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Panel II: Financing: How to adjust the current own resources system?

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RECAP

Areas financed by the EU budget

Multiannual financial framework 2014-2020

In billion € and in percentage, current prices



Economic, social and territorial cohesion

€371.4

- Research and innovation
- Information and communications technology
- Small and medium enterprises
- Low-carbon economy
- Climate change and risk
- Environment and resource efficiency
- Transport and energy
- Employment
- Social inclusion
- Vocational training
- Other



Competitiveness for growth and jobs

€142.1

- Education
- Energy
- Industry and small and medium enterprises
- Networks and technology
- Research and innovation
- Transport
- Other



Administration

€69.6



Global Europe

€66.3

- Development and international cooperation
- Humanitarian aid
- Neighbourhood and enlargement
- Foreign policy instruments
- Other



Security and citizenship

€17.7

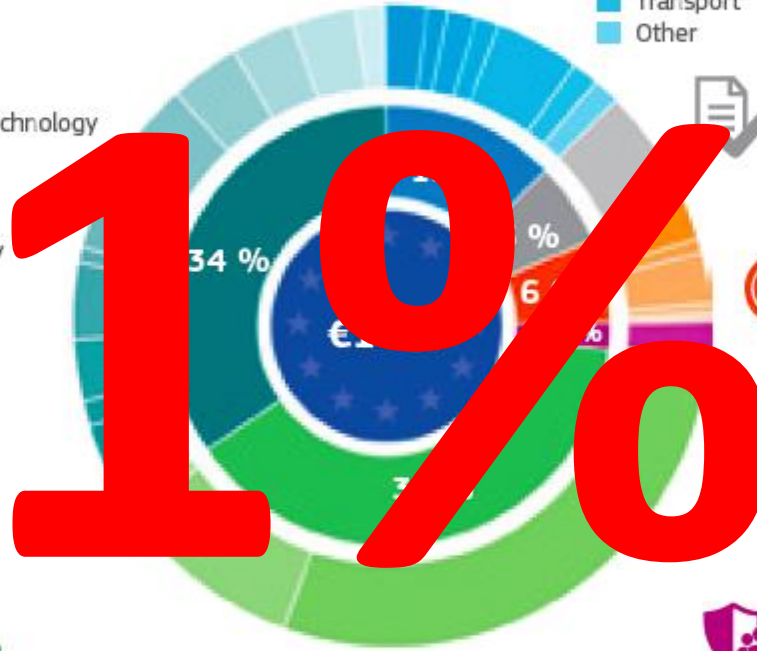
- Migration and home affairs
- Health and food safety
- Culture
- Justice
- Other



Sustainable growth: natural resources

€420

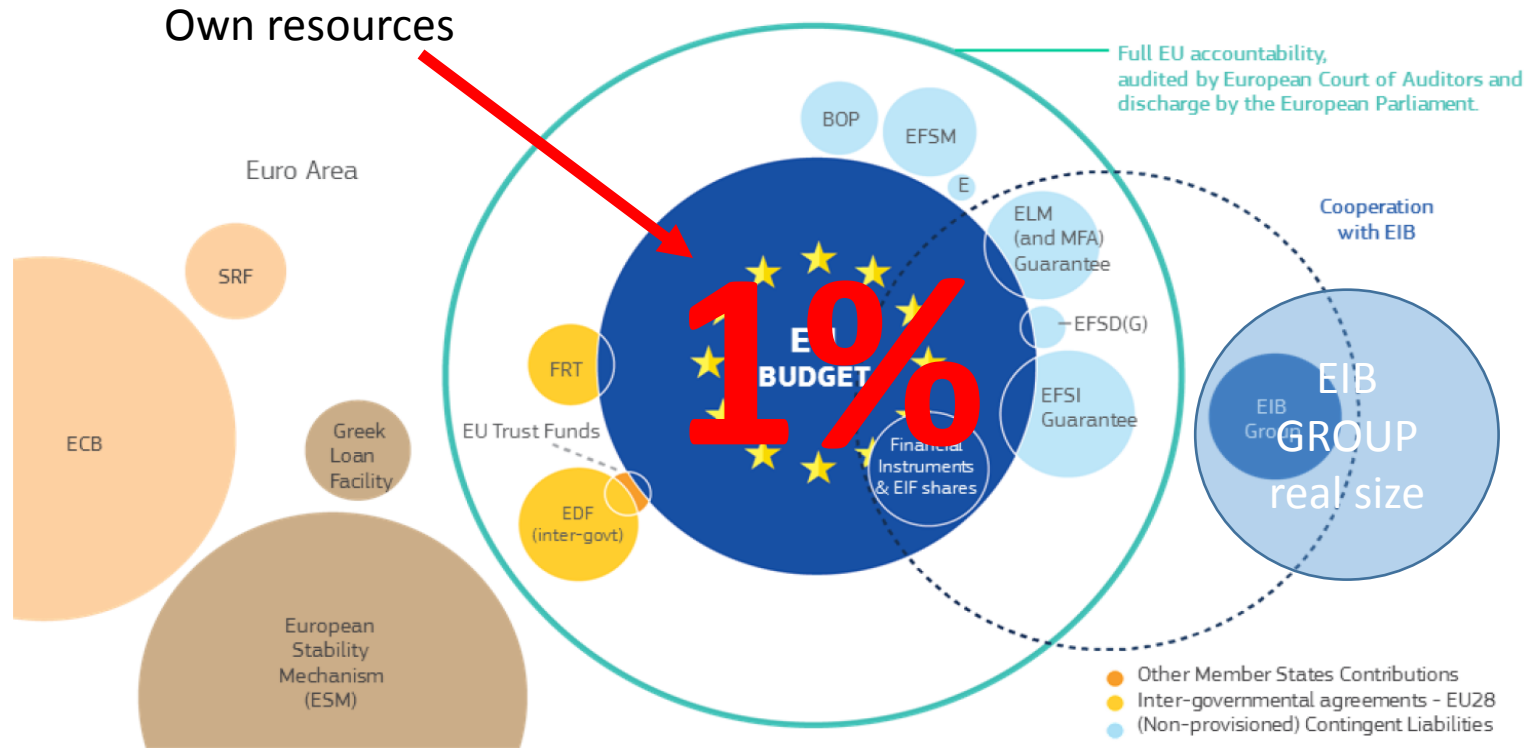
- Agriculture
- Rural development
- Fisheries
- Environment and other



