



COMMISSION OF THE EUROPEAN COMMUNITIES

Brussels, 27.11.1997
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THIRD ANNUAL REPORT FROM THE COMMISSION
TO THE COUNCIL, THE EUROPEAN PARLIAMENT,
THE ECONOMIC AND SOCIAL COMMITTEE
AND THE COMMITTEE OF THE REGIONS

THE EUROPEAN ECONOMIC AREA
FINANCIAL MECHANISM

I. The Financial Mechanism

With the objective of stimulating economic cohesion and development between the European Economic Area (EEA) regions, a Financial Mechanism to support development projects in Greece, Ireland, Northern Ireland, Portugal and parts of Spain (the objective 1 regions as defined in 1988) was established on 1st January 1994 (article 115-116 of the EEA Agreement and Protocol 38).

Over its five-year life-span, ending 31 December 1998, the Financial Mechanism will allocate funds to the beneficiary regions of ECU 500 million in grant aid and interest rebates of 2 percentage points per annum on ECU 1.5 billion in loans, from the European Investment Bank (EIB).

Priority should be given to projects which place particular emphasis on the environment (including urban development), on transport (including transport infrastructure) or on education and training. Among projects submitted by private undertakings, special consideration is given to small and medium-sized enterprises.

The Mechanism is administered by the EIB. The EIB appraises each project according to financial, economic and technical criteria as well as its compatibility with the EU objectives, sectorial policies and environmental regulations and standards.

The EIB then submits proposals to the Financial Mechanism Committee, appointed by the participating EFTA States and the Commission, which decides on the allocation of the financial resources available under the Mechanism.

The Mechanism was initially funded by the participating EFTA States. The role of the Commission was to give an opinion on the basis of the proposals before the approval of the EFTA Financial Mechanism Committee.

From 1 January 1995, following the accession of the Republic of Austria, the Republic of Finland and the Kingdom of Sweden to the European Union, Articles 83, 111 and 136 of the act concerning the conditions of this accession and the modification to the treaties on which the European Union is founded provide that the obligations of the three acceding countries for financing the Mechanism as laid down in article 116 of the EEA Agreement are financed out of the general budget of the European Communities.

In consequence, the Commission has become co-responsible for the Mechanism in line with Art. 205 of the Treaty whereby the Commission shall implement the budget. The Communication by the Commission, adopted on the 30 March 1995 (C(95) 753), established the operational aspects for dealing with the Financial Mechanism within the Commission.

Following entry into force of the EEA Agreement for the Principality of Liechtenstein on 1 May 1995, the Principality now fully participates in the Mechanism.

II. The third annual report

A first annual report was presented by the Commission to the Council in June 1995, concerning the activity of the Mechanism during the period from 01.01.94 to 31.05.1995.

The second annual report presented the activity concerning the Mechanism during the period from 01.01.95 to 30.06.96.

This third annual report presents the activity from 01.07.96 to 30.06.97.

1. The activity of the Mechanism up to 30.06.1997

In June 1997, the Financial Mechanism Committee has adopted the Operational Guidelines for the Implementation of the Financial Mechanism in agreement with the European Investment Bank.

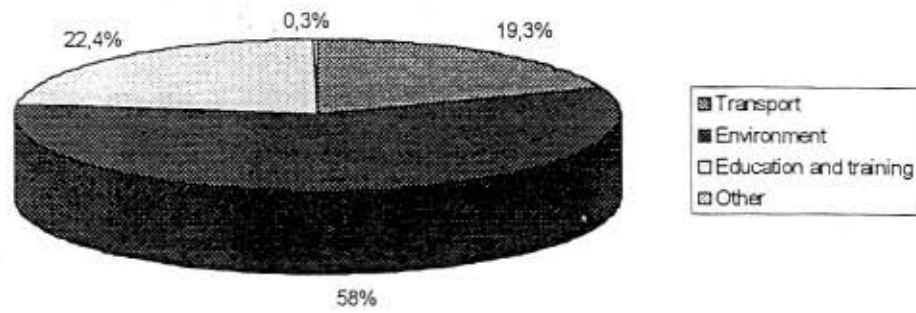
Since the creation of the Mechanism up to 30.06.97 the Financial Mechanism Committee has approved grant applications to a total of ECU 309.218 million and interest rebates on a total loan portfolio of ECU 1037.40 million as follows :

(MECU)

