THE UNION'S REVENUE

The EU budget is financed almost entirely (99%) from own resources. Annual revenue must completely cover annual expenditure. The system of own resources is decided by the Council on the basis of unanimity, having regard to the opinion of the European Parliament, and needs to be ratified by the Member States.

LEGAL BASIS

— Articles 311 and 322(2) of the Treaty on the Functioning of the European Union and Articles 106a and 171 of the Treaty establishing the European Atomic Energy Community;

— Council Decision 2014/335/EU, Euratom of 26 May 2014 on the system of own resources of the European Union[1], Council Regulation (EU, Euratom) No 608/2014 of 26 May 2014 laying down implementing measures for the system of own resources of the European Union[2], and Council Regulation (EU, Euratom) No 609/2014 of 26 May 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[3]. Following ratification of the Own Resources Decision, these legal acts entered into force on 1 October 2016, and apply retroactively as from 1 January 2014.

OBJECTIVE

To provide the European Union with financial autonomy within the bounds of budgetary discipline.

HOW IT WORKS

While the European Coal and Steel Community (ECSC) was granted its own resources from the start, the European Economic Community (EEC) and the European Atomic Energy Community (Euratom) were initially financed through contributions from the Member States. The Own Resources Decision of 21 April 1970 provided the EEC with its own resources. Own resources to cover annual payment appropriations are currently limited to a maximum of 1.20% of EU gross national income (GNI)[4]. As the

[1]OJ L 168, 7.6.2014, p. 105.
[2]OJ L 168, 7.6.2014, p. 29.
[3]OJ L 168, 7.6.2014, p. 39.
[4]Technical adjustment of the financial framework for 2020 in line with movements in GNI (ESA 2010), COM(2019)0310, 15.5.2019.

budget must always be in balance, expenditure is also restricted by this ceiling (1.4.3). In practice, the current multiannual financial framework (MFF) 2014-2020 (1.4.3) sets the expenditure ceiling at a level equivalent to around 1% of EU GNI.

REVENUE COMPOSITION

1. ‘Traditional’ own resources

These consist of customs duties, agricultural duties and sugar and isoglucose levies. They were created by the 1970 decision and have been collected ever since. The percentage that may be retained by Member States to cover collection costs has been reduced from 25% to 20%. ‘Traditional’ own resources now usually account for just above 10% of own resource revenue[5].

2. The VAT-based own resource

This currently consists of the transfer of a percentage of the estimated VAT collected by the Member States to the Union. Although provided for in the 1970 decision, this resource was not applied until the VAT systems of the Member States were harmonised in 1979. The VAT resource now accounts for a percentage of own resource revenue similar to that of ‘traditional’ own resources.

3. The GNI-based own resource

This own resource consists of a uniform percentage levy on Member States’ GNI set in each year’s budget procedure, and was created by Council Decision 88/376/EEC. Originally it was only to be collected if the other own resources did not fully cover expenditure, but it now finances the bulk of the EU budget. The GNI-based resource has tripled since the late 1990s, and now usually accounts for around 72% of own resource revenue.

4. Other revenue and the balance carried over from the previous year

Other revenue includes taxes paid by EU staff on their salaries, contributions from non-EU countries to certain EU programmes, and fines paid by companies that are found to be in breach of competition laws or other laws. If there is surplus, the balance from each financial year is entered in the budget for the following year as revenue. Other revenue, balances and technical adjustments usually make up less than 10% of total revenue.

5. Correction mechanisms

The current own resources system is also meant to correct budgetary imbalances between Member States’ contributions. The ‘UK rebate’ agreed in 1984 consists of a reduction in the United Kingdom’s contribution equivalent to two thirds of the difference between its contribution (excluding traditional own resources) and what it receives back from the budget. This rebate was adjusted in 2007 in order to gradually exclude from the calculation non-agricultural expenditure in Member States which acceded to the EU after 2004. This correction is financed in equal shares by all the other Member States, except for Germany, the Netherlands, Austria and Sweden, which benefit from a reduction in their contributions to the financing of the UK rebate. Germany, the Netherlands, Austria and Sweden also benefited from a reduced VAT rate of call for

[5]Consolidated annual accounts of the European Union – Financial year 2019.

the 2007-2013 period, and the Netherlands and Sweden benefited from a reduction in their GNI contributions for the same period.

