COMMISSION OF THE EUROPEAN COMMUNITIES

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REPORT FROM THE COMMISSION

European Union Solidarity Fund
Annual report 2004

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INTRODUCTION

The European Union Solidarity Fund entered into force on 15 November 2002[1]. Article 12 of the Regulation provides that a report on the activity of the Fund in the previous year be presented to the European Parliament and to the Council. This, the second report, presents the activities of the Fund in 2004 covering four areas: the completion of the processing of a number of pending applications received in 2003, the treatment of new applications received in the course of 2004, monitoring of the ongoing implementation of grants, and the assessment of the implementation reports on the first grants made in 2002 with a view to preparing these for closure.

In addition, the report covers the preparatory work on a proposal of the Commission for a new Regulation on the Solidarity Fund for the period after the expiry of the current Financial Perspective in 2006.

1. PENDING APPLICATIONS RECEIVED IN 2003

In 2003, the Commission received 10 new applications to mobilise the Fund[2]. For three of these, the Prestige oil spill in Spain, and in Italy the Molise earthquake and the eruption of Mount Etna, grant decisions had already been adopted at the end of 2003 (8 December for the two Italian applications and 15 December for the Prestige case). The corresponding implementation agreements were signed by the two beneficiary States on 16 January 2004. The three grants were then paid out on 11 March 2004 as soon as the corresponding credits (committed already in 2003 at the moment the grant decisions were taken) had been carried over to the 2004 budget.

On 9 March 2004, the Commission took the following six decisions, five of which concerned applications already received in 2003:

The application from ***Greece,*** announced on 28 February 2003 and substantiated by information presented on 7 May and 30 September, resulted from unusual weather (heavy rainfall, storms, unusual snowfall) over the period from 11 December 2002 until the end of March 2003 and affected parts of all of Greece's regions. Additional information in accordance with the criteria in the Regulation was submitted by the Greek authorities on 7 May 2003 and 30 September 2003. Evaluation of this information revealed that the rule that requires applications to be presented within the deadline of 10 weeks after the first damage was recorded had not been respected. The Commission therefore decided that the application was inadmissible and informed the Greek authorities by letter of 14 April accordingly.

In September 2003, ***France*** presented an application, based on the extraordinary regional disaster criterion[3], relating to a series of forest fires which struck different

1 Council Regulation (EC) N° 2012/2002 of 11 November 2002 establishing the European Union Solidarity Fund, OJ L 311/3 of 14.11.2002, in the following referred to as "the Regulation".

2 For details see European Union Solidarity Fund Annual Report 2002-2003, COM(2004) 397 final of 26 May 2004

3 The criteria to mobilise the EU Solidarity Fund are defined in Article of Regulation 2012/2002, see Annex 2

parts of south-eastern France and the island of Corsica during July and August 2003. The Commission decided to reject this application because the conditions of the Regulation for applying the extraordinary regional disaster criterion had not been met. These conditions do not allow damage to be aggregated from unconnected areas, even where that damage has a common underlying cause. In addition, it was not demonstrated that any of the individual fires met the criteria imposed by the Regulation, in particular, in relation to the part of population affected and lasting repercussions on living conditions and economic stability. The French authorities were informed of this decision by letter of 7 April.

On 1 October 2003, the Commission received an application from ***Spain*** concerning a series of forest fires that had occurred in different locations during the summer. After discussions with the Commission, the Spanish authorities decided to revise their initial application on 14 November limiting it to those fires in provinces neighbouring Portugal. After evaluation of the information provided, the Commission decided that one of those fires met the "neighbouring country" criterion as it was considered to have been caused by the same major disaster that had previously been recognised for Portugal[4]. Following completion of the corresponding budgetary procedure, aid amounting to EUR 1.331 million was granted by decision of 10 June[5]. The implementation agreement was signed on 26 July and the payment was made on 6 September 2004.

On 10 November 2003, ***Malta*** presented an application relating to the disaster caused by a heavy storm and subsequent flooding that hit Malta on 15 September 2003. Although damages in absolute terms were rather limited (EUR 30.172 million) they were sufficient to exceed the threshold of 0.6% of Malta's GNI (€ 24.26 million). The disaster therefore qualified as a major natural disaster and the Commission decided on 30 April to grant aid amounting to EUR 961 220. Negotiations over the implementation agreement were completed only on 26 October 2004. The grant was then paid out within two weeks.

