BRIEFING

EU Legislation in Progress
2021-2027 MFF

European Parliament

Own resources of the European Union

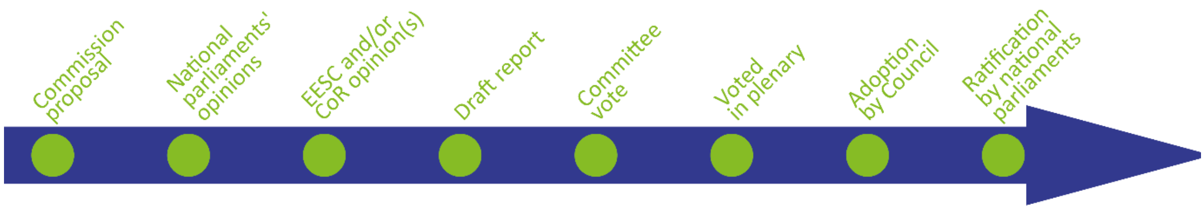
Reforming the EU's financing system

OVERVIEW

On 1 June 2021, the decision that reforms the financing system of the EU budget entered into force, following its ratification by all Member States. It introduces three significant innovations in the own resources system, applying retroactively from 1 January 2021. The maximum level of resources that can be called from Member States permanently rises from 1.20 % to 1.40 % of EU gross national income (GNI). A temporary increase in the own resources ceiling, worth a further 0.60 % of EU GNI, is devoted exclusively to the financing of Next Generation (NGEU), enabling the Commission to borrow resources on an unprecedented scale on the capital markets, with a view to financing the recovery. A national contribution linked to non-recycled plastic packaging waste is introduced, the first new EU own resource to be created since 1988. In addition, Parliament pushed for a broader reform of the financing system underlining that the introduction of a basket of new own resources should cover at least the repayment costs of NGEU (for both principal and interest). Parliament managed to include a detailed roadmap for the introduction of various additional new own resources by 2026 in the interinstitutional agreement on budgetary matters with the Council and the European Commission. Envisaged resources are linked to EU policies on climate and the single market.

Proposal for a Council decision on the system of own resources of the European Union
Proposals for Council regulations (1) laying down implementing measures for the system of own resources of the European Union; (2) on the methods and procedure for making available the own resources...; and (3) amending Regulation (EEC, Euratom) No 1553/89 on the definitive uniform arrangements for the collection of own resources accruing from value added tax

Committee responsible:	Budgets (BUDG)	COM(2018) 325, 326, 327, 328 and COM(2020)445 final
Rapporteurs:	José Manuel Fernandes (EPP, Portugal) and Valérie Hayer (Renew, France)	2.5.2018 and 28.5.2020
Shadow rapporteurs:	Elisabetta Gualmini (S&D, Italy); David Cormand (Greens/EFA, France); Hélène Laporte (ID, France); Roberts Zīle (ECR, Latvia); Younous Omarjee (The Left, France); Dimitrios Papadimoulis (The Left, Greece)	2018/0135(CNS) 2018/0132(APP) 2018/0131(NLE) 2018/0133(NLE)
Procedure completed:	Decision (EU, Euratom) 2020/2053 [OJ L 424, 15.12.2020, pp. 1–10]	Consultation procedure (CNS)



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Introduction

The system of own resources provides for the financing of the EU budget, setting out its sources of revenue and calculation methods. The provisions governing the revenue side of the EU budget are usually negotiated in a comprehensive budgetary package that includes the multiannual plan for the expenditure, set out in the EU's multiannual financial framework (MFF). The European Council plays a prominent role in the negotiations of the overall package, despite not having a role in the related legislative procedures.

The European Parliament and the Council, the two arms of the EU budgetary authority, have different powers, depending on the issue at stake. As regards the EU's financing system, its general provisions are set out in a Council decision (the Own Resources Decision), which requires unanimity and ratification by all Member States, following consultation of the European Parliament. The Council regulation laying down the implementing measures for the system is adopted by a qualified majority after obtaining Parliament's consent. In addition, operational provisions on the methods for making available or collecting specific own resources are included in separate Council regulations to which a third procedure applies: qualified majority in the Council following consultation of the Parliament and the European Court of Auditors (ECA).

While Parliament has rather limited powers on the revenue side of the EU budget, it has long pushed for an overhaul of the own resources system, deeming its current configuration to be opaque, unfair and against the provisions of the Treaty on the Functioning of the European Union (TFEU). On 2 May 2018, the European Commission put forward its proposals for the 2021-2027 MFF, accompanying them with proposals for changes to the financing system of the EU budget.

Existing situation

Council Decision 2014/335/EU set out the general provisions for the EU's financing system. The EU budget was capped by the own resources ceiling for payments, establishing that in one year own resources cannot exceed 1.20 % of the EU's gross national income (GNI). Three categories of own resources financed the EU budget in that period:

1. **traditional own resources** (mainly customs duties) that Member States collect on behalf of the EU, retaining 20 % of relevant amounts as collection costs;
2. an **own resource based on value added tax (VAT)**, for which Member States' contributions are based on a complex calculation that implies the statistical harmonisation of their VAT bases with various corrections and caps, and the application of a uniform call rate (0.30 %, but Germany, the Netherlands and Sweden had a reduced call rate of 0.15 % over the 2014 to 2020 period); and
3. a **GNI-based own resource**, through which Member States transfer to the EU budget a share of their annual GNI (slightly over 0.51 % in 2017), which is set each year in the context of the annual budgetary procedure.

Some Member States benefit from reductions on their contributions. The first and most renowned correction was the UK rebate, introduced on the basis of the conclusions of the 1984 Fontainebleau European Council, that no Member State should sustain a budgetary burden which is excessive in relation to its relative prosperity. Other corrections were granted to Austria, Denmark, Germany, the Netherlands and Sweden in the form of a permanently reduced financing of the UK rebate ('rebates on the rebate') and/or other mechanisms, which applied for a specific period of time, such as lump-sum reductions on their GNI contributions and lower call rates of the VAT-based resource.[1]

In addition to own resources, other revenue that accrues to the EU budget includes tax on EU staff remunerations, contributions from third countries to certain programmes such as Horizon 2020 and Erasmus, interest on late payments and fines on companies for breaching competition law.

Since the EU budget cannot run a deficit, the GNI-based resource plays the budget-balancing role, financing the annual expenditure not covered by the other EU own resources and revenue. For this reason, its call rate changes every year. Despite being introduced as a residual element, the GNI-based resource has over time acquired a central role in the system, and currently provides for the bulk of the financing. Furthermore, the VAT-based own resource is often perceived as a second GNI-based resource due to the complex statistical calculation that weakens the link to actual VAT proceeds in Member States. Figure 1 in the section on the changes that the proposal would bring presents the mix of revenue for 2018.

