

Europe climate-neutral by 2050: What contribution can the EU-budget make in the fight against climate change?



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LONG-TERM CHALLENGES FOR EU BUDGET

- Persisting regional disparities
- Demographic change
- Increasing income and wealth inequality and risk of poverty
- (Refugee) migration
- (Youth) unemployment
- Past and imminent enlargement rounds
- **Climate change and energy transition**

=> Current structure of EU budget not able to cope with these challenges





MFF 2014-2020 AND CLIMATE

- MFF 2014-2020 contributes too little to overarching goal of sustainable growth and development
 - Europe 2020 strategy
 - 2030 Agenda for Sustainable Development, SDG
 - Paris Climate Agreement
 - Circular Economy Action Plan
 - Plastic Strategy
 - Action Plan on Financing Sustainable Growth

=> EU expenditures as well as own resources to finance EU budget





MFF 2014-2020 AND CLIMATE

- MFF 2014-2020 still dominated by CAP (39%) and cohesion policy (34%)
- Moderate share of expenditures dedicated to competitiveness and infrastructure, including research (13%)
- 2% of overall expenditures for development assistance within regular EU budget
- 1% for Schengen-related spending (asylum, migration, borders and internal security)





MFF 2014-2020 AND CLIMATE

- Share of conventional CAP (“first pillar”) too high (>75%) – share of CAP for sustainable agriculture too low; not targeted enough and coupled too little with climate goals; tends to have regressive effects on regional and personal income distribution
- Cohesion funds not targeted enough, focusing too strongly on traditional infrastructure projects – focus on climate/environmental goals insufficient
- Share of (“green”) R&D (35% of R&D expenditures reserved for climate-related targets) and for (low-carbon) infrastructure expenditures too low

=> Altogether too little European “green” value added!





GENERAL APPROACH FOR THE NEXT MFF

- General approach for next MFF also depends on future integration scenario
- But: considering deficiencies in current EU budget, MFF should be overhauled fundamentally anyway
- Shifts in expenditure structure should be based on comprehensive concept of sustainability (economic, social, environmental sustainability)





FUTURE STRUCTURE OF MFF

European “green” added value with focus on environmental sustainability can be generated by:

- Significantly reducing overall expenditure on CAP; reinforcing “greening” of first pillar (conditionalities, capping); shift to “second pillar”
- Shifting cohesion funds from “richer” to “poorer” MS, coupling them more strongly with climate goals





FUTURE STRUCTURE OF MFF

European “green” added value with focus on environmental sustainability can be generated by:

- Significantly increasing expenditure on (“green”) research and innovation
- Significantly increasing expenditure on low-carbon cross-border infrastructure (CEF) as part of European decarbonisation strategy





