HIGH LEVEL GROUP ON OWN RESOURCES

First Assessment Report

Brussels, 17 December 2014

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The decision to create the High Level Group on Own Resources was taken in the context of the negotiations over the new Multiannual Financial Framework (MFF) 2014 – 2020, with the purpose to continue and further the reflexion and provide new input to this sensitive and difficult issue when it comes to reform it.

The new Own Resources Decision adopted on 26 May 2014[1] broadly prolongs the existing arrangements governing the financing side of the EU budget for the duration of the upcoming financial programming period. Still, there was agreement that the last word has not been spoken on this question. The determination to keep this issue on the political agenda is much more than a mere concession made in order to obtain the European Parliament's consent to the MFF.

It demonstrates the awareness of European actors that somehow, in this issue lies one of the keys to addressing a range of budgetary challenges and to unlocking the real economic potential of the EU budget. Ignoring the issue could entail high opportunity costs for cohesion, growth and political integration; it would allow the debate about the 'juste retour' to divert attention from issues of European common interest. Reforms have been blocked for decades. By definition, own resources are an issue which can only be confronted together by all Member States and by all institutions. It is for the first time that such a high level group is established at the interinstitutional level. A viable way out of the gridlock pre-supposes a shared understanding of the functioning and the role and EU budget and its financing side in particular.

The system of own resources is indeed a complex set of rules which determines who pays what and when to finance the functioning of the European Union and its policies. 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. Despite the fact that the Commission had proposed substantial changes to the current system of own resources in 2011 (introduction of two new own resources and simplification and rationalisation of the correction mechanisms) and despite a broadly shared perception that the system could be improved substantially, the negotiations resulted in only minor changes. This means that for the next financial period, the way of financing the EU budget will roughly remain unaltered, with only some further modifications to the system of rebates. Against this background, the European Parliament had made its agreement on the MFF package conditional on the continuation of the discussion on the financing of the EU budget after 2020, this time at interinstitutional level.

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[1] Council Decision 2014/335/EU,Euratom of 26 May 2014 on the system of own resources of the European Union (OJ L 168, 7.62014, pp 105).

The High Level Working Group on Own Resources took up its work in the spring of 2014 after the European Parliament, the Council and the Commission each designated three members to the Group. The composition of the Group has changed after the designation of a new Commission, and is now stabilised. All members participate 'ad personam' rather than as a representative of their respective institution to the Group. Their work is mandated by the Joint Declaration on Own Resources which was adopted in December 2013 (see Annex 1). Point 4 of the declaration provides: *“The Group will undertake a general review of the Own Resources system guided by the overall objectives of simplicity, transparency, equity and democratic accountability. A first assessment will be available at the end of 2014.”*

The High Level Group hereby submits its ‘First Assessment’. It is the result of the discussions between its members which have been conducted independently and in confidentiality at the occasion of the Group's four meetings held in 2014 (3 April, 24 June, 15 October and 2 December 2014). It also draws from the hearing of some external experts[2]. It sets out to briefly describe the main characteristics of the present own resources system on the basis of previous analyses, undertaken in particular by the Commission and the European Parliament. It highlights the features of the system which are perceived to be in need of overhaul and recapitulates the most recent reform proposals, as well as the candidates for new own resources and the changes in the correction mechanisms examined in previous legislative exercises. Methodological issues and evaluation criteria are also touched upon in a summary fashion and will continue to be examined by the group in the coming months.

A tentative intermediary conclusion of the deliberations so far is that the system for the financing of the EU budget has not changed significantly for the last 25 years and has become deeply entrenched. The acute financial difficulties in the post-crisis context have laid bare the limits of the system. The adoption of the annual budgets over the last three years in particular has been extremely difficult and could only be obtained at the expense of a large backlog of payments. This trend has been confirmed during the budgetary procedure for 2015, as the European Parliament and the Council had lengthy and challenging negotiations before reaching agreement, mainly due to conflicting views on how to deal with the accumulation of payment problems. The system of 'own resources' has gradually become a system of national contributions with only a minor part representing 'genuine', or 'autonomous' own resources. This has exacerbated tensions between the Member States which are considered 'net contributors' and countries which are perceived as 'net recipients'.

[2] Meeting of 15 October *2014*: Loukas Tsoukalis and Iain Begg;

Nevertheless, the discontent with the system has created a new dynamics which may lead to change in a medium term perspective, if the political conditions permit.

Reforming the system presents a formidable challenge as there are 'endogenous' but also 'exogenous' factors that determine the success of a reform of own resources. It will therefore not be sufficient to re-examine the relevance and plausibility of proposals which have been put forward in the past. It could be possible, for instance, that a past proposal remains entirely relevant and consistent and that it failed to pass the legislative process for reasons other than its own substantial merit. Of course the candidates for own resources – already proposed or potentially new ones – as well as correction mechanisms should be checked against a range of economic and budgetary assessment criteria in order to be solidly justified. But such internal consistency of the proposals is only a necessary pre-condition for successful reform process, not a sufficient one.

When looking into the reasons for the failure to find agreement on a more far-reaching reform, the broader framework of the negotiations, legal, institutional and procedural questions and interest constellations of the actors should also be examined in more depth. In other words, it is not just the substance of the proposed legislation, but also the process itself and its context that need to be scrutinized. Only on the basis of a comprehensive analysis comprising economic and budgetary as well as institutional and political aspects can recommendations be devised on how to prevent a recurrent impasse in the attempts to improve the system.

This First Assessment will therefore attempt to provide some guidelines in this respect by asking relevant questions which will have to be addressed in the upcoming working process in 2015 and 2016.

1. OVERVIEW OF THE PRESENT SYSTEM OF FINANCING THE EU BUDGET

A more elaborate depiction of the functioning of the financing side of the EU budget including the legal bases and an overview of its historical evolution can be found in Annex 2. For the purpose of the first assessment a brief descriptive summary of the different categories of own resources, of the concept of budgetary balances and of the various correction mechanisms may suffice to lay the terminological ground for the critical appreciation of the own resources system and outlining the first guidelines in view of future recommendations for improvement.

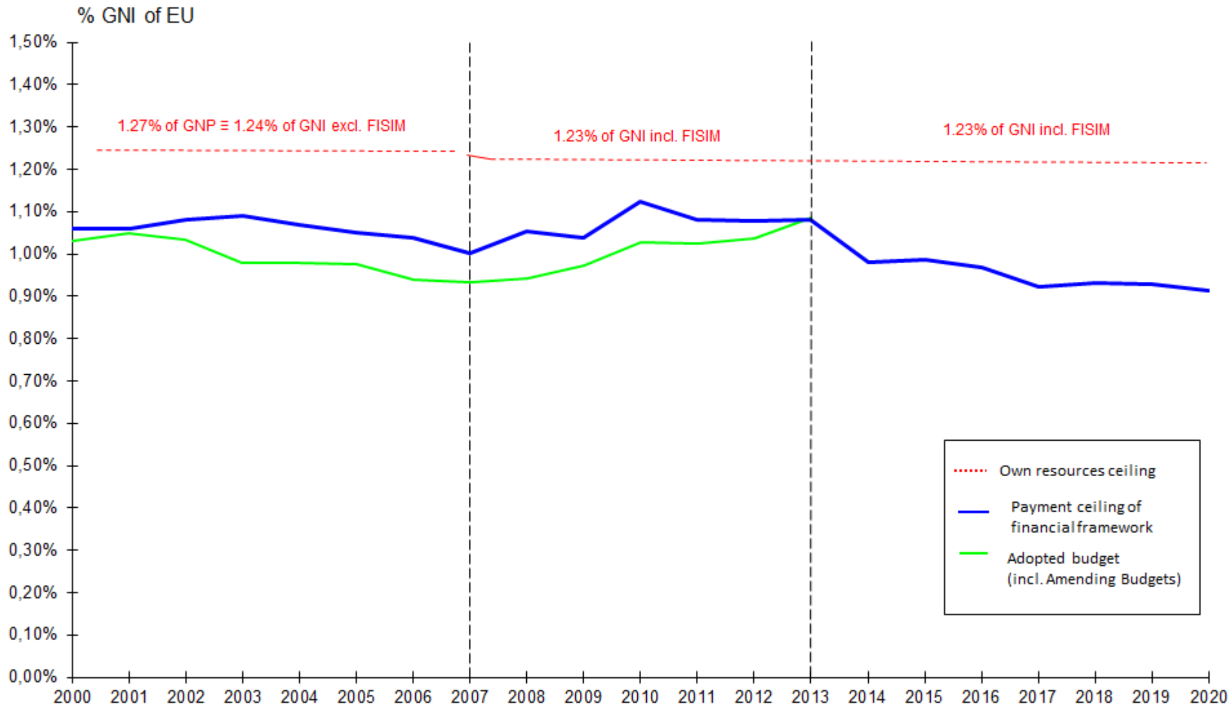
1.1. The Revenue Side of the budget

The budget of the European Union is financed by own resources, other revenue and the surplus carried over from the previous year. When the European Parliament and the Council approve the annual budget, total revenue must equal total expenditure. Importantly, the total amount needed to finance the budget follows automatically from the level of total expenditure, which itself must respect the annual maximum amounts set out in the multiannual financial framework (ceilings).

Own resources can be defined as revenue accruing irrevocably to the EU in order to finance its budget without being conditional to a decision by national authorities. Legally, the Own Resources Decision (ORD) establishes an entitlement of the Union to certain revenues – e.g. a particular share of custom duties or of a harmonized tax – which accrue to the EU budget. Therefore, in essence, own resources are not 'discretionary' national contributions, but they are not an EU tax either. Since the Own Resources Decision has to be adopted unanimously by all Member States and ratified by national Parliaments, a reliable and sufficient level of revenue for the EU budget can be ensured while at the same time taking into account the Member States' national tax sovereignty and ability to pay.

As foreseen in the current ORD, the total amount of own resources cannot exceed 1.23 % of the gross national income (GNI) of the EU. This is also referred to as the ceiling of own resources. It should be underlined however that the level of payment appropriations in the annual budget is well below the 1.23%[3] ceiling, as shown in the table enclosed below.

[3] The change from GNP to GNI as the calculation base entailed a corresponding adjustment from 1,27 to 1,24%. The inclusion of Financial Intermediation Services Indirectly Measured (FISIM) in the statistical base was followed by a further adjustment of the own resources ceiling from 1,24% to 1,23% in 2010.



