Harmonious Approaches to New Own Resources to Strengthen the European Union since 2021: Fiscal Acceptability and Revenue Optimisation

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Abstract: This paper provides a thorough examination of the NextGenerationEU framework for own resources, assessing its alignment with the principal criteria for own resources in the European Union. The findings show that these innovative own resources broadly satisfy the main criteria, whilst tackling urgent issues that led to reforms in the EU budget. These challenges stem from the current system, the aftermath of the Covid-19 outbreak and potential consequences of geopolitical events, particularly war in Ukraine. To summarise, the latest resources demonstrate a significant compliance level with the outlined criteria in the 2020 Interinstitutional Agreement (IIA) on introducing new earnings sources. However, there is potential to further improve limited administrative burden, transparency and simplicity, and equality and fair distribution of the fiscal load. The findings emphasize that the new own resources address issues related to the current system and the demands of the Covid-19 pandemic. Consequently, this contributes to the EU's policy objectives for transitioning to a more environmentally sustainable and digitally advanced Europe. Moreover, the anticipated income streams are regarded as adequate and consistent, enabling the initial debt settlement and serving as a dependable long-term funding source, thus verifying the European value added. However, particular conventional aspects concerning new proprietary resources necessitate additional inspection and refinement.

1. Introduction

The Covid pandemic has triggered a momentous economic downturn. In response, the European Union (EU) has unveiled the Next Generation EU programme (NGEU), which represents the largest-ever support package funded through the European budget. With a value of £750 billion sourced from capital markets, the objective of this initiative is to encourage the recovery and resilience of the economy. The main purpose is to provide a necessary boost while also preparing the continent for a cleaner and more digitally-advanced future through investment. In December 2020, the three European institutions presented a proposal to bring in fresh own resources and reform the present own resources system (EURLEX, 2020). This was required to generate adequate funds to uphold the current state of affairs following accession to the NGEU programme, without any reductions in expenditure or investment specified in the Multiannual Financial Framework (MFF: the plan for the European budget over a seven-year cycle).

According to Schwarcz (2021: 8), the aim of these reforms is to establish an independent EU budget financed by its own resources, tied to specific policy objectives. The current revenue system fails to adequately emphasise the EU's added value, and the matter of correction mechanisms is postponed. The EU's value stems primarily from domains like innovation, education, infrastructure, climate, and energy, with the last two areas benefiting significantly from revenue-side decisions. In any event, it is necessary to reform both the revenue and expenditure sides of the European budget to better reflect contemporary priorities, particularly in these turbulent times. Furthermore, national budgets neglect the concept of European added value, leading to a highly cost-focused approach by member states. The "juste retour" mentality causes Member States to concentrate on maximising benefits and minimising contributions, with scant attention paid to EU added value (Monti, 2016: 7). This results in an insufficient allocation of funds for EU initiatives that serve the public interest. Hence, reforming the perception of a zero-sum game to one of a win-win situation holds paramount importance.

The purpose of this paper is to present, in clear and concise language, the issues faced by the European Union with regard to its own resources. It aims to provide readers with a comprehensive understanding of the new own resources and evaluate them against a set of relevant criteria. Moreover, this paper seeks to offer insights for making informed decisions, taking into account the scarce reforms in the EU budget, and supporting the shift towards a digitally advanced and environmentally sustainable Europe. I have identified three new own resources: the plastic tax, the own resource based on EU ETS, and the Carbon Border Adjustment Mechanism. The latter two resources were proposed by the EU Commission under Next Generation EU. The concept of plastic resources is not new and dates back to 1994[1]. The Commission Implementing Decision [2] implemented this new own resource in 2019. The three own resources I will study aim to impact the ecological and innovative goals of the European Union. However, it remains to be seen whether these resources adhere to the principles of European tax law. The legitimacy and acceptability of these new own resources for the EU are the subject of research in the remainder of this paper.

2. The current system of Own Resources within the European Union: a brief overview

Originally, the Own Resources system within the European Union was built on three fundamental elements (Schratzenstaller, 2013): (a) traditional Own Resources, later also (b) the VAT-based Own

[1] European Parliament and Council Directive 94/62/EC *on packaging and packaging waste* (1994)
[2] Commission Implementing Decision (EU) 2019/665 (2019)

Resource and (c) the GNI-based Own Resource. In addition, today there is also miscellaneous revenue and the transferred balance sheet, correction mechanisms and, finally, a plastic-based Own Resource as well as exceptional external financing. The last two elements are new and are respectively a means of reform and the reason for reform. As the EU budget cannot contain deficits, there is a ceiling for European Own Resources, set at 1.2% of European GNI (gross national income) in the 2014-2020 MFF, which will have to be strictly obeyed when setting the budget (Schwarcz, 2021). Because of the COVID-19 pandemic, the new MFF 2021-2027 set the ceiling at 1.4% and increased it additionally by a temporary 0.6% to cover debts for recovery funds and the like contracted to cope with the economic shock of the pandemic [3].

Traditional Own Resources

These include import duties on products from third countries entering the EU. These funds come from customs and agricultural duties, and formerly sugar levies until 2017. Member States collect these import duties on behalf of the EU and keep part as administrative costs. Traditional Own Resources represent around 10-15% of the total EU budget (Monti, 2016, p 39-41).

