A Brief History of EU's Long Strive to Get the Right to Tax Us

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Executive Summary

Tobin tax lovers - ...for obtaining a direct EU tax

Among EU institutions a Tobin tax is the most popular proposal for obtaining an EU tax.

Since 1994, the majority in the European Parliament (EP) has been consequently working for some sort of direct tax income or "own resources" as they prefer to call it. What they want is more money to spend in the budget of the European Union. For example, in the coming long term EU budget for 2014–2020 the EP does not want to cut in the Common Agricultural Policy (CAP). Instead present subsidies to farmers in the old Member States will now also be extended to the farmers in the new Member States in Central and Eastern Europe. That is why the European Parliament and the European Commission are in pressing need of an EU tax to finance the CAP in the future. The Member States are unwilling to foot the bill and therefore, the EP and the Commission *must* get their own tax income. These two EU institutions have worked towards this goal since 1994. And yet, the citizens have never been informed about it during none of the four election campaigns to the EP that have been held since then.

The key element of this debate is the answer to the following question: For what purpose the incomes from the financial transfer tax (FTT) should be spent? I do not consider it worthwhile to introduce a new tax if it will be used for the EU budget, already known for waste in many areas of expenses like the Common Agricultural Policy, the Common Fishery Policy, the European External Action Service or unnecessary EU institutions like the Committee of the Regions and the European Economic and Social Committee. Add to that the waste of money in the EU budget resulting from the EP commuting between Brussels and Strasbourg and the need for double meeting venues and offices.

Cutbacks in the EU budget are both necessary and urgent. Every wasted euro in that budget is a theft from the taxpayers. The EU has been living way beyond its resources on taxpayers' expenses. And to give it the right to dispose of its own resources through a new tax will not improve the situation. It is clear that the EU does not deserve to get more tax money from the citizens. The European Union is in an even more urgent need to undergo an austerity program than most of the Member States that are currently undergoing one.

In my opinion, the waste of EU money will continue as at present if the European Commission and the EP succeed in creating a Tobin tax to feed the EU cashbox. No shaping up of budget policy or budget control in the EU will take place and no need for a reform of the Common Agriculture Policy will be acknowledged. A direct tax income would allow the European Union to continue to swell indefinitely. In theory, and when no longer dependent of the fees from the Member States, the EP and the Commission could raise the EU tax every year – except maybe when it is a year of election to the EP (an election where few voters take part anyway).

It is only a matter of political will. With more courageous politicians, the EU budget could be reformed in order to be financed transparently and fairly through contributions from the Member States based on Gross National Income (GNI) and without complex rebates or taxes at EU level. This should be the base for constructing a new sort of EU budget in an EU governed by its Member States and not from above by its institutions.

I do think that everyone should ask those in favour of a FTT what do they wish the tax income to be spent on. Very few of them would give an answer that is compatible with the plans of the EP and the European Commission.

The political situation at this moment is that an EU tax might very well be implemented. A majority in the EP wants it, the European Commission wants it, the French president and the German Bundeskansler want it, and the finance ministers of yet seven countries (Austria, Belgium, Finland, Greece, Spain, Portugal and Italy) have signed up for it.

Against these big elephants, there is an opposition composed of some Member States, some political forces and some special interests. If referenda were to be held in the Member States, it is unlikely that an EU tax would receive people's support. But FTT-supporters in Brussels know how to manoeuvre to get what they want. For example, they could introduce a FTT by a so-called "enhanced cooperation," which only requires a minimum of nine EU Member States.

On top of this, and according to the European Commission, even if a Member State chooses to opt-out from the FTT that country would still be impacted by the tax since any operation handled by banks from EU Member States that have not introduced the FTT would be covered if the buyer or seller in the transaction has links to the Eurozone. Hence, the trade in countries like United Kingdom and Sweden will be affected anyway, even if they have rejected it.

Consequently, the reasons for the European Commission and the EP to argue for the introduction of an EU tax can be summed up as follows;

- An EU tax will give the EU financial autonomy and Member States can be ignored if they do not want to pay for the expansion of EU policy areas.

- The EU institutions are constantly in need of more money to afford such projects as for example the expansion of the Common Agricultural Policy budget. The farmers in Western Europe should keep the subsidies at the same time as the farmers in the new Member States in Central and Eastern Europe finally must get the same subsidies as those in the West. This and a growing number of new policy areas in EU that need to be financed make the EU desperate for new incomes.

The EU tax will not be tax neutral unless the Member States cut back in their budgets in order to make room for the EU budget to grow, for instance by totally dismantling each Member State's diplomatic representations world over in order to let it be absorbed by the EU's European External Action Service (EEAS). Currently, Member States are rather reluctant to do so and therefore the introduction this tax will not be tax neutral.

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GROUPS IN THE EUROPEAN PARLIAMENT MENTIONED IN THIS BOOKLET

PPE - Group of the European People's Party (Christian Democrats) (1994–2009 PPE-DE)

S&D - Group of the Progressive Alliance of Socialists and Democrats in the European Parliament (the PSE group before 2009)

ALDE - Group of the Alliance of Liberals and Democrats for Europe (the ELDR group before 2004)

ECR - European Conservatives and Reformists (founded 2009)

Verts/ALE - Group of the Greens/European Free Alliance (Regionalists)

GUE/NGL - Confederal Group of the European United Left – Nordic Green Left

EFD - Europe of freedom and democracy Group (EU critical) (founded 2009)

NI - Non-attached Members[1]

EDD – Europe of Democracies and Diversity (EU critical) (existed 1999–2004)

TDI - Technical Group of Independent Members (existed 1999-2001)

UEN - Union for Europe of the Nations (existed in two different editions – as an EU critical group 1999–2004 and as more a national conservative group 2004–2009)

ITS - Identity, Tradition and Sovereignty Group (Extremists, Xenophobics) (existed 2007)

[1] NI – Non-attached Members is not a group as such.

WHAT THE ISSUE IS ABOUT – AN INTRODUCTION

This report intends to inform on the facts and opinions around the proposal for an EU tax and also to cast the spotlight on the long history of lobbying from the EU institutions to get a direct tax income to the budget of the Union. The incomes of the EU do not follow the increasing expenses since the Member States, often ridden by tough cutbacks themselves, are not willing to keep increasing their payments year after year.

As it can be noted below, the federalist majority[2] of the EP has for years argued for a direct tax income to be added to the cashbox of the European Union. The largest political groups, Christian Democrats, Socialists/Social Democrats and Liberals have all agreed on parts of this. But they know that it is not a vote-winning issue and therefore have they all kept wisely quiet in all the election campaigns to the EP.

The members of the federalist majority know that they need a higher income for the next long term budget for 2014–2020. If they do not get one, they will have to cut into the Common Agricultural Policy or reform it, which they are unwilling to do. They want the farmers in the Member States that joined 2004 and 2007 to get the same subsidies as the farmers in the older Member States. This would be more favourable than cutting subsidies to the older Member States since the federalist majority in the EP is in favour of maintaining the subsidies at a high level.

Occasionally, the EP has had the chance to take advantage of more "popular" tax issues in order to introduce an EU tax. For example, in the beginning of 2011 the members of the

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[2] Definition of the "federalist" majority in the EP: The EP has a tradition of broad cooperation in between the political families: the Christian Democrats (EPP), the Socialist/Social Democrats (S&D) and the Liberals (ALDE). These three groups, in general, arrange compromises in more or less every political area except some minor issues in areas such as foreign policy where the EP does not have any legislative or decision-making power.

The three big groups mentioned above all want the EP to gain influence against the European Commission and the Council. They want Europe to become more or less a federal state – a United States of Europe. The EP and the European Commission are engines for further integration and federalization of the European Union.

The "federalist majority" in the EP wants an increased budget financed by an EU direct taxation. It also wants to develop EU policy in areas such as industrial policy, space policy, tourism, education in schools like IT, traffic, sports, languages, Northern polar zone policy and so on. In general, the "federalist majority" in the EP would like to decide everything from foreign policy to the number of school hours for sports lessons in the EU.

It would like for just about all political policy areas and issues to fall under European Union control, with the EP being the most important decision maker. National and regional parliaments would play an insignificant role in these visions about the future of the European Union. It must be noted, however, that voters in the EU Member States tend to vote less and less in EP elections and pay much more attention to what national and regional parliaments do and do not do.

There is an opposition to the federalist line in the EP. Especially from members of the Conservative ECR group, the EU skeptical EFD group and the leftish GUE/NGL group, as well as from some non-attached members and individual members of the three big federalist groups. In the Green/Regionalist group there are also some non-federalist members even though the group now has a federalist majority.

federalist majority stated that they were in favour of a Tobin tax or Financial Transfer Tax (FTT). They see it as a way to introduce a direct EU tax without much resistance from the citizens or the Member States. Other ideas for direct taxes, such as an EU-level VAT or fees on cell phones, would likely elicit strong public protests.

This publication is not the place to express an opinion on the merits of a Tobin tax. That debate must be taken in other fora. Yet, it is important to consider that the banks paying this tax would almost certainly pass the bill on to their customers, unless lawmakers take specific actions to prevent it.

THE EU TAX ISSUE – A BACKGROUND

When the European Economic Common market (EEC) was founded in 1957, the EEC budget had its own income in the form of custom duties from trade outside the EEC. But with the increasing expansion of free trade, the custom duties have been shrinking to such an extent that the EU budget has increasingly become dependent on the Member States' annual fees. The EP does not approve this situation as it makes it weaker compared to the Council and the Finance Ministers.

The EP has been pushing for direct financing by European taxpayers for a long time. Every year, Finance Ministers from the Member States have refused to open their wallets far enough to appease the EP. Unfortunately, the EP federalist majority will not take "no" for an answer.

Therefore, step by step, the federalist majority of the EP has built up its demand for an EU tax. To avoid political controversy, the EP is calling the EU tax "genuine own resources." Some have suggested that a certain percentage of the VAT paid by consumers should be directly transferred to the European Union. Others believe that a tax on CO_2 emissions should be levied or that charges on banking and electronic communications should be directly sent to the EU treasury. Even an EU-wide fee on cell phones has been discussed. But an FTT is a more "popular" tax or at least less unpopular than other taxes. Many citizens are critical of financial institutions, thus to invent a new tax against them is easier to push through than other sorts of taxes. However, in the end citizens will have to bear the brunt. For instance, the pensioners will pay by getting a slightly smaller pension because their pension funds had higher costs in the form of a tax.

The European Commission tabled a proposal for an EU tax on 29th of June 2011. This proposal was the result of a strong lobbying from the EP, which was not satisfied when the EU budget for 2011 was raised a "meager" 2.9% instead of the 5.9% demanded by the Members of the European Parliament (MEPs).

But, as it can be seen below, MEPs are careful to avoid calling the proposal a "tax":

"It must not be called a European Tax. Once you mix the words Europe and tax in the same sentence it becomes explosive." - Alain Lamassoure, French UMP (PPE), MEP and Chairman in the EPs` Committee on Budgets. Stated at a press conference 12th of October 2010

THE EU TAX ISSUE IN SHORT

The EU budget for 2010 was €141 billion. This money came from two sources: own resources and contributions from EU Member States. However, the federalist majority in the EP does not consider the current own resources to be "genuine" own resources.

The 29th of June 2011, the European Commission presented a formal proposal for an EU tax, misleadingly called "own resources."

There are two parts of this proposal that seek to provide the European Union with a direct tax income from its citizens.

First, the Commission wants to introduce a FTT. This tax would be introduced within the European Union regardless if the rest of the world follows suit.

The second portion proposes that the European Union directly receives part of the Value Added Tax (VAT).

Either way, the purpose is dangerously simple. The EU wants to bypass its Member States by receiving direct funding to the EU cashbox.

Currently, own resources account for 24% of the EU budget (12% customs duties/sugar levies, 11% national VAT, and 1% taxes paid by European officials, including penalties for breaches of competition policy). The VAT contribution is already an indirect tax levied by the EU. However, the EU itself does not collect the VAT; the Member States pay a part of their VAT incomes to the EU. Previously, custom duties provided the EU (EEC at the time) with a substantial portion of its income. Increasing free trade has decreased the funds obtained through custom duties. This, in turn, has decreased the own resources of the EU. This decrease is often used as an argument in favour of the EU tax: supporters say that own resources must be returned to their previous level.

Of the EU budget incomes, 76% comes through contributions of the EU Member States. The think-tank Open Europe has estimated that the main net contributors (per capita) for the period 2007–2013 will be the Netherlands, Denmark, Sweden, Germany, Austria, the United Kingdom, France, Italy and Finland[3]. The Commission and the EP are opposed to this sort of calculation because they believe that it prevents the EU from being seen as a cohesive unit. The net beneficiary Member States are not amused by these calculations, either.

Negotiations between the EU Member States on the seven-year budget periods (at present, 2007–2013) are always intense. This process guarantees that increases in the EU budget remain limited. The introduction of a European tax would allow money to flow directly into the hands of the EU institutions, which have shown little interest in limiting their demands for new policies and programme areas within the EU.

The European Union should be governed by the Member States, not vice versa. The right to directly tax citizens should continue to exclusively belong to the Member States.

[3] Open Europe: Briefing note: European Communities (Finance) Bill (2006) http://www.openeurope.org.uk/Content/Documents/PDFs/budget07.pdf

If the EU obtains the right to directly take in taxes, there will be no way back. Tariffs will most certainly go up gradually each year, budget demand will increase, and the EU bureaucracy will decide the amount to be paid by citizens. A bureaucracy the ordinary taxpayers have none influence whatsoever on.

The truth is that the EU budget is large enough as current: the European Social Fund, the European Regional Development Fund and the Cohesion Fund have all had difficulty spending their allotted amount of money due to a lack of worthwhile projects. Therefore, there is no reason to increase the EU budget from the current 1% of the European Gross National Income (GNI).

An EU tax will only increase the burden placed on the citizens, who are already paying double bills. The European Union is now opening embassies around the world, even though Member States are unwilling to close theirs. Taxpayers are forced to pay for two embassies in the same foreign country. This pattern of double structure can be seen in many parts of the EU budget, like the Security and Defence Policy which competes with the current NATO structure.

Based on all the above mentioned, it is clear that that we need better scrutiny of the existing EU budget and not an introduction of an EU tax.

Politicians and the EU tax: Where they stand

Is there a majority among governments and national parliaments in the EU 27 for an introduction of a direct EU taxation?

It is not likely. If a referendum were to be held in each of the EU 27 Member States, it is likely that in nearly no country the people would support such a "reform" of the European Union.

