

# COMMISSION OF THE EUROPEAN COMMUNITIES

COM(83) 270 final

Brussels, 6 May 1983

(Complete version)

## THE FUTURE FINANCING OF THE COMMUNITY - DRAFT DECISION ON NEW OWN RESOURCES -

(Communication from the Commission to the Council)

COM(83) 270 final

COMMUNICATION FROM THE COMMISSION TO THE COUNCIL

The Future Financing of the Community:  
Draft Decision on Own Resources

1. In its communication of 4 February 1983 the Commission explained the reasons why it believed that an extension and diversification of the Communities' system of own resources was necessary, and set out the considerations which, in its view, should guide the choice of new sources of revenue.
2. First and foremost, the Community today is living under the threat of the exhaustion of its financial resources. The appreciable rise in agricultural expenditure in the past few months has further exacerbated the situation since the Green Paper was issued. The supplementary budget which the Commission will be proposing in the near future will use up most of the available margin of own resources for the current year.

For 1984, in the light of the forecasts of agricultural expenditure and in view of the need to continue the development of Community policies in priority sectors, the Commission has to propose that all the available resources be taken up, leaving only a very small safety margin.

What is at stake today is nothing less than the preservation or the normal operation of all the Community's policies. The purpose of the own resources system was to afford security and continuity in these policies: it cannot be allowed to become a permanent threat to their development.

3. The development of the Community's policies is an objective shared by both the Council and Parliament. The Council stated this expressly in its Mandate to the Commission of 30 May 1980. Parliament has regularly made this balanced development one of its central preoccupations. When presenting the Commission's programme to Parliament on 8 February, the Commission President described the approach the Commission wished to see adopted in developing such policies, an approach which Parliament welcomed and which is at the centre of the Council's present work.

4. The extension of Community policies and hence of the Community budget does not conflict with the need for budgetary stringency which is facing all the Member States today. When it proposes action at Community level the Commission's aim is to achieve a more cost-effective solution than could be offered by purely national programmes. According to the sector concerned, Community measures can either replace national projects or enable them to be coordinated and dovetailed in overall programmes making for greater efficiency. The Commission's most recent proposals - research and development programmes on information technologies, an outline programme of Community scientific and technical activities, a Community programme for promoting youth employment - are just a few examples of this. Economies of scale and closer European co-operation or integration often go hand in hand.
  
5. As well as seeking to develop new policies, the Commission has constantly sought to ensure the most economical management possible of existing policies, and in particular of the common agricultural policy. The guidelines it set out in its report in June 1981 in response to the Mandate of 30 May would, if promptly implemented, have cut back the increase in agricultural spending to a slower rate than that of the Community's own resources. The Commission expects the Council in its decision on farm prices for the year ahead to give a clear signal of its intentions in this regard. For its part the Commission will not hesitate to propose additional measures should there be signs of further increases in agricultural expenditure not warranted either by the Community's internal requirements or by the need to preserve its traditional trade with its main trading partners. The extension of the Community's own resources will not interfere with this policy line. It could be the Council's opportunity to confirm it.
  
6. The extension of Community policies in non-agricultural sectors, coupled with a better control of agricultural production, will eventually bring a better balance of expenditure into the Community budget.

Such a change cannot come about overnight, for it would be neither realistic nor responsible, in present circumstances, to propose a major increase in Community spending. For this reason the European Council itself has accepted that the Commission's proposals on new own resources should contribute at once to the correction of budget imbalances, a view shared by the European Parliament.

7. The Commission is accordingly proposing that the 1% ceiling for VAT resources introduced by the 1970 decision be removed. At the same time it proposes a threshold system starting at 1.4%, which will enable the institutions - the Council acting unanimously, Parliament by qualified majority - to monitor the growth of the Community's needs, so that new tranches of own resources could be granted only by full agreement of the institutions and the Member States.
  