VAT-based Own Resource

VAT-based Own Resources[4] are calculated on member states' VAT revenue and are a major source of financing for the EU budget. With the current system, the contribution is calculated based on a flat rate of 0.3% of gross national income (GNI), capped at 50% of a member state's GNI. This ensures a level playing field and fair burden-sharing between member states. Besides, the EUCOM makes a distinction between VAT on goods[5] and services[6]. The fundamental difference between VAT on goods and services is that VAT on goods is charged and due in the EU country where the goods are consumed by the final consumer, while VAT on services is charged and due in the EU country where the services are carried out.

This type of Own Resources are seen as a secondary form, as Member States contribute mainly through their own tax revenues. Under the current MFF, simplification has been introduced to reduce complexity and reduce the administrative burden. Corrections are now limited to territorial size and breaches of regulations. Countries calculating a weighted average have to apply the 2016 result for 2021-2027. The

[3] *Revenue Ceilings*, European Commission, no date, https://commission.europa.eu.
[4] Council Directive 2006/112/EC of 28 November 2006 *on the common system of value added tax*.
[5] Chapter 1, Council Directive 2006/112/EC
[6] Chapter 3, Council Directive 2006/112/EC

VAT contribution is capped at 50% of gross national income to limit regressive effects. A levy of 0.3% is applied to the calculation base per member state to arrive at the VAT contribution (Schwarcz, 2021: 6).

GNI-based Own Resource

These Own Resources derive from the GNI of member states and function as a means of balancing the EU's budget by ensuring proper revenue allocation. The GNI-based contribution is determined annually during the budget process and is computed using data from other types of Own Resources and the remaining fiscal deficit. This aggregate equates to approximately two-thirds of all Own Resources (Monti, 2016: 39).

Other Own Resources and transferred balance sheet

In addition to the aforementioned sources, further income is obtained from levies on EU employees, contributions from outside parties, and penalties for breaches of European legislation. When combined with the surplus from prior years, these funds constitute only a minor segment of the entire EU revenue (Delasnerie and European Parliament, 2020).

Correction mechanism

The system is intended to ensure that member states contribute based on their prosperity. As such, member states with a budgetary burden that exceeds their prosperity are eligible for correction. Currently, Austria, Denmark, Germany, the Netherlands, and Sweden are the main beneficiaries of reductions in their GNI contribution (Monti, 2016: 55-62).

The EU correction system of Own Resources originated in Fontainebleau, France at a 1984 European Council, where member states agreed to compensate the UK for budgetary imbalances (Bruegel, 2019). This calculation is based on the variance between expenditure per member state and Own Resources, which are seen as national contributions. As a result, a net balance per member state is created concerning national gross national income (GNI), thereby indicating those who are net contributors and recipients. Regrettably, discussions on the budget concentrate predominantly on this net balance, disregarding the added value of EU expenditure and investment to the European region. This creates a disparity between the accounting approach and the true economic climate. Put simply, the accounting approach may not accurately represent the genuine economic reality. EU investments are viewed as either a cost or a benefit for a given member state, without considering whether these benefits extend to multiple member states or affect European public goods. (Monti, 2016: 53)

Plastic Own Resource

This is the first 'new' own resource. It was approved by the Own Resources Decree on 14 December 2020 and will enter into force on 1 January 2021. It is a domestic levy on non-recycled plastic packaging waste [7]. Although this component is already an integral part of the current Own Resources system, it will be thoroughly assessed in the future review of the new Own Resources.

External funding, or borrowing

The EU budget must not run a deficit and financing expenditure by borrowing is not allowed. To finance grants and loans under the NGEU recovery plan, the Commission was exceptionally and temporarily allowed to borrow up to 750 billion (in 2018 prices) on the capital markets. New net borrowing should stop at the end of 2026, after which only refinancing operations will be allowed. The Commission applies a diversified lending strategy, using long-term bonds, green bonds and short-term paper sold through syndication and auctions, combined with open and transparent communication through annual lending decisions and semi-annual financing plans (Schwarcz, 2023).

3. The European Union's new Own Resources: a legal framework

The Treaty on the Functioning of the European Union (TFEU) encompasses numerous legal considerations necessary for the integration of new own resources within the EU. Given the limited scope of this study, the legal basis for new own resources will be provided here in a concise overview. Furthermore, technical term abbreviations will be explained upon first use to facilitate clarity and understanding. Firstly, decisions pertaining to new own resources intended to supplement or replace existing mechanisms for financing EU expenditure must adhere to the own resources system described in Article 311(1) TFEU. While the Member States can levy taxes to raise revenue directly, the EU, as it does not have full fiscal sovereignty, can only raise revenue by means of own resources. These are essentially contributions from Member States or other revenues (as discussed above under the current

7 Article 2 and bis of Council Decision 2020/2053 of 1 January 2021 on the system of own resources of the European Union.

system). Article 311(3) of the Treaty on the Functioning of the European Union outlines the process for implementing and amending the current system of own resources, which has unique regulations. Any modifications to the current system require unanimity from the Council, alongside consultation with the Parliament, and the consent of the Member States, depending on their constitutional necessities. The decision usually falls to the national parliament. (Schratzenstaller *et al.*, 2022)

Secondly, Own Resources created through taxation or expanded taxes in the EU must conform to the EU competences specified in Articles 113, 115, 192, and 194 of the TFEU. Regarding new tax-based Own Resources, relevant provisions for harmonising or approximating national taxes may be utilized for the effective functioning of the internal market (Articles 113, 115 TFEU). Furthermore, Articles 113 and 115 solely apply to current taxes, meaning that taxes that do not exist in any EU member state cannot be utilized as the legal basis for new European taxes that would serve as Own Resources. Conversely, new Own Resources can be attained from tax measures established within the domains of environment and energy, as stipulated in Articles 192 (2) and 194 (3) of the TFEU. The decision to utilize Articles 113 and 115 or 192 (2) and 194 (4) for Own Resources is invariably considered an Own Resources decision (Article 311 TFEU), as highlighted in the preceding paragraph.