Some politicians have made public statements against or in favour of EU taxation. The problem is that during fancy dinners with exclusive wine, leading politicians of the EU might change their mind or make deals where, in exchange for an EU tax, they get more money in subsidies from the EU cashbox. This has happened before. In Autumn 2002, the president of France Jacques Chirac and the German Chancellor Gerhard Schröder wined and dined together and agreed to postpone a reform of the Common Agriculture Policy until at least after 2013. At the following Summit, the other Member States had to accept the agreement as "fait accompli". That was the most expensive dinner in the history of the European Union so far… for the tax payers.

QUOTES AGAINST AN EU TAX

Hereby follow some quotes both from politicians against and politicians in favour of an EU tax:

"I am against the introduction of an EU tax." Angela Merkel, Germany's Bundeskansler during a press conference in Brussels on Tuesday 2nd November 2010. Report from various news agencies. (Comment: However, she apparently changed her mind in August 2011.)

"Right now I try to think of something more unpopular than a new European tax." David Cameron, British Prime Minister-at a press conference in London on Thursday 25th November 2010. Quoted by Swedish Radio News.

"We do not need more taxes, but less … Europe must try to manage with those resources that exist, and that already are very generous." David Cameron, British Prime Minister at a press conference in London on Thursday 25th November 2010. Quoted by Swedish News Agencies.

"The right to tax – or to govern with own resources – will lead to increased costs and increased taxation. It comes into conflict with the individual willingness to put people to work and the clarity that working pays." Fredrik Reinfeldt, Swedish Prime Minister during a press conference in London on Thursday 25th November 2010 (together with David Cameron). Quoted by Swedish Radio News.

"We do not like the idea of a special EU tax. It would only increase taxes and, we fear, goes in the opposite direction of development in Sweden. We try to head in a different direction, so we are very doubtful of the creation of own resources for the EU." Fredrik Reinfeldt, Swedish Prime Minister during a press conference in London on Thursday 25th November 2010 (together with David Cameron). Quoted by Swedish Radio News.

QUOTES IN FAVOUR OF AN EU TAX

"This year's budget debate again underlines the need to agree on a meaningful system of own resources for the EU. The annual squabbling over the budgets between the European institutions leads to chaotic decision-making and creates an acrimonious diversion, which could be so easily avoided through an own resources system, such as allocating part of the revenue from an EU financial transaction tax, a tax on aviation fuel or a carbon tax to fund the EU budget. Despite this, today's vote broadly strikes a balance between responding to the extra demands created by the Lisbon Treaty, whilst limiting the growth in the EU budgets, in response to current budgetary difficulties." Raül Romeva i Rueda, MEP Spanish Initiative for Catalonia Greens, Verts/ALE, in an explanation of a vote on 20th October 2010 in the EP. (Comment: The "squabbling" Romeva i Rueda is referring to is merely the reluctance of Member States to fund the MEPs' yearly wish list of expenses.)

"ALDE welcomes the initiatives made by the European commission to investigate possibilities for new own resources. In the long term, the increase of existing own resources and/or the introduction of new own resources should aim at replacing the national contributions to the EU budget altogether." ALDE Group in EP. "ALDE position paper on EU budget post 2013". (Comment: This illustrates the typical rhetoric that is used to avoid the word "tax". By *"replacing the national contributions to the EU budget altogether,"* the EU will be made independent: able to increase expenses at will by raising the EU tax.)

THE EUROPEAN PARLIAMENT DEMAND FOR AN EU TAX – A LONG STORY

The EP's demand for an EU tax has been consistent over the years. It is hard to say exactly when they started to lobby for a direct EU but today's generation of MEPs can refer back to a report that was tabled in April 1994 (Langes report A3-0228/1994).

Over the years, the EP has gradually become more and more outspoken about wanting an EU tax. But this is unknown among national politicians and especially among the citizens. The issue has been carefully avoided by the party headquarters' election teams since it is not a vote-winning issue. Neither have the Christian Democrats, the Social Democrats/Socialists, nor the Liberals seen any need to debate an issue on which they all agree on – that the European Union should have independent, direct financing through an EU tax of some kind from the citizens. The three main political parties wish a direct link existed between the EU finances and the citizens' wallets. However, this is not a popular topic to explain to the citizens, who must bear the brunt.

The following section is about the different debates in the EP about EU taxes that have taken place over the years. This section is probably more interesting for those readers who really want to get into historical details.

What it is important to stress when discussing the behaviour of the EP on this issue is that a majority among MEPs is eager not to let citizens know that they want to tax them to directly feed the EU's cashbox!

No doubt, introduction of an EU tax is not a vote-catching issue and therefore the large political families have kept quiet about it. These three political families agree with each other on this. Why debate something they agree on?

THE EUROPEAN PARLIAMENT'S FIRST MENTION OF AN EU TAX – APRIL 1994

It is possible that the EP might have mentioned the issue of an EU tax – "own resources"- in some resolution earlier. But the first time the subject got a resolution of its own seems to be in April 1994, just before the EP elections of June that year.

On Wednesday, 20th of April, 1994 in Strasbourg, Horst Langes (German CDU, PPE group) presented his report (A3-0228/1994) on the system of own resources for the European Union. It was approved by the plenary the day after. There were some separate votes but no Roll Call Vote (RCV), a voting system that allows seeing in the minutes how each MEP voted. The RCV was not even used on the resolution as a whole, so the groups must have generally been satisfied with the content.

The approved resolution contains some interesting parts, which are important for the debate of today:

"(…) H. whereas a democratically evolving European Union must be financially autonomous within its sphere of competence, while respecting the subsidiarity principle, one reason being the fact that national parliaments cannot take sufficient account of the European perspective, (…)

1. Calls on the Council and the Member States to create a genuine system of own resources for the Union before the current financial perspective expires in 1999 and to begin negotiations on such a system of own resources within the framework of the Intergovernmental Conferences in 1996; (…)

7. Calls for the creation of a system of own resources in which revenue is generated in such a way as to establish a direct link and accountability between the European Union (through its budgetary authorities: the Council of Ministers and Parliament) and taxpayers and which thus fosters the democratic bond between the Union and its citizens; (…)

8. Is convinced that the first two categories of levies, premiums and compensatory amounts and custom duties, constitute own revenue on the basis of the Community's responsibility for external trade and should be maintained as such; points out, however, that there will be a continental decline in such revenue, particularly owing to the recent GATT agreements and the CAP reform now underway;

9. Is convinced that a new third source of revenue should be created in place of the existing third and fourth resources which should take the form of a specified percentage of VAT, given that, despite all the discussions about a 'fair' definition of the basis of assessment, VAT still represents the most reliable basis for own revenue: VAT is politically controllable, it is well-known and familiar to the taxpayers in the Member States and it can and must be harmonized throughout the Community;

10. Is convinced that a Union proportion of VAT, directly imposed on the basis of tax declarations and denoted as such on invoices, is the most appropriate means of meeting the demands of being simple and transparent and constituting an effective link between the taxpayer and the destination of the tax (European Union); (…)

12. Takes the view that the increasing transfer of tasks from the Member States to the Union should be matched by appropriate transfers of own resources which can be easily adapted to those tasks which are necessary and desired; (…)

21. Takes the view that the transfer to the Community of an increasing number of political powers in fields such as agricultural policy, external trade, internal trade, development aid, transport and social policy and economic and monetary policy should go hand in hand with corresponding action to provide the Union with democratic legislative powers, which would include both tax and budgetary powers and appropriate financial autonomy ('no representation without taxation'); (…)"

In short, the EP realised that incomes to the EU budget would be reduced, because the customs duties would fall due to international free trade agreements and hence, they wanted to go for a direct EU VAT paid by the consumers directly to the European Union.

Just after this resolution was approved in the EP, there were elections in the then twelve Member States to the EP~~,~~ as well as, referenda in four states on whether to join the European Union or not. The issue of the introduction of an EU tax or that the European Union must be financially autonomous within its sphere of competence was not taken up for debate anywhere. The idea of creating a federal European state does not resonate with voters federalists are very much aware of that and prefer to keep quiet about such plans rather than to openly expose their vision to the citizens.

THE EUROPEAN PARLIAMENT RENEWS CALL FOR AN EU TAX JUST BEFORE AN ELECTION – MARCH 1999

Five years later, just before the next election to the EP, the federalist majority renewed its demand of own resources for the Union in the Haug report (A4-0105/1999) on the need to modify and reform the European Union's own resource system.

In the debate that took place on Tuesday 9th March 1999 in Strasbourg, many Members of the EP complained about the British rebate on their fee to the Union. Another hot topic was the question of co-financing the agricultural policy between EU and the Member States when the EU budget was shrinking in this area.

Two interesting quotes from the debate:

Esko Seppänen (Finnish Left Alliance, GUE/NGL group) came clearly out against an EU tax. His speech was as follows:

"Mr President, Commissioner, I have noticed in this debate that those countries which are net beneficiaries do not wish to speak about net contributors or net beneficiaries, whereas this is exactly what the countries that are net contributors want to talk about. The issue is the financing of EU enlargement. We are now fighting over who is going to pay for it. On that basis I would like to express an opinion which is important to me and from our point of view generally.

The total EU budget should not be increased by more than 1.27 %. The EU should not be given the powers to tax its citizens or collect taxes in the Member States: the money must be collected from the Member States themselves. The best basis for calculating how much each Member State should pay is GNP. I do not think it is out of the question to increase the share that agriculture itself contributes. It will only divide up EU income and expenditure in a new way, but we cannot object to that in principle."

Herbert Bösch (Austrian SPÖ, PSE group) also said something interesting. A quote from his speech:

"… Mrs Haug has also paved the way for what we will in the final analysis need on the revenue side, namely European revenue in the form of European taxes. Only then will we see an end to the interminable debate about who is the biggest net contributor, who is the biggest net recipient, which is what it is obviously all about just now. …"

The resolution that was approved by the EP is in line with the previous resolution from April 1994. There are some interesting points:

"(…) N. whereas the introduction of new own resources that do not increase the burden on the European taxpayer can make the revenue system more transparent, more

straightforward and more rational, increase the Union's financial independence and establish a direct link between the European Union and its citizens, (...)

9. Believes that, if the EU's financial independence is to be ensured, its tasks are to be financed and it is to be able to develop in longer term, the budget should be based on new own revenue not constituting Member State contributions that must not lead to an increase in the total burden on the European taxpayer; emphasises that increasing the financial endowment also means giving the Union clear responsibility for the relevant fiscal legislation, including appropriate power to raise revenue;

10. Believes that revenue which goes directly to the Union is of direct relevance to the citizens of Europe, that it must have their approval as far as possible and that it should be logically related to European integration and European tasks; emphasises that such revenue must satisfy the criteria of simplicity and comprehensibility, fairness, transparency and democratic controllability;

11. Points out that the European Parliament has commissioned two studies on the choice of suitable new sources of tax and revenue, in which the advantages and disadvantages of different forms of revenue are considered; points out that, as no kind of tax has proved to be optimal in this context, the Union's future financial autonomy must be ensured by a combination of different forms of new revenue, with the greatest possible account taken of the criteria referred to; (...)

20. Gives its initial endorsement, therefore, to the proposal that VAT-based and GNP-based own resources should be combined in a transparent, simple source of own resources the calculation of which is comprehensible, which is based on GNP and on the basis of which a fundamental reform of the own resources system and the introduction of new forms of own revenue in place of the present third and fourth sources of revenue can be addressed; (...)

23. Calls for any agreement reached by the Member States on certain types of tax to provide for at least some of the yield to accrue to the Union budget as own revenue, since these taxes will then be of a primarily European nature;

24. Emphasises that such new revenue for the European budget should not be additional, but should replace existing revenue;

25. Urges the Council to approve such a reform in agreement with Parliament so that it can be brought into force before the next round of enlargement;

26. Believes that the gradual reform of the system of own resources should be considered during the negotiations on the interinstitutional agreement on the financial perspective 2000-2006; (...)"

This resolution was approved by 276 votes in favour, 154 against and 47 abstentions. All the groups were more or less divided on this issue. But the majorities in the PSE, PPE-DE, ELDR and the Greens voted in favour.

Once again, just after this resolution was approved in the EP there were elections in the then 15 Member States to the EP. And once again, the issue about introduction of an EU tax and the EU's financial independence was not up for debate at all.

The European Parliament steps up its demand for an EU tax – November 1999

In November 1999, in the Fifth EP which was elected in June 1999, EU taxes once again were brought up on the agenda. On Tuesday 16th November 1999, the EP debated the Haug report (A5-0052/1999) on the proposal for a Council Decision on the system of the European Union's own resources based on a European Commission's document on this subject (COM(1999)333).

The following four MEPs' intervention are interesting to highlight;

Jutta Haug (German SPD, then PSE group) introduced the debate as rapporteur. She said as follows:

"Mr President, ladies and gentlemen, we are getting down to serious business now, for this is about our money, or the European Union's revenue to be precise. The discussions we are having today on reforming the system of own resources are directly related to the discussions we had and the decisions we reached in the spring of this year. I would like to draw your attention to the Commission's comprehensive report, which presents a thorough analysis of own resources and has presented many of the options for reform which come up in discussion.

We established our position on the own resource system, as a Parliament in March, with full knowledge of this report and following very full discussions. Unfortunately, the Berlin Council was unable to reach agreement on an actual reform step but contented itself with the kind of haggling for which it has long been famed. The outcome of the Berlin conclusions has been further complication of the own resources system and restriction of the European Union's financial room for manoeuvre.

This situation cannot be allowed to continue. We must put an end to the situation in which each Head of Government and Finance Minister in the Council only has the short-term interests of their own country at heart when it comes to planning our revenue, regardless of the consequences. This Community can only be sustained and developed if our common interests as a whole and our longer-term aspirations are taken account of, and if we are prepared to invest in this. In this connection, it is the Council's policy in particular that merits condemnation, for it persists in committing expenditure at international donor conferences, the burden of which falls to the European budget, without ensuring that the corresponding revenue is in place. That being the case, the Council is not taking its dealings with the European Union's revenue very seriously – and that is putting it mildly – and it may, in the forthcoming enlargement process, become a real handicap capable of obstructing our opportunities for development.

However, I am also disappointed with the proposal put forward by the Commission on changing the own resource system. Of course, we are not under any illusions; we too are aware that the Council was not about to perform a dramatic about-turn at some point from the spring onwards, and initiate far-reaching reform. Obviously, I recognise that where our proposals are concerned, the Commission, as must we as a Parliament, has to take into *account the mood in the Council and the positions adopted there if we want to achieve a workable outcome.*

Nevertheless, the Commission could have done more, in fact I would go so far as to say that it should have done more. It has trailed snail-like behind the Council, only to now place before us as a proposal something that follows the Council's agreement to the letter. But it is also the role of the Commission to be the driving force of integration; at the very least, it must fulfill its role as guardian of the Treaties, warding off any regulations which could damage the Community. In my view, it has failed to do so in the case of the present proposal. However, I would not want to spare us as a Parliament a certain amount of self-criticism either. We too could have been more courageous in our demands in respect of reform of the own resources system, and ought to have paid less attention to the discussions taking place at national level.

