EUROPEAN AND EXTERNAL RELATIONS COMMITTEE

Tuesday 4 November 2008

Session 3

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EUROPEAN AND EXTERNAL RELATIONS COMMITTEE
17th Meeting 2008, Session 3

CONVENER

Irene Oldfather (Cunninghame South) (Lab)

DEPUTY CONVENER

*Alex Neil (Central Scotland) (SNP)

COMMITTEE MEMBERS

*Ted Brocklebank (Mid Scotland and Fife) (Con)
Patricia Ferguson (Glasgow Maryhill) (Lab)
Charlie Gordon (Glasgow Cathcart) (Lab)
*Jamie Hepburn (Central Scotland) (SNP)
*Jim Hume (South of Scotland) (LD)
*Gil Paterson (West of Scotland) (SNP)

COMMITTEE SUBSTITUTES

Keith Brown (Ochil) (SNP)
Jackson Carlaw (West of Scotland) (Con)
Ken Macintosh (Eastwood) (Lab)
Iain Smith (North East Fife) (LD)

*attended

THE FOLLOWING GAVE EVIDENCE:

Professor Iain Begg (London School of Economics)

CLERKS TO THE COMMITTEE

Lynn Tullis
Simon Watkins

ASSISTANT CLERKS

Lewis McNaughton
Lucy Scharbert

LOCATION

Committee Room 6

Scottish Parliament

European and External Relations Committee

Tuesday 4 November 2008

[THE DEPUTY CONVENER *opened the meeting at 10:00*]

Decision on Taking Business in Private

The Deputy Convener (Alex Neil): I welcome everyone to the 17th meeting in 2008 of the European and External Relations Committee. There are apologies from Irene Oldfather, the convener, who is unable to attend this morning, which is why I am in the chair. There are apologies also from Patricia Ferguson. We hope that she will be back with us soon.

Are members content to take items 4 and 5 in private?

Members *indicated agreement*.

European Union Budget Review Inquiry

10:00

The Deputy Convener: I welcome Professor Iain Begg, who has presented us with some helpful written evidence on the European Union budget inquiry and will give us oral evidence. He is prepared to cover expenditure and funding. I ask Professor Begg to make some introductory remarks before we move to questions.

Professor Iain Begg (London School of Economics): I have three or four points. First, my view is that the review of the budget is stalled. As the committee knows, the review was supposed to be conducted in 2008-09. The authorities—the European Commission and the European Parliament—will run out of capability by about the spring. Nothing much is happening. No European Union presidency seems to want to take on the budget review. If we were to be slightly more cynical about it, we could say that until José Barroso is reappointed he is unlikely to say yes or no to anything. I fear that the review will be rather anodyne and will not achieve the ambitions that some in the United Kingdom Government hoped it would achieve when it was set up in 2005.

Secondly, there is not much interest in the revenue side of the budget. If any single formula seems most likely, it is the continuing use of the gross national income resource—the fourth resource—as the principal funding instrument for the EU budget. There is also a disposition to do away with corrections, rebates or abatements—call them what you will—but unless there is a major reform of the expenditure side, I do not think that it will be possible to abolish corrections entirely.

Thirdly, to anticipate possible questions, I say that I have not done specific analysis of Scotland. I cannot offer the committee precision by saying, "It'll be this much or that much for Scotland." All that I can talk about is the principles of the situation for Scotland, because doing the detailed work would require significant effort, as many have found out when they have tried to work out whether it is Scotland's oil money.

The Deputy Convener: Although we know the answer to that one.

Ted Brocklebank (Mid Scotland and Fife) (Con): Well, you know the answer to that one.

The Deputy Convener: I remind the committee that when Jim Hume and I talked to the officials in Brussels, it became clear that, as Iain Begg said, the process—in terms of reaching agreement on figures and other matters—is completely stalled.

We were told that it would be at least two or three years before the officials started looking at figures. What they were really looking at was mapping out where the challenges would be, up to 2025. In fact, we are building on work by the Japanese Prime Minister's office in its innovation report. The review seemed to be at an early stage, at which the challenges were being mapped out, with a view to getting down to the actual budget only after the new Parliament, the new Commission and the new president are in place after October next year.

