The EU's Own Resources

by Alain Lamassoure

Summary

For the last 30 years, the EU has ignored the issue of how to properly fund its policies. Despite enlargements, new treaties and multiple crises, a consensus in the European Council managed to cap the EU's common budget at 1% of its gross national income. A murky assortment of various intergovernmental funds was expected to make up for the obvious shortfalls.

However, the consequences of global warming, the pandemic, the war in Ukraine and relentless migration pressures have made the current approach unsustainable. Therefore, the time has come for a complete overhaul of both how the EU is funded and the wider system of the EU's own resources. The basis for this should be simple, clear and democratic guidelines: democratic consistency, subsidiarity and fiscal constancy. The transfer of competences to a European level should not result in an increase in overall spending or overall taxation for taxpayers: all other things being equal, Europe must be built at constant costs. New own resources must support the more efficient operation of the single market, the common currency and wider EU priorities.

Keywords Own resources – Single market – Subsidiarity – EU budget – Fiscal constancy – Democratic consistency

Introduction

The discrepancy between the responsibilities conferred upon the EU and its financial means has been the black hole of the European debate for too long. Treaty after treaty, crisis after crisis, the EU has grown into a formidable normative power. Worried by this development, experts from other continents have lamented the 'Brussels effect', whereby Europe's competitors are forced to adopt the same standards, thus making the European model contagious.

And still, inexplicably, this giant has not only feet made of clay, but tiny ones: like a sky-high sequoia with bonsai roots. For the last 30 years the EU common budget has been stuck at 1% of EU gross national income (GNI). Therefore, the global ambitions of the European Council have long been murkily funded by a mishmash of various intergovernmental funds that have escaped parliamentary control, or have been resounding commitments deprived of specific timetables.

In 2020 the great disruption of the virus-driven crisis was a game-changer. A European Recovery Programme, with funds five times higher than the annual budget, was established through European borrowing, guaranteed by fresh EU own resources that were to be specified at a later date. This programme was announced as a one-time operation, meant to save national budgets from a once-a-century crisis, not to fund EU policies. Then, a short while later came the war in Ukraine and the prospect of a further enlargement of the EU. Throughout, global warming has been getting worse. As a result, the gap between the sum of European commitments and the EU budget has become wider and increasingly unaffordable. Any way out of this quagmire requires the creation of new EU own resources.

State of play

A unique feature which makes the EU stand out among international organisations is its capacity to raise public revenues. From day one the basic treaty specified: ‘The Union shall provide itself with the means necessary to attain its objectives and carry through its policies. . . . The budget shall be financed from own resources’ (art. 311, Treaty on the Functioning of the European Union).

In the early days, the customs duties levied on imports from third countries were sufficient to fund the budget, which was mostly dedicated to agriculture. But over time, EU policies and members have multiplied, while global trade agreements have reduced the income from duties. National contributions to fill the gap were introduced in the late 1980s, intended to be temporary and complementary. Today, they account for two-thirds of the EU’s total revenue. This GNI-based resource is supplemented by two other national contributions which are based on value-added tax (VAT) and the levy on plastic packaging waste. Together, these national monies bring in almost 80% of the EU budget: €136 billion out of €142 billion in 2024. Moreover, these national contributions are not fair. A legacy of British membership is that the contributions of the richest countries are capped, meaning that the poorest ones pay relatively more.

On top of this, the EU budget as such is embedded in a seven-year framework. This Multiannual Financial Framework (MFF) sets annual spending ceilings for the seven categories of EU policies. It is adopted by unanimity by the Council, with Parliament only being allowed to give or withhold its consent.

Such a procedure ensures that the last word belongs to the stingiest or the least keen member of the club: every national leader is bound to compare their contribution with the direct return for their country. It is small wonder that the current MFF is set at less than 1% of GNI, at €1,065 billion for the term 2021–7. The original priorities of the 1990s, agriculture and regional policies, still absorb two-thirds of the budget. Thus new requirements, such as competitiveness, research, green energy, digital technologies and defence are left with a paltry amount, well below the necessary critical mass. Europe literally pays itself with words.

During the last term of office, in return for its consent for a frustrating MFF, Parliament called for a schedule for the tabling of new own resources proposals by the Commission. However, the latter kept postponing the agreed deadlines and put forward a blend of half-serious and half-unrealistic schemes, while the Council sometimes did not even vouchsafe to put them on its agenda.

In 2020 an elephant entered the room: owing to the consequences of the pandemic, the sleight of hand of the European Recovery Plan brought in a further €800 billion, entirely borrowed by the EU on the financial markets. This can be viewed either as a splurge on European common priorities or as a salve for national finances. But the facility is not designed to last for ever: this spending spree will be over after 2026 and we will be back to square one.

Policy recommendations

More money for Europe through new European taxes: it is difficult to imagine a battle less likely to be won. That is, that would be the case if we do not change the perspective or build on solid foundations. Therefore, the time has come for a complete overhaul of the system in order to build it on simple, clear and democratic principles, in line with the European People’s Party’s philosophy.

