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MEETING DOCUMENT

From:	General Secretariat of the Council
To:	Working Party on Own Resources
Subject:	Regressiveness of the EU own resources system: Presidency note

In view of the meeting of the WP on Own Resources on 13 March 2025, delegations will find attached the Presidency's note on the regressiveness of the EU own resources system.

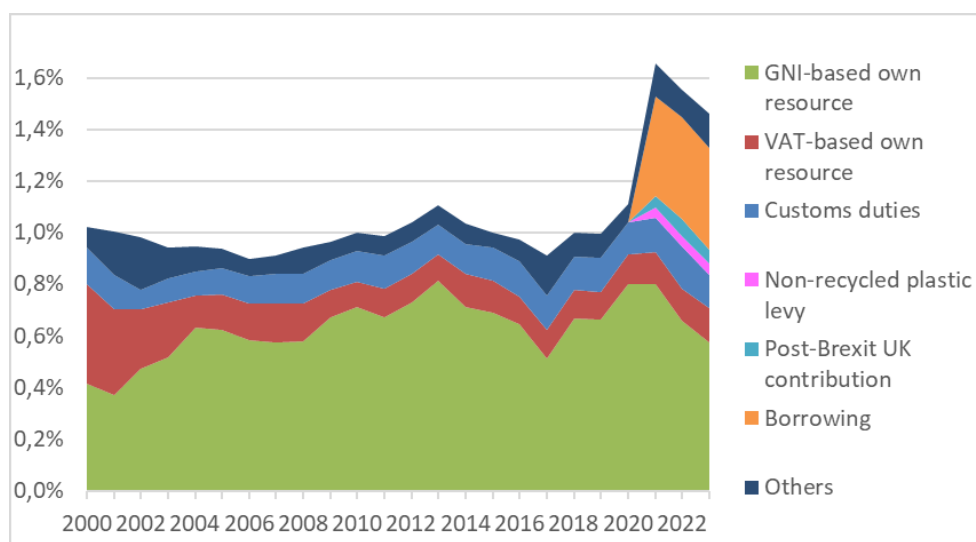
Regressiveness of the EU own resources system

1. Current OR system

The EU budget under the current MFF is primarily financed from national contributions paid by Member States (MS) from their budgets (see Graph 1). These contributions comprise payments based on gross national income (GNI OR, 57% of the total EU revenues in 2023), value added tax (VAT OR, 13% in 2023) and non-recycled weight of plastic packaging waste (plastic OR, 4% in 2023). In addition, the EU budget is financed by non-national contributions: custom duties (13% in 2023) and other revenue, representing another 13% of the total EU revenues in 2023.

Custom duties and other revenue can be considered as “genuine” revenue for the EU budget insofar as they collect revenue stemming from EU policies and competences and which therefore are not attributable to a particular Member State.

Graph 1. Revenues to the EU annual budget as % EU GNI 2000-2023



Source: Z. Darvas, P. Saint-Amans “Balanced new Own Resources for the EU budget” Bruegel Institute

The main source of financing the EU budget is GNI OR. Whilst generally, when analyzing the fairness of OR system, the dominant role of the GNI is viewed positively as it takes into account the contributive capacity of each MS. According to some opinions such GNI-based OR also fosters the culture of net balances, or of “*juste retour*”.

However, the VAT OR, the plastic OR and the GNI lump sum correction mechanism may counter the fairness of the current OR system among MS.

At the same time article 174 of the Treaty on the Functioning of the European Union (TFEU) provides that, *in order to promote its overall harmonious development, the Union shall develop and pursue its actions leading to the strengthening of its economic, social and territorial cohesion. In particular, the Union shall aim at reducing disparities between the levels of development of the various regions and the backwardness of the least favoured regions.* Numerous funds within the EU budget support the above-mentioned Treaty objectives including structural funds. In particular, the Cohesion Fund was created to assist MS whose GNI per capita is below 90% of the EU average.

The EU OR system, which is placing a greater burden on some of the poorest MS, may create tensions with the actions of the EU derived from Article 174 TFEU.

Therefore in *Protocol no 28 of the TFEU on economic, social and territorial cohesion*¹ the contracting parties noted ***the proposal to take greater account of the relative prosperity of Member States in the system of own resources and to that aim, they declared their intention of “taking greater account of the contributive capacity of individual member states in the system of own resources, and of examining means of correcting, for the less prosperous member states, regressive elements existing in the present own resources system”***.

