Own Resources for the EU - New Challenges and Options

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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

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 (HLG OR 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
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)

<table>
<thead>
<tr>
<th>Potential innovative OR to finance MFF</th>
<th>revenues in bill. € p.a.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Share of 3% in CCCTB incl. digital sector</td>
<td>12</td>
</tr>
<tr>
<td>Share of 20% in revenues from auctioning ETS certificates</td>
<td>3</td>
</tr>
<tr>
<td>Plastic-based OR</td>
<td>7</td>
</tr>
<tr>
<td>Total</td>
<td>22</td>
</tr>
</tbody>
</table>

=> 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.”
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

<table>
<thead>
<tr>
<th>Potential innovative OR to finance RFF</th>
<th>Revenues in bill. € p.a.</th>
</tr>
</thead>
<tbody>
<tr>
<td>ETS-based OR, incl. extension to maritime and aviation sectors</td>
<td>10</td>
</tr>
<tr>
<td>OR based on operation of companies drawing benefits from EU single market</td>
<td>10</td>
</tr>
<tr>
<td>Carbon border adjustment mechanism</td>
<td>5 - 14</td>
</tr>
<tr>
<td>Digital tax on companies with global annual turnover &gt; € 750 million</td>
<td>1.3</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>26.3 - 35.3</strong></td>
</tr>
</tbody>
</table>
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

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

Source: own representation.
Options for sustainability-oriented own resources and potential revenues

<table>
<thead>
<tr>
<th>Potential tax-based own resource</th>
<th>Study</th>
<th>Reference year</th>
<th>Member States involved</th>
<th>Details</th>
<th>Potential revenue, billion €</th>
<th>Potential revenue, % of EU budget 2021</th>
</tr>
</thead>
<tbody>
<tr>
<td>Carbon-based flight ticket tax</td>
<td>Krenek/ Schratzenstaller (2017A)</td>
<td>2014</td>
<td>EU28</td>
<td>carbon price €25 to €35 per tonne of CO₂ emissions</td>
<td>4 to 5</td>
<td>2 to 3</td>
</tr>
<tr>
<td>Border carbon adjustment for the EU Emission Trading System</td>
<td>Krenek/ Sommer/ Schratzenstaller (2020)</td>
<td>2021</td>
<td>EU28</td>
<td>carbon price €54 per tonne of carbon emissions embodied in imports</td>
<td>9 to 65</td>
<td>5 to 39</td>
</tr>
<tr>
<td>Surcharge on national fuel tax</td>
<td>Nerudová/ Dobran-schi/ Solilová/ Schratzenstaller (2018)</td>
<td>2014</td>
<td>EU28</td>
<td>€0.03 to €0.20 per litre of fuel</td>
<td>13 to 86</td>
<td>8 to 51</td>
</tr>
<tr>
<td>Net wealth tax</td>
<td>Krenek/ Schratzenstaller (2018)</td>
<td>2014</td>
<td>EU20 (member states for which HFCS data are available)</td>
<td>1% on household net wealth above €1 million; 1.5% on household net wealth above €1.5 million</td>
<td>156</td>
<td>93</td>
</tr>
<tr>
<td>Financial transactions tax</td>
<td>Nerudová/ Schratzenstaller/ Solilová (2017)</td>
<td>2016</td>
<td>EU10 (‘Coalition of the Willing’)</td>
<td>0.1% on equity; 0.01% on derivatives</td>
<td>4 to 33</td>
<td>2 to 20</td>
</tr>
<tr>
<td>CCCTB-based own resource</td>
<td>Nerudová/ Solilová (2019)</td>
<td>2014</td>
<td>EU28</td>
<td>1% of CCCTB</td>
<td>8</td>
<td>5</td>
</tr>
</tbody>
</table>

Source: own.
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

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


Notes: + = positive contribution; - = negative contribution; 0 = neutral; ? = unclear/not known.
Legal basis of candidates for sustainability-oriented own resources

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</tr>
</thead>
<tbody>
<tr>
<td>Art. 113 TFEU</td>
<td>X</td>
<td>-</td>
<td>X</td>
<td>X</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Art. 115 TFEU</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>X</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Art. 192 (2) / 194 (3) TFEU</td>
<td>X</td>
<td>X</td>
<td>X</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>X</td>
<td>X</td>
</tr>
<tr>
<td>Implementation model</td>
<td>transfer system</td>
<td>transfer system</td>
<td>surcharge system</td>
<td>transfer system</td>
<td>surcharge system</td>
<td>transfer system</td>
<td>transfer system</td>
<td>transfer system</td>
</tr>
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</table>

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
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
References


