



COMMISSION OF THE EUROPEAN COMMUNITIES

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**PRELIMINARY DRAFT AMENDING BUDGET No 2
TO THE BUDGET FOR 2007**

GENERAL STATEMENT OF REVENUE

**STATEMENT OF REVENUE AND EXPENDITURE BY SECTION
Section III – Commission**

(presented by the Commission)

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Section III – Commission

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, and in particular Article 37 thereof,

The European Commission hereby presents to the budgetary authority the preliminary draft amending budget No 2 to the 2007 budget for the reasons set out in the explanatory memorandum.

¹ OJ L 248, 16.9.2002, p. 1. as last amended by Regulation 1995/2006 of 13 December 2006
OJ L 390 p.1 of 30.12. 2006

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GENERAL STATEMENT OF REVENUE AND STATEMENT OF REVENUE AND EXPENDITURE BY SECTION

The general statement of revenue and the statement of revenue and expenditure for section III - Commission - are forwarded separately via the SEI-BUD system. An English language version is attached as a budgetary annex by way of example.

1. INTRODUCTION

This Preliminary Draft Amending Budget concerns two elements:

- The mobilisation of the EU Solidarity Fund for the floods that hit Hungary and Greece in March and April 2006;
- The modification of the structure of the Budget 2007 for Research, following the adoption of the 7th Framework Programme (FP7).

While the overall impact on commitment appropriations will be an increase of EUR 24.4 million, the overall level of payment appropriations will not change.

2. MOBILISATION OF THE EU SOLIDARITY FUND

In March and April 2006 severe floods hit large parts of central, south-eastern and southern Europe causing severe damage in a number of countries. Hungary and Greece applied for financial assistance from the EU Solidarity Fund relating to the floods within the ten week deadline set by Article 4 of Council Regulation (EC) No 2012/2002².

The Commission carried out a thorough examination of the applications in accordance with Regulation (EC) 2012/2002 and in particular with Articles 2, 3 and 4 thereof.

The most important elements of the assessments can be summarised as follows:

2.1. Hungary: Floods of April 2006

- (1) The application was presented to the Commission on 9 June 2006 within the deadline of 10 weeks after the first damage was recorded on 3 April 2006. Upon request from the Commission services the Hungarian authorities provided additional information, which was received on 21 September 2006.
- (2) The disaster is of natural origin. The Hungarian authorities estimated the total direct damage at EUR 519 million. As this amount exceeds the threshold of 0.6 % of Hungary's GNI (EUR 459 million) 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 Regulation³.
- (3) According to the Hungarian authorities the disaster affected over 1.5 million inhabitants in 8 of the country's 20 counties along the catchments' areas of the Danube and Tisza rivers. The Hungarian authorities reported serious damages to

² Council Regulation (EC) N° 2012/2002 of 11 November 2002 establishing the European Union Solidarity Fund (OJ L 311, 14.11.2002).

³ It should be noted that the figure for estimated total damage includes private damage only partially. The share of public damage (EUR 409 million) represents thus almost 80 % of total damage. The Hungarian authorities have however declared that complete estimates of private damage are not available. In reality, total damage is therefore likely to be higher than the amount given.

infrastructures, in particular in the water/waste water sector (EUR 136 million), for flood protection (EUR 85 million), in the transport sector (EUR 93 million) as well as in agriculture (over EUR 61 million), to the cultural heritage, and to several natural parks.

- (4) The cost of essential emergency operations eligible under Article 3(2) of Regulation (EC) No 2012/2002 has been estimated by the Hungarian authorities at EUR 335 million and has been broken down by type of operation. Compared with earlier disasters for which the Solidarity Fund intervened this amount appears unusually high in relation to total damage (of which it represents 64.4%) and even more significantly in relation to public damage (of which it represents 82%). In spite of this and a number of inconsistencies in the application regarding the nature and cost of eligible operations it is evident that the real cost of eligible operations would in any event exceed the amount of a possible grant from the Solidarity Fund by far. The types of operation effectively to be financed from the Fund would be clearly defined in the Implementation Agreement.
- (5) Hungary does not intend to use financing from other Community Instruments for purposes related to the flooding.
- (6) The Hungarian authorities confirmed that the eligible operations referred to under point 4 above are not covered by insurance.

In conclusion, for the reasons set out above, it is proposed to accept the application made by Hungary relating to the floods in April/May 2006 as a “major disaster” and to propose the mobilisation of the Solidarity Fund.

2.2. Greece: Floods of March 2006

- (1) The application was presented to the Commission on 22 May 2006 within the deadline of 10 weeks after the first damage was recorded on 13 March 2006.

