



COMMISSION OF THE EUROPEAN COMMUNITIES

Brussels, 3.6.2003
COM(2003) 325 final

**COMMUNICATION FROM THE COMMISSION TO THE COUNCIL AND THE
EUROPEAN PARLIAMENT, ECONOMIC AND SOCIAL COMMITTEE AND THE
COMMITTEE OF THE REGIONS**

**Ways of promoting economic development in the northern part of Cyprus
and bringing it closer to the Union**

**COMMUNICATION FROM THE COMMISSION TO THE COUNCIL AND THE
EUROPEAN PARLIAMENT, ECONOMIC AND SOCIAL COMMITTEE AND THE
COMMITTEE OF THE REGIONS**

**Ways of promoting economic development in the northern part of Cyprus
and bringing it closer to the Union**

Introduction

The European Council (Brussels conclusions of 21 March 2003) regretted that the efforts of the United Nations Secretary General to find a comprehensive settlement of the Cyprus problem have failed in The Hague on 10/11 March 2003. It strongly supported the continuation of the Secretary General's mission of good offices and of negotiations on the basis of his proposals. It urged all parties concerned to spare no efforts towards reaching a comprehensive settlement. The Commission has continuously lent its full support to this process and has repeatedly recalled the willingness of the European Union to accommodate a settlement in line with the principles on which the EU is founded.

The Secretary General's report on his mission of good offices in Cyprus was submitted on 1 April 2003 to the UN Security Council.¹

The UN Security Council resolution 1475 of 14 April 2003 was adopted unanimously. The Security Council welcomes the report and gives "its full support to the Secretary-General's carefully balanced plan of 26 February 2003 as a unique basis for further negotiations". Finally, it asks the Secretary General to continue to make available his good offices.

The Annan plan remains on the table. The United Nations Secretary General has made it known that he will not propose to take a new initiative unless there is solid reason to believe that the necessary political will exists for a successful outcome.

The Commission is ready to assist any further efforts in this context. It has repeatedly stated its strong support for a comprehensive settlement on the basis of the UN plan. In the event of a settlement, an additional amount of € 206 m is foreseen for the period of 2004-2006 to support the northern part of Cyprus.

On 23 April 2003 the restrictions on crossing the UN buffer zone were eased. An impressive number of crossings has taken place ever since.

The Copenhagen conclusions stated *inter alia*, "*in the absence of a settlement, [...] the Council invites the Commission, in consultation with the Government of Cyprus, to consider ways of promoting economic development of the northern part of Cyprus and bringing it closer to the Union*" (paragraph 12 of the Presidency conclusions).

¹ Report of the Secretary-General on his mission of good offices in Cyprus of 1 April 2003, UN Doc S/2003/398.

This Communication takes up this invitation and proposes measures in the following areas:

- financial assistance
 - for economic development, and
 - for measures bringing the northern part of Cyprus closer to the EU,
- trade promotion.

The assistance proposed would start to be implemented in 2003.

The EU provides through this package a strong political signal of support to the Turkish Cypriot community.

1. Financial Assistance

Until now, assistance from the EU to the northern part of Cyprus has been provided in the framework of bi-communal projects financed under the bilateral Financial Protocols (1978-1999), and under the pre-accession regulation for Cyprus and Malta (2000-2003) mentioned below. Projects have been financed in the following areas:

- rehabilitation works for the walled city of Nicosia (Nicosia Master Plan in the 2nd Financial Protocol and in all pre-accession programmes since 2000, Sanitation of Nicosia in the 1st 2nd and 3rd Financial Protocols),
- activities linking the trade unions from both communities (2001 pre-accession project),
- business support of SMEs via the Chambers of Commerce (2002 and 2003 pre-accession projects),
- civil society programme.

In order to provide the assistance to the northern part of Cyprus a close co-operation has been established with the United Nations. The assistance is administered on the ground on the basis of the 1999 agreement between the UN and the EC². The United Nations Development Programme (UNDP) has carried out these projects successfully under the title “Partnership for the Future”.

² Agreement between the United Nations and the European Community on the principles applying to the financing or co-financing by the Community of programmes and projects administered by the United Nations, of 9 August 1999.

1.1 Economic Development

For 2003, the Commission intends to use the increase in assistance in order to support i.e.:

- infrastructure projects for the main cities in the northern part (Nicosia, Famagusta, Kyrenia) focusing on wastewater, drinking water, sewage or rehabilitation issues. These projects will build closely on the experience gained in the support to the Nicosia Master Plan,
- grant schemes for support to SMEs,
- feasibility studies to prepare the economic integration of the northern part of Cyprus with the EU after a political solution, including preparation of programmes for future participation in the EU structural policy.

The cost of these initiatives is estimated at € 9 m.

1.2 Bringing the northern part of Cyprus closer to the EU

The EU has repeatedly expressed its preference for a united Cyprus to join the Union. There is a new window of opportunity before 1 May 2004.

