



COMMISSION OF THE EUROPEAN COMMUNITIES

Brussels, 21.10.2004
COM(2004) 696 final

2004/0145 (CNS)

Amended proposal for a

COUNCIL REGULATION

**establishing an instrument of financial support for encouraging the economic
development of the Turkish Cypriot community and
amending Regulation (EC) No 2667/2000 on the European Agency for Reconstruction**

(presented by the Commission)

EXPLANATORY MEMORANDUM

The overall objective of the proposal for a Council Regulation establishing an instrument of financial support¹ is to provide assistance to the Turkish Cypriot community with particular emphasis on economic development, on the economic integration of the island and by improving contacts between the two communities and with the EU in order to facilitate the reunification of Cyprus. The considerable amount of € 259 million available (to be committed over 2004-2006 and to be implemented until 2009) requires specific means of management and implementation of the assistance.

According to Article 3 of the proposal the Commission shall be responsible for administering the aid. Article 5 of the proposal provides for different ways of implementation according to the rules set down in Title IV of part 2 of Council Regulation 1605/2002². The aid in the field of infrastructure projects will focus *inter alia* on power plants, waste and water management, renovation and development of transport projects including links connecting the two sides of the island. It is therefore obvious that a large part of the funds will be used for infrastructure investments. The best solution appears to be to entrust the European Agency for Reconstruction (hereafter: EAR) with the implementation of assistance.

The EAR was set up in the aftermath of the Kosovo crisis to manage the EU's assistance to UN administered Kosovo. Its mandate covers the full project cycle, from identification (including preparatory studies) to final payments, monitoring and evaluation of projects under its responsibility. The EAR is Contracting Authority on behalf of the Commission (and eventually of other donors). It has got legal personality and is legally fully responsible *vis-à-vis* third parties (*e.g.* staff, contractors, beneficiaries).

Since its establishment, the mandate of the EAR was extended already twice: in late 2000 to the Republic of Yugoslavia (today State Union of Serbia & Montenegro), and in late 2001 to the former Yugoslav Republic of Macedonia. On 28 June 2004 the Commission proposed to extend the Agency's mandate to the countries concerned for another two years until 31 December 2006³. The mandate of the EAR could be extended further to cover also the northern part of Cyprus.

The EAR is already well established. Its status allows it to recruit all necessary staff under the programme itself. It has a long and recognised experience at implementing major infrastructure projects, which will represent the bulk of the aid to the northern part of Cyprus. The EAR has the capability to attain the objectives in time and to achieve the results. It appears to be the only possible option to deliver the aid programme to northern Cyprus rapidly.

Finally, the EAR is perceived as politically neutral. Its mandate is assistance implementation where political decision-making rests with the Commission. This is clearly an advantage in the complex and complicated situation of a divided Cyprus. Located in Thessaloniki, it is much closer to Cyprus than the Commission headquarters for support services.

¹ COM(2004) 465 final.

² OJ L 248, 16.9.2002, p. 1.

³ COM(2004) 451 final.

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1. The following recital (7) is inserted:

‘(7) In order to supply assistance in accordance with the principles of sound financial management, the Commission should be in a position to delegate to the European Agency for Reconstruction implementation of assistance under this Regulation. Therefore, Council Regulation (EC) No 2667/2000 on the European Agency for Reconstruction⁴ needs to be amended accordingly.’

The subsequent recitals are renumbered.

2. Article 5 paragraph 2 shall start with the words:

‘Without prejudice to a decision taken in accordance with Article 2 paragraph 5 of Council Regulation (EC) No 2667/2000, ...’

3. The following Article is inserted after Article 5:

‘Article 5a

Council Regulation (EC) No 2667/2000 is amended as follows:

In Article 2, the following paragraph 5 is added:

- ‘The Commission may entrust the Agency with the implementation of assistance for encouraging the economic development of the Turkish Cypriot community within the framework of Council Regulation (EC) xx/2004.’

⁴ OJ L 306, 7.12.2000, p.7.