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COMMISSION OF THE EUROPEAN COMMUNITIES

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**PRELIMINARY DRAFT AMENDING BUDGET N°9
TO THE GENERAL BUDGET 2009**

**STATEMENT OF EXPENDITURE BY SECTION
Section III - Commission**

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Having regard to:

- the Treaty establishing the European Community, and in particular Article 272 thereof,
- the Treaty establishing the European Atomic Energy Community, and in particular Article 177 thereof,
- the Council Regulation (EC, Euratom) No 1605/2002 of 25 June 2002 on the Financial Regulation applicable to the general budget of the European Communities¹, as last amended by Council Regulation (EC) No 1525/2007², and in particular Article 37 thereof,

The European Commission hereby presents to the budgetary authority the Preliminary Draft Amending Budget No 9 to the 2009 budget.

¹ OJ L 248, 16.9.2002, p. 1.

² OJ L 343, 27.12.2007, p. 9.

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CHANGES TO THE STATEMENT OF EXPENDITURE BY SECTION

The changes to the statement of expenditure by section are forwarded separately via the SEI-BUD system. An English version of the changes to the statement of expenditure by section is attached for information as a budgetary annex.

1. INTRODUCTION

Preliminary Draft Amending Budget (PDAB) No 9 for the year 2009 covers the Mobilisation of the EU Solidarity Fund for an amount of EUR 493 771 159 in commitment and payment appropriations relating to the effects of an earthquake in Italy. It is proposed to redeploy the corresponding payment appropriations from the policy areas 05 Agricultural and Rural Development, 07 Environment, 08 Research and 11 Maritime Affairs and Fisheries.

2. MOBILISATION OF THE EU SOLIDARITY FUND

2.1. Italy: Earthquake

In April 2009 a strong earthquake affected the Italian region of Abruzzo claiming the lives of 300 people and causing extremely significant damage. Within the 10 week deadline set by Article 4 of Council Regulation (EC) No 2012/2002³, the Italian authorities applied for financial assistance from the EU Solidarity Fund relating to the earthquake.

The Commission services have carried out a thorough examination of the application in accordance with Regulation (EC) No 2012/2002 and in particular with Articles 2, 3 and 4 thereof. The most important elements of the assessments can be summarised as follows:

- (1) The application was presented to the Commission on 8 June 2009 within the deadline of 10 weeks after the first damage was recorded on 6 April 2009.
- (2) The disaster is of natural origin. The Italian authorities estimated the total direct damage at EUR 10 212 036 560. This amount represents 0,67 % of Italy's GNI and over three times the normal threshold for mobilising the Solidarity Fund. The analysis of the Commission services revealed that the methods used by Italy for estimating the different categories of damage are very detailed and sound and that the results are plausible. The estimate of total direct damage appears in fact to be rather prudent.
- (3) As the estimated total direct damages of EUR 10 212 036 560 exceeds the threshold for mobilising the Solidarity Fund of EUR 3,398 billion (i.e. EUR 3 billion in 2002 prices) applicable to Italy in 2009 the disaster qualifies as a “major natural disaster” and falls thus within the main field of application of Regulation (EC) No 2012/2002. Total direct damage is the basis for the calculation of the amount of financial assistance. The financial assistance may only be used for essential emergency operations as defined in Article 3 of the Regulation.
- (4) The earthquake has caused severe destruction to basic infrastructures, private households, public buildings, businesses and the important cultural heritage and brought serious harm to the population. The areas hit by the event include the whole Province of L’Aquila, most of the Region Abruzzo and some bordering areas. The regional capital L’Aquila, was particularly hard hit, worst of all its historical centre which remains completely inaccessible. Out of a total population of approximately 300 000 affected by the disaster, 300 casualties were reported and 1500 injured.

³ Council Regulation (EC) N° 2012/2002 of 11 November 2002 establishing the European Union Solidarity Fund, OJ L 311 of 14.11.2002, p.3.

Thousands have lost their houses and/or private businesses, about 30 000 continue to be hosted in tent camps. Another 32 000 are hosted in hotels and private houses on the Adriatic coast and some 20 000 are reported to have moved to private accommodation outside the region. 25 % of the buildings surveyed so far have been found completely unsafe. The disaster also seriously affected the socio-economic situation of the whole region with economic activity being drastically reduced if not stopped. The same applies to the activities of the local university with 27 000 students which also constituted an important economic factor for the region. The application contains a detailed analysis of the impact of the earthquake and a break-down of total estimated damages by sector.