Professor Begg: From the outset, the review was intended to be not about the numbers but about how to do the budgeting. It was seen as something that this Commission, and therefore this European Parliament, were supposed to deal with, hence the deadline of 2009. On the other hand, the negotiation on the next multi-annual financial framework was deemed to be for the next set of institutions—the next Commission and the next Parliament.

The underlying idea, for those who were most ambitious about it, was, "We've had the framework for the budget since 1988. Let's think fundamentally about what we want an EU budget to do, and put it in terms of policies rather than numbers. We can have the negotiation about the numbers in 2011." However, we should ask whether that idea is being realised, given that the process has stalled and not much is being achieved in the way of new thinking.

The Deputy Convener: We were told that, to be technically correct, the process should now be called budget reform rather than budget review.

You said, rightly, that working out the Scottish numbers requires a lot of work. Given that it will be at least two years before we examine the new numbers for the long-term budget, would you recommend that the committee should commission work on Scotland's financial relationship with the EU?

Professor Begg: I hesitate to say this on the Scottish Parliament's premises, but the difficulty is that the matter is a UK competence and not a Scottish one. What the UK Government negotiates will not necessarily reflect what is in Scotland's best interests.

The Deputy Convener: Is that not precisely the point? As a Parliament and a Government, we should try to influence the UK Government's negotiating stance. We should gather the evidence that we need to argue our case so that it is at least on the table in London.

Professor Begg: Yes. That is what I was going to say in my answer. On the revenue side, if my expectation is correct and the GNI resource is principally used, possibly with the existing VAT resource folded into it, the intergovernmental contribution will be about 85 per cent of the budget funding. Scotland cannot aspire to do much to change that, because it is general taxation throughout the UK that will pay into it.

I presume that the issue for the Scottish Parliament will be on the expenditure side. In particular, it can ask whether what appears to be the wish in Whitehall—to abandon cohesion policy for richer member states—is against the interests of recipient areas such as Scotland. Scotland has an interest in commissioning work on advocating the continuation of the cohesion policy as an EU policy that is funded by the EU budget and is open to all 27 member states. That work could ask to what extent we depend on cohesion policy and to what extent we would lose out if the United Kingdom Government was successful in repatriating it. In that case, Scotland would be dealing not with Brussels but with Whitehall in trying to negotiate variations on the Barnett formula, which we all know is deeply sensitive.

Gil Paterson (West of Scotland) (SNP): Alex Neil touched on the key issues for Scotland, which are covered in paragraph 19 of your submission. People always give us a qualified position, not only you but—[*Interruption.*] Perhaps someone else is going to tell us about it.

Professor Begg: If that phone call is for me, tell them I am busy.

The Deputy Convener: They have found a Lib Dem voter in Glenrothes. [*Laughter.*]

Gil Paterson: Seriously, there is always an air of not knowing exactly where Scotland sits, and when it comes to the numbers there is always apprehension in saying, "This is the figure, and this is what the contribution should be." Is it satisfactory that we are in that situation? Should we not—probably for the first time in 40 years—have a full Scottish budget so that we understand exactly what the numbers are? Politics is always played when it comes to these serious issues. When we ask about our fair share, our fair contribution or our fair entitlement, the numbers are never definitive, whereas when we talk about anything else, we seem to be able to get the numbers easily.

Professor Begg: I have two points on that. First, we are talking about a very small proportion of public expenditure, or indeed of taxation in the widest sense. We can expend a lot of effort on trying to refine the figure, but it is so small that it is almost inconsequential.

Secondly, I might have to disappoint you. If we said, "Let's have a precise calculation for Scotland," we would open Pandora's box, because every region in Europe would ask for the same thing. That would be a recipe for chaos. I do not think that at European Community level there is a disposition to calculate net budgetary balances for every region.

Gil Paterson: Perhaps I did not explain myself properly. I am talking about Scotland's position in general, rather than on this specific issue. When it comes to the numbers, politics always enters the discussion, regardless of the subject. There is misrepresentation from one side or another, but Scotland must be the only country in the world where it is impossible to establish what the numbers are and whether we are above or below the line. We never seem to have those figures. You say that we should not bother to get them, as doing so would cost more than it is worth. In this instance, that may be the case, but I am talking in general terms. Is it not time that we knew the numbers? I am making a simple and straightforward point.

