



COMMISSION OF THE EUROPEAN COMMUNITIES

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**PRELIMINARY DRAFT AMENDING BUDGET N° 9
TO THE GENERAL BUDGET FOR 2004**

GENERAL STATEMENT OF REVENUE

**STATEMENT OF REVENUE AND EXPENDITURE BY SECTION
Section III - Commission**

(presented by the Commission)

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Section III - Commission

Having regard to:

- the Treaty establishing the European Community, and in particular Article 272 thereof,
- the Treaty establishing the European Atomic Energy Community, and in particular Article 177 thereof,
- the Council Regulation (EC, Euratom) No 1605/2002 of 25 June 2002 on the Financial Regulation applicable to the general budget of the European Communities¹, and in particular Article 37 thereof,

The European Commission hereby presents to the budgetary authority the preliminary draft amending budget No 9 to the 2004 budget for the reasons set out in the explanatory memorandum.

¹ OJ L 248, 16.09.2002, p.1.

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GENERAL STATEMENT OF REVENUE

STATEMENT OF REVENUE AND EXPENDITURE BY SECTION

The general statement of revenue and the statement of revenue and expenditure by section are forwarded separately via the SEI-BUD system. A language version of the general statement of revenue and of the statement of revenue and expenditure by section is attached as a budgetary annex by way of example.

EXPLANATORY MEMORANDUM

1. INTRODUCTION

The present Preliminary Draft Amending Budget No 9 for the year 2004 covers the following element:

- the creation of two budget lines under Heading 7 of the Financial Perspective, with the provision of supplementary appropriations to finance actions encouraging the economic development of the Turkish Cypriot Community.

This request is based on the Council's request to implement the package of € 259 million originally earmarked in the financial perspective in case of a political settlement over the years 2004-2006. No credits were budgeted since they would have been mobilised under the headings 1, 2 and 3 only in case of a political settlement in accordance with the table 1b of the revised financial perspective².

Following the positive vote of the Turkish Cypriot community on the UN settlement proposal, the Council has called to put an end to the isolation of the Turkish Cypriot community and to facilitate the reunification of Cyprus by encouraging the economic development of the Turkish Cypriot community. The Council invited the Commission to bring forward comprehensive proposals to this end, with particular emphasis on the economic integration of the island and on improving contact between the two communities and with the EU.

Since no agreement has taken place, no heading of the financial perspective covers this particular type of assistance. However, since most of the activities will be similar to the pre-accession ones, it is proposed to consider the financial package under heading 7.

The Commission is therefore proposing to call a part of the margin of heading 7 to fund the 2004 support.

2. HEADING 7 - PRE-ACCESSION STRATEGY: FINANCIAL SUPPORT FOR ENCOURAGING THE ECONOMIC DEVELOPMENT OF THE TURKISH CYPRIOT COMMUNITY.

2.1. Background

On 26 April 2004, the Council at its meeting in Luxembourg noted the results of the referenda in Cyprus on 24 April 2004 and expressed its strong regret that the accession to the EU of a united Cyprus was not possible. The Council concluded that the Turkish Cypriot community have expressed their clear desire for a future within the European Union and expressed its determination to put an end to the isolation of the Turkish Cypriot community and to facilitate the reunification of Cyprus by encouraging the economic development of the Turkish Cypriot community.

The Council invited the Commission to bring forward comprehensive proposals to this end, with particular emphasis on the economic integration of the island and on improving contact

² Decision 2003/430/EC of the European Parliament and Council of 19 May 2003 on the revision of the financial perspective

between the two communities and with the EU. The Council recommended that the € 259 million already earmarked for the northern part of Cyprus in the event of a settlement now be used for this purpose.

Further to these conclusions, the Commission is proposing a specific basic act to implement the € 259 million over the period 2004-2006. The legislative financial statement attached to the draft Regulation presents an amount of € 6 million for 2004, mainly dedicated to feasibility studies for the implementation of the financial support over the years 2005 (€ 114 million) and 2006 (€ 139 million). A part of the assistance will be used to finance the support expenditure linked to the implementation.

