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ANNEX TO ANNUAL REPORT ON THE COHESION FUND (2003)
COMMISSION WORKING DOCUMENT

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1. GENERAL CONTEXT

1.1. Convergence and economic development in the beneficiary countries of the Cohesion Fund

1.1.1 Greece

In 2003, the Greek economy continued to be buoyant despite the less propitious international context. Real GDP growth reached a historically high rate of 4.2% after 3.9% in 2002 and real GDP per capita is estimated at around 73% of the EU-15 average. Growth in 2003 was driven by domestic demand, especially investment and private consumption. Investment spending, linked to the preparation of the Olympic Games and assisted by the financial flows from the EU Structural Funds, grew by 12.6% as against 5.7% in 2002. Private consumption, supported by easy monetary conditions and an improvement in disposable income due to the 2002 tax reforms, grew by 4.0% (2.8% in 2002). The current external deficit appears to have widened further in 2003, reaching 7.0% of GDP as against 5.2% in 2002. The general government deficit in 2003 is now estimated to have reached 3.2% of GDP and the debt ratio 103.0% of GDP¹. The deviation from the target for the deficit of 0.9% of GDP set in the previous update of the stability programme (covering the period 2003-06) mainly reflects expenditure overruns.

In December 2003 Greece submitted the most recent update of its stability programme, also covering the period 2003-06. According to the programme, real GDP growth should reach 4.2% in 2004 and slow slightly (to 4.0% in 2005 and 3.8% in 2006) due to the removal of the stimulus from Olympic Games-related investments. The update targets a general government deficit of 1.2% of GDP in 2004 (as against a then expected deficit of 1.4% of GDP in 2003), a deficit of 0.5% of GDP in 2005 and balance in 2006. The budgetary strategy is based on maintaining high primary surpluses consistent with a reduction in the expenditure ratio and an accelerating decline in the debt ratio. The primary surplus is projected to reach 4.7% of GDP in 2004 and, with budgetary adjustment gaining momentum thereafter, 5.1% in 2005 and 5.3% in 2006. Owing to the increasing contribution from the primary surplus and diminishing stock-flow adjustments, the debt ratio is projected to decline to 90.5% of GDP in 2006.

In its Opinion on the update on 10 February 2004², the Council considered the macroeconomic scenario to be optimistic as regards growth and inflation prospects, with external competitiveness at risk. Further, the Council noted that, although the budgetary targets in the programme seem to provide a sufficient margin against

¹Estimated outturn taken from the May 2004 revision of the March 2004 reporting of government deficits and debt levels in accordance with Council Regulation (EC) No 3605/93, as amended by Regulation (EC) No 475/2000.

²OJ C 43, 19.2.2004.

breaching the 3% deficit threshold with normal macroeconomic fluctuations throughout the programme period, there are several risks (such as those linked to the macroeconomic scenario), although lower primary expenditures after the Olympic Games in 2004 should help to reduce deficits. The Council considered that the Stability and Growth Pact medium-term objective of a budgetary position of close-to-balance or in surplus would not be achieved over the programme period.

1.1.2. Spain

In 2003 real GDP grew by 2.4% (2.0% in 2002) compared to 0.7% for EU-15, bringing real GDP per capita to around 85% of the EU-15 average. Consumer price inflation eased to 3.1% on average (3.6% in 2002), mainly due to a fall in the services component. Despite slower than expected growth and the reform of personal income tax, the fiscal targets set for 2003 in the previous update of the stability programme (covering the period 2002-06) were overachieved. Compared with an initial balanced budget target for 2003, the budgetary position is now estimated to have been a surplus of 0.3% of GDP³. The better than foreseen result can be explained by several factors, including the support of domestic demand to growth and the resilience of job creation, which helped sustain indirect taxes and social security contributions respectively. Additionally, the debt-to-GDP ratio was 50.8% of GDP compared to 53.1% envisaged in the 2002-06 update.

Spain submitted the most recent update of its stability programme, covering the period 2003-07, in January 2004. The update reaffirms the economic strategy followed in recent years based on fiscal consolidation and structural reforms. The then expected surplus of 0.5% of GDP in 2003 is targeted to become a balanced budget in 2004, with small surpluses of 0.1%, 0.2% and 0.3% of GDP in 2005, 2006 and 2007 respectively. The programme envisages keeping the ratios of revenue and non-interest expenditure-to-GDP constant throughout the programme period, at 40.0% and 37.4% respectively, while allowing for an increase in the GDP share of capital expenditure and a corresponding decrease in the current expenditure share. The resulting primary surpluses are consistent with a steady decline in the debt ratio, which is envisaged to fall below 44% of GDP in 2007.

In its Opinion on the update on 9 March 2004⁴, the Council considered the overall macro-economic scenario as realistic, with growth in line with current estimates of the potential rate throughout the programme period. The budgetary projections were considered as being consistent with a position of close-to-balance or in surplus in each year of the programme and the budgetary stance as providing a sufficient safety margin against breaching the 3% of GDP deficit threshold.

1.1.3. Ireland

Irish real GDP increased by 1.4% in 2003, which is a marked slowdown from the exceptionally high growth rates recorded in previous years. Nominal GNP per capita

³Estimated outturn taken from the March 2004 reporting of government deficits and debt levels in accordance with Council Regulation (EC) No 3605/93, as amended by Regulation (EC) No 475/2000.

⁴OJ C 68, 18.3.2004.

is estimated at just above 100% of the EU-15 average⁵. While consumption growth remained relatively healthy in 2003, the Irish economy experienced a pronounced fall in investment activity and a lower contribution to growth from the external side than in preceding years. However, the labour market showed some resilience as the unemployment rate increased only slightly and employment continued to grow, albeit at a low rate. In the context of weak growth, HICP inflation moderated significantly through 2003, from 4.7% in January to 2.9% in December. The 2003 outturn for the general government balance is now estimated to have been a small surplus of 0.2% of GDP⁶. This is much better than the target of a deficit of 0.7% of GDP set in the previous update of the stability programme (covering the period 2003-05). The deviation from target mainly reflects a tax overshoot and lower than budgeted expenditure, especially on interest payments and public investment.

The most recent update of the Irish stability programme, covering the period 2004-06, was submitted in December 2003. The programme targets a deficit ratio of 1.1% of GDP in 2004 with near-stabilisation thereafter (1.4% in 2005 and 1.1% in 2006). Between 2003 and 2006, there is a cut in the expenditure-to-GDP ratio, itself due to a gradual decrease in public spending growth, which is insufficient to offset the further significant decline in the revenue ratio. The update envisages that the debt ratio remains broadly constant at the low level of about one-third of GDP.

In its Opinion on the update on 10 February 2004⁷, the Council considered that the macro-economic scenario underlying the update was realistic and that the Stability and Growth Pact's medium-term objective of a budgetary position of close to balance should be achieved by the end of the programme period. The budgetary stance in the programme should provide a sufficient safety margin against breaching the 3% of GDP deficit threshold with normal macroeconomic fluctuations. The Council also noted that the projected balances reflect to a significant extent the implementation of an intensive programme of public investment, with a government investment-to-GNP ratio of 5% on average over the programme period.

1.1.4. Portugal

Following the cyclical downturn which started in 2001, the economy went into recession in 2003, with an estimated decline in real GDP of 1.3%. Real GDP per capita is estimated at around 67% of the EU-15 average. Domestic demand is estimated to have receded by nearly 2.5% in 2003, while the contribution of the net external balance is estimated at about 1.5%. In Portugal, the impact of the cyclical downturn in the European economy is being accentuated by the ongoing economic adjustment, reflecting balance-sheet corrections of both households and firms after the rise in recent years of their indebtedness levels to record highs. The 2003 outturn for the general government deficit is now estimated to have been 2.8% of GDP⁸,

⁵The gap between GDP and GNP is far higher in Ireland than in the other cohesion countries on account of large profit repatriations by multinational companies operating in Ireland. In 2003, for instance, GNP represented only around 83% of GDP.

⁶Estimated outturn taken from the March 2004 reporting of government deficits and debt levels in accordance with Council Regulation (EC) No 3605/93, as amended by Regulation (EC) No 475/2000.

⁷OJ C 43, 19.2.2004.

⁸Estimated outturn taken from the March 2004 reporting of government deficits and debt levels in accordance with Council Regulation (EC) No 3605/93, as amended by Regulation (EC) No 475/2000.

compared with a target of 2.4% set in the previous update of the stability programme (covering the period 2003-06). Budgetary implementation was severely hindered by the unanticipated scale of the economic recession, which led to a massive tax revenue shortfall (when excluding the one-off measure regarding the sale of tax and social contributions arrears). On the expenditure side, by contrast, the Portuguese authorities have been broadly successful in ensuring the planned restraint. The growth rate of total current primary expenditure decelerated from 8.9% in 2001 to 7.1% in 2002 and 4.2% in 2003. These revenue and expenditure developments would normally have led to a government deficit clearly above 3% of GDP in 2003 but, in order to prevent this, the government resorted to two one-off measures worth a total of 2% of GDP.

The most recent update of the stability programme, covering the period 2004-07, was submitted in December 2003. Given the significant downward revision of growth prospects, the path for deficit reduction was postponed. The update projects a gradual reduction in the deficit-to-GDP ratio over the period 2004-07, reaching a government deficit of slightly above 1% of GDP by the end of the programme period (2.8% in 2004, 2.2% in 2005, 1.6% in 2006 and 1.1% in 2007). The budgetary consolidation strategy relies on expenditure restraint rather than on tax increases. The debt ratio is projected to reach 60% of GDP in 2004 and to decline to 57% in 2007.

In its Opinion on the update on 9 March 2004⁹, the Council considered the macro-economic scenario as realistic. However, meeting the budgetary targets in the update was seen to be subject to a number of risks such as the possibility of a tax revenue shortfall in 2004 and slippage in curbing expenditure growth, particularly in social transfers.

1.2. Conditionality

The Council Regulation on the Cohesion Fund¹⁰ provides for conditionality of financing by the Fund. In particular, no new projects or, in the case of major projects, no new project stages can be financed if the Council, acting by a qualified majority on a recommendation from the Commission, finds that the Member State concerned has not implemented its stability or convergence programme in such a way as to avoid an excessive deficit.

In Portugal, the general government deficit amounted to 4.4% of GDP in 2001, therefore exceeding the 3% of GDP reference value in the Treaty. Based on evidence for this¹¹, the Commission initiated the excessive deficit procedure for Portugal on 24 September 2002 and on 16 October adopted an Opinion stating that an excessive deficit existed in Portugal. On 5 November, based on Commission recommendations, the Council adopted a decision to that effect, in conformity with Article 104(6) of the Treaty, as well as a recommendation addressed to Portugal with a view to bringing the situation of an excessive government deficit to an end, according to Article 104(7). As the Portuguese authorities took action in compliance with this

⁹OJ C 68, 18.3.2004.

¹⁰ Article 6 of Council Regulation (EC) No 1164/94 as amended by Regulation (EC) No 1264/1999.

¹¹ Namely the estimated outturn for 2001 in the September 2002 reporting of government deficits and debt levels in accordance with Council Regulation (EC) No 3605/93, as amended by Regulation (EC) No 475/2000.

recommendation, the Commission did not recommend the suspension of the Cohesion Fund in Portugal. The Portuguese general government deficit for 2002 and 2003 is estimated at 2.7% and 2.8% of GDP respectively, in line with the recommendation. On 11 May 2004, the Council therefore decided, on the basis of a Commission recommendation, to repeal the decision on the existence of an excessive deficit in Portugal.

In Greece, the general government deficit reached 3.2% of GDP in 2003. On 19 May 2004, the Commission initiated the excessive deficit procedure for Greece and on 24 June, adopted an Opinion stating that an excessive deficit existed in Greece. On 5 July, based on Commission recommendations, the Council adopted a decision to that effect, in conformity with Article 104(6) of the Treaty, as well as a recommendation addressed to Greece with a view to bringing the situation of an excessive deficit to an end by 2005, in accordance with Article 104(7).

1.3. Preparing the candidate countries for the implementation of the Cohesion Fund

For 2004-06, €24 billion (current prices) has been earmarked for structural assistance in the 10 countries acceding to the EU, of which over one third (€8.5 billion) has been allocated to the Cohesion Fund.

