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**REPORT FROM THE COMMISSION TO THE EUROPEAN PARLIAMENT AND
THE COUNCIL**

**on the application of Council Regulation (EC, Euratom) No 1287/2003 on the
harmonisation of gross national income at market prices (GNI Regulation)**

1. INTRODUCTION

Council Regulation (EC, Euratom) No 1287/2003 of 15 July 2003 on the harmonisation of gross national income at market prices (GNI Regulation)¹ establishes the procedures to facilitate the verification, and where necessary the improvement, of the comparability, reliability and exhaustiveness of Member States' estimates of gross national income (GNI). The adoption of the GNI Regulation followed Council Decision 2000/597/EC, Euratom of 29 September 2000 on the system of the Communities' own resources².

GNI in application of the European System of Accounts (ESA 95) according to Council Regulation (EC) 2223/96 of 25 June 1996 on the European system of national and regional accounts in the Community³ has been the basis for the Communities' fourth own resource since 1 January 2002. GNI replaces gross national product (GNP) which was used to assess the fourth own resource for the years before 2002.

The predecessor of the GNI Regulation was the so-called GNP Directive, Council Directive 89/130/EEC, Euratom of 13 February 1989 on the harmonization of compilation of gross national product at market prices⁴. The GNP Directive set up a procedure to verify and assess the comparability, reliability and exhaustiveness of GNP within the GNP Committee in which Member States and the Commission cooperated closely from 1989 to 2003. A good level of comparability was achieved. The GNI Regulation builds on and adjusts this procedure to take account of GNI for the purposes of own resources and establishes the GNI Committee.

The GNI Committee held its first meeting on 5-6 November 2003 which, at the same time, was the last meeting of the GNP Committee. At that meeting the GNI Committee adopted its Rules of Procedure as stipulated under Article 4 (3) of the GNI regulation.

The purpose of this document is to report on the application of the GNI Regulation, as foreseen by Article 7 of the Regulation. It summarises the progress made by the Commission and the GNI Committee on the harmonisation of GNI and the application of the GNI Regulation since its entry into force. Chapter 2 describes measures taken to ensure a precise definition of gross national income at market prices. Chapter 3 describes the measures taken to ensure the timely forwarding of GNI data and additional information by the Member States to the Commission. Chapter 4 describes the actions taken by the Commission to verify the sources and methods used by the Member States to calculate GNI. Chapter 5 draws conclusions on the application of the GNI Regulation since its entry into force.

2. DEFINITION AND CALCULATION OF GROSS NATIONAL INCOME AT MARKET PRICES

Article 1 of the GNI Regulation provides that GNI and gross domestic product (GDP) for budget purposes shall be defined in accordance with the European system of national and regional accounts (ESA 95). ESA 95 is applied by Member States under Council Regulation (EC) No 2223/96 of June 1996 on the European system of national and regional accounts in the Community (ESA 95 Regulation). Since the GNI Regulation 1287/2003 was adopted in

¹ OJ, L 181, 19.7.2003, p. 1.

² OJ L 253, 7.10.2000, p. 42.

³ OJ L 310 of 30.11.1996, p. 1.

⁴ OJ L 49 of 21.2.1989, p. 26.

2003, the first data to which it referred were those delivered in September 2003 for budget year 2002.

Member States have already been calculating GDP and GNI according to ESA 95 since April 1999 under the ESA 95 Regulation. Since that time, GNP according to the former ESA second edition has been derived for own resource purposes from GDP according to ESA 95 by making specific conceptual adjustments. The principal conceptual adjustments were laid down in Commission Decision 97/178/EC, Euratom of 10 February 1997 on the definition of a methodology for the transition between ESA 95 and ESA second edition⁵. The Commission (Eurostat) and the GNP Committee therefore invested a lot of work in the harmonisation of calculations according to ESA 95, even before the new GNI Regulation entered into force.

Once the GNI Committee was established in November 2003, it took steps to ensure that the previous work of the GNP Committee on harmonising national accounts concepts and definitions would remain valid for the harmonisation of GNI, whenever relevant. It also took measures to clarify and further define conceptual changes which were newly introduced by ESA 95.

One step was to confirm and update several legal acts related to GNP and equally relevant to GNI. As a consequence, the following Commission regulations were initiated and passed:

- Commission Regulation (EC) No 109/2005 of 24 January 2005 on the definition of the economic territory of Member States for the purposes of Council Regulation (EC, Euratom) No 1287/2003 on the harmonisation of gross national income at market prices⁶
- Commission Regulation (EC, Euratom) No 116/2005 of 26 January 2005 on the treatment of repayments of VAT to non-taxable persons and to taxable persons for their exempt activities, for the purposes of Council Regulation (EC, Euratom) No 1287/2003 on the harmonisation of gross national income at market prices⁷
- Commission Regulation (EC) No 1722/2005 of 20 October 2005 on the principles for estimating dwelling services for the purpose of Council Regulation (EC, Euratom) No 1287/2003 on the harmonisation of gross national income at market prices⁸.

