COMMISSION OF THE EUROPEAN COMMUNITIES

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CORRIGENDUM: page 10

Proposal for a

COUNCIL DECISION

on the system of the European Communities' own resources

(//EC, Euratom)

(presented by the Commission)

COMMISSION WORKING DOCUMENT

on calculation, financing, payment and entry in the budget of the correction of budgetary imbalances in favour of the United Kingdom ('the UK correction') in accordance with Articles 4 and 5 of Council Decision 2006/xxx/EC, Euratom on the system of the European Communities' own resources

EXPLANATORY MEMORANDUM

1. INTRODUCTION

On 15–16 December 2005 the European Council reached a political agreement on the financial framework 2007-2013[1]. It also called on the Commission to prepare a new Own Resources Decision and to modify the accompanying working paper on the UK correction in order to implement its conclusions concerning the financing of the European Union. Paragraph 78 of the agreement on the financial framework attached to the European Council conclusions states:

> 'The Own Resources Decision and the accompanying Working Methods paper shall be modified so that the ratification process for the Own Resources Decision can be completed by all Member States to allow entry into force from no later than the beginning of 2009 and in order to introduce the changes below. These changes shall take effect from 1 January 2007, and will be applied retroactively if necessary…'

Moreover, the European Council concluded that:

- the ceilings of own resources and of commitment appropriations should remain at their current levels (§76), and

- the own resources arrangements should be guided by the overall objective of equity. These arrangements should therefore ensure, in line with the relevant conclusions of the 1984 Fontainebleau European Council, that no Member State sustains a budgetary burden which is excessive in relation to its relative prosperity. It is therefore appropriate to introduce provisions covering specific Member States (§77).

The present proposal for a Council Decision on the system of the European Communities' own resources and its accompanying working paper on the UK correction amend the existing own resources provisions. These amendments concern:

- Provisions implementing the conclusions of the European Council of 15-16 December 2005 in the own resources area (see sections 2 and 3 below).

- Some adjustments of existing provisions to take into account developments since the existing Own Resources Decision was adopted by Council in September 2000 and to improve the legal and linguistic consistency of the provisions (see sections 3 and 4 below).

All references to Articles below refer to the present proposal for a Council Decision on the system of the European Communities' own resources.

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[1] Document 15915/05 CADREFIN 268 of 19.12.2005.

2. IMPLEMENTATION OF THE EUROPEAN COUNCIL CONCLUSIONS – PROPOSAL FOR A NEW OWN RESOURCES DECISION

2.1. Fixed rate of call of VAT – first subparagraph of Article 2(4)

The European Council concluded that the rate of call of VAT shall be fixed at 0.30 % of Member States' capped VAT bases.

Under the current Own Resources Decision 2000/597/EC, Euratom[2], the uniform rate of call of VAT actually levied on Member States' capped VAT bases is established by deducting from the 'maximum rate of call' (currently 0.50 %) a 'frozen rate', which in turn is calculated according to a complex formula related to the size of the UK correction.

Under the new system the rate of call will be fixed permanently at 0.30 %, which corresponds to the difference between the current maximum rate of call of 0.50 % and an average past value of the frozen rate of 0.20 %.

The replacement of the current complicated and opaque system of calculating the VAT rate of call with a fixed rate of call is a welcome simplification that was long overdue. The link between the VAT rate and the UK correction via the 'frozen rate' is a historical relic from the pre-1988 own resources system when the UK correction was financed in proportion to Member States' uncapped VAT bases, whereas since 1988 it is financed in proportion to Member States' GNP/GNI[3] bases. The establishment of a fixed rate of call of VAT (the uniform rate) at its current level 'is therefore a logical step, as the frozen rate' does no longer fulfil any meaningful purpose.

2.2. Temporarily reduced rates of call of VAT for specific Member States – second subparagraph of Article 2(4)

The European Council concluded that for the period 2007–2013, four countries shall benefit from reduced rates of call of VAT to reduce their respective budgetary burden. During this period the rate of call of VAT for Austria shall be fixed at 0.225 %, for Germany at 0.15 % and for the Netherlands and Sweden at 0.10 %.

2.3. Temporary reductions in the GNI contributions for specific Member States – Article 2(5)

The European Council concluded that for the period 2007–2013, the Netherlands shall benefit from a gross annual reduction in its GNI contribution of € 605 million and Sweden from a gross annual reduction in its GNI contribution of € 150 million, expressed in 2004 prices.

These gross reductions will be financed by all Member States, i.e. including the Netherlands and Sweden. These reductions are not intended to increase the size of the UK correction, neither to reduce the shares of the Netherlands and Sweden in the financing of the UK correction. The gross reductions will therefore be granted after the calculation of the UK correction and its financing.

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[2] OJ L 253, 7.10.2000, p. 42.

[3] As from 2002 gross national product (GNP) was replaced by gross national income (GNI) in the own resources area.

This measure is intended to reduce the budgetary burden of these countries.

2.4. Adjustment of the UK correction to enlargement – Article 4(1)(f), (g) and 4(2)

The European Council concluded that the correction of budgetary imbalances in favour of the United Kingdom shall remain in full except for expenditure in the Member States which have acceded to the EU after 30 April 2004.

Expenditure in these new Member States, with the exception of CAP market expenditure (agricultural direct payments and market-related expenditure as well as that part of rural development expenditure originating from the EAGGF guarantee section), shall therefore be excluded from total allocated expenditure for the purpose of calculating the UK correction.

The reduction of total allocated expenditure shall be progressively phased in, starting with the 2008 correction to be budgeted for the first time in 2009 and reaching *cruising speed* with the 2010 correction to be budgeted for the first time in 2011, according to the schedule below:

UK correction to be budgeted for the first time in the year:	Percentage of enlargement-related expenditure (as defined above) to be excluded from the calculation of the UK correction:
2009	20
2010	70
2011	100

The European Council also concluded that during the period 2007–2013, the total adjustment of the amount of the UK correction resulting from this reduction of allocated expenditure shall not exceed € 10.5 billion, in 2004 prices. The proposed Council decision therefore lays down that the Commission services shall verify each year whether the cumulated adjustment of the UK correction exceeds this amount. If it does, the UK contribution to the budget shall be reduced accordingly. For the purpose of the calculation, the latest available GDP deflator for the EU expressed in euro as provided by the Commission shall be used.