The above-mentioned regressive elements in the current OR system stem from the following:

a) VAT OR

Taxation on consumption is regressive when compared with income, wealth or company taxation, given it affects poorer households who dedicate a greater percentage of their income to spending. Additionally less prosperous MS tend to have a higher proportion of consumption in their GNI compared to the wealthier MS. Therefore, in an attempt to increase the fairness of MS contributions:

- the VAT bases have been capped (firstly at 55% and currently at 50% GNI base) - in recent years capped VAT base was applied to maximum seven MS: EE, CR, CY, LU, MT, PL, PT;
- the call rate of VAT OR has been progressively reduced (from 1,4% in 1988 to 0,3% from 2007 to date).

b) Plastic OR

From the beginning of 2021, a new category of national contribution, calculated on the basis of non-recycled plastic packaging waste, was introduced (i.e. plastic OR). Again, in order to mitigate the regressive impact on national contributions, an annual lump sum reduction was applied to MS' contributions with a GNI per capita in 2017 below the EU average.

However, even after taking into account the lump sums granted to some countries, particular low-income MS continue to pay a significantly higher contribution than their GNI share would indicate.

c) Correction mechanisms

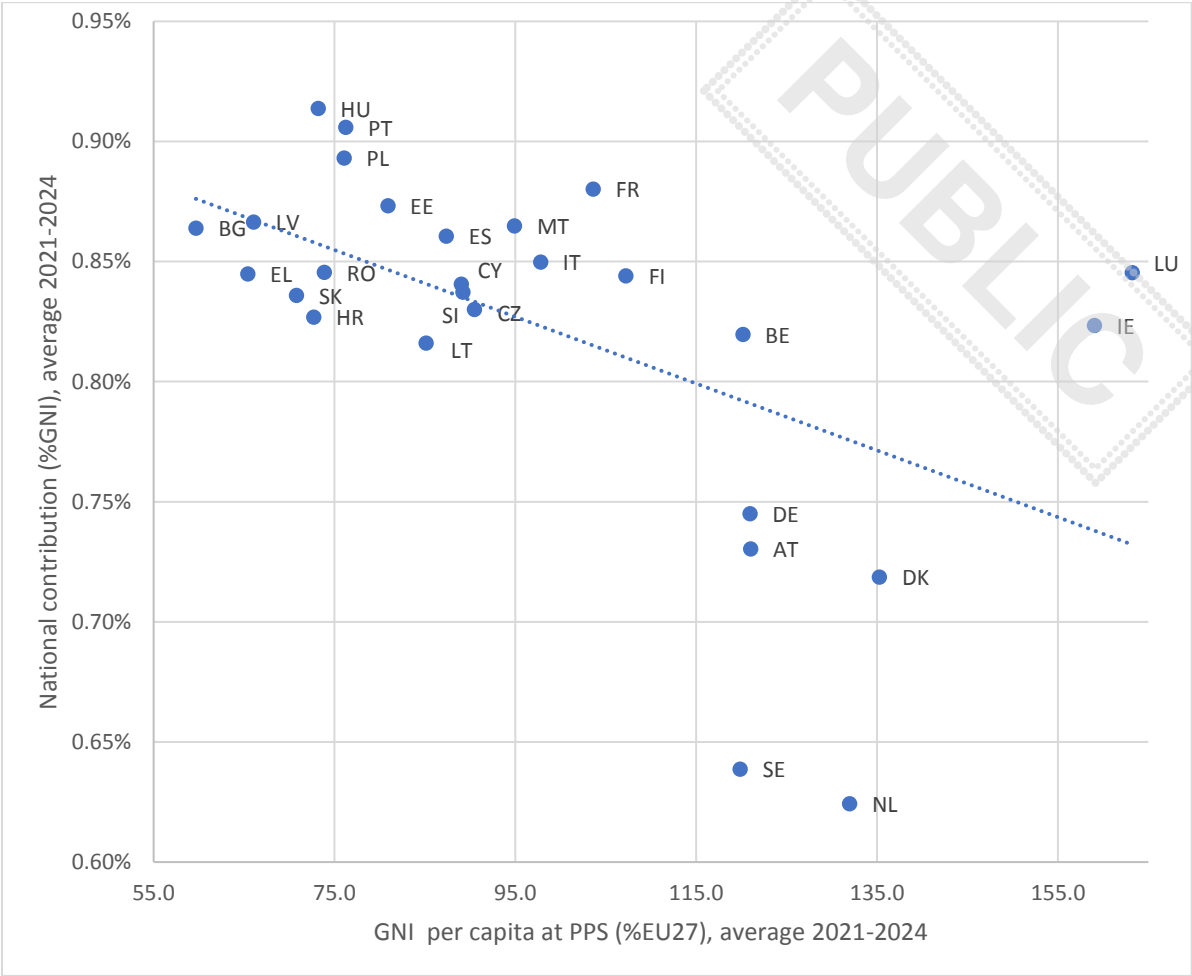
The GNI contribution itself has lump sum corrections for five of the wealthier MS (AT, DK, DE, NL and SE). The GNI lump sums are often agreed, however, in the context of an overall agreement on the expenditure side of the budget².

