How the EU budget is financed

The "own resources" system and the debate on its reform
This publication aims to provide a general overview of the system that ensures the financing of the EU budget as well as of the debate on its possible overhaul within the current legal framework. The document does not take into account possibilities which require modification of the EU Treaties. It builds on "Financing of the EU budget: the own resources system", a briefing by Alessandro D’Alfonso published in February 2013.

Manuscript completed in May 2014.
Last updated in June 2014.

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EXECUTIVE SUMMARY

The system of "own resources" ensures the EU is able to finance its policies. In 2012, total EU revenue amounted to €139.5 billion. Successive reforms have determined the system's current configuration, which relies on three key streams of revenue: traditional own resources (mainly customs duties); a resource based on value added tax (VAT); and a resource related to Member States' gross national income (GNI).

At present, the system provides sufficient resources to cover planned expenditure, which is crucial, since the EU budget cannot run a deficit. However, it is often criticised for its complexity and opacity, to which a series of exceptions and so-called correction mechanisms (such as the UK rebate) add. Modification of the system requires unanimity in the Council and ratification by each Member State. For the Own Resources Decision, the European Parliament is only consulted.

The EP considers the system to have several shortcomings. For example, it says that the current arrangements do not follow the provisions of the Treaties. Whilst these provide the Union with financial autonomy, most EU revenue depends on resources that are perceived as national contributions, which Member States wish to see minimised. Accordingly, some observers note that the negotiations on the 2014-20 Multiannual Financial Framework (MFF) appeared to concentrate more on limiting the total amount of resources available than on aligning multi-year planning with the EU's priorities. Indeed, the focus on so called "budgetary balances" can have a negative impact on the effectiveness of expenditure, since Member States may tend to favour instruments with geographically pre-allocated funds rather than those with higher EU added value. In addition, it can reduce the likeliness of changes in the structure of spending, hindering the EU’s ability to respond to variable circumstances and priorities.

The EP has long pushed for reforms of the own resources system, as two important resolutions adopted in 1999 and 2007 show. In 2011, the European Commission put forward proposals with a view to reshaping the system and improving its functioning. In February 2013, the European Council agreed on a limited number of modifications. However, in the context of the political deal for the 2014-20 MFF, the European Parliament obtained agreement from the Council that a high-level group be set up to prepare a possible overhaul of the system.

Analysts and stakeholders envisage two opposing models to streamline the system, and a wide range of intermediate options: 1) financing the entire budget with a GNI resource; and 2) creating one or more new genuine own resources and eliminating or reforming some of the existing resources. Whilst the former is meant to promote simplicity, the latter would aim to reducing the shortcomings noted above, by increasing financial autonomy.

The financing system and its components can be assessed against several criteria, which include budgetary, economic, political and administrative factors such as revenue sufficiency and stability, simplicity, transparency, fairness between Member States, equity between citizens, cost-effectiveness and EU financial autonomy. A good system would aim to strike the right balance among the various goals of all these factors; however these may partly conflict with each other. Over time, stakeholders and researchers have discussed various potential candidates for new own resources.
Table of contents

1. Introduction ...................................................................................................................... 5
2. Historical overview ............................................................................................................ 5
   2.1. 1952-1969: initial phase ......................................................................................... 5
   2.2. 1970-1987: creation of own resources ................................................................. 6
   2.3. 1988-1999: Delors reforms .................................................................................... 6
   2.4. Since 2000: ad hoc changes .................................................................................... 7
3. The current system .............................................................................................................. 8
   3.1. Main data ................................................................................................................. 8
   3.2. How the system is performing ............................................................................... 9
   3.3. The thorny debate on balances ............................................................................. 9
4. Parliament’s role ................................................................................................................. 11
5. Agreement on 2014-20 MFF: limited changes in own resources ..................................... 12
   5.1. 2011 Commission’s reform proposal .................................................................. 12
   5.2. Reactions and latest developments ..................................................................... 13
6. Reform options .................................................................................................................... 15
   6.1. Two main models .................................................................................................. 15
   6.2. A few areas of common ground ......................................................................... 15
   6.3. Correction mechanisms ....................................................................................... 16
   6.4. Should the EU budget have some redistributive effects? .................................. 17
7. Criteria to assess the system and/or its components ....................................................... 18
   7.1. Budgetary criteria ................................................................................................. 18
   7.2. Democratic accountability criteria ....................................................................... 18
   7.3. Economic criteria ................................................................................................ 18
   7.4. Equity criteria ...................................................................................................... 19
   7.5. Integration criteria ............................................................................................... 19
   7.6. Technical and administrative criteria ................................................................. 19
8. The two new resources proposed by the Commission in 2011 ...................................... 19
   8.1. A new VAT resource .......................................................................................... 20
   8.2. An FTT resource ................................................................................................ 21
9. New own resources: other possible candidates ............................................................. 23
   9.1. Revenues from the EU Emissions Trading System (ETS) ................................ 23
   9.2. Charge related to air transport ......................................................................... 23
   9.3. Energy/carbon tax .............................................................................................. 24
   9.4. EU Corporate Income Tax (EUCIT) .................................................................. 25
   9.5. A resource related to seigniorage ..................................................................... 25
   9.6. An EU communications tax ............................................................................. 26
10. Outlook .............................................................................................................................. 26
11. Main references ............................................................................................................... 28
12. Annex ................................................................................................................................. 29
## List of main acronyms

<table>
<thead>
<tr>
<th>Acronym</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>APD</td>
<td>Air Passenger Duty.</td>
</tr>
<tr>
<td>CCCTB</td>
<td>Common Consolidated Corporate Tax base.</td>
</tr>
<tr>
<td>ECSC</td>
<td>European Coal and Steel Community.</td>
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<tr>
<td>EEC</td>
<td>European Economic Community.</td>
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<tr>
<td>EFSM</td>
<td>European Financial Stabilisation Mechanism.</td>
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<tr>
<td>ESM</td>
<td>European Stability Mechanism.</td>
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<tr>
<td>ETD</td>
<td>Energy Taxation Directive.</td>
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<tr>
<td>ETS</td>
<td>Emissions Trading System.</td>
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<tr>
<td>EUCIT</td>
<td>European Union Corporate Income Tax.</td>
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<tr>
<td>FAT</td>
<td>Financial Activities Tax.</td>
</tr>
<tr>
<td>FTT</td>
<td>Financial Transaction Tax.</td>
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<tr>
<td>GNI</td>
<td>Gross national income.</td>
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<td>GNP</td>
<td>Gross national product.</td>
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<td>HLG</td>
<td>High-level group.</td>
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<tr>
<td>MFF</td>
<td>Multiannual Financial Framework.</td>
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<tr>
<td>PPS</td>
<td>Purchasing Power Standards.</td>
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<tr>
<td>TOR</td>
<td>Traditional own resources.</td>
</tr>
<tr>
<td>TFEU</td>
<td>Treaty on the Functioning of the European Union.</td>
</tr>
<tr>
<td>VAT</td>
<td>Value added tax.</td>
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</table>
1. Introduction

The EU's annual budget is worth around 1% of its Member States' gross national income (GNI), or 2% of total public spending in the EU. It ignites heated debates on both its nature and objectives. And the revenue side of the budget is equally controversial. Different options for financing EU policies reflect different visions of the EU, ranging from an inter-governmental to a more integrated approach.

Contributions from national budgets are the usual means of financing international organisations, such as the United Nations, in which citizens are only indirectly represented through their government. In the EU, citizens are represented both directly in the European Parliament (EP) and indirectly by their government in the Council. In many respects, the EU institutional structure is unique, being neither inter-governmental organisation nor federal State.

This originality is also seen in the financing of the EU budget. With a view to ensuring the financial autonomy of the Union, Article 311 of the Treaty on the Functioning of the European Union (TFEU) states that "own resources" finance its budget. The Council decides the rules governing the own resources system through a special legislative procedure, which requires unanimity and ratification by all Member States, while the EP is only consulted.

