

*These notes refer to the European Communities (Finance) Act 2001 (c.22)  
which received Royal Assent on 4 December 2001.*

## **EUROPEAN COMMUNITIES (FINANCE) ACT 2001**

---

### **EXPLANATORY NOTES**

#### **INTRODUCTION**

1. These explanatory notes relate to the European Communities (Finance) Act 2001 which received Royal Assent on 4 December 2001. 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. So where a section or part of a section does not seem to require any explanation or comment, none is given.

#### **SUMMARY**

3. The purpose of this Act is to enable the United Kingdom to give effect to the new Own Resources Decision, amending the arrangements for financing the Community budget.

#### **BACKGROUND**

4. Under the current Own Resources Decision (Council Decision of 31 October 1994 (94/728/EC, Euratom)) the Community budget is financed primarily from own resources, consisting of:
  - customs duties, including those on agricultural products;
  - sugar levies;
  - the yield from applying a notional rate of VAT, of 1%, to an assessment basis in each Member State which is “capped” at 50% of gross national product (“GNP”); and
  - a fourth resource based on shares in GNP, the rate of which is determined by what is required (given all other revenue) to balance the budget.

*These notes refer to the European Communities (Finance) Act 2001 (c.22)  
which received Royal Assent on 4 December 2001.*

5. The new decision agreed by the Council of Ministers on 29 September 2000 amends the current arrangements for VAT based contributions by reducing the maximum call-up rate to 0.75% in 2002 and 2003 and 0.50% thereafter (thereby increasing Member States' GNP based contributions).

6. Provision is also made for an increase, from 10% to 25%, in the proportion of Traditional Own Resources, ie customs duties and sugar levies, retained by Member States against collection costs (also increasing Member States' GNP based contributions).

7. The new decision provides for the continuation of the abatement mechanism whereby the United Kingdom benefits from a correction in respect of budgetary imbalances. But the financing arrangements of the correction are changed to reduce the amount borne by Germany, Austria, Sweden and the Netherlands. In addition, provision is made for the United Kingdom to forgo the "windfall" gains it would have received from the changes referred to in paragraphs 5 and 6 above and those which would accrue at the time of enlargement from the switch in payments to acceding states from "pre-accession aid" to "structural funds" and other expenditure which is subject to the UK correction. Similar treatment of a "windfall" was provided for by Article 4(2) of the current Decision.

8. The new Decision has to be approved by all Member States in accordance with their national procedures before it can enter into force. It will take effect from 1 January 2002 except for the increase in the collection costs and the provisions regarding the abatement mechanism which will take effect from 1 January 2001.

## **THE ACT**

9. The Act has two sections.

## **COMMENTARY ON SECTIONS**

### ***Section 1***

10. *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***

11. *Section 2* repeals the European Communities (Finance) Act 1995 since the wording of section 1(2)(e) of the European Communities (Finance) Act 1972 substituted by section 1 of the Act supersedes that substituted by the 1995 Act.

*These notes refer to the European Communities (Finance) Act 2001 (c.22)  
which received Royal Assent on 4 December 2001.*

## COMMENCEMENT

12. The Act came into force on Royal Assent.

## HANSARD REFERENCES

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

Stage	Date	Hansard reference
<b>House of Commons</b>		
Introduction	21 June 2001	Vol 370, Col 186
Second Reading	3 July 2001	Vol 371, Col 143
Committee	19 July 2001	Vol 372, Col 470
Report and Third Reading	18 October 2001	Vol 372, Col 1326
<b>House of Lords</b>		
Introduction	18 October 2001	Vol 627, Col 740
Second Reading	12 November 2001	Vol 628, Col 413
Committee	12 November 2001	Vol 628, Col 424 (committee negatived)
Report	13 November 2001	Vol 628, Col 458
Third Reading	13 November 2001	Vol 628, Col 458

**Royal Assent** 4 December 2001      House of Lords Vol 629 Col 697  
House of Commons Vol 376 Col 166