A second step was that the GNI Committee adopted several recommendations on specific conceptual ESA 95 issues which had previously been agreed by the GNP Committee, namely on:

- The measurement of gross fixed-capital formation in software;
- The measurement of insurance services;
- The treatment of import duties paid by non-residents (The “Rotterdam effect” on import duties);
- Measurement of imputed social contributions;

⁵ OJ L 75 of 15.3.1997, p. 44.

⁶ OJ L 21, 25.1.2005, p. 3.

⁷ OJ L 24, 27.1.2005, p. 6.

⁸ JO L 276, 21.10.2005, p. 5.

- The treatment of the correction in favour of the United Kingdom.

In addition the GNI Committee adopted recommendations produced by the following Task Forces:

- Task Force on entertainment, literary and artistic originals;
- Task Force on consumption of fixed capital for public infrastructure;
- Task Force on reinvested earnings on foreign direct investment.

3. FORWARDING OF GNI DATA AND ADDITIONAL INFORMATION

Transmission of GNI data

According to Article 2(1) and (2) of the GNI Regulation Member States shall establish GNI in the context of regular national accounting and provide the Commission (Eurostat) before 22 September each year with figures for aggregate GNI and its components. This means that the deadline for transmitting GNI data to the Commission for own resource purposes has been advanced by eight days compared with the GNP Directive which set 1 October as the date before which Member States had to provide their GNP data.

There have been no major problems with this new deadline. Only in 2003, the first year of application, when the regulation had been adopted only in July, a small number Member States delivered according to the old schedule. In 2004 and 2005 all Member States provided their GNI data on time.

Each year, in early July, the GNI Committee has reached agreement on a common structure of the transmission tables (“GNI questionnaire”) to be used by Member States in order to facilitate the provision of their GNI data. Shortly after the July GNI Committee meeting, Eurostat has sent to each Member State a template (in Excel-format) of the agreed questionnaire, requesting a timely return of the completed GNI questionnaire.

The questionnaire also includes additional tables and formulae which help to check the consistency of the data provided and to detect and avoid possible errors. In addition, it is accompanied by detailed instructions on how to fill in the questionnaire correctly. These measures have greatly helped to harmonise and further improve the data submitted by the Member States to Eurostat.

Annual report on the quality of GNI data

The GNI Regulation also obliges Member States to transmit an annual report on the quality of their GNI data to Eurostat (Article 2(3)). The purpose of this report is to supply the Commission with the information necessary to show how the figures were reached, to describe any significant changes in the procedures and basic statistics used and to explain the revisions made to earlier GNI estimates.

The common content and format of this report was agreed by the GNI Committee at its meeting in July 2004. Subsequently all Member States provided a quality report along with their GNI data in September 2004. The reports were of good quality and gave the Commission the necessary background information to assess the Member States’ data.

However, despite a common format and instructions on how to compile the quality reports, there were still considerable differences among the Member States in the length and structure of their reports. In 2005 Eurostat, with the agreement of the GNI Committee, therefore gave more precise instructions for the compilation of the quality reports. This further improved the comparability and usefulness of the quality reports transmitted in September 2005.

Integrating the new Member States into the GNI process

Contributions by the new Member States to the fourth own resource are based on GNI data starting in 2004, the year of their accession to the European Union. GNI data for 2004 had to be provided to the Commission for the first time in September 2005.

The new Member States were integrated into the process of providing GNI data well before that time. In 2003 the new Member States provided GNI data for 2002. This was repeated in 2004 with revised GNI data for 2002 and a first transmission of GNI figures for 2003, also including a quality report.

Thanks to these trial exercises, the transmission of GNI data in 2005 for the new Member States went as smoothly as for the old Member States.

GNI inventories

The main purpose of the annual GNI quality reports is to provide information on cases where there have been significant changes to and revisions of the Member States' GNI calculations. The quality report is therefore intended to give a brief and concise update on a Member State's methodology, sources and results where necessary.

In contrast to these short reports, a fully detailed account of the methods and sources used to calculate final GNI figures and its components is given in the inventories of the procedures and basic statistics used to calculate GNI and its components (GNI inventories). Member States are obliged to compile and provide to Eurostat such inventories under Article 3 of the GNI Regulation. These inventories are one of the main instruments enabling Eurostat to assess the comparability, reliability and exhaustiveness of the Member States' GNI data.

