

The Stability of the Revenues to the Budget of the European Union

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Abstract

A new European Union own resource based on non-recycled plastic packaging has been introduced. Each Member State must contribute on a national level in proportion to the amount of "plastic packaging waste" that is not recycled. This new policy raises several issues from a political, monetary, and legal perspective.

The purpose of the paper is to study the sustainability of this revenue to the budget of the European Union taking into account that it's still unclear if this "EU plastic contribution" is a budgetary tool with an environmental spin or the other way around. While the fiscal and environmental goals might initially seem to be complementary.

Key words: European Union, revenues, plastic contribution, budget, economic recovery
J.E.L. classification: F64, H23, H61

1. Introduction

The European Union's (EU) overall budget has always been a very politically sensitive subject. Political leaders of the various Member States have had to negotiate agreements about the funding of the Community and its new supranational institutions ever since the "European Coal and Steel Community" (ECSC) was established in 1951, marking the beginning of European cooperation.

The European Union has made major changes to how financial resources are made available to the EU budget over the years.

To account for the growth of European integration from the initial six Member States in 1951 to the current members, several budgetary adjustments have been implemented.

Though the new multiyear structure may offer long-term stability, it goes against an important tenet of parliamentary democracy, annual budgets. The EU's pursuit of an equitable and open budgetary system has not yet fully materialized.

The purpose of the paper is to study the sustainability of the revenues to the budget of the EU, focusing on the development of the EU's "own resources" based on the amount of plastic waste, that was introduced relatively recently in 2021.

A contribution without a fiscal component, the new EU's resource. Given the challenges associated with the approval of new tax policies at the EU level, this is not surprising. The fact that this new measure will result in Member States contributing less to the EU budget strengthens the motivation for them to take action to decrease plastic waste.

It is important to note that Member States are not obligated to enact a tax to comply with the new Own Resources Decision.

The EU is being forced to reevaluate its resource system and find new sources of finance as a result of the financial and environmental crises brought on by Covid-19.

Each Member State must contribute on a national level in proportion to the amount of "plastic packaging waste" that is not recycled. This new policy raises several issues from a political, financial, and legal perspective.

2. Literature review

The determination of the EU's resources is a matter reserved for the Council, which decides unanimously with a simple consultation of the Parliament, except for the adoption of implementing measures. In terms of spending, Parliament's powers have increased over time, and it is now placed (or almost) on an equal footing with the Council when it comes to setting the EU's multiannual financial framework and annual budget. (European Commission, 2022)

The first decision regarding its resources dates back to 1970, and before 2020, no major changes were made to the 1980s system (with the addition of the VNB's resource).

The current system provides for four main sources of revenues: (1) traditional own resources, (2) an own resource based on value added tax, (3) an own resource based on gross national income, and from 2021, (4) a plastic contribution, whose real impact remains to be determined. (Traversa, 2022)

Since the packaging industry accounts for the majority of the demand for plastics in Europe, the EU has introduced several measures to address the reduction of plastic packaging waste as a result of growing environmental awareness of the effects of plastic waste.

The EU approved a new tax on non-recycled plastic packaging trash in July 2020 as a component of the EU budget, which would fund the Covid-19 recovery package at a tax rate of 800 EUR/t.

According to Leschka and Nadja member states are allowed to choose how to enact this tax, and the majority of them, have stated that they would fund it from their national budgets. One potential EU tax implementation is to impose a national tax on plastic packaging made of virgin materials, keeping in mind the goal to reduce plastic packaging waste by promoting recycling and reducing overall plastic packaging consumption.

The justification for this new EU resource, which is based on non-recycled plastic packaging, emphasizes that it is a hybrid financial and regulatory tool.

On the one hand, this contribution tries to provide the European budget resources. On the other hand, the "plastic contribution" is distinguished by a regulatory aim, unlike other own resources like VAT or GNI-based payments. (Ezcurra an Bisogno, 2022)

But it's still unclear if this "EU plastic contribution" is a budgetary tool with an environmental spin or the other way around. While the fiscal and environmental goals might initially seem to be complementary.

