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Towards a new means of funding the Union?

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Abstract :

For several years the financing of the European budget has been under challenge: it is hard to understand and overly dependent on the States. There is nothing to distinguish national contributions, levied from the Member States' tax revenues from the Union's so-called "own resources" as anticipated in the treaties. In 2005 the European Council committed to look into the issue and since then the European Parliament has made it its main priority. In 2011 the European Commission presented reform proposals. The proposal, which was both reasonable and innovative, suggested making changes to customs duties, VAT that provided means to the European budget and Member States' rebates. It plans the creation of a financial transaction tax (FTT), a great share of which would be used to finance the European budget. This enhanced cooperation agreement on the FTT that will very probably be concluded between some States opens the way to progress in the area of European taxation, and even towards other, more ambitious resources.

On 29th June and 9th November 2011 the Commission put its proposals to reform the European Union's own resources forward. The present system used to finance the European Union's budget has been criticised for the last twenty years. The present crisis has highlighted the budget's faults and limitations to an even greater degree. And so it is not surprising that the Commission has made this proposal to reform. The project has been expected for a long time, becoming a reality via a legislative proposal which in many ways seems founded and sensible. However there is a difference between a good idea and its implementation. The first moves forward but the second will only probably be partial; because, in this area the Commission suggests and the Council decides, or not; or rather, not yet. But even if the progress achieved will almost probably be less than hoped for, an opening to the way that the Union is financed will have been made. An enhanced cooperation agreement on a financial transaction tax may form the centre of this new method. The step will be more political than budgetary. But it will be all the more important.

I / THE CONTEXT OF THE REFORM

A/ Criticism of the way the European budget is financed by its own resources

The Union's budget (138 billion € in payment appropriations in the 2013 draft budget [1]) is financed by its "own resources". It is a provision that features in the Rome Treaty and which has been included in all of those that have succeeded it: "*without prejudice to other revenue, the budget shall be financed wholly from own resources.*" [2] This singular idea aimed to make the budget's financing independent of the Member States. Three revenues were therefore planned for in 1970 and 1988 : traditional own resources (TOR) comprising customs duties and some specific duties on agricultural products, the so-called VAT resource, levied indirectly on VAT collated by the Member States [3]. These resources were completed by the so-called, GNI resource, split between the Member States in proportion to their share in the Union's total GNI. However the system that has been set in place has deferred the illusion of autonomous funding. Of the three resources only customs duties comprise a true community tax, which incidentally are ever smaller (14% of the budget) whilst VAT and GNI revenues, which represent 84% of the funding are simply levied on the Member States' tax revenues, according to increasingly complicated calculations. Of the ambition included in the initial policy nothing much remains, since indeed, there is nothing to distinguish the present financing system from that of simple national contributions. In all, own resources are only qualified as such because they finance the European budget.

1. The European budget comprises commitment appropriations (CA), i.e. allowing spending that can be paid over several financial years and payment appropriations (PA) i.e. in provision for payment in the year. Resources apply to PA's.

2. Art. 311 of the TFEU (ex art. 269), "without prejudice to other revenue" refers to other revenues such as fines, deductions from civil servants' salaries working in the institutions.

3. A rate is applied to a « harmonised base », itself the product of the total net VAT product levied by the State in question and divided by its average weighted VAT rate (to take on board the fact that countries have two or three distinct VAT rates). This base is then corrected to take on board any national VAT exemptions on certain goods. The base that is then calculated is clipped to 50% of the gross national income of the country in question. A "uniform" rate of 0.3% is applied to this base, except for four countries which enjoy reduced rates .(article 2, paragraph 1, point b), of the 2007/436/CE Euratom decision).

This means of financing has been criticised in several ways. It is:

- opaque – who really knows how the Community budget is financed and who knows how much each citizens pays to the Community budget? [4],
- complicated; own resource financing mixes customs duties, which are a true European tax, two revenues VAT and GNI, both levied on reconstituted accounting aggregates but which in reality are simple national contributions;
- perverse; since financing according to Member States' national contributions favours calculations in terms of return – how does a State give and how much does it receive from the Union – and encourages increases in expenditure, since the beneficiaries of the European budget are all the more tempted to asked for more European spending since they do not know where the financing comes from;
- irrational – spending is approved by the budgetary authority (the Council and the European Parliament) whilst the revenues are enabled by the national parliaments but not formally approved by anyone!