Since the procedures and basic statistics for compiling final GDP and GNI data do not change significantly every year, but only during major revisions at longer intervals, it is not necessary to rewrite the GNI inventories every year. The GNI Committee suggested at its July 2005 meeting that countries should, as a general rule, update their GNI inventories within one year of a major benchmark revision, or, where no benchmark revision policy exists, at least every five years.

At the moment GNI inventories exist for the 15 old Member States (as well as the EEA countries Norway and Iceland). These inventories date mostly from between 2001 and 2003 (a few also from 2004), comprise typically between 300 and 500 pages and were used by Eurostat in the last round of GNP controls in the old Member States (see chapter 4 of this report).

The writing of GNI Inventories for the new Member States is currently well under way. This process has been financially supported by the Phare programme and there has been significant assistance to new Member States from old Member States.

Member States are required to draft their inventories according to an agreed structure in order to ensure that their contents are fully comparable. To this end, Eurostat has developed a new GNI inventory guide, which was adopted by the GNI Committee in July 2005. This guide builds on an earlier version from 1999, as well as on the experience gained from the latest inventories for the old Member States.

As for timing, the GNI Committee agreed in November 2005 that all Member States should provide a new or updated version of their GNI Inventory by 31 December 2006 at the latest. At the beginning of 2006, the Commission wrote to Member States to remind them that any reduction in their contributions to the Communities' budget attributable to delays in the revision of GNI inventories could give rise to a request for interest for late payment in conformity with Article 11 of Council Regulation (EC, Euratom) n° 1150/2000 of 22 May 2000 implementing Decision 2000/597/EC, Euratom on the system of the Communities' own resources.⁹

Improving the quantitative description of GNI calculations: Process tables and the tabular approach

Accuracy and exhaustiveness are key elements for high quality GNI data. Both the GNI Committee and its predecessor, the GNP Committee, have made great efforts to improve the measurement and assessment of accuracy and exhaustiveness of national accounts data.

In 1999 the GNP Committee set up a Task Force to review all relevant aspects of accuracy assessment in the basic data sources, to examine the feasibility of accuracy assessment in national accounts, and to make recommendations for a possible extension of the reporting requirements for the GNI data for the fourth own resource. The outcome of this Accuracy Task Force has been a set of recommendations on the compilation of so-called Process Tables which are a tool to describe the quantitative dimension of the specific steps in the GNI compilation process from the source statistics to the final national accounts aggregate.

This Process Table approach was subsequently tested by ten Member States. The experience obtained from those tests was used to refine the recommendations further and to draw up a Process Table compilation guide, which was approved by the GNI Committee at its meeting in July 2005. At the same meeting, Eurostat suggested that all Member States should compile Process Tables as a minimum at each benchmark revision and integrate them in their GNI inventories.

Eurostat has also been working on the so called tabular approach to exhaustiveness, a tool which can provide additional quantitative information for the assessment of GNI data. This approach was developed within Phare projects with the then candidate countries and provides a complete, consistent and practical framework for ensuring exhaustiveness and comparability of the accounts. It can be seen as complementary to the process tables as it provides further detail on the exhaustiveness adjustments already described in the process tables.

The GNI Committee voiced broad support for the principle of the tabular approach at its July 2005 meeting. There have, however, been concerns about the significant additional workload which would result from the introduction of this approach.

⁹ OJ, L 130, 31.5.2000, p. 1. Regulation as last amended by Regulation (EC, Euratom) No 2028/2004 (OJ L 352 of 27.11.2004 p. 1.).

4. PROCEDURES AND CHECKS ON THE CALCULATION OF GNI

Responsibilities within the Commission for verifying GNI

According to Article 5(1) of the GNI Regulation, the Commission shall verify the sources and methods used by Member States to calculate GNI. The division of responsibilities within the Commission for checking GNI own resources has been agreed in a memorandum of understanding between Eurostat and DG Budget, signed by the Director Generals of both services in 2004, which is an update of a similar memorandum signed in 1992.

Relation between GNI Committee and GNP Committee

A joint statement of the GNP and GNI Committees was adopted at their joint meeting of 5-6 November 2003. According to this statement the GNP Committee, considering that all GNP data used for own resource purposes are derived from ESA95-based national accounts, accepts henceforth the opinion of the GNI Committee on ESA 79-based GNP data.

Verification of the Member States' GNI calculations

Between 2002 and 2004 Eurostat undertook an intensive analysis of the statistical sources and methods of all old Member States plus Norway and Iceland. This analysis drew on information gained both from the countries' GNI inventories and from GNI control missions to their national statistical institutes.