GNI- and VAT-based resources, which jointly account for 70-80 % of annual EU revenue, are referred to as national contributions, and are generally considered very predictable. However, being based on statistical aggregates to be updated regularly first with estimates and then with actual data, they have on a few occasions produced rather large annual adjustments in their distribution between Member States, as it was the case at the end of 2014.[2]

While the own resources system overall provides sufficient revenue to cover EU expenditure, various scholars and stakeholders, including the European Parliament, have pointed to its shortcomings. In particular, one major criticism is that a system highly and increasingly dependent on national contributions has a negative impact on the expenditure side of the EU budget, and hinders the reform of the latter.[3]

The structure of the own resources system has not undergone any significant modifications since the end of the 1980s, when the GNI-based resource was introduced. The unanimity requirement for the Own Resources Decision appears to be a major obstacle to reform, giving a de facto veto power to each Member State in the Council.

The Own Resources Decision is in force without an expiry date, unlike the MFF regulation, which covers a specific timeframe. However, the expected withdrawal of the UK from the EU eliminated the rationale behind the country's rebate and related corrections secured by some Member States in the financing of the UK rebate, making the case for the adoption of a new own resources decision.

Parliament's starting position

Parliament is highly critical of the current configuration of the own resources system, considering that it goes against the provisions of the Treaties. While Article 311 TFEU provides the Union with financial autonomy, most of the financing comes from the GNI- and the VAT-based own resources, which Member States perceive as national contributions, to be minimised. This feature is deemed to have a series of negative repercussions on the MFF and the EU budget, by contributing to a focus in the relevant negotiations on Member States' budgetary balances[4] and on geographically pre-allocated expenditure. In Parliament's view, the focus should rather shift to policy areas where pooling of resources at EU level can be more effective than national expenditure. In addition, Parliament points to the opacity that correction mechanisms introduce to the system.

Since the 1990s, Parliament has called repeatedly for an in depth-reform of the system, with a view to making it simpler, fairer and more transparent.[5] The modifications it has requested include: the introduction of new genuine own resources linked to EU policies and objectives; a reduction in the share of the GNI-based resource in the revenue mix; the elimination of all correction mechanisms; and the use of fines from competition policy and other unforeseen revenue to create a reserve for unexpected and additional needs.[6] Parliament resolutions have put forward numerous potential bases for new own resources for consideration, including: VAT (a modified version of the related own resource); a share of corporate income tax; a financial transaction tax at EU level; seigniorage (central bank revenue accruing from the issuance of money); taxation in the digital sector; and environmental taxes.

A Commission reform package of 2011 eventually resulted in limited changes in the own resource system. Dissatisfied with this outcome, Parliament succeeded in keeping the topic high on the

political agenda, by using its consent power in the procedure for the adoption of the MFF. One of the conditions that Parliament set to give its consent to the 2014-2020 MFF was the creation of an interinstitutional high-level group to be tasked with a thorough review of the own resources system. In the longer term, Parliament would like to see its role in the adoption of own resources enhanced through modification of Article 311 TFEU.

Council and European Council starting position

During the negotiations on the reform package put forward by the Commission in 2011, most Member States in the Council were of the opinion that the own resources system could be streamlined and simplified. However, a few Member States had a differing view and the unanimity requirement for the adoption of the decision proved to be a powerful obstacle to in-depth reform. The European Council and the Council eventually agreed only to limited changes in the system.[7]

While the Commission proposed two new own resources in its 2011 reform package, neither of them was introduced. In its conclusions on the 2014-2020 MFF negotiations, the European Council did not rule out the replacement of the VAT-based resource with a new, simpler VAT-based resource, but deemed further work to be needed.[8] Some Member States, meanwhile, were strongly opposed to an own resource based on the possible creation of a common financial transaction tax (FTT). The European Council asked for the eleven Member States that had decided to pursue the project under enhanced cooperation to consider the possible use of part of the resulting proceeds as an EU own resource. However, five years later the – now – ten participating Member States have not yet reached an agreement on the establishment of an FTT.

Preparation of the proposal

In 2014, the establishment of the interinstitutional High-Level Group on Own Resources (HLGOR), as strongly requested by the European Parliament, meant that the discussion on possible changes in the EU's financing system began shortly after the beginning of the 2014-2020 programming period. The European Parliament, the Council and the Commission each appointed three members to the HLGOR, which was chaired by Professor Mario Monti.

The HLGOR carried out a comprehensive review of the system, producing a first assessment report in December 2014, consulting national parliaments and commissioning an external study.[9] Building on these analyses, the final report of the HLGOR concludes that both sides of the EU budget need to be reformed to address new policy challenges. As regards revenue, all correction mechanisms should be abolished to make the system simpler and fairer, but some positive elements should be retained: the principle of equilibrium, traditional own resources, and the GNI-based own resource, which should however be used as a truly residual and balancing resource. In addition, the report recommends introducing a mix of new resources linked to EU policies, which could increase the budgetary focus on measures with European added value and, simultaneously, contribute to broader EU policy objectives. Potential candidates stem from policy areas such as the single market, fiscal coordination, energy, environment, climate change, and transport.

Following the publication of the HLGOR's final report in January 2017, discussions on the reform of the EU budget gained momentum in the context of the wider debate on the future of the EU, kick-started by the European Commission with a white paper two months later. Among the documents published by the Commission on five topics considered crucial to this debate, there is a June 2017 reflection paper on the future of EU finances.[10] In this paper, taking into account the conclusions and recommendations of the HLGOR, the Commission includes the elimination of correction mechanisms among the elements that should characterise the reform of the EU budget under all the scenarios outlined for the future of the EU on account of the simplification that this change would bring to the financing system. Other options for the revenue side vary depending on each scenario's level of ambition, and include the introduction of new sources of revenue, fees and/or own resources. Any new resources should not only be a revenue source, but also contribute to EU

policy objectives. The selection of new resources should consider features such as transparency, simplicity, stability, impact on competitiveness and sustainable growth, and fair breakdown among Member States.

Ahead of the first informal meeting of EU leaders on the post-2020 MFF, the European Commission said that the debate would concern not only the allocation of expenditure but also its financing. In its contribution to the meeting,[11] the Commission reiterated that, on the occasion of the expected withdrawal of the UK, all corrections should be abolished to make the own resources system simpler and more transparent. The document provided an overview of four options for new revenue streams that could strengthen a progressively weakened link between EU financing and EU policy objectives: a new VAT-based own resource, revenue from the EU's emission trading system (ETS), an own resource based on a common consolidated corporate tax base (CCCTB), and seigniorage.

