Briefing

"OTHER REVENUE"

IN THE EUROPEAN UNION BUDGET

The Treaty on the functioning of the European Union divides the revenue of the general budget into two main components: own resources and other revenue. However, the wording of the Treaty indicates that other revenue should remain marginal compared to the own resources in the financing of the EU budget[1]. Today, there are three main categories of own resources: i) traditional own resources, ii) VAT-based resource and iii) GNI-based own resource. The own resources system also includes a specific mechanism for correcting budgetary imbalances in favour of the United Kingdom (the UK correction). In addition, some Member States may choose not to participate in certain justice and home affairs policies. Their own resources payments are adjusted accordingly[2].

The total amount of own resources cannot exceed 1.23 % of the gross national income (GNI) of the EU[3]. The overall amount of own resources needed to finance the budget is determined by total expenditure minus the other revenue share. Moreover, the EU budget cannot run into deficit[4].

For a given year, the EU's budget is financed by own resources, other revenue and the surplus carried over from the previous year.

In 2015, the GNI-based and the VAT-based resources accounted for more than 80% of the revenue. The traditional own resources represent around 12% and **other revenue** accounts for only **5% of the total revenue**.

Actually, over the last ten years, **other revenue** fluctuated between a low point of 2.8% in 2005 and a peak of 7.2% of the total revenue in 2008, the **average** over the period stands at **5.2% of the total revenue**.

This note is restricted to the analysis of other revenue only.

[1] Article 311 « *Without prejudice to other revenue, the budget shall be financed wholly from own resources* »
[2] This has been done since 2003 for Denmark and since 2006 for Ireland and the United Kingdom.
[3] Council Decision of 26 May 2014 on the system of own resources of the European Union (2014/335/EU, Euratom), Art. 3(1) "*The total amount of own resources allocated to the Union to cover annual appropriations for payments shall not exceed 1,23 % of the sum of all the Member States' GNIs.*"
[4] Article 310 "*The revenue and expenditure shown in the budget shall be in balance*"

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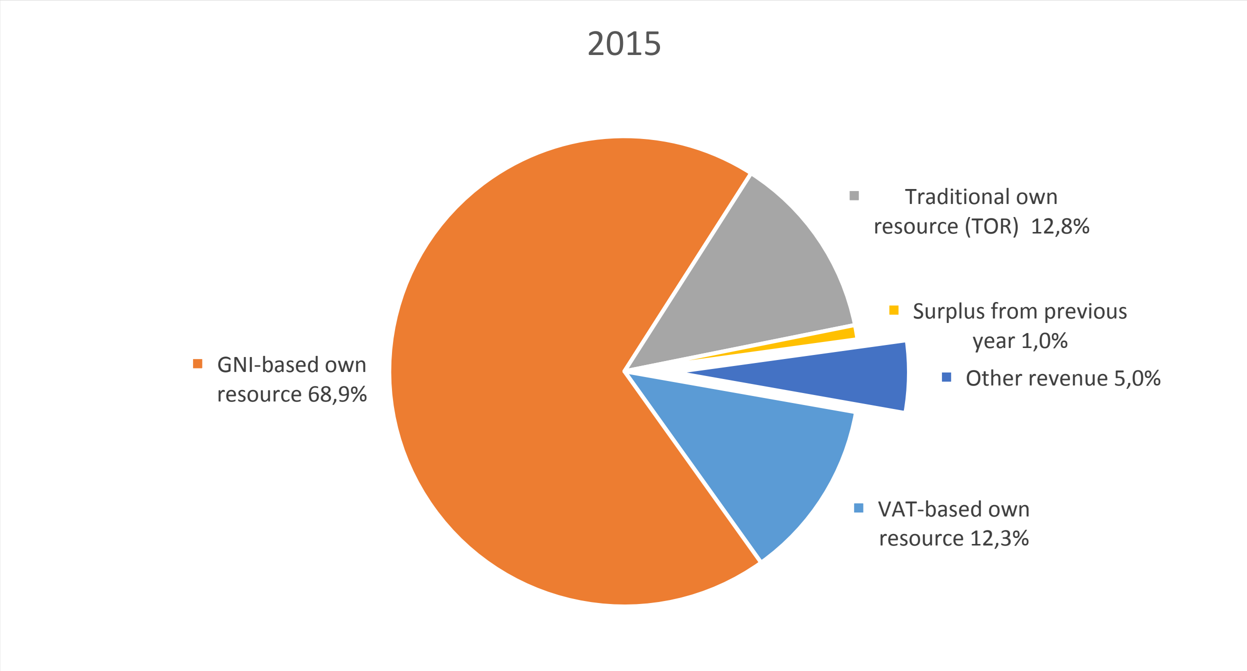


Source: European Commission, DG BUDG web site

WHAT DOES 'OTHER REVENUE' MEAN?

