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THE SYSTEM OF OWN RESOURCES

Report presented by the Commission in accordance with

Article 10 of the Decision on Own Resources

CONTENTS

THE SYSTEM OF OWN RESOURCES

SUMMARY AND CONCLUSIONS

This report reviewing the operation of the Community's system of own resources and suggesting improvements is submitted in accordance with Article 10 of the 1988 Own Resources Decision.

Since 1980, when it represented approximately 0.7% of Community GNP, **the size of the Community budget** relative to GNP has expanded substantially, although it has risen only slightly since 1988, from 1.08% in 1988 to 1.15% of Community GNP in 1992 due mainly to slower growth in spending on agriculture in recent years.

As to the **structure of the** various **own resources in total receipts,** the share of traditional own resources has declined as the budget has expanded, from about one half to under one third of total resources, although their size has fallen only slightly as a percentage of Community GNP. Correspondingly, the share of the resources based on the economic aggregates VAT and GNP has grown from around half of the total financing to over two-thirds.

From 1988 to 1990, total spending was lower than had been expected in 1988, due mainly to the smaller-than-expected EAGGF spending, although in 1991 and 1992, the budget was slightly larger than forecast in 1988. In addition to this, average economic growth to 1992 has been faster than projected in 1988, resulting in a larger VAT base. The overall consequence has therefore been that, up to 1992, recourse to the fourth (GNP) resource was much less than was forecast in 1988.

Looking at the **question of** burden-sharing, it should not be forgotten that the distribution by country of budgetary receipts and expenditures gives only a very partial picture of the true costs and benefits of Community membership.

With this caveat in mind, it should be noted that the present **distribution by country of total own resources** is out of line with GNP weights, even excluding traditional own resources and the UK abatement. The less prosperous Member States tend to pay more than their share in GNP, as do D, F and the UK, due to their high VAT bases. The small shares of B, DK and I are due to their relatively small payments of the VAT-based resource.

The VAT resource, excluding the effect of the UK abatement, is generally regressive, making the resource out of line with the contributive capacity of Member States, with the poorer Member States tending to pay more than their GNP share, even after the corrective effect of capping.

The **budgetary reform of 1988** did have redistributive elements coming from the doubling of the structural Funds (which, although redistributive in aim, are basically allocative in function), the introduction of the GNP resource and VAT capping, and the continuation of the UK abatement with the reduction in its financing by Germany. Nevertheless the full redistributive impact of the 1988 reforms are only now feeding through. Especially since the GNP resource still only makes up just over 20% of own resources, and the structural Funds have not yet reached their doubled level.

For the future, **the dynamic development of the Community budget is expected to continue.** The further progress in the economic and political context of the Community will, even with the full application of the principle of subsidiarity, cause the size of the budget to increase as responsibilities in the areas of allocation, cohesion, stabilization and foreign policy are assigned to the Community level.

In addition, **the structure of own resources** is also likely to change substantially in future years with the traditional own resources destined to decline further in importance as the effects of the GATT round and the CAP reform are felt.

The advent of EMU and the realization of Political Union will further increase the need for fairness in the budget. Thus a priority for the **changes which could be made to the system of own resources** should be to address the issue of **fairness between Member States.** As set out in the Maastricht Protocol on Social and Economic Cohesion, greater account should be taken of the contributive capacity of individual Member States, and the regressive elements existing in the present own resources system should be corrected.

The contributive capacity of Member States could be better taken into account by increasing **the use of the GNP resource** through a reduction in the VAT call rate of 0.4 percentage points. This would take the VAT ceiling down to 1% from the present 1.4%. Also, the regressive distortion of the VAT resource could be mitigated by introducing a lower level of capping of the VAT base at 50% of GNP compared to the present 55%. Both these measures would reduce the financial burden on the less prosperous Member States by shifting it towards B, DK and I, whose GNP share substantially exceeds their VAT share. These countries would nevertheless still retain a significant advantage in the own resource system. In addition, these changes would reduce significantly the size of the UK abatement.

For the institutional and the financial development of the Community, it would be desirable to introduce a new fifth own resource. It is important that a new own resource should be fair. Also it should be a genuine Community tax and thus come from a harmonized base. This harmonization must be justified on economic grounds. Moreover, politically, a fifth resource should be linked to increased budgetary responsibilities for the European Parliament.

The Commission has examined various possibilities concerning taxes at the national level whose proceeds could be shared with the Community. However, it has found that, at present, no candidate exists in the tax system of the Member States with a base that is sufficiently harmonized.

In the medium-term, the political development of the Community will make a new own resource necessary. The Commission will make every effort to promote the necessary conditions allowing the creation of such a resource.

I. INTRODUCTION

This report is submitted in accordance with Article 10 of the Council Decision of 24 June 1988 on the system of the Communities' own resources (88/376/EEC, Euratom) which stipulates that "the Commission shall submit, by the end of 1991, a report on the operation of the system, including a re-examination of the correction of budgetary imbalances granted to the United Kingdom".

The re-examination of the correction of the Uk's budgetary imbalance will be presented at a later date.

The report also deals with the matter raised in the Commission's declaration in the Council minutes of 20 June 1988 that it will "examine, in the light of the functioning of the 1988 system of own resources, the case for presenting a proposal to put into effect the provisions of Article 2.2 of the (abovementioned) Decision on Own Resources", i.e. a proposal for a new Community own resource to be presented to the Council for adoption according to the procedure of Article 201 (Council document 7161/88-Annex of 20 June 1988).

The Report should also be seen in the light of the Protocol on Economic and Social Cohesion agreed at the Maastricht European Council in which the Commission and the Member States declared their intention to take greater account of the contributive capacity of individual Member States in the system of own resources and to examine means of correcting for the less prosperous Member States regressive elements existing in the present own resources system.

II. THE WORKING OF THE PRESENT SYSTEM OF OWN RESOURCES

1. The development of own resources and their structure over the period 1980-1992

1.1 The size of the budget.

As a result of increased Community expenditure, the size of the Community budget rose from approximately 0.70% of Community GNP in 1980 to 1.08% in 1988, but has risen only slightly since then to reach an expected 1.15% in 1992 (see Graph 1).

However, the various own resources increased at rates different from the global size of the budget implying a change in their structure. Thus whereas the traditional own resources amounted to almost 0.4% of Community GNP in 1980, covering one half of the financial requirements, their relative size had fallen to 0.3% of GNP in 1988, remaining stable up to 1992, providing now less than one quarter of the Community budget's financial requirements. The resources based upon economic aggregates (VAT and GNP resources) made up the remainder with the VAT resource still by far the largest own resource, providing around 55% of receipts in 1992, against over 20% for the GNP resource (see Chart 1).

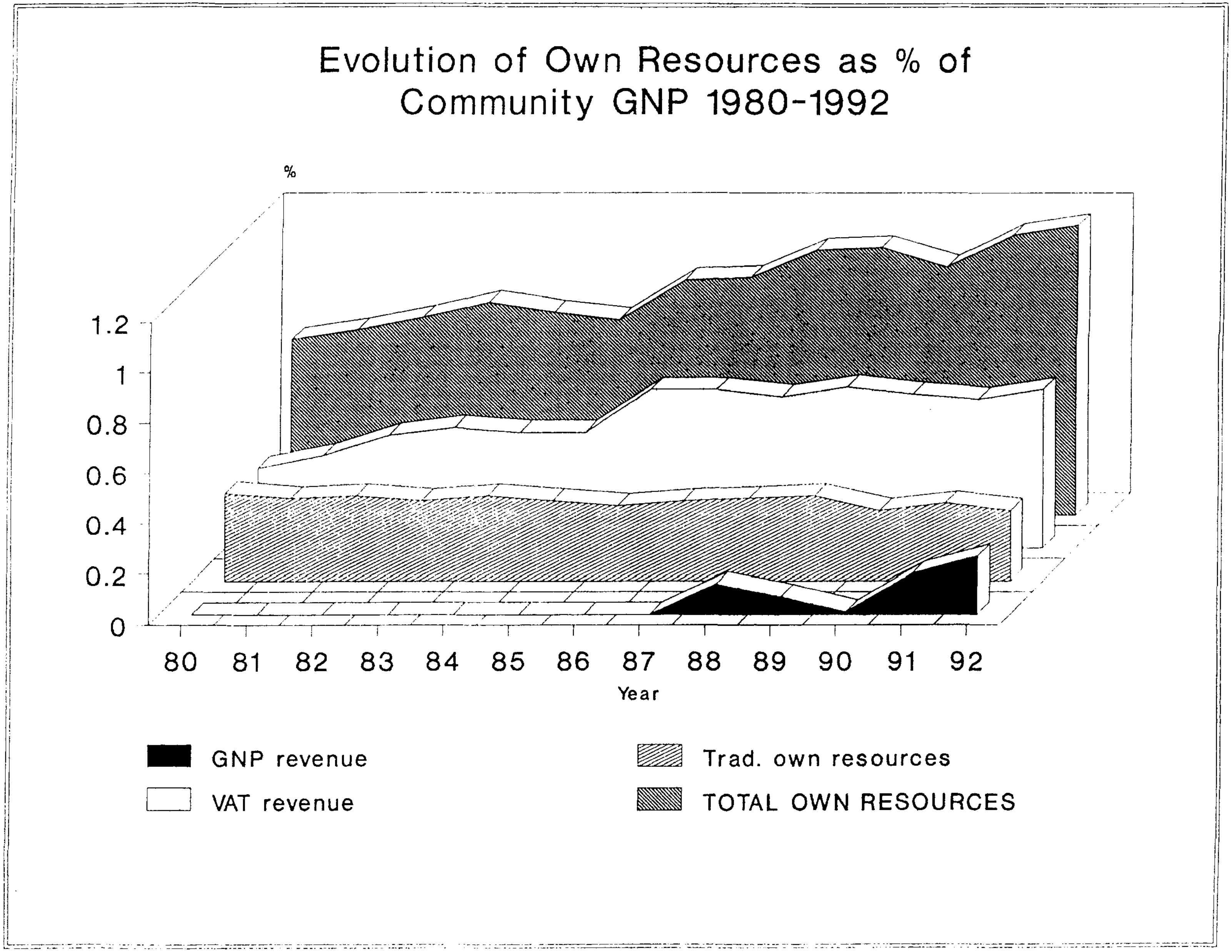
1.2 Traditional own resources

The traditional own resources (less than 25 % of total resources in 1991) consist of agricultural levies (some 2% of total resources), sugar contributions (also approximately 2%) and customs duties (almost 20% of total resources).

Sugar contributions are related to the financially self-sustaining sugar scheme and make up a fairly constant share of own resources. Their level is actually geared to the financial requirements of that scheme due to storage costs and export restitutions.

