

EUROPEAN COMMUNITIES (FINANCE) ACT 2008

EXPLANATORY NOTES

INTRODUCTION

1. These explanatory notes relate to the European Communities (Finance) Act 2008 which received Royal Assent on 19 February 2008. They have been prepared by HM Treasury in order to assist the reader in understanding the Act. They do not form part of the Act and have not been endorsed by Parliament.
2. The notes need to be read in conjunction with the Act. They are not, and are not meant to be, a comprehensive description of the Act.

SUMMARY

3. The purpose of this Act is to enable the United Kingdom to give effect to the new Own Resources Decision (Council Decision of 7 June 2007: [2007/436/EC](#), Euratom), amending the arrangements for the financing of the annual budget of the European Communities (EC budget).

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.

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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.
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.

TERRITORIAL EXTENT

12. The provisions of the Act extend to the whole of the UK.

THE ACT

13. The Act has two sections.

COMMENTARY ON SECTIONS

Section 1

14. *Section 1* provides that the new Own Resources Decision shall be added to the list of Community Treaties in section 1(2) of the European Communities Act 1972, thus allowing payments made by the United Kingdom pursuant to the Decision to be charged directly on the Consolidated Fund under section 2(3) of that Act.

Section 2

15. *Section 2* repeals the European Communities (Finance) Act 2001 since the wording of section 1(2)(e) of the European Communities Act 1972 substituted by section 1 of the Act supersedes that substituted by the 2001 Act.

COMMENCEMENT

16. The Act came into force on Royal Assent.

FINANCIAL EFFECTS OF THE ACT

17. The calculation of the UK correction shall be adjusted by progressively excluding expenditure allocated to Member States which have acceded to the EU after 30 April 2004, except for agricultural direct payments and market related expenditure, and that part of rural development expenditure originating from the European Agricultural

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Guidance and Guarantee Fund (EAGGF), Guarantee Section. This change will be phased in as follows: 20% budgeted in 2009, 70% in 2010, 100% from 2011 onwards.

18. The additional UK contribution resulting from the reduction in allocated expenditure is limited to €10.5bn in 2004 prices over the period 2007 to 2013. In the event of further enlargement before 2013, except for the accession of Bulgaria and Romania, the amount will be adjusted accordingly.
19. The effect of the new Decision on the United Kingdom's net contribution to the Community budget will depend on the total size and pattern of Community expenditure.

HANSARD REFERENCES

The following table sets out the dates and Hansard references for each stage of this Act's passage through Parliament.

<i>Stage</i>	<i>Date</i>	<i>Hansard reference</i>
House of Commons		
Introduction	7 November 2007	Vol 467, Col 142
Second Reading	19 November 2007	Vol 467, Col 976
Committee	15 January 2008	Vol 470, Col 839
Report and Third Reading	15 January 2008	Vol 470, Col 884
House of Lords		
Introduction	16 January 2008	Vol 697, Col 1368
Second Reading	4 February 2008	Vol 698, Col 913
Committee	4 February 2008	Vol 698, Col 934 (committee negatived)
Third Reading	18 February 2008	Vol 699, Col 13
Royal Assent 19 February 2008		House of Lords Vol 699, Col 125
		House of Commons Vol 472, Col 153