mechanisms that do not take into account the benefits offered by the EU not least in the areas of peace, freedom, prosperity, growth and security.

1.3 Against this backdrop, the Committee welcomes the Commission’s legislative proposals. It considers that they are a step in the right direction, as they halve the GNI contribution and compensate for that with two new own resources, one based on VAT and the other on a tax on financial transactions. This relative increase in real own resources will bring the

(1) Article 201.
Committee considers that its opinion should have been the advantages and disadvantages of each choice. The tax on financial transactions, these were rejected without new own-resources. With the exception of the new VAT and arrangements that in its opinion could feasibly have generated Commission listed a number of appropriate financing proposals in question, the EESC would make the following observations.

1.5 However, while broadly endorsing the content of the proposals in question, the EESC would make the following observations.

1.5.1 In many of its opinions, the Committee has drawn attention to the fact that intra-Community VAT is a major area of tax evasion. It therefore considers it necessary to accompany this new own resource with measures aimed at reducing if not eliminating fraud. It will therefore be keeping a close eye on the legislative proposals to be made following the discussions sparked by the Green Paper on the future of VAT.

1.5.2 In its communication on the EU budget review, the Commission listed a number of appropriate financing arrangements that in its opinion could feasibly have generated new own-resources. With the exception of the new VAT and the tax on financial transactions, these were rejected without disclosing any of the political reasons for the decision, beyond the advantages and disadvantages of each choice. The Committee considers that its opinion should have been requested prior to these Commission decisions.

1.5.3 As it pointed out in its opinion on the EU budget review, the EESC considers that an increase in the European budget is not only desirable but also necessary in order to face up to the full extent of the new challenges requiring a common response. The EESC regrets that the text under discussion deals only with the internal structure and qualitative content of the budget and does not refer to the new own resources in order to address the key issue of budget size. Whilst not wishing to play down the aspects dealt with by the documents in question, the Committee considers that the budget is not just a matter of figures or choices regarding internal organisational structure: it is primarily an instrument serving a political endeavour, namely the ambitions of the European Union. The EU’s political decisions and the resources it deploys to implement them therefore need to be coherent and in tune with each other. The Committee regrets the fact that the Commission has not used this opportunity to provide financial support to help fulfil the obligations arising from the Treaty of Lisbon, the 2020 Strategy or the need to take measures to stimulate growth.

2. Introduction: current situation

2.1 The draft decision under discussion is one of six legislative proposals accompanying the communication on A budget for Europe 2020 (COM(2011) 500 final) (1). Each of these should be examined individually (2).

2.2 The issue of own resources is important in both structural and political terms. The origin of resources determines the relationship between the public, the Member States and the Community institutions, while also raising the issue of the EU’s financial autonomy. The debate on own resources for the European Union is linked to the general debate on the future of integration, involving two possible scenarios: federalism and intergovernmentalism.

2.2.1 The Committee was already of the view back in 2008 that there is a fundamental choice to be made when shaping budget policy: federalism (3) or an intergovernmental system. Clearly, the arrangements for financing the budget are one measure of the level of advancement of European integration (4).

2.3 Although the Treaty of Rome of 25 March 1957 provided for a transitional period of national contributions, its Article 201 stipulates that ‘Without prejudice to other revenue, the budget shall be financed wholly from own resources’.

2.3.1 This principle is consistent with the overall aim of the economic and monetary union and the general principles set out in the Treaty of Maastricht which determine the relationship between the public, the Member States and the Community institutions.

2.3.2 Each Member State thus needs to provide financial support to help fulfil the obligations arising from the Treaty of Maastricht and the Single European Act, the 2020 Strategy, or the need to take measures to stimulate growth.

2.3.3 As Minister for Finance of the Netherlands, I also referred to the need for a tax on financial transactions as a source of new own-resources, which was rejected by the Commission on the grounds of the time needed for debates within the General Affairs Council.

2.3.4 The position of the Committee was already clear in its opinion on the EU budget review in 2008 (4). It is therefore regrettable that the Commission’s proposal does not go far enough. However, while broadly endorsing the content of the proposals in question, the EESC would make the following observations.