At all events, we are going to have to be more consistent in the next round of reforms – which ought not to be too long in coming – if we want to ensure that the Union still has the financial power to act after enlargement and once it has additional tasks. That is why we want to commit the Commission to making the schedule tighter than it envisaged doing in its report. Allow me to make clear in a few points the work that we can and must get under way if we are to change the own resource system in such a way that it will also be possible for there to be progress towards reform.

Firstly, planning the European Union's revenue must be undertaken in accordance with a number of fundamental principles, without which the system would be unable to function indefinitely. This means that we need a system that is transparent, uniform and balanced. In the long-term there must be a direct link between the citizens of Europe and the European Union's financing of its expenditure, and for the benefit of those individuals who are now calling again for there to be an increase in taxation, I would like to make quite plain that of course there must be no increase in the overall tax and contributions burden borne by the citizens, but then that was the position we took up back in March as well.

In the foreseeable future, as long as the budget is financed by the Member States, this principle means in practice that financing must take place under the same conditions for all concerned. There must be no more derogations or rebates in the future. We in the Group of the Party of European Socialists have reached agreement on this demand, and that includes those individuals from Member States that continue to benefit from such derogations or are hoping to benefit from them soon. It represents a great step forwards and I am very proud of it. Indeed, I would call upon all the groups to support this compromise, which will be presented to them in the form of an amendment.

Secondly, securing and consolidating our financial power to act also means acquiring new forms of revenue that we can truly call our own and that will replace the previous ones. But above all, it means not tampering with the only sources of income that are truly ours, that are the Union's by right, that is to say, our traditional own resources. But this is exactly what will happen if the Commission's proposal is implemented. If the refund – to be retained by the Member States – of the costs associated with the collection of these traditional own resources were to be increased by 150% then such fears would certainly be justified. Unfortunately, the majority in the Committee did not support my request to leave this refund at 10%. Personally speaking though, I am able to warmly endorse the present draft amendment, expressive as it is of the desire not to raise the amounts Member States are permitted to retain to 25%, for this would leave the traditional own resources intact.

Thirdly, if there is to be transparency, balance and manageability then the basis for financing must be unambiguous. The essential pillar as far as the current financing framework is concerned, is the gross domestic product of the Member States. This must continue to be the case for as long as the EU is financed by the Member States, for any other method would distort the system and render it illogical. The own resources ceiling of 1.27% expresses what proportion of gross domestic product has to be devoted to the European budget. This figure has become a politically reliable basis for cooperation based on partnership between Parliament and the Council. That is why it must be maintained and must not be changed arbitrarily. These are a few aspects of the proposal I am putting to you concerning changes to the own resources system.

Unfortunately, there is no possibility of doing more at the present time since we have only limited room for manoeuvre in our actions. The consultation procedure in force here and, above all, the restrictive framework created by the Berlin Council's agreements mean that we can only be moderate in our dealings. I would ask you all though, to at least give me your support as far as these draft amendments are concerned."

The British rebate was again taken up by many speakers in the debate. As for the introduction of an EU tax, there were few speakers that were clear.

For example Kyösti Virrankoski (Finnish Centre Party, ELDR group) said, cryptically, the following:

"... Mrs Haug's report contains a proposal whereby a report on amending the system should be drafted before 2004. It should examine in particular concessions on contributions and the possibility of creating a new system of own resources that would relate directly to the public, without increasing their burden of taxation. The Liberals support this reform, all the while stressing that the burden of taxation must not be increased. Perhaps new forms of own resources could include environmental protection taxes, as environmental questions concern all, and not just the new Member States. ..."

To be clear about this, it has to be said that the reason why none of the speakers in favour of an EU FTT clearly talked about the introduction of a direct EU tax was that this theme is not popular in the public debate in the Member States. However, two speakers had something interesting to say;

Florence Kuntz (Rassemblement pour la France, from the EU critical UEN group) spoke out against the Haug report:

"Mr President, the Haug Report, which is before this House, presents an eminently political problem, the problem of financing the Union by means of its own resources.

In other times, French leaders would not have hesitated before adopting the policy of the empty chair on such a matter. Today, unfortunately, our country is the great loser of the Berlin Summit where the Fifteen agreed upon the review of the Union's system of own resources.

In Berlin, we effectively acknowledged the principle according to which some rich countries, those from the northern part of the Union, were paying too much, hence the revised weighting of Member States' financing shares, resulting in the increased participation of France to the tune of several billion francs.

It is, moreover, obvious that limiting the participation of some Member States in financing the UK rebate will have the effect of increasing the contribution of the others. As far as this corrective mechanism in favour of the United Kingdom is concerned, we obviously share the opinion of the Haug Report, which proposes that this privilege is gradually phased out, whereas the Commission is proposing only technical adjustments to the reform.

We are opposed to the Haug Report, however, when it proposes to gradually reduce the system's dependence on Member States' contributions and to achieve financial autonomy in the long term. Financial autonomy, fiscal autonomy, is this not all leading up to the introduction of a European tax by the back door? At any event, financial autonomy of this type is still in line with that same rationale which we are clearly against. Ever greater integration, ever greater federalism within Europe, always to the detriment of nation states, eliminating their last remaining area of sovereignty, their fiscal sovereignty. We cannot accept this and we shall be voting against this report."

Per Stenmarck (the Swedish Moderate Party, PPE-DE group) was also critical:

"Mr President, the EU will be faced with having to make very large financial investments when, in different rounds, ten or more countries from Eastern and Central Europe and from the Baltic region become members. Clearly, there is occasion for discussing the EU's financial requirements if this process is to be managed successfully. At present, the EU is not entitled to raise taxes itself. Nor, as I see it, should it be entitled to do so in the future either. The Haug report does not involve our automatically introducing taxation by the EU, but it opens the door for taxation of this kind, which is bad enough.

What is not spelled out is nonetheless what a lot of people are obviously thinking. In the last few days, the Swedish mass media have been saying that the EU intends to introduce a tax on flights and mobile telephones. It is perhaps no accident that it is precisely in Sweden, which has far and away the heaviest burden of taxation in the EU, that imaginations are running riot when it comes to finding new forms of income from taxation. If taxes are to be directly discussed at all within the EU, then the Member States must first, in my view, show clearly and precisely which national taxes are to be reduced at the same time. Otherwise, our citizens will just be afflicted with new forms of taxation, and the EU's citizens do not need still higher taxes.

How, then, is the enlargement of the EU to be financed? Yes, the alternative to new income from taxation is still that of reduced costs. This will involve better prioritising and concentrating on the major and crucial questions. The enlargement of the EU is one such priority. As long as almost half the EU's budget goes on subsidising agriculture and as long as five sixths of it, including the Structural Funds, goes on subsidies of one kind or another, there can be no doubt that changes can still be made."

In connection to this debate, there were articles in the Swedish media about introducing an EU tax or direct fees to the EU cash box. Examples that were mentioned were a tax on cell phones at around 35 euros per subscription or a tax on airplane journeys at around 13 euros per flight.

Göran Färm, Swedish Social Democratic MEP, contributed to this debate by stating that with an EU tax there could be more long term planning and that political discomfort in the national governments could be avoided, especially since money must now be taken from the Member States' cashboxes to be given to the European Union each year.[4]

This should be interpreted as follows; the citizens will in the future protest against raises of the EU membership fees and in order to avoid this, it would be easier to introduce EU taxes that the citizens cannot avoid.

The Haug report (A5-0052/1999) on EU own resources proposed amendments to the Commission proposal for a Council Decision on the system of EU's own resources. It was a consultation procedure for the EP meaning that their amendments were just political statements that could be ignored by the Council.

Some amendments clearly showed the willingness of the majority in the EP to see an introduction of an EU tax.

Amendment 3 reads: *"Whereas the continuous development and forthcoming enlargement of the European Union make a dynamic reform of the revenue system necessary; whereas such a reform must be designed to increase the Community's financial autonomy and establish new forms of own resources without increasing the overall burden of taxes and charges on the European taxpayer and with due regard for the economic performance of the Member States; whereas the planned changes to the system of own resources must come into effect immediately and the preparation of further reforms must be speeded up;"*

Amendment 6: *"Whereas, to ensure this for the future, the EU must move steadily away from dependence on transfers from Member States; whereas, in the long term, the own resources system must be modified with a view to achieving financial autonomy;"*

Amendment 15: *" … the Commission will submit, before 1 January 2005, a proposal for a Council decision which will replace this Decision on 1 January 2007; whereas that decision is to include provisions concerning the replacement of the VAT resource by new, autonomous own resources; whereas those new resources should be directly connected with ordinary citizens and not increase the tax burden they bear; whereas, furthermore, provisions should be included for the gradual phasing-out of the compensatory mechanism established in favour of the United Kingdom; …"*

The Commission's proposal, as amended by the EP, was approved with 337 votes in favour, 167 against and 48 abstentions. The resolution was approved with 334 votes in favour and 153 against with 60 abstentions.

In favour were the large majorities in the PPE, PSE, ELDR and Verts/ALE groups. Minorities in the PPE and PSE groups voted against as did most of the members of the Leftist GUE/NGL group. Around 30 PPE members abstained. Many Spanish and English members of PPE and PSE voted with the minority positions in their respective groups.

[4] Aftonbladet 991112 "EU: Inför skatt på mobiltelefoner" Emily von Sydow

ONCE AGAIN - EU TAX ON THE EUROPEAN PARLIAMENT´S TABLE – JULY 2001

On Wednesday 4th July 2001, the EP debated the EU's own resources in the budget for 2001–2002. The Haug report (A5-0238/2001) on the situation concerning the European Union's own resources in 2001 was tabled, among other documents.

This was the third report from Jutta Haug on this subject. The report was written on the EP's own initiative. And was a pure lobby document for EU tax from the EP versus the Council and the Member States.

Eight interventions during the debate were worth to underline;

Jutta Haug (German SPD, PSE group) was rapporteur and was also the first to speak. Among other things, she said:

"... We – Parliament – have taken the initiative and called on the Council to discuss with us, prior to every budget procedure and before the Commission produces its draft budget, the situation concerning the European Union's own resources. Please note that I said 'discuss', not 'codecision'. We thought this was a very cheap option, but far from it, the Council is resisting, and that is what it is doing this evening too. It is simply not listening! It refuses even to discuss the European Union's revenue with us. As a result, we looked at the EU's own resources without having discussed them with the Council. What we noted for the 2001 budget year is no different from the trends observed in previous years.

Traditional own resources and VAT resources are becoming less and less significant. The transfers from the Member States as a GNP resource share have increased steadily. In total, own resources constitute 98.3% of revenue for the 2001 EU budget. This is equivalent to 1.06% of their GNP, which is far less than the own resources ceiling percentage of 1.27% laid down in the financial perspective.

This shift towards the GNP resource can undoubtedly be viewed with mixed feelings. It could lead to a fairer division of burdens between the Member States, as GNP is probably the best indicator to measure the relative wealth of the Member States' economies; indeed, if we look more closely, some Member States already cover 22, 29 or even 33% of their contributions to the European budget from traditional own resources – in other words, from money which has already belonged to the European Union for some time.

Secondly, it changes the nature of the European Union's own resources, transforming them from real own resources into a form of Member States' contribution. Thirdly, it simply does not create a visible link between the European Union and its citizens. When the Belgian President of the EU, Prime Minister Guy Verhofstadt, spoke this morning, it warmed my heart. He too is questioning this indirect financing of the European Union. He too is calling for more transparency. He too wants citizens to become more familiar with the European Union, and this includes more transparent financial arrangements.

We want financial autonomy at European level, and we want to work towards this now. We want this financial autonomy to be shared jointly and on an equal basis with the Council, and we want to have co-decision rights in this area. We want equal rights in all *areas; we want to be one of the two arms of the budgetary authority, in respect of all expenditure and all revenue. We want complete budgetary autonomy. A European tax may still be a long way off, but the Belgian presidency, the Belgian President of the European Union himself, has called for this. The Belgian Finance Minister supports this demand, and even the German Finance Minister no longer rejects it outright. A European tax may still be "future music", as the Germans say, but if we do not start playing it now, we will not be dancing to it in future."*

Markus Ferber (German CSU, PPE-DE group) said the following on the subject:

"… I should also like to make several comments on the issue of own resources. Ms Haug, according to my information, a separate European tax was already being debated before my time, namely in April 1994. It would seem that even then, people were making music that nobody danced to. I am not sure whether it is useful at this stage to initiate a debate at European level on financing through taxation. Let me say this quite clearly: we have other priorities first. The first task which Europe must address is the issue of a more precise delimitation of powers between the European Union and the Member States. The public would also like to have some answers. What is Europe responsible for, and why does it need money? In a second step, we must of course discuss what kind of long-term institutions are required in Europe so that the tasks entrusted to Europe can be performed in a democratic and transparent way. Finally, at the end of this process, decisions must be taken on how the necessary resources can be made available. I think that if we approach matters on this basis, we will be on the right track.

By supporting a European tax at this stage, Europe's citizens are more likely to be frightened off by what is happening here. It will not help us to achieve lasting acceptance among citizens in the European Union. …"

Salvador Garriga Polledo (Spanish PP, PPE-DE group) said:

"… In any event, in this joint debate on Supplementary and Amending Budgets Nos 3 and 4, the mandate for the budgetary conciliation and the report on the situation concerning the European Union's own resources, the PPE-DE Group wishes to state that it is voting unanimously in favour in the first two cases and in favour by a majority in relation to own resources.

Clearly, the most potentially controversial issue in this Haug report relates to Parliament's support for the possibility of opening a debate on the establishment of a direct Community tax which would be a source of autonomous funding for the Community budget.

