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FOR A (LIMITED) FISCAL CAPACITY OF THE UNION

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In the Memorandum of May 3, 1950 presented by Jean Monnet to the French government in the light of the ECSC launch, Monnet defined his strategy as follows. "Whichever way we turn in today's world, we run into nothing but deadlock (…). There is only one way out of this kind of situation: determined practical action on one limited but decisive point which brings about a fundamental change on that point and, by knock-on effect, alters the actual terms of all the problems concerned."

When it comes to the creation of a fiscal capacity for the Union, this limited, but decisive point is represented by the fight against climate change, bearing in mind the commitment made by the Union to reduce CO_2 emissions by 55% by 2030, as significant resources are required to finance the investments needed to ensure an ecological transition that is both efficient and socially just. But the launch of NextGenerationEU (NGEU) has changed prospects for European Union finance; it has made possible the funding of a major investment program to revive the European economy after the pandemic, with the issuance of €750bn. on the markets. This decision has an important side effect since, in order to guarantee the debt service and the repayment of the capital, a decision of the European Council was required to provide for an increase of 0.6% in the EU's own resources ceiling, which thus rises to 2%. As such, Europe finds itself today in a Monnettian context as the launch of the NGEU opens the way to a gradual start in its increase of own resources. On this point, the Commission will have to present a series of proposals, in part already known, but here I will limit myself to considering three points that, for me, are crucial.

A first resource can be provided by the revenues of border tax adjustments foreseen to avoid carbon leakages and loss of competitiveness of European production. Beyond the revenue that can be provided by these resources, the Border Carbon Adjustment (BCA) has the advantage that it can be introduced in accordance with the ordinary legislative procedure as, according to Article 3 (e) TFEU, the Union has exclusive competence; and, as regards common commercial policy, article 207 (2) explicitly provides that "the European Parliament and the Council, acting by means of regulations in accordance with the ordinary legislative procedure, shall adopt the measures defining the framework for implementing the common commercial policy". Consequently, the BCA, being a customs law, on the one hand represents an own resource attributed directly to the Union budget, and on the other can induce other countries to introduce a carbon price, since in this case the revenue would flow to their own budgets, while with the BCA the revenues flow directly to the European budget.

A second resource is linked to the objective of achieving carbon neutrality by 2050. The instrument for controlling emissions is represented in the Union by the Emission Trading System, which will have to be extended in parallel with the existing system. This will then also apply to transport and heating, with a mechanism similar to that adopted in Germany (an upstream approach), whereby the purchase of permits is undertaken by producers or importers, who will then pass the cost forward to final consumers, families or businesses, in a mechanism very similar to a carbon tax. Today the price of permits on the market is around €60 per t/CO_2.

In 2019, total greenhouse gas emissions – excluding Land Use, Land Use Change and Forestry, but including aviation – amounted to 3.75 bn. tonnes. If we assume that all the permits are auctioned, that the price of the permits remains at the current level, and that a share equal to 25% of the revenue is allocated to the European budget, about €56 bn. could become a new own resource linked directly to a policy pursued by the Union.

Finally, a global agreement was reached in the OECD on 8 October 2021 on a minimum corporation tax, to ensure that large companies pay a minimum rate of 15%. This agreement represents a huge step forward towards greater cooperation in tax matters worldwide. The minimum tax rate will come into effect in 2023, and will redistribute over $125 bn. to countries around the world, from around 100 of the largest multinational companies. The goal is for these companies to pay their fair share of taxes, regardless of the jurisdictions in which they operate and make a profit.

The OECD has been working since 2013 to combat tax avoidance, those practices with which multinational companies today exploit the loopholes and asymmetries of international rules to transfer profits to countries with more convenient tax regimes (BEPS – Base erosion and profit shifting). The agreement is divided into two pillars: the first concerns the digital giants and proposes taxing them where they sell their services, and not just where production takes place; the second includes global minimum taxation, with a compensatory mechanism for aligning different tax regimes, charging the difference between what is actually applied by a country and the minimum of 15%.

In the Union, the increase in revenue for Member States (MS) that apply higher rates will not be very significant, bearing in mind that the rate applied in Ireland is 12.5%. But the decisive point would be that of the extension of European taxation to all sectors on the basis of a common tax base defined at the Union level; however, this step is difficult, given the constraints deriving from article 311. But, as suggested by Commissioner Gentiloni it could be overcome; he emphasised the risks of an aggressive taxation policy on the part of some MS, and referred to Article 116, which states that "where the Commission finds that a difference between the provisions laid down by law, regulation or administrative action in Member States is distorting the conditions of competition in the internal market and that the resultant distortion needs to be eliminated, it shall consult the Member States concerned. If such consultation does not result in an agreement eliminating the distortion in question, the European Parliament and the Council, acting in accordance with the ordinary legislative procedure, shall issue the necessary directives. Any other appropriate measures provided for in the Treaties may be adopted." This procedure might, therefore, give a two-fold result: curbing fiscal dumping policies within the Union and, at the same time, the allocation, with a majority vote in the Council and the Parliament, of a share of the tax levied on a common tax base towards the financing of the Union budget.

Conclusively, and at this stage in the life of the Union, a possibility has opened up to increase own resources targeted at financing the Union budget without having to proceed immediately with a reform of the Treaties. In the medium term, however, overcoming the unanimous vote in the Council and ratification by the national parliaments will remain unavoidable. Indeed, the imperative will be to ensure that the distribution of resources between the various levels of government is pursued through a mechanism of a federal nature. This will require the use of the qualified majority vote in the Council and in the European Parliament, and the approval at the beginning of each legislature of a Financial Plan establishing the distribution of resources between the Union, the MS and the local powers within an institutional framework of fiscal federalism.

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(The opinions expressed here do not necessarily represent the CSF)

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