	APPROVED GRANTS	APPROVED LOANS
Greece	51.498	199.4
Ireland	22.5	40.0
Northern Ireland	8.0	0
Portugal	52.3	260.6
Spain	174.87	537.4
TOTAL	309.218	1037.4

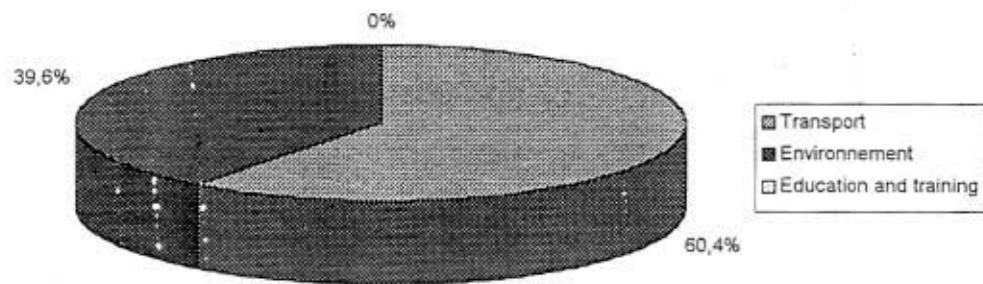
Grant applications:

	ECU	Total
Transport	59 600 000	19.3%
Environment	179 452 000	58%
Education	69 045 000	22.4%
Other	1 071 000	0.3%



Loan applications:

	ECU	Total
Transport	626 260 000	60.4%
Environment	411 140 000	39.6%
Education	0	-



The activity from 01.07.96 to 30.06.97

The following grant applications, amounting to ECU 161.05 million, were approved:

Greece:

The Marine Monitoring Network "Poseidon" project: For a marine environment monitoring and surveillance system, a grant of 12.5 million ECU. The project aims to prevent marine pollution and contribute to the protection of the marine ecosystem ; thus encouraging the optimisation of commercial fishing and of aquaculture farming production. Tourism will also benefit by avoiding possible ecological hazard in waters and particularly along the coastal areas where most of the country's tourism infrastructure exists. Furthermore, through the fast and effective actions to be taken by the port authorities in combating the sea pollution, the project will contribute significantly in improving the overall sea transport security.

The Fire-fighting Equipment: ECU 6.13 million for heavy duty vehicles and equipment as a part of a large modernisation programme of the National Fire Service. The interest of the project lies in the prevention of damage as result of the more rapid and efficient intervention of the Fire Service.

Urban and Environmental Development in Kalamata: ECU 10.35 million for urban improvements, including introduction of an environmentally friendly light rail system. The project addresses specific aspects of pedestrianisation, limiting traffic in the town centre, improving public transport and encouraging tourism.

Ireland:

Technical Education: ECU 22.5 million for investments in 13 educational institutions at tertiary level in cofinancing with the European Regional Development Fund (ERDF). The project covers the construction of new buildings, extensions and modification of existing facilities and provision of new equipment at 13 locations in eight cities and towns. The purposes of the investments are to meet vocational education and training needs ; provide local and national industries with a pool of technically qualified workers and technicians; enhance the validity of industrial and business training and to improve the capacity of the institutions to assist industry through active R&D.

Portugal:

Urban Rehabilitation by Local Municipality Councils: ECU 26.8 million for rehabilitation of deprived urban areas in 11 local municipalities.

Spain:

Environmental Monitoring: ECU 8.27 million for field equipment, laboratories and training centre of Spain's nation-wide environmental surveillance organisation "Seprona".

Urban Renewal and Protection of Historical Heritage in Castilla y León: ECU 33.8 million for urban rehabilitation, including the restoration of the cathedrals of León, Salamanca and Burgos which are amongst the country's historic and cultural landmarks.

Transport and Urban Environment in Jerez: ECU 15.8 million for expansion of existing railway capacity and environmentally motivated re-routing of tracks, pedestrianisation and landscaping works. It will improve the main link from Cádiz to Jerez and its regional airport and is therefore the backbone of the regional public transport system. The Jerez project takes advantage of the railway works to develop the areas close to the railway track. This will bring significant benefits to most of the urban areas adjacent to the railway track.

Urban Renewal in Oviedo: ECU 17.9 million for environmentally motivated re-routing of railway tracks, rehabilitation of the main railway station and its adjacent areas in co-financing with the ERDF.

Canary Islands Airports: ECU 7 million for upgrading and expansion of facilities at Lanzarote Airport. The project concerns mainly the investment in a new terminal of 40 500 m² and landside access. The capacity of the new terminal will allow for 5 million passengers per annum. This investment is crucial to the island with its economy depending essentially on tourism.

