



COMMISSION OF THE EUROPEAN COMMUNITIES

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Proposal for a

COUNCIL DECISION

regarding the position to be taken by the Community within the ACP-EC Council of Ministers with a view to the accession of the Democratic Republic of East Timor to the ACP-EC Partnership Agreement

(presented by the Commission)

EXPLANATORY MEMORANDUM

Article 94 of the ACP-EC Partnership Agreement (hereinafter referred to as ‘the Agreement’) describes the procedure for acceding to the Agreement. Four requirements are necessary for Article 94 to take effect:

- (1) that the State concerned is independent;
- (2) that the State concerned submits a request for accession;
- (3) that the request for accession is presented to the Council of Ministers;
- (4) that the structural characteristics and economic and social situation of the State concerned are comparable to those of the ACP States.

East Timor now fulfils these conditions. In 1999, following 24 years of occupation, East Timor voted overwhelmingly in favour of independence. On 20 May 2002, East Timor became an independent nation and the 191st Member of the United Nations.

By the end of May 2002, the Secretary General of the ACP Group of States and the President of the EU Council of Ministers received the official request of accession, dated 9 May 2002. The request of East Timor for accession includes a request to obtain observer status in the ACP-EC organs, pending a decision on the accession. The Council of Ministers, at its meeting in Punta Cana on 28 June 2002, formally acknowledged the request and decided to accord East Timor observer status in the ACP-EC organs during the period its membership request is under consideration.

Following the widespread devastation of infrastructure after the referendum vote for independence, East Timor found itself deprived of public administration, of workable schools and of social services, and economic activity was completely disrupted. East Timor is the poorest nation in the Asia-Pacific region and among the 20 poorest countries in the world, with an estimated GDP per capita of only €459 in 2001. The UNDP National Human Development Report 2002 for East Timor indicates that nearly half of the population of 800,000 (and most of the women) live in income poverty - having less than the national poverty line of \$0,55 per day; life expectancy is only 57 years; about 45 percent of children under five years of age are underweight, and maternal mortality is high.

The economy is characterised by several factors. Firstly, the country has very low levels of development in rural areas. Most of the population still relies on subsistence farming or fishing, with uncertain and low incomes. Inequality of income distribution has been and still is low, given the generally very low incomes of nearly all the population. But the difference between urban and rural incomes is beginning to open up. Secondly, the social economy is highly segmented; a vast majority of poor rural farmers and a separate, better-off, urban economy. Thirdly, in terms of public revenues, East Timor will remain dependent on external financing for the next few years. Some significant advance tax revenues from the offshore gas and oil fields have already started to flow. In the longer term from 2004 significant revenues from these offshore oil and gas fields in the Timor Sea will come on-stream in 2004/2005. The amounts of these are known to be large but are as yet uncertain.

Since East Timor is a least-developed, small, isolated island and a new nation, the creation of a sustainable economic base poses a daunting challenge. The rebuilding of society, public

institutions and infrastructure are the necessary foundations for a sustainable socio-economic basis for the longer-term.

The independence of East Timor has opened up new prospects for EC-East Timor relations. The European Community has contributed generously to humanitarian relief, the setting up of the UN transitional administration, and to rehabilitation programmes implemented through the Trust Fund for East Timor. The EC should continue providing economic support to the country with the aim of fostering political stability and consolidating democracy. Relations between the EC and East Timor should be conducted on a contractual basis that will consolidate present links and give a continuous and cohesive framework to Community aid, and also to widen EC-Pacific relations. There are in principle no obstacles to the establishment of relations between the European Community and East Timor.

The Commission therefore proposes to give favourable consideration to the request by the Democratic Republic of East Timor for accession to the ACP-EC Partnership Agreement, as a prospective member of the Pacific group.

Political considerations

On 20 May 2002, the Democratic Republic of East Timor became the 191st Member of the United Nations.

The independence of East Timor is to be seen in the light of the progress made over the past three years in restoring political and economic stability after its traumatic liberation from Indonesia. The foundations of a functional state were laid during the two and a half years that East Timor was under UN administration, after centuries of Portuguese colonial rule and 24 years of Indonesian occupation. In a referendum under the auspices of the United Nations on 30 August 1999, 78 percent of voters rejected enhanced autonomy within Indonesia and opted for independence. The events that followed resulted in the widespread destruction of infrastructure and housing. Government institutions ceased to function and more than 250,000 people out of a population of 800,000 were displaced, going mostly to West Timor.

