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The route to reform of the EU's budget revenue

In December 2013, the European Parliament extracted a concession from the European Council to set up a High Level Group on Own Resources chaired by Mario Monti. The task of the Monti Group was to recommend changes to the revenue base of the EU's budget in order for the EU to respond more quickly to expenditure needs and to escape intractable net balance calculations between member states. The paper charts the history of EU revenue and the calls for reform before evaluating proposals for change.

Keywords: EU budget; revenue; own resources; rebate; net balances

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Dr Giacomo Benedetto
Jean Monnet Chair in European Union Budget Politics
Director of European Studies
Royal Holloway
University of London
UK
Giacomo.Benedetto@rhul.ac.uk

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1. INTRODUCTION

The budget of the European Union (EU) has always been highly contested, even before the United Kingdom (UK) had become a member in 1973. Indeed the European Economic Community (EEC) was financed under a system of national contributions (Article 201 EEC) that was eventually phased out by the Own Resources Decision of April 1970, which prepared the way for the EEC's enlargement to the UK.

In 2003, the Sapir Report called for a reduction in the 'relative weight of national contributions … in favour of revenue sources with a clear EU dimension' (Sapir 2003: 166). The intention was to move away from the concept of *juste retour* that had become gradually entrenched since the UK had joined the EEC. It is juste retour that leads wealthier contributor Member States to limit the budget, while protecting established clienteles that benefit from redistribution such as the agricultural sector. This means that the EU is unable to prioritise policy to meet collective needs or to respond rapidly to changing or unforeseen eventualities, in other words to provide a budget for Europeans other than to the limited extent that applies to R&D, education, or Connecting Europe under Heading 1a, which currently accounts for 13 percent of expenditure, to freedom, security, justice, and citizenship, which amount to 3 per cent of expenditure, and to foreign policy priorities which amount to a further 6 per cent. The view of Sapir (2003) was that changes to the form of the EU's revenue away from contributions based predominantly on gross national income (GNI) would solve the problems of juste retour and make the budget more responsive to Europe's needs.

In December 2013, the EU's High Level Group on Own Resources (HLGOR), chaired by Mario Monti, was charged with investigating and proposing reforms to the EU's revenue. Reforms of course have been achieved in the past, starting in 1970. This paper evaluates those reforms that were always passed as package deals and affected expenditure and other policy commitments such as enlargement of EU membership. They also saw heated debates about what sort of revenue should be raised and who would have control over it. The findings apply to the current period, with particular reference to the HLGOR and with a focus on budget rebates – particularly to the UK - and to net balances. Although the British referendum on leaving the EU appears to liquidate this issue of the UK rebate, nothing is certain until British membership ceases. The historic experience of the rebate in any case provides a lesson on the management of national issues in the budget.

The appointment of the HLGOR and its eventual report come at a time of unprecedented challenge and danger for the EU, amid a crisis of public opinion and the perception that the EU is unable to respond to new emergencies. The Own Resources agreements of 1970 and 1988 occurred when the bargaining power of the groups and states supporting the status quo came to be eclipsed by the power of a coalition for change, when the political and economic costs of the status quo exceeded those of the reform, and when small adaptive changes failed to ease pressure on the system (Linder 2006: 169). The current state of health of the EU is one in which the political and economic costs of change may well be lower than perpetuating the budgetary status quo.

2. CURRENT CHALLENGES

The Multiannual Financial Framework (MFF) of 2014-20 has fixed EU budget commitments at 1 per cent of GNI, although the absolute ceiling for Own Resources (or revenue) is set at 1.23 per cent of GNI. However, the EU's *de facto* budget is probably closer to 3 per cent of gross domestic product (GDP), when one considers the resources of the European Stability Mechanism (ESM), the European Development Fund (EDF), the European Fund for Strategic Investments (EFSI) and the trust funds for developing countries, all of which are either financed through intergovernmental instruments or by bond holders who are underwritten by national treasuries. The effect of the flows of these different instruments and of the *de jure* EU budget make the calculation of EU net balances under *juste retour* totally spurious. Even within the formal budget, some expenditure is traditionally redistributive and other spending has real multiplier effects, for example in the case of scientific research or the construction of networks that enhance energy security. Therefore, using the geographical location for beneficiaries to decide if expenditure is fair is a flawed approach. In the case of research expenditure, the benefit is not only financial nor limited only to the institution that wins the contract and performs the research.

The crises which the EU is facing are known well enough not to have be elaborated. Brexit, the Euro and the refugee crises require a united response with a budget adequate and independent enough to be credible for adapting to circumstance. Everyone realises that the cost of the status quo is more than the cost of reform; cost being not only financial but political. The circumstances of crisis therefore offer an opportunity for reform as well as danger. The question is which sort of solution will beat the preference for the status quo among all 27 of the EU's post-Brexit members.