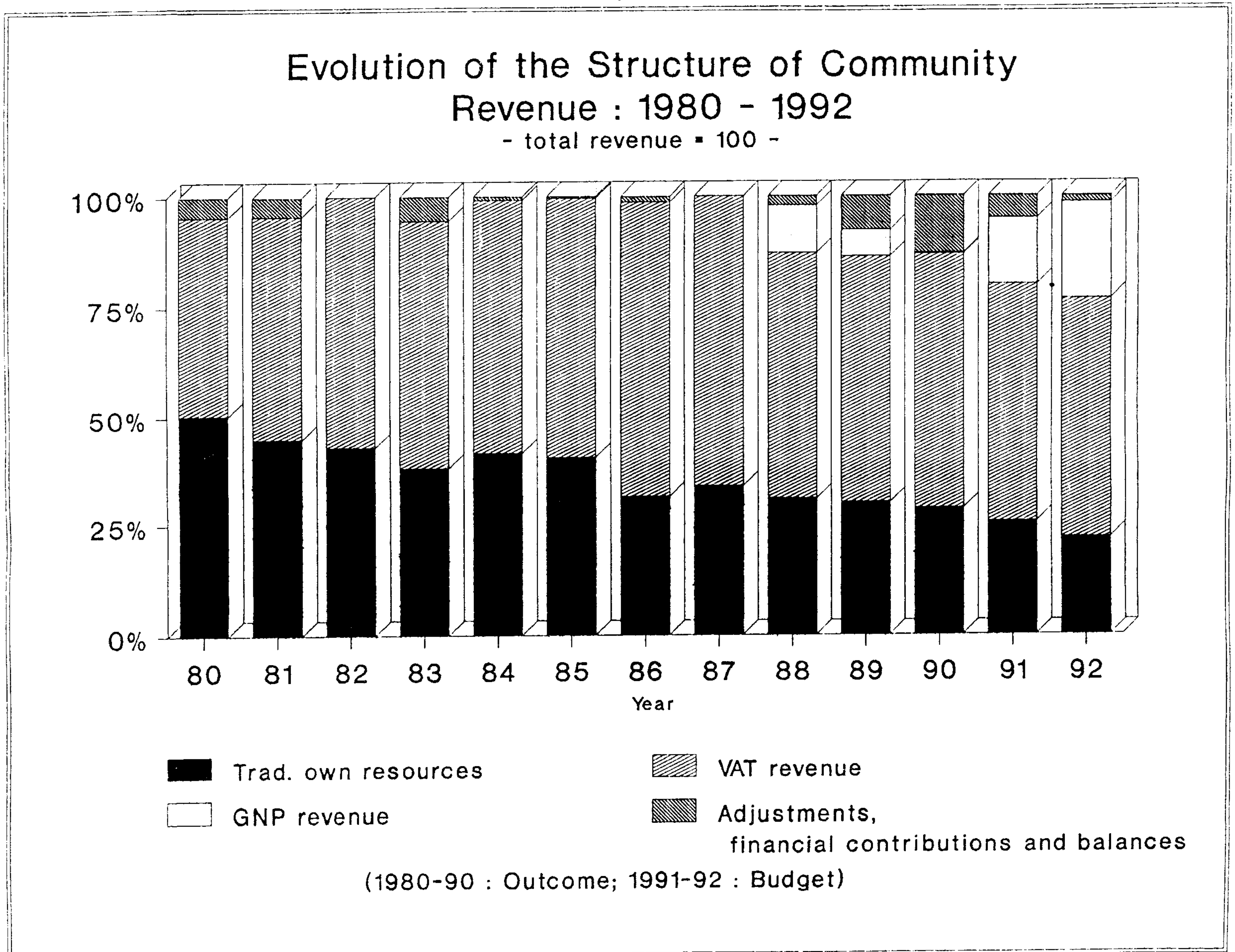
The other traditional own resources have been exposed to statutory, structural and cyclical developments.

GRAPH 1



Evolution of Own Resources as % of
Community GNP 1980-1992
%
1.2
1
0.8
0.6
0.4
0.2
0
80
81
82
83
84
85
86
87
88
89
90
91
92
Year
GNP revenue
VAT revenue
Trad. own resources
TOTAL OWN RESOURCES

CHART 1


Evolution of the Structure of Community Revenue : 1980 - 1992
- total revenue = 100 -
100%
75%
50%
25%
0%
80
81
82
83
84
85
86
87
88
89
90
91
92
Year
Trad. own resources
VAT revenue
GNP revenue
Adjustments, financial contributions and balances
(1980-90 : Outcome; 1991-92 : Budget)

Agricultural levies reflect decisions taken within the framework of the CAP. As the period has seen a growing self-sufficiency of agricultural products, imports into the Community have declined and EC world market shares of agricultural imports have diminished. Concessions granted to various third countries have, furthermore, reduced annual receipts from this resource considerably. Variations in world market prices and currency changes have finally influenced the contribution from agricultural levies over the period.

Customs duties have been subject to similar influences. Over the years, the various bilateral and multilateral trade negotiations have reduced the weighted average tariff rate to the present 5.19% in 1989 (latest figures available). However, as a result of unilateral or mutual concessions, the actual incidence in 1989 was 2.84%, a figure which varies from one year to another as a result of a changing import structure in value terms (e.g. higher prices of oil, subject to low tariffs, will reduce the overall incidence). Second, Community imports from third countries have fallen as a share of Community GDP from 12.6% in 1980 to 9.5% in 1991. Thus imports, which amounted to 23.6% of world trade in 1980, dropped to 21.9% in 1990 (excluding intra-Community trade). Finally, developments in world market prices, exchange rates and import propensities have influenced the overall outcome.

1.3 VAT and GNP resources.

The resources based upon economic aggregates (i.e. VAT and GNP) make up the balance (disregarding various minor receipts). They are expected to account for about 75% of the total budgetary resources required in 1992, against only 50% in 1980.

The VAT base increased at a slightly faster rate (7.5%) than Community GNP (7.0%) from 1980 to 1988, when the new Decision on Own Resources capped the VAT base for individual Member States at 55% of their GNP. The VAT capping method was chosen in 1988 as a compromise following a Commission proposal to relate a fourth resource to the difference between the VAT and the GNP-base in order to compensate for wide discrepancies among Member States between the two aggregates. It was finally decided to use only GNP as a base for the fourth resource and to put a fixed ceiling on the size of the VAT base. (See Tables 1 and 2 for the evolution of the uncapped and capped VAT bases as a percentage of GNP.)

In 1992, through being capped, six Member States will have effectively switched their VAT base to the GNP aggregate (Greece, Ireland, Luxembourg, Spain, Portugal and the United Kingdom). However, the proportion of VAT receipts made up of the contribution of the capped Member States will still be higher than their GNP share because of the lower contributions of the non-capped countries. Nevertheless, the rate of increase of the Community VAT base will consequently become closer to that of the Community GNP.

The uniform call rate applied to the VAT base in order to calculate budgetary contributions, gradually rose from approximately 0.7% in 1980 to 1.0% in 1984 and again to a maximum of 1.4% from 1986 onwards. The actual VAT rates differ between Member States because of the financing of the United Kingdom abatement and its impact upon VAT payments from other Member States.

Until 1988, further budgetary requirements were covered by supplementary contributions adopted on an ad hoc-basis. Since then a fourth resource, introduced by the 1988 decision, has been calculated according to the Member States' GNP and serves as a budgetary buffer, which represents the main novelty of the 1988 revised system. In 1990 the previous year's balance wiped out almost any need for the new GNP-based resource. However, in 1991 the fourth resource financed 15.5% of the budget, corresponding to 0.16% of GNP, and in 1992 will reach over 20% of the budget.

VAT Bases (uncapped) as a percentage of GNP : 1984-1992

Table I

(%)

Member States	1984 (1)	1985 (1)	1986 (1)	1987 (1)	1988 (1)	1989 (1)	1990 (1)	1991 (2)	1992 (2)
B	49.73	49.57	47.51	47.88	47.86	46.47	45.71	46.58	45.85
DK	46.26	46.58	46.87	45.07	42.02	41.39	41.29	42.76	41.23
D	52.58	50.67	48.45	49.31	48.69	48.36	49.37	48.58	52.56
GR				50.45	57.46	61.54	64.19	56.45	59.88
E			45.72	52.63	55.18	57.20	51.40	52.26	56.07
F	51.63	52.02	51.40	52.58	52.01	51.54	51.18	52.65	52.43
IR	63.20	64.05	62.45	60.06	65.71	62.47	60.42	67.23	64.42
I (3)	41.38	40.55	41.35	41.17	43.26	41.29	41.83	40.64	40.94
L	61.67	62.81	63.86	64.75	67.48	60.64	60.10	65.93	64.36
NL	48.26	49.19	50.99	50.76	50.86	50.96	51.47	50.26	50.89
P (4)						78.52	75.91	67.57	74.55
UK	58.80	60.72	59.49	59.07	60.67	58.98	55.40	60.79	57.89
EUR12	46.79	46.67	48.69	50.09	50.41	50.64	50.00	50.49	51.51

(1) Actual bases, latest revision 31/07/91
(2) Budgetary bases
(3) Revised estimates for 1988,1989,1990 and 1992
(4) Excluding Madeire and Açores

VAT Bases (capped) as a percentage of GNP : 1984-1992

Table II

(%)

Member States	1984 (1)	1985 (1)	1986 (1)	1987 (1)	1988 (1)	1989 (1)	1990 (1)	1991 (2)	1992 (2)
B	49.73	49.57	47.51	47.88	47.86	46.47	45.71	46.58	45.85
DK	46.26	46.58	46.87	45.07	42.02	41.39	41.29	42.76	41.23
D	52.58	50.67	48.45	49.31	48.69	48.36	49.37	48.58	52.56
GR				50.45	55.00	55.00	55.00	55.00	55.00
E			45.72	52.63	55.00	55.00	51.40	52.26	55.00
F	51.63	52.02	51.40	52.58	52.01	51.54	51.18	52.65	52.43
IR	63.20	64.05	62.45	60.06	55.00	55.00	55.00	55.00	55.00
I (3)	41.38	40.55	41.35	41.17	43.26	41.29	41.83	40.64	40.94
L	61.67	62.81	63.86	64.75	55.00	55.00	55.00	55.00	55.00
NL	48.26	49.19	50.99	50.76	50.86	50.96	51.47	50.26	50.89
P (4)						55.00	55.00	55.00	55.00
UK	58.80	60.72	59.49	59.07	55.00	55.00	55.00	55.00	55.00
EUR12	46.79	46.67	48.69	50.09	49.90	49.45	49.55	49.33	50.61

(1) Actual bases, latest revision 31/07/91
(2) Budgetary bases
(3) Revised estimates for 1988,1989,1990 and 1992
(4) Excluding Madeire and Açores

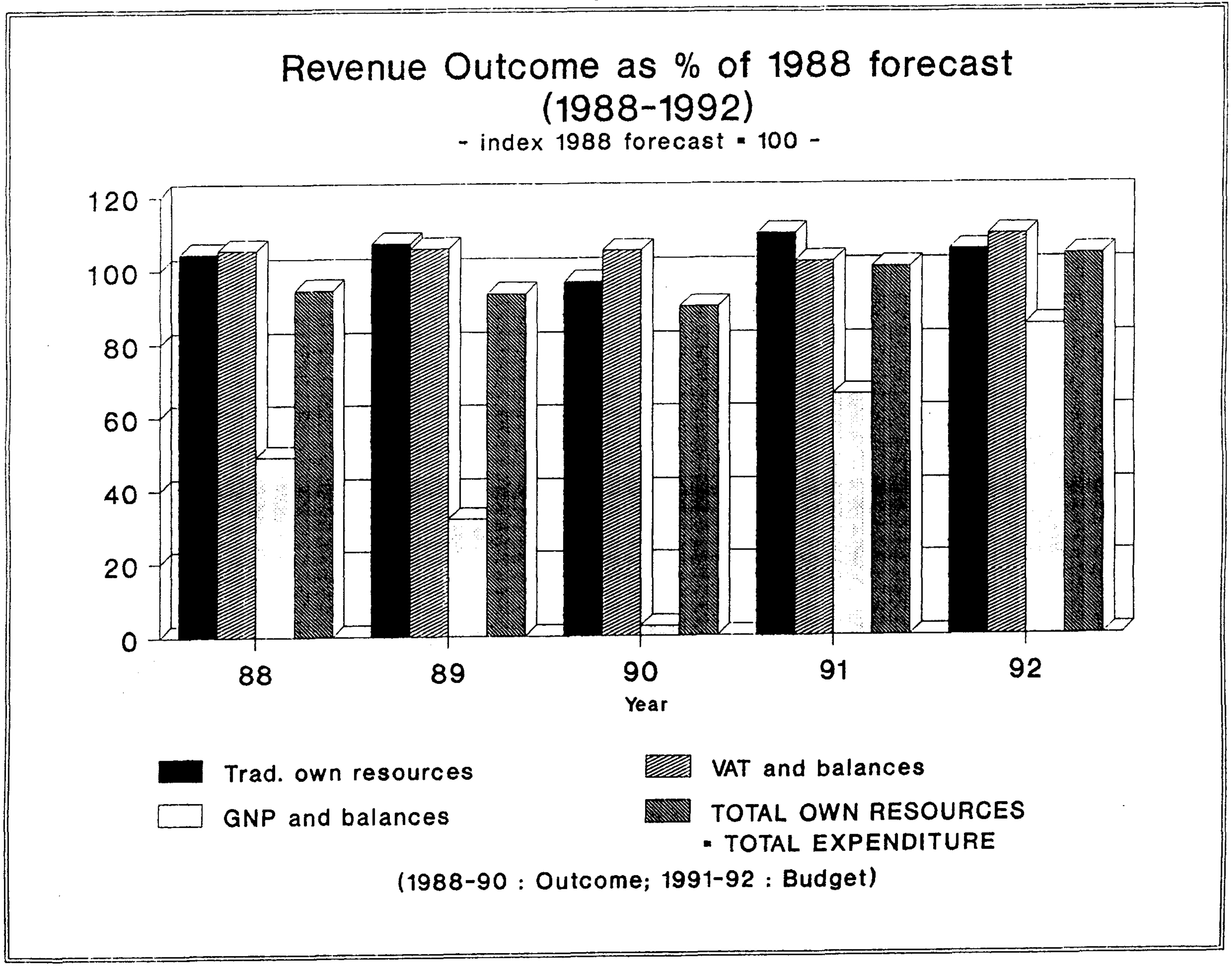
2. The Development of own resources compared to the 1988 forecasts.

