

Budget reform/Own resources

Three MEPs prefer European VAT and carbon tax

By Gaspard Sebag in Strasbourg | Wednesday 06 April 2011



Ahead of the European Commission's formal proposals on the multiannual financial framework (MFF) post-2013 and new own resources scheduled for late June, three leading MEPs presented, at their own initiative, on 6 April, their preferred new own resources options: a European value added tax (VAT) and a carbon tax. The latter could also be complemented by a financial transaction tax (FTT). Clearly, the Parliament, which has a limited role in the matter according to the treaties ⁽¹⁾, is being proactive in order not to be left aside in the discussions.

In a 78-page document, ALDE leader Guy Verhofstadt (Belgium), Committee on Budgets Chair Alain Lamassoure (EPP, France), and the Chair of the Special Committee on the policy challenges and budgetary resources for a sustainable European Union after 2013 (SURE), Jutta Haug (S&D, Germany), in association with think tanks Centre for European Policy Studies and Notre Europe, present their point of view concerning the reform of the EU budget, tackling the revenue side first with a view to overhauling the expenditure side.

Fair return problem

The main problem identified by the three MEPs is the structure of the EU budget's resources, which is predominantly financed by member states (currently around 85% if the VAT resource is included). Verhofstadt, Lamassoure and Haug argue that this has meant two things: the EU's loss of financial autonomy and the development of the 'fair return' concept opposing so-called 'net contributors' to 'net recipients'. This latter issue has given rise to political compromises in order to secure the approval of certain member states, such as the British rebate, each one of them rendering the EU budget more complex and opaque. The three MEPs also flag the mismatch between the EU's increased competences – energy, space, fight against climate change – and the lack of a corresponding beefed up funding resulting from the current financing system. The document points out that the 'Europe 2020' strategy, which was decided last year, has still "not yet received a single euro".

The ultimate goal sought by Verhofstadt, Lamassoure and Haug is for the Union's budget to no longer rely on national contributions and be based entirely on so-called 'genuine' own resources in view of then reforming the expenditures side. To do so, these MEPs, after having reviewed the six own resources options presented by the Commission last year ⁽²⁾, propose to transform the current VAT resource into a European VAT, coupled with a carbon tax and if need be complemented with an FTT. Verhofstadt, Lamassoure and Haug ambitiously set their sights on the 2020 horizon (implicitly indicating their preference for a seven-year MFF), after a "transition period" to complete the change. As indicated by Budget Commissioner Janusz Lewandowski, the most likely outcome is that, if any agreement between member states were to be found, a phasing in of the new own resource(s) would take place.

They said

Guy Verhofstadt: "Our proposal is not to increase [the size of the EU budget] but to collect it in a different way." "When citizens have to pay something, they take an interest."

Alain Lamassoure: "Our aim is to kick off a sacred cow hunt." "The fair return is an economic, budgetary and even political lie." "We want to substitute the fair return logic with a fair level logic." The prospect of seeing their proposals receiving the approval of the Council "is impossible, but it's realistic." "If there are better [new own resources options], we will rally to them."

Jutta Haug: "The member states seem to believe they pay one hundred percent of the EU budget."

The options

EU VAT

The new European VAT own resource is the star of the show in the report. A national rate and a European rate would be applied and mentioned at the bottom of bills, which would enable citizens to know precisely their contribution. The revenue from the latter rate would be fed into the EU budget. With a rate of 1%, it could produce an income of 57 billion euro per year, ie a little less than half of the current EU budget. The document considers an EU VAT to become a stable source of revenue, which should not lead to an increase in the VAT rate as revenue generated would be deducted from national contributions. Finally, the collection costs should be low as the tax already exists, albeit in a different form.

Carbon tax

Verhofstadt, Lamassoure and Haug opt for a generalised carbon tax – not included in the Commission's six options but mentioned in passing – as their second preferred option. The implementation of this tax would consist of taxing both the imports and production of fuel, gas and coal in proportion to each fossil fuel's respective CO₂ content. The document notes that a tax of 20 euro per tonne of CO₂ could raise 48.5 billion euro per annum. The additional attractive feature, in view of convincing public opinions and member states, is that a carbon tax would be strongly linked to the EU's goal, in this case of reducing CO₂ emissions.

Financial transaction tax

To share some of the financial burden, the three MEPs consider the option of a financial transaction tax at a rate of 0.05%. This could generate around ten billion euro yearly, according to the report. It has the advantage of being backed by many EU citizens and several member states. Whether the latter wish for it to be fed into the EU budget is another matter altogether.

Unspent appropriations

Lastly, the Verhofstadt, Lamassoure and Haug report considers that their financing reform will eliminate the need to return to national budgets the 'surplus' of unused appropriations at the end of the year, thus constituting a supplementary own resource. The three parliamentarians factor in therefore an extra three billion euro per annum.

The report is available at www.europolitics.info > Search = 291596

⁽¹⁾ "The Council [...] 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." "The Council [...] shall adopt a regulation laying down the multiannual financial framework. The Council shall act unanimously after obtaining the consent of the European Parliament, which shall be given by a

majority of its component members."

⁽²⁾ In its budget review in October last year, the Commission listed six options for potential new own resources: a financial transaction tax, a European VAT, an energy tax, a corporate income tax, the revenues coming from auctioning under the Emission Trading Scheme (ETS) and an air transport tax.

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