Italy presented an application on 6 November 2003 relating to a case of flooding in the Friuli Venezia-Giulia province at the end of August. Additional information was presented on 5 January 2004. The disaster concerned seven municipalities with a total of 11 400 inhabitants. The level of damage estimated by the Italian authorities totalled some EUR 525 million, but represented only 17% of the normal threshold for major disasters in Italy. The information submitted did not suggest that "serious and lasting repercussions on living conditions and the economic stability" of the region concerned had taken place. The Commission therefore decided to reject the application and by letter of 7 April informed the Italian authorities accordingly.

2. NEW APPLICATIONS RECEIVED IN 2004

In the course of 2004 the Commission received 11 new applications for Solidarity Fund assistance. Annex 1 gives a detailed overview of all cases.

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4 For details see Annual Report 2002-2003, p. 12 and p. 20;

5 For the determination of the amount of aid the Commission continued to apply the method described in the Annual Report 2002/2003 (pages 23-24), see Annex 3

The first application in 2004 was received from ***France*** on 26 January and concerned the severe flooding that affected several departments in the southern Rhone area in December 2003. The information provided by the French authorities claimed that the affected region covered a coherent area comprising the territory of 53 communes with a population of 295 000 inhabitants, two-thirds of which were considered to be directly affected by the disaster. Major damage to businesses, including the almost complete destruction of the two most important industrial centres of the region (Arles and Gard Rhodanien), were expected to have lasting repercussions on the economic stability of the region, including the permanent loss of some 4000 jobs in the area. The Commission concluded on 9 March that the conditions for mobilising the Solidarity Fund under the extraordinary regional disaster criterion were met and – following completion of the corresponding budgetary procedure - decided on 7 May to grant aid amounting to EUR 19.625 million. The implementation agreement was signed on 10 May and the aid was paid out on 7 July 2004.

On 3 June 2004, ***Spain*** applied for assistance relating to flooding in the province of Malaga during March. The disaster was claimed to have caused some EUR 73 million (only 2.5% of the normal major disaster threshold). Based on the information provided by the Spanish authorities the Commission concluded that the flooding met none of the conditions of the Regulation for extraordinary regional disasters (share of population affected, serious and lasting repercussions on living conditions and the economic stability of the region). On 14 July the Commission therefore decided to reject the application and informed the Spanish authorities of this decision by letter of 26 July 2004.

On 8 September ***Spain*** submitted a single application relating to eight forest fires that had occurred in different parts of Spain during the summer 2004. As total direct damage for the eight disasters taken together remained below the major disaster threshold the application was based on the extraordinary regional disaster criterion. Since Regulation 2012/2002 does not allow damage from several areas to be aggregated, the Spanish authorities presented on 4 October 2004 seven individual applications for the different fires, again based on the extraordinary regional disaster criterion. According to the information provided total direct damages for the individual fires varied from € 0.215 million to € 351.138 million. Analysis by the Commission services revealed that direct damage was limited and that the criteria in the Regulation regarding the share of population affected and regarding serious and lasting repercussions on living conditions and the economic stability of the affected regions were not met. The Commission therefore decided on 8 March 2005 to reject all seven applications and informed the Spanish authorities of this decision by letter of 18 April.

Slovenia applied on 20 September relating to a minor earthquake that had occurred in July in the north eastern part of the country causing damage estimated at EUR 12.5 million. Following a letter from the Commission services of 26 October, requesting more detailed information, Slovenia withdrew the application.

On 7 October ***Slovakia*** applied for assistance following flooding that had occurred in July/August. Damage was claimed to amount to EUR 29 million, representing less than 20% of the major disaster threshold of EUR 147.89 million applicable to Slovakia (0.6% of GNI). In its application Slovakia stated that only 0.7% of the population in the affected region was affected and that "no serious and lasting repercussions on living conditions and the economic stability of the region" were expected. The Commission therefore concluded that the criteria for exceptionally mobilising the Solidarity Fund were not met and decided on 16 February 2005 to reject the application. The Slovak authorities were informed of this decision by letter of 14 March 2005.