- (5) The cost of essential emergency operations eligible under Article 3(2) of Regulation (EC) No 2012/2002 has been estimated by the Italian authorities at EUR 2 004 142 174 and has been presented broken down by type of operation. The largest share of the cost of emergency operations (over EUR 1,6 billion) concerns the activities of the rescue services and in particular the provisional housing and full assistance for over 65 000 people. Based on the information received from the Italian authorities, it is evident that the real cost of eligible operations exceeds the amount of a possible grant from the Solidarity Fund by far. The types of operation effectively to be financed from the Fund will be defined in the Implementation Agreement.
- (6) The Italian authorities declared that they are exploring possibilities to finance a part of the reconstruction going beyond emergency operations through the relevant operational programmes co-financed by the Structural Funds.
- (7) The Italian authorities confirmed that the eligible operations referred to under point (5) are not covered by insurance.

In conclusion, for the reasons set out above, it is proposed to accept the application submitted by Italy relating to the earthquake in April 2009 as a “major disaster” and to propose the mobilisation of the Solidarity Fund.

2.2. Financing

The total annual budget available for the Solidarity Fund is EUR 1 000 million. In 2009, EUR 121,2 million has already been earmarked for earlier applications leaving EUR 878,8 million available.

As solidarity was the central justification for the creation of the Fund, the Commission takes the view that aid from the Fund should be progressive. That means that, according to previous practice, the portion of the damage exceeding the threshold (0,6 % of the GNI or EUR 3 billion in 2002 prices, whichever is the lower amount) should give rise to higher aid intensity than damage up to the threshold. The rate applied in the past for defining the allocations for major disasters is 2,5 % of total direct damage under the threshold for mobilizing the Fund and 6 % above. The methodology for calculating Solidarity Fund aid was set out in the 2002-2003 Annual Report on the Solidarity Fund and accepted by the Council and the European Parliament.

It is proposed to apply the same percentages in this case and to grant the following aid amounts:

(EUR)

	Direct damage	Threshold	Amount based on 2,5 %	Amount based on 6 %	Total amount of aid proposed
Italy, Abruzzo earthquake	10 212 036 560	3 398 601 000	84 965 025	408 806 134	493 771 159
Total					493 771 159

This amount of compensation will leave at least 25 % of the European Union Solidarity Fund available for allocation during the last quarter of the year, as required by Article 4(2) of Regulation (EC) 2012/2002.

The Budget Forecast Alert Note dated 18 June 2009 presented the state of availability of funds as at 31 May 2009. Consequently, it is proposed to redeploy the EUR 493 771 159 in payment appropriations from the policy areas 05 Agricultural and Rural Development, 07 Environment, 08 Research and 11 Maritime Affairs and Fisheries, as set out here below:

05 04 02 01 Completion of the European Agricultural Guidance and Guarantee Fund, Guidance Section – Objective 1 regions (2000-2006) – EUR 70 110 359: The redeployment is possible because, contrary to the initial plans, no programmes will be closed in 2009 and the available payment appropriations will be used only for reimbursements up to 95 % of the amounts committed.

06 02 06 Programme Marco Polo II – EUR 23 000 000: In the course of the 2009 budget procedure the budgetary authority voted EUR 37 million in additional payment appropriations on this budget line. However, requirements in 2009 will be limited to pre-financing payments and as interim payments will not be due within the year, it will only be possible to absorb part of the additional amount through 2009 pre-financing.

06 04 06 Competitiveness and Innovation Framework Programme – "Intelligent Energy Europe" Programme – EUR 38 000 000: In the course of the 2009 budget procedure the budgetary authority voted EUR 50 million in additional payment appropriations on this budget line, which is more than double the amount requested (EUR 23 million) in the Preliminary Draft Budget. Although EUR 12 million, representing 52 % of the original allocation, can be absorbed, the Commission and beneficiaries do not have the capacity to absorb the balance of EUR 38 million in 2009. Accordingly, it will only be possible to absorb part of this increase in 2009.