In what follows, each of the major own resources reforms since 1970 will be analysed, looking at the package deals and the solution to previous crises. The last part of the paper will then evaluate possible reforms to the EU's revenue base.

3. THE OWN RESOURCES DECISION OF 1970

Own Resources were agreed as a package deal in 1970, created to provide permanent financing for the EEC (Rittberger 2005). The package satisfied France – for the reasons of permanent financing of agriculture – and the other five Member States, which agreed to trade money for agriculture in exchange for French agreement to the EEC 's enlargement to the UK and (in the case of Germany and the Netherlands) for the empowerment of the European Parliament (EP) over budgetary matters.

Article 201 EEC of 1957, the predecessor of the current article 311 TFEU, governing EEC/EU financing, allowed for change in revenue, subject to everyone agreeing:

> 'The Commission shall study the conditions under which the financial contributions of Member States … may be replaced by other resources available to the Community itself, in particular by revenue accruing from the common customs tariff when finally introduced.'

France wanted to stabilise financing of CAP in order to avoid annual negotiations and re-negotiations, an issue that had arisen during the "Empty Chair" crisis of 1965. The financing of national contributions had been agreed to last until the end of 1968, with negotiations on a new mechanism starting in 1969. This coincided with the retirement of Charles de Gaulle from the Presidency of the French Republic. The European Commission proposed reforms to finances and procedures at The Hague European Council of December 1969 that were composed of a 'triptych' or package deal (Rittberger 2005: 199) made up of: *achèvement* of the common market in agriculture through a common financing scheme and the lock-in of the Common Agricultural Policy; *approfondissment* of EEC relations through political cooperation in foreign policy and economic and monetary harmonisation; and *élargissement* to the UK.

The European Council in The Hague agreed on an Own Resources package that staged the introduction of a uniform external tariff and of agricultural levies between 1971 and 1973 as the

EEC's sources of revenue (Conseil 1970a: article 3[2]), see Table 1. The budget would require full financing from the own resources of tariffs and levies from 1974 (article 5[1]) subject to unanimous approval by the Council after consulting the EP. Further resources could be transferred as a residual from Member States' taxes (article 5[3]). The total of these resources was capped at 1 per cent of the EEC's gross national product (GNP), reflecting a caution over budgetary expansion since before the UK became a Member State.

Table 1: Positions of the institutions at each major Own Resources reform, 1970-75

Position of EP	Position of Commission	Decision of Council
1970 OWN RESOURCES DECISION		
Own Resources immediately		Own Resources phase-in to 1974
VAT call rate 0.25% in 1973 and 0.50% in 1974		VAT max call rate of 1.00% GNP from 1975
EP Assent (or Rejection)		EP Consultation
Own Resources set by unanimous Council and 2/3 majority in EP without national parliaments		Own Resources set by unanimous Council and ratification in national parliaments
Tariffs, levies and VAT call rates set by EP, Council and Commission		No
Own Resources ceiling can be increased with 2/3 majority in Council		No
EEC will be allowed to borrow		No borrowing for EEC
1975 ATTEMPTED REFORM OF OWN RESOURCES		
New Own Resources chosen by co-decision of Council and EP	New Own Resources decided by unanimous Council and 3/5 majority in EP without national parliaments	Own Resources set by unanimous Council and ratification in national parliaments
VAT rate can be imposed by EP by 3/5 majority	VAT rate can be imposed by EP by 3/5 majority	No
EEC will be allowed to borrow	EEC will be allowed to borrow	No borrowing for EEC
	Commission to review Own Resources every 5 years	No

The EP tried to gain power over Own Resources through the imposition of amendments in what became the Decision of 1970, but failed. The EP wanted the package to go further both financially and procedurally compared with what is outlined in the preceding paragraph. It proposed the introduction of tariff and levy-based own resources without phasing-in, with the EP exercising assent power (or the power to reject) rather than consultation. The EP also attempted to add the possibility of a residual resource based on a value added tax (VAT) call rate of 0.25 per cent from 1973 and 0.5

per cent from 1974 (article 4[3]). The Parliament proposed that from 1974, Own Resources could be amended or introduced not through national parliamentary ratification but by a unanimous decision of the Council together with a two-thirds majority in the EP (article 5b.1) while the tariff and VAT rates would be set by a joint decision of Council, EP and Commission. Whereas the Council had set total resources at no more than 1 per cent of GNP, the EP tried to change this so it could be increased via a two-thirds majority in the Council (article 5[4]). Finally, the EP added a line to allow for resources to be generated from loans, which would have permitted the EEC to run a public debt (article 6).