The disaster is of natural origin. The Greek authorities estimate the damages at EUR 402 million. This amount includes however indirect economic damages due to the interruption of economic activities of EUR 30 million which may not be considered when assessing the direct damages of a disaster under the Solidarity Fund. The total direct damage that can be taken into account amounts to EUR 372 million. It should be noted that the figure for estimated total damage includes only part of the private damage suffered. The share of public damage (EUR 325 million) represents thus around 87% of total damage. In reality, total damage is therefore likely to be higher than the amount given.

- (2) The amount of total direct damage of EUR 372 million is lower than the applicable threshold for mobilising the Solidarity Fund for major disasters (0.6 % of Greece’s GNI, i.e. EUR 1 004 million). The Solidarity Fund could therefore only exceptionally be mobilised if the conditions laid down in Article 2(2), last subparagraph of Regulation 2012/2002 are met.
- (3) The Greek authorities indicated that the territory of 11 municipalities with a total population of 137 171 residents and, to a lesser extent, the city of Alexandroupoli (43 000 residents) are directly affected by the disaster. It has been demonstrated that

the majority of the population (around 71 %) in that area has suffered serious consequences. This concerns in particular the population living near or next to the river Evros.

- (4) The cost of essential emergency operations eligible under Article 3(2) of Regulation 2012/2002 is estimated at EUR 325 million. These operations relate mainly to emergency measures to restore to working order basic infrastructures and utilities, preventive infrastructures (embankments), temporary housing, rescue services and the immediate cleaning-up of the affected areas.
- (5) The major damage caused to networks and infrastructure in the area paralysed economic activity in the region. Around 100 million m² of farmland was flooded along the river banks and an estimated 2 000 head of livestock were lost. The floods caused total destruction of agricultural produce while the slow drainage of the flood areas removed any possibility of planting new crop. Due to the lack of agricultural produce much of the local industry was prevented from engaging in any agricultural, processing or commercial activity in a region in which the main occupation of 90 % of the population is agriculture. In the municipalities near or next to the River Evros and its tributaries the population has been directly affected by the river flooding and the damages to transport and water supply networks. The extensive damage to the irrigation and water supply network resulted in the need to distribute bottled water in a number of municipalities, which continued at the time of application. Repair of the water supply networks, identification of alternative bore holes unaffected by contamination of the hydrological basin and the search for new springs will create a critical situation in the wider area for more than one year until the situation returns to normal. It has also been noted that the negative effect on economic activity caused by the floods, considered the worst over the last 50 years, took place in an area that has already been severely affected by floods in 2005. This cumulative effect has severely hit the resilience of the local economy.
- (6) Greece indicated that the damages will not be financed by any other Community sources.
- (7) Greece has declared that there is no coverage of eligible damage by insurance.

In conclusion, for the reasons set out above, the flooding is considered to be extraordinary within the meaning of the Regulation and meeting the conditions set out by Article 2(2), last subparagraph, of Regulation 2012/2002 for exceptionally mobilising the Solidarity Fund.

2.3. Financing

The total annual budget available for the Solidarity Fund is EUR 1 billion. In 2007, no resources have yet been earmarked for earlier applications leaving EUR 1 billion 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 and 6 % above. It is proposed to apply the same percentages in this case.

The Commission's proposed allocation under the Fund is based on the information made available by the applicants.

The Commission proposes to grant the following amounts:

(EUR)

	Direct damage	Amount based on 2.5 %	Amount based on 6 %	Total amount of aid proposed
Hungary: Floods April 2006	519 096 784	11 487 300	3 576 287	15 063 587
Greece: Floods March 2006	372 261 099	9 306 527	0	9 306 527
Total				24 370 114

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 2012/2002.

However, taking into account the identification of excess payment appropriations in line 02 04 01 "Security and space research" there will be no need of fresh money for financing the EU Solidarity Fund payments for Hungary and Greece. An amount of EUR 24 million would thus be allocated from budget line 02 04 01 to budget line 13 06 01 to cover the corresponding needs related to the mobilisation of the EU Solidarity Fund (see point 3.3 below).

3. MODIFICATION OF THE STRUCTURE OF THE BUDGET 2007 FOR THE RESEARCH, FOLLOWING THE ADOPTION OF FP7

The legal base of the 7th Framework Programme (FP7) was adopted at the end of 2006⁴. Some differences exist between the budget structure in the adopted legal base, and the structure in Budget 2007, which was based on the amended Commission proposal of 24 May 2006 on the 7th Framework Programme of the European Community for research, technological development and demonstration activities (2007 to 2013)⁵. The main changes, which should now be incorporated into the structure of Budget 2007, are as follows (see also annex I).