In the absence of a definition of own resources, academia has long debated their nature. Over time, their automaticity has been recognised as one of their main characteristics. This means that, once the system has been ratified, own resources are automatically due to the EU without the need for a further decision at Member State level. The Court of Justice of the EU has confirmed this crucial aspect, through ruling that delays by Member States in making available own resources are unlawful.

The need for unanimity explains the difficult evolution the own resources system has experienced. That has not prevented agreements from being reached, with six Decisions adopted since 1970. But many analysts deem the requirement for unanimity to have resulted in a system more opaque than it otherwise would be. Modifications have often added new layers of complexity onto the existing mechanism rather than streamlining it.

2. Historical overview

2.1. 1952-1969: initial phase

In 1952, the Treaty of Paris provided the European Coal and Steel Community (ECSC) with full financial autonomy. Its High Authority was able to impose levies on the production of coal and steel. In addition, it could contract loans.

On the contrary, the 1957 Treaty of Rome established that transfers from national budgets would initially finance the European Economic Community (EEC). But its Article 201 envisaged that these would be replaced at a later stage by "own resources", including revenue from the Common Customs Tariff that was to be created. The debate on setting up the own resources system was among the causes that triggered the famous "empty chair" crisis in July 1965, when France boycotted the meetings of the Council for some months.

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1 Judgment of 18 December 1986 in Case 93/85 (Commission of the European Communities v. United Kingdom of Great Britain and Northern Ireland).
2.2. 1970-1987: creation of own resources

The first Own Resources Decision of April 1970 was a milestone in the history of European integration, providing the EEC with financial autonomy. It comprised three main sources of revenue: 1) agricultural levies; 2) customs duties; and 3) a resource calculated on a harmonised VAT base. The first two, also known as traditional own resources (TOR), were closely related to EEC policies. The third was conceived as a balancing resource to meet the principle of equilibrium, enshrined in the Treaty. This means that the EU budget cannot run a deficit and revenue must always equal expenditure.

In 1976, TOR financed around 65% of the budget, but it soon became apparent that they would be inadequate to cover the budget of the Community. On the one hand, their total amount was on a decreasing trend, due to the progressive reduction of tariffs in the framework of international trade negotiations, coupled with increasing European self-sufficiency in agricultural production. On the other hand, expenditure was rising further to a combination of factors (creation of new common policies; strengthening of existing ones; inability to restrain agricultural expenditure; and the accession of three new Member States in the 1980s, all of them net beneficiaries, i.e. receiving more from the EEC budget than they contributed to it).

The VAT resource became operational only in 1979 due to delays in the harmonisation of the VAT base. National contributions played the balancing role until that date. However, the VAT resource was not able to solve the growing financing tensions, because of a limit set to its maximum "call rate", and the decreasing share of gross national product (GNP) devoted to consumer expenditure.

2.2.1. Budgetary imbalances and UK rebate

Another source of conflicts was the question of budgetary imbalances, especially after the UK joined the Community in 1973. The UK had a small agricultural sector and was quite open to trade with non-EEC countries. In addition, its VAT base in comparison with GNP was proportionally higher than in other Member States. Given the structure of EEC expenditure and revenue at the time, all these elements resulted in significant negative balances for a country with per capita income lower than the EEC average. In 1984, Member States reached an agreement at the Fontainebleau European Council. While indicating that "expenditure policy is ultimately the essential means of resolving the question of budgetary imbalances", they established a principle, according to which the contribution of a country should be considered in relation to its relative prosperity. Temporary solutions to reduce the UK's negative net balance were replaced by a correction mechanism, known as the UK rebate. First included in the Own Resources Decision of 1985, the UK rebate has become de facto permanent, since unanimity is required to change it. The identification of Member States as net contributors and net beneficiaries appeared in this context, and has inflamed the budgetary debate since.

2.3. 1988-1999: Delors reforms

Two packages of measures, Delors I and Delors II, introduced reforms with a significant impact on the EU budget. They included: the creation of financial perspectives, a tool (now called the multiannual financial framework, or MFF) that set the maximum level of spending allowed for each broad category of expenditure in order to increase budgetary planning and discipline; containment of agriculture expenditure; strengthening of cohesion policies and, notably from 1992, of internal policies related to the single market.
For revenue, the aim was to overcome the budgetary problems experienced in previous years by ensuring appropriate funding for a Community that had been entrusted with a growing number of tasks. To this end, the own resources system underwent a series of changes:

- The *global own resources ceiling* was introduced. This concept expressed the maximum amount of resources available as a percentage of the Community's GNP. It was 1.15% in 1988 and 1.27% in 1999.
- A *fourth resource* - based initially on GNP and subsequently on GNI - was created to play the budget balancing role. Each Member State transfers a percentage of its GNP/GNI - considered as an indicator of prosperity - to the EU.
- The *VAT resource* was modified, with attempts to neutralise its perceived regressive aspects, considered by some to impose a proportionally higher burden on less wealthy Member States.
- TOR were rationalised.

The revised system was able to ensure sufficient resources to finance the planned expenditure.

### 2.4. Since 2000: ad hoc changes

The *own resources ceiling* has been kept stable since the year 2000. In view of EU enlargement, the European Commission (EC) explored possible ways to make the system more transparent. Hypotheses included: creating new own resources and replacing the *UK rebate* with a general correction mechanism applicable to all EU countries. Member States could only agree upon relatively minor modifications. They further reduced the importance of the *VAT resource* in favour of the *GNI resource*, which many observers consider more a national contribution than a genuine "own resource". As for TOR, the share of the amounts that Member States retain as collection costs was raised from 10% to 25%, thus reducing the yield of these resources. A series of specific temporary correction mechanisms were set up for Austria, Germany, Sweden and the Netherlands. Despite being a strong advocate of enlargement, the UK would have contributed a proportionally much lower share of its costs in comparison with other Member States due to the mechanism of the rebate. To tackle this issue, adjustments to the UK rebate were phased in. As a result of all these ad hoc measures, the own resources system has become more and more complex.

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3. The current system

3.1. Main data

Council Decision (EC, EURATOM) 2007/436 is the legal basis currently in force, pending ratification of the new Decision, which will apply retroactively from 1 January 2014 on. The own resources ceiling, which is now calculated on GNI, remains virtually unchanged at 1.23%. Total revenue was €139.5 billion in 2012.

The financing of the EU budget comes from the three categories of own resources:

- **Traditional own resources**, mainly customs duties, represented 12% of total revenue in 2012. Member States retain 25% of the amounts as collection costs.
- **VAT resource** accounted for 11% of total revenue in 2012. Based on a very complex statistical calculation to harmonise Member States' VAT bases, its link to actual VAT proceeds collected in Member States is very weak. With different consumption patterns across the EU, VAT bases are capped at 50% of GNI to counter potentially regressive aspects of the resource. For 2007-13, the standard call rate of this resource (0.30%) was lowered for Austria, Germany, Sweden and the Netherlands.
- **GNI resource**, the "budget balancing element", represented around 71% of total revenue (2012).

Other revenue, which is not classified as own resources, includes taxes on EU staff salaries, contributions from non-EU countries to certain programmes, and fines on companies for breaching competition law. In 2012, other revenue of €8.6 billion accounted for 6.2% of the total.