8. The Commission is further proposing that as a transitional measure, until such time as Community policies and hence the Community budget have been brought into better balance, there should be a diversification of resources which would contribute immediately to the reduction of the Community's budgetary problems. This would involve the application of a corrective mechanism to part of the revenue derived from VAT, to cover a significant portion of the budget (calculated by reference to the volume of agricultural expenditure). One advantage of this modulation, calculated on the basis of the indicators set out in paragraph 14 below, is that a significant contribution could thus be made to the correction of imbalances in the Community without insuperable difficulties being raised for other Member States. It is against this background that the Commission would ask the Council and Parliament to appraise the ideas which it is laying before them.

9. The attached document is a draft Council Decision replacing the Council Decision of 21 April 1970 on the Communities' system of own resources. In submitting this to the Council and Parliament, the Commission recalls that in 1973 it presented a proposal for the revision of Article 201 of the Treaty of Rome which would have transferred full revenue-raising powers to the Community. The adoption of this proposal remains the Commission's long-term aim.
  
10. In making this proposal for extending the Community's resources, the Commission has sought to identify those forms of new revenue which best reflect the overall interest of the Community, which enhance the attraction for all Member States of full participation in Community policies and which best ensure a coherent relationship between the Community's revenues and its pattern of expenditure.
  
11. The Commission proceeds from the assumption that the existing range of own resources must remain intact. Customs duties and agricultural and sugar levies should continue to be paid automatically to the Community budget. In addition, it is time to correct the anomaly whereby customs duties on products falling under the ECSC Treaty do not count as Community own resources. The Commission is therefore proposing their inclusion as general budget revenues. The Commission considers it right that a certain percentage of the receipts from customs duties and agricultural levies should continue to be reimbursed to the Member States to cover the cost of the services their administrations perform on the Community's behalf in collecting them. But a fixed level of reimbursement seems no longer justified. The Commission therefore proposes that the figure, which must in no circumstances exceed 10%, should be decided by the budgetary authority.

12. The Commission maintains its view that value added tax should remain for the foreseeable future the cornerstone of the Community's financial autonomy. It therefore proposes that the ceiling of 1% currently applied to VAT should be removed and that the Community's budgetary authority should henceforth be empowered to raise VAT revenues in excess of this amount. In the Commission's view, however, the decision-making procedure in the budgetary process would have to be modified to take account of the removal of this ceiling. The Commission therefore proposes that increases in the VAT rate beyond 1.4% may only be authorized, in additional fractions of 0.4%, on a proposal from the Commission, by the budgetary authority, the Council acting unanimously, and the European Parliament by a majority of its Members and three-fifths of the votes cast. The Commission envisages that whenever a fraction of 0.4% is exceeded, the functioning of the Community's financing system could, if necessary, be reviewed. The Commission will on such occasions make any appropriate proposals.
13. For as long as agricultural expenditure accounts for a preponderant share of the Community's budget, a diversification of resources is, in the Commission's view, required, so that they can match more closely the pattern of expenditure. The Commission proposes that this should be done by the temporary application of a modulating factor (in the form of variable rates) to part of the VAT revenues assigned to the Community. The revenues from these variable rates would be equal to the difference between EAGGF Guarantee Section expenditure (less expenditure on food aid and expenditure in connection with the sugar protocol with the ACP states) and 33% of total budget expenditure.

14. The variable VAT rates would be determined by reference to several indicators, first of all the share of each Member State in the Community's final agricultural production of products subject to common market organizations. This link would ensure more homogeneity between resources and expenditure in the present situation. Per capita gross domestic product would be a measure of different countries' relative levels of prosperity. To cover all relevant factors the Commission suggests using the average of indices calculated on the basis of market exchange rates and purchasing power parities. Lastly the Commission proposes using the index of each country's share in the Community's net operating surplus, an index which reflects the vitality and profitability of the different economies concerned.

For each of these indicators the Community possesses full statistics compiled on reliable bases and harmonized over many years.

15. Since the Community's objectives in the energy field, including energy research and development, are so essential, the Commission feels it right in present circumstances to propose a special effort to develop Community-wide policies aimed at achieving a more rational and economical use of energy and more secure and diverse supply. Conscious of the need to avoid proposing a new expenditure programme without giving thought to its financing, the Commission is considering the idea of introducing into the own resources system revenue from a tax on non-industrial consumption of energy. It will be submitting its package of energy proposals in the coming month.