3. Research methodology

For the introduction of new EU own resources, the European Commission stressed the need to take into account the following values and criteria: transparency, simplicity, and stability; by the Union's policy objectives: effects on competitiveness and sustainable growth, equitable distribution among Member States.

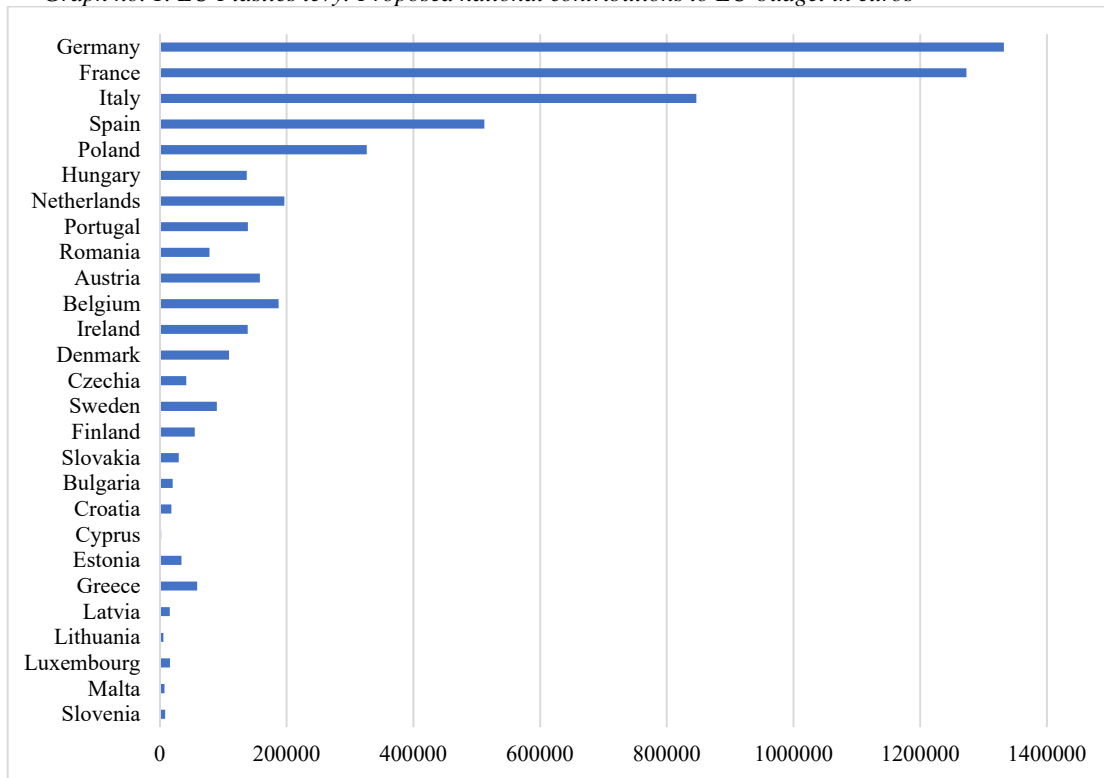
In this paper, we aim to find out if the new 'plastic contribution' complies with these requirements. To achieve this objective, we will design a descriptive and explanatory study to characterize the phenomena, their causes, and their impacts.

4. Findings

The Plastics Tax is expected to cost Member States a total of 6 to 8 billion euros annually, based on the most recent Eurostat statistics. The two nations that contribute the most are Germany and France, both of which committed to increasing their annual payments to the EU budget by at least one billion euros as a result of the plastics tax. However, a rebate mechanism will be advantageous to some member states.

Contributions from Member States with a GNI per capita below the EU average should be subject to an annual lump sum decrease. The contributions by each country are listed in the following graph:

Graph no. 1. EU Plastics levy: Proposed national contributions to EU-budget in euros



Source: Own processing based on Eurostat data

However, concerns are raised about the measure's stability. If ecologically sound, less plastic would end up in the garbage stream, making its revenue less steady over time. This begs the question of whether the increased payment will be a long-term source of funding for the EU budget.