The decision to utilise Articles 113 and 115 or 192 (2) and 194 (4) (that is, not using their income as own resources but introducing them first) is also governed by a unique process (Mumford, Spangenberg and Daly, 2019). This process necessitates unanimous approval by the Council of Ministers, with Parliament being only consulted. Such a unanimity requirement presents a considerable barrier to the establishment of taxes that could potentially serve as own resources (Kube and Reimer, 2016: 247-61). However, there are exceptions, specifically the principle of enhanced cooperation, which permits a minimum of nine member states to bypass deadlocks in the procedure. So far, this principle has not yielded any measures. The Financial Transaction Tax (FTT) was reactivated in 2013 using this principle, but it was eventually cancelled when Estonia withdrew. Some experts contest the notion that measures categorised as enhanced cooperation cannot serve as own resources, yet this is not always the case. If all member states within the group agree on a new own resource, and the measure intended for the group is implemented, national contributions can be reduced (Waldhoff, 2016).

Yet it is mainly the legal basis that Articles 191, 192 and 194 TFEU provide that is promising for 'green' Own Resources, given that they allow the EU to be active on the environment and energy. Article 191 states that the EU may pursue initiatives aimed at preserving, protecting and improving the quality of the environment. Such initiatives may also be fiscal measures if they serve to achieve climate objectives (Article 192 TFEU) or are related to energy objectives (Article 194 TFEU), provided their primary motive is not to generate revenue. Articles 192 (2) and 194 (3) of the TFEU empower the Union to introduce new taxes and charges when they contribute to climate objectives.

In brief, the process of reforming the decision on Own Resources is far from simple, as it is hindered by the need for unanimity, which has been evident in past attempts (such as with the Financial Transaction Tax). However, current circumstances differ and there is now growing momentum in the reform of Own Resources. What has caused this change? On 16th December 2020, the European Parliament, Council and Commission reached an Interinstitutional Agreement (IIA 2020) on budgetary discipline, cooperation in budgetary matters and sound financial management. Notably, the agreement included new Own Resources and a roadmap for their introduction.

4. New Own Resources

In order to effectively evaluate one's own resources against the criteria and principles, it is essential to provide a comprehensive description of these resources. The quality of the inputs subjected to the criteria and principles will significantly influence the resultant outputs.

Starting with the plastics-based own resource currently in operation, followed by the EU ETS own resource and the carbon border adjustment mechanism own resource, I will provide clear definitions for each of these new resources and outline the relevant details from official documentation.

4.1 Plastic Own Resource

Description

The own resource based on plastic, which was launched in December 2020 and has been effective as of January 2021, imposes a charge of £0.8 per kilogram of non-recycled plastic waste. It follows the Circular Economy Action Plan and European Strategy for Plastics to promote sustainable practices and recycling. Expected to provide approximately £7 billion every year (around 4% of the EU budget), it is a crucial source of funding for policy initiatives that are in line with the European Green Deal. This approach conforms to the subsidiarity principle, enabling member states to execute plastic reduction and recycling strategies while averting competitive divergences.

To forestall inadvertent outcomes, a supranational levy at the EU level suppresses competition among states and corporate manoeuvrability. Working on a taxation principle, it encourages eco-friendly conduct while reinforcing the EU's policy objectives through its revenue-raising potential. Thus, plastic-based resources have emerged as a significant factor for promoting sustainability and environmental consciousness in Europe.

Legal framework

The legal framework surrounding the plastic tax is based on various documents and legislation within the European Union. The proposal to introduce the plastic-based own resource was communicated by the European Commission on 2 May 2018, simultaneously with the amendments to the Packaging and Packaging Waste Directive. This proposal was included in the Council's own resources decision of 14 December 2020, called Decision (EU, Euratom) 2020/2053, which establishes the European Union's own resources system and repeals Decision 2014/335/EU, Euratom.

The own resources decision provides that a uniform levy rate of EUR 0.80 per kilogram is applied to the weight of non-recycled plastic packaging waste generated in each member state. The calculation of non-recycled plastic packaging waste is made as the difference between the weight generated and the weight recycled, as determined according to Directive 94/62/EC.

The decision covers yearly fixed deductions for particular Member States, such as Bulgaria, the Czech Republic, Estonia, Greece, Spain, Croatia, Italy, Cyprus, Latvia, Lithuania, Hungary, Malta, Poland, Portugal, Romania, Slovenia, and Slovakia. These deductions, computed at present costs, serve as a rectification system for nations with gross national income (GNI) beneath the European mean. The legal framework, as shown by Decision (EU, Euratom) 2020/2053, features the Council's own-resources decision and cites the Packaging and Packaging Waste Directive (Directive 94/62/EC) which underpins the calculation of non-recycled plastic packaging waste. This thorough framework establishes a methodical approach to introducing and executing the plastic-based own resource across the EU.

Reflection on Plastic Tax

The question remaining is whether own resources such as the plastic-based own resource, the EU ETS-based own resource and the CBAM are budgetary own resources with an eco-friendly twist or vice versa. There are doubts whether these own resources can be sustainable for the EU budget in the long run, as one aspect (environmental friendliness) may come at the expense of the other (budgetary revenues).

