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**PRELIMINARY DRAFT AMENDING BUDGET N° 1  
TO THE GENERAL BUDGET 2008**

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

(presented by the Commission)

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**STATEMENT OF EXPENDITURE BY SECTION**

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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 Communities<sup>1</sup>, as last amended by Council Regulation (EC, Euratom) No 1995/2006<sup>2</sup>, and in particular Article 37 thereof,

The European Commission hereby presents to the budgetary authority the Preliminary Draft Amending Budget No 1 to the 2008 budget for the reasons set out in the explanatory memorandum.

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<sup>1</sup> OJ L 248, 16.9.2002, p. 1.

<sup>2</sup> OJ L 390, 30.12.2006, p. 1.

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### **GENERAL STATEMENT OF REVENUE**

### **STATEMENT OF REVENUE AND EXPENDITURE BY SECTION**

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

## **1. INTRODUCTION**

Preliminary Draft Amending Budget (PDAB) No 1 for the year 2008 incorporates the following elements:

- The mobilisation of the EU Solidarity Fund for an amount of EUR 162,4 million in commitment and payment appropriations, relating to major storm in the United Kingdom in June and July 2007.
- The creation of the necessary budgetary structure to accommodate the Research Executive Agency (REA) and the European Research Council Executive Agency (ERCEA).
- Modification of the establishment plan of the European Agency for the Management of the Operational Cooperation at the External Borders of the Members States of the European Union (FRONTEX).
- The creation of the budget item 06 01 04 12 Galileo Programme – expenditure on administrative management, as provided for in the Commission's revised proposal COM(2007)535.
- The creation of the budget article 27 01 11 Exceptional crisis expenditure, to enable the financing of exceptional expenditure linked to a declared crisis. The line will be endowed with a "p.m."

Only the mobilisation of the EU Solidarity Fund will have a net effect on the budget.

## **2. THE MOBILISATION OF THE EU SOLIDARITY FUND**

In June and July 2007, following successive waves of unusually intensive rainfall, different parts of the United Kingdom were affected by major floods causing severe damage. Within the ten week deadline set by Article 4 of Council Regulation (EC) No 2012/2002<sup>3</sup> the United Kingdom applied for financial assistance from the EU Solidarity Fund relating to the floods.

The Commission services have carried out a thorough examination of the application in accordance with Council Regulation (EC) No 2012/2002 and in particular with Articles 2, 3 and 4 thereof. The Communication to the Commission on an application to mobilise the European Union Solidarity Fund presented by the United Kingdom (floods 2007) was adopted on 10 December 2007 (C/2007/6038).

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

### **2.1. United Kingdom: Floods June/July 2007**

The application was presented to the Commission on 20 August 2007, within the deadline of 10 weeks after the first damage was recorded on 12 June 2007. Upon request from the

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

Commission services the UK authorities provided additional information which was received on 26 October 2007.

While flooding occurred in different parts of the UK (England, Northern Ireland and Wales) over a period of several weeks, these events may be regarded as a single disaster within the meaning of the Solidarity Fund Regulation as they were caused by an underlying, unfavourable meteorological condition over the UK during the summer of 2007, with successive waves of exceptionally high rainfall leading to saturated soils and as a consequence to severe inundations.

The disaster is of natural origin. The UK authorities estimated the total direct damage at EUR 4 612 million which is the third highest amount of damage caused by a single disaster since the Solidarity Fund was set up in 2002. As this amount exceeds the threshold of EUR 3 267 million applicable to the UK for triggering the Solidarity Fund (i.e. EUR 3 billion in 2002 prices) 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.

The UK authorities reported very serious damages in housing (over EUR 2 billion), to businesses (over EUR 1 billion) and agriculture (over EUR 700 million). Moreover, infrastructures, in particular in the water/waste water sector, in the transport sector and for education were heavily damaged. The reliability of the damage estimates presented by the UK authorities was confirmed by a sample survey carried out by the Joint Research Centre using among others data from satellite imaging.