This is because the pillar of the European budgetary system is based on the rule of automatic budgetary balance, which is also included in the treaty [5]. Revenues, (own resources) adjust to spending approved by the budgetary authority. This adjustment is achieved by the GNI resource that is calculated according to the difference between spending and other revenues before being divided between the Member States pro rata of their respective GNIs. This automatic balance is however limited since decisions on own resources set a maximum ceiling that cannot be surpassed. It is set at 1.23% of the European GNI [6]. This rule is vital because it has to be understood that any reform made to funding is not strictly linked to a lack of money or to the funding of a deficit: the automatic balancing rule guarantees that the budget is financed. Once the level of spending has been decided the budgetary authority does not have to go looking for revenues – they are already there.

Criticism dates back a long way and is regularly repeated by the European Parliament and the Member States, by both observers and political leaders. Only the administrations responsible for the budget seem to have adapted to this system – one which was designed to guarantee them technical control and the indifference of the citizens. Nothing would have changed if it had not been for several factors.

B/ The New European Context

1/ The Institutional Context

Article 311 of the Treaty on the Functioning of the European Union (TFEU) modifies the former article 269 relative to the own resource system quite significantly. Although the first two paragraphs replicated the former text on the object of the budget which shall be "*financed wholly from own resources,*" the third paragraph anticipates that "*it may establish new categories of own resources or abolish an existing category.*" This is a new text that formally allows the creation of new own resources. This creation was not formally ruled out in the old text, but it is now explicitly anticipated. The fourth paragraph anticipates a link between the decision on own resources (DOR), which is the Council's responsibility according to a unanimous vote and an implementation regulation, decided upon by the qualified majority in the Council, which includes specific measures. This link did in fact exist; it is explicitly planned for by the treaty. It is on the basis of article 311 that the Commission put forward its legislative proposal.

Hence it is respecting a prior commitment in line with a mission that the European Council gave to it in December 2005 during the conclusion of the multi-annual financial framework 2007-2013: "*The European Council therefore invites the Commission to undertake a full, wide ranging review covering all aspects of EU spending, including the CAP, and of resources, including the UK rebate, to report in 2008/9. On the basis of such a review, the European Council can take decisions on all the subjects covered by the review. The review will also be taken into account in the preparatory work on the following Financial Perspective .*" [7]

2/ The Impact of the Economic and Financial Crisis in Europe

The current situation is marked by the economic and financial crisis. Three effects can be linked to the problem of own resources.

4. In France, in 2013, 318 € per inhabitant will be levied on fiscal revenues for the EU budget, which match VAT and GNI resources.

5. Art.310. § 1 paragraph 3: "the budget must be balanced in terms of revenues and spending"

6. This ceiling rate was introduced in 1992. It was then set at 1.27% of the GNI as of 1999. Changes to international accounting standards in the assessment of the GDP/GNI, which extended the base meant that this share dropped from 1.27% to 1.24% and then 1.23% of the GNI. In reality the share is the same. The 1.27% of the GNI in 1999 equals the 1.23% of the GNI in 2014.

7. European Council Conclusions, 19th December 2005, point 80.

The "reflect effect" means the refusal to grant any further financing to the Union. The general tone is to control public spending in whatever shape or form. Any institution financed by obligatory taxes is "budget hungry". A budget, although European and quite modest, (around 1% of the GNI) is therefore considered with caution. It is logical to call for the control of spending and the financing that goes with it. This is all the stronger amongst the main contributors since most of the budget's financing comes from resources levied on national tax revenues. Moreover, in spite of the myth of own resources, the financing of the European budget is regularly presented as spending for which the States are responsible [8]. Whether it is according to a standard "zero increase" in spending – as in France [9] - or to a gross reduction in public spending, any additional levies to the benefit of the Union damage the budgetary balance which has to be compensated for by means of an equivalent decrease in other national spending.

