The Financing of the European Union Budget

Herman Matthijs

Abstract This article will deal with the working and the impact of the new council decision of 2014 concerning the system of own resources for the European Union (EU). It will analyse the system and compare it with the previous one of 2007. In addition, this article makes several comparisons concerning the effect of these own resources in relation to the member states of the Union. The national cost price of the EU is a very current item in many member states, where there is a discussion going on concerning the future of European integration.

1 Introduction

The financing of the European Union is based on a council decision concerning its own resources. For years there has been political discussion concerning the system. Is it fair and transparent enough? The present financing system has existed since 1970 and was updated in 2014. But the system is more and more under pressure through the expansion of member states and the growing differences in welfare between the EU countries. Another political discussion concerning the financing system of the European Union is the choice between own resources or contributions by the member states.[1]

This article examines the financing system of the European Union, which is based on the system of own resources: customs duties, value added tax and national contributions based on GNI (Gross National Income). The sources for this article are primary sources, namely the figures in the EU budget and secondly recent academic publications on this topic.

Specifically, this article pursues the following lines of inquiry:

[1] Matthijs (2014, pp. 9–21, 2015, pp. 458–467), Benedeto and Milio (2012), Cipriani (2014), and European Commission (2014).

H. Matthijs
Vrije Universiteit Brussel, Ixelles, Belgium

Universiteit Gent University, Ghent, Belgium
e-mail: herman.matthijs@ugent.be

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What has been the evolution of own resources since 1970, the ranking of the financing of the EU budget by the member states per capita and the general funding, the new system of 2014 and the differences to the previous funding.

2 The Present Financial System

Since 1970 several systems have already been utilised for the financing of the EU budget. The European Council at Brussels held on 8 February 2013 laid the basis for a new financial system for the general budget of the European Communities, which ended in the council decision of 2014.[2]

The financial system of the European Union is always based on a council decision. This means that the member states are taking this decision. This is related to article 311 of the Lisbon treaty concerning the functioning of the EU, which also says that the arrangements relating to the union's own resources have to be made through a unanimous council decision. This has the consequence that each member state has a "veto" concerning the proposals for the modification of this system.

The system of own resources contains three kinds of own resources, namely:

– "Traditional own resources" (TOR)—these mainly consist of duties which are charged on the importing of products coming from a non-EU State.
– The resource based on Value Added Tax (VAT) is a uniform percentage rate that is applied to each Member State's harmonised VAT revenue.
– The resource based on "Gross National Income" (GNI) is a uniform percentage rate applied to the GNI of each Member State. Although it is a balancing item, it has become the largest source of revenue.

The EU budget also receives other revenues, such as taxes paid by EU staff on their salaries, contributions from non-EU countries to certain EU programmes and fines on companies that breach competition or other laws. These miscellaneous resources add up to around 2 % of the budget.

2.1 TOR

TOR are related to the levies and other duties provided for under the common organisation of the markets in sugar. And mainly with the custom duties on imports levied at the external borders of the Union.

These common custom rates were determined in 1968, 2 years earlier than planned. Customs duties were mentioned in the Treaty of Rome as the primary

[2]Council Decision no. 335 of 26 may 2014 on the European Communities' system of own resources (Official Journal, Series L, no. 168, 7 June 2014).

source of finance for the expenditure of the European Economic Community. In 1988, the customs duties of the European Coal and Steel Community were added to these. With a harmonised customs duties system, the European Union is a customs union with a common tariff. This is not the case in a free trade organization, like EFTA (European Free Trade Association).

The customs administrations of the EU member states have to collect this money and 20 % of revenues remain in the national budget to cover collection costs. The new financial system of 2014 had reduced this collection cost by 5 %. This means that the national budgets of the member states lose money with this new system. In other words, the member states have to pay in the new system a percentage of 80 % in place of 75 % to the general budget of the Union. The only change is the decrease of the collection cost for the national treasuries from 25 to 20 %.

