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EUROPEAN
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Brussels, 22.12.2021
COM(2021) 566 final

COMMUNICATION FROM THE COMMISSION TO THE EUROPEAN PARLIAMENT, THE COUNCIL, THE EUROPEAN ECONOMIC AND SOCIAL COMMITTEE AND THE COMMITTEE OF THE REGIONS

The next generation of own resources for the EU Budget

1. PREPARING FOR EUROPE AFTER COVID-19

At the outset of the unprecedented COVID-19 crisis, the EU quickly came together with a strong common response. On 27 May 2020, the Commission presented an ambitious, innovative and exceptional recovery plan to set the Union on the path to a sustainable and resilient recovery. The European Union Recovery Instrument (NextGenerationEU), which was formally approved by the Council on 14 December 2020[1] with the support of the European Parliament, mobilises up to EUR 750 billion[2] to address the economic and social damage brought about by the pandemic. Together with the EU's long-term budget, the multiannual financial framework, a total of EUR 1.8 trillion are helping rebuild a post-COVID-19 Europe.

The aim of NextGenerationEU is to emerge stronger and more resilient from the crisis, setting our economies on a path of sustained growth. To achieve this, NextGenerationEU addresses the most pressing challenges we face as a Union, chiefly the twin green and digital transitions. The revenues generated by new own resources will help repay the financing of NextGenerationEU.

The European Council conclusions of 21 July 2020, stated that the Union would, over the coming years, 'work towards reforming the own resources system and introduce new own resources'[3]. In the subsequent Interinstitutional Agreement of 16 December 2020[4], the European Parliament, the Council and the Commission agreed that 'the repayment of the principal of such funds to be used for expenditure under the European Union Recovery Instrument (NextGenerationEU) and the related interest due will have to be financed by the general budget of the Union, including by sufficient proceeds from new own resources introduced after 2021'[5]. In addition, the three institutions recognise the importance of the context of the European Union Recovery Instrument and state that expenditure from the Union budget related to the repayment of the European Union Recovery Instrument should not lead to an undue reduction in programme expenditure or investment instruments under the multiannual financial framework. Furthermore, they state that it is also desirable to mitigate the increases in the GNI-based own resource for the Member States[6]. The Commission committed to propose new own resources in 2021 with a view to their introduction at the latest by 1 January 2023[7].

[1] Council Regulation (EU) 2020/2094 of 14 December 2020 establishing a European Union Recovery Instrument to support the recovery in the aftermath of the COVID-19 crisis, *OJ L 433I , 22.12.2020, p. 23.*

[2] All amounts in this document are in 2018 prices, unless indicated otherwise.

[3] Point 145 of the Conclusions of the European Council (17 to 21 July 2020).

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

[5] Point D of the Interinstitutional Agreement provides that 'the repayment of the principal of such funds to be used for expenditure under the European Union Recovery Instrument and the related interest due will have to be financed by the general budget of the Union, including by sufficient proceeds from new own resources introduced after 2021. All related liabilities will be fully repaid by 31 December 2058'.

[6] Preamble, point E of the Interinsitutional Agreement.

[7] Commission Work Programme 2021, COM (2020) 690 final.

2. THE COMMISSION'S PROPOSALS

2.1. A basket of new own resources

The Commission proposes to further embed EU policy priorities in the revenue side of the EU budget. Emissions trading and a carbon border adjustment mechanism are EU-wide instruments serving the common objective of reducing greenhouse gas emissions at the least cost, by capping emissions and providing a carbon price signal. The historic OECD/G20 Inclusive Framework on Base Erosion and Profit Shifting (BEPS) agreement on a 'Two-Pillar Solution to Address the Tax Challenges Arising from the Digitalisation of the Economy' of 8 October 2021[8] involves 137 countries and jurisdictions representing more than 90% of global GDP. 'Pillar One' of this agreement will re-allocate a share of profits from the world's largest and most profitable multinational enterprises to participating countries worldwide, ensuring that these firms pay a fair share of tax wherever they operate and generate profits. These initiatives require EU action, and therefore constitute an appropriate base for EU own resources.