The cost of essential emergency operations eligible under Article 3(2) of Regulation (EC) No 2012/2002 has been estimated by the UK authorities at EUR 356,7 million and has been presented broken down by type of operation. Based on the information from the British authorities, it is evident that the real cost of eligible operations by far exceeds the amount of a possible grant from the Solidarity Fund. The types of operation effectively to be financed from the Fund will be clearly defined in the Implementation Agreement.

The UK authorities announced that in assisted regions they also intend using financing from the 2000-2006 Structural Funds programmes for purposes related to the flooding.

The UK authorities confirmed that the eligible operations referred to above are not covered by insurance.

In conclusion, for the reasons set out above, it is proposed to accept the application made by the United Kingdom relating to the floods in June and July 2007 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 billion. In 2008, 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, and is as follows:

(EUR)

	Direct damage	Threshold	Amount based on 2.5%	Amount based on 6%	Total amount of aid proposed
UK/Floods June/July 2007	4 612 000 000	3 266 629 000	81 665 725	80 722 260	162 387 985
<b>Total</b>					<b>162 387 985</b>

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.

### 3. EXECUTIVE AGENCIES IN THE FIELD OF RESEARCH

In accordance with Article 166 of the EC Treaty, the European Parliament and the Council adopted, through Decision No 1982/2006/EC of 18 December 2006, the seventh Framework Programme of the European Community for research, technological development and demonstration activities, (2007-2013) - the Framework Programme. The Council subsequently adopted, on 19 December 2006, the Capacities, Cooperation, Ideas and People specific programmes for research, technological development and demonstration activities - the Specific Programmes.

The Framework Programme provides for the establishment of the European Research Council (ERC) as the means of implementing the Ideas Specific Programme. With its Decision 2007/134/EC of 2 February 2007, the Commission established the European Research Council, setting up the Scientific Council and announcing the setting-up of the dedicated implementation structure in the form of an executive agency. After consulting the Regulatory Committee for Executive Agencies and informing the Budgetary Authority the Commission adopted Decision C/2007/6268 on 14 December 2007 setting up the European Research Council Executive Agency for the management of the specific Community programme "Ideas" in the field of frontier research in application of Council Regulation (EC) No 58/2003.

In its proposals for the Framework Programmes the Commission also announced its intention to "externalise, under its responsibility, activities which generate a large number of small operations; an executive agency will manage, in particular the Marie Curie actions, the support to SMEs, as well as administrative tasks related to other research projects, including collaborative research projects".

The ninth meeting of the Regulatory Committee for Executive Agencies took place on 14 November. The Committee gave a favourable opinion on the draft Commission Decisions setting up the "Research Executive Agency" for the management of certain areas of the specific Community programmes People, Capacities and Cooperation in the field of research, and for the setting up of the "European Research Council Executive Agency" for the management of the specific Community Programme "Ideas" in the field of frontier research in application of Council Regulation (EC) N°58/2003.

The Committee on Budgets of the European Parliament has been informed on the results of the meeting and gave a favourable opinion at its meeting on 27 November 2007.

The Commission adopted Decision C/2007/6262 on 14 December 2007 setting up the "Research Executive Agency" for the management of certain areas of the specific Community programmes People, Capacities and Cooperation in the field of research in application of Council Regulation N° 58/2003.

The current proposal concerns the creation of the corresponding budget lines for the subsidies to these two agencies:

08 01 04 30 European Research Council Executive Agency

08 01 04 31 Research Executive Agency

No additional appropriations are requested in the framework of the creation of these two new budget lines. The appropriations will be deducted from the budget lines corresponding to the support expenditure of the corresponding policy areas:

02 01 05 Support expenditure for research activities of Enterprise policy area

06 01 05 Support expenditure for research activities of Energy and transport policy area

08 01 05 Support expenditure for operations of 'Research' policy area

09 01 05 Support expenditure for research activities of Information society and media policy area