Therefore the Turkish Cypriot community should be informed on the implications of joining the EU and in particular on the *acquis*.

The following events have already been successfully organised by the Commission in previous years:

- *acquis*-related seminars in the northern part of the island,
- training of legal experts,
- meetings with the Chambers of Commerce,
- meetings with the Pancypriot Trade Union Forum,
- information on the EU via the European Institute of Cyprus,
- translation of the *acquis* into Turkish.

The Commission intends to continue and substantially increase such information activities in 2003. The activities will include:

- *acquis* information seminars on the island with experts of the Commission,
- visits of selected groups to EU institutions organised by the Commission to provide information on the EU,
- consultation with the Cypriot authorities on finding ways to encourage participation of Turkish Cypriots in community programmes,
- co-operation with the Member States in the context,
- support to civil society and social partners,

– continuation of the translation of the *acquis* into Turkish.

The cost of these initiatives is estimated at € 3 m.

1.3 Financing

The legal basis for the expenditure will be the existing regulation on pre-accession support to Cyprus and Malta (Council Regulation (EC) N° 555/2000) applicable until 31 December 2003.

In the event of no comprehensive settlement before 2004, the Commission will ensure further specific and targeted actions. A suitable proposal for a legal basis supporting continued assistance in 2004 would be presented in due time.

An indicative list of project proposals is attached in Annex 2.

2. Trade promotion

Since a 1994 judgement of the European Court of Justice, movement certificates issued by “TRNC authorities” have not been accepted under the Association Agreement between Cyprus and the EC.³ The *de-facto* division of the island has thus prevented direct exports of goods produced or obtained in the northern part to benefit from the customs preferential treatment under the Association Agreement.

Prior to the accession of Cyprus to the EU and pending a solution to the Cyprus problem, the following way of exporting goods produced or obtained in northern part of Cyprus to the Union⁴ could be established in conformity with the Association Agreement:

The Turkish Cypriot Chamber of Commerce could be given the authority to issue movement certificates in accordance with Article 8 of the relevant protocol to the Association Agreement⁵ for goods produced or obtained in the northern part of the island.

The Turkish Cypriot Chamber of Commerce would accept to issue such certificates under the condition that the applicant exporter agrees to submit, at the request of the Chamber, any supporting evidence which it may require and that he undertakes to agree to any inspection of his accounts and to any check on the process of manufacture of the goods, carried out in the presence of the appropriate authorities.

The above is valid for goods only requiring movement certificates. As far as other goods are concerned, such as agricultural products, additional certificates (e.g. phytosanitary) would be issued by the appropriate authorities in conformity with Community legislation. Particular attention has to be paid to the compliance with the EU legislation on Plant Health-Harmful organisms. The basic Directive in this field⁶ requires for citrus fruits and potatoes⁷, which are

³ Case C-432/92, *The Queen v. Minister of Agriculture, Fisheries and Food, ex parte S.P. Anastasiou (Pissouri) Ltd and Others*, ECJ Reports 1994 I, 3087, para 40.

⁴ In 2001, exports from the northern part of Cyprus had a value of approx. US \$ 46 m. 62% of this amount concerned agricultural products (23% citrus fruits, 25% processed agricultural products). In earlier years around 50% of the exports were shipped to Turkey, 30% to the United Kingdom, and about 15% to other Member States.

⁵ Protocol concerning the definition of the concept of “originating products” and methods of administrative cooperation, OJ 1977, L 339, 19.

⁶ Council Directive 2000/29/EC.

the main exports, that official statements be made as to the origin of the product and/or as to the absence of relevant harmful organisms at the place of production.

In order to regulate the above-mentioned procedure, the EC-Cyprus Association Council would adopt a decision, to complement the Protocol concerning the definition of the concept of “originating products” and methods of administrative cooperation. It would also lay down, as appropriate, any other conditions under which goods produced or obtained in the northern part of the island have preferential access to the EU markets.

With regard to the procedure after the accession of Cyprus to the EU, any measure under Article 2 para 1 (definition of the terms under which EU law will apply) of the Protocol on Cyprus to the Treaty of Accession will be presented in due time.

⁷ Annex IV A I point 16 (1, 2, 3, 4, 5) and point 25 (1, 2, 3, 8) respectively.