3. FINANCING

The six cases were dealt with by means of two amending budgets. The first three cases were grouped in Preliminary Draft Amending Budget (PDAB) 5/2003[6] which was approved in Autumn 2003. However, as the implementation agreements in all these cases could only be signed in January 2004, the resources granted by amending budget in 2003 needed to be transferred to 2004. Payments could finally be made on 11 March 2004. The remaining three cases were grouped in PDAB 5/2004[7]. The Budgetary Authority approved this amending budget quite rapidly so that the first subsequent grant decision could be approved by the Commission already on 30 April 2004. In all six cases, the amending budgets asked for commitment appropriations only. The necessary payment appropriations were provided from the budget line for the Cohesion Fund.

The amounts of aid in each case were determined on the basis of the standard method previously developed by the Commission (explained in detail in the annual report 2002/2003). The amounts of aid paid out in 2004 were the following:

Beneficiary	**Disaster**	**Category**	**Aid granted** (million EUR)
Spain	Prestige oil spill	regional	8.626
Italy	Molise earthquake	regional	30.826
Italy	Mount Etna eruption	regional	16.798
Spain	Forest fire (PT border)	neighbouring country	1.331
Malta	Flooding and storm	major	0.96122
France	Rhone flooding	regional	19.625
Total			**78.167220**

4. MONITORING

The Commission undertook monitoring visits to Portugal (forest fires) in April, and to Rome (Etna and Molise) in June. These visits were welcomed by the authorities concerned and provided the occasion to respond to technical issues such as those concerning eligibility of expenditure and control issues. They also allowed the Commission to gain an impression of the added value of the Solidarity Fund and to gather information on its implementation system.

6 SEC(2003)826 of 16 July 2003
7 EC(2004)269 of 9 March 2004

5. CLOSURES

Article 8 (2) of Regulation 2012/2002 states that no later than six months after the expiry of the one-year period from the date of disbursement of the grant, the beneficiary State shall present a report on the financial execution of the grant with a statement justifying the expenditure (hereinafter: a “validity statement”). At the end of this procedure, the Commission shall wind up the assistance from the Fund.

In 2004, the Commission received four implementation reports from Germany, Austria, the Czech Republic and France relating to the first Solidarity Fund grants of 2002.

The implementation report from ***Germany*** on the use of the Solidarity Fund grant of € 444 million was received on 25 June 2004. The validity statement and supplementary information on the implementation in the Land of Saxony, which was mainly affected by the disaster, was received on 13 October 2004. The report contains a list of all operations for each implementing body, indicating the type of operation. Germany reported that the total EUSF grant of € 444 million had been disbursed within the one-year period after the receipt of the aid. No aid was paid for operations prior to the date of the first damage. On the basis of the information received, the Commission accepted the declared expenditure as eligible. A detailed description of preventive measures has been provided in the report. The initial damage estimate in the application of € 9.068 billion compares to an “ex post” damage amount of € 10.6 billion. Germany confirmed that the operations detailed in the validity statement have not received a contribution from other Community or international sources of financing and that the expenditure was not covered by a third party. In Germany, the Federal Ministry of Finance was responsible for the coordination of the execution of the grant, which was carried out by a number of public bodies and regions. At the end of 2004, one out of the eighteen sub-statements of validity provided by the German authorities could not yet be accepted due to the absence of expenditure checks, which were envisaged for mid 2005. In this respect, the Commission asked for additional information and clarifications on 23 December 2004.

The implementation report and the validity statement from ***Austria*** with respect to the grant of € 134 million was received on 18 June 2004. Complementary information was submitted on 5 November 2004 und 15 November 2004. The report contains a list of all operations in the affected regions, classified by type of operation, the total amount of expenditure incurred and the amount of EUSF financing as well as a detailed description of preventive measures. Austria stated that the amount of damage initially estimated was confirmed “ex post”. On the basis of the information received, the Commission accepted the declared expenditure as eligible. No aid was paid for operations prior to the date of the first damage and all aid has been disbursed. The aid was disbursed within the one-year period after the receipt of the aid in Austria. The Austrian authorities confirmed that the operations detailed in the validity statement have not received a contribution from other Community or international sources of financing and that the expenditure was not covered by a third party. On 23 December 2004, the Commission wound up the assistance.