The UK rebate means that its contribution is lowered by a reimbursement. The UK government argues that the reasons for this arrangement introduced in 1985 (and subsequently modified on a number of occasions) remain valid. Based on a complex statistical calculation, it changes every year (see table 1). It was worth €3.8 billion in 2012, reducing the UK contribution by around 22% to €13.5 billion. Three Member States (France, Italy and Spain) funded 60% of the UK rebate. Austria, Germany, Sweden and the Netherlands benefit from a permanent reduction in their contributions to the financing of the UK rebate, paying one-quarter of their calculated share. The same four countries also enjoyed one or more temporary correction mechanisms for 2007-13. Their estimated effect on the draft budget for 2012 ranged from €95 million for Austria to €1.6 billion for Germany. For 2007-13, several countries obtained exceptions for the expenditure side of the budget, such as resources earmarked for projects, regions or Member States. Despite appearing less significant in size, these additional corrections for expenditure contributed to the overall opacity of the system.

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4 With some Member States granted exceptions for both the expenditure and the revenue side.

5 The European Parliament drew attention to the high number of exceptions in its resolution of 29 March 2007 on the future of the European Union’s own resources (P6_TA(2007)0098).
### Table 1 - UK national contribution and rebate (in million euros)

<table>
<thead>
<tr>
<th>Year</th>
<th>National Contribution before correction (NC)</th>
<th>UK rebate</th>
<th>National Contribution after rebate</th>
<th>UK rebate/NC</th>
</tr>
</thead>
<tbody>
<tr>
<td>2007</td>
<td>15 961</td>
<td>5 189</td>
<td>10 772</td>
<td>33%</td>
</tr>
<tr>
<td>2008</td>
<td>13 866</td>
<td>6 252</td>
<td>7 614</td>
<td>45%</td>
</tr>
<tr>
<td>2009</td>
<td>13 537</td>
<td>5 658</td>
<td>7 880</td>
<td>42%</td>
</tr>
<tr>
<td>2010</td>
<td>15 708</td>
<td>3 563</td>
<td>12 146</td>
<td>23%</td>
</tr>
<tr>
<td>2011</td>
<td>14 869</td>
<td>3 596</td>
<td>11 273</td>
<td>24%</td>
</tr>
<tr>
<td>2012</td>
<td>17 265</td>
<td>3 804</td>
<td>13 461</td>
<td>22%</td>
</tr>
</tbody>
</table>

Data source: Elaboration on European Commission data.

### 3.2. How the system is performing

The Commission and Parliament, as well as academic researchers, have identified several criteria against which the financing system and its components can be assessed. These include economic, political and administrative factors such as revenue sufficiency, simplicity, fairness between Member States and EU financial autonomy. A good system would aim to strike the right balance among the various goals of all these factors; however they may conflict with each other.

On the positive side, the current system has provided sufficient and stable resources, thus overcoming the financing problems the EU experienced in the 1980s. In general, it is considered to have achieved this result effectively; according to a qualitative analysis by the Commission, the operating costs of the system are likely to be marginal. In addition, actual payments remain below the *own resources ceiling*. The unused margin under the 1.23% threshold has served as a guarantee for the European Financial Stabilisation Mechanism (EFSM), the temporary rescue mechanism that the EU created in 2010 to tackle the debt crises. (Its successor, the European Stability Mechanism (ESM) which euro area Member States established through an intergovernmental Treaty, is not linked to the *own resources ceiling*.)

On the negative side, the Commission’s EU Budget Review of 2010 notes a series of shortcomings identified by stakeholders. In their view, the financing system is complex and opaque. It lacks fairness, mainly due to correction mechanisms. In addition, it relies too much on resources which have little relationship to EU policies and, despite their *automaticity*, are often considered as national contributions, which Member States aim to minimise. The debate has been running for many years. In a 1999 resolution, for example, the EP presented its analysis of the weaknesses of the financing arrangements, calling for an overhaul of the system. In 2003, the report of a high-level group commissioned by the EC President (the so-called "Sapir report") highlighted the need for reform of the EU budget, including its revenue side.

### 3.3. The thorny debate on balances

Over time, the debate on the EU budget has focused more and more on budgetary balances. These measure the difference between contributions to and receipts from the EU budget for each Member State.

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Apparently simple, the concept is highly controversial. Estimates of Member States' budgetary balances are necessarily based on assumptions, including of the items to be considered in calculating revenues and payments. According to the Commission, “combining only the two or three most important assumptions [...] produces no fewer than 30 to 40 perfectly defensible definitions of budgetary balances”, each of them giving different results – sometimes significantly so for smaller Member States. In many cases, it is difficult to identify the final beneficiary of funds with much precision. For example, Structural Funds are attributed to a Member State, but contracts implementing related projects may be awarded to companies from other Member States. Both students' Member States of origin and the countries hosting these same students under Erasmus can reasonably be expected to benefit from the same funds.

In addition, according to some analyses, the concept is weak from an economic standpoint. As purely an accounting exercise, it results in a "zero-sum game" in which one participant's gains are balanced by another participant's losses. This cannot reflect positive spill-over effects of EU policies. On the contrary, they say, European integration would be better seen as a "positive-sum game" from which all participants benefit thanks to achievements such as the internal market. While the Commission publishes operating budgetary balances (see annex), it emphasises the fact that this is an accounting allocation which does not provide an exhaustive picture. Neither TOR nor administrative expenditure are taken into account in this calculation.

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The excessive focus on budgetary balances (also known as "juste retour" or fair return) is often considered to be one cause of several shortcomings in the current system. It results in decisions that favour instruments with geographically pre-allocated funds rather than those with the highest EU added value, while representing an obstacle to changes in the structure of expenditure. In addition, ad hoc correction mechanisms make the system less equitable and have distortive effects.

4. Parliament's role

With regard to EU expenditure, the EP is now co-legislator on an equal footing with the Council for the adoption of the annual budget. For the establishment of the EU’s long-term financial plans, the Lisbon Treaty sets out that the Council needs Parliament’s consent before adopting the MFF.
This is not the case for EU revenue. The Council establishes the own resources system by unanimity after consulting the EP. Some analyses argue that this asymmetry between the expenditure and the revenue side of the budget sharpens the differences in the perspectives of the two institutions. One limited change introduced by the Lisbon Treaty is that the implementing measures for the own resources system now require the EP’s consent before the Council can adopt them (by qualified majority).

A 2007 resolution reflects the critical opinion the EP has of the current system. Its structure is considered 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 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 Member States.

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 an in-depth reform and the creation of new genuine own resources.

5. Agreement on 2014-20 MFF: limited changes in own resources

5.1. 2011 Commission's reform proposal

In 2011, the Commission put forward proposals for a Council decision and four related regulations with a view to improving the functioning of the system. The key suggested changes were:

- Member States’ contributions would be simplified by abolishing the current VAT resource on 31 December 2013. The European Commission deems this resource to create administrative burden (complex statistical calculation) without producing real added value (weak link to actual VAT proceeds): it can be seen as a different version of a GNI-resource rather than as a genuine own resource.
- A financial transaction tax (FTT) resource and a new VAT resource would be

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10 See for example: Understanding the EU budget / Patterson B., 2011, x-127 p.
How the EU budget is financed

introduced (respectively in 2014 and by 2018). They would be more closely related to EU policies and objectives (e.g. with stronger links to VAT harmonisation and actual VAT proceeds for the latter, see below). The resulting revenue would reduce the amounts of national contributions correspondingly.

- As of 2014, a new system of temporary corrections would replace all the current mechanisms, for which the underlying conditions have changed significantly since their creation. It would consist of lump sums in favour of Germany, the Netherlands, Sweden and the UK. Furthermore, the "retention rate" for collection costs on TOR would be lowered from 25% to 10%. This retention rate, says the Commission, can be regarded as a hidden correction, beneficial to Member States that are significant entry points for imports into the EU’s single market (e.g. the Netherlands and Belgium).

According to the Commission, these changes would have resulted in a different mix of resources in 2020, with TOR and the two new own resources respectively accounting for 20% and 40% of total revenue. The GNI resource would thus have been reduced to 40%. This was expected to decrease the focus on budgetary balances.