Savings that result from the creation of the agencies will be used to increase the operational appropriations of the corresponding programme areas. In 2008 this will lead to increased operational appropriations for the following areas:

02 04 01 01 Space research

02 04 01 02 Security research

08 10 01 Ideas

### **3.1. European Research Council Executive Agency (ERCEA)**

For 2008, it is proposed to allocate EUR 19 994 000 in both commitment and payment appropriations to line 08 01 04 30. This amount will be deducted from budget line 08 01 05. The details of this are as follows:

Line	Description	Amount (EUR)	Comments
08 01 05 01	Expenditure related to research staff	1 591 000	20 officials seconded from the Commission
08 01 05 03	Other management expenditure for research	18 403 000	Other staff, infrastructure administrative and management expenditure of the ERCEA corresponding to the tasks relating to the Ideas specific programme
	Total	19 994 000	

The calculation is based upon 2007 staff costs indexed at 2% per annum. The unit costs for 2007 are: temporary staff: EUR 0,117 million; contractual staff: EUR 0,063 million; seconded national experts: EUR 0,068 million. The 2008 costs are based upon an average presence for ERCEA staff of eight months.

The transfer of tasks to the ERCEA is expected to result in savings of EUR 84 085 000 during the period 2008 to 2013. For 2008 it is proposed to increase the operational appropriations on line 08 10 01 – Ideas by EUR 3 619 000 whilst decreasing line 08 01 05 - Support expenditure for operations of 'Research' policy area by EUR 3 619 000:

Line	Description	Amount (EUR)
08 10 01	Ideas	3 619 000
08 01 05	Support expenditure for operations of 'Research' policy area	-3 619 000

### 3.2. Research Executive Agency (REA)

For 2008, it is proposed to allocate EUR 14 601 000 in both commitment and payment appropriations to line 08 01 04 31. This amount will be deducted from budget lines 02 01 05, 06 01 05, 08 01 05 and 09 01 05. The details of this are:

Line	Description	Amount (EUR)	Comments
02 01 05 01	Expenditure related to research staff	60 000	1 official seconded from the Commission
02 01 05 03	Other management expenditure for research	1 809 000	Other staff, infrastructure administrative and management expenditure of the REA corresponding to tasks relating to the Enterprise policy area of the Cooperation specific programme
06 01 05 03	Other management expenditure for research	256 000	Other staff, infrastructure administrative and management expenditure of the REA corresponding to tasks relating to the Energy and Transport policy area of the Cooperation specific programme
08 01 05 01	Expenditure related to research staff	715 000	12 officials seconded from the Commission
08 01 05 02	External staff for research	64 000	Appropriations corresponding to 2 contractual agent contracts suppressed following the transfer of tasks into the REA
08 01 05 03	Other management expenditure for research	10 771 000	Other staff, infrastructure administrative and management expenditure of the REA corresponding to tasks relating to the Research policy area of the Capacities, Cooperation and People specific programmes
09 01 05 03	Other management expenditure for research	926 000	Other staff, infrastructure administrative and management expenditure of the REA corresponding to tasks relating to the Information society and media policy area of the Cooperation and Capacities specific programmes
	Total	14 601 000	



The calculation is based upon 2007 staff costs indexed at 2% per annum. The unit costs for 2007 are: temporary staff: EUR 0,117 million; contractual staff: EUR 0,063 million; seconded national experts: EUR 0,068 million. The 2008 costs are based upon an average presence for REA staff of six months.