Table: *Breakdown of Cohesion Fund allocations for the acceding countries: 2004-06*

Country	Mid-range allocations (€million - 2004 prices)
Cyprus	53.94*
Czech Republic	936.05
Estonia	309.03
Hungary	1 112.67
Latvia	515.43
Lithuania	608.17
Malta	21.94
Poland	4 178.60
Slovakia	570.50
Slovenia	188.71
Total	8 495.04

* Including the Financial Instrument for Fisheries Guidance (FIFG)

Upon accession on 1 May 2004, 8 of the 10 ISPA beneficiary countries cease to benefit from ISPA and, together with Cyprus and Malta, will become eligible under the Cohesion Fund. In order to prepare these countries for a smooth and timely

transition to the Cohesion Fund, the Commission launched a series of activities in 2003, which are as follows:

- Consultations between the authorities of the new Member States and the Commission were started with a view to drawing up consistent Cohesion Fund Strategic reference frameworks for 2004-06. The frameworks were to set the main areas of priority assistance and their financial breakdown and to define the role of the various national authorities in the management of the Fund.

With the exception of the frameworks of the Czech Republic and Slovakia, the Commission had been consulted on all frameworks of the acceding countries by the end of 2003. Therefore, in accordance with the Accession treaty, expenditure under the Cohesion Fund in these countries will be eligible from 1 January 2004.

- Considering the substantial resources available to the acceding countries under the Cohesion Fund in comparison to the pre-accession financial instruments, a series of technical assistance measures were adopted in order to assist the countries concerned in preparing transport and environment quality projects for submission to the Cohesion Fund.

- Technical assistance at the initiative of the Commission continued focusing on training the acceding countries' authorities in the field of public procurement, with particular attention to the implications of the new Financial Regulation, as well as in respect of public-private partnerships for public utilities.

- Finally, the Commission continued auditing the new Member States' financial management and control systems and making recommendations to improve them. Moreover, the Commission encouraged acceding ISPA countries to continue their efforts to move along the EDIS (Extended decentralised implementation system) roadmap so as to obtain a positive certificate from the Phase 3 (compliance assessment) external auditor. As a result, by end 2003, 5 out of 8 of these countries completed Phase 3 for one or both intervention sectors and applied for granting either partial or full EDIS (Phase 4).

2. IMPLEMENTING PRINCIPLES AND ASSISTANCE GRANTED

2.1. Coordination with other Community policies

2.1.1. Public procurement

The Commission pays particular attention to ensuring that Community legislation on public procurement is rigorously applied to projects part-financed by the Cohesion Fund.

When an application is submitted, the form used to request assistance requires applicants to send copies of published calls for tenders and other information confirming correct observance of the procedure for awarding contracts. If contracts have not yet been awarded when an application is made, the beneficiary Member State is required to provide information on compliance with the rules on the award of public contracts when interim payments are made or the final report presented.

In its inspection missions, the Commission undertakes routine checks on compliance with the relevant Community directives on public procurement and the correctness of the tender selection procedures.

In view of the infringement proceedings against Portugal in 2001 for failure to comply with the directives on public procurement regarding the award of service concessions to companies controlled by the parent company Águas de Portugal, no new projects were adopted where the planned project performer would have been a company controlled by that holding company. The case was closed only in 2003, following changes to Portuguese legislation.

2.1.2. Competition

Regulation (EC) No 1164/94 establishing a Cohesion Fund states that assistance from the Fund must, in particular, be in keeping with competition policy. Community inspections therefore continued throughout 2003 in the form of a prior examination of applications for financing in the light of the rules governing state aid.

Financial support from the Fund is essentially directed towards infrastructure projects for transport or environmental protection (treatment of water and waste management). Provided the rules on public procurement are complied with, and free access to such infrastructure is guaranteed for all operators meeting the necessary technical and legal conditions, such assistance does not provide specific firms with any special advantage.

2.1.3. Environment

The Cohesion Fund contributes to the general objectives of environmental policy in relation to sustainable development and in particular achievement of the priorities of the 6th Action Programme, in particular the management of natural resources, waste and climate change.

During 2003, the Cohesion Fund continued its efforts to implement environmental legislation both through the direct financing of infrastructure to treat waste water and waste and provide drinking water and by ensuring the correct application of certain directives as a prior condition for granting finance. This concerns both the subject-based directives with a large spatial component (e.g. those on nature conservation and the management of waste and waste water) and the directive on environmental impact assessments (EIA).

Drinking water

As environmental policy, particularly in the water sector, has developed considerably lately, the Commission has sent the Member States 'guidelines' on the eligibility of dams to take account of the provisions of Directive 2000/60/EC (framework directive on water¹²).

Waste water

¹² Letter sent to the Member States on 23 June 2003.

Projects for the treatment of urban waste water can be financed only at the appropriate level depending on the designation of the zones (primary in the case of less sensitive zones, secondary in the case of normal zones and tertiary in the case of sensitive zones), as provided for by Directive 91/271/EEC.

When assessing applications for part-financing, the Commission has also taken account of the inclusion of projects in integrated operational systems and their incorporation in plans for the water basin.

In 2003, specific guidelines were sent to the Member States in relation to applications for financial assistance in the context of infringement proceedings¹³. These relate to applications for part-financing for plant which is considered to be useful but inadequate to meet the requirements of the Directive, and which are being contested by the Commission.

Environmental Impact Assessment

Projects covered by Directive 88/337/EEC, as amended by Directive 97/11/EC, are required to comply with the EIA procedure and be compatible with Article 6 of Directive 92/43/EEC (the “Habitats” Directive). This has allowed the construction of infrastructure which is potentially harmful to the environment even though it meets exacting environmental requirements and ensures the proper consultation of the competent environmental authorities and public participation. In some cases measures have been implemented to minimise and offset the impact of such projects.

Solid waste

The Commission has assessed applications for financing for the treatment of urban waste in the light of the policy and legislation applicable in this sector. The existence of a solid-waste management plan is a prior condition for the approval of part-financing.

Investments carried out in this area have contributed towards the substantial drop in methane emissions from landfills. This reduction is due to the application of Directive 1999/31/EC reducing the quantity of biodegradable waste disposed of in landfills, and to gas recovery.

Climate change

The conclusions of the progress report on the Kyoto Protocol¹⁴ indicate that, unless the Member States take further new measures, total emissions in the EU of the greenhouse gases considered to be contributing most to climate change are projected to increase by almost 2% from their 2001 levels by 2010. In relation to 1990 levels that would represent an emission reduction of only 0.5% instead of the 8% that the EU committed itself to achieving.

The nine Member States which did not manage to achieve their agreed share of the EU greenhouse gas emissions target include the Cohesion Fund beneficiaries.

¹³ Letter 27935 of 3 July 2003.

¹⁴ EEA Report: Greenhouse gas emission trends and projections in Europe 2003.

The report also indicates that the transport sector is the second largest source of greenhouse gases, particularly CO₂ emissions, which have increased by 18%, due mainly to growth in road transport, particularly in the Cohesion Fund countries.

In its Communication on a European Union strategy for sustainable development, the Commission committed itself to giving priority to infrastructure investment for public transport and for railways, inland waterways and short-sea shipping. A trend towards a better balance between methods of transport was noted in the projects financed by the Fund. However, the Cohesion Fund has sought to further promote and support projects which help fulfil this commitment.

Polluter-pays principle

The projects financed by the Cohesion Fund have again permitted application of the polluter-pays principle by using different levels of aid. Application of the polluter-pays principle will soon be strengthened by application of Directive 2000/60/EC (framework directive on water).

Partnership

Environmental monitoring of the projects is also carried out by the Member States. The authorities of the Member States responsible for the environment are also involved in examining projects through requests for opinions and through their participation in the Monitoring Committees.

2.1.4. Transport

While TEN transport projects of common interest are financed from the trans-European transport networks budget line, the Cohesion Fund provides funds specifically for the overall TEN transport infrastructure networks. Coordination between the TEN budget and the Cohesion Fund is important because these Community financial instruments take into account the need for links between the central regions of the Community regions and those structurally handicapped by their insular, landlocked or peripheral status.

The revision process of the Guidelines for the development of the trans-European transport network¹⁵ continued during 2003. A high-level group consisting of current and future Member State representatives and the EIB made its recommendations to the Commission concerning new priority projects in the enlarged EU.

Based on the recommendations of the high-level group and on the results of the public consultation on the report, the Commission brought forward a new proposal¹⁶ on 1 October 2003 that complements the 2001 proposal. The new proposal adds a further nine new projects to the list of priority projects, bringing up to 29 the total of projects on major transport routes. Member States should give appropriate priority to these projects when requesting funding from EU financial instruments.

¹⁵ Decision No 1692/96/EC.

¹⁶ COM(2003)564 final: Proposal for a Decision of the European Parliament and of the Council amending the amended proposal for a Decision of the European Parliament and of the Council amending Decision No 1692/96/EC on Community guidelines for the development of the trans-European transport network.

In addition to the new list of priority projects, the proposal puts forward improved tools for coordination of projects between Member States, in particular for cross-border projects through the following two mechanisms.

A European Coordinator, nominated by the Commission, will promote joint methods of evaluation, report on the progress of projects and consult operators on financing possibilities. The Coordinator will cover in particular cross-border sections of the 29 priority projects and, when necessary, may also cover the entire major route.

The declaration of European interest allows coordinated, or even joint, procedures to evaluate projects. If a project faces serious delays without adequate justification, the Commission may take appropriate measures to tackle the problems.

The concept of the “Motorways of the sea”, which was launched in the 2001 White Paper, is another new element of the proposal. It aims at concentrating freight flows on a limited number of sea connections to ensure their financial viability and to reduce road traffic. The proposal includes the possibility of providing start-up aid for new shipping lines.

The TEN Financial Regulation does not allow the same phase of a single project to be financed both by the TENs budget and from other Community sources but, in some cases, feasibility studies financed through the TENs budget may be followed by support from the Cohesion Fund and/or the EIB for the construction works of the actual investment.

The TEN Financial Regulation ((EC) No 2236/95) was amended by Regulation (EC) No 1655/1999 to provide for medium-term planning via indicative multi-annual programmes for Community funding (MIP) and for the encouragement of public-private partnerships, together with the use of a small amount of the budget line (up to 2%) to support projects involving risk capital.

In parallel to the new TEN-T guidelines, the Commission has proposed a substantial amendment of the Financial Regulation which will be adopted soon. The new Regulation would allow the part-financing ceiling to be increased from 10% to 20% for sections of the transport projects of European interest, provided that the projects are started before 2010, are identified in Annex III to Decision No 1692/96/EC as aiming to eliminate bottlenecks and/or fill in missing sections, if such sections are cross-border or cross natural barriers and contribute to the integration of the internal market in an enlarged Europe, and promote safety, ensure the interoperability of the national networks and/or strongly contribute to the reduction of imbalances between modes of transport, in favour of the most environment-friendly modes. This applies equally to priority projects in the energy sector.

The TEN-T budget is divided in two parts: an annual budget and a multi-annual programme. The MIP framework decision 2001-06, which was adopted by the Commission in September 2001, provides a total of about €2.8 billion for 11 priority projects (“Essen” projects), the Global Navigation Satellite Systems project (“Galileo”) and four groups of projects of “common interest” (railway bottlenecks – cross-border projects - road ITS and Air Traffic Management).

In 2003 the MIP represented around 72% of the total TEN-T budget of €628 million. 74% of MIP support was devoted to priority projects (out of which Galileo received almost 23% of MIP funding). The remaining balance was devoted to the four groups of projects. In the framework of the annual budget (€174 million) the risk capital received a €18m subsidy.

2.2. Coordination with the Structural Funds: the strategic reference frameworks (SRF)

2.2.1. Environment

Greece

The strategic reference framework for environment projects is described in a separate chapter of the operational programme for the environment of the Greek Community support framework 2000-06. This operational programme was approved by the Commission on 24 July 2001 (Decision E(2001) 1357). The SRF is a tool in an overall assistance package which aims to enable Greece to comply more fully with its obligations under EU environmental legislation and to contribute to sustainable development.

