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Annex to the

**Proposal for a Regulation of the European Parliament and of the Council
establishing the European Union Solidarity Fund**

IMPACT ASSESSMENT

{COM(2005) 108 final}

1. INTRODUCTION

The current European Union Solidarity Fund (EUSF) was created in response to the extraordinary flooding disaster that hit central Europe during the summer of 2002. In the aftermath of this disaster it became apparent that a solidarity-based response of the European Union going beyond the maximum use of existing Community instruments was required. On proposal of the European Commission, the Council adopted on 11 November 2002 the Regulation 2012/2002 establishing the European Union Solidarity Fund (hereinafter “the Regulation”). It entered into force on 15 November.

According to the Regulation the Fund may be mainly mobilised when a major natural disaster with serious repercussions on living conditions, the natural environment or the economy occurs. A major disaster is deemed to have occurred if the estimated cost of total direct damage exceeds € 3 billion in 2002 prices (i.e. € 3.118381 billion in 2005) or 0.6% of the gross national income of the State in question, whichever is the lower. In exceptional cases, the Fund can be mobilised for regional disasters that do not reach this threshold, if very specific criteria are met: an extraordinary disaster affecting the majority of the population of a region and having serious and lasting effects on its economic stability and living conditions. The EUSF aims to supplement public expenditure by the individual Member States for essential emergency operations.

This report by DG REGIO of the European Commission is designed to explain the rationale for replacing the existing by a new EUSF Regulation, the policy choices proposed, and the impacts of these policy choices. Consequently, this document relates to the rationale of enlarging the current EUSF in scope and to the proposed changes of the eligibility thresholds.

Finally, the legal drafting of the proposed EUSF Regulation has been reviewed and it contains a number of clarifications, such as the introduction of deadlines to allow a speedier aid payment or clearer provisions on financial control. These rather technical modifications, which aim to eliminate weaknesses of the current Regulation— already identified in the Commission report on the EUSF of May 2004¹, are not object of this impact assessment.

2. WHAT ISSUE IS THE POLICY EXPECTED TO TACKLE?

2.1. What is the issue expressed in economic, social and environmental terms?

Responding appropriately at EU level to major crises of a different than natural nature with the currently available instruments is extremely difficult or even impossible, as illustrated by industrial accidents like the Prestige oil spill or terrorists acts like the March 2004 Madrid bombing. Likewise, assistance from the EUSF in the event of a serious public health crisis - such as the spreading of a pandemic like

¹ REPORT FROM THE COMMISSION: European Union Solidarity Fund Annual report 2002-2003 and Report on the experience gained after one year of applying the new instrument, COM(2004) 397 final

SARS to Europe or caused by an accident of the Chernobyl type - which could easily surpass the response capacities of the individual States - is not possible at present.

Many of these events have either affected more than just one European country or were of such seriousness that assistance from other countries had to be called for. They have shown the need coordinated and efficient European action in order to effectively assist the citizens of the Union. They have also raised the issue to what extent the Union should demonstrate financial solidarity with an instrument, to which the whole Community contributes.

Major natural disasters within the Union have caused significant economic and environmental damages. In many cases, the socio-economic infrastructure of entire regions was disrupted and the natural and cultural heritage was damaged. Recent examples include in 2002 the floods in Central Europe (Germany, Austria, Czech Republic) creating direct damages of EUR 14.3 billion. In 2003 the earthquake in Molise (Italy) created direct damages of EUR 1.6 billion, the forest fires in Portugal created direct damages of EUR 1.3 billion and floods in the South of France created direct damages of EUR 785 million.

Technological disasters equally have the potential of creating significant damages. A recent example is the sinking of the oil tanker Prestige, which caused direct damages of EUR 436 million. Public health threats such as the detection of dioxin in food or avian influenza, which have affected European countries during recent years, have the potential of causing significant economic costs. The Madrid terrorist attacks, on the other have raised the question, whether the European Union should dispose of an instrument enabling it to show solidarity with the victims of terrorist attacks.