The changes the proposal would bring

The European Commission makes the case for its reform proposal for the own resources system on the basis of a mix of factors including: the emergence of new priorities with budgetary implications; the expected withdrawal of the UK, a net contributor to the EU budget that is endowed with an ad-hoc correction mechanism; and the support that the EU budget can give to policy objectives not only through expenditure, but also by means of revenue sources.

The reform package is composed of proposals for an own resources decision, an implementing regulation and two operational regulations on the methods for making available or collecting specific own resources. The main changes proposed in the package can be grouped in six areas:

1. **Simplification of existing resources**. The collection costs that Member States retain on customs duties (i.e. the main component of traditional own resources) would be reduced from 20 % to their original level of 10 %. The increase of this rate as of the year 2000 has often been regarded as a hidden correction in favour of Member States that are significant entry points of supplies into the single market. The VAT-based own resource would be streamlined, by simplifying the calculation of VAT bases with a focus on standard rated supplies and the application of a uniform call rate. The GNI-based own resource would be kept as the budget-balancing element, but its relative importance in the revenue mix would be reduced.
2. **Gradual elimination of all correction mechanisms**. The expected withdrawal of the UK from the EU would provide the opportunity to abolish the UK rebate. In addition, deeming the overall package proposed for the post-2020 EU budget fair and balanced, the Commission concludes that the other corrections granted in the 2014 decision to Austria, Denmark, Germany, the Netherlands, and Sweden are no longer justified, and proposes to phase them out. Their gradual elimination would be achieved by means of annual lump-sum reductions in their GNI-based contributions over the 2021-2025 period, which the Commission justifies by the 'significant and sudden increase in their national contributions' that these five Member States would otherwise experience.
3. **Three new own resources linked to EU policies**. The introduction of new resources would diversify the revenue mix, and correspondingly reduce the share of the GNI-based own resource. The Commission has selected three possibilities, taking into account their role in and/or potential contribution to broader EU objectives. An own resource based on a common consolidated corporate tax base (CCCTB), which is linked to the single market and the fight against tax-base erosion, would allocate 3 % of the relevant taxable profits of large enterprises to the EU budget once the proposal on the setting up of a CCCTB in the EU is adopted. In the field of climate policy, the existing EU emissions trading system (ETS) would attribute 20 % of the revenue accruing from certain categories of its allowances to the EU budget. In addition, Member States would pay an own resource contribution proportional to the quantity

of non-recycled plastic packaging waste that they generate (€0.80 per kilo), in line with EU environmental objectives to promote a circular economy. The Commission estimates that, on average, the three new own resources combined would provide 12 % of total revenue for the 2021 to 2027 MFF.

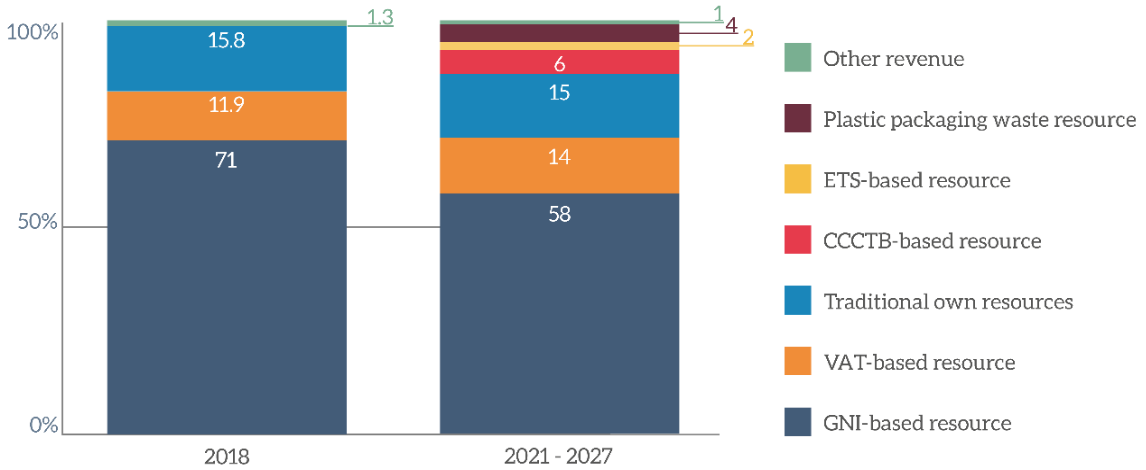
4. **Automatic allocation of future revenue from EU policies to the EU budget**. Under Article 2(2) of the proposed decision, any other revenue generated by new common EU policies would accrue directly to the EU budget. The Commission mentions fees from the European Travel and Information Authorisation System (ETIAS) as a possible example of such revenue that would not require modification of the Own Resources Decision, but would be directly included in the relevant legal act.
5. **Increase of the own resources ceilings by 0.09 % of EU GNI**. This proposal, which would raise the own resources ceiling for payments to 1.29 % of EU GNI, aims to address a number of changes with implications for the EU budget: the decrease that the UK withdrawal will automatically trigger in total EU GNI, of which the UK share is around 16 %; the proposed inclusion in the MFF of the European Development Fund (EDF), an intergovernmental tool that Member States financed outside the EU budget and its ceilings; and the increasing use of financial instruments guaranteed against the EU budget. If the own resources ceiling for payments stayed untouched at 1.20 % of EU GNI, the above factors would reduce the margin between it and the actual payment ceiling in the proposed MFF. This margin represents the headroom available to cover contingent liabilities and unforeseen events such as economic downturns, and is taken into account in the assessment of the EU's credit rating. Along similar lines, the own resources ceiling for commitments would be raised from 1.26 % to 1.35 % of EU GNI.
6. **Inclusion of a limited degree of flexibility for the fine-tuning of the system**. The proposal moves some provisions which were at the time in the 2014 Own Resources Decision, such as those on the reference GNI, to the implementing regulation. In particular, the new decision would set the maximum call rates for the various own resources, but the implementing regulation would now establish the applicable call rates. Should the need to fine-tune the system arise, this change would provide some room for manoeuvre within the limits set in the decision, since a nimbler legislative procedure applies to the implementing regulation (qualified majority in the Council and consent of the European Parliament).

