



# Ålands fredsinstitut

The Åland Islands Peace Institute

*NGO in Special Consultative Status with the Economic and Social Council of the United Nations*

Mariehamn, 27 May 2011

## To The European Commission

### **Comments on Green Paper on the Future of VAT, Com (2010) 695 final and Commission Staff Working Document SEC(2010) 1455 final**

We send our brief comments as our resources are limited in terms of managing complicated administrative procedures as those involved in penetrating through the underlying studies and green papers of the Commission. We are happy that we have the possibility this issue which may entail huge practical consequences for our work, something which is invisible in the present drafts of the Commission. This is in fact one of the crucial points in this comment, i.e. **the ideas put forward in the Green Paper ignore completely the existence of the so called third sector, i.e. civil society organisations.**

#### **General considerations**

The Green Paper as well as the underlying Working Document start off from the distinction between two aspects of societal organization in Europe, the core component of business and profit-oriented private sector activities on the one side and on the other the public sector.

As evident under Topic 2 of the Working Document (p. 24) it is made clear that for the purposes of the VAT directive, a taxable person is ‘any person who carries out economic activities’, whatever the person’s status – private or public. It is also clear that the main concern of the Commission at the moment, with regard to public bodies, i.e. bodied exercising public authority, is that of the reluctance of public bodies to outsource (see section 5.1.1 of the Green Paper). While not expanding, it would be important at this point to remind that areas such as health, education and welfare policy still remain outside the competence of the European Union, even though they are obviously interconnected with aspects of mobility and free movement of persons, goods and services. However, the definition of what is exercise of public authority and what is to be treated primarily as a service should remain in the hands of Member States in view of the fact that perceptions, experiences and conditions vary around Europe. This follows from the principle of subsidiarity in Article 5 of the Treaty on European Union, and for instance Article 152 of the Treaty establishing the European Community regarding public health or Article 165 of the Treaty on the Functioning of the European Union concerning the field of education.

Further, in most of those areas, the freedom of member states as well as of the European Commission is further limited by their respective undertakings within human rights legislation, why outsourcing is but one of the options available for public bodies when they consider that such outsourcing can be efficient and the most appropriate solution for each specific field and only if a system of monitoring of quality and respect of individual human dignity can be put in place.

Therefore the recently launched study of the economic and social impact of VAT on public bodies should carefully look into these limitations of EU cooperation and legislation.

## The effects of the Green Paper proposals on our work

As mentioned above the Green Paper conceptualizes only two spheres, the business sector and the public sector (i.e. the exercise of public authority). However, all social science research insists about the importance of the zone in between the public and the private/business sector. This goes for political theory such as that of social capital where Robert Putnam's works such as 'Making Democracy Work: Civic Traditions in Modern Italy', 1993 and 'Bowling Alone', 2000 are well known and argue that bonding social capital is crucial as glue of societal interaction also in western countries.

Similar conclusions but from a completely different perspective have come from economic anthropology where works such as those of Stephen Gudeman (The Anthropology of Economy: Community, Market, and Culture, 2000) show that profit is but one of the driving forces of economic activities in our societies while trust, solidarity and generosity are others. In the Member States in Europe there is legislation concerning public interest private organizations, whether associations, foundations, charities etc. The definition of what is public interest and what form of institutional arrangements the legal system should endorse is of course also part of the discussion on subsidiarity, since traditions vary greatly even within Europe.

So, on the basis of social science research as well as our local experiences on Åland, in Finland and in the Nordic Countries we know that many societal activities would simply not take place if they were not supported by civil society organizations such as the Åland Islands Peace Institute. The Ålands Islands Peace Institute was established in 1992 as a (non-profit) foundation registered in Finland. The Institute conducts research and projects into peace and conflict issues from the vantage-point of Åland and the special status that Åland enjoys under international law. It focuses on autonomy in various forms, minority-related issues, demilitarisation and conflict management. The Åland Islands Peace Institute participates in several national and international networks of organisations and institutions working on related issues. It has consultative status with the UN Economic and Social Council, ECOSOC. Our core funding (for administration, rent, information activities) is to a small extent (approximately 20%) coming from the Government of Åland, The Finnish Ministry of Education and the City of Mariehamn. All other major funding is project-based from the EU (where we, inter alia, are registered as a public interest, non-profit institution within the EU7th Framework programme for research), the Nordic Council of Ministers and other public authorities, private sector and public interest foundations in Finland and internationally (see more [www.peace.ax](http://www.peace.ax)). In order to apply for such funding we have quite often to provide for our own (non-public) funding, often called co-funding/co-financing. This contribution we can achieve by having a smaller amount of income (through publications and fees for speeches and trainings we give). In a total budget of about 500.000 euro/ year we have never managed to exceed an amount of 5.000-8.000 euro through our books and activities (i.e. about 1% of our turnover). This amount is always re-invested as our own co-financing for new projects. *Should the Peace Institute be forced to charge VAT, as proposed by the Commission, then our administrative costs would greatly exceed the level of 20% of core funding we have, and we would have to close down, as we would not be able to produce any co-funding.*

*In addition, we find that it would be unethical if we would invest our time and expertise in administrative, financial calculations and reporting when issues of prevention of violence, efforts of mediation or the analysis and development of autonomy, minority protection and demilitarization are much more pressing.* We also think that the Commission itself would rather ensure that our activities have societal impact and good results rather than contributing a few hundred euros of VAT every year to the European incomes. We know that many other organizations on Åland such sports clubs for children, religious organizations, social activity oriented organizations depend on non-bureaucratic, often voluntary, or nearly voluntary contributions of people's time and engagement. There are simply no profit-oriented businesses that would be willing in a responsible and socially engaged way to provide our children, elderly or marginalized groups with meaningful support and time, in terms of sports activities, cultural activities, educational activities etc.

The Commission shows little respect for the kind of society we have developed in the Nordic countries and on Åland, what is sometimes called ‘the Nordic model’ (see the work of Finnish historian Henrik Stenius, e.g. *Frivilligt-jämlikt-samfällt. Föreningsväsendets utveckling i Finland fram till 1900-talets början, med speciell hänsyn till massorganisationsprincipens genombrott*, 1987) which includes strong civil society organizations and strong cooperation between public authorities and the civil society organizations. The Commission seems to work in the Green Paper only along the lines of deregulation and privatization, in spite of the fact that it has simultaneously announced the *European Year of Voluntary Activities Promoting Active Citizenship* (2011). The Nordic model for active citizenship includes strong and un-bureaucratic civil society organizations, ranging from churches, local fire-brigades and religious organizations to ice-hockey clubs for children.

Our own research and practical experience has shown that for the weakest social groups and the more remote areas in our Northern countries, such as Åland, deregulation alone does not work at all well (see e.g. Sia Spiliopoulou Åkermark (ed), *International obligations and National Debates*, 2006; Bogdan State, *Strangers by Degrees*, 2009; and Petra Granholm, *Översikt av lagstiftning och policy gällande integration av inflyttade i Finland och på Åland*, 2009; the two last mentioned can be downloaded for free at [www.peace.ax](http://www.peace.ax) ).

## **Conclusion**

*We urge strongly the Commission to revise its proposals and incorporate adequate exemptions with regard to public interest activities, also for public authorities, and in particular for civil society organizations in order to ensure that its VAT-proposal does not destroy the opportunities for those of its citizens that do not have the strongest of economic power and does not distort the democratic decision-making structures of the societies in its member states. This decision remains fully within the competence of member states under the principle of subsidiarity.*

Yours sincerely,

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P.S. We attach the document as a word-file, according to your wishes, but are prepared to send you a signed copy should it be of some help.