

Own Resources for the EU – New Challenges and Options

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Margit Schratzenstaller

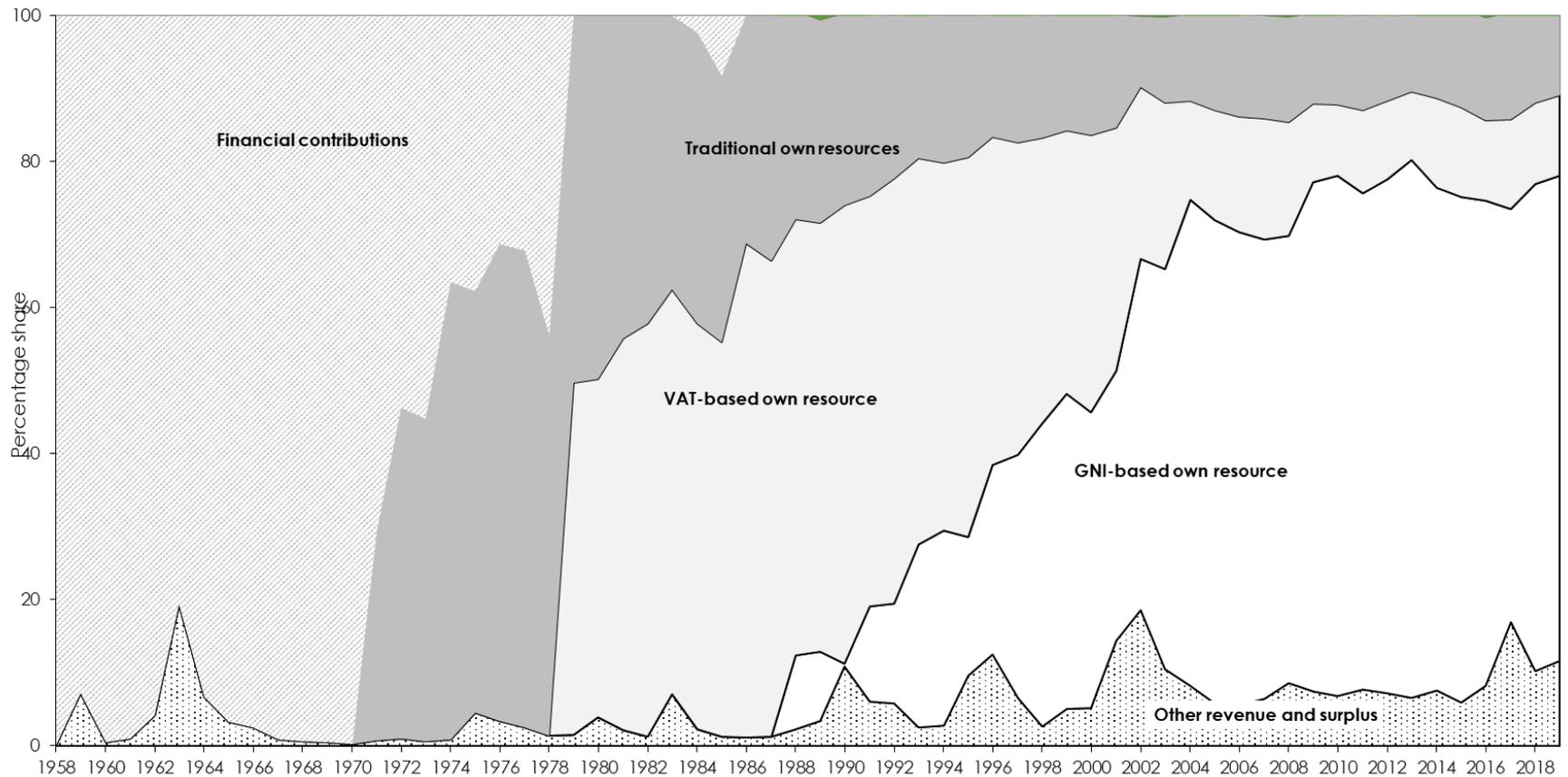
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Background and context

- Long-standing debate about reform of the system of own resources considering various structural deficits of current financing system for MFF
- New impulses:
 - need to repay debt incurred to finance Recovery and Resilience Fund under Next Generation EU
 - recent emergence of potential innovative own resources with an “intrinsically pan-European character”
(Fuest and Pisani-Ferry 2020)

Rationale for innovative own resources

Composition of EU revenues in a long-term perspective



Source: European Commission 2020. 2019 preliminary data. Shares in percent of total revenues.

