



**COUNCIL OF
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COVER NOTE

from: Mr Janusz LEWANDOWSKI, Member of the European Commission
date of receipt: 25 April 2012
to: Mr Bjarne CORYDON, President of the Council of the European Union
Subject: Transfer of appropriations No DEC09/2012 within Section III - Commission -
of the general budget for 2012

Delegations will find attached Commission document DEC09/2012.

Encl.: DEC09/2012



EUROPEAN COMMISSION

BRUSSELS, 20/04/2012

GENERAL BUDGET - 2012
SECTION III - COMMISSION TITLES 08, 32

TRANSFER OF APPROPRIATIONS N° DEC 09/2012

EUR

FROM

CHAPTER - 3204 Conventional and renewable energies

ITEM - 32 04 14 01 Energy projects to aid economic recovery - Energy networks	Payments	- 351 300 000
ITEM - 32 04 14 02 Energy projects to aid economic recovery - Carbon Capture and Storage (CCS)	Payments	- 73 400 000
ITEM - 32 04 14 03 Energy projects to aid economic recovery - European offshore wind grid system	Payments	- 36 800 000
ITEM - 32 04 14 04 Energy projects to aid economic recovery - Energy efficiency and renewable initiatives	Payments	- 23 500 000

TO

CHAPTER - 0802 Cooperation - Health

ARTICLE - 08 02 01 Cooperation - Health	Payments	181 225 753
CHAPTER - 0803 Cooperation - Food, agriculture and fisheries, and biotechnology		
ARTICLE - 08 03 01 Cooperation - Food, agriculture and fisheries, and biotechnology	Payments	151 196 128
CHAPTER - 0804 Cooperation - Nanosciences, nanotechnologies, materials and new production technologies		
ARTICLE - 08 04 01 Cooperation - Nanosciences, nanotechnologies, materials and new production technologies	Payments	152 578 119

I. INCREASE

I.A

a) Heading

08 02 01 - Cooperation - Health

b) Figures at 03/04/2012

	Payments
1A. Appropriation in budget (initial budget + AB)	398 334 028
1B. Appropriation in budget (EFTA)	10 356 685
2. Transfers	0
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3. Final appropriation for the year (1A+1B+2)	408 690 713
4. Utilisation of final appropriation	324 303 119
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5. Amount not used/available (3-4)	84 387 594
6. Requirements up to year-end	265 613 347
7. Increase proposed	181 225 753
8. Increase as percentage of appropriation in budget (7/1A)	45.50%
9. Increase, as a percentage of the final appropriation for the year, in the sum of transfers referred to in Article 23(1)(b) and (c) of the Financial Regulation, calculated in accordance with Article 17a of the implementing rules	n/a

c) Receipts arising from recovery (carried over) (C5)

	Payments
1. Appropriation available at start of year	46 014
2. Appropriation available on the 03/04/2012	6 053
3. Rate of utilisation $[(1-2)/1]$	86.85%

d) Detailed grounds for the increase

The analysis of the current level of payments on the line as well as the implementation speed during the first months of the year showed that additional payment appropriations will be needed already in September to meet the legal obligations to the beneficiaries (the execution rate of the voted budget payments appropriations in August is expected to be close to 100%). The additional payments will be distributed as follows: a) around EUR 6 million are foreseen to be paid for the final payments of the projects; b) around EUR 108 million are foreseen to be paid for the intermediate payments; and c) around EUR 67 million are foreseen to be paid for the pre-financing of the new projects, in particular of the call Health-2012-Innovation-1. In total 87 projects (indicative figure) will benefit from this reinforcement.

This reinforcement of the line will contribute to the acceleration of the contracting of the remaining Framework Programme 7 (FP7) calls in 2012 and 2013. This will also send a positive signal to the beneficiaries in the context of the current crisis and the need for the EU to get support for maintaining its effort in Research and Innovation.

The shortage of the payments on the line shows that the measures adopted in order to improve the Time-to-pay and to decrease the Time-to-grant, are being successfully implemented with a direct impact on the payment appropriations' consumption.

In parallel, the submission of periodic and final reports for ongoing FP7 projects is closely monitored resulting in a more timely reception of such reports. The target time limits established results in much shorter timelines for interim and final payments, which need to be executed within 90 days from the reception of the complete reports.

