



# EMI Background Briefing on EU Own Resources

The issue of own resources for the European Union is back on the agenda, with the **High Level Group on Own Resources**, set up in February 2014, **working on a comprehensive report** on possible EU own resources. Currently, the **EESC** is also working on an **own-initiative opinion** on the subject, to provide input for the High Level Group whose final report is expected at the end of 2016. With the ongoing work on the EESC own-initiative opinion, including discussions with stakeholders, and the **planned interinstitutional and interparliamentary conference** on EU Own Resources at the beginning of 2016, the Own Resource-debate is not to be neglected.

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## EMI position

The European Movement has repeatedly called for effective own resources for the EU, and has closely followed the debate surrounding the Financial Transaction Tax (FTT). At the beginning of [2015](#), it welcomed the progress in enhanced cooperation on the FTT, but lamented the missed opportunity to create an effective and additional own resource.

In [2014](#), an EMI resolution called for own resources to be drawn from an FTT to penalise financial speculation, a carbon tax to fight climate change and promote the transition to renewable energy, and Euro-bonds. In [2013](#), one EMI resolution reiterated the necessity for the EU to have its own resources, whereas [another](#) called for an FTT and similar financial resources. In [2012](#), the EMI called for a significant increase of the own resource funds in the EU budget share and further exploration of funding possibilities besides the FTT, and discussed in [another](#) resolution the benefits of an FTT and a carbon tax. In [2011](#), the EMI proposed a system of own resources with Eurobonds, an FTT and a real European VAT. In [2010](#), an EMI discussion paper stressed the need for own resources from a European tax such as an FTT or carbon tax.

## EU Own Resource debate: origin

### *Current EU Financing system: complicated and outdated*

The discussion on EU Own Resources originates from the conviction that the EU financing system is outdated. Currently, the EU budget is mainly based on:

- Traditional own resources: Customs duties on imports and sugar levies ( $\pm 12\%$ )
- A standard percentage of Value Added Tax (VAT) ( $\pm 10\%$ )
- A standard percentage of the Gross National Income (GNI) of each Member State ( $\pm 70\%$ )

This system has various drawbacks:

- The EU financing system and calculations for the budget are very complex and opaque, only understandable to experts, which limits the democratic oversight of the system.
- There is no link between the EU policy priorities and their financing sources, and no direct link between tax payers and the EU budget.
- The contributions of Member States, that form the biggest part of the budget, are considered expenditure (not in terms of returns on EU policies) and regarded as unfair.

### *Treaty of Rome: Own Resources*

The Treaty of Rome (1957) already calls for a system of Own Resources to fund EU



expenditures. Initially, article 201 stated that the financial contributions of Member States could be replaced by own resources, “in particular by revenue accruing from the common customs tariff when it has been finally introduced.” Later, this part was changed to the principle: “Without prejudice to other revenue, the budget shall be financed wholly from own resources”, which is still in the EU treaties. At present, the VAT- and GNI- parts of the budget are also often referred to as own resources. However, in the debate they are seen as resources that need to be replaced by proper EU Own Resources, which could take the form of a Financial Transaction Tax, a European Carbon Tax, or a restructured European VAT.

#### *Expenditure side*

Apart from the income side, the expenditure side is also mentioned as in need of restructuring. In fact, with 40% of EU expenditure on agriculture, a reform of the expenditure side, in particular of the Common Agricultural Policy, is sometimes proposed instead of a reform of the income side of the EU budget. However, the High Level Group on Own Resources as well as the EESC opinion both focus on the income side.

## EU Own Resource debate: 2011-2015

### European Commission and Council

#### *2011: Proposal for a new system of own resources*

In [2011](#), the European Commission put forward a proposal on own resources. After explaining why the current financial system is too complex and outdated, the Commission proposed three measures:

- Simplification of Member State contributions: eliminating the VAT-based own resource.
- The introduction of new own resources: after analysing six options, the Commission proposed to introduce both a Financial Transaction Tax and to develop a new VAT resource.
- Reform of the correction mechanisms.

The proposal of the European Commission could not, however, carry (unanimous) support in the Council.

#### *2013: Enhanced cooperation on the FTT*

The above was followed by a [proposal](#) on the Financial Transaction Tax, which also could not count on unanimous support in the Council, but a group of Member States decided to take the issue forward via enhanced cooperation. In [2013](#), the Commission thus put a proposal for enhanced cooperation on the table. Negotiations on an FTT are still ongoing between the 11 Member States (France, Germany, Italy, Spain, Belgium, Portugal, Austria, Estonia, Greece, Slovakia and Slovenia).