Many elements of the proposal take into account recommendations of the High-Level Group on Own Resources, long-standing demands from the European Parliament and analysis by the European Court of Auditors. Examples in this direction are: the phasing-out of corrections, whose very existence compromises the simplicity and transparency of the financing system according to the Court; the streamlining of the VAT-based resource; and the introduction of new genuine own resources linked to common objectives.

All three new resources proposed were among the options advocated by Parliament in its March 2018 resolution. While Parliament argued that the introduction of new resources should be aimed at reducing the share of the GNI-based resource to 40 % of the revenue mix, the European Commission estimates that, once the changes proposed in the package are implemented, the GNI-based resource would provide 50-60 % of total revenue.

Figure 1 compares the 2018 mix of EU revenue with its 2021 to 2027 average estimated by the European Commission on the basis of its proposals. The revenue expected from the three new resources over the next programming period is 12 % of the total. Half of this would accrue from the CCCTB-based own resource, which may require more time than the others to be implemented, since Member States are still negotiating the creation of a CCCTB at EU level.

Figure 1 – Mix of EU revenue in 2018 and estimated average for 2021-2027 period



Source: EPRS, based on European Commission estimates, COM(2018) 325.

Given the procedural complexity implied in the creation of new own resources, the proposal pays more attention than in the past to other sources of revenue stemming from EU policies, introducing a specific principle that would automatically link any new revenue of this kind to the EU budget. While recalling that, owing to its size and volatility, other revenue cannot replace own resources, both Parliament and the High-Level Group have called for such supplementary revenue streams not to be neglected, since they can nevertheless make a contribution to the EU's financing by means of smoother procedures. The new principle proposed in Article 2(2) of the decision would address this recommendation. Conversely, the Commission has not retained the EP's idea that fines from breaching EU competition law and other unforeseen revenue should be put in a reserve to finance unexpected needs instead of being used to reduce GNI-based contributions.

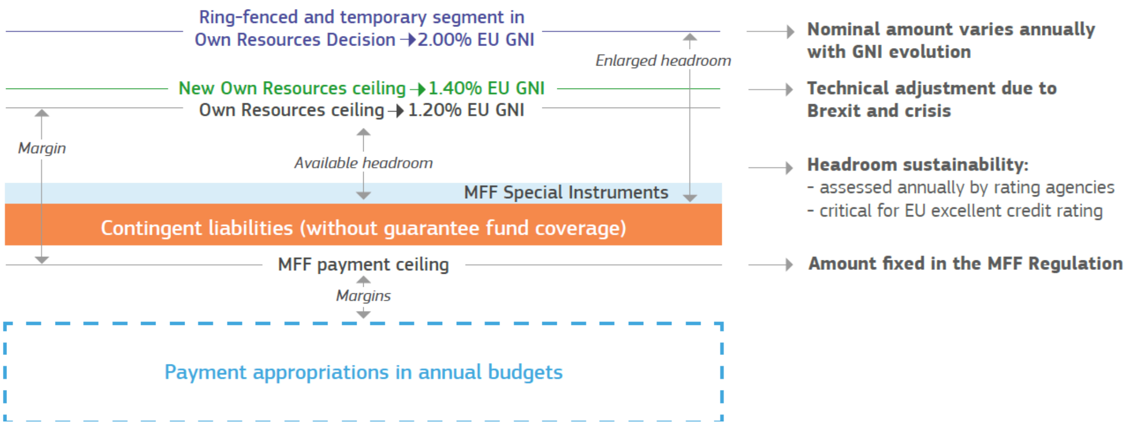
The proposed transfer of some provisions from the Own Resources Decision to the Implementing Regulation appears to respond to Parliament's concern that at present some implementing measures are still to be found in the former, which is much more difficult to modify if needed. In addition, if approved, such a change would to some extent enhance Parliament's role in shaping the revenue side of the budget.

Updated proposal of May 2020

In May 2020, the Commission amended its initial proposal taking account of the accrued uncertainties triggered by the impact of the coronavirus pandemic, with a view to empowering the EU to finance Next Generation EU (NGEU), the proposed European recovery instrument. The Commission is now proposing to raise the own resources ceiling for payments permanently to 1.40 % in the light of the uncertain economic outlook that the depth of the current crisis has brought about. In addition, a temporary increase in the ceiling, worth a further 0.60 % of EU GNI (i.e. around €95 billion in 2018 prices), would be devoted exclusively to the financing of NGEU.

These modifications aim to increase the difference between the own resources ceiling and the payment ceiling in the MFF, i.e. the margin, or headroom, that the EU has to finance special instruments, cover contingent liabilities and buffer the impact of unexpected events and possible downturns (see above and Figure 2). This headroom plays an important role in rating agencies' assessments of the creditworthiness of the EU. It was instrumental in the EU's capacity to provide financial support for Portugal and Ireland (and bridge financing for Greece) under the European Financial Stabilisation Mechanism (EFSM) and for Hungary, Latvia and Romania under the balance of payments (BoP) assistance facility. The EU enjoys an AAA credit rating, which allows the Commission to borrow at very favourable interest rates on the capital markets on behalf of the Union.

Figure 2 – Own resources ceiling and headroom



Source: European Commission.

The temporary increase in the own resources ceiling aims to preserve the Union's excellent credit rating, while enabling the Commission to borrow on the capital markets on a much larger scale than it has done to date. The exceptional and temporary empowerment to borrow is limited to addressing the socio-economic consequences of the coronavirus pandemic. The additional 0.6 % of EU GNI would be the guarantee for the temporary expansion of the Union's lending capacity and would last until all the resources borrowed under the recovery instrument have been repaid, i.e. at the latest by 31 December 2058 under the planned repayment scheme.

Another modification announced by the Commission as compared to the 2018 proposal is that the corrections by means of which five Member States (Austria, Denmark, Germany, the Netherlands and Sweden) have their national contributions to the 2014-2020 MFF reduced could be phased out over a longer timeframe (and no longer by 2025). The Commission envisages putting forward at a later stage additional proposals for new own resources, e.g. a carbon border adjustment mechanism and a digital tax, with a view to contributing to the repayment of the resources borrowed under Next Generation EU. The proceeds of borrowing operations under NGEU to finance grants to Member States and budgetary guarantees would represent external assigned revenue for the EU budget, which is revenue other than EU own resources. The EU budget cannot run a deficit. The amended proposal for the Own Resources Decision spells out the principle that borrowed funds cannot finance operational expenditure of the EU budget, and provides for a derogation to this principle limited to the temporary and extraordinary resources borrowed to address the coronavirus crisis under the grant component of the recovery instrument.