The comparison between actual outturns and the projected evolution of own resources as envisaged at the time of adoption of the Own Resources Decision in 1988, shows a slower-than-expected increase in expenditure up to 1990 and a larger rise in the underlying VAT and GNP base. By 1992, however, the level of expenditure has reached what was forecast in 1988 (see Chart 2).

Thus, total expenditure in 1990 corresponding to 1.0% of GNP, was 10% (or 5.3bn ecus) lower than foreseen (1.1% of GNP), basically due to smaller EAGGF payments. Taking into account budgetary transfers from 1989, the total own resources required to finance the budget in 1990 were more than 12% (or 9.5bn ecus) below the outcome expected in 1988 (or 0.9% of GNP against 1.1%). At the same time, stronger economic growth boosted the VAT base in 1990 to a level some 5% above the size then envisaged, adding supplementary finance (or 1.6bn ecus) to the budget. As a result the fourth GNP resource, introduced as part of the new Decision, was not used at all in 1990.

For the years 1991 and 1992, however, total expenditure will rise once more, exceeding 1988 expectations, with EAGGF spending increasing again. Nevertheless, recourse to the fourth (GNP) resource will remain less than expected in 1988 due to the expanded VAT base caused by the strong economic growth since 1988.

CHART 2


Revenue Outcome as % of 1988 forecast
(1988-1992)
- index 1988 forecast = 100 -
120
100
80
60
40
20
0
88
89
90
91
92
Year
Trad. own resources
VAT and balances
GNP and balances
TOTAL OWN RESOURCES
= TOTAL EXPENDITURE
(1988-90 : Outcome; 1991-92 : Budget)

The analysis above shows that the discrepancy between the actual outcome and the development expected in 1988 has been a result of cyclical effects both on the expenditure side and on the receipts side. In contrast to other Community expenditure, the EAGGF guarantee spending depends on world agricultural price developments, Community output and agricultural exports. Since EAGGF guarantee payments make up more than half of total Community budgetary expenditure, any modification of the underlying parameters will lead to considerable changes in overall spending.

In a similar way, the development of own resources reflects the economic environment. A rise in economic activity will thus reduce the need to call upon the fourth (GNP) resource by increasing the size of the VAT base and hence total VAT receipts (and vice-versa). It will as a consequence also both modify the structure of budgetary receipts and the relative contributions of Member States, depending upon their individual shares of the different resources.

3. Burden-sharing

3.1 Present situation

This section looks at the fairness of the present system of own resources.

The distribution by country of origin of the Community's total own resources, excluding traditional own resources and the effect of the UK abatement, is presented in Chart 3. It compares the share of resources coming from each country with the share of GNP of each country, representing the contributive capacity of the Member States. It shows that the receipts from each Member State are out of line with the GNP key. This is especially true for GR, E, IRL, P and UK which have capped VAT bases. Conversely, B, DK and I pay relatively little of the VAT based resource.

Chart 4 presents the distribution of total receipts from each Member State including traditional own resources and the UK abatement. It shows how the abatement aids the UK, though it is designed to correct a problem which is largely on the expenditure side. It also shows the impact of the large traditional own resource shares of B and NL explained below.

CHART 3

Shares by Member State of

Total Own Resources

(excluding TORs and UK abatement, 1992)

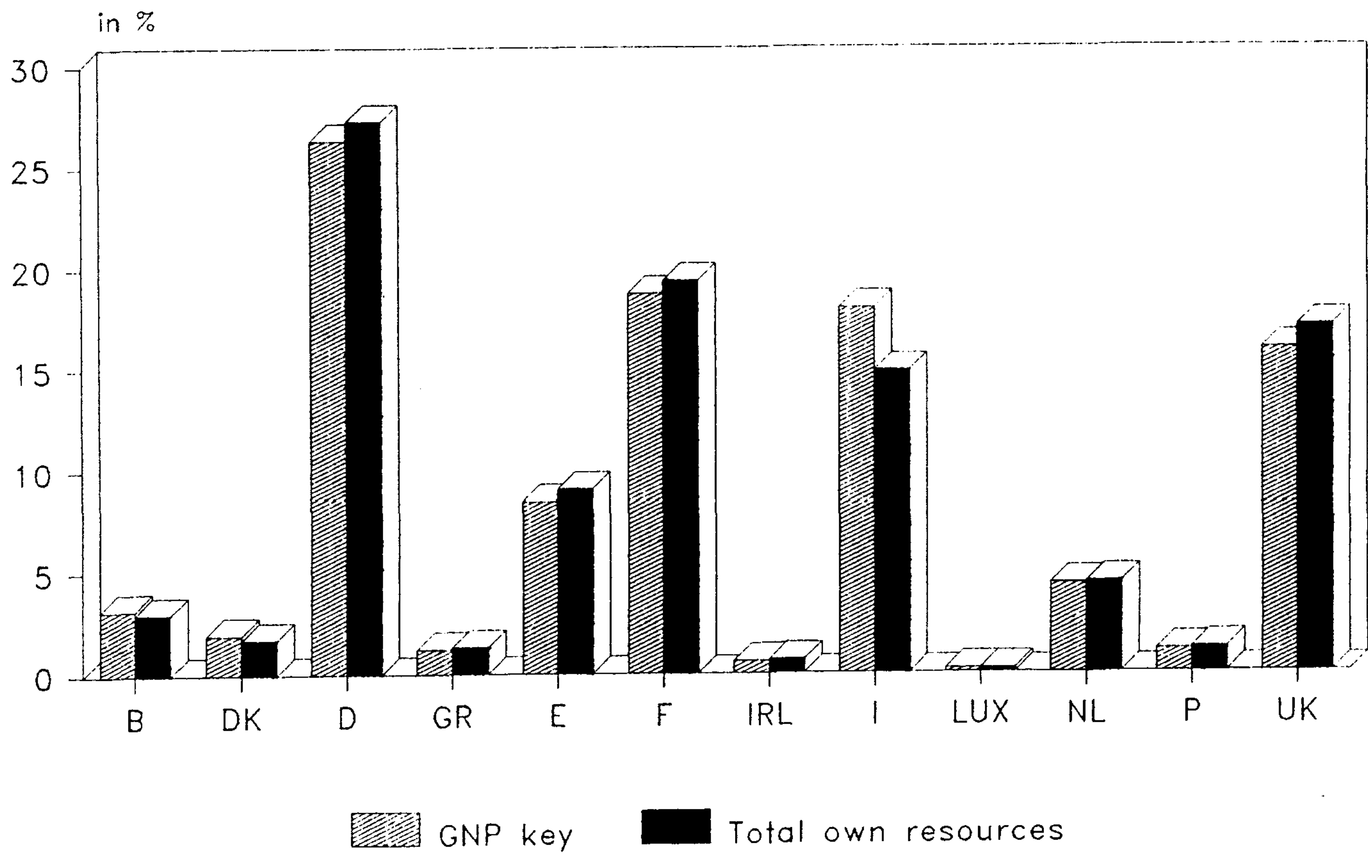
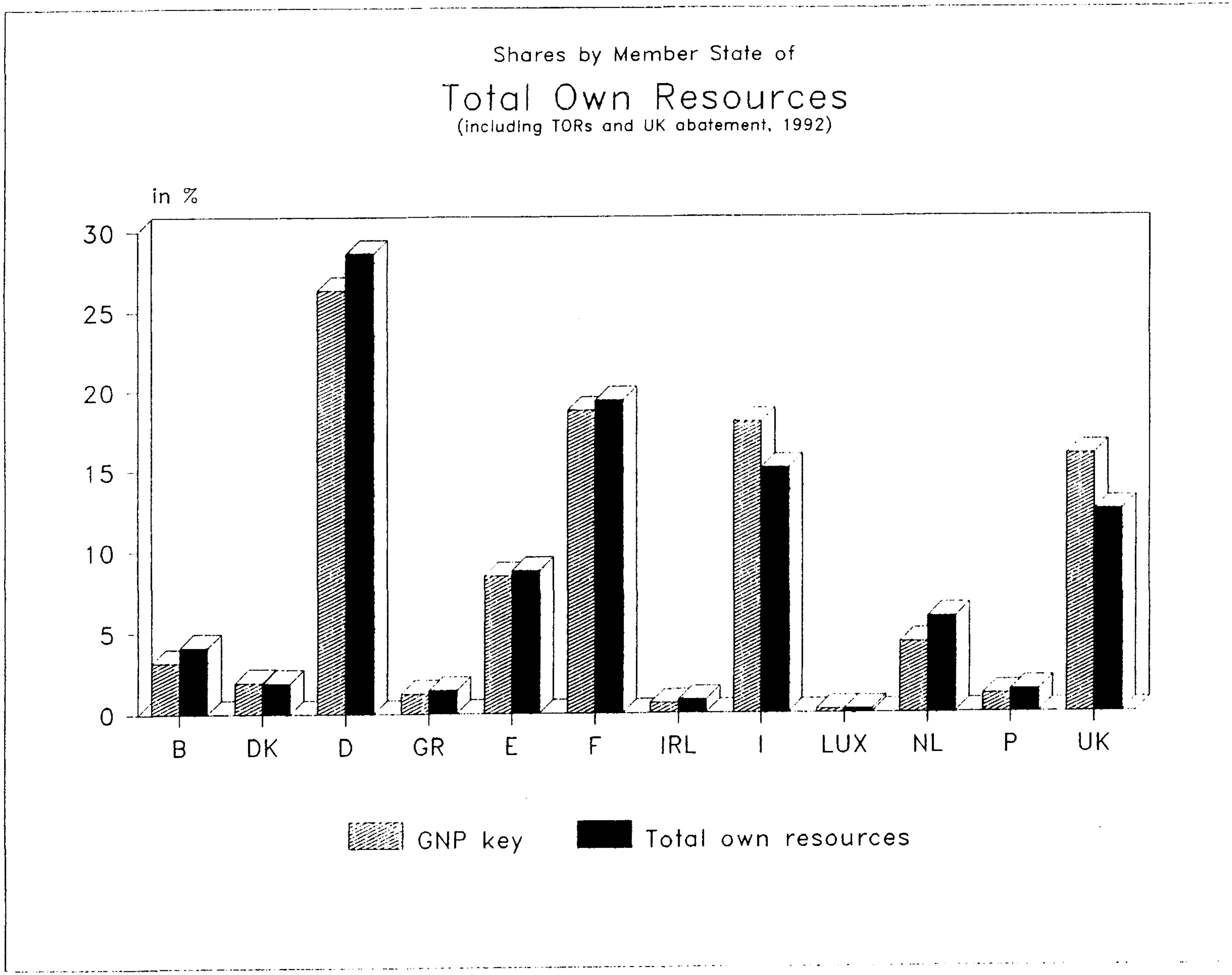


CHART 4



Shares by Member State of
Total Own Resources
(including TORs and UK abatement, 1992)
in %
30
25
20
15
10
5
0
B
DK
D
GR
E
F
IRL
I
LUX
NL
P
UK
GNP key
Total own resources

An analysis by individual own resource is presented in the following sections.