As a result, the system of national contributions has become **regressive** by placing a disproportionate burden on the poorer MS, which contribute a larger share of their national income to the EU budget compared to wealthier countries (see Graph 2).

¹ Earlier Protocol no 15 of the Treaty on European Union (92/C 191 /01) on economic and social cohesion.

² See, for example, EUCO conclusions of July 2020.

Graph 2. National contributions to the EU budget vs. GNI per capita



Source: based on: https://commission.europa.eu/strategy-and-policy/eu-budget/long-term-eu-budget/2021-2027/spending-and-revenue_en, amending EU budget 4/2024 and Ameco database on-line.

2. Repayment of NGEU and proposal for new OR

In 2021, the Next Generation EU program (NGEU) was launched to support the recovery in the aftermath of the COVID-19 crisis. The financial support covered under this program is addressed to all MS, although the greatest concentration of this aid is directed to the countries most affected by the consequences of the pandemic, as measured by the decline in economic activity and the increase in unemployment. NGEU expenditure is financed via borrowing by the EU on the financial markets. The financial support is to be disbursed between 2021 and 2026, while all liabilities should be fully repaid by 2058.

Along with the launch of the NGEU, correction mechanisms were agreed for selected MS also *in the context of support for recovery and resilience*³. For the period 2021-2027 a group of MS benefit from a gross reduction in their GNI OR with a total annual amount of EUR 7.6 bn (in 2020 prices), which for 2025 corresponds to over EUR 9.2 bn (in current prices). Those correction mechanisms are financed by