There is criticism of the plastic-based own resource, especially from the plastics industry, as it may harm the competitiveness of the industry and cause fiscal fragmentation within the EU. There are also economic benefits, such as cost savings in cleaning up plastic waste and maintaining economic value of the marine ecosystem. However, there are also integration problems and differences between member states in terms of measures and reductions.

4.2 Own Resources based on EU-ETS

Description

The EU ETS (European Union Emission Trading System) is a cap-and-trade system that regulates total greenhouse gas emissions through emission allowances. Launched in 2005, the ETS established an EU-wide cap in phase 3 (2020) with auctions as the default for emission allowances. Phase 4 started in 2021 and has more stringent emission reduction targets. The EU ETS covers commercial aviation and there is also an intention to subject maritime shipping to it. A new ETS is also being considered for construction and road transport. The EU ETS generates revenue through the auctioning of allowances, of which at least 50% must be spent on climate or energy targets.

The EU ETS own resource means that member states must transfer 25% of ETS revenues to the EU budget. This proposal is based on the fact that the ETS has its origins in Europe and fits within EU added value and climate objectives. The EU ETS contributes to the transition to a climate-neutral EU and the functioning of the internal market. The goal is to reduce greenhouse gas emissions by 55% by 2030 and achieve climate neutrality by 2050.

The EU-ETS generates variable revenue depending on the market price, with an average of €3.5 billion per year between 2013 and 2020. The proposed percentage to be transferred to the EU represents less than 2% of the total budget. Revenue from the own resource would be used not only to pay off debt but also to finance the Social Climate Fund (SCF). This fund is designed to support vulnerable households who bear higher costs due to the ETS for construction and road transport, and to support initiatives that reduce emissions in these sectors.

Legal Framework

The proposed revision of the EU ETS own resource (COM (2021) 551 final) by the European Commission serves as the legal framework for the own resource system's amendment. Although an agreement on the proposal has yet to be reached, the mention of an EU ETS own resource was previously made in the 2018 proposal on plastic-based own resources (COM (2018) 325 final).

The latest proposal for an own resources decision was published on 22 December 2021, in which the Commission talks about the new generation of own resources and how the own resources decision should be amended. In this proposal, the Commission suggests that 25% of the revenue generated by the EU ETS should become an own resource for the EU budget. This includes revenue from the auctioning of allowances that are available for auctioning but not auctioned, such as free allowances allocated to the power sector. However, emission allowances auctioned by the European Investment Bank (EIB) to finance the Innovation Fund or the Modernisation Fund would be excluded. The estimated revenue is €9 billion a year for the period 2023-2030, part of which will be used to finance the Social Climate Fund (COM (2021) 566 final).

The proposal to amend the EU own resources Decision, Euratom 2020/53 introduces the adjustment mechanism to ensure that the own resource does not have an excessive regressive impact. The mechanism is formulated as follows: if a Member State's share in the total EU ETS revenue is less than 75% of its share in the total GNI contribution, that Member State must still release an amount equivalent to 75% of its share in the total GNI contribution multiplied by the EU ETS revenue. However, the share of a Member State in the total EU ETS revenue may not exceed 150% of its share in the total GNI contribution, for Member States with a GNI per capita below 90% of the European average (COM (2021) 570 final).

This mechanism guarantees that every Member State contributes a minimum percentage of the EU ETS revenues, relative to its GNI contribution, while capping the portion of revenues from Member States with lower GNI per capita.

The legal framework for the EU ETS own resource is founded on the proposition of the European Commission, stipulating that 25% of EU ETS revenues must be allocated to the EU budget, except for specific auctioned allowances. The adjustment mechanism guarantees an equitable contribution from member states, based on their GNI, with an upper limit for states with lower GNI per capita. These measures aim to guarantee a well-proportioned and efficient implementation of the EU ETS own resource.

Reflection on EU-ETS

The estimated revenue of the own resource based on the EU ETS varies widely between different sources. Schwarcz estimates the revenue at 2% of the budget, representing €1.2 to €3 billion per year, while the Commission proposal assumes €9 billion per year (Schwarcz, 2023, p 13). Fuest and Pisani-Ferry consider that it is reasonable for member states to contribute a share of ETS revenues to the EU budget, as emissions are a negative externality for other countries (Feust and Pisani-Ferry, 2020). They argue that revenues will fall as the Union moves closer to climate neutrality, but that the ETS will still generate revenues until at least 2050. ETS revenues have increased due to changes in the price of carbon, the transition to auctioning of allowances and the expansion of sectors covered by the ETS. It is estimated that the ETS could raise around €300 billion to €1.5 trillion in the period to 2050, depending on various factors. The High Level Group on Own Resources believes that the ETS is not primarily designed as a stable revenue source for the EU budget and that low and volatile revenues should be considered. They point to the economic impact of the ETS which varies greatly between member states and the fact that half of the revenue is already earmarked for climate-related actions. They acknowledge that part of the revenue could be allocated to the EU, but stress that this could face strong opposition, as member states see the current revenue as fairer due to their different economic structures and energy mixes.

4.3 Own Resource based on Carbon Border Adjustment Mechanism (CBAM)

Description

The Carbon Border Adjustment Mechanism (CBAM) is a measure against carbon leakage, where international partners do not put a price on emissions and move production to countries with less climate ambition. The CBAM puts a price on emissions within imports, making European companies more competitive again. 75% of receipts under the CBAM should be transferred to the EU. Producers outside the EU should buy certificates to offset emissions, and member states should pass on some of the proceeds. Allowances allocated for free are phased out over a 10-year transition period. The CBAM contributes to the European Green Deal and the achievement of climate targets. The CBAM was announced as part of the European climate change policy and is linked to other policy packages such as 'Fit for 55'. The price for imports must match the price of allowances within the ETS to avoid discrimination. CBAM revenues are difficult to predict because of the volatility of the ETS.

