



COMMISSION OF THE EUROPEAN COMMUNITIES

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Proposal for a

COUNCIL REGULATION (EC)

REGARDING THE IMPLEMENTATION  
OF A SPECIAL FINANCIAL COOPERATION MEASURE FOR TURKEY

(presented by the Commission)

## EXPLANATORY MEMORANDUM

The meeting of the Association Council which took place on 6 March 1995 produced agreement on a Decision regarding the completion of the EC-Turkey customs union provided for in the 1964 Ankara Agreement and the 1973 Additional Protocol. At that meeting, the Commission adopted a declaration signalling a resumption of financial cooperation with Turkey which emphasized the country's need for substantial financial resources to help its industry adjust to the competition brought by customs union, to improve its infrastructure links with the European Union and to reduce the gap which currently separates its economy and that of the Community.

There were several sections to the declaration:

- a budgetary component containing an undertaking to make available ECU 375 million over five years from 1996;
- an EIB component restating access to EIB loans already available to Turkey under the terms of the New Mediterranean Policy (1992-96) and offering additional EIB loans for five years from 1996 to improve the competitiveness of the economy in the wake of the entry into force of the customs union;
- reference to the fact that Turkey would also have access to the financing system (budget funds and EIB loans) due to be made available to all the countries of the Mediterranean from 1996;
- reference to potential special macro-economic financial assistance for specific needs and circumstances.

The declaration set out the Community's commitment to determining the details of cooperation during the first half of 1995.

In order to enable the Community to fulfil this political commitment on time, the Commission is requested to approve the attached proposal for a Regulation, which relates only to the first two of the components listed above (the ECU 375 million from the budget and the sum available in additional EIB loans). It should be emphasized that Turkey will have access to the financial resources that the Community is due to provide for all the countries of the Mediterranean from 1996 (MEDA) in addition to this special financial cooperation measure. The pace of MEDA commitments should take account of Turkey's absorption capacity.

The Commission is proposing to the Council that it package these two components as a special measure for Turkey, to be adopted on its own and announced to the Turkish representatives at the October 1995 meeting of the Association Council.

PROPOSAL FOR A COUNCIL REGULATION (EC) No .../95  
REGARDING THE IMPLEMENTATION  
OF A SPECIAL FINANCIAL COOPERATION MEASURE FOR TURKEY

THE COUNCIL OF THE EUROPEAN UNION,

Having regard to the Treaty establishing the European Community, and in particular Article 235 thereof,

Having regard to the proposal from the Commission,

Having regard to the Opinion of the European Parliament,

Whereas the EC-Turkey Association Council agreed at its meeting of 6 March 1995 to launch the final phase of the EC-Turkey customs union provided for in the Agreement establishing an Association between the European Economic Community and Turkey and in the Additional Protocol which entered into force on 1 January 1973;

Whereas on ..... the Council adopted Regulation (EC) No..... on financial and technical measures to support the reform of economic and social structures in Mediterranean non-member countries and territories; whereas Turkey is among the countries covered by that Regulation;

Whereas Turkey must undertake large-scale reform in order to increase economic competitiveness, restructure and improve the efficiency of its public sector, modernize its social and economic infrastructure and develop its productive sector in the interests of meeting the challenge of open competition with European economies which the customs union will bring;

Whereas the situation also means that Turkey must make determined efforts to improve democratic practice, promote respect for human rights and widen the involvement of civil society in the country's development;

Whereas in order to implement the Community declaration on the resumption of financial cooperation with Turkey adopted by the Council (General Affairs) on 6 March, it would appear necessary to make a substantial contribution, in the form of a special financial cooperation measure for Turkey, to back that country's own efforts and thus foster stability and help the customs union to succeed;

Whereas the projects and programmes funded by the resources allocated for this special measure should be used primarily to help strengthen Turkey's economic structure to cope with the customs union, and to back the Turkish Government's programme of reform, which is seeking to modernize the economy, improve social and economic infrastructure, consolidate democratic practice and give civil society a greater role in the country's development;

Whereas in respect of environmental projects the loans granted by the European Investment Bank, hereinafter referred to as "the Bank", from its own resources under conditions laid down by it, in accordance with its Statute, may receive an interest-rate subsidy;

