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COMMISSION OF THE EUROPEAN COMMUNITIES

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**PRELIMINARY DRAFT AMENDING BUDGET N° 11
TO THE GENERAL BUDGET 2008**

**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 11 to the 2008 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 11 for the year 2008 covers the following elements:

- Mobilisation of the EU Solidarity Fund for an amount of EUR 7,6 million in commitment and payment appropriations following a serious drought in Cyprus.
- A corresponding reduction in payment appropriations of EUR 7,6 million from the budget line 13 04 02 Cohesion Fund.

2. MOBILISATION OF THE EU SOLIDARITY FUND

2.1. Cyprus: Drought

Cyprus has been suffering from a shortfall of rain that has led to serious effects on living conditions, the economy and the natural environment. The Cypriot authorities applied for financial assistance from the EU Solidarity Fund in relation to the resulting crisis.

The Commission carried out a thorough examination of the application in accordance with Council Regulation (EC) No 2012/2002 of 11 November 2002³ and in particular Articles 2, 3 and 4 thereof. The most important points of the assessment can be summarised as follows:

- (1) While Regulation (EC) No 2012/2002 may not be designed to tackle the characteristics of a slowly unfolding disaster, it nevertheless can be mobilised in response to any major natural disaster with serious repercussions on living conditions, the natural environment or the economy in a beneficiary State as established in Article 2(1), provided that the disaster meets the criteria set out in Article 2(2) and that the application for assistance is presented in good time in accordance with Article 4(1). None of these elements necessarily exclude slowly unfolding disasters such as a drought.
- (2) The application for Solidarity Fund assistance was received by the Commission on 1 July 2008. The Cypriot authorities provided additional information on 16 October 2008. Article 4(1) of the Regulation (EC) No 2012/2002 requires the application to be made no later than ten weeks after the first damage caused by the disaster. Against the background of the three-year period of unusually low rains, at the end of the rainy season, in April 2008, the absence of the rainfall reached its peak. The Commission, therefore, considers that the 22 April 2008, i.e. 10 weeks before the application was received, can be accepted as starting date of the major disaster. As a consequence, the application presented to the Commission on 1 July 2008, respects the time-limits laid down in Article 4(1).
- (3) The disaster is natural in origin. The Cypriot authorities estimated the total direct damage, incurred after 22 April 2008, at EUR 176,15 million. As this amount exceeds the threshold of EUR 84,67 million (i.e. 0,6 % of GNI) the disaster qualifies as a

³ Council Regulation (EC) No 2012/2002 of 11 November 2002 establishing the European Union Solidarity Fund, OJ L 311 of 14.11.2002, p.3.

“major natural disaster” and thus falls 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. This financial assistance may only be used for essential emergency operations as defined in Article 3 of the Regulation.

- (4) The Commission also notes the fact that the crisis affected the whole territory of the country and major emergency measures have been taken by the public authorities from April/May 2008 to address it. These include the reduction of water supplies for domestic and industrial use, the implementation of an emergency plan aiming at increasing the supply of desalinated water and the transport of water from Greece.
- (5) The Cypriot authorities indicated the serious repercussions on living conditions, the natural environment and the economy. Substantial damages to agriculture were reported particularly in late April and in the following months, growing worse as the crop season progressed towards harvest stage. The water scarcity is also expected to affect tourism, which is an important sector of the Cypriot economy. The drought also had serious repercussions on the water infrastructure, where serious damages caused by the discontinuation of the water flow started appearing in early May 2008. The natural environment suffered serious effects as the fragile ecology of the island is particularly susceptible to the dry conditions with a risk of desertification. The application contains a detailed breakdown of damages.
- (6) The cost of essential emergency operations eligible under Article 3(2) of Regulation (EC) No 2012/2002 has been estimated by the Cypriot authorities at EUR 59,45 million and has been broken down by type of operation. The main bulk of the operations concern costs related to the transport of water from Greece and immediate investments into the water infrastructure to secure the functioning of the water distribution network under conditions of discontinued water flow. The types of operation to be financed from the Fund will be clearly defined in the Implementation Agreement.
- (7) The Cypriot authorities also declared that there is no coverage of eligible damage by insurance.
- (8) The Cypriot authorities stated that Community assistance for compensating private damages, mainly to farmers, will be sought if an appropriate legal basis is available in other EU financial instruments. The Commission notes however that the Common Agricultural Policy and notably the Rural Development policy gives no possibility for compensating farmers for damages due to natural disaster. Under its rural development programme, the member state has the possibility to support the restoration of the agricultural production potential damaged by natural disasters as well as appropriate preventive action. The corresponding measure is not foreseen in the Cyprus rural development operational programme and the Cypriot Authorities have so far not proposed to modify their programme in that sense.