2.3.5 The Committee regrets that the text under discussion does not mention the current debate under way in the European Parliament on tax harmonisation in the area of financial transactions and that it therefore foresees a rather long period before new own resources will be available. The Committee regrets the fact that the Commission has not used this opportunity to provide financial support to help implement the obligations arising from the Treaty of Lisbon, the 2020 Strategy or the need to take measures to stimulate growth.


(2) See EESC opinion on The common system of financial transaction tax (see page 55 of this Official Journal) and EESC opinion on The 2014-2020 budget (not yet published in the OJ).

(3) Federalism here may feature: the principle of superposition (State competences are divided between federal government and the governments of the federated States), the principle of autonomy (every tier of government is autonomous or “sovereign” within its area of jurisdiction), and the principle of participation (federated entities are represented and participate in federal decisions taken at the level of the federal State). The ways these principles are implemented can vary, but in practice in a formally federal system there is no set degree of centralism or democracy.

Source: http://fr.wikipedia.org/wiki/F%C3%A9d%C3%A9ralisme.

2.4 Currently, the Union's resources are made up of what are referred to as ‘traditional’ own resources raised from customs duties, agricultural duties and sugar levies, and ‘new’ own resources drawn from a levy on the harmonised value-added tax (VAT) base and a levy on gross national income (GNI). These VAT and GNI resources are in actual fact ‘quasi’ own resources as they are levied by the Member States on their own revenue. They are treated as own resources only because they are destined for the European budget, which in 2011 amounts to EUR 126.5 billion, or 1.13 % of the GDP of the EU-27.

2.4.1 The report on the operation of the own resources system (8) drawn up by Commission services demonstrates that the current financing system performs poorly with regard to most assessment criteria. It is also opaque and complex, inescrutable to all but a few experts, effectively inaccessible to the public and thus making democratic control difficult.

The way the EU budget is financed, meanwhile, leads many Member States to consider their contribution to the Union as expenditure only, which inevitably raises tensions whenever the budget is discussed.

2.4.2 This situation has led the Commission to propose that the Council amend the EU’s own resources system. This proposal, taking the new legal context proposed by the Lisbon Treaty into account, ties in with the content of its earlier communication on the EU budget review (7).

2.5 Against this backdrop, the present document will be fully in line with the opinion that the Committee adopted at its plenary session in June 2011 on that communication (7).

3. A revised legal framework

3.1 The Lisbon Treaty establishes a new legal framework. It brings in major changes not only to EU budgetary procedure but also to the way the EU finances its budget.

Article 311 states that the Council ‘may establish new categories of own resources or abolish an existing category’. It also states that the Council, ‘acting by means of regulations in accordance with a special legislative procedure, shall lay down implementing measures for the Union’s own resources system’. The way is therefore clear for a reduction in the current number of own resources and the creation of new resources for which the implementing measures are to be established by means of regulations.

4. Content of the proposal for a Council decision

4.1 The proposed own resources decision includes three main elements: the simplification of Member States’ contributions, the introduction of new own resources and the reform of correction mechanisms. These three proposals are to be considered as a whole requiring a single decision.

4.1.1 Simplifying Member States’ contributions

The Commission proposes eliminating the current VAT-based own resource because it is complex and provides little added value compared with the GNI-based own resource. It is proposed that this resource be abolished on 31 December 2013.

4.1.2 Introducing new own resources

In its communication on the EU budget review, the Commission listed six potential own resources. The Commission has chosen two of them in the texts under discussion. It proposes a tax on financial transactions and a new VAT-based resource, both to be introduced as of 1 January 2014 at the latest. These new own resources would fund 51.4 % of EU spending, with traditional own resources accounting for close to 20 % of the total and the GNI-based own resource approximately 30 %, coming down from 74.2 % to 29.7 % (9).

4.1.3 Reforming the correction mechanisms

4.1.3.1 The correction mechanisms currently in place are temporary, and will end in 2013. The correction granted to the United Kingdom, the rebates on its financing granted to four Member States (Germany, the Netherlands, Austria and Sweden) and the hidden correction, which consists of retaining, by way of collection costs, 25 % of the sums collected by the Member States for traditional own resources, will continue to apply in their current form until a new own resources decision enters into force.