Advisory committees

Ahead of the presentation of the reform proposals, a 2017 opinion of the Committee of the Regions (rapporteur: Isabelle Boudineau, PES, France) supported the elimination of all correction mechanisms and the introduction of new own resources, with a view to reducing the role of national contributions in the EU's financing system and increasing the focus on European added value to address common challenges.

On 5 September 2018, the Council decided to consult both advisory committees on the reform of the own resources system put forward by the European Commission. In an opinion of 19 September 2018 (rapporteur: Javier Doz Orrit, Workers – Group II, Spain), the European Economic and Social Committee (EESC) welcomed the proposals for the introduction of new genuine own resources and the elimination of all correction mechanisms. Nevertheless, the EESC deemed the overall package on the own resources system to be insufficiently ambitious, calling for broader reform fully informed by the recommendations of the High-Level Group on Own Resources and the European Parliament to decrease the share of the GNI-based resource more substantially. On 16 July 2020, the EESC adopted an opinion (rapporteurs: Petru Sorin Dandea, Workers – Group II, Romania; Tommaso Di Fazio, Diversity Europe – Group III, Italy; and Petr Zahradník, Employers – Group I,

Czechia) on the recovery plan put forward by the Commission, including the amended proposal for the own resources decision. The EESC welcomed the plan and its innovative features, calling for its swift approval and strongly supporting the idea of introducing additional genuine own resources to cover the repayment costs of the recovery instrument.

The Committee of the Regions' opinion of 9 October 2018 (rapporteur: Nikola Dobroslavić, EPP, Croatia) welcomes simplification efforts such as the phasing out of corrections and the streamlining of the VAT-based own resource. While appreciating the introduction of new own resources, the Committee finds the basket proposed by the Commission limited and questions the own resource based on non-recycled plastic packaging waste. The opinion suggests tapping more substantially into the potential of the CCCTB-based own resource and exploring other revenue sources. There is also criticism of the absence of analysis regarding the potential financial impact of the package on local and regional authorities.

National parliaments

The special legislative procedure applicable to the EU's financing system includes a specific role for national parliaments, which have to ratify the own resources decision following unanimous agreement and adoption in the Council. The High-Level Group on Own Resources consulted national parliaments and took into account their views in the preparation of its final report.[12]

In a reasoned opinion, Sweden argued that the Commission proposal failed to comply with the principle of subsidiarity, in particular as regards the CCCTB-based own resource, noting that no agreement had yet been reached on the underlying CCCTB. Satisfied overall with the financing system in place at the time, the Swedish Parliament considered the corrections to be justified, and opposed their phasing out. The Czech Senate expressed reservations on the proposals for new own resources tabled by the Commission while welcoming the intention to abolish all correction mechanisms. The Czech Chamber of Deputies rejected the idea of introducing new own resources. Conversely, Portugal argued that the assignment of a share of revenue stemming from common policies to the EU budget could improve synergies between the Union and national economies, adding that the proposed introduction of new own resources fully respected the fiscal sovereignty of Member States. The German Bundesrat acknowledged the Commission's efforts to make the system simpler and more transparent, supporting the proposal to abolish the VAT-based own resource in place at the time. The Bundesrat agreed to the phasing-out of ad hoc corrections, but considered that these should be replaced by a generalised correction mechanism to benefit all the Member States facing an excessive budgetary burden.

Stakeholder views[13]

Commenting on the overall package for the post-2020 EU budget, the Bruegel think-tank included the proposed reform of the revenue side among its positive elements, supporting many elements of the proposal such as the phasing out of all corrections and the introduction of new genuine own resources linked to EU objectives. However, the analysis saw the reduction in the share of customs duties retained by Member States as too timid, estimating that actual collection costs are lower.

A policy brief by the Jacques Delors Institute criticised the proposed basket of new own resources as lacking ambition when compared with the recommendations of the High-Level Group. In addition, the authors pointed to the slow pace of the negotiations on the introduction of a CCCTB and the increasing resistance in some Member States to a levy on non-recycled plastic packaging waste.

The European Policy Centre (EPC) welcomed the proposed abolition of all rebates and considered that the idea of creating new own resources linked to EU objectives deserved to be further explored. While assessing the two proposed own resources linked to environmental objectives as interesting, the commentary concluded that both required an in-depth scrutiny in relation to feasibility of collection, volatility of revenue, and possible negative externalities.

The CEPS think-tank saw the proposed introduction of new own resources as an attempt to prevent the expected withdrawal of the UK from resulting in an increase of national contributions from the remaining 27 Member States. However, the authors deemed most of the relevant proposals unlikely to materialise in the near future.

Legislative process

When presenting its budgetary package for the post-2020 period on 2 May 2018, the Commission called for an agreement on it to be reached within one year, i.e. before the European Parliament elections and the informal European Council on the future of the EU in May 2019. The Commission stressed that this timeline would contribute to avoiding the delays in implementation that hindered the start of the 2014 to 2020 MFF, for which more than two years elapsed between the tabling of the proposal (June 2011) and the adoption of the Council Regulation (December 2013).[14]

In a resolution of 30 May 2018, Parliament expressed its readiness to start immediately on a structured dialogue with the Council to facilitate a timely agreement. Supporting the reform package for the revenue side put forward by the Commission, the text welcomes various elements of the proposal such as: the three new own resources, the elimination of all corrections, the simplification of the VAT-based resource, and the principle that revenue generated by EU policies should automatically accrue to the EU budget. Conversely, the resolution questions the absence of proposals on new EU own resources linked to an FTT and to a tax on large companies in the digital sector. Parliament reaffirmed its view that 'the expenditure and revenue side of the next MFF should be treated as a single package in the upcoming negotiations'.

On 18 September 2018, the General Affairs Council discussed the state of play in the negotiations on the basis of a report prepared by the Austrian Presidency. A majority of delegations consider that the GNI-based resource works well, deeming a reduction of its share unnecessary. However, some delegations welcome the proposals for new own resources. At this stage, delegations have differing views on most elements of the proposals. The only point of unanimous agreement so far relates to keeping the provisions on applicable call rates and reference GNI in the decision, which would reject the limited flexibility proposed by the Commission for the fine-tuning of the system. In addition, a large majority of delegations oppose the principle of allocating revenue accruing from EU policies to the EU budget. The Austrian Presidency plans to present a progress report in December 2018.