The financial contribution of the Cohesion Fund seeks to meet some of Greece's major needs in the field of drinking water, the treatment of urban waste water and the disposal of solid waste.

As regards solid waste management, the overall plan of action is based on the National Solid Waste Management Plan which in turn is linked to Regional Management Schemes. The overall objective is the correct management of all categories of solid waste and where appropriate the restoration of environmental conditions which have been polluted or otherwise degraded by waste. A plan has also been drawn up for the treatment of urban waste water, in accordance with the requirements of Directive 91/271/EEC.

In 2003, the implementation of the SRF for environmental projects encompassed investments in the sectors of *solid waste management, waste-water treatment, water supply and forest protection*. In cooperation with the national authorities, efforts need to be concentrated on making and completing investments in the fields of solid waste and waste water so as to meet the requirements of the Community legislation.

Spain

The priority sectors for assistance to be financed through the Cohesion Fund for the 2000-06 programming period are:

- water supply
- sewerage and waste-water treatment
- municipal, industrial and hazardous waste management.

Items of assistance are selected in using a coordinated strategic approach devised for each of these sectors, and forming part of programmes identifying the main priorities

for assistance in the different sectors; they must also be coordinated with assistance in the same sectors financed by the Structural Funds. The contents of each of the sectoral strategic frameworks were described in the 2000 Annual Report for the Cohesion Fund.

Ireland

The Irish authorities presented their strategic reference framework for the environment sector in 2000 and it formed the basis for considering assistance to all the individual projects assisted in the waste-water and solid-waste sub-sectors. Coherence between Structural Fund programmes and the Cohesion Fund priorities is relatively easy to ensure because of the concentration of Cohesion Fund assistance on a small number of major construction projects. During 2003, one new environmental project was approved for part-financing.

Portugal

The environment strategic framework for Portugal for 2000-06 states its main objectives as further development and completion of the basic environment infrastructure and providing the conditions needed for sustainable development, environmental protection and management of natural resources. The service coverage target, in terms of population supplied with proper drinking water supply is 95%. For urban waste-water treatment the objective is to serve 90% of the country's population at the end of the 2000-06 period.

For water supply and urban waste-water treatment an integrated systems approach, with a single entity managing the whole intermunicipal system covering the complete 'water cycle', is now the norm.

In 2003, due to the fact that an existing infringement procedure was dropped at the middle of the year, a substantial recovery effort was made during the second half of 2003 and a significant number of part-financing decisions for new projects or project phases were taken. These included some large integrated-systems projects. They were: Algarve, Centro-Alentejo, Minho-Lima, Norte Alentejano, Oeste, Planalto Beirão, Ria de Aveiro, Tejo-Trancão, Trás-os-Montes e Alto Douro, Zêzere-Côa and Zêzere-Nabão.

2.2.2. Transport

Greece

The strategic reference framework for transport projects in Greece was approved under the operational programmes "Roads, ports and urban development" and "Railways, airports and urban transport" in March and April 2001 respectively. The SRF provides for assistance from the Cohesion Fund and the ERDF, aimed mainly at:

- a) completing the TEN priority road axes in Greece (the Pathe, Egnatia and Ionian highways and the Korinthos-Tripoli-Kalamata/Sparta motorway),

- b) completing and modernising the PATHEP rail route, also part of the TEN, including electrification and signalling, and building a freight railway line from the Ikonio port to the Thriassio railway freight centre,
- c) modernising infrastructure in the ports of Igoumenitsa and Heraklion, and building new port infrastructure at Lavrio, and
- d) modernising the air traffic control system in Greece.

As regards railways, in 2003 the Greek authorities submitted the Strategic Investment Plan, which includes the planning and timetable of the works still to be completed in order to fully implement the modernisation of the PATHEP rail route.

Spain

As part of discussions between the Commission and Spain, the Spanish authorities submitted a document on investment in the trans-European transport networks (TENs), setting out the general strategy in this area in the 2000-06 programming period. Alongside this document, the Spanish authorities defined a strategy for using the Structural Funds and the Cohesion Fund to improve the coherence and complementarity of these two instruments.

This strategy of using the Funds to finance investments in the trans-European transport networks is relatively clear and simple and may be summarised as follows:

Some priority high-speed rail lines in the strategic framework (Madrid-Barcelona-French border, Madrid-Valladolid and Madrid-Valencia) are the main routes which will help improve intermodal balance and secure more rational and environmentally-friendly distribution. These projects are the major priorities for the period 2000-06 and this, together with the fact that they are priority, interregional projects, means that the Cohesion Fund is the main source of finance for these three lines.

This strategic approach, set out at the start of the current programming period, was continued during 2003.

Ireland

The Irish authorities presented their strategic reference framework for the transport sector in 2000. This reference framework formed the basis for assisting the individual projects in the road and rail sub-sectors. Coherence between the relevant Structural Funds programmes and the Cohesion Fund priorities was relatively easily ensured in view of the concentration of Cohesion Fund assistance on a small number of major construction projects. During 2003, one new transport project was adopted for part-financing. While not specifically mentioned in the reference framework it was clearly in line with the relevant European and national priorities described in the document.

Portugal

As well as adopting new projects, the work of the Cohesion Fund also concentrated on monitoring the implementation of projects approved in earlier years, of which

railway projects, including Lisbon underground network projects, represented the greater share, both in number and in terms of volume of investment.

In this regard particular attention continued to be paid to overall coordination, especially as regards investments part-financed by other Community sources, in order to secure maximum synergy in completing operational transport systems by 2006, as referred to in the reference framework for the Cohesion Fund approved in 2000.

The main strategic guidelines of the framework remained unaltered.

The projects adopted in 2003 follow these strategic guidelines, and aim to achieve the objectives laid down under this framework, in particular developing mobility and access to the outermost regions, including the autonomous regions, in the interests of social development and national cohesion. Improving the quality of life in urban centres, in particular in metropolitan areas, is another objective planned and implemented, in particular by the project for the North/South route.

Finally, a strategy was pursued to provide Portugal with a national rail network, ensuring a package of services meeting market needs, for both goods and passenger transport, and which could attract potential traffic away from other, more expensive and less environmentally-friendly forms of transport.

2.3. Implementation of the budget, commitments and payments

2.3.1. Budget available

In accordance with Article 4 of Regulation (EC) No 1164/94, as amended by Regulation (EC) No 1264/1999 (the Cohesion Fund Regulation), Cohesion Fund resources available for commitment for 2003 amounted to € 615 million at 1999 prices. The final amount entered in the budget after indexation was € 839 million, including about €1 million for technical assistance.

In accordance with the brackets for the allocation of resources by Member State laid down in Annex I to the Cohesion Fund Regulation, the indicative allocation of these appropriations by country for 2003 (in 1999 prices) is as follows:

Country	Allocation %	Allocation €million
Spain	61.03	1 596
Greece	16.83	440
Ireland	5.32	139
Portugal	16.83	440
Appropriations available	100	2 615

2.3.2. Implementation of the budget

Budget implementation in 2003, with indexation of the appropriations carried over, was as follows:

Summary table of the implementation of appropriations in 2003 (in EUR)

Commitment appropriations	Initial	Movements	Final resources	Outturn	Cancelled	Carryovers 2003

2003 budget	2 839 000 000	0	2 839 000 000	2 835 622 004	0	3 377 996
Appropriations carried over from 2002	0	0	0	0		0
Appropriations made available again	31 096 007	0	31 096 007	29 680 316		0
Repayments	0	0	0	0		0
Totals	2 870 096 007	0	2 870 096 007	2 865 302 320	0	3 377 996

Under Article 7 of the Financial Regulation, appropriations not implemented at the end of the year are cancelled, unless the Commission adopts a specific decision to carry them over. The commitment appropriations were implemented at the rate of 99.8% and only €3 377 996 was carried over to 2004.

Payment appropriations	Initial	Movements	Final resources	Outturn	Cancelled	Carryovers 2003
Budget 2003	2 650 000 000	-454 789 000	2 195 211 000	2 195 123 861	87 139	0
Appropriations carried over from 2002	0	0	0	0	0	0
Appropriations made available again	0	0	0	0	0	0
Repayments	0	0	0	0	0	0
Totals	2 650 000 000	-454 789 000	2 195 211 000	2 195 123 861	87 139	0

Payment appropriations amounting to €104 789 000 million were transferred from the Cohesion Fund to the Solidarity Fund and €350 million were transferred to Objective 1 to meet applications for payment from the Member States. Taking these transfers into account, all the payment appropriations were implemented.

Implementation of the appropriations for each country is shown in the following tables:

Budget implementation of appropriations in 2003 by Member State

Commitment appropriations 2003

Member State:	Environment		Transport		Mixed Amount	Total	
	Amount	% Envir.	Amount	% Transport		Amount	%
Spain	717 645 122	46.5	825.490.749	53.5		1 543 135 871	54.4
Greece	176 404 253	33.3	353.054.898	66.7		529 459 151	18.7
Ireland	39 875 213	34.0	77 447 367	66.0		117 322 580	4.1
Portugal	374 662 746	58.1	270.140.540	41.9		644 803 286	22.7
Technical assistance	-	-	-	-	901 115	901 115	0
Total	1 308 584 335	46.2	1.527.037.669	53.8	901 115	2 835 622 004	100

Payment appropriations 2003

Member State:	Environment		Transport		Mixed Amount	Total	
	Amount	% Envir.	Amount	% Transport		Amount	%

Spain	795 426 626	46.1	929 305 015	53.9		1 724 731 641	78.6
Greece	25 913 242	64.7	14 164 441	35.3		40 077 683	1.8
Ireland	84 168 779	48.9	87 923 822	51.1		172 092 601	7.8
Portugal	135 539 103	52.5	122 584 061	47.5		258 123 165	11.8
Technical assistance	-	-	-	-	98 771	98 771	0
Total	1 041 047 750	47.4	1 153 977 339	52.6	97 771	2 195 123 860	100

Spain committed appropriations in excess of its allocation in 2003, so offsetting below-allocation consumption by Greece.

While in 2001 the implementation of appropriations had concentrated on environmental projects (51.5% of commitment appropriations and 61.3% of payment appropriations), in 2003, as in 2002, transport projects dominated (53.8% and 52.6% respectively of total appropriations).

The following table shows total implementation in 2000-03 in each country (excluding technical assistance):

Member State:	Allocation 2000-03	2000	2001	2002	2003	Total
Spain	61.02 %	1 601 305 968	1 676 893 850	1 973 389 704	1 543 135 871	6 794 725 393
Greece	16.81 %	435 532 521	467 400 382	335 157 938	529 459 151	1 767 549 992
Ireland	5.30 %	169 624 664	115 000 000	182 661 340	117 322 580	584 608 584
Portugal	16.87 %	450 770 587	455 699 130	296 780 734	644 803 286	1 848 053 737
EUR 4	100.00 %	2 657 233 740	2 714 993 362	2 787 989 716	2 834 720 889	10 994 937 706

2.3.3. Implementation of the budget for the previous period (1993-99)

Changes in 2003 in appropriations to be settled for 1993-99 were as follows:

Settlement in 2003 of commitments for the period 1993-99

Member State	Initial amount to be settled	Decommitments	Payments	Final amount to be settled
Spain	915 085 684	3 925 998	260 564 812	650 594 874
Greece	381 986 228	17 698 199	27 217 263	337 070 766
Ireland	90 492 409	111 600	34 292 729	56 088 080
Portugal	103 128 498	2 911 167	38 996 933	61 220 398
Technical assistance	96 454	96 454	0	0
Total	1 490 789 273	24 743 418	361 071 737	1 104 974 118

Cohesion Fund commitments are made from differentiated appropriations. If all the projects are implemented in line with the decisions, an amount to be settled exists 'automatically' because of the gap between the date of the decision and the date of payment of the balance (normally 4 to 5 years).

The major push to clear the appropriations to be settled begun in 2000 was continued with some 26% of the appropriations remaining to be settled at the beginning of the year being paid or decommitted during 2003. By the end of 2003, these appropriations represented just 39% of the annual budget of the Cohesion Fund (against over half at the end of 2002). A total of 67 projects were closed in 2003. Naturally, this effort to liquidate the appropriations to be settled will continue in 2004.