3.1.1 Traditional Own Resources

Traditional own resources are largely receipts from tariffs on imported goods and similar duties on imported agricultural products. They are collected for the Community at the port of entry by each Member State.

In order to look at the distribution by country of the own resource system, it is necessary to estimate the resources coming from each country. While this is fairly clear for the VAT- and GNP-based resources, it raises considerable theoretical problems for the traditional own resources, because the act of collection in (and hence actual payment to the Community budget by) one particular country does not mean that the economic burden of that resource has been effectively carried in that country. This would not be the case without the EC.

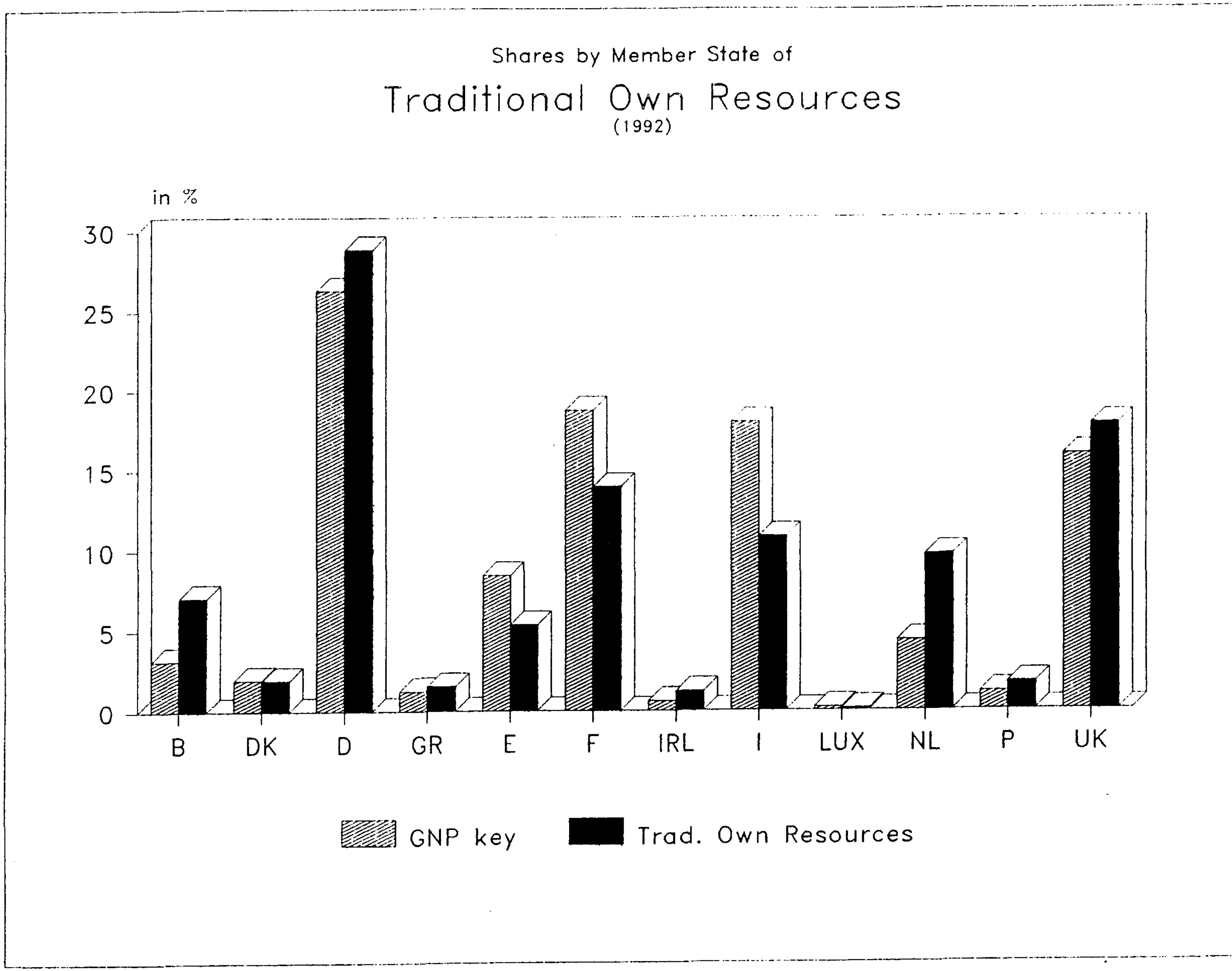
This is particularly evident in the first place from the impact of the 'Rotterdam Effect'. Here, due to the effects of intra-Community trade, during which goods are often imported from third countries and then re-exported to another Community country, the collection of the Community resource (the customs duty) may well take place in one country with the economic burden being carried in another country.

It can also be argued that there are methodological problems linked to the fact that some countries traditionally import a larger share of GNP than others and thus transfer a relatively larger share of traditional own resources to the Community budget. However, this does not necessarily mean that the economic burden is being disproportionately borne by such countries. In a unified market, an import tariff will cause prices for that good to rise throughout the market, even though perhaps only a relatively small amount of imports in one particular area is observed. Thus, the economic costs, as well as the perceived economic benefit in terms of employment creation may be spread throughout the market.

These methodological problems cast considerable doubt on the validity of the method of using budgetary receipts to measure the distribution of the burden by country of the traditional own resources. Thus, the figures presented below are probably misleading and should be treated therefore with the appropriate caution.

Chart 5 presents the distribution of traditional own resources by Member State according to budgetary receipts. The Rotterdam Effect may well explain the fact that the Netherlands, Ireland and Belgium pay over twice of their proportional share (relative to GNP) of traditional own resources (B and NL due to their ports, IRL due to its intensive use of intermediate goods). Portugal is also the source of a relatively large amount of traditional own resources, largely due to high levels of cereals imports. Similarily, the UK is a large importer, especially of food products, and thus is the source of a relatively large proportion of traditional own resources.

CHART 5



Shares by Member State of
Traditional Own Resources
(1992)
in %
30
25
20
15
10
5
0
B
DK
D
GR
E
F
IRL
I
LUX
NL
P
UK
GNP key
Trad. Own Resources

3.1.2 VAT Resource

The VAT-based own resource is collected from the Member States based on a notional, harmonized VAT base. It is not, as would be theoretically possible, collected as a share in the VAT effectively paid on each purchase.

The VAT base is capped at 55% of GNP. The effect of capping makes the VAT resource base evolve similarly to the GNP resource for the countries that are capped (in 1992 F, GR, IRL, L, P, UK), although the capped VAT key still leaves an advantage to those countries with a low VAT base as a percentage of GNP.

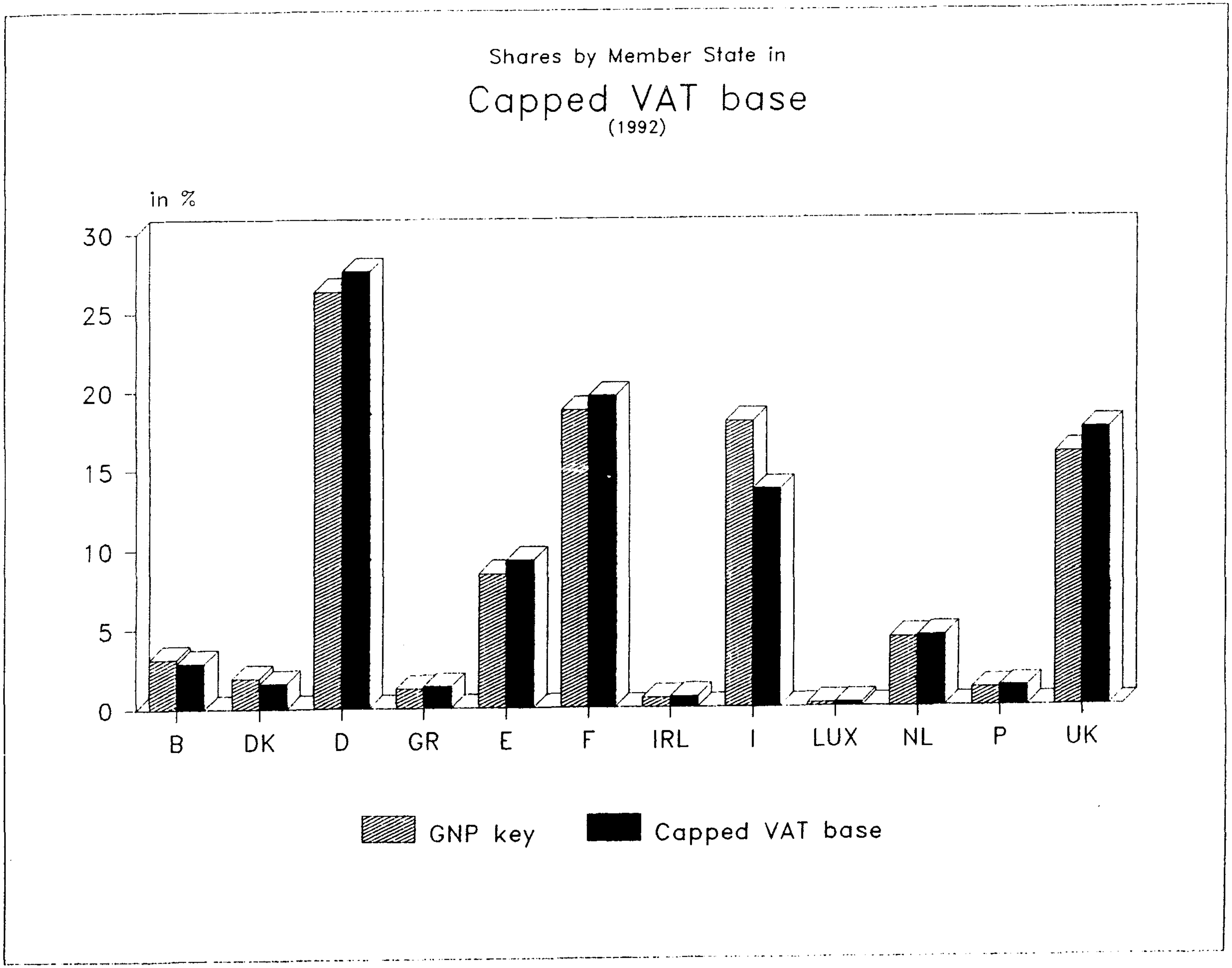
Chart 6 shows the distribution of the capped VAT base compared to GNP. These are not in line because VAT bases, both capped and uncapped, differ widely between countries as a percentage of GNP (see Tables 1 and 2 above). The less prosperous countries (GR, E, IRL, P) all have relatively high VAT bases and are therefore disadvantaged. Other countries (I, DK and B in particular) pay relatively little VAT-based resource contributions compared to their GNP.