Professor Begg: If you are asking me whether Scotland should have the means to define its overall finances, the question is outside my pay grade. The issue is on the cusp between devolved government and independence.

Ted Brocklebank: I would like you to put a little flesh on the bones of your opening statement. In your written submission, you are fairly blunt about the fact that no presidency wants to take on budget reform at the moment. Will it stay in limbo until the French are prepared to talk realistically about reforming the common agricultural policy?

Professor Begg: France is no longer the sole issue, as it has moved from being a net recipient from the EU to being a net contributor. One of the great ironies of the previous negotiation was that Blair's real achievement was to have Britain pay exactly the same net amount as the French. France has shifted camps—it is no longer a Government that wants more and more. Reform of the CAP will affect central and eastern Europe more than it affects France. Two things occurred: first, countries in eastern and central Europe were denied the full flow of money from the CAP during the current multi-annual financial framework; secondly, they believe that they banked promises to obtain that money from 2013 onwards. In future, the real resistance to abolishing the CAP will come from those countries.

Nevertheless, funding for the CAP has diminished slowly. No one says that it has reached a point at which we can be happy with it, but it is heading towards 30 per cent of the EU budget. In the past, the CAP was much more dominant and accounted for 70 per cent of the budget. It is relevant to point out that the CAP is almost the entirety of agricultural support that all levels of government provide. If that support were not provided through the CAP, member state or even devolved Governments would probably have to deal with the matter. We tend to get slightly too hung up on the CAP as an obstacle to reform.

I prefer to put the issue in slightly different terms. One useful way of looking at the EU budget is to distinguish between public goods that have a European value and distributive policies that ensure that relatively poor countries receive a net contribution and relatively rich countries make a net payment into the budget. There is a willingness at European level to move in that direction. Doing so would help us, as the deputy convener said, to reframe reform of the budget in a way that is more in line with thinking about how multilevel finance ought to operate. Issues such as climate change, which is mentioned in the Scottish Government's response, are best addressed at European level. Issues such as interpersonal distribution are best tackled at local or member state level. The process of taking from the rich and giving to the poor in a society is best mediated at member state level. Intergovernmental relations within the UK are best handled within the UK fiscal system. That is the most likely direction of change.

We need to consider what the CAP does. These days, it distributes money from the rest of society to farmers who, on the whole, are relatively poor. The barons of East Anglia, who own the huge prairies that I see when travelling from Cambridge to London on the train, still benefit enormously from the CAP, but that obstacle is slowly disappearing.

This is a rather long-winded answer but, if what I am saying is correct, the direction of public goods is the way to break the stranglehold of the CAP. That will also enable us to get away from the excessive focus on the net accounting balance of each member state. If something is built at the European level for Europeans as a whole, it should not be calibrated on the basis of whether we paid in 10p and other states paid in 10p.

10:15

Ted Brocklebank: I accept what you are saying but, given human nature, it is difficult for us not to want to know whether we are net donors or recipients. I know that Germany is the biggest single contributor, but where does the UK come in the league table of what states give and receive?

Professor Begg: Fifth or sixth, I think.

Ted Brocklebank: But we are still givers rather than receivers. We have not come to the medium point, yet.

Professor Begg: As my paper points out, the UK abatement functions in a curious way, so every time we get €1, we have to give back 66 cents. Roughly, Germany makes a net contribution of about 0.45 per cent of its gross domestic product;

our contribution is 0.3 per cent of GDP. The Swedes, the Austrians and the Dutch also pay relatively more than us. Some of the much smaller countries, such as Luxembourg and Belgium, make net contributions, but that becomes complicated by working out whether money that is spent on European institutions that are located in Belgium or Luxembourg provides a net benefit for them or is expenditure in those countries but not for Belgians or Luxembourgers. There are different ways of calibrating that.

Ted Brocklebank: Finally, with apologies to Alex Neil and his colleagues, and to mix metaphors, the Celtic tiger is currently slightly off the rails. Is that because Ireland has largely moved from being a recipient to being a net contributor?