Conversely the "call effect" implies supporting growth. With an almost general public debt, no State seems to be able to opt – on its own at least – for a budgetary recovery policy. In some respects this paralysis provides the Union with an opportunity. Three arguments might be put forward. The Union cannot muster any major economic ambitions – as defined in the European 2020 Strategy [10] —, without a minimum of budgetary means. Recovery will be European or it will not. The Union needs these appropriations. It needs these resources. The argument is a coherent one. The budget, which only represents 1% of the GNI, is incidentally far from the maximum limit (1.23% of the GNI) which the States set themselves in 1992 and there is room to manœuvre. Some MEPs even say that the European budget is just as capable of taking on this increase since it has never been in deficit, unlike the national budgets. The argument of "exemplarity" is not very pertinent however with the present means of financing (via levies on national revenues), the European "zero deficit" (that results of the automatic balance rule) is simply carried over to that of the Member States!

This contradiction is an obstacle to spending and the call for recovery is at its greatest when it comes to own resources. Whilst the Member States' budgetary difficulties are exacerbated we can understand the States' reticence in granting further resources to Europe. There is no solution open to the present system and the "*European budget is held captive by the national budgets*" analyses Alain Lamassoure, the Chairman of the European Parliament's Budgets Committee [11]. It seems logical to look for a solution to the budgetary gangue. Since the Member States, which are drained from a budgetary point of view, are not prepared to increase their participation in the European budget, the creation of a new own resource has to be looked into, which would feed the budget without involving the Member States budgets. However, at the same time the States often fear that the Union will create new own resources. In other words the States do not want to give more, but at the same time they will not allow the Union to come up with other means to finance itself.

3/ The European Parliament's Political Commitment

Decisions on own resources (DOR) are taken by the Council unanimously after a simple consultation of the European Parliament. The decision is then ratified by the Member States according to national parliamentary procedures. In some respects it is "almost a treaty" [12]. It is also one of the rare instances when the national parliaments' approval is explicitly anticipated in the TFEU [13]. It might be said that the decision lies totally with the States (unanimity + parliamentary ratification) and that the European Parliament only has a secondary, if not marginal role. The Parliament/Council codecision, that has become almost universal since the Lisbon Treaty does not apply in terms of own resources.

The European Parliament has never been satisfied with this. Neither the approval – required for the adoption of the multi-annual financial framework – nor the consultation – required for own resources – are acceptable competences in its opinion. Strengthened by its new institutional influence in the wake of co-decision it has made own resources one of its main political battles. The first initiatives were taken by Alain Lamassoure, who in 2005 and 2008, spared no effort with the institutions and the media in reforming the system and in giving greater budgetary autonomy to the Union [14]. But the decisive step came in 2010 when the Euro-

8. Cf. the explanation accompanying the annual tax return in the box, What are our taxes used for ? The EU features in the spending category and is even presented as the fifth item ahead of security.

9. Annexe of the LOI n° 2010-1645 dated 28th December 2010 governing the public finance programme 2011-2014, "the need to finance central public administrations should contract by around 4 GDP points between 2010-2014 thanks to efforts to control spending that result from respecting the "zero volume"» and "zero value, excluding debt and pensions" standards and by savings made by operators."

10. Commission Communication dated 3rd March 2010 Europe 2020 : a strategy for intelligent, sustainable, inclusive growth (COM (2010) 2020).

11. Quoted in Pierre Bernard Raymond, information report on own resources, Senate (2011-2012, n°385, p. 12.

12. Art. 311 paragraph 3 : "The Council, acting in accordance with a special legislative procedure, shall unanimously and after consulting the European Parliament adopt a decision laying down the provisions relating to the system of own resources of the Union. In this context it may establish new categories of own resources or abolish an existing category. That decision shall not enter into force until it is approved by the Member States in accordance with their respective constitutional requirements."

13. Apart from the decision on own resources the national parliaments' approval of the revision of treaties is planned for in the event of the accession of a new member, National parliaments can also oppose the implementation of bridging clauses (transfer from unanimity to qualified majority).