The transfer of tasks to the REA is expected to result in EUR 76 571 000 of savings during the period 2008 to 2013. For 2008 it is proposed to increase the operational appropriations on line 02 04 01 01 – Space research by EUR 3 672 000 and on line 02 04 01 02 – Security research by EUR 3 327 000 whilst decreasing line 02 01 05 - Support expenditure for research activities of Enterprise policy area by EUR 6 999 000:

Line	Description	Amount (EUR)
02 04 01 01	Space research	3 672 000
02 04 01 02	Security research	3 327 000
02 01 05 01	Expenditure related to research staff	-3 340 000
02 01 05 02	External staff for research	-1 700 000
02 01 05 03	Other management expenditure for research	-1 959 000

#### **4. MODIFICATION OF THE ESTABLISHMENT PLAN OF THE FRONTEX AGENCY**

For 2008, the budgetary authority allocated an additional amount of EUR 30 million for the European Agency for the Management of the Operational Cooperation at the External Borders of the Member States of the European Union (FRONTEX) (EUR 2.8 million for administrative and EUR 27.2 million for operational expenditure). This represents an increase of 79% when compared to the Commission's 2008 Preliminary Draft Budget.

Consequently, FRONTEX has prepared a revised Work Programme 2008, which was sent to the Board of Management on 12 November 2007. The additional appropriations will entail a substantial increase in workload for the Agency. The current staff numbers are considered insufficient to handle the increase and prolongation of operational activities. It is therefore necessary to amend the 2008 establishment plan in order to allow FRONTEX to properly execute its revised work programme.

For these reasons, it is proposed to increase the 2008 establishment plan from 69 to 94 posts, on basis of the Decisions of the Management Board of FRONTEX dated 20 September (-1 AD9; +1 AD8) and 7 November 2007 (+25 posts). The additional staff will be mainly allocated to operational tasks (17 posts). The proposed modifications do not require any additional spending, as the corresponding additional administrative appropriations have already been authorised in the 2008 budget.

#### **5. GALILEO PROGRAMME – ADMINISTRATIVE MANAGEMENT**

The amended proposal for a Regulation of the European Parliament and of the Council on the further implementation of the European satellite radio-navigation programmes (EGNOS and Galileo) (COM(2007)535 final) provided for the creation of a new budget line for expenditure on administrative management. However, this line had not been included in the preliminary draft budget for 2008, and was not created in the course of the budget procedure.

It is therefore proposed to create the budget line 06 01 04 12: Galileo Programme-expenditure on administrative management. The line will be endowed with EUR 2 million in

both commitment and payment appropriations, which will be taken from the operational line 06 02 10 Galileo Programme.

The European Commission, on behalf of the EU as the owner of the system, shall have the responsibility, in particular, to ensure that the EU's political and international commitments are implemented, determine and agree on the overall specifications and requirements for the system. During the deployment phase the Commission should implement an integrated programme risk management at all levels of the programme as well as structural measures to identify, control, mitigate and monitor risks.

To this end, the Commission must establish the appropriate instruments and ensure it possess the necessary resources, in particular in terms of assistance, needed to accomplish this task. Therefore, the European Commission will be advised by experts, senior professionals coming from disciplines such as project management, space engineering, financial, technology marketing, and which act as independent reviewers of the programme.

## **6. EXCEPTIONAL CRISIS EXPENDITURE**

The Commission has put in place a business continuity plan, designed to ensure the smooth running of its services, in the event of a major disruption. Indeed, procedures have been set up to facilitate and speed up urgent expenditure (and continue collection of resources), while respecting the rules laid down in the Financial Regulation and Implementing Rules applicable to the general budget of the European Communities.

However, in case of expenditure linked to a declared crisis, the Commission might need to finance urgently exceptional expenditure not foreseen in its normal administrative budget.

It is therefore proposed to create one single special line 27 01 11 Exceptional Crisis Expenditure in Section III of the budget, to cover all types of administrative expenditure not authorised elsewhere in the budget.

Since the administrative budget of the Commission already covers almost all types of expenditure which could be necessary during a crisis, the new line would be restricted to expenditure which is (i) made during the crisis; (ii) which cannot be posted to other existing administrative lines; and (iii) for which the budget authority should be informed of its precise nature immediately after the crisis is over.

Given the expected marginal incidence of this expenditure relative to the overall administrative budget of the Commission, and its hypothetical nature, the Commission considers it sufficient to inscribe a "p.m" on the proposed line.