The amount of € 10.5 billion shall, furthermore, be adjusted upwards in case of further enlargement before 2013, except for the accession of Romania and Bulgaria.

As soon as it has been phased in and provided that the ceiling of € 10.5 billion for the period 2007–2013 is not breached, this adjustment of the UK correction mechanism will ensure that the UK fully participates in the financing of enlargement, with the exception of the agricultural expenditure referred to above.

As stated in Annex III of the agreement on the financial framework attached to the European Council conclusions, the enlargement-related adjustment in the current Own Resources Decision, i.e. the reduction of total allocated expenditure by an amount corresponding to pre-accession expenditure in the acceding countries in the year preceding their accession, shall cease to apply as from the 2013 correction to be budgeted for the first time in 2014.

2.5. Review of the own resources system – Article 9

The European Council concluded (§80) that the Commission should undertake a full, wide-ranging review covering all aspects of EU funding and spending and to report in 2008/2009.

The proposal for a Council Decision therefore lays down that in the framework of this full review, the Commission shall undertake a general review of the own resources system, accompanied, if necessary, by appropriate proposals.

2.6. Entry into force and effect – Article 10

The European Council concluded that the new Own Resources Decision shall be adopted so that the ratification process for the new decision can be completed by all Member States to allow entry into force from the beginning of 2009 at the latest, with retroactive effect as from 1 January 2007.

The provisions of previous Own Resources Decisions will continue to apply to the calculation of own resources and the UK correction for years prior to 2007.

3. IMPLEMENTATION OF THE EUROPEAN COUNCIL CONCLUSIONS – PROPOSAL FOR A NEW ACCOMPANYING WORKING DOCUMENT ON THE UK CORRECTION

The accompanying working document on the UK correction has been modified in order to take into account the proposed changes in the Own Resources Decision. They concern:

– The date that the working document takes effect.

– The elimination of the adjustment related to pre-accession aid.

– The new adjustment related to expenditure in the new Member States.

– The ceiling on the total reduction of the United Kingdom correction related to the new adjustment above.

– The adjustment to further enlargement(s) of the ceiling referred to above.

– The elimination of the calculation of the ‘frozen rate’ and all references to the impact of the UK correction on the VAT call rate.

Some other modifications have also been introduced to improve the coherence of the text and to facilitate comprehension. These changes are purely presentational and have no impact on the calculation method. They concern:

– The elimination of a redundant double calculation of the financing of the correction. The current working document reproduces the financing rules of the Own Resources Decision in section 2 point a) and b), but then adds in point c) ‘In order to ensure this result, a corresponding adjustment of the GNP bases shall take place’. This provision fulfils no practical purpose and it is therefore proposed to simplify the text and only retain the calculation method laid down in the Own Resources Decision, which is also the method presented in the financing tables of the annual budget.

– The mathematical presentation of the different steps in the calculation has been improved.

– The presentation of allocated expenditure has been adapted to the nomenclature and structure of the 2007-2013 financial framework.

– Some purely linguistic and presentational improvements to the text.

4. OTHER ADJUSTMENTS TO THE CURRENT OWN RESOURCES DECISION 2000/597/EC, EURATOM

4.1. Removal of distinction between agricultural and customs duties – Article 2(1)(a) and (b)

Following the implementation in EU law of the agreements concluded during the Uruguay round of multilateral trade negotiations, there is no longer any material difference between agricultural duties and customs duties. The difference is not related to the duties themselves, but only to the character of the products (agricultural vs. non-agricultural) on which they are levied.

In order to better reflect this situation the proposal for a Council Decision merges points (a) and (b) in Article 2(1) of the current Council Decision and slightly modifies the wording in order to remove any explicit distinction between import duties in the agricultural and non-agricultural field. As a consequence, the VAT-based resource becomes Article 2(1)(b) and the GNI-based resource Article 2(1)(c).

Reference is still made to other levies, duties etc. that are no longer in force, since there may still be related outstanding customs debt in the so-called B-accounts (i.e. related to outstanding disputed claims).

4.2. Application of significant statistical changes to GNI for own resources purposes – Article 2(7)

According to the second subparagraph of Article 2(7) in the current Own Resources Decision '*Should modifications to the ESA* [European system of national and regional accounts] *95 result in significant changes in the GNI ... the Council, acting unanimously ... shall decide whether these modifications shall apply for the purposes of this Decision*'.

There is, however, no reason why statistical changes adopted by the EU in order to improve the methodology of ESA and to achieve a more accurate intra-European comparison of economic activity should not apply in the own resources area. On the other hand, it is important that agreed changes are applied in a uniform manner across Member States before they are used as a basis for establishing their own resources payments. It is therefore proposed to change the wording above to:

> 'Should modifications to the ESA 95 result in significant changes in the GNI … the Council, acting unanimously … shall decide **when** these modifications shall apply for the purposes of this Decision.'

4.3. Own resources and commitments ceilings – Article 3

In view of the change-over from ESA 79 to ESA 95 for budgetary and own resources purposes and in order to maintain unchanged the amount of financial resources put at the disposal of the Communities the Commission recalculated the ceiling of own resources and the ceiling of appropriations for commitments, expressed to two decimal places, in accordance with the formula in Article 3(1) and 3(2) of the current Own Resources Decision 2000/597/EC, Euratom. In December 2001[4], the Commission communicated the new ceilings

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[4] COM(2001) 801.

to the Council and the European Parliament. The ceiling of own resources is set equal to 1.24 % of the total GNIs of the Member States at market prices and a ceiling of 1.31 % of the total GNIs of the Member States is set for appropriations for commitments.

The European Council of 15-16 December 2005 concluded that these ceilings should remain at their current percentage level, which is reflected in the present proposal for a new Council decision.

4.4. Deleted references to reserves – Articles 2(6), 6 and 7

The provisions in the current Own Resources Decision specify that revenue needed to cover the reserves shall only be called when these are needed.

However, as from 2003 the Monetary Reserve no longer exists. Furthermore, in the draft new interinstitutional agreement (IIA) it is proposed to integrate the Emergency Aid reserve in the budget as a provision and finally, as mentioned in the draft IIA presented by the Commission on 1 February 2006, the reserve for guaranteeing loans to non-member countries is to be transformed into a simplified provisioning mechanism whereby the appropriations necessary to provision the Loan Guarantee Fund will be entered in the budget, eliminating the need for any ad-hoc provision for the related call of resources.