Whereas in loan operations involving interest-rate subsidies, the granting of a loan by the Bank from its own resources and the granting of an interest-rate subsidy financed by the budgetary resources of the Community must be linked and are conditional upon each other; whereas the Bank may, in accordance with its Statute, and in particular by a unanimous decision of its Board of Directors in the presence of an unfavourable opinion by the Commission, decide to grant a loan from its own resources, subject to granting of the interest-rate subsidy; whereas, on account of this aspect, it is necessary to ensure that the procedure adopted for granting interest-rate subsidies results in every case in an express decision, whether to grant the subsidy or to refuse it, where appropriate;

Whereas it is necessary to make provision for a Committee consisting of representatives of the Member States to assist the Bank in the tasks attributed to it to implement this Regulation;

Whereas to allow for effective management of the measures foreseen in this Regulation and to facilitate policy dialogue with the beneficiary countries a multiannual approach is required;

Whereas the Treaty does not provide, for the adoption of this Regulation, powers other than those of Article 235,

HAS ADOPTED THIS REGULATION:

#### Article 1

The Community shall make a contribution to back Turkey's efforts to improve its social and economic infrastructure as part of the final phase of establishing a customs union.

#### Article 2

The beneficiaries of support measures may include not only the Turkish State and regions but also local authorities, regional organisations, public agencies, local or traditional communities, organisations supporting business, private operators, co-operatives, mutual societies, associations, foundations and non-governmental organisations.

Where an essential element for the provision of Community assistance is missing, particularly in cases of violation of democratic principles and human rights, the Council may, on a proposal from the Commission, acting by a qualified majority, decide upon appropriate measures regarding such assistance.

### Article 3

The cooperation projects, programmes and measures shall seek to promote reforms, policies and action designed to enable Turkey's economy to adapt to customs union. They shall match the general objective of bringing about stability and prosperity in Turkey, bolstering democracy there and developing regional cooperation with neighbouring countries.

1. Assistance to improve the capabilities and competitiveness of Turkey's economy shall focus on steps aimed at:
  - restructuring the country's public sector (including conversion programmes);
  - improving Turkey's economic infrastructure;
  - promoting the development of the private sector, emphasizing small and medium-sized enterprises and job-creation;
  - promoting European private investment in Turkey, particularly in small and medium-sized enterprises.
  
2. Assistance to bolster democracy, develop human resources and protect the environment shall focus on steps aimed at:
  - improving the efficiency of public services and the civil service, including local government;
  - promoting knowledge and practice of human rights observance;
  - promoting civic awareness and the involvement of civil society in Turkey's development (trade associations, unions, the media, etc.);
  - furthering the role of women in development;
  - education and vocational training;
  - improving social services, particularly those for the most disadvantaged;
  - protecting the environment.
  
3. Backing for European Community and Member State cooperation with Turkey shall cover the following in particular:
  - the trans-European networks;
  - energy;

- transport;
- telecommunications;
- harmonious and integrated development for rural areas;
- the environment;
- research and technological development;
- statistical cooperation;
- consumer protection;
- cultural cooperation;
- fighting illegal immigration, drug trafficking and organized crime;
- information, communication, the audiovisual media and databases.

4. Regional and cross-border cooperation shall cover the following in particular:

- the establishment and strengthening of structures for regional cooperation with other countries of the region with which the Union has established relations in the form of association, partnership or cooperation;
- strengthening the infrastructure needed to develop regional and cross-border trade.

Article 4

The activities financed under this regulation shall mainly take the form of technical assistance, training, institution-building, policy dialogue, information, seminars, studies, investment projects and actions to ensure the visibility of Community projects and programmes. Recourse should be made to decentralised co-operation where this may prove effective. Risk capital operations and interest rate subsidies may be financed *inter alia* in collaboration with the European Investment Bank. Costs incurred by the beneficiaries in the preparation, implementation, monitoring, audit and execution of support measures may also be covered.

Article 5

1. Measures to be financed under this Regulation shall be selected taking account, *inter alia*, of Turkey's priorities, evolving needs and progress towards structural reform and on the basis of an assessment of the effectiveness of those measures in achieving the objectives of Community support, in line with the provisions of the EC-Turkey Association Agreement.