However, the Commission’s estimates soon became outdated, since no agreement could be reached on the introduction of an FTT at EU level. In the meantime, the Council authorised 11 Member States to move ahead with an FTT through enhanced cooperation. In its updated proposal, the EC estimates that an FTT could raise around €31 billion per year. The press reports that the 11 Member States have conflicting opinions on using part of this potential revenue as an EU own resource.

5.2. Reactions and latest developments

5.2.1. European Court of Auditors

In 2012, the Court of Auditors analysed the Commission’s proposals. In its opinion, the elimination of the current VAT resource would address a weakness of the system. The new VAT resource is considered complex, but less so than the current one. The Court notes that, being based on a volatile economic activity, the revenue raised by an FTT resource would be by nature unpredictable. In addition, it deems lump sum corrections to be simpler than the current mechanisms, but still not transparent. Finally, the amount of TOR in 2020 could be overestimated. The link between the retention rate on TOR and the real collection cost is considered unclear.

5.2.2. Parliament and European Council

On 23 October 2012, the EP asked for the Commission to put forward proposals for new own resources should the new system not result in a significant decrease of the GNI resource. The EP supported the new VAT resource. It called on the Commission to investigate how to further reform it in order for the new own resource to accrue directly to the EU budget.

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17 ECA’s opinion No 2/2012.
19 EP legislative resolution of 23 October 2012 on the proposal for a Council regulation on the methods and procedure for making available the own resource based on the value added tax (P7_TA(2012)0361).
In February 2013, the European Council reached the following conclusions on the MFF 2014-20: collection costs on TOR should be lowered to 20%; a new VAT resource should be further worked on to (potentially) replace the existing one; Member States cooperating on an FTT should examine if this could become an own resource; the UK rebate should be kept; corrections should be granted to Denmark, Germany, the Netherlands and Sweden until 2020 (and to Austria until 2016) by means of lump sum reductions in their GNI-based contribution and/or a reduced rate of call of the VAT resource.

5.2.3. Council of the European Union
In January 2014, the Permanent Representatives Committee of the Council agreed the texts of the three legal acts that are meant to implement the February 2013 conclusions of the European Council. These include: 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. In April 2014, the EP gave its consent to the implementing measures, whilst it was only consulted in the other two cases. Following adoption by the Council, the three legal texts were published in the Official Journal of the EU on 7 June 2014.

Once ratified by Member States, the new Own Resources Decision will apply retroactively as of 1 January 2014. The process can take many months: for example, the current Decision was adopted by the Council in June 2007, but entered into force on 1 March 2009 (after ratification by all 27 Member States), with retroactive effect back to 1 January 2007.

5.2.4. High-Level Group on Own Resources
In a joint declaration attached to the agreed 2014-20 MFF, Parliament, Council and the EC agreed 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 European Commissioner, as its chair. On 3 April 2014, the first meeting of the HLG took place in Brussels.

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20 Conclusions of the European Council as regards the item Multiannual Financial Framework of 8 February 2013 (EUCO 37/13).
23 OJ L 168, 7.6.2014: p. 105 (Decision 2014/335), p.29 (Regulation 608/2014 laying down implementing measures) and p. 39 (Regulation 609/2014 on the methods and procedure for making available the traditional, VAT and GNI-based own resources and on the measures to meet cash requirements).
6. Reform options

6.1. Two main models

According to the mandate set out in the joint declaration, the HLG will take into account existing and forthcoming input provided by the EP, the Council, the Commission and national parliaments. In the long debate on the reform of the Own Resources system, a wide range of options has been discussed, with two main models emerging:

- One scenario would see the EU budget financed only through a GNI resource. Such a system would be simple. Its supporters consider it would also be fair towards Member States, taking GNI as an indicator of a Member State's ability to pay/contribute. However, the latter assumption is open to debate, given that, for example, the current system of correction mechanisms entails distortions and would need to be reformed. In addition, a reform in this direction is not likely to address the current shortcomings (e.g. the focus on geographically pre-allocated expenditure rather than on initiatives with EU added value) and would go against the spirit of the Treaty, which assigns own resources to the EU so as to ensure the achievements of its objectives.

- The other scenario would imply streamlining the system, with an increase in the share of the budget funded by genuine own resources and a corresponding reduction of the resources currently perceived as national contributions. The Commission's 2011 reform proposal went in this direction, building on the Lisbon Treaty, which for the first time explicitly mentions the possibility of establishing new categories of resources and abolishing existing ones. Opponents of such an approach consider that the "juste retour" attitude is inevitable in EU budgetary discussions, sometimes suggesting other ways of improving the perceived fairness of the system.

6.2. A few areas of common ground

Customs duties, and more generally TOR, appear to be suitable EU's own resources. They are closely linked to EU policies and objectives. Since entry points for imports into the EU serve the entire single market and benefit from its existence, it can be reasonably argued that relevant duties are related to the EU level rather than to individual Member States (see section on assessment criteria below). Therefore, there appears to be no real need to eliminate this source of financing for the EU budget. However, TOR currently account for just over 10% of the resources needed each year and have shown a declining trend over time, due to developments in trade policy.

As long as the EU budget cannot run a deficit, a balancing resource is necessary. Unlike its predecessor in this role (the VAT resource), the GNI resource has ensured the availability of sufficient resources to finance the EU budget.

Widely recognised as complicated, the current VAT resource does not appear to provide any significant added value to the system and is not perceived as a genuine own

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24 See for example a study financially supported by the German Federal Ministry of Finance: Reform options for the EU own resources system / Heinemann F., Mohl P. and Osterloh S., 2008, ix-177 p. The authors suggest creating a generalised but limited correction mechanism, with a clear distinction between policies with redistributive objectives and those supporting the provision of European public goods.

25 This topic is not tackled in this document, since providing the EU with the ability to borrow would require a Treaty change.
resource. According to the Commission, its abolition would only slightly modify Member States’ contributions, while simplifying the financing of the budget. However, an obstacle to its elimination lies in the fact that it is an essential component for the calculation of the UK rebate and is therefore linked to the politically sensitive topic of correction mechanisms.

6.3. Correction mechanisms

Current correction mechanisms, which apply only to a limited number of Member States, contribute significantly to the opacity of the system. The Treaty does not make any reference to such mechanisms, which rest on the conclusions of the European Council held in France in June 1984. According to the so-called Fontainebleau principles, “expenditure policy is ultimately the essential means of resolving the question of budgetary imbalances”, but any Member State “sustaining a budgetary burden which is excessive in relation to its relative prosperity may benefit from a correction at the appropriate time”. The concepts of excessive budgetary burden and relative prosperity are not defined, remaining open to interpretation.

In 2011, the European Commission presented examples of data (see table 2), indicating that these showed no clear correlation between net contributions and relative prosperity under current arrangements and in a context that had significantly evolved since 1984 (lower share of the EU budget devoted to agriculture spending; increased relative prosperity of the UK; and significantly reduced role of the VAT resource in the mix of resources financing the EU budget). The Commission considered also that existing net contributions were generally low. In addition, the UK rebate can have a distortive effect on UK expenditure of EU funds, potentially making their use less interesting for the country. For example, if the UK obtains resources under the European Union Solidarity Fund, which provides support in the event of major natural disasters, in practice the actual aid received will be reduced by two-thirds due to the mechanism of the rebate.