3. THE PROJECTS AND MEASURES ADOPTED

3.1. Assistance from the Fund by Member State

3.1.1. Greece

In 2003, the Commission approved new Cohesion Fund grants totalling €687 million, of which €311 million was committed from that year's budget.

Including the commitments of €219 million made as a result of decisions taken in previous years, the total amount of Cohesion Fund commitments for Greece in 2003 was €530 million.

The following table shows the Cohesion Fund assistance approved in 2003 and the total amount committed.

	Total eligible cost (€million)	Total CF assistance (€million)	2003 commitments* (€million)
Environment	267 664.2	200 695.6	176 .805.3
Transport	730 983.0	486 323.6	353 697.3
Total CF	998 647.2	687 019.2	530 502.6

% Environment	26.8%	29.2%	33.3%
% Transport	73.2%	70.8%	66.7%

* including commitments based on decisions taken in 2003 and previous years.

3.1.1.1 Environment

In the 2003 budget year, the Cohesion Fund part-financed investments in solid waste, water supplies, waste-water treatment and forest protection. The aim was to complete the cycle of assistance, filling the gaps in the existing systems so as to implement the agreed strategic reference framework.

The following decisions were adopted in 2003:

ENVIRONMENT PROJECTS ADOPTED IN 2003				
CF Code	Project title	Total cost (€million)	CF grant (€million)	Committed (€million)
2003(5208)	Drinking water supplies to municipalities in the district of Ilias in Pyrgos, Western Greece	34.9	26.2	20.9
2003GR16CPE011	Protection of the Seih Sou Forest in Thessaloniki, Central Macedonia	15.1	11.3	9.1
2003GR16CPE012	Forest protection and natural heritage in Greece	40.0	30.0	24.0
2003GR16CPE008	Biological treatment and sewage networks in Arta, Ipiros	10.1	7.6	6.1
2003GR16CPE001	Sewage networks in Thessaloniki, Central Macedonia	10.5	7.9	6.3
2003GR16CPE002	Sewage networks in Sindos – Thessaloniki, Central Macedonia	14.5	10.9	8.7
2003GR16CPE003	Construction and improvement of water supplies and sewage in Kalamata, Pelopponese	10.5	7.9	6.3
2003GR16CPE007	Sewage networks in Iraklion and Alikarnassos, Crete	12.0	9.0	7.2
2003GR16CPE014	Solid-waste management in Levos, North Aegean	17.3	12.9	10.4
2003GR16CPE010	Water supplies in Volos, Thessalia	11.0	8.3	6.5
2003GR16CPE009	Extension of sewage networks in Nafpaktos, Western Greece	10.5	7.9	6.3
2003GR16CPE004	Water + sewage networks and WTP (upgrade) in Tripolis, Pelopponese	10.1	7.6	6.1
2003GR16CPE018	Solid-waste treatment in Crete	32.0	24.0	19.2
2003GR16CPE015	Solid waste treatment in Ipiros	12.2	9.1	7.3
2003GR16CPE016	Solid-waste in Cyclades, South Aegean	26.0	19.4	15.6
	SUBTOTAL	266.7	200.0	160.0
Modified decision with grant increase				
970961007	Waste-water treatment plant in Kalymnos, North Aegean	1.0	0.7	0
	SUBTOTAL	1.0	0.7	0
GRAND TOTAL		267.7	200.7	160.0

Fifteen new projects totalling €200.7 million of Cohesion Fund assistance were approved in 2003. Of this, €160 million was committed from the 2003 budget. In addition, the Commission issued one amending decision, which resulted in a Cohesion Fund grant increase of €700 000.

A total of €16.8 million was also committed from the 2003 budget under decisions adopted in previous years.

Finally, the Commission issued two corrigenda to correct non-material errors with no financial impact.

3.1.1.2 Transport

In 2003, the European Commission approved six new transport projects with a total of €486 million in Community assistance, of which €150.6 million was committed from the 2003 budget. The breakdown by sector is given below.

Rail

The Commission approved one new grant decision, concerning the third phase of the double track Thriasio-Elefsina-Korinthos line with total assistance of €46 million. This decision was the first one to be adopted after the submission by the Greek authorities of the Strategic Investment Plan for the railways.

Roads

Two projects were approved in 2003. One concerns the “Agios Konstantinos bypass to the Kam. Vourla bypass” section and the other one studies for the concession arrangements for the Ionian Axis. Total Community assistance for these projects is €158.1 million.

Ports

Two projects were approved in 2003. They concern the new section of the Lavrio port and studies for the second phase of the expansion of the Igoumenitsa port. Community grants for these projects total €17 million.

Metro

One decision concerning the extension of the Athens metro to Hellinikon (the area of the old airport) was approved in 2003, with a total of €65 million in Community assistance.

The following table shows the projects adopted in 2003:

TRANSPORT PROJECTS ADOPTED IN 2003				
CF Code	Project title	Total cost (€million)	CF grant (€million)	Commitments (€million)
2000GR16CPT007	PATHE, section Ag. Konstantinos – Kam. Vourla bypass	196.8	153.5	43.2
2002GR16CPT001	Ionian Axis studies	8.4	4.6	3.7

2002GR16CPT002	New Igoumenitsa port studies – Phase B	2.0	1.1	0.9
2003GR16CPT002	Lavrio port	31.8	15.9	12.7
2003GR16CPT001	New railway track Thriasio-Elefsina-Korinthos, Phase C	92.0	46.0	36.8
2003GR16CPT003	Athens metro	400.0	265.2	53.4
	TOTAL	731.0	486.3	150.7

Based on decisions taken in the previous years, an amount of €203 million was committed from the 2003 budget for the transport sector.

In addition, the Commission issued three amending decisions with new deadlines for the completion of work for three Cohesion Fund transport projects, without any financial impact.

3.1.2. Spain (including the outermost regions)

The Commission adopted 63 new decisions granting assistance from the Cohesion Fund totalling €1.842 million, of which €1.543 million was committed in 2003. These commitments exceeded by €82 million Spain's allocation for that year in order to avoid the loss of available budget resources not used by other Member States.

These commitments, of which 46.5% is for the environment and 53.5% for transport infrastructures, reflect new decisions adopted in 2003, amendments, annual instalments of decisions adopted previously and the outstanding balances of projects to be closed.

A total of 38 amending decisions were approved, six of which increased assistance.

Three decision were adopted providing assistance of €45.2 million from appropriations made available again for environmental projects, of which €29.7 million was committed in 2003.

The following table shows the amount for each sector.

	Total eligible cost* (€million)	Total assistance* (€million)	2003 commitments* (€million)
Environment	1 111	915	718
Transport	1 277	927	825
Total CF	2 388	1 842	1 543
% Environment	46.5%	49.7%	46.5%
% Transport	53.5%	50.3%	53.5%

*rounded figures

During 2003, payment appropriations totalling €1 725 million were authorised and 25 applications were closed with the balance paid.

3.1.2.1 Environment

The Cohesion Fund continued to concentrate its financial support on the three priority sectors, water supplies, waste-water disposal and treatment and the management of solid urban, industrial and hazardous waste. The preparatory studies required for projects in the water sector were financed. The main aim of these projects is to help municipalities and regions improve drinking water supplies, waste-water networks and treatment and the collection and treatment of waste.

The contribution of the Cohesion Fund by sectors shows that waste-water disposal and treatment continued to receive the bulk of resources for the environment, followed by water supplies.

A total of 40 decisions on new projects were adopted, providing assistance of €15.3 million, of which €717.7 million was committed in 2003. A total of 36 amending decisions were adopted.

Sector	Total eligible cost (€million)	Total assistance (€million)	% of assistance	2003 commitments (€million)
Water supplies	264.16	214.76	23.46%	165.75
Waste-water disposal and treatment	612.44	510.83	55.81%	364.34
Management of solid waste	195.69	156.55	17.10%	160.98
Technical assistance/studies	39.09	33.21	3.63%	26.61
Total	1 111.38	915.35	100.00	717.68

Water supplies

During 2003, Community assistance for measures to improve water supplies totalled €215 million, around 23% of the amount allocated for environmental projects. Ten new decisions were adopted and one decision already adopted was amended, increasing the assistance.

The projects financed in this sector are intended primarily to ensure adequate supplies of drinking water by the construction of three desalination plants, in Melilla, Catalonia and Andalusia respectively, to guarantee the quality of the water provided to consumers by the construction of drinking-water treatment plants and provide for its distribution via supply mains.

WATER SUPPLIES			
Projects adopted in 2003			
No of project	Name of project	Total eligible cost	CF assistance (€million)

		(€million)	
2001-ES-16-C-PE-024	Desalination plant in Melilla	19.7	16.7
2002-ES-16-C-PE-006	Desalination plant in the Tordera Delta	27.5	23.4
2002-ES-16-C-PE-018	Brackish-water treatment system at the El Atabal drinking-water plant	56.8	42.6
2002-ES-16-C-PE-034	Drinking water supplies from Llubí to Crestatx in Majorca	6.6	5.3
2002-ES-16-C-PE-056	Supply of water to supra-municipal systems in the Province of Huelva	15.8	12.7
2002-ES-16-C-PE-059	Exploitation of the water resources of the Sierra Tramontana - Majorca	65.1	55.3
2002-ES-16-C-PE-060	Improvement of water supplies in the Azuaga District	15.1	12.9
2003-ES-16-C-PE-006	Water supplies to the Talavera de la Reina District (1st Phase)	6.9	5.5
2003-ES-16-C-PE-027	Water supplies in the Duero - 2003	13.2	8.6
2003-ES-16-C-PE-032	Reservoir, drinking-water plant and ancillary installations for the supply of water - Hellín	6.9	5.9

Waste-water treatment

A total of €511 million was allocated in 2003 for waste-water treatment projects, 56% of the amount allocated to the environment by the Cohesion Fund and the largest portion of the resources available for this sector. Once again, efforts concentrated on compliance with Directive 91/271/EEC and implementing the National Waste-Water Disposal and Treatment Plan.

A total of 18 decisions were adopted for projects and groups of projects in urban areas in the main water basins and two to amend projects already adopted and increase the assistance. These projects concern improvements to treatment networks, as in the case of the project in Lugo in Galicia, the laying of collectors in several regions, the adaptation of existing treatment stations to meet higher standards, as in the case of the project in La Línea de la Concepción in Andalusia, and the reuse of effluents from the treatment plant in Baix Llobregat in Catalonia.

WASTE-WATER TREATMENT			
Projects adopted in 2003			
No of project	Name of project	Total eligible cost (€million)	CF assistance (€million)
2002-ES-16-C-PE-009	Reuse of effluent from the Baix Llobregat waste-water treatment plant	88.7	75.4
2002-ES-16-C-PE-020	Disposal and treatment measures in Alfaro, Nájera, Arnedo, Autol, Quel and Calahorra	34.3	29.1
2002-ES-16-C-PE-024	Cleaning up the estuaries of A Coruña, O	32.9	26.3

	Burgo and surrounding municipalities (2nd Phase)		
2002-ES-16-C-PE-048	Waste-water disposal and treatment measures in the area covered by the Confederación Hidrográfica del Tajo - 2002	18.0	14.4
2002-ES-16-C-PE-063	Construction of secondary treatment facilities at the waste-water treatment plant in La Línea de la Concepción (Cádiz)	37.5	31.9
2003-ES-16-C-PE-003	Reuse of treated water for irrigating green areas in Santa Cruz de Tenerife	13.4	10.7
2003-ES-16-C-PE-005	Waste-water disposal infrastructures in small towns in Catalonia	42.9	34.3
2003-ES-16-C-PE-008	Waste-water disposal and treatment in the Arroyo Reguera Basin	19.2	15.4
2003-ES-16-C-PE-009	Extension of the sewage system and the waste-water treatment plant in Guadalajara	35.2	29.9
2003-ES-16-C-PE-010	Waste-water treatment plant in Bens (A Coruña)	95.0	80.7
2003-ES-16-C-PE-011	Waste-water disposal and treatment in the Northern River Basin - 2003	16.1	12.9
2003-ES-16-C-PE-015	Waste-water disposal and treatment in the inland river basins of Catalonia - 2003 - Group 1	13.4	10.8
2003-ES-16-C-PE-016	Waste-water disposal and treatment in the Ebro Basin 2003 - Group 2 - Catalonia	17.0	13.6
2003-ES-16-C-PE-017	Improvements to waste-water disposal in Lugo	40.3	34.2
2003-ES-16-C-PE-018	Santoña-Laredo-Colindres interceptor sewer (draining the Santoña marshes)	30.0	25.5
2003-ES-16-C-PE-019	Waste-water disposal and treatment in the Tagus Basin - 2003- Group I	17.3	13.9
2003-ES-16-C-PE-024	Waste-water treatment plant in San Pantaleón (draining the Santoña marshes)	25.8	22.0
2003-ES-16-C-PE-025	Submarine outlet in Berria (draining the Santoña marshes)	28.2	24.0

Solid waste

In order to implement the National Plan for Solid Waste approved in 2000 and the regional plans approved for each Autonomous Community, the Spanish authorities submitted a large number of projects in this sector.