The own resources system developed gradually into its present form. Unlike the ECSC Treaty, the Treaties of Rome did not immediately set up a system of own resources for financing the Communities they were establishing: the two Communities (EEC and EAEC) were initially financed by contributions from the Member States. However, these Treaties did anticipate the creation at a later date of a system of own resources which would include, in particular, revenue from the Common Customs Tariff once it had been finally set up.

The Decision of 21 April 1970, which provided for the progressive replacement of national contributions was the basis for the establishment of own resources. Subsequent own resources decisions have amended the system several times.

Own resources decisions are conceived in principle to cover the same period as and be complementary to the respective Multiannual Financial Framework. The legislative proposals are devised and negotiated as a package. However, the own resources decision does not have an expiration date and continues to be valid until a new decision enters into force. Pending the adoption and approval by the Member States (ratification) of the new Council Decision on the system of own resources of the European Union 2014-2020, the system of own resources remains based on Council Decision 2007/436, which was adopted in the wake of the MFF for 2007-13. Once in force, the new own resources decision will apply with retroactive effect, i.e. as of 1 January 2014. The present implementing legislation will also remain valid until the new own resources decision enters into force.

The components of the current system are:

— *traditional own resources (TOR)*, which result directly from the existence of a unified customs area and are not attributable to the Member States for legal – and practical – reasons; these resources are sugar levies and customs duties;

— *VAT-based own resources*, derived from application of a call rate to a notionally harmonized VAT base determined uniformly for the Member States in accordance with EU rules;

— *GNI-based own resources*, resulting from the application of a uniform call rate to total EU GNI, to match the total volume of resources to the total volume of expenditure;

— *Correction mechanisms*, which grant particular Member States a reduction of their contribution to the EU budget.

1.2. The issue of budgetary balances

The EU budget finances Union policies which - in purely accounting terms - may benefit the Member States to different degrees, depending on their needs and potential. Looking individually at each Member State and comparing contributions to the budget with the expenditure allocated to them, this gives rise to budgetary 'net balances' (i.e. net benefits or net contributions) vis-à-vis the EU budget, although the policy benefits may accrue to the Union as a whole through various spill over effects. The Parliament and the Commission have stressed on many occasions that budgetary net balances, measured in this way fail to account for the direct and indirect benefits resulting from EU budget intervention for the EU as a whole and that the concept of so-called 'operating budgetary balances' gives a very limited view of the overall cost-benefit relation of the EU budget. Nevertheless, the size of some of these balances has been at the centre of political discussions, not least because – when expressed as a percentage of the Member States' GNI, it provides an indicator which seems to facilitate direct comparison.

Various measures have been introduced in the own resources system in attempts to redress the perceived excessive budgetary imbalances of certain Member States.

In 1984 the Fontainebleau European Council introduced a correction mechanism with regard to one Member State – the United Kingdom – whereby 66 % of the UK's net contribution is reimbursed. Although the correction was only for the UK, the Fontainebleau European Council acknowledged the general principle of entitlement to a correction, based on the size of the budgetary imbalance and the relative wealth of a Member State compared with the EU as a whole.

Other ad hoc measures were introduced over time, many of which adding to the complexity of the system, in particular:

— limits on the financing of the UK correction: one third reduction for Germany over 1985-2001 and a 75% reduction for Germany, the Netherlands, Austria and Sweden since 2002;

— increase in the share retained as collection costs of traditional own resources from 10 % over 1970-2000 to 25 % since 2001, benefiting notably the Netherlands; to be reduced to 20% for the period 2014-2020;

— A call rate of 0.3 % for the VAT-based own resource to be applied retroactively from 1 January 2007 when the own resources decision 2007/436 entered into force. The same decision introduced, for the period 2007-13 only, a reduced call rate of 0.225 % for Austria, 0.15 % for Germany and 0.10 % for the Netherlands and Sweden; a reduced rate of 0.15% for Germany, Sweden and The Netherlands has been agreed for 2014-2020;

— A gross reduction in the annual GNI contribution by the Netherlands and Sweden for the period 2007-13 only (also adopted in the own resources decision 2007/436)[4] and again for Netherlands, Sweden as well as Denmark for the period 2014-2020 and Austria for 2014-2016[5];

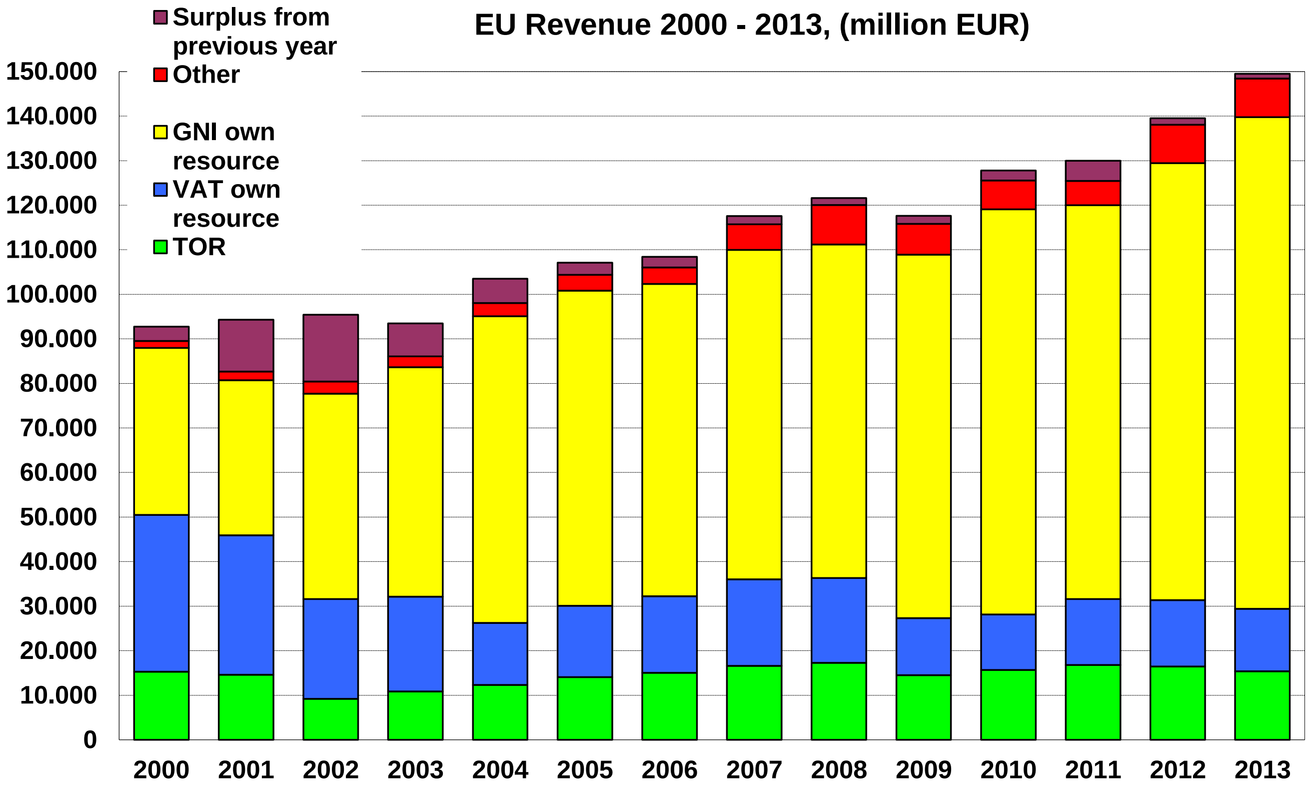
— A downward adjustment of the UK correction, notably in relation to pre-accession expenditure and to expenditure in the Member States which joined the EU after 30 April 2004, so that the United Kingdom pays a fairer share of EU expenditure in the period of enlargement.

1.3. Evolution of the composition of own resources since 2000

The following graph shows the evolution of the composition of revenue sources between 2000 and 2013. The dominant trend is the increasing share of the "residual" GNI-based own resource, which was originally introduced as a complementary and 'balancing' resource, but has progressively modified the composition of the revenue of the EU budget. Legally, all own resources belong to the EU in compliance with the provisions of the ORD, and are called upon in the course of budget implementation.

[4] See Article 2(5) of Council Decision 2007/436/EC, Euratom of 7 June 2007 on the system of the European Communities' own resources.
[5] See Article 2(5) of Council Decision 2014/335/EU, Euratom on the system of own resources of the European Union.

But in practice, national treasuries have more immediate control over the GNI-based contributions because they generally identify it during national budget negotiations as just one of many items of national expenditure. And as this is the residual resource, it is by default the item which is variable in function of the outcome of budget procedures.



Source: European Commission, EU budget 2013 – Financial Report

2. WHAT'S WRONG WITH THE PRESENT SYSTEM?

Some argue that there is nothing wrong with the present system. And the discussions held by the Group so far have confirmed that there are many elements that work well in the present revenue system.

The Commission's Own Resources Report of 2011 has explained that the own resources system as it has evolved, in particular including the GNI-based 'balancing' own resource scores well in terms of stability and sufficiency of resources flows. As long as the Budget Authority manages to get an agreement on the expenditure side, the financing has usually followed with certain automaticity. Most Member States also consider that the present system works reliably and is reasonably cost effective from an administrative point of view. In fact, until the annual budgetary adjustment of GNI-based contributions of October 2014, the detailed calculations which are made regularly to establish the different own resources were never put into question. The high late payment interests foreseen in the EU budget rules have been an effective mechanism to ensure timely payment by Member States.

Criticism of the present system stems primarily from the European Parliament, the Commission and the Court of Auditors. It essentially points at four problems.

1. The current system is too complex and non-transparent, in particular the system of national rebates and the statistical VAT-based resource. The Court of Auditors notably argued, in its opinion on the 2011 legislative proposals put forward by the Commission, that the proposal to eliminate the current statistical VAT-based resource, and replace it with a simpler one, was effectively addressing the previous criticisms relating to the complexity of calculation and the lack of a direct link to the tax base[6].