4.1.3.2 Noting that the objective situation of a number of Member States has changed considerably, that since 1984 (Fontainebleau Agreement) the conditions underpinning the correction mechanisms applied until now have also evolved (the CAP’s share of the EU budget and VAT-based financing have decreased considerably and the UK is now one of the more affluent EU Member States (10)), the Commission has stated that it is time to review the UK correction.

4.1.3.3 The draft decision under discussion therefore proposes the establishment of temporary corrections in favour of Germany, the Netherlands, the United Kingdom and Sweden. Subsequently, a new system of lump sums, designed to replace all existing correction mechanisms, will be established as of 1 January 2014. In addition, the Commission proposes reducing the sum of the hidden correction from 25 % to 10 %.

(8) See EESC opinion on The EU budget review, OJ C 248, 25.8.2011, p. 75.
5. General comments

5.1 A system under which approximately 75% of the Union’s revenue originates not in genuine own resources but is drawn directly from national budgets by means of a GNI-based resource and under which 15% comes from a share of the VAT base that cannot be regarded as being in any way an EU own resource (on account of the way in which it is determined), departs from the letter and the spirit of the Treaty of Rome.

5.2 The Committee would stress that it is these ‘levies’ that have fuelled the short-sighted debate relating to net contributors that takes no account of the advantages provided by the Union, particularly in the area of peace, freedom, prosperity, growth and security.

5.2.1 The EESC agrees that the concept of the ‘fair return’ raised by GNI levies is even less appropriate today than it was at the start of the European venture. This concept, which has all too often distorted the functioning of the European Union by derailing debate, is in large measure responsible for its shortcomings, delays and failures. It runs counter to the spirit of a union of States and peoples and defies rational economic argument. The advantages and added value of an economic, monetary and political union should, by their very nature, be of benefit to everyone. The progress made by the European Union is based entirely on the multiplier effect of joint efforts, the polar opposite of the fair return concept (11).

5.3 The current system of own resources, which depends on Member States’ contributions, is opaque and complex, restricting democratic control and doing nothing to promote commitment to European integration. What is more, by adding to public perception that the contribution to the EU is an additional burden weighing on national budgets, this system has fuelled the short-sighted debate relating to net contributors that takes no account of the advantages provided by the Union, particularly in the area of peace, freedom, prosperity, growth and security.

5.3.1 Furthermore, the current system, with its various correction and rebate mechanisms (be they general rebates in favour of one Member State, such as the UK rebate, or special ones, such as those financing other rebates), is excessively complex, lacks transparency and is completely incomprehensible to the European public. This system does nothing to meet the requirement that there be a direct link between the Union and its people.

5.4 In view of the general considerations above, the Committee welcomes the Commission’s proposal for a Council decision. It considers it to be a step in the right direction, since it simplifies its structure and reduces current national contributions to the European Union budget from 8,3% (EUR 111,8 billion) to 29,7 % (EUR 48,3 billion), of which GNI-based income will come down from 74,2% (EUR 97,3 billion) to 29,7 % (EUR 48,3 billion), thus moving nearer to the spirit and letter of the Treaty of Rome. This increase in the proportion of genuine own resources will help to increase the financial autonomy of the EU while also bolstering Member States in their far-reaching austerity drives.

6. Specific comments

6.1 In its communication on the EU budget review, the Commission listed a number of financing methods that it believed could feasibly have been used to generate new own resources: a European tax on the financial sector, EU revenues from auctioning under the greenhouse gas Emissions Trading System, an EU charge related to air transport, European VAT, a European energy tax and a European corporate income tax.

6.1.1 Each of these potential resources has been subject to a Commission analysis (12) that highlights the advantages and disadvantages they each present without giving the political reasons for discarding some of them and opting for a new value added tax and a tax on financial transactions.

6.1.2 The Committee considers that the political reasons that led to the rejection of certain options should be known and that the Committee should have been asked for its opinion prior to the decisions being made.