In 2003, seven decisions were adopted on waste management and two to amend projects adopted earlier. Most concerned projects from municipalities, either individual or grouped by Autonomous Community. Assistance totalling €157 million was granted, 17% of the total for the environment.

Priority was given to solid urban waste projects, including projects involving construction and demolition waste, pre-sorting for collection, biomethanisation and biotreatment plants and a plant for the treatment of tyres.

SOLID WASTE

Projects adopted in 2003			
No of project	Name of project	Total eligible cost (€million)	CF assistance (€million)
2001-ES-16-C-PE-044	Solid urban-waste and inert-waste management plan in the Autonomous Community of Madrid - 2nd Phase	22.9	18.3
2002-ES-16-C-PE-027	Waste management in the Autonomous Community of the Canary Islands - 2002	37.0	29.6
2002-ES-16-C-PE-043	Municipal-waste sorting and bioprocessing plant in Sant Adrià de Besòs	45.1	36.
2002-ES-16-C-PE-052	Construction- and demolition-waste integrated management plan in the Community of Madrid	38.0	30.4
2002-ES-16-C-PE-053	Refurbishment of Arganda del Rey tyre plant and extension of Pinto biomethanisation plant	23.2	18.6
2002-ES-16-C-PE-064	Environmental improvements in waste treatment in Catalonia	7.0	5.6
2003-ES-16-C-PE-030	Urban-waste treatment plant in the Province of Palencia	16.7	13.4

Prestige

It is important to stress the contribution made by the Cohesion Fund to the preparatory work required to deal with the wreck of the oil tanker 'Prestige'. This involved technical work to apply the solutions set out in the report drawn up by the scientific committee in order to achieve a definitive solution. A total of €27 million was approved for this project.

PRESTIGE Project adopted in 2003			
No of project	Name of project	Total eligible cost (€million)	CF assistance (€million)
2003-ES-16-C-PE-028	Technical preparatory work for implementing the solutions set out in the report drawn up by the scientific committee for the Prestige	31.9	27.1

Technical assistance – preliminary studies

In 2003, four decisions concerning preliminary studies and technical assistance were approved, involving assistance of €6 million. These studies are technical, economic and environmental in nature and are required for the implementation of projects. The aim of technical assistance is to help in the drafting of construction projects which could later be submitted for part-financing.

TECHNICAL ASSISTANCE – PRELIMINARY STUDIES			
Project adopted in 2003			
No of project	Name of project	Total eligible cost (€million)	CF assistance (€million)
2002-ES-16-C-PE-017	Technical assistance - water supplies in the Northern River Basin	4.2	3.6
2002-ES-16-C-PE-039	Preliminary studies for the construction of a contaminated-soil management centre	0.3	0.2
2002-ES-16-C-PE-065	Study and drafting of projects for transporting water from the Cerro Blanco reservoir to the Atabal drinking-water plant and two-way connection between the Málaga and Costa del Sol supply networks	0.8	0.7
2002-ES-16-C-PE-066	Study and drafting of projects for increasing the size of the Concepción and Cerro Blanco reservoirs	1.9	1.6

Outermost regions

Operations continue to take account of the importance attached to the development of the outermost regions (Canary Islands), as stressed in the Commission's Report on the measures to implement Article 299(2) of the Treaty (COM(2000) 147 final). Community assistance this year totalled €40 million.

In the environment sector, efforts were concentrated on waste treatment, on which the Canary Islands' island location imposes very severe constraints. The measures begun previously concerning the construction of waste-collection sorting centres were continued.

Utilisation of appropriations made available again

Appropriations made available again were used to part-finance environmental projects in the same geographical area. Three decisions were adopted granting assistance totalling €45.2 million, of which €29.7 million was committed in 2003. It should be pointed out that €4.7 million of the appropriations concerned were allocated to the project for the desalination plant in Melilla.

Projects adopted in 2003 using appropriations made available again			
No of project	Name of project	Total eligible cost (€million)	CF assistance (€million)
2001-ES-16-C-PE-057	Municipal waste treatment plants in the districts of Urgell, Pallars Jussa and Conca de Barberá	10.0	8.0
2002-ES-16-C-PE-004	Environmental rehabilitation of the beach of San Juan – Salinas	12.5	10.6
2003-ES-16-C-PE-036	Improvements to the main sewer in Vitoria-Gasteiz	9.9	7.9

3.1.2.2 Transport

In 2003, the Commission adopted a total of 23 decisions to finance projects in the transport sector concerning investments totalling some €1 540 million, with an eligible cost of €1.277 million and a total contribution from the Cohesion Fund of €26.6 million. Commitments in 2003 totalled €25.4 million and related to new decisions adopted that year (€96.1 million) and to annual instalments of decisions adopted previously (€29.3 million).

The transport sector accounted for 50.3% of the total assistance under decisions approved by the Commission in 2003 and 53.5% of the commitments made. The breakdown by mode of transport is given in the following table.

Mode of transport	Eligible cost (€million)	CF assistance (€million)	Contribution as percentage of assistance approved in 2003	2003 commitments (€million)	Contribution as percentage of 2003 commitments
Roads*	--	--	--	57.6	7.0%
Rail	961.7	767.2	82.8%	664.5	80.5%
Ports	316.0	159.4	17.2%	103.3	12.5%
TOTAL	1 277.7	926.6	100.0%	825.4	100.0%

* The commitments for 2003 relate to annual instalments of projects approved before 2003.

Rail network

In 2003, the Cohesion Fund continued to be remarkably effective in providing substantial financial support for investments to develop the network of high-speed lines in Spain. During the year, a total of 15 decisions were adopted for the rail network. These decisions concentrated on the three main lines identified in the Strategic Reference Framework as priorities because of their interregional nature.

The line from Madrid to Barcelona to the French border continued to advance towards Barcelona and the section between Madrid and Lleida began operating in October 2003. As regards work on the Lleida-Barcelona section, during 2003, the Cohesion Fund approved decisions for construction of the subgrade up to the Vallès junction, in the agglomeration of Barcelona.

Significant progress was made on the Madrid–Valladolid line. The decision adopted in 2003 provided financial support for five sections in the Community of Madrid, permitting the line to advance to the junction in the City of Madrid.

Finally, in 2003, the Cohesion Fund provided financing for six sections of the high-speed line between Xàtiva and Valencia on Spain's east coast.

Work progressed normally on the other approved projects on which work had begun, as reported to the Monitoring Committees.

RAIL PROJECTS ADOPTED IN 2003

No of project	Name of project	Total eligible cost (€million)	CF assistance (€million)
CCI 2003-ES-16-C-PT-004, 010, 026 and 027	Madrid- Barcelona high-speed line. New sections: Martorell-Vallès junction	278.1	200.9
CCI 2003-ES-16-C-PT-005 to 007, 019 and 020	Madrid-Valladolid high-speed line (sections between Fuencarral and Canto-Blanco)	386.2	328.3
CCI 2003-ES-16-C-PT-008, 011 to 013, 021 and 024	Xàtiva-Valencia high-speed line (six sections)	297.4	237.9

Ports

During 2003, the Cohesion Fund continued to provide significant financing to extend ports complying with the Community guidelines for the development of the trans-European transport networks (TENs-T). The Cohesion Fund granted assistance for eight port projects to extend quays or construct new ones to improve safety and increase shipping capacity.

PORT PROJECTS ADOPTED IN 2003			
No of project	Name of project	Total eligible cost (€million)	CF assistance (€million)
2002-ES-16-C-PT-004	Port of Pasajes - renovation and improvement of quays in the La Herrera dock	10.8	7.9
2003-ES-16-C-PT-001	Extension of the Port of Bilbao in Abra Exterior - Quay AZ-1	48.5	16.8
2003-ES-16-C-PT-002	Development of port and road infrastructures in la Cabezuela	29.8	11.5
2003-ES-16-C-PT-003	Development of the western quay in the Port of Almería	25.2	15.1
2003-ES-16-C-PT-009	Quay and levelled area outside the dock at Isla Verde (Algeciras)	100.8	52.2
2003-ES-16-C-PT-017	Azucenas Quay in the Port of Motril	22.4	12.3
2003-ES-16-C-PT-018	Extension of the Port of Alicante	56.5	25.0
2003-ES-16-C-PT-023	Passenger and RO-RO goods terminal in the Port of Melilla	21.9	18.6

Other modes of transport

No new decisions were adopted in 2003 concerning road or airport projects.

3.1.3. Ireland

The Cohesion Fund Regulation required a mid-term eligibility review to be conducted in 2003. Having initiated that exercise, the Commission informed the Irish authorities in 2003 that the results indicated that for the period 2000-02 the Irish per capita GNP exceeded 90% of the Community average and that therefore eligibility would cease in 2004. The exercise was formalised by Commission Communication COM (2004) 191 of 23 March 2004.

The final commitments for Cohesion Fund projects in Ireland were therefore made in 2003.

During the year, the Commission approved two new Cohesion Fund grants to projects in Ireland, involving commitments of €43 million. The grant to an existing project was increased by a total of €17.6 million to cover the costs of extra work not previously assisted. However, the bulk of the commitments made in 2003, €56.7 million, were the final instalments to projects already adopted.

After several years of imbalance in the cumulative sectoral grants over the period 2000-03, the commitments made in 2003 led to the achievement of a 50:50 balance between transport and environment projects.

Nine projects from the 1994-99 period were also closed and the final reports for five other projects were examined in 2003. Two projects from the 1994-99 period were amended in 2003 by formal amending decisions.

The list of projects for which commitments were made in 2003 is given below.

3.1.3.1. Environment

The two priorities for the environment sector for the current period are the collection and treatment of waste water and the management of solid urban waste.

Waste-water collection and treatment

No new project was assisted in 2003. The balances of the grants for the existing three project stages were all committed and there were no further amending decisions in 2003.

Solid Waste

A group of projects was assisted in 2003. The Irish authorities presented applications for several planning stages for the construction of waste infrastructures in response to the Dublin regional waste-management plan. These applications were grouped in view of the importance of such an integrated response to the solid-waste needs of the region. This is the only solid-waste project financed by the Cohesion Fund in Ireland during the period.

ENVIRONMENTAL PROJECTS			
Project No	Project Name	Type of project/commitment	2003 commitment (€million)
WASTE-WATER TREATMENT			
2000 IE 16 C PE 001	Dublin Region waste-water treatment (Stage V)	Final instalment	13.34
1999 IE 16 C PE 002	Limerick main drainage (Stage III)	Final instalment	10.70
1999 IE 16 C PE 003	Cork main drainage (Stage III)	Final instalment	8.93
SOLID WASTE			
2000 IE 16 C PE 002	Dublin Region solid-waste management infrastructures (Stage I)	Grant decision - single instalment	6.90
TOTAL			39.87

3.1.3.2. Transport

As with the environment, there were only two priorities during this period, roads and public transport.

Roads

One new project was assisted in 2003. The N18 Ennis bypass project was assisted with a grant of €36 million.