## High Level Group on Own Resources

### *2014: High Level Group on Own Resources*

Due to a lack of progress on the issue of own resources, in February [2014](#) a joint declaration of the European Commission, European Parliament and Council established a High Level Group on Own Resources (HLG) under the chairmanship of former Italian Prime Minister and EU Commissioner Mario Monti. The HLG is set up to reflect upon more transparent, simple, fair and democratically accountable ways to finance the EU.

### *Members*

The HLG consists of Chairman Mario Monti, three representatives from the European Commission (Commissioners Frans Timmermans, Kristalina Georgieva, and Pierre Moscovici), the European Parliament (former MEP Ivailo Kalfin, and MEPs Alain Lamassoure and Guy Verhofstadt), and the Council (former MEP and Romanian Finance Minister Daniel Dăianu; President and Director of Science and Research of the Centre for European Economic Research (ZEW) Clemens Fuest, and former Lithuanian Minister for Finance Ingrida Šimonytė).

### *First Assessment Report*

In December, the HLG presented its [first assessment report](#), which looks into the feasibility of reforming the EU's own resources funding system. The report presents an overview and identifies the pitfalls of the current system, looks at past reform proposals, draws lessons from the latest negotiations, presents assessment criteria for a reform of the system, and formulates questions for further examination by the High Level Group in 2015 and 2016. The members of the HLG were unanimous in their assessment and conviction that the EU needs a more autonomous budget with a bigger role for the European Parliament. In the first half of 2015, the report was presented to and discussed with the European Parliament Conference of Presidents and Budget Committee, the ECOFIN Council and the Commission.

### *External report*

The HLG commissioned a team of external researchers, formed by CEPS, the London School of Economics, l'Université de Pau et des pays de l'Adour and Deloitte, to produce a report evaluating all possible own resources on the basis of the criteria established in the first report. The group, led by CEPS Research Fellow Jorge Núñez Ferrer, will analyse and assess the current mechanisms with a view to offering potential solutions for the future in light of the changes to the scope and objectives of the EU budget.

### *2016: Conference and Final Report*

In its final report, the HLG will explore potential new own resources and possible reforms as well as the procedural and political aspects of reform. They will evaluate all possible own resources on the basis of the criteria set out in the first report, also looking



at the Eurozone, and keeping in mind dimensions of further integration. At the beginning of 2016, an interinstitutional and interparliamentary conference will be organised by the HLG to discuss the issue. At the end of 2016, the Final Report of the HLG will be ready.

## EESC

### *2012: EU budget not sufficient*

In [2012](#), the EESC adopted a resolution in response to the European Commission Communication on own resources. In this resolution, the EESC welcomed the proposals to establish a new system of own resources which would replace the existing correction mechanism, but considered the proposals did not go far enough. Given that the EESC considers an increase in the EU budget necessary, it regrets that the own resources under discussion are not intended to increase the EU budget. Abandoning the 'juste retour' principle is also stressed in the [2011](#) EESC opinion on the budget review.

### *2015: draft opinion 'A European tax as an own resource'*

To feed into the work of the High Level Group on Own Resources, a study group has been set up by the EESC to work on an own-initiative opinion titled 'A European tax as an own resource'. Rapporteur Viliam Páleník organised a [public hearing](#) on 1 June 2015 to give stakeholders, politicians and civil society representatives a chance to discuss the topic and provide input for the EESC opinion.

The EESC [draft opinion](#) agrees that the current EU financing system is too complicated, lacks clarity, and should be overhauled in order to face up to current economic realities. It proposes a new European tax based on taxing end consumption according to how much energy is consumed and CO<sub>2</sub> emitted in the production process. This would respond to four criteria for a new system of own resources:

- Increased transparency: in connection to EU policy, with a greater role for the Parliament.
- Fiscally neutral: simultaneous reduction of other taxes with the introduction of a new one.
- Abolition of administratively demanding methods of environment protection.
- Eliminating discrimination of European producers on home and world markets.

The energy/CO<sub>2</sub> tax proposed by the EESC would tax products based on the amount of energy consumed and CO<sub>2</sub> emitted in the production process, irrespective of whether all or part of that process is inside or outside the EU. It would include different tax rates for several dozen product types and exported goods and services would not be taxed.