14. Alain Lamassoure published working documents on the own resources system as of January 2005. The EPP worked on this issue after the European Council conclusions of 2005 quoted previously and adopted a first report in July 2006. A Lamassoure repeated his proposals put forward a new report on the future of own resources in January 2007. The final report was adopted in plenary session on 21st October 2008.

pean budget for 2011 was being negotiated. The two branches of the budgetary authority – the European Parliament and the Council – faced each other over the budget level in 2011. The first wanted a rise of 6%, the second only accepted an increase capped at 2.9%, i.e. 4 billion € difference. This budgetary crisis was settled via conciliation after which the Parliament accepted to limit the 2011 budget to the level asked for by the Council on condition that the latter commit to debating the reform of the Union's financing during the preparation of the 2014-2020 multi-annual financial framework [15]. Parliament organised itself so that it could influence this debate. In July 2010 it formed a special committee on "*the political challenges and budgetary resources for a sustainable Union after 2012*" which delivered its report on 26th May 2011, one month before the European Commission published its proposals. On this issue the Parliament has the chance to exist, to influence the decision, in a greater way than before. It has even made the reform of the financing of own resources an explicit condition of its agreement to budgetary negotiation. The Commission's proposal is the result of this commitment.

II – THE COMMISSION'S PROPOSAL

A/ the Measure

The Commission put forward a three text legislative package on 29th June 2011. There is a draft regulation by the Council on own resources, a draft execution regulation, and a draft regulation on the provision of the GNI resource by the Member States [16]. The heart of the measures is the central proposal on own resources. On 9th November 2011 the Commission presented a new legislative package with some amendments having been made to previous proposals [17] together with some new technical proposals [18]. This proposal comprises four initiatives [19].

- The simplification of the VAT resource. The present VAT resource results from an extremely complicated mechanism. European VAT revenue comprises the implementation of a rate on a reconstituted base according to an aggregate that combines the total VAT proceeds levied by Member States divided by the average weighted rate of VAT implemented in those Member States. These are then adjusted to taken on board national exonerations in certain categories of goods and several States enjoy reduced rates. The Commission proposed a "simplification" by implementing a percentage, a rate, based only on the proceeds of the normal VAT rate. In the Commission's proposal this rate would not surpass 2% but the draft execution regulation sets the rate at 1%. The Commission's performance appraisals focus on a range between 20.9 billion and 50 billion € according to the Member States' tax harmonisation. The revenue expected by 2020 is estimated at 29 billion.

– the creation of a financial transaction tax (FTT). This is a unique tax, without equal in the present system. The FTT focuses on a wide base with a reduced rate. It would involve the trade of shares and bonds on the secondary market, not on primary emissions, as well as on derivative products. Hence 85 % of transactions would be taxed. The rate put forward totals 0.1% on shares and bonds and 0.01% on other financial transactions. These are minimal rates, with the States retaining the option to set higher rates if they wish. In the Commission's draft implementation regulation two thirds of the proceeds of this tax would be affected to the European budget. The revenue expected totals around 37 billion for the Union's budget in 2020. This initiative on the part of the Commission was the focus of a draft proposal on the part of the Council [20].

– The reduction of the right to collect traditional own resources. The Union would give back a share of the proceeds of traditional own resources to the Member States' by way of levying fees. This share was originally set a 10%. In 2000 [21], the Council raised this share to 25%. This initiative was justified by a bid to guarantee better quality perception and to reduce the net contribution of some contributor States which are often import States (Germany, UK, the Netherlands). The Commission is suggesting a return to the previous rate of 10% deeming that the present rate is excessive. The proceeds are expected to total about 4 billion €.

– The simplification of budgetary correction mechanisms. The present correction system – in this case the British rebate – is based on a calculation of net balances and a rebate of two thirds of the observed balances. The said rebate is financed by the other Member States proportionally to their share in the Union's GNI.

15. See Nicolas-Jean Brehon, "Budget 2011: the clash of the intransigent", European Issue n° 187, Robert Schuman Foundation, 29th November 2010.

16. COM (2011) 510,511 and 512 of 29th June 2006.

17. COM (2011) 739, 740 and 742 of 9th November 2011

18. COM (2011) 737 and 738 of 9th November 2011.

19. The estimated returns are given in Pierre Bernard Raymond's information report, "Own resources: a new test for the EU's ability to re-invent itself", Senate (2011-2012) n° 385.