The final decision of April 1970 allowed for resources to be composed of tariffs, levies and VAT from 1971 with a phase-in period lasting until 1975, and with a VAT call rate of at most 1 per cent with rates set in the annual budget (Conseil 1970b: article 4).

Procedurally, the EP in 1970 failed to increase its own powers over Own Resources and failed to make adoption or change to Own Resources easier to achieve. Its powers in this regard have not increased since then.

4. TREATY OF BRUSSELS 1975

The Treaty of Brussels in 1975 revisited some of the changes of 1970 in annual budgeting but not in Own Resources. The EP gained more power over the annual budget and the treaty established the Court of Auditors and extended the EP's audit powers. The EP unsuccessfully attempted to reform Own Resources at this juncture.

In its resolution of August 1975, the EP proposed joint powers with the Council in agreeing a procedure for annual VAT call rates to be fixed without regard for national parliaments (EP resolution C179/46 6.8.75, Section II, A9). Parliament urged its empowerment to co-decide own resources and upper limits with the Council:

> '[Parliament a]ffirms that the financial autonomy of the Communities in the future can only be ensured if own resources can be adapted to the financing requirements of Community policies on the basis of Community procedures;
> 'Therefore believes, in agreement with the Commission's proposal, that Parliament must be granted the possibility, on the basis of the Treaties, of altering the maximum amount of existing own resources for fixing new revenue on a proposal from the Commission and with the agreement of the Council;' (C179/46 6.8.75, III 21-2).

Whereas Article 201 EEC declared that the Commission may examine how national contribution could be replaced by Own Resources based on tariffs, the Council would decide unanimously, subject to ratification by national parliaments and after only consulting the EP, which remains the case in article 311 TFEU to this day. In 1975, the Commission proposed a change so that the Commission would review all Own Resources every five years and propose new ones, these would be examined by the Council, which could adopt them unanimously, subject to the consent of the EP by a three-fifths majority without reference to national parliaments.

The Commission and the EP supported amendments to Article 203 EEC to allow the Commission to propose the rate of VAT in the provisional annual budgets, for that rate to be set by the EP with a simple majority, and in the case of disagreement from the Council, for the EP to be empowered to overrule the Council and force through the VAT rate subject to a three-fifths majority. This would have allowed the EP to set the rate of VAT (an Own Resource) as easily as non-compulsory expenditure (Benedetto and Hoyland 2007). It should be noted that VAT was going to be the residual to make up for any shortfall from tariffs and levies, and whose total would not exceed the ceiling of own resources, at the time 1 per cent of GNP.

The Commission also proposed a new article 203b EEC, with the support of the EP, that would have permitted the raising of loans decided in the annual budget procedure by qualified majority in Council and absolute majority of EP to extend spending.

All of these Own Resources proposals were rejected by the Council so that no changes were made to Own Resources on the occasion of the Brussels Budget Treaty of 1975. Nevertheless the proposals were radical and would have produced a very different set of budgetary financing arrangements if they had been agreed. The fact that an EP that was not elected and reflected national parliament compositions with their in-built pro-government majorities supported these measures is all the more remarkable and suggests significant national support for these measures at the time. In order to achieve better value for money through public goods, Fuest et al (2015) recommend empowerment of the EP, whose interests are less particularist than those of the national governments on the Council, in budgetary expenditure. But not even they go as far as to suggest revenue based empowerment on this scale for the EP.

5. FONTAINEBLEAU AND THE BRITISH REBATE NEGOTIATIONS, 1983-1984

Besides the Brussels Treaty, 1975 was also the year of the referendum in which the British people decided to remain members of the EEC. Since that time, budgetary dissatisfaction by the British is chronicled for which temporary and suboptimal solutions were agreed when the willingness to do so existed (Linder 2006: 128). By the early 1980s, that willingness had broken down and the bargaining power of the UK had increased (Lindner 2006: 186) - a process that led to the Fontainebleau agreement in 1984.

The end result from Fontainebleau was a package deal that include the permanent British "correction" or rebate, an increase in the VAT resource to 1.4 per cent of the VAT base, with a review to take it to 1.6 per cent in 1988, and agreement on enlargement to Spain and Portugal, which the UK might otherwise have blocked (see Table 2).

Initially the European institutions hoped to manage the situation of the UK's budgetary imbalance with a set of general principles rather than making a specific exception for the UK in name. The Commission's document of February 1983 refers to imbalances and proposed increased budgetary expenditure for the affected Member States by using a formula based on size of total agricultural expenditure (European Commission 1983a). Other concerns included enlargement to Iberia and the fact that the EEC was running out of money for existing expenditure so a global solution was needed. The Commission was, however, hostile to the solution that was later adopted in 1988, reverting to revenue from GDP or national contributions:

> 'Although a progressive GDP tax on Member States would thus have a number of attractive characteristics as a source of general revenue it would suffer from one significant drawback: it would be seen as a partial return to the system of financial contributions which applied before the own resources decision of 1970 and thus as a political step backwards' (Commission 1983a: 13).

