

Financing the Union 2000-2006: own resources, European Council, Berlin, March 1999

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Article 9 of the current own resources decision calls on the Commission to "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)".

In response to a request from the European Parliament and in agreement with the Council, the Commission committed itself to present the abovementioned review on the functioning of the financing system before the end of 2004.

On 10 February 2004, the Commission adopted its communication on the Financial Perspective 2007-2013 . The communication identified two main elements of the current own resources system deserving closer attention: first, the insufficient transparency of the system for EU citizens combined with limited financial autonomy from national treasuries; secondly, the need to reform the existing mechanism for correction of negative budgetary imbalances.

In line with those orientations, this report provides an overview of the current system and its main drawbacks, proposes a generalised correction mechanism as a short term adjustment in order to address the main outstanding issue and outlines for the longer term an own resources structure that would be effective, transparent and democratic.

The main conclusions of the report are that:

The introduction of a new tax-based own resource replacing the current statistical VAT-based resource and financing a significant part of the EU budget would make it possible to overcome the main drawbacks of the current system, i.e. the absence of a direct link to EU citizens, overwhelming dependence on transfers from national treasuries and unjustified complexity. It could also contribute to a better allocation of economic resources in the EU. Even if accounting for a lower share of total own resources than under the current system, the GNI-based resource should continue to play an important role and ensure that the system reasonably fulfils all relevant criteria.

The Commission proposes three main candidates as possible future fiscal own resources: a resource based on 1) energy consumption, 2) national VAT bases and 3). corporate income.

- A resource based on energy consumption and conceived as an EU levy on motor fuel for road transport would be a sufficient and stable financing source for the EU budget and would create a direct link to the citizens. The tax base is already harmonised at EU level. It could be complemented by an EU levy on aviation fuel or the related emissions thus ending the current tax exemption for jet fuel and setting a price on the environmental costs of aviation.

- Tax base harmonisation in the field of VAT is quite advanced and it is a sufficient and stable source of revenue. A fiscal VAT resource would make the financing of the EU highly visible to EU citizens. It

would also be evolutionary, since it would entail a reform of existing provisions rather than the introduction of a completely new resource. From an administrative point of view, its introduction would not present any insurmountable difficulties.

- Due to the link to a common EU policy and the presence of cross-border externalities, revenue from a harmonised company tax base would also be a suitable financing source for the EU budget.

- The European Union is a Union of Member States and citizens. Any of the three candidates for fiscal own resources examined above would transpose this concept 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".

- Obviously, any new assignment of a resource to the EU budget has not only to be decided unanimously by Council, but also has to be ratified by all Member States' parliaments.

- The implementation of an energy- or VAT-based resource would be feasible over the medium-term, whereas a fiscal resource based on corporate income is to be seen as a much longer-term option. What is needed now is a political orientation to prepare the conditions for reforming the structure of the existing own resources. In this regard, the Commission calls on the Council:

a) to discuss the options proposed in this report;

b) to take note of the Commission's intention to prepare a roadmap in view of replacing, on the basis of a Commission proposal, the current VAT resource by a genuinely tax-based own resource by 2014.

In order to provide a short-term solution to the issue of excessive budgetary imbalances to be operational as from the beginning of the next Financial Perspective, the Commission proposes to introduce a generalized correction mechanism to correct excessive budgetary imbalances according to the proposed Council decision on the system of own resources and the accompanying proposed implementing measures.