6.2 The content of the proposed amendments

6.2.1 Eliminating the current VAT-based own-resource and simplifying Member States’ contributions

This ‘quasi’ own resource levied by Member States on their own revenue now seems obsolete. It is no more than a mathematical base used to calculate national contributions. It is complex, necessitates a great number of administrative formalities in order to arrive at a harmonised base, and offers little value added. The Committee is in favour of this simplification.

6.2.2 The establishment of a new VAT resource

This will be one facet of a radically altered VAT regime applicable within the EU. It will represent 18,1% of new own resources (see Appendix I) by 2020.

This would tie in, in part, with the Green Paper on the future of VAT (13). The Committee has approved the initiatives planned by the Commission in that Green Paper.

(11) See footnote 5.
This share of VAT on goods and services, intra-Community acquisitions of goods and importation of goods subject to a standard rate of VAT in each Member State under Directive 2006/112/EC (14) should not exceed two percentage points of the standard rate; the implementing regulation provides for one percentage point.

The Committee endorses the establishment of this new VAT resource, replacing the existing one, which has been shown by analysis to be obsolete. It believes that the EU budget – and its constituent resources – should be considered to be one of a number of means serving common objectives.

It would however have been easier to judge the form and substance of this proposal thoroughly had the texts under discussion provided precise data on the changes to VAT structure and set out (by means of a study) the differences in financial volumes that will affect each Member State as a result of the change.

Furthermore, as the Committee has already pointed out in previous opinions, intra-Community VAT is a major source of tax evasion. It therefore considers it necessary to accompany this new own resource with measures aimed at reducing if not eliminating fraud. Against this backdrop, it will be keeping a close eye on the legislative proposals to be made following the discussions sparked by the Green Paper on the future of VAT.

6.2.3 Introduction of a financial transaction tax

Several Committee opinions (15) have approved the idea of establishing a tax on financial transactions (TFT), subject to certain conditions. The Committee has pointed out for instance that:

— preference should be given to the introduction of the TFT at world level, given the concerns expressed as to the risk of a relocation effect; nevertheless, if this is not possible, it would then be in favour of adopting the tax at EU level, taking into account the conclusions of the impact assessment carried out by the European Commission;

— in addition to potentially increasing the stability and efficiency of the financial markets, by reducing their volatility, the TFT is also necessary for both the Member States and the EU, as a means of collecting revenue in order to reduce budget deficits.

As the Commission has pointed out in its proposal for a Council decision, this tax could provide a new source of revenue to be levied at EU level. This would enable Member States to reduce their contributions, providing national governments with additional room for manoeuvre and thus supporting general efforts towards fiscal consolidation. At the same time, this EU initiative should mark a first step towards the application of a TFT at world level, a concept that is currently under discussion at G20 level.

Accordingly, and in the light of its previous opinions, the Committee is in favour of establishing a tax on financial transactions as an own resource for the budget of the European Union.

By 2020 this could provide for 33.3 % of the EU’s own resources (see Appendix I) with a budget allocation of EUR 54.2 billion, while, according to initial estimates, it could generate receipts of EUR 57 billion a year, depending on market reactions (16).

The taxation rates as a percentage of the taxable amount will be no less than 0.1 % for financial transactions other than those relating to derivatives agreements and no less than 0.01 % for financial transactions regarding derivatives agreements (17).

6.2.4 The reform of the correction mechanisms

The Committee welcomes the fact that the draft decision proposes the reassessment of the UK correction and the establishment of a new system of lump sums to replace all existing correction mechanisms as of 1 January 2014. The same applies to the reduction in the sum of the hidden correction from 25 % to 10 % (see Point 4.1.3).

These proposals are a step in the right direction but they are not enough, as they do not go all the way towards a budget based predominantly on own resources.

The Committee considers that when over 66 % of a budget is made up of own resources, the concept of fair return should be abandoned as it runs counter to the values of solidarity and mutual benefit that underpin European integration (see Point 5.2.1). If the EESC supports the Commission proposal regarding the primacy of a system based on own resources, it is because it expects this reform to lead eventually to the possible elimination of national corrections, which will no longer be justified within a reformed European budget securing greater value added for all Member States (18).