2. Own Resources are not ‘genuine’ for the most part but de facto national contributions. This criticism reflects the fact that around 83% of the Union's revenue come directly from the national budgets (figure for 2013), either in the form of national contributions calculated on the basis of GNI, or in the form of a percentage of the VAT base (statistical VAT-based resource). This situation is the result of a steady increase of the share of the GNI-based own resource since its introduction in 1988, and has fuelled an antagonistic debate on budgetary issues between net payers and net contributors. This implies that there is an increased awareness at the national level about the costs of the EU budget. The benefits generated by the EU budget, however, are less visible in national budgets and less present in the national debates. This may give rise to a bias against financing EU wide public goods while expenditures with high visibility at the national level are preferred.

3. A related issue to these criticisms is the current debate about delayed payments, as national fiscal difficulties exacerbated by the crisis and the need to respect the requirements of the EU Stability and Growth Pact have led to an increasing pressure on payment appropriations at the EU level. While the multiannual nature of most European policies has always created an amount of 'reste à

[6] Court of Auditors, opinion No 2/2012 (2012/C 112/01). See in particular paragraphs 1, 12 and 13.

liquider' (RAL), due to the fact that programmes are launched in a given year and then implemented over the course of several years, the evolution of the last few years has seen the emergence of a problem of payments at the end of the year in particular, when not all bills can be covered by the available payment appropriations voted for the year, and have to be paid the following year. As a consequence, it has been necessary to reinforce the budget adopted for a given year during implementation at an unprecedented scale.

This problem has seriously increased the difficulties of annual budgetary negotiations. Some Member States have asked for a reduction of new programmes, while the European Parliament and the Commission argue that payments are only the consequence of past commitments and that implementation of old programmes should not jeopardize new ones. Moreover, pressure on payments also stems from the fact that budgetary procedures in the Member States and at the EU level lack coordination and follow different imperatives and calendars. Hence, requests for additional payments by means of Amending Budgets and consequent calls for contributions towards the end of the year are likely to encounter strong resistance, in particular from Member States where national budgetary choices for the year have already been made.

4. The decision making process makes it extremely difficult to reform the system, since the 28 Member States must agree to any change. This problem is not new and largely explains why previous attempts at a significant reform have failed. Moreover, the issue of own resources is rarely, if ever, discussed politically in national parliaments even though according to the treaties they are meant to be the ultimate holder of sovereignty on this issue. Some observers link this problem of insufficient democratic accountability to the lack of public awareness and knowledge about the costs and benefits of the EU budget. On the one hand, the amounts corresponding to 'national contributions' (the 'costs') to the EU budget are usually explicitly identified in national budgetary documents, albeit not in a uniform manner across Member States. On the other hand, the 'benefits' –direct or indirect- are less visible for national actors and the public at large.

These problems should not be seen in isolation and there are obviously some mutually reinforcing factors at play. To a certain degree, previous reform proposals already attempted to tackle them (see part 3 below) to little avail. Reform proposals so far have only had minimal effect and the right lessons must be learned from these experiences. The Group will therefore look closely at the reasons for the lack of 'progress' in the earlier negotiation rounds in order to avoid replicating the errors of the past.

The mandate of the HLGOR points to four of the most salient shortcomings or the present system, i.e. the lack of simplicity, of transparency, of fairness and of democratic accountability. Looking at these aspects, their causes, interaction and trade-offs in more detail, as well as at the possible ways to address these shortcomings, will be Group's focus in 2015 and 2016.

3. PAST REFORM PROPOSALS

The Group has not yet entered into a more profound scrutiny of individual own resources. At this stage it has focused on the most recent detailed analyses of possible new or reformed own resources. In particular, it has noted that the most relevant and systematic approaches until now have been provided by the European Parliament[7] and the Commission[8].

3.1. The Commission proposals for 2007-2013

In its Report on the operation of the own resources system of July 2004[9], the Commission proposed the replacement of the UK correction by a Generalised Correction Mechanism (GCM), in order to prevent excessive budgetary imbalances in all Member States.

This proposal was based on estimates that the UK correction would increase by more than 40% over 2007-2013, as compared to 1996-2002, on account of the cost of enlargement. As a result, the UK would have become the smallest (expressed as a percentage of GNI) net contributor to the EU budget, thus overshooting by far the objective of the UK correction (i.e. to correct excessive negative balances, in line with the 1984 Fontainebleau European Council conclusions), while in the meantime the UK had become one of the richest Member States (in 1984 it was one of the poorest). Since several other comparatively poorer Member States would bear

7 European Parliament initiative report on the future of the European Union's own resources, Alain Lamassoure, 13.3.2007, A6-0066/2007 final.

8 Commission budget review, COM(2010)700 final and SEC(2010)7000.

9 'Financing the European Union. Commission report on the operation of the own resources system', COM(2004)505 final, vol. I and II, 14.7.2004.

negative balances of higher magnitude, granting a correction on an exclusive basis to the UK was no longer justifiable.

Hence the proposal of a GCM to replace the UK correction with a 4-year phasing-in period, based on the same principles, but applied to all excessive net contributions and within a maximum amount for the GCM as a whole. The GCM was to be activated for countries with net contributions exceeding 0.35 % of GNI, with a refund of 66 % above this threshold, within a total maximum of EUR 7.5 billion per year. The GCM was to be financed by all Member States, including those benefitting from it, in proportion to their GNI (as is the case for the lump sums for the Netherlands and Sweden, but not for the UK correction, see above).

The 2004 Commission Report also addressed the own resources structure, by examining the possibilities of strengthening the role of more transparent and visible tax-based resources, such as the existing customs duties, in order to increase the financial autonomy of the EU budget and to create a more direct financial relationship with EU citizens. This also aimed at shifting the political discussion away from the narrow national *juste retour* debate towards the merit of EU budget policies and the general EU interest.

The debate on *juste retour*, initiated in the early 80s especially by the UK had led to the introduction of the UK correction from 1985 onwards. The debate resurfaced strongly during the negotiation of the 2007-2013 Financial Framework and the elaboration of the Own Resources Decision 2007, which resulted in several ad-hoc downward adjustments (permanent or temporary) to the contribution of Germany, the Netherlands, Austria, Sweden and the UK. Overall however, the existing own resources system remained largely unchanged. The Commission proposal of a GCM, while proposing a fair system based on the idea that Member States in a similar situation should be treated equally, was strongly criticised by the EP on the ground that it would strengthen the 'juste retour' and net balances approach. As for the Member States, they generally opposed the proposal even if they would have benefited from it. In its conclusions of 15-16 December 2005 on the financial framework 2007-2013, which also set the agreement on the Own Resources Decision, the European Council stated in final point 80: '*The European Council [...] invites the Commission to undertake a full, wide ranging review covering all aspects of EU spending, including the CAP, and of resources, including the UK rebate, to report in 2008/9'*. The reform of the own resources system was therefore postponed, and at the same time relaunched, with the aim of being '*taken into account in the preparatory work on the following Financial Perspective'*.

3.2. The EP proposals of 2007 and the budget review of 2010

In 2007 the European Parliament drafted an initiative report in order to prepare for the 'full and wide-ranging review of all areas of EU expenditure and revenue, including the British rebate' (the so-called 'budget review'), which the Commission had been invited to undertake after the previous Commission proposals on own resources failed to gather sufficient support. The EP report notably draws on discussions and exchanges held with national parliament representatives and encompasses both a description of the OR system at the time and an opinion of the EP on the way towards a future reform of EU revenue, including the identification of potential future own resources.

It also provides general guidance as regards a future reform, on the basis of the following principles: full respect for the principle of fiscal sovereignty of the Member States; fiscal neutrality; no changes in the order of magnitude of the EU budget; progressive phasing-in of the new system; and establishment of a clear political link between a reform of revenue and a reform of expenditure[10]. Among these principles, it is particularly interesting to note that the recognition of the principles of fiscal neutrality –the new system should not increase overall public expenditure nor the tax burden for citizens- and of a stabilised magnitude of the EU budget –the ceiling on own resources should remain at 1,24% GNI- predates the economic crisis of 2008-2009.

The Commission also took up this approach in its 2010 budget review[11], which clearly asserted that the revenue stemming from a new own resource, or a revised one, would be fully compensated by a decrease of the GNI-based own resource.

The Commission Budget Review answered the European Council request and notably identified six areas for potential new own resources: a financial sector taxation either in the form of a financial transaction tax (FTT) or a financial activities tax (FAT); the auctioning of revenue from the EU Emission Trading System; a charge related to air transport; a new VAT resource; an energy tax or levy; and an EU Corporate Income Tax (EUCIT). These options were then worked out in more detail and in different

[10] European Parliament Report on the future of the EU's own resources, Alain Lamassoure, 13 March 2007, A6-0066/2007 final. See page 12.

[11] COM(2010)700.

variants in the 2011 Report on the operation of the own resources system[12], and systematically checked against a comprehensive catalogue of criteria.

3.3. The Commission proposals for 2014-2020

The budget review, as well as the 2011 Report on the operation of the own resources system, also served as a basis for the Commission legislative proposals on own resources which were submitted as part of the MFF package 2014-2020 on 29 June 2011 and completed with amended and supplementary elements on 9 November 2011. The rationale of those proposals was based on three main elements:

1. The simplification of existing provisions and of Member States' contributions;
2. The introduction of new own resources;
3. The reform of the correction mechanisms.

Simplification

A first element of simplification was the streamlining of the legal architecture of the own resources legislation with its various legal bases, in order to consolidate the different layers of legislation adopted along the years into clearly identified texts and adapting them to the provisions enshrined in the Lisbon Treaty (which entered into force in December 2009). In particular, this entailed a new split of legal provisions concerning own resources into three different texts: the ORD, as the text of the highest rank, defining the objectives and main features of the system, including the description of each own resource; the new implementing regulation, based on Art 311.4 TFEU, including all the practical arrangements concerning own resources to the extent that these are authorised by the new ORD and with the exception of the aspects related to making own resources available and to meeting cash requirements, which continue to be included in a regulation based on Art 322.2 TFEU (third text). In the Commission proposal a lot of importance was given to the implementing regulation, whose adoption procedure is less stringent than the ORD as it requires qualified majority in the Council and the consent of the EP. Besides all the provisions concerning control and supervision, this implementing regulation would have also set out the provisions on the tax rates and the rates of call applicable for each own resource.