Legal Framework

On 14 July 2021, the European Commission put forward the Carbon Border Adjustment Mechanism (CBAM) Regulation. This proposal introduces a completely new mechanism, which is different from the existing systems. The CBAM was presented in conjunction with theEU ETS Own Resource proposal on 22 December 2021. As per the CBAM proposal, 75% of the revenue generated is deemed as an Own Resource of the EU budget. Its main objective is to reduce global carbon emissions and mitigate the threat of carbon leakage, whilst EU member states manage revenues gained from CBAM certificate sales. The estimated revenue for the EU budget is around €0.5 billion per year from 2023 to 2030. The mechanism is designed to promote international climate goals and remains compliant with World Trade Organisation (WTO) regulations. Nevertheless, even if the CBAM conforms with WTO requirements, it may still lead to trade tensions and possibly harm the WTO. The proposed CBAM adopts a moderate approach, featuring a three-year transition period prior to import payments commencing in 2026, coupled with a phased-out allocation of allowances. The employment of CBAM revenues is probable to affect the criticisms it receives from foreign trade partners and companies. While CBAM resembles the EU ETS in terms of carbon content computation for imports, it represents a new development, necessitating reporting at the border level. While not necessarily more complex than regular trade, it requires detailed information and practical adjustments, such as using European or national averages for certain industries or products. (Schwarcz, 2021: 13-14)

Reflection on CBAM

The suggested Carbon Border Adjustment Mechanism (CBAM) takes a moderate approach, proposing that import payments be introduced in 2026 after a three-year transition from 2023. This decision is likely influenced by diplomatic and legal considerations with trading partners, aiming to strike a balance between effectiveness and controversy. The gradual phasing-out of free allocation of allowances aligns with this strategy and helps ensure smoother implementation. While the effects of CBAM extend beyond the borders of the EU, incentivising low-carbon production and encouraging similar actions among trading partners, it is necessary to comply with World Trade Organisation (WTO) regulations and international obligations. Even if executed in accordance with WTO standards, CBAM could evoke hostility, risking trade tensions that would be detrimental to the WTO. The introduction of CBAM reflects the evolving climate policy stance and navigates international dynamics and producers' actions. However, its compatibility with the bottom-up approach of the Paris Agreement may prompt scrutiny, despite its contribution to advancing climate transitions.

5. Evaluation criteria for the European Union's new own resources

Assessing recent earnings for the EU budget requires adherence to standards suggested by the High-Level Group on Own Resources (Monti, 2016; Feust and Pisani-Ferry, 2020). These standards comprise the principles of subsidiarity, European added value, neutrality, transparency, simplicity, contribution to European policy objectives, adequacy and stability, equity, fair burden sharing, democratic accountability,and limited administrative burden. While the prioritisation of these criteria is political, their emphasis is crucial amidst the current challenges for sustainability and stability facing the EU. The discussion of the assessment of new resources is presented below.

The principle of subsidiarity

The subsidiarity principle, in Article 5(3) of the EU treaty, underscores decisions made closest to citizens, acting when member states cannot achieve objectives adequately. The "cost of non-Europe" principle underscores member states' prosperity from the EU. Resources used as own resources should contribute to European policy objectives while respecting national competences (Monti, 2016).

Creating European Added Value

Europeaninterventions should strive to generate value that exceeds actions taken by individual member states[8]. This term encompasses efficiency, policy implementation, cost trade-offs, and positive spillover effects. It is linked to the principle of subsidiarity and signifies the relevance of the EU. Pursuing added value at the EU level mitigates member states' focus on just returns and strengthens common interests (Schratzenstaller *et al.*, 2022).

Contribution to European policy objectives and a clear link with those objectives

New resources have been established to support the European policy goals, including the Single Market, environmental conservation, climate change initiatives, energy policy, and fiscal consistency. The

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[8] Wim Marneffe and Tom Vandersteegen, “De Betekenis van Europese Toegevoegde Waarde (ETW)” (Tijdschrift voor wetgeving, 2018).

implementation of these resources will assist with sustainable financing whilst also highlighting the European value added. The suggestions are linked to specific infrastructures such as the European Green Deal and the Digital Age, aligning the resources with the desired policy goals (Monti, 2016).

Limited administrative burden

Minimal political and administrative burdens, linked to transparency and simplicity, prevent complications undermining institutions, administrations, and taxpayers. (Schratzenstaller *et al.*, 2022)

Transparency and simplicity

Transparency guarantees that government actions align with the interests of citizens, thus preventing the misuse of power. Simplicity supports this by aiding public comprehension. It is crucial to ensure EU budget transparency by considering costs, benefits, European value, and public goods. Resource design plays a vital role in transparency, encompassing aspects such as levy complexity, profiling, stratification, and administrative simplicity.

Equality and fair burden sharing

Equity is crucial to ensure fair burden sharing among member states at all levels. Social sustainability requires minimizing income inequality and taking into account factors such as genderrelations, equal opportunities, employment, social cohesion, poverty, health, and population growth. Equality should also extend to treating different businesses and sectors equitably.

Adequacy and stability

New resources should generate sustainable and substantial long-term revenue, with an emphasis on predictability in the short term and minimising significant fluctuations (Schratzenstaller *et al.*, 2022). The measure assesses the proportion of new resources in the overall EU budget and the underlying system's volatility.