The current situation is that the existing correction mechanism for the UK and its financing remain in place, as do the reduced rates of call of the VAT-based own resource for the 2014-2020 period for Germany, the Netherlands and Sweden (0.15%). The correction mechanisms also currently include gross reductions in the annual GNI contribution for the 2014-2020 period for Denmark (EUR 130 million), the Netherlands (EUR 695 million) and Sweden (EUR 185 million), and for the 2014-2016 period for Austria (EUR 30 million in 2014, EUR 20 million in 2015 and EUR 10 million in 2016).

TOWARDS THE REFORM OF EU OWN RESOURCES

The Treaty of Lisbon reiterated that the budget should be financed wholly from own resources, and maintained the power of the Council, after consulting Parliament, to unanimously adopt a decision on the system of own resources of the Union[6]. It introduced the possibility of establishing new categories of own resources and abolishing existing ones. It also established that the Council can only adopt the implementing measures for these decisions if it has obtained the consent of Parliament.

In 2014 a high-level group was created to undertake a general review of the own resources system in dialogue with national parliaments. It was composed of representatives of Parliament, the Council and the Commission, and chaired by Mario Monti. This group, called the Monti Group, was established as a result of Parliament's insistence during the negotiations on the MFF for 2014-2020.

The group presented its final report in January 2017. For two years, it reflected on more transparent, simple, fair and democratically accountable ways to finance the European budget. The main conclusion was that the EU budget needs reform, both on the revenue and expenditure side, so as to be able to address current challenges and achieve tangible results for European citizens.

In its Reflection Paper on the Future of EU Finances, presented in June 2017, the Commission presented five scenarios and their implications for revenue.

On 2 May 2018, the Commission made proposals to simplify the current VAT-based own resource and to introduce a basket of new own resources made up of:

- 20% of the revenues from the Emissions Trading System;
- A 3% call rate applied to the new Common Consolidated Corporate Tax Base (to be phased in once the necessary legislation has been adopted);
- A national contribution calculated on the amount of non-recycled plastic packaging waste in each Member State (EUR 0.80 per kilo).

The Commission estimated that these new own resources would make up about 12% of the total EU budget and could contribute revenues of up to EUR 22 billion per year.

The Commission proposed phasing out the current rebates over a period of five years, and thereafter to eliminate all rebates, and to reduce the share of customs revenues

[6]Any such decision needs to be ratified by the Member States.

that Member States keep to cover collection costs from 20% to 10%. It also proposed an increase in the ceiling on annual calls for own resources from the current level of 1.20% of the EU's GNI to 1.29% to take account of a smaller total GNI for the EU-27, of an increasing use of instruments guaranteed against the EU budget, and of the proposal to integrate the European Development Fund into the EU budget.

THE EUROPEAN PARLIAMENT'S VIEWS

In a number of resolutions over the past few years (e.g. on the European Communities' own resources system of 17 December 2014), Parliament has highlighted problems with the own resources system, particularly its excessive complexity. It has put forward proposals to ensure that the Union is financially independent, and pushed for reforms to make revenue collection simpler, more transparent and more democratic.

Building on the new provisions of the Treaty of Lisbon, Parliament has repeatedly called for an in-depth reform of the system of own resources, for example in its resolution on negotiations on the MFF 2014-2020 of 15 April 2014.

In its legislative resolution on the draft Council decision on the system of own resources of 16 April 2014, Parliament highlighted the importance of the Monti Group, and stressed that, among other serious drawbacks, the current system of Union financing has prevented a majority in the Council from budgeting for sufficient payment appropriations in annual budgets to allow the EU to meet its legal obligations and political commitments.

