ETUC Position on the next generation of own resources for the EU Budget

Adopted at the virtual Executive Committee Meeting of 16-17 March 2022

Summary

- The ETUC, following the launching of the NextGenerationEU scheme, acknowledges the release of the Commission's proposal for raising EU new own resources.
- The proposal answers some of the ETUC requests as stipulated in the ETUC resolution on EU taxation and own resources, adopted in March 2021.
- The new own resources would come from parts of the expected proceeds generated from 1) the EU emissions trading system; 2) the Carbon Border Adjustment Mechanism and; 3) the reallocation of Member States' taxing rights on a share of residual profits of the largest multinational companies.
- Although the ETUC could broadly support the proposal, some adjustments would still be necessary.
- Finally, the ETUC reiterates its demand for additional new own resources for a stable long-term financing of the EU budget.

State of play:

Following the launching of the European Union Recovery Instrument (NextGenerationEU) in May 2020, the European Council's conclusions of 21 July 2020 stated that "*The Union will over the coming years work towards reforming the own resources system and introduce new own resources*" and indicated that "*The proceeds of the new own resources introduced after 2021 will be used for early repayment of Next Generation EU borrowing*"[1].

On 16 December 2020, a legally binding Interinstitutional Agreement between the European Parliament, the Council and the Commission indicated that "*the repayment of the principal of such funds to be used for expenditure under the European Union Recovery Instrument and the related interest due will have to be financed by the general budget of the Union, including by sufficient proceeds from new own resources introduced after 2021*"[2].

On 22 December 2021[3], the Commission proposed three new sources of revenue for the EU budget. The new own resources would come from parts of the expected proceeds generated from 1) the EU emissions trading system; 2) the Carbon Border Adjustment Mechanism and; 3) the reallocation of Member States' taxing rights on multinational residual of the largest multinational companies.

[1] *European Council (EUCO 10/20), Special meeting of the European Council (17, 18, 19, 20 and 21 July 2020) – Conclusions.*

[2] *Interinstitutional Agreement between the European Parliament, the Council of the European Union and the European Commission on budgetary discipline, on cooperation in budgetary matters and on sound financial management, as well as on new own resources, including a roadmap towards the introduction of new own resources of 16 December 2020 (L433I/28).*

[3] *European Commission (COM (2021) 566 final), Communication from the Commission to the European Parliament, the Council, the European Economic and Social Committee and the Committee of the Regions: The next generation of own resources for the EU Budget.*

The new own resources

The Commission indeed proposes that 25% of the revenues generated by EU emissions trading become an own resource for the EU budget. However, it also mentions that 25% of the expected revenues from the inclusion of buildings and road transport in the scope of EU emissions' trading should be devoted to a Social Climate Fund to protect vulnerable households from having additional financial burden. It also foresees a temporary solidarity adjustment mechanism, during the period of transition, to more sustainable economies and societies, to ensure a fair emissions trading-based own resource contribution from all Member States by applying an upper and lower boundary for the EU emissions trading own resource contribution with regard to the gross national income key to avoid that some Member States contribute disproportionally to the EU budget in comparison to the size of their economy.

Moreover, the Commission suggests 75% of the revenues generated by a carbon border adjustment mechanism to be integrated as own resources for the EU budget.

Finally, it is foreseen that an equivalent of 15% of the share of the residual profits of the largest and most profitable multinational enterprises that are reallocated to EU Member States become own resources for the EU budget. This follows the work of the OECD/G20 Inclusive framework on BEPS (Base Erosion and Profit Shifting). Indeed, Pillar 1 of the agreement provides for the re-allocation of a share of the residual profits of the largest and most profitable multinational enterprises to end market jurisdictions where goods or services are used or consumed. It should be noted that the Commission has not yet made any proposal for the implementation of Pillar 1 into EU law. The Commission, translating pillar 2 of the agreement, made a proposal for a Council Directive on ensuring a global minimum level of taxation for multinational groups in the Union. However, the revenues arising from the minimum tax will not feed into own resources.

ETUC comments

On the Emission Trading System and the Social Climate Fund

ETUC has expressed several concerns[4] about the idea to create an ETS covering road transport and buildings. If not addressed properly, all these effects combined could result in a lack of political acceptance of climate policies by EU citizens and in some sort of political backlash. The EU cannot take the risk of jeopardizing the unprecedented efforts of the European Green Deal. The Commission's proposal to create a new Social Climate Fund tries to address some of these concerns through several mechanisms. The ETUC acknowledges these proposals but they appear to be insufficient to fully address the worries expressed. Indeed, the creation of a Social Climate Fund to mitigate the effects of the second ETS only partially answers the concerns expressed by ETUC. In order to answer those concerns and to guarantee workers' support to the climate agenda, ETUC is of the idea that a Social Climate Fund is needed but opposes the proposal of a new ETS for road transport and building.

