



EUROPEAN COMMISSION



EUROSTAT

Directorate C: National and European Accounts

Luxembourg, - 4 SEP. 2006  
ESTAT/C-3/LN/MW/mg D(2006) 30222

Mr Lambert Verjus  
President  
Institut des Comptes Nationaux  
City Atrium C, Rue du Progrès, 50  
B-1210 Bruxelles

**Subject: Methodological treatment of the renovation of the Residence Palace –  
ex-ante consultation of Eurostat**

**Ref.: Our letter ESTAT/C0/LN/EBC/lc D(2006) 50027 of 23 May 2006  
Your letter T/C2/2006/DC8781 of 18 April 2006**

Dear Mr Verjus,

Following your letter of 18 April 2006, I am in a position to reply to the question you asked on the appropriate statistical classification for the case you have presented.

#### ***Procedure***

There is no explicit Community legislation which governs a procedure by which Eurostat gives its views on operations which have not yet been enforced. Nevertheless, Eurostat is prepared to give a preliminary view on the statistical classification of such operations provided that it is in possession of all of the necessary background information and provided that it may reserve the right to reconsider its view on the operations if this information turns out to be incomplete, or the nature of the operations changes in some way.

#### ***The accounting issue for which a clarification is requested***

Eurostat understands that the question for which a reply is being sought is a determination of the correct ESA95 accounting treatment of expenditure carried out by the Belgium government for the renovation of a building and a subsequent long-term contract with the European Community (the Council of the European Union).

Eurostat notes that the question was raised in your letter of 14 June 2005 and discussed during the EDP dialogue visit to Belgium on 10 April 2006. Eurostat wrote to you on 18 July 2005 to make some comments and to request a final version of the contract. The contract (memorandum of understanding) between the Belgian State and the European Community was received on 24 May 2006.

#### ***Methodological analysis by Eurostat***

After having carefully examined the provided documentation, Eurostat has reached the following provisional views. Reading article 3 of the provided memorandum of understanding, that states: "(...) *En cas d'échec de cette concertation, le Conseil pourra constater que le projet n'est plus*

*réalisable (...)*", it is our understanding that the Council of the EU can avoid its obligation in the context of the signature of the emphyteusis (bail emphytéotique), both before the beginning of the renovation work (based on the articles 1.4, 1.5 and 1.6), but also after renovation work (based on the articles 6.1 and 8.4): and notably in case a of too long delays of renovation, or in case actual costs of renovation were higher than initially estimated and agreed.

In this context it would seem that the risks during the construction work have not been transferred by the Belgium government, who thus remains the economic owner of the building and the associated work in progress during that phase.

As indicated, upon signature of the bail emphytéotique, it would seem that a financial lease is contracted, notably because the Council retains a purchasing option with residual value at end of contract. However, it is not clear whether upon actioning of the purchase option the Council becomes full owner, with the capacity to resell or rent out to any third party.

### ***Conclusion***

Eurostat's preliminary view on your questions is that, as indicated in our previous letter of 18 July 2006, there is no obligation for the Council to purchase the Residence Palace once restructured.

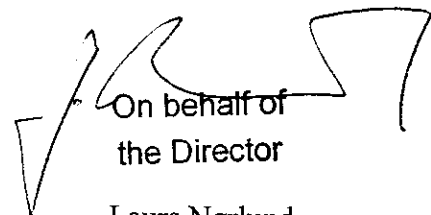
### ***Open issues***

Note that the following aspects remain unclear:

1. Whether the cancellation of the project by the Council during or after the reconstruction phase will imply any penalty charges for this institution. In case the Council can avoid its obligation without any fines, it would appear that all risks during the renovation phase would be fully born by the Belgian government, and that the Council therefore would incur risks and rewards from the renovation only from the start of the emphyteusis (bail emphytéotique).
2. Whether the Council after the final purchase of the building i.e. after the expiry of the emphyteusis (bail emphytéotique), will be entitled to exercise full ownership rights of the building. Notably, regarding renting or selling the building to any third party, e.g. from the private sector.

I wish to stress that these preliminary views of Eurostat are based on the information provided by you and your services. If this information turns out to be incomplete, or the implementation of the operation differs in some way from the information presented, Eurostat reserves the right to reconsider its views. To this end I would be grateful if you could supply to me the final details of the operation (contract and accompanying papers where relevant) when they are available, or (should this be the case) inform me that the planned operation has been abandoned.

Yours sincerely,



On behalf of  
the Director

Laurs Nørlund  
Director