

CERCLE III

Working Document 3

"Discussion circle" on own resources

**Subject : Paper from Mr. Johannes Farnleitner, Member of the Convention
- Framework of proceedings for the discussion circle on own resources
(CONV 654/03)**

Members of the "Discussion circle" on own resources will find hereafter a paper by Mr Johannes Farnleitner, Member of the Convention.

On the **Framework of proceedings for the discussion circle on own resources, CONV 654/03**

- (a) Should Council decisions under the Article 269 procedure continue to be unanimous? What role should the European Parliament play?
- (b) Should the Article 269 procedure uphold the requirement for adoption by the Member States in accordance with their respective constitutional requirements, or should financing be turned into a Union competence?

At this stage the requirement for unanimity and adoption by the Member States should be kept. As long as the budget is financed mainly by de-facto transfers from Member States, constitutional requirements should be kept and national Parliaments must be implicated.

- (c) Does the existing system of own resources meet public expectations in terms of fairness and transparency?
- (d) Would the existing decision-making procedure allow substantial amendments to be made to these resources?

The introduction of the GDP resource, the use of a national VAT resource and the UK rebate have transformed the Community budget. A Community-inspired system has gradually given way to a hybrid system combining communitarian and intergovernmental features. Today 12,5% of the EU budget are financed by traditional own resources as compared with 65% in 1975. In 2006, between 70% and 75% of the EU budget will be financed by the GDP resource as compared with 0% in 1987. The current situation is unclear, hard to explain and difficult to justify.

A clear distinction should be made between the overall size of the budget (Financial Perspective) and the way the EU is financed. The two issues should be treated separately, in order not to establish a link to increase the budget ceiling by a new tax resource.

In my proposal for amendment of Article 38 I suggest that the constitution should explicitly provide for a legal base for special taxes levied by the Union. The purpose behind new autonomous own resources is not to increase the EU budget ceiling. The improvement of the system of own resources should be inspired by the principles of financial autonomy of the Union, cost-effectiveness and transparency. New tax resources should involve a corresponding reduction in the GDP resource, to allow the Member States to reduce the national tax burden. These resources are intended to replace transfers from the Member States progressively. Gradually the GDP resource would act only as a shock absorber that cushions against variations arising during the budget year as a result of inaccurate forecasts of revenue. As an aim, I would envisage a reduction of transfers from Member States to the EU budget up to 0,5% of GDP.

In a plenary statement at the beginning of this Convention, in April last year, I mentioned two resources, transnational taxes or levies to be paid directly into the EU budget. Both would lead to ensure a fair competition, between labour and capital or modes of transport, and would encourage Member States to reduce tax burdens on labour.

- Environmental taxes

One model deserving further examination would be a European Aviation Levy, designed to internalise the external costs. Environmental flaws such as tankering in the case of a unilaterally introduced fuel tax would be ruled out completely. The advantage of such a levy is that it can be implemented effectively at EU level, it would require no fundamental changes, neither to existing policies at ICAO-level, nor to the existing bilateral Air Service Agreements.

- Capital turnover tax

Particularly in the light of the trend to mergers, such as that involving the Paris, Amsterdam and Brussels stock exchanges, clearing and settlement of transnational transactions a European tax with primarily fiscal functions should be considered in depth.

With regard to the procedure, the adoption of such taxes could be different to the adoption procedure of the provisions relating to the system of own resources. The European Parliament should have powers over revenue as far as this revenue stems from transnational taxes/resources that should be designed and collected in order to finance EU expenditure. Because it is always easier to vote expenditure than to bring in a particular tax or decide which particular category of taxpayers should bear the burden, the European Parliament should be implicated in the designing of a genuine European tax.

A fundamental reform of the way the EU is financed can only be introduced in line with a phased timetable. Transitional periods should be laid down for the gradual replacement of Member States transfers by genuine own resources or tax resources adopted.