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Proposal for a

COUNCIL REGULATION

amending Regulation (EC) No 2667/2000 on the European Agency for Reconstruction

(presented by the Commission)

EXPLANATORY MEMORANDUM

With Council Regulation (EC) No 2667/2000 of 5 December 2000¹, the European Agency for Reconstruction was set up, for the implementation of the Community assistance for Serbia and Montenegro and the former Yugoslav Republic of Macedonia. According to its Article 16, this Regulation shall apply until 31 December 2006.

Article 14 of that Regulation states however that : “ By 31 December 2005 the Commission shall report to the Council on the future of the mandate of the Agency. Any proposal to extend the mandate of the Agency beyond 31 December 2006 should be made by the Commission to the Council by 31 March 2006.”

The Commission issued the report to the Council, and to the Parliament for information, on 23 December 2005 (COM (2005)710 final). In that report the Commission proposed to discontinue the European Agency for Reconstruction, but to seek its extension for two years, until 31 December 2008, with its current mandate and status, to gradually phase out its activities under the CARDS Programme (Council Regulation (EC) No 2666/2000 of 5 December 2000²

This draft Regulation aims therefore to amend Regulation (EC) No 2667/2000 accordingly.

¹ OJ L306, 7.12.2000, p. 7. Regulation as last amended by Regulation (EC) No 2068/2004 (OJ L358, 3.12.2004, p. 2).

² OJ L306, 7.12.2000, p. 7. Regulation as last amended by Regulation (EC) No 2112/2005 (OJ L 344, 27.12.2005, p. 23).

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THE COUNCIL OF THE EUROPEAN UNION,

Having regard to the Treaty establishing the European Community, and in particular Article 181a (2), first sentence thereof,

Having regard to the proposal from the Commission³,

Having regard to the opinion of the European Parliament⁴,

Whereas:

- (1) Community assistance provided for in Regulation (EC) No 2666/2000 of 5 December 2000 on assistance for Albania, Bosnia and Herzegovina, Croatia, the Federal Republic of Yugoslavia and the Former Yugoslav Republic of Macedonia, repealing Regulation (EC) No 1628/96 and amending Regulations (EEC) No 3906/89 and (EEC) No 1360/90 and Decisions 97/256/EC and 1999/311/EC (CARDS) is implemented in Serbia and Montenegro, including Kosovo as defined by United Nations Security Council Resolution 1244 of 10 June 1999, and in the former Yugoslav Republic of Macedonia by the European Agency for Reconstruction established by Council Regulation (EC) No 2667/2000⁵
- (2) Regulation (EC) No 2667/2000 applies until 31 December 2006.
- (3) Regulation (EC) No 2667/2000 provides for a report from the Commission to the Council on the future of the mandate of the European Agency for Reconstruction.
- (4) The Commission submitted the said report to the Council, and to the European Parliament for information, on 23 December 2005.
- (5) In that report, the Commission proposed to discontinue the European Agency for Reconstruction, but to extend its existence for two years, until 31 December 2008, with its current mandate and status, to gradually phase out its activities under CARDS.
- (6) Regulation (EC) No 2667/2000 should therefore be amended accordingly,

³ OJ C p.

⁴ OJ C p.

⁵ OJ L 306, 7.12.2000, p. 7. Regulation as last amended by Regulation (EC) No 2068/2004 (OJ L 358, 3.12.2004, p.2).

HAS ADOPTED THIS REGULATION:

Article 1

In Article 16 of Regulation (EC) No 2667/2000, the date "31 December 2006" shall be replaced by " 31 December 2008".

Article 2

This Regulation shall enter into force on the day following that of its publication in the *Official Journal of the European Union*.

This Regulation shall be binding in its entirety and directly applicable in all Member States.