6. Evaluating the new Own Resources

6.1. Evaluation of Plastic Tax

Priciple of Subsidiarity

The harmful environmental impacts of plastic waste have a transboundary nature, demonstrating the need for action at the European level. National measures fall short due to the potential mobility of companies for competition reasons. The exclusive plastic-based solution fulfils this requirement as individual member states are unable to meet the targets sufficiently.

Creating European added value

Action at the European level resolves the issue of business mobility caused by competition and supports European policy targets. The own resources, while targeted at member states and not directly at businesses and consumers, exhibit the added value of European policy and encourage effective measures towards climate goals.

Contribution to European policy objectives

The plastic-based resource proprietary to our company is strongly associated with the European Strategy for Plastics in a Circular Economy, the Action Plan for a Circular Economy, and the European Green Deal. These initiatives aim to lower the amount of plastic that is not recycled and promote recycling or reuse of plastic packaging in the EU. These initiatives aim to lower the amount of plastic that is not recycled and promote recycling or reuse of plastic packaging in the EU. The introduction of a "plastic tax" is seen as a significant step towards achieving these targets.

Limited Administrative Burden

The administrative burden linked to the plastic-based self-resource is relatively low. Contributions are determined by the weight of plastic packaging that is not recycled, and data for this is already monitored by Eurostat. Nevertheless, due to a delay, contributions rely on information from three years before, which means they must be amended once current data becomes available. The mechanism for adjusting the calculation, which applies to member states below the European average GNI per capita is straightforward. Merely multiply the population of the relevant Member State by 3.8 kg of plastic packaging waste and apply the rate of £0.8 per kg to it. Furthermore, no update to this adjustment is anticipated. Given that this resource utilizes pre-existing data and the delay is customary in EU budgeting, it fares positively in terms of alleviating administrative burdens.

Transparency and simplicity

Although the functioning of plastic is transparent, its solution is not visible to citizens and taxpayers. The limited exposure could be due to member states not implementing measures on producers and consumers. Nevertheless, as we saw earlier, 13 countries have already introduced measures ensuring transparency for citizens and businesses. The statistical nature of the own resource - which is based on data transmitted by member states to Eurostat - is a drawback for these criteria. Nonetheless, the plastic tax operates as an own resource simply by transferring funds from member states to the EU budget. In summary, the statistical nature and uncertainty surrounding the visibility for citizens and businesses imply that this novel resource owned by the government fails to meet the transparency and simplicity standards entirely.

Equality and fair burden sharing

Equity and equal distribution of burden: The adjustment mechanism restricts any disproportionalities in respective national contributions, based on both the GDP and population (Schratzenstaller *et al.*, 2022). While the mechanism ensures parity and equitable distribution of the burden, there is room for improvement. The own resource does not fully meet this criterion owing to the potential regressive effects for consumers.

Adequacy and stability

The May 2018 proposal foresaw generating €6.6 billion in revenue from the plastic-based own resource. However, after subsequent research conducted by Deutsche Bank in 2020 (Schratzenstaller *et al.*, 2022), it was found that an adjusted mechanism would result in a net revenue of €5.9 billion for the Union. While projections suggest that revenue from this resource may decline over time due to increased plastic recycling and decreased usage, the Commission remains optimistic about medium-term stability driven by growth in recycling and a slight uptick in plastic waste.

6.2. Evaluation of own resource based on EU ETS

Principle of Subsidiarity

The ETS has a strong focus on cross-border activities and their impact on emissions. This, together with the highly harmonised rules ensuring a level playing field, ensures that the conditions around subsidiarity are met.

Given the cross-border nature of emissions, implementing an EU-wide mechanism is more efficient and effective than national solutions. National systems to put a price on carbon could result in an inefficient low price for the reason that externalities are ignored. In addition, there is likely to be downward pressure on the price due to competitiveness resulting in carbon leakage, which could lead to Member States setting an even lower price with major inefficiencies that do not take into account social costs. These aspects are even more important in these sectors given their cross-border nature.

Creating European added value

An EU ETS-based self-funded source highlights the pursuit of European added value through its strong connection to climate objectives and its contribution to the efficient functioning of the single market. The EU ETS, as a pan-European initiative, embodies the essence of European added value by surpassing national boundaries and generating shared benefits. Extending thisframework to create a distinct resource for the EU budget would improve the integration of climate efforts and bolster the shared European approach.

Contribution to European policy objectives

The EU ETS aims to reduce greenhouse gas emissions by 55% by 2030 (compared to 1990) and achieve carbon neutrality in the EU by 2050 in a market-oriented and economical way (ETS property). An own resource derived from ETS would fulfill the requirements for new resources as it contributes to the climate objectives.

Implementing the European Green Deal to attain carbon neutrality by 2050 is one of the Commission's primary objectives. The 55% reduction mentioned earlier aligns with the EU's nationally determined contributions as outlined under the United Nation Framework Convention on Climate Change. In September 2020, the Commission published the 2030 Climate Target Plan. The proposed revisions to the EU ETS serve as crucial components of the European Green Deal, which entails transitioning to a more robust EU ETS to meet the amplified climate targets (especially through expanding 48 present sectors or adding new ones). Furthermore, the 'Fit for 55' package comprises a comprehensive overhaul of the EU ETS.

Limited Administrative Burden

The introduction of new sectors and additional ETS systems will increase administrative complexity. Unlike the current sectors, the transport and construction sectors consist of more small emissions, buying allowances will run into practical difficulties as well as significant administrative costs. Upper and lower limits will also create some additional administrative burdens.