The aim of this exercise was to validate the reliability, comparability and exhaustiveness of the countries' national accounts data for own resource purposes. It also had as an objective to determine on which specific points the Commission needed to reserve its position on the Member States' GNP data. Council Regulation (EC, Euratom) No 1150/2000 of 22 May 2000 implementing Decision 2000/597/EC, Euratom on the system of the Communities' own resources allows for the possibility of placing reservations on the GNP data of the Member States. According to Article 10(8) of that Regulation, changes to GNP shall no longer be taken into account after four years following a given financial year, except on points notified within this time limit either by the Commission or by the Member State.

As an outcome of the analysis of the Member States' sources and methods, Eurostat was able to replace former general reservations on the old Member States' GNP data for the years 1995 to 2001 by specific reservations. In total, 68 specific reservations were set in 2004 and 2005, affecting 14 Member States. In 2005, the work on 5 of these specific reservations could already be completed and the specific reservations could be lifted. The Member States have until September 2006 to address their specific reservations.

These specific reservations concern GNP and its components and cover the years 1995 to 2001. The GNI Committee agreed in October 2005 to place in July 2006 a general reservation on the old Member States' GNI data for 2002, which would otherwise become final for own resource purposes in 2006. The general reservation will remain in place until Eurostat has undertaken a new round of analysis of the updated GNI Inventories, which are to be provided by the Member States before the end of 2006.

The GNI data of the new Member States for 2004, the year of accession, will remain open for own resource purposes until 2008. Eurostat will verify their sources and methods in the same

way as for the old Member States once their GNI Inventories have become available, also at the end of 2006.

Annual examination of and formal opinion on the appropriateness of GNI data for own resource purposes

Article 5(2) of the GNI regulation requires the examination of the GNI data provided to the Commission each year by the GNI Committee. The Committee must then give its opinion on the appropriateness of Member States' GNI data for own resource purposes.

To this end, Eurostat conducts a thorough annual check of the GNI data provided by 22 September. Several measures have been taken over the past three years to further improve the workflow, checks and documentation for verifying the incoming data. Once verified, these data are presented to and examined by the GNI Committee which then adopts its opinion on the appropriateness of the data of the old Member States. Once the appropriateness of the data is established, the opinion, together with the data, is forwarded to DG Budget.

The GNI Committee has not yet been in a position to form an opinion on the appropriateness of the GNI data of the new Member States in view of the fact that their inventories of sources and methods are not yet available to the Committee.

Examination of the Commission's controls by the European Court of Auditors

The Commission's work on controlling and verifying the Member States' GNP and GNI data has been thoroughly examined by the European Court of Auditors on an annual basis. A detailed account of the Court's activities with respect to the GNP and GNI own resource can be found in its Annual Reports on the Implementation of the Budget, as well as in a series of sector letters and preliminary findings, and most recently, in the latest Annual Report concerning the financial year 2004¹⁰. In this report the Court gives an positive overall assessment, noting that "... on the basis of data supplied by the Member States, the VAT and GNI resources in all material respects had been correctly calculated, collected and entered in the Community accounts by the Commission" (see paragraph 3.53 of the Annual report).

5. CONCLUSIONS

The transition in 2003 from the GNP Directive to the GNI Regulation worked well and smoothly. Adequate steps were taken to implement and update legal acts and recommendations for the purposes of the GNI Regulation. In addition, new conceptual recommendations were developed in order to further harmonise GNI data among the Member States and work will continue in this field, with respect to, e.g., the recording of production from illegal activities as required under ESA 95.

Measures have also been taken to ensure the timely and harmonised transmission of GNI data, to improve and update the documentation of methods and sources used to calculate GNI and its components, and to develop a better quantitative picture of the accuracy and exhaustiveness of GNI figures. The new Member States have been successfully integrated into the GNI progress.

¹⁰ OJ, C301, 30.11.2005, p. 1.

On the procedural side, it has been ensured that the responsibilities within the Commission for verifying GNI data have been clearly defined and that there has been a clear institutional transition from the GNP Committee to the GNI Committee. Progress has been made on the examination and checks of the GNI calculations. The very good cooperation between the Commission and the Member States, both in the GNI Committee and during information visits of the Commission to the national statistical institutes has also been helpful in this process.

In the coming years, the Commission and the GNI Committee will continue their efforts to maintain and further improve comparability, reliability and exhaustiveness of GNI data. In 2006 the old Member States will address any outstanding reservations on specific components of their GNP data for 1995 to 2000. The Commission will reserve its position on the old Member States GNI data for 2002, pending a verification to be conducted on the basis of new, updated documentation to be provided by the Member States by the end of 2006. The new Member States are also due to provide a first full documentation of their methods and sources by the end of 2006. This will be followed by a thorough control by the Commission.