The agricultural levies were instituted in 1962 and were transferred to the Community through the decision of 21 April 1970 and these were originally taxes which varied according to the price in global markets and the price in the European market. But since the multilateral trade agreements of the Uruguay Round (April 1994), which were related to GATT (General Agreement on Trade and Tariffs) & WTO (World Trade Organisation) negotiations concerning more global free trade, these duties were taken up into Community rules of the EU. Since then, there are no distinctions anymore between agricultural levels and customs duties.

The assignment of customs duties as own resources to the financing of the EU budget is the logical consequence of the free movement of goods within the union.

2.2 VAT

Value Added Tax (VAT) was also established by the listed decision of 21 April 1970. The reason was that the traditional own resources were not sufficient anymore for financing the EU budget.

The VAT resources are the result of the application of a specific percentage on a uniformly established basis. In the period from 1988 to 1994 the basis was set at a maximum of 55 % of the GDP of the member states. From 1995 until the present this rate has been established at 50 %.

Through the decision of 1970 the maximum percentage that could be collected from VAT revenues was limited to 1 % of a specified tax base. The decision of 1985 on own resources increased this percentage to 1.4 %. This fact was related to the moment when the EU was enlarged through Spain and Portugal joining. This VAT increase was needed in order to fund the costs of enlargement. But the fourth decision on own resources (dated 31 October 1994) provided for a gradual return to the ceiling of 1 % in the 1995–1999 period for reasons of fairness. During this century this call-in percentage was reduced to 0.5 % (2000 decision) of the maximum level of the harmonized VAT base and further to 0.3 % (2007 decision).

In the new 2014 system this VAT rate is still fixed at 0.3 % for member states. However, the system of own resources for three countries, namely, the Federal

Republic of Germany, the Netherlands and Sweden specifies a rate of only 0.15 %. This new situation represents a status quo for the Federal Republic, but an increase for the Netherlands and Sweden (it was 0.1 %). Also in the old system of 2007, the Federal Republic of Austria had a VAT rate of 0.225 %, but this benefit disappeared in the new 2014 system.

The reduced VAT rate persists for Germany and also, but less advantageously, for the Netherlands and Sweden (−0.050 %). Austria is the greatest loser in the new VAT system (−0.075 %).

2.3 GNI

In the year 1988 with the then financial system, the "Gross National Income" (GNI) was introduced as the third own resource for the EU budget. This GNI was originally based on the "Gross National Product" (GNP). This resource was meant to replace the VAT resource as the way of balancing the budget. The same decision of 24 June 1988 set the ceiling for the total of own resources. In 1988 this was 1.14 % of GNP while in 1999 it was 1.27 %. The decision of 2000 extended the application of the European system of economic accounting introduced in 1995 (ESR 95, now version 2010) to the field of the EU budget. The notion of gross national product (GNP) was replaced by the idea of gross national income (GNI). The new decision thus replaced GNP with GNI for the determination of own resources. In order not to touch the amount of financial resources made available to the Communities, the ceiling for own resources as a percentage of the GNI of the EU was adjusted. The new ceiling was 1.24 % of the GNI of the EU, and this was confirmed in the decision of 2007 concerning own resources.

The GNI resources result from the application of a specific percentage which is determined every year in the context of the budgetary procedure through an assessment basis that consists of the sum of the gross national income of member states at market prices. They are equal to the difference between expenses and the sum of all other budget resources.

They play a key role because they finance not only the greater part of the budget but also determine the ceiling of the assessment base for VAT, the distribution of the financing of the UK rebate and the maximum amount of the total resources that the Community is allowed to collect.[3]

The new system concerning own resources determines that some countries will have a reduction of their GNI contribution to the EU budget. This involves the following member states: the Netherlands (−695 million euros), Sweden (−185 million euros), Denmark (−130 million euros) and Austria (−60 million euros but divided over the years 2014–2016). The latter case of the Federal Republic of

[3]Matthijs (2014, p. 13).