Other revenue is the result of the European Union's normal activities; this revenue bears witness to the EU's status as a legal entity and its power of independent action. Other revenue is covered by Titles 4 to 9 of the general statement of revenue of the EU budget.

Title 4 covers **revenue accruing from persons working with the institutions and other EU bodies** i.e. taxes on salaries and pensions, and staff contributions to the pension scheme.

Title 5 covers **revenue accruing from the administrative operation of the institutions**, such as proceeds from the sale of property, from letting and hiring, from the supply of services and from bank interest.

Title 6 covers **contributions and refunds in connection with Union agreements and programmes** i.e. contributions to Union programmes, repayment of miscellaneous expenditure, revenue from services rendered against payment, contributions under specific agreements, financial corrections, and revenue relating to the European Agricultural Guarantee Fund and the European Agricultural Fund for Rural Development.

Title 7 covers **interest on late payments and fines** e.g. interest on late payment of own resources by Member States or fines on companies for infringing EU competition rules.

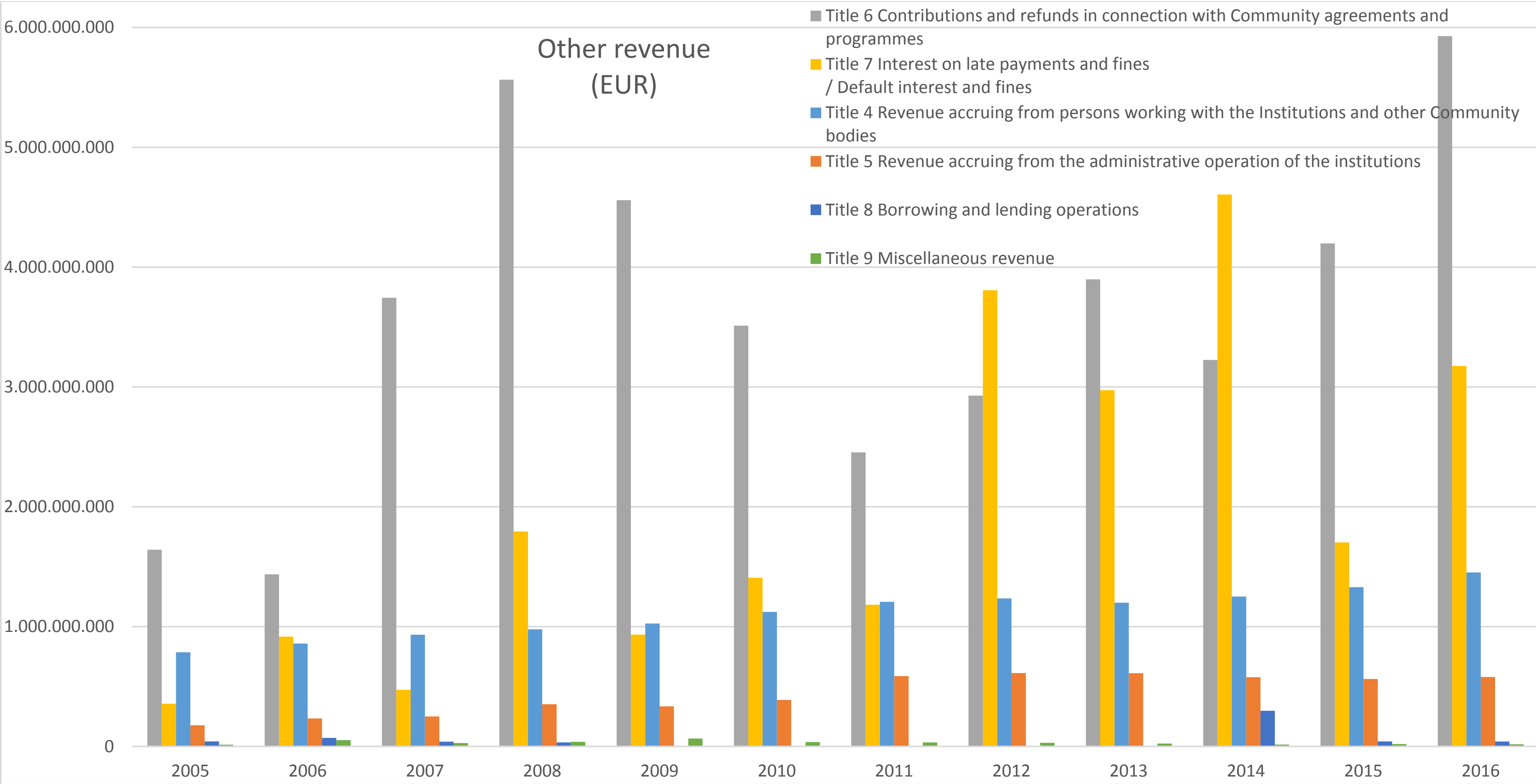
Title 8 covers revenue from EU **borrowing and lending operations**.