Since then East Timor's volatile situation has been stabilised by massive external assistance delivered under the umbrella of UN peacekeeping and the UN Transitional Administration in East Timor (UNTAET). Since September 1999, the international community has mounted one of the largest humanitarian and rehabilitation operations ever. Co-ordination among donors has been exemplary. The European Community has massively contributed to humanitarian relief, to the set up of the UNTAET, and to the rehabilitation programme implemented through the Trust Fund for East Timor. A two-year UN successor mission with scaled-down peacekeeping, police and civilian components will provide some continuity and stability.

Over the past three years, the country has achieved a remarkably swift recovery and transition to independence. Before independence, with the help of the UN and financed by the international community including the EU, East Timor has conducted peaceful multiparty and presidential elections and has adopted a new Constitution. It led the beginnings of economic recovery and the restoration of core services delivery. The new government took over from UNTAET on Independence Day 20 May 2002. The new government has also developed and published a long-term National Development Plan and has agreed on a financing strategy that will bridge the budget deficit for the next three years, pending the realisation of oil and gas revenues from the Timor Sea.

The effects of the colonial period followed by Indonesian occupation have resulted in huge political challenges today. First, the rehabilitation and the reconstruction of destroyed infrastructure have to be completed. Second, introducing democracy, justice and nation building, i.e. coping with past human rights abuses and reconciling the various antagonistic social groups of society, while creating appropriate, democratic mechanisms for conflict resolution. The country needs to implement a legal framework to manage everything from the justice system to property ownership. Third, encouraging long-term development, i.e. mainly dealing with poverty and capacity building, and promoting economic growth, thereby creating a sustainable livelihood for the population.

East Timor's future capacity to attract the resources to finance its own development will depend on, firstly, external aid flows over the next few years and, secondly, the development and coming on line of offshore oil and gas revenues. These have already come on stream in terms of advance payments of tax in 2002 and are unlikely to become very significant from 2004 onwards. Some external development assistance will be needed over the next five years in order to help establish a basic social safety net, establish schools with basic operating levels, and build capacity in state health services (EC aid already committed before end-2002 is taking care of the health sector's financing needs until end-2004). The country enjoys significant supportive roles from the donor community. As an independent state it has become a member of the International Monetary Fund, of the World Bank and of the Asian Development Bank, but it has decided not to borrow against its future oil and gas revenues.

East Timor's capacity to consolidate the gains won during the transitional period will depend on sustained international donor commitment, UN support, and the ability of its leaders to craft a distinct international identity. Much will also depend on their ability to meet the pressing economic needs of an impoverished population.

Economic and social situation

East Timor is one of the poorest nation in the Asia-Pacific region (but it is not as poor as several other landlocked and post-conflict states on the mainland of Asia) and East Timor is among the 20 poorest countries in the world. In 2001 the estimated GDP per capita was only €459. At present 41 percent of the population live below the poverty line which is set at only \$0.55 per day; life expectancy is only 57 years; about 45 percent of children under five years of age are underweight, and maternal mortality is high, some 420 women die out of every 100,000 live births.

East Timor is a least-developed, small, isolated island and a new nation, whose development challenge is compounded by the wholesale destruction of 1999, by the challenge of establishing institutional systems and frameworks, a need for reconciliation, and by the very limited economic base and market size. It needs to strengthen core service delivery institutions, for example in health and education, and ensure that the capacity is there to manage them efficiently. Gaps in these areas constitute severe constraints for future development.

One of the pressing constraints for East Timor's development effort is its limited human capacity. Many East Timorese worked in the previous administration but, frequently, the more senior positions were held by non-East Timorese and many of the important policy, expenditure, and administrative decisions were made outside East Timor. Consequently, the human resources required to manage all facets of government need to be built up and the development needs, especially in basic social services such as health and education, remain very high.

The Government is strongly committed to developing the country and improving the lives of its people. The National Development Plan outlines strategies for the next five years (2003 to 2007) with sustained economic growth and poverty reduction as the overriding goals. However, with the phasing down of the UN presence and the Trust Fund for East Timor (TFET), the outlook for key components of the economy is not very favourable and donor support will be crucial to smooth the difficult transition in the economy.