All references to the reserves have consequently been removed in the proposed Council Decision. As a side effect, this means that possible changes in the existing reserves would no longer require a modification of the Own Resources Decision (entailing unanimity in Council and ratification by Member States).

4.5. Stream-lining of reference to adoption of implementing measures – Article 8(2)

In its opinion on the Commission's 2004 proposal for a new Own Resources Decision, the Court of Auditors criticised the proposed wording of Article 8(2) as well as its wording in the current Own Resources Decision, '*insofar as it interprets the subject of the Court's checks and audits, is tantamount to amending a provision of the Treaty outside the procedure laid down for that purpose*'[5]. Furthermore, the Court criticised the fact that Article 279 of the Treaty was not referred to as the legal basis for adopting implementing measures and that the opinion of the Court was consequently not required.

Since the references to the Court's competences are not required in this context and it is standard practice to consult the Court on the implementing measures in this field, the proposed text has been streamlined to this effect.

[5] Opinion No 4/2005 (OJ C 167, 7.7.2005, p. 1).

2006/0039 (CNS)

Proposal for a

COUNCIL DECISION

on the system of the European Communities' own resources

(//EC, Euratom)

THE COUNCIL OF THE EUROPEAN UNION,

Having regard to the Treaty establishing the European Community, and in particular Article 269 thereof,

Having regard to the Treaty establishing the European Atomic Energy Community, and in particular Article 173 thereof,

Having regard to the proposal from the Commission[6],

Having regard to the opinion of the European Parliament[7],

Having regard to the opinion of the Court of Auditors[8],

Having regard to the opinion of the European Economic and Social Committee[9],

Whereas:

(1) The European Council meeting in Brussels on 15 and 16 December 2005 concluded, inter alia, that the own resources arrangements should be guided by the overall objective of equity. These arrangements should therefore ensure, in line with the relevant conclusions of the 1984 Fontainebleau European Council, that no Member State sustains a budgetary burden which is excessive in relation to its relative prosperity. It is therefore appropriate to introduce provisions covering specific Member States.

(2) The Communities' own resources system must ensure adequate resources for the orderly development of the Communities' policies, subject to the need for strict budgetary discipline.

(3) For the purposes of this Decision, gross national income (GNI) is defined as annual GNI at market prices as provided by the Commission in application of the European

[6] OJ C
[7] Opinion delivered on
[8] OJ C
[9] OJ C

system of national and regional accounts (hereinafter referred to as the 'ESA 95') in accordance with Council Regulation (EC) No 2223/96[10].

(4) In view of the change-over from ESA 79 to ESA 95 for budgetary and own resources purposes and in order to maintain unchanged the amount of financial resources put at the disposal of the Communities the Commission recalculated, in accordance with Article 3(1) and 3(2) of Council Decision 2000/597/EC, Euratom[11], the ceiling of own resources and the ceiling for appropriations for commitments, expressed to two decimal places, on the basis of the formula in that Article. The Commission communicated the new ceilings to the Council and the European Parliament in December 2001[12]. The ceiling of own resources is set equal to 1.24 % of the total GNIs of the Member States at market prices and a ceiling of 1.31 % of the total GNIs of the Member States is set for appropriations for commitments. The European Council of 15 and 16 December 2005 concluded that these ceilings should be maintained at their current levels.

(5) In order to maintain unchanged the amount of financial resources put at the disposal of the European Communities, it is appropriate to adapt these ceilings expressed in per cent of GNI in case of modifications to the ESA 95 which entail a significant change in the level of GNI.

(6) Following the implementation in EU law of the agreements concluded during the Uruguay round of multilateral trade negotiations there is no longer any material difference between agricultural duties and customs duties. It is therefore appropriate to eliminate this distinction in the area of the EU budget.

(7) In the interests of transparency and simplicity the European Council of 15 and 16 December 2005 concluded that the uniform rate of call of VAT should be fixed at 0.30 %.

(8) The European Council of 15 and 16 December 2005 concluded that Austria, Germany, the Netherlands and Sweden should benefit from reduced VAT rates of call during the period 2007–2013 and that the Netherlands and Sweden should benefit from gross reductions in their annual GNI-based contributions during the same period.

(9) The European Council of 15 and 16 December 2005 concluded that the correction mechanism in favour of the United Kingdom should remain, 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 should participate fully in the financing of the costs of enlargement, except for agricultural direct payments and market-related expenditure as well as that part of rural development expenditure originating from the EAGGF guarantee section. The calculation of the correction in favour of the United Kingdom will therefore be adjusted by progressively excluding expenditure allocated to Member States which have acceded to the EU after 30 April 2004, except for the agricultural and rural development expenditure mentioned above. The adjustment of the correction in favour

[10] OJ L 310, 30.11.1996, p. 1, as last amended by Regulation (EC) No 1267/2003 (OJ L 180, 18.7.2003, p. 1).
[11] OJ L 253, 7.10.2000, p. 42.
[12] COM(2001) 801.

of the United Kingdom as a result of this reduction in allocated expenditure should not exceed € 10.5 billion in 2004 prices during the period 2007–2013. In the event of further enlargement before 2013, except for the accession of Bulgaria and Romania, the amount should be adjusted accordingly.

(10) The European Council of 15 and 16 December 2005 concluded that the provisions of Article 4(f) in Decision 2000/597/EC, Euratom regarding the exclusion of the annual pre-accession expenditure in acceding countries from the calculation of the correction in favour of the United Kingdom should cease to apply as from the correction to be budgeted for the first time in 2014.

(11) The European Council of 15 and 16 December 2005 called on the Commission to undertake a full, wide-ranging review covering all aspects of EU spending and of resources and to report in 2008/2009. Within this framework, the Commission should therefore undertake a general review of the operation of the own resources system, accompanied, if necessary, by appropriate proposals.

(12) Provisions must be laid down to cover the changeover from the system introduced by Decision 2000/597/EC, Euratom to that arising from this Decision.

(13) The European Council of 15 and 16 December 2005 concluded that this Decision should take effect on 1 January 2007,

HAS LAID DOWN THESE PROVISIONS, WHICH IT RECOMMENDS TO THE MEMBER STATES FOR ADOPTION:

Article 1

The Communities shall be allocated own resources in accordance with the rules laid down in the following Articles in order to ensure, in accordance with Article 269 of the Treaty establishing the European Community (hereinafter referred to as the ‘EC Treaty’) and Article 173 of the Treaty establishing the European Atomic Energy Community (hereinafter referred to as the ‘Euratom Treaty’), the financing of the budget of the European Union.