(15) See the EESC opinion on the Larosière Report, OJ C 318, 23.12.2009, p. 57: Point 1.10 (Summary and conclusions) of the EESC opinion on A financial Transaction Tax, OJ C 44, 11.2.2011, p. 81; Points 4.4.2, 1.5.3 and 1.5.4 of the EESC opinion on Fiscal policy: growth and fiscal adjustments, OJ C 248, 25.8.2011, p. 8; and the EESC opinion on Taxation of the financial sector, OJ C 248, 25.8.2011, p. 64.
(17) See footnote 10.
(18) See Point 4.4 of the EESC opinion on The EU budget review, OJ C 248, 25.8.2011, p. 75.
Nevertheless, the EESC would point out that it is difficult to make a precise evaluation of the intrinsic value of the proposals when no evidence is provided as to the volume of the changes proposed or comparisons with the current situation.

6.3 The Commission’s document reiterates the view, already indicated in its communication on the EU budget review (19), that ‘introducing new own resources is not an argument about the size of the budget (…)’. The Committee does not share this view. When reviewing and reorganising the EU budget by modifying and introducing own resources and reforming the correction mechanisms, it is appropriate to ask what the impact of these changes will be on the size of the budget and to gear those changes to the political choices that have been or have to be made.

6.3.1 From this standpoint, the Committee considers that the EU budget is not just a matter of figures or choices regarding the internal organisation of its various constituent elements. It is primarily an instrument serving a political endeavour, namely the ambitions of the European Union. Against that backdrop, the EU’s political ambitions and the resources used to achieve them therefore need to be coherent and in tune with each other. Currently, however, the European Union does not have sufficient budgetary resources to implement its political strategy or the 2020 strategy, or to honour the commitments deriving from the new Lisbon Treaty.

The Committee believes that increasing the European budget is not just desirable but necessary, given the scale of the new challenges requiring a joint response (20).

Brussels, 29 March 2012.

The President of the European Economic and Social Committee
Staffan NILSSON

(20) See Points 1.1 and 4.1 of the EESC opinion on The EU budget review, OJ C 248, 25.8.2011, p. 75.
### APPENDIX I

**Estimated evolution of the structure of EU financing (2012-2020)**

<table>
<thead>
<tr>
<th></th>
<th>2012 Draft Budget</th>
<th>2020</th>
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<tbody>
<tr>
<td></td>
<td>EUR billion</td>
<td>% of own resources</td>
</tr>
<tr>
<td>Traditional own resources</td>
<td>19.3</td>
<td>14.7</td>
</tr>
<tr>
<td>Existing national contributions</td>
<td>111.8</td>
<td>85.3</td>
</tr>
<tr>
<td>VAT-based own resource</td>
<td>14.5</td>
<td>11.1</td>
</tr>
<tr>
<td>GNI-based own resource</td>
<td>97.3</td>
<td>74.2</td>
</tr>
<tr>
<td>New own resources</td>
<td>—</td>
<td>—</td>
</tr>
<tr>
<td>of which</td>
<td></td>
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<tr>
<td>New VAT resource</td>
<td>—</td>
<td>—</td>
</tr>
<tr>
<td>EU financial transaction tax</td>
<td>—</td>
<td>—</td>
</tr>
<tr>
<td>Total own resources</td>
<td>131.1</td>
<td>100.0</td>
</tr>
</tbody>
</table>

Source: calculation made by the Commission based on COM(2011) 510, updated on the basis of COM(2011) 738

### APPENDIX II

**Evolution of key parameters (1984-2011)**

<table>
<thead>
<tr>
<th></th>
<th>1984</th>
<th>2005</th>
<th>2011</th>
</tr>
</thead>
<tbody>
<tr>
<td>Share of CAP in budget (% of total)</td>
<td>69 %</td>
<td>50 %</td>
<td>44 %</td>
</tr>
<tr>
<td>VAT-based contribution (% of total)</td>
<td>57 %</td>
<td>16 %</td>
<td>11 %</td>
</tr>
<tr>
<td>UK prosperity (GNI per capita PPS)</td>
<td>93 % of EU-10</td>
<td>117 % of EU-25</td>
<td>111 % of EU-27</td>
</tr>
</tbody>
</table>

Source: European Commission, DG Budget