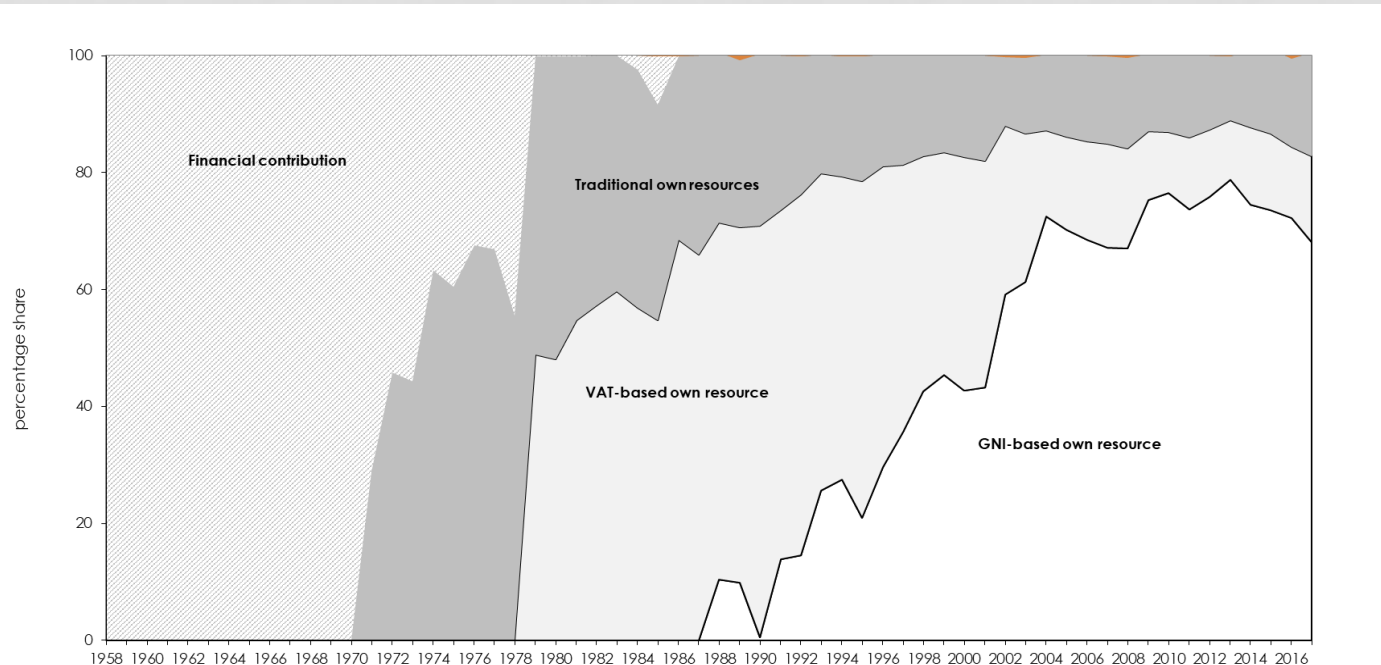
FUTURE STRUCTURE OF MFF

- These shifts should be pursued regardless of future integration scenario
- Current budget volume leaves considerable space for significant expenditure shifts
- Combination of expenditure cuts in CAP and a sustainability-oriented shift of priorities within each spending category should significantly increase added value of EU spending



REFORM OF SYSTEM OF OR

Composition of own resources in a long-term perspective



Source: European Commission (2018).





