

EUROPEAN COMMUNITIES (FINANCE) ACT 2008

EXPLANATORY NOTES

BACKGROUND

4. Under the current Own Resources Decision (Council Decision of 29 September 2000: [2000/597/EC](#), Euratom), and its implementing measures Council Regulation (EC, Euratom) No. 2028/2004 of 16 November 2004 amending Council Regulation (EC, Euratom) No. 1150/2000 implementing Decision [94/728/EC](#), Euratom on the system of the Communities' own resources, the EC budget is financed primarily from own resources, consisting of:
 - Levies and duties on trade with non-member countries in agricultural goods including sugar;
 - Customs duties on trade with non-member countries;
 - The yield from applying a notional rate of VAT, currently of 1%, to an assessment basis in each Member State which is capped at 50% of Gross National Income (GNI). A call-up rate (currently a maximum of 0.50%) is applied to produce a Member State's VAT-based contribution; and
 - A fourth resource based on shares in GNI, the rate of which is determined by what is required (given all other revenue) to balance the budget.
5. The current Own Resources Decision also sets a reduced rate of contributions to the UK correction of 25% for Austria, Germany, the Netherlands and Sweden (the balance being paid by the remaining Member States).
6. The new decision agreed by the Council of Ministers on 7 June 2007 amends the current arrangements for VAT-based contributions by reducing the maximum call-up rate to 0.3%, thereby increasing Member States' residual contributions based on GNI.
7. For the period 2007 to 2013 only, a reduced maximum rate of call on VAT-based contributions is introduced for Austria, Germany, the Netherlands and Sweden (the Netherlands and Sweden at 0.1%, Germany at 0.15%, Austria at 0.225% compared to the general rate of 0.3%).
8. For the period 2007 to 2013 only, gross reductions in GNI contributions are introduced for the Netherlands (€605m per annum) and Sweden (€150m per annum).
9. The new decision provides for the retention of the correction mechanism in favour of the United Kingdom, along with the reduced financing of the correction benefiting Germany, Austria, Sweden and the Netherlands. However, after a phasing-in period between 2009 and 2011, the United Kingdom will participate fully in the financing of the costs of enlargement, except for agricultural direct payments and market-related expenditure, and that part of rural development expenditure originating from the European Agricultural Guidance and Guarantee Fund (EAGGF), Guarantee Section.

*These notes refer to the European Communities (Finance) Act
2008 (c.1) which received Royal Assent on 19 February 2008*

10. The new Own Resources Decision will need to be adopted or ratified by all Member States in accordance with their own Constitutional requirements before it can enter into force. It will take effect from 1 January 2009, retrospective to 1 January 2007.
11. If any Member State fails to adopt the new Own Resources Decision by 31 December 2008 then the current Own Resources Decision (Council Decision of 29 September 2000: [2000/597/EC](#), Euratom) continues to operate until such time as the adoption process is completed, with the new Own Resources Decision then coming into force on the first working day of the month following the date of notification of the final adoption or ratification, retrospective to 1 January 2007.