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COMMISSION OF THE EUROPEAN COMMUNITIES

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**PRELIMINARY DRAFT AMENDING BUDGET N° 7
TO THE GENERAL BUDGET 2008**

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

(presented by the 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 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 7 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 7 for the year 2008 covers the following elements:

- Mobilisation of the EU Solidarity Fund for an amount of EUR 12.78 million in commitment and payment appropriations relating to the effects of hurricane "Dean" in Guadeloupe and Martinique in August 2007.
- A corresponding reduction in payment appropriations of EUR 12.78 million from the line 13 04 02 Cohesion Fund.

2. MOBILISATION OF THE EU SOLIDARITY FUND

2.1. France: Hurricane "Dean" August 2007

In August 2007 the French overseas departments of Martinique and Guadeloupe, two neighbouring islands of the French Antilles, were affected by the hurricane "Dean" causing severe damage to infrastructures and different sectors of the economy. Due to the high damage and serious effects caused by the storm, France submitted an application for financial assistance from the EU Solidarity Fund.

The Commission services have carried out a thorough examination of the application in accordance with Council Regulation (EC) No 2012/2002³ 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 26 October 2007 within the deadline of 10 weeks after the first damage was recorded on 17 August 2007. Additional information from the French authorities was received at the Commission on 8 January 2008.
- (2) The disaster is of natural origin. The French authorities estimated the total direct damage at EUR 511.2 million. This amount represents 0.03% of France's GNI and 16 % of the normal threshold for mobilising the Solidarity Fund applicable to France of EUR 3.267 billion (i.e. EUR 3 billion in 2002 prices). 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.
- (3) As total damage remains below the normal threshold the application is based on the so-called "extraordinary regional disaster" criterion laid down in Article 2(2), final subparagraph of Regulation (EC) No 2012/2002 setting out the conditions for mobilising the Solidarity Fund "under exceptional circumstances". Under this criterion, a region can exceptionally benefit from assistance from the Fund where that region has been affected by an extraordinary disaster, mainly a natural one, affecting the major part of its population, with serious and lasting repercussions on living

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.

conditions and the economic stability of the region. The Regulation calls for special focus on remote and isolated regions such as the insular and outermost regions defined in Article 299(2) of the Treaty. Martinique and Guadeloupe fall within the latter category.

- (4) As set out in the Annual Report on the Solidarity Fund 2002-2003⁴ the Commission considers that, in order for the specific criteria for regional disasters to be meaningful in the national context, a distinction needs to be drawn between serious regional events and those that are merely local. In accordance with the principle of subsidiarity the latter are the responsibility of the national authorities, while the former can be considered for support under the Solidarity Fund.
- (5) The French authorities justify their application with the special situation of Martinique and Guadeloupe as outermost regions of the Union. Evidence is presented to show that because of the islands' isolated location and their already critical socio-economic situation before the hurricane the impact and lasting repercussions of the damage caused by the hurricane are much more serious than would otherwise be the case.
- (6) The application relates to the whole of Martinique (34 municipalities with a total population of 381 000 inhabitants) and the more seriously affected part of Guadeloupe (23 municipalities with a population of 298 000 inhabitants, representing two thirds of Guadeloupe's total population). For these 57 municipalities the state of emergency had to be declared and the hurricane affected - to varying degrees - the total population in that zone, i.e. almost 680 000 people.
- (7) The French authorities reported serious damage in the agricultural and fisheries sector amounting to some EUR 186 million with, in particular, the almost complete destruction of the banana sector which is the single most important economic sector of the islands. More damage amounting to some EUR 178 million was reported to infrastructures and public buildings as well as damage to homes and enterprises of nearly EUR 110 million.
- (8) The evidence presented by the French authorities to demonstrate serious and lasting repercussions on living conditions and the economic stability of the region is primarily based on the expected long term effects on two key sectors on which a large part of the active population depend: the quasi complete destruction of the banana industry (cultivation, transportation, processing) and the consequences for tourism. These effects add to the precarious economic and employment situation already present before the storm. Moreover, the high number of almost 17 000 destroyed or damaged houses, damaged infrastructures (water, electricity, telephone) and the financial difficulties of the municipalities inflicted by the storm leading to reduced public services as well as the inflationary effects of the storm are presented as additional factors aggravating living conditions in the area.
- (9) The cost of essential emergency operations eligible under Article 3(2) of Regulation (EC) No 2012/2002 has been estimated by the French authorities at EUR 119.9 million and has been broken down by type of operation.