Over the past two and a half years, under the guidance of the UNTAET, the country has seen gradual improvements in governance, infrastructure and the basic public services that are crucial to sustain the livelihood of the population. This has been achieved through a uniquely successful partnership between the UN Agencies, the international donor community, the World Bank and the Asian Development Bank. The improvements include the holding of both parliamentary and presidential elections, putting in place programmes to support the re-establishment of the judicial system, restructuring and developing the civil service and institutional strengthening of the parliament. It has improved the capacity of civil society organisations to play their part in the political process and in nation building.

Having become a sovereign nation only in May 2002, East Timor is yet to find its own niche in regional and global partnerships. Logistically, East Timor sees its natural regional structure base within APEC and ASEAN, as well as in the Pacific region.

From the recent history and the political, economic and social situation outlined above, it can be concluded that the structural characteristics and economic and social situation of East Timor are comparable to those of the ACP States and thus reflect the requirements of Article 94 for accession to the ACP-EC Partnership Agreement.

EC Assistance

Over the last couple of years East Timor has passed rapidly from being a relatively neglected, very poor territory occupied by Indonesia through a catastrophic period of social and economic crisis into the present phase, with huge amounts of aid and expenditure being provided and peacekeeping, UN and donor personnel being present in the country. A significant portion of the committed aid for East Timor remains at this time in the process of disbursement and implementation.

The European Commission, through its multi-faceted approach, is one of the major donors to East Timor. Between August 1999 and the end of 2002, the European Commission has allocated €137 million of grant aid to help East Timor to meet its very real needs for emergency aid, transitional administration, and rehabilitation and reconstruction. This represents over €170 per capita. These contributions can be summarised as follows:

- **World Bank Trust Fund for East Timor : €56 million;**
 - Purpose: contributing to the Trust Fund for East Timor (TFET) allows co-ordinated action, particularly in health and infrastructure. The TFET is the donor-funded common vehicle for the rehabilitation of East Timor. The World Bank and the Asian Development Bank are managing this Fund.

- **UNTAET : €10 million;**
 - Purpose: direct financial support to the United Nations Transitional Administration in East Timor;

- **ECHO : € 42 million;**
 - Purpose: health, food and water and sanitation supply, through contracts with international NGOs;
- **FOOD AID : €8.5 million;**
 - Purpose: delivery of food supplies implemented through WFP's "Food for Work" action;
- **ELECTIONS : €1.5 million;**
 - Purpose: dispatch of an observer team and support to civic education through local NGOs;
- **Health projects: €19 million;**
 - Purpose: continuation of the Commission's previous financing and leading presence in the health sector (already established under TFET and ECHO) and in the rural areas.

These high funding levels were justified by emergency and rehabilitation needs. From 2003 onwards, East Timor will move into a phase of long-term development assistance. The EC plans to allocate €10 million for 2003 and €8 million for 2004.

EC Member States have been strongly involved in the reconstruction effort. Due to its long historical links with East Timor, Portugal has been at the forefront of this effort. Other Member States (United Kingdom, Germany, Finland and Ireland) have also contributed.

Future relations between the EU and East Timor

Future development assistance could be ensured by the accession of East Timor to the ACP-EC Partnership Agreement, thus providing a contractual basis for and continuity to the partnership. East Timor fulfils the conditions for membership of the ACP-EC Partnership Agreement.

The Commission proposes to allow East Timor to have access to the financial resources, which will be provided in the framework of the ACP-EC Partnership Agreement under the next Financial Protocol, that is for the period 2005-2010. However, in order to ensure the smooth operation of 9th EDF regional programmes, East Timor should have access to the financial resources provided under Article 3(b) of the Financial Protocol in Annex I of the ACP-EC Partnership Agreement. Until East Timor has access to the financial resources which will be provided in the framework of the ACP-EC Partnership Agreement in the form of a grant for the national indicative programmable allocation, it will continue to benefit from ALA funds.