The grant to the N18 Ennis bypass was made possible by the reduction of the grant to the M50 south-eastern motorway project. Already during 2002, it was clear from the monitoring reports that the archaeological issues raised at the Carrickmines site were giving rise to delays in the construction of this project. Following discussions in 2003, it was clear that the completion of a central part of the project was facing delays as a result of national court proceedings linked to the archaeological site and that the court proceedings might continue. Without prejudice to the results of those proceedings, the Irish authorities asked for a reduced grant for the project to allow the uncommitted balance to be awarded to a separate eligible project. That amendment was approved in 2003 through the reduction of the grant and the grant rate (see also section 3.2.2 below).

An existing grant, for the M1 Lissenhall Balbriggan project, was amended to increase the assistance by €17.5 million for the construction of additional elements of the motorway, land costs and the realignment of existing routes. These works had been described in the original application for assistance but not originally assisted.

Rail

No new project was supported in 2003 and the existing rail project, Heuston Station and south-west rail corridor redevelopment (Stage I), was not further modified. The final commitment of €7.5 million was made.

TRANSPORT PROJECTS			
Project No	Project Name	Type of project/commitment	2003 commitment (€million)
ROADS			
2000 IE 16 C PT 002	M1 Cloghran - Lissenhall (Stage II)	Final instalment	9.18
2000 IE 16 C PT 003	M1 Lissenhall Balbriggan	Final instalment	24.60
2003 IE 16 C PT 002	N18 Ennis bypass	Single instalment	36.18
RAIL			
1999 IE 16 C PT 004	Heuston terminal and SW corridor (Stage I)	Final instalment	7.50
TOTAL			107.28

This year was the final one in which Ireland would be eligible under the Cohesion Fund. The table below gives an overview of the projects assisted and the grants awarded over the 2000-03 period, taking account of the amendments made:

PROJECTS ASSISTED in Ireland over the 2000-03 period

CCI No	Project Name	Eligible cost (€million)	Grant (€million)
THE ENVIRONMENT			
Waste-water treatment			
1999 IE 16 C PE 002	Limerick main drainage (Stage III)	143.7	107.0
1999 IE 16 C PE 003	Cork main drainage (Stage III)	55.8	44.7
2000 IE 16 C PE 001	Dublin Region waste-water treatment (Stage V)	166.7	133.3
Solid waste			
2000 IE 16 C PE 002	Dublin Region solid-waste management infrastructures (Stage I)	8.1	6.9
Environment	TOTAL	374.4	291.9
TRANSPORT			
Roads			
2000 IE 16 C PT 001	M50 south-eastern motorway (Stage II)	87.1	37.9
2000 IE 16 C PT 002	M1 Cloghran - Lissenhall (Stage II)	108.0	91.8
2000 IE 16 C PT 003	M1 Lissenhall Balbriggan	62.1	52.8
2003 IE 16 C PT 002	N18 Ennis bypass	42.5	36.2
Rail			
1999 IE 16 C PT 004	Heuston Terminal and SW corridor (Stage I)	88.2	74.0
Transport	TOTAL	387.9	292.7
	OVERALL TOTAL	762.3	584.6

Note: €27 375 was committed in 2000 to the M1 Drogheda bypass (Stage II) project, this being the balance due under a grant decision adopted in 1999.

3.1.4. Portugal

A serious effort was made when implementing the Cohesion Fund in Portugal during 2003 to recover amounts not used in 2002.

As indicated in the 2002 report, not all of the indicative amount allocated to Portugal could be committed during the year because of infringement proceedings challenging the way in which Portugal had granted concessions for the management of water and urban waste. The proceedings were dropped in 2003 and projects that had been placed on hold could be adopted.

In 2003, the Commission approved 15 new environmental projects and eight transport projects. These projects involve eligible investments of €43 million, for which assistance of €644.8 million was granted, of which €505.9 million was committed from the 2003 budget.

Following these commitments and including projects adopted in previous years which have an impact on the budget for 2003, the total commitments for the year were as follows:

	Total eligible cost (€million)	Total CF assistance (€million)	2003 commitments (€million)
Environment	639.2	433.3	346.6
Transport	303.8	211.5	159.3
Total	943.0	644.8	505.9
% Environment	67.8%	67.2%	68.5%
% Transport	32.2%	32.8%	31.5%
Environment previous years	192.9	145.9	28.9
Transport previous years	508.8	401.2	110.0
Total	1 644.7	1 191.9	644.8

3.1.4.1. Environment

As in the previous period, the priorities for assistance from the Fund in 2000-06 are waste-water treatment, the supply of drinking water and the treatment of urban waste.

Since the infringement proceedings referred to in the previous point were dropped in 2003, water-management projects that had been on hold could be adopted.

Therefore, of the 15 grants approved by the Commission for environmental projects, 14 were for water-management projects (including one study). This allowed the

amounts not utilised in 2002 to be recovered and, at the same time, rebalanced the allocation of resources between sectors. Before 2003, the amounts committed for environmental projects represented 39.6% of total commitments. In 2003, this increased to 46.1%.

In all, in 2003 the Commission adopted 15 new environmental projects, of which eight were for integrated water-management (disposal and supply), four for waste-water disposal, one for water supplies, one was a study and one was a technical assistance measure concerning the management, monitoring and control of environmental projects.

The implementation of 2003 commitment appropriations for environmental projects is shown in the following table:

Sector	Total eligible cost (€million)	CF assistance (€million)	% of assistance	2003 commitments (€million)
Integrated water-management (disposal and supply)	429.1	300.3	64%	240.3
Waste-water disposal	177.5	106.7	22.7%	85.2
Water supplies	28.2	22.6	4.8%	18.1
Other projects (study + technical assistance)	4.4	3.8	0.8%	3.0
Projects from previous years	192.9	145.9	7.7%	28.9
Total	833.1	579.3	100%	375.5

Water

All the projects adopted, except for the technical assistance measure, involve water management, which shows a determination to ensure the efficient use of water resources and meet Community environmental requirements.

No other environmental projects were adopted. A large number of projects concerning urban waste, another priority for Cohesion Fund assistance, were adopted over the period 2000-02.

The environmental projects approved are shown in the following table:

ENVIRONMENTAL PROJECTS			
No of project	Project name	Total eligible cost (€million)	CF assistance (€million)
INTEGRATED PROJECTS (DISPOSAL + SUPPLY)			
2001/PT/16/C/PE/004	Águas do Norte Alentejano	55.2	39.7
2002/PT/16/C/PE/007	Águas de Tràs os Montes e Alto Douro -1st Phase	58.4	49.7
2002/PT/16/C/PE/008	Águas do Minho Lima – 2nd Phase	76.8	49.9
2002/PT/16/C/PE/010	Águas do Zêzere e Côa – 2nd Phase	57.5	36.2
2002/PT/16/C/PE/011	Águas do Zêzere e Nabão – 2nd	71.0	49.7

	Phase		
2003/PT/16/C/PE/002	Águas do Centro Alentejo	47.1	22.6
2003/PT/16/C/PE/003	Águas de Tràs os Montes e Alto Douro - 2nd Phase	57.3	48.7
2003/PT/16/C/PE/004	Águas do Minho Lima –3rd Phase	5.9	3.8
WASTE-WATER DISPOSAL PROJECTS			
2000/PT/16/C/PE/001	Águas do Oeste – 2nd Phase	37.3	31.7
2000/PT/16/C/PE/014	Inter-municipal system Tejo/Trancão	70.2	35.1
2003/PT/16/C/PE/001	Waste-water disposal in the Algarve	47.0	26.3
2003/PT/16/C/PE/005	Waste-water disposal in Barrinha de Esmoriz	23.0	13.6
WATER-SUPPLY PROJECTS			
1999/PT/16/C/PE/006	Water-supply system in Planalto Beirão	28.2	22.6
OTHER PROJECTS (TECHNICAL ASSISTANCE + STUDY)			
2003/PT/16/C/PA/001	Technical assistance II – management of environmental projects	1.3	0.9
2002/PT/16/C/PE/009	Studies – water supply and disposal in Vale do Ave	3.2	2.1

3.1.4.2. Transport

Although most Cohesion Fund assistance in the transport sector during the previous period went to road infrastructure, financing is now being concentrated on other sectors, in particular on railways. Between 2000 and the end of 2002, 85% of the total assistance granted in the transport sector was for rail projects (including metropolitan railway systems). In 2003, although only two rail projects were adopted, they accounted for the biggest slice of the assistance granted for the transport sector.

Note should also be taken of investments in ports, particularly those of the Autonomous Regions of the Azores and Madeira, which play a vital economic role given the particular handicaps of the outermost regions.

The implementation of 2003 commitment appropriations for transport projects is shown in the following table:

Sectors	Total eligible cost (€million)	CF assistance (€million)	% of assistance	2003 commitments (€million)
Roads	47.3	40.2	12%	32.2
Rail	147.4	98.9	25.7%	69.2
Ports	109.1	72.4	21.5%	57.9
Projects from previous years	508.8	401.2	40.8%	110.0
Total	769.6	612.7	100%	269.3

The eight transport projects adopted involve railways, ports and roads.

Most of assistance from the Fund is for the modernisation of the Portuguese rail network. Financing has also been granted for projects on lines in addition to the northern and Beira Alta lines, permitting intermodality.

As regards ports, three projects were adopted to improve port infrastructures in the autonomous regions, as well as two studies concerning future assistance in the Port of Setúbal.

Finally, a single road project was adopted, involving a section of the north-south trunk road in the Region of Lisbon.

The eight transport projects approved are shown in the following table:

TRANSPORT PROJECTS			
No of project	Project name	Total eligible cost (€million)	CF assistance (€million)
PORT PROJECTS			
2003/PT/16/C/PT/001	Studies – Port of Setúbal- Ro-Ro Terminal 1st Phase	0.4	0.34
2003/PT/16/C/PT/003	Port infrastructures in Madeira – Port of Caniçal	73.5	42.6
2003/PT/16/C/PT/005	Studies – Port of Setúbal Eurominas Terminal	0.6	0.51
2003/PT/16/C/PT/006	Port of S.Roque – Ilha do Pico – Azores	7.6	6.5
2003/PT/16/C/PT/010	Port of Praia da Vitória – Ilha Terceira – Azores	27	22.4
RAIL PROJECTS			
2003/PT/16/C/PT/002	Modernisation of the southern line – P.Novo/Setúbal-Mar section	74.3	59.4
2003/PT/16/C/PT/004	Modernisation of the Minho line–Lousada/Nine section	73.1	39.5
ROAD PROJECTS			
2003/PT/16/C/PT/007	North/south trunk road – section AV;Padre Cruz/CRIL (ring road) intersection	47.3	40.2

3.2. TECHNICAL ASSISTANCE AND STUDIES

3.2.1 Technical assistance at the initiative of the Commission

In Ireland, in the context of the development of the M50 south-eastern motorway project, the Commission received in 2002 complaints and a petition concerning the archaeological impact of the motorway on a site at Carrickmines. In particular, it was claimed that Directive 85/337/EEC on the assessment of the effects of certain public and private projects on the environment was not being respected in this case. DG ENV conducted an investigation into these aspects of the project during 2002 and 2003.

As part of that investigation and in view of the technical archaeological issues raised, a desk-based study was commissioned under DG Regional Policy's consultancy

framework contract to assist the Commission in its examination of the case. The study was finalised in July 2003 and presented to the Irish authorities to allow them to present their views. The Irish authorities replied in October 2003.

By the end of 2003, the Commission was finalising its examination of all the material available with a view to deciding on the validity of the complaints received.

4. MONITORING, CONTROLS AND IRREGULARITIES

4.1. Monitoring: committees and missions

4.1.1. Greece

4.1.1.1 Monitoring Committees

No Cohesion Fund Monitoring Committee for the environment was convened in 2003. The Cohesion Fund environment projects were reviewed and discussed in the context of the Monitoring Committees for the “Environment” operational programme and the regional operational programmes concerned.

The following technical meetings took place.

On 31 March, the Commission met representatives of the Ministry of Environment and Public Works met in Athens to review a number of complaints and petitions and infringement procedures initiated by the Commission, especially in the field of solid waste, waste-water treatment and Natura 2000.

On 24 July, the implementation of the environmental strategy in Greece was reviewed. In particular, the updated environmental strategy was assessed, commitment appropriations for 2003 were discussed, and project proposals in the field of solid waste and waste water were analysed.