ANNEX 1

FINANCIAL STATEMENT	[.....]
	DATE: [.....]
1. BUDGET HEADING: B7-041 – Pre-accession financial assistance to Cyprus	
2. TITLE: Communication of the Commission to the Council on ways of promoting economic development in the northern part of Cyprus and bringing it closer to the Union	
3. LEGAL BASIS: Council Regulation N° 555/2000 of 13 March 2000	
4. AIMS: <p>The overall objective is, following the Copenhagen European Council of December 2002 which concluded that “<i>in the absence of a settlement, [...] the Council invites the Commission, in consultation with the Government of Cyprus, to consider ways of promoting economic development of the northern part of Cyprus and bringing it closer to the Union</i>” (paragraph 12 of the Presidency conclusions), to give a strong political signal from the Union in support of the Turkish Cypriot community.</p> <p>The Commission proposes to act by means of a goodwill package for the northern part of Cyprus, incorporating the following aspects of support:</p> <ul style="list-style-type: none"> • financial assistance <ul style="list-style-type: none"> – for economic development, and – for bringing the northern part of Cyprus closer to the EU, • trade promotion. <p>The specific objective of this Communication is to present this aid package.</p>	
5. FINANCIAL IMPLICATIONS	Budget year: 2003
5.0 EXPENDITURE (EUR Million) - CHARGED TO THE EC BUDGET	12
6.0 CAN THE PROJECT BE FINANCED FROM APPROPRIATIONS ENTERED IN THE RELEVANT CHAPTER OF THE CURRENT BUDGET?	NO
6.1. CAN THE PROJECT BE FINANCED BY TRANSFER BETWEEN CHAPTERS OF THE CURRENT BUDGET?	YES
6.2. WILL A SUPPLEMENTARY BUDGET BE NECESSARY?	NO
6.3. WILL APPROPRIATIONS NEED TO BE ENTERED IN FUTURE BUDGETS?	NO
OBSERVATIONS: The financial assistance in 2003 will be provided via a budgetary transfer between the chapters, using funding from budget line B7-660 whose credits are entered in reserve in chapter B0-40.	

ANNEX 2

**Indicative list of measures for the use of a 2003 financial envelope
for the northern part of Cyprus**
(May 2003)

	Title of the measure	Indicative Budget
1	<p>Infrastructure projects for the main cities</p> <p><i>Brief overview: Improvement of main cities infrastructure in the northern part, and preservation of their historical heritage, building on experience gained in the context of the UN managed Nicosia Master Plan.</i></p> <p><i>Objectives are: to support the improvement of infrastructure in the main cities, the conservation of their architectural and cultural heritage, to stimulate the economy by launching of works tenders open to local contractors, to increase the visibility of, and thereby to cultivate positive attitudes towards the EU, and to improve the living environment of the residents of the neighbourhoods involved.</i></p> <p><i>Development of similar types of actions for cities such as Famagusta or Kyrenia, were issues such as waste management, management of drinking-water systems, or rehabilitation actions could also be the object of structured development plans financed by the EU.</i></p>	6 Mio €
2	<p>Business Support for SMEs</p> <p><i>Brief overview: Grant scheme and technical assistance.</i></p> <p><i>This would build on two previous similar bi-communal projects financed by pre-accession funds.</i></p> <p><i>The objective is the strengthening of the SMEs in the northern part of Cyprus by providing a variety of services to them (training, counselling, small grants).</i></p> <p><i>This is mainly oriented on business development and acquis related activities.</i></p>	2 Mio €
3	<p>Feasibility Studies</p> <p><i>Brief overview: In order to promote the economic development of the northern part of the island, a number of feasibility studies have to be completed as early as possible.</i></p> <p><i>These will build on a first assessment made by an independent expert in 2002 (STUDY ON A RECONCILIATION PROGRAMME FOR CYPRUS AND PREPARATION FOR ACCESSION IN THE NORTHERN PART OF CYPRUS),</i></p>	1 Mio €

	Title of the measure	Indicative Budget
	<p><i>which identified the main areas of support to the economy of the north.</i></p> <p><i>These will be essential in the perspective of a solution of the political problem and the urgent support needed in the case of the integration of the north.</i></p>	
4	<p>Support to Civil Society</p> <p><i><u>Brief overview:</u> Grant scheme.</i></p> <p><i>This project will build on an NGO-managed existing bi-communal project, which aims at reinforcing links between the two communities.</i></p> <p><i>Support to the civil-society at large by allowing NGOs or other actors of the civil society in the north to submit small-scale projects that reinforce the social links, and facilitate their integration in the “European family”.</i></p>	1.5 Mio €
5	<p>Trade Unions Support</p> <p><i><u>Brief overview:</u> Grant scheme.</i></p> <p><i>Building on two existing bi-communal projects.</i></p> <p><i>Strengthen the trade unions via the Pan-Cypriot Trade Union Forum.</i></p> <p><i>Training activities, study visits, support to organisation of common events.</i></p>	0.5 Mio €
6	<p>Seminars on the <i>acquis</i></p> <p><i><u>Brief overview:</u> In the framework of a specialised communication strategy for the northern part of Cyprus.</i></p> <p><i>Linked to the current “communication strategy” for Cyprus covering the two Cypriot communities in the framework of the pre-accession assistance to Cyprus.</i></p> <p><i>Acquis teaching seminars with the participation of EC experts, University lecturers, for selected groups of Turkish Cypriot economic / civil society actors. Translation of the <i>acquis</i> into Turkish.</i></p> <p><i>Use of specialised institutes.</i></p>	1 Mio €
	Total	12 Mio €