The following **interest rebate applications**, amounting to a total loan amount of ECU 488.5 million were approved:

Greece:

"ESSI" Motorway: interest rebate on a loan of ECU 156.5 million for the Athens ringroad which will connect the new Spata airport. The project is part of the Patras-Athens-Thessaloniki (PATHE) North South main road axis (a TEN priority project) and it will also link the Athens city centre with the new Airport. It will also reduce traffic congestion in the Athens metropolitan region that has seen extremely rapid growth in vehicle traffic.

Ireland:

Irish Roads: Interest rebate on a loan of ECU 40 million for four road improvements schemes of the National Roads Authority and local authorities. The project covers four important schemes on the national primary road network which will improve traffic conditions through greater safety and time savings, and help communications between economic regions of Ireland and with ports and tourism areas, as well as reducing urban traffic congestion.

Portugal:

Urban rehabilitation Schemes by Local municipality Councils: Interest rebate on a loan of ECU 13.4 million for deprived urban areas in 11 municipalities, as supplement to the grant assistance mentioned above.

Oil Products Storage and Multi-Product Distribution Pipeline: Interest rebate on a loan of ECU 27.1 million for new storage and distribution infrastructure for Central Portugal including the Lisbon metropolitan area. The present project will allow the replacement of an obsolete storage complex located in central Lisbon by a new facility located in a low density population area.

Solid Waste Disposal "Valorsul": Interest rebate on a loan of ECU 46.2 million for a municipal waste incineration plant on the outskirts of Lisbon. It will be sited on underdeveloped land in an industrial area alongside the river Tagus. Steam produced will be used for electricity generation.

Solid Waste Disposal "Lipor": Interest rebate on a loan of ECU 46.2 million for a municipal waste incineration plant on the outskirts of Porto. The plant will supply proven incineration technology and comprise two incineration lines with large dimension grills, conventional flue gas cleaning systems and equipment for steam production and production of electricity.

Spain:

Water Infrastructure and Forestry Projects in Galicia: Interest rebate on a loan of ECU 26.5 million for 60 water treatment and distribution projects, as well as reforestation after forest fires and afforestation of a total of 55000 ha.

Urban Renewal in Oviedo: Interest rebate on a loan of ECU 13.0 million for the main railway station and its adjacent areas, as supplement to the grant assistance mentioned above in co-financing with ERDF.

Canary Islands Airports: Interest rebate on a loan of ECU 68 million for extensions at the airports of Tenerife, Lanzarote and Fuerteventura islands. Air transport is obviously vital for Canary Islands, either for access from outside or for internal communications. Any bottleneck in this sector would therefore have significant repercussions on the whole economy and specially on tourism which requires a good/ efficient access by air.

ICO Environmental Global Loan II: Interest rebate on a loan of ECU 51.6 million for Instituto de Crédito Oficial, for financing of private and public sector small and medium-sized environmental projects. This new global loan to ICO would contribute to the protection of the environment and the reduction of pollution in Objective 1 areas in Spain.

2. The Community contribution

The Act of Accession (Articles 83, 111, 136) specifies that the shares of the new Member States in the Mechanism are to be met from the general budget of the Communities. On a proposal from the Commission (COM(94) 398), the financial perspective has already been reworked accordingly by adding a new heading under "Structural Activities". The budget adopted for 1997 contains a heading with the relevant comments (B2-401). The amount forecast for each year is ECU 108 million.

As far as the actual payments are concerned, taking over the shares of the new Member States means complying with the terms of Article 4A of the Cooperation Agreement between the EFTA countries and the EIB, dated 30 June 1992, as amended by the amending protocol of 18 June 1993.

In line with these procedures, the contribution for 1997 and the shares between the participating EFTA countries and the Commission were decided respectively by the Financial Mechanism Committee, in consultation with the EIB, on 17 December 1996. These contributions were calculated in accordance with the gross national product at market prices using data for the last three calendar years and assuming a total annual contribution of ECU 130 million.

a)- A total contribution of ECU 130 million for 1997

At the creation of the Financial Mechanism a first estimate was made corresponding to an annual instalment of ECU 130 mill. but during the years 1994-1996 initial funding and replenishment of ECU 110 mill. of the Financial Mechanism took place as shown in the table below together with the aggregated contributions during the same period.