3.1. Split into two separate budget lines of the research priority "Security and space"

The creation of two items under article 02 04 01 "Security and space research" is proposed: item 02 04 01 01 "Security research" and item 02 04 01 02 "Space research". The commitments appropriations proposed for these two new items correspond to the split of the amount allocated for "Security and space research" in the budget. The amount for each new item will be calculated on the basis of the percentage foreseen in the FP7 legal base for these two sub-programmes.

⁴ Decision No 1982/2006/EC of the European Parliament and of the Council, OJ L 412 of 30.12.2006.

⁵ COM (2005) 119 final.

3.2. Introduction of a new sub-programme, under the specific programme "Capacities: Coherent development of research policies"

A new budget line 08 23 01 "Coherent development of research policies" is created, and it is proposed to allocate EUR 7.6 million in commitment appropriations and EUR 2.7 million in payment appropriations to this line. However, no new financing is requested, rather the appropriations will be deducted from budget line 08 16 01 corresponding to the sub-programme "Science in Society". This reflects the approach taken by the Legislative Authority, which reduced this activity by EUR 29 million over the duration of FP7 compared to the amended Commission Proposal presented in May 2006.

3.3. Reduction in payment appropriations

A reduction is proposed in the budgeted payment appropriations for line 02 04 01 "Security and space research", amounting to EUR 24.4 million. These payment appropriations will be allocated to budget line 13 06 01, to cover the needs related to the mobilisation of the EU Solidarity Fund. The needs for payment appropriations for "Security and space research" activities are lower than originally foreseen, due to the late adoption of the FP7 legal base. Given the time needed from the moment of the publication of the call for research proposals to the signature of the contracts, lower than anticipated amounts will be paid in 2007, and part of the pre-financing will be postponed to 2008.

SUMMARY TABLE BY HEADING OF THE FINANCIAL FRAMEWORK

Financial framework Heading/subheading	2007 Financial framework		Budget 2007 + AB 1/2007		PDAB 2/2007		Budget 2007 + AB 1 +PDAB 2	
	CA	PA	CA	PA	CA	PA	CA	PA
1. SUSTAINABLE GROWTH								
1a. Competitiveness for growth and employment	8 918 000 000		9 367 547 511	7 071 164 511		-24 370 114	9 367 547 511	7 046 794 397
1b. Cohesion for growth and employment	45 487 000 000		45 486 784 504	37 790 265 808			45 486 784 504	37 790 265 808
Total Margin⁶	54 405 000 000		54 854 332 015 50 667 985	44 861 430 319			54 854 332 015 50 667 985	44 837 060 205
2. PRESERVATION AND MANAGEMENT OF NATURAL RESOURCES								
Of which market related expenditure and direct payments	45 759 000 000		42 713 661 000	42 437 641 756			42 713 661 000	42 437 641 756
Total Margin	58 351 000 000		56 250 230 036 2 100 769 964	54 718 545 736			56 250 230 036 2 100 769 964	54 718 545 736
3. CITIZENSHIP, FREEDOM, SECURITY AND JUSTICE								
3a. Freedom, Security and Justice	637 000 000		623 833 000	473 683 000			623 833 000	473 683 000
3b. Citizenship	636 000 000		623 233 000	703 902 652	24 370 114	24 370 114	647 603 114	728 272 766
Total Margin⁷	1 273 000 000		1 247 066 000 25 934 000	1 177 585 652			1 271 436 114 25 934 000	1 201 955 766
4. EU AS A GLOBAL PARTNER⁸	6 578 000 000		6 812 460 000 67 000	7 352 746 732			6 812 460 000 67 000	7 352 746 732
5. ADMINISTRATION⁹	7 039 000 000		6 942 364 030 172 635 970	6 942 264 030			6 942 364 030 172 635 970	6 942 264 030
6. COMPENSATION	445 000 000		444 646 152 353 848	444 646 152			444 646 152 353 848	444 646 152
TOTAL Margin	128 091 000 000	123 790 000 000	126 551 098 233 2 350 428 767	115 497 218 621 8 368 781 379	24 370 114	0	126 575 468 347 2 350 428 767	115 497 218 621 8 368 781 379

⁶ The European Globalisation adjustment Fund (EGF) is not included in the calculation of the margin under Heading 1a.

⁷ 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)

⁸ The 2007 margin for heading 4 does not take into account the appropriations related to the Emergency Aid Reserve (EUR 234,5 million).

⁹ 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 76 million for the staff contributions to the pensions scheme.