Professor Begg: No. I will be bold and say that Ireland's position in the EU budget has absolutely nothing to do with the downturn in the Irish economy. Ireland's position has shifted from the early 1990s, when it hoovered in a lot of money from the EU budget, to being a slightly net beneficiary, as it still has a big agricultural sector and the cohesion policy is tailing off. Ireland still benefits, but everybody expects that it will become a contributor in the next round.

The Deputy Convener: I presume that that is because the average GDP per head in poor Ireland is 40 per cent higher than it is in rich Britain.

Professor Begg: It is, although I once heard an Irish finance minister come up with two wonderful explanations as to why Ireland should continue to receive money. The first was the perfectly reasonable statistical point that the country's gross national product is significantly below its gross domestic product, because of the net payment of profits to abroad, which is the flip side of all the foreign investment. The other explanation was much more imaginative: Ireland has been rich for only a short time and therefore has not built up sufficient assets, so the EU should continue to subsidise it.

Gil Paterson: Sounds reasonable.

Jamie Hepburn (Central Scotland) (SNP): I have a question about the process of the review or reform. I was going to ask about the issues to do with the presidency, but Ted Brocklebank has explored them. I think that you said in your opening statement that the process has stalled and that the European Parliament and Commission may soon run out of capability. What does that mean? Are you saying that, because there are European elections next year, politicians' minds might be focused on being re-elected rather than on the budget process, or did you mean something else?

Professor Begg: One parallel is the immense power that has been wielded by George Bush over the past few weeks—he is a dead man walking. You are right that, in the last few months of a Parliament, people focus on the elections, but the political power of the Commission also starts to drain away. We have already had a couple of defections from the Commission—we will not mention one of them, of course. A new Commission will start towards the end of 2009. It will be difficult for the outgoing Commission to take major initiatives such as changing the budget much later than the spring of next year. If we consider the timetable, the French have said that they will not change the budget. The next presidency goes to the Czechs, who are pretty Eurosceptic, at least at the level of Václav Klaus, the President, so other member states would be reluctant to allow the Czechs to take a major initiative on the budget. I fear that, for all those reasons, the institutional powers to make things shift—which is what I meant when I talked about capability—will be weakened beyond early 2009.

Jamie Hepburn: I turn to the more substantive issue of the system itself. You say in paragraph 7 of your written submission:

> "Critics also assert that because the national contributions appear as an expenditure line in the books of finance ministries, governments have an incentive to cut EU spending, irrespective of any arguments about the value of EU public goods."

Who are those critics?

Professor Begg: I will not give names, but I hear that line of commentary in different circles. Some in the European Parliament have made that assertion, and I had discussions along those lines with Alain Lamassoure, former chairman of the European Parliament Committee on Budgets.

On persuading member states to pay more, there is a perception in the European Commission that, because expenditure decisions are implicit in national budgets, finance ministries focus far more on national contributions than they would if there was a separate taxation system for the EU budget. My statement in paragraph 7 of my paper is therefore partly an impression that I have gleaned from speaking to many people over the past year or so.

Jamie Hepburn: You have just touched on the issue of the EU taking on a more direct taxation role than at present. You wrote extensively about that in your submission. Indeed, you stated in paragraph 6:

> "the EU lacks autonomy in financing—a sentiment that may be familiar in Holyrood".

However, is not the difference that Scotland is a nation, and there is a well-established precedent for nations or sub-units of nations being responsible for taxation? The same cannot be said for international or supranational organisations such as the EU. Are there examples of similar organisations around the world having responsibility for directly taxing citizens who live within their jurisdictions?

Professor Begg: No, and that is part of the EU's unique character. It is somewhere between an international organisation and the top level of Government. In the UK, we are typically not allowed to use the word "federal". However, the EU is a quasi-federal level of governance. Further, article 269 of the treaty establishing the European Community says that the EU "shall be" funded by "own resources". The legal wording "own resources" refers to your own revenue sources—those that belong to you.

Jamie Hepburn: But the EU is a multinational and international organisation, so surely its own resources will be the resources of its member states.