The budget of the European Union shall, without prejudice to other revenue, be financed wholly from the Communities' own resources.

Article 2

1. Revenue from the following shall constitute own resources entered in the budget of the European Union:

(a) levies, premiums, additional or compensatory amounts, additional amounts or factors, Common Customs Tariff duties and other duties established or to be established by the institutions of the Communities in respect of trade with non-member countries, customs duties on products under the expired Treaty establishing the European Coal and Steel Community as well as contributions and other duties provided for within the framework of the common organisation of the markets in sugar;

(b) without prejudice to the second subparagraph of paragraph 4 of this Article, the application of a uniform rate valid for all Member States to the harmonised VAT assessment bases determined according to Community rules. The assessment base to be taken into account for this purpose shall not exceed 50 % of GNI for each Member State, as defined in paragraph 7;

(c) without prejudice to the second subparagraph of paragraph 5 of this Article, the application of a uniform rate - to be determined pursuant to the budgetary procedure in the light of the total of all other revenue - to the sum of all the Member States' GNIs.

2. Revenue deriving from any new charges introduced within the framework of a common policy, in accordance with the EC Treaty or the Euratom Treaty, provided that the procedure laid down in Article 269 of the EC Treaty or in Article 173 of the Euratom Treaty has been followed, shall also constitute own resources entered in the budget of the European Union.

3. Member States shall retain, by way of collection costs, 25 % of the amounts referred to in paragraph 1(a).

4. The uniform rate referred to in paragraph 1(b) shall correspond to 0.30 %.

However, for the period 2007–2013, the rate of call of the VAT resource for Austria shall be fixed at 0.225 %, for Germany at 0.15 % and for the Netherlands and Sweden at 0.10 %.

5. The uniform rate fixed under paragraph 1(c) shall apply to the GNI of each Member State.

However, for the period 2007–2013, the Netherlands shall benefit from a gross reduction in its annual GNI contribution of € 605 million and Sweden from a gross reduction in its annual GNI contribution of € 150 million, measured in 2004 prices. These amounts shall be adjusted to current prices by applying the most recent GDP deflator for the EU expressed in euro, as provided by the Commission, which is available when the preliminary draft budget is drawn up. These gross reductions shall be granted after the calculation of the correction in favour of the United Kingdom and its financing referred to in Articles 4 and 5 of this Decision and shall have no impact thereupon.

6. If, at the beginning of the financial year, the budget has not been adopted, the previous VAT and GNI rates of call shall remain applicable until the entry into force of the new rates.

7. For the purposes of applying this Decision, GNI shall mean GNI for the year at market prices as provided by the Commission in application of the ESA 95 in accordance with Regulation (EC) No 2223/96.

Should modifications to the ESA 95 result in significant changes in the GNI as provided by the Commission, the Council, acting unanimously on a proposal of the Commission and after consulting the European Parliament, shall decide when these modifications shall apply for the purposes of this Decision.

Article 3

1. The total amount of own resources assigned to the Communities to cover payment appropriations may not exceed 1.24 % of the total GNIs of the Member States.

2. The total amount of commitment appropriations entered in the general budget of the European Union may not exceed 1.31 % of the total GNIs of the Member States.

An orderly ratio between commitment appropriations and payment appropriations shall be maintained to guarantee their compatibility and to enable the ceiling pursuant to paragraph 1 to be respected in subsequent years.

3. In the case of modifications to the ESA 95 which result in significant changes in the level of GNI that apply for the purposes of this Decision, the ceilings for payments and commitments as determined in paragraphs 1 and 2 shall be recalculated by the Commission on the basis of the following formula:

$$1.24\%(1.31\%) * \frac{GNI_{t-2} + GNI_{t-1} + GNI_{t} \quad ESA\ current}{GNI_{t-2} + GNI_{t-1} + GNI_{t} \quad ESA\ modified}$$

where *t* is the latest full year for which data according to Council Regulation (EC, Euratom) No 1287/2003[13] ('the GNI Regulation') is available.

Article 4

1. The United Kingdom shall be granted a correction in respect of budgetary imbalances.

This correction shall be established by:

(a) calculating the difference, in the preceding financial year, between:

- the percentage share of the United Kingdom in the sum of uncapped VAT assessment bases, and

- the percentage share of the United Kingdom in total allocated expenditure;

(b) multiplying the difference thus obtained by total allocated expenditure;

(c) multiplying the result under (b) by 0,66;

(d) subtracting from the result under (c) the effects arising for the United Kingdom from the changeover to capped VAT and the payments referred to in Article 2(1)(c), namely the difference between:

- what the United Kingdom would have had to pay for the amounts financed by the resources referred to in Article 2(1)(b) and (c), if the uniform rate had been applied to non-capped VAT bases, and

- the payments of the United Kingdom pursuant to Article 2(1)(b) and (c);

(e) subtracting from the result under (d) the net gains of the United Kingdom resulting from the increase in the percentage of resources referred to in Article 2(1)(a) retained by Member States to cover collection and related costs;

13 OJ L 181, 19.7.2003, p. 1.

(f) calculating, at the time of each enlargement of the European Union, an adjustment to the result under (e) so as to reduce the compensation, thereby ensuring that expenditure which is unabated before enlargement remains so after enlargement. This adjustment shall be made by reducing total allocated expenditure by an amount equivalent to the annual pre-accession expenditure in the acceding countries. All amounts so calculated shall be carried forward to subsequent years and shall be adjusted annually by applying the latest available GDP deflator for the EU expressed in euro, as provided by the Commission. The present point shall cease to apply as from the correction to be budgeted for the first time in 2014;

(g) adjusting the calculation, by reducing total allocated expenditure by total allocated expenditure in Member States that have acceded to the EU after 30 April 2004, except for agricultural direct payments and market-related expenditure as well as that part of rural development expenditure originating from the EAGGF guarantee section.

This reduction shall be progressively phased in according to the schedule below.