Within all the groups. Mr President, there are differing sensitivities in relation to European integration, and this is all the more obvious when it comes to funding issues. Therefore, Mrs Haug's tendency towards this possible tax is too much for certain national delegations. However, I believe that the majority of my Group will possibly agree with it. …"

Esko Seppänen (Finnish Left Alliance, GUE/NGL group) clearly opposed the idea of an EU tax in his speech:

"Mr President, I wish to speak about own resources. The tables appended to Mrs Haug's report and dedicated to the subject of own resources do not give a correct picture of the different share of contributions among the Member States. It has to be said aloud that the United Kingdom is one of the EU members getting a free ride. It has been given a reduction on contributions. It should form part of the report's conclusions that the United Kingdom should be made to pay its contribution according to the same principles as everyone else. In addition, the report's statistics disguise the real situation with respect to the customs duties the UK collects on behalf of the EU. But customs duties disguise the share of contributions made by Holland and Belgium still more, as these countries also collect customs duties on goods bound for other countries. Holland and Belgium are not the large net contributors the figures show them to be.

The report's conclusions call for the introduction of a special European tax. This is no mere accident. The country holding the presidency, Belgium, has also announced it will pursue the issue. There are two different opinions on this in our group. The tax is supported by those who are guided by the spirit of European federalism, while those who wish to preserve their national sovereignty are opposed to the EU having the power to levy and collect taxes. Federalism is the making of the European Union into a federal state. If the EU is given the power to levy and collect taxes we will be paving the way for federalism. As a representative of taxpayers in a small net contributor country I cannot endorse European taxation for the purposes of a federal state. Mrs Haug's conclusion in her report is too radical."

Den Dover (British Conservative Party, PPE-DE group) also opposed the idea of an EU tax:

"Mr President, I too want to speak about Mrs Haug's report on own resources. Her advice that we should go for a European tax is premature and unnecessary. She says that the Belgian presidency is expected to put this forward or start a debate. I have read the notes on the work programme by the Belgian presidency and there is little or no reference to it. There is only one reference to the tax on flows of speculative capital – the so-called Tobin tax. That was voted down by Parliament only a few months ago. At the end of the document there is also reference to direct or indirect funding of the European Union, so that we can once again operate with the European Union's own resources.

I put to her that the Prime Minister of Belgium only, in the last few days, said that he does not want to pursue this path towards a European Union tax because "it is sensitive". It is very much a sensitive matter and totally unnecessary.

Mrs Haug mentions that the amount of money coming in from the nation-states through gross national product is going to rise. I accept that. I sat in the House of Commons in the United Kingdom for 18 years before coming into this Chamber. I always thought it was marvellous that the percentage of gross national product coming into European spending was declining. That downward path has continued during the last two years. I applaud that. It shows good and effective control of spending and nation-states do not mind passing on that money to the European Union. I see no reason whatsoever for the European Union to raise its own direct tax. That is why I have tabled four amendments tomorrow for voting. Two of those will be on a roll-call vote. You can see this evening that there is opposition *from various countries. I hope that people will vote in support of my amendments and oppose the European tax."*

Per Stenmarck (Swedish Moderate Party, PPE-DE group) again opposed the EU tax in his statement:

"Mr President, this debate on the EU's own resources and on EU tax is familiar to us all. It comes around every year. The positions are well known, and in a way it seems quite unnecessary to repeat the debate and decisions year after year.

Apart from the questions of pure principle, one might wonder whether higher and new taxes are what EU Member States and EU citizens really need. We are all highly taxed. Certain Member States have some of the highest taxation levels in the world – I myself come from one such country. If we look at them, it is hardly these countries which have experienced the greatest economic growth in the last decade. Of course the report talks about tax in total not increasing. However, this is a theoretical proposition which has very little to do with practical reality. I also believe it is the case that if a tax is introduced, particularly a new tax level as in this case, taxation will also increase. It is almost inevitable.

I would also like to mention the fact that the rapporteur says he is seeking to strengthen the link between the Union and its citizens'. This is no doubt admirable and important, but in my view it should happen in a completely different manner. I am very doubtful indeed whether people would feel any stronger connection with the EU through having to pay higher taxes than they do already."

Juan Andrés Naranjo Escobar (Spanish Partido Popular, PPE-DE group) stated:

"Mr President, Commissioner, ladies and gentlemen, to jointly debate the system of own resources and the next budget at the point of conciliation reinforces the idea that income and expenditure are two sides of the same coin. There have been calls here for fiscal autonomy and codecision for income and expenditure, but first we must achieve suitable and fair funding of Community policies and we already know that there are differing opinions about the most efficient system for achieving it.

Sooner or later we will have to reach a permanent agreement, but first we will have to debate and clarify the issues selected at the Nice Council. It seems a pointless exercise to talk about a new philosophy for own resources without having cleared up the fundamental unknown factors first. It is not very prudent to begin building a house from the roof. In any event, to use the argument of the issue of net balances – as has been done – does not move in the right direction, but, for many reasons, contributes to undermining the principles of the Union.

The question today is whether the new decision on own resources effectively makes progress towards greater equity and transparency and takes more account of the Member States' tax capacity. It is clear that the gradual reduction of the maximum reference rate for the VAT resource contributes to correcting the regressive aspects of the system in force. The Member States' contributions via the fourth resource or VAT must be proportionate with *their contribution to the Community GDP as a key element of safeguarding the equity of the system. Therefore we must keep up our efforts in this direction.*

The proposal also has some negative aspects, which are far from negligible. The maintenance, albeit with a modification of the calculation system, of the so-called correction of budgetary imbalances in favour of the United Kingdom, confirms that this procedure is totally contrary to the desired transparency and simplicity. …"

EU Commissioner Michaele Schreyer concluded the debate on behalf of the European Commission and this is what she had to say concerning the tax:

"… Now to the present motion for a resolution on own resources. The subject is becoming increasingly topical because of the question of what is the best way to finance the European budget. On the one hand, of course, we have the following situation: a new decision has been taken on own resources with a new structure, and this own resources decision naturally applies until something else is decided, with everything that goes with it, including the British rebate. That is the law as it stands.

So far as the structure of financing is concerned, the Treaty states that the public budget is financed out of own resources. That is what it says in the Treaty. The agreement with Parliament in 1975, for example, also stressed again that they should be genuine own resources. But instead, the de facto trend has been in quite a different direction, and you showed in detail in your report, Mrs Haug, that it has taken a different direction.

Regarding the financing that we currently have, I simply have to say that it is not transparent for the citizen. It is one of the most serious points, that hardly any citizen knows how the EU is financed, and what they do not know is all the more unfathomable and leaves room for every kind of speculation. For my own part, I can only say once more that I very much welcome the fact that the Belgian presidency intends taking up this matter of how the EU budget is financed and, Mr Ferber, I consider it to be a subject forming part of the whole issue of the delimitation of competences between the Member States and the European level. That is where it really belongs.

I think it is of course also quite important that all who welcome a restructuring on the revenue side should now also find a common vocabulary as soon as possible. If we talk about introducing an EU tax, that sounds like inventing some new kind of tax that the European Union will be entitled to levy. That is not what it is about at all. It is about specifying a tax, some or all of which will flow into the European budget, where responsibility for the amount raised will lie at European level, and it naturally also involves the problems of the European Parliament's budgetary powers. From my own point of view, I can only stress what Mrs Haug said, that the real issue is: will the European Parliament continue to have these reduced budgetary powers on the revenue side as it does on the expenditure side?

I believe an opportunity has presented itself, and we should in my opinion go with the momentum when the Council presidency raises the issue on its own initiative, because if it is not adopted as a topic for Laeken at this point in time, I fear the matter will be buried again and we shall not be able to debate it for a long time. …"

The Haug report (A5-0238/2001) on the situation concerning the European Union's own resources in 2001 was up for vote in the EP on Thursday the 5th of July 2001. There was no

RCV at the resolution as a whole but there were three other RCVs of interest. The first was on amendment 3 that proposed to delete point 5 in the report.

Point 5 was written as follows:

"5. Recalls its view that the "EU must move steadily away from dependence on transfers from Member States" and that "in the long term, the own resources system must be modified with a view to achieving financial autonomy"[5]*; believes that the purpose of the reform should be to provide the Union with an autonomous source of revenue which is sufficient for its needs and directly linked to the taxpayers;"*

Eventually, amendment 3 was rejected with 141 votes in favour of deletion of paragraph 5 and 356 votes against deletion.13 members abstained.

The second RCV of interest was on amendment 6 that was to delete point 11 in the report. Point 11 was written as follows:

"11. Supports efforts for a possible introduction of a European tax as a direct revenue which does not lead to additional costs for the taxpayer and could strengthen the link between the Union and its citizens;"

Amendment 6 was also rejected with 156 votes in favour of the deletion and 340 votes against with 10 abstentions.

However, and strangely enough, a vote then followed on essentially the same thing. There was asked a RCV on point 11 itself. And now the result was the opposite. Point 11 was rejected with 195 votes in favour of point 11 and 290 against it with 20 abstentions.

This meant that the EP this time rejected the idea about an EU tax as a direct income (the rejected point 11), but in principle, in the long term, they do want that the Union to reach financial autonomy.

It is interesting to note how the different groups voted at point 11.

- The EU critical EDD group: 13 against, two abstained.
- The Liberal ELDR group: Two in favour, 42 against and three abstentions.
- The Leftist GUE/NGL group: Eight in favour, 23 against and three abstained.
- The independents NI: Ten against.
- The Christian Democrats/Conservative PPE-DE: Thirty in favour, 155 against and four abstentions.
- The Socialist PSE group: 116 in favour, 30 against and two abstentions.
- The technical independent TDI group: Eight in favour, two against and five abstained.
- The Liberal/Conservative UEN group: Twelve against and one abstained.
- The Green/Regionalist Verts/ALE group: 31 in favour and three against.

It can be noted that Jean-Marie Le Pen from the French Front National voted in favour of point 11. Current Danish Prime minister (since autumn 2011), then MEP, Helle Thorning-Schmidt, abstained.

The adopted text from the 5th of July has some interesting parts worth a closer study. Extract from the resolution follow:

[5] EP position on the proposal for a Council decision on the system of the European Union's own resources (COM(1999) 333), 17 November 1999 (A5-0052/1999), Amendment 6.

“European Parliament resolution on the situation concerning the European Union's own resources in 2001 (2001/2019(INI))

The European Parliament,

(...)

B. whereas appropriations for payments of EUR 92.569 billion were entered in the 2001 budget, of which EUR 90.972 billion has to be raised from own resources,

C. whereas own resources are made up of traditional own resources (TOR), the resource accruing from value-added tax (VAT resource) and the GNP, or fourth resource (the application of a rate to the sum of the Member States" GNP), as laid down in Decision 94/728/EC,

D. whereas, in the 2001 budget, the GNP resource accounts for the largest share of total Community own resources (47.54%), with the VAT resource accounting for 36.79% and TOR for 15.67%,

E. whereas customs duties account for by far the largest share of TOR (86.62%), the remainder being derived from agricultural duties and levies, and sugar and isoglucose levies,

F. whereas the own resources share accounted for by TOR has decreased from 29.1% in the 1988 budget to 15.7% in the 2001 budget, the share accounted for by the VAT resource has fallen from 60% to 36.8%, and the GNP resource has become the most important own resource, increasing from 10.9% to 47.5%,

G. whereas an estimated EUR 1.597 billion, or 1.73% of the initial 2001 budget, is covered by revenue paid not by the Member States, but directly into the EU budget, representing 0.019% of the Member States" GNP; whereas more than half of this non-own-resources revenue stems from the surplus available from the 2000 budget (EUR 900 million), the other sources being miscellaneous Community taxes, levies and dues (EUR 562.3 million), revenue accruing from the administrative operation of the institutions (EUR 62.0 million), contributions to Community programmes, repayment of expenditure etc. (EUR 45.6 million), borrowing and lending operations (EUR 22.3 million) and miscellaneous revenue (EUR 5.1 million),

(...)

2. Notes that own resources constitute 98.3% of revenue for the 2001 EU budget, which means that the resources to be collected by the Member States on behalf of the EU and transferred to it are equivalent to 1.06% of their GNP;

3. Notes that payments under the 2001 EU budget have increased to EUR 93.305 billion (including Supplementary and Amending Budgets 1/2001 and 2/2001), compared to EUR 89.441 billion under the 2000 budget; stresses that this represents 1.09% of the Member States´ GNP in 2001 (January 2001), compared to 1.11% in 2000, confirming the trend for a virtually constant reduction in the share of Community GNP accounted for by the EU budget, which has fallen from 1.20% since 1996;

(...)

5. Recalls its view that the "EU must move steadily away from dependence on transfers from Member States" and that "in the long term, the own resources system must be modified with a view to achieving financial autonomy"; believes that the purpose of the reform should be to provide the Union with an autonomous source of revenue which is sufficient for its needs and directly linked to the taxpayers;

6. Takes the view that own resources should be developed in order to be more transparent and visible to citizens;

7. Notes that the GNP resource share has increased steadily and significantly between 1988 and 2001 while TOR and VAT resource shares have decreased over that period;

8. Notes that the effect of the new Decision 2000/597/EC, Euratom will be to heighten this trend further, because of an increase from 10% to 25% in the proportion of TOR to be kept by the Member States, by way of collection costs, and because of the reduction in the maximum call-in rate for the VAT resource, which is currently 1% and has been set at 0.75% for 2002 and 2003 and 0.50% from 2004 onwards;

9. Deplores the fact that the Council has not exploited the opportunity afforded by the adoption of the new Decision to move towards financial autonomy for the European Union and full involvement of Parliament in the budgetary procedure, notably concerning the revenue side;

10. Welcomes the announcement by the Belgian Government that it will propose launching a debate on defining a new budgetary framework over the medium term, during the Belgian Presidency, which could lead to discussions on the desirability of a European tax;

11. Recalls that the new Decision replaces the old European System of Accounts from 1979 (ESA 79) by the new system from 1995 (ESA 95) without changing the amount available under the own resources ceiling; stresses that this will lead to an adjustment to the own resources ceiling percentage, probably reducing it from 1.27% to 1.25%, for which Annexes I and II to the Interinstitutional Agreement of 6 May 1999 (financial perspective and financial framework) will have to be adapted; stresses that this unilateral decision by Council was criticised in Parliament´s position of 17 November 1999;

(...)"

The Swedish Social Democratic MEP Göran Färm defended his position after the vote and said that it is not a question of giving the right to tax to the European Union. He said that what was proposed was that the Member States agree that each one of them independently introduce such a tax. The level of taxation would not increase with this. Färm was of the opinion that the EU fees are already financed to a large part by the Member States' budgets and thereby by the tax payers, so this new system would only create clarity and direct control of the EU budget.[6]

The Scandinavian Social Democrats obviously did not have the same view about EU taxes. Two Danish Social Democrats, Freddy Blak and Torben Lund, delivered a written explanation of their vote:

"We have today voted against all calls to introduce a direct EU tax. We do not think that a tax specific to the EU would be a good idea at all. It is very doubtful whether such an EU tax

[6] Göteborgs-Posten 2001-07-07 "EU-parlamentet sa nej till ny skatt"

would strengthen people's attachment to, and enthusiasm for, EU cooperation. Any EU tax would become part of a complex interplay involving national taxes, and there would be cause to fear that it would become difficult for national governments to supervise the combined tax burden. It is therefore impossible to guarantee that the introduction of an EU tax would not involve further burdens for tax payers. The introduction of an EU tax also looks like a step in the direction of a more federal EU, which is something neither we nor the majority of Europeans support."