Table 2 - Prosperity and net contributions

<table>
<thead>
<tr>
<th>Country</th>
<th>Operating budgetary balances average 2007-2010 (% GNI)</th>
<th>Prosperity 2010 (GNI pc PPS, EU-27=100)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Denmark</td>
<td>-0.29%</td>
<td>127.0</td>
</tr>
<tr>
<td>Germany</td>
<td>-0.32%</td>
<td>120.2</td>
</tr>
<tr>
<td>France</td>
<td>-0.23%</td>
<td>108.7</td>
</tr>
<tr>
<td>Italy</td>
<td>-0.26%</td>
<td>98.2</td>
</tr>
<tr>
<td>Netherlands</td>
<td>-0.31%</td>
<td>134.4</td>
</tr>
<tr>
<td>Austria</td>
<td>-0.18%</td>
<td>124.7</td>
</tr>
<tr>
<td>Finland</td>
<td>-0.19%</td>
<td>117.3</td>
</tr>
<tr>
<td>Sweden</td>
<td>-0.27%</td>
<td>125.3</td>
</tr>
<tr>
<td>United Kingdom</td>
<td>-0.17%</td>
<td>115.5</td>
</tr>
</tbody>
</table>


In the subsequent debate, the UK maintained its view that the EU budget continues to have distortions on the expenditure side and that, on this basis, the rebate remains consistent with the Fontainebleau principles.
On the basis of these considerations, the EC has repeatedly tried to reform correction mechanisms, by putting forward proposals for a general correction mechanism applicable to all Member States (2004) or a system based on temporary lump sums for a limited number of countries (2011). However, the issue has proved to be politically sensitive, with relatively limited changes agreed by Member States after both proposals. In discussions in 2012, many delegations favoured the abolition of all corrections. According to the Court of Auditors (2005), the existence of any correction mechanism has a negative impact on the simplicity and transparency of the system.

6.4. Should the EU budget have some redistributive effects?

In 1957, the Treaty of Rome mentioned the need to promote harmonious economic development and help less favoured regions close the gap they experience. At the time the UK rebate was created in 1984-85, 69% of the EU budget was spent on agriculture. On the one hand, agriculture was (and still is) a policy area with spending mainly concentrated at EU level. On the other hand, EU agriculture spending had redistributive effects that did not appear necessarily to be related to countries' relative prosperity.

Subsequent years saw a significant increase in the resources assigned to cohesion policies with redistributive objectives clearly related to relative prosperity. This trend aimed at counterbalancing the impact of the completion of the single market on less developed Member States and regions, but can be seen also partly as an attempt to implement the first Fontainebleau principle (expenditure policy as the main tool to address budgetary imbalances), by reducing the share of the budget devoted to agriculture expenditure. However, the European Commission notes that Member States with lower relative prosperity currently contribute to financing correction mechanisms, which results in a partial neutralisation of cohesion objectives. On the other hand, geographically pre-allocated resources play a role in increasing the focus on

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28 ECA’s opinion No 4/2005.
29 The policy of economic and social cohesion was established by the Single European Act in 1986. The Lisbon Treaty has widened the concept to include territorial cohesion.
30 In its 1999 report on the need to modify and reform the European Union’s own resources system (A4-0105/99), the Budget Committee of the EP suggested further reducing the share of the EU budget devoted to agriculture by introducing 50% co-financing of this policy from national budgets. Parliament did not retain this idea in its resolution of 11 March 1999 (see footnote No 6).
budgetary balances, but some analysts consider that overall the EU budget has rather modest redistributive effects, due to its size and capping. Still, for some countries, the EU budget may represent a significant source of resources for investment: for central and eastern European Member States, for example, the very rough indication given by operational budgetary balances shows positive annual surpluses, in most cases corresponding to between 2.14% and 4.84% of GNI in 2012 (see figure 4). A think-tank\textsuperscript{31} notes the need to address persistent structural divergences so as to build a more balanced EU.

7. Criteria to assess the system and/or its components

In the long debate over possible reforms of the own resources system, many analyses have been carried out at both institutional (e.g. EP and European Commission) and academic level since the 1970s. Each of them identifies sets of criteria against which individual resources and/or the system as a whole can be assessed, taking into account both elements of tax theory and the unique institutional configuration of the EU. Even if they partly differ in their definition or scope, many criteria recur in most analyses, as pointed out in a 2008 study carried out for the European Commission\textsuperscript{32}. A non-exhaustive list of criteria can be organised in six broad categories, though some criteria can relate to more than one category.

7.1. Budgetary criteria

These include sufficiency and yield stability. The system needs to provide resources that are sufficient to cover agreed expenditure and reasonably stable over time to avert the risk of sudden financing difficulties. These principles should also apply to the selection of new own resources given that reforming the system has proved to be a long and difficult process. For example, it can be argued that it would not be efficient to introduce a new own resource whose expected proceeds are small in comparison with the size of the EU budget, highly volatile and/or likely to be on a downward path. The financing problems experienced in the 1980s show the importance of budgetary criteria.

7.2. Democratic accountability criteria

Since the EU is a Union of States and citizens, the financing system and its components should be characterised by simplicity, transparency (both explicitly mentioned in the mandate of the HLG) and visibility so as to allow a closer bond between the Union and its citizens. The Treaty principle of EU financial autonomy, which some analysts do not recognise as a criterion proper\textsuperscript{33}, could also be seen as part of this category.

7.3. Economic criteria

In principle, the system and its components should distort economic choices as little as possible, for example not discriminating against individual sectors (neutrality).


\textsuperscript{33} Heinemann F., Mohl P. and Osterloh S: op. cit.
However, in case of economic activities producing transnational negative externalities, the system or one of its resources could be designed to address a market imperfection (so-called corrective or "Pigouvian" taxation), in line with EU policy objectives (e.g. environmental goals).

7.4. Equity criteria

The system should take into account the ability to pay. Entities in similar situations should each provide a similar contribution. Regressive aspects, implying a proportionally higher contribution from those worse off, should be avoided. In tax theory, these concepts apply to equity between citizens. In the EU context, they are often related also to the objective of ensuring fairness between Member States. Equity is another of the guiding principles mentioned in the joint declaration on the high-level group.

7.5. Integration criteria

The link to a common EU policy can strengthen the rationale behind the assignment of a resource to the EU level. In addition, fiscal theory speaks of regional arbitrariness, when the base of a tax cannot be easily linked to the place where it is collected. TOR provide a practical example of this concept, since the burden of customs duties collected in a Member State may actually be borne by customers from other Member States due to the existence of the single market in which the movement of goods from one Member State to another is not subject to customs duties.

7.6. Technical and administrative criteria

Cost-effectiveness should characterise the collection of resources. This means that administrative costs need to be low in comparison with the proceeds. At the level of individual resources, this objective can be favoured by a number of factors such as: the existence of a harmonised base for the resource; a reasonably short time needed for implementation once the resource has been selected; and the absence of any major potential legal issues for implementation.

The need for prioritisation

The perfect resource does not exist, since the various goals of all these factors may partly conflict with each other. In any case, prioritisation of the objectives, which implies a certain degree of subjectivity, is needed to launch a reform of the system. The joint declaration on the HLG appears to provide some indications to this effect. However, different stakeholders have so far shown different preferences. A good system and its components would aim to strike a balance among the various criteria, possibly resorting to a mix of resources.

8. The two new resources proposed by the Commission in 2011

In the EU budget review of 2010, the European Commission identified six financing means as possible new own resources for the budget of the Union:

- taxation of the financial sector;
- revenues from auctioning under the EU’s greenhouse gas Emissions Trading System (ETS);
- a charge related to air transport;
- energy tax;

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34 Also known as spill-over costs, these are external costs (e.g. pollution) suffered by third parties that receive no compensation.
The 2011 report\textsuperscript{35} on the operation of the own resources system presents an analysis of each hypothesis (usually including some variants), while its annex briefly explains the reasons why two additional options (an EU communications tax; and a resource related to \textit{seigniorage}, part of the monetary income that the euro area central bank system derives from its activities) were discarded. The two documents show the grounds on which the Commission selected VAT and financial transactions for its reform proposal.