Title 9 covers **miscellaneous revenue**.

In most cases, the existence of other revenue allows for a decrease in the GNI contribution of the Member States. However, in some specific cases, like the contribution from other countries to specific programmes, other revenue contributes towards reinforcing the relevant budget lines.

HOW SIGNIFICANT IS OTHER REVENUE?

As seen in the introduction, over the last ten years, other revenue represents, on average, 5.2% of the total revenue. The chart below shows the amount of the six titles described above (i.e. Titles 4 to 9 of the general statement of revenue of the EU budget).



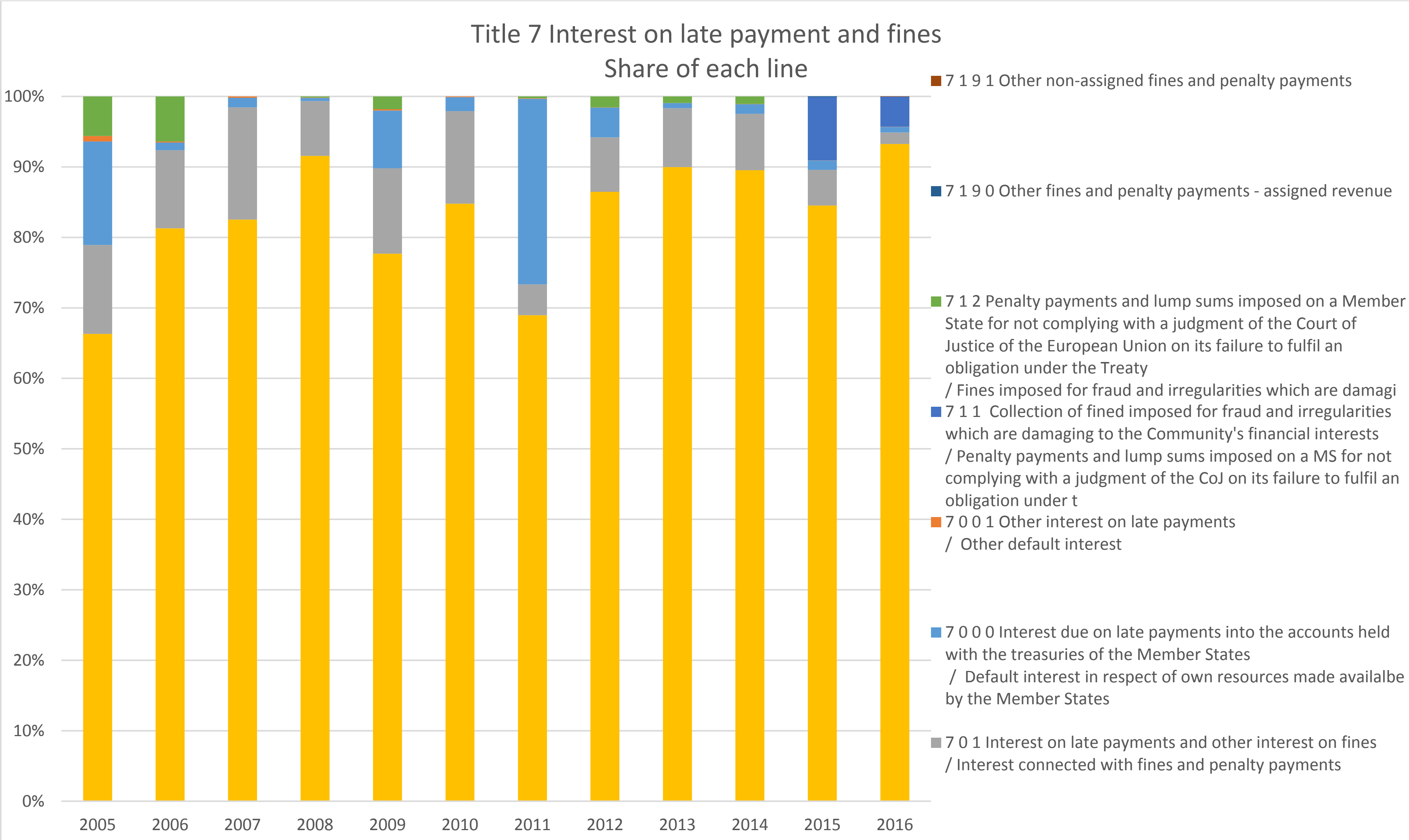
Source: Figures taken from the Official Journal of the adopted budgets