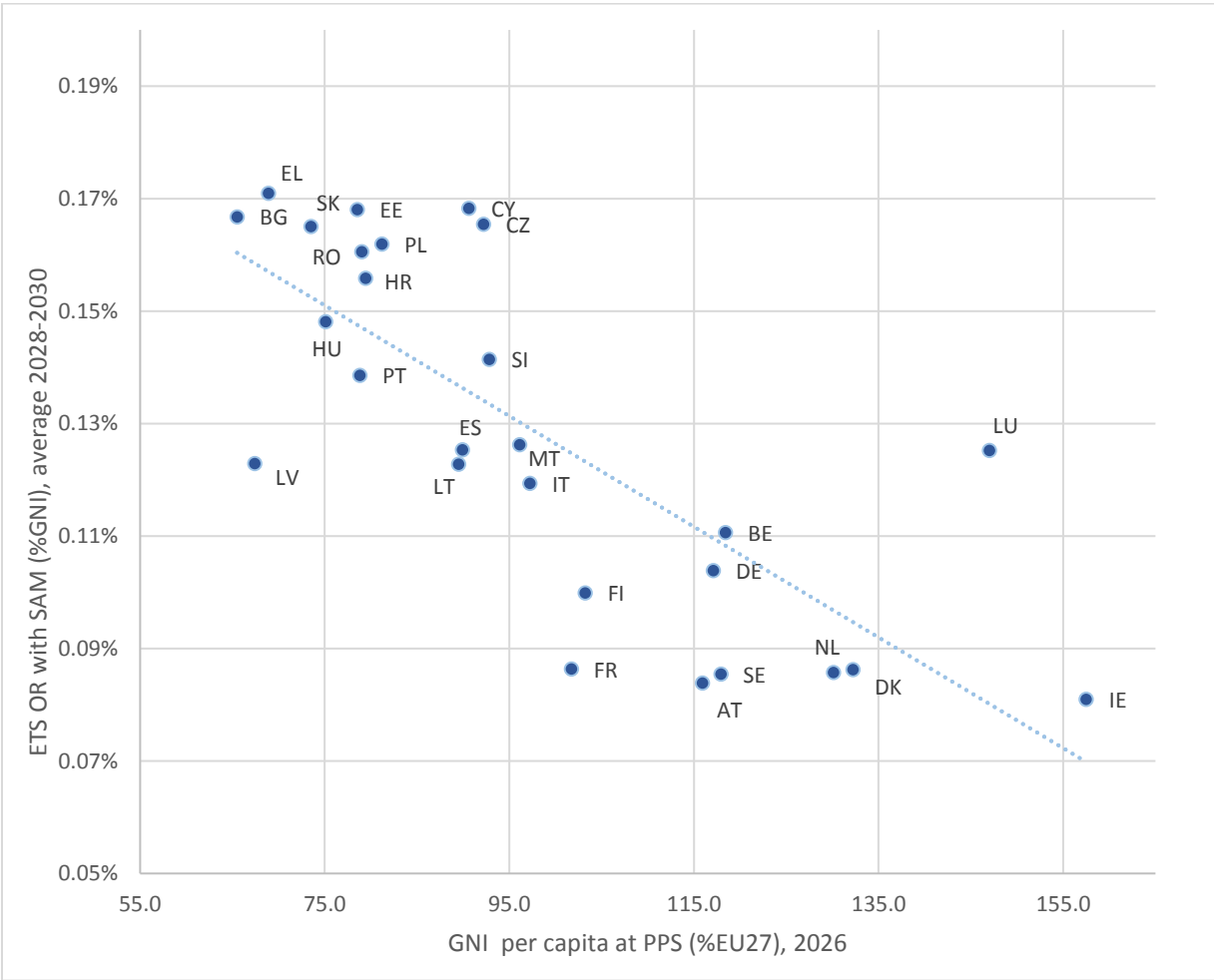
³ P. 152 of the European Council Conclusions, 17-21 July 2020 “For the period 2021-2027, lump-sum corrections will reduce the annual GNI-based contribution of Denmark, the Netherlands, Austria and Sweden, and in the context of the support for the recovery and resilience, as well as of Germany.”

all MS (including the beneficiaries), which results in a net additional payment of EUR 5.6 bn for non-beneficiary MS (current prices).

In 2021 and 2023, the European Commission (EC) presented proposals of new OR (ETS, CPOR, OECD Pillar I and CBAM). According to the EC the package taken as a whole and in particular thanks to the corporate profits OR (CPOR) would mitigate the regressiveness of ETS OR. Whilst CPOR seems not likely to be accepted by MS as part of the new basket of OR, the new ETS OR alone would impose a highly excessive burden on the less prosperous MS (see Graph3).

The EC has proposed a temporary solidarity adjustment mechanism (SAM) to reduce a regressive impact of ETS' contributions for some MS, but it may not be sufficient. SAM is to be a temporary solution (only till 2030) and would reduce the contribution of the low-income and carbon-intensive MS only to the level of 150% of their GNI. This would still contribute significantly to the regressiveness of the OR system. This situation would be aggravated with the possible increase of the price of the ETS allowances (above 80 EUR).

Graph 3. Proposed ETS OR vs. GNI per capita



Source: based on EC fiches no 14 on ETS OR, no 18 on GNI and Ameco database on-line.

3. Looking for the genuine OR for the next MFF

A possible solution to the regressivity of the OR system could be to find a new OR candidate which will represent a genuine OR with a cross-border nature that would make it impossible (at least difficult) to attribute revenues to specific MS and calculate their financial burdens. It would have the advantage of not having the national dimension and therefore the regressivity elements needed to be corrected.

During the work in the WPOR Polish PREZ will concentrate its efforts on finding such a revenue for the EU budget that could be included in the future MFF package.

4. Questions for discussion

- 1) Should the contributions to the EU budget be proportional to GNI, or should the introduction of new own resources lead to a different burden sharing based on other considerations?
- 2) How should the concept of “fairness” among MS be understood in the context of the OR system?
- 3) Do you agree that the overall OR system is regressive? Why or why not? Do you have any ideas how to best address this issue?