Done at Brussels,

For the Council
The President

LEGISLATIVE FINANCIAL STATEMENT

Phasing out Agency for Reconstruction/Upgrading

Delegations/Offices

1. POLICY AREA CONCERNED

Enlargement

2. BUDGET LINES INVOLVED

XX.01.01.01: Expenditure related to staff working with the Institution

XX 01.03.02: Buildings and related expenditure in Delegations

XX.01.01.02: Expenditure related to staff in active employment of Community Delegations

XX.01.02.02: External staff

XX.01.02.12: Other management expenditure

XX.01.02.02: External staff of Community Delegations

21.01.04.nn: Expenditure on operations support in the policy area of enlargement

3. DURATION OF THE ACTION AND FINANCIAL IMPACT

The action is limited to a two-year transitional period (2007-2008). During this time, the Agency will focus its efforts on the implementation and finalisation of CARDS projects. At the same time, the Delegations will begin to make preparations to contribute to the implementation of aid under the IPA instrument. The Delegations should be ready to handle any outstanding business of the Agency at the end of the transitional period, as part of a responsibility transfer plan that will be finalised in 2006 and organised on the basis of priority sectors.

The number of permanent officials in Delegations and Offices will be gradually raised in 2007, with the aim of reaching capacity in 2008.

By 2009 the transition will be complete and activities will continue under the IPA instrument.

3.1. Budgetary characteristics

Budget line	Type of expenditure		New	EFTA participation	Applicant country participation	Heading in financial perspective
Several, all listed in point 2	NON-COMP	DIFF/NON-DIFF	IPA	NO	NO	No [4, 5, 7]

3.2. What the Agency will do

During the transitional period, the Agency will focus its efforts on the finalisation of CARDS programmes, the gradual transfer to Commission Delegations of programmes that cannot be closed by the EAR, and on the administrative closure of its activities. Programming and contracting under the new IPA instrument will be taken care of by Headquarters and the Delegations. The Agency will provide the necessary assistance.

4. SUMMARY OF RESOURCES

In **2006**, total funds managed by the Agency's operating centres are as follows:

Commitment appropriations:

- From: EUR 28 million
- Kosovo: EUR 45.5 million
- Montenegro: EUR 18 million
- Serbie: EUR 142 million
- State Union S&M: EUR 7.5 million

RAC (non-committed balance): EUR 409.3 million

In **2007** and **2008** there will be no new commitments. The funds to be managed can be estimated as follows:

- **2007**: RAC: EUR 400 million ; RAL (outstanding balance) : EUR 690 million (including RAC);
- **2008**: RAC: EUR 200 million ; RAL : EUR 470 million (including RAC).

In EUR millions

Type of expenditure	n - 1	Year n	n + 1	n + 2
	2006	2007	2008	2009
EAR administrative expenditure funded from operating appropriations Line 22 05 01/02/03 CARDS				
C.E.	68.76			
C.P.	24.8	23.96	20	-

During the transitional period (2007-2008), the Agency's administrative expenditure will come from commitments from the operating appropriations made in 2006.

The forecasts for the Agency's expenditure for 2007 and 2008 are based on the need to pay for the staff required to manage funds estimated (between now and the end of 2008) at RAL of EUR 580 million and RAC of EUR 870 million, in line with the Report from the Commission to the Council on the future of the EAR (COM(2005)710).

Some staff will probably leave the Agency before the end of 2008, but it is essential to set aside at this stage enough budgetary resources to enable the Agency to offer staff (temporary agents, contract staff, local staff) contracts until the end of 2008 where necessary. This will prevent a situation of uncertainty which might make staff leave early and thus hamper the EAR in fully carrying out its mission. Any unused funds will be repaid to the General Budget.

Administrative expenditure on permanent officials in delegations: salaries, allowances, reimbursement of expenses, transfer allowances, entertainment expenses, missions, remuneration adjustments (lines xx.010102 to xx.010212)	-	1.37	3.06	2.92
Administrative expenditure on infrastructure: rent and water, gas, electricity and fuel charges, refurbishment, security for staff and offices, furniture and office equipment, cost of transport and maintenance of same, telecommunications and IT, other administrative expenditure: line	-	1.23	1.20	1.04
Total costs (xx 01 01 02 xx.01.03.02		2.60	4.26	3.96

Administrative expenditure for external staff in delegations, IPA operating line, 22.01.04.n (ex BA)				
- Staff costs		1.82	12.44	10.75
- Infrastructure costs		<u>3.08</u>	<u>7.80</u>	<u>7.35</u>
TOTAL		4.90	20.24	<u>18.10</u>

TOTAL additional cost for delegations (ex A6 + ex BA)	-	7.50	24.50	22.06
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The cost of external staff in 2007 was calculated on the basis that a large number of recruitments would not take place until the second half of the year, thus at 50% of the annual cost.

