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 332(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;


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]. In practice, the current multiannual financial framework (MFF) 2014-2020 (1.4.3) sets the ceiling at

around 1% of EU GNI. As the budget must always be in balance, expenditure is also restricted by this ceiling (1.4.3).

**REVENUE**

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. ‘Traditional' own resources now usually account for around 15% 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 usually accounts for around 13% of own resource revenue.

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 normally make up less than 10% of total revenue.

5. Correction mechanisms
   
   Correcting budgetary imbalances between Member States’ contributions is also part of the current own resources system. 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 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 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). To cover collection costs for traditional own resources, the percentage that may be retained by Member States has been reduced from 25% to 20%.

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 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 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 estimates 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 proposes 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 proposes 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.

ROLE OF THE EUROPEAN PARLIAMENT

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’.

Alix Delasnerie
11/2019