The principles

The first principle is that of democratic consistency. European decisions democratically taken must be democratically funded by elected European decision-makers wielding European own resources. From this principle flow the following:

- The timespan of the MFF should overlap with the terms of office of the Parliament and the Commission. Thus, the election campaign should include the proposed funding for the respective platforms, giving the new team in charge the means needed for their tenure.
- The MFF should be passed by a super-qualified majority in the Council, and amended by a qualified majority in the Parliament. Without this change, the stingiest or the grumpiest of the member states would still be able to stall the whole process.
- The same procedure should apply to the creation of new own resources. This would not need a transfer of tax sovereignty. If a member state refused to levy a new European resource, a penalty could apply to its returns from the EU budget.

The second principle is that of subsidiarity. Subsidiarity means that every public task must be entrusted at the most relevant level, not at the lowest or the highest. In budget matters, subsidiarity translates into the principle of constancy. Whatever the choices in the distribution of roles, in no case should the transfer of competences and means to another level result in an increase in overall spending or taxation for taxpayers: all other things being equal, Europe must be built at constant costs.

We can even expect the pooling of resources and talents to sometimes guarantee more efficiency for less money. Thus devised, the EU budget must not be a burden on national finances but rather offer a more efficient replacement of national tasks and costs at the EU level. For instance, if we mean business in transforming Frontex into a fully fledged European agency, the 10,000 or so border guards employed at the EU level will no longer be needed at the national level.

These considerations give rise to the following recommendations:

- *Ex ante* measurements should be taken of the net savings possible at the national level in return for new EU action. No European agency or administration should be created without comparing the advantages and costs of action at the national and European levels.
- Likewise, national staff and financial means should be transferred in line with new transferred competences.
- Every tax rise or creation at the EU level should be compensated for by a fall in another tax or at another level.

The whole system should be monitored by national and European parliaments. To make the approach credible, an overview should be provided by a competent and independent judge. The best plan would be to network the European Court of Auditors and the national equivalents. These bodies could evaluate, for instance, the savings made possible at the national levels by the transfer of competences to the EU level. The guarantee that savings would be made at a national level would be an absolute condition, necessary to placate the foreseeable concerns from ordinary citizens and national parliamentarians.

Proposals

Once this overarching precondition has been assured, several avenues are worth exploring for the creation of new EU own resources. Technical and political realism recommends close linkages with the single market and EU competences.

The simplest idea, which has never been considered, is to utilise VAT. There is a misunderstanding about VAT and EU own resources. As early as the 1980s, VAT was utilised as an additional financial resource to complement the income from customs duties. However, VAT has so far only been used to assess the respective wealth of member states, in parallel to GNI. Even if the methods chosen for this first attempt were flawed, let us not forget that VAT offers several merits as a common reference point:

- It is the most efficient of all taxes: it brings in half of total revenue at the national level.
- For 40 years it has been the only harmonised European tax. Thus, our administrations are completely familiar with the technical specificities, which are the same in all the member states.
- The arrangements necessary to devise a common European supplement to national VAT rates would be relatively simple to work out, and likewise simple to agree upon at the political level.
- The proceeds of VAT are entirely proportionate to economic growth, and are closely linked to the development of the single market. An extra mini-rate added to each national base rate could easily appear on invoices, enabling the consumer/taxpayer to realise that they are financing the EU budget.

An alternative would be to levy a corporation tax. As early as 2020, the European Parliament, the Council and the Commission jointly agreed that an own resource linked to the corporate sector should be proposed. Similarly to VAT, there are wrong and right approaches. The wrong one refers to a vague global agreement obtained in the OECD's *Two-Pillar Solution to Address the Tax Challenges Arising from the Digitalisation of the Economy*: this agreement is subject to implementation by all OECD members, including the US.[1] The right approach would build on a very concrete and purely European project, the Common Consolidated Corporate Tax Base, as proposed by the European Commission in 2016. A further merit of this scheme would be to settle the issue of taxing multinational technology companies. Hailed and supported by an overwhelming majority in the European Parliament six years ago, this proposal was set aside by the Council in favour of the OECD mirage.[2] It needs to be revisited, both to improve fair competition inside the Union and to offer a base of one or two extra percentage points of funding for EU policies.

A third option would be to impose green taxes. A global key challenge, and a mainstay of EU policies since the Green Deal, is the economic desire to make the wasting of energy expensive: all are in favour of 'green' taxes, and allocating some to the Union also garners broad consensus among European states and political parties.

[1] OECD, *Statement on a Two-Pillar Solution to Address the Tax Challenges Arising From the Digitalisation of the Economy* (Paris, 8 October 2021).

[2] The timeline for the European Council's withdrawal of this proposal is set out in *European Parliament, Legislative Train Schedule*, 'Common Consolidated Corporate Tax Base (CCCTB)'.

