European Economic and Social Committee

OPINION

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Proposal for an own resources decision

Communication from the Commission to the European Parliament, the Council, the European Economic and Social Committee and the Committee of the Regions. The next generation of own resources for the EU Budget
[COM(2021) 566 final]

Proposal for a Council Regulation amending Regulation (EU, Euratom) 2020/2093 laying down the multiannual financial framework for the years 2021 to 2027
[COM(2021) 569 final – 2021/0429 (APP)]

Proposal for a Council Decision amending Decision (EU, Euratom) 2020/2053 on the system of own resources of the European Union
[COM(2021) 570 final – 2021/0430 (CNS)]

ECO/561

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Section responsible	Economic and Monetary Union and Economic and Social Cohesion
Adopted in section	06/05/2022
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Plenary session No	569
Outcome of vote (for/against/abstentions)	144/2/7

1. **Conclusions and recommendations**

1.1 The EESC notes the consensus that is necessary to add new own resources to cover the debt repayment resulting from borrowing under the NextGenerationEU initiative without jeopardising the budgets of other EU programmes and instruments, or substantially increasing the Gross National Income (GNI)-based resource contribution. Although the Commission proposals as set out in the communication are deemed necessary, the EESC believes that the Commission should ensure that the design of the new system is based on achieving equity and fairness, efficiency, transparency, simplicity and stability, with a focus on competitiveness and applying solidarity where necessary. In particular, the EESC considers it paramount to support households and businesses, where necessary, and strongly recommends more targeted impact assessments on a country-by-country level, as well as for specific industries, to determine any negative effects on households and on the overall competitiveness of the EU economy.

1.2 While the own resource based on the Emissions Trading System (ETS) is an essential tool in reducing greenhouse gas emissions, the EESC urges the Commission to ensure that it is carried out in a non-disruptive, cost-effective way. Moreover, the EESC notes the extension of the ETS to the maritime sector, the gradual increase of aviation allowances, and the inclusion of road transport and buildings. The EESC believes it plausible that a limited share of ETS revenues could flow into the EU budget. After all, this is a pan-European climate instrument that contributes to climate neutrality goals and strengthens the internal market. In this regard, there should be enough revenue to support sectors that are obliged to implement further measures to address climate change. Moreover, the EESC reiterates that the 'polluter pays' principle must apply in all countries.

1.3 Considering that the EU ETS and the Carbon Border Adjustment Mechanism (CBAM) are interlinked, the EESC believes that they should be considered in the same spirit. While the EU ETS can cause carbon leakage, a CBAM would counter such leakage by putting a price on the greenhouse gas emission content of imports. However, the EESC cautions against designing a CBAM system that places European manufacturing and other businesses at a competitive disadvantage.

1.4 The EESC is also of the opinion that care must be taken to safeguard the predictability and transparency criteria, given that revenue from the EU ETS and the CBAM could be volatile.

1.5 The Commission also proposes a third category of own resources, whereby Member States would provide a national contribution to the EU budget based on the share of residual profits from multinational enterprises re-allocated to each Member State. The EESC considers this an appropriate base for EU own resources, fulfilling the fairness criteria, as firms would pay a proportion of residual profits wherever they operate and generate profits. However, the EESC believes that a level playing field in the international tax system that does not place EU businesses at a competitive disadvantage is necessary. The implementation of the new rules should be made at the same time as the EU's major trading and competitor nations. Moreover, the new rules should be applied in line with harmonised definitions and standards. The EESC also highlights the volatility associated with corporate tax revenues and the difficulties of estimating future revenues from this own resource, and highlights the fact that the final implementing details of the agreement are still under discussion. In this sense, the EESC believes that it is premature to count these new resources as permanent EU resources, mainly when consideration must be given to the possibility of EU Member States having to pay a proportion of tax revenues to third jurisdictions.

1.6 The EESC warns that tax reform and/or compensatory mechanisms at national level might be needed to neutralise any additional tax burdens on households and businesses.

1.7 Finally, the EESC considers that the need for both a strong political will to deepen EU integration and a clear roadmap of the future of Europe is necessary for the proper design and smooth implementation of a new own resources system. This is all the more important in light of the war in Ukraine, and thus the Commission's proposal may require revisiting at some stage. The EESC is committed to continuously reviewing and monitoring the uncertain evolution of the human and material impacts of this egregious invasion, with a view to assessing the best course of action in due time.