No existing heading of the Financial Perspective precisely covers the intended expenditure directed towards areas of a Member State where the government does not exercise effective control and where the application of the *acquis* is suspended. The € 259 million package was earmarked under headings 1, 2 and 3 but only in case of a political settlement in accordance with the table 1b of the revised financial perspective². The present package is now aiming at facilitating the reunification of Cyprus by encouraging the economic development with particular emphasis on the economic integration of the island, and by improving contacts between the two communities and with the EU. Besides reconciliation and confidence building measures, it will cover, *inter alia*, the promotion of social and economic development, development of the infrastructure, institution building, alignment with the *acquis*, and youth exchanges. Most of the activities will therefore be similar to pre-accession activities financed under Heading 7. Indeed, because of the isolation of this community these last years, the activities will have a strong focus on helping with Community *acquis* approximation, especially as regards investments to comply with European norms, *inter alia*, in the environmental area. The Decision on the revision of the financial perspective³, in its article 1, has amended the title of heading 7 to read “Pre-accession strategy”. This change aimed to widen the scope of this heading in order not to strictly limit it to pre-accession assistance as such, but to extend it to the financing of activities preparing in one way or another to the alignment with the '*acquis communautaire*'. It allows for a wider interpretation about the end-use of the funds of the heading. Since the objective of the Community is to work towards the reunification of the island, the activities to be implemented can be considered as part of a strategy to prepare the areas concerned for the moment of lifting the suspension of the application of the *acquis*.

Heading 7 appears therefore as the most suitable heading of the financial perspective to host this particular assistance. A margin of € 1,722 billion in commitment appropriations is available under the ceiling of Heading 7. It is requested to mobilise the € 6 million necessary for 2004 from that margin, of which € 0,16 million will be transferred to item 22 01 04 07 for the administrative support expenditure. As for payment appropriations, it is estimated that an amount of €1,16 million is necessary, of which € 1 million for operational expenditure. To avoid supplementary contributions, all payment appropriations will be provided through a transfer. For 2005, the Commission will present an amending letter to its preliminary draft budget.

In 2004, it is not likely that any potential projects will reach full maturity. Appropriations will be committed mostly to:

³ Decision 2003/429/EC of the European Parliament and of the Council of 19 May 2003

i) feasibility studies in priority areas such as environment, municipal and local community services and infrastructure, and agriculture; such studies will seed projects to be financed at a later stage,

ii) the preparation of projects for promoting reconciliation between the two communities,

iii) short-term technical assistance to be provided through the TAIEX office in the field of approximation of the acquis. This will notably cover peer missions to identify needs in terms of approximation with the acquis in a number of priority areas – internal market, customs union, taxation, energy, environment, transport, agriculture, justice and home affairs – and recommend follow-up actions such as training, secondment of experts and seminars. An amount of € 1,5 million is programmed for this purpose.

The following nomenclature and titles are proposed:

22 01 04 07 “Financial support for encouraging the economic development of the Turkish Cypriot Community – Expenditure on administrative management”

22 02 11 “Financial support for encouraging the economic development of the Turkish Cypriot Community”

Through this amending budget, it is proposed to endow these new budget lines with € 6 million in commitment appropriations and p.m. in payment appropriations as follows:

Item 22 01 04 07: p.m.

Article 22 02 11: € 6,000,000 in commitment appropriations and p.m. in payment appropriations.

**GENERAL BUDGET OF THE EUROPEAN UNION FOR THE FINANCIAL YEAR
2004**

VOLUME II (SECTION 3) – COMMISSION

EXPENDITURE

TITLE 22: ENLARGEMENT

CHAPTER 22 01: ADMINISTRATIVE EXPENDITURE OF POLICY AREA “ENLARGEMENT”

22 01 04 07 – “Financial support for encouraging the economic development of the Turkish Cypriot Community – Expenditure on administrative management”

Budget 2004	Amending Budget N° 9/2004	New Amount
	p.m.	p.m.

Remarks

New item

This appropriation is intended to cover:

- expenditure on technical and administrative assistance which the Commission may delegate to an implementing agency governed by Community law,
- expenditure on technical and administrative assistance not involving public authority tasks outsourced by the Commission under ad hoc service contracts for the mutual benefit of the beneficiaries and the Commission,
- expenditure on studies, meetings of experts, information and publications directly linked to the achievement of the objective of the programme.

This appropriation covers administrative expenditure under Article 22 02 11.

CHAPTER 22 02: PREACCESSION ASSISTANCE INSTRUMENT

22 02 06 — Technical Assistance Information Exchange Office (TAIEX) actions in the framework of the preaccession instruments

Add the following legal basis:

Commission proposal of [DD/MM/2004] for a Council Regulation on establishing an instrument of financial support for encouraging the economic development of the Turkish Cypriot Community (COM/XXX/2004).