2. Indicative programmes covering three-year periods shall be established at national and regional level, taking into account the priorities identified with Turkey (including the priorities determined during dialogue on economic matters), and shall be updated annually, as necessary. These programmes shall define the principal objectives of and guidelines for Community support in the indicative areas referred to in Article 3. They may be amended during the period of their application taking into account the experience accumulated in the implementation of this Regulation and of progress in structural reform, macro-economic stabilization and social progress achieved by Turkey.

#### Article 6

1. The Commission shall, together with the Member States and on the basis of the information supplied by them, ensure the effective co-ordination of the assistance efforts undertaken by the Community and individual Member States. In addition co-ordination and co-operation with international financial institutions and other donors shall be encouraged.
2. The measures referred to in this Regulation may be granted by the Community, either independently or in the form of co-financing with Turkey with public or private bodies of the Member States or the European Investment Bank, or with third countries or multilateral bodies.

#### Article 7

Community financing shall *inter alia* be in the form of grants or risk capital. Concerning cooperation measures in the field of the environment it may also take the form of interest rate subsidies for loans granted by the Bank from its own resources.

Grants may be used to finance or co-finance activities, projects or programmes which contribute to the attainment of the objectives defined in Article 3. The extent to which activities, projects or programmes may be financed by grants shall also depend on their capacity to yield financial return.

Financing decisions and any financing agreements and contracts resulting therefrom shall expressly provide, *inter alia*, for supervision and financial control by the Commission and audits by the Court of Auditors to be carried out on the spot.

#### Article 8

1. Measures under this regulation may cover expenditure on imports of goods and services and local expenditure needed to carry out the projects and programmes. Taxes, duties and charges shall be excluded from Community financing.

Contracts for the implementation of Community-funded measures under this Regulation shall enjoy, in Turkey, fiscal and customs arrangements no less favourable than those applied by that country in respect of the most favoured State or most favoured international development organisation.

2. Maintenance and operating costs may be covered for training, communications and research programmes and for other projects; however, for the latter such costs may be covered only in the start-up stage on a declining scale.
3. For investment projects Community financing shall be combined with own resources of the promoter or with financing at market conditions, taking into account the nature of the project. However, Community financing may not exceed 80% of total investment cost.

#### Article 9

1. Invitations to tender and contracts shall be open on equal terms to all natural and legal persons of the Member States and of Mediterranean non-member countries and territories receiving Community financial assistance.
2. In the case of co-financing, the involvement in contracts and invitations to tender of parties from other countries may be authorized by the Commission on a case-by-case basis. In such instances, the involvement of undertakings from third countries shall be acceptable only if reciprocity is granted.

#### Article 10

1. Financing decisions exceeding ECU 2 million other than those relating to interest-rate subsidies on European Investment Bank loans and risk capital shall be adopted in accordance with the procedure laid down in Article 12.
2. Financing decisions on overall allocations shall be adopted in accordance with the procedure laid down in Article 12. The Commission shall inform the Committee referred to in Article 12 of the use made of these overall allocations.
3. Decisions amending decisions adopted in accordance with the procedure provided for in Article 12 shall be taken by the Commission where they do not entail any substantial amendments or additional commitments in excess of 20% of the original commitment.
4. Financing decisions relating to interest-rate subsidies on Bank loans shall be adopted in accordance with the procedure laid down in Article 13. Financing decisions relating to risk capital shall be adopted in accordance with the procedure laid down in Article 14.

#### Article 11

Measures referred to in this Regulation which are financed from the general budget of the European Community shall be appraised, decided upon and administered by the Commission, without prejudice to the management by the Bank of interest-rate subsidies and risk-capital operations under authority conferred on it by the Commission on behalf of the Community pursuant to Article 105(3) of the Financial Regulation of 21 December 1977 applicable to the general budget of the European Communities.