Note: Commitments; adjusted for 2018

Source: European Commission

THE EU FINANCES SPHERE



Borrowing and lending:

- BOP: Balance of Payments loans
- EFSM: European Financial Stabilisation Mechanism
- E: Euratom loans
- ECB: European Central Bank
- ECA: European Court of Auditors
- EDF: European Development Fund
- EFSD(G): European Fund for Sustainable Development Guarantee

- EFSI: European Fund for Strategic Investment
- EIB: European Investment Bank
- EIF: European Investment Fund
- ELM: External Lending Mandate
- ESIF: European Structural and Investment Funds
- FRT : Facility for Refugees in Turkey
- MFA : Macro-Financial Assistance loans
- SRF : Single Resolution Fund

Financial Instruments:
Equity and debt for small and medium enterprises and loan guarantees for innovation projects

European Commission 2017 Reflection paper of EU finances

LESSON 1: We are only speaking of part of the EU finances

PRESENT REVENUES:

- **Violate principle of Unity of the budget**
 - Numerous areas outside the budget artificially maintaining a fiction of 1%
- **Violate principle of proportionality**
 - Expenditure decisions are not proportional to needs and level of European Value Added
 - It covers the whole of the agricultural policy, but underspends on borders and security
- **Citizens overestimate the EU budget as % of public sector expenditure (2% compared to 50% of GDP in MS, approximately a 2% VAT resource)**
- **Parliament is not responsible of raising revenues – decision-making bias/distortion**
- **Promotes net balance approach**
- **Detracts attention on national budget mismanagement?**

**LESSON 2: Revenue system incentive structure
counterproductive**

WHY REAL OWN RESOURCES?

Do we actually need them?

- No

Will those be easier?

- No: Unstable, fairness will be an issue (national level), could lead to corrections
- May only partially resolve net balance issues