In its October 2018 opinion, the European Court of Auditors concluded that the reform package addressed some of the system's weaknesses, in particular by phasing out all the correction mechanisms, but that the EU's financing system would remain complex. Considering the underlying assumptions not always fully robust, the Court recommended that the Commission review its legislative proposals on new own resources to assess the likelihood of introducing the CCCTB-based own resource during the next MFF, the impact of the ETS-based own resource's volatility, and the possible effect of behavioural changes on the estimated proceeds of the own resource based on plastic packaging waste. In addition, the Court argued that the new VAT-based own resource would simplify the calculation, but would not strengthen the link to actual VAT proceeds, recommending that the relevant proposal be reconsidered and, if kept, modified.

On 14 November 2018, Parliament adopted an interim report (rapporteurs: Jan Olbrycht, EPP, Poland; Isabelle Thomas, S&D, France; Janusz Lewandowski, EPP, Poland; and Gérard Deprez, ALDE, Belgium) that reaffirmed and detailed Parliament's position on the overall MFF package for 2021 to 2027, including own resources. The report aimed to facilitate negotiations with the Council with a view to reaching an agreement. It welcomed the proposals on EU revenue as an important step, and supported even more ambitious reform, inviting the Commission to take into account the opinion of the European Court of Auditors, which highlights the need for further simplification and better calculation. On 10 October 2019, the newly elected Parliament confirmed and updated its negotiating mandate on the MFF and own resources, reiterating its view that expenditure and revenue should be treated as a single package in the negotiations.

In the Council, negotiations on the files have proved lengthy and complex. In 2018 and 2019, successive presidencies carried out preparatory work on the MFF package. In July 2019, the Council debated the state of play of the discussions on the own resources system, following a progress report prepared by the Romanian Presidency. Significant differences of views persisted. In December 2019, the Finnish Presidency presented an MFF negotiating box and the European Council discussed it, calling on its President, Charles Michel, to take the negotiations forward.

A special European Council meeting devoted to the next MFF took place on 20-21 February 2020. In the European Council President's negotiating box, two possible new own resources were mentioned: a share of the revenues generated by the ETS; and a national contribution linked to non-recycled plastic packaging waste. However, no agreement on the MFF package was found at the level of Heads of State or Government, and further work was then disrupted by the pandemic.

On 27 May, the Commission updated the proposals for own resources and the 2021-2027 MFF, while presenting its proposal for the Next Generation EU (NGEU) recovery instrument designed to fight the socio-economic consequences of the coronavirus pandemic.

At the end of the second longest European Council meeting ever (17-21 July 2020), Heads of State or Government reached political agreement on the new MFF, NGEU and own resources. The own resources ceiling for payments will be modified as proposed by the Commission. It will rise permanently from 1.20 % to 1.40 % of the EU GNI, while a temporary increase in the ceiling, worth a further 0.60 % of EU GNI, will be devoted exclusively to borrowing operations for NGEU and apply until December 2058 at the latest. A new own resource based on non-recycled plastic waste will be introduced as of January 2021, which should be the first step in a broader reform. The new resource will be calculated applying a call rate of €0.80 per kilogram to the weight of non-recycled plastic packaging waste, while including a mechanism to avoid an excessively regressive impact on national contributions. The European Council invites the Commission to make proposals for other new own resources: a border carbon adjustment mechanism and a digital levy (with a view to their introduction by January 2023), and a revised proposal linked to the EU ETS. In addition, the EU will work on the introduction of other own resources, which may include a financial transactions tax. The proceeds of new own resources introduced after 2021 will be used for early repayment of NGEU borrowing. The VAT-based own resource will be replaced by a simplified and refined alternative method developed by the Commission from January 2019. A uniform rate of 0.3 % will be applied to the VAT bases of all Member States and VAT bases will be capped at 50 % of their respective GNI. Contrary to the Commission proposal, the corrections that reduce the contributions of five Member States to the EU budget will not be phased out, but maintained for the entire 2021-2027 period and, overall, increased. Over the 2021-2027 period, lump-sum corrections (in 2020 prices) will reduce the annual GNI-based contribution of Denmark (€377 million per year), Germany (€3 671 million), the Netherlands (€1 921 million), Austria (€565 million) and Sweden (€1 069 million). All Member States will finance these reductions. In addition, the collection costs that Member States retain on customs duties will not decrease but instead rise from 20 % to 25 %.

On 23 July 2020, reacting to the political agreement, Parliament reiterated that it would not give its consent to the MFF without a proper reform of the EU's own resources system. The introduction of a basket of new own resources by the end of the 2021-2027 MFF should aim to cover at least the repayment costs of NGEU. Parliament stressed that the plastics contribution only represents a first partial step in this direction, and expressed its intention to negotiate a legally binding calendar for the introduction of additional new own resources in the course of the first half of the next MFF. Reaffirming that all corrections should be terminated as soon as possible, Parliament deplored the fact that the European Council had not only retained, but had even increased rebates. In addition, Parliament considered that collection costs on customs duties should be brought back to their original level of 10 %, as proposed by the Commission.