Rationale for innovative own resources

Current system of OR has its merits....

- Stable and reliable financial basis for EU budget
- Fair distribution of financial burden (at least before application of various correction mechanisms)
- Freedom of choice for Member States with regard to sources for their national contributions to finance EU budget (subsidiarity principle)

... **but also various shortcomings:**

- Decreasing and very low financial autonomy of EU
- EU budget mainly financed by direct contributions from Member States – “juste-retour” -debate, focus on net positions instead of European value added
- Complicated and intransparent system
- Financial burden not distributed “fairly” across MS (correction mechanisms)
- System of own resources does not contribute to central EU objectives...

Rationale for innovative own resources

- Current system of own resources does not contribute to overarching goal of sustainable growth and development in EU and to further important EU policies
=> reform could be part of a comprehensive reform of MFF to increase European added value
- Partially replacing current own resources by innovative (inter alia “green”) own resources would create leeway for reduction of Member States’ tax burdens (particularly on high taxes on labour)
=> supranational sustainability-enhancing tax shift
- “new”, i.e. no additional, but better own resources
- Candidates: Taxes/levies that cannot be enforced effectively on MS level due to tax competition, tax avoidance, cross-border externalities... – and contribute to European strategies and policies (climate protection, circular economy, fair taxation, stable financial markets, ...)
- “basket” solution (HLGOR 2016) preferable: “green” OR together with other innovative OR, so that potential negative effects of specific own resources for individual countries cancel out to a certain extent

Proposals by EC from May 2018

First steps towards innovative own resources for MFF 2021-2027

- Innovative OR to yield 12% of overall revenues by 2027 – thus reducing share of national contributions from above 80% to 71%
- Contribution to EU priorities (climate protection, circular economy, fair taxation)

Potential innovative OR to finance MFF	revenues in bill. € p.a.
Share of 3% in CCCTB incl. digital sector	12
Share of 20% in revenues from auctioning ETS certificates	3
Plastic-based OR	7
Total	22

- => non-paper by Commission services from June 2019:
“ ... some MS have called on the Commission to explore possible other new sources of revenue, in particular linked to the internal market and/or the environment. The Commission has always expressed its willingness to look into new Own Resources should they be supported by MS.”

Proposals by EC from May 2020

Innovative OR to finance Recovery and Resilience Facility

- Issuance of bonds on financial markets on behalf of EU, up to € 750 billion
- Repayment after 2027 and by 2058 at the latest
- To facilitate repayment, introduction of additional OR on top of those proposed in May 2018, at later stage of 2021-2027 financial period

Potential innovative OR to finance RFF	revenues in bill. € p.a.
ETS-based OR, incl. extension to maritime and aviation sectors	10
OR based on operation of companies drawing benefits from EU single market	10
Carbon border adjustment mechanism	5 – 14
Digital tax on companies with global annual turnover > € 750 million	1.3
Total	26.3 – 35.3

European Council Conclusions July 2020

Innovative OR for MFF

- Introduction of plastic-based OR in 2021

Innovative OR to finance Recovery and Resilience Facility

- European Commission to submit proposals on border carbon adjustment mechanism and digital levy in first semester of 2021, with a view to their introduction by 2023 at the latest
- European Commission to put forward proposal for revised ETS scheme which may be extended to aviation and maritime sector
- Union should also consider other own resources, including a financial transactions tax, during the next MFF period
- Revenue should be used to enable early repayment of Next Generation EU debt

Sustainability-oriented evaluation criteria for innovative (tax-based) own resources