Lennart Sacrédeus (Swedish Christian Democrats, PPE-DE group) also stated his opposition towards EU taxation in a written explanation:

"I have voted against the proposal. Sweden's Christian Democrats do not support items 5 and 11, which propose that the European Union should be given its own powers of taxation.

We do not want to increase the number of tax levels in society for our citizens. Swedish tax payers pay tax to the municipality, the county council and the state. Creating another level of taxation, a European one, means an inevitable increase in taxation in the long term. This is a development which we do not want to support.

If the EU receives what the report calls 'financial autonomy', this will also lead to political autonomy from Member States and their governments, with all the dangers and the lack of control which this brings with it. We do not wish to support such a development."

THE COUNCIL OF MINISTERS OF FINANCE SAYS NO TO EU TAX – JULY 2001

When Belgium held the Presidency of the Council in the second part of 2001, it supported the idea of a direct tax to the European Union from the citizens. The president of the European Commission, Romano Prodi, also supported the idea.

The Belgian minister of Finance, Didier Reynders (French speaking Liberal MR), raised the issue at the Council meeting for Ministers of Finance on the 10th of July 2001, which was rejected by a majority of the ministers, who were negative to the idea. New taxes were not seen as a positive thing.

The finance minister of the Netherlands, Gerrit Zalm (Liberal VVD), said that an 80 year long war had broken out when Spanish rulers wanted to tax Holland. The Irish minister Charlie McCreevy (Fianna Fáil) reminded that the American Revolution started in protest against an American stamp duty. Furthermore, the British Chancellor of the Exchequer Gordon Brown (Labour) gave an example when a predecessor was executed in the 14th century for proposing a property tax. The French minister of Finance, Laurent Fabius (Socialist) said: *"I have seen many populous demonstrations outside my office. But yet so far I have not seen any demonstrators that demand an EU tax."*[7]

The issue was postponed. Maybe if the MEPs can arrange demonstrations for the introduction of an EU tax in their respective countries and put pressure on their minister of Finance, they will get better political results.

[7] Svenska Dagbladet Näringsliv 010711 "Euron utgör startskottet" and "Kritik mot skatteförslag" Mats Hallgren

The European Parliament moves once again towards an EU tax – March 2007

In March 29th 2007 the EP voted on the Lamassoure report, which discussed the future of the European Union's own resources (A6-0066/2007). The report was seen as an important step in convincing Member States of the necessity of direct income for the EU.

Point 29 from the report was essential:

"Full respect for the fiscal sovereignty of the Member States

29. Considers that, as stated in the Treaties and in the draft Constitution, fiscal sovereignty will remain with the Member States who might, however, authorise the Union, for a limited period to be revoked at any time, to benefit directly from a certain share of a tax as is the case in most Member States with regional or local authorities;"

The debate that took place on the evening of Wednesday 28th March 2007 showed several different approaches to the issue as several MEPs were very open in their desire for an EU tax while others were more cautious, using words like "at present." The same situation happened during the debate on budgetary expansion.

The following quotes from the debate are worth to highlight:

Catherine Guy-Quint, French Socialist Party (PSE):

"…To conclude, providing the Union with real resources means increasing Europe's resource autonomy so that it is no longer subject to the blocking power of a given Member State. …"

Gérard Onesta, French Les Verts-Europe-Ecologie (the Verts/ALE):

"…It is true that we would have liked to have found the term 'European tax'. I am sure that we are in the majority, in this House, when we say that we must dare to use this term to replace this covert European tax: a pinch of VAT here, a small contribution there. We should have dared to include the term in this report. Moreover, why talk about a transitional period when we know very well what we should be aiming for? By going all out to cajole some people and to reassure others, we are taking all the strength out of this report, when the starting points were excellent.

I should like to make a final point, which is very important for our group: why handicap ourselves before the start of the race by setting the bar at 1.24%? Why this sacred cow before which Parliament, which has always denounced it, is meant to grovel? We know - and we are going to debate this next year, in 2008 - that this bar prevents European policies from being supported with genuine resources. Let us compare what our neighbours are doing: in the United States, they pool 20% of their GNP. …"

Hélène Goudin, Swedish June List (IND/DEM):

"Madam President, the issue of introducing an EU tax has been raised because there are clearly those who believe that the EU has far too little money. There is a desire to solve this state of affairs by allowing the EU to take a tax directly from people's pockets. Paragraph 6 of the report criticises the requirement that all Member States must be agreed where such issues are concerned. It must clearly be made possible to ride rough shod over countries that show reluctance. This is a regrettable position to adopt, especially from a democratic point of view. The June List strongly objects to the EU taking a share of national taxes. The report has been written with a view to taking a further step towards the creation of an EU state with the right of taxation, a common foreign minister, common armed forces and a common currency. This is an awful thought. We have tabled an amendment in which we emphasise the Member States' inviolable right of self-determination within the tax sphere. We believe that all the Member States would need to be in agreement before any form of EU taxation were introduced. This is in line with the views of the people in numerous Member States.

We Members of the European Parliament should follow the wishes of our electorate - that is to say respond to the views of our citizens - and act in accordance with these. I thus hope, ladies and gentlemen, that we shall clearly and unambiguously reject this reprehensible report in tomorrow's vote."

Richard James Ashworth, British Conservative (PPE-DE):

"... in respect of the other traditional own resources, we see no justification for change. We think that a funding system based on a GNI is both logical and fair, and we are happy to support that system. We do not accept, however, that this resource should become a genuine own resource.

Quite the contrary. We see merit in a healthy debate between the Member States as paymasters and the Commission as servant. This sends a very clear message to the public that the EU is not a self-sustaining institution but that it is there to help the Member States achieve their mutual goals. ..."

Jutta Haug, German SPD, (PSE):

"... Mr Lamassoure has proved this once again now in his charming way with his very moderate proposal for a two-stage reform of the own resources system. We support him in almost every respect, including in his desire not to encroach on national fiscal sovereignty at present by calling for a European tax. ..."

Comment: Haug obviously has plans for an EU tax in the future.

Valdis Dombrovskis, Latvian New Era (PPE-DE):

"... Although the predominance of GNI own resources ensures that the Member States' liability to pay corresponds to their relative levels of prosperity, nonetheless it makes the funding of the EU budget considerably more difficult. Instead, in order to focus on the

priority issues that can be resolved in the European Union, the Member States spend most of their time haggling about their contribution levels.

To a large extent, the results of this haggling determine the level of funding of the EU budget, frequently ignoring the undertakings previously made by the Member States themselves. As a result, the EU budget is growing significantly more slowly than the Member States' budgets, and many important priorities for the European Union as a whole are suffering from insufficient funding. In implementing a reform of the EU own-resources system, it is important to ensure a sufficient annual increase in EU budget revenue. This increase ought to be proportional to the growth in the EU economy, and ought to automatically derive from the structure of the own resources system, instead of being the result of haggling between the Member States. …"

Göran Färm, Swedish Social Democrats, (PSE):

"…We do not, however, wish to give the EU the right of taxation or now to compromise the sovereignty of the Member States on tax matters. For me, what specifically characterises the EU is its being able to combine fundamental national sovereignty with the ability to be able in certain areas to combine forces in order to solve cross-border social problems.

To create a genuine EU tax would be to anticipate events. If we are ever to go down that route, conviction as to the advantage of doing so must come from below, that is to say from the citizens and the Member States. We are not at present in that position. …"

Comment: Färm obviously had nothing against the introduction of an EU tax, although he said he will wait for the citizens to demand it. However, later on, in autumn of 2010, he argued publicly in favour of a direct income for the EU.

Additional quotes of interest can be found in the explanations given on Thursday 29th March 2007, the day after the vote:

Françoise Castex, French Socialist Party, (PSE), in writing:

"… The effect of the present system is to make the EU's Budget too dependent on what the nation states want, and I endorse the rapporteur's analysis according to which this system has, over the course of time, become too complex and, above all, unsuited to meeting the new challenges facing the EU, thus making necessary a return to a proper system for own resources as provided for in the EU's founding treaties. …"

Proinsias De Rossa, Irish Labour Party, (PSE), in writing:

"I supported the Lamassoure Report on the future of European Union Own Resources because I believe it is a good contribution to the urgently needed wider debate on EU spending. A budget of 1% of GDP is simply insufficient to meet Europe's political challenges, including the promotion of a strong social and research dimension. A minimum of 3% is required. These issues should be central to the revived efforts to reform the Treaties."

Olle Schmidt, Swedish Peoples` Party the Liberals (ALDE), in writing:

"I abstained from voting on Mr Lamassoure's report on the future of the European Union's own resources. I agree that the EU's system of income and expenditure needs to be reformed and made more transparent, but this report goes too far. I maintain that the EU should be funded through membership fees and I do not wish to see any trend towards an EU tax."

Andrzej Jan Szejna, Polish Democratic Left Alliance - Labour Union (PSE), in writing:

"... The aim of reforming the Community income should be to create real own resources for the European Union. These resources should be based on existing taxes levied in the Member States, which would contribute to the Union's budget. In my view we should also consider the possibility of introducing a real European Union tax."

In the end, point 29 was approved with 509 votes in favour, 114 against, and 15 abstentions. The report as a whole was approved with 458 in favour, 117 against, and 61 abstentions.

This pivotal point was strongly supported by Christian Democrats (PPE-DE), Socialists (PSE), Liberals (ALDE) and Greens/Regionalists (Verts/ALE).

Two-thirds of the liberal conservative UEN Group (dissolved June 2009) voted against Point 29, while the Left (GUE/NGL), the EU-critical IND/DEM (dissolved July 2009, now mainly in EFD) and the populist xenophobic ITS (dissolved December 2007) voted almost entirely against. Among Member State's delegations, a majority of Swedes voted against Point 29, as did a majority of Cypriots. Proportionally, many Irish and Polish delegates voted against, while a significant number of no votes also came from the Czechs, the British, the French and the Italians.

The Lisbon Treaty strengthens the European Parliaments' demand for an EU tax – May 2009

On 7th May 2009 the drafted Lisbon treaty was up for debate in the EP, and with it, the "own resources" of the European Union's incomes. Part of the debate included a report on the financial aspects of the Lisbon Treaty (A6-0183/2009) by rapporteur Catherine Guy-Quint, French socialist (PSE). The report was an own initiative: presenting only a political position and not an issue for legislation.

Point 2 of the report stated:

"Criticises the fact that, as regards the Union's own resources, the Member States have failed to take the opportunity to establish a system of genuine own resources which is fairer, more transparent, more readily understandable to the public and subject to a more democratic decision-making procedure;"

The principle of an EU tax is one of the fundamental points of this report, which was approved with RCV with 442 votes in favour, 86 against, and 15 abstentions. It is also interesting to underline that 193 members were absent from the vote.

Votes analysed by EP Political Group:

- Christian Democratic Group (PPE-DE): enormously in favour, with the exception of the British Conservatives and Czech ODS parties (who left the PPE-DE after the 2009 elections)
- Socialist Group (PSE): enormously in favour.
- Liberal ALDE Group: enormously in favour.
- Green/Regionalist Group (Verts/ALE): majority in favour.
- UEN Group: divided equally in favour and against (UEN dissolved after the 2009 elections).
- Non-inscrits (NI): majority against.
- Leftist GUE/NGL Group: enormously against.
- EU critical IND/DEM Group: enormously against (IND/DEM was dissolved after the 2009 elections).

By country, resistance to the EU tax came from many MEPs in the United Kingdom, Poland, the Czech Republic, Sweden, and the Netherlands.

The vast majority of MEPs have a federalist view of EU development. In their view, obtaining independent incomes for the European Union is a decisive step towards creating the United States of Europe.

Some MEPs voted in favour of the report (and, therefore, in favour of an EU tax) but attempted to excuse themselves. The five Swedish Moderates in PPE-DE wrote the following explanation of vote in May 2009:

“*We have voted in favour of the report on the financial aspects of the Treaty of Lisbon, which deals with the form the budget procedure will take if the Treaty of Lisbon enters into force.*

We do not support the parts of the report that deal with the EU having its own resources through power of taxation. We also oppose the establishment of flexibility mechanisms”.

Unfortunately, these Swedish Moderates did not dare to go against the Guy-Quint report, even though it included the demand for an EU tax.

Two other MEPs, Martin Callanan (British Conservative) and Nils Lundgren (Swedish EU-critical June List), sent in written explanations of votes that went against the Guy-Quint report as a whole.

And once again, the members of the EP approve a text calling for the establishment of a system of genuine own resources~~,~~ and do not bring up the issue into the following elections. Once again, the federalist majority of the EP demonstrated that they are not able to debate their federal ambitions for the EU with the citizens.

The European Parliament insists on an EU tax in connection with the 2011 budget - October 2010

On Wednesday 20th October 2010 the Parliament's position on the 2011 draft budget as modified by the Council was also approved (the Jedrzejewska/Trupel report - A7-0284/2010).

An amendment tabled by S&D (number 18) was approved by a show of hands, with a huge majority of PPE-DE, S&D and ALDE in favour. This amendment, ~~(~~which became point 7 in the adopted text states:

"Reminds both the Council and the Commission, moreover, of its resolution of 29 March 2007 on the future of the European Union's own resources in which Parliament underlined that the current system of EU own resources - where 70% of the Union's revenue comes directly from national budgets - results in the contribution to the European Union being perceived as an additional burden on national budgets; is deeply convinced that all EU institutions should agree on a clear and binding timetable in order to agree on a new system of own resources before the entry into force of the next post-2013 MFF; expresses its willingness to explore all possible avenues in that respect;"

Part of the amendment, however, was singled out for a separate vote. It read*: "including a financial transaction tax"*. This text was voted down in an electronic vote: 304 for, 361 against, and 13 abstentions. Individual votes were not registered, but it is likely that the PPE-DE and ALDE went against this proposal from the S&D.

Several interesting explanations of votes were recorded:

Four Swedish Social Democrats wrote that they had voted in favour of an inquiry about the system of own resources, including a financial transaction tax. They also wrote that such a tax must be budget neutral and respect the Member States' competence with respect to taxation.

