

EU Civil Society Contact Group

Financing the EU: where does, could and should the money come from?

An NGO lunch debate
21 May 2008, Brussels

Report

Introduction

Andre Wilkens, facilitator of the Civil society Contact Group working group on the EU budget review and chairing the lunch debate, introduced the event as a follow up of the EU Civil Society Contact Group's conference that took place on January 24 2008 "Building a value based EU budget for the future – What role for NGOs?". He made clear that while the conference looked at the expenditure side of the EU budget, the lunch debate on May 21 aimed at discussion the income side of the EU budget.

1. Introductory briefing

- Where does EU money come from today?
- What alternative sources are discussed?

by Martina Weitsch, HRDN

Find [Weitsch's presentation](#) here.

Current Income Sources of the EU

Martina Weitsch, HRDN representative in the Civil Society Contact Group working group on the EU budget review, explained that right from the beginning in 1957 the EU budget included own resources. Unlike the UN, the EU therefore is not entirely dependent on the good will of the Member States. Customs levies that might be considered the only truly European income did and are likely to continue to decrease significantly due to liberalisation of the international trade system. Additionally a sugar levy was put on sugar producers if they produced more than quota foresee. The other two elements usually referred to by the EU as own resources are value added tax VAT and growth national income GNI related percentage. Weitsch pointed out that this is where the debate on own resources becomes much more fluid.

The maximum of what income goes into the EU budget is nowadays set by reference to the GNI. A percentage of currently between 1-1,2% of GNI is agreed at the beginning of each financial perspective. The agreed percentage is the top level to what the EU has access to. Weitsch made clear that Member States have ultimate control over what percentage is set and therefore it doesn't make sense to consider it as an own resource. GNI based resource is increasingly becoming the dominant source of EU budget.

VAT rates and systems vary hugely between Member States. Weitsch outlined that it is therefore not clear to citizens that and how they contribute to the EU budget. The total amount contributed by each EU citizen to the EU budget sums up is about 255 Euros a year.

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The EU roughly speaking spends more than 90% within the Member States. There are financial flows from the Member States to the EU and the other way round. Weitsch raised the question if it is sensible to ask how these flows interact. It is though a fact that during every negotiation of the financial perspective a long discussion over net contributors and net recipients takes place in Parliament and Council. Looking at it from a net contributor/net recipient perspective, one sees that some Member States put in more than they get out and some get out more than they put in. Given that the EU is a project of social integration this should be treated as an arithmetic fact more than as a political issue up for negotiation, Weitsch said. One reason for the current budget review is that many people find the net contributor/net recipient discussion pointless.

Correction mechanism

The discussion on net contributors and net recipients lead to what is called the UK rebate or correction mechanism. At the time Margaret Thatcher managed to get a rebate on the UK's contribution to the EU budget. Weitsch explained that the UK getting a rebate doesn't mean the EU budget gets smaller. It signifies that someone else has to take over the reduction for the UK. The amount of the rebate is distributed among the Member States of the time on the basis of GNI. Furthermore it was agreed that the major other net contributors (Germany, the Netherlands, Austria and Sweden) would only pay 25% of their share. This secondary correction was again distributed among the remaining Member States. This means that the UK rebate is carried by some of the poorest Member States. The situations that lead to the UK rebate as significantly changed since 1982 when the rebate was negotiated. So even if we consider that the rebate was fair at the beginning, it is a question if it is still valid.

Alternative income sources

See slides 19-23 of the [presentation](#).

2. How about... "VAT to finance the EU? Is that fair?"

Claire Roumet, CECODHAS, Social Platform

Claire Roumet reminded the participants that VAT is a tax on consumption. Roumet made clear what this means in terms of equity: When you are poor you consume 100% of your income and you can't create any wealth for the future (invest, save). This means that being poor you contribute 20% (average VAT rate) of your income, while being richer the share of your income that you contribute is much lower. VAT therefore is a very unfair tax. Roumet pointed out that on the other hand VAT is an interesting instrument to orientate consumption.

Currently a major discussion is going on which products could be submitted to reduced VAT rates as they contribute to covering basic rights (housing, food).

2. How about...

"Environmental taxes for the EU? Opportunities and risks"

Pendo Maro, European Environmental Bureau, Green10

Please refer mainly to the Maro's comprehensive [presentation](#).

Environmental taxes intend to promote ecologically sustainable ways of production and consumption. The definition is commonly based on what is taxed and not on what it is being used for. Maro underlined the importance of taking into account the environmental costs in order to change consumer patterns towards more sustainable consumption.