Dimension of sustainability	Evaluation criterion	Explanation
Economic sustainability	Growth friendliness	The tax does not (significantly) harm economic growth
	Sufficiency/ fiscal sustainability	The revenues from the tax will be stable in the longer run
Social sustainability/ inclusiveness	Personal distribution of income and wealth	The tax mitigates the unequal personal distribution of income or wealth
Environmental sustainability	Environmental sustainability	The tax mitigates environmental problems
Institutional/cultural sustainability	Revenue stability	The revenues from the tax are not subjected to short-term fluctuations
	Non-attributability	The revenues from the tax cannot be attributed to individual Member States
	Fair national distribution	The tax burden is not distributed too unevenly across Member States
	Fiscal integration	The tax contributes to fiscal integration in the EU
	Non-enforceability	The tax cannot be enforced at Member State level
	Non-interference	The tax does not interfere with Member States' tax systems
	Visibility	The tax is visible for a significant share of taxpayers/citizens

Source: own representation.

Options for sustainability-oriented own resources and potential revenues

Potential tax-based own resource	Study	Reference year	Member States involved	Details	Potential revenue, billion €	Potential revenue, % of EU budget 2021
Carbon-based flight ticket tax	Krenek/Schratzenstaller (2017A)	2014	EU28	carbon price €25 to €35 per tonne of CO ₂ emissions	4 to 5	2 to 3
Border carbon adjustment for the EU Emission Trading System	Krenek/Sommer/Schratzenstaller (2020)	2021	EU28	carbon price €54 per tonne of carbon emissions embodied in imports	9 to 65	5 to 39
Surcharge on national fuel tax	Nerudová/ Dobranschi/Solilová/Schratzenstaller (2018)	2014	EU28	€0.03 to €0.20 per litre of fuel	13 to 86	8 to 51
Net wealth tax	Krenek/Schratzenstaller (2018)	2014	EU20 (member states for which HFCS data are available)	1% on household net wealth above €1 million; 1.5% on household net wealth above €1.5 million	156	93
Financial transactions tax	Nerudová/Schratzenstaller/Solilová (2017)	2016	EU10 ('Coalition of the Willing')	0.1% on equity; 0.01% on derivatives	4 to 33	2 to 20
CCCTB-based own resource	Nerudová/Solilová (2019)	2014	EU28	1% of CCCTB	8	5

Options for “green” own resources

Several options worth discussing

- Plastic-based contribution of € 0,80 per kilo non-recycled plastic packaging waste (EC May 2018 and European Council July 2020, for MFF)
- Share in revenues from auctioning emission trading certificates (EC May 2018, for MFF, and May 2020, for RRF; European Council July 2020, for RRF)
- Border carbon adjustment mechanism (EC May 2020 and European Council July 2020, for RRF)
- Pricing carbon emissions of aviation

Options for “green” own resources

Plastic-based contribution

- Obvious candidate for OR, due to the cross-border nature of plastic waste and fossil fuel use
- Could curb plastic production and consumption, thus supporting circular economy and decreasing carbon emissions
- Introduction possible without Treaty changes
- Incentive effects depend on concrete implementation in individual MS – paid out of general budget or passed on to consumers?

Options for “green” own resources

Share of revenues from auctioning ETS certificates

- Obvious candidate for OR, stemming from an EU-wide carbon pricing mechanism and due to cross-border nature of carbon emissions
- Introduction possible without Treaty changes (Articles 192 and 194)
- Considerable revenue potential
- Potential conflict between MS and EU about revenues, which currently go into MS' budgets

Options for “green” own resources

Border carbon adjustment for the EU ETS

- Would burden imports into EU with prevailing carbon price based on carbon intensity of their production, while exports would be exempted from EU carbon pricing to create a level playing field vis-à-vis third countries
- Obvious candidate for OR, related to an EU-wide carbon pricing mechanism and due to cross-border nature of carbon emissions
- Introduction possible without Treaty changes, could be made compatible with WTO rules
- Considerable revenue potential
- Additional resource - no conflict between MS and EU about revenues
- Could limit carbon leakage and „green paradox“
- Could protect competitiveness of European industry