Moreover, the EU ETS is already today generating financial resources used to support innovation and investments in the climate and energy transition. At EU level, the Modernisation Fund and the innovation Fund are two key instruments of the EU climate policy that benefit from ETS revenues. At national level, around 78% of revenues in 2013-2019 were used for climate and energy related purposes, including to fight carbon leakage through state aids to compensate ETS indirect cost. The ETUC stresses that the role that ETS revenues play in financing the transition should not be undermined by the decision on future own resources. We need more resources and more certainty to tackle the transition to climate neutrality, not less.

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[4] ETUC's position on the creation of a second ETS on road transport and building and of a new Social Climate Fund, adopted at the Executive Committee meeting of 8-9 December 2021.

On the Carbon Border Adjustment Mechanism

As stated by the ETUC[5] an effectively designed CBAM should help to protect EU manufacturers and jobs from unfair international competition. The Commission should also demonstrate that the future CBAM will effectively contribute to climate action and be compatible with the Paris Agreement and the UN SDGs. Moreover, the measure should prioritise strategic sectors that are both carbon intensive and subject to intense international competition, without excluding other manufacturing sectors, while its scope should be regularly reviewed. From that perspective, the CBAM should provide solutions for exports as well as for sectors where the risk of carbon leakage comes mainly from indirect emissions (i.e. scope 2 emissions related to electricity production). It should be designed in a way that limits the risk of offshoring of manufacturing activities downstream the value chain (carbon leakage). A border adjustment must be implemented in such a way that the protective effect of the previous instruments is completely balanced over the time horizon of the next few years and does not lead to a "protection gap".

On multinational taxation

Expected own resources out of Pillar 1 proposal should come from taxed reallocated profits to multinational companies. However, only a fraction of multinationals' profits will come under such taxation. Although a Directive should be implemented to ensure that multinational companies cannot be taxed under 15%, only 25% of residual profit, defined as profit in excess of 10% of revenue, will be reallocated to market jurisdictions. Moreover, the portion of profits reallocated will be assessed with respect to only where sales took place as a basis of profits reallocation, disregarding where the value is created.

The Commission's proposal[6] both states that: 1) the new own resources should be "*equivalent to 15% of the share of the residual profits of the largest and most profitable multinational enterprises that are reallocated to EU Member States*" and; 2) that "*Member States would provide a national contribution to the EU budget based on the share of the taxable profits of multinational enterprises re-allocated to each Member State under Pillar One*". Our assessment leads us to think it implies that the effective tax rates applied by Member States to the re-allocated profits under Pillar 1 should be of at least 15% and that Member States that would decide to apply lower rates would have to compensate from their budget. It ensures multinationals entering Pillar 1 of the OECD/IF Agreement, which are the same as the ones falling under the establishment for a minimum corporate tax under Pillar 2 of the Agreement, should not be taxed under 15%. However, Member States could still raise revenue out of Pillar 1 for they own budget by applying a higher rate, in line with their national corporate tax rates, preventing the whole amount of revenues collected through Pillar 1 to be devoted to EU Budget own resources.

ETUC demands[7]

The Emission Trading System, the Carbon Border Adjustment Mechanism and the Social Climate Fund

The idea to create a Social Climate Fund as proposed by the Commission is welcomed and supported by ETUC. A new fund to support households in dealing with rising energy prices and in investing in energy efficient, and clean, housing and mobility solutions is indeed needed urgently. Along with adequate resources to secure a just transition of the

[5] *ETUC resolution on "Fit for 55" package, adopted at the virtual Executive Committee meeting of 22-23 March 2021.*

[6] *European Commission (COM (2021) 566 final), Communication from the Commission to the European Parliament, the Council, the European Economic and Social Committee and the Committee of the Regions: The next generation of own resources for the EU Budget.*

[7] *For additional details, please see ETUC resolution on EU taxation and own resources, adopted at the virtual Executive Committee Meeting of 22-23 March 2021.*

workers in the construction and transport sectors. However, if new ETS are implemented the ETUC urges EU and national policy makers to dedicate 100% of the revenues generated by the second ETS – or an equivalent amount through more progressive sources of revenues – to compensate workers and their households, finance clean mobility and energy efficiency alternatives, and reduce energy poverty.

The new Social Climate Fund should also be used as a leverage to promote high quality employment and decent working conditions. Activities related to the world of work that will be financed by the fund should be subject to social conditionality. In other words, any funding of activities by the Social Climate Fund that requires hiring workers should be conditional to decent wages, decent working conditions (including health and safety aspects and direct employment contracts), proper trade union representation, social dialogue and the right to bargain collectively.