The main reasons for this appear to be differences in the share of consumption and savings in GNP. Countries with high levels of consumption or low levels of saving as a proportion of GDP tend to have high VAT bases. This applies also to countries with high levels of investment, but financed by capital imports (e.g. less prosperous countries with high growth).

Since experience shows that it is likely to be less prosperous countries or countries at a low point in conjunctural terms that will have a high share of consumption and low savings, it can be said that the VAT resource is unfavourable for these countries. The VAT resource is therefore regressive compared to the GNP key, although capping of the base has helped mitigate this.

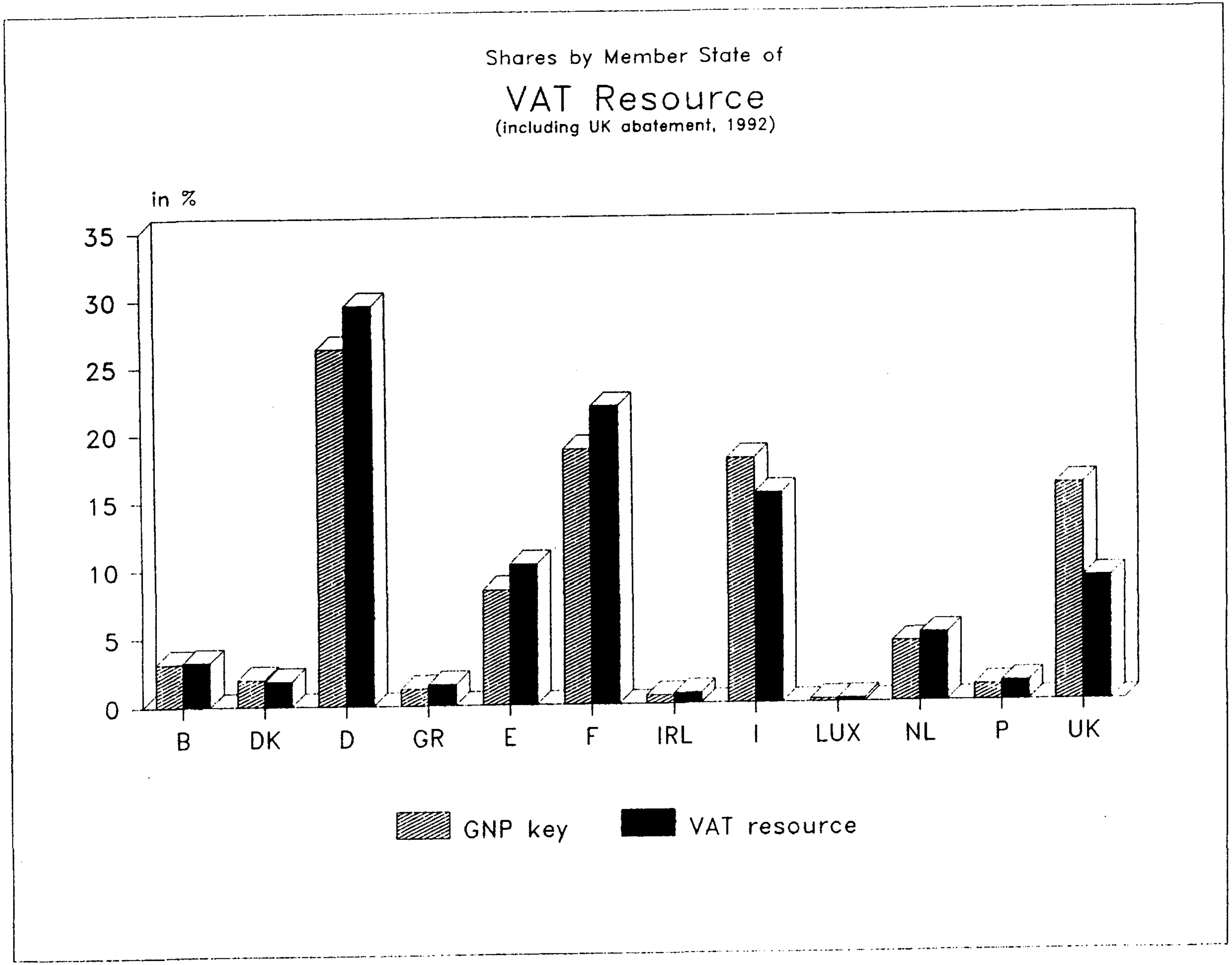
Chart 7 shows the distribution of VAT resource payments by Member State. The actual distribution of VAT payments by country is distorted compared to the capped VAT base (presented in Chart 6) by the impact of the UK abatement (which is largely financed from the VAT resource).

CHART 6



Shares by Member State in
Capped VAT base
(1992)
in %
30
25
20
15
10
5
0
B
DK
D
GR
E
F
IRL
I
LUX
NL
P
UK
GNP key
Capped VAT base

CHART 7


Shares by Member State of
VAT Resource
(including UK abatement, 1992)
in %
35
30
25
20
15
10
5
0
B
DK
D
GR
E
F
IRL
I
LUX
NL
P
UK
GNP key
VAT resource

Further problems with the VAT resource relate to the effects of the underground economy. The VAT base will be biased in favour of countries with poor collection systems. Also, it could be distorted by the impact of inferior statistical methods, such as out-dated statistical surveys, etc.

3.1.3 GNP Resource

The fourth resource is a contribution in proportion to the GNP key. The GNP is used rather than GDP because it better reflects the prosperity of the country concerned.

Chart 8 shows the distribution of GNP payments by country. As can be seen the actual payments are proportional to the GNP key apart from the effects of the small portion of the UK abatement which is imputed to the GNP resource for countries with low VAT bases.

The GNP resource can be distorted with respect to relative prosperity due to the methods for taking into account unreported economic activity (the underground economy), which may be more prevalent in some countries than in others. Also, as is the case for the VAT resource, inferior statistical methods may falsify the GNP figures used to establish the base.

It could be argued that a better measure of relative contributive capacity between countries is GNP in terms of purchasing power standard (PPS). This measure attempts to scale GNP in terms of a standard basket of goods, rather than in money terms. Effectively, it excludes changes in exchange rates that are not matched by inflation differentials. Chart 9 presents the actual GNP key used for the fourth resource compared to GNP in PPS. This chart shows that, if the PPS standard is seen as a better measure, then the present GNP base is slightly progressive since the GNP base is generally below the GNP in PPS for poorer Member States and above it for richer Member States.

CHART 8

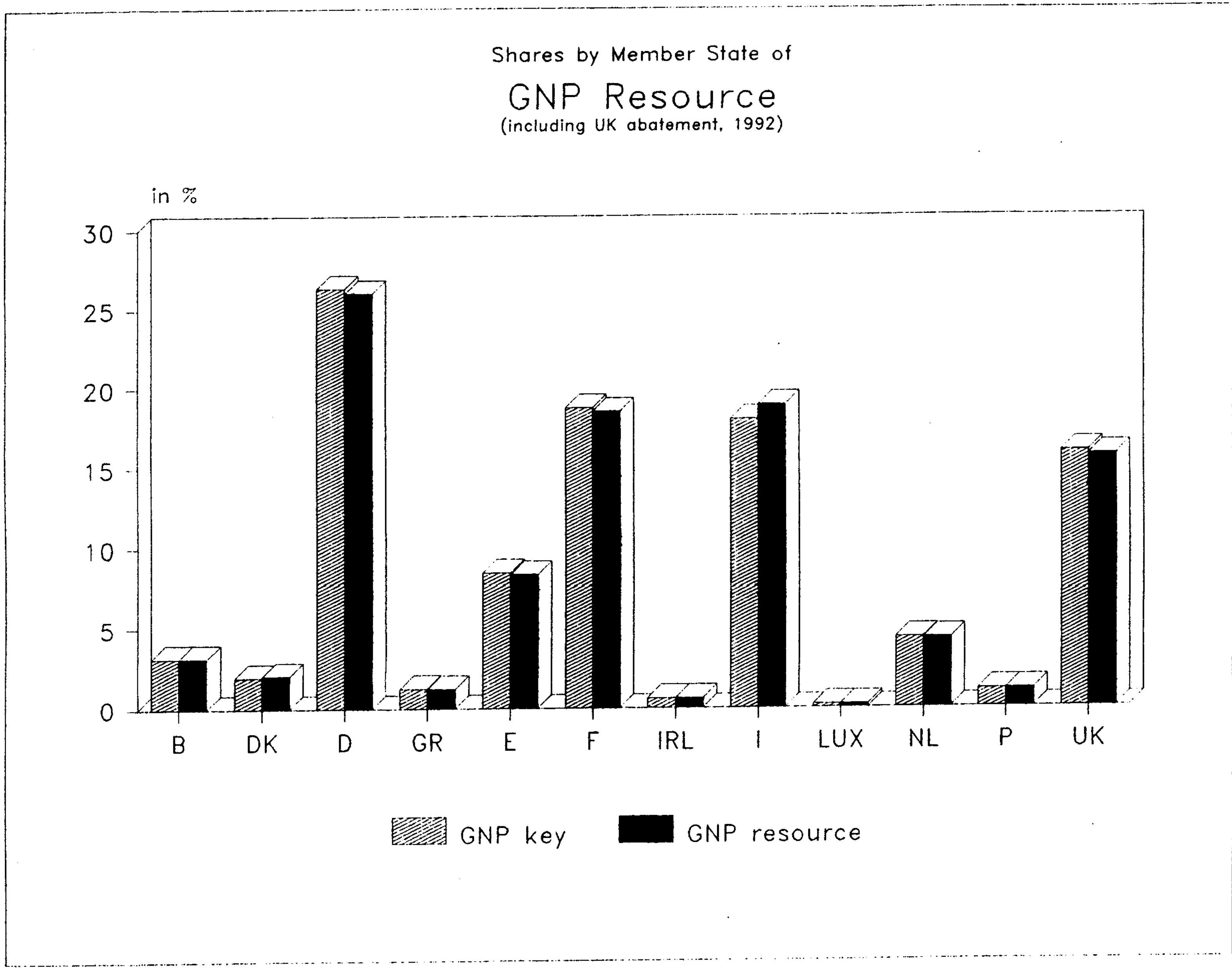
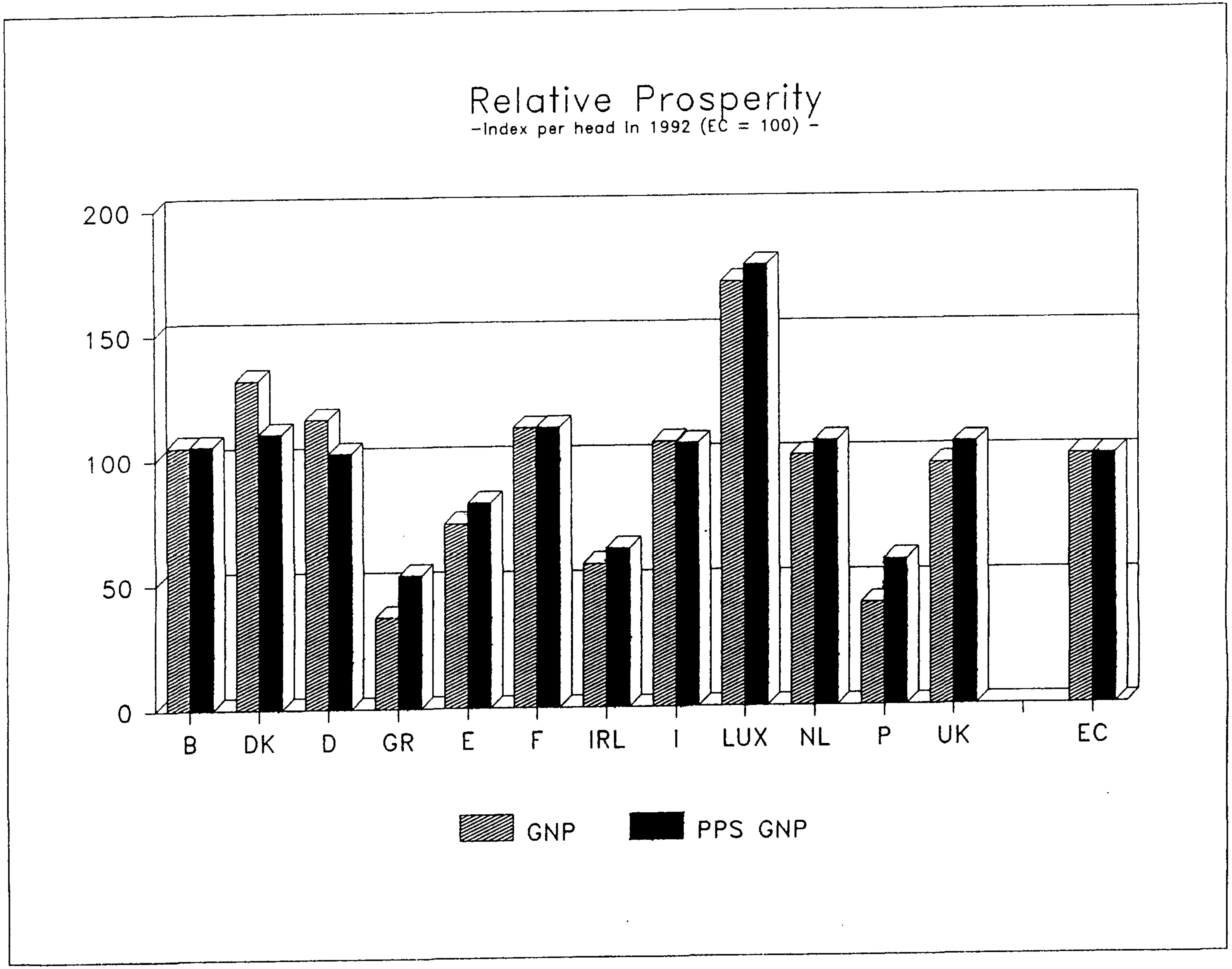