Professor Begg: That is the case if you view the EU as an organisation of member states. If you view it as the top level of Government, you would say that the federal level, like federal Governments elsewhere, would raise its own particular taxes. That is where the dilemma starts because, as I stated in the last paragraph of my submission, we have not collectively decided what we think the EU is. Is it an international organisation or is it the top level of Government? Plainly, there is far more to it than to international organisations such as the United Nations or the International Monetary Fund because it has law-making competence and undertakes its own policies and makes decisions on policies. To that extent, the EU is the highest level of Government. However, the member states maintain a strong stranglehold over it and limit its competences—so you pays your money and you takes your choice.

Jamie Hepburn: Arguably, that is because the EU is its member states.

Professor Begg: Well, if you read the treaty you will see that the EU is a union of member states and citizens. That dual character makes it rather difficult to characterise it. There is no direct comparator elsewhere in the world.

The Deputy Convener: Sorry, are you going on to a new point, Jamie?

Jamie Hepburn: No, my point is on the same issue.

Professor Begg, you state in paragraph 15 of your submission:

"Shifting to more authentic own resources, such as designated own taxes, would conform to many a theoretical model and answer some of the political concerns about visibility and transparency".

Does that not work against what you say in paragraph 5? It states:

"The existing system has many advantages, insofar as it assures stable and sufficient revenue for the EU … and is regarded by national administrations as straightforward to administer."

Professor Begg: Yes, there is a harsh choice here. If you want something that guarantees the revenue of the EU level, then stick with the existing system or even dump the traditional own resources, because they introduce a degree of complication. You could fund the EU purely through intergovernmental transfers, but if you want to bolster the top-level-of-government argument, and say that you want to support the EU level of governance, giving it a degree of financial autonomy would take you in that direction. It is a tough political choice.

Jamie Hepburn: Are any of the Governments of the member states calling for taxation to come within the EU's competence?

Professor Begg: Let me put it this way: the former French Prime Minister, Laurent Fabius, noted the frequent demonstrations in the streets of Paris and said that, so far, he had never seen a demonstration in favour of an EU tax.

Gil Paterson: I think that you have answered the question I was going to ask: do you think that the people of the member states are ready to pay tax to Europe?

Professor Begg: I can answer the question a slightly different way, because they already do. We already pay an EU tax through the traditional own resources, which is essentially a tax on imports. Most people do not know that if they buy a Chinese shirt, they are paying into the EU budget. We also pay into the EU through general taxation. The argument is not about whether people are willing to pay or are already paying towards the EU; it is simply that it is not done through an identifiable tax. I am sure that there is an exact parallel in Holyrood. If the Scottish people paid everything that the Scottish Government spent, the dynamics of the political contract between the Scottish people and its legislators would be altered. That is the precise issue in the EU.

Gil Paterson: That has made me think of a supplementary. Why is paying into the EU budget done by stealth? Is it because the peoples of the EU are not ready for a single state, and if a tax was identified as going to Europe, they might say, "No, that's not the direction we want to go in"?

Professor Begg: It might be that, but it is more that the member states do not want to cede control of revenue raising. There is an inevitable fear that if revenue-raising powers are given to any level of government, it will abuse them by increasing the amount that is raised. In the public finance economics literature, that is known as the leviathan thesis, which is the idea that the leviathan will expand if it is given the capability to do so. In fact, the EU treaty prohibits that, because expenditure has to be balanced. It is not allowed to run a deficit and the own resources ceiling caps the amount that can be spent. I do not therefore see the leviathan as a particular fear in the context of the EU budget.

Jamie Hepburn: Gil Paterson mentioned stealth taxes, but such taxes could be seen as Governments raising their own revenue to contribute to an international organisation that they have agreed to be part of. It is the idea of sovereignty being pooled. However, if the goalposts were shifted and the EU started to raise its own taxes, would that not be more like sovereignty being pulled?

Professor Begg: That is more of a play on words than a reality. We have already conferred sovereignty on the EU in certain areas. We expect the EU to do something about climate change, or to support the Lisbon strategy in ways that boost collective European competitiveness in response to the challenges of globalisation, but we do not endow it with the resources to do much. We expect member states to carry all the weight of funding and implementing the policies.