Of course GDP or GNI based contributions would have reduced the unfairness to the UK on the revenue side compared to the VAT call rate. The European Commission (1983a: 3) acknowledged the damage to cohesion in the EEC through the presence of imbalances. The hope to resolve this through increased expenditure for affected countries could only be effective if the previous budget ceiling of 1 per cent of GNP were exceeded.

The European Commission (1983a: 12) urged progressivity in EEC revenue with a move to VAT collected according to a country's GDP, reducing the VAT call rates in the states with a lower GDP/capita and relying on borrowing for EEC-wide investment, again suggesting public debt for the EEC. Financial equalisation was to be achieved via increases structural spending, as suggested in the 1981 Spinelli resolution (European Commission 1983a: 21):

> 'A form of equalisation mechanism, involving transfers on the expenditure side additional to those under the Community's structural funds could nonetheless be a useful new element in the Community's budget. Such a mechanism could be geared to two purposes. It could provide additional financing so as to allow certain Member States to participate more fully in economic programmes reflecting agreed Community priorities… Or its application could be limited to a certain number of the least prosperous Member States. The resources so transferred would need to be subject to the necessary consistency with Community policies and subject to proper Community control.'

A year later, in 1984, the British case was still unsolved, yet the Commission required an increase in the ceiling of own resources from 1.0 to 1.4 per cent of GNP to meet outstanding bills and rising agricultural prices (European Commission 1984). The Commission proposed a VAT call rate increase from 1.00 to between 1.15 and 1.20 per cent by 1986, noting the costs of enlargement to Iberia and the trend of economic growth to be too low to deliver sufficient extra resources. The Commission (1984: 4) accepted that new Member States would be allotted lower VAT contributions during a transitional period. Finally the Commission accepted the principle of compensation specifically targeted at the UK either as extra spending or as a reduction in the VAT contribution financed through VAT contributions in other Member States.

The Conclusions of the European Council (1984) at Fontainebleau repeated the existing position that:

> 'Expenditure policy is ultimately the essential means of resolving the question of budgetary imbalances.
> 'However, it has been decided that any Member State sustaining a budgetary burden which is excessive in relation to its relative prosperity may benefit from a correction at the appropriate time.'

The conclusions guaranteed for 1984 a single lump sum payment to the UK 1 billion ECU to compensate for historic budgetary disadvantage. From 1985, there would be a correction worth 66 per cent of the UK's over-contribution from the VAT resource. This would be paid one year in arrears through a VAT reduction for the UK paid by the other Member States through higher VAT contributions but with West Germany receiving a rebate on the rebate of two-thirds. The 66 per cent formula would only take effect once the VAT ceiling had been raised to from 1.0 to 1.4 per cent and would last only as long as the VAT call rate remained at least 1.4 per cent. There was a sunset clause in terms of conditions rather than time. If the VAT resource decreased, the rebate would expire, but the effect was to ensure rebate permanence with the UK in a position to protect the VAT ceiling from going below 1.4 per cent, unless the rebate were in future to be guaranteed by other conditions that the UK could also protect.

The Fontainebleau agreement was a package deal that allowed Own Resources to be increased, with the higher VAT call rate, the UK to be compensated, and enlargement to Iberia to proceed. The Own Resources Decision of 1985 put these effects into law. The first draft of that decision proposed by the Commission neither mentioned the UK nor did it make the rebate permanent, with the Commission and the EP attempting to resist rebate permanence.

In the original European Commission (1983b: article 3.3[1]) proposal there had been no reference to the UK, instead allowing for variable VAT rates for as long as agricultural spending under the EAGGF accounted for more than 33 per cent of the EEC budget. This was an attempt to address British concerns over agricultural spending and, if adopted, would by now have seen the expiry of the British rebate as the EAGGF has indeed fallen to below one-third of EU spending. The rebate would have been 33 per cent (and not 66 per cent) of the net contribution and would have been amendable by a unanimous decision of the Council and a three-fifths majority without referral to national parliaments (European Commission 1983b: article 3.3[2-3]).

The Council response (Council of the European Communities 1984: article 3.6) was to delete these proposals and put the Fontainebleau decision into effect. Besides a VAT call rate of 1.4 per cent, there would also have been to power to increase this to 1.8 per cent subject to a unanimous Council and a three-fifths majority in the EP, without referral to national parliaments. The VAT rate itself would be set in annual budgets as a residual having taken into consideration expenditure and traditional own resources (Council of the European Communities 1984: article 3.2). The EP whose powers were only consultative attempted to resist this through an amendment to delete reference to the UK and to replace the rebate with extra spending using the following words:

> 'Whereas any Member State bearing an excessive budgetary burden in relation to its relative prosperity should, at the appropriate time, benefit from special Community measures in the fields of employment, energy and transport and any other suitable measures' (EPa 1984).