In several EU countries, the revenues from environmental taxation are mainly included in general national budgets. The EEB defends the idea that the revenues should not necessarily be allocated directly to the EU budget but rather used to promote and support the development of environmentally sustainable technologies, services, solutions, eco-innovation and to counter potential negative social impacts resulting from increased taxation.

Discussion with participants

Deepali Sood, PLAN International, considering that both VAT and environmental taxes were dismantled as not being useful or relevant for the EU budget wanted to know what were actually the alternatives to increase the EU budget?

Philippe Cattoir, European Commission, DG Budget, reacted by saying that there were plenty of proposals for alternative EU own resources such as corporate taxation, duties on alcohol, tobacco and/or fuels, environmental resources (auctioning of CO2 emissions or CO2 taxation), etc. Important was what assessment criteria were being used to judge these proposals. According to Cattoir equity, efficiency, impacts in Member States were important to consider. He made clear, though, that the choice for a specific resource finally is a political one. The current financing system, which is largely based on VAT and GNI is seen as very good in budgetary criteria as it offers stable and sufficient resources. But it lacks transparency; it does not relate well to EU policies; and a system based on contributions fuels the difficult discussion on "juste retour", a major difficulty to achieve budget deals. He indicated that some observers have highlighted a parallel development of the importance of the share of Member States' contributions in EU financing and the number and importance of corrections.

Olivier Consolo, CONCORD, underlined the importance of linking the income and expenditure side of the EU budget. He drew the attention to the issue of tax havens and the fact that most of them are located in Europe. Consolo also wanted to know if within the European Parliament there were groups supporting the idea of a direct European tax.

Tobias Troll, DEEP, brought in the financial transaction tax as a possibility to finance the EU budget referring to a presentation on the issue by Oliver Picek in the European Parliament on April 16.

Fintan Farrell, EAPN, wanted to know if other corrective mechanisms than the UK rebate exist. He also supported the previous speaker in raising the financial transaction tax. He also wanted

to hear from the EEB why it argued for a tax shift away from e.g. labour taxation and not simply for environmental taxes. Lastly he raised the issue of tax harmonisation in the EU.

Reacting to some of the issues *Martina Weitsch* made clear that the only reason that financial transactional taxes appeared not in her presentation was that she had forgotten to include them. Referring to the issue of tax harmonisation she said that it was politically not possible to move harmonisation forward as currently Member States do not want to compete in tax matters. Weitsch also said that she would be interested to learn if there were other corrective mechanisms as she had not found information on any.

Pendo Maro, referring to the issue of tax harmonisation said that the most famous attempt to harmonise taxes, the energy tax directive, was not a big success. It was very difficult for Member States to agree on an ambitious EU tax level and there was a lot of industry pressure not to do so. As a result the directive is rather weak, with a lot of exemptions.

Explaining the EEB's reasons for advocating for a tax reform, Maro said that the idea is to promote the 'polluter pays' principle by calling for a taxation shift from labour (and other social taxes) to natural resources use, pollution and degradation, in order to help stimulate sustainable production and consumption behaviour.

Andre Wilkens, chair

- Discussion is really about what EU? Even on income side
- Two questions: how much? (regulatory/legislative/normative model, redistribution system) How to raise money? raising money is political.
- Link taxation to priorities

Philippe Cattoir, European Commission, pointed out that European Parliamentarian Lamassoure in a report of March 2007 found 41 corrective mechanisms. Concerning a financial transaction tax he noted that, according to a study, more than 90% would originate in the UK and Germany alone and that this could make it difficult to position it as a resource for the EU budget.

Fintan Farrell, EAPN, underlined that linking the budget to objectives sounds very convincing, but the question then is who sets the objectives. Currently he would therefore prefer to advocate for linking the budget to the Treaty.

Conny Reuter, Solidar, underlined that discussing objectives and priorities was only one part, but that we needed to think about our constituencies and the public opinion to prepare the ground for anyone to accept paying more taxes. He said that we need to do a lot of work educating our constituencies in seeing taxes as a social contribution, as an act of solidarity.

Birgitta Schönefeld, Hanse-Office, speaking on her own behalf raised the question if a fair correction mechanism might not be better than a system of taxation that has different effects on different Member States.

Andre Wilkens closed the debate by thanking the speakers and the Social Platform, who offered the venue.