I come back to my answer to your previous question. The fundamental political choice is about what we think the EU is. I guess that you are saying that we should regard it, above all, as an international organisation. If that is all we want it to be, we should limit it to very moderate intergovernmental contributions. However, if we expect the EU to do something rather more fundamental to create the public goods that we want to be created at European level—whether that is European research or social policies or anything of that nature—it would find it difficult to do that without the means.

In addition, it is generally accepted—in the economics trade, at least—that matching the revenue raising and the expenditure of a level of government is the best way of putting incentives into the system for good policy making.

10:30

Jamie Hepburn: I might quote you on that in relation to another issue.

Jim Hume (South of Scotland) (LD): How likely is a European tax? Would such a tax make the people of this country at least engage better, because the European Parliament would be more accountable and more of an interest to them? Do you foresee a percentage of the income tax that an ordinary person in this country pays going to the European Parliament? If so, what percentage would that have to be?

I want to return to the common agricultural policy; I declare a farming interest in that context. You said that the dynamics are changing, that France is perhaps a contributor rather than a receiver, and that Ireland's situation is perhaps changing. To what extent will the CAP still be a major stumbling block for the budget review after the European Parliament elections? Everything seems to have gone on hold. How likely is it that the CAP will be radically reformed? Perhaps the UK Government would like it to be radically reformed but the Scottish Government would not, because Scotland is obviously far more reliant on agriculture than the rest of the UK is.

Professor Begg: I will deal with the last question first and again be as bold as I am allowed to be as an academic. The CAP will be reformed, but it will always be reformed at a gentle pace. On what might be put in place from 2014 to whenever the end of the next period is—that depends on whether it will be a five or seven-year period—I expect a further diminution in CAP's share of the overall budget, but only a gentle erosion of the amount that is spent on individual farmers compared with what is spent on them at the moment, but who knows? Through some bizarre process, an agreement might be reached in the Doha round that would undermine the level of support for agriculture and things could change. However, that is in the realm of speculation.

On income tax being used for EU funding, some of you may know that I directed a study on the revenue side of the EU budget for the European Commission's budget directorate-general, which it has told me will finally be released this week. The study has been hidden away in a drawer in Brussels since around May, because it risked saying things that could have been sensitive during the Irish referendum campaign. For example, it gave as one possibility—I said that it was no more than that—using corporate income tax to fund the EU budget. The rationale was that corporate income tax money results from the profits that European companies make, but identifying the country in which those profits arise is not necessarily easy. If a company is based in Ireland and declares profits in Ireland, those profits may have been generated in the UK, Germany, France or elsewhere. From the point of view of having a level playing field in the single European market, it would make sense to tax corporate income at the higher level—I do not mean at the higher rate; I mean at the higher geographical level. That possibility involves respectable logic; such a view accounts for corporate income being taxed at the UK level and at the federal level in the United States. It is obvious why such a proposal might have been sensitive during the Irish referendum campaign, which is one reason why our study was hidden away, but we think that it is one of the ideas that are runners if we were to move towards a particular tax being used at the European level.

We argued against the use of personal income tax to fund the EU budget for the simple reason that the ways in which personal income tax systems are administered vary enormously in the EU, because each member state has made a decision on the distributive implications of using such a tax. We have a relatively low standard rate of personal income tax in the UK compared with that in some other countries, and it does not progress too much compared with progressions in other countries. Redistributive decisions are member state decisions; therefore, I do not think that using income tax is a great idea.

Nevertheless, back-of-the-envelope arithmetic suggests that income tax raises about a quarter of the UK's aggregate taxation, which is roughly 11 or 12 per cent of GDP. Given that the overall EU budget is 1 per cent of Europe's GDP, using income tax to fund that would require one eleventh of income tax. Do not quote me on those precise numbers, as I have given only the orders of magnitude for that funding requirement.

In our study—I am not revealing deep secrets, as it is due to be published this week—we suggested that a tax for Europe should aim to reap a double dividend. For example, using a tax on carbon would make sense because it would simultaneously address the EU's collective objective of reducing carbon emissions and provide a means of raising revenue. Across member states, environmental taxes typically provide revenue of the order of 2 to 2.5 per cent of GDP. If the EU's requirement is only 1 per cent of GDP, existing environmental taxes provide plenty of room for raising that level of money. That is the direction that we suggested.