Austria is compensation for the loss in VAT reduction (supra). The global reduction for these four countries in 2016 represents a budget cost of 1120 million euros.[4]

2.4 Comparison

Figures given below show that the own resources system (TOR and VAT) has a considerably reduced share in total revenues. Originally, the intention in the 1970s was that the member-state should contribute to financing the European community through a system of own resources. Custom duties and VAT can certainly relate to this. However, the GNI contribution is in fact not an own resource in the meaning of the Luxembourg agreement.

This declining share in respect of traditional own resources (agricultural levies, customs duties and sugar contribution) has to do with the growing freedom of world trade and the associated policy of lower import duties.

The lower share of VAT has to do with the maximum percentage of 1.4 % that was imposed in 1985 and which by now has been reduced to the present 0.3 % for most of the member states or 0.15 % for three other EU countries.

Over the last 20 years the importance of the GNI resources has been constantly growing. This evolution is shown in the next table (Table 1).[5]

The idea of the 1970 treaty to introduce own resources has been modified by the present system, which is based on national contributions. Knowing that the GNI is not a real own resource, it should be admitted that the EU has left this political idea to finance the budget with its real own resources. The impact of the GNI is extremely high and has a share of three quarters of the global financing of the budget. Customs duties have lost more than half as a share and the impact of VAT, the only EU harmonised tax, is the great loser in this story with a present share below the customs duties.

3 The UK Rebate and Related Reductions

The first return in favour of the United Kingdom took place in the agreement of June 1984.

The question of "fair return" is related to the discussion about net contributors. This subject returned to the negotiating table of the European Council during the negotiations about the new financial system, but this rebate structurally remains.

As such, the correction mechanism in favour of the United Kingdom was maintained in the 2014 Council decision concerning own resources. This means

[4] Matthijs (2015, p. 462).

[5] *Ibidem*, p. 463.

Table 1 Budget percentage

	1988	1990	1995	2000	2005	2015
Sugar levies & customs duties	28.5	26.1	19.3	15.3	11.3	12.2
VAT resources	57.2	59.1	52.2	38.1	14.0	11.4
GNP/GNI resources	10.6	0.2	18.9	42.3	73.8	75.3
Miscellaneous—balance past year	3.7	14.6	9.7	4.3	0.9	1.1
Total	100	100	100	100	100	100

that a modification is only possible if all the member states are in favour and this situation gives the United Kingdom a de facto and de jure veto. A modification of the UK rebate rules in the EU council decision is only possible through a unanimous agreement. This system is a rather complicated regulation.

First of all, the U.K. is reimbursed by 66 % of the difference between its contribution and what is received back from the budget. The calculation is based on its GNI and VAT.

In the 2015 budget[6] this rebate was 5.4 billion euros. In the present system concerning own resources, the rebate in favour of the UK is less attractive than in the former versions of this system.

The cost of the U.K. rebate is divided among the other EU member states in proportion to the share they contribute to the EU's GNI. Using as an example the 2015 budget, the UK has a share of 15.36 % in the GNI of the Union. This is the share which will be divided throughout the other 27 states. However, since 2002 this has been limited to 25 % of its normal value for Germany, the Netherlands, Austria and Sweden.

The practical calculation of this application in the new system of own resources results in the following figures (calculations based on the 2015 budget):

– Germany has a share of 21.51 % and that becomes 25.41 %, after the contribution of the UK share. However, the Federal Republic has an exemption of three quarters (¾ of 25.41 % is 19.06 %). The final financing scale for Germany in relation to the UK rebate is 6.35 %;
– The same calculation is made for the Netherlands (4.58/5.41 % and −4.06 = ¾ becomes 1.35 %), Sweden (3.23/3.81 % and −2.86 % = ¾ becomes 0.95 %) and Austria (2.39 %/2.82 % −2.11 % = ¾ becomes 0.7 % as its share);
– e.g. Belgium has a share of 2.9 % and without the UK share this becomes 3.43 %. This country has to pay more (1.54 %) in relation to the ¾ exemptions for the four members. Finally, the Belgian financial amount is 4.96 % or 269 million euros of the 5.4 billion for the UK rebate;
– e.g. Portugal has a share of 1.21 % and without the UK share it becomes 1.43 %. In relation to the exemptions for the four member states, the Portuguese share increases by 0.64 % until 2.07 % or 112 million euros of the total rebate amount.