The following points can be added:

- The tax on plastic packaging waste should be turned from a statistical curiosity into genuine taxation. Set up in 2021, it has provided a not insignificant sum to national contributions to the EU budget, unbeknownst to taxpayers and barely noticed by members of national parliaments.
- The proceeds of the European Trading System represent a blueprint for European own resources. The scheme affects 1,500 major industrial facilities in the Union, but so far the auctions of these ‘rights to pollute’ have fuelled national budgets and not the EU one. Still, the market is Europe wide, the legal basis of the scheme is European, it is managed by the Commission and its target showcases the EU’s priorities (i.e. the Green Deal). There is no reason why a sizeable part, if not all, of this revenue should not accrue to the EU. This is all the more the case since member states are obliged to spend all of their revenues from the scheme on climate action: so far, it has operated as a reversed own resource!
- For smaller polluters, the Commission and the Parliament have been intent on establishing a carbon border adjustment mechanism. But its foundation is questionable: how can the carbon content of an imported product be measured? And how can such a protectionist customs duty (in all but name) be designed in such a way as to make it admissible by the WTO? Pending the relevant answers, its entry into force has been postponed until 2028. It would be simpler to add an extra European contribution to the excise duties on fossil fuels that exist in most member states.

Fourth, the proceeds of GNI could be treated as a genuine own resource. This would mean that all unexpected receipts could be made available to increase the volume of EU spending, if necessary. Fines imposed by the Commission or the Court of Justice on the grounds of breaching the competence rules often reach into the double digits of billions of euros. Currently, these are treated as national resources since they are deducted from national contributions. This is unfair and does not encourage the Commission to punish well-off trespassers.

Fifth, the ‘seignorial duty’, earned by the European Central Bank due to its monopoly on issuing money in the eurozone, is probably highly profitable (its value is a secret to all but central bankers and finance ministries). Its use would be well-suited to spending on policies implemented by eurozone members, safe in the knowledge that, in the long run, all EU members will have to join the eurozone.

However, the potential for developing larger own resources at the European level cannot be considered in isolation from the issue of further EU joint borrowing.

A fresh, relevant approach would be to link further EU borrowing with compliance with the Stability and Growth Pact (SGP). Those countries fulfilling their SGP commitments could qualify for relief on their own investment efforts via a European fund financed by further EU borrowing. Any project financed by European loans would be limited to eurozone members and guaranteed by existing taxes. Until these guarantees are established, every member state should incorporate its share of the common debt into its national debt. Only policies generating measurable financial, economic or environmental profits and duly specified in the MFF should qualify for EU borrowing.

Also, it would be helpful in many ways to launch the titanic work of harmonising the key concepts and rules of public accounting in the EU, in order to secure transparency and fairness between member states. The matter has always been deemed too technical to appeal to politicians, and civil servants are not eager to upset their traditional ways of working. But had we achieved this boring chore previously, a lot of misunderstandings and good or bad faith spats around the interpretation of the SGP could have been averted.

Conclusion

The prerequisite for tackling this thorny issue is that the ostriches pull their heads out of the sand. Fixing the EU budget and putting in place new own resources does not need a legal revolution: on the occasion of the agreement of the next MFF or the settlement of the European Recovery Programme, the signing of a new interinstitutional agreement could be enough, pending a possible treaty. After all, the MFF procedure had been smoothly applied for two decades before its introduction in the Lisbon Treaty.

	Programme 1	Programme 2	Programme 3
	Founding the EU's financial resources	**Introducing green taxes as an important additional contributor to own resources**	**Ensuring the right technical framework is in place**
Project 1	Compensate for every tax rise or creation at the EU level with a fall in another tax or at another level. An expanded EU budget must not be a burden for national finances but a more efficient replacement of national tasks and costs at EU level.	Turn the tax on plastic packaging waste from a statistical curiosity into genuine taxation.	Use the profits from 'seignorial duty' as part of the EU's expanded own resources to contribute to policies implemented by eurozone members. Seignorial duty is the difference between the value of money and the cost to produce and distribute it. It is probably highly profitable (its value is a secret to all but central bankers and finance ministries).
Project 2	Apply an extra mini-rate of VAT to each national base rate. This could easily appear on invoices, enabling the consumer/taxpayer to realise they are financing the EU budget. VAT is uniquely suited to underpinning the EU's financial resources. It is the most efficient of all taxes: it brings in half of total revenues at the national level. It also applies across all member states.	Use a sizeable part, if not all, of the proceeds of the European Trading System to fuel the EU budget instead of national ones.	Link any possible future joint borrowing at the EU level with compliance with the SGP. Any project financed by European loans should be reserved for eurozone members and guaranteed by existing taxes. Until these guarantees are established, every member state should incorporate its share of the common debt into its national debt. Only policies generating measurable financial, economic or environmental profits and duly specified in the MFF should qualify for EU borrowing.
Project 3	Create the basis for the EU's financial resources to be linked to the corporate sector. The Common Consolidated Corporate Tax Base—which was supported by an overwhelming majority in the European Parliament six years ago—would both improve fair competition inside the Union and increase the means of funding EU policies.	Add an extra European contribution to the excise duties on fossil fuels that exist in most member states.	Take the project of harmonising public accounting standards across the EU seriously and implement it as soon as possible.

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