Shares by Member State of
GNP Resource
(including UK abatement, 1992)
in %
30
25
20
15
10
5
0
B
DK
D
GR
E
F
IRL
I
LUX
NL
P
UK
GNP key
GNP resource

CHART 9



Relative Prosperity
-Index per head in 1992 (EC = 100) -
200
150
100
50
0
B
DK
D
GR
E
F
IRL
I
LUX
NL
P
UK
EC
GNP
PPS GNP

3.2 Developments since 1988

The principal redistributive elements of the 1988 budgetary reform came through the effects of doubling of the structural Funds (which are basically allocative in nature), the introduction of the fourth own resource based on the GNP key, of VAT capping and of the continuation of the UK abatement system together with a reduction in the share of Germany in its financing. The factors determining the question of redistribution now have evolved since 1988.

The size of the budget has increased significantly since 1988. As its size has grown so has its potential for redistribution on a scale which has macroeconomic effects in countries that are relatively small or poor. This growth in the Community budget is likely to continue as the Community develops. It is therefore important to see that it is funded fairly.

Nevertheless, account should be made for the fact that it is only now that the full redistributive impact of the 1988 reforms are feeding through into the budget. The fourth resource in 1992 will still only make just over 20% of own resources and the structural Funds have yet to arrive at their doubled level.

3.3 The evolution of relative prosperity

Tables 3 and 4 show the evolution of relative prosperity in the Community since 1980, Table 3 based on GNP in terms of ecus, Table 4 in terms of purchasing power standard (PPS).

Looking at Table 3, the countries which have improved their positions substantially since 1988 are Spain and Portugal, and, to a lesser extent, Italy, moving respectively from 60 %, 28 % and 98 % of the Community average to an expected 74 %, 41 % and 106 % in 1992. The positions of Greece and Ireland, on the other hand, have improved only slightly. The relative positions of Denmark, Germany (even without the effects of reunification), France, the Netherlands and the UK have all fallen somewhat since 1988.

Table 4 gives relative prosperity in terms of PPS. With the exception of Luxembourg, the PPS indicator shows rich and poor countries closer to the EC average than under the ecu indicator. Prosperity in the Netherlands and the UK is above the Community average in terms of PPS, but below in terms of ecus.

TABLE 3

21/11/1991

GROSS NATIONAL PRODUCT AT CURRENT MARKET PRICES PER HEAD OF POPULATION

(Series including West Germany) ECU; EUR12 = 100

	B	DK	WD	GR	E	F	IRL	I	L	NL	P	UK	EUR12
1980	120.7	128.0	134.6	43.5	57.7	125.7	55.2	81.6	153.9	121.2	26.7	96.8	100.0
1981	112.5	125.6	128.5	45.4	56.4	125.2	58.8	83.5	153.0	114.8	29.0	105.5	100.0
1982	103.2	126.9	129.4	48.8	56.7	122.9	61.6	85.7	159.6	116.9	28.1	104.9	100.0
1983	100.9	132.2	134.1	45.0	50.6	119.9	60.4	91.3	165.9	116.5	25.8	102.6	100.0
1984	100.7	134.1	133.4	44.9	53.2	118.6	59.5	94.7	168.1	113.3	24.6	100.8	100.0
1985	101.4	138.3	130.8	42.0	54.0	120.1	59.8	94.0	169.4	110.9	25.5	102.9	100.0
1986	103.7	143.1	136.3	36.1	54.9	122.1	58.8	96.9	172.9	111.3	27.2	91.5	100.0
1987	105.2	144.2	138.1	34.2	56.4	119.4	57.1	98.3	168.8	108.7	27.5	90.6	100.0
1988	102.5	139.2	133.6	35.6	59.7	115.9	55.4	97.7	165.6	104.1	28.3	98.8	100.0
1989	102.2	133.3	130.4	35.9	65.1	114.4	56.6	100.3	169.0	100.9	30.5	98.1	100.0
1990	103.6	132.7	130.8	35.2	68.0	114.0	58.4	101.2	168.0	101.0	33.0	94.1	100.0
1991	102.5	129.0	131.2	35.6	70.5	110.7	56.6	102.4	166.9	100.0	37.0	93.8	100.0
1992	102.3	128.4	130.5	35.6	71.9	109.2	55.9	103.4	166.2	97.6	40.0	94.1	100.0
1993	102.2	127.9	128.7	35.2	73.4	107.8	55.1	104.5	164.8	96.2	41.8	95.3	100.0

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(series including a unified Germany)

	B	DK	D	EL	ES	F	IRL	I	L	NL	P	UK	EC
1991	105,8	133,2	115,0	36,7	72,7	114,2	58,4	105,7	172,7	103,2	38,2	96,8	100
1992	105,1	131,8	116,1	36,6	73,8	112,1	57,4	106,2	170,2	100,3	41,1	96,7	100
1993	104,6	130,9	115,8	36,0	75,1	110,4	56,4	107,0	168,9	98,4	42,8	97,6	100

TABLE 4

21/11/1991

GROSS NATIONAL PRODUCT AT CURRENT MARKET PRICES PER HEAD OF POPULATION

(series including West Germany)

PPS EUR12; EUR12 = 100

	B	DK	WD	GR	E	F	IRL	I	L	NL	P	UK	EUR12
1980	103.2	105.0	114.0	60.0	73.5	112.0	61.5	102.6	143.9	110.6	53.5	101.1	100.0
1981	102.5	104.0	114.3	59.5	72.5	113.1	62.6	103.2	148.2	109.5	53.4	100.4	100.0
1982	102.9	106.0	112.9	58.8	72.7	114.4	61.5	102.7	164.9	107.2	53.0	101.8	100.0
1983	101.8	107.5	113.7	57.1	72.4	112.7	59.3	102.0	168.3	107.0	51.9	104.3	100.0
1984	102.0	109.2	115.5	56.6	71.9	111.3	58.9	102.6	169.4	107.3	49.0	104.0	100.0
1985	100.3	111.3	115.5	56.5	71.9	110.4	58.2	102.7	173.3	107.6	49.3	104.9	100.0
1986	99.5	112.5	115.1	55.4	72.4	110.0	56.9	102.5	173.7	106.0	50.8	106.1	100.0
1987	99.4	110.1	114.0	53.8	74.3	109.0	58.4	102.9	166.5	103.6	52.4	107.4	100.0
1988	100.1	107.0	113.4	54.1	75.2	108.6	57.2	103.2	168.5	101.7	52.7	108.0	100.0
1989	100.3	104.7	113.3	53.7	76.5	108.7	58.6	103.0	175.5	102.2	54.0	107.0	100.0
1990	101.3	104.1	114.3	52.6	77.4	108.7	61.7	102.2	169.5	103.2	55.5	105.3	100.0
1991	102.0	105.4	115.8	52.2	78.7	108.9	61.8	102.3	170.6	104.1	56.4	101.8	100.0
1992	102.4	107.1	114.7	51.8	79.6	109.0	61.5	102.3	171.2	103.0	56.5	102.2	100.0
1993	102.7	108.8	113.2	51.6	80.4	109.1	61.6	102.6	173.1	102.3	56.4	102.9	100.0

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(series including a unified Germany)

	B	DK	D	EL	ES	F	IRL	I	L	NL	P	UK	EC
1991	105,5	109,0	101,7	54,0	81,3	112,6	63,9	105,8	176,5	107,6	58,3	105,2	100
1992	105,4	110,3	102,3	53,3	82,0	112,2	63,3	105,4	176,8	106,0	58,2	105,2	100
1993	105,5	111,6	102,0	52,9	82,6	112,0	63,2	105,3	177,7	105,0	58,0	105,6	100

III. FACTORS AFFECTING THE FUTURE VOLUME AND STRUCTURE OF OWN RESOURCES

The evolution of the size of the budget will be decided in the context of the renewal of the Interinstitutional Agreement. Nevertheless, there are various factors at work which can already be discerned.

1. The size of the budget.

The economic and political context in which the Community is functioning has changed considerably over the past few years and can be expected to change further. In particular, the Community budget must therefore be viewed over the next five years in the context of the moves towards Economic and Monetary Union and European Political Union.

On the economic side, this means that the existence of a single market can be assumed, though no doubt with some imperfections; that intra-Community exchange rates will remain stable; and that national budget policies will be coordinated. Nevertheless, even with the full application of the principle of subsidiarity, it can be expected that further economic responsibilities in the areas of allocation, cohesion and stabilisation will be assigned to the Community level. These are likely to add to pressure on the resource side of the Community budget.

On the political side, the Community's foreign policy role is being reinforced. This is also likely to have implications for the budget.

2. Some illustrations

As an illustration, the additional resources that would accrue to the Community under different hypotheses of the global own resource ceiling in percentage of GNP as well as the maximum potential increase in actual expenditure (i.e. not commitment appropriations) allowed for by these ceilings are given below.

Based upon a 2.5% annual GNP growth (at 1992 prices) total own resources might increase as shown in the following table :

Own resource ceiling	Expenditure 1992	Maximum Expenditure 1997	Maximum available margin	Maximum Expenditure growth 93-97
% GNP	ECU bn	ECU bn	ECU bn	% pa
1.2	63.7	72.7	9.0	2.7
1.25	63.7	75.8	12.1	3.5
1.3	63.7	78.9	15.2	4.4
1.35	63.7	82.0	18.3	5.2
1.4	63.7	85.1	21.4	6.0
1.5	63.7	91.4	27.7	7.5
p.m. GNP	54928	62149		

3. The structure of receipts

3.1 Possible effects of the GATT round.

In the present CAP framework, receipts from agricultural levies depend upon the international price developments and exchange rates, and may thus vary considerably over a period. A reduced level of agricultural protection as discussed in the GATT context and transcription of levies into tariff rates, subject to reductions similar to those proposed for industrial commodities, will certainly diminish the revenue from this source. Elasticities are probably very low so that no compensatory rise in import volumes will take place, unless Community production falls.