[6]Definitive adoption of the EU budget 2015 by the European Parliament (17th December 2014), in: Official Journal edition: L no. 69, 13 March 2015.

Finally, the cost of the UK rebate (5.4 billion euros in 2015) is divided over the 27 other member states with the listed reductions for the Federal Republic of Germany, the Netherlands, Sweden and Austria. Considering the calculations, the 5.4 billion euros rebate is paid by: France (27 %), Italy (19.8 %), Spain (12.91 %), Germany (6.35 %), Poland (5.02 %), Belgium (4.96 %), Denmark (3.36 %), Finland (2.5 %) etc.

It is remarkable that three southern countries are paying the greatest share in this rebate cost and together this amounts to nearly 60 % of the rebate total. Even with the ¾ reduction, Germany is still the fourth payer in this compensation system. However, the German share is a lot smaller than the three largest contributors to the UK rebate.

4 Calculations

The following table gives an overview of the ranking of the member states by per capita "contribution" (in Euros) for the budget years 2006 and 2015, on the basis of own resources.

Bulgaria and Romania were not member states in 2006 and Croatia has been an EU member since 1 July 2013 (Table 2).

The year 2006 was the period before the financial crisis and, per capita, the Benelux and Scandinavian states were the most important contributors to the EU budget along with France and Germany. However, the new member states, since 2006, are all less important contributors. In the year 2006 all the new member states, except Cyprus, were behind the 15 member states from 1995 with exception of Portugal.

The difference between Luxembourg and the last (Latvia) is a factor of 10.28!

In the next table the same calculation is made for the 2015 financial year. It should be pointed out that this 2015 calculation was still made on the base of the 2007 own resources system, which was still the base for the budget (Table 3).

It is noteworthy that two countries (i.e. Belgium and Luxembourg)—that are home to the large majority of the European institutions—are among the top five per capita contributors in 2006 and the top three in 2015.

What is also remarkable is that the twenty-first century expansion of the Community to include ten Southern and Eastern European countries in 2004 and the 2007 expansion with Romania and Bulgaria cannot be regarded as a financial success for the EU budget.

The Republics of Cyprus, Slovenia and Malta are the only member states in the 2015 ranking which have a higher capita level than two old members, namely Portugal and Greece.

In the two rankings the EU-15 from 1995 are still at the head with the exception of Portugal and Greece.

Table 2 Per capita contribution in 2006

1.	Luxembourg	535
2.	Denmark	355
3.	Ireland	327
4.	Sweden	290
5.	Belgium	276
6.	France	274
7.	The Netherlands	260
8.	Austria	259
9.	Finland	258
10.	Germany	236
11.	Italy	230
12.	Spain	198
13.	United Kingdom	179
14.	Cyprus	172
15.	Greece	162
16.	Slovenia	139
17.	Portugal	129
18.	Malta	108
19.	Czech Republic	92
20.	Hungary	84
21.	Estonia	69
22.	Slovakia	67
23.	Poland	60
24.	Lithuania	58
25.	Latvia	52

Source: EU budget figures and population figures in CIA fact book

The difference between Luxemburg and Bulgaria in the 2015 calculation is a multiplication of 9.63 %. The newest members are all at the bottom of the ranking list.

Compared to 2006, Ireland and Greece have lost places in the ranking. This is due to the financial crisis.

Even with the reductions for Austria, Germany, the Netherlands and Sweden, these four countries have stayed in the top ten of the ranking.

The most important contributors are still the three Benelux countries, the three Scandinavian members, Germany, France, Austria and Ireland.