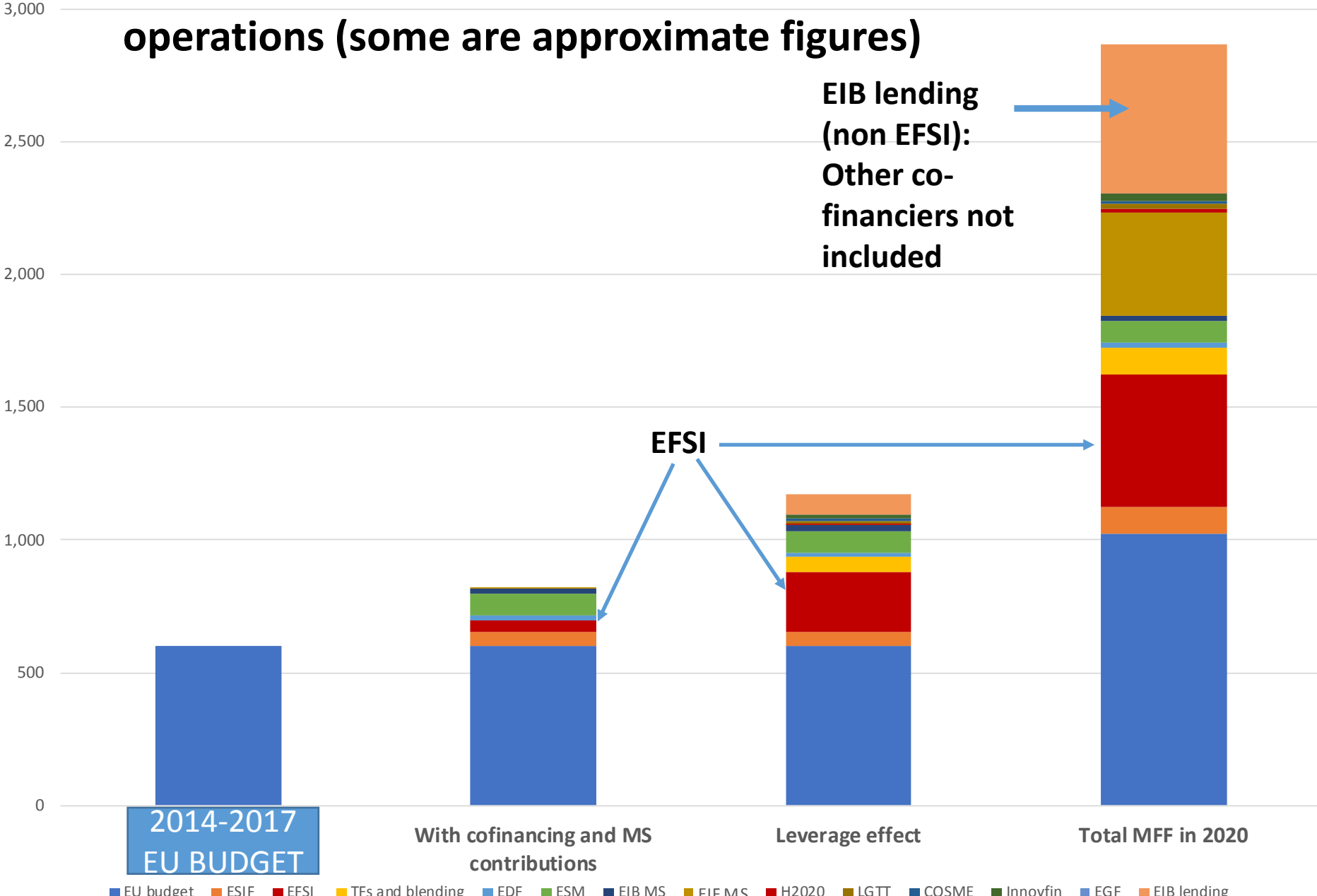
Why then?

- Resources linked to objectives
- Fiscal incentives
- Transparency and accountability
- Fairness in the sense of same treatment for target groups