The implementation report and the statement of validity from the ***Czech Republic*** on the use of the grant of € 129 million was received on 17 July 2004. The Czech authorities submitted additional information on 15 November 2004. The implementation report contains a list of all operations, indicating the type of operation. No aid was paid for operations prior to the date of the first damage. On the basis of the description of the operations in the implementation report the declared expenditure is considered eligible. The report also provided a detailed description of preventive measures initiated. The initial damage estimate of CZK 70228 million (€ 2.341 billion) compares to an "ex post" damage amount of CZK 73142 million (€ 2.438 billion)[8]. The Czech authorities confirmed that the operations detailed in the validity statement have not received a contribution from other Community or international sources of financing and that the expenditure is not covered by a third party. The Centre for Foreign Assistance of the Ministry of Finance was responsible for the implementation of the grant. The Czech authorities indicated that the total amount of the grant has been disbursed within the one-year period after the receipt of the aid. After the end of the eligibility period, the National Fund's source account however contained a balance of funds not used, which consisted of funds transferred back from the implementing agencies, recoveries and generated interests. At the end of 2004, further clarifications regarding the information on the disbursement of the grant in the implementation report and the balance of Funds not used during the eligibility period were requested by the Commission.

The implementation report from ***France*** related to the grant of € 21 million received after the severe floods in the *département* of the Gard in September 2002. That report and the validity statement were received on 28 June 2004. Additional information was submitted on 12 November 2004. The report contains a list of all operations in the affected region, classified by type of operation, the total amount of expenditure incurred and the amount of EUSF financing as well as a detailed description of preventive measures. No aid was paid for operations prior to the date of the first damage and, apart from an amount of € 9.08, all aid has been disbursed. On the basis of the information received, the declared expenditure is considered eligible. The aid was disbursed within the one-year period after the receipt of the aid. The French authorities confirmed that the operations detailed in the validity statement have not received a contribution from another Community or international source of financing and that the expenditure is not covered by compensation for or reimbursement of damage provided by a third party. The initial damage estimate in the application amounted to € 834.5 million. An assessment of the total damages "ex post" resulted in an amount of € 830.6 million, i.e. € 3.9 million less. Article 10(2) of Regulation 2012/2002 states that, "In case of significantly lower valuation of the damage incurred, as shown by new elements, the Commission shall require the beneficiary State to reimburse a corresponding amount of the grant." In effect, the legislation requires the Commission to compare the final estimate of damages, in this case € 830.6 million, with the amount forecast by the beneficiary State and accepted by the Commission, and to make a judgement on whether or not there should have been a lower payment. In view of the requirement in the Regulation to submit the application for assistance from the Fund no later than 10 weeks after the first damage, it is clear that any indication of the damage at the date of application can

8 For the purposes of the Solidarity Fund the amounts in national currency are converted into EURO at the official exchange rate applicable at the moment of the application.

only be an estimate. The deviation of € 3.9 million in the initial estimate from the actual amount of damages amounts to less than 0.5 % of the damage. The Commission considers that such a deviation did not constitute a *"significantly lower valuation of the damage incurred"*. Consequently, it proceeded with the closure of the assistance. On 22 February 2005, the Commission wound up the assistance.

6. PREPARATION OF A NEW SOLIDARITY FUND REGULATION

The Commission Communication on the Financial Perspectives of 14 July 2004[9] proposed to bring together the various existing and envisaged crisis mechanisms at European level into a single "Solidarity and Rapid Reaction Instrument". During the second half of 2004 the Commission services worked intensively on the preparation of a legislative proposal. At the end of 2004 work was still in full progress[10].

CONCLUSIONS

In 2004 a total of 11 new applications were presented to the Commission none of which, on the basis of the evidence submitted, met the major disaster criterion. In effect, the Member States have been making increasing use of the extraordinary regional disaster criterion which is foreseen for exceptional circumstances.