Below, the calculation is given concerning the share of the member states in the EU general budget in relation to several own resources, namely TOR, VAT and GNI contribution.

This table gives the ranking in terms of state percentage share in EU budget financing between 2002 (15 members), and the years 2006 (25 members) and 2010 (27 members) to the year 2015 (28 members) (Table 4).

Germany was and is still the greatest contributor to the Union. But the German share has been reduced following the EU expansion and the correction in favour of

Table 3 Per capita contribution in 2015

1.	Luxembourg	607
2.	Denmark	488
3.	Belgium	475
4.	Sweden	415
5.	Netherlands	395
6.	Finland	379
7.	Austria	371
8.	Ireland	358
9.	Germany	354
10.	France	341
11.	Spain	294
12.	Italy	271
13.	UK	252
14.	Slovenia	197
15.	Cyprus	195
16.	Malta	189
17.	Portugal	167
18.	Greece	166
19.	Estonia	162
20.	Slovakia	145
21.	Czech rep.	143
22.	Lithuania	137
23.	Latvia	133
24.	Poland	111
25.	Croatia	107
26.	Hungary	103
27.	Romania	77
28.	Bulgaria	61

Source: EU budget figures and population figures in CIA fact book

the Federal Republic. Through this, the difference with France was reduced and this country has always had an equal share in the financing of the EU.

The ‘juste retour’ principle operates in favour of the British treasury and the UK, since the middle of the former decade, has been a smaller contributor than Italy. This country has also had an equal share over these years but over the last years we have seen the influence of the financial crisis. The same remark can be made for Spain.

If we group these countries by date of accession what is noteworthy are the following facts (2015 figures from the preceding table):

– The six founder members still contribute 58.55 % of the funding;
– The three member states that joined in 1973 are contributing 15.32 %.
– The southern expansion of the 1980s with the accession of Greece in 1981 and the two main countries of the Iberian Peninsula (1986) accounts for 10.82 %.

Table 4 Ranking in terms of state percentage share in EU budget financing

	2002 (%)	2006 (%)	2010 (%)	2015 (%)
Germany	24.44 (1)	20.56 (1)	19.53 (1)	20.84 (1)
France	16.72	16.43 (2)	16.73 (2)	16.52 (2)
United Kingdom	14.27	12.38 (4)	10.87 (4)	12.08 (4)
Italy	13.03	13.69 (3)	13.34 (3)	12.13 (3)
Spain	7.73	8.93 (5)	9.33 (5)	8.20 (5)
Netherlands	6.48	5.20 (6)	5.03 (6)	4.89 (6)
Belgium	3.97	4.01 (7)	4.02 (7)	3.92 (7)
Sweden	2.73	2.72 (8)	2.28 (9)	2.95 (9)
Austria	2.47	2.15 (11)	2.19 (10)	2.32 (10)
Denmark	1.97	2.09 (12)	2.17 (11)	2.02 (11)
Greece	1.63	2.20 (10)	2.15 (12)	1.34 (12)
Portugal	1.46	1.36 (15)	1.37 (14)	1.29 (14)
Finland	1.45	1.48 (13)	1.58 (13)	1.52 (13)
Ireland	1.40	1.38 (14)	1.25 (15)	1.22 (15)
Luxembourg	0.25	0.24 (20)	0.25 (22)	0.25 (24)
Poland	–	2.34 (9)	2.64 (8)	3.16 (8)
Czech Republic	–	1.02 (16)	1.23 (16)	1.12 (16)
Slovakia	–	0.38 (18)	0.66 (19)	0.58 (19)
Hungary	–	0.91 (17)	0.76 (18)	0.76 (18)
Slovenia	–	0.29 (19)	0.36 (20)	0.30 (22)
Lithuania	–	0.22 (21)	0.25 (23)	0.30 (23)
Latvia	–	0.13 (23)	0.15 (25)	0.15 (25)
Estonia	–	0.10 (24)	0.13 (26)	0.15 (26)
Cyprus	–	0.16 (22)	0.18 (24)	0.12 (27)
Malta	–	0.05 (25)	0.06 (27)	0.05 (28)
Romania	–	–	1.15 (17)	1.14 (17)
Bulgaria	–	–	0.34 (21)	0.33 (21)
Croatia				0.33 (20)

– The 1995 expansion which saw the accession of Sweden, Finland and Austria, has in relative terms been financially favourable. These three member states contribute 6.79 % to the EU budget.