2. Background

2.1 The European Commission is proposing to establish the next generation of own resources for the EU budget by putting forward three new sources of revenue: the first, based on revenues from the revised ETS; the second, drawing on the resources generated by the proposed EU CBAM; and the third, based on the share of residual profits from multinational enterprises that will be re-allocated to EU Member States under the recent OECD/G20 preliminary agreement on a re-allocation of taxing rights ('Pillar One'), that still needs to be finalised. From 2026 to 2030, these new sources of revenue are estimated to generate a total of up to EUR 17 billion annually for the EU budget.

2.2 The new own resources will help to repay the funds raised by the EU to finance the grant component of NextGenerationEU. Specifically, the new ETS is intended to contribute towards financing the Social Climate Fund (SCF), as considered under the Fit for 55 package. Financing the Social Climate Fund is an important objective of the proposal. This Fund would contribute to a socially fair transition and support vulnerable households, transport users and micro-enterprises to finance investments in energy efficiency, new heating and cooling systems, and cleaner mobility, as well as temporary direct income support, where appropriate.

2.3 The Fit for 55 package of July 2021 aims to reduce net greenhouse gas emissions in the EU by at least 55% by 2030 compared to 1990 levels. The objective is to reach climate neutrality by 2050. This package includes a revision of the EU ETS, which in future would also apply to the maritime sector, allow for an increase in the auctioning of aviation allowances, and introduce a new system for buildings and road transport.

2.4 The new ETS would contribute to ensuring a smooth transition to a decarbonised economy, and one that is mindful of the most vulnerable in society. At present, most revenues from the auctioning of emission allowances are transferred to national budgets. With the proposed new system, 25% of the revenue from EU emissions trading would flow into the EU budget, and estimated revenues for the EU budget would average around EUR 12.5 billion per year in the years 2026-2030.

2.5 The Commission is also proposing a CBAM aimed at reducing the risk of carbon leakage into the EU by putting a carbon price on imports, corresponding to what would have been paid had the goods been produced in the EU. This mechanism will apply to a targeted selection of sectors and has been deemed by the Commission to be fully consistent with the WTO rules. In line with the proposal, the phasing in of the CBAM will take place concurrently with the phasing out of the ETS re-allocation scheme, which was always envisaged to be temporary in any case. Goods imported to the EU would pay a charge which reflects their 'carbon content' – that is the CO_2 emissions generated by their production (the overall price on these CO_2 emissions is the same as the EU carbon price). On the other hand, a rebate (reflecting the difference between the carbon price paid for their production in Europe and the carbon price in the destination market) will not apply on goods exported to other countries. To compensate for this, the Innovation Fund (IF), with revenues derived from the auctioning of 450 million ETS allowances from 2020 to 2030, will help European industry adapt to the decarbonisation process. For 2020-2030, the Fund may amount to around EUR 10 billion, depending on the carbon price. The IF is a key funding instrument for delivering the EU's economy-wide commitments under the Paris Agreement, and supporting the European Commission's strategic vision of a climate-neutral Europe by 2050, as recognised also in the European Green Deal Investment Plan.

2.6 The Commission is proposing to allocate to the EU budget 75% of the revenues generated from this CBAM, with revenues estimated at around EUR 1 billion per year on average in the years 2026-2030.

2.7 The third source of revenue proposed would be generated from taxing a share of 'residual profits' from the world's largest multinational enterprises, as agreed last year by members of the OECD/G20 inclusive framework on base erosion and profit shifting, the details of which have yet to be finalised. This involves a two-pillar solution to tackle tax transfers from one country to another, make international tax rules more consistent, and ensure that profits are taxed where economic activity and value creation occur. The Commission proposes an own resource equivalent to 15% of the share of the residual profits of in-scope companies that are reallocated to EU Member States. However, the re-allocation of tax revenues to third countries is not taken into account.

