2008 budget: section III, Commission

2007/2019(BUD) - 17/09/2007 - Document attached to the procedure

PURPOSE: to present the Amending Letter No 1 (AL 1) to the Preliminary Draft Budget for 2008 (PDB 2008).

CONTENT : the AL 1 covers the following issues:

- the mobilisation of new funds for an amount of EUR 120 million in commitment appropriations and EUR 60 million in payment appropriations, to support the stability and development of **Kosovo**;
- the mobilisation of additional funds for an amount of EUR 142 million in commitment and EUR 85 million in payment appropriations to support the **Palestinian Authority**;
- the creation of a **new budget article** 03 03 02 Damage requests resulting from legal procedures against the Commission's decisions in the field of **competition**.

A. Mobilisation of funds for Kosovo to support the stability and development of the country: Kosovo, whilst still legally a province of Serbia, has been effectively under United Nations (UN) administration since 1999 on the basis of UN Security Council resolution 1244. Negotiations on a new UN Security Council Resolution to provide Kosovo with a permanent status settlement on the basis of the plan submitted by Special Envoy to the UN Secretary General Martti Ahtisaari were initially expected to be reached during the first semester of 2007. However, the Secretary General of the UN has endorsed a Contact Group initiative to allow a period of further engagement between the parties, mediated by a Troika composed of representatives from the European Union, United States and Russia. The Troika will report to the UNSCR on 10 of December 2007.

Notwithstanding these uncertainties, there is a case for envisaging substantially increased international financial support to Kosovo. The last General Affairs and External Relations Council conclusions issued on 18 June underlined again the necessity of rapidly finding a solution to the Kosovo status issue. It must be recalled that as soon as a settlement is reached, its implementation will have to be immediate. This will entail significant additional expenditure from the Kosovo Consolidated Budget both in the form of start-up costs and running costs, e.g. for new institutions such as municipalities, ministries and services, as well as for the demobilisation of the Kosovo Protection Corps. Moreover, as a consequence of a status settlement, Kosovo will inherit a share of Serbia's external debt which will need to be serviced, adding considerable pressure to the budget. Thus, even if the date of a settlement remains uncertain, provisions have to be made in order to cater for a swift implementation Moreover, and independently of the settlement process, Kosovo has very important and urgent development needs which it cannot address to a sufficient degree using its own resources. Given the uncertainties with regard to its final status, it appears all the more urgent to help redressing some of Kosovo's most pressing economic and infrastructural shortcomings.

It is also expected that the European Union will take a leading responsibility in Kosovo. Two EU preparation teams (financed by the CFSP budget) are on the ground planning for the EU role in a future international civilian office (ICO) and for a rule of law mission. The latter will be the EU’s most important European Security and Defence Policy (ESDP) mission to date.

Success in securing political stability in Kosovo will depend, in part, on making visible socioeconomic development to all Kosovars. For this to happen, not only is significant foreign assistance required, it will also need to be front-loaded, swiftly implemented and to deliver results as early as possible.

The Kosovo authorities, with the assistance of the International Financial Institutions, the European Commission and other international donors, are currently establishing a Medium-Term Expenditure

Framework (MTEF) for the years 2008-2010. The share to be taken on by the EU budget is currently estimated at about half of the total amount, i.e. at least EUR 500 million. While EUR 199 million are already programmed under the Instrument for Pre-Accession Assistance (IPA) over the three-year period covered by the MTEF, and EUR 50 million are still available as macro-financial assistance (MFA), EUR 200 million is required as additional front-loaded assistance under the budget 2008.

The Commission is proposing a global amount of EUR 200 million in 2008. This amount shall be broken down as follows

1) EUR 100 million in the form of macro-financial assistance in addition to the assistance committed in 2006 (EUR 50 million). Based on the PDB 2008 proposed by the Commission for the budget line 01 03 02 "Macro-economic assistance", the amount of EUR 100 million of assistance could be financed as follows:

- EUR 40 million in commitment appropriations and EUR 30 million in payment appropriations already budgeted in the PDB 2008;
- **additional EUR 60 million in commitment appropriations** and EUR 30 million in payment appropriations **by letter of amendment**.

2) EUR 100 million in the form of project assistance, that could be financed as follows:

- additional **EUR 60 million in commitment appropriations** and EUR 30 million in payment appropriations **by letter of amendment** under budget line 22 02 02.

The remaining resources required to meet the additional EUR 200 million assistance in the budget 2008 can be drawn from the final allocation envisaged under budget line 19 06 01 that might need to be reinforced, if necessary, during the year.

B. Support for the Palestine Authority: the living conditions of the Palestinian population continue to deteriorate, especially in Gaza. Overall GDP is estimated to have fallen by 5-10 % in 2006, with per capita GDP now 44 % below the level in 1999. Exports and investment are also estimated to have fallen sharply reflecting increased restrictions, a worsening security situation and higher uncertainty. A 60 % fall in the gross revenues of the Palestinian Authority (PA) contributed to the severe fiscal crisis. Since March 2006 and mainly due to Israel's decision not to transfer clearance revenues, the government has been unable to pay most of its salary commitments to PA employees. The overall deficit of the Palestinian Authority in 2007 is estimated at EUR 1.6 billion.

An increased support to the Palestinians in 2008 is envisaged for:

- financial assistance to the Palestinian Authority, in coordination with other donors and international organisations;
- specific projects implemented by United Nations Relief and Works Agency (UNRWA), in its field of operation, and in particular in Gaza;
- building of institutions of the Palestinian Authority: the PA government of Salam Fayyad offers an opportunity to resume institution building efforts. The target of the assistance is to strengthen the PA ministries and other Palestinian institutions in the areas of management of public finances, rule of law, public administration, trade, customs administration, as well as creating the enabling environment for private sector investment;
- development projects: the EU will also consider, as appropriate, funding for development projects. Infrastructure and other development projects are envisaged to boost the economic development in the areas of job creation, water treatment, rehabilitation of electricity distribution networks, solid waste treatment, rehabilitation of schools and health care centres, electricity, transport etc;
- in the 2008 PDB, the level of funding for co-operation with the Palestinian Authority was the best possible estimate of needs given the political uncertainties at the time.

In light of the need to continue a realistic level of funding in 2008, taking account of the state of Palestinian public finances and the requests for assistance from the Palestinian government, **the Commission proposes to increase the budget line 19 08 01 02 in 2008 by EUR 142 million to reach EUR 300 million**. Due to the nature of the projects which envisage a quick disbursement, total needs of payment credits are estimated at EUR 200 million in 2008, this means an increase of EUR 85 million on the top of the PDB figure.

Effect on the Heading 4 margin and possible additional funding sources: the combined **additional needs for heading 4 amount to EUR 262 million in commitments**, of which EUR 120 million for Kosovo and EUR 142 million for Palestine. This leaves a margin under the ceiling of EUR 67.8 million for Heading 4. The additional payment appropriations are EUR 145 million, of which EUR 60 million for Kosovo and EUR 85 million for Palestine.

Beyond this, a reinforcement of the CFSP budget would have to be considered once the cost estimates for the ESDP mission in Kosovo will be confirmed by Council.

C. Competition policy: as a prudential measure, it is proposed that a new budget article 03 03 02 Damage requests resulting from legal procedures against the Commission's decisions in the field of competition should be created, to take into account the possibility of budgetary implications stemming from rulings of the Court of Justice or the Court of First Instance. The line will be endowed with a token entry ("p.m.").