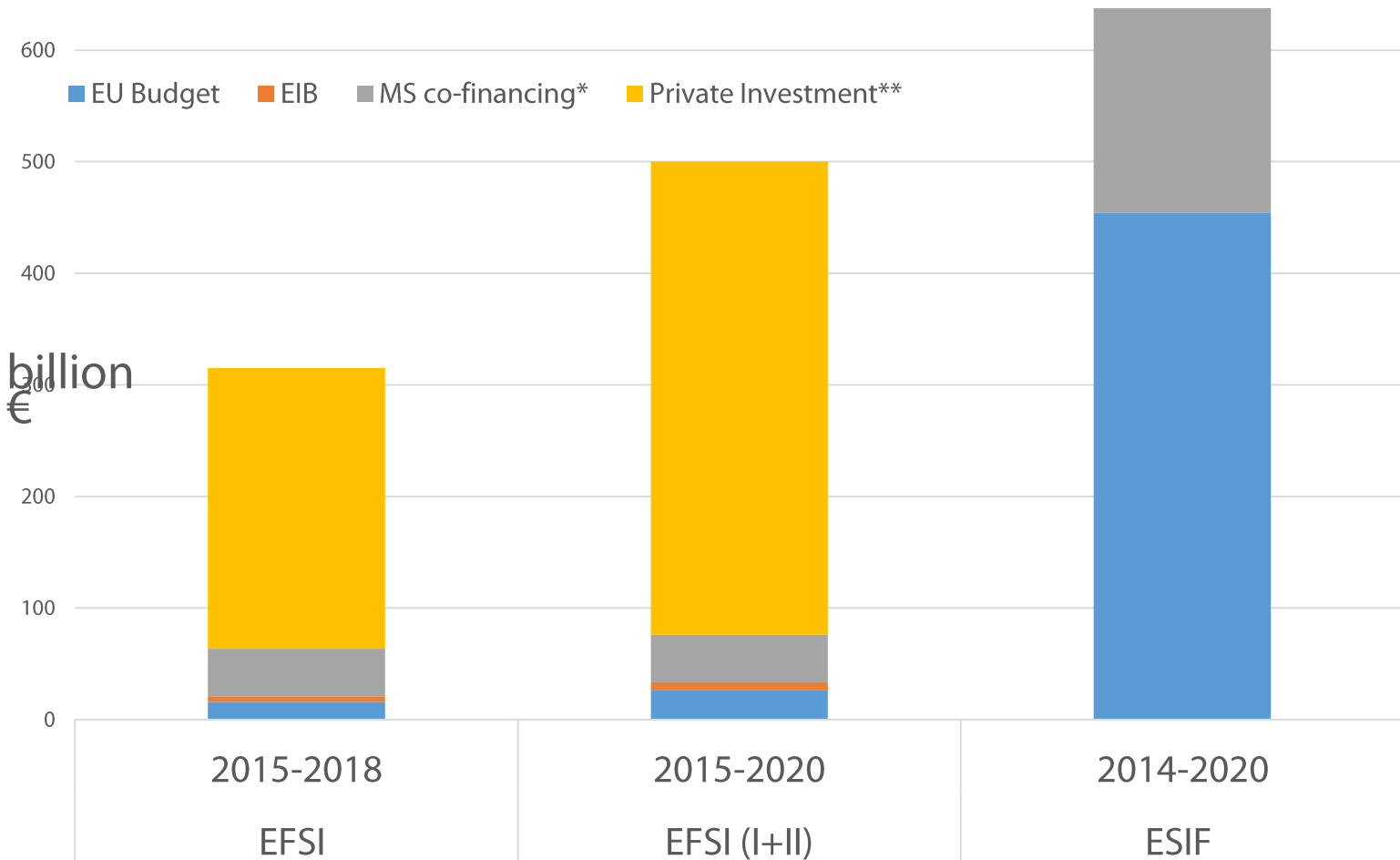
LESSON 3: Real own resources do not solve everything, but in line with better governance

NET BALANCES FAR
FROM HAVING ANY
MEANING

Actual and estimated total value of EU operations (some are approximate figures)