UK correction to be budgeted for the first time in the year:	Percentage of enlargement-related expenditure (as defined above) to be excluded from the calculation of the correction in favour of the United Kingdom
2009	20
2010	70
2011	100

2. During the period 2007–2013 the total adjustment of the United Kingdom correction resulting from the reduction of allocated expenditure referred to in paragraph (1)(g) above shall not exceed € 10.5 billion, measured in 2004 prices. Each year, the Commission services shall verify whether the cumulated adjustment of the correction exceeds this amount. For the purpose of this calculation, amounts in current prices shall be converted into 2004 prices by applying the latest available GDP deflator for the EU expressed in euro, as provided by the Commission. If the ceiling of € 10.5 billion is exceeded, the United Kingdom's contribution shall be reduced accordingly.

In the event of further enlargement before 2013, with the exception of the accession of Bulgaria and Romania, the ceiling of € 10.5 billion shall be adjusted upwards accordingly.

Article 5

1. The cost of the correction shall be borne by the other Member States in accordance with the following arrangements:

The distribution of the cost shall first be calculated by reference to each Member State's share of the payments referred to in Article 2(1)(c), the United Kingdom being excluded and without taking account of the gross reductions in the GNI-based contributions of the Netherlands and Sweden referred to in Article 2(5); it shall then be adjusted in such a way as to restrict the financing share of Austria, Germany, the Netherlands and Sweden to one fourth of their normal share resulting from this calculation.

2. The correction shall be granted to the United Kingdom by a reduction in its payments resulting from the application of Article 2(1)(b) and (c). The costs borne by the other Member States shall be added to their payments resulting from the application for each Member State of Article 2(1)(b) and (c).

3. The Commission shall perform the calculations required for the application of Article 2(5), Article 4 and this Article.

4. If, at the beginning of the financial year, the budget has not been adopted, the correction granted to the United Kingdom and the costs borne by the other Member States as entered in the last budget finally adopted shall remain applicable.

Article 6

The revenue referred to in Article 2 shall be used without distinction to finance all expenditure entered in the budget.

Article 7

Any surplus of the Communities' revenue over total actual expenditure during a financial year shall be carried over to the following financial year.

Article 8

1. The Communities' own resources referred to in Article 2(1)(a) shall be collected by the Member States in accordance with the national provisions imposed by law, regulation or administrative action, which shall, where appropriate, be adapted to meet the requirements of Community rules.

The Commission shall examine at regular intervals the national provisions communicated to it by the Member States, transmit to the Member States the adjustments it deems necessary in order to ensure that they comply with Community rules and report to the budget authority.

Member States shall make the resources provided for in Article 2(1)(a) to (c) available to the Commission.

2. The Council shall, in accordance with the procedure laid down in Article 279(2) of the EC Treaty, adopt the provisions necessary to apply this Decision and to make possible the inspection of the collection, the making available to the Commission and payment of the revenue referred to in Articles 2 and 5.

Article 9

In the framework of the full, wide-ranging review covering all aspects of EU spending and of resources on which it shall report in 2008/2009, the Commission shall undertake a general review of the own resources system, accompanied, if necessary, by appropriate proposals.

Article 10

1. Member States shall be notified of this Decision by the Secretary-General of the Council and the Decision shall be published in the *Official Journal of the European Union*.

Member States shall notify the Secretary-General of the Council without delay of the completion of the procedures for the adoption of this Decision in accordance with their respective constitutional requirements.

This Decision shall enter into force on the first day of the month following receipt of the last of the notifications referred to in the second subparagraph. It shall take effect on 1 January 2007.

2. (a) Subject to (b), Decision 2000/597/EC, Euratom shall be repealed as of 1 January 2007. Any references to the Council Decision of 21 April 1970 on the replacement of financial contributions from Member States by the Communities' own resources[14], to Council Decision 85/257/EEC, Euratom of 7 May 1985 on the Communities' system of own resources[15], to Decision 88/376/EEC, Euratom[16], to Decision 94/728/EC, Euratom[17] or to Decision 2000/597/EC, Euratom shall be construed as references to this Decision.

(b) Articles 2, 4 and 5 of Decisions 88/376/EEC, Euratom, 94/728/EC, Euratom and 2000/597/EC, Euratom shall continue to apply to the calculation and adjustment of revenue accruing from the application of a uniform rate valid for all Member States to the VAT base determined in a uniform manner and limited between 50 % to 55 % of the GNP or GNI of each Member State, depending on the relevant year, and to the calculation of the correction of budgetary imbalances granted to the United Kingdom for the years 1988 to 2006.

(c) For amounts referred to in Article 2(1)(a) which should have been made available by the Member States before 28 February 2001 in accordance with the applicable Community rules, Member States shall continue to retain 10 % of these amounts by way of collection costs.

Done at Brussels,

For the Council
The President

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14 OJ L 94, 28.4.1970, p. 19.
15 OJ L 128, 14.5.1985, p. 15.
16 OJ L 185, 15.7.1988, p. 24.
17 OJ L 293, 12.11.1994, p. 9.

COMMISSION WORKING DOCUMENT

on calculation, financing, payment and entry in the budget of the correction of budgetary imbalances in favour of the United Kingdom ('the UK correction') in accordance with Articles 4 and 5 of Council Decision 2006/xxx/EC, Euratom on the system of the European Communities' own resources[18]

[18] OJ L

INTRODUCTION

In accordance with the conclusions of the European Council of 15 and 16 December 2005 and the Council Decision on the system of the Communities' own resources of (.........), this document replaces the Commission working document 10646/00 of 21 September 2000[19]. Unless otherwise stated, any references to Articles relate to the Own Resources Decision of (…..), hereinafter referred to as the 2006 ORD.

This document lays down the following provisions for the UK correction:

(1) the calculation of the amount of the correction of a given year,

(2) its financing in the following year,

(3) definitions of budgetary aggregates,

(4) the entry of the correction in the budget.

The modifications to the own resources system deriving from the conclusions of the European Council of 15-16 December 2005 have no impact on the UK correction for the years prior to 2007. Having regard to the entry into force of the 2006 ORD, the provisions of the present document shall take effect on 1 January 2007. They shall, therefore, apply starting with the calculation of the UK correction originating in the year 2007, to be budgeted for the first time in 2008.