On 9 September, the prospects for financing mature and complete projects in the light of the updated environmental strategy were considered. In order to ensure that environmental investments in Greece are properly implemented.

No Cohesion Fund Monitoring Committee for the transport sector operational programmes was convened in 2003. The Cohesion Fund transport projects were reviewed and discussed in the context of the Monitoring Committees for the Roads, Ports, Urban development and Railways, Airports, Urban transport operational programmes.

The following technical meetings took place.

On 13 March, 16 April and 7 October, the Commission met representatives of the Ministry of Transport and Communications met to discuss the submission of the Strategic Investment Plan for the railways, the conditions for resuming the adoption of Cohesion Fund railway part-financing decisions, and the closure of earlier Cohesion Fund railway projects.

On 27 November, a technical meeting in preparation for the Monitoring Committee for the Roads, Ports, Urban development operational programme took place to review the road projects from 1994-99 to be submitted for closure and to monitor the physical and financial progress of the 2000-06 projects.

On 2 December, a further technical meeting in preparation for the Monitoring Committee for the Railways, Airports, Urban transport operational programmes took place, where the implementation of future railway projects was reviewed in detail.

4.1.1.2. Monitoring missions

A number of monitoring missions were undertaken in the course of 2003.

In the environment sector, on 16 July 2003, the Commission visited the construction of the Amfissa landfill (Continental Greece). The aim of the meeting was to assess the progress made in implementing this project.

On 18 July 2003, Commission officials visited the Ano Liossia landfills and the Psytalia waste-water treatment plant to verify the progress of the works and to discuss some technical aspects with the project managers. On 22 July 2003 they also visited the Galatsi water unit in Athens.

In the transport sector, on 4 December the Commission visited the construction sites of the new double track railway line Athens-Eleusina-Korinthos and of the Thriassio Pedio freight centre, in order to ascertain the progress of the works. The first project, involving the track and signalling works, has advanced, but the second one has encountered serious problems, which were discussed with the managing authority.

4.1.2. Spain

4.1.2.1. Monitoring Committees

In 2003, only one Monitoring Committee meeting was held, in Madrid.

The Committee met on 11-13 June. The meeting was divided into eight separate sessions (five on projects generated by the various Autonomous Communities or the hydrographic confederations in the relevant basins, one on transport projects, one on “private-public” and “technical assistance” projects and one on projects managed by the Spanish central administration), with a view to examining the implementation of a series of projects and groups of projects (a total of about 166 decisions) requiring separate discussion with the authorities responsible for implementation and selected beforehand in partnership between the officials responsible at the Ministry of Finance and in the Commission.

During each session, the Committee examined the situation with regard to the implementation of the projects as at 31 December 2002.

Data relating to the situation of non-selected projects was also submitted to the Committee and forwarded to the Commission for information.

During each session, in addition to approving the corresponding minutes and examining the corresponding projects, a joint presentation was made reiterating a series of important points of horizontal interest on the following subjects:

- a) improvement (to be carried out) of monitoring of management procedures;
- b) compliance with Community rules on publicity;
- c) the application of automatic decommitment for projects on which work has not begun two years after the approval decision. Any derogation from this general rule is restricted to genuinely exceptional cases, which have to be duly justified;
- d) compliance with Community law in the field of public procurement;
- e) the non-inclusion on invoices and certificates of VAT which is recoverable by the beneficiaries; and
- f) certification of paid expenditure only (excluding expenditure incurred but not paid).

4.1.2.2. *Monitoring missions*

The missions carried out were to assess and check the progress of ongoing projects and clarify the problems encountered in connection with their implementation.

Monitoring missions were carried out in respect of the following projects:

The Somport tunnel. The road tunnel links Spain and France through the Pyrenees. The mission took place on 15 January 2003. The project was to have been finalised in 1999, but was delayed due to a tightening of the security measures. A final payment request for the project was received in December 2002. The inspection revealed that the project had been completed and that the opening ceremony had taken place on 17 December 2003.

Drinking water supply projects: the Casrama system. The projects included under this heading were inspected on 16-17 January 2003, with a view to verifying on the spot the actual progress of the works and the problems encountered in connection with the completion of the projects within their agreed time frames. The mission also considered the changes requested by the Member State on 2 December 2002. This produced all the information required for the appropriate investigation of these changes.

Integrated plan for the Arga river (Navarra), phases I and II. On 29-31 January 2003, a monitoring mission was carried out to check the completion of the first phase, for which final payment had been requested at the beginning of January. The project involves stabilising the river banks to enable the creation of a park for use by the population of Pamplona. The mission revealed that the project has been completed and is open to the public. Work on the second phase began in December 2003.

Waste management in Castile-La Mancha (2000), waste management in Castile-La Mancha (2001) and waste management in Castile-La Mancha (2002). On 10-11 February 2003 and on 2 July 2003, a number of municipal waste processing projects

implemented by the Castile-La Mancha regional authorities under the Regional Waste Plan were inspected. This inspection helped define an appropriate framework for modifying projects in Cuenca province.

Botafoc dyke (municipality of Ibiza-Eivissa). The inspection carried out on 10 April 2003 involved a briefing by the company's engineers on the progress of work and a visit to the site. The project, which had been the subject of three complaints, all of which have now been closed, was opened in the spring of 2004.

Water disposal and treatment in several municipalities in the Balearic Islands. On 10 April, an inspection of one of these projects was carried out at the Soller treatment plant and its extensions. The inspectors visited the waste water treatment plant and inspected the work covered by the part-financing decision: all the sand filters, the canal used for UV ray disinfection, the related ventilation systems and the control panel.

City centre water disposal network (municipality of Palma de Mallorca). The inspection carried out on 11 April 2003 included a briefing by representatives of Palma city council on the progress of the works, followed by a visit to various city areas and streets covered by the network.

Protective dykes and corrective measures under the Extension Plan for the Port of Barcelona. At the initiative of the Barcelona Port Authority (the body responsible for carrying out the project), a monitoring mission was carried out on 9 May 2003 with a view to gathering precise information relating to the problems encountered during the first phase of the construction of the new protective dykes in the port (collapse of the initial blocks due to cracks in the sea-bed caused by a series of violent storms in November 2001).

“Xàtiva – Valencia” high-speed line. On 20-23 May 2003, at the Commission's request and in accordance with the cooperation agreement laid down in Article 13 of Regulation (EC) No 1164/94, the European Investment Bank carried out a survey of the projects related to this line with a view to assessing their results. The assessment covered not only the sections covered by the request for aid but also the totality of the system of high-speed train lines linking Madrid to the main cities of Castile-La Mancha, Valencia and Murcia.

Gijón-West (Asturia) treatment plant. In response to the invitation extended in the Cohesion Fund Monitoring Committee, an inspection was carried out on 17 July 2003 with a view to assessing on the spot the request for increasing the total cost of the project due to problems faced by the implementing body. This body has been faced with an increase in the price of structural concrete and the provisions governing its use. In addition, problems related to the land on which the plant is built had delayed the start of the project and caused a significant increase in costs.

Water disposal in the Tagus basin (2001, Group 2). On 29 September 2003, a monitoring mission was carried out in respect of the projects implemented by the Madrid city council under this group of projects concerning water disposal there. The mission also enabled the inspectors to ascertain on-the-spot its coordination with certain projects from other groups from the 1993-99 period already completed or in the process of completion.

Madrid-Valladolid high-speed train: Guadarrama tunnel. At the end of November 2003, an inspection of the Guadarrama tunnel-building project was carried out jointly with the EIB. The inspection covered the progress of the tunnel drilling work, the organisation of the work at the site and compliance with the agreed timetable.

Waste management in Madrid (2001 – Group 2) and waste management in the Autonomous Community of Madrid. On 15-17 December 2003, a monitoring mission was carried out in relation to these projects. The first project involves a group of four projects, including the Valdemingómez establishment, which is very important to the city of Madrid. The completion of the work and the operation of the site were checked. The second project concerns a group of five projects managed by a public company owned by the Regional Government (GEDESMA). The operation of the computer system (project No IV) was checked.

4.1.3. Ireland

4.1.3.1. Monitoring Committees

In 2003 there were two meetings of the Monitoring Committee, on 10 April and 30 October 2003. On the whole, the Commission was satisfied with the quality of the information supplied by the Irish authorities on the management of the projects and considered that outstanding questions had been adequately addressed.

At these meetings the Committee examined written progress reports on up to 19 open projects from the period 1993-99 and on 8 projects from the period 2000-06.

During 2003 there was further progress with the successful completion of 9 further projects. The 12 outstanding projects from the 1993-99 period still to be completed at end-2003 represent 10% of the projects supported in that period.

4.1.3.2. Monitoring missions

In addition to attendance at the two Monitoring Committee meetings organised in 2003, the Commission was also represented at two official opening ceremonies for major projects.

4.1.4. Portugal

4.1.4.1. Monitoring Committees

As required by the Fund Regulation, Monitoring Committee meetings take place twice a year. In view of the number of ongoing projects and the detailed nature of the discussions, these meetings are spread over one and a half days.

In 2003, these meetings took place, on 12-13 May and 24-25 November. They considered each project individually and provided an opportunity to discuss general topics such as publicity, inspections, public procurement, the implementing rules and miscellaneous information. They revealed a need to organise, in partnership between the Commission and national authorities, seminars for exchanging experience and information with a view to improving the management of the Cohesion Fund at national and Community level. With this in mind, it was decided to organise two

seminars in 2004, one on the methods and techniques for assessing the costs and benefits of the projects financed, the other on inspections and public procurement.

Although the project relating to the construction of the Alqueva hydroelectric station is monitored by the general Committee, it is also monitored in the broader forum of the Structural Funds Monitoring Committee for the specific integrated development programme for the Alqueva (PEDIZA).

4.1.4.2. Monitoring missions

Besides attending meetings of the Monitoring Committee and taking part in some inspections carried out by the Audit Unit, the geographical unit responsible for the implementation of the Cohesion Fund in Portugal also carries out technical inspections, when considering or when monitoring assistance, to check on the progress of projects, acquire on-the-spot knowledge of the problems encountered in implementation and find the best solutions for the correct implementation of the projects.

In March, a visit to the Tejo/Trancão water disposal project (a project involving several municipalities) took place. This project will be adopted later in the year.

In June, work on the project for cleaning up the basins of the Lis and Seiça rivers was inspected.

4.2. Inspections and conclusions

During 2003, 17 project audit missions and 10 management and monitoring systems audit missions were carried out by DG REGIO in the four Member States assisted by the Cohesion Fund. Problems were detected in all four.

With regard to the projects, the main shortcomings detected concern the procedures for awarding public contracts, although the situation differs from one Member State to another. The improvements noted in 2002, particularly in terms of compliance with Decision 96/455/EC on publicity, were still in evidence in 2003.

The irregularities detected are currently being discussed in the four Member States concerned with a view to deciding on the need for financial corrections.

The audit of the systems put in place by the Member States was carried out in three stages. The first stage involved the analysis of the systems descriptions forwarded to the Commission. The two subsequent stages provided an opportunity to carry out on-the-spot checks of the systems through the performance of compliance tests. It was noted that the Member States had maintained their efforts to adapt the organisation of their systems to the requirements of Regulation (EC) No 1386/2002 on the management and control systems for assistance and the procedure for making financial corrections, but problems persist in some specific areas.

An action plan has been put in place with Spain and Greece to ensure that in 2004 the required adjustments are made to enable DG REGIO to be reasonably confident about the functioning of the management and control systems.

4.2.1. Greece

Four project audit missions and two systems audit missions were carried out by DG REGIO in Greece during 2003.

Seven project decisions were examined. The main conclusions to be drawn from these inspections concern the failure to comply with the rules on public procurement, including very frequent and significant overruns in the cost of work and the failure to comply with Decision 96/455/EC on publicity for a large project.

The audit of the management and control system put in place for the Cohesion Fund has been finalised and has revealed a number of shortcomings, including:

- The problem of the reliability of the data recorded in the computer-based management system, which creates a risk of irregularities in connection with certain interim payments.
- The problem of monitoring the quality of the studies carried out in connection with the evaluation of projects for which Cohesion Fund part-financing will be requested. The poor quality of such studies could lead to overruns in the costs, with serious implications for the legality of the procedures for awarding public contracts.