16. Finally, Article 7 of the draft decision provides that any balance between income and expenditure at the end of the year may in future be retained by the Community.

Council Decision of                    on the Communities' system of  
  
own resources

THE COUNCIL OF THE EUROPEAN COMMUNITIES,

Having regard to the Treaty establishing the European Economic Community,  
and in particular Article 201 thereof;

Having regard to the Treaty establishing the European Atomic Energy  
Community, and in particular Article 173 thereof;

Having regard to the proposal from the Commission,

Having regard to the Opinion of the European Parliament<sup>1</sup>;

Having regard to the Opinion of the Economic and Social Committee<sup>2</sup>;

Whereas the Council Decision of 21 April 1970 on the replacement  
of financial contributions from Member States by the Communities'  
own resources<sup>3</sup>, hereinafter referred to as "the Decision of  
21 April 1970", introduced a Community system of own resources;

Whereas the own resources system should be diversified and extended  
while retaining the existing sources of revenue introduced by the  
Decision of 21 April 1970;

Whereas customs duties on products within the scope of the Treaty  
establishing the European Coal and Steel Community should be included  
in the Communities' own resources;

Whereas the 1% limit to the rate applied to the uniform basis for  
assessing value added tax, laid down in the Decision of 21 April 1970,  
should be abolished; whereas at the same time, in order to reinforce  
budgetary discipline, increases in the authorized rate of value  
added tax should be expressed in fractions of a percentage point;

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<sup>3</sup>OJ No L 94, 28.4.1970, P.19

## II

*(Preparatory Acts)*

## COMMISSION

**Proposal for a Council Decision on the Communities' system of own resources***(Submitted by the Commission to the Council on 5 May 1983)*

THE COUNCIL OF THE EUROPEAN COMMUNITIES,

Having regard to the Treaty establishing the European Economic Community, and in particular Article 201 thereof,

Having regard to the Treaty establishing the European Atomic Energy Community, and in particular Article 173 thereof,

Having regard to the proposal from the Commission,

Having regard to the opinion of the European Parliament,

Having regard to the opinion of the Economic and Social Committee,

Whereas the Council Decision of 21 April 1970 on the replacement of financial contributions from Member States by the Communities' own resources<sup>(1)</sup>, hereinafter referred to as 'the Decision of 21 April 1970', introduced a Community system of own resources;

Whereas the own resources system should be diversified and extended while retaining the existing sources of revenue introduced by the Decision of 21 April 1970;

Whereas customs duties on products within the scope of the Treaty establishing the European Coal and Steel Community should be included in the Communities' own resources;

Whereas the 1 % limit to the rate applied to the uniform basis for assessing value added tax, laid down in the Decision of 21 April 1970, should be abolished; whereas at the same time, in order to

reinforce budgetary discipline, increases in the authorized rate of value added tax should be expressed in fractions of a percentage point;

Whereas, furthermore, for as long as guarantee expenditure in support of agricultural production exceeds a certain proportion of the budget of the Communities, variable rates of value added tax should apply, taking into account certain economic indicators,

HAS LAID DOWN THESE PROVISIONS, WHICH IT RECOMMENDS TO THE MEMBER STATES FOR ADOPTION:

*Article 1*

The budget of the Communities shall, irrespective of other revenue, be financed entirely from the Communities' own resources.

*Article 2*

Revenue from:

- (a) levies, premium, additional or compensatory amounts, additional amounts or factors and other duties established or to be established by the institutions of the Communities in respect of trade with non-member countries within the framework of the common agricultural policy, and also contributions and other duties provided for within the framework of the organization of the markets in sugar;
- (b) Common Customs Tariff duties and other duties established or to be established by the institutions of the Communities in respect of trade with non-member countries, including customs duties on products within the scope of the Treaty establishing the European Coal and Steel Community;

shall constitute own resources to be entered in the budget of the Communities.