In its resolution of 6 July 2016 entitled 'Preparation of the post-electoral revision of the MFF 2014-2020: Parliament's input ahead of the Commission's proposal', Parliament called on the Commission to present an ambitious legislative package on own resources as of 2021 by the end of 2017, with simplicity, fairness and transparency as guiding principles.

In its resolution on the mid-term revision of the MFF 2014-2020 of 26 October 2016, Parliament again stressed the need to reduce the share of GNI contributions, and called for the VAT resource to be either substantially reformed or scrapped altogether. Furthermore, Parliament also called for the creation of one or several new own resources, as well as the phasing out of all forms of rebate.

In its resolution on the Reflection Paper on the Future of EU Finances of 24 October 2017, Parliament reiterated its commitment to a fully-fledged reform of the EU's own resources system. It stressed that to achieve fairer and more stable EU finances any new system should include a balanced basket of new EU own resources designed to support EU policy objectives, and be phased in progressively.

In its resolution on reform of the European Union's system of own resources of 14 March 2018, Parliament listed the reasons for reforming the current own resources system, including the need to address its shortcomings, and enabling the EU to finance its policies and meet new challenges. Parliament also called for an acceptable and balanced system of own resources, and outlined the principles and assumptions governing the setting-up of a new system, listed the criteria used to identify new own resources, and proposed a basket of possible new own resources.

In its resolution on the 2021-2027 multiannual financial framework and own resources of 30 May 2018, Parliament welcomed the Commission's proposals of 2 May 2018 on own resources, and recalled its position that no agreement could be reached with Parliament on the next MFF without corresponding headway being made on own resources.

In its resolution on the multiannual financial framework 2021-2027 of 14 November 2018, Parliament invited the Commission to take into account Opinion No 5/2018 of the European Court of Auditors, and gave further details on its suggestions for the introduction of a basket of new own resources that are in line with the EU's essential strategic objectives, and fiscally neutral for citizens.

In its resolution on the multiannual financial framework 2021-2027 and own resources, of 10 October 2019, Parliament confirmed its position following the elections. It called in particular for the introduction of a carbon border adjustment mechanism, which it deemed 'a fair way to respond to popular demands for decisive leadership in the fight against climate change, while ensuring a level playing field in international trade'.

DEVELOPMENTS IN 2020

On 28 May 2020, the Commission proposed to borrow up to EUR 750 billion by issuing bonds on the international markets on behalf of the EU with maturities of 3 to 30 years, in order to finance a revamped MFF and recovery and resilience plan (grants and loans to EU countries). For the purpose of underpinning the liabilities incurred by the EU to eventually reimburse the market finance raised, the Commission proposed to raise the own resources ceiling exceptionally and temporarily by 0.6% of the EU's GNI. This would come on top of the proposed permanent increase from 1.2% to 1.4% of GNI in order to take account of the new economic context. In the Commission's view, the latter strengthens the case for fundamental reform of how the EU budget is financed. In addition to a simplified VAT-based own resource and national contributions, as well as new own resources based on non-recycled plastic packaging waste, options for new own resources include an extension of the Emissions Trading System-based own resources to include the maritime and aviation sectors, a carbon border adjustment mechanism, an own resource based on operations of large enterprises and a digital tax on companies with a global annual turnover of more than EUR 750 million.

In its resolution on the new multiannual financial framework, own resources and the recovery plan of 15 May 2020, Parliament called for an immediate and permanent increase of the own resources ceiling in view of the anticipated drop in GNI after the recession induced by the crisis, to not only pay the interest and principal repayments of EU borrowing to finance recovery but also finance an ambitious MFF, while underlining that this would be necessary for maintaining Member States' GNI contributions at current nominal levels.

In its resolution of 23 July 2020 on the conclusions of the extraordinary European Council meeting of 17-21 July 2020, Parliament stressed that only the creation of new own resources can help to repay the EU's debt while salvaging the EU budget and alleviating the fiscal pressure on national treasuries and EU citizens, and instructed its MFF/own resources negotiating team to negotiate on the basis of a mandate including a basket of new own resources to enter the Union budget as of 1 January 2021 and be complemented thereafter following a binding calendar.

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