The processing of cases presented in 2004 demonstrated that the conditions for a successful application under the extraordinary regional disaster criterion - which according to the Regulation are to be examined by the Commission "with the utmost rigour" – are relatively difficult to meet. A particular case is that of forest fires, where as a result of their very nature, the population directly affected tends to be rather limited. The condition by which at least half of the population in the area must be affected can rarely be met.

After analysis by the Commission, there was sufficient evidence for the approval of only one of the eleven applications arising in 2004.

As a matter of governance, this suggests that when reviewing the current Solidarity Fund Regulation, as stipulated by its Article 14, the eligibility criteria of the EUSF should being given particular attention. Such improvements should aim, in particular, to remove uncertainty regarding the possibility of assistance for certain kinds of disaster. This would allow Member States to be more selective in the cases submitted. In that way, the costs of preparing detailed applications would be reduced, as would the risk of unjustifiably raising expectations in the affected areas regarding support from the EUSF.

The Commission has found that the processing of requests relating to regional disasters necessitated in many instances additional detailed information from the applicant countries. In turn, this tended to add to the time necessary to complete the assessment of applications.

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9 COM(2004) 101.

10 Details on the legislative proposal presented on 6 April 2005 will be presented in the Annual report 2005

While it should be recalled that the Solidarity Fund is a re-financing instrument for emergency operations rather than an emergency instrument itself, delays between the disaster and the payment of the grant are relatively long. As long as the financing of the Fund remains outside the normal Community budget –thus requiring recourse to a full budgetary procedure in each case of mobilisation of the Fund – scope for reducing the time between receipt of a complete application and the grant payment is relatively limited.

The final reports on the first interventions dating back to 2002 and the subsequent winding up of these operations tended to confirm the significant impact and added value that the assistance from the Fund has had in the countries concerned. This relates both to the physical operations carried out on the ground and to the political benefits of solidarity among Member States in cases of real need. The final reports have also highlighted the positive impact that Solidarity Fund grants have had on the introduction of preventive measures aiming to avoid the recurrence of similar disasters.

Annex 1
European Union Solidarity Fund applications in 2004

Applicant Country	FR	ES	SI	SK	ES	ES	ES	ES	ES	ES	ES
Name and nature of disaster	France-flooding	Malaga flooding	Earthquake	Flooding	Forest fires Zamora	Forest fires Valencia	Forest fires Orense	Forest fires Minas del Riotinto	Forest fires Jaén	Forest fires Huelva	Forest fires Escacena del Campo
First damage date	1/12/03	27/03/04	12/07/04	30/07/04	17/07/2004	12/08/2004	24/07/2004	27/07/2004	26/08/2004	28/08/2004	30/06/2004
Application date*	26/01/04	3/06/04	20/09/2004	7/10/04	4/10/04	4/10/04	4/10/04	4/10/04	4/10/04	4/10/04	4/10/04
Major disaster threshold (m€)	3 066.255	3 066.255	139.615	147.893	3 066.255	3 066.255	3 066.255	3 066.255	3 066.255	3 066.255	3 066.255
Total direct damage (m€)**	785	73	12.50	29.07	0.215	5.462	0.975	351.138	78.172	28.804	15.009
Major/regional/ neighbouring disaster?	regional	regional	regional	regional	regional	regional	regional	regional	regional	regional	regional
Damage/threshold	25.6%	2.4%	9%	0.1%	0.007%	0.2%	0.03%	11.5%	2.5%	0.9%	0.5%
Cost of eligible emergency operations (m€)**	131.60	~	not clear	(23.170)	(0.215)	(4.007)	(0.752)	44.072)	(20.968)	(8.055)	(2.496)
Eligible cost/ total damage	16.8%	~									
Aid/eligible cost	14.91%	~									
Aid rate (% of total damage)	2.5 %	~									
Date of grant decision	7/05/2004	**rejected**	**application withdrawn**	**rejected**	**rejected**	**rejected**	**rejected**	**rejected**	**rejected**	**rejected**	**rejected**
Date of Implementation agreement	10/05/2004	~									
Amount of aid granted (m€)	**19.625**	0	0	0	0	0	0	0	0	0	0

* Registration of initial application at Commission

** As accepted by Commission

Annex 2
Criteria to mobilise the EU Solidarity Fund

Extract from Council Regulation 2012/2002:

"Article 2:

1. At the request of a Member State or country involved in accession negotiations with the European Union, hereinafter referred to as 'beneficiary State', assistance from the Fund may be mainly mobilised when a major natural disaster with serious repercussions on living conditions, the natural environment or the economy in one or more regions or one or more countries occurs on the territory of that State.

