

## Own resources of the European Union

The "own resources system" ensures the financing of EU's policies. While the European Council of February 2013 agreed only marginal changes to its current configuration, a newly established high-level group chaired by Mario Monti may possibly pave the way to deeper reforms.

### Legal basis

[Article 311](#) of the Treaty on the Functioning of the European Union (TFEU) aims to provide the Union with financial autonomy, and establishes that **own resources** finance the budget of the EU. The Council unanimously sets the provisions governing the own resources system, on which the European Parliament (EP) is only consulted. In addition, this special legislative procedure requires ratification by all Member States (MS). Implementing measures for the system are also subject to a special legislative procedure, in this case requiring the EP's consent but only a qualified majority in the Council.

### The current system

The maximum amount of resources available for annual payments (own resources ceiling) is set at 1.23% of the Union's gross national income (GNI), which is an indicator of annual economic activity. In 2012, the EU budget had total revenue of €139.5 billion, divided as follows: 12% from **traditional own resources** (mainly customs duties); 11% from an own resource based on **value added tax (VAT)**; 71% from an own resource related to Member States' **GNI**; as well as 6% of **other revenue** (e.g. taxes on EU staff salaries and fines on companies for breaching competition law) not classified as "own resources".

Since the EU budget cannot run a deficit, the GNI-based resource was designed to play a budget-balancing role, but its importance has steadily increased over time, and it now represents by far the largest share of the total. In addition, based on a complex statistical calculation to harmonise MS' VAT bases, the VAT resource has a very weak link to actual VAT proceeds collected in MS and is sometimes considered to be just an additional GNI resource.

Set in [Council Decision \(EC, EURATOM\) No 2007/436](#), the system ensures enough resources to cover planned EU expenditure. However, it is often criticised for its opacity reflecting the successive series of agreements that MS have reached since 1970. New agreements are seen to have frequently added layers of complexity to the overall design, for example, in the form of correction mechanisms applicable only to some MS to reduce their contributions (such as the so-called UK rebate, which was introduced in 1985 and has become *de facto* permanent, since unanimity is required to modify it).

### Revenue and expenditure: the debate on "*juste retour*"

Over recent decades, EU budgetary discussions have appeared to concentrate increasingly on MS' budgetary balances, i.e. the difference between what each country contributes to and receives from the EU budget. Apparently simple, the concept is in reality [controversial](#) and open to different interpretations. The fact that the financing of the EU budget largely depends on resources that MS perceive as national contributions that they wish to minimise is said to increase this focus on so-called "*juste retour*" (fair return). In turn, the "*juste retour*" approach can have a negative impact on the EU budget as a whole, by favouring the use of expenditure instruments with geographically pre-allocated funds rather than of those with the highest EU added value, and by hindering changes in the structure of expenditure.

### Parliament's push for reform

While the EP is now co-legislator on an equal footing with the Council for the adoption of the annual budget, it has very limited influence on the revenue side. A [2007 resolution](#) reflects the critical opinion that the EP

has of the current own resources system, considering its structure complex and opaque for EU citizens. In addition, the system has departed from the provisions of the Treaty which aimed to ensure the EU's financial autonomy, because it mainly depends on resources from national budgets. The text called for a reform that should first improve the system of national contributions and subsequently explore new "genuine" own resources, but without increasing overall public expenditure or the tax burden for citizens. The EP also stressed the need to respect fully the principle of fiscal sovereignty of MS.

In the framework of the negotiations on the 2011 budget, the EP [pushed for a reform proposal](#) to be tabled and discussed. Parliament established a Special Committee on Policy Challenges and Budgetary Resources for a Sustainable European Union after 2013. In its report, which the Plenary [adopted](#) in June 2011, the Special Committee underlined the link between EU expenditure and the reform of its financing, while calling for a more transparent, simpler and fairer own resources system. Further [resolutions](#) reiterated the need for in-depth reform and the creation of new genuine own resources.

## 2014-20: limited changes

In 2011, the European Commission (EC) put forward proposals to streamline the system, including: 1) abolition of the current VAT resource on 31 December 2013; 2) introduction of two new genuine own resources (a financial transaction tax - FTT - resource in 2014, and a new and improved VAT resource by 2018); 3) a new system of temporary corrections (lump sums in favour of Germany, the Netherlands, Sweden and the UK) to replace all the current mechanisms; and 4) a reduction (from 25% to 10%) in the share of traditional own resources that MS retain as collection costs.

Parliament was [in favour](#) of the EC reform proposal, which aimed at increasing the role of genuine own resources in the financing of the EU budget. However, in the context of the negotiations on the [2014-20 Multiannual Financial Framework \(MFF\)](#), the European Council of February 2013 [agreed](#) only limited changes to the own resources system, such as:

- MS' collection costs on traditional own resources lowered from 25% to 20%; and
- temporary correction mechanisms granted to Austria, Denmark, Germany, the Netherlands and Sweden in the form of lump sum reductions of their GNI-based contribution and/or reduced rate of call of the VAT resource.

The UK rebate was retained. The European Council decided that the introduction of a new VAT resource to replace the existing one required further work, and invited the 11 MS that are cooperating on the establishment of an [FTT under enhanced cooperation](#) to examine its possible use as the basis of a new own resource.

In February 2014, the Council published the texts of the legal acts that are meant to implement the conclusions of the European Council: the [new Own Resources Decision](#); the regulation setting [implementing measures](#) for the own resources system; and the [regulation establishing how to make available own resources](#). The EP has to give its consent to the implementing measures, whilst is only consulted in the other two cases. Once adopted and ratified by MS, the new Own Resources Decision will apply retroactively as of 1 January 2014. The ratification process is likely to take many months, as shown by the current Decision that applies as of 1 January 2007, but only entered into force on 1 March 2009.

## High-level Group on own resources

In a [joint declaration](#) accompanying the [agreed 2014-20 MFF](#), Parliament, Council and the EC decided to establish a high-level group (HLG) tasked with paving the way to possible reforms of the financing system. Based on both existing and future analyses, the review of the system will be underpinned by four guiding principles: 1) simplicity; 2) transparency; 3) equity; and 4) democratic accountability. A first assessment by the end of 2014 and regular progress meetings at political level are envisaged. In 2016, national parliaments are expected to assess the results of the general review. The same year, in parallel with the planned review of the 2014-20 MFF, the EC will examine whether the outcome of the work justifies new initiatives in the field of own resources, with possible reform of the financing of the EU budget for the period covered by the next MFF. In February 2014, the three institutions officially [launched](#) the group, appointing Mario Monti, former Prime Minister of Italy and former Commissioner, as its chair. On 3 April 2014, the first meeting of the HLG [took place](#) in Brussels.