20. COM (2011) 594 of 28th September 2011.

21. Council decision of 29th September 2000 relative to the European Communities' own resource system.

At present three States enjoy "a rebate on the British rebate". This would be replaced by a lump sum correction system set for the main contributor States which enjoy a type of rebate at present (the UK, Germany, the Netherlands and Sweden.

B/ Real Political and Financial Ambition

The Commission has put forward a reform, which without re-writing the entire system, will lead to significant changes.

1/ From a political point of view

The Commission's proposal comprises a significant step in the development of the Union's budget. Thought about own resources goes back a long way. We have lost count of the number of reports, communications and articles written about it. Every time the financial perspectives have been prepared the Commission has put a report forward on the Union's financing. However to date no real proposals had ever been made. The Commission has brought the issue from the realm of a slightly ritualised academic debate into that of being a formal, complete legislative proposal. "*The Commission is pleading for a return to the autonomy principle so that European priorities are not slave to national budgetary constraints*" [22].

The most important political step obviously pertains to the FTT proposal which comprises genuine fiscal innovation. It first involves implementing a financial market tax, i.e. to establish taxation on new rules on the functioning of the economy. It seems somewhat anachronistic that the present tax system is so strongly marked by that of the 20th and even that of the 19th century, whilst trade has been totally dematerialised and that the present tax system that weighs on labour is an incentive to the relocation of economic activities. The Commission has illustrated its creativity by taxing the focal point of modern activity: the financial trade. This proposal is markedly political since the proposed tax is, to some extent, a "juste retour" for the huge amount of work undertaken by the States over the last three years. This tax would therefore comprise a kind of moralisation of the sector.

2/ From a financial point of view

The Commission's proposal continues the original myth of "own resources". The symbolic strength of this idea is very important. For the last 50 years all proposals recall that the Union's financing is guaranteed by its own resources which intend to be independent of the Member States. Any observer would agree that this is not true since 85% of the resources come from national contributions. However the myth remains. The idea of the Union's resources as discussed during the convention prior to the writing of the draft European convention has been removed in order to maintain the original expression of own resources. On 29th June 2011 the Commission presented two communications: one bearing on the 2020 budget recalling that "*the budget is based on these aggregates and resources which certain States assimilate with national contributions*"; whilst the second, relative to the decision on own resources, clearly sets out the review of national contributions. Both within the Commission and Parliament there is a certain kind of embarrassment in discussions over the reality of financing. Moreover the amending proposal of 9th November 2011 adds the expression "own resources" whilst the initial proposal on 29th June had omitted it.

The structure of financing would be considerably changed. In the 2013 draft budget financing is guaranteed to a total of 13.7% by traditional own resources and 84% by national contributions that result from the implementation of the VAT resource (11%) and the GNI resource (75%). With the Commission's proposal the distribution would be the following: traditional own resources, 19%; new VAT resource, 18%; financial transaction tax, 23% ; GNI resource, 40%. The share of real own resources would rise from 14% to 40 or 60% depending on whether VAT is included or not. National contributions would decrease from 85% to 40%. The system would move forward a step towards financial autonomy in the founding of the idea of own resources.

C/ Realistic, cautious progress

The Commission will also be avoiding three pitfalls

a) The Commission has been wise enough not to challenge the principle of capping own resources, set since

22. P. Bernard Raymond, op. cit., p 12.

1992 by the decisions governing own resources and which are systematically recalled during the adoption of the multi-annual financial frameworks. Nor does it suggest modifying the present ceiling set at 1.23% of the GNI. Hence the Commission avoids Member States' criticisms which mainly fear an increase in the European budget. Creating own resources does not mean flouting the budgetary constraints set by the States. Furthermore the transfer from the present rate of 1% to 1.23% of the GNI would mean an additional 192 billion euros in seven years, i.e. 27 billion per year, which leaves a great deal of room to progress without the need to renegotiate this limit.