In connection with the 2011 EU budget vote, MEP Raül Romeva i Rueda**,** (Spanish Initiative for Catalonia Greens, Verts/ALE) wrote honestly:

"This year's budget debate again underlines the need to agree a meaningful system of own resources for the EU. The annual squabbling over the budgets between the European institutions leads to chaotic decision-making and creates an acrimonious diversion, which could be so easily avoided through an own resources system, such as allocating part of the revenue from an EU financial transaction tax, a tax on aviation fuel or a carbon tax to fund the EU budget. Despite this, today's vote broadly strikes a balance between responding to the extra demands created by the Lisbon Treaty, whilst limiting the growth in the EU budgets, in response to current budgetary difficulties".

The "squabbling" Romeva i Rueda refers to is merely the reluctance of Member States to fund the MEPs' yearly wish list of expenses.

The ALDE Group position paper presented in January 2011

In January 2011, the ALDE Group presented its position paper on the 2013 budget. The group stated that, in its view, the EU budget must increase in the long run in order to live up to commitments made in the Treaty of Lisbon.

As committed European Federalists, members of the ALDE are opposed to present the role of Member States in the EU budget expenses in terms of net contributors and net beneficiaries. This analysis allows Member States to determine whether they are net receivers or net contributors, something that goes against the ALDE vision of the EU as a single entity. The classic example of budgetary tensions in the EU is the Common Agriculture Policy which draws complaints from Member States who are not “getting their money's worth”.

ALDE wants to increase own resources in the EU budget and welcomes the Commission's initiative to investigate possibilities for new own resources (the EU tax). ALDE believes that own resources should replace national contributions to the EU budget in the long run. This would make the European Union totally independent of the Member States, making it difficult for citizens (or Member States) to correct EU policies that are functioning poorly. Expense scandals in the EP and the Committee of Regions highlight the inability of EU institutions to monitor themselves. Without oversight by national governments, special interest groups (like the agricultural and fishery lobbies) will increase their foothold within the EP, ensuring that EU funds will be misused to an even greater degree.

EUROPEAN PARLIAMENT REGARDING INNOVATIVE FINANCING AT THE EUROPEAN AND GLOBAL LEVELS – TOBIN TAX CAN BE ONE WAY IN GETTING AN EU TAX – MARCH 2011

On Tuesday 8th March 2011 the EP voted on the Podimata report (A7-0036/2011) regarding innovative financing at the European and global levels. The report was an EP's own initiative: a purely political statement aimed at impacting the public debate.

Point 29 of the report clearly shows that the EP is desperate to expand the EU budget to finance inefficient projects like the Common Agriculture Policy and create other lavish wastes of citizens' funds:

"… notes the Commission's aim to increase the volume of the EU budget through the use of innovative financial instruments; is convinced that in order to safeguard the European added value of the aforementioned innovative financing tools a part of those revenues could be allocated to finance EU projects and policies; recalls that the Commission's recent Communication on a review of the EU budget regards EU taxation of the financial sector as a possible source of own resources; calls for a broad debate involving the EU institutions, national parliaments, EU stakeholders and civil society representatives on the choices available regarding those policies, the shares of revenue to be allocated at EU and national level and the various ways of achieving this; …"

A Tobin tax[8] has got some support in most progressive movements. It might be one of the few ideas of taxation that can muster some support among people in the European Union. It is odd, though, that so many center-right governments in the Union support this tax, because it is not really consistent with their "business friendly" profile.

Most important of all, those who support a Tobin tax must ask themselves if they really want to support a direct tax for the EU treasury.

The Podimata report was approved with 529 votes in favour, 127 votes against, and 18 abstentions. The no votes came primarily from the conservative ECR Group, the EU critics in the EFD Group, the Left in GUE/NGL, around 20 ALDE Group members, and the independents.

After this resolution in March, 2011, the EP occasionally returns to the need of an EU tax in their resolutions. Previously, the need for a European Constitution and later the need for the Lisbon Treaty to be approved were returning themes in the political statements from the EP.

[8] A Tobin tax, suggested in 1972 by the Nobel prize winner economist James Tobin, was originally defined as a tax on all spot conversions of one currency into another. The tax is intended to put a penalty on short-term financial round-trip excursions into another currency.

THE EUROPEAN COMMISSION TABLES ITS PROPOSAL FOR AN EU TAX – JUNE 2011

The European Commission explored the idea of taxing the financial sector at the EU level for several months. On 29th June 2011, the Commission announced, in the context of the multiannual financial framework, that it would propose to set up a financial transaction tax as an own resource for the EU budget. The Commission tabled its proposal (COM (2011)510) for a Council decision on the system of own resources of the European Union. The Commission also stated that it had explored ways to introduce a financial transaction tax at global level since 2009 with its international partners in the G20 (Pittsburgh, Toronto) and that it will they will continue to do so.

The five following extracts from the Commission's proposal are worth noting:

1. Extract from the introduction

"The report on the operation of the own resources system[9] demonstrates that the current financing system performs poorly with regard to most assessment criteria. The financing system is opaque and so complex that only a handful of specialists fully understand how it works. This limits democratic oversight of the system. Moreover, many Member States perceive the system to be unfair. Large contributors to the budget consider that their net contributions are too high, whereas a number of Member States benefitting from redistributive policies, such as cohesion, face increased contributions to the EU budget to finance correction mechanisms.

More importantly perhaps, the way the EU budget is financed – with contributions from Member States to the EU being seen solely as expenditures by many national politicians – inevitably creates a tension which poisons every debate about the EU Budget. The progressive development of correction mechanisms is just one symptom of this problem. The pressure to pre-determine national allocations is another. The increasing focus on a narrow accounting approach with the main objective of maximising returns not only colours public debates about the value of EU spending. It also leads some people to question the benefits of EU membership itself."

2. The Commission's arguments for the proposal

"2. THREE PROPOSALS – ONE DECISION

The proposed own resources Decision includes three main elements: the simplification of Member States' contributions, the introduction of new own resources and the reform of correction mechanisms. The Commission report on the operation of the own resources system highlights how each of these proposals relates to- and complement the others. Taken together these proposals constitute a balanced package which must be looked at as a whole in the context of a single decision.

[9] Commission Staff Working Paper "Financing the EU budget: Report on the operation of the own resources system", SEC(2011) 876 final of 29.06.2011

2.1. Simplifying Member States' contributions

The Commission proposes that the VAT-based own resource be eliminated in parallel with the introduction of new own resources. This is in line with the views expressed by most Member States and the EU institutions in the consultations linked to the Budget Review.

The existing VAT-based own resource is complex, requires much administrative work to arrive at a harmonized base, and offers little or no added value compared to the GNI-based own resource. Its removal will considerably simplify the national contributions and reduce the administrative burden for both the Commission and Member States.

Considering the administrative complexities related to this own resource and the low call rates currently in place, phasing it out step-by-step would be less efficient than a fully-fledged elimination on a given date. It is therefore proposed to abolish this resource on 31 December 2013. Should the Decision enter into force at a later date, this provision will be enacted on retroactive basis, following a common practice in past revisions of the own resources decisions. Using 31 December as an end point will avoid calculating the resource for a fraction of a given year.

Following the ending of the VAT-based own resource, further activity will be required: managing the annual VAT statements for the year preceding the ending of the resource, undertaking the annual VAT balance exercise, making controls to give assurance on the accuracy of the calculations, completing the supervision cycle, managing outstanding reservations, infringements, corrections and accounting reconciliations. Final extinction of all VAT-based own resource related activities will take several years.

2.2. Introducing new own resources

The Commission identified six potential candidates as own resources in the EU Budget Review. These were subject to a thorough analysis, particularly featuring the assessment criteria set out in the Budget Review.

This analysis highlighted the following key elements:

(1) Financial transaction taxation (FTT) could constitute a new revenue stream, which could reduce the existing Member State contributions, give national governments extra room for manoeuvre and contribute to the general budgetary consolidation effort. Although some form of financial transaction taxation already exists in a limited number of Member States, the analysis also made it clear that action at EU level could prove both more effective and efficient than uncoordinated action by Member States given the level of cross-border activity and high mobility of the tax bases. Furthermore, it could play a role in reducing the existing fragmentation of the Internal market. The Commission will therefore present a proposal for an EU financial transaction tax in the autumn of 2011. A financial transaction tax that could be collected at EU level would reduce the juste retour problems observed in the current system. The EU initiative will constitute a first step towards the application of a FTT at global level.

(2) The development of a new VAT resource would bring a new impetus to the development of the Internal market by reinforcing harmonization of national VAT systems. The new VAT resource would be one facet of a markedly revised VAT system in the EU in the wake of the Green Paper on the future of VAT. The new initiative will include the elimination of a

number of exemptions or exceptions which are detrimental to the proper functioning of the Internal market and the measures to reduce VAT fraud in the EU.

(3) The analysis showed that these own resources could be introduced at EU level during the 2014-2020 period following a suitable period of technical preparation.

Combining these own resources would bring additional advantages compared to introducing only one new own resource. It would ensure a fair distribution of impact across the various Member States and the critical mass necessary to substantially reduce the existing Member States contributions to the EU budget.

On the basis of its analysis, the Commission proposes the introduction of a financial transaction tax own resource from 1 January 2018 at the latest and a new VAT resource from 1 January 2018 at the latest. The timing of introduction of these new own resources reflects the time needed for completing the legal framework, and adopting and implementing the relevant legislation. The Commission will present the relevant detailed regulations or amendments to existing legal acts as well as the related implementing regulations pursuant to Article 322(2) TFEU by the end of 2011."

3. <u>At page 5 in the proposal there is an interesting table as follows:</u>

Estimated evolution of the structure of EU financing (2012-2020)

	Draft budget 2012		**2020**	
	EUR billion	% of own resources	EUR billion	% of own resources
Traditional own resources	19,3	14,7	30,7	18,9
Existing national contributions of which	111,8	85,3	65,6	40,3
VAT-based own resource	14,5	11,1	-	-
GNI-based own resource	97,3	74,2	65,6	40,3
New own resources of which	-	-	66,3	40,8
New VAT resource	-	-	29,4	18,1
EU financial transaction tax	-	-	37,0	22,7
Total own resources	131,1	100	162,7	100

4. Extract about the United Kingdom's rebate

The Commission proposal also deals with the correction mechanism and the need to reform this. It is a little bit off topic for this report, but the following will surely be highly interesting for many readers:

"The 1984 Fontainebleau European Council set out important guiding principles to ensure fairness in the EU budget. It indicated in particular that 'expenditure policy is ultimately the essential means of resolving the question of budgetary imbalances'. It acknowledged, nevertheless, 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'.

"These principles have been confirmed and consistently applied in successive own resources decisions. Today, temporary mechanisms of correction are granted to four Member States but they will end in 2013. The correction granted to the United Kingdom (UK) and rebates on its financing for four Member States (Germany, the Netherlands, Austria and Sweden), as well as the hidden correction consisting in the retention, by way of collection costs, of 25% of the amounts collected by the Member States for traditional own resources, will continue to apply until a new own resources Decision enters into force. In the context of this in-depth revision of the EU financing, a fresh look at these correction mechanisms is necessary."

5. The Commission proposal on this matter:

"This Decision therefore proposes the inclusion of temporary corrections in favour of Germany the Netherlands, Sweden and the United Kingdom from 2014. These corrections must reflect, inter alia, the important developments in the financing of the EU set out in this Decision, the evolution of expenditure proposed in the financial framework including the completion of the phasing-in of expenditure in those Member States which acceded to the EU in 2004 and 2007, and the high level of prosperity achieved by the above-mentioned Member States."

Article 2 (Categories of own resources) of the proposal for decision:

"1. Revenue from the following shall constitute own resources entered in the budget of the Union:

(a) traditional own resources consisting of levies, premiums, additional or compensatory amounts, additional amounts or factors, Common Customs Tariff duties and other duties established or to be established by the institutions of the Union in respect of trade with non-member countries, customs duties on products under the expired Treaty establishing the European Coal and Steel Community as well as contributions and other duties provided for within the framework of the common organisation of the markets in sugar;

(b) a financial transaction tax in accordance with [legislative act] (EU) No […/…], with the applicable tax rates not exceeding …%.

(c) a share of the Value Added Tax (VAT) on supplies of goods and services, intra-

Community acquisitions of goods and importation of goods subject to a standard rate of VAT in every Member State pursuant to Council Directive 2006/112/EC18, with the rate *applicable in accordance with Regulation (EU) No .../... not exceeding two percentage points of the standard rate.*

(d) the application of a uniform rate, to be determined pursuant to the budgetary procedure in the light of the total of all other revenue, to the sum of Gross National Income (GNI) of all the Member States."

As for the new VAT resource in point 1c, an email question to the Commission about the practicalities of it was answered with the promise of additional details in the future. This reaction from the Commission shows that it will be a long process to prepare a proposal in full.

In the Commission table above, it can be noted that the total own resources are estimated to increase from 131.1 billion euro in the draft budget 2012 to 162.7 billion euro in 2020. That is a 24.1% increase, but by year that would be an increase of a little bit less than 3% annually. That is not too bad, taking into consideration the austerity program that nearly all Member States budgets are currently going through.

Comments about the Commission's proposal for an EU financial transaction tax (FTT)

While some are limiting the debate on whether this tax should be global EU-only, I consider the real key-issue of this debate to be on where and how the income from such a tax will be used.

The EU's long record of misuse of funds and waste of taxpayers' money are strong enough evidences to support the claim that the EU cannot be trust any kind of self-controlling direct taxation on citizens.

Introducing a new tax to be used for an EU budget known for waste in areas such as the Common Agricultural Policy, the Common Fishery Policy, the European External Action Service, unnecessary EU institutions like the Committee of the Regions and European Economic and Social Committee should be taken as an utterly offense by any informed citizen. Not to mention the outrageous and never-ending economic black-hole in the EU budget that represents the EP's continuous travelling circus between Brussels and Strasbourg.

Cutbacks are necessary and urgent in the EU budget. Every wasted euro in the EU budget is a theft from the taxpayers

Furthermore, The European Commission and the EP are always eager to expand their competences and hence spend more money. Fortunately, Member States are holding them back. But for how long? With an access to their own tax resource the Commission and the EP will be their own masters. Who can ensure that they will not increase the taxes year by year and get away with it?

Will the FTT be tax neutral? It is highly probable that the increased costs for the finance institutions will in the end be paid by the citizens in the form of higher bank fees.