2.8 The next step is for the Commission to draft an EU directive once the details of the OECD/G20 inclusive framework agreement on Pillar One are finalised. This process shall complement the Pillar Two Directive for which the Commission recently adopted a separate proposal[1]. Pending the finalisation of the agreement, revenues for the EU budget are estimated between EUR 2.5 and 4 billion per year.

2.9 To integrate the proposed new own resources into the EU budget, the EU will need to amend two important pieces of legislation. First, the Commission proposes to amend the Own Resources Decision to add the three proposed new resources to the existing ones. Second, the Commission also proposes a specific amendment to the Regulation on the current long-term EU budget for the period 2021-2027, also known as the Multiannual Financial Framework (MFF) Regulation. This modification offers the legal possibility to already start repaying loans for NextGenerationEU during the current MFF. At the same time, it proposes to increase the relevant MFF spending caps for the years 2025-2027 in order to align the additional spending with the SCF.

1 Proposal for a Council Directive on ensuring a global minimum level of taxation for multinational groups in the Union. COM (2021) 823 final

2.10 The Own Resources Decision must be approved unanimously in the Council, after consulting the European Parliament. The decision can enter into force once it has been approved by all EU countries in accordance with their constitutional requirements. The MFF Regulation must be adopted unanimously by the Council, after obtaining the approval of the European Parliament.

3. General comments

3.1 There is no doubt that to repay the funds raised by the EU to finance the grant component of NextGenerationEU and the SCF, a financial model of own resources is needed. However, the implementation of this financial model remains challenging. The EESC also notes that the Commission proposal stabilises a set of rules by which additional national contributions from Member States would be allocated to the EU budget. In the event of a shortfall, the current system of allocation based on GNI would continue to be applied. However, the EESC notes that in 2023 the Commission will propose a new set of own resources.

3.2 In any event, it is the EESC's view that the proposal under consideration reflects the current revenue collection system, and would continue to rely very heavily on Member State contributions. However, the EESC acknowledges that extending the own resources model would provide the funds to react more effectively to economic shocks and support the financing of sustainable growth initiatives and economic recovery.

3.3 All in all, the own resources model would also boost the fiscal capacity of the Economic and Monetary Union, possibly increasing economic convergence, and helping to mitigate asymmetric macro-economic shocks. Drawing from own resources would further strengthen policy effectiveness with funding strictly linked to the EU's targets in climate change and economic sustainability, for example. The link between EU policy objectives and its financing sources in the selection of forms of own resources is an important consideration and one which the EESC supports.

3.4 The EESC acknowledges that identifying own resources is a challenging task and that the options under consideration may have their own particular drawbacks (particularly in terms of sufficiency, stability, or efficiency). Hence, it is necessary, as proposed by the Commission, to have a system that combines different own resources in order to minimise, for example, fluctuation in the influx of own resources. A mix of own resources also contributes toward a more fairly distributed financial burden among Member States.

3.5 The EESC is also of the view that efficiency in the administration of own resources is critical. However, this must be matched by efficiency and effectiveness on the expenditure side at all stages. This applies in particular to spending on the SCF[2], which is intended to mitigate the negative social effects arising from higher carbon prices in transport and buildings' heating systems. The EESC has already expressed its concerns in this connection particularly on the costs of an emissions trading system for buildings and transport which could outweigh the desired benefits and could lead to uncontrolled price spikes. The EESC has also referred to the huge challenge of designing an effective and fair compensation mechanism in an EU comprising 27 Member States with often very different socioeconomic and climatic contexts.

2 OJ C 152, 6.4.2022.

3.6 The EESC notes that as things stand, Member States have used the ETS auctioning revenues for climate action and to boost investment in emissions trading sectors, thus speeding up emissions reductions. With parts of ETS revenues being used to repay the grant component of NextGenerationEU, the EESC cautions against possible financial constraints that would limit further support to the European economy and population during the transition towards carbon neutrality.

3.7 The EESC welcomes the IF and its objective to helping businesses invest in clean energy and clean industry. However, the EESC has expressed doubts as to whether this fund will maintain and strengthen the EU industry's competitive position.