12 SEC(2011)876.

As regards simplification of Member States' contributions, the Commission proposed the elimination of the VAT-based own resource, which is complex, requires much administrative work to arrive at a notionally harmonised base and offers little or no added value compared to the GNI-based own resource. A fully-fledged elimination of this resource on 31 December 2013 was proposed, followed by a period of continued managing of all issues related to the management of the VAT-based own resource statements for the years up to and including 2013.

While the elimination of this resource was in line with the views expressed by most Member States, it did not find unanimous support: (a) a few Member States worried about higher GNI-based contributions to the EU budget, and (b) the UK refused any modification of the VAT-based own resource since it would require re-defining the calculation of its rebate.

Introduction of new Own Resources

On the basis of its analysis on new own resources presented in a staff working paper accompanying the legislative proposals, the Commission proposed the introduction of a financial transaction tax (FTT) own resource and a new VAT resource, both from 1 January 2018 at the latest. According to the Commission estimates presented at the time, the two new own resources combined could provide sufficient income for the EU budget so that by 2020 only around 40% of the financing needs of the EU budget would have to be covered by the residual GNI-based own resource. (Currently more than 85% of EU financing is based on statistical aggregates derived from GNI and VAT which are widely perceived as national contributions to be minimised by Member States.)

One of the essential purposes of proposing new own resources was indeed to return to financing mechanisms that are closer to the original intention of the treaties so that discussions on the EU budget in the future could focus more on the actual content of EU policies rather than being almost exclusively devoted to the calculation of net budgetary positions. It was neither to increase the overall EU budget, nor to give the EU fiscal sovereignty.

Financial transaction tax (FTT)

In the context of the financial and economic crisis, the introduction of an EU wide FTT based on a directive under Article 113 TFEU, with a broad tax base and differentiated rates would serve several purposes at once:

- A revenue-raising objective: an FTT would generate a new stream of public revenue, which could be usefully made available – at least in part – for the EU budget, thus leading to a reduction in Member States' contributions. Financial institutions would also contribute their fair share of the costs of the recent crisis;

- A corrective objective: overly risky activities by financial institutions should not be encouraged;

- An internal Market objective: the internal market for financial services should be preserved from fragmentation resulting from the setting up of uncoordinated national taxes.

New VAT-based own resource

The idea of the new VAT resource is to apply a single EU rate of 1% on all the goods and services currently subject to the standard rate in each and every EU Member State; in other words the tax base would correspond to the smallest common denominator of national VAT systems.

The Member States would regularly transfer a share, corresponding to the EU rate, of the VAT receipts collected and stemming from transactions subject to this standard rate.

Unlike the existing VAT-based own resource, the revenue stream would not be capped and would not be the result of complex statistical calculations and adjustments (leading to a purely theoretical VAT base). It would result from the actual receipts of the new VAT resource paid by all the European final consumers and then collected by the national tax authorities.

Moreover, this system would link EU policies for VAT with EU budget policies. The revenue would be increased if the Member States' national VAT bases were broadened (i.e. the scope of zero or reduced rates diminished).

Reform of correction mechanisms

As regards the reform of the correction mechanisms, the Commission proposed to abolish all existing correction mechanisms: both temporary (reduced VAT call rates and GNI lump sums) and permanent (UK rebate and the hidden correction which the 25% collection costs on TOR represent-see above). All existing corrections would have been replaced by a system of straightforward temporary lump-sums, taking into account the relative prosperity of member States and based on the consideration that there is an absolute maximum level of acceptable net balance, even for Member States with the highest levels of relative prosperity. The Commission proposals also proposed to reduce the TOR collection costs to 10%.

This system of lump sums would have been agreed ex-ante and would have ensured a fair burden-sharing between Member States. It also would have been more transparent and simple than the current correction mechanisms.

4. LESSONS FROM THE LATEST NEGOTIATIONS AND STATE OF PLAY OF THE SITUATION AT END 2014

The negotiations took place at various levels: the Friends of the Presidency group (FoP), the COREPER II, the General Affairs Council and the European Council. They have been characterized by different interest constellations (Friends of 'better spending' vs. Friends of 'cohesion'; net payers vs. net recipients), but also by the requirement of unanimity. Several presidencies (PL, DK, CY, IE, LT) steered the process.

4.1. Council Position

Contrary to previous exercises, the Commission proposals on the own resources system were closely examined by Council, both at political and at expert level. There was a general agreement among all but a few Member States that the own resources system could be rationalized and simplified. However, the proposal for a new own resource based on a financial transaction tax lost momentum as it became clear that the introduction of a FTT at EU-wide level was firmly opposed by some Member States. Negotiations on such tax would then be pursued in the context of an enhanced cooperation among 11 Member States only –currently 10. The new VAT own resource found recognition at expert level for its significant simplification and the return to a real VAT resource, but uncertainties about the impact per Member State, and the complex interaction with the calculation of the UK rebate which had not been resolved greatly hampered this proposal as well.

In other words, there was insufficient support for a wide-ranging reform or modernisation of the own resources system for the time being. The February 2013 European Council did not retain any of the proposals for a new own resource, but encouraged further work, taking into account several elements of the resolutions by the European Parliament. It concluded that:

- work on the Commission proposal for a new VAT own resources should continue and that this new VAT own resource could replace the existing VAT-based own resource (implication: for the period post-2020);

- the MS participating in the financial transaction tax on the basis of enhanced cooperation are invited to examine if it could become the base for a new own resource for the EU budget (which should not impact the non-participating MS nor the calculation of the UK rebate);

- the UK correction would continue to apply;

- temporary rebates would be granted for the period 2014-2020 only: (a) a reduced VAT rate of call of 0.15% (half the normal rate) for DE, NL and SE; (b) lump sum gross reductions of the GNI contribution for NL and SE (already existing in 2007-2013), as well as for DK (new rebate) and AT (phased-out GNI lump-sum replacing the current reduced VAT call rate);

- reduction of the TOR collection costs from 25% to 20%;

- Confirmation that there will be an implementing regulation on the basis of Art 311(4) TFEU.

After these conclusions, the Council legislative work was no longer based on the Commission proposals but rather concentrated on the objective to modify the existing own resources legislation in such a (limited) way as to faithfully translate the guidelines of the European Council Conclusions.

The Commission acknowledged at that stage that far ranging reforms on own resources were not achievable in the short term and from then on strived to be instrumental in helping forge unanimity between Member States on the remaining legislative texts with a view to finalizing a more comprehensive compromise on the MFF 2014-2020.

The legislative package was forwarded to the EP in February 2014, allowing the 2009-2014 European Parliament to provide respectively, before the end of the legislative term, its opinions -on the Own Resources Decision and the 'Making Available Regulation' based on Art 322(2) TFEU- and its consent on the implementing regulation based on Art 311(4) TFEU). The formal adoption of the legislation by Council took place in May 2014 and has been transmitted to national parliaments for the ratification procedure which is foreseen for the ORD. This process is expected to be concluded by late 2015 - early 2016. At that point the legislative package will enter into force, with retroactive impact from 1 January 2014.

4.2. Role of the European Parliament

Over the last decades, the European Parliament has constantly criticised the OR system as being too complex, lacking fairness and transparency and too far from the political objectives of the Union ('juste retour'). While the special legislative procedure foreseen by the Treaty only gives the European Parliament a consultative role in the adoption of the OR decision, the Parliament has always maintained the reform of the OR system high on the political agenda.

As the EP had reiterated on several occasions (most prominently in its initiative report of 2007), the purpose of introducing new own resources is not to increase EU expenditure. Rather, the EP considers the introduction of new 'genuine' Own Resources as an instrument to, among others:

- facilitate a real debate on political priorities on the expenditure side (instead of focussing on net balances),
- make the budget more transparent,
- increase the autonomy of the EU budget, and
- decrease the national contributions.

In the course of 2012/13 several EP reports explicitly supported the Commission's 2011 proposals as steps in the right direction.

The EP plenary approved in 2012 the "Podimata-report" on the FTT-directive, which is very supportive of a Financial Transaction Tax. The Podimata report would like to see the FTT become the base for an own resource, even under enhanced cooperation. The EP gave its consent to the Council authorizing decision for enhanced cooperation on 12 December 2012.

The MFF-'interim report' of October 2012 sums up the EP's position on Own Resources and spells out the elements that should have become part of a package agreement within the Council, amongst which the introduction of new FTT -and VAT-based own resources and the reform of the corrections.

The Dehaene report on the VAT-based own resource was voted on 23 October 2012 in plenary in parallel with the interim report. It endorsed the Commission proposals in full and refrained from suggesting legislative amendments. However, the report recommended that the VAT-based own resource should eventually be collected centrally, paid directly to the EU budget and not be channelled through national budgets. According to the EP, only such an approach would transform it in a "real" own resource and increase the autonomy of the EU budget.

The Joint Declaration on Own Resources

After the European Council of February 2013, the EP adjusted its negotiating approach. In the trilogues under the Irish presidency, while refraining from maximalist demands, the EP negotiators maintained that the own resources system must be reformed. Progress towards change in the system of funding the EU budget remained one of the key pre-conditions for granting the consent to the Multiannual Financial Framework 2014-2020, together with increased budgetary flexibility and additional payment appropriations for the budget 2013.

Following intense trilateral negotiations including at the level of the presidents of the EP, the Council and the Commission, a comprehensive compromise emerged in June 2013 which would be formalized in November 2013 by the EP vote granting the consent to the MFF regulation. Given that the Council presidency had no mandate to make any substantial concessions on the revenue side for the 2014-2020 period, it was agreed to at least assure a continued dialogue by establishing the present High Level Group on Own Resources, which for the first time entrusts an interinstitutional forum with the reflexion on own resources.

5. REFORMING THE OWN RESOURCES SYSTEM?

In the context of the Budget Review 2009/2010 and in preparation of the legislative proposals for the period post-2013, the Commission conducted in-depth analyses of the system of financing the EU budget. The Commission's regular reports on the operation of the own resources system of 2004 and 2011 present a stocktaking on the financing side of the EU budget, as well as an 'impact assessment' of reform options. Similarly, on several occasions, the EP took a close look at the system, most prominently in its initiative report of 2007, in the resolutions of the SURE committee and those adopted during the MFF negotiations[13]. These documents, supported by academic studies, stakeholder consultations and feedback from national parliaments consistently concluded that the current own resources system does have certain advantages, such as a rather reliable and sufficient supply of finance, but also suffers from serious drawbacks which call for a substantial reform.