The amounts that will prove necessary will be transferred to this line from the budget item of Title "Budget", line 27 01 02 19 "other management expenditure- non- decentralised management". Should the required amounts exceed the appropriations available on this item, the Commission would submit the necessary transfer proposals to the budget authority.

### SUMMARY TABLE BY HEADING OF THE FINANCIAL FRAMEWORK

Financial framework Heading/subheading	2008 Financial framework		Budget 2008		PDAB 1/2008		Budget 2008 + AB 1/2008	
	CA	PA	CA	PA	CA	PA	CA	PA
<b>1. SUSTAINABLE GROWTH</b>								
1a. Competitiveness for growth and employment	10 386 000 000		11 086 000 000	9 772 639 600			11 086 000 000	9 772 639 600
1b. Cohesion for growth and employment	46 889 000 000		46 877 941 445	40 551 565 026			46 877 941 445	40 551 565 026
<b>Total Margin<sup>4</sup></b>	<b>57 275 000 000</b>		<b>57 963 941 445</b> <i>-188 941 445</i>	<b>50 324 204 626</b>			<b>57 963 941 445</b> <i>-188 941 445</i>	<b>50 324 204 626</b>
<b>2. PRESERVATION AND MANAGEMENT OF NATURAL RESOURCES</b>								
Of which market related expenditure and direct payments	46 217 000 000		40 876 490 000	40 825 600 500			40 876 490 000	40 825 600 500
<b>Total Margin</b>	<b>58 800 000 000</b>		<b>55 041 123 496</b> <i>3 758 876 504</i>	<b>53 177 320 053</b>			<b>55 041 123 496</b> <i>3 758 876 504</i>	<b>53 177 320 053</b>
<b>3. CITIZENSHIP, FREEDOM, SECURITY AND JUSTICE</b>								
3a. Freedom, Security and Justice	747 000 000		728 034 000	533 196 000			728 034 000	533 196 000
3b. Citizenship	615 000 000		614 843 000	708 253 006	162 387 985	162 387 985	777 230 985	870 640 991
<b>Total Margin<sup>5</sup></b>	<b>1 362 000 000</b>		<b>1 342 877 000</b> <i>19 123 000</i>	<b>1 241 449 006</b>	<b>162 387 985</b>	<b>162 387 985</b>	<b>1 505 264 985</b> <i>19 123 000</i>	<b>1 403 836 991</b>
<b>4. EU AS A GLOBAL PARTNER<sup>6</sup></b>	<b>7 002 000 000</b>		<b>7 311 218 000</b> <i>-70 000 000</i>	<b>8 112 728 400</b>			<b>7 311 218 000</b> <i>-70 000 000</i>	<b>8 112 728 400</b>
<b>5. ADMINISTRATION<sup>7</sup></b>	<b>7 380 000 000</b>		<b>7 283 860 235</b> <i>173 139 765</i>	<b>7 284 420 235</b>			<b>7 283 860 235</b> <i>173 139 765</i>	<b>7 284 420 235</b>
<b>6. COMPENSATION</b>	<b>207 000 000</b>		<b>206 636 292</b> <i>363 708</i>	<b>206 636 292</b>			<b>206 636 292</b> <i>363 708</i>	<b>206 636 292</b>
<b>TOTAL Margin</b>	<b>132 026 000 000</b>	<b>129 681 000 000</b>	<b>129 149 656 468</b> <i>3 692 561 532</i>	<b>120 346 758 612</b> <i>9 650 459 388</i>	<b>162 387 985</b>	<b>162 387 985</b>	<b>129 312 044 453</b> <i>3 692 561 532</i>	<b>120 509 146 597</b> <i>9 650 459 388</i>

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

<sup>5</sup> 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)

<sup>6</sup> The 2008 margin for heading 4 does not take into account the appropriations related to the Emergency Aid Reserve.

<sup>7</sup> 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.