For the reasons set out above, therefore, it is proposed that the application made by Cyprus relating to a drought can be accepted as a “major disaster” and that the Solidarity Fund should be used.

2.2. Financing

The total annual budget available for the Solidarity Fund is EUR 1 billion. In 2008, EUR 273 191 197 has already been mobilised for earlier applications, leaving EUR 726 808 803 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 mobilising the Fund and 6 % above. For extraordinary regional disasters the rate is 2,5 % of total direct damage. 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
Cyprus/Drought	176 150 000	84 673 000	2 116 825	5 488 620	7 605 445
Total					7 605 445

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.

Taking into account the identification of excess appropriations in 13 04 02 Cohesion Fund there will be no need for fresh payment appropriations for financing the EU Solidarity Fund payments for Cyprus. An amount of EUR 7,6 million would thus be allocated from budget line 13 04 02 to budget line 13 06 01 to cover the corresponding needs related to the mobilisation of the EU Solidarity Fund. This redeployment is possible because payments under the Cohesion Fund for the period 2007-2013 are to a large extent related to major projects. However, major projects need to be approved separately in subsequent Commission decisions before any interim payments can be made. As many major projects are not expected to be submitted and approved this year, no significant interim payments are expected in 2008.

SUMMARY TABLE BY HEADING OF THE FINANCIAL FRAMEWORK

Financial framework Heading/subheading	2008 Financial framework		Budget 2008 (incl. AB 1-7/2008 and PDAB 8-10/2008)		PDAB 11/2008		Budget 2008 + AB 1-7/2008 and PDAB 8-11/2008	
	CA	PA	CA	PA	CA	PA	CA	PA
1. SUSTAINABLE GROWTH								
1a. Competitiveness for growth and employment	10 386 000 000		11 086 000 000	9 718 739 600			11 086 000 000	9 718 739 600
1b. Cohesion for growth and employment	47 267 000 000		47 255 948 720	36 024 082 504	0	-7 605 445	47 255 948 720	36 016 477 059
Total	57 653 000 000		58 341 948 720	45 742 822 104	0	-7 605 445	58 341 948 720	45 735 216 659
<i>Margin⁴</i>			-188 948 720				-188 948 720	
2. PRESERVATION AND MANAGEMENT OF NATURAL RESOURCES								
Of which market related expenditure and direct payments	46 217 000 000		41 006 490 000	40 889 550 500			41 006 490 000	40 889 550 500
Total	59 193 000 000		56 314 715 538	53 220 588 053			56 314 715 538	53 220 588 053
<i>Margin</i>			2 878 284 462				2 878 284 462	
3. CITIZENSHIP, FREEDOM, SECURITY AND JUSTICE								
3a. Freedom, Security and Justice	747 000 000		730 274 000	533 196 000			730 274 000	533 196 000
3b. Citizenship	615 000 000		888 034 197	941 144 203	7 605 445	7 605 445	895 639 642	948 749 678
Total	1 362 000 000		1 618 308 197	1 474 340 203	7 605 445	7 605 445	1 625 913 642	1 481 945 648
<i>Margin⁵</i>			16 883 000				16 883 000	
4. EU AS A GLOBAL PLAYER⁶	7 002 000 000		7 311 218 000	7 847 128 400			7 311 218 000	7 847 128 400
<i>Margin</i>			-70 000 000				-70 000 000	
5. ADMINISTRATION⁷	7 380 000 000		7 279 207 193	7 279 767 193			7 279 207 193	7 279 767 193
<i>Margin</i>			177 792 807				177 792 807	
6. COMPENSATION	207 000 000		206 636 292	206 636 292			206 636 292	206 636 292
<i>Margin</i>			363 708				363 708	
TOTAL	132 797 000 000	129 681 000 000	131 072 033 940	115 771 282 245	7 605 445	0	131 079 639 385	115 771 282 245
<i>Margin</i>			2 814 375 257	14 499 126 952			2 814 375 257	14 506 732 397

⁴ The European Globalisation adjustment Fund (EGF) is not included in the calculation of the margin under Heading 1a. The Flexibility Instrument has been mobilised for an amount of EUR 200 million.

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 2008 margin for heading 4 does not take into account the appropriations related to the Emergency Aid Reserve. The Flexibility Instrument has been mobilised for an amount of EUR 70 million.

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 77 million for the staff contributions to the pensions scheme.