Transparency and simplicity

The administration and collection of the current ETS system is guaranteed at the national level. To create a European own resource, a mere transfer of revenues at the national level to the EU is all that is required. This process is transparent and straightforward, although the addition of the adjustment mechanism does increase complexity. However, the limited transparency and tangibility of an ETS-based own resource towards citizens should be noted. This is due to the system's inherent complexity, which makes it difficult to comprehend for the average person. The introduction of further stand-alone ETS systems as proposed will only serve to compound the complexity. The only implicit message to citizens will be potential price rises. Despite the EU ETS being straightforward as a single resource, augmentations to the existing ETS and the resulting complexity, generally undermine its clarity and transparency.

Equality and fair burden sharing

The distribution of revenues garnered from auctioning allowances among member states in proportion to their national gross domestic product is questionable. This is because poorer and more carbon-intensive member states seem to bear a disproportionate burden under the EU ETS system. Such an observation confirms the preconception that the system does not sufficiently consider individual energy mixes and economic structures. The EU ETS's resources will lead to the redistribution of funds from carbon-intensive and financially challenged member states to those that are less so and typically wealthier. To balance out this redistribution, a minimum and maximum contribution system has been put in place to ensure less emission-intensive (and richer) member states still make a significant contribution. However, it is worth noting that forthcoming developments, for example, the extension of the ETS and technological progress in emissions reduction, will impact the fair distribution of responsibilities among Member States. Furthermore, levying a carbon tax may disproportionately affect low-income households, and while the Social Climate Fund may assist in reducing these inequitable consequences, its efficacy is uncertain.

Adequacy and stability

The instability of auction revenues presents difficulties for member states, particularly those with less carbon-intensive profiles. Assigning a share of these proceeds to the EU budget can aid in mitigating these fluctuations. Academics widely recognise the potential of a carbon-based resource owned by the EU to significantly contribute to its budget (Feust and Pisani-Ferry, 2020), particularly as carbon costs increase, free allowances decrease, and the ETS system grows. To guarantee reliable estimations of potential revenue, it is advisable to conduct a comprehensive sensitivity analysis across multiple situations.

6.3. The own resource based on the CBAM

Principle of Subsidiarity

The EU Emissions Trading System (EU ETS) and the proposed Carbon Border Adjustment Mechanism (CBAM) underscore the requirement forEuropean-level effort because of the cross-border effects of emissions and harmonised regulations, which align with the principle of subsidiarity. Inconsistent national approaches pose the danger of carbon leakage and pricing constraints. CBAM's form alsobacks centralised enforcement, similar to the EU ETS. Climate anxieties that cross borders raise free-rider concerns, echoing inefficiencies of the EU ETS (Schratzenstaller *et al.*, 2022).

Creating European added value

A private ETS-based solution aligns with European added value, enhancing climate policy and the single market. The present ETS framework presents consistency; however, ETS association with the EU budget would align it with European heritage. Moreover, such a connection promotes subsidiarity's principle since acting at the European level offers economies of scale and encourages worldwide climate action, thereby consolidating European added value.

Contribution to European policy objectives

The EU Emissions Trading System (EU ETS) aims to decrease greenhouse gas emissions by 55% by 2030 and attain climate neutrality by 2050 through market-driven approaches. This is in line with the European Green Deal, which envisages a more rigorous EU ETS and expansion into fresh sectors. The Carbon Border Adjustment Mechanism (CBAM) is closely associated with the EU ETS, addressing carbon leakage and performing similarly to emission rights. Furthermore, as part of its strategy to combat climate change and promote sustainability, the EU intends to eliminate complimentary allowances for energy-intensive industries by 2035. This initiative highlights the EU's dedication to comprehensive climate action.

Limited Administrative Burden

The expansion of ETS sectors and systems increases administrative complexity, particularly in transport and construction with numerous small emissions. Purchasing allowances presents practical challenges and incurs high administrative costs. Furthermore, caps create additional administrative burdens. The CBAM's complexityhas come under criticism for its widespread impact on both domestic and foreign companies. Balancing the effectiveness and administrative burden is crucial in implementing the CBAM, which involves registration, pricing, monitoring, and verification. A CBAM-based own resource is intricate and carries significant administrative burdens.

Transparency and simplicity

Creating a European own resource from the current ETS system necessitates transparent revenue transfer, but the adjustment mechanism results in complexity. While ETS-based and CBAM-based own resources are difficult for citizens to understand, stand-alone ETS systems add complexity. The CBAM, despite its complexity, provides transparency and could potentially raise prices for citizens due to indirect impacts similar to the ETS own resource. Cooperation between EU and national governments is necessary to ensure clarity in the verification of emissions data and to prevent any confusion.

Equality and fair burden sharing

The unequal allocation of revenue within the EU ETS poses potential challenges for underprivileged member countries with carbon-intensive economies. The ETS's self-financing mechanism aims to redistribute funds, adjusting to mitigate effects. However, any future changes will impact this distribution. Though carbon pricing could have adverse effects on low-income households, the Social Climate Fund could address these concerns. The implementation of the Carbon Border Adjustment Mechanism (CBAM) may pose a negative impact on certain economies as the costs may be transferred to importers, potentially contradicting the principles of climate justice. The CBAM is often criticized due to its protectionist nature; however, this criticism can be addressed through appropriate revenue allocation and support for poorer countries. While the CBAM may lead to higher prices on industrial products in the short term due to increased costs, its regressive effects appear to be limited.