As regards the assessment of applications concerning natural disasters, more than two thirds of all applications for EUSF assistance so far presented by eligible States were based on the exceptional provision for mobilising the Fund (so-called "extraordinary regional disasters"). At the time when the existing EUSF Regulation was created, such applications were meant to be the exception and the Commission was requested to assess such applications with the utmost rigour. However, over time the relatively high eligibility thresholds for "major disasters", in particular for the bigger countries, have led to an inflation of applications for the exceptional mobilisation of the Fund for regional disasters, thus perverting the initial rationale of the EUSF.

Assessing the relatively great number of applications und the "regional disaster" criterion met with certain difficulties. Initial applications hardly contained sufficient information to verify the much more numerous and partly rather unclear requirements of this criterion. As a result, supplementary information had to be sought which in return led to prolonging the delays for scrutiny.

With an increasing number of aid applications for smaller regional disasters, there is a risk that Solidarity aid is spent not well-targeted, but simply as an additional expenditure with no real benefit. This would dilute the Solidarity effect of the instrument.

2.2. What are the risks inherent in the current situation?

The existing EUSF has repeatedly proven its usefulness in showing solidarity on the level of the EU in the aftermath of mainly natural disasters. The central risk inherent in the current situation is simple. It is that the EU does not dispose of an instrument to rapidly react to crisis situations and to show solidarity in the aftermath of other than natural disasters. This concerns in particular the consequences of technological and industrial disasters, public health threats and terrorist attacks.

3. What main objective is the policy expected to reach?

While non-natural disasters are not excluded the current Regulation reserves aid from the Fund "mainly" for natural disasters. This means that disasters other than natural can qualify for Solidarity Fund assistance but this requires a special justification. In fact, up to now only one disaster, the oil spill resulting from the sinking of the Prestige tanker, was of non-natural origin.

The main objective of the revised Solidarity Fund Regulation is to provide citizens with a European response in the event of major crisis situation resulting from natural disasters, industrial/technological disasters, public health threats and acts of terrorism by creating a single European Solidarity Fund instrument.

In line with the initial purpose for the creation of the Fund, the objective in terms of eligibility is to dispose of an instrument that allows to show practical solidarity with Member States and candidate countries by granting exceptional financial aid if these were the victims of disasters of such unusual scale that their own capacity to face up to them reached to their limits. It is only under these circumstances – reflecting the principle of subsidiarity - that the Fund should be mobilised.

4. WHAT ARE THE MAIN POLICY OPTIONS AVAILABLE ?

4.1. “No changes”

Under a “no policy change” scenario, the EU Solidarity Fund would continue to operate under the current Regulation. This means that aid can continue to be granted for major natural disasters and for extraordinary regional natural disasters. No EUSF aid would be possible for other crisis situations, such as public health threats and acts of terrorism, which do not meet the criteria of the current Regulation.

The Council will review the Regulation on the basis of a proposal by the Commission by 31 December 2006 at the latest.

4.2. New EUSF

The proposed EUSF Regulation would extend the possibilities for showing solidarity at European level, covering major crisis situations resulting from natural disasters (as before) as well as industrial/technological disasters, public health threats and acts of terrorism.

At the same time, solidarity actions would be focussed on major disasters and crisis situations. A “major” disaster would be defined, as today, in terms of total direct

damage in excess of an absolute or a relative threshold, whichever is the lower. In the new Regulation it is proposed to lower these from € 3 bn/0.6% of GNI to € 1 billion or 0.5% of GNI.

In addition, a new criteria would allow it to mobilise the Fund even if the quantitative criteria are not met. It is proposed that the Council may, by unanimous vote and upon a proposal by the Commission, recognise that a major disaster has occurred on the territory of an eligible State. This will allow to mobilise the Fund also for crisis situations where physical damage might be rather limited such as terrorist attacks or major public health threats thus allowing to pay for measures such as compensations to victims of terrorism or for mass vaccinations.

5. WHAT ARE THE IMPACTS EXPECTED FROM THE PROPOSAL AS COMPARED TO THE “NO CHANGES” SCENARIO ?

Widening of the scope

The main impact of an enlarged EUSF is the better responsiveness on the level of the EU to crisis situations other than natural disasters. Solidarity actions would be possible in the aftermath of other crisis situations such as industrial/technological disasters, public health threats and terrorist attacks.