The Telegraph reported the 8th of November 2011 that during talks in Brussels the British Chancellor of the Exchequer, George Osborne, rebuked the European Commission and Member States who support the introduction of an EU-wide FTT; *"What I find difficult to accept is that we are going to spend a huge amount of time discussing [the FTT] in the middle of a crisis in the European economy…when it is already clear, both from the euro and non-eurozone, that there is not anything like unanimity for it."* He also argued that the burden of the tax would fall not on banks but on pensioners, and that according to the Commission's own research, an EU-wide FTT could reduce the EU's GDP by up to 3.5%, and lead to the loss of half a million jobs around Europe.

However, at the same time German Finance Minister Wolfgang Schäuble said, *"We will wait 20 years before doing anything if we wait for the last island on this planet…We may have to do it in the eurozone rather than the EU."*

The arguments in favour of an EU FTT must also be described. The Commission uses the rate of 0.1% for bonds and shares and 0.01% for derivatives in their calculations. It is argued from their side that this is such a minor percentage that it will not lead to finance institutions moving out from the Union.

The federalist MEPs now act as ambassadors for the EU institutions and try to convince their sceptic national political parties, their governments, their national and regional MPs and so on. Unfortunately, it seldomly works the other way around that MEPs listen to their constituents and scrap an idea from the EP that does not have any supporters.

Two faithful foot soldiers for the EP federalists, MEPs Göran Färm and Olle Ludvigsson (Swedish Social Democrats, S&D), have written in the Swedish press and in the Financial Times that the finance sector is largely exempted from VAT and its business conditions are disproportionately favourable from a taxation point of view in relation to other sectors. They also argue that the total proposal will mute the GDP growth around 0.5 percent and that the revenues could be very valuable if used in a clearly specified manner by facilitating important interventions in crucial policy areas.

It is interesting to notice that the Swedish MEPs do not mention in their article what the FTT incomes will be used for in the EU budget. They are too well aware that the Common Agricultural Policy is not popular among people in Sweden. They say though that the membership fees to EU will be reduced with equal amount to what the FTT will give in incomes to the EU institutions. A statement that cannot be proved.

In the same article, Färm and Ludvigsson state that, when offered for the first time at the market, the primary market operations with shares and will be exempted from the FTT. This means that the taxation of obligations will depend on where the involved finance actors are located and not where the transaction is done. This move would stop EU-based finance institutions from avoiding the taxation by doing trade outside the EU area. However, nothing is indicating that EU-based finance institutions will be prohibited to move this sort of activity to companies registered outside the EU in order to avoid the tax. Without such a ban, this last mentioned argument can be eliminated.

Comments about the Commission proposal for a new VAT resource

There exists already a VAT-based contribution from Member States to the EU budget, but the Commission proposes to replace this system by a single EU VAT rate. It will still be the national tax authorities that will raise the money; the Commission will not raise the tax directly. The money will then be transferred to the EU budget.

The positive thing is that the complex formula currently required to generate a theoretical EU VAT tax base would be replaced by a genuine EU-wide tax base. But of course this will facilitate raising the VAT in the future in order to increase the incomes to the EU budget.

There must be better ways to simplify the VAT-based contribution. The proposed net VAT resource is constructed in a way that benefits the EU institutions' possibility to milk it in the future.

The new EU VAT rate would apply to all goods subject to national standard rates but exclude goods and services subject to zero or reduced rates (different Member States currently apply zero or reduced rates to various individual products and services due to VAT's regressive nature). By applying a 1% rate to this "narrow base", the Commission expects to raise €20.9bn a year, but if the base were expanded through greater harmonisation of Member States' rates (and fewer reduced rates), this would increase, with an estimate of €50.4bn under "full harmonisation".[10]

With reference to the Commission's 2010 Green Paper on overhauling the existing VAT legislation, the Commission wants to harmonise and get a greater standardisation of rates and fewer reduced rates all over the European Union and its Member States.[11] This will limit the independence of the Member States to decide on their own policy for VAT. For example, some countries have lower VAT at books or goods that families with children are supposed to be in strong need of.

[10] Open Europe: "Ten ways to introduce an EU tax (and why none of them will work)" August 2011
[11] *European Commission*, 'Commission staff working document accompanying Green Paper on the future of VAT', December 2010, pages 64–65

France and Germany proposes an EU tax – August 2011

As the euro crisis got more serious, a series of meetings between top politicians have been arranged one after the other during 2011.

German Chancellor Angela Merkel and French president Nicolas Sarkozy met on 16th August in an attempt to restore trust in the euro and the economies of the 17 euro countries.

Merkel and Sarkozy were under pressure to convince markets that the euro zone was sound. They proposed a package of several measures for "a real economic government" for the euro zone. For example, euro zone national governments should enshrine deficit-limiting rules into their constitution respectively, and this would be obligatory, not optional.

But, also a FTT should be introduced, proposed Merkel and Sarkozy. Surprising in perspective that Merkel at a press conference in Brussels on 2nd November 2010 said that she was against the introduction of an EU tax.

But the French-German proposal was "fluffy" and there were several question marks that remained unanswered, such as;

- Should it only be introduced in the 17 euro countries?
  Germanys finance minister Schäuble said that this could be the case, but the Dutch government said no to that.

- Were the incomes going to the 17 euro zone countries that are in need of strengthening their national budgets?

- If all 27 EU Member States are in on it, should the tax incomes be distributed to all the national budgets?

Or is it still the main idea that this FTT in German-French edition should go to the EU budget?

Well, all this was probably open for discussions with the EU president van Rompuy and the President of the Commission Barroso. A set of more concrete explanations were to be presented later in September.

THE SITUATION AT PRESENT

We will not go deeper into the different ways to introduce an EU tax. For further studies, I recommend Open Europe's booklet from August 2011 "Ten ways to introduce an EU tax (and why none of them will work)."[12]

The Commission persists

Wednesday the 28th of September 2011 in Strasbourg the EP debated the "State of the Union." The president of the Commission, José Manuel Barroso, delivered a speech in which the peak was the FTT:

" … The Commission will deliver the remaining proposals by the end of this year, namely rules on credit rating agencies, bank resolution and personal responsibility of financial operatives. So we will *be the first constituency in the G20 to have delivered on our commitment to global efforts for financial regulation.*

In the last three years, Member States – I should say taxpayers – have granted aid and provided guarantees of EUR 4.6 trillion to the financial sector. It is time for the financial sector to make a contribution back to society.

(Applause)

That is why I am very proud to say that today the Commission adopted a proposal for the Financial Transaction Tax. (Applause)

Today I am putting before you a very important text that if implemented may generate revenue of about EUR 55 billion per year. Some people will ask 'Why?'. Why? It is a question of fairness. If our farmers, if our workers, if all the sectors of the economy, from industry to agriculture to services, pay a contribution to society, the banking sector should also give a contribution to society. …"

It is interesting to notice that in the Commission's proposal in June 2011 they calculated an income of 37 billion euros of the FTT, but in September Barroso increased that income to 55 billion euros. Which one is the correct figure?

In the press release from the Commission they stated as follows:

"The financial sector was a major cause of the crisis and received substantial government support over the past few years. To ensure that the sector makes a fair contribution to public finances and for the benefit of citizens, enterprises and Member States, the European Commission on 28 September put forward a proposal for a financial transaction tax (FTT).

Through the FTT, the financial sector will properly participate in the cost of re-building Europe's economies and bolstering public finances. The proposed tax will generate significant revenues and help to ensure greater stability of financial markets, without posing undue risk to EU competitiveness."

[12] http://www.openeurope.org.uk/research/teneutax.pdf

The new elected Danish government says no to an FTT only for the EU

A new elected Danish government consisting of the Social Democrats, the social liberal Radikale Venstre and the leftist Socialistisk Folkeparti stated in the end of October 2011 that they will only support an FTT if it is global. They do not support an FTT if it is only for the European Union or for a part of it.[13]

The Swedish Parliaments' European Committee says no to FTT

The European Committee in the Swedish Parliament discussed the proposal of an FTT on Friday 30th September 2011. The four conservative and liberal parties in government said no to an FTT and had support from the xenophobic Sweden Democrats. The Social Democrats, the Left Party and the Greens were positive to an FTT but they did not accept that it will give incomes directly to the EU cash box. The opposition was not in favour of giving the European Union the right to tax.

Regarding the possibility for Member States to veto the FTT

During a private breakfast at the British Conservative Party's conference in Manchester in the end of October 2011, Dr. Kay Swinburne, MEP and spokesman for Europe's economic and monetary affairs committee, told a group of regulators that Britain was wrong to "relax" and rely on its veto to block the controversial tax.

MEP Swinburne said that a group led by the EU tax commissioner Algirdas Semeta, had "already started to work" on presenting FTT as a valued added tax (VAT) – which could be imposed without being ratified by a vote and therefore strip Britain of its right to veto.

Under EU rules, new taxes have to be agreed unanimously by all members but VAT can become law with a simple majority.

Of course, it still remains to be seen if this will be the way the Commission will choose to go to bypass the opposition of those MS that have already stated their intention to veto the EU tax.

The G20 meeting in Cannes – November 2011

The leaders of the G20 met in Cannes, France, on 3rd – 4th November 2011.

A global FTT was discussed and, even if stated in very diplomatic terms in the Communique from the meeting: *"... We acknowledge the initiatives in some of our countries to tax the financial sector for various purposes, including a financial transaction tax, inter alia to support development,"*[14] the message of the G20 to the EU could not be clearer, if the European Union would like to introduce an FTT it will have to do it alone.

[13] Sources: http://www.notat.dk/regeringspartier-i-storslalom-om-eu-skat-p-transaktioner/ and http://www.afrika.dk/regeringen-spænder-ben-international-robin-hood-skat

[14] Source: http://www.g20.utoronto.ca/2011/2011-cannes-communique-111104-en.html

A Danish study – FTT will cost a considerable sum for each Dane

CEPOS, the Danish Centre for Political Studies, is an independent research institution which works as a classical liberal/free-market conservative think-tank in Denmark.

In December 2011, CEPOS presented a study that concluded that the FTT will cost each Dane 1525 Danish Crowns-in extra tax burden and 1740 Danish Crowns in lost social security. (1 euro is around 7.5 Danish Crowns.)

CEPOS' study argues that the burden of the tax will not be carried by the financial institutions but by their customers, especially those that save up for their pension. And the loss of social security will affect everyone in the society. The tax on the financial sector will ultimately be paid by the customers and, therefore, hurt both activities and citizens since the FTT will bring about a shrinking interest in investing and producing that will lead to lost social security.

Those activities and citizens that will borrow money for investments or save up to their pension will be the losers if an EU-based FTT is implemented. The FTT will result in fewer investments which at the end of the day will result in lower wages for the employees. The very same employees that can also expect to receive a lower finance yield from his or her pension savings when the pension funds must pay a tax on their investments. The result of the FTT will therefore, according to CEPOS, result in an increased tax.

Moreover, CEPOS' report highlights that the proposal of FTT costs 1.14 Danish Crown in lost economic social security for each Danish Crown that is taken in by the tax.

In conclusion, according to CEPOS an FTT at financial transactions is bad and will only reduce willingness to invest and lower the productivity, the growth and the social security in Denmark. They also do not think that the FTT can put up obstacles against finance crisis. The latest finance crisis had for example nothing to do with financial speculations and would have occurred even if an FTT had already been in place.

French president tries to set an example for an introduction of the FTT

In the beginning of January 2012, strong signals in support of a FTT arrived from France as president Sarkozy stated that *"a decision on the taxation of financial transactions in France will be taken before the end of January"* to *"set the example"* in Europe. But Germany's position remained unchanged. Their aim was to introduce a financial transactions tax in the EU.

During his visit to Paris in the beginning of January, the Italian Prime Minister Mario Monti insisted that Italy is now open to the idea of an EU-wide financial transactions tax, but warned that *"it is necessary that individual European countries do not go it alone"*.

British Prime Minister David Cameron stated on 8th January that he would veto a European-wide FTT unless it was adopted globally. The same day, the European Commission announced that it may push for a tax among a smaller group of members if agreement by all 27 were to be proved impossible. This would happen via a so called "enhanced co-operation" procedure, which requires a minimum of nine countries to agree.

The day after, Monday 9th, Angela Merkel declared at a press conference that she supported the FTT tax and wanted that a proposal should be tabled at the EU Summit in March. But she faced opposition within her own government. Senior politicians from Angela Merkel's coalition partner, the Liberal party FDP, criticised the possibility of a eurozone-only FTT. FDP leader and vice-Chancellor Philip Rösler said: *"I remain convinced that such a tax must apply to all EU countries, not only for the euro countries"*, while the FDP party's general secretary, Patrik Döring, warned that it would "*distort competition*".

In the middle of January the new elected Spanish Prime Minister Mariano Rajoy (from the Conservative Partido Popular) announced that he backed French President Nicolas Sarkozy's proposal to introduce a tax on financial transactions.

<u>Yet a report that warns for increased costs with FTT – January 2012</u>

In the middle of January yet an analysis was released, this time by the Global Financial Markets Association (GFMA), showing that an EU-wide financial transaction tax would make foreign exchange trades between seven and 18 times more costly. It must however be pointed out that this is a leading financial services sector group and that they have their own special interests to defend.

The report warned that extra costs will be passed on to "end-users" such as pension funds, insurers and corporates, thereby damaging the real economy. As well as undermining the EU's single market, the FTT would be likely to reduce EU taxpayers' savings and pensioners' incomes, lead to a reduction in the level of investment in the real economy, send asset prices lower, widen spreads, hinder efficient price discovery and increase market volatility.

<u>EU Member States that do not accept the FTT will nevertheless be affected, says the European Commission – January 2012</u>

The European Commission put in a higher gear in its fight for an FTT. On 23rd January, Emer Traynor, spokesperson for EU Tax Commissioner Algirdas Semeta, said at a press briefing that Swedish and British banks will be partly taxed by an FTT even if Sweden and the United Kingdom choose not to take part in it. Traynor explained that, if the transaction tax went ahead, operations handled by banks from EU Member States that have not introduced the FTT would be covered as long as the buyer or seller in the transaction has links to the eurozone.

Traynor also said that opting out of the scheme would be the worst case scenario for Britain, as its financial sector would be hit by the tax – at least partially – but authorities in London would get none of the revenue; *"It would be in (Britains) interest to be in because its banks would have to give up (their) European client base to avoid the tax."* And he added: *"Our figures show that there would be a very small impact of the financial-transactions tax on growth and the economy"*.

Regarding the legality of all of this, the United Kingdom has stated that this judicial construction might be illegal, but the legal experts of the Commission persists that it is ~~a~~ indeed legal.