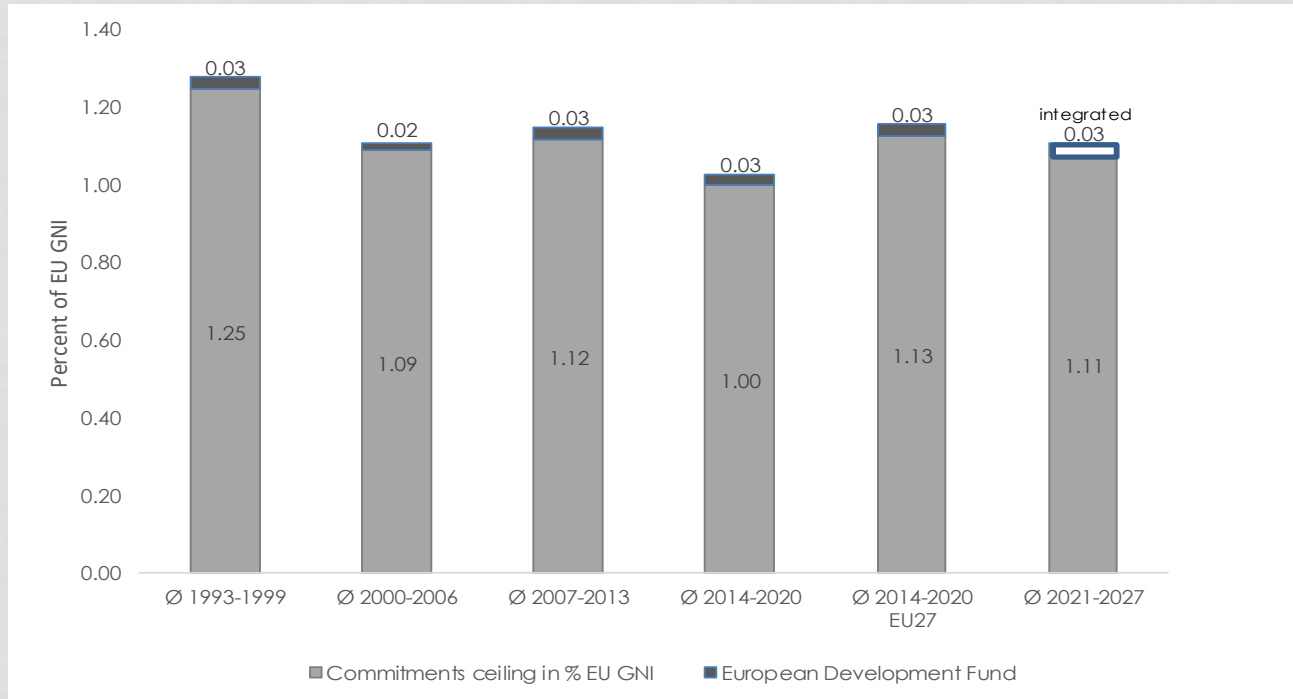
REFORM OF SYSTEM OF OR

- Current system of own resources contributes little to European sustainability goals – reform should be part of “Green New Deal for Europe” to increase European “green” added value
- Current own resources should be partially replaced by sustainability-oriented (inter alia “green”) own resources – would create leeway for reduction of Member States’ tax burden (particularly on high taxes on labour) => supranational sustainability-oriented tax shift!
- Candidates: Taxes/levies that cannot be enforced effectively on MS level due to tax competition, tax avoidance, cross-border externalities... – and contribute to European strategies and policies



EC PROPOSALS FROM MAY 2018

Size of EU budget in % of EU GNI





EC PROPOSALS FROM MAY 2018

	MFF 2014-2020			MFF 2021-2027			
	Mio. €	% of Total	% of GNI	Mio. €	% of Total	% of GNI	
1a. Smart and Inclusive Growth	142,130	13.1	0.13	187,370	14.6	0.16	
Horizon 2020	79,402	7.3	0.07	R&I	102,573	8.0	0.09
Connecting Europe Facility (CEF)	21,937	2.0	0.02	Horizon Europe	97,600	7.6	0.08
ERASMUS	14,775	1.4	0.01	European Strategic Investments	49,973	3.9	0.04
Other	26,016	2.4	0.02	Connecting Europe Facility (CEF)	24,480	1.9	0.02
				Single Market	6,391	0.5	0.01
				Space	16,235	1.3	0.01
1b. Economic, Social and Territorial Cohesion	366,791	33.9	0.34	2. Cohesion and Values	442,412	34.6	0.39
				Cohesion Funds	374,414	29.3	0.33
				Regional Development and Cohesion	273,240	21.4	0.24
				European Social Fund (ESF)	101,174	7.9	0.09
				ERASMUS	30,000	2.3	0.03
				EMU	25,113	2.0	0.02
2. Sustainable Growth: Natural Resources	420,034	38.8	0.39	3. Natural Resources and Environment	378,920	29.6	0.33
Common Agriculture Policy (CAP)	408,312	37.7	0.38	Common Agriculture Policy (CAP)	365,006	28.5	0.32
European Agricultural Guarantee Fund (EAGF)	312,735	28.9	0.29	European Agricultural Guarantee Fund (EAGF)	286,195	22.4	0.25
European Agricultural Fund for Rural Development (EAFRD)	95,577	8.8	0.09	European Agricultural Fund for Rural Development (EAFRD)	78,811	6.2	0.07
Other	11,722	1.1	0.01	Other	13,914	1.1	0.01
3. Security and Citizenship	17,725	1.6	0.02	4. Migration and Border Management	34,902	2.7	0.03
Asylum, Migration and Integration Fund	3,137	0.3	0.00	Asylum and Migration Fund	10,415	0.8	0.01
Internal Security Fund	3,764	0.3	0.00	Border management	21,331	1.7	0.02
Other	10,824	1.0	0.01	5. Security and Defence	27,515	2.2	0.02
				Security	4,806	0.4	0.00
				Defence	19,500	1.5	0.02
				Other	3,209	0.3	0.00
4. Global Europe	66,262	6.1	0.06	6. Neighbourhood and the World	123,002	9.6	0.11
External Action	54,563	5.0	0.05	External Action	105,219	8.2	0.09
Humanitarian Aid	6,622	0.6	0.01	Humanitarian Aid	11,000	0.9	0.01
Neighbourhood, Development and International Cooperation Instruments ¹⁾	40,012	3.7	0.04	Neighbourhood, Development and International Cooperation Instrument	89,500	7.0	0.08
Other	7,929	0.7	0.01	Other	4,719	0.4	0.00
Pre-accession Assistance	11,699	1.1	0.01	Pre-accession Assistance	14,500	1.1	0.01
5. Administration	69,584	6.4	0.07	7. European Public Administration	85,287	6.7	0.07
6. Compensations	29	0.0	0.00				1.0
TOTAL	1,082,555	100.0	1.02	TOTAL	1,279,408	100.0	1.11