Given that East Timor is a least-developed country and should be enabled to overcome the serious economic and social difficulties hindering its development so as to step up its rate of development, the Commission proposes to include East Timor in the lists of Least-developed ACP States and of Island ACP States, according to Articles 85(2)(a) and 89 of the ACP-EC Partnership Agreement.

Conclusion:

The Commission proposes that the Council adopt the following Decision regarding the position to be taken by the Community within the ACP-EC Council of Ministers with a view to the accession of the Democratic Republic of East Timor to the ACP-EC Partnership Agreement.

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THE COUNCIL OF THE EUROPEAN UNION,

Having regard to the Treaty establishing the European Community, and in particular the second subparagraph of Article 300(2) in conjunction with Article 310 thereof,

Having regard to the Internal Agreement of 18 September 2000 on the financing and administration of Community Aid under the Financial Protocol to the ACP-EC Partnership Agreement, and in particular Article 1 thereof,

Having regard to the proposal from the Commission¹,

Whereas:

- (1) Article 15 of the ACP-EC Partnership Agreement (hereinafter referred to as “the Agreement”) establishes a Council of Ministers with decision-making powers determined by the Agreement;
- (2) The Democratic Republic of East Timor has presented a request for accession to the Agreement, in accordance with Article 94(1) of the Agreement;
- (3) East Timor fulfils the conditions for Membership provided for in Article 94(1) of the Agreement and the request for accession should therefore be approved;
- (4) The participation of East Timor should be subject to the temporary specific arrangement that East Timor benefits from the Community’s financial assistance to the ACP States provided under Article 3(b) of the current Financial Protocol in Annex I to the Agreement for the period of 2000-2005;
- (5) The lists of Least-developed ACP States and of Island ACP States in Annex VI of the Agreement should be amended in accordance with Articles 85(2)(a) and 89 of the Agreement so as to include East Timor;
- (6) The Community’s position within the Council of Ministers regarding the latter’s adoption of a Decision regarding the accession of the Democratic Republic of East Timor to the ACP-EC Partnership Agreement should be determined;

¹ OJ C [...], [...], p. [...].

HAS DECIDED AS FOLLOWS:

Sole Article

The Community's position within the Council of Ministers regarding the accession of the Democratic Republic of East Timor to the ACP-EC Partnership Agreement shall be based on the draft Decision annexed hereto.

Done at Brussels, [...]

For the Council
The President
[...]

ANNEX

Draft of a

DECISION OF THE ACP-EC COUNCIL OF MINISTERS regarding the accession of the Democratic Republic of East Timor to the ACP-EC Partnership Agreement

THE ACP-EC COUNCIL OF MINISTERS,

Having regard to the ACP-EC Partnership Agreement (hereinafter referred to as “the Agreement”), signed in Cotonou on 23 June 2000, and in particular Article 94(1) thereof,

Whereas:

- (1) The Democratic Republic of East Timor has presented a request for accession to the Agreement, in accordance with Article 94(1) of the Agreement;
- (2) East Timor fulfils the conditions for Membership provided for in Article 94(1) of the Agreement and the request for accession should therefore be approved;
- (3) The participation of East Timor should be subject to the temporary specific arrangement that East Timor benefits from the Community’s financial assistance to the ACP States provided under Article 3(b) of the current Financial Protocol in Annex I to the Agreement for the period of 2000-2005;
- (4) The lists of Least-developed ACP States and of Island ACP States in Annex VI of the Agreement should be amended in accordance with Articles 85(2)(a) and 89 of the Agreement so as to include East Timor;

HAS ADOPTED THIS DECISION:

Article 1

The accession of the Democratic Republic of East Timor to the ACP-EC Partnership Agreement is hereby approved.

Article 2

The participation of East Timor in this Agreement is subject to the temporary special arrangement that East Timor only benefits from the Community's financial assistance to the ACP States provided under Article 3(b) of the current Financial Protocol in Annex I to the Agreement for the period of 2000-2005.

Article 3

Annex VI, Articles 1 and 5 shall be amended by adding East Timor to the lists of Least-developed ACP States and of Island ACP States.

Article 4

The accession of the Democratic Republic of East Timor to the ACP-EC Partnership Agreement shall enter into force on the first day of the second month following the date of deposit of the act of accession of the Democratic Republic of East Timor.

Done at Brussels,

*For the ACP-EC Council of Ministers
The President*