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MEETING DOCUMENT

From:	General Secretariat of the Council
To:	Ad hoc Working Party on the Multiannual Financial Framework (MFF) 2021-2027
Subject:	Compensations on the revenue side of the EU budget - Non-paper from 18 delegations (BG, CY, CZ, EE, EL, ES, FR, HU, IT, LU, LT, LV, MT, PL, PT, RO, SI, SK)

Delegations will find attached the above-mentioned non-paper.

Non-paper of BG, CY, CZ, EE, EL, ES, FR, HU, IT, LU, LT, LV, MT, PL, PT, RO, SI, SK on the Multiannual Financial Framework 2021-2027 (MFF 2021-2027) – compensations on the revenue side of the EU budget

The signatories of this non-paper reiterate that the system of own resources of the EU budget should be transparent, simple and fair. All correction mechanisms need to be abandoned starting with the MFF 2021-2027.

In the words of the Commission President – elect Mme Ursula von der LEYEN[1]:

> *"One of the key foundations of our social market economy is that everybody pays their fair share. There can be no exceptions."*

1. The case for a more transparent and fairer financing of the EU budget

"The EU budget was never conceived to be primarily a system of fiscal equalisation or redistribution between Member States. Its main purpose has always been to finance common costs and operational expenditure linked to Treaty obligations and common policies... However, this rationale was turned upside down with the need to address the United Kingdom's 'budgetary imbalances', as Member States agreed at the European Council of Fontainebleau in 1984."[2]

This quote illustrates, in the clearest and most effective way, why it is time to move away from the idea of net balances and *juste retour*, and put the discussion on the EU budget back in the correct frame: *the EU budget is the instrument needed to implement, with an adequate level of resources, the policies that Member States have already agreed upon*. Unfortunately, despite the effort to focus MFF negotiations on the quality of spending and connecting revenue sources with respective EU policies, the *juste retour* debate is still present. On the revenue side, this is represented by the discussion on rebates or, more generally, on the possibility of introducing correction mechanism for Member States (MS) with "*excessive*" contributions to the EU budget. As explained in the report of the High Level Group on Own Resources, the whole debate on net balances and the very idea of *juste retour* have only been introduced with the European Council (EC) conclusions in Fontainebleau in 1984. However, back then, the overall situation was quite different from what it is today.

On this debate of *juste retour*, one must admit that all EU Member States have been benefiting from the single market, in particular through its stability and the economies of scale and reinforced intra EU trade. According to a DG ECFIN paper, the GDP would have been **9,0 % lower in Eurozone** and **8,7 % in EU28**[3] had the EU single market not been in place. Politicians and economists might question the above mentioned magnitude of the additional GDP stemming from the European single market, but it is unquestionable that for each EU28 Member State the GDP is higher than what it would have been without the existence of the single market.

Member States are benefiting from the European single market in a variety of ways: e.g., through the increased demand for goods and services financed by the EU budget (also in contracts from funds in shared management) as well as through their national competitive advantage.

[1] **Source:** A Union that strives for more My agenda for Europe, p. 12

[2] **Source:** Final report and recommendations of the High Level Group on Own Resources, p. 57

[3] **Source:** Quantifying the Economic Effects of the Single Market in a Structural Macromodel, p. 17

2. The current context is different than the one that has led to the introduction of correction in Fontainebleau

2.1 Situation in 1984 - European Council conclusions in Fontainebleau

The relevant part of the EC conclusions, Point 1 of the budgetary imbalances section stated that: *"Expenditure policy is ultimately the essential means of resolving the question of budgetary imbalances. However, it has been decided that any Member State sustaining a budgetary burden which is excessive in relation to its relative prosperity may benefit from a correction at the appropriate time".*

The above statement implied that **there were 2 conditions** that needed to be simultaneously fulfilled in order for a MS to justify a correction mechanism:

1. **expenditure mix of the EU budget with a dominance of a single policy;**
2. **a Member State's budgetary burden needs to exceed its relative prosperity.**

To test whether there could still be some justification to maintain corrections for some MS in the MFF 2021-2027, the EU (EEC) budget in 1984 should be first examined. At that time, the CAP-related expenditure accounted for more than 2/3 of the total expenditure. In this specific framework, a less agriculture-oriented MS could do very little to compensate for shortfalls of revenue in CAP with relatively higher revenues from other policies – this was the case for the UK. When it comes to the second condition, i.e. budgetary burden vs. relative prosperity criterion (measured as the ratio between national GDP per capita and the EU average), figures show that there were only two MS in 1984 with both a negative budgetary stance towards the EU budget and a GDP per capita below the EEC average – France and the United Kingdom (see Table 1). In the case of the UK, both the distance from the average GDP and the budgetary burden were much bigger. These were the grounds for the rebate.

