HIGH LEVEL GROUP ON OWN RESOURCES

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PRESS RELEASE

Monti report recommends reform of EU budget

The EU budget needs reform - both on the revenue and on the expenditure side, to address current challenges and to achieve tangible results for European citizens. This is main conclusion of a detailed report drawn up by a high-level group which its chairman, Mario Monti, presented to the College of Commissioners today.

The independent high-level group on own resources ("Group") was set up in February 2014 to reflect on more transparent, simple, fair and democratically accountable ways to finance the European project. It was chaired by Mario Monti and composed of members designated by the European Parliament, the Council and the European Commission.

The Chair of the Group, former Prime Minister of Italy and former EU Commissioner **Mario Monti** said:

'The EU budget is one of the main tools for the EU to achieve its objectives - and needs in depth rethinking. It should focus more on common challenges such as securing our external borders, stabilizing our neighbourhood or tackling climate change. At the same time, new resources would help us move to a more simple, transparent, fair and democratically accountable system. Now is the moment to make the financing of our European project fit for the future. Let's not waste this opportunity".

The report pleads for an overhaul of EU expenditure. The recent crises have put extra pressure on the EU budget; they have also pointed at the areas where EU action is the most valuable and the most relevant: internal and external security, the fight against climate change and move towards a low carbon economy, and investments to support growth and jobs.

At the same time, we need to change the way the EU budget is financed. The current system has created a vicious circle where "beneficiaries" and "contributors" are often pitted against each other in what citizens came to see as a zero-sum game: one Member State's gain is another Member State's loss. The truth is that everyone benefits from being a part of the EU. If citizens were able to see the link between the resources made available to the

EU and progress on the big issues and challenges we face, it would reinforce the legitimacy of European action.

The Report makes clear that such a reform of EU financing will not lead at an increase of the EU budget. Any possible new EU resource would not only be more transparent and more accountable than the current GNI-based national contributions - it would also reduce them. Finally, the Report underscores that the composition of EU revenue is agreed unanimously between Member States – it is therefore wrong to speak of 'EU taxes'. The Member States alone have the power to create new taxes, and it is for them to decide whether such taxes should finance the EU budget. National Parliaments are also very closely involved since they alone need to ratify any new decision on the EU's resources.

Possible new resources - which would then partially replace the GNI-based contributions – could be based on a carbon tax, a common tax on fuel or other energy or environmental tax, a common corporate income tax, a reformed VAT or a tax on the financial sector. Such new income sources could finance a significant part of the EU budget, while at the same time support EU action and address gaps in the Single Market.

Nine main recommendations

1. The **reform of the EU budget is necessary** both on the revenue and expenditure side to address EU priorities and to help solve the challenges of our time, whether they are economic, security-related and geopolitical, social or cultural.

2. The EU budget needs to focus on areas **bringing the highest European added value**, for which European action is not only relevant but indispensable. A reform of own resources would impact only the composition of revenue, not the volume of the EU budget. It should **not increase the overall fiscal burden** for the EU taxpayer, and try to find **synergies** between the EU and national funding.

3. Some **elements of the current system** work well and **should be kept**: the fact that the EU budget must be in balance; the so-called traditional own resources (customs duties), which are directly related to the existence of the single market and customs Union; the gross national income (GNI) own resource, which serves as the balancing resource (it is calculated annually to cover the spending not already covered by other sources of revenue) but should be residual.

4. The most attractive **new own resources replacing the existing GNI contributions** would not only finance the EU budget but also:
- improve the functioning of the Single Market and fiscal coordination: a reformed VAT-own resource, a corporate income tax-based own resource, a financial transaction tax or other financial activities' tax.
- or relate to the Energy Union, environment, climate or transport policies: a CO_2 levy, proceeds from the European emission trade system, an electricity tax, a motor fuel levy, etc.

5. **Other revenues** need also **to be explored**, for example revenue stemming from EU policies such as border control, the digital single market, the protection of the environment or energy efficiency. Such revenue would be based on sector-specific legislation and could be used to finance the general budget, create a reserve or finance the concerned sector.

6. **The costs and benefits from EU membership should be better reflected**. The current indicators, mostly net balances, ignore the added value of EU policies and participation in the largest single market. Additional indicators should be developed to give a more comprehensive picture of the costs and benefits of the EU.

7. All **correction mechanisms ("rebates") should be abolished**.

8. The **coherence of the EU budget and national budgets within the European Semester** should be reviewed. Better information channels should be opened so that shared objectives are better aligned between the national/European budget procedures and the European Semester. Information concerning national contributions to the EU budget in national budgets should be made clearer and harmonised so that they are understood and anticipated.

9. While the unity and universality of revenue should not be jeopardised, **a certain degree of differentiation should be allowed when some Member States are willing and able to go forward**, notably for the further development of the euro area or for policies under enhanced cooperation.

Next steps

These recommendations are compatible with the current European treaties and could be implemented under the next Multiannual Financial Framework for which preparatory work will start soon.

Background

The Group recommendations build on its First Assessment Report, on the external study it commissioned, as well as on discussions with national parliaments held at the Conference on the future financing of the European Union on 7-8 September 2016.

Following its deliberations and the presentation of its final report and recommendations, the Group has now been dissolved.

For more information

High-level group on own resources

The EU's own resources