Cost of permanent staff at Headquarters

		2007	2008	2009
		(8)	(15)	(15)
Cost of permanent staff at Headquarters (including staff for Relex/K).		0.44	1.06	1.27

Average cost used: EUR 55 000 per person for the first year (6 months); EUR 85 000 per person for the other years.

Summary table for officials and external staff for each delegation/office during the transitional period and in 2009

	2007		2008		2009	
		€M		€M		€M
SERBIA	4 Permanent officials (PO)	0.80	4 PO	0.94	4 PO	0.93
	7 Contract staff (CS)	1.56	29 CS	7.24	29 CS	6.46
	10 Local staff (LS)		43 LS		43 LS	
KOSOVO	4 PO	0.81	4 PO	0.94	4 PO	0.93
	6 CS	1.44	24 CS	6.32	24 CS	5.67
	10 LS		43 LS		43 LS	
FYROM	2 PO	0.43	4 PO	1.04	4 PO	0.93
	5 CS	1.28	22 CS	5.31	22 CS	4.72
	7 LS		28 LS		28 LS	
MONTENEGRO	2 PO	0.55	5 PO	1.34	5 PO	1.170
	1 CS	0.61	4 CS	1.35	4 CS	1.24
	3 LS		13 LS		13 LS	

The above staff are due to manage the new IPA instrument as early as 2007, overseeing the programming and implementation of the first operations financed by it.

In the second part of 2008, this staff will also have to begin looking after CARDS, which cannot be closed until the end of the year and which the Delegations will have to administer from 1.1.2009.

	2007		2008		2009	
PO in Del.	12	2.60 €M	17	4.26 €M	17	3.96
CS	19	4.90 €M	79	20.243 €M	79	18.10 €M
LS in Del.	30		127		127	
PO Headquarters	8	0.44 €M	15	1.06 €M	15	1.27 €M
TOTAL	69	7.94 €M	238	25.56 €M	238	23.33 €M

The average costs were calculated as follows:

Permanent officials: EUR 13 363/month (salary) + EUR 647/month (missions) + EUR 321/month (remuneration adjustments) + EUR 28 220 lump sum for the first year (costs incurred in taking up duties)

Contract staff: EUR 7 230/month

Local staff: EUR 1 953/month

For permanent officials and contract staff, the amount of EUR 2 587 and EUR 10 000/year was also calculated to cover expenditure relating to housing rental and staff security respectively

As accommodation costs for local staff are not paid for by the Commission, the cost for LS contracts is as indicated (EUR 1.953/month) plus general Delegation infrastructure costs on a prorata basis.

If Delegations and Offices are to be ready for their new tasks, staff will have to be in place in 2007 to organise the transfer of activities and enable the Delegations and Offices to be fully operational in 2008. In addition, the work of the Delegation and Offices will centre on implementing the IPA, whereas the Agency's work will centre on phasing out CARDS.

Summary table of human resources permanent staff at HQ and in Delegations

	2006	2007	2008	Total
Delegations/Offices		12	5	17
Headquarters		8	7	15

This breakdown of the 32 posts between Headquarters and the Delegations/Offices is indicative, and may be modified to reflect administrative, information security and policy requirements.

This estimate of resources concerns only the transfer of activities linked to the implementation of Community aid as part of the pre-accession strategy. The upgrading of Delegations/Offices in line with other priorities the Union may have in the light of political developments on the ground (in Kosovo and Montenegro) will be dealt with separately.

Administrative and human resources requirements will be covered within the appropriation given to the managing DGs under the annual allocation procedure.