5.1. Assessment criteria

To analyse the operation of a financing system - and of the EU own resources in particular - in a systematic manner, it is usually examined against a set of assessment criteria. It should be underlined that the choice of these criteria and their definition, as well as the relative weighting which can be given to particular criteria, are not an entirely neutral exercise and can reflect normative preferences and interests. It should also be underlined that some criteria can be contradictory or mutually exclusive, which is the main reason why it is difficult –if not impossible- to identify a single own resource fulfilling all desirable criteria. This is also the reason why proposals for

13 European Parliament legislative resolutions n° 268, 269, 270 and 271 of 16 April 2014.

change until now have presented a basket of several resources with complementary characteristics. It therefore appears more plausible that a reform of the own resources system can only be achieved with a combination of different own resources which taken together fulfil a maximum of assessment criteria.

The Group's initial mandate identifies as the main benchmarks of any reform 'Simplicity, Transparency, Equity and Democratic Accountability'. These principles are not new and have been regularly identified as indispensable features of a reformed financing system in the past. The difficulty, however, lies in the details and as soon as one tries to define them more precisely.

The Group has indeed examined attentively several sets of criteria and/or principles identified in the recent analyses available, and took good note of the extensive range of existing methodological work on this question. It has come to the conclusion that it would be useful to make a conceptual distinction between general criteria that are applied in economic theory and additional EU specific criteria, and established a list of criteria which covers all the general principles mentioned in the Group's mandate (simplicity, transparency, equity and democratic accountability), as well as guidance more tailored-made for the EU (focus on European added value and constrain narrow self-interest; subsidiarity principle and fiscal sovereignty of member states; limit political transactions costs). As shown in the table below, this list of criteria is coherent with previous analyses and inputs[14].

[14] Essential inputs are notably:
- the European Parliament initiative report on the future of the EU's own resources by Alain Lamassoure (A6-0066/2007 final), quoted by the EP rapporteurs for own resources in 2011 (from Dehaene/Jensen Working Document 12/2011), which suggested a list of principles "which have emerged in all contacts with national parliaments, as cornerstones for any future own resources system";
- the Commission staff working paper 'Financing the EU budget: report on the operation of the own resources system' (SEC(2011) 876 final)), which provided a comprehensive analysis of the existing own resources system at the time and outlined a number of criteria relevant for a future reform.

Table 1: criteria identified in past analyses

LIST OF CRITERIA ESTABLISHED BY THE HLGOR (2014)	CRITERIA IDENTIFIED IN THE COMMISSION REPORT ON THE OPERATION OF THE OR SYSTEM (2011)	PRINCIPLES IDENTIFIED IN THE EP INITIATIVE REPORT OF 2007
I. General criteria		
1.Equity/Fairness	Fair application and impact on correction mechanisms	Vertical equity: would it involve income redistribution? Horizontal equity: would it have an equal impact on equivalent taxpayers across the EU? Fair contributions: would this resource raise revenues from the Member States in line with their economic strength?
2. Efficiency	Additional burden on specific sectors Administrative burden for the EU administration	Efficient allocation of resources: would it lead to an efficient allocation of resources in the EU? Low operating costs: Would it be simple to administer and involve low compliance costs?
3. Sufficiency and Stability	Revenue estimate	Sufficiency: would the revenues be sufficient to cover the expenditures of the EU in the long run? Stability: would the system bring about stable revenues for the EU budget?
4. Transparency and Simplicity	Autonomous resource collection Time needed for implementation	Visibility and simplicity: Would it be visible to EU citizens and would it be understood by them? Progressive phasing-in of the new system
5. Democratic accountability and budgetary discipline		
II. EU specific criteria		
6. Focus on European added value and constrain narrow self-interest	Link to the acquis and the objectives of the EU Cross-border aspect and internal market coverage	Establishment of a clear political link between a reform of revenue and a reform of expenditure
7. Subsidiarity principle and fiscal sovereignty of member states	Legal issues Base harmonisation and application throughout the Union	Full respect for the principle of fiscal sovereignty of the Member States
8. Limit political transactions costs		Fiscal neutrality No changes to the order of magnitude of the EU budget

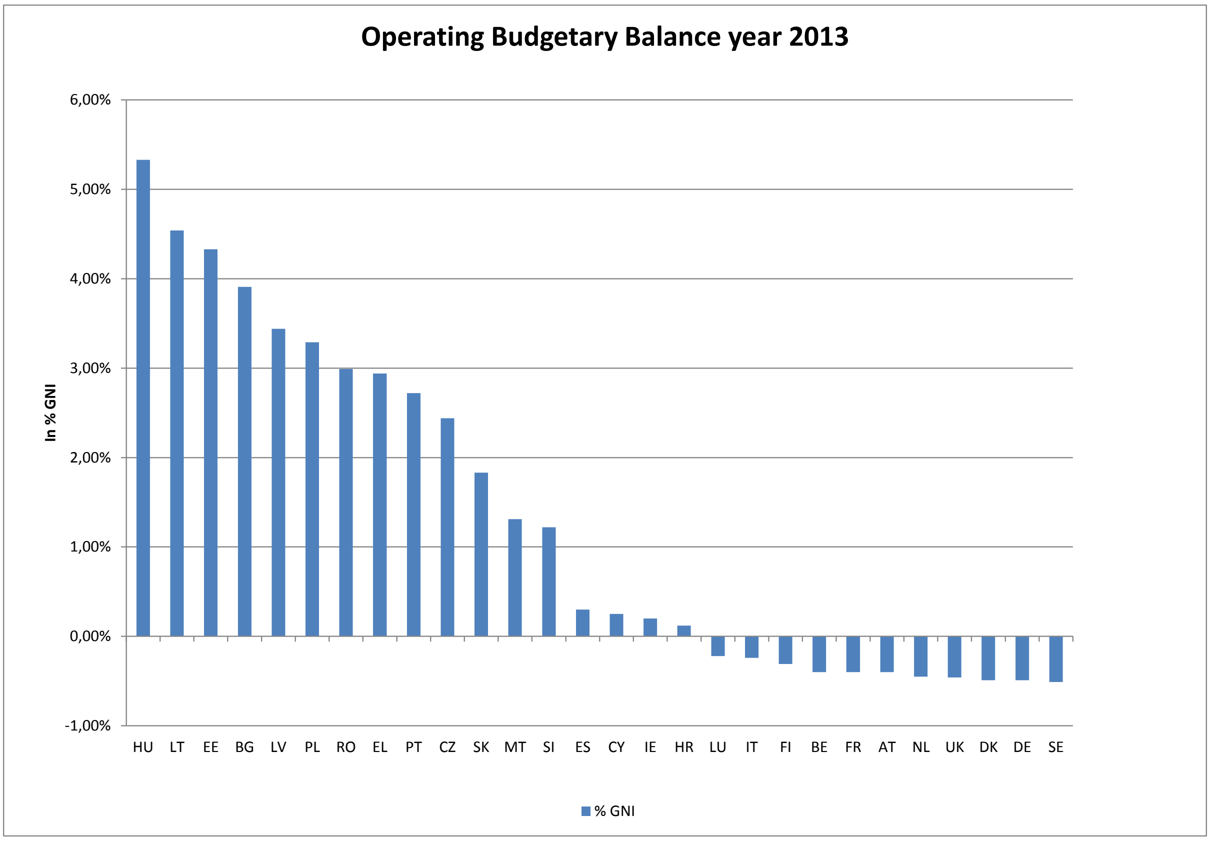
While setting out such assessment criteria is helpful, even indispensable, for the group's work, some are more difficult to fulfil than others, or more controversial, because they can have different dimensions or definitions.

Equity/fairness

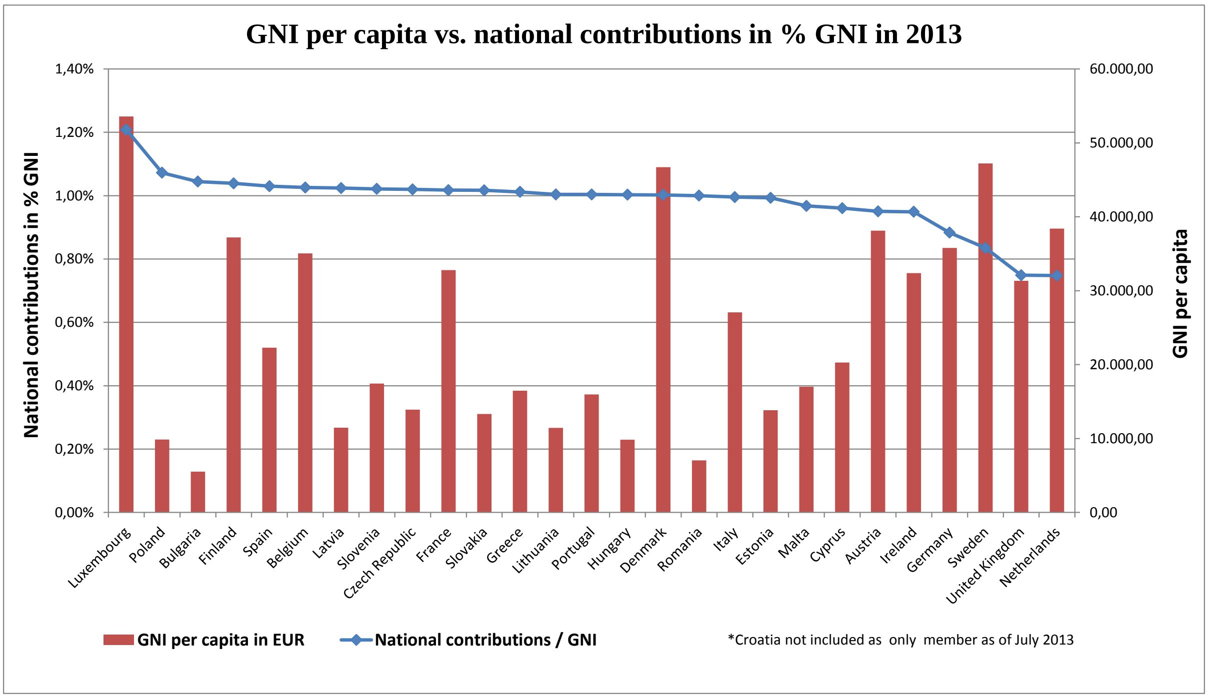
Equity/Fairness plays a prominent role in devising any financing system as it provides one of the necessary conditions for its acceptance. It is often defined negatively as the absence of discrimination, bias or injustice. However, this principle can be translated into different courses of action, including at EU level. For example it has been used prominently by the Commission when proposing the generalised correction mechanism (2004), or the corrections based on lump sums in replacement of the existing rebates (2011), by comparing the relative prosperity levels of Member States and defining a 'maximum affordable net position'. But a narrow focus on fairness or equity can also fuel acrimonious positions of some Member States when it is justified as a way to correct what is perceived as unfair net position, be it compared with a neighbouring country or a country with comparable economics or demographics. The difficulty with this principle is that it can refer to both: something which can be measured (where price matches 'fair value' that is not only bias-free but also rational), and to perceptions, which are by definition biased. And even if one focuses on the measurable, ‘fairness’ or ‘equity’ can be looked at from a ‘vertical’ perspective (income re-distribution), horizontally (equivalent impact on tax payers) or from a point of view of Member States’ ability to pay.