EC PROPOSALS FROM MAY 2018

- **Rather moderate structural shifts in overall expenditure**
 - Decrease of share of CAP and cohesion expenditures to about 29% each
 - Slight increase of research framework programme from 7.3% to 7.6%
 - Stagnation of Connecting Europe Facility at about 2%
 - Largest increase for asylum, migration, border management, defence, external relations: from 7.7% to 15.5%





EC PROPOSALS FROM MAY 2018

- **Sustainability, environment protection and fight against climate change as priority:**
 - Climate mainstreaming across all EU programmes increased – from 20% to at least 25% of EU expenditure contributing to climate objectives (€ 320 billion, i.e. + € 114 billion compared to MFF 2014-2020)

However, there is room for improvement to reinforce European “green” added value on expenditure as well as revenue side...





EC PROPOSALS FROM MAY 2018

- **Regional development and cohesion**
 - Prioritisation of low carbon transition and energy efficiency in regional development
 - Support of fossil fuel projects almost comprehensively excluded
 - Climate as a condition amongst others (integration of migrants, education)
 - Climate proofing
 - Climate earmarking (30% ERDF, 37% Cohesion Fund) – may not suffice to reach overall 25% climate mainstreaming target





EC PROPOSALS FROM MAY 2018

- **Connecting Europe Facility**
 - 10% funding dedicated for cross-border renewable energy projects
 - However: fossil fuel infrastructure not completely ruled out
- **InvestEU**
 - Climate proofing introduced – but not applied comprehensively
 - Fossil fuel infrastructure not completely excluded
- **R&D expenditures**
 - Constant share of 35% of climate mainstreaming allocation





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EC PROPOSALS FROM MAY 2018

- **First steps towards (“green”) own resources**

- Share of 3% in CCCTB
- Tax rate of 0.80 € per kilo non-recyclable plastic waste
- Share of 20% in revenues from auctioning emission trading certificates

=> 12% of overall revenues by 2027 – thus reducing share of national contributions from above 80% to 71%

=> non-paper by Commission services from June 2019:

“... some Member States have called on the Commission to explore possible other new sources of revenue, in particular linked to the internal market and/or the environment. The Commission has always expressed its willingness to look into new Own Resources should they be supported by MS.”



SUSTAINABILITY-ORIENTED EVALUATION CRITERIA FOR OR

Dimension of sustainability	Evaluation criterion	Explanation
Economic sustainability	Growth friendliness	The tax does not (significantly) harm economic growth
	Sufficiency/ fiscal sustainability	The revenues from the tax will be stable in the longer run
Social sustainability/ inclusiveness	Personal distribution of income and wealth	The tax mitigates the unequal personal distribution of income or wealth
Environmental sustainability	Environmental sustainability	The tax mitigates environmental problems
Institutional/cultural sustainability	Revenue stability	The revenues from the tax are not subjected to short-term fluctuations
	Non-attributability	The revenues from the tax cannot be attributed to individual Member States
	Fair national distribution	The tax burden is not distributed too unevenly across Member States
	Fiscal integration	The tax contributes to fiscal integration in the EU
	Non-enforceability	The tax cannot be enforced at Member State level
	Non-interference	The tax does not interfere with Member States' tax systems
	Visibility	The tax is visible for a significant share of taxpayers/citizens