As a result, the Commission is requesting a reinforcement of EUR 181.2 million for their Cooperation Theme "Health".

Suspension of any payments will have an adverse effect on all beneficiaries and will lead to interests on late payments, thus damaging the image of the EU as a reliable partner.

I.B

a) Heading

08 03 01 - Cooperation - Food, agriculture and fisheries, and biotechnology

b) Figures at 03/04/2012

	Payments
1A. Appropriation in budget (initial budget + AB)	181 450 215
1B. Appropriation in budget (EFTA)	4 717 706
2. Transfers	0
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3. Final appropriation for the year (1A+1B+2)	186 167 921
4. Utilisation of final appropriation	127 667 370
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5. Amount not used/available (3-4)	58 500 551
6. Requirements up to year-end	209 696 679
7. Increase proposed	151 196 128
8. Increase as percentage of appropriation in budget (7/1A)	83.33%
9. Increase, as a percentage of the final appropriation for the year, in the sum of transfers referred to in Article 23(1)(b) and (c) of the Financial Regulation, calculated in accordance with Article 17a of the implementing rules	n/a

c) Receipts arising from recovery (carried over) (C5)

	Payments
1. Appropriation available at start of year	1 169
2. Appropriation available on the 03/04/2012	1 169
3. Rate of utilisation $[(1-2)/1]$	0.00%

d) Detailed grounds for the increase

The analysis of the current level of payments on the line as well as the implementation speed during the first months of the year showed that additional payments appropriations will be needed already in July to meet the legal obligations to the beneficiaries (the execution rate of the voted budget payments appropriations in June expected to be close to 100%). The additional payments will be distributed as follows: a) around EUR 5 million are foreseen to be paid for the final payments of the projects; b) around EUR 28 million are foreseen to be paid for the intermediate payments; and c) around EUR 118 million are foreseen to be paid for the pre-financing of the new projects, in particular of the Call 6 (Knowledge-based Bio-economy) currently undergoing the negotiations. In total 69 projects (indicative figure) will benefit from this reinforcement.

This reinforcement of the line will contribute to the acceleration of the contracting of the remaining FP7 calls in 2012 and 2013. This will also send a positive signal to the beneficiaries in the context of the current crisis and the need for the EU to get support for maintaining its effort in Research and Innovation.

This activity is targeting for an average Time-to-grant of 266 days aiming to start to sign the contracts at the end of May. Failure to receive additional budget by July would cause significant delays to the beneficiaries expecting contracts to be signed before summer. Concretely, 80% of the pre-financing for the Call 6 contracts would not be paid. This would harm the image of the EU towards the scientific community. In view of the sound financial management, and especially efficient management of payments (Time-to-pay) with regards to running FP7 projects, this reinforcement of the line will provide sufficient cash flow to the beneficiaries (especially for SMEs and small farmers) and will help to avoid interests on late payments by the Commission.

In order to respect the contractual obligations on time, an additional EUR 151.2 million will be needed by July to pay the remaining part of the pre-financing, and interim and final payments to be paid until the end of the year.

Suspension of any payments will have an adverse effect on all beneficiaries and will lead to interests on late payments.

I.C

a) Heading

08 04 01 - Cooperation - Nanosciences, nanotechnologies, materials and new production technologies

b) Figures at 03/04/2012

	Payments
1A. Appropriation in budget (initial budget + AB)	362 900 430
1B. Appropriation in budget (EFTA)	9 435 411
2. Transfers	0
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3. Final appropriation for the year (1A+1B+2)	372 335 841
4. Utilisation of final appropriation	186 185 324
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5. Amount not used/available (3-4)	186 150 517
6. Requirements up to year-end	338 728 636
7. Increase proposed	152 578 119
8. Increase as percentage of appropriation in budget (7/1A)	42.04%
9. Increase, as a percentage of the final appropriation for the year, in the sum of transfers referred to in Article 23(1)(b) and (c) of the Financial Regulation, calculated in accordance with Article 17a of the implementing rules	n/a

c) Receipts arising from recovery (carried over) (C5)

	Payments
1. Appropriation available at start of year	2 149
2. Appropriation available on the 03/04/2012	0
3. Rate of utilisation [(1-2)/1]	100.00%

d) Detailed grounds for the increase

The analysis of the current level of payments on the line as well as the implementation speed during the first months of the year showed that additional payments appropriations will be needed already in July for the supplementary needs of pre-financing (the execution rate of the voted budget payments appropriations in June is expected to be close to 100%).