These various –and sometimes contradictory- notions of fairness can explain the different opinions, arguments and value judgements used during negotiations. For example, a net contributor may prefer to use the comparison of operating budgetary balances to outline its position as regards the EU budget in comparison with other net contributors. This approach is based on the figures published annually by the Commission in the EU financial report and in particular the operating budgetary balances[15]. It allows for the allocation of some EU expenditure by Member State, and compares it with their respective contributions to the EU budget. The results of this approach, which provided the underlying justification for most of the correction mechanisms created over the years, are detailed in the diagram below for the Budget year 2013.

[15] Operating budgetary balances 'show the relation between the share of a Member State in total allocated EU operating expenditure and its share in ‘national contributions'. See detailed method and calculation in the Financial Report on the EU budget 2013, p. 125.



Whereas the operating budgetary balances take into account national contributions on the revenue side and 'allocations' on the expenditure side, one can also look at the relation between 'total national contributions' (GNI and VAT-based own resources and corrections) called from each Member State expressed as a percentage of their GNI for a given budget year on the one hand and GNI per capita figures on the other. The resulting diagram (shown below for the year 2013) reveals the effects of the corrections mechanisms and their financing. It has been argued that overall, the present system of 'national contributions' is 'regressive' in the sense that, broadly speaking, Member States with a lower GNI per capita do not contribute a lower share if 'national contributions' are expressed as a percentage of their GNI. This is mainly due to the distributional effects of the existing correction mechanisms and their financing.



The two approaches described above are two examples of how budgetary figures can be used to conceptualize different aspects of fairness and equity. Experience suggests that actors do not have a pre-defined understanding of 'fairness' which they apply consistently over time. Rather, their interpretation of fairness may vary according to domestic or institutional priorities and interests.

Efficiency

The efficiency criterion is easier to apprehend and generally refers to the costs of the financing system (or of individual sources of revenue) in relation to its objective: generating revenue. This criterion is particularly important when a new own resource or the reform of an existing own resource is proposed and it should measure administration and/or compliance costs. Moreover, as tax administration is mostly carried out by the Member States, efficiency has to be analysed at both EU and national levels.

Sufficiency and stability

Sufficiency and stability are also more straightforward criteria. When applied at the scale of the whole EU financing system, sufficiency and stability are currently fulfilled and would continue to be as long as, in accordance with the Treaty, the EU budget is entirely financed from own resources, it must be balanced, and the balancing GNI-based own resource exists. This means that any fluctuation in the revenue will be compensated –balanced- by the GNI-based OR. But these criteria can also be applied for individual OR and help devising the most suitable candidates. For instance, the Commission has rejected the *seigniorage* profits made by the European Central Bank (ECB) as a potential candidate for an own resource because, inter alia, it would not have brought sufficient revenue (expressed in percentage compared with the other revenue sources). By contrast, the substantial estimated amount of revenue which could be obtained from an FTT-based own resource (which would represent more than 20% of the EU budget immediately after its introduction) was one of the strong arguments used by the Commission in its 2011 proposal. Indeed, given the difficult and long procedure necessary to revise the OR system, it seems particularly wise and pragmatic to assess the potential amount of revenue which can be expected from a new or reformed OR before putting it forward as a candidate.

Transparency and simplicity

Transparency and simplicity imply that the financing system should be easily understandable/appraisable and auditable (for instance by respecting the principle of unity of the budget according to which all revenue and all expenditure are presented in a single document), and avoid unnecessary complexities. For the stakeholders in the budgetary and budgetary control procedures, but also for citizen, it should be unambiguous 'where the money comes from' and how the composition of revenue and the burden sharing between Member States are determined. Although the two criteria seem straightforward and closely linked, experience shows that they usually remain secondary during negotiations because there can be trade-offs, even contradictions, between criteria. As an example, it can be argued that the present system has become quite complex as a result of continuous efforts to make it fairer by levelling out the impact between Member States. Hence instead of simplifying the system radically when presenting a reform, layers of successive legislation have simply been added to each other. Such a line of argument seems to be confirmed by the lessons from recent negotiations where most simplification measures appeared to have been dismissed rapidly for fear that some Member States would lose out if they were implemented.

Democratic accountability, legitimacy, budgetary discipline

Democratic accountability, legitimacy and budgetary discipline are criteria that are only meaningful when applied to the whole financing system. Democratic accountability concerning the EU financing system is criticised by different actors and for different reasons: the European Parliament, which is co-legislator on the spending side of the budget but only consulted on the revenue side, considers the present state of democratic accountability insufficient; some national parliaments, despite the fact that they ultimately hold the key on revenue since the ORD must be ratified by all Member States (on top of requiring unanimity in Council), encounter increasing difficulties during the annual budget procedures with the automatic providing of revenue for the EU budget (which generally appears as an expenditure in national budgets and therefore an item to be reduced). Budgetary discipline is currently ensured by several fundamental features of the EU financing system: the OR ceiling (which is the absolute limit), the fact that the EU budget must be in balance (no debt), and the existence of a multiannual financial framework which defines maximum expenditure in the mid-term. As with democratic accountability, budgetary discipline stems from the EU's overall institutional architecture and the provisions of the Treaty.

Legitimacy of genuine own resources is also criticised by those who underline the fact that the EU has no power to levy taxation. However, this argument is a misleading shortcut: while the EU has indeed no direct taxation competences, the Member States have decided to endow its budget with own resources. In other words, they have agreed to provide the EU budget with a part of the product of taxation. This has allowed the EU budget to operate for decades and to provide EU public goods to EU citizens and countries. It is as such part of the *'acquis communautaire'* and binds Member States together.

Together with the general criteria described above, the specificity of the EU financing system requires some complementary criteria/considerations. The focus on European added value and constraint of narrow self-interest are criteria which link revenue with some EU policies so that political support would shift to policies with EU-wide beneficial effects instead of policies whose benefits are regional or sector-specific. As an example, an own resource whose implementation would improve the functioning of the European single market would have a strong European added value.

Subsidiarity and fiscal sovereignty of Member States

The subsidiarity principle and fiscal sovereignty of member states are criteria inherently linked with decision-making at EU level and the split of competences between the EU and national levels. Subsidiarity is a general principle of European Union law and must be respected for any legislative proposal made in an area which is not of exclusive competence of the Union. In such case, the Union acts only if the results of an action can be better achieved at EU level, which requires a thorough examination of the foreseeable impacts of a proposal.

Limit political transactions costs

The criteria which consist in limiting political transactions costs is extremely volatile and difficult to assess in advance, as it can be strongly influenced by exogenous factors such as the general economic and political context. But it also simply appeals to common sense in that, because an agreement at unanimity is so difficult to achieve for reforming the EU financing system, such system should include both some flexibility elements (to adjust to changing circumstances) and long-term political commitments (to avoid repeated negotiations).

Any reform proposal on EU financing – whether it concerns the system as a whole or individual components - should aim at fulfilling the criteria defined above in order to be solidly justified. As explained, there may be contradictions and trade-offs between the various criteria, or simply preferences expressed by European institutions and in Member States. However, the diversity of positions in previous negotiations tend to confirm that a credible approach for reform requires the taking into account as many criteria as possible in order to gather consensus. In this context, the Group considers that a more thorough analysis of the context and development of the negotiations is necessary to assess the likely obstacles and the most relevant elements of a successful reform. This will be undertaken by the Group in its future discussions and is also the object of a study commissioned to external experts (reference to the tender).

6. RELEVANT QUESTIONS FOR THE FURTHER WORK OF THE HIGH LEVEL GROUP

Against the background of these ongoing developments, the HLGOR will further explore the rationale and prospects for reforming of the own resources system. It will look into the evaluation criteria and individual new own resources and corrections mechanisms.

The HLGOR is also mandated to draw on external expertise-if necessary. Its first discussions have shown that, while substantial studies and analyses have been produced to describe how the current system works and how it could be changed, it would be useful to dig deeper into the questions of why the reform process – despite rather broad consensus on the desirability of improvements - has proven to be so unproductive until now, and how this could be changed. External expertise could also be used to look at the broader economic and political aspects (legal, institutional and procedural issues) in order to better frame its eventual recommendations. The HLGOR has therefore decided to commission a study on these issues, and will devote a substantial part of its work to addressing these questions:

a) ***The broader economic and political context of recent proposals***

- What is the rationale underlying the EU financing system and how it has evolved so far? Is there a case to reform the current system of financing the EU budget? What are the pros and the cons of having a larger share of "genuine" own resources vs GNI based contributions?

- Why have the Member States who currently acknowledge - in principle - the need for reform so far been unable or unwilling to follow through?

- Why have the alternatives proposed so far not been successful to foster change? In how far can the lack of substantial reform progress be explained by broader 'contextual' factors? Is an important reform only possible against the background of profound changes?

- Did the framework for fiscal and financial discipline and/or the financial crisis play a decisive role in the most recent negotiations (2011-2013) on the own resources decision? Would the adoption of new genuine own resources (and consequently the decrease of the weight of the GNI based contributions in the financing of the EU budget) have an impact on the fiscal consolidation efforts of the national governments and if yes, what impact?