06 06 01 02 Research related to energy – Fuel Cells and Hydrogen Joint Undertaking (FCH) – EUR 19 660 800: The call for 2009 has been launched in early July, with a closing date of 15 October 2009. Taking account of the time needed for evaluation, selection and negotiation of projects, the contracts are expected to be signed in 2010. Therefore there will be no payments on this budget line in 2009.

06 06 02 01 Research related to transport (including Aeronautics) – EUR 15 000 000: A call for proposals was made in 2007, but the contracts were only signed at the end of 2008, which means that it will not be possible to make the majority of the intermediate payments in 2009. Furthermore, the contracts related to the 2008 call will not be signed until the end of 2009, which means that the pre-financing payments foreseen will not be made. The reason for the delay in finalising contracts is that for both 2008 and 2009 the negotiations with beneficiaries took longer to complete than expected, and in practice the time needed to contract has been longer than planned.

06 06 02 03 SESAR Joint Undertaking – EUR 10 000 000: SESAR is also financed by appropriations from EUROCONTROL. However, the timing of the financial support from EUROCONTROL was unclear when the 2009 budget was prepared. EUROCONTROL has now transferred its contribution in 2009, with the result that a lower contribution is required from the Community budget – only EUR 13 million compared to the EUR 23 million foreseen in the budget.

06 06 05 02 Completion of the sixth EC framework programme (2003-2006) – EUR 35 000 000: Delays in the submission of intermediate reports by beneficiaries have caused further delays in the full implementation of this budget line.

07 03 07 LIFE+ (Financial Instrument for the Environment – 2007 to 2013 – EUR 110 000 000: In the course of the 2009 budget procedure the budgetary authority increased the appropriations for LIFE+, both in commitments (+ EUR 29,3 million) and in payment appropriations (+ EUR 131 million). The Commission follows a payment regime in respect of LIFE+ grants based on the requirements of the legal base as regards the organisation of one annual call for proposals for projects. Taking into account the multi-annual duration of projects, this payment regime leads to a payment of 40 % of the commitment (related to this call for proposals) in the year of its signature, 30 % when a sufficient level of spending has been reached (usually between the first and third year after signature), and 30 % after evaluation of the final report (from three to six or more years after signature). For this reason, the increase in payment appropriations voted cannot be implemented in 2009. This fact was communicated to the budgetary authority at the time of the letter of implementability (November 2008), and again in the activity statement for activity 07 03 which accompanied the Preliminary Draft Budget for 2010.

08 02 01 Cooperation – Health – EUR 25 000 000: Delays in the commitment procedures have shifted pre-financing payments foreseen for 2009 to 2010. Compared with the Preliminary Draft Budget (PDB) 2009, the timetable for the call for proposals for FP7-Health 2009 shifted slightly as the approval of the 2009 Work Cooperation Programme – Health was delayed to the end of August 2008. When the 2009 PDB was being drawn up in early 2008, it was thought that the 2009 Work Programme would be approved by the end of June 2008. The fact that the Work Programme was published two months later delayed the publication and closure of the call for proposals (December 2008 instead of October as planned). The initial timetable (evaluation, overall commitment, negotiation, commitment, signature of contracts and completion of pre-financing) was therefore delayed. As a result, fewer individual commitments will be made in 2009 and fewer cases will therefore be pre-financed in 2009 (the rest will be deferred to 2010). In view of these developments payment appropriations can be made available.

08 07 02 Cooperation – Transport - Clean Sky Joint Undertaking – EUR 22 000 000: The operational budget 2009 will be executed via two different types of contracts: 1) Grant Agreements for Members (GAM), which are one-year contracts with 80 % pre-financing in the year itself and 20 % in the following year, and 2) Grant Agreements for Partners (GAP), following calls for proposals, with a multi-annual schedule. The call will be launched in the third or fourth quarter of 2009, which means that no payments will be associated with it for the year 2009. This means that the only payment appropriations on the operational line foreseen for the year 2009 follow from the outstanding commitments (RAL) 2008, and the pre-financing of the Grant Agreements for Members. The 2009 budget was prepared before the Annual Implementation Plan of Clean Sky on 26 May 2009. Since the adopted plan

requires a lower contribution from the Community budget than originally anticipated, some EUR 22 million may be redeployed.