*Article 3*

1. Shall also constitute own resources, revenue accruing from the application of the value added tax

<sup>(1)</sup> OJ No L 94, 28. 4. 1970, p. 19.

to an assessment basis which is determined in a uniform manner for Member States according to Community rules, and obtained in accordance with the provisions of this Article.

2. Revenue shall be obtained by the application of a uniform rate of value added tax. Subject to paragraph 6, this rate shall be fixed within the framework of the budgetary procedure, taking into account all other receipts.

3. In addition, as long as expenditure under the European Agriculture Guarantee and Guidance Fund, Guarantee Section (less expenditure on food aid and expenditure under the sugar protocol with the ACP states) exceeds 33 % of total expenditure, variable rates of value added tax shall apply. Such rates shall be fixed taking into account Member States' shares in the final agricultural production of products subject to common market organizations and in the net operating surplus of the Community, and their gross domestic product *per capita* defined by the average of indices calculated on the basis of market exchange rates and purchasing power parity.

The revenue accruing from these variable rates shall be equal to the difference between the expenditure referred to above and 33 % of total expenditure in the budget.

In the event of exceptional and unexpected developments in Community expenditure, this threshold may be varied by the procedure provided for in Article 3 (6).

4. If at the beginning of the financial year the budget has not been adopted, any rate of value added tax previously fixed shall remain applicable until the entry into force of a new rate.

5. For the purposes of paragraph 6, an overall rate of value added tax shall be calculated from the sum of the uniform rate referred to in paragraph 2 and the weighted average of the variable rates referred to in paragraph 3.

6. A decision based on a proposal from the Commission shall be required before the overall rate of value added tax can exceed 1,4 %. This decision shall be taken by the budgetary authority, the Council acting unanimously and Parliament acting by a majority of its members and three-fifths of the votes cast. Further decisions shall be required for subsequent increases, in fractions of 0,4 %, in the authorized rate.

#### Article 4

1. The revenue referred to in Article 2 and 3 shall be used without distinction to finance all expenditure entered in the budget of the Communities.

2. Financing expenditure connected with research programmes of the European Atomic Energy Community from the Communities' own resources shall not exclude entry in the budget of the Communities of expenditure relating to supplementary programmes nor the financing of such expenditure by means of financial contributions from Member States determined according to a special scale fixed pursuant to a decision of the Council acting unanimously.

#### Article 5

In order to cover expense incurred in collection, each Member State may be refunded up to 10 % of the amounts of the own resources set out in Article 2. The rate applicable shall be fixed on a proposal from the Commission, by the budgetary authority, the Council acting unanimously and Parliament acting by a majority of its members and three-fifths of the votes cast.

#### Article 6

Any balance between the Communities' own resources and actual expenditure during a financial year shall be regulated in accordance with provisions to be adopted pursuant to Article 209 of the Treaty establishing the European Economic Community and Article 183 of the Treaty establishing the European Atomic Energy Community.

#### Article 7

1. The Community resources referred to in Articles 2 and 3 shall be collected by the Member States in accordance with national provisions imposed by law, regulation or administrative action, which shall, where necessary, be amended for that purpose. Member States shall make these resources available to the Commission.

2. Without prejudice to the auditing of accounts provided for in Article 206 (a) of the Treaty establishing the European Economic Community, or to the inspection arrangements made pursuant to Article 209 (c) of that Treaty, the Council shall, acting unanimously on a proposal from the Commission and after consulting the European Parliament, adopt provisions relating to the supervision of collection, the making available to the Commission, and the payment of the revenue referred to in Articles 2 and 3, and also the detailed rules for applying Article 3.

*Article 8*

Member States shall be notified of this Decision by the Secretary-General of the Council of the European Communities; it shall be published in the *Official Journal of the European Communities*.

Member States shall notify the Secretary-General of the Council of the European Communities without delay of the completion of the procedures for the

adoption of this Decision in accordance with their respective constitutional requirements.

This Decision shall enter into force on the first day of the month following receipt of the last of the notifications referred to in the second paragraph. At the same time the Decision of 21 April 1970 shall be repealed. To the extent necessary, any reference to the Decision of 21 April 1970 shall be understood as referring to the present Decision.

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