1. THE UK CORRECTION

1.1. The calculation of the correction (Article 4 of the 2006 ORD)

The calculation of the amount of the correction of year t in accordance with Article 4 shall be established by:

(a) calculating the difference between:

- the percentage share of the United Kingdom in the total sum of uncapped VAT bases, and
- the percentage share of the United Kingdom in total allocated expenditure;

(b) multiplying the difference thus obtained under (a) by total allocated expenditure;

(c) multiplying the result obtained under (b) by 0.66;

- The result obtained in steps (a) to (c) shall be called the **original amount** of the UK correction;

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19 Calculation, financing, payment and entry in the budget of the correction of budgetary imbalances in accordance with Articles 4 and 5 of the Council Decision on the system of the EU's own resources, Council of the European Union, 10646/00 ADD 2, of 21 September 2000.

(d) subtracting from the result obtained under (c) the difference between

– the product of the percentage share of the United Kingdom in the uncapped VAT bases times the total payments by all Member States referred to in Article 2(1)(b) and (c) relating to the financial year t in question (i.e. the payments that the United Kingdom would have made had the GNI resource not existed and the VAT resource not been capped) for the financing of total expenditure (as defined in point 3.1 *infra*);

and

– the payments by the United Kingdom referred to in Article 2(1)(b) and (c) relating to the financial year t for the financing of total expenditure (as defined in point 3.1 *infra*), excluding payments to finance the gross reductions in the GNI-based contributions of the Netherlands and Sweden referred to in Article 2(5);

- the difference referred to in step (d) will be called the **UK advantage** (because it is the advantage that the UK derives from the VAT capping, the reduction of the VAT uniform rate and the introduction of the GNI resource);

- the result obtained by subtracting the **UK advantage** from the **original amount** (i.e. the result of step (d)) shall be called the **core UK correction**;

(e) subtracting from the result under (d) the gains for the United Kingdom resulting from the increase (from 10 % to 25 %) in the percentage of resources referred to in Article 2(1)(a) retained by Member States to cover their collection costs.

This implies deducting from the result obtained under (d) the result of the multiplication between:

– 20 % of the net total resources referred to in Article 2(1)(a) entered into the EU budget after deduction of the collection costs, and

– the difference between the United Kingdom's share in the resources referred to in Article 2(1)(a) and its share in the uncapped EU VAT base.

- the gains referred to in step (e) will be called the **TOR (traditional own resources) windfall gains**;

- Subtracting the **TOR windfall gains** from the **core UK correction** will complete the calculation of the UK correction (i.e. the result under (e));

(f) From the first year of enlargement (i.e. 2004) total allocated expenditure, referred to above under (a) second hyphen and (b), shall be reduced by an amount equal to pre-accession expenditure of the last year before enlargement (i.e. 2003).

This adjustment changes the result obtained under (c) (the original amount) and therefore the result under (e). The amount equal to pre-accession expenditure shall be carried forward to subsequent years and shall be adjusted annually by applying the latest available GDP deflator for the EU expressed in euro, as provided by the Commission.

On the occasion of any subsequent accession the same procedure shall be followed.

The present point (f) shall cease to apply as from the 2013 correction, to be budgeted for the first time in 2014.

(g) As from the 2008 correction, to be budgeted for the first time in 2009, total allocated expenditure, referred to above under (a) second hyphen and (b), shall be reduced by total allocated expenditure in Member States that have acceded to the EU after 30 April 2004, except for agricultural direct payments and market-related expenditure as well as that part of rural development expenditure originating from the EAGGF guarantee section.

This reduction shall be progressively phased in according to the schedule below.

UK correction to be budgeted for the first time in the year:	Percentage of enlargement-related expenditure (as defined above) to be excluded from the calculation of the UK correction:
2009	20
2010	70
2011	100

During the period 2007–2013 the total adjustment of the UK correction, resulting from the exclusion of enlargement-related expenditure referred to above, (hereinafter called the UK correction adjustment) shall not be higher than € 10.5 billion, measured in 2004 prices. At the occasion of each budgeting of the UK correction, the Commission services shall verify whether the cumulated UK correction adjustment exceeds this amount. For the purpose of this calculation, amounts in current prices shall be converted into 2004 prices by applying the latest available GDP deflator for the EU expressed in euro, as provided by the Commission. If the ceiling of € 10.5 billion is exceeded, the UK contribution shall be reduced accordingly. The reduction of the UK contribution shall take place through an adjustment of the amount of the UK correction.

In the event of enlargement in the period 2006–2012, with the exception of the accession of Bulgaria and Romania, the ceiling of € 10.5 billion shall be adjusted upwards by the impact of this(ese) enlargement(s) on the UK correction adjustment. This impact shall be calculated by comparing the UK correction adjustment including the acceding country(ies) with the UK correction adjustment excluding the acceding country(ies). The difference between the two shall be converted into 2004 prices and added to the ceiling.

The adjustment of the ceiling shall be updated in each subsequent year in the context of the calculation and budgeting of the UK correction.

1.2. Formalisation of the calculation of the UK correction

The UK correction of a year t (to be budgeted for the first time in year t+1) is equal to:

UK correction$_t$ =Original amount$_t$ – UK advantage$_t$ – TOR windfall gains$_t$

The precise determination of each element is as follows:

ORIGINAL AMOUNT – (points 1.1(a) to 1.1(c), including points 1.1(f) and 1.1(g))

Original amount $_t$ =

$$= 0.66 * \left(\frac{ncVAT_t^{UK}}{ncVAT_t^{EU}} - \frac{AE_t^{UK}}{AE_t^{EU} - NAgE_t^{newMS} - PAE_{INFL\ t-1}^{AC}} \right) * \left(AE_t^{EU} - NAgE_t^{newMS} - PAE_{INFL\ t-1}^{AC} \right)$$

where

$ncVAT_t^{XX}$ *= non-capped VAT base of Member State/group of Member States XX (where XX = UK or EU) in year t;*
AE_t^{XX} *= EU expenditure allocated to XX (where XX = UK or EU) in year t;*
$NAgE_t^{newMS}$ *= non-agricultural EU expenditure (as defined in point (g) above) allocated in year t to Member States which have acceded to the EU after 30 April 2004, subject to phasing-in as defined in point 1.1(g) above;*