When it comes to revenues generated by the EU ETS or the future Carbon Border Adjustment Mechanism, ETUC strongly recommends using these revenues to increase further the Innovation Fund, the Modernisation Fund and the Just Transition Fund as this would help secure funding to manage the transition, especially in those regions and countries most affected by decarbonisation. The ETUC insists that these revenues should be earmarked to finance climate action (including measures to decarbonise sectors covered by the ETS) or used to counter potential negative social and economic consequences resulting from the decarbonisation process. Such revenues should not be used to feed the general EU budget or to reimburse debts coming from Next Generation EU, unless if strictly used to cover climate related expenditures. With soaring energy prices, ETUC also stresses that decision on new own resources that would impact the use of ETS auctioning revenues should not undermine the use of state aids to compensate ETS indirect cost. Moreover, it should explore ways to ensure that all regions and member states can provide similar support to their energy intensive industries. The use of future financial revenues generated by the CBAM must serve its key policy objectives.

Multinational taxation

Having in mind the issue raised in the previous part, the ETUC expresses concerns regarding Member States taxing corporate profits at less or at 15%, who would have no incentive in agreeing on Pillar 1 of the OECD/IF Agreement, since it would not increase their domestic revenues (technical details still needs to be agreed for a multilateral convention expected in 2022)[8]. Such a state could be avoided by ensuring a minimum corporate tax rate of 25%. In this respect, Member States could afford to contribute to EU Budget's own resources to reach an equivalent of 15% of the share of the residual profits reallocated to EU Member States, while keeping a national interest in doing so. Another way out, although less attractive and detrimental to the EU, would be to target an amount of own resources out of the national budget for the EU Budget below 15% of the share of the residual profits reallocated to EU Member States. Finally, if an agreement cannot be found on Pillar 1, the ETUC still considers Digital Service Taxes an interim solution for taxing the digital economy, as long as a more global and coherent system is not established, both at EU and international level.

Taxes on excess profit

The ETUC, especially following the pandemic and the rise in inflation, since some large companies tend to use periods of rising inflation to boost their profit margins[9], and since

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[8] The hope is to have sufficient ratifications still in 2022, so that the reallocation of taxing rights can occur as from 2023. The multilateral convention would include a removal of and renouncement to digital service taxes and similar measures
[9] D. Reuter & A. Kiersz (2021), "Corporations are using inflation as an excuse to raise prices and make fatter profits — and it's making the problem worse", Insider.

multinational companies have increased their mark-ups by more than 60% in the last 40 years[10], promotes higher tax rates on excess corporate profits. In this respect, the European Commission fact sheet published in May 2020 mentions a proposal for a levy "*on operations of companies that draw huge benefits from the EU single market*" that could be considered as a rather interesting proxy, as long as one defines properly what the exact meaning of "*benefiting from the EU single market*" is. In this respect, Member states could tax Pillar 1 profits at 15% on top of the national corporate income tax rate and devote the resulting amount to the EU-budget.

Financial Transaction tax

The ETUC demands the adoption of a Financial Transaction Tax with the largest base achievable. Already in 2010, the ETUC sent a letter to the European Commission demanding a European level FTT that raises money to finance recovery measures and that tackles purely speculative activities, since a European FTT applied to all financial transactions would significantly curb speculation. By discouraging socially useless short-term and high-frequency trading, the FTT would help bring the financial sector to a level more consonant with the real economy. Research carried out by the ETUI[11] supports such a call by stating that "all transactions of shares, bonds, derivatives, and currency units" should be taxed, and provides answers for pension issues[12].

Wealth taxation

Although corporate and personal income taxation are a Member States' prerogative, it is of the utmost importance to tackle wealth inequality, given the very mobile nature of financial flows, at the European level. It is worth noting that wealth-related taxes have recently been, or about to be, introduced in Belgium and Spain to help finance the response to the Covid-19 pandemic. The ETUC therefore positively assesses the implementation of a progressive net wealth taxation at the European level that is not at the expense of national tax structures.

BEFIT

The ETUC has continuously and vigorously pushed for the CCCTB initiative despite the inertia in the Council that led to its failure and its revival through the "Business in Europe: Framework for Income Taxation" (BEFIT) initiative. The ETUC calls forward a rapid proposal regarding BEFIT". Such a scheme should encompass the most essential features of the CCCTB, namely, "a common tax base and of formulary apportionment"[13] integrating employees, sales and assets, together with a 25% common minimum tax rate (to significantly increase tax revenues globally and stop competition over corporate tax rates) and public Country-by-Country reports.

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[10] J. De Loecker & J.Eeckhout (2020), "Global Market Power".

[11] A. Botsch (2012), "Financial transaction taxes in the EU", ETUI Policy Brief N° 8/2012 European Economic, Employment and Social Policy.

[12] See also (J.S. Henry, J. Christensen, D. Hillman and N. Shaxson, 2021), Submission to New York State Assembly: the case for Financial Transactions Taxes, "The time for financial transactions taxes has returned".

[13] COM(2021), 251 final, Communication from the commission to the European Parliament and the council: Business Taxation for the 21st Century