## Article 12

1. The Commission shall be assisted by the MED Committee set up by Article 10 of Council Regulation (EC) No .../95 of ... 1995 on financial and technical measures to support the reform of economic and social structures in Mediterranean non-member countries and territories. A representative of the Bank shall be involved in its proceedings but shall have no voting rights.
2. The representative of the Commission shall submit to the Committee a draft of the measures to be taken. The Committee shall deliver its opinion on the draft within a time limit the chairman may lay down according to the urgency of the matter. The opinion shall be delivered by the majority laid down in Article 148(2) of the EEC Treaty in the case of decisions which the Council is required to adopt on a proposal from the Commission. The votes of the representatives of the Member States within the Committee shall be weighed in the manner set out in that Article. The chairman shall not vote.
3. The Commission shall adopt measures which shall apply immediately. However, if these measures are not in accordance with the opinion of the Committee, they shall be communicated by the Commission to the Council forthwith. In that event, the Commission shall defer application of the measures which it has adopted for a period of six weeks.

The Council, acting by a qualified majority, may take a different decision within the period laid down in the first subparagraph.

4. The Committee may examine any other question relating to the implementation of this Regulation which may be put to it by its chairman, possibly at the request of the representative of a Member State, and in particular any question relating to general implementation, the administration of the programme, co-financing and the co-ordination referred to in Article 6.
5. The Committee shall adopt its rules of procedure by qualified majority.
6. The Commission shall keep the Committee regularly informed and shall supply information on the implementation of measures under this Regulation.
7. The European Parliament shall be kept regularly informed of the implementation of this regulation.

## Article 13

1. As regards the projects to be financed by subsidised loans in the field of the environment, the Bank shall draw up the financing proposal in accordance with its Statute. The Bank shall seek the opinion of the Commission, in accordance with Article 21 of the Statute, and of the Committee referred to in Article 15.

2. That Committee shall issue an opinion on the Bank's proposal. The Commission representative shall convey to the Committee the position of his Institution on the project concerned, and in particular on its conformity with the objectives of this Regulation and with the general guidelines adopted by the Council. In addition, the Committee shall be informed by the Bank of the non-subsidised loans which the Bank envisages granting from its own resources.
3. On the basis of that consultation, the Bank shall ask the Commission to take a financing decision to grant the interest-rate subsidy for the project concerned.
4. The Commission shall submit to the MED Committee a draft decision authorising or, if appropriate, refusing the financing of the interest-rate subsidy.
5. The Commission shall forward the decision referred to in paragraph 4 to the Bank, which may grant the loan where the decision approves grants the subsidy.

#### Article 14

1. The Bank shall submit to the Committee referred to in Article 15, for its opinion, projects concerning risk-capital operations. The Commission representative shall convey to the Committee the position of his Institution on the project concerned and in particular on its conformity with the objectives of this Regulation and with the general guidelines adopted by the Council.
2. On the basis of this consultation, the Bank shall forward the project to the Commission.
3. The Commission shall take the financing decision within a period appropriate to the characteristics of the project.
4. The Commission shall forward the decision referred to in paragraph 3 to the Bank, which shall take the appropriate measures.

#### Article 15

1. The Bank shall be assisted by the Article 13 Committee set up by Council Regulation (EC) No .../95 of ... 1995 on financial and technical measures to support the reform of economic and social structures in Mediterranean non-member countries and territories. The Committee shall be chaired by the representative of the Member State currently holding the presidency of the Board of Governors of the Bank; its secretariat shall be provided by the Bank. A representative of the Commission shall take part in its proceedings.
2. The rules of procedure of the Committee shall be adopted unanimously by the Council.

3. The Committee shall act by a qualified majority in accordance with Article 148(2) of the Treaty.
4. Within the Committee, the votes of the representatives of the Member States shall be weighted in accordance with Article 148(2) of the Treaty.

#### Article 16

1. The Commission shall, together with the Bank, examine progress achieved in implementing the measures undertaken pursuant to this Regulation and shall submit an annual report to the European Parliament and the Council no later than 30 April. The report shall contain information on the measures that have been financed during the year, with due regard for confidentiality, and provide an assessment of the results obtained.
2. The Commission and the Bank shall evaluate the projects that concern each of them, in order to determine whether the objectives have been achieved and to establish guidelines for stepping up the effectiveness of future activities. The evaluation reports shall be made available to the Council and the European Parliament.

#### Article 17

This Regulation shall enter into force on the day on which Decision 1/95 of the EC-Turkey Association Council regarding the final phase of establishing a customs union enters into force. It shall apply for five years from that date.