The reinforcement of the line will be used for the pre-financing of the following contracts:

1. In the context of the European Economic Recovery Plan (EERP) and of the political priority to be given to the measures put in place in this framework, it is of the outmost importance that the contracting of the Public Private Partnerships (PPPs) suffers no delay. The current crisis and the pressures on the EU economy highlight the need for a best use of the PPPs. This led the Commission to propose, with the agreement of the Member States, a bigger share of the PPPs in the 2012 Nanosciences, nanotechnologies, materials and new production technologies Programme, and lead to the acceleration of selection and contracting process as much as possible. As a result, the needs for the pre-financing of the PPP increase by EUR 105 million and will have to be satisfied in July-August.

2. The pre-financing for the projects of 4 calls. The amount of EUR 47.6 million is needed by the end of July to accelerate the contracting of these calls. This will also send a positive signal to the beneficiaries in the context of the current crisis and the need for the EU industry to get support for maintaining its effort in Research and Innovation. With the pre-financing to be paid in time the contractual obligations will be respected and delays in the Time-to-grant will be avoided.

In total, 67 projects (indicative figure) will benefit from this reinforcement.

In order to respect the contractual obligations on time, an additional EUR 152.6 million will be needed by July to pay the remaining part of the pre-financing, and interim and final payments to be paid until the end of the year.

Suspension of any payments will have an adverse effect on all beneficiaries and will lead to interests on late payments, thus damaging the image of the EU.

II. DECREASE

II.A

a) Heading

32 04 14 01 - Energy projects to aid economic recovery - Energy networks

b) Figures at 10/04/2012

	Payments
1A. Appropriation in budget (initial budget + AB)	544 350 645
1B. Appropriation in budget (EFTA)	0
2. Transfers	0
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3. Final appropriation for the year (1A+1B+2)	544 350 645
4. Utilisation of final appropriation	4 299 814
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5. Amount not used/available (3-4)	540 050 831
6. Requirements up to year-end	188 750 831
7. Proposed decrease	351 300 000
8. Decrease as percentage of appropriation in budget (7/1A)	64.54%
9. Decrease, as a percentage of the final appropriation for the year, in the sum of transfers referred to in Article 23(1)(b) and (c) of the Financial Regulation, calculated in accordance with Article 17a of the implementing rules	n/a

c) Receipts arising from recovery (carried over) (C5)

	Payments
1. Appropriation available at start of year	0
2. Appropriation available on the 10/04/2012	0
3. Rate of utilisation $[(1-2)/1]$	n/a

d) Detail grounds for the transfer

The transfer request is made in the framework of the revision of the estimations for the 2012 budget execution for the reasons explained below.

- Flexible/irregular payments schedule resulting from the legal acts:

The legal base for these EERP projects is the Regulation (EC) No 663/2009. The conditions for payments are set up by its implementing acts - Commission Decisions granting financial aid for each project. According to them the request for the final payment has to be introduced 9 months after the end date of the implementation period. They do not mention the pace of advanced payment and interim payments.

It should be noted that due to the characteristics of the EERP infrastructure projects, costs do not tend to occur steadily over time but in a couple of large batches over the duration of the project (e.g. procurement contract concluded, works achieved, etc.).

The duration of the implementation period for the 44 Commission Decisions varies from 18 months (from mid July 2009 to end 2010) to 7 years (from mid July 2009 to June 2016). On average the duration of a project is around 3-4 years.

- Lower implementation of payments than initially foreseen:

When the programme was established, the Commission services anticipated a higher level of advance and interim payments during the implementation of the projects. Some beneficiaries of infrastructure projects did not request pre-financing as expected, for reasons related to bank guarantees, environmental permits or formal decisions to invest. Some intermediate payments have also been delayed. Given that, as mentioned above, the costs for these projects do not occur steadily, some beneficiaries had to revise their payment schedules.