4.2.2. Spain

Seven project audit missions and four systems audit missions were carried out in Spain during 2003.

The situation in Spain varies as a result of the country's decentralised organisation. It is, nevertheless, possible to draw a number of conclusions from the inspections carried out by DG REGIO.

16 project decisions were examined. The main anomalies detected are similar to those detected in 2002 and concern failure to comply with the rules on public procurement (confusion over the selection and award criteria, application of the *baja temeraria*, or average cost, rule, the lack of reference to costs when selecting the financially most advantageous offer) and the inclusion of ineligible expenditure (VAT, purchase of land from public administrations).

The Cohesion Fund management and inspection systems audit was finalised for those projects managed by the Spanish central administration. The following key weaknesses were detected:

- Failure to verify systematically the eligibility of expenditure.
- Failure to define clearly the role of intermediate bodies, thus weakening the process of verification (Article 4 of Regulation (EC) No 1386/2002).

4.2.3. Ireland

Three audit missions were carried out in Ireland in 2003. One concerned two decisions, whereas the other two were Cohesion Fund management and inspection systems audits.

The main irregularities detected concerned failure to comply with the rules governing the eligibility of expenditure (inclusion of operating costs or expenditure not covered by the decision) for the two decisions in question.

The Cohesion Fund management and inspection systems audit revealed a number of weaknesses, particularly in relation to the quality of the audit trail.

4.2.4. Portugal

Five inspections were carried out in Portugal in 2003. Three provided an opportunity to examine six Cohesion Fund decisions, whereas the other two were Cohesion Fund management and inspection systems audits.

The main findings from these audits included the failure to comply with the rules on public procurement (lack of transparency in the procedures for the award of public service contracts, additional work which could have been predicted) and the submission of payment requests containing ineligible expenditure (work carried out after the expiry of the eligibility period or not covered by the decision).

The Cohesion Fund management and inspection systems audit revealed certain shortcomings, mainly with regard to the inadequacy of the checks carried out under Article 4 of Regulation (EC) No 1386/2002 with regard to the contract award procedures.

4.3. Irregularities and suspension of aid

During 2003, OLAF finalised its reports on the audit carried out jointly with DG REGIO in 2002 in the four Member States assisted by the Cohesion Fund with regard to their application of the provisions of Regulation (EC) No 1831/94 on the systems and procedures for reporting and follow up of irregularities in this field. It should be pointed out that this audit was carried out in parallel with the audits of the application of Regulation (EC) No 1681/94 with regard to the Structural Funds. The conclusions from this audit were forwarded to the Member States and a summary report was sent to the Council, the European Parliament and the Court of Auditors.

In addition, pursuant to Article 3 of Regulation (EC) No 1831/94¹⁷ concerning irregularities and the recovery of sums wrongly paid in connection with the financing of the Cohesion Fund and the organization of an information system in this field, the Member States are required to notify the Commission of any instances of irregularities which have been the subject of a first administrative or judicial finding.

For 2003, two of the four beneficiary Member States, Greece and Portugal, notified the Commission of 36 and 12 instances of irregularities, respectively. The instances reported by the Greek authorities involved a total Community contribution of €21 005 484, of which €20 240 418 was deducted from the payment requests submitted to the Commission. In the majority of instances, the irregularities concerned failure to comply with the rules on public procurement, whereas the rest concerned ineligible expenditure. The instances reported by the Portuguese authorities involved a total Community contribution of €21 043 856 and, again, the

¹⁷ OJ L 191, 29.7.1994, p. 1.

majority of irregularities concerned failure to comply with the rules on public procurement while the rest concerned submissions of ineligible expenditure. It should be noted that, as far as the latter are concerned, more than half of these instances were detected during Community inspections. A total of €97 896 has been recovered at national level, with the rest still to be recovered.

It should be pointed out that, under the Regulation mentioned above, the other two Member States assisted by the Cohesion Fund have informed the Commission that they had not detected any irregularities during the year in question. However, the attention of the Member States concerned should be drawn to the fact that a number of instances detected during Community audits were not reported under the Regulation.

During 2003, OLAF did not carry out any external investigations pursuant to Article 3 of Regulation (EC) No 1073/1999¹⁸.

5. APPRAISAL AND EVALUATION

5.1. General

In accordance with the provisions of the amended Regulation (EC) No 1164/94 and in order to ensure that Community aid is effective, the Commission and the Member States covered by the Cohesion Fund carry out the assessment and evaluation of investment projects that apply for part-financing from the Cohesion Fund.

Applications for assistance are accompanied by an *ex-ante* cost-benefit evaluation of the project, submitted by the Member State concerned, which must demonstrate that the socio-economic benefits of the project are commensurate with the resources allocated. The Commission examines this evaluation on the basis of the new guide to cost-benefit analysis (ACA)¹⁹, which is used by both promoters and the Commission to evaluate the advisability of such part-financing. Four basic Community rules (see point 5.2) are applied with a view to simplifying the method and, on the basis of the corresponding regulations, ensuring better transparency and consistency in the evaluation of major infrastructure projects financed by the ERDF, the Cohesion Fund and ISPA. On that basis, the Commission approves the project if appropriate and decides on the rate of Community part-finance, taking into account any revenue generated by the project and the application of the polluter-pays principle.

The Commission has organised seminars with the Member States to assist in the application of this new ACA guide.

The advisability of Cohesion Fund part-financing may be considered with the help of experts from the European Investment Bank.

Once a project is operational, the Commission's *ex-post* evaluation will reveal whether the goals originally planned have been or will be achieved and what impact the project is having on the environment.

¹⁸ OJ L 136, 31.5.1999, p. 9.

¹⁹ http://europa.eu.int/comm/regional_policy/sources/docgener/guides/guide_en.htm

5.2. Examination and *ex-ante* appraisal of projects

On the basis of the new Guide to cost-benefit analysis for major projects, during 2003 the Commission carried out substantial internal work to make the *ex-ante* financial analysis of the various projects more coherent. The four basic rules proposed by the Commission are: 1) a discount rate of 6% in real terms (8% for ISPA), 2) no contingency reserve in the overall investment cost, 3) historic costs may be taken into account in certain cases, and 4) a proposed calculation method²⁰ allowing for water supply and waste water treatment projects to be financed at a rate of up to 50%, even under the polluter-pays principle. The outcome of a discussion which covered these four basic rules was submitted to the Member States for discussion in 2002. Since the main objective of cohesion policy is to maximise economic development and reduce unemployment rates and regional disparities in terms of per capita GDP, special attention was given to economic benefits. The Commission's contribution also had an educational purpose, guiding project promoters towards more sound evaluations in the different areas of economic analysis. In addition, many reports contain no risk analysis. On this issue, too, the Commission has urged promoters to use these techniques, not only with a view to improving the project's chances of success but also to increase its socio-economic impact on regional development.

5.3. Cooperation with the EIB when a project is considered

Under a framework contract signed by the two institutions in 2000 and valid until the end of 2006, the Commission may ask the European Investment Bank for technical assistance in appraising Cohesion Fund projects, major projects supported by the ERDF and projects financed by ISPA. It also receives regular information from the EIB about projects submitted to one of these three Funds to which the Bank has itself decided to grant assistance. Nine Spanish and 11 Portuguese projects part-financed by the Cohesion Fund were analysed by the EIB in 2003.

5.4. Economic and social impact of the Fund in the Member States and on economic and social cohesion, including employment, in the European Union

The Regulation establishing a Cohesion Fund requires the Commission to assess the economic impact of the Fund on economic and social cohesion, including employment, both on an individual project basis and in terms of Community assistance as a whole.

Past simulations²¹ suggest that Cohesion Fund transport and environmental infrastructure investments have a positive impact on the location of industry in that they increase the attractiveness of the regions concerned and stimulate economic activity there by increasing incomes.

The impact on GDP is even more noticeable when the broader impact of structural assistance in the regions in question is taken into account, in terms not only of

²⁰ The "modified financing gap" method ($R=C/(C+R)$) as opposed to the "financing gap" method ($r=(C-R)/R$); r =financing gap rate; R =net present income value; C =net present investment cost value.

²¹ *Source:* Previous Cohesion Fund reports. Third Report on Economic and Social Cohesion, Brussels, March 2004.

reduced transport times but also of productivity gains resulting from a strengthening of the supply side of the economy.

These conclusions will be verified in the context of an ongoing “*ex-post* evaluation of a significant sample of projects part-financed by the Cohesion Fund” whose results are due at the end of 2004.

5.5. The programme of *ex-post* evaluation

An *ex-post* evaluation of a sample of 200 projects co-financed by the Cohesion Fund during 1994-2002 was initiated in 2003.

This evaluation must a) report on the effectiveness and efficiency of the assistance and b) draw appropriate lessons for the extension of the Cohesion Fund to the new Member States. 60 projects included in the sample will be examined in more detail. For these projects, the value of the financial and economic indicators will be recalculated.

Of the 200 projects included in the sample, 119 in the environment sector and 81 in the transport sector will be evaluated. Since the Spanish share is the largest, 92 of these projects have been financed in Spain, 42 each in Greece and Portugal and 22 in Ireland. For the sample of 60 projects, the same proportions apply: 36 projects to be evaluated in detail are in the environment sector and 24 in the transport sector. The geographical distribution is 29 Spanish projects, 13 from Greece, 12 from Portugal and six from Ireland.

The findings of this study are expected by the end of 2004.

6. INTER-INSTITUTIONAL DIALOGUE, INFORMATION AND PUBLICITY

6.1. Annual report for 2002

6.1.1. European Parliament

Since the Parliament’s term is coming to an end, no rapporteur on the 2002 Cohesion Fund Report has been appointed. The Parliament has therefore not commented on this report.

6.2. Information from the Member States

Two information meetings with all 15 Member States and the candidate countries were held in Brussels, on 17 July and 19 November.

At the first meeting, the Commission outlined the expected commitments and payments for the year. The Member States outlined their respective situations. In addition, the Commission presented the draft Regulation on information and publicity measures drawn up on the basis of Decision 96/455/EC. In view of the problems encountered with regard to the application of certain provisions in the Decision, some Member States had wanted to amend the text. For legal reasons, it was instead replaced by a Commission Regulation formally adopted on 1 April 2004.

At the November briefing, the Commission presented the Cohesion Fund annual report for 2002 and the commitment and payment forecasts for the year, and stated that, following the mid-term review, Ireland would no longer be eligible for Cohesion Fund assistance from 1 January 2004.

6.3. Commission measures on publicity and information

The integration of Cohesion Fund activities into the overall activities of DG REGIO has been consolidated since 2000, so their coverage has become an integral part of the overall information and communication actions of the DG.

In particular the programme of ad hoc actions such as publications, photo reports and events has taken account of Cohesion Fund projects. One example is the success stories from Spain included in the brochure published in September 2003 on the impact of the Structural Funds on competitiveness, sustainable development and cohesion in Europe. Another publication on projects in Greece illustrates the work of the Cohesion Fund in that country.

A key moment of the year was the seminar in March 2003 on “The future management of the Structural Funds: how should responsibilities be shared?”, which revealed differences in Member State practices. This means that, in spite of seemingly uniform rules, there are practical differences in how funds are managed. The prospect of enlargement, which will bring in Member States with very different administrative and financial structures and methods, has given rise to an open discussion on the future management of the Structural Funds and, by implication, the Cohesion Fund, and on the division of responsibilities from 2007.

In addition, the Commission, in collaboration with the “Structural Funds Information Team” (SFIT) working group composed of Member State representatives, has produced a richly illustrated guide to good practice aimed at helping the Member States (and in particular the four Cohesion Fund countries) provide information on the Structural Funds and the Cohesion Fund in an effective and open manner. This evolving guide has been available on the DG’s website since October 2003.

At the request of some Member States, the Commission initiated a review of Decision 96/455/EC concerning Cohesion Fund information and publicity measures relating to the activities of the Cohesion Fund. A draft Regulation was presented at one of the Cohesion Fund briefings. It proposes to simplify the relevant provisions and to clarify the tools and messages which may raise the profile of the role played by the Union.