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

## **FINANCIAL STATEMENT**

**1 TITLE OF OPERATION**

Financial assistance for Turkey

**2 BUDGET HEADING INVOLVED**

B7-4035

**3 LEGAL BASIS**

Draft proposal for a Council Regulation regarding the implementation of a special financial cooperation measure for Turkey (attached).

**4 DESCRIPTION OF OPERATION**

**4.1 General objective**

To provide assistance for Turkey.

**4.2 Period covered and arrangements for renewal or extension**

Financial assistance would last five years (1996-2000)

**5 CLASSIFICATION OF EXPENDITURE OR REVENUE**

**5.1 Non-compulsory expenditure**

**5.2 Differentiated appropriations**

**5.3 Type of revenue involved**

None, except in the case of risk capital (if the operation financed is a success).

## 6 TYPE OF EXPENDITURE OR REVENUE

- *100% subsidy*: yes, for certain operations.
- *Subsidy for joint financing with other sources in the public and/or private sector*: yes, for certain operations.
- *Interest subsidy*. yes, in the case of some EIB loans.
- *Other*:
- *Should the operation prove an economic success, is there provision for all or part of the Community contribution to be reimbursed?* Yes, if operations using risk capital prove a success.
- *Will the proposed operation cause any change in the level of revenue? If so, what sort of change and what type of revenue is involved?* No change.

## 7 FINANCIAL IMPACT

### 7.1 Method of calculating total cost of operation (connection between unit costs and total cost)

The calculation is that which had been made when the proposal for a fourth EC-Turkey financial protocol was put forward.

### 7.2 Itemised breakdown of cost

commitment appropriations, ECU million (at current prices)

Breakdown	1996	1997	1998	1999	2000	2001 and subs. yrs	TOTAL
technical assistance	5	12	23	34	11		85
training	3	7	13	20	7		50
equipment	14	34	64	96	32		240
TOTAL	22	53	100	150	50		375

NB This cost breakdown is intended to act as a guide, since it has not been agreed with Turkey. The impact on the Guarantee Fund of the EIB's share of the financing has already been calculated (MEDA Regulation).

### 7.3 Schedule of appropriations

	commitment appropriations, ECU						
	1996	1997	1998	1999	2000	2001 and subs. yrs	TOTAL
Commitment appropriations	22	53	100	150	50		375
Payment appropriations							
1996	10	12					
1997		23	30				
1998			70	30			
1999				100	50		
2000					50		
2001 and subs. yrs							
TOTAL	10	35	100	130	100		375

### 8 FRAUD PREVENTION MEASURES; RESULTS OF MEASURES TAKEN

Checks will be carried out at all stages of project implementation (invitations to tender, selection, drawing-up of contracts, provision of services, payment) by the Commission departments, the office of its representative in Turkey and the Court of Auditors.

Checks will take account of contractual obligations and the principles of cost-cutting and good financial management.

Stipulations regarding such checks (submission of reports, consultation of the Commission, etc.) will be included in all agreements or contracts between the Commission and payees.

### 9 ELEMENTS OF COST-EFFECTIVENESS ANALYSIS

#### 9.1 Specific and quantified objectives; target population

- *Specific objectives: links with the general objective*  
To enable Turkey's industry to cope with the competition situation arising from the establishment of the customs union; to improve Turkey's infrastructure links with the European Union (road transport, ports, airports, railways, telecommunications and electricity); to reduce the gap between Turkey's economy and that of the Community.

- *Target population: distinguish as applicable for each objective; indicate the end-beneficiaries of the Community's financial contribution and the intermediaries involved.*
  - \* civil servants
  - \* social and economic operators
  - \* farmers
  - \* leaders of industry
  - \* researchers
  - \* scientists
  - \* city-dwellers

## 9.2 Grounds for the operation

- *Need for Community financial aid with regard particularly to the principle of subsidiarity.*

In the interests of economies of scale, economic and social cohesion and (especially) as a result of the fact that the involvement of the European Union adds value to whatever contributions might come individually from the Member States.

At the meeting of the EC-Turkey Association Council held on 6 March 1995, the Community undertook to resume financial cooperation with Turkey, since the country would need substantial financial resources to enable its industry to adjust to the new competition situation brought by the customs union, to improve infrastructure links with the European Union (road transport, ports, airports, railways, telecommunications and electricity), and to reduce the current gap between its economy and that of the Community.