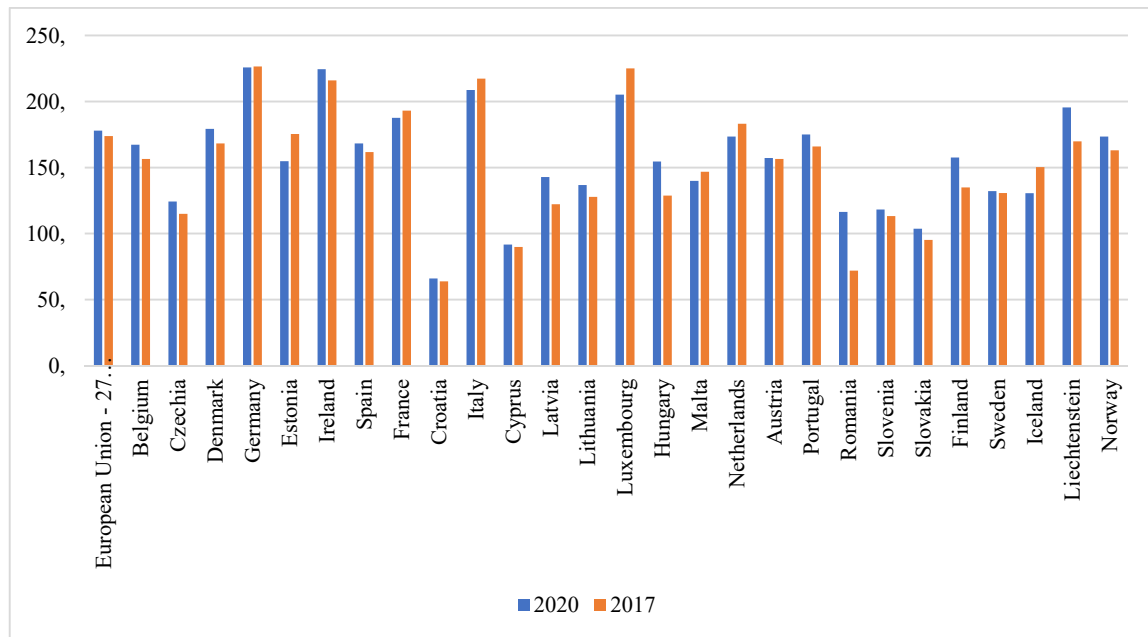
It is increasingly likely that raising money quickly will be necessary to pay off obligations incurred as a result of the financial and environmental disaster brought on by the epidemic.

In any case, if we extend the timeline, it appears that this strategy is ineffective in accomplishing the dual goals of effectively promoting plastic recycling and producing reliable supplies. As can be seen in graph no. 2. the amount of plastic waste decreased from 2017 to 2020 in most countries.

According to European Commission, France, Germany, Ireland, Luxembourg, and Slovakia are among the countries that have decided to pay the expenses of the EU Packaging Levy through their national budgets for the time being while planning for future levies to be entirely or largely paid by the private sector.

Also, Spain intends to impose an extra packaging tax on single-use plastics, with a tax rate of 0.45 euros/kg applied to non-recyclable plastics produced or imported into Spain.

Graph no. 2. Packaging waste by waste management operations



Source: Own processing based on Eurostat data

5. Conclusions

We will need to wait a few years to fully grasp how the new "plastic contribution" will operate in practice, analyze its impact on competitiveness and sustainable growth, and determine if it is consistent with an equal distribution across Member States. We applaud the establishment of a new EU own resource, the first since 1988, notwithstanding its flaws. However, have three last remarks to make.

First, it is undeniably true that one of the top priorities on the European political agenda is environmental preservation. Additionally, decreasing the contribution of plastic is consistent with European interests (such as climate change and the circular economy). However, it's crucial to remember that this does not imply that it will always be successful in preserving the environment. The measure's ex-post evaluation will be crucial.

Second, the risk is to 'greenwash' the EU budget simply because a new 'green' contribution is now more acceptable even if it is not effective in reducing plastic pollution.

Third, given the EU's fundamental goals and the current environment of economic recovery, the European internal resource system should be substantially improved.

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