Two Titles appear to be central in terms of share in the other revenue side. **Title 6 Contributions and refunds in connection with Union agreements and programmes** is the most important and, on average, represents more than **half of the total of other revenue**. As this Title 6 covers the revenue from the contribution to Union programmes (e.g. research programmes) from third countries, some amounts from this Title 6 are used to reinforce budget lines and do not contribute towards reducing the GNI contribution of Member States.

Title 7 interest on late payments and fines[5] is the second most important and represents, on average, **a quarter of the other revenue** side. This revenue, in addition to its instability is highly unpredictable from year to year. Recovery of fines takes time. Actually, revenue received by way of fines must not be recorded as budgetary revenue for as long as the decisions imposing them may be annulled by the Court of Justice. Provisional payments must, therefore, be kept off budget. The legal proceedings may take up to 8 years. Depending on the final judgement, any fines provisionally paid, including earned interest, are either transferred to the EU's income account and booked in the budget as other revenue[6], or are reimbursed to the companies[7].

The graph below shows the share of all items in Titles 7 Interest on late payment and fines. By far, **fines** linked to infringements in the implementation of the **competition rules** are the **most important item**, with a share always above two thirds and with an average of 83% over the period 2005-2016[8].

[5]Articles 101 and 102 of the Treaty on the Functioning of the European Union (TFEU) prohibit various anticompetitive practices. Article 103 gives the European Council powers to put in place an enforcement system, which may include the imposition of fines. Council Regulation 1/2003 (1) based on Article 103 TFEU, gives the Commission powers to enforce these rules and to fine companies for infringements.
[6] and, therefore, will lower by the same amount the need for the GNI-based own resources.
[7] Article 83 of the financial regulation
[8] with a minimum of 66% and a max of 93%



Source: Figures taken from the Official Journal of the adopted budgets, own computation

IS OTHER REVENUE A POSSIBLE SOURCE OF FINANCING THE EU BUDGET?

Advantage:

From a legal point of view, other revenue presents the advantage of being ruled and established in secondary law and not through the Own Resources decision. Therefore, ratification by all Member States is not required, as it is for the Own Resources decision. In this way, other revenue can be more flexible to address specific issues and make the EU budget more responsive.

In addition, as not considered an own resource, other revenue which is not considered as general revenue will not impact on the ceiling set in the 26 May 2014 Council Decision[9] and will reinforce the corresponding budget lines. On the other hand, other revenue considered as general revenue will result, once budgeted, in a correspondingly lower need for the GNI-based own resources.

Weakness:

However, the Treaty stipulates that other revenue must remain marginal compared to own resources. Article 311 of the Treaty on the functioning of the European Union states "*Without prejudice to other revenue, the budget shall be financed wholly from own resources*". Consequently, own resources must remain the main source of financing the EU budget.