⁴ Annual report 2002-2003 and Report on the experience gained after one year of applying the new instrument, COM(2004) 397 final of 26.5.2004

- (10) France has indicated that it intends to use financing from POSEI and the ERDF for purposes related to the disaster.
- (11) The French authorities confirmed that the eligible operations referred to under point 9 above are not covered by insurance.

In conclusion, for the reasons set out above, it is proposed to accept the application made by France relating to the hurricane "Dean" as an "extraordinary regional 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 billion. In 2008, EUR 260 411 197 has already been mobilised for earlier applications, leaving EUR 739 588 803 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 mobilizing 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
France/Guadeloupe and Martinique, hurricane Dean	511 200 000	3 266 629 000	12 780 000	0	12 780 000
Total					12 780 000

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 line 13 04 02 Cohesion Fund there will be no need for fresh payment appropriations for financing the EU Solidarity Fund payments for France (Martinique/Guadeloupe). An amount of EUR 12.78 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 1-4/2008 and PDAB 5-6/2008)		PDAB 7/2008		Budget 2008 + AB 1-4/2008 and PDAB 5-7/2008	
	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	9 768 739 600			11 086 000 000	9 768 739 600
1b. Cohesion for growth and employment	47 267 000 000		47 255 948 720	40 551 565 026		- 12 780 000	47 255 948 720	40 538 785 026
Total	57 653 000 000		58 341 948 720	50 320 304 626		- 12 780 000	58 341 948 720	50 307 524 626
<i>Margin⁵</i>			<i>-188 948 720</i>				<i>-188 948 720</i>	
2. PRESERVATION AND MANAGEMENT OF NATURAL RESOURCES								
Of which market related expenditure and direct payments	46 217 000 000		41 400 082 042	40 889 550 500			41 400 082 042	40 889 550 500
Total	59 193 000 000		55 564 715 538	53 241 270 053			55 564 715 538	53 241 270 053
<i>Margin</i>			<i>3 628 284 462</i>				<i>3 628 284 462</i>	
3. CITIZENSHIP, FREEDOM, SECURITY AND JUSTICE								
3a. Freedom, Security and Justice	747 000 000		7 30 274 000	533 196 000			730 274 000	533 196 000
3b. Citizenship	615 000 000		875 254 197	968 664 203	12 780 000	12 780 000	888 034 197	981 444 203
Total	1 362 000 000		1 605 528 197	1 501 860 203	12 780 000	12 780 000	1 618 308 197	1 514 640 203
<i>Margin⁶</i>			<i>16 883 000</i>				<i>16 883 000</i>	
4. EU AS A GLOBAL PLAYER⁷	7 002 000 000		7 311 218 000	8 112 728 400			7 311 218 000	8 112 728 400
<i>Margin</i>			<i>-70 000 000</i>				<i>-70 000 000</i>	
5. ADMINISTRATION⁸	7 380 000 000		7 279 525 455	7 280 085 455			7 279 525 455	7 280 085 455
<i>Margin</i>			<i>177 474 545</i>				<i>177 474 545</i>	
6. COMPENSATION	207 000 000		206 636 292	206 636 292			206 636 292	206 636 292
<i>Margin</i>			<i>363 708</i>				<i>363 708</i>	
TOTAL	132 797 000 000	129 681 000 000	130 309 572 202	120 662 885 029	12 780 000	0	130 322 352 202	120 662 885 029
<i>Margin</i>			<i>3 564 056 995</i>	<i>9 560 670 956</i>			<i>3 564 056 995</i>	<i>9 573 450 956</i>

⁵ 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.

⁶ 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)

⁷ 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.

⁸ 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.