However, for gas and electricity infrastructures the level of disbursement should not be treated as an indicator in evaluating the implementation of the actions mentioned in the Commission Decisions. In fact, the implementation of the programme to date is considered satisfactory. Out of the 44 projects:

- 13 projects are completed and so far the final payments have been executed for 7 projects.
- 19 projects are progressing according to schedule.
- 12 projects are progressing slower than expected because of technical, regulatory and commercial difficulties.

The Commission is closely monitoring the implementation of the projects as technical reports are sent annually, meetings with beneficiaries are planned on a regular basis and external experts visit the projects whenever payments are requested. The Commission is putting special focus on the 3 important projects (NABUCCO, POSEIDON, GALSI) which have not yet finalised the commercial agreements for gas supply aiming at diversifying EU's gas imports through new routes and new sources. In addition, following the justified request of the beneficiaries, the implementation period of delayed projects has been extended to cover the eligible costs.

So far the envisaged decommitments are based on the final payments executed, because for certain projects the level of costs incurred was less important than that estimated when the Commission Decisions were prepared. This is mainly due to a procurement outcome which was more favourable than initially planned.

According to the forecast provided by the beneficiaries at the beginning of 2012, the amount to be spent in 2012 is estimated at EUR 174.6 million, which will result in a year-end under-execution of EUR 369.8 million. Of this amount, EUR 351.3 million can be used for the current transfer.

A further EUR 18.1 million can be used for financing the mobilisation of the European Solidarity Fund proposed by the Commission in the Draft Amending Budget 2/2012.

II.B

a) Heading

32 04 14 02 - Energy projects to aid economic recovery - Carbon Capture and Storage (CCS)

b) Figures at 10/04/2012

	Payments
1A. Appropriation in budget (initial budget + AB)	124 293 397
1B. Appropriation in budget (EFTA)	0
2. Transfers	0
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3. Final appropriation for the year (1A+1B+2)	124 293 397
4. Utilisation of final appropriation	9 933 713
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5. Amount not used/available (3-4)	114 359 684
6. Requirements up to year-end	40 959 684
7. Proposed decrease	73 400 000
8. Decrease as percentage of appropriation in budget (7/1A)	59.05%
9. Decrease, as a percentage of the final appropriation for the year, in the sum of transfers referred to in Article 23(1)(b) and (c) of the Financial Regulation, calculated in accordance with Article 17a of the implementing rules	n/a

c) Receipts arising from recovery (carried over) (C5)

	Payments
1. Appropriation available at start of year	0
2. Appropriation available on the 10/04/2012	0
3. Rate of utilisation [(1-2)/1]	n/a

d) Detail grounds for the transfer

The seven Carbon Capture and Storage (CCS) projects are delayed. None of them have adopted the Final Investment Decision and, therefore, the level of expenditure is lower than expected for several projects. The reasons for the delays are the following:

- Financing:

The business case for CCS has worsened as the prices of greenhouse gas emission allowances under the Emissions Trading Scheme (ETS) have halved since 2009 (i.e. since EEPR was passed). Consequently, projects' financing structures are more difficult to define. These are necessary steps before incurring such large expenditure outlays. Furthermore, three projects are still waiting for the results from the NER300 competition¹ (expected to be known in late 2012).

¹ http://ec.europa.eu/clima/policies/lowcarbon/ner300/index_en.htm

- Permitting

Projects need to obtain carbon dioxide (CO₂) storage permits before adopting the final investment decisions. The transposition of the EU CCS directive² will provide the framework for the permitting regime. However, the actual implementation of the directive is taking longer than expected. In Germany, the failure to transpose the directive in autumn 2011 led the project coordinator to file for the termination of the German CCS project.

The reasons mentioned above are beyond the direct control of the Commission. However, a communication looking at the challenges of the EU CCS demonstration programme is scheduled for autumn 2012.

There will be an under-execution of EUR 73.4 million out of the initial budget of EUR 124.3 million.

Estimates are based on the information provided by the beneficiaries. The latest enquiry dates from February 2012. The figures are conservative - but potential under-spending might still occur in the event of major obstacles arising (i.e. permitting, negative final investment decisions, etc.).

No decommitment is foreseen at this stage.