3.8 Whereas the EESC generally agrees with the three new sources of revenue as proposed by the Commission, the EESC warns of impacts that the additional revenue could have on households and businesses. Hence, it may be necessary to couple any additional tax burden with a tax reform or compensatory mechanisms at national level. In addition, the EESC warns of the impact of higher energy prices for households and businesses caused by the war in Ukraine. These added costs and their social and economic effects could derail the Commission's proposal. This is all the more important in light of the war in Ukraine, and thus the Commission's proposal may require revisiting at some stage. Consequently, the EESC is committed to continuously reviewing and monitoring the uncertain evolution of the human and material impacts of this egregious invasion, with a view to assessing the best course of action in due time.

4. Specific comments

4.1 Whereas the EESC agrees that funding sources are necessary to effectively repay the NextGenerationEU, those funding sources need to be stable, socially fair and business-friendly. Stability is an absolute requirement, as are simplicity and certainty. More specifically, it should be ensured that the systems introduced, particularly the ETS and CBAM, be resilient to economic shocks. Additional burdens on households and businesses also need to be avoided, and the EESC will reserve its judgement on how the funding sources could impact both households and businesses. In this context, the EESC recommends more targeted impact assessments, on a country-by-country level, as well as for specific industries, to determine any negative effects on households and on the overall competitiveness of EU businesses. Assessing funds disbursed under NextGenerationEU would also be relevant.

4.2 Whereas the EESC agrees that, following the OECD tax reform, Member States reallocate a proportion of residual tax revenues accruing to them to the Commission as an own resource, such a transfer should not give rise to new burdens for households or businesses. Where necessary, the EESC recommends coupling this transfer with a reform of taxes on other levels with the aim of not levying any additional charges on households and businesses.

4.3 The EESC is of the view that the OECD international corporate tax pre-agreement is a major breakthrough in efforts to ensure that global corporate companies are taxed where economic activity and value creation occur. The EESC also believes that the new rules can bring stability and coherence to the international tax system. However, we believe that a level playing field in the international tax system should be maintained at all times. The implementation of the new rules should be made at the same time as the EU's major trading and competitor nations. Moreover, the new rules should be applied in line with harmonised definitions and standards. The EESC also highlights the volatility associated with corporate tax revenues and the difficulties of estimating future revenues from this own resource, and highlights the fact that the final implementing details of the agreement are still under discussion. In this sense, the EESC believes that it is premature to count these new resources as permanent EU resources, mainly when consideration must be given to the possibility of EU Member States having to pay a proportion of tax revenues to third jurisdictions.

4.4 The EESC considers the proposal to shift the ETS revenues from being essentially a national resource to an own resource a bold proposal. However, the EESC is concerned that this proposal does not incentivise a drastic reduction of pollution by making sure that polluters pay. Moreover, the EESC is of the opinion that the 'polluter pays' principle should be applied in all Member States alike. The challenge here remains that of how such revenues would be re-invested in a way that would be beneficial for communities. Also, the impact of this proposal on sectors such as the property market needs to be assessed on a country-by-country or region-by-region basis, as planning rules often vary and the cost of energy efficiency could lead to higher property prices. The EESC welcomes the temporary solidarity adjustment mechanism, which helps to ensure a fair own resource contribution from all Member States, with an upper and lower boundary applied in relation to the GNI key. This will avoid some Member States contributing disproportionally to the EU budget relative to the size of their economy, as Member States transit towards more sustainable economies. On the other hand, the EESC expresses its concern that, in the event that the ETS scheme is only partially implemented, the SCF would be put in danger, and foresees the risk of giving Member States an excuse to blame Europe for unpopular measures.

4.5 The EESC is also of the view that the proposed new own resources need to support EU policy goals, particularly in regard to the single market, competitiveness and sustainable growth, whilst resulting in welfare improvements for EU citizens.

4.6 Another relevant consideration is that the financial burden of the proposals must be fairly distributed among Member States. The EESC highlights the structural differences among Member States, with any one proposal affecting Member States differently. The EESC welcomes how the SCF will be allocated nationally based on the relative wealth on a country-by-country and region-by-region basis. However, fairness in the way the proposals are implemented across the EU is absolutely necessary. Equally important is that the calculation, transfer and control of the new own resources do not lead to an excessive administrative burden for the European Commission, Union institutions or national administrations.

Brussels, 18 May 2022

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The president of the European Economic and Social Committee

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