Table 1: Situation in 1984.

	GDP per capita PPS, % of EEC10	net budgetary position (mil. ECU)
Belgium	101,8%	-443,2
Denmark	104,1%	467,2
West Germany	119,2%	-3323,8
Ireland	67,2%	924,1
Greece	79,7%	1008,2
France	96,3%	-689,7
Italy	98,4%	1518,9
Luxembourg	138,7%	-42,6
Netherlands	104,1%	384,4
United Kingdom	**88,2%**	**-1336,9**

Source: Calculations based on Eurostat data and AMECO data.
Disclaimer: We cannot exclude differences of the table above and possible future calculations elaborated by the European Commission. The calculations do not take into account point 75 of the Conclusions of the 1999 European Council in Berlin: 'When referring to budgetary imbalances, the Commission, for presentational purposes, will base itself on operating expenditure.'

2.2 Situation in 2019

When analysing the European Commission proposal on MFF 2021-2027 from this point of view, it can be seen that the expenditure policy of the EU has undergone many reforms with a result that there is no single dominant policy. In the Commission proposal of May 2018, the biggest part of expenditure relates to the mix of policies related to research, investment, security, defence (and more) which is directly managed by the Commission.

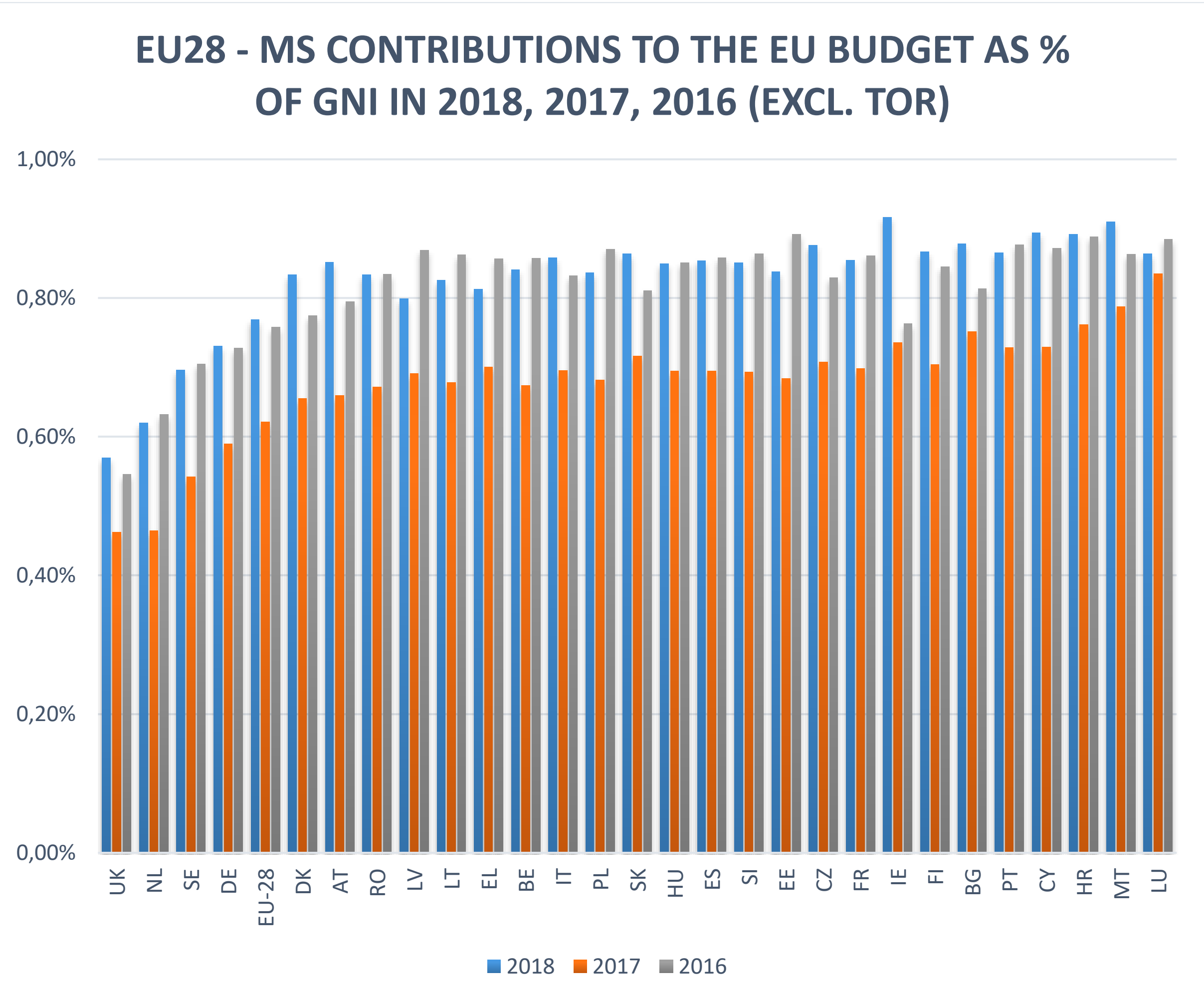
Thus, **the expenditure mix of the future EU budget** includes a wide array of policies, which provide opportunities for Member States to implement EU financed projects, and is in no way comparable to the budget situation in 1984, essentially centred on the CAP. Secondly, if we look at the relative prosperity of Member States – i.e., the justification for the UK rebate – we see that, **unlike the UK in 1984, all of the MS that enjoy corrections are in the group of the more developed MS and contribute a smaller share of their GNI than most Member States.**

