Interinstitutional Conference with National Parliaments on the

FUTURE FINANCING OF THE EU

BRUSSELS, 7 - 8 SEPTEMBER 2016

EUROPEAN PARLIAMENT. József Antall Building. Room JAN 2Q2

Brussels, 29 June 2016

Orientation note for participants to the Interinstitutional Conference with national Parliaments of 7/8 September 2016

The purpose of this note is to allow the participants from national Parliaments to prepare ahead of the September 2016 Conference and to provide national Parliaments with a basis for a fruitful internal exchange of views ahead of the Conference.

In order to inform about the work of the High Level Group on Own Resources (HLGOR) and to provide additional input, the Conference will address the following themes:

Theme 1 - What role(s) should the EU budget play in European public finance?

Representing about 1% of EU-28 GNI or 2% of overall public spending, the EU budget is relatively modest in size. However, it plays an important role in the European economy. It is used as an investment tool, helping to leverage public and private funds; it is also a convergence engine across Europe, supporting cohesion amongst Member States and their regions. It provides funding to various European policies, such as agriculture, research or transport, with the objective to support growth and jobs. It facilitates and contributes to investments in the single market, including the digital single market and the energy union. It also contributes to EU external policy through development and humanitarian aid.

On the other hand, the EU budget does not cover expenditure that is an exclusive competence of national or regional public budgets, such as defence, education or public health. It also does not have traditional redistributive functions between individuals. The EU budget also does not provide for countercyclical tools to react to macro-economic changes.

The multiannual financial framework, currently running from 2014 to 2020, gives a medium-term direction for the EU budget. Its medium-term aspect has the advantage of 'safeguarding' core investment projects despite changing economic circumstances and even crises.

During this discussion, panellists and participants will have the opportunity to exchange views on the future of the EU budget. They will discuss the role the EU budget should play in the European economy and how to create synergies at the European level that could foster savings for national budgets. They will also reflect on the type of interventions that the EU budget should support across the whole range of EU policies.

Panellists and participants are also invited to examine if the structure of revenue of the EU budget has a direct impact on these different aspects, and if some policy needs can be addressed on the revenue side.

Theme 2 – New sources of revenue for the EU? What works and what should be changed?

The current system of own resources *'determines who pays what and when […]. It is commonly described as a means of burden-sharing between Member States or caricatured as a European financial zero-sum game with winners and losers.'*[1] There is a view shared among some of the stakeholders that this situation needs to be improved in order to unlock the real potential of the EU budget, and to focus the political decision-making process on common EU goals rather than on protecting a *'juste retour'* policy.

The system of own resources can be described as a basket of different revenue streams authorised by Member States and their respective national Parliaments to finance the EU budget within the limit of the ceiling set in the Own Resources Decision (ORD)[2]. Member States have an obligation to make the own resources available for the EU budget each year. The purpose of any potential reform of the own resources system is not to undermine the fiscal sovereignty of Member States – and of the national Parliaments in particular - but to allow the EU *'to attain its objectives and carry through its policies'* in the most efficient way.

The composition and the structure of the EU's own resources have changed substantially over time. As the EU budget must be in balance, the EU's own resources are calculated on the basis of the EU's annual expenditure agreed in the context of the annual budget procedure. Member States monitor their contributions and provide updated revenue estimates for TOR, VAT and GNI through the Advisory Committee on Own Resources.

There are currently three types of own resources:

- **Traditional own resources (TOR)** - consisting mainly of customs duties on imports from outside the EU and sugar levies. Member States keep 25 % of the amounts as collection costs (20% as of ORD 2014).
- **Own resources based on value added tax (VAT)** - a uniform rate of 0.3 % is levied on the EU-wide standard VAT base of each Member State.
- **Own resources based on gross national income (GNI)** - each Member State transfers a standard percentage of its GNI to the EU. The percentage is determined in function of the amount in payment appropriations in the annual EU budget and taking into account the amounts from other types of revenue, so that total revenue covers total expenditure. The GNI-based contribution is therefore the 'residual' own resource guaranteeing an ex-ante equilibrium.

