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Policy Brief

New Resources of the EU Budget

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Abstract

The article tackles the new own resources of the EU budget which are currently being discussed at the European level. The text concretely analyses why the reform of the own resources is needed as well as what are the positions of various EU institutions and members states to these proposals. Finally, the author focuses on the reflection of the Czech position, including outlook on how it might evolve depending on the negotiations.

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Introduction

The debate about resources of the EU budget is as old as the Union itself. Historically, most of the European Community's funding originated in the system of own resources, which completely reversed over time. As of now, the European Union is primarily being financed by direct contributions from its member states, which also means the budgetary political power lies in the hands of the national government – who pays and decides how the money will be spent.

This has resulted in many political disputes. The European Parliament, and to a certain degree also the European Commission, have tried to obtain more budgetary independence. In particular, the EP has been at the forefront of these efforts as it has a decision-making power in the EU's annual budgets as well as the multi-annual financial frameworks. It could trade its support to member state deals for minor concessions in EU budget financing or increasing allocations in centrally administrated programmes such as Horizon Europe.That being said, it seems that the EU budget will obtain new financing. During the last year's MFF negotiations, the member states agreed to implement several new resources, and one has already been introduced. As some reforms are still pending, it is worth investigating which options are on the table, and what position the Czech Republic could take in the future negotiations.

The following article is divided into three sections. The first identifies institutional dynamics behind the new own resources – why they are needed and what various actors want to gain from the reform. The second part focuses on concrete proposal on the table, and the last section discusses what Czech position to the reform might be.

Institutional dynamics behind the new own resources

The reasoning for implementation of new EU budget resources varies across the actors, who all have their inherent interests. The European Parliament predominantly wants to gain more power through a control of financing that is independent from the national governments. In the current political set-up, the EP does have budgetary powers in both MFF and the annual budget; yet, it does not possess similar powers to national parliaments in case of national financial plans. A potential increase in EU own resources might give the institution an extra leverage in the negotiations about, how the entire EU budget could be spent.

The European Union's member states usually have an opposing position to the European Parliament. They currently hold the treasury and disregard institutional procedures; the national governments can exert a strong political power over the EP. It is therefore natural that any move towards more independent EU budget is being vetoed. The fear is that once the EU obtains its own resources, the EU institutions will tend to distribute funding according to what they deem important for the European Union. In today's Europe that's hardly imaginable.

That being said, this traditional cleavage between the national government and the EP has become under stress as a result of the last financial crisis, and especially the COVID-19 pandemic. In August 2020, the European Union decided to create a Next Generation EU Fund, which is being financed by a common European bond programme – a debt that will have to be eventually paid back. Simultaneously, the national budgets are under a significant stress due to re-emerging lockdowns and decrease in own tax revenues. In other words, there is a lower appetite for covering the European debt among the national governments. This might and already does result in discussions how the EU budget might be financed so that it does not pose an additional burden on the national households. Eventually, the states might agree to give up a certain political leverage for lower debt servicing.

Proposals on the table

While deliberating about new EU resources, there are several requirements that they should fulfill. Firstly, they must contain a significant European added value dimension. The new income must have its justification in the principle of subsidiarity, and simultaneously it should not meddle with the national tax systems. Secondly, the new resources should serve a policy purpose, not only become additional income. In other words, the Union should concentrate on resources that strengthen its core policies such as the green transition or the single market.

Having this in mind, it is not surprising that the 2020 MFF[1] agreement already contains a first agreement on the new own resources, and the proposed measures reflect all the aforementioned requirements. Firstly, the EU member states had decided that starting in January 2021, the EU would have retrieved funding from a new tax on non-recycled plastics. The revenue is rather small and no one expects that this tax would be a long-lasting revenue, as it will incentivize a change in behavior resulting in a significant decrease in usage of non-recycled plastics. Yet, it fulfills an important goal of reducing consumption of plastics and simultaneously does not interfere in the national tax systems.

Besides the tax on non-recycled plastics, the 2020 MFF agreement contains further four additional revenues and their due dates. The heads of states decided that by January 2023, the EU will gain profit from the Carbon Border Adjustment Mechanism. The tool is currently under an extensive discussion, but we know that it will take a form of import levy penalizing greenhouse gas intensive production. The purpose is threefold – protect European industry from a cheaper and less ecological production around the world, incentivize transition to a greener energy outside of the EU and finally transfer EU norms on other actors such as the US and China. In this sense, the resource perfectly follows the basic requirements; it provides a European added value, strengthens its policies, and simultaneously gives the EU an additional funding opportunity.