- Are analogies with national consolidation efforts justified? (One recurring argument put forward by Member States was "*In times of crisis, we have to consolidate our national budgets and this effort must be mirrored at the EU level*") Are such analogies only relevant for the expenditure side of the budget? If such an analogy is made, should it take into consideration the different growth levels of the EU and the national budgets? How should the impact of the EU Budget on the national economies – in terms of financial flows, support to national investment in the different member states as well as EU added value - be considered?

- Did the rise, or the fear, of 'euroscepticism' influence the negotiations? Do such negotiations in turn have an influence on the perception of the EU by citizens?

- Is the Euro area relevant for the purpose of this study?

- What about the functioning of the Single Market and its influence on the EU budget construction/reform (and its financing side in particular)?

b) ***Legal, institutional and procedural aspects***

- In how far is the rejection of the previous reform proposals due to factors 'inherent' to the proposals and in how far is it caused by 'external' factors of procedural or institutional nature?

- Is it correct that the EU budget is perceived as a zero-sum game – especially by net contributors – and that this leads to an undue focus on the net cash flows and the juste retour aspect (overshadowing more genuine budgetary criteria such as EU added value, political priorities, value for money, 'performance', incentives to some investments, …) and that this causes the deadlock? Any specific issues related to specific Member States?

- Which lessons can be learned from the previous exercises with regards to the preparation, presentation and negotiating strategy of the reform proposals? In how far did the content or the financial implications of the Commission proposals (2004 and 2011), or of any other proposal for reform, contain weaknesses that prevented their adoption by Council?

- Are significant reforms possible at all in the current Treaty framework (unanimity and ratification by all Member States)? Would decision making procedures have to be modified in order to enable agreement? Are the asymmetrical competences between the two arms of the legislative authority playing a significant role in making any reform difficult? Would it be useful to involve national parliaments earlier in the event of a new attempt at reform, and how?

- Could the blockage be overcome by some forms of 'differentiation' or géométrie variable, e.g. in the form of enhanced cooperation as in the case of the Financial Transaction Tax? Which possibilities would the Treaty on the Functioning of the EU offer (Passerelle, enhanced cooperation…)?

- Would such differentiation necessarily come at the expense of established principles such as Member State sovereignty, the unity of the budget or the universality of revenue?

- What kind of 'package deal' or interlinkages could help overcome the various obstacles analysed under points a) and b) beyond the classical MFF/own resources packages presented until now? Have such classical packages MFF/Own resources rather been a helpful tool or an obstacle for a deal on the revenue side? Would a negotiation focused on own resources and disconnected from negotiations on expenditure provide better conditions for a deal on revenue?

c) ***Evaluation of the various candidates for new own resources in the light of a) and b)***

- Is there a common perception of what should be the essential criteria on which a reform of EU financing should be based? Can these criteria be defined objectively?

- In the current legal framework, what are the candidates most likely to become an own resource and why?

- Within the context of existing EU policies, and in particular the Single Market, what are the candidates most solidly justified to become an own resource?

- In the current economic context, what are the candidates best suited to become an own resource and why? Under what conditions?

- In the light of the findings under part b (differentiation), would new and alternative sources or types of own resources appear viable which were disregarded under the previous parameters?

CONCLUSION

2014 ends with a combination of geopolitical challenges and a new political constellation in the European Parliament that is mirroring much disaffection and criticism of European citizens towards the EU and their governments' inability to deal with mounting economic and social difficulties. There is an obvious disenchantment when it comes to both the quantity and the structure of public goods as they are reflected through existing EU policies. Moreover, since the economic crisis of 2008-2009, the EU budget has been put under additional strain as regards the level of payments appropriations voted on an annual basis. But the European economy and European citizens have a right to a budget system which works more effectively in the service of common European policies and European Added Value.

This fact does not, however, suffice to explain why the present system of own resources has proven so difficult to reform the past failures to reform the system. In fact, the need to maintain budgetary discipline and control of EU expenditure has consistently been recalled in recent analyses and legislative proposals, and has been addressed on the expenditure side rather than on the revenue side of the budget, within the successive multiannual financial frameworks. When the European Parliament and the Commission made recommendations and proposals to create a new own resource, or a reformed one, they clearly underlined that any revenue stemming from those would be compensated in full by a reduction of 'national contributions'.

The present first assessment has come to the conclusion that the success of future efforts to reform the system will depend on a number of factors:

- The broader economic and political context therefore needs to be examined more in depth and taken into account in order to find some renewed guidance for a future reform. Although frame conditions for such reform may never be 'ideal', they could be more conducive than in the past.

- Moving towards a more accountable, transparent, simple financing system of the EU budget, which would also ensure a fair burden sharing between Member States, requires that an array of general and specific criteria are fulfilled. The multi-faceted notion of fairness is one of the most crucial but also most intractable among these. One question that this Group will examine in the coming months is: can improvements to the current system be found only by reforming the way EU policies are financed? Or can they also be found by reforming the EU policies themselves, which are decided in the context of multiannual financial frameworks?

- Last, and here lies a crucial condition to achieve a substantial reform on the financing issues, procedural and institutional issues cannot be ignored. Due to the extremely heavy procedure to reform own resources, a necessary pre-condition for change is the common understanding and acknowledgement that the EU budget, and indeed the EU as a whole, is much more than a zero-sum game – financially as well as politically. This is the only positive and rallying argument that can create a concerted ambition for reform and merge national interests with a higher European interest. The High Level Group invites all actors – especially the European Parliament, the European Commission, the Council and the national parliaments of the Member States to embrace ambitious objectives and to work in a spirit of cooperation and good will to devise a viable way forward. The group's upcoming work in 2015/2016 and its outreach activities will be conducted with these goals in mind.

ANNEXES

ANNEX 1 - Joint Declaration on Own Resources

1. According to Article 311 of the TFEU the Union shall provide itself with the means necessary to attain its objectives and carry through its policies; it also stipulates that, without prejudice to other revenue, the budget shall be financed wholly from own resources. Article 311 al. 3 indicates that the Council, acting in accordance with a special legislative procedure, shall unanimously and after consulting the European Parliament adopt a decision on the system of own resources and that, in that context, the Council may establish new categories of own resources or abolish an existing category.

2. On this basis, the Commission presented in June 2011 a set of proposals to reform the Own Resources system of the Union. At its meeting of 7/8 February, the European Council agreed that Own Resources arrangements should be guided by the overall objectives of simplicity, transparency and equity. In addition, the European Council called on the Council to continue working on the proposal of the Commission for a new own resource based on value added tax (VAT). It also invited the Member States participating in the enhanced cooperation in the area of financial transaction tax (FTT) to examine if it could become the base for a new own resource for the EU budget.

3. The question of own resources requires further work. To this end, a high-level Group will be convened, composed of members appointed by the three institutions. It will take into account all existing or forthcoming input which may be brought by the three European institutions and by National Parliaments. It should draw on appropriate expertise, including from national budgetary and fiscal authorities as well as independent experts.

4. The Group will undertake a general review of the Own Resources system guided by the overall objectives of simplicity, transparency, equity and democratic accountability. A first assessment will be available at the end of 2014. Progress of the work will be assessed at political level by regular meetings, at least once every six months.

5. National Parliaments will be invited to an inter-institutional conference during 2016 to assess the outcome of this work.

6. On the basis of the results of this work, the Commission will assess if new Own Resource initiatives are appropriate. This assessment will be done in parallel to the

review referred to in Article 1a of the MFF Regulation with a view to possible reforms to be considered for the period covered by the next multiannual financial framework.

ANNEX 2 – Overview of the Own Resources System

Financial Provisions of the Treaty

The own resources system developed gradually into its present form. Unlike the European Coal and Steel Community (ECSC) Treaty, the Treaties of Rome did not immediately set up a system of own resources for financing the Communities they were establishing: the two Communities (European Economic Community - EEC and European Atomic Energy Community - Euratom) were initially financed by contributions from the Member States. However, these Treaties anticipated the creation at a later date of a system of own resources which would include, in particular, revenue from the Common Customs Tariff once it would be finally set up. The ensuing Decision of 21 April 1970, which progressively replaced national contributions was the basis for the establishment of own resources. Subsequent own resources decisions have amended the system several times.

The Treaty on European Union (TEU) and the Treaty on the Functioning of the European Union (TFEU), as they result from the amendments to the earlier Treaties made by the Treaty of Lisbon, introduced a number of changes in the EU public finances architecture whilst preserving the main features it had developed over time. Most noteworthy, the multiannual financial framework which establishes a strict medium-term framework for the implementation of all Union policies was for the first time enshrined in primary law. Treaty provisions regarding the Union's Own Resources have changed comparatively little, the only novelties of the Lisbon Treaty concerning the implementing legislation.

Article 311 TFEU establishes the principle of financing the budget from own resources and sets out the procedure for adopting the Council Decision laying down the provisions relating to the own resources system. This text, simply referred to as the Own Resources Decision (ORD), is adopted by one of the heaviest legislative procedures foreseen in the Treaty and equivalent to primary legislation, comparable to a reform of the Treaty itself or the accession of a new Member State to the Union. Not only must the Council act unanimously, thus giving each Member State a right of veto, but to enter into force the decision must be ratified by the national parliaments. The Member States thus retain control over the adoption of this decision, whilst the European Parliament is merely consulted. Article 311 TFEU nonetheless introduces the explicit possibility for the Council to adopt by qualified majority, and after having obtained the consent of the European Parliament, a regulation laying down more detailed measures implementing that Decision[16].

On 26 May 2014, the new Own Resources legislative package was formally adopted by the Council, the first such procedure under the TFEU. Before becoming effective, the new own resources decision[17] has to be ratified by the Member States. This procedure is not expected to be finished before the beginning of 2016, at which time the new own resources decision

[16] Another novelty is that Article 322(2) allows Council to adopt by qualified majority (and no longer by unanimity) the methods and procedure whereby revenue provided under the own resources decision shall be made available to the Commission.

[17] Council Decision 2014/335/EU,Euratom of 26 May 2014 on the system of own resources of the European Union.

will enter into force with retroactive effect as of January 2014[18]. The negotiation process and the novelties of the 'Own Resource Decision 2014' are summarized below.