22 02 11 – Financial support for encouraging the economic development of the Turkish Cypriot Community

Budget 2004		Amending Budget N° 9/2004		New Amount	
Commitments	Payments	Commitments	Payments	Commitments	Payments
		6 000 000	p.m.	6 000 000	p.m.

Remarks

New article

This appropriation is intended to cover the financial support for encouraging the economic development of the Turkish Cypriot Community. The assistance will focus particularly on the economic integration of the island and on improving contacts between the two communities and with the European Union in order to facilitate the reunification of Cyprus. The assistance may be used to support:

- the promotion of social and economic development, in particular concerning rural development, human resources development and regional development,
- the development and restructuring of infrastructure, in particular in the areas of energy and transport, the environment, telecommunications and water supply,
- reconciliation, confidence building measures, and support to civil society,
- bringing the Turkish Cypriot community closer to the Union, through *inter alia* information of the European Union's political and legal order, promotion of youth exchange and scholarships,
- progressive alignment with and preparation for implementation of the *acquis communautaire*.

Legal basis

Commission proposal of [DD/MM/2004] for a Council Regulation on establishing an instrument of financial support for encouraging the economic development of the Turkish Cypriot Community (COM/XXX/2004).

SUMMARY TABLE BY HEADING OF THE FINANCIAL PERSPECTIVE

Financial perspective Heading/subheading	2004 Financial perspective			2004 budget incl. AB 1-6, PDAB 7*-8*/2004			PDAB 9/2004			Budget 2004 incl. AB 1-6, PDAB 7*, 8* and 9/2004		
	CA	PA		CA	PA		CA	PA		CA	PA	
1. AGRICULTURE												
- Agricultural expenditure	42 769 000 000			40 245 285 000	40 245 285 000					40 245 285 000	40 245 285 000	
- Rural development and accompanying measures	6 536 000 000			6 536 000 000	5 448 000 000					6 536 000 000	5 448 000 000	
Total	49 305 000 000			46 781 285 000	45 693 285 000					46 781 285 000	45 693 285 000	
Margin				2 523 715 000						2 523 715 000		
2. STRUCTURAL FUNDS												
- Structural funds	35 353 000 000			35 353 000 000	28 022 302 882					35 353 000 000	28 022 302 882	
- Cohesion fund	5 682 000 000			5 682 000 000	2 800 000 000					5 682 000 000	2 800 000 000	
Total	41 035 000 000			41 035 000 000	30 822 302 882					41 035 000 000	30 822 302 882	
Margin				0						0		
3. INTERNAL POLICIES	8 722 000 000			8 704 761 754	7 510 377 641					8 704 761 754	7 510 377 641	
Margin**				17 238 246						17 238 246		
4. EXTERNAL ACTIONS	5 082 000 000			5 176 551 000	4 950 907 978					5 176 551 000	4 950 907 978	
Margin				-94 551 000						-94 551 000		
5. ADMINISTRATION	6 157 000 000			6 121 313 544	6 121 313 544					6 121 313 544	6 121 313 544	
Margin				35 686 456						35 686 456		
6. RESERVES												
- Guarantee reserve	221 000 000			221 000 000	221 000 000					221 000 000	221 000 000	
- Reserve for emergency aid	221 000 000			221 000 000	221 000 000					221 000 000	221 000 000	
Total	442 000 000			442 000 000	442 000 000					442 000 000	442 000 000	
Margin				0						0		
7. PRE-ACCESSION AID	3 455 000 000			1 733 261 220	2 856 200 000					1 739 261 220	2 856 200 000	
Margin**				1 721 738 780						1 715 738 780		
8. COMPENSATION	1 410 000 000			1 409 545 056	1 409 545 056					1 409 545 056	1 409 545 056	
Margin				454 944						454 944		
TOTAL	115 608 000 000	111 554 000 000		111 403 717 574	99 805 932 101					111 409 717 574	99 805 932 101	
Margin				4 204 282 426	11 748 067 899					4 198 282 426	11 748 067 899	

* PDAB 7 and 8/2004 have no financial implication on resources.

** The margins for heading 3 and heading 7 are to be increased in 2004 by respectively EUR 20 995 775 and EUR 961 220 corresponding to the expenditure of the European Union Solidarity Fund entered, by amending budget 3/2004, "in the budget over and above the relevant headings" as laid down in the interinstitutional agreement of 7 November 2002 (OJ C 283 of 20.11.2002).