A second new resource was supposed to be a Digital Levy targeting technological giants selling their services online on the Single Market. The idea behind the proposal was that tech companies are active in a new economy branch that cannot be addressed by traditional taxation systems designed for pre-digital age. By taxing the companies directly through a sectoral levy, the EU would narrow the discrepancy between tech companies and traditional economic activity. Yet, it is not clear what the future of the digital tax will be – the EU halted preparatory works due to the G20 tax negotiations and it might well happen that the resource will never materialize. Still, the levy is present in the European Council conclusion, so one must keep in mind that the resource might be introduced in the future.

Thirdly, there is the revisited Emission Trading System that should become another source of the EU budget by 2027 at the latest. The European Commission plans that the 25% of profits[2] from ETS should go directly to the EU budget, unlike today where the member states are the sole beneficiary of the system. If implemented, the EU plans to stream the funding to Just Transition Fund and to support disadvantaged groups that might suffer from decarbonization. Looking at the criteria for the new resources, we can say that the ETS income would support EU policy, however, there is a question whether it fulfills the requirement for European Added Value. It will therefore be interesting to see if states will be willing to give up on their own revenues and direct 25% of the income directly to the EU budget.

Finally, there is also the Financial Transaction Tax, and income based on harmonized corporate tax base on the table; however, those are not being considered as the main ways forward at the moment. As one European Commission official mentioned off-record, the introduction of these levies largely depends on the G20 agreement, and the Commission therefore cannot put forward any concrete measures now. Simultaneously, we can expect that member states will also want to tap into this pool so the EU will have to be especially convincing to get its portion.

Czech Perspective

The Czech political elite has traditionally been opposing moves towards a more supranational Europe, and the EU gaining more budgetary independence would mean a politically stronger EU.

[1] See: https://www.consilium.europa.eu/media/45109/210720-euco-final-conclusions-en.pdf

[2] See: https://ec.europa.eu/commission/presscorner/detail/en/ip_21_7025

It can therefore be expected that the Czech Republic will perceive any reform of the EU income with a dose of suspicion. This all, however, does not mean that we should expect a strong opposition against any proposal. The Czech policy makers must keep in mind that around 2027, the Czech Republic will likely become a net payer to the EU budget, or at least balanced contributor/beneficiary. Such a shift will force Czechs to recalibrate their attitudes towards how the EU is financed.

Secondly, the Czech politicians as well as policy makers have to discuss thoroughly what position the Czech Republic could have with regard to the European Commission's proposals. They rather tend to sit tight and wait for the development of the EU-wide debate. Such an attitude also applies to the new Czech government, which has not declared its policy intentions concerning the new EU budget resources. It might obviously change in the future, as the legislation process continues, yet, the general lack of vision is surprising.

That being said, we can anticipate that the Czech position to the new EU resources will not significantly diverge from the EU mainstream. The negotiations will be about details, not about the concept as such. Based on previous experience, the new Czech government won't go against an EU wide consensus, but it will rather try to win small concessions in the process.

Regarding the concrete proposals, we can expect that the Carbon Border Adjustment Mechanism will be the least controversial resource among all those being discussed. There is a broad consensus in the Czech Republic that if the Union wants to go ahead with its 2050 climate neutrality goal, it must protect the Czech and EU's economy from cheaper foreign production that does not respect strict environmental norms. The only question is what portion of the CBAM income should take the EU, and how much will be obtained by the member states. During this discussion, we can expect that the Czech Republic will favor additional income for the member states rather than the EU.

Secondly, the digital levy or financial transaction tax are politically dead in the Czech Republic. The new right-wing conservative government resists any special sectoral taxes, unlike its predecessor from ANO and Social Democrats. Still, we will very likely not see any dispute between the Czech Republic and the rest of the EU, since sectoral taxes are rather off the table in the short term. As mentioned in the previous chapter, a lot will also depend on the G20 tax agreement, and it is not clear at all that a digital levy will eventually materialize.

Finally, there is a proposal for an income from the EU ETS system – a money that is currently flowing to national budget. This resource might prove to be the most controversial in the Czech Republic. Not only is the political elite accusing ETS of rising energy prices, but the mere fact that the Czech Republic would have to give up a current income will be hard to swallow for the Czech political elite. Still, it would be an exaggeration to say that the Czech Republic would fiercely oppose a potential EU-wide consensus, but the politicians and diplomat will try to minimize the loss of the impact.

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