The Commission is proposing to amend the Own Resources Decision[9] so that part of the revenue generated by the legislative proposals put forward on 14 July 2021 on a carbon border adjustment mechanism[10] and emissions trading[11] will accrue to the EU budget. In addition, building on the historic OECD/G20 Inclusive Framework on Base Erosion and Profit Shifting agreement, the Commission is proposing to establish a new own resource based on a share of the residual profits of the largest and most profitable multinational enterprises that will be re-allocated to EU Member States. This own resource would be introduced once the Multilateral Convention negotiated by the Inclusive Framework on Base Erosion and Profit Shifting, and the related EU Directive, would both be in force and effectively apply. The introduction of all new own resources will require the adoption of the underlying sectoral proposals.

The Commission proposes that 25% of the revenues generated by EU emissions trading become an own resource for the EU budget. The Commission has proposed a wide-ranging legislative package to reduce further greenhouse gas (GHG) emissions by 2030, with the objective of reaching climate neutrality by 2050. In particular, this includes the strengthening of the existing EU Emissions Trading System (ETS)[12] and its extension to the maritime sector, increasing the auctioning of aviation allowances, and establishing a new emissions trading system for building and road transport. While revenues from the auctioning of emission allowances under the present EU Emissions Trading System accrue largely to national budgets, the Commission is proposing that, in the future, part of the revenue from EU emissions trading flows into the EU budget. It would also include proceeds for allowances available for auctioning, but that Member

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[8] *Statement on a Two-Pillar Solution to Address the Tax Challenges Arising from the Digitalisation of the Economy*, OECD/G20 Base Erosion and Profit Shifting Project, 8 October 2021.

[9] Council Decision (EU, Euratom) 2020/2053 of 14 December 2020 on the system of own resources of the European Union, OJ L 424, 15.12.2020, p.1

[10] Proposal for a Regulation of the European Parliament and of the Council establishing a carbon border adjustment mechanism, COM(2021) 564 final.

[11] Proposal for a Directive of the European Parliament and of the Council amending Directive 2003/87/EC establishing a system for greenhouse gas emission allowance trading within the Union, Decision (EU) 2015/1814 concerning the establishment and operation of a market stability reserve for the Union greenhouse gas emission trading scheme and Regulation (EU) 2015/757, COM(2021) 551 final.

[12] Directive 2003/87/EC establishing a system for greenhouse gas emission allowance trading within the EU.

States chose not to auction, using the flexibility inbuilt in the EU Emission Trading System[13]. Allowances auctioned by the European Investment Bank to finance the Innovation Fund and the initial endowment of the Modernisation Fund are excluded from the scope of the own resource. Revenues for the EU budget are estimated at around EUR 9 billion per year over the period 2023-2030, a share of which will enable the financing of the Social Climate Fund.

The Commission additionally proposes a temporary solidarity adjustment mechanism to ensure a fair emissions trading-based own resource contribution from all Member States. In particular, until 2030, an upper and lower boundary for the EU emissions trading own resource contribution will apply, in relation to the gross national income key. This will avoid that some Member States contribute disproportionally to the EU budget in comparison to the size of their economy, during the period of transition to more sustainable economies and societies, and will ensure a just contribution from all.

The Commission proposes that 75% of the revenues generated by a carbon border adjustment mechanism become an own resource for the EU budget. The main objective of the carbon border adjustment mechanism is to support the reduction of global carbon emissions, by addressing the risk of carbon leakage. In the context of the mechanism, declarants will need to acquire a sufficient amount of certificates to cover the emissions of their imported goods. Under the proposal for a regulation establishing a carbon border adjustment mechanism, Member States would be responsible for collecting revenues from the sale of carbon border adjustment mechanism certificates. Revenues for the EU budget are estimated at around EUR 0.5 billion per year over the period 2023-2030[14].