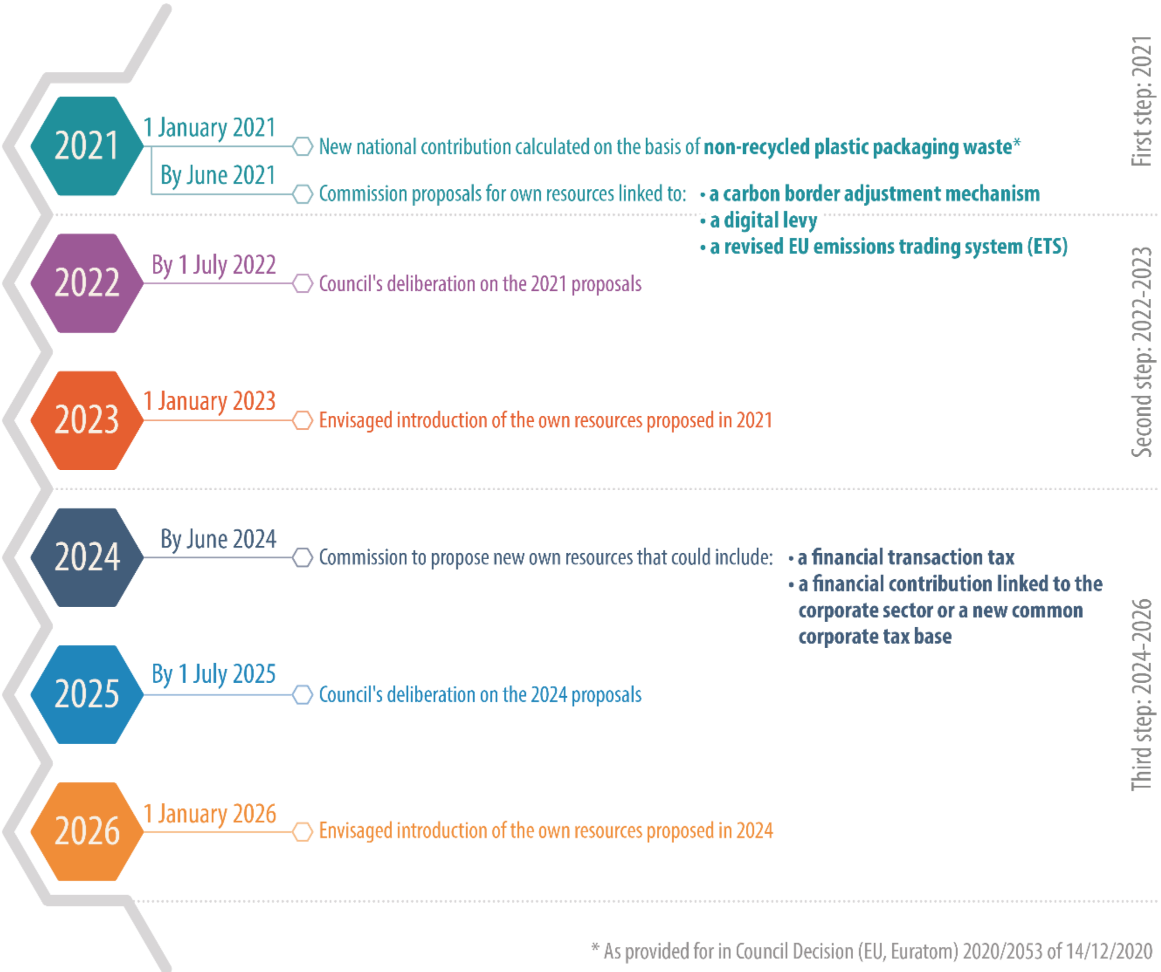
Parliament's Committee on Budgets (BUDG) fast-tracked its work on the proposal, enabling Parliament to adopt its legislative opinion on the reform in plenary on 16 September 2020. This

would enable the Council to adopt the own resources decision that translates the European Council's deal on the revenue side of the EU budget into a legal text, and thus ensure the timely launch of NGEU. Reaffirming the points made in the July 2020 resolution, the BUDG report stressed that new own resources must be introduced, and finance at least the repayment costs of the recovery instrument (for both principal and interest). It detailed a roadmap for the legally binding calendar that Parliament intended to negotiate on the introduction of five new own resources in addition to the already agreed plastics contribution. Linked to EU policies on climate and the single market, the envisaged resources would be based on the ETS, a carbon border adjustment mechanism, a digital levy, a Financial Transaction Tax, and a CCCTB.

The Council could have adopted the own resources decision following Parliament's legislative opinion, with a view to speeding up the intertwined launch of the Next Generation EU recovery instrument. However, it refrained from doing so while negotiations on the MFF were still ongoing. On 10 November 2020, Parliament's negotiating team and the Council Presidency reached a compromise on the 2021-2027 MFF. The compromise includes various changes strongly advocated by Parliament, not least the inclusion of a roadmap for further reform of the own resources system in the new interinstitutional agreement on budgetary matters between Parliament, Council and Commission.

Under the agreed guiding principles for the reform set by the roadmap, new own resources should: raise enough revenue to repay the grant component of NGEU and its borrowing costs; be linked to EU policies and objectives, such as the fight against climate change, the circular economy, and 'Europe fit for the digital age'; and contribute to fair taxation and to the strengthening of the fight against tax fraud and tax evasion. In addition to these and other guiding principles, the interinstitutional agreement includes a detailed roadmap for the introduction of new own resources, on top of the contribution based on plastic waste, by 2026 (see Figure 3). Envisaged own resources are linked to: a carbon border adjustment mechanism; a digital levy; a revised ETS; a financial transaction tax; and a financial contribution linked to the corporate sector or a new CCCTB.

Figure 3 – Roadmap for the introduction of new own resources



Source: EPRS, based on the interinstitutional agreement on budgetary matters. Graphic by Samy Chahri.

Following the compromise of 10 November 2020, the adoption of the new own resources decision was further delayed because Hungary and Poland decided to withhold their support from the overall package on EU finances, being unhappy with the result of the parallel negotiations on a mechanism protecting the EU budget in case of deficiencies regarding the rule of law in Member States. The European Council meeting of 10-11 December 2020 solved the deadlock in the Council, which then adopted the own resources decision on 14 December 2020.

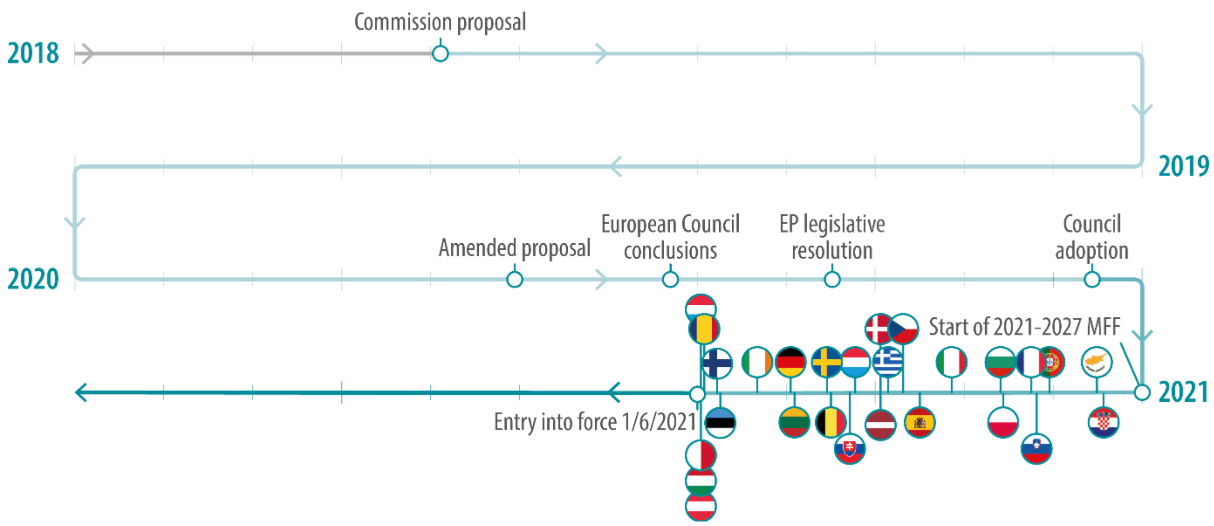
The adopted text establishes the mechanism to avoid an excessively regressive impact of the new own resource based on non-recycled plastic waste. In practice, Member States with a GNI per capita in 2017 below the EU average will be entitled to annual lump sum reductions to be applied to their respective contributions under the new own resource. Calculated on the basis of the population in the Member States concerned and ranging from €1.42 million to €184.05 million (current prices), annual lump sum reductions will go to 17 Member States (Bulgaria, Czechia, Estonia, Greece, Spain, Croatia, Italy, Cyprus, Latvia, Lithuania, Hungary, Malta, Poland, Portugal, Romania, Slovenia, and Slovakia).

