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To: Delegations

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I. INTRODUCTION

In line with the conclusions of the European Council of 17-21 July 2020¹, the Interinstitutional Agreement of 16 December 2020² (IIA) provides for the introduction of new own resources that are sufficient to cover planned expenditure related to the European Union recovery instrument (*Next Generation EU - NGEU*). The IIA also sets out a roadmap for the introduction of new own resources and provides that the Council should deliberate on a first package before 1 July 2022 with a view to introducing it on 1 January 2023. In that context, the French Presidency launched discussions on the proposals for new own resources: (i) the sectoral regulations forming the legal bases needed for the adoption of new environmental own resources were presented and discussed in the relevant sectoral working groups (the ad hoc CBAM working group for the carbon border adjustment mechanism and the environment working group for the EU emissions trading system); and (ii) the proposal for a revision of the Own Resources Decision and the related implementing regulations were presented and discussed in the working group on own resources.

This report sets out the progress made during the French Presidency and provides a basis for the discussions to be held in the Ecofin Council.

¹ [EUCO 10/20](#) A29, 145-150.

² Interinstitutional Agreement of 16 December 2020 between the European Parliament, the Council of the European Union and the European Commission on budgetary discipline, on cooperation in budgetary matters and on sound financial management, as well as on new own resources, including a roadmap towards the introduction of new own resources (OJ L 433I, 22.12.2020, p. 28).

II. STATE OF PLAY

Work focused, first and foremost, on an in-depth analysis of the Commission's sectoral proposals. This initial step is crucial to the creation of new own resources. Discussions on each own resource cannot be finalised until the underlying sectoral regulations have been adopted.

Carbon border adjustment mechanism (CBAM)

As part of the 'Fit for 55' package, the Commission proposed the creation of a carbon border adjustment mechanism (CBAM). In its proposal for a revision of the Own Resources Decision, the Commission proposes that 75 % of the revenue generated by the CBAM should become an own resource in the EU budget.

The Council (Ecofin) reached a general approach on the corresponding sectoral regulation on 15 March³.

The Council also noted that sufficient progress will have to be made on work on the following two matters, which are not covered by the CBAM Regulation, before negotiations with the European Parliament can start⁴:

- (a) The rate at which the obligation to surrender CBAM certificates is extended under Article 31 of the draft CBAM Regulation is determined by the rate at which free allowances are allocated to industry sectors covered by the CBAM, established by the EU Emissions Trading System Directive;

³ 7226/22.

⁴ 7231/2/22 REV 2; 6978/22.

- (b) The issue of limiting potential carbon leakage from exports calls for appropriate solutions to ensure economic efficiency, environmental integrity and World Trade Organization compatibility.

Since the Ecofin Council meeting on 15 March 2022, work on these two matters has continued in several meetings of the environment working group, with a view to finding a compromise in the context of the revision of the EU Emissions Trading System Directive. This matter was also discussed by the Permanent Representatives Committee (Part I).

In addition, the Council noted that the Commission has also put forward proposals for own resources based, inter alia, on revenue from the sale of CBAM certificates. These proposals are being considered with a view to deliberation by 1 July 2022, in accordance with the Interinstitutional Agreement of 16 December 2020.

Lastly, the Council noted that the establishment of the CBAM calls for the development of bilateral, multilateral and international cooperation with third countries, including through the parallel setting up of an alliance of countries with carbon pricing instruments or other comparable instruments ('climate club'), in order to promote the implementation of ambitious climate policies in all countries and pave the way for global carbon pricing.

EU emissions trading system (EU ETS)

In its Fit for 55 package, the Commission proposes to revise and extend the scope of the EU Emissions Trading System (EU ETS) and proposes to create a separate emissions trading system for the building and road transport sectors. In its proposal for a revision of the Own Resources Decision, the Commission proposes that 25 % of the revenue generated by the EU ETS should become an own resource in the EU budget. As provided for in the Interinstitutional Agreement of December 2020, this new own resource would be based on the current trading system for fixed installations, plus the aviation sector (for which additional allowances would be auctioned) and the extension of the system to maritime transport. The Commission therefore proposes that this own resource should also cover revenues from the new separate emissions trading scheme for the buildings and road transport sectors.

In order to examine the proposal for the revision of the EU ETS Directive, the French Presidency put in place an intensive work programme, with 16 working group meetings having been held to date.

In March 2022, environment ministers focused discussions on the proposal to establish a separate EU ETS for buildings and road transport, as well as on the proposal for the social climate fund.

Since then, work has been continuing at a brisk pace in the relevant fora.

Pillar 1

Work on implementation of the rules on the allocation of taxing rights between jurisdictions ('Pillar 1') is ongoing under the OECD/G20 Inclusive Framework on Base Erosion and Profit Shifting ('the Inclusive Framework'). In its draft revision of the Own Resources Decision, the Commission proposes allocating 15 % of the taxable profits of multinational enterprises reallocated to each Member State under Pillar I to the EU budget.

The aim of the work in the OECD/G20 Inclusive Framework is to develop a Multilateral Convention (MLC). Once this work has been completed, the Commission intends to submit a proposal for a Directive giving effect to the agreement in compliance with EU law and in accordance with the requirements of the single market.

Own resources package

Technical work on the own resources package has been taking place at the same time as the sectoral work. On the basis of questions from the Member States, the Commission provided answers to concrete technical questions: (i) the macroeconomic assumptions, the underlying data and the methodology adopted by the Commission in its proposal; (ii) justification of the rates chosen for each own resource (25 % for the ETS, 15 % for Pillar 1 and 75 % for CBAM); and (iii) details on the automatic adjustment mechanism for the MFF ceilings based on the amounts collected from new own resources with a view to repaying the NGEU loan.

The own resources group has also started examining the proposals on making available new own resources (MAR 3) and on the implementing measures for the system of own resources (IMSOR). Submitted by the Commission on 14 March, the MAR 3 and IMSOR proposals provide details, respectively, on the making available of three new own resources in the EU budget and on the applicable provisions in terms of control and supervision, including the applicable reporting obligations.

Lastly, as provided for by the IIA roadmap, the Commission will propose more new own resources by 2024. The Commission has indicated that these new proposals could be presented early.

In the light of the Interinstitutional Agreement, the work carried out so far and the progress made on the sectoral proposals published by the Commission, Member States are invited to express their views on:

- *the introduction of these new own resources to ensure the repayment of the EU recovery plan;*
- *the timetable for their implementation.*