Another likely impact might be on the budget. A Solidarity Fund enlarged in scope could lead to a higher overall aid level under the EUSF. The current overall spending ceiling of the Solidarity Fund of EUR 1 billion has effectively been used only to a very limited degree (for applications in 2002: EUR 728 million; for applications in 2003: EUR 107.08 million; for applications in 2004: EUR 19.62 million)

Concentration on major disasters

It is not possible to predict the occurrence of major disasters covered by the current Regulation. Therefore, the only possible way to predict a ‘no policy change’ scenario is to extrapolate the applications for disasters received up to now.

Until the end of February 2005 the Commission received a total of 26 applications to mobilise the Solidarity Fund. 6 of these applications were based on the main criterion of “major natural disaster” set out in Article 2 (1) first subparagraph of the Regulation. One application, relating to the 2003 forest fires in Spain, was based on the “neighbouring country” criterion set out in Article 2 (1) second subparagraph of the Regulation, while the remaining 19 applications, i.e. the majority of cases, were based on the “regional disaster” criterion set out in Article 2 (1) third subparagraph of the Regulation. Only one disaster, the oil spill resulting from the sinking of the Prestige tanker, was of non-natural origin. In each case the Commission had to assess whether the conditions in the Regulation for mobilising the Fund were met.

Extrapolating the past, it is likely that applications to mobilise the Fund for disasters below the “major disaster” threshold, which were intended to be the absolute exception, will continue to be the majority of cases. By focussing the policy on the genuine major disasters and abolishing the eligibility for regional disasters, the focus and effectiveness of the solidarity measures should be improved.

In addition, if the Regulation foresees for major disasters only a single decisive criterion for eligibility, i.e. the amount of damage caused, this would allow the Commission to complete its examination in a much shorter time. The experience in applying the current Regulation has shown that applications for exceptional mobilisation of the Fund required a much more detailed examination. Usually, additional information had to be requested from the applicant State which proved very time-consuming.

However, abolishing the possibility to grant aid for extraordinary regional disasters would mean that disasters of a relatively lower scale, which might however result in significant damages on a local/regional level, are not anymore covered by the instrument.

6. HOW TO MONITOR AND EVALUATE THE RESULTS AND IMPACTS OF THE PROPOSAL AFTER IMPLEMENTATION

The monitoring and evaluation requirements of the results and the impacts of the instrument remain unchanged in the proposal for a new Regulation.

Article 19 in the proposed new Regulation provides that a report on the activity of the Fund in the previous year be presented to the European Parliament and the Council. The report shall in particular contain information relating to applications submitted, grant decisions adopted and the winding-up of financial assistance granted.

Article 20 in the proposed new Regulation foresees that a review of the Regulation by the European Parliament and the Council on the basis of a proposal by the Commission by 31 December 2013 at the latest.

7. WHAT STAKEHOLDER CONSULTATION ARRANGEMENTS WERE MADE FOR THE IMPACT ASSESSMENT?

The Fund is essentially a financial mechanism to compensate public budgets for damage suffered. The potential beneficiary States are the Member States or countries involved in accession negotiations with the European Union. These are the main stakeholders.

The Commission's Solidarity Fund report presented in May 2004 addresses the main issues relevant for the new proposal, based on the experience gained with the current EUSF. This report, which was submitted to the Council and the European Parliament, was discussed with Member States in the Council on several occasions, including at an informal meeting organised by the Council's budget group in Ireland on 20 May 2004, organised by the Irish presidency, and at a formal budget Committee meeting on 3 June 2004.

Furthermore, the views expressed by the Council and the European Parliament on various occasions when the Commission had proposed to mobilise the current EUSF yielded relevant results reflected in the proposal.

8. COMMISSION DRAFT PROPOSAL

Against this background, the Commission proposes to improve the EU's responsiveness in facing major crisis situations. The new instrument – based on the subsidiarity principle - would be modelled around the current European Union Solidarity Fund (EUSF) but be widened in scope and concentrated on the major disasters and crisis situations.