The EP (1984a: article 2c-d) also added that Own Resources could include VAT and anything else derived from a common EEC policy approved through Council unanimity and an absolute majority in the EP without reference to national parliaments.

Finally, the EP (1984a: part B) added a whole second section to the legislation, subsequently rejected by the Council, which would have had the effect of imposing a three-year sunset clause on the UK rebate and requiring that, while the Commission would calculate the rebate each year, the "correction" itself would have been subject to the approval of the Council and the EP, giving the EP a veto on payment of the rebate.

In accordance with the Fontainebleau agreement, the Council deleted the Parliament's proposals and implemented the single lump sum payment to the UK of 1 billion ECU (Council of the European Communities 1984: article 8[3]), with the rest of the rebate coming into effect only upon ratification of the accession treaties with Spain and Portugal.

In November 1984, the EP (1984b) protested strongly at the abandonment of the principle that budgetary imbalances should be addressed by supplementary spending in affected Member States, and at the permanent solution of a special arrangement for a named Member State (the UK), while still urging for a sunset clause of four years.

6. THE OWN RESOURCES DECISION OF 1988

Another package deal for Own Resources in 1988 used GNP, later GNI, to mobilise increased budget spending after the 1986 enlargement to Iberia and the Single European Act of 1987. The extra expenditure could put the single market programme into effect, providing a cushion through a doubling in size of the European Regional Development Fund. Indeed the 1988 agreement on Own Resources was described by George Ross (1995: 49) as the inner doll of Jacques Delors' Russian doll strategy, of which the outer doll was the Single European Act.

Table 2: Positions of the institutions at each major Own Resources reform, 1984-88

Position of EP	**Position of Commission**	**Decision of Council**
1984 FONTAINEBLEAU AGREEMENT		
	Rebate only if EAGGF is more than 33% EEC budget	
Rebate in form of extra spending	Rebate in form of extra spending	Rebate in cash
1 bn ECU lump sum for UK	1 bn ECU lump sum for UK	1 bn ECU lump sum for UK
	Rebate at 33% of net contribution	Rebate based on 66% of net contribution for UK
UK rebate only for three years	Rebates paid via VAT call rate discount	Real rebate at "appropriate time"
Annual UK rebate approval by Council and EP	Annual UK rebate approval by Council and EP 3/5 majority	Rebate conditional on 1.4% VAT call rate and enlargement to Iberia
VAT call rate of 1.4% rising to 1.6%	VAT call rate of 1.2% by 1986	VAT call rate of 1.4%, possible extension to 1.8%
EEC will be allowed to borrow	EEC will be allowed to borrow	No borrowing for EEC
New Own Resources chosen by co-decision of Council and absolute majority in EP		Own Resources set by unanimous Council and ratification in national parliaments
1988 OWN RESOURCES DECISION		
	Opposed to national contributions	Increase ceiling from 1.0 to 1.3% GNP
Opposes UK rebate		Fix VAT call rate at 1.4% and cap at 55% GNP
To increase VAT call rate		New flexibility margin of 0.03% GNP
Support new own resource of excise taxes		
Collect GNP% shares through VAT call rate		
Reduce collection cost of tariffs from 10 to 5%		
In 1989, Commission to propose EEC tax		

The 1988 Own Resources Decision was also necessary because the VAT call rate, which had increased in 1984 to 1.4 per cent, was insufficient and seen as iniquitous by less prosperous Member States. Greater security in the budget with better permanent financing was deemed necessary, traditional resources were eroding due to lower tariffs and more self-sufficiency in agriculture, while the VAT call rate was not growing with the economy due to consumer reticence (European Commission 1987: 12). Own Resources were needed that better reflected Member States' prosperity. Mobilising GNP also allowed for net balance calculations to be reinforced, providing a clear accountability to Member States like the UK.

The European Parliament (1986) report on future financing revisited the EP's previous rejection of the British rebate agreed at Fontainebleau, urged an increase in the VAT call rate, and the ability of the EEC to borrow for cohesion and growth. Other solutions for increased finance included general increases in Own Resources through transferring national excise taxes to the EEC. A year later the EP (1987) urged the introduction of GNP percentage shares as an Own Resource to be collected not through direct national transfer but through the VAT call rate, while reducing the collection fee of Member States for tariffs from 10 to 5 per cent. GNP would provide for any shortfall, while its collection through VAT was hoped to minimise the net balance impact.

