

Future of the European Union's own resources

2006/2205(INI) - 29/03/2007 - Text adopted by Parliament, single reading

The European Parliament adopted by 458 votes in favour, 117 against and 61 abstentions a resolution based on the own-initiative report by Alain LAMASSOURE (EPP-ED, FR) on the future of the European Union's own resources, and proposed a reform of the own-resources system which would above all emphasise equality between Member States. It called for a progressive approach which could be introduced in **two stages** but which should form part of a single decision. The provisional and transitional first phase would lead to an improvement of the current system of national contributions, for which the following political principles should be applied: equality between Member States; simplicity of presentation; solidarity and equal dignity amongst Member States; and establishment of a political link between a reform of revenue and a review of expenditure as it is already correctly included in the Interinstitutional Agreement. The second phase of the reform would see a new system of own resources, with the following principles as cornerstones: full respect for the principle of fiscal sovereignty of the Member States; fiscal neutrality; no changes to the order of magnitude of the EU budget; progressive phasing-in of the new system; establishment of a clear political link between a reform of revenue and a reform of expenditure.

To recall, 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 (equivalent to 1.27% of GDP) for payment appropriations and 1.31% of GNI (equivalent to 1,335% of GDP) for commitment appropriations, 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.

Parliament pointed out the various **shortcomings** of this system. The 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. It does nothing towards fulfilling the requirement of establishing a direct link between the Union and its citizens.

Furthermore, a system in which approximately 70% of the Union's revenue do not originate in own resources but come directly from the national budgets through the GNI resource, and 15% come from a resource such as the percentage of the VAT rate which cannot be regarded (on account of the way in which it is determined) as being in every respect an EU own resource, departs from the provisions and the spirit of the Treaty of Rome.

The very existence of the European Union has brought about an increase in intra-Community trade and an increase in the Member States' "wealth", for which reason the EU is fully entitled to equip itself with a system of genuine own resources instead of one fed by national contributions.

- **First phase of the reform: an improved system of national contributions** : Members favour replacing the current financing system of the EU, while leaving in place traditional own resources, by a GNI based system, taking GNI shares as the basis for the Member States' contributions towards the Union's own resources, abolishing the VAT resource in its current form, as it is only a mathematical basis for calculating the national contributions, and progressively suppressing the British rebate to zero in 2013. This proposal put forward by Finland in April 2004. Parliament recognised that the GNI resource is less visible for citizens but equitable in relating contributions to the general level of prosperity of Member States and an expression of solidarity between them. It

was 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. Parliament called on the Commission to consider the GNI based system when making any new proposals on EU revenue following the review process as laid down in the Interinstitutional Agreement of 17 May 2006. The link between revenue and expenditure should form an aspect of the considerations concerning the changeover to a new system. Parliament rejected any attempt to renationalise the Common Agricultural Policy. The first phase of the reform could start immediately after the ratification of the agreement to be reached. 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. However, Parliament underlined the temporary nature of such a phase, in that its sole aim would be to prepare the ground for the introduction of a genuinely new own resources system.

- **Second phase of the reform - a new system of own resources:** one of the key points of a new system is that fiscal sovereignty will remain with the Member States who might, however, authorise the Union, for a limited period to be revoked at any time, to benefit directly from a certain share of a tax as is the case in most Member States with regional or local authorities. Furthermore, all other things being equal, the new system must not increase overall public expenditure nor the tax burden for citizens.

Parliament considered that the time for a new European tax has not yet come in the short term. However, this does not rule out the possibility that, if and when Member States decide to levy new taxes, they could at the same time, or at a later stage, decide to authorise the Union to benefit directly from such new taxes.

Parliament stressed that it would be vital in a second phase to examine the creation of a new system of own resources based on a tax already levied in the Member States, the idea being that this tax, partly or in full, would be fed directly into the EU budget as a genuine own resource, thus establishing a direct link between the Union and European taxpayers. It pointed out that this would also serve to approximate national tax laws. This kind of solution would only mark a return to the principle laid down by the Treaty of Rome, whereby European expenditure has to be financed by European own resources. This system would have the advantage of being simple and transparent and of constituting a possible step towards the establishment of a genuine own resources system for the Union and that all Member States contributing to the UK rebate at the moment would benefit, as would the UK itself, through the abolition of the VAT resource in its current form. Parliament stressed that this does not prejudice the long-term inclusion of an altered VAT in the financing of the European Union. The candidate taxes in whole or in part which were taken into consideration for this purpose during the exchanges with the national parliaments or in the Commission's reports on the reform of the own resources system include the following: VAT; excise duties on motor fuel for transport and other energy taxes ; excise duties on tobacco and alcohol ; taxes on corporate profits.