The Commission proposes an own resource equivalent to 15% of the share of the residual profits of the largest and most profitable multinational enterprises that are reallocated to EU Member States under the agreement on a reform of the international tax framework. On 8 October 2021, 137 countries that are members of the OECD/G20 Inclusive Framework on Base Erosion and Profit Shifting agreed on a two-pillar solution on the re-allocation of profits of multinational enterprises and on an effective global minimum tax rate. ‘Pillar One’ of the agreement provides for the re-allocation of a share of the residual profits of the largest and most profitable multinational enterprises to end market jurisdictions where goods or services are used or consumed. The practical implementation aspects of the agreement are still being finalised. The Commission has committed in its 2022 Work Programme to table a proposal for a Directive giving effect to the agreement in compliance with EU law and in line with the requirements of the Single Market. Under the Commission’s own resources proposal, Member States would provide a national contribution to the EU budget based on the share of the taxable profits of multinational enterprises re-allocated to each Member State under Pillar One. Pending

[13] The derogation to provide allowances for free to the power generation sector, cancellation of allowances under the effort sharing regulation, additional discretionary transfers to the Modernisation Fund.

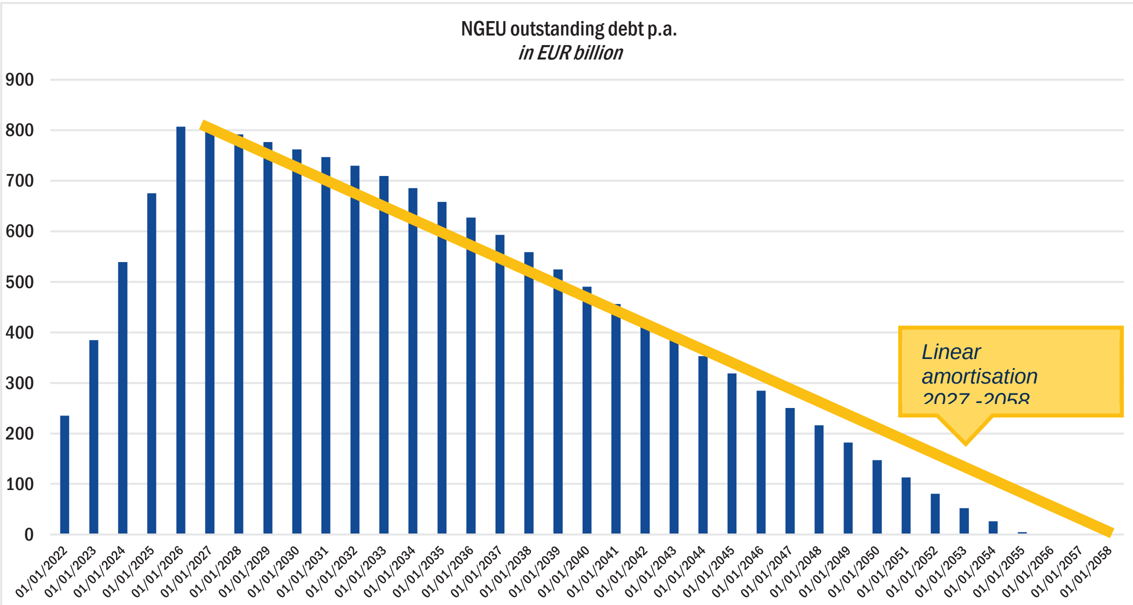
[14] The carbon border adjustment mechanism is not expected to generate revenues in the transitional period from 2023 to 2025, in line with Regulation (EU) [XXX] of the European Parliament and of the Council establishing a carbon border adjustment mechanism.

the finalisation of the agreement, revenues for the EU budget could amount to up to EUR 2.5-4 billion per year[15].

2.2. Amendment of the regulation laying down the multiannual financial framework for the years 2021-2027

Repayment of NextGenerationEU will follow a stable and predictable profile of reduction of liabilities, through appropriate provisions in the multiannual financial framework. A steady stream of revenue from new own resources would ensure predictability and stability of repayment. To reflect how proceeds from new own resources can enable repayment of NextGenerationEU[16], the Commission is therefore proposing an automatic adjustment mechanism of the ceilings of the multiannual financial framework[17] based on the collected amounts of new own resources[18].