MOBILISED INVESTMENT WITH EFSI AND ESIF, SIZE SIMILAR TO COHESION POLICY



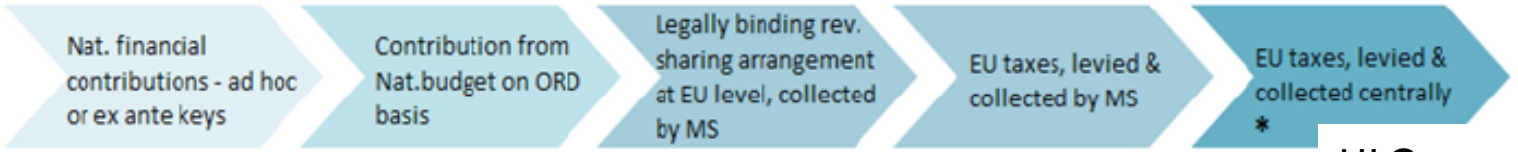
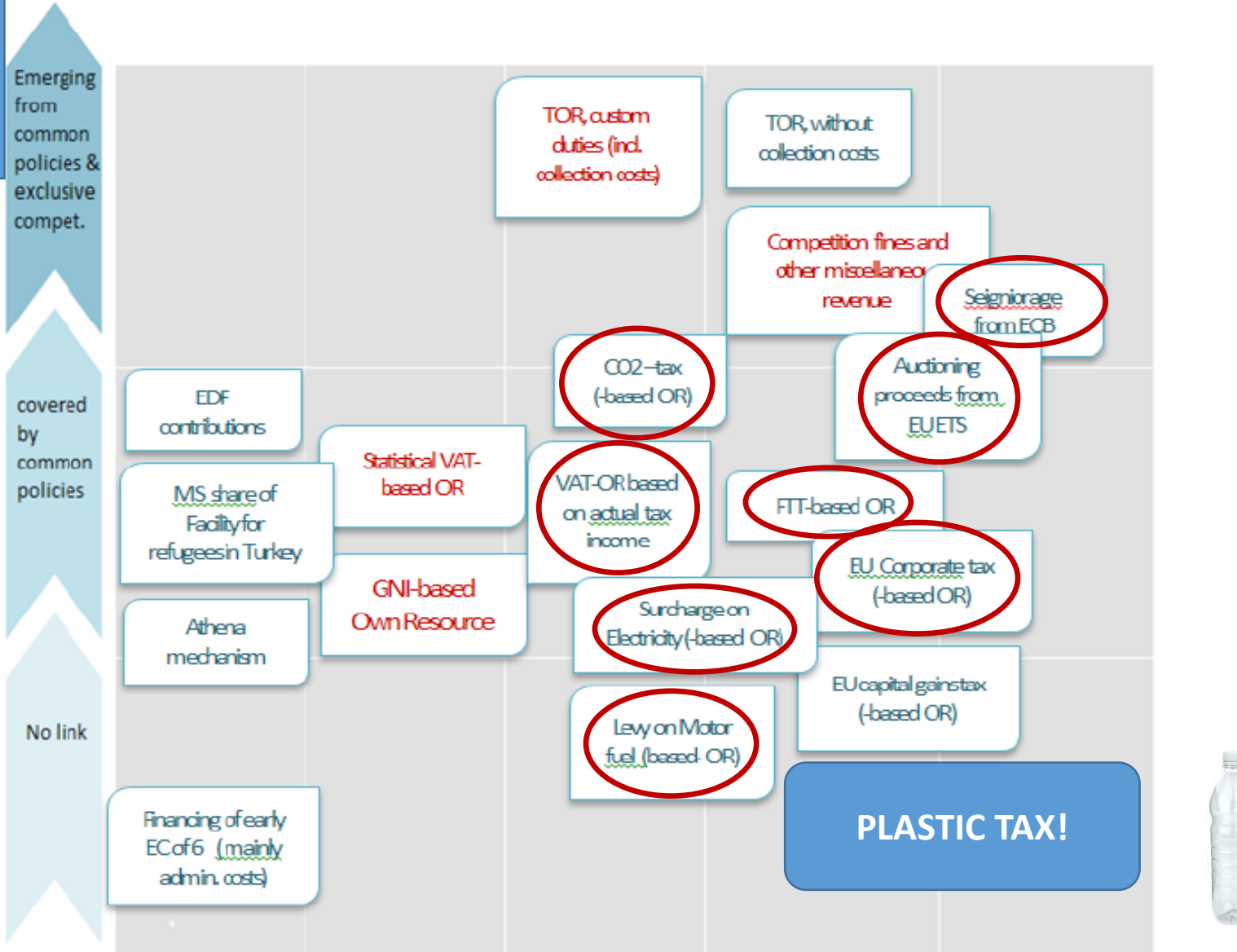
Source: European Commission data, authors' elaboration

**LESSON 4: Net balances not a measure of benefits.
Make no sense**

Potential taxation

HIGH LEVEL GROUP PROPOSALS

Link to EU policies & EU competencies



Legal nature, decision making modus (intergovernmental vs federal)

	Real VAT	CO ₂ levy/ carbon price	ETS	Motor fuel	Electricity tax	FTT	levy Fin Act tax	CIT	Segniorage	Plastic tax
Equity/Fairness	??	?	?	?	? 😐	??	??	??	??	?
Efficiency	😐	?	?	??	??	??	??	??	??	??
Sufficiency and Stability	??	?	?	??	??	?	??	??	?	?
Transparency and Simplicity	??	?	?	??	??	??	?	??	?	??
Democratic accountability and budgetary discipline	??	?	😐	??	??	😐	??	??	?	??
Focus on European added value	?	??	?	?	?	??	??	??	??	??
Subsidiarity principle and fiscal sovereignty of Member States	?	?	?	??	?	??	?	?	??	??
Limit political transaction costs	😐	😐	😐	😐	😐	😐	😐	?	?	?

Package deal options

GETTING AN AGREEMENT:

- Start with a small limited own resource
- Raise the finances for those headings with an accepted EVA – Horizon, competitiveness etc.
- Link future new resources to specific expenditure reforms
- For a CO₂ tax there will need to make a deal to support the energy sector decarbonisation
- REAL VAT would be visible, simple, effective (not the still statistical version proposed)
- Most other options politically rather unrealistic at this time
- CIT unlikely, but Corporate tax base harmonization possible
- Single use plastic tax seems a good proposal

In any case seek to make the budget more coherent.

GNI resource will always be needed to rebalance.

LESSON 5: Yes we can!



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