The Own Resources Decision of 1988 (Council of the European Communities 1988) reiterated the insufficiency of the 1.4 per cent VAT call rate, though retained it while capping it in cases where national consumer spending exceeded 55 per cent of GNP. It noted the Single European Act and the future need for stable revenue given the first Financial Perspective that took effect in July 1988 and was part of the package deal. For this, a flexibility margin of 0.03 per cent of GNP was inserted for unforeseen eventualities. The total ceiling for commitments in Own Resources was increased from 1.0 to 1.3 per cent of GNP.

The British rebate was retained and continued to be linked to the 1.4 per cent VAT call rate. The Decision included a requirement for the Commission to review Own Resources and the British rebate in 1991. The EP (1988) had been unsuccessful in stipulating the review by 1990 and that by 1989, the Commission would propose a new Own Resource as a Community tax to replace one or more national taxes. As previously, the EP's more entrepreneurial initiatives were not accepted.

7. REBATES AND CORRECTION MECHANISMS

The British rebate and its permanency were profoundly regretted by all Member States and EU institutions except for the UK, notwithstanding the attempts of the Commission and EP in 1983-84 to insert sunset clauses or to allow the rebate only in the form of additional EEC expenditure. Originally, the rebate was conditional on a VAT call rate in Own Resources of 1.4 per cent, which the British protected. As the VAT call rate was reduced and was replaced by GNI percentage shares, the British allowed this happen so long as the rebate were linked to the GNI residual. The UK made small concessions to retain the rebate and make agreement with the others possible over time, including an agreement to exclude non-agricultural expenditure from the rebate for those countries that joined the EU since 2004.

As the UK's GDP increased, other prosperous net contributors started to demand discounts though these all had sunset clauses attached to them that coincided with the expiry of the next MFF. The

German *rebate on the rebate* has been extended from 66 to 75 per cent and also applies to the Netherlands, Austria, and Sweden. Besides these, several Member States receive a lump sum correction (and unlike the UK, not subject to a complicated formula). For the period 2014-20, these amount to €695 million for the Netherlands, €185 million for Sweden, €130 million for Denmark, and €60 million for Austria. Payment of these is financed according to GNI share by all the other Member States including the UK. The VAT call rate has been successively reduced to only 0.3 per cent at present, with a cap reduced from 55 per cent of GNP to 50 per cent of GNI, and a call rate reduced to just 0.15 per cent for Germany, the Netherlands and Sweden, amounting to a third rebate for these countries.

Some of the ideas presented in this section are similar to preferences that surfaced in previous debates, particularly that of the UK case in 1983-1985, including sunset clauses and linking corrections to changes in expenditure policy and wider policy outcomes, particularly with regard to the benefits of the internal market. Embarking on a reform that removes rebates may become much easier if the UK finally leaves the EU following its referendum. The other rebates for Germany, Netherlands, Austria, Denmark, and Sweden are only justified because they, as more prosperous net contributors, considered the UK rebate to be iniquitous.

The UK rebate currently excludes from its formula tariffs and levies (traditional own resources) collected by UK authorities, EU expenditure under heading 4 (Global Europe) – spending located geographically outside the EU, and non-agricultural expenditure that takes place in Member States that have acceded since 2004. If, against all probability, the UK remains an EU Member State following a new election or referendum, rebates could exclude calculations that are fulfilling EU policies, particularly under headings 1a (competitiveness for growth, including R&D and other public goods) and 5 (administration) that provide collective benefits. Corrections should only apply to compensate for policy loss on redistribution, or on gross contribution, for example if new own resources lead to a Member State's new gross contribution exceeding 1 per cent of GNI. This could be the case for certain types of carbon or eco-taxes. Removal of certain types of expenditure from rebate calculations is one device. Replacing the UK rebate with a lump sum correction is another. In the short-term and to achieve agreement, this could take the form of a larger lump sum than the current correction but with a sunset clause implementing its phasing-out. Put another way, the UK could be offered more before the rebate is finally abolished.

Along the lines proposed by the EP in 1983-4, rebates could also be tied to co-financing EU expenditure rather than being "free money". This would address the problem that the UK Treasury discouraged co-financing of EU projects in order to maximise the size of the UK rebate, thus preventing UK cohesion regions from fully benefitting from the EU budget. It would also make EU spending policies more viable. If a rebate is delivered in future not on net contributions but on excessive gross contributions generated from new Own Resources, for example from carbon taxes that exceed 1 per cent of GNI, the rebate would be in the form of co-financing of existing expenditure in conformity with EU policy.