2 Directive 2009/31/EC of the European Parliament and of the Council of 23 April 2009.

II.C

a) Heading

32 04 14 03 - Energy projects to aid economic recovery - European offshore wind grid system

b) Figures at 10/04/2012

	Payments
1A. Appropriation in budget (initial budget + AB)	73 487 337
1B. Appropriation in budget (EFTA)	0
2. Transfers	0
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3. Final appropriation for the year (1A+1B+2)	73 487 337
4. Utilisation of final appropriation	1 856 230
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5. Amount not used/available (3-4)	71 631 107
6. Requirements up to year-end	34 831 107
7. Proposed decrease	36 800 000
8. Decrease as percentage of appropriation in budget (7/1A)	50.08%
9. Decrease, as a percentage of the final appropriation for the year, in the sum of transfers referred to in Article 23(1)(b) and (c) of the Financial Regulation, calculated in accordance with Article 17a of the implementing rules	n/a

c) Receipts arising from recovery (carried over) (C5)

	Payments
1. Appropriation available at start of year	0
2. Appropriation available on the 10/04/2012	0
3. Rate of utilisation $[(1-2)/1]$	n/a

d) Detail grounds for the transfer

Out of ten Offshore Wind (OWE) projects, one project is completed and others are well on track, although some are facing major delays. The reasons for the delays are the following:

- Delays of the guaranteed grid connection:

Transmission System Operators (TSOs) have delayed the grid connection of some of the EEPR wind farm projects, thus entailing delays in the installation schedule for these projects.

- Delays in the permitting process:

The licensing of the wind farms to be connected (as well as the co-financing to be obtained through the regulatory authorities) is the crucial hurdle to be overcome before the final investment decisions can be taken.

- Delays for technical reasons:

The development and design phases have been extended to strengthen the business case.

Consequently, tender procedures for the equipment and the commissioning contracts are being delayed accordingly.

The reasons mentioned above are beyond the direct control of the Commission. There is an on-going exchange of information with the stakeholders, encouraging them to duly address the “under-spending factors” in their own remit concerning each project.

There will be an under-execution of EUR 36.8 million out of the initial budget of EUR 73.5 million. The estimates are based on the information provided by beneficiaries. The latest enquiry dates from February 2012. At this stage, no further under-spending is foreseen for this year.

No decommitment is foreseen at this stage.

II.D

a) Heading

32 04 14 04 - Energy projects to aid economic recovery - Energy efficiency and renewable initiatives

b) Figures at 10/04/2012

	Payments
1A. Appropriation in budget (initial budget + AB)	43 548 052
1B. Appropriation in budget (EFTA)	0
2. Transfers	0
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3. Final appropriation for the year (1A+1B+2)	43 548 052
4. Utilisation of final appropriation	400 394
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5. Amount not used/available (3-4)	43 147 658
6. Requirements up to year-end	19 647 658
7. Proposed decrease	23 500 000
8. Decrease as percentage of appropriation in budget (7/1A)	53.96%
9. Decrease, as a percentage of the final appropriation for the year, in the sum of transfers referred to in Article 23(1)(b) and (c) of the Financial Regulation, calculated in accordance with Article 17a of the implementing rules	n/a

c) Receipts arising from recovery (carried over) (C5)

	Payments
1. Appropriation available at start of year	0
2. Appropriation available on the 10/04/2012	0
3. Rate of utilisation $[(1-2)/1]$	n/a

d) Detail grounds for the transfer

These are complex investments that require financial engineering and a strong due diligence process to comply with the commercial rules of the European Energy Efficiency Fund [EEEF] (in terms of return, risk assessment, etc.).

The ramp-up period of such a Fund offering new, innovative financing for energy efficiency is taking longer than initially expected.

Also, in view of the fact that the beneficiaries are public authorities, procurement has to be carried out (with fixed durations).

Therefore there will be an under-execution of EUR 23.5 million out of the initial budget of EUR 43.5 million.

The Fund Manager is actively engaged in promoting the Fund and its technical assistance (a website has been launched, conferences/workshops are organised, and a webinar session with relevant stakeholders such as the Covenant of Mayors). The Commission is in close contact with the European Investment Bank (EIB) and the Fund Manager to ensure proper roll-out of the investments.