The conclusion is that the 15 member states that acceded in the period from 1951 to 1995 still account for 91.48 % (2015 figures) of the national contributions to the EU budget.

This makes it clear that the accession of the new members has certainly not brought any budgetary windfalls.

It also provides a clear indication concerning the differences in prosperity between the 15 members, which joined in the preceding century and the 13 new member states in this century. Poland, with 40 million citizens, is the greatest contributor from the new group, with a share of 3.16 % and an eighth place in the ranking, but after Belgium!

The influence of the economic recession and financial crisis have reduced the shares of the PIGS (Portugal, Italy, Greece and Spain) countries regarding their contributions to the EU budget.

Remarkable is the impact—with 9.06 % (2015 figures) of the three Benelux countries which is greater than that of Spain. The less attractive system of the British rebate is shown in this table concerning the British share between the years 2010 and 2015.

5 Policy Problems

The idea of the EU commission for more and new own resources for the EU budget has created a few noteworthy policy problems concerning this item. Creating more money for the union at a time when most of the member states are having to tighten their national budgets is a difficult political prospect. Is focusing on more appropriations in all policy fields for the future budget, with the exception of natural resources, a realistic proposition?

Article 311 of the TFEU contains the procedure concerning a new system of own resources. It is still the case that the council after consulting the European Parliament takes a unanimous decision concerning the own resources system. This means that new types of own resources or a change in the present system (e.g. a reduction in the GNI) is only possible if all the member states in the council are in favour. This situation both de facto and de jure provides a veto for each member state in the European Union. Furthermore, the unanimity rule becomes a standard procedure for fiscal affairs in EU procedures.

Several states are not in favour of changing the present system, such as the United Kingdom because of its rebate, and corrections for the Netherlands Denmark, Sweden, Austria and Germany, etc. As such, the unanimity rule is not a factor leading to a fast change to the present decision-making. Article 314 TFEU also demands approval from the Parliaments of the member states according to their national ratification procedures. Nevertheless, this veto position of the members is logical in an international organization where the political base is essentially a confederation.

Related to the commission question concerning a review of the system of own resources most of the states will have objections to providing more money to the European budget which is an understandably coherent response if these members have to tighten their public budgets. In terms of politics it is not so simple to ask the public for important financial savings in national public finances and at the same time to agree to spend more money on Europe.

The second idea of the commission is to change the GNI system through VAT own resources. This kind of thinking is acceptable for the members if the state budgets do not to spend more revenue on the EU budget.

The EU budget exists to fund the common policies that member states have agreed should be handled at the EU level (e.g. agriculture). The budget expresses

solidarity between all states and regions. In addition, budget finance interventions complete the internal market.

However, the present system of own resources is very complicated with an important share of GNI contributions in place of the own resources. The present system is not a transparent model with the completed corrections for several states in the calculation of the VAT, the GNI and the UK rebate.

A new system of own resources demands a simplification of the rules. The current funding rules have evolved not only in response to the need for more accountability on how public money is spent but also to take account of previous problems.

6 New Member States?

The EU expansion of this century certainly did not involve the wealthy states on the European continent. Most of the 12 new members are states with a level of prosperity lower than the EU average.

Interesting for the EU budget would be new members with a high standard of living. Which European states are still available? The answer is the following countries: Norway and Switzerland.[7] These two countries are today member of the European Free Trade Association (EFTA). Besides these two countries, Liechtenstein and Iceland are also members of this organisation.