Numerous works and analysis on how to improve the current EU financing system are available from the academic sector[10]. The focus is on reforming the own resources system. Discussions of any "EU tax" are held in this framework of own resources. Therefore, other revenue possibilities are left aside. However, discussions focusing openly on new other resources can be found in official circles.

The "Monti report"[11] proposals

The exploration of new income sources in the report also emphasizes that if some new resources are not suitable as own resources, they could nonetheless be allocated to the EU budget under the category of other revenue. The report recognises that the potential of other revenue has, so far, been neglected in the debate on EU financing.

The High Level Group on Own Resources highlighted that "*in a national context, the levying of fees, user charges, premiums, reimbursement of costs or auctioning proceeds are commonly considered as a useful and legitimate tool in policy making. This is not the case (yet) at the EU level, but it could be envisaged more systematically in the context of the preparation of the future generation of EU programmes, and this type of prospective income could be incorporated already at the stage of policy design.* ***Possible examples of other revenue*** *stemming from current or future policy initiatives include revenue which will accrue from the* ***EU system of border controls to enter the Schengen zone****,* ***the European space strategy*** *or the* ***conservation of marine biological resources***".

[9] Council Decision of 26 May 2014 on the system of own resources of the European Union (2014/335/EU, Euratom), Art. 3(1) "*The total amount of own resources allocated to the Union to cover annual appropriations for payments shall not exceed 1,23% of the sum of all the Member States' GNIs.*"

[10] See as example the three-page bibliography of the Final report and recommendation of the High Level Group on Own Resources, December 2016 on this issue.

[11] Future Financing of the EU, Final report and recommendations of the High Level Group on Own Resources, December 2016.

In addition to fines sourced from competition breaches, for further expansion the report pin pointed two examples related to the enforcement of EU policies and which result in a **lower need for the GNI-based own resources**: i) excess emission premiums for new passenger cars[12] and ii) measures of a fiscal nature in the area of energy and environment[13].

It regretted that the auctioning of emission rights in the context of the European Emissions Trading System of greenhouse gases is not booked as an item of other revenue. In the present legal provisions, Member States collect and retain it even it comes from EU level policy and legislation.

The European Commission view

In their foreword of the Reflection paper on the Future of EU Finances,[14] Commissioner Oettinger, in charge of the budget and Human resources, and Commissioner Crețu, responsible for Regional policy, highlighted that it is time to ask how the EU budget should be financed to ensure it has the resources it needs to meet the expectations of Europeans.

This reflection paper, which draws on the "Monti report", concentrates on the reform of the current system of own resources. It is emphasized that even at an unchanged spending level, new own resources would automatically reduce the share of the GNI-based own resource.

However, in all five **scenarios** proposed except the one on "doing less together" on the revenue side, **other sources of revenue or fees** are mentioned to finance the EU budget.

On the possible revenue sources, amongst a range of options from a financial transaction tax, electricity, motor fuel, seigniorage (ECB currency issuance) or carbon pricing, the **EU travel and authorisation system** (ETIAS) is highlighted as a possible source of financing which could fall under the definition of other revenue .

Actually, according to the reflecting paper, **money generated directly by EU policies and competences could be considered as revenue for the EU budget**. Possible candidates come from auctions under the Emissions Trading System, emissions premiums for cars or the future European Travel Information and Authorisation System to be paid by people entering the EU at the border or any similar fees. However, the European Commission places these revenues under the heading options for an "own resources" system.

Nevertheless, the fact that, in the European Commission's view, the **money generated directly by EU policies and competences could be considered as revenue for the EU budget** is worth keeping in mind. Moreover, the proposal to use EU travel and authorisation system (ETIAS) as a possible source of financing is fully in line with the suggestion made in the "Monti report".

[12] Regulation (EC) No 443/2009 of the European Parliament and of the Council of 23 April 2009 setting emission performance standards for new passenger cars as part of the Community's integrated approach to reduce CO^2 emissions from light-duty vehicles, Article 9(4) The amounts of the excess emissions premium shall be considered as revenue for the general budget of the European Union.

[13] Title XX Environment Articles 192 and Title XXI Energy Article 194 of the Treaty on the Functioning of the EU

[14] Reflection paper on the Future of EU Finances, European Commission, COM(2017) 358 of 28 June 2017

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