At about the same time the EU Tax Commissioner Algirdas Semeta told the Financial Times that "*The UK would lose a lot if other [EU] members decide to move ahead with a financial transactions tax. Because of its design, [Britain] will be subject to the tax, but at the same time, it will not receive any money from it.*" Financial Times notes that the FTT could use the "residence principle", and therefore cover any trade made by a firm which is based in the tax area, even if the trade takes place in London or other financial centres outside of the EU.

Meanwhile, after German Economy Minister Phillip Rösler (FDP) floated the idea of introducing a European "bourse tax" instead of an EU-wide FTT. To this idea, Open Europe's Head of Economic Research Raoul Ruparel answered in the Daily Telegraph of 21st January that *"If it is imposed only on shares this bourse tax may not have such a big impact but if it covers, say, derivatives, then it would have a disproportionate effect on the UK because of the size of the City. The FTT is never going to work in the UK and this doesn't seem on the surface that much different: a similar proposition but in another wrapper."*

Furthermore, on Monday 23rd January EU Internal Market Commissioner Michel Barnier held a speech in the City in London. Barnier affirmed that a European FTT *"will not be imposed on the UK against its will,"* nonetheless, he confirmed that the tax *"would be levied on the parties to the transaction, at their domicile. Regardless of whether the transaction is carried out in London, Paris, Frankfurt, Amsterdam or anywhere else."*

During the same speech, Barnier also said that *"there is no plot in Europe to undermine the City,"* and insisted that the UK's place was *"at the heart of Europe"* and that the City must learn to *"play the European game"* and give up seeking UK exemptions that threaten to endanger open trade.

Commissioner Barnier also openly criticised the efforts of David Cameron to safeguard the UK's financial sector as a national champion, saying *"we need to turn our back on nationalism and protectionism"* as it *"would spell the end of the single market."* Yet, when challenged on why subsidies given to the French-led agriculture industry had not prompted a similar tax, Barnier shortly answered: *"Even in Britain you have to eat."* He also said, *"The reach of the UK doesn't stop at the Channel Tunnel,"* and warned that the single market needed a single rule book.

Barnier also suggested that he was considering stricter EU rules on bankers' pay in order to avoid a "violent reaction" from increasingly resentful European voters. He explained, *"Among the ideas that we are exploring is a ratio between fixed salary and bonus... Another idea which could be considered is a ratio between the lowest level of pay in a bank and the highest level of pay."*

Well, out of Barnier's speech it can be concluded that the European Commission is determined to increase its power in this area of policy.

Borg and Cameron hits back

Very few national politicians dare to get into an argument with the Commission. The Swedish Minister of Finance, Anders Borg, made a statement against the FTT the 24th of January. He said that Sweden would actually lose tax incomes if the country were to introduce an FTT. According to Borg, this was due to negative growth effects and the high level of tax in Sweden. Moreover, a lot of this tax income would go to the European Commission. Borg also said that the economic growth will be hurt in the whole EU area when the cost to borrow will increase in less liquid areas. He was of the opinion that the Commission's calculations about the negative impacts were too moderate and that if the FTT is introduced, there will be a considerable danger that activities move out of the euro area to Stockholm or London, if not Singapore or the USA.

At the World Economic Forum in Davos, Switzerland, UK Prime Minister David Cameron went to attack against the FTT as he labeled the eurozone “uncompetitive” and called the plan for transaction tax "madness". The British premier took the stage on the second day of the World Economic Forum in Davos, the annual Alpine get-together for the global business elite, and revived his simmering feud with the ailing single-currency bloc. Cameron dismissed the French-led plans to introduce a tax on all financial trades and said; *“Even to be considering this at a time when we are struggling to get our economies growing is quite simply madness.”* Cameron said that it is right that the financial sector should pay their share and that in the UK they are doing exactly that through our bank levies and stamp duty on shares. And these are options which other countries can adopt, said Cameron and added; *“… look at the European Commission's own original analysis. That showed a financial transactions tax could reduce the GDP of the EU by 200 billion euros, cost nearly 500,000 jobs and force as much as 90 percent of some markets away from the EU.”*

The European Commission replied on Cameron's figures by saying that the study quoted by the British PM was *“being read completely out of context. (…) Such figures are certainly not ones that the commission would support. When assessing the impact of the FTT in a balanced way, we must also take into account the effect that the new revenues will also have on growth and jobs. So, if the revenues are intelligently recycled into the economy, then there would be no negative impact on growth and jobs at all, even in the long term.”* Estimations from the Commission place the potential revenue of a FTT at 57 billion euros a year.

French President Sarkozy announces that France will unilaterally introduce a FTT

In the end of January 2012 French president Nicolas Sarkozy announced plans to introduce a French tax on financial transactions. The 0.1% levy will be introduced in August 2012 in France regardless of whether other European countries will follow suit.

The tax is part of a package of measures, among them an increase of the sales tax and levies on financial incomes, set out by Sarkozy to promote growth, create jobs, and cut the French budget deficit. This package of measures appeared in a context of presidential elections in France, to be held in two rounds in April and May 2012, and lagging polls for Sarkozy.

In an interview with French television, Sarkozy said he hoped the tax would push other countries to take action and he added; *“What we want to do is create a shockwave and set an example that there is absolutely no reason why those who helped bring about the crisis shouldn't pay to restore the finances.”* In addition, Sarkozy said that *"We hope the tax will generate one billion euros ($1.3bn, £0.8bn) of new income and thus cut our budget deficit."* President Sarkozy gave no further details on the tax, but a government source later told Reuters news agency it would target shares and not bonds. Sarkozy faced opposition from the nation’s banks. A France-only levy is opposed by the country’s financial community and its feasibility has even been questioned by the Bank of France.

French Prime Minister Fillon said at a press conference on 30th January 2012 *“We can sense resistance within Europe, and that’s why we want to take the lead.”* He also claimed that emerging nations, including Brazil, support France’s case for such a tax.

On this, UK Prime Minister Cameron stated*; "If France goes for a financial transactions tax, then the door will be open and we will be able to welcome many French banks to the United Kingdom and we'll expand our economy that way."*

The Commission continues its campaign for an EU FTT

In the beginning of February, EU Tax Commissioner Algirdas Semeta wrote an op-ed in one of the largest Swedish morning papers, Svenska Dagbladet, that the myths about a new EU tax must be put to death. He claimed that the figures from the Commission had been abused and misinterpreted. Among other things Semeta wrote that a citizen that buys shares for 10,000 euro for sure can afford to pay a tax of 10 euro for that transaction. Rhetorically, he asked if ordinary citizens were forced to pay higher tax on salary, food and fuel and were affected by cut backs on public services, would it then be unreasonable that the finance sector should pay their part? Still, Tax Commissioner Semeta was very unclear about who would get their hands on the incomes of this tax and what they would be spent on. He wrote that they could be used to consolidate the national budgets, lower other taxes or be invested in public service and infrastructure. No promises are made but what will be sure is that it will be the Commission that will get this money to play with.

Already the day after, a Moderate[15] Member of the Swedish Parliament, Karl Sigfrid, replied to the Commissioner in the same morning paper. Sigfrid noted that Semeta did not write that the tax money will go straight into the budget of the European Union and that the tax had no legal base in the treaties. Among other things, Sigfrid wrote that the customers of the banks will have to pay higher fees, higher interest at their loans and receive a lower profit for their savings. Karl Sigfrid was also sceptical to the notion of the EU tax being spent in the Member States with large deficits since such a decision will induct these countries to think that they would not need to do anything more in order to clear their budgets. Instead, Sigfrid proposed to the Commission to emphasise the importance of work and responsibility.

A couple of days later, two leading Moderate Members of the Swedish Parliament, Anna Kinberg Batra and Henrik von Sydow, also objected to the op-ed of Commissioner Semeta. They argued that good regulations were needed for stability, liability and growth – not unsound taxes that affected ordinary wage earners and made investments and new jobs more expensive in Europe.

About one week later, EU Tax Commissioner Semeta and Swedish Moderate MP Karl Sigfrid clashed again, this time in the Daily Telegraph. Semeta wrote an op-ed with more or less the same content as the one published in the Swedish paper, with some local variations referring to the City of London. As in the Swedish version, what the tax income would be spent on was unclear this time also. Semeta wrote two sentences on the issue; *"There is an urgent need to balance budgets."* And *"Clearly the FTT cannot alone solve national budgetary problems."* But failed to be more specific about what this tax money should be spent on.

Swedish MP Karl Sigfrid had a longer reply to the Commissioner this time. The final part of his answer was well formulated and deserves to be referred to in full:

"(...) It's most likely no coincidence that the European Commission is trying to push through the transaction tax right now. A widespread mistrust towards banks makes it easier than it

[15] The Swedish Moderates are member of the EPP – the European Christian Democrats.

usually is to mobilise public support for bank taxes – rallying people against financial institutions with populist arguments.

So what's in it for the Commission that makes them campaign for the new tax? A not-too-far-fetched guess is the €57bn that, according to their own calculations, will end up in the European Union's coffers. The money can then be used to stimulate the economy in near-bankrupt countries like Greece, Italy and France.

Apart from the consequences of a financial transaction tax, it's worrying that the Commission seems to consider the tax an alternative to further strengthening budgetary discipline. Why else would they insist on making a connection between the transaction tax and the state of the European economy? I advise that the Commission, rather than promise simple solutions, emphasise the importance of work ethics and budgetary discipline.

If France, Germany and other European countries on a voluntary basis introduce a financial transaction tax at home, they have every right to do so. But please leave the rest of us out of this costly experiment."

Nine euro countries call for fast-tracked negotiations over EU FTT

On Tuesday 7th February, nine eurozone countries – including Germany, France, Italy and Spain – sent a joint letter urging the Danish EU Presidency *"to accelerate the analysis and negotiation process"* of the European Commission's proposal for an EU FTT, with a view to *"completing the first reading of the draft directive in the first semester of 2012."*

The letter said; *"We strongly believe in the need for a financial transactions tax implemented at European level as a crucial instrument to secure a fair contribution from the financial sector to the costs of the financial crisis and to better regulate European financial markets."*

The nine signatories were the finance ministers of France, Germany, Austria, Belgium, Finland, Greece, Spain, Portugal and the Prime Minister of Italy, Mario Monti, who also held the finance portfolio.

The Danish EU presidency welcomed the letter in an email to the media and explained that it was *"currently looking into how to accommodate the request"* at the technical level – meaning a new political discussion among finance ministers.

Truth is that the fact that the United Kingdom and a handful of other Member States oppose an EU-wide tax makes it unlikely. However, the letter signals a move indicating that these nine Member States will go ahead with it even in the absence of an EU-wide consensus, since the FTT could be introduced among fewer Member States via a so called "enhanced cooperation." It would require a minimum of nine like-minded Member States pushing forward on legislation to be joined by others at a later stage. Those states that would join in would hope to have the privilege to formulate the problem and set the agenda. However, they would also hope that the rest of the Member States will follow.

To be continued ...

Why oppose an EU tax

Eight reasons to say no to an EU tax

1. During the current economic crisis, most Member States have made painful spending cuts. Meanwhile, the European Union increases its spending every year and will use the tax to do so in the future.

2. The EP wants an EU tax in order to sidestep the resistance of national Ministers of Finance, who do not give the EU budget a priority over their own health care, schools, and welfare, which have been dramatically cut.

3. History suggests that if the EU gets the right to directly take in taxes, they will raise tax levels each year. And the citizens will have no voice in these decisions.

4. On the contrary of what FFT-supporters are claiming, the new EU tax will not be “tax neutral.” Any new tax, whether on value added, air traffic or the banking sector will ultimately be paid by ordinary citizens.

5. An EU tax will only increase the burden placed on the citizens, who are already paying double bills. The European Union is now opening embassies around the world, even though Member States are unwilling to close theirs. Taxpayers are forced to pay for two embassies in the same foreign country. This pattern of double structure can be seen in many parts of the EU budget, like the Security and Defence Policy which competes with the current NATO structure.

6. The EU already has problems spending the full budget of the European Social Fund, the European Regional Development Fund and the Cohesion Fund due to the difficulties of funding good projects. There is no need to increase the EU budget.

7. Many EU projects are wasteful while others bring in poor results. What is needed is better scrutiny of the existing EU budget and not an EU tax.

8. In principle, the European Union should be governed by the Member States and not vice versa. The European Union should not have the right to directly tax citizens in the Member States.

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To get an EU tax by proposing a Tobin tax - as the EU institutions hope - is the most popular new tax to introduce

This booklet gives a background of the debate about an EU tax in the EP from the first half of the 1990's until now. Hopefully, this booklet clarifies all the facts around the plans of creating an EU tax and gives the reader an introduction to the debate and facts of the EU tax as clearly and concisely as possible.

The federalist majority in the EP has over the years gradually increased their outspokenness for the introduction of an EU taxation. The project has never been brought up for debate in any previous EP election campaign. This situation has made it possible for EU federalists to meet very little resistance to the idea. It is about time that to cast a spotlight over this issue to trigger a serious debate on it.

The reasons for the European Commission and the EP to argue for the introduction of an EU tax can be summed up as follows:

- An EU tax will give the EU financial autonomy and Member States can be ignored if they do not want to foot the bill for the expansion of EU policy areas
- The EU institutions are constantly in need of more money to afford such projects as for example the expansion of the Common Agricultural Policy budget. The farmers in Western Europe should keep the subsidies at the same time as the farmers in the new Member States in Central and Eastern Europe finally must get the same subsidies as those in the West. This and a growing number of new policy areas in EU that need to be financed make the EU desperate for new incomes.

The EU tax will not be tax neutral unless the Member States cut back in their budgets in order to make room for the EU budget to grow, for instance by totally dismantling each Member State's diplomatic representations world over in order to let it be absorbed by the EU's European External Action Service (EEAS). Currently, Member States are rather reluctant to do so and therefore the introduction this tax will not be tax neutral.

Furthermore, in Brussels, those in favour know how to manoeuvre to get what they want. For example, they could introduce a FTT by a so-called "enhanced cooperation," which only requires a minimum of nine EU Member States.

On top of this, and according to the European Commission, even if a Member State chooses to opt-out from the FTT that country would still be impacted by the tax since any operation handled by banks from EU Member States that have not introduced the FTT would be covered if the buyer or seller in the transaction has links to the Eurozone. . Hence, the trade in countries like United Kingdom and Sweden will be affected anyway, even if they have rejected it.

I do not have an opinion about wether the FTT as such is a good or bad idea, I just do not support the idea that the incomes generated by such a tax should be directly controlled and owned by the EU to finance its budget and, by doing so, to by-pass monitoring from the Member States.

Further developments in this issue – follow that on www.oeiceurope.com. The opinions in this booklet are not the opinions of the OEIC but those of the author.