## European Parliament

### *2007: Parliament opinion on Own Resources*

The European Parliament set out its opinion on EU Own Resources in a [2007](#) resolution,



which found the current system complex and opaque and called for an improvement of the system of national contributions as well as the exploration of new own resources, without increasing overall public expenditure or the tax burden for citizens.

#### *Support for reform proposals*

The Parliament was in favour of the 2011 reform proposal by the European Commission. A Special Committee on Policy Challenges and Budgetary Resources for a Sustainable European Union after 2013 was set up, and the subsequent report, adopted in [2011](#), called for a more transparent, simpler and fairer own resources system. Since then, the Parliament has repeatedly called for genuine own resources for the EU, such as a Financial Transaction Tax or Carbon Tax, for example in a [2012](#) resolution. In [2014](#), it backed the Joint Declaration setting up the High Level Group on Own Resources.

## Opinions on EU Own Resources

### Green Budget Europe

Green Budget Europe advocates Environmental Fiscal Reform to address the market failures responsible for current pressing environmental and climate problems. Against this background, they would welcome a tax on energy consumption and CO<sub>2</sub> emissions as proposed by the EESC rapporteur. A Carbon Tax would induce behaviour change, aid climate change mitigation efforts and improve resource efficiency. Apart from that, it would also be beneficial for the green sector, which has been growing even during the crisis, also with regard to job creation.

### Taxpayers Association of Europe

In a [written statement](#) put forward on 1 June 2015 at the EESC hearing, the Taxpayers Association of Europe firmly opposed any EU-wide tax – whether it is a Financial Transaction Tax, Carbon tax, or any other. It deems the current system of EU finances to be clearly structured and defined, and that an EU tax requires permission for the EU to incur debt, whereas the current budget is debt free. Furthermore, an EU tax would constitute an additional tax burden, and the use of a Financial Transaction Tax would create a disproportionate burden on some rather than an equal burden on all European citizens. The introduction of a tax to finance the EU budget is also seen as decreasing the pressure to increase efficiency of EU spending.

### BUSINESSEUROPE

At the EESC hearing on 1 June, BUSINESSEUROPE stated that they are not in favour of own resources, mainly because a new tax will certainly mean an additional tax. Their starting point is that the tax burden in Europe is already too high, and that an additional tax will harm investment, competitiveness and job creation. An FTT is regarded as a



danger for investment and growth as well as being unbalanced, as most of the revenue would come from a small number of Member States. A European VAT might pose problems because there is a large 'tax gap' in some Member States, which might require extra Member State payments in addition to the European VAT. An Energy/CO<sub>2</sub> tax would leave European producers at a competitive disadvantage. Instead of a reform of the income side, BUSINESSEUROPE would prefer a reform of the expenditure side.

## European Fiscal Confederation

At the EESC hearing on 1 June, the European Fiscal Confederation provided the point of view of tax advisors. In particular, they warned of a too instrumental approach, where a tax would be raised for a specific purpose. This approach would create a tax that would remain even after its purpose is lost. Furthermore, EFC underscored that a new tax would mean an additional tax, whereas the tax burden in Europe is already high, and that a reduction of expenditure, followed by a reduction of taxes, is the best way to cope with this.

## University of Mannheim

In an article for the University of Mannheim and presentation at the EESC hearing on 1 June, researcher Clemens Fuest and colleagues put forward a reform proposal. This proposal includes the abolition of the existing VAT own resource, while retaining the traditional own resources and the GNI based resource, using the latter to compensate for the lost VAT resource. All EU Member States will furthermore make the contributions of citizens to the EU budget visible on VAT receipts, by showing the share of VAT which goes to the EU. This would make the financing of the EU budget visible to citizens, and at a later stage it could be the basis of a real European VAT. Related to this proposal is an additional aim to limit the Multiannual Financial Framework to a budget ceiling, giving the European Parliament more influence in EU expenditures.

## On the agenda

16-17 September

- EESC Plenary Vote on the own-initiative opinion 'A European Tax as an own resource'

Beginning of 2016

- Interinstitutional and interparliamentary Conference on EU Own Resources

End of 2016

- Final Report of the High Level Group on Own Resources



## Further reading

February 2015 [EPRS Briefing: 'Monti' Group's first assessment of EU own resources](#)

April 2014 [EPRS Overview: The EU Own Resources](#)