Net contributors have historically insisted on ceilings both for revenue and spending. This is designed to limit their contributions to a system with which they either disagree or do not benefit. It has two downsides: first, the ceilings without roll-overs create a perverse incentive to spend up to the ceiling with a rush towards the end of each financial year or MFF period to release payments; second, the total ceiling means that certain policies are protected at the expense of others, particularly public goods. A solution to this latter problem is to abolish the total ceiling and to replace it with ceilings for each policy area, although this could further reduce flexibility.

Heinemann et al (2008; 2010) have put much thought into a solution for the rebates based on a generalised correction mechanism (GCM). This was inspired by the report of Paolo Padoa-Schioppa for the Commission in 1987, which examined graduated contributions to the budget (Heinemann et al 2008: 119). Under this plan, Member States with a GNI per capita significantly below the EU average would receive a net gain, while the significantly more prosperous Member States would make a net contribution, all according to a simple and accountable formula. Re-allocations would take place after expenditure was made. Member States that under-receive would be compensated and those that over-receive would make additional contributions. From these calculations, public goods expenditure, for example on R&D, and explicit redistribution to the least prosperous regions could be excluded (Heinemann et al 2008: 123). Indeed a budget financed only by GNI transfers and the external tariff would then have expenditure divided between two baskets. Basket 1 would include common goods, including public goods, environment, external action, administration and perhaps the convergence section of cohesion policy. Basket 2 would consist of spending not accepted by all, such as on agriculture, and cohesion payments outside the convergence bracket (Heinemann et al 2008: 127-8). A political decision would determine what goes into each of the two baskets.

With the departure of the UK from the EU, a GCM to replace the rebates may be less relevant. The GCM would have capped net contributions as a proportion of GNI and enshrined net balances. It did not consider risk of veto from Member State anticipating loss, which would be very probable.

Heinemann (2015) is correct to observe that abolishing net balances through changes to own resources, even if possible, would not remove political opposition to spending. Some actors and Member States are ideologically opposed to expenditure at the European level. Heinemann (2015) and Heinemann et al (2008: 99) assert that if an EU tax largely replaced GNI transfers, there would still be opposition to expenditure from those sectors or states more affected by the tax so that the net balance mentality would survive. Osterloh et al (2008: 444) note that, given the veto power of national governments, any proposal for an EU tax would be blocked unless compensatory mechanisms were introduced. I address these in the next section, where I show that there are possible new Own Resources that would allow a diminution of GNI transfers. These would reduce the impact on deficit sensibility in national budgeting and would free national governments from preventing flexibility in the EU budget. Under these circumstances and given the political and economic benefits of ending the status quo and increasing the EU's budgetary responsiveness to the crises, changes may be more readily agreed.

8. REFORMS AND STEERING EFFECTS

There are several candidates for new own resources. The objective is not just to raise cash for the EU in a way that diminishes net balance arguments, nor only for the EU to be able to provide value-added more effectively. The levying of EU revenue can also have a steering effect to discourage certain types of economic behaviour, and it can complement existing EU policy. Indeed, desirable steering effects for which an EU tax levy is the solution is a way to convince those who are otherwise sceptical about transfer of revenue to the EU level.

An important responsiveness criterion for new Own Resources is that they take into account the mobility that the internal market and globalisation offer. Transnational corporations are able to avoid tax quite legally, putting smaller and medium sized competitors at a fiscal disadvantage. This is the type of iniquity that could be resolved through an EU-wide corporation income tax (CIT) in order to mitigate against the race to the bottom (Schratzenstaller 2013: 310). A drawback is that the higher the mobility of a tax target, the higher the revenue volatility (Osterloh et al 2008: 459). This makes retention of GNI transfers as a residual indispensable since the EU cannot incur debt despite those attempts of the 1970s of the Commission and the EP to empower the EU to borrow.

Reducing the GNI own resource will have positive effects on national accounts and budget deficit calculations. GNI transfers can continue to be used as at present as a residual (though to a lesser extent) to top-up any short-fall in money from other sources or to compensate Member States with a large gross contribution or who continue to benefit less from agricultural expenditure. Corrections for net contributors could be tied to the endurance of less accepted expenditure policies like agriculture. In this case, the correction would automatically decrease if and when agricultural expenditure falls. It is worth recalling that in 1984, the Commission urged for the British rebate to be conditional on the total share of EU budget expenditure for the EAGGF exceeding 33%, a percentage figure below which it has since fallen.

A real EU VAT is supported strongly by Cipriani (2014). Since VAT is charged at national level in all Member States, has a base that is harmonised by EU rules, and, in a different form, is already an EU Own Resource, it would be technically easy to introduce though politically controversial. The European Commission has avoided perusing the EU VAT strategy for fear of creating double taxation (Cipriani 2014: 37). On the other hand, Fuest et al (2015: 291) and Heinemann et al (2008: 126) suggest abolishing the VAT Own Resource completely since it is now so small, its collection is administratively bothersome and Member States find it iniquitous according to levels of prosperity such that its capping at 50 per cent of GNI and rebates for Germany, Netherlands and Sweden render it a mere add-on to the GNI resource. VAT fraud also adds to its iniquity (Heinemann et al 2008: 49). Besides this a new VAT resource largely replacing GNI would result in huge iniquitous increases in contribution for Cyprus and Malta, on account of their dependence on tourism, and on Luxembourg, Portugal, Spain, and Czechia (Osterloh et al 2008: 463).