Figure 1 - NGEU planned reduction of liabilities



Source: European Commission. Amounts in current prices.

The Commission has put forward a proposal for a Social Climate Fund[19] to protect vulnerable households from having additional financial burden coming from the

[15] A more precise number cannot be identified at this time given that the discussions on certain technical implementing details of the OECD/G20 'Pillar One' agreement are still ongoing. The range provided is based on a series of broad assumptions and cannot be further qualified also due to data limitation issues as regards the potential companies that may ultimately contribute to the reallocation of taxing rights under the agreement.

[16] In line with point 150 of the Conclusions of the European Council (17 to 21 July 2020), which states that 'the proceeds of the new own resources introduced after 2021 will be used for early repayment of Next Generation EU borrowing. The Commission is invited to propose a revision of the MFF to this effect in due course'.

[17] As established in Council Regulation (EU, Euratom) 2020/2093 of 17 December 2020 laying down the multiannual financial framework for the years 2021 to 2027, OJ L 433I , 22.12.2020, p. 11.

[18] The automatic adjustment mechanism is capped at EUR 15 billion (in 2018 prices), which corresponds to an annual average of EUR 17.4 billion (in current prices) for the period 2024-2027. The amounts needed for repayment of NextGenerationEU after 2027 will depend on the actual amount of borrowing to finance non-repayable support, as well as any repayment of that borrowing carried out in the current multiannual financial framework.

[19] Proposal for a regulation of the European Parliament and the Council establishing a Social Climate Fund, COM(2021) 568 final.

establishment of a new emissions trading system in the EU for buildings and road transport. The financial envelope of the Fund is commensurate to amounts corresponding in principle to some 25% of the expected revenues from the inclusion of buildings and road transport in the scope of EU emissions' trading. This additional expenditure was not foreseen in the Commission's initial proposal for a new multiannual financial framework. To that end, the Commission proposes to include an increase of Heading 3 and, correspondingly, of the payments' ceiling, in the targeted amendment of the multiannual financial framework regulation, to accommodate the additional expenditure for the Fund for the period 2025-2027.

A key advantage of using the EU budget to address the social impacts of the new emissions trading system is that the Social Climate Fund will then rely on the control provisions already in place for the general budget. It will be under the oversight of the Court of Auditors and the European Parliament, after a recommendation by the Council, would need to grant discharge to the Commission for its operation. This will ensure accountability of expenditure and provide assurances on the quality of the Fund's expenditure.

3. NEXT STEPS

The Interinstitutional Agreement of 16 December 2020 provides that the institutions will take the necessary steps to facilitate a swift approval of the framework for new own resources. The Council committed to deliberate on the first basket of new own resources by 1 July 2022 in view of their introduction by 1 January 2023. Furthermore, in view of the commitment taken in the Interinstitutional Agreement and the need to present an adequate amount of new own resources for the repayment of the European Union Recovery Instrument, **the Commission will present a proposal for a second basket of new own resources by the end of 2023**.

In this context, as reiterated in the 'Communication on Business Taxation for the 21st century'[20] of May 2021, the Commission will propose additional new own resources, which could include a Financial Transaction Tax and an own resource linked to the corporate sector. This second package will build on the 'Business in Europe: Framework for Income Taxation (BEFIT)' proposal foreseen for 2023.

A rapid agreement on the proposals amending the Own Resources Decision and the regulation laying down the multiannual financial framework for the years 2021-2027, as well as a swift approval by Member States, in accordance with their respective constitutional requirements, of the amended Own Resources Decision, would provide the Union the means for its ambitions – a climate-neutral, digital, just, inclusive and resilient society for all Europeans.

The Commission will continuously assess the adoption process in view of ensuring adequate amounts for the repayment of the European Union Recovery Instrument.

[20] COM(2021) 251 final.