b) This proposal leaves behind the ritual debate about net contributions. To date all criticism of the Union's financing system addressed the difficult issue of net contributions, returns and rebates. This has been ongoing since 1984 when the European Council enabled net contributing countries to enjoy rebates on their contributions. The focus on net contributions prevented all in depth thought about the Union's financing system. The Commission's proposal avoids this stumbling block. Moreover, at present almost all of the States are being especially careful about their gross contribution which means levying on national fiscal revenues, which is a burden to their national budgetary balance, rather than their net contribution.

c) Finally the Commission avoids the semantic, explosive issue of European tax. The idea of a European tax has been under discussion for the last twenty years and this suggestion arises regularly in the discourse of a number of political leaders. In truth this proposal would not have had the slightest chance of succeeding. It can be entirely rule out from a judicial point of view. Not only is this due to unanimity, which seems difficult to achieve in this area but simply due to competences. A European tax supposes that there is a tax payer, a base and a rate. The definition of the three would the responsibility of the community institutions, particularly the European Parliament. It would be unthinkable to have European tax without the legitimate elected representatives expressing what they thought of it. But the European Parliament does not enjoy that competence. A European tax would not be possible without making changes to the treaties, granting fiscal power to the European Parliament, which would raise the issue of the principle of Member States' fiscal sovereignty, which in turn would greatly complicate the debate. The time is not right for this hypothesis. It can be ruled out both politically and from a media point of view. The combination of the words "tax" and "European" means that it is immediately vowed to failure. Alain Lamassoure even presented this idea as "*TNT on the verge of exploding* [23]." All reform to the Union's financing would come to halt if it were to be put forward as a step towards a European tax. Hence the Commission never mentions the idea of a European tax and prefers the traditional notion of own resources which is only based on the States' decisions, taken unanimously and approved by the national parliaments.

23. Interview in Euractiv 14/10/2010.

III – WHAT IS THE OUTLOOK?

A/ Council responses to the Commission's proposals: oppositions

Three presidencies have had to look into the Commission's proposal. The Polish Presidency (2nd half of 2011) noted the proposal without going any further. The Danish Presidency (1st half of 2012) was much more active and introduced a "negotiation box" mixing the assessment of spending in the future multi-annual financial framework 2014-2020 with that of revenues. The proposed reform of own resources was therefore examined. It has to be admitted that the most recent comprehensive examination of the proposal dates back to the "General Affairs" Council of 22nd February 2012 and that since then debate over revenues has barely move forwards. The Cypriot Presidency aims to complete budgetary negotiations on the multi-annual financial framework 2014-2020 before the end of 2012. Attention is being focused on spending, its total and its distribution. The reform of the budget's financing is, at best, a "secondary" – if not marginal priority. Budgetary negotiations have re-focused on the heart of the conflict.

During the few months of preparation opposition has been varied. There is very little chance of the Commission's proposals being effectively taken up – but for one partial, yet vital exception.

1/ The legal question

The link between decisions on own resources (DOR) and implementation regulations [24] effectively exist but the Lisbon Treaty explicitly anticipated it. These regulations would be adopted by the Council according to a qualified majority after the European Parliament's approval. What should be included in these implementation measures exactly? The Commission's proposal goes quite far in terms of the power of execution anticipating for example the setting of a VAT rate and the share of the FTT granted to the European budget. This is an extremely far reaching competence in comparison with the present implementation regulations whose focus is technical and which has been increasingly restricted [25]. If the DOR merely creates a new tax without defining the rate which would be left to a future implementation regulation, it would lose a great deal of its pertinence and lead to an insidious decline of competences. Undoubtedly the States will want to set this rate in the decision itself over which they have full control. "*The split between what should be part of the "own resources" decision and the execution regulation will certainly be watched extremely closely by the national parliaments and governments. Because, although significant measures are due to feature in the implementation regulation, some might perceive divestiture of the national parliaments.* [26]"

2/ The Budgetary Question

Three of the four proposals have very little chance of coming to fruition because the opposition on the part of some States is so strong.

Regarding levying rights, opposition quite naturally came from the countries which have high customs levies. The decrease from 25% to 10% in levies would lead to a loss of revenues for all import States. For Germany and the UK, the two leading customs rights collectors, this loss would lead for example to an increase in their contribution to the European budget of 760 and 530 million € respectively. It is clear that the main import States would be against this reform (Germany, UK, the Netherlands and Belgium). Germany's opposition is decisive and there is little chance for this reform of becoming a reality.