\textbf{8.1. A new VAT resource}

The variant of the VAT resource put forward by the Commission in 2011 aims to create a closer link between actual VAT receipts in Member States and the EU budget. While simplifying the calculation in comparison with the current system, it would focus only on the final consumption of goods and services that are subject to the standard VAT rate in each and every Member State\textsuperscript{36}, with a share of relevant VAT proceeds assigned to the EU. This narrow base is meant to overcome the issues created by the incomplete harmonisation of VAT across the EU that triggered the transformation of the current resource into a mainly statistical tool through a long series of corrections and compensations (e.g. capping of the base).

The European Commission considers that such a VAT resource would have a series of positive features. It would provide a \textit{significant yield}, subject to \textit{limited volatility}: applying a 1\% EU rate to 2009 data, revenues for the EU budget were estimated at between €20.9 billion (with current degree of harmonisation of VAT rules in the EU) and €50.4 billion (further harmonisation of VAT rules). While \textit{increasing simplicity} and visibility in comparison with the current system, such a resource should not create a disproportionate burden for specific sectors, says the Commission\textsuperscript{37}. In addition, it is \textit{linked to EU policy objectives}, with further on-going efforts to streamline VAT provisions and thus strengthen the single market\textsuperscript{38}. As regards \textit{cost-effectiveness}, the selected option is said to be the variant with a more limited impact on businesses and national administrations.

According to an analysis\textsuperscript{39} based on partially different criteria, VAT would qualify as a suitable base for a genuine EU own resource only for its long-term yield and visibility, but not so against other parameters. Conversely, another paper\textsuperscript{40} considers that a new VAT resource would improve the current system in many respects, while noting the possible difficulties in reaching an agreement at political level. The decision-making process is mentioned as the main short-term obstacle (ahead of the regressive character of VAT and different levels of VAT fraud across the EU) to the adoption of a new VAT resource.

\textsuperscript{35} Financing the EU budget - Report on the operation of the own resources system - \texttt{SEC(2011)876} - of 27 October 2011.

\textsuperscript{36} Therefore, if one category of goods is not subject to the standard VAT rate in just one Member State, it is automatically excluded from the base in all Member States.

\textsuperscript{37} As mentioned, the European Court of Auditors deems the proposal to bring some improvements in terms of simplification in comparison with the current system, while noting aspects of the text that need further clarifications.

\textsuperscript{38} In 2010, the Commission published a \textit{Green Paper} on the future of VAT.

\textsuperscript{39} \textit{The EU Own Resources System – Reform Needs and Options} / Schratzenstaller M., in: Intereconomics, vol 48; issue 5, 2013, pp. 303-313.

\textsuperscript{40} Reforming the system of financing the EU budget / d'Oultremont C. and Mijs A., 2013, 35 p.
new VAT resource in another article, which assesses the pros and cons of such a source of revenue. Commenting on its 2011 estimates, the Commission says that the VAT burden in some Member States (e.g. Cyprus, Luxembourg and Malta) would be higher than average, but argues that the regressive aspects of VAT are not clear-cut and that different consumption patterns could also be due in part to factors such as cross-border shopping and tourism.

Where the new VAT resource proposal stands

The EP has supported the introduction of a new VAT resource, identifying transparency, fairness to taxpayers in all Member States and improved simplicity as its main advantages and calling for proposals to reform this resource further. The European Council has not ruled out the replacement of the current VAT resource with a new one, but has called for further work by the Council. Whilst the European Commission had identified 2018 as the target date for introduction of the new VAT resource, this was postponed to 2021 in an interim document prepared by the President of the European Council during the MFF negotiations. The conclusions of the European Council on the MFF do not include any precise date for the introduction of the new resource. In any case, the proposal remains on the table for consideration by the HLG in the wider review of the system.

8.2. An FTT resource

In the wake of the financial crisis, the idea of taxing the financial sector was revived. After examining several options to this end, the European Commission recognised some positive aspects in a Financial Activities Tax (FAT), but highlighted also a series of obstacles an FAT would face (e.g. from an administrative and political standpoint along lines that are similar to those identified for a hypothetical EU corporate income taxation, see section on other potential candidates below). On these grounds, the Commission deemed financial transactions to be a more suitable tax base in a first phase and put forward a proposal for an EU-wide FTT, suggesting that the revenue of this new source be shared among national budgets (one-third of the receipts) and the EU budget (two-thirds).

The reasons advanced for using part of an FTT as an own resource include economic criteria: the financial sector is deemed to enjoy a tax advantage due to the current VAT exemption on most financial services, while it benefitted from huge state aid measures during the crisis. The sector would repay part of these costs through such a scheme, which should aim to curb the volume of speculative financial transactions and reduce the volatility of the market (thus addressing negative externalities). These objectives would be better achieved at EU level, due to the high mobility of the tax base. In addition, an FTT may contribute to EU policies (e.g. by strengthening the internal market) and has a potentially high yield (according to the initial Commission estimates, a variant limited to a low rate on transactions between financial institutions could raise between €30 billion and €50 billion per year for the EU-27 by 2020). Such an own resource could be perceived as unfair towards some Member States, since a high volume of financial transactions is concentrated in a few Member States. However, in the context of the single market, the European Commission considers that the proceeds would be characterised by regional arbitrariness, since they could not necessarily be attributable to the country in which a transaction takes place.

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On the negative side, the European Court of Auditors notes the high volatility of financial transactions, which would result in unpredictability of revenue. In addition, the economic effects of an FTT are controversial and much debated in literature, with opponents arguing that it can have a negative impact on the economy without being able to reduce market volatility or speculative transactions. For example, one article considers that an FTT does not qualify as a Pigouvian tax, suggesting that a reform of VAT on financial services or an FAT would be more suitable solutions to address the tax advantage of the financial sector. An additional criticism of an FTT is that it would have low visibility for citizens.

Conversely, a different paper concludes that an FTT is the most suitable base for a new own resource among the options examined by the European Commission in 2011, while recalling that there are no resources able to meet all the assessment criteria. Another analysis considers that the economic effects of an FTT will largely depend on its final design and gives a positive overall assessment of this option.

Where the FTT proposal stands

The idea of establishing an FTT at EU level encountered strong opposition from a number of Member States, including the UK and Sweden. Following an updated Commission proposal, 11 Member States (Belgium, Germany, Estonia, Greece, Spain, France, Italy, Austria, Portugal, Slovenia and Slovakia) are cooperating to introduce an FTT through enhanced cooperation. In April 2014, the Court of Justice of the EU dismissed an action brought by the UK against the Council decision authorising this move. The EP, which had repeatedly called for the introduction of an FTT at global and European level, gave its consent to the creation of an FTT under enhanced cooperation. Updated Commission estimates indicate that annual proceeds could amount to around €30-35 billion under the new proposal. The European Council conclusions on the MFF left the door open to the possibility of using part of this revenue to finance the EU budget. This would correspondingly reduce GNI-based contributions. However, it remains to be seen whether such a solution - if agreed upon by participating countries - would help to address the current shortcomings of the system: a resource stemming from only 11 Member States would not increase its simplicity, while net balances would be likely to remain the main logic and the benchmark underpinning budgetary debates. Participating countries appear to be moving towards a progressive implementation of the FTT, with the first phase currently planned to be launched by 1 January 2016.

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43 Attempts to reform EU VAT provisions in this direction have been so far unsuccessful.
45 Schratzenstaller M., op. cit.
46 d'Oultremont C. and Mijs: op. cit.
47 Judgment of the Court (Second Chamber) of 30 April 2014 - United Kingdom of Great Britain and Northern Ireland v Council of the European Union (Case C-209/13).
49 3310th Council meeting (Economic and Financial Affairs) of 6 May 2014 (9273/14).
9. New own resources: other possible candidates

In the run-up to the review of the own resources system, it may be worth also reconsidering the options that the Commission did not retain in its reform proposal.