In any case, to reflect the dual character of the EU as a union of member states and a union of citizens, some of the funding should still come from member states by way of national contributions and some should in future come by way of an EU tax. That is a scenario for how things could evolve over a 15-year period if the EU wants to move in the direction of having its own taxes at European level.

Jim Hume: Given that we work in a globalised economy nowadays—we have been very aware of that over the past few upsetting months—a corporation tax might leave Europe at a competitive disadvantage. The rate would need to be balanced if we were to remain competitive with the rest of the world in persuading companies to locate in Europe. Would an extra corporate tax be a disadvantage in attracting companies to locate in Europe?

Professor Begg: That depends on how the money from the tax is used. If the money was used to support research at European level or to deal with issues such as carbon abatement, the tax would channel resources in the economy as a whole—I speak in macroeconomic terms rather than in terms of the precise impact on individual companies—such that what was taken away would be given back through a different channel.

If corporate income taxation is not used, that leaves either the consumer or property as the tax base. There would be squeals of objection from low-paid consumers if their incomes had to be squeezed. Any taxation decision must work out what base should be used and what rate of tax should be set. The rates of corporate income tax in the EU are such that corporate income tax provides probably a pretty minor deterrent, if any, to competitiveness.

Jim Hume: Given that he who pays the piper picks the tune, would an EU corporate income tax not provide much more clout—to use a good Scottish word—to those larger businesses that pay a lot of tax?

Professor Begg: I think not. If BP is told that it will be taxed such that it loses 20 per cent of its profits, that does not give BP the right to say how that money should be spent.

The Deputy Convener: For clarification, is the suggestion that a European corporate income tax would replace, or be in addition to, national corporation taxes?

Professor Begg: If we take the single market argument seriously, any difference in corporate tax regimes among member states distorts competition. That is a credible argument, which we hear in relation to Irish corporation tax and Slovakia's flat tax. Any member state that has a lighter corporate tax regime will attract companies to the detriment of other member states. That is the single market argument so, yes, the logic would be to replace existing corporate taxes with a European-level tax.

The Deputy Convener: That logic would surely extend to employers' national insurance contributions, which vary widely, and to VAT.

Professor Begg: That takes us into rather more tricky territory. In some member states, the national insurance contribution is seen as part of the social protection system. It used to be the case in the UK national insurance system that people paid their stamp and got their benefits as a result of paying that stamp; however, that direct hypothecation has been eroded over the years. Also, the social charges, as they are called, are very much higher in other countries than they are in the UK—in some countries, as much as 40 per cent of overall taxation. Getting that sorted out will be much more difficult than taxing corporate income.

The Deputy Convener: Agreed, but it involves the same principle of creating a single market, does it not?

Professor Begg: No. It tends to be seen as part of wage remuneration. In some countries, because people pay a lot through their social charges—which goes into pensions, health care and so on—it is seen as part of the reward of workers, although I know that that can be stretched too far to be entirely credible. It may also be the case that, if governments are profligate, having higher social charges undermines competitiveness. The French and Germans have complained that their social charges are too high. It depends on whether the charge is offset by lower wages or is reinforced by higher wages.

The Deputy Convener: EU expenditure seems to be contradictory. For example, we are taking some fairly radical measures to tackle climate change, but the EU provides and approves substantial subsidies to the German coal industry, which is not a particularly clean industry. Would it not be better for the EU to redirect that money into funding for carbon-capture technology instead of using it to subsidise dirty coal? Also, the EU spends a huge amount of money on the common agricultural policy, which does enormous damage to sub-Saharan African economies. Would it not be better to eliminate the tariffs on imports of their products and to cut the cap? That would not only help the European consumer; it would do far more than all the subsidies that we are giving to sub-Saharan Africa. Actually buying their products would have a far greater impact. Finally, Europe apparently spends €800 million a year on translation services. Could we not cut down on all that nonsense?

Professor Begg: My answers to your first two questions are yes and yes. My answer to your third question is that, when I came into the Scottish Parliament building, I noticed Gaelic on all the signs. Do you want Gaelic to be abolished? Do you want everybody to speak nothing but English?

The Deputy Convener: We do it in a cost-effective way.