Nowadays, both countries make contributions to EU agencies and programmes—Norway via the European Economic Area (EEA) and Switzerland on a bilateral base with the Union. In comparison with the EU, the EEA does not cover the following EU policies:

- Common agriculture and fisheries policies;
- Customs union;
- Common trade policy;
- Common foreign and security policy;
- Justice and Home affairs[8];
- Economic and Monetary Union (EMU).

Following the Porto treaty of 1992 concerning the EEA, Norway has to pay yearly grants to the new EU member states. In addition, the Swiss confederation has created budget grants for these new members. Both countries are financing several EEA activities and the 12 new EU member states from this century. The total

[7] H. Matthijs, The budget cost for the member states of the European Free Trade Association., American International Journal of Research in Humanities, Arts and Social Sciences., issue 6, vol. 1, 2014, pp. 11–18.

[8] The four EFTA member states are joining the Schengen area.

amount for these two countries is about 500 million euros a year, which is cheaper than full membership of the union.

The conclusion is very clear: EU membership for Norway and Switzerland would cost these countries a lot more than their membership to EFTA/EEA. In line with the GDP of these two countries, they would be net payers to the Union. Concluding the EU membership of these two countries would have a very positive effect on the EU budget but the status of being a net payer is certainly not an argument for these countries to campaign for EU membership.

The 2015 EFTA general budget[9] is fixed at 22 million CHF, which is divided over the four members with the following shares: Norway (55.91 %). Switzerland (40.54 %). Iceland (2.61 %) and Liechtenstein (0.94 %).

7 Conclusion

The 2014 own resources decision formalises the existing trend towards making the GNI contributions the main source of financing for the General Budget of the European Union. For almost 40 years this budget has been compromised by the "fair return" principle, which works in favour of the United Kingdom. In the meantime, special arrangements have also been allowed for the Netherlands, Sweden, Denmark, Austria and Germany.

Decisions concerning own resources continue to be subject to unanimous approval. This means that each member state must give its approval to any change. That is the problem when it comes to changing anything concerning this decision.

In the 1970s and 1980s the idea was to raise an EU tax to fund the EU budget. This concept has now been entirely abandoned. The funding of the budget continues to rest very largely on the shoulders of the first 15 member states. The accession of the 12 new member states can hardly be regarded as a financial success.

The new commission proposal has returned to the original idea of own resources. VAT is an excellent means for financing this EU budget. A reduction of the GNI and the replacement by a higher VAT collection would be in line with the conclusions of the Fontainebleau European council of 1984 to contain the contributions of those member states that would otherwise face a budgetary burden which is excessive in relation to their relative prosperity.

Europe needs a new, fairer and more transparent system. Since the 1970 Luxembourg agreement the Union has not done anything with VAT as an own resource. This VAT is related to the financial health of the member states and a fixed share of this indirect tax can form the base for a long term financing plan for the general EU budget.

[9] EFTA (2015, p. 10).

The EU budget is necessary and has a pan-European logic not a national one. Its comparatively small size allows it to be concentrated where it delivers high EU added value. This budget does not seek to fund interventions that the member states could finance by themselves.

However, the demand from the EU Commission for more financial revenues is a controversial question at this time of budgetary discipline. Indeed, the EU is asking the member states to put an end to budget deficits and debts in their public finances. Already in 2012 the European Union required member states not to have a deficit in their public finances of more than 3 % of their national GDP.

Given this, the final question is the following one: are the member states in agreement to go back to the situation of own resources related to an increase in revenues at the moment when nearly all the states have had to undertake financial reconstruction measures.

It is up to the EU council to take a decision concerning this issue. However, member states like the UK, France, Germany, the Netherlands and Finland are not in favour of the demand from the Commission for more revenues. Even in November 2012, Denmark opposed the question from the EU Commission of more contributions to the budget.

The present system of own resources is too complicated and needs to be replaced by a more transparent version.

In fact, the European Union can use some more affluent new member states to finance its budget, but knowing the net payer situation in these countries future membership would appear to be out of the question.

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