08 10 01 Ideas – EUR 45 000 000: 2009 is the first year of the Ideas programme for which interim payments are due. Based on the first cost claims received, the initial estimations have been revised downward. In addition, delayed evaluations will result in the later signature of grant agreements. Hence the amount of appropriations needed for pre-financing payments is also revised downwards. All together this results in an estimated reduction of EUR 45 million.

11 06 01 Completion of the Financial Instrument for Fisheries Guidance (FIFG) – Objective 1 (2000-2006) – EUR 16 000 000 and 11 06 04 Completion of the Financial Instrument for Fisheries Guidance (FIFG) – outside Objective 1 areas (2000-2006) – EUR 65 000 000: EUR 81 million in payment appropriations for the programming period 2000-2006 is available because payments for a number of operational programmes have reached the ceiling for payments which can be made before final closure. This ceiling was reached earlier than foreseen because Member States submitted higher payment requests in 2008 than forecast, which were covered by means of a transfer, allowing a number of payments anticipated for 2009 to be made in 2008.

SUMMARY TABLE BY HEADING OF THE FINANCIAL FRAMEWORK

Financial framework Heading/subheading	2009 Financial framework		Budget 2009 (including AB 1-5 and PDAB 6-8)		PDAB 9/2009		Budget 2009 (including AB 1-5 and PDAB 6-9)	
	CA	PA	CA	PA	CA	PA	CA	PA
1. SUSTAINABLE GROWTH								
1a. Competitiveness for growth and employment	13 272 000 000		13 768 997 000	11 100 585 513		-232 660 800	13 768 997 000	10 867 924 713
1b. Cohesion for growth and employment	48 428 000 000		48 426 884 669	34 963 348 789			48 426 884 669	34 963 348 789
Total Margin⁴	61 700 000 000		62 195 881 669 <i>4 118 331</i>	46 063 934 302		-232 660 800	62 195 881 669 <i>4 118 331</i>	45 831 273 502
2. PRESERVATION AND MANAGEMENT OF NATURAL RESOURCES								
Of which market related expenditure and direct payments	46 679 000 000		41 180 696 325	41 083 823 325			41 180 696 325	41 083 823 325
Total Margin	57 639 000 000		56 770 777 011 <i>868 222 989</i>	52 566 129 680		-261 110 359	56 770 777 011 <i>868 222 989</i>	52 305 019 321
3. CITIZENSHIP, FREEDOM, SECURITY AND JUSTICE								
3a. Freedom, Security and Justice	872 000 000		866 225 000	617 440 000			866 225 000	617 440 000
3b. Citizenship	651 000 000		772 125 542	800 122 542	493 771 159	493 771 159	1 265 896 701	1 293 893 701
Total Margin⁵	1 523 000 000		1 638 350 542 <i>5 812 000</i>	1 417 562 542	493 771 159	493 771 159	2 132 121 701 <i>5 812 000</i>	1 911 333 701
4. EU AS A GLOBAL PLAYER⁶	7 440 000 000		8 103 930 360 <i>-419 930 360</i>	8 324 169 158			8 103 930 360 <i>-419 930 360</i>	8 324 169 158
5. ADMINISTRATION⁷	7 699 000 000		7 700 730 900 <i>76 269 100</i>	7 700 730 900			7 700 730 900 <i>76 269 100</i>	7 700 730 900
6. COMPENSATION	210 000 000		209 112 912 <i>887 088</i>	209 112 912			209 112 912 <i>887 088</i>	209 112 912
TOTAL Margin	136 211 000 000	121 934 000 000	136 618 783 394 <i>535 379 148</i>	116 281 639 494 <i>6 095 523 048</i>	493 771 159	0	137 112 554 553 <i>535 379 148</i>	116 281 639 494 <i>6 589 294 207</i>

⁴ The European Globalisation adjustment Fund (EGF) is not included in the calculation of the margin under Heading 1a.

⁵ The European Union Solidarity Fund (EUSF) amount is entered over and above the relevant headings as foreseen by the IIA of 17 May 2006 (OJ C 139 of 14.6.2006)

⁶ The 2009 margin for heading 4 does not take into account the appropriations related to the Emergency Aid Reserve, or the mobilisation of the Flexibility Instrument.

⁷ For calculating the margin under the ceiling for heading 5, account is taken of the footnote (1) of the financial framework 2007-2013 for an amount of EUR 78 million for the staff contributions to the pension scheme.