Options for “green” own resources

Pricing carbon emissions of aviation, e.g. through a carbon-based flight ticket tax

- Obvious candidate for OR, due to cross-border nature of carbon emissions
- Under-taxation of aviation EU- and worldwide, EU ETS rather ineffective with respect to aviation
- Introduction possible without Treaty changes based on Articles 192 and 113
- non-negligible revenue potential
- Limited conflicts between MS and EU about revenues, as only very few MS levy flight ticket tax (with limited revenues)

Summary evaluation of candidates for sustainability-oriented own resources

Potential tax-based own resource	Carbon-based flight ticket tax	Border carbon adjustment	Surcharge on national fuel tax	Net wealth tax	Financial transactions tax	CCCTB	Plastic-based OR	ETS-based OR
Growth friendliness	?	+	?	?	-	+	?	?
Sufficiency	?	?	?	+	+	?	?	+
Personal distribution of income and wealth	+	-	0	+	+	0	?	?
Environmental sustainability	+	+	+	0	0	0	+	+
Non-attributability	+	+	+	-	+	-	-	+
Short-term revenue stability	+	+	+	+	-	-	+	+
Fair national distribution	+	-	-	-	-	+	?	-
Non-enforceability	+	+	+	+	+	+	0	+
Fiscal integration	+	+	(+)	+	+	+	+	+
Non-interference	(+)	+	+	(+)	(+)	+	+	-
Visibility	+	-	+	+	-	-	(+)	-

Source: Krenek/Schatzenstaller (2019), extended version.

Notes: + = positive contribution; - = negative contribution; - 0 = neutral; ? = unclear/not known.

Legal basis of candidates for sustainability-oriented own resources

Potential tax-based own resource	Carbon-based flight ticket tax	Border carbon adjustment for the EU Emission Trading System	Surcharge on national fuel tax	Financial transactions tax	CCCTB-based own resource	Net wealth tax	Plastic-based OR	ETS-based OR
Art. 113 TFEU	X	-	X	X	-	-	-	-
Art. 115 TFEU	-	-	-	-	X	-	-	-
Art. 192 (2) / 194 (3) TFEU	X	X	X	-	-	-	X	X
Implementation model	transfer system	transfer system	surcharge system	transfer system	surcharge system	transfer system	transfer system	transfer system

Source: Source: Krenek/Schratzenstaller (2019), extended version.

Conclusions (1)

- Use momentum created by current reflections on flaws in E(M)U architecture, future of EU finances, integration scenarios, Green Deal, COVID recovery plans to push radical reforms in EU budget / EU system of own resources
- Regardless of absolute volume of next MFF, revenue structure needs to be improved
- Brexit shock – opportunity to fundamentally reform structure of EU budget
- Comprehensive sustainability-orientation of EU budget could be key element to contribute to important European strategies

Conclusions (2)

- Innovative sustainability-oriented OR are a good substitute for a part of current OR and for increase of current OR to cover additional financing needs – from an academic point of view, there is a sound rationale for such innovative OR
- There are a number of well-suited candidates for innovative OR worth to be explored further
- Innovative OR could be implemented within given legal framework
- Innovative OR may weaken net position thinking
- Innovative OR are a well-suited revenue source to repay debt incurred for Recovery and Resilience Facility

Conclusions (3)

Prerequisites

- strengthening of EU value added created by MFF and RRF – stronger sustainability orientation of EU expenditures, otherwise visible innovative (tax-based) OR might even increase resistance against deepening European integration
- Importance of package deals

Conclusions (4)

Open questions and issues

- Many concrete details of their design are open and have to be concretised and researched further; as well as their economic, social and ecological impact
- Eurozone budget versus EU budget?
- Long-term sufficiency of effective corrective green own resources

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WIFO



AUSTRIAN INSTITUTE OF
ECONOMIC RESEARCH

Margit Schratzenstaller

margit.schratzenstaller@wifo.ac.at

(+43 1) 798 26 01 - 204

https://www.wifo.ac.at/margit_schratzenstaller-altzinger