The decision had to be ratified by all Member States before it could enter into force and retroactively apply from 1 January 2021. Its adoption in the Council allowed the ratification process to start. The borrowing operations of Next Generation EU could not start until the entry into force of the 2020 own resources decision. To ensure the timely launch of the recovery instrument before summer 2021, the objective was to complete the procedure within a few months. This was ambitious,

considering that, for the 2014 decision, two years and four months elapsed between the adoption in the Council and ratification by all Member States.

On 31 May 2021, the ratification procedure was completed when the last four Member States (Austria, Hungary, the Netherlands and Poland) notified the Council of their ratification of the decision. All Member States had ratified the new decision just five and a half months after its adoption by the Council.[15] Figure 4 shows the timeline of the 2020 own resources decision from the initial Commission proposal on 2 May 2018 until its entry into force on 1 June 2021, i.e. the first day of the first month following receipt of the last of the notifications. The 2020 own resources decision retroactively applies from 1 January 2021.

Figure 4 – 2020 own resources decision: Timeline including national ratification



Source: EPRS.

The package of implementing legislation accompanying the own resources decision was adopted by the Council on 30 April 2021, following the European Parliament's vote in March. It includes the implementing regulation (Parliament's consent) and the two operational regulations on the methods for making available or collecting specific own resources (Parliament's consultation).

Under the roadmap for the introduction of new own resources, the Commission is due to put forward the first three proposals (linked to a digital levy, a carbon border adjustment mechanism and a revision of the ETS) by June 2021. However, it announced that the proposals would be tabled some weeks later, since some of them relate to the 'Fit for 55' climate package, which is scheduled for July 2021. The interinstitutional agreement on budgetary matters provides for the establishment of a regular dialogue between the European Parliament, the Council and the Commission to take stock of progress as regards the roadmap.

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D'Alfonso A., The UK 'rebate' on the EU budget: An explanation of the abatement and other correction mechanisms, EPRS, European Parliament, 2016.

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D'Alfonso A., National ratification of the Own Resources Decision: Procedure completed on 31 May 2021, EPRS, European Parliament, June 2021.

Parry M. and Sapała M., 2021-2027 multiannual financial framework and new own resources: Analysis of the Commission's proposals, EPRS, European Parliament, 2018.

Schratzenstaller-Altzinger M., The next Multiannual Financial Framework (MFF), its Structure and the Own Resources, Policy Department for Budgetary Affairs, European Parliament, 2017.

OTHER SOURCES

System of own resources of the European Union, European Parliament, Legislative Observatory (OEIL).

Implementing measures for the system of own resources of the European Union, European Parliament, Legislative Observatory (OEIL).

Making available the own resources based on the common consolidated corporate tax base, on the European Union emissions trading system and on plastic packaging waste that is not recycled, and measures to meet cash requirements, European Parliament, Legislative Observatory (OEIL).

Collection of own resources accruing from value added tax, European Parliament, Legislative Observatory (OEIL).

ENDNOTES

[1] For an overview of correction mechanisms see A. D'Alfonso, The UK 'rebate' on the EU budget: an explanation of the abatement and other correction mechanisms, EPRS, European Parliament, 2016.

[2] A. D'Alfonso, Annual revision of national contributions to the EU budget, EPRS, European Parliament, 2014.

[3] See, for example, M. Schratzenstaller, 'Reform options for the EU's system of own resources', *Revue de l'OFCE*, Vol. 132, No. 1, 2014, pp. 327-355.

[4] The operating budgetary balance is produced by an accounting method that calculates the difference between the payments into and the receipts from the EU budget for each Member State. Based on a number of assumptions, the operating budgetary balance is instrumental in the calculation of the UK rebate, and can contribute to the perception of the EU budget as a zero-sum game with net contributors and net receivers. The European Commission draws attention to the accounting nature of the method, stressing that it fails to capture the broader picture of the EU budget and the positive spill-over effects of EU policies and expenditure across the entire Union.

[5] EP resolutions that address the topic include: Resolution of 11 March 1999 on the need to modify and reform the European Union's own resources system (OJ C 175, 21.6.1999, p.238); Resolution of 29 March 2007 on the future of the European Union's own resources (P6_TA(2007)0098); Resolution of 8 June 2011 on Investing in the future: a new Multiannual Financial Framework (MFF) for a competitive, sustainable and inclusive Europe (P7_TA(2011)0266); and Resolution of 14 March 2018 on reform of the European Union's system of own resources (P8_TA(2018)0076).

[6] In addition, examining other revenue assigned to EU decentralised agencies, whose budgets are separate from the EU budget, Parliament has asked for a consistent approach as regards the financing of agencies from fees.

[7] High-Level Group on Own Resources, First Assessment Report, 17 December 2014.

[8] The fact that the VAT-based resource is a component for the calculation of the UK rebate has often been indicated as an obstacle to the reform or abolition of this own resource.

[9] J. Núñez Ferrer, J. Le Cacheux, G. Benedetto and M. Saunier, Study on the potential and limitations of reforming the financing of the EU budget, 2016.

[10] European Commission, Reflection paper on the future of EU finances, COM(2017) 358 final, 28 June 2017.

[11] European Commission, A new, modern multiannual financial framework for a European Union that delivers efficiently on its priorities post-2020, COM(2018) 98 final, 14 February 2018.

[12] The interinstitutional conference with national parliaments on the future financing of the EU took place in Brussels on 7- 8 September 2016.

[13] This section aims to provide a flavour of the debate and is not intended to be an exhaustive account of all different views on the proposal. Additional information can be found in related publications listed under 'EP supporting analysis'.

[14] The procedure for the Own Resources Decision adopted in May 2014 took even longer, almost three years.

[15] Including Germany, where the Federal Constitutional Court will examine a case against the 2020 ORD, but rejected a preliminary injunction to suspend its ratification.

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