Article 4 of the Cooperation Agreement states that the EFTA States and the Community budget shall deposit the amounts necessary to meet the commitment schedules, the consequent disbursements and the associated administrative costs of the interest payments and the grants. The Bank and the Committee shall review the amount of grants and the interest subsidies disbursed in order to determine the amounts of the subsequent instalments to be deposited by the EFTA States and the Commission. Any amount outstanding at the time of termination of operations shall be repaid to the EFTA States and the Community budget.

On 17 December 1996 the Financial Mechanism Committee decided that the contributions from the donors would have to rise accordingly in order to meet the final obligations. Even though all the contributions have not been used it is important to keep a reasonable contribution to the Mechanism account each year in order to be able to match reasonably the future final obligations in terms of commitments at the end of 1998. An increase from ECU 110 mill. to ECU 130 mill. in the replenishment for 1997 will alleviate the final replenishment in 1998.

b)- The Community contribution

The cost sharing of the initial funding and replenishment of the Financial Mechanism calculated in accordance with the gross national product at market prices using data for the last three calendar years is the following:

	Iceland	Norway	Liechtenstein	Community budget from 1995			Total
				Austria	Finland	Sweden	
1994	1.078 (0.98 %)	18.436 (16.76 %)	0.187 (0.17 %)	29.348 (26.68 %) Total:	20.526 (18.66 %) (82.09 %)	40.425 (36.75 %)	110
1995	1.111 (1.01 %)	19.063 (17.33 %)	0.198 (0.18 %)	89.628 ¹ (81.48 %)			110
1996	1.122 (1.02 %)	21.604 (19.64 %)	0.198 (0.18 %)	87.076 (79.16 %)			110
1997	1.300 (1.00 %)	25.935 (19.95 %)	0.247 (0.19 %)	102.518 (78.86 %)			130
Total	4.611	85.038	0.83	369.521			460

ECU million

In consequence, the Commission approved on 27 February 1997 the Community budget contribution for 1997 of ECU 102 518 000.

The credit outstanding at the Mechanism account at the EIB, which has not been used yet, bears interest at a monthly rate.

¹ The Commission did not request a transfer of Liechtenstein's reimbursement in August 1995. Accordingly, this amount was deducted from the third instalment in 1996.

3. The Mechanism account at the EIB

As of 31 December 1996, the balance of the Financial Mechanism account was ECU 276 640 719. In summary, the account transactions during the second semester of year 1996 were as follows:

		ECU
<i>Balance as of 30 June 1996</i>		302 326 080
<i>Crediting</i>		
Accrued interest	6 100 090	
<i>Debiting</i>		
Interest subsidies	- 14 497 183	
Grant disbursements	- 16 901 894	
Liaison Officer function cost ²	- 386 374	
<i>Balance as of 31 December 1996</i>		276 640 719

As of 30 June 1997, the balance of the Financial Mechanism account was ECU 337 377 385. In summary, the account transactions up to 30.06.97 have been the following:

		ECU
<i>Balance as of 31 December 1996</i>		276 640 719
<i>Crediting</i>		
Fourth instalment in 1997	130 000 000	
Accrued interest up to 30.06.97	6 499 752	
<i>Debiting</i>		
Interest subsidies	- 37 075 188	
Grant disbursements	- 38 687 898	
<i>Balance as of 30 June 1997</i>		337 377 385

² In the accession agreements for Austria, Finland and Sweden, it is agreed that the budget of the European Communities takes over the obligations of the acceding States towards the Financial Mechanism. Accordingly, the sharing of the Liaison Officer function costs between the three EFTA States and the Commission applies retroactively as from 1995. However, during the first six months in 1995 the Liaison Officer function was funded by an intermediate arrangement under which the former EFTA States, including the three States acceding to the European Union, covered the costs. The new cost sharing arrangements thus applies as from 1 July 1995.

The Financial Mechanism Committee approved the cost statement for 1995 amounting to 109 680 ECU and the cost estimate for 1996 amounting to 276 694 ECU. The total amount of 386 374 ECU was debited by the EIB on 12 July 1996.

4. Coordination and complementarity with other financial instruments of the European Union

The Commission ensures, within the framework of the partnership, coordination and consistency between the projects carried out under the Financial Mechanism and measures undertaken by the Structural Funds, the Cohesion Fund, the European Investment Bank and the other financial instruments of the European Union.

In that respect, operating rules concerning the combination and overlapping of the Financial Mechanism aid with other Community assistance, have been clearly defined in the "Operational arrangements" concluded between the Commission and the European Investment Bank, on 9 March 1994.

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DOCUMENTS

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