

Environmental taxes to drive a sustainable EU budget

Policy makers, academics, businesses and civil society call for innovative budget reform post-2020

The EU budget in its current form is not a driver of sustainable development – neither in terms of how revenues are raised, nor how they are spent.

The founding treaties of the Union envisaged a directly controlled funding model, yet currently less than 13% of total revenue for the EU budget stems from genuine ‘own resources’, i.e. funding streams under the EU’s direct control. As a consequence, EU budget negotiations have turned into a zero-sum game between national governments that focus on minimising their national contributions rather than a shared responsibility to deliver a fairer and more sustainable distribution of wealth for all Europeans.

A reform of the budgetary system to address and overcome current complexities could green EU budgets and enhance the transparency and visibility of the EU.

The signatories below hereby call for innovative, more effective and democratic approaches to budgetary processes in order to green revenue and expenditure, and leverage sustainable private investment in the EU.

The EU must take a leadership role in climate change mitigation

The EU must reinstate itself as a world leader in the fight against climate change and translate the targets laid down in the Paris Agreement into real action. A green financing model for the EU could play an important role in achieving this goal.

The Paris Agreement establishes the global commitment to make ‘finance flows consistent with a pathway towards low greenhouse gas emissions and climate-resilient development’ (article 2)¹. At the same time, the Sustainable Development Goals (SDGs)² necessitate a paradigm shift in various social and economic areas, and Europe is preparing to put this vision into action. The EU budget, with its EUR 143.5 billion annual volume, must become a key enabler of change, if the EU is to achieve net-zero GHG emissions by mid-century. This applies to both the EU’s funding programmes and expenditures governed by the Multiannual Financial Framework (MFF), as well as to the way the budget is funded³.

¹ UNFCCC (2015). Adoption of the Paris Agreement. United Nations Framework Convention on Climate Change. [Adopted](#) on 12 December 2015. Accessed on 01.10.2016.

² UN (2016). Progress towards the Sustainable Development Goals. [Report](#) of the Secretary-General. Accessed on 01.10.2016.

³ Whereas the sustainability of the EU budget can only be evaluated with a holistic view of both income and expenditure, this report looks only at options for reforming the EU’s revenue side, the own resources system. There are a number of inspiring studies critically assessing the climate mainstreaming of the EU MFF, notably FOE and CEE Bankwatch (2016), Milieu and EC (2015) and IEEP (2014).

Aligning financial flows with what is really needed

In 2016, Green Budget Europe produced a [report](#) on 'EU own resources' looking at how green taxes could deliver on the 2030 climate and energy goals and meet this need for sustainable revenue-raising. Green tax-based instruments are the smartest candidates for raising own resources. They could greatly enhance European advances in environmental tax reform and also help to overcome the deficiencies apparent in the current system of financing the EU budget. They are a win-win for climate, the environment, a smart and equitable transition to a fossil fuel- and nuclear energy-free society, and for the future financing of the European Union's budget.

How? Green Own Resources address fiscal distortions that favour a fossil fuel-powered economy, incentivise more sustainable behaviour, and provide the structural basis for a gradual, socially acceptable transition towards a zero-carbon society. At the same time they can provide the EU with genuine own resources in the spirit of the Treaties and significantly reduce the share of national contributions to the budget.

If 100% of EU revenues were raised from green taxation, this would increase the environmental tax take in the EU by EUR 143.5 billion annually and generate significant positive environmental effects, before even one Euro of EU money has been spent.

In order to prevent an unfair or unequal burden on different member states due to a large diversity of current tax levels and tax regimes, a decision to move towards environmental taxes would also favour advances towards tax harmonisation across Europe. This could ultimately reduce tax competition and lead towards a better allocation of resources and more effective taxing of environmental 'bads', i.e. damaging behaviour and/or products. Increasing EU own resources from environmental taxes would also strengthen the implementation of the 'polluter pays principle' in Europe.

We as signatories very much welcome the report of the High-Level Group on Own Resources chaired by Mario Monti. We share most of the recommendations for Green Own Resources and their multiple enabling benefits for the EU Budget. However, we call on EU policy makers not only to systematically implement these recommendations but to go further.

The next two years are crucial if we wish to make the income side of the EU budget more sustainable and transparent, make the EU more autonomous, and make better use of the EU Budget's transformative power.

We therefore support the following measures:

- **EU Carbon Tax**
- **Border Carbon Adjustments**
- **Energy Tax**
- **Road Fuel Tax**
- **EU Air Ticket Tax**
- **EU Financial Transaction Tax**
- **EU Corporate Income Tax**
- **Fines of the Court of Justice of the European Union**

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