Regarding VAT, the idea of simplification put forward by the Commission is being challenged by many States. The Commission has not drawn up any estimates, which is discouraging the States. "*Estimates depend greatly on the degree of harmonisation in terms of the rules applicable in the Union as far as VAT is concerned, in other words. The number of goods and services subject to a normal VAT rate in the 27 Member States* [27]." Revenues would increase if the States decided to extend the base of their national VAT. The question is technical and budgetary and not really a political one. In other words as far as this issue is concerned the technical ministries are being asked to analyse the proposal. But as Alain Lamassoure pointed out this type of debate should not be held between the Budget Ministers "*who by definition, say no to everything.*" [28] Even though opposition to the reform is not formally explicit, there is a great deal of technical resistance particularly in the two main contributing States of Germany and France. And so there is little chance of this reform being realised either.

The last chapter on the lump sum corrections that are not adjusted to inflation has not even been debated.

B/ A possibility with the financial transaction tax

After an unclear presentation the idea of the financial transaction tax progressively gathered momentum with States expressing their thoughts about this "*spectacular innovation.*" [29] A difference in opinion has gradually emerged. Some States are against the project believing that Europe would penalise its main financial markets by the introduction of this tax. Opposition is particularly firm on the part of the UK and Luxembourg. Other States have expressed similar reticence, opposing the tax either for political reasons, or because the proceeds of the tax would be going to the European budget (Sweden, the Netherlands, Hungary and Latvia). It remains however that there are a number of States that support the implementation of this tax. Germany has even taken the initiative to organise these countries together informally (France, Belgium, etc.).

"*During a policy debate with the Finance Ministers of the 27 Member States on 22nd June 2012 in Luxem-*

24. Two regulations provide details about the calculation of the balance and the provision of own resources was well as on the inspection powers that the Commission has – regulations 1150/2000 and 1026/1999.

25. Between 1975 and 1987, the ceiling rate of the VAT resource was set in the DOR whilst its effective rate was decided by the qualified majority as part of the annual budgetary procedure. This power disappeared in 1988 and the effective VAT rates featured in the decision itself.

26. P. Bernard Raymond, op. cit.

27. P. Bernard Raymond op. cit., p. 20.

28. Entretien Euractiv 14 /10 / 2010.

29. P. Bernard Raymond, op. cit., p.25.

bourg the Danish Presidency observed that no unanimous agreement could be found but a significant number of countries – 9 of the 12 – were ready to form a vanguard." [30]. On 9th October 2012 11 euro zone States decided to take this path and addressed a letter to the Commission formalising this commitment [31]. Can an own resource be decided upon within an enhanced cooperation agreement?

In other words, of the four proposals made by the Commission only the FTT project has any major chance of moving forward, probably in a partial manner since it would only apply to some States by way of an enhanced cooperation agreement and not as a unanimously adopted own resource.

Can the new resource decided upon by some Member States be qualified as such for the entire Union? The Commission's legal service believes that there was no inconsistency.

The debate is more theoretical than practical but it is important. Everything depends on the degree of precision of the decision that is adopted. Either the proposal explicitly sets the share of the tax that returns to the European budget, in which case the FTT will, in part be a Union resource, or this share will be decided by each State and it will not be reasonably possible to qualify this new resource as an own resource. The FTT and the share that returns to the European budget will depend rather on the budgetary "mix" with each State being free to affect all or some of the tax to the European budget. This is far from the Commission's initial goal.

From a practical point of view this debate is not very effective since the FTT will be "pooled" with the other national fiscal revenues, a part of which will finance the European budget [32]. Hence a budgetary revolution is not to be expected.

This stage, which is modest from a budgetary point of view, will however be politically decisive. It will be the third time that this type of decision has been completed after the enhanced cooperation agreements on cross-border divorce and on the European patent. An enhanced cooperation agreement in the fiscal area undeniably opens up extremely positive perspectives. We might imagine it also being implemented in the definition of a common business tax base. This subject has been in stalemate for the last twenty years because the States were not unanimous about it, but an enhanced cooperation agreement would lead to progress in all areas, both fiscal and budgetary. The proposal to have a budget specific to the euro zone as suggested on 12th October 2012 by Herman Van Rompuy, President of the European Council, would obviously be a significant step towards European integration and budgetary federalism.