Adequacy and stability

Revenue fluctuation caused by allowance auctions, which disproportionately affects carbon-intensive member states with lower economic status, could be mitigated by allocating some of it to the EU budget. The implementation of a carbon-based own resource might be valuable for increasing the EU budget, considering the rising carbon prices and expansion of the Emissions Trading System. It is recommended that the Commission study different revenue scenarios and conduct a sensitivity analysis. CBAM's revenue stability heavily relies on carbon prices and imports, which are affected by the same factors as the EU ETS. While CBAM currently has limited scope, an expansion of its implementation and a rise in carbon prices could potentially enhance its role as a self-sufficient resource, while also contributing to the EU ETS resource pool.

7. Concluding remarks

The plastic-based own resource uses existing data and leaving the correction two years is a normal procedure within the EU budget. Especially when compared to the two others, the plastic fee scores very well in terms of reducing administrative burdens. For the same reason that administrative burden is limited (i.e. its statistical nature), together with the uncertainty regarding visibility for citizens and businesses, the carbon-based own resource lacks transparency. The adjustment mechanism within this own resource can only smooth out inequalities at national level to a limited extent, and provided regressive effects for consumers are expected, the criterion of equality and fair burden sharing is not met.

Given the cross-border nature of the EU ETS and the impossibility for Member States to capture externalities of emissions, the own resource based on the EU ETS is the textbook example for fulfilling the subsidiarity principle as well as an important asset for demonstrating European added value. Furthermore, the EU ETS contributes to numerous climate objectives and coincides perfectly with European policies. However, the expansion of the EU ETS will cause an increase in administrative burdens, especially considering the sectors that would be expanded. Despite the EU ETS being quite clear as an own resource, the extensions and complexity are generally detrimental to the transparency and simplicity of this new own resource. The adjustment mechanism for the EU ETS own resource in the form of a minimum and maximum contribution is well-founded as it mitigates any reallocations and guarantees a contribution from richer less emission-intensive countries. In addition, the adjustment mechanism has a second advantage in that carbon-intensive countries can take action for the decarbonisation of their economies with the funds saved (because of the cap). It also proves the Social Climate fund's utility in terms of equity and fair burden sharing, as it aims to prevent regressive effects on low-income households. Only on how much the SCF will succeed in this are there question marks. Despite the goal of eventually becoming climate neutral, its own resource based on the EU ETS will generate revenue until 2050. Indeed, given the falling cap, the expansion of sectors and the removal of allocated allowances, this new own resource has the potential to fundamentally alter the EU budget.

The CBAM has a clear link to the EU ETS given that it mainly addresses carbon leakage, apart from the globalisation of the EU ETS there is no option available that solves this problem better. In addition, within the EU ETS, the Commission wants to eliminate free entitlement and the CBAM makes this possible. Therefore, the CBAM is strongly aligned with European policy objectives and the link between the EU ETS and the CBAM makes this more than clear. The complexity of the CBAM is high and, given the large number of companies that will be subjected, the administrative burden is high. The predictions are of such an order of magnitude that a cost-benefit analysis might be needed to assess efficiency. The CBAM may go against the principle of climate justice, the affected trading partners are poorer than the EU and especially those with highly carbon-intensive economies. To break the perception as protectionist, revenues from the CBAM could be used to help poorer countries in their climate transition, after all, additional revenues would already be gained through the free entitlement that would be eliminated. Regressive effects further depend entirely on the evolution of the scope of the mechanism. That scope is so small within the current proposal that an own resource based on the CBAM would only contribute 1%.

This paper examined the extent to which the NextGenerationEU own resources meet the main criteria for own resources within the European Union. The paper shows that the new own resources are largely in line with the main criteria and meet the requirements that led to reforms of the EU budget, such as addressing problems with the current system, the impact of the Covid pandemic and the possible consequences of the war in Ukraine. In general, the new own resources are broadly in line with the criteria set out in the 2020 IIA, but improvements are possible, in particular in terms of limited administrative burden, transparency, simplicity and equal burden sharing. These conclusions suggest that the new resources tackle current systemic problems and the demands of COVID-19, accelerating Europe's green and digital transformation, which is besides the war in Ukraine one of the major challenges for the EU budget. The income generated is secure and adequate to cover debt servicing and future revenue requirements, thereby reinforcing the European Union's added value.

However, the Ukrainian war puts extra pressure on the budgetary policy of the EU, direct and indirect (Fabbrini, 2023). Are the current Own resources of the EU sufficient during and in the wake of the war? The EU's reaction to the ongoing conflict in Ukraine during 2022 indicates a trend of unified fiscal capacity within the EU, similar to measures taken during the Covid-19 pandemic, where funding methods were comparable to those employed for pandemic relief. As a result of the war, the European Peace Facility (EPF) (European Council, 2023) was deployed, as an off-budget funding mechanism, and the Micro-Financial Assistance Plus (MFA+) to Ukraine was introduced as an alternative funding mechanism, owing to the limited size and intricacy of the EPF (European Commission, 2023). This new instrument follows in the footsteps of SURE and NGEU by relying on member states' guarantees and issuing common debt to address emergencies. It also takes lessons from NGEU's Recovery and Resilience Facility in terms of objective-setting and evaluation mechanisms. These developments align with theories of European integration and legal precedent in emergency governance.

In view of these developments, the conflict in Ukraine prompts inquiries into the adequacy of the EU's present internal funds for the duration and aftermath of the war. The effect of the war on EU budgetary policy assumes significance, particularly in light of the developing approaches to funding responses to crises akin to the one in Ukraine.

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