$PAE_{INFL\ t-1}^{AC}$ *= pre-accession expenditure (as defined in point 1.1(f) above) allocated to Acceding Countries in the year before accession, adjusted for inflation to year t-1. This element shall be eliminated from the calculation as from the correction originating in 2013, to be first budgeted in 2014. It can be further expressed as:*

$$PAE_{INFL\ t-1}^{AC} = Until_{2012} * \sum_i (PAE_{i-1}^{AC} * Deflator_{i-1/t-1}^{GDP})$$

where

$Until_{2012}$ *= 1 until year t equals 2012 and 0 as from 2013 onwards;*

i *= the year(s) between 2004 and year t when an enlargement occurs;*

$Deflator_{i-1/t-1}^{GDP}$ *= the latest available GDP deflator for the EU expressed in euro, as provided by the Commission, for the period i-1 to t-1.*

CEILING ON THE TOTAL 2007–2013 UK CORRECTION ADJUSTMENT RELATED TO THE EXCLUSION FROM THE UK CORRECTION OF 'NON-AGRICULTURAL EU

EXPENDITURE' IN MEMBER STATES THAT HAVE ACCEDED TO THE EU AFTER 30 APRIL 2004

During the period 2007–2013 the UK correction adjustment related to the exclusion from the UK correction of 'non-agricultural EU expenditure' (as defined in point (g) above) allocated to Member States which have acceded to the EU after 30 April 2004 shall not exceed, in 2004 prices, a ceiling of € 10.5 billion (this ceiling being adjusted for any enlargement which may occur between the years 2006 and 2012, except for the enlargement to Bulgaria and Romania).

This means that the following total 2008–2012 reduction of the UK correction (the reduction is phased in as from the 2008 correction, to be first budgeted in 2009, and the ceiling applies as to the 2012 correction, to be first budgeted in 2013), which is equal to

$$0.66 * \sum_{t=2008}^{2012} \left(\frac{ncVAT_t^{UK}}{ncVAT_t^{EU}} * \%reduc_t * NAgE_t^{allnewMS} / Deflator_{2004-t}^{GDP} \right)$$

shall not exceed the ceiling of € 10.5 billion, increased, if applicable, by the following amount (in €):

$$0.66 * \sum_{t=2008}^{2012} \left[\%reduc_t * \left(\frac{ncVAT_t^{UK}}{ncVAT_t^{EU}} * NAgE_t^{allnewMS} - \frac{ncVAT_t^{UK}}{ncVAT_t^{EU\text{-}27}} * NAgE_t^{12newMS} \right) / Deflator_{2004-t}^{GDP} \right]$$

where

$ncVAT_t^{XX}$ *= non-capped VAT base of Member State/group of Member States XX (where XX = UK, EU or EU-27) in year t;*

$NAgE_t^{allnewMS}$ *= non-agricultural EU expenditure (as defined in point (g) above) allocated in year t to all Member States which have acceded to the EU after 30 April 2004;*

$NAgE_t^{12newMS}$ *= non-agricultural EU expenditure (as defined in point (g) above) allocated in year t to the 10 Member States which have acceded to the EU on 1 May 2004 as well as Bulgaria and Romania.*

$\%reduc_t$ *= percentage reduction of NAgE corresponding to year t (i.e. 0% before 2008; 20% for 2008; 70% for 2009 and 100% from 2010 onwards);*

$Deflator_{2004-t}^{GDP}$ *= the latest available GDP deflator for the EU expressed in euro, as provided by the Commission, for the period 2004 to year t.*

If the adjusted ceiling is exceeded (in any year until 2013), the UK correction shall be increased by the excess amount. The UK corrections of subsequent years shall also be adjusted to ensure that the ceiling is not exceeded, up until and including the UK correction originating in the year 2012, to be first budgeted in 2013.

UK ADVANTAGE (point 1.1(d) above)

UK advantage $_t$ = $\frac{ncVAT_t^{UK}}{ncVAT_t^{EU}} * \left(GNIP_t^{EU} + cVATP_t^{EU}\right) - \left(GNIP_t^{UK} + cVATP_t^{UK}\right)$

where

$ncVAT_t^{XX}$ *= non-capped VAT base of Member State/group of Member States XX (where XX = UK or EU) in year t;*

$GNIP_t^{XX}$ *= Total GNI payments made by XX (where XX = UK or EU) in year t;*

$cVATP_t^{XX}$ *= Total capped VAT payments made by XX (where XX = UK or EU) in year t;*

TOR WINDFALL GAINS (point 1.1(e) above)

*TOR windfall gains$_t$ = 0.20 ** $TOR_t^{EU} * \left(\frac{TOR_t^{UK}}{TOR_t^{EU}} - \frac{ncVAT_t^{UK}}{ncVAT_t^{EU}}\right)$

where

TOR_t^{XX} *= net traditional own resources of Member State/group of Member States XX (where XX= UK or EU) in year t;*

$ncVAT_t^{XX}$ *= non-capped VAT base of XX (where XX = UK or EU) in year t.*

2. FINANCING OF THE UK CORRECTION IN THE FOLLOWING YEAR (ARTICLE 5 OF THE 2006 ORD)

The cost of the UK correction of year t shall be borne by the other Member States in year t+1 in accordance with the following arrangements:

a) The distribution of the cost shall be calculated by reference to each Member State's share in the payments referred to in Article 2 (1) (c) relating to year t+1, the United Kingdom being excluded and without taking account of the gross reductions in the GNI-based contributions of the Netherlands and Sweden referred to in Article 2(5);

b) it shall then be adjusted in such a way as to allow the restriction of the share of Germany, of the Netherlands, of Austria and of Sweden to one-fourth of the shares resulting from the calculation under (a);

The amount of the correction is granted to the United Kingdom by a reduction in its VAT payments; if the amount of the correction exceeds the VAT payments, the correction is granted by a reduction in its GNI payments.

The costs borne by the other Member States shall be added to their VAT and GNI payments.

The table below presents an example to illustrate the implementation of the above calculation method on the basis of the GNI estimates entered in the 2006 adopted budget.

