European Parliament

Reform of the EU's system of own resources

In May 2018, the European Commission is expected to present a legislative package on what are known as 'own resources' – the sources of revenue for the EU budget – for the period after 2020, alongside proposals on a new Multiannual Financial Framework (MFF). The European Parliament has long pointed to shortcomings in the current system of own resources, and in anticipation of the Commission's proposals, the Committee on Budgets has drafted an own-initiative report on the Parliament's priorities. That report is on the agenda of the March plenary session.

Background – own resources today

Currently, there are three categories of own resources (OR): 'traditional own resources', consisting of customs duties and sugar levies (€20.1 billion in 2016, or 14 % of revenue); an own resource made up of a percentage of the Member States' estimated VAT income (€15.9 billion in 2016, or 11.1 %); and an own resource based on a fixed percentage of Member States' gross national income (GNI) (€95.6 billion in 2016, or 66.6 %). Some Member States are entitled to 'rebates', or reductions designed to offset the difference between what they pay into the EU budget (excluding traditional own resources) and what they receive domestically in the form of public and private sector receipts. The prominence of the GNI-resource and the system of rebates are often criticised for encouraging Member States' to focus on securing a *juste retour*, or 'fair return', from the EU budget, rather than thinking strategically about how best to finance European public goods. Own resources mobilised to cover EU budget spending are currently capped at 1.20 % of EU GNI per year.

Impetus for reform

In 2013, Parliament made its consent to the 2014-2020 MFF conditional on the creation of a High-Level Group on Own Resources (HLGOR) to consider options for reforming the system. The HLGOR published its final report in December 2016, in which it recommended, inter alia, that a reform should reflect new EU spending priorities and the idea of 'European added value'; that any new resource should be more clearly linked to specific EU priorities like the single market, energy union or environmental and climate policy; and that the United Kingdom's departure from the EU presents an opportunity to abolish the system of rebates. These ideas were taken up in a June 2017 Commission reflection paper on the future of the EU's finances, setting out the budgetary implications of five future scenarios for EU action of varying scale and ambition. Parliament has long advocated OR reform, most recently adopting a resolution in October 2017 on the Commission's reflection paper, in which it restates the case for 'genuine' own resources that afford the EU a measure of financial autonomy from Member State governments.

European Parliament position

Parliament's Committee on Budgets (BUDG) adopted its own-initiative report on 22 February 2018. Drawing on the HLGOR report, it recommends maintaining existing OR and progressively introducing new resources, which could be based on a revised VAT resource; a share of corporate tax revenue; seigniorage (central bank revenue accruing from the issuance of money); a financial transaction tax; a digital sector tax; or environmental taxes. This would reduce the weight of the GNI-based resource, helping to shift Member States' focus away from securing a *juste retour* and towards funding common European objectives. The report notes that Brexit presents an opportunity to abolish all rebates and corrections. Echoing a parallel BUDG own-initiative report on the post-2020 MFF, the committee insists that new OR should underpin a higher level of EU spending, covering not only the loss of UK contributions but also additional spending on new priorities.

Own-initiative report: 2017/2053(INI); Committee responsible: BUDG; Rapporteurs: Janusz Lewandowski (EPP, Poland), Gérard Deprez (ALDE, Belgium). See also the EPRS 'At a glance' note on the parallel BUDG report.

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