

CIRCLE III

Working document 4

"Discussion circle" on own resources

**Subject : Note from Peter Hain, Member of the Convention
- Comments on Secretariat Note describing the system of own resources
(Cercle 3, WD 01)**

Members of the "Discussion circle" on own resources will find hereafter a note from Peter Hain, Member of the Convention.

**SUPPLEMENTARY NOTE FROM PETER HAIN TO THE DISCUSSION
CIRCLE ON OWN RESOURCES - COMMENTS ON SECRETARIAT NOTE
DESCRIBING THE SYSTEM OF OWN RESOURCES (CERCLE 3, WD 01)**

The UK Government has set out in other contributions to the Convention its firm view that the system of EU revenues is a matter for unanimous agreement between Member States and must be subject to ratification by national parliaments. The Praesidium's draft Article 38, reproducing the current Article 269 TEC, reflects this position and should in our view remain unchanged.

Without prejudice to our view on Article 38, this note addresses a number of factual and interpretative points arising from the Convention Secretariat's descriptive note on the system of own resources which will be discussed by the "discussion circle" beginning on 14 April.

Nature of own resources

Article 269 refers to the EC budget being financed from "own resources", and detailed provisions for the establishing and making available of EC budget revenues are contained in the "Own Resources Decision". But this does not indicate any legal or practical principle requiring EC budget revenues to confer financial autonomy on the EU. That would be inconsistent with the current requirement – which the UK government insists on, and which is by no means excessively cumbersome¹ – for provisions relating to the system of own resources to be adopted by Member States in accordance with their constitutional requirements.

Furthermore, the fact that Member States have over the years decided unanimously to increase the share of the budget financed by the "fourth resource" – based on the GNP of the Member States - and specifically provided for this under the Own Resources Decision, indicates that "own resources" are not to be equated with any generally accepted principle of EU financial autonomy.

The Secretariat note² should therefore make clear that there is no settled principle of EU financial autonomy. On the contrary, the term "own resources" indicates only the extent to which the Member States are obliged to make revenues available to the EU in accordance with the Own Resources Decision, once ratified by all Member States. The fact that some Member States include such revenues in their national budget accounting does not affect this. To remove any doubt which may be caused by the term "own resources", the UK Government would favour its being replaced by the term "budget revenues".

¹ Page 6

² Pages 6 and 7, also pages 9 and 10

Related to this, the note¹ should make clear that it is by no means impossible to allocate Traditional Own Resources to individual Member States: in fact the Commission already does this in its annual report on the allocation of budget revenues and expenditure.

On a point of detail, the requirement for Member States to make budget revenues available to the Community relates to the amounts of Traditional Own Resources collected (or in some cases established), as well as other budget revenue due under the budget. The note² might be clarified to reflect this.

A further factual point³ relates to the current distribution of budget revenues by type: based on the average of the last two years – 2002 and 2003 – GNP accounts for about 60%, VAT about 26%, customs duties about 13% and agricultural levies about 1%.

Link between resources and expenditure

The overall ceiling for EU budget revenues is set by the ceiling (currently 1.24% of Community GNI) established in the Own Resources Decision. Similarly, the Own Resources Decision sets an overall ceiling of budget appropriation commitments (currently 1.31% of Community GNI, equivalent to 1.335% of Community GNP). Subject to any future change in the Own Resources Decision, these ceilings will remain in force – they do not apply solely for the period 2000-2006, nor is there any general rule that the ceilings are established in conjunction with expenditure ceilings in the financial perspective. As a result, the ceiling on budget revenues is independent of any ceilings on expenditure – the link between the two is rather that the expenditure ceilings of the financial perspective, and expenditure provisions in the annual budget, must at all times respect the binding budget revenues ceiling set in the Own Resources Decision. The Secretariat note⁴ should clarify this relationship.

Fontainebleau correction mechanism

The Secretariat note⁵ should make clear that the UK's correction is based on the principle established by the Fontainebleau conclusions – 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 – rather than on any particular level or nature of receipts or budgetary contributions.

Similarly, the Decision of 7 May 1985 determined the basis on which the Fontainebleau

¹ Page 2

² Page 6

³ Page 4

⁴ Page 5

⁵ Page 3

principle should be applied to the UK, in view of the UK's excessive budgetary burden. It did not however link the UK correction to any particular level of the agricultural sector in the UK or to any particular level of VAT base, either at the time of the UK's accession, or at the time of the Decision itself. The note¹ should make that clear.

The Secretariat note is also misleading in suggesting that the UK correction (and its financing by other Member States) affects the equity of Member States' gross contributions. A true comparison of Member States' gross contributions to budget revenues must be made *before* taking account of the UK correction: this is because the correction is made in respect of the *net* budgetary burden (ie contributions less share of allocated expenditure). The note² should be amended to clarify this point.

On a further factual point³ relating to the UK correction, this is given to the UK by way of a reduction in the UK's total VAT and GNI-based contributions for the following year, rather than by way of a reduction in the UK's VAT base.

The decision making process

The current Own Resources Decision has no expiry date, and – in establishing a budget revenues ceiling as a percentage of total Member States' Gross National Income – allows for the total EU budget resources to grow, in line with national GNI growth, and taking into account total GNI growth as a result of one or more enlargements, without the need for further amendment. As a result, the Union's future funding is already adequately guaranteed – there is no question of any changes being needed to current procedures to ensure that. This should be clarified in the Secretariat note⁴.

Finally, the note⁵ should clarify that, while some Convention members have proposed that the Constitution provide for the possibility of a European tax, other Convention members (including the UK Government) have made clear their firm support for Article 269 to remain unamended. The UK firmly believes that it is through maintaining the current dominant role of the Member States for budget revenues, rather than providing for a European tax or participation in national taxes, that transparency and legitimacy of budget revenues is best secured.

¹ Page 3

² Page 8

³ Page 3

⁴ Page 11

⁵ Page 11