CALCULATION OF THE FINANCING OF THE UK CORRECTION					
Member States	Percentage share in GNI[1]	Percentage share excluding the UK	3/4 of the shares of DE, NL, AT and SE in column (2)	Column (3) distributed between Member States other than the UK, DE, NL, AT and SE	**Financing scale**
	(1)	(2)	(3)	(4)	(5) = (2) + (3) + (4)
Belgium	2,82	3,41		1,45	4,86
Czech Republic	0,90	1,08		0,46	1,55
Denmark	1,89	2,29		0,97	3,26
Germany	20,58	24,86	-18,65	0,00	6,22
Estonia	0,09	0,11		0,05	0,15
Greece	1,71	2,06		0,88	2,94
Spain	8,12	9,81		4,18	13,99
France	15,89	19,20		8,18	27,37
Ireland	1,28	1,54		0,66	2,20
Italy	13,04	15,75		6,71	22,47
Cyprus	0,12	0,15		0,06	0,21
Latvia	0,12	0,14		0,06	0,20
Lithuania	0,19	0,23		0,10	0,33
Luxembourg	0,23	0,28		0,12	0,40
Hungary	0,82	0,99		0,42	1,41
Malta	0,04	0,05		0,02	0,07
Netherlands	4,39	5,30	-3,98	0,00	1,33
Austria	2,24	2,70	-2,03	0,00	0,68
Poland	2,16	2,61		1,11	3,73
Portugal	1,29	1,56		0,66	2,22
Slovenia	0,26	0,32		0,14	0,46
Slovak Republic	0,36	0,43		0,18	0,61
Finland	1,46	1,76		0,75	2,51
Sweden	2,78	3,36	-2,52	0,00	0,84
United Kingdom	17,24	0,00		0,00	0,00
Total	100,00	100,00	-27,17	27,17	100,00

[1] GNI forecast entered in the adopted 2006 budget.

Member States' shares in GNI payments (Article 2(1)(c)) in year t+1 are shown in the first column of the table. The second column presents the shares obtained according to point (a) *supra*. The third column shows the reduction in the shares of Germany, the Netherlands, Austria and Sweden (three-fourth of their shares resulting from point (a) *supra*), and the fourth column reflects the distribution of the reductions for Germany, the Netherlands, Austria and Sweden among the other Member States excluding these four countries and the United Kingdom.

Finally, column 5 shows the shares in the financing of the UK correction resulting from this calculation.

3. DEFINITION OF BUDGETARY AGGREGATES

3.1 Total expenditure of year t

The concept of expenditure to be used in the calculation of the UK correction corresponds to actual payments (execution of appropriations for payments) relating to the year in question (year t), pursuant to either that year's budget appropriations or to carryovers of non-executed appropriations to the following year (from year t to the year t+1). Only utilised appropriations for payments, that is the amount of payments actually made, shall be taken into account.

3.2. Total allocated expenditure

The allocation across Member States of total expenditure, as defined under point 3.1 above, is governed by the following rules:

In general, payments are allocated to the Member State in which the principal recipient resides. However, in those cases where the Commission is aware that the recipient in question acts as an intermediary, the payments must be allocated whenever it is possible to the Member State(s) in which the final beneficiary(ies) is(are) resident, in accordance with their shares in these payments.

Certain components of expenditure cannot be allocated either fully or partially to the Member States. Starting from total expenditure of the general budget of the European Union as the basis, at least two main categories of expenditure need to be excluded (though this list is indicative and not necessarily exhaustive):

1. *External expenditure*, corresponding mainly to heading 4 – EU as a global player - of the financial framework for 2007–2013 appearing in the conclusions of the European Council of 15–16 December 2005.

   This category also includes expenditure under other headings benefiting recipients outside the Union, such as development co-operation, research expenditure spent outside the EU, administrative expenditure paid to recipients outside the Union, etc.

2. *Expenditure that can not be allocated or identified.* This could be due to conceptual difficulties, such as expenditure on representation, on missions and on formal and other meetings as well as payments related to cross-border Community initiatives, promotion of inter-regional co-operative operations and other cross border actions.

The definition of allocated expenditure corresponds in principle to Headings 1, 2, 3, 5 and 6 of the financial framework for 2007–2013 appearing in the conclusions of the European Council of 15–16 December 2005.

3.3. Pre-accession expenditure

Pre-accession expenditure that has to be taken into account for the purpose of calculating the adjustment for enlargement in Article 4(1)(f) is allocated expenditure (as defined in points 3.1 and 3.2 above) to acceding countries in the last year before the year of accession.

4. ENTERING THE UK CORRECTION OF YEAR T INTO THE BUDGET

4.1. Provisional estimate (to be entered in the Preliminary Draft Budget of year t+1)

A provisional calculation of the amount of the UK correction of year t shall be performed on the occasion of the preliminary draft budget (PDB) of year t+1. The calculation shall be based on the most recent and available data for both contributions and expenditure.

The amount of the UK correction shall take the form of a reduction of the UK VAT and GNI payments. The other Member States shall see their VAT and GNI payments increased by the amount of their respective share in the financing.

4.2. Update of the provisional estimate (between the year t+1 and the year t+3)

If need be, the Commission has the possibility to propose an update of the provisional estimate at any time between the year t+1 and the year t+3. Such an update shall be entered in a preliminary draft amending budget (PDAB).

The update shall be proposed if the Commission has ground to believe that the initial forecast of the provisional calculation will differ significantly from the definitive calculation (see *infra*) of the UK correction to be proposed in the PDAB of year t+4.

An update could also be proposed if it emerges that the estimated GNI bases entered in the PDB of year t+1 will differ significantly from the definitive GNI bases, thus changing significantly the sharing of the financing of the UK correction.

4.3. Definitive calculation of the UK correction (to be entered in a PDAB of year t+4)

4.3.1. Calculation of the definitive amount

The procedure to calculate the definitive amount of the correction is set out in section 1 of this document.

The data to be used in the calculation of the definitive UK correction are the VAT and GNI bases and the allocated expenditure estimates relating to year t as they are known at 31 December t+3 and shall be converted to € at the annual average exchange rate of the year t.

In order to estimate the 'UK advantage' for the definitive calculation (section 1.1(d)) contributions of traditional own resources and other revenues in year t must be taken into account. This implies that it is necessary to recalculate a notional budget on the basis of definitive data for any type of resource and revenue.

4.3.2. Calculation of the definitive financing of the correction and its entering in the budget

Section 2 previously sets out the procedure to calculate the financing of the definitive correction.

The definitive financing data shall be the VAT and GNI bases of year t+1 as they are known at 31 December t+3.

The final financing data shall be compared with the payments already entered in the budget (i.e. in the budget of t+1 and possibly in the budget of t+2 or t+3 if an update has been made in those years).

The differences per Member State shall be entered in an appropriate budget chapter of a PDAB of the year t+4 and converted into national currency at the annual average exchange rate of the year of the financing of the correction (year t+1).