9.1. Revenues from the EU Emissions Trading System (ETS)

The ETS is the centre-piece of EU policy to fight climate change. It sets limits on the total quantities of certain greenhouse gases which entities in the scheme (e.g. industrial installations) can emit, while emission allowances can be traded by these entities within the established limits. Revenues stemming from the allowances auctioned under the ETS could be shared between EU and national budgets. Contrary to tax-based own resources, the revenue would thus depend on the prices of allowances determined by demand and supply on the relevant market.

Elements in favour of the use of ETS revenue as an own resource include: the clear link to an EU policy and economic criteria with neutrality towards installations already subject to ETS rules, as well as the possibility of further addressing negative externalities (e.g. by earmarking relevant revenue for additional environmental actions, even if current provisions already include targets to this end).

Among the risks to be minimised, the European Commission notes that re-opening negotiations on the ETS Directive could affect the legal certainty of the scheme, which is needed for its good functioning. In addition, fairness between Member States could be a source of friction, since significant differences can be observed in the distribution of auction rights, whose allocation is reported to have played an important role in the final agreement on the climate and energy package.

According to 2011 Commission estimates, ETS revenues accruing to the EU budget could reach €20 billion in 2020. As noted above, market factors would have a direct impact on the actual proceeds. In the meantime, the functioning of the ETS has raised criticism, with some analysts arguing that it is a flawed policy and identifying a gradually rising carbon tax as a better means of meeting carbon reduction objectives.

9.2. Charge related to air transport

The liberalisation of the EU air transport market is regarded as a success story, with significant economic benefits for the wider economy. While, in comparison with other activities (including road and rail transport), the sector enjoys a favourable tax regime with virtually no taxation of kerosene and no VAT on air tickets, some Member States have introduced national air passenger taxes. The ETS, which is applicable to air transport since 2012, has also ignited a debate in this sector.

According to the Commission, integration criteria would support the establishment of an air transport duty (either on passengers or on flights) at EU level rather than at national level, so as to avoid fragmenting the internal market and distorting competition. In addition, relocation of activities undermined attempts from some Member States (e.g. smaller ones) to introduce such a duty, suggesting that the national level is not the optimal one for this. Cost-effectiveness considerations could also play a positive role, as shown by the example of some national air duties which needed only a few months to be introduced.

While the uneven distribution of air transport across the EU could raise equity issues, the European Commission argues that air transport activities are characterised by a degree of regional arbitrariness due to their cross-border nature. In relation to economic criteria, the analysis notes the need for careful design of the scheme, for example to avoid a negative impact on the international competitiveness of EU air transport and on the economy of regions that are much dependent on air transport due to their geographical features. The example of the UK Air Passenger Duty (APD), in force since November 1994, is presented to support the idea that such a scheme can function, and that its potential negative impact should not be overestimated.

An air transport duty could provide a significant yield, estimated at €20 billion or more in 2020. Since the cyclical nature of the sector would entail some volatility in the proceeds, its use in a mix with other resources could be considered.

Some analysts agree that a charge based on air transport would qualify well as an own resource of the EU, noting that it would also meet the visibility criterion. Should this option be chosen, opposition from the industry can be expected. For example, a group of UK and Irish companies commissioned a study to measure the impact of the abolition of the UK APD on the economy and on public finances. In addition, there has been much debate on differentiated application of the UK APD in Scotland and Northern Ireland.

9.3. Energy/carbon tax

A framework for various aspects of energy taxation in the EU is set by Council Directive 2003/96/EC (Energy Taxation Directive, or ETD), which the European Commission proposed to amend in 2011. This basis could facilitate the introduction of an energy-related own resource. The Commission identified two main options (each with several possible variants): an energy levy (linked to energy products released for consumption) and a carbon levy. The latter would require the adoption of the amended ETD and could complement the ETS so as to ensure a coherent approach and avoid overlaps in the policy to fight CO₂ emissions.

Under the integration criteria supporting the establishment of an own resource in this field, the link to an EU policy and attempts to strengthen the internal market for energy could be envisaged. For example, the new resource could be used to finance part of the significant EU energy infrastructure needs that have been identified by the European Commission.

Especially in the case of a carbon levy, economic criteria would include the goal of addressing negative externalities. According to the Commission, neither option would automatically imply a different tax burden for the energy or other sectors, since these levies would mainly determine a transfer of some resources from Member States to the EU budget. Their final effect would depend on how Member States adapted their national tax rates. The need to analyse in further detail the potential impact of even a limited price increase on the competitiveness of EU industry is underlined. In recent years, energy prices rises and divergences in the EU have been a source of concern: a 2014 Commission communication analyses the topic, with particular focus on electricity and gas prices.

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51 Schratzenstaller M., op. cit.
As regards **budgetary criteria**, rough estimates show a **significant yield**. For example, an energy levy could provide the EU budget with between €17.5 billion (when assuming an EU levy on petrol and diesel used as road motor fuel of €50 for 1 000 litres) and €21.8 billion (when broadening the scope of the levy). Proceeds from a carbon levy could be even higher, but they might gradually decrease over time, as CO₂ reduction targets are progressively met.

In relation to **equity criteria**, the European Commission says that an energy or carbon-levy-based own resource would modify the current shares of Member State contributions to the EU budget, with countries having a more energy- and/or carbon-intensive economy expected to contribute more. As regards in particular a resource based on excise duties on road transport fuel, more prosperous Member States would contribute a proportionally lower share of their GDP, but significantly higher amounts in absolute terms.

### 9.4. EU Corporate Income Tax (EUCIT)

The taxation of corporate income is largely diversified and uncoordinated across the EU. The Commission considers that this hampers the functioning of the single market, including by creating red tape for companies that operate in more than one Member State. To address this issue, in 2011 the Commission put forward a proposal to create a Common Consolidated Corporate Tax base (CCCTB) for the EU-wide activities of these companies. The EP supported the proposal, which faces difficult negotiations in the Council. An own resource assigning part of corporate income taxation proceeds to the EU, or EUCIT, would have a much broader scope than a CCCTB.

**Integration criteria** supporting a EUCIT could include not only the possible strengthening of the single market, but also aspects related to **regional arbitrariness**. For example, an article⁵⁴ notes that location of activities is increasingly severed from the place where related profits are taxed. **Budgetary criteria** suggest that the EUCIT could produce a **high yield** (estimated by the Commission at €15 billion per year with a tax rate lower than 2%), but it would be **volatile** due to the cyclical nature of the tax base.

As regards **economic criteria**, the European Commission indicates that there could be a higher impact on certain sectors and the cost of adaptation to the EUCIT could be high for businesses active only in one Member State. **Technical and administrative** aspects might create difficulties as well. Last but not least, due to the high political sensitivity of the corporate income taxation area, the Commission does not appear to consider the EUCIT a feasible option for the near future.

### 9.5. A resource related to **seigniorage**

**Seigniorage** is a form of monetary income that central banks derive from their monopoly position in issuing notes. In the euro area, **seigniorage** is currently distributed by the European Central Bank to the National Central Banks of the countries, whose currency is the euro. From time to time, it has been suggested that **seigniorage** related to the euro be attributed to the EU budget instead. In its 2011 report, the European Commission recalls that it has already analysed this hypothesis on previous occasions, discarding it on various grounds. In addition to **legal and institutional obstacles**, the Commission considers that such a resource would produce a **limited yield** in comparison with the size of the EU budget and increase the **complexity** of financing,

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⁵⁴ Schratzenstaller M., *op. cit.*
with the need to design an alternative resource for the countries that have not adopted the euro.

The European Central Bank and National Central Banks are opposed to the idea of attributing euro area seigniorage to the EU budget, which could be perceived as a limitation of their independence according to some observers. Conversely, others consider that, due to its link to an EU policy, seigniorage would qualify well as an own resource, while estimating that relevant proceeds would not be negligible, although would be volatile.