C/ Substantive Limits

In spite of the solution now emerging fundamental issues affecting the financing of the budget have still not been settled. The Commission's proposal particularly lacks ambition.

– It does not settle the issue of the simplicity of financing. The system will remain extremely complex. The superposition of four different taxes and methods to calculate the future VAT hardly work in favour of the expected simplification. European VAT in the shape of an additional tax (1% for the Union for example) would be a real simplification measure. This path has never really been investigated.

– It does not settle the issue of the link with European citizens. They know nothing now about how the budget is financed and they will know nothing tomorrow.

- It does not settle the vital issue of how to dispose of budgetary residues. Because of the systematic difference between payment appropriations - payments by the States - and commitment appropriations – the authorization of expenditure – the residues to be covered are significant and might total 230 to 250 billion € in 2013. Nothing has been planned to cover this. It is quite possible that at the very moment when the Union is creating new own resources; it might be forced to ask for one-off national contributions to cover spending. This was the case in 1985, expressed in the undignified term "non-refundable advance payments" which mixed two antonymic words 'non-refundable' and 'advance' in the same phrase – with the sole aim of avoiding the banished term "national contributions".

– Progress towards financial autonomy is incomplete. The GNI resource will remain decisive, which means that the national contribution will still be a vital resource in financing the budget. The Commission – out of fear of being unpopular – has not dared put forward other resolutely European solutions: tax on the stakes

30. The Senate's European Affairs Committee - news note dated 3rd August 2012

31. Seven States addressed a letter (Austria, Germany, France, Belgium, Portugal, Slovenia, Greece) and four gave guarantees to do so (Spain, Italy, Slovakia and Estonia).

32. In virtue of the general principle of budgetary universality, whereby all revenues are brought into one document and finance together all spending , there is no specific designation made for revenue designed for specific spending. Hence the product of the FTT will provide for the EU budget just like and in the same way as any other fiscal revenue. It might be "disguised" as an own resource, in effect it will just be a State budget revenue like any other and like the other it will finance the EU.

or the gains of the European lotteries, excise on tobacco and alcohol, the greenhouse gas quota trading market, taxes on present communication means etc.

– There cannot be a reform of financing without thought being given to spending. Why look for new resources? To finance French or Spanish agriculture? To finance Italian or Greek regions ? To avoid a reduction in the CAP or cohesion budgets? No citizen will accept the creation of new resources if it means financing these policies.

– Finally and above all the very definition of financial autonomy is inadequate. Above all the reform of financing must seek a political vision more than just financial autonomy, which is a technical matter. The new own resources put forward do not link with new Union policies. A new own resource will only be accepted if it matches with legitimate spending and which has been legitimated in the eyes of public opinion. There are several initiatives that suggest voluntary financial inducement for users. This is the case with CO2 supplements on airplane tickets, or with internet users who voluntarily pay for services they deem useful, or appeals made for public generosity or in healthcare programmes. Hence there is potential to find own resources if the matching expenditure is accepted and legitimated by public opinion. This is not the case with the present proposal. A new resource linked to the environment combining taxation and action would have been more legitimate and more ambitious than just a modification of financial autonomy. This might happen next time round.

CONCLUSION

The lucid analysis of the strengths and weaknesses of the Commission's proposals and the positions of the Member States leads us to believe that no major reform will take place. The Commission's proposal is undeniably a step forward but its authors' ambitions might be foiled. However the perspective of an enhanced cooperation agreement in the fiscal area is significant and the European Parliament has made the reform of financing own resources an explicit condition of its agreement to entering budgetary negotiations. Hence further developments cannot be ruled out. The contradiction between these two might be removed thanks to a ratchet effect decision, taken step by step, with the firm, solemn commitment on the part of the Council to reform own resources either during the period 2014-2020 or when the next multi-annual financial framework is examined in 2021-2028.

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