On the other hand, import elasticities may be of some importance for non-agricultural commodities, and any initial cut in tariffs could therefore be partly compensated for by higher import volumes.

During the present GATT round, the Community has envisaged cutting the tariffs by approximately 30%, reducing the weighted average rate from 5.19% to 3.63%. The cut would take place over a transitional period of five to eight years and the impact on trade flows and growth patterns would thus be spread over the corresponding period. Such a reduction would certainly have a considerable impact upon the structure of own resources, raising the call rate for the GNP-based resource.

3.2 Possible effects of CAP reform.

CAP reform is aimed at bringing oversupply under control by reducing the price support scheme for agriculture.

It is still premature to make precise estimates of the impact of the CAP reform on agricultural levies. At present cereals trade accounts for almost 40% of total levies. As an illustration, a reduction in cereal prices by 35% and in prices on livestock products by 15% would reduce levies by around 680m ecus. Thus it cannot be excluded that agricultural levies, at present some 1.2bn ecus, might be more than halved, so increasing the need to call upon other resources.

IV. POSSIBLE CHANGES TO THE EXISTING SYSTEM OF OWN RESOURCES

In this chapter, possible changes to the structure of the own resources system are examined, leaving the question of the global ceiling on own resources aside for the time being. First, the question of fairness in the own resource system is addressed, particularly in the light of the Maastricht Protocol on Economic and Social Cohesion in which **the Commission and the Member States declare their intention to take greater account of the contributive capacity of individual Member States in the system of own resources, and to examine means of correcting for the less prosperous Member States regressive elements existing in the present own resources system.** In Section 2 corresponding proposals are put forward. Then, in Section 3, the possibility of a new fifth own resource is investigated.

1. The Fairness of the Own Resource System

As has been shown in Section II.3, the present distribution of own resource receipts into the Community budget is out of line with GNP weights, even excluding the effects of traditional own resources and of the UK abatement.

Nevertheless, the budget should be seen as a whole, not just from the resource side. The following sections investigate the various arguments for and against the use of the the budget as a whole as a vehicle for redistribution.

When looking at the fairness of the Community budget in general, it is necessary to be well aware of the methodological difficulties of making a fair judgement of the true distribution of costs and benefits coming from Community membership. Not only are there the measurement problems mentioned above (Section II.3) in the case of budgetary own resources, but, on the expenditure side it must not be forgotten that many of the benefits coming from Community policies are in the form of resources transfers not directly linked to expenditure (due to tariffs, rules and regulations for example having a differential regional impact). Also there are large non-budgetary benefits coming from policies such as trade liberalization, which should also be taken into account since they may benefit some Member States more than others.

1.1 Past Views

Views on the distributive role of the Community budget differ. The MacDougall Report of April 1977 set out a series of considerations that argue, prima facie, in favour of an emphasis on redistribution between Member States of the Community, namely:

- the explicit political objective of economic convergence;
- the desire to avoid excessive general migration from poor areas;
- the desire to avoid excessive migration of more mobile, highly trained manpower;
- the danger that, as economic integration proceeds, there will be increasing pressure for real wage equality in spite of productivity differences;
- the creation of a degree of convergence in productivity levels, and automatic compensation for short-term relative changes in income.

The MacDougall Group saw the Community concerned more to help economically weaker member states with acute economic problems (unemployment, trade, exchange rate and budget) than to equalize longer-run differences in living standards. The Group therefore came to the tentative conclusion that a large part of payments made to Member States is likely to be conditional. The MacDougall Group did see a possible place for some limited unconditional redistribution through, for example, a typical federal equalization mechanism.

The Padoa-Schioppa Report of April 1987, however took the view that "Since the Community is a political entity whose content is principally of an economic nature, it is inevitable for it to be concerned with the broad balance of economic advantages that it offers to its Member States" (Sec. 13.1, p. 115). It made the point that "budgetary reforms should, inter alia, be designed to ensure to the highest possible degree an automatically equitable Community budget" (Sec. 13.6, p. 136) Also, "Progressivity on the revenue side of the Community budget would alleviate in some degree the need for the expenditure functions of the budget to mix allocative and distributive characteristics." (Sec. 13.6, p. 136)

1.2 To what extent should the Community budget have a redistributive function?

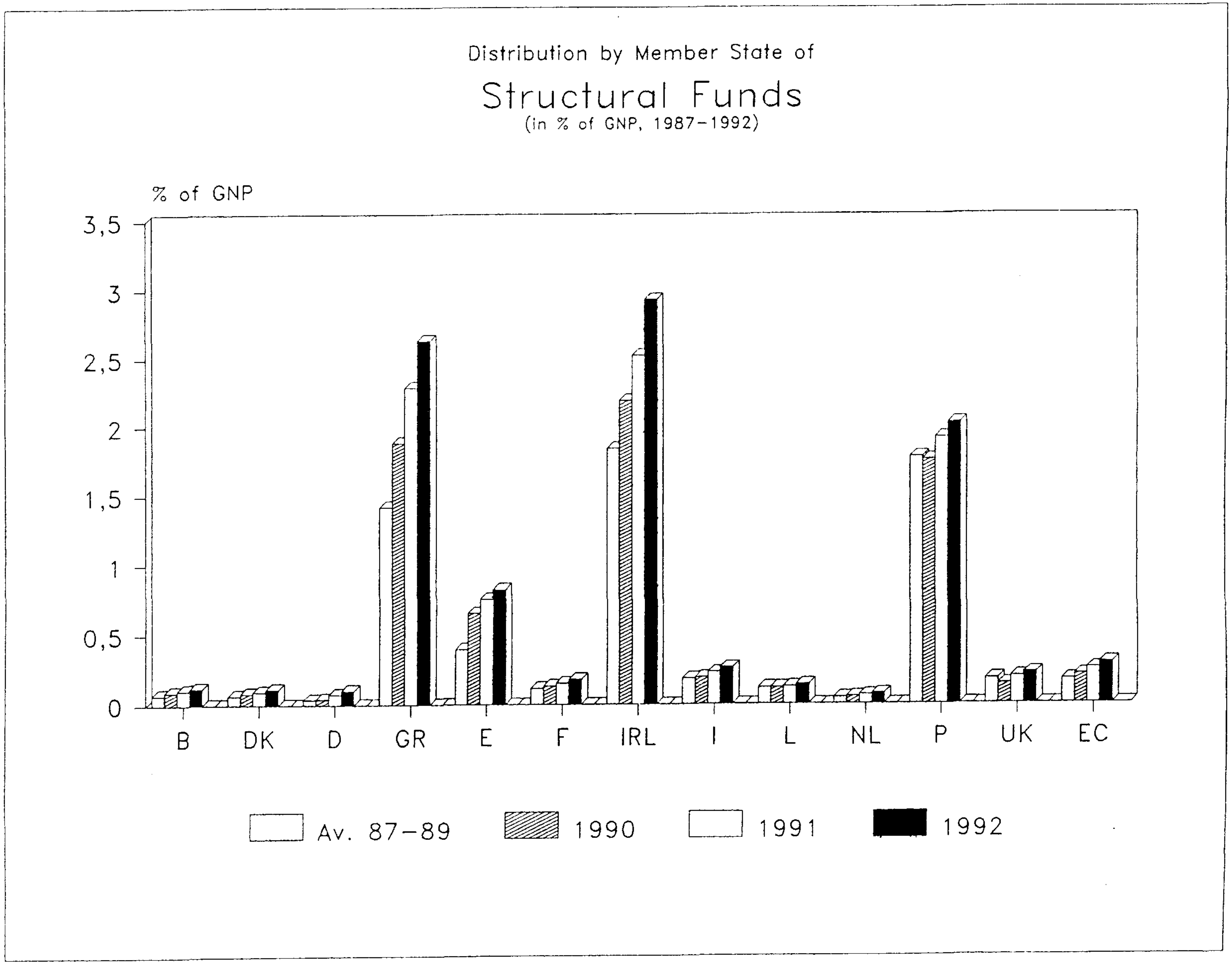
The 1988 budgetary reforms (see Chapter II) implicitly acknowledged that the Community budget should have redistributive effects. The doubling of the structural Funds was its main redistributive element. However, the structural Funds, although their goal is redistributive, are channelled through the allocative mechanism of the budget, which is the most efficient in promoting the desired economic convergence. The introduction of the fourth own resource based on GNP and the VAT capping was not intended as an instrument for progressive redistribution of the own resource burden, but in order to better take into account the contributive capacity of Member States by moving towards a proportional system which would remove some of the unfairness of the existing own resource system. Similarly, the UK abatement is clearly designed to correct evident unfairness, rather than as a positive mechanism of redistribution. The 1988 reforms thus implicitly recognized redistribution only in these restricted senses.

Whereas, mature federations do tend to have strongly redistributive central budgets, the Community, even in view of EMU, has not moved to comparable levels of institutional and political centralization and of solidarity between individuals. It would therefore be wrong to use such examples as arguments for adapting the Community budget along similar lines.

On the other hand, the Community budget is getting larger and the need for economic and social cohesion is more apparent as the Community advances. This need was explicitly recognized in the Maastricht Protocol on Economic and Social Cohesion.

It is through the allocative function of Community policies that the main redistributive effects of the budget should take place. This implies that any redistributive efforts should be concentrated on the expenditure side of the budget. In this way the Community can directly contribute to the efforts of Member States to improve their economic position. Many Community policies are geared to economic and social cohesion, e.g. the structural Funds, and these give the Community finances a large measure of equity. Chart 10 shows the contribution in terms of resource transfer that the structural Funds have made to member countries' GNP since 1988. The new Cohesion Fund will reinforce these efforts. The redistributional aspect of this expenditure is not in doubt.

CHART 10


Distribution by Member State of
Structural Funds
(in % of GNP, 1987-1992)
% of GNP
3,5
3
2,5
2
1,5
1
0,5
0
B
DK
D
GR
E
F
IRL
I
L
NL
P
UK
EC
Av. 87-89
1990
1991
1992

On the resource side, the UK abatement and the reduction in the German share of its financing are already examples of adjusting the resource side of the Community budget for reasons of redistribution. They are designed to correct existing budgetary imbalances, rather than to bring about ex ante redistribution.

2. Proposed changes to the own resource system

The main problem of unfairness in the budget is the regressive nature of the VAT resource. This concerns the tendency for the less prosperous countries to pay more than their fair share on the VAT resource. Spain, Greece, Ireland and Portugal pay at the capped rate of 55% of VAT. In particular, Denmark, Italy and Belgium pay less. As noted above (Section II), this is basically due to the tendency of less prosperous countries to consume more as a proportion of GNP than richer countries.

This unfairness was implicitly recognized in the Maastricht Protocol on Economic and Social Cohesion. In line with the Protocol, the Commission therefore proposes making more extensive use of the GNP resource in order to take greater account of the contributive capacity of Member States. It also proposes lessening the distortions of the VAT resource in order to help correct its regressive influence.

2.1 More extensive use of the GNP resource

In order to bring the own resources system closer into line with the contributive capacity of the Member States, the Commission proposes increasing the use of the GNP resource at the expense of the VAT resource. While this effect is already inherent in the present own resource system, since the VAT ceiling is 1.4% and increases in the budget relative to the VAT base are financed via the GNP resource, a fairer distribution of the burden of resource payments could be achieved through a reduction in the VAT call rate by 0.4 percentage points. This would reduce the VAT ceiling from 1.4% to 1.0%.