The best strategy is to look for new own resources where there can be political support for their steering effects besides CTI mentioned above. The roles of the FTT and carbon taxes are compelling in this regard, though for the same reasons they also face strong opposition. For this approach, the primary role of the FTT would be to discourage financial markets from making particularly risky transactions; the fact that it may raise revenue is a secondary advantage. For Heinemann et al (2008: 80), EU taxes are a matter of system design and choice of base. The EU could participate in harmonised bases across the EU in VAT, discussed above, in a new EU CIT, or in the Emissions Trading Scheme (ETS), which could become an EU resource. In these cases, the EU could add its call rate via surcharges to differing national rates. It could attempt to charge the same rate across all Member States but this is easier if a resource is selected on a target that is hitherto untaxed, and this could apply to aviation or energy consumption, discussed below.

A carbon tax, aside from any EU consideration, is popular in several states in North-West Europe, where environmental concern is particularly high, a consistent pattern reported by *Eurobarometer*. For example, its Spring 2015 edition (European Commission 2015: 19) revealed that 54 per cent of Swedes and 44 per cent of Danes believe that the EU budget should be spent on climate change and environmental protection before anything else, with 39 per cent of Germans, 35 per cent of Finns, and 33 per cent of Dutch and Austrians agreeing. A carbon tax based on energy usage would likewise be popular in North-West Europe and would be consistent with EU policy on climate change. It is likely to be unpopular in less prosperous Member States where the use of carbon in energy supply is proportionately larger. Here a solution is to cap Member States' gross contributions to a percentage of GNI. If the revenue from new own resources exceeds that gap, a correction would be supplied. The corrections would (as mentioned above) no longer be "free money", but would be tied to co-financing expenditure from the EU in order to protect the steering effect of the own resource, in this case reduction of carbon usage.

A tax on aviation would attract support from other transport sectors which are already taxed on their fuel, while being consistent with EU policy and the benefits that the aviation industry has gained from the internal market. Whereas aviation is already covered by the ETS and, in many Member States, by modest Air Passenger Taxes, aviation and kerosene remain remarkably under-taxed. The reason for the kerosene tax exemption is path dependent just like the British rebate: the exemption was designed to encourage the development of air travel in its early days. Aviation is a sector that is a major beneficiary of competition regulation, but it is also one of the fastest growing sources of carbon emissions in relative terms. Aviation's effects are difficult to locate geographically and, in this respect, its taxability could be compared to Traditional Own Resources (tariffs and levies) leading an aviation tax to have its own equivalent to the Rotterdam effect on tariffs. Flights pass over Member States without landing and yet affect the common environment. Charges could be levied at arrival airports based on the calculated emissions of the incoming flight rather than taxing kerosene or passengers directly. Indeed an emissions based charge would be levied at all flights regardless of load, passenger or freight. Moreover, aviation taxes as a new tax need not be collected by national authorities or pass through national accounts. An EU agency could be established to collect the revenue based on reporting either from airports or air traffic systems.

The steering effect is desirable if it discourages unnecessary short flights between major cities in the central parts of the EU. There could be discounts on the tax for more geographically distant parts of the EU, such as Portugal, Finland, Ireland, Greece, Cyprus, and Malta, where other forms of transport are impractical and where the likely impact of this de facto kerosene tax would be exponentially high (Osterloh et al 2008: 468). Conversely, and as with other new tax-based own resources, excessive gross contributions could be subject to rebates with extra expenditure.

The disadvantage of using GNI as a method for providing corrections is that, in practice, it would make it more difficult to escape from net balance calculations. Nevertheless, if managed well, GNI corrections need not endanger the steering effects of any new own resources, such as reducing carbon emissions or risky transactions.

Previous historic achievements on own resources were package deals, even the case of Fontainebleau in 1984, which allowed the VAT own resource to rise to 1.4% and for enlargement to Spain and Portugal. Coalitions for change can be very broad. While net beneficiaries could support the reduction of the GNI resource because it would make a beneficial budget more sustainable without having to fight net contributors all the time, net contributors can also gain if the package carries with it other policy achievements with the steering effects that they would support. At the same time, a reduction in the transfer of GNI percentage shares due to the uptake of new Own Resources leads to less pressure on national budgeting.

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