2. A '**major disaster**' within the meaning of this Regulation means any disaster resulting, in at least one of the States concerned, in damage estimated either at over EUR 3 billion in 2002 prices, or more than 0,6 % of its GNI.

By way of exception, a **neighbouring Member State or country** involved in accession negotiations with the European Union, which has been affected by the same disaster can also benefit from assistance from the Fund.

However, under exceptional circumstances, even when the quantitative criteria laid down in the first subparagraph are not met, a **region** could also 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 conditions and the economic stability of the region. Total annual assistance under this subparagraph shall be limited to no more than 7,5 % of the annual amount available to the Fund. Particular focus will be on remote or isolated regions, such as the insular and outermost regions as defined in Article 299(2) of the Treaty. The Commission shall examine with the utmost rigour any requests which are submitted to it under this subparagraph."

Annex 3
Determination of the amount of aid

A progressive system in two brackets is applied whereby a country affected by a disaster receives a lower rate of aid of 2.5% for the part of total direct damage below the "major disaster" threshold and a higher share of aid of 6% for the part of the damage exceeding the threshold. The two amounts are added up.

The threshold is the level of damage defined by the Regulation to trigger the intervention of the Fund, i.e. 0.6% of GNI or € 3 billion in 2002 prices. This element ensures that the relative capacity of a State to deal itself with a disaster is taken into account. It also ensures that for the same amount of damage relatively poorer countries receive more aid in absolute terms than richer ones. For extraordinary regional disasters the same method has been applied, meaning consequently that countries affected by those disasters, which by definition remain below the threshold, receive 2.5 % of total direct damage in aid.

Annex 4
Thresholds for major disasters applicable in 2004
(based on 2002 figures for Gross National Income)

(Million €)

Country		GNI 2002	0.6% of GNI	Major disaster threshold 2004*
AT	ÖSTERREICH	**216 343**	1 298.06	1 298.06
BE	BELGIQUE-BELGIË	**264 499**	1 586.99	1 586.99
BG	BALGARIJA	**16 332**	97.99	97.99
CY	KYPROS	**10 783**	64.70	64.70
CZ	ČESKA REPUBLIKA	**74 168**	445.01	445.01
DE	DEUTSCHLAND	**2 108 830**	12 652.98	3 066.26
DK	DANMARK	**180 333**	1 082.00	1 082.00
EE	EESTI	**6554**	39.32	39.32
EL	ELLADA	**141 571**	849.43	849.43
ES	ESPAÑA	**687 643**	4 125.86	3 066.26
FI	SUOMI/FINLAND	**139 374**	836.24	836.24
FR	FRANCE	**1527 794**	9 166.76	3 066.26
HU	MAGYARORSZÁG	**65 178**	391.07	391.07
IE	IRELAND	**104 691**	628.15	628.15
IT	ITALIA	**1 246 250**	7 477.50	3 066.26
LT	LIETUVA	**14 482**	86.89	86.89
LU	LUXEMBOURG (G-D)	**20 237**	121.42	121.42
LV	LATVIJA	**8 932**	53.59	53.59
MT	MALTA	**3 985**	23.91	23.91
NL	NEDERLAND	**435 501**	2 613.01	2 613.01
PL	POLSKA	**197 908**	1 187.45	1 187.45
PT	PORTUGAL	**126 076**	756.46	756.46
RO	ROMÂNIA	**4 8362****	290.17	290.17
SE	SVERIGE	**253 801**	1 522.81	1 522.81
SI	SLOVENIJA	**23 269**	139.62	139.62
SK	SLOVENSKÁ REPUBLIKA	**24 649**	147.89	147.89
UK	UNITED KINGDOM	**1 690 615**	10 143.69	3 066.26

* ~ € 3 billion in 2002 prices
** GDP (GNI not available)