3. Contributions of Member States according to the GNI

The original purpose of the rebates might have been to maintain fairness for all Member states by avoiding a budgetary burden completely out of line with their relative prosperity, in the context of a European budget that was limited in structure and with CAP at its centre. Nowadays, as the analysis above illustrates, no Member state suffers such a large budgetary burden to qualify.

The GNI-based own resource is sometimes described as "equitable and fair" in the sense that it would respect the Member States' ability to pay. In fact, some Member States with GNI per capita below EU28 average pay a higher share in relation to their GNI than other Member States (see Graph 1)**.** The current system of national contributions could be described as regressive insofar as Member States with a higher GNI per capita do not contribute a higher share of national contributions expressed as a percentage of their GNI.

Graph 1: EU28 – Member State contributions to the EU budget (excl. TOR) as % of GNI. MS are arranged in the ascending order of 3-year average.



Source: Based on the European Commission´s data published in [EU expenditure and revenue 2014-2020 database](#) with [retroactive impact of the 2014 Own resources decision](#). Member States are arranged in the ascending order of 3-year average.

4. Negotiating Box on the MFF 21-27

The wording of para 125 of the current Negotiating Box should read as follows:

The current corrections system expires by the end of 2020 ***and as from 1 January 2021 no correction system will apply****.*

OR

[Lump sum reductions for Member States having benefitted from a correction in 2020 will apply ~~[~~for the period 2021-2027 only, being phased out ~~gradually decreased~~ over ~~[~~five~~]~~ years~~]~~. The Member States concerned shall benefit from a gross reduction in their annual Gross National Income-based contribution of:

- *Austria: EUR [110] million in 2021; EUR [88] million in 2022; EUR [66] million in 2023; EUR [44] million in 2024; EUR [22] million in 2025; ~~EUR [0] million in 2026; EUR [0] million in 2027~~;*
- *Denmark: EUR [118] million in 2021; EUR [94] million in 2022; EUR [71] million in 2023; EUR [47] million in 2024; EUR [24] million in 2025; ~~EUR [0] million in 2026; EUR [0] million in 2027~~;*
- *Germany: EUR [2 799] million in 2021; EUR [2 239] million in 2022; EUR [1 679] million in 2023; EUR [1 119] million in 2024; EUR [560] million in 2025; ~~EUR [0] million in 2026; EUR [0] million in 2027~~;*
- *The Netherlands: EUR [1 259] million in 2021; EUR [1 007] million in 2022; EUR [755] million in 2023; EUR [503] million in 2024; EUR [252] million in 2025; ~~EUR [0] million in 2026; EUR [0] million in 2027~~;*
- *Sweden: EUR [578] million in 2021; EUR [462] million in 2022; EUR [347] million in 2023; EUR [231] million in 2024; EUR [116] million in 2025; ~~EUR [0] million in 2026; EUR [0] million in 2027~~.*

These gross reductions shall be financed by all Member States.]

5. Conclusions

Net balances are neither a meaningful measure of solidarity or an excessive budgetary burden, nor a proxy for cost-benefit assessments. Furthermore, the UK's withdrawal from the EU offers Member States the unique opportunity to also reform and modernise the revenue side of the MFF. The UK rebate was introduced in the mid-1980s to address the situation of one Member State with low-income, comparatively high contributions into the EU budget and comparatively limited payments from EU funds. In 2019 none of the 5 additional Member States benefitting from rebates qualify for these cumulative conditions (excessive budgetary burden in relation to their relative prosperity).

Moreover, the benefits of Union membership extend well beyond budgetary revenues. We need to move away from net balances and *juste retour*, because the single market is beneficial for all. The EU budget should implement the policies that Member States have already agreed upon and with adequate resources.

Finally, any debate on possible correction mechanism would imply complex rules and a lack of transparency for EU citizens. This calls for the end of all rebates and correction mechanisms from 2021. This position should be clearly stated in the Negotiating Box (para 125).