Professor Begg: The issue touches on national sensitivities. Would you accept a European Parliament in which you were not allowed to speak your own language?

The Deputy Convener: I take the point. However, €800 million a year seems to be an awful lot of money to spend on translation services—and that is without the bill for what is printed.

Professor Begg: The cost is high, yes, but—is it up to me to defend it? I will play devil's advocate.

The Deputy Convener: You can defend it in French, if you like.

Professor Begg: Si vous voulez, je puis le soutenir en français—

The Deputy Convener: No, I am just making the point that, before we increase the European budget, much more effective use could be made of the existing budget. Redirecting resources from subsidies for dirty coal to clean-coal technology seems an obvious EU budget reform to make.

Professor Begg: I fully agree; hence my answers of yes and yes to your first two questions.

There is a strong probability that the next round of the multi-annual financial framework will have as a leitmotiv—that is a good German word—carbon abatement and efforts to support a low-carbon economy. In 1997, when the budget negotiations started for the period 2000 to 2006, the underlying narrative was the need to introduce a budget to facilitate enlargement.

The 2007 to 2013 budget was supposed to be about competitiveness or—to put it in EU language—the Lisbon strategy. Whether that has been the case is a different story, but we can see that an attempt was made to underpin the budget.

10:45

In the early 1990s, when monetary union was first agreed, it was accepted that the budget should have a cohesion element, to compensate countries that were deemed likely to suffer from monetary union. In fact, the situation has been the reverse. Beyond 2013, low carbon could be the leitmotiv for the budget. Within that, carbon capture and sequestration is supposed to be one of the principal technologies that need to be supported, if I take seriously what Nick Stern says. I agree fully with you about that.

My last point is about the translation budget. Yes, it sounds like a lot of money, but significant rationalisation has taken place in the Commission, where meetings are in French, English or—occasionally—German. The other languages are not offered. The newer member states in particular are under considerable pressure to stick to one of those three core languages. However, we will never get away from the need to translate into every language for parliamentarians, because they have a democratic right to speak their own language. That costs money—we cannot get away from that.

The Deputy Convener: That session was good. The written and oral evidence has been helpful and informative. I thank Professor Begg very much.

Professor Begg: The committee has not touched on abatements—rebates.

The Deputy Convener: I think that Ted Brocklebank covered that.

Ted Brocklebank: I tried to go into the subject, but perhaps Professor Begg would like to say more.

Professor Begg: Rebates are an anomaly. The system is odd. After expenditure is agreed, it is said that that is unfair, so a second round is needed to undo the implications of the expenditure. That is where the committee might want to reflect on my assertion that public goods are distinct from redistribution and to emphasise that in making a case.

The Deputy Convener: I should say that we will not take the narrow nationalist view that is taken in London on such matters.

Professor Begg: Of course not.

The Deputy Convener: Thank you for your helpful evidence.

Professor Begg: Thank you for inviting me.

"Brussels Bulletin"

10:47

The Deputy Convener: Agenda item 3 is the "Brussels Bulletin", which members have had a chance to read. Do members want to make any points?

Jamie Hepburn: The bulletin says that a financial crisis cell has been established. Do we have scope to consider how devolved jurisdictions such as ours fit into that? I see that a summit will be held on 7 November. Should we get details about that after it has happened?

The Deputy Convener: Okay—the clerks will follow that up. Everybody is happy with that.

Do you want to ask the Scottish Government whether it is submitting anything to that summit through the UK Government?

Jamie Hepburn: That could be useful.

The Deputy Convener: Do you have any other points?

Jamie Hepburn: Yes—I was waiting to see whether anyone else had comments.

A previous "Brussels Bulletin" referred to a directive on works councils, on which I thought that it would be useful to have information.

The Deputy Convener: We have not received that yet.

Jamie Hepburn: I do not know whether we have received that information or whether it is in the pipeline.

The Deputy Convener: We are waiting for a report.

Do members have any more comments? Has Jamie Hepburn missed anything?

Jamie Hepburn: No—that is it.

The Deputy Convener: Everybody is happy to move on. We will go into private session, so we must clear the public gallery—that will take half an hour!

10:49

Meeting continued in private until 11:03.

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