9.6. An EU communications tax

In its 2011 report, the European Commission discarded ideas for own resources related to communication activities such as telecommunications, deeming their rationale difficult to justify (in the absence of clear externalities to be addressed) and possibly even contrary to EU policy objectives (e.g. Digital Agenda for Europe and roaming price reductions across voice calls, SMS and data in the single market).

A 2012 article focused on the idea of an Internet communication tax at EU level, agreeing that in the current framework this would not be a feasible option, despite having some positive aspects (e.g. as far as visibility, equity and neutrality are concerned). According to the author, the acceptability of such a scheme might evolve in the future, for example with EU resources allocated to cross-border investments in digital infrastructure for the single market, but technical aspects would need to be investigated in further detail.

10. Outlook

There is widespread consensus among political stakeholders and researchers that the EU budget needs reform. This includes its revenue side and, some analysts say, should even start with it, considering that a higher degree of EU financial autonomy could help to modify the structure of EU expenditure as well, aligning it more to the new challenges that the Union has to tackle. Even those who oppose more financial autonomy for the EU generally agree that the current financing system should be streamlined.

As a paper puts it, the need for reform does not necessarily translate into the ability to reform. A major obstacle to this end lies in the decision-making procedure that applies to the own resources system, which requires unanimity in the Council and ratification by 28 Member States. This makes veto threats extremely credible. In a telling expression, the Own Resources Decision is sometimes referred to as a quasi-Treaty. Times of economic crisis may prove to be an additional obstacle to reforming the financing system.

The EP has very limited influence on the revenue side of the budget. Over recent decades, Parliament has been able to use its budgetary powers on the expenditure side as leverage to set the policy agenda and push for significant reforms in other areas.

According to one analysis\textsuperscript{58}, the Lisbon Treaty provisions on the annual budget in practice reduce the EP’s strength in this area.

However, experience shows that reforms and agreements are possible even if difficult. An overhaul of the system should not aim at marginal adjustments, since over time these have often proved to introduce new layers of complexity. A reform should rather be the opportunity for real simplification and streamlining and could necessitate different phases of implementation, as envisaged in Parliament’s resolution of 29 March 2007.

Commission documents and proposals, Parliament’s resolutions and academic research have identified the main areas for consideration, which include:

- The possible introduction of new genuine own resource(s) in line with Treaty provisions. No potential candidate seems able to meet all the numerous assessment criteria that have been developed over time. However, some should allow the striking of a good balance (possibly with a mix of resources). For example, the on-going work on the development of a new VAT resource represents one option.
- Addressing the issue of correction mechanisms, which are widely recognised as a source of inequity and distortion in the system.
- Eliminating the current VAT resource, as suggested by Finland in 2004, since it is extremely complex and does not appear to provide any real added value to the system. In 2012, the UK Parliament did not rule out such a hypothesis, while indicating that a new way of calculating the UK rebate should be negotiated.

In addition, the feasibility of some kind of link between a new own resource and specific objectives may be worth further investigation. This could help to increase the focus on the provision of collective goods with EU added value. For example, an EU energy tax could be coupled with cross-border investment in energy infrastructure. Manufacturers have recently called for a coordinated EU energy policy\textsuperscript{59}, underlining the strategic importance that developing a European "smart grid" would have for the competitiveness of the entire European industrial sector.


\textsuperscript{59} See for example: Financial Times, 13 March 2014.
11. Main references


Reforming the system of financing the EU budget / d'Oultremont C. and Mijs A., 2013.

Reform options for the EU own resources system / Heinemann F., Mohl P. and Osterloh S., 2008, ix-177 p.


Understanding the EU budget / Patterson B., 2011, x-127 p.
### 12. Annex

**Operating budgetary balances, 2007-12**

(i.e. excluding administrative expenditure and TOR, and including UK correction)

<table>
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<th>2009</th>
<th>%GNI</th>
<th>2010</th>
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</table>

**Notes**

* ‘Operating budgetary balances’ are calculated, for a given Member State, as the difference between allocated operating expenditure (i.e. excluding administration) and own resources payments (excluding TOR).

* These payments are adjusted to sum up to total allocated operating expenditure (as for calculating the UK correction), so that operating budgetary balances add up to zero.

* Series as a percentage of GNI are calculated on the basis of GNI data, as published by DG ECFIN in its spring 2012 economic forecasts.

### National contributions by Member State, and traditional own resources collected on behalf of the EU in 2012 (in million euros)

<table>
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<tr>
<th></th>
<th>VAT own resource</th>
<th>GNI own resource</th>
<th>UK rebate</th>
<th>Reduction in GNI resource granted to NL and SE</th>
<th>Total national contributions</th>
<th>Traditional own resources - Net (75%)</th>
<th>Total own resources</th>
<th>%</th>
<th>% GNI</th>
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<td>131.0</td>
<td>1.1</td>
<td>1.12%</td>
</tr>
<tr>
<td>SI</td>
<td>51.9</td>
<td>262.9</td>
<td>16.5</td>
<td>2.3</td>
<td><strong>333.5</strong></td>
<td>0.3%</td>
<td>65.0</td>
<td>0.3</td>
<td>1.14%</td>
</tr>
<tr>
<td>SK</td>
<td>84.0</td>
<td>524.5</td>
<td>33.1</td>
<td>4.6</td>
<td><strong>646.1</strong></td>
<td>0.6%</td>
<td>96.6</td>
<td>0.6</td>
<td>1.06%</td>
</tr>
<tr>
<td>FI</td>
<td>277.2</td>
<td>1 470.3</td>
<td>101.6</td>
<td>13.2</td>
<td><strong>1 862.3</strong></td>
<td>1.6%</td>
<td>139.7</td>
<td>1.5</td>
<td>1.03%</td>
</tr>
<tr>
<td>SE</td>
<td>188.3</td>
<td>3 211.5</td>
<td>33.9</td>
<td>-144.5</td>
<td><strong>3 289.2</strong></td>
<td>2.9%</td>
<td>464.9</td>
<td>2.9</td>
<td>0.90%</td>
</tr>
<tr>
<td>UK</td>
<td>2 794.3</td>
<td>14 344.0</td>
<td>-3 803.6</td>
<td>126.5</td>
<td><strong>13 461.1</strong></td>
<td>11.9%</td>
<td>7 216.3</td>
<td>12.5</td>
<td>0.85%</td>
</tr>
<tr>
<td>EU27</td>
<td><strong>14 871.2</strong></td>
<td><strong>98 160.2</strong></td>
<td><strong>-56.5</strong></td>
<td><strong>1.6</strong></td>
<td><strong>112 976.4</strong></td>
<td><strong>100.0%</strong></td>
<td><strong>16 453.4</strong></td>
<td><strong>100.0%</strong></td>
<td><strong>1.00%</strong></td>
</tr>
</tbody>
</table>

* The GNI resource includes the adjustment applied to take account of a few MS not taking part in some justice and home affairs programmes.

** Totals for UK rebate payments and GNI reduction granted to NL and SE are not equal to zero due to exchange rate differences.

<table>
<thead>
<tr>
<th></th>
<th>Surplus from previous year</th>
<th>Other revenue</th>
<th>Total revenue</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>1 497.0</td>
<td>8 613.8</td>
<td>139 540.5</td>
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</table>

The system of "own resources" ensures the financing of the EU's policies. Total EU revenue amounted to €139.5 billion in 2012. Successive reforms have determined the system's current configuration, which relies on three key streams of revenue: traditional own resources (mainly customs duties); a resource based on value added tax (VAT); and a resource related to Member States' gross national income (GNI).

At present, the system provides sufficient resources to cover planned expenditure which is crucial, since the EU budget cannot run a deficit. However, it is often criticised for its complexity and opacity, to which a series of exceptions and so-called correction mechanisms (such as the UK rebate) add. Modification of the own resources system requires unanimity in the Council and ratification by each Member State. For the Own Resources Decision, the European Parliament is only consulted.