In addition, the following correction mechanisms exist:
- UK correction;
- other VAT- and GNI-related corrections;
- TOR collection costs (that also can be considered as "correction").

[1] First Assessment Report of the HLGOR, p. 5. Available on the website dedicated to the work of the HLGOR: http://ec.europa.eu/budget/mff/hlgor/index_en.cfm
[2] Council Decision of 7 June 2007 on the system of the European Communities' own resources. Decision 2007/436/EC, Euratom - Official Journal L 163 of 23/06/2007.

The own resource based on GNI, which was introduced at the end of the 1980s as the balancing resource, represents about 75% of the total own resources today. Member States consider this type of own resource as ’fair’ and simple. However, it is often not considered as a ’genuine’ own resource of the EU (as traditional own resources like customs duties for example), but as a national contribution, increasing the perception of the EU budget by Member States as a "zero-sum game".

During this discussion, panellists and participants will have the opportunity to discuss and assess the way in which the present system works, and how it could be improved. They are invited in particular to reflect on strengths and weaknesses of the current own resources system as presented in the Group’s First Assessment Report of December 2014, and on the manner in which it could be modified in order to help putting the European interests and values at the centre of the European debate.

Theme 3 – A better coherence between the EU and national budgets? How can we work better together?

While Theme 1 focuses on issues of a broader nature such as the functions of the EU budget and its role in the European economy, and Theme 2 deals with the own resources system in particular, Theme 3 should address various issues that do not necessarily or directly stem from the own resources’ system, but can improve its functioning, notably its implementation and the complementarity between the EU budget and national budgets.

Visibility

The increasing share of the GNI-based own resource has enhanced the perception of Member States’ contributions to the EU budget as a "cost" for the national budgets. The benefits of the EU are much less visible as they are spread among millions of beneficiaries. The "net returns" claimed by Member States are calculated on the basis of expenditure which can be allocated to them and does not take into account the expenditure which benefits the EU as a whole.

Adaptability to changing circumstances and new priorities

The emergence of new political priorities such as addressing the consequences of the financial and the refugee crises have put great pressure on the EU budget and shown the need for greater agility and flexibility. These new challenges require a renewed reflection in particular when they concern parts of the "EU acquis". There is a need to get clarity on the democratic control of decisions which are taken outside traditional budgetary mechanisms – either by national Parliaments or the European Parliament - or on the question what type of flexibility the EU budget would need to be able to address urgencies without requesting additional money from Member States. While some advocate that these challenges should be tackled with new resources, the impact of any reform would have to be taken into account at both the European and national levels, and synergies would have to be sought as to decrease the burden to taxpayers.

The asymmetry of the decision-making process

The financing of the EU budget is solely a competence of Member States. The difficulty to reach the necessary unanimity in the Council for the adoption of Decisions on own resources is increasing with the number of Member States. The European Parliament plays a fundamental role in deciding about the EU's expenditure (joint decision of the European Parliament and the Council during the annual budgetary procedure) but its role is marginal when deciding on the revenue for the EU. On the other hand, national Parliaments play a fundamental role in ratifying Decisions on own resources but have little to say when deciding on expenditure. This asymmetry of the decision-making process fuels the questioning as regards accountability and political responsibility.

The discussions will allow panellists and participants to discuss more broadly the perception of the EU budget in their constituencies, and to identify possible ways to enhance awareness, understanding and ownership of EU budget-related matters. In this context, a better visibility of the benefits stemming from the EU budget, or a possible link between these benefits and an own resource, could be examined.

Reflection should also address possible ways forward, whether they concern a better coordination between the national and European budgetary procedures, a possible link with the European semester, or more flexible tools to address emerging priorities and urgencies at EU level. In this regard, both pragmatic solutions which could be implemented in the short-term, and changes requiring institutional changes, could be envisaged.