As long as the Own Resources Decision 2014 has not entered into force, the basic rules on the system of own resources continue to be based on Council Decision No 2007/436 (Own Resources Decision 2007). This decision, pursuant to Article 269 of the EC Treaty, was adopted (after consultation of the European Parliament) by unanimity in Council on 07.06.2007, then ratified by all 27 Member States (a process which took 21 months) and eventually entered into force on 01.03.2009, with retroactive effect back to 01.01.2007[19] .

Own resources

The budget of the European Union is mainly financed by own resources and, to a lesser degree, by other revenue like staff contributions and –increasingly – fines on companies for infringing EU competition rules. As the EU budget must be in balance, the overall amount of own resources needed to finance the budget is determined by total expenditure less other revenue.

Own resources can be defined as revenue accruing automatically to the EU in order to finance its budget without being conditional to a decision by national authorities. Legally, the Own Resources Decision (ORD) establishes an entitlement of the Union to certain revenues – e.g. a particular share of custom duties or of a harmonized tax – which accrue to the EU budget. Therefore, in essence, own resources are not 'discretionary' national contributions, but they are not an EU tax either. Since the Own Resources Decision has to be adopted unanimously by all Member States and ratified by national Parliaments, a reliable and sufficient level of revenue for the EU budget can be ensured while at the same time taking into account the Member States' national tax sovereignty and ability to pay.

As foreseen in the current ORD, the total amount of own resources cannot exceed 1.23 % of the gross national income (GNI) of the EU. This is also referred to as the ceiling of own resources.

Own resources can be divided into the following categories:
- traditional own resources (TOR): customs duties and sugar levies,
- the VAT-based resource,
- and the GNI-based resource.

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[18] Pending the adoption and approval by the Member States (ratification) of the new Council Decision on the system of own resources of the European Union '2014-2020', the system of own resources remains based on Council Decision 2007/436, which was adopted in the wake of the MFF for 2007-13. The present implementing legislation will also remain valid until the new own resources decision enters into force. As some of the old correction mechanisms expired by end 2013 and the newly agreed corrections cannot yet be budgeted, this interim period does not fully reflect the eventual distributional impact of the post-2014 own resources arrangements. The financial impact of the new own resources decision for the years 2014-[2016] will be entered into the budget via an Amending Budget.

[19] Own resources decisions are conceived in principle to cover the same period as and be complementary to the respective Multiannual Financial Framework. The legislative proposals are devised and negotiated as a package. However, the own resources decision does not have an expiration date and continues to be valid until a new decision enters into force. The retroactive impact of this Decision for the years 2007 & 2008 was thus budgeted in 2009 (Amending Budget 3/2009).

A number of corrections applied to national contributions of Member States whose net contributions are considered excessive, are also part of the own resources system. The most notorious one is the specific mechanism of correction of budgetary imbalance in favour of the United Kingdom (UK correction or UK rebate), which is permanent. There can also be temporary corrections, such as the current reduced rates of call on the VAT own resource for selected Member States as well temporary reductions of GNI resource contributions.

Traditional own resources (customs duties and sugar levies)

The so called traditional own resources accrue directly to the EU budget and are generally considered as stemming 'naturally' from the functioning of the customs union and the internal market. Member States collect the amounts on behalf of the EU and forward the amounts to the Commission, after deduction of 25 % retained as 'collection costs'. This percentage, which was 10 % over the period 1970 2000, increased to 25 % from 2001 onwards, with the intention of decreasing notably the contribution of the Netherlands to EU budget financing (‘hidden rebate’). Under the next Own Resources Decision, the percentage will be reduced to 20%, as the result of an intensely negotiated political compromise following the Commission proposal to reduce the percentage back to 10%.
[Customs duties are levied on imports of agricultural and non agricultural products from third countries, at rates based on the Common Customs Tariff. Duties levied on agricultural products were identified separately over the period 1970 2008, but are grouped with customs duties since the ORD 2007.]

Sugar levies are paid by sugar producers to finance the export refunds for sugar. These levies offset expenditure of virtually the same amount.

The share of customs duties in total revenue has tended to go down over time as increases in trade volumes were generally compensated or even overcompensated by decreases in average tariffs, following the various rounds of trade negotiations at WTO level. In Budget 2014, the share of TOR in total revenue was around 12% [and in DB 2015 the share was 11,8%]. These figures are subject to adjustment in the course of budget execution.

The Value Added Tax (VAT) own resource

The VAT resource is levied on Member States' VAT bases, which are notionally harmonised for this purpose in accordance with Union rules. The same percentage (rate of call) of 0.3 % is levied on the harmonised base of each Member State. For the period 2007-2013, however, Germany, the Netherlands, Austria and Sweden benefitted temporarily of a reduced rate of respectively 0.15 %, 0.1 %, 0.225 % and 0.1 % (as an element of correction to compensate for what they consider to be excessive net contributions). For the period 2014-2020 a reduced rate of call of 0.15% will apply for Germany, the Netherlands and Sweden. The VAT reductions have a negative impact on the UK correction which, for a given year, would be higher without them: as a consequence the UK is reimbursed the total additional financing cost of these VAT reductions through its rebate in the year n+1.

Besides, the VAT base cannot exceed 50 % of the GNI of each Member State. This rule, commonly referred to as 'capping', is intended to avoid that the less prosperous Member States pay disproportionately to their capacity of contributing, since consumption and hence VAT tend to account for a higher percentage of a country's national income at relatively lower levels of prosperity. For example, in Draft Amending Budget No 4/2014, the 50 % 'capping' was applied to five Member States (HR, CY, LU, MT, SI), while the VAT base of the 23 others represent between 32 % and 48 % of GNI (overall around 44%).

The Gross National Income (GNI) own resource

The GNI resource was introduced in 1988 within the context of a significant financial reform and after a decade where the annual budget adoption procedure encountered several crises. It provides the 'balancing' part of budget revenue, i.e. it is calculated after all other own resources are known so that the budget can be adopted in balance. The same percentage (rate of call) is levied on the GNI base of each Member State, which is established in accordance with Union rules. The rate is fixed during the budgetary procedure. The amount of the GNI resource needed is calculated by the difference between total expenditure and the sum of all other revenue. In the Budget 2014, the GNI resource accounted for 73,6% of the financing of the budget.

[Under ORD 2007/436 the GNI base is established in accordance with the European System of Accounts (ESA 95). Since 1 January 2010, following a unanimous Council Decision, the ESA 95 GNI base for own resources purposes includes also the allocation of Financial Intermediation Services Indirectly Measured (FISIM). As a result the GNI was increased by around 1 % on average; however with a different impact on each Member State, and the OR ceiling was reduced from 1.24% of EU GNI to 1.23% following a Commission communication in April 2010. Under the next ORD the GNI base will be established on the basis of ESA 2010.]

The correction in favour of the United Kingdom (UK correction)

The UK correction mechanism was introduced in 1985 to correct the imbalance between the United Kingdom's share in payments to the Community budget and its share in Community expenditure to the Member States. It has been modified on several occasions to compensate for changes in the system of financing the EU, but the basic principles remain the same.

This imbalance is calculated as the difference between the percentage share of the UK in EU expenditure paid in the Member States (total allocated expenditure) and the UK share in total VAT and GNI resources payments. The difference in percentage points is multiplied by total allocated expenditure. The UK is reimbursed 66 % of this budgetary imbalance. Over 2004 2012, a limited abatement related to pre accession expenditure is applied to total allocated expenditure. Under the Own Resources Decision 2007, non agricultural expenditure (as well as the non-guarantee part of rural development expenditure) in the Member States which joined the EU after 30 April 2004 has been progressively excluded from total allocated expenditure, so that the UK would finance a fair share of enlargement. This share was even capped at a maximum ceiling of EUR 10.5 billion (in constant 2004 prices) over 2007 2013, but this ceiling was never reached.
The cost of the correction is borne by the other 27 Member States in proportion to their GNI. The financing share of Germany, the Netherlands, Austria and Sweden is, however, reduced since 2002 by ¾ and the cost of this reduction is redistributed across the remaining 23 Member States. Over 1985 2001, such reduction applied only to Germany and only by 1/3.

The correction will continue in essence unchanged for the period 2014-2020. The pre-accession expenditure is no longer deducted from the total allocated expenditure and the maximum ceiling of EUR 10.5 billion for the reduction of the correction no longer applies. As regards the exclusion of the expenditure in the new Member States from the calculation base, a specific agreement needed to be found at the June 2013 European Council with respect to the breakdown of the rural development expenditures as this split effectively no longer exists: a table with notional percentage shares which will continue to be included in the calculation was published in the format of a European Council statement to the minutes.

The reductions in GNI resource contribution in favour of certain Member States

The Own Resources Decision 2007 introduced a temporary reduction in their GNI resource contribution for the Netherlands and Sweden ('NL & SE lump sums'), over 2007 2013 only, of an annual amount of EUR 605 million and EUR 150 million respectively (in constant 2004 prices). The cost of these lump sums is borne by all Member States (including the Netherlands and Sweden, which thus contribute to the financing of their own lump sum) in proportion to their GNI.

Subject to entry into force of the newly adopted Own Resources Decision, these lump sums will be replaced by new ones, which were agreed for the period 2014-2020 only: EUR 695 million for the Netherlands, EUR 130 million for Denmark and EUR 185 million for Sweden (in constant 2011 prices). Austria will benefit from a phased-out lump sum of EUR 30, 20 and 10 million for 2014, 2015 and 2016 respectively. The lump sums are granted after the calculation of the UK correction and consequently the UK also contributes to their financing.

Other revenue

A part of the general budget is not financed by own resources but by other revenue. This includes the surplus available from the preceding year, the surplus regarding the Guarantee Fund for external actions, the balance of VAT and GNI own resources for preceding years and the miscellaneous revenue. In this last item includes taxes and other deductions from staff remunerations, bank interests, contributions from non-member countries to certain Community programmes (e.g. EFTA countries & Switzerland in the research area), repayments of unused Community financial assistance, fines and interests on late payments. The item which has grown most in importance recently has been the fines imposed on companies for infringing EU competition rules. As a result the share of the miscellaneous revenue has increased to almost 4% of the total revenue at the end of 2014.

http://ec.europa.eu/budget/mff/hlgor/