Such a measure would reduce the annual receipts from the VAT resource by approximately 11bn ecus. The fall in VAT receipts would be compensated by higher GNP contributions. Basically, this would add to the financial burden of countries whose share of Community GNP exceeds their share in the capped VAT base. Thus Belgium, Denmark and Italy, would see their total own resource contribution grow, whereas it will decline for other Member States (see Chart 11). In addition, a cut in the VAT call rate would lead to a decline in the UK abatement.

CHART 11

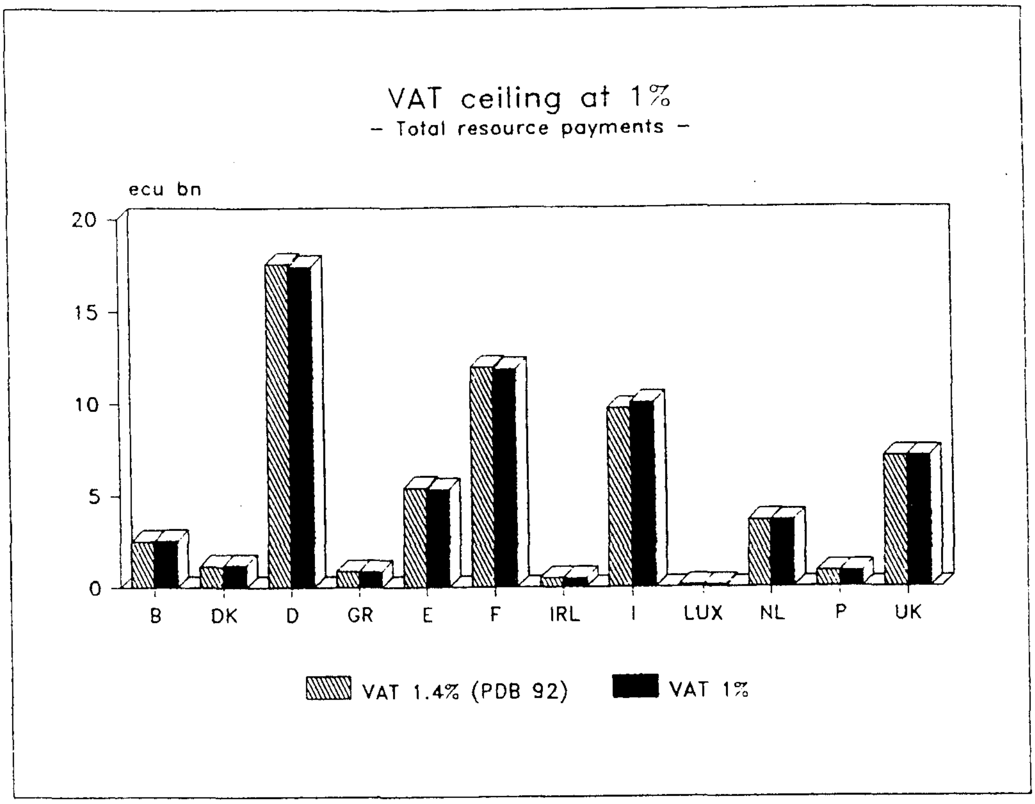


Table 5: TOTAL RESOURCE PAYMENTS IN 1992 (ecu mn)

Member States	VAT 1.4%	VAT 1%	Difference
B	2525	2551	26
DK	1160	1196	36
D	17601	17457	-144
GR	883	869	-14
E	5414	5315	-99
F	11975	11861	-114
IRL	495	488	-7
I	9708	10052	344
LUX	116	114	-2
NL	3636	3624	-12
P	855	842	-13
UK	7073	7073	0

2.2 Capping the VAT base at a lower level

The Commission also proposes to further correct the regressive distortion inherent in the VAT base by capping the VAT base at 50% of GNP instead of the present 55%. It should be noted that 50% is about the average share of GNP of the capped VAT bases for the Community (see Table 2 above). A cap at 50% would link the third resource to the GNP base for France, Germany and the Netherlands in addition to the six Member States whose base is already capped.

Such a cap at 50% would reduce the VAT yield by 1.1bn ecus, which would be offset by a higher GNP contribution. Again the impact of such a capping would be to shift the financial burden onto those Member States whose relative GNP share exceeds their share in the VAT base capped at 50 %, which are the same three countries that are adversely affected by a reduction in the VAT call rate, together with the Netherlands (see Chart 12). Similarly to the reduction in the VAT call rate, this measure will also bring down the size of the UK abatement.

CHART 12

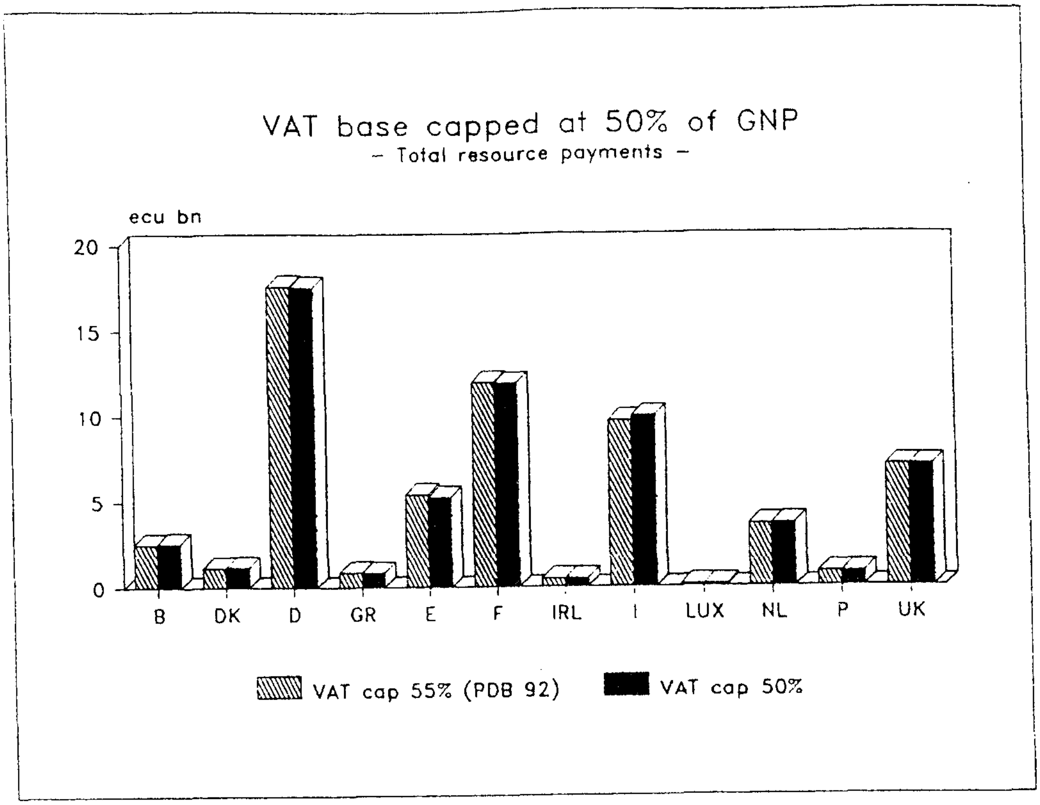


Table 6: TOTAL RESOURCE PAYMENTS IN 1992 (ecu mn)

Member States	VAT cap 55%	VAT cap 50%	Difference
B	2525	2568	43
DK	1160	1187	27
D	17601	17540	-61
GR	883	858	-25
E	5414	5239	-175
F	11975	11919	-56
IRL	495	483	-12
I	9708	9960	252
LUX	116	112	-4
NL	3636	3669	33
P	855	832	-23
UK	7073	7073	0

3. A new fifth Community own resource?

In the longer term it would be preferable for the Community to be responsible towards individual taxpayers for its resources, rather than to rely on national contributions as will be more and more the case in the future. This view is apparently supported by public opinion since, according to a recent survey (Eurobarometer, 22-29 May 1991), 58 % of EC citizens support direct EC taxation (14 % did not give an opinion). Such a reform should be linked to an increase in the responsibilities of the European Parliament.

3.1 The political perception of the own resources in the Member States.

There is a clear difference between how the two categories of existing own resources are perceived politically in the Member States. The traditional own resources (customs duties, agricultural levies and sugar levies) do seem to be accepted as genuine own resources in the sense that they are not seen as a national contribution towards the Community budget. This is presumably due both to the economic reasoning behind the choice of these resources and to the fact that they are levied directly on economic agents. Budgetarily, the traditional own resources are often treated differently from the VAT or GNP resources at the national level.

In contrast, the GNP own resource but also the VAT resource, though handled similarly to traditional own resources in Community law, are generally perceived by governments and, above all, by national parliaments as mere budgetary contributions from the Member States.

3.2 The need for true Community own resources

A situation in which the budget would be funded to an even greater extent by what are perceived as national contributions would be unsatisfactory from the Community's point of view. Politically, it would reduce the Community to being financially dependent on national governments, and therefore responsible financially towards them rather than towards individual taxpayers. The Community budget would then tend to become dependent on national budgetary priorities rather than Community considerations. The governments of the Member States are put in the position of being politically responsible towards their taxpayers for their share of Community spending which is not fully under their control.

In the long term this is an unhealthy situation which could risk frustrating the development of Community policies. It introduces an additional rigidity into the management of the Community's finances. This is illustrated by the institutional difficulties surrounding the calls since 1988 on additional resources which have been well below the overall ceiling on own resources.

It should be noted that a possible new fifth Community own resource is not needed primarily in order to increase the size of the Community budget, because the present fourth GNP resource provides the extra funds needed within the own resource ceiling. Nevertheless, as the size of the Community budget increases, the need for true own resources will become more pressing.

3.3 Criteria for a possible fifth own resource

Any new fifth own resource should be judged by its fulfilment of the following criteria:

- A new own resource should be fair from the point of view of the contributive capacity of the Member States.

- Any tax from which a new fifth Community resource is to be drawn should have an effectively (not just theoretically) harmonised base and be imposed at a uniform rate. This harmonization, which must be justified on economic grounds, will ensure that the economic effect of implementing such a tax would not distort competition and the functioning of the internal market.

- A new own resource should be linked to a common policy in an area in which the Community has a well-recognized and acknowledged role. Not only is this a requirement of Article 2.2 of the Decision on Own Resources, but it would help the raising of Community funds appear justified in the eyes of the public and policy makers. Of course, this would not mean that the product of the fifth resource should be imputed to any particular area of Community action.

- There is little point in creating a new fifth own resource unless there is the prospect that it would reliably and predictably give substantial revenue, and not be too costly to levy (an existing tax may be cheaper than a new one, an excise tax is likely to be less costly to administer than an indirect or direct tax).

- Clear visibility through direct links to tax payers is important for democratic accountability. This implies that :

  = coverage of the tax should be broad, so as to affect as many economic agents as possible;

  = individuals should also contribute rather than firms only;

  = the rate of imposition of the tax should be such that it is noticed by contributors.

3.4 The conditions for a fifth own resource

For the institutional and the financial development of the Community, it would be desirable to introduce a new fifth own resource. This would go some way to correct the present unsatisfactory situation in which the traditional own resources are diminishing in importance. Moreover, not only the GNP, but also the VAT resources are actually perceived by governments and, above all, by national parliaments as national contributions, rather than true Community own resources.

It is important that a new own resource should be fair. Also it should be a genuine Community tax and thus come from a harmonized base. This harmonization must be justified on economic grounds. Moreover, politically, a fifth resource should be linked to increased budgetary responsibilities for the European Parliament.

The Commission has examined various possibilities concerning taxes at the national level whose proceeds could be shared with the Community. However, it has found that, at present, no candidate exists in the tax system of the Member States with a base that is sufficiently harmonized.

In the medium-term, the political development of the Community will make a new own resource necessary. The Commission will make every effort to promote the necessary conditions allowing the creation of such a resource.