OPTIONS FOR SUSTAINABILITY-ORIENTED OWN RESOURCES

Study	Potential tax-based own resource	Reference year	Member States involved	Details	Potential revenues, billion €	Potential revenues, % of EU revenues 2017
Krenek/ Schratzenstaller (2017A)	carbon-based flight ticket tax	2014	EU28	carbon price 25 € to 35 € per tonne CO ₂ emissions	4 to 5	2.9 to 3.6
Krenek/ Sommer/ Schratzenstaller (2018)	border carbon adjustment for the EU Emission Trading System	2021	EU28	carbon price 54 € per tonne carbon emissions embodied in imports	27 to 84	19.4 to 60.4
Nerudová/ Dobranschi/ Solilová/ Schratzenstaller (2018)	surcharge on national fuel tax	2014	EU28	0.03 € to 0.20 € per liter fuel	13 to 86	9.4 to 61.9
Nerudová/ Schratzenstaller/ Solilová (2017)	financial transactions tax	2016	EU10 ("Coalition of the Willing")	0.1% on equity; 0.01% on derivatives	4 to 33	2.9 to 23.7
Krenek/ Schratzenstaller (2017B)	net wealth tax	2014	EU20 (Member States for which HFCs data are available)	1% on household net wealth above € 1 million; 1.5% on household net wealth above € 1.5 million	156	112.2
Nerudová/ Solilová (2019)	CCCTB-based own resource	2014	EU28	1% of CCCTB	8	5,8

Source: own representation.



SUMMARY EVALUATION "GREEN" OWN RESOURCES

Potential tax-based own resource	Carbon-based flight ticket tax	Border carbon adjustment	Surcharge on national fuel tax	Plastic tax	Revenues from auctioning emission trading certificates
Growth friendliness	?	+	?	?	?
Sufficiency ¹⁾	+	+	+	+	+
Personal distribution of income and wealth	+	-	0	?	?
Environmental sustainability	+	+	+	+	+
Non-attributability	+	+	+	+	+
Short-term revenue stability	+	-	+	+	-
Fair national distribution	+	0	-	+	?
Non-enforceability	+	+	+	-	+
Fiscal integration	+	+	(+)	+	+
Non-interference	(+)	+	+	+	-
Visibility	+	-	+	+	-

Source: own representation. Notes: + ... positive contribution; -negative contribution; - 0 ... neutral; ? ... unclear/not known.
- ¹⁾ In the short and medium run.





LEGAL BASIS OF CANDIDATES FOR "GREEN" OWN RESOURCES

Potential tax-based own resource	Carbon-based flight ticket tax	Border carbon adjustment for the EU Emission Trading System	Surcharge on national fuel tax	Plastic tax	Revenues from auctioning emission trading certificates
Art. 113 TFEU	X	-	X	X	-
Art. 115 TFEU	-	-	-	-	-
Art. 192 (2) / 194 (3) TFEU	X	X	X	X	X
Implementation model	transfer system	transfer system	surcharge system	transfer system	transfer system

Source: own representation.





CONCLUSIONS AND OUTLOOK

- EU Budget as cornerstone of “European Green New Deal” to produce European “green” value added
- Comprehensive sustainability-orientation of EU budget could be key element to contribute to SDGs, Paris Agreement, Circular Economy Action Plan, Plastic Strategy...
- Use momentum created by new EC and EP, growing awareness of policy-makers and citizens of climate change to push radical reforms in EU budget
- Brexit shock – opportunity to fundamentally reform structure of EU budget





CONCLUSIONS AND OUTLOOK

- To reinforce effectiveness of EU budget to fight climate change and produce European “green” added value...
 - increase climate mainstreaming goal
 - introduce binding sectoral climate mainstreaming goals
 - exclude support of fossil fuel infrastructure
 - apply climate proofing comprehensively
 - use more “green” own resources
- Importance of package deals!





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