- *Choice of ways and means*

The methods used to implement the programme of cooperation with Turkey will be determined by how things stand with the country and in the sectors affected. Financing will be preceded by detailed identification and feasibility studies.

*\*advantages over possible alternatives (comparative advantages)*

*\*explanatory reference to similar Community or national operations*

*\*spin-off and multiplier effects expected*

Closer economic links with Turkey. Social and economic development. By increasing living standards in Turkey, a contribution will be made to political stability, and the gap between that country and the Community will be reduced.

The financing of certain operations, particularly infrastructure-project studies, could encourage other donors to contribute financially to projects.

- *Main factors of uncertainty which could affect the specific results of the operation.*  
Chiefly the vagaries of politics in Turkey; also the choice of partners to implement the operations planned.

### 9.3 Monitoring and evaluation of the operation

- *Performance indicators*
  - \**output indicators (measuring activities used)* will be chosen for each operation depending on the criteria set out in the protocol; examples:
    - the number of instances of cooperation with European firms;
    - the number and diversity of areas of infrastructure, economic sectors and civil service departments involved in each project;
    - the quantity of local raw materials and resources used.
  - \* *impact indicators* depending on the objectives sought
    - better management of enterprises
    - an increase in trade
    - access to new technologies
    - transfers of know-how
    - economic recovery
    - better management of civil service departments
    - development of industry
    - impact on the environment
    - impact on agriculture
    - impact on European investment in Turkey
    - creation of added value in the economy
    - impact on job-creation
    - impact on the trade balance and balance of payments
    - impact on the progression of per-capita income
    - impact on infrastructure
- *Details and frequency of planned evaluations*

The projects will be periodically checked and evaluated by the bodies responsible for their implementation and by the Commission departments.

Once the operation has been completed, an evaluation report relating to its content and consequences will be drawn up.



*Assessment of the results obtained*

None of the operations have begun, as the Decision regarding the customs union has not yet approved the assent of the European Parliament.

**10 ADMINISTRATIVE EXPENDITURE (PART A OF SECTION III OF THE BUDGET)**

It is estimated that nine staff (four A officials, three B officials and two C officials) will be needed. This takes account of Turkey's substantial share of the funds earmarked for the Mediterranean non-member countries (the MEDA programme) and its implications in terms of extra staff.

The Commission's annual decision regarding the allocation of resources will determine whether or not the staff required can in fact be obtained. Among the considerations taken into account for that purpose will be any additional staff and sums provided by the budgetary authority.

**10.1 Effect on the number of posts**

Type of post		Staff to be assigned to managing the operation		Source		Duration
		Permanent posts	Temporary posts	Existing resources in the DG or department concerned	Additional resources	
Officials or temporary staff	A	4			4	
	B	3			3	
	C	2			2	
Other resources						
<b>Total</b>		<b>9</b>				

If additional resources are required, indicate the pace at which they will have to be made available.

2 A, 1 B and 1 C in 1996; the remainder from 1997 onwards.

**10.2 Overall financial impact of additional human resources**

ECU

		Amounts	Method of calculation (1995)
Officials	1996	320 000	Assuming two A6 officials, one B5 official and one C5 official. Assuming four A6 officials, three B5 officials and two C5 officials acquired at the pace shown in point 10.1.
Officials	1997	2 820 000	
Temporary staff Other resources (indicate budget heading)			
<b>Total</b>		<b>3 140 000</b>	

*The amounts given must express the total cost of additional posts for the entire duration of the operation, if this duration is predetermined, or for 12 months if it is indefinite.*

**10.3 Increase in other administrative expenditure as a result of the operation**

ECU

Budget heading	Amounts	Method of calculation
A-1300 mission expenses	468 000	<u>Per diems</u> 1200 mission days at ECU 150 over five years = 180 000  <u>Travel</u> 240 return flights Brussels-Turkey at ECU 1200 = 288 000
<b>Total</b>	<b>468 000</b>	

*The amounts given must express the total cost of additional posts for the entire duration of the operation, if this duration is predetermined, or for 12 months if it is indefinite.*

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