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AMENDING LETTER No 1 TO THE PRELIMINARY DRAFT BUDGET 2010

STATEMENT OF EXPENDITURE BY SECTION
Section III - Commission

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Having regard to:

– the Treaty establishing the European Community, and in particular Article 272 thereof,

– the Treaty establishing the European Atomic Energy Community, and in particular Article 177 thereof,

– the Council Regulation (EC, Euratom) No 1605/2002 of 25 June 2002 on the Financial Regulation applicable to the general budget of the European Communities[1], as last amended by Council Regulation (EC) No 1525/2007[2], and in particular Article 34 thereof,

the European Commission hereby presents to the budgetary authority the amending letter No 1 to the Preliminary Draft Budget for 2010 for the reasons set out in the explanatory memorandum.

[1] OJ L 248, 16.9.2002, p. 1.
[2] OJ L 343, 27.12.2007, p.9.

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<u>STATEMENT OF EXPENDITURE BY SECTION</u>

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

1. INTRODUCTION

The Amending Letter No 1 (AL 1) to the Preliminary Draft Budget for 2010 (PDB 2010) covers the following:

– the mobilisation of additional funds for an amount of EUR 95 million in commitment and EUR 60 million in payment appropriations to support the Palestinian Authority and reconstruction efforts in Gaza;

– the need to consider the establishment of Bananas Accompanying Measures (BAM) in view of the possible trade agreement on bananas to be signed with Latin American Most Favoured Nation (MFN) suppliers that will affect that the preferential regime of ACP banana supplying countries;

– the mobilisation of additional funds for an amount of EUR 50 million in commitment appropriations and EUR 20 million in payment appropriations in view of a successful outcome of the December Copenhagen Climate Change Conference.

2. PALESTINE

2.1. Background

Although the Palestinian Authority (PA) saw its reliance on external funding decrease slightly in 2009, it continues to be highly dependent on donor funding. The European Neighbourhood and Partnership Instrument (ENPI) Palestine budget line delivers vital support to the Palestinian population, through contributions to the PA's recurring expenditures, in particular salary payments for employees in the medical and social sectors, social allowances for vulnerable families and funding of the fuel bill of the Gaza Power Plant. The PA expects the European Union to continue its regular and reliable contribution to recurrent expenditures and development programmes. This role is particularly crucial in Gaza, where the population is heavily dependent on external aid, especially at a time when recovery and reconstruction cannot start due to the continuation of the Israeli blockade.

The General Affairs and External Relations Council (GAERC) conclusions of 15 June 2009[3] confirmed that the EU "*will promote Palestinian state-building and intensify work in partnership with the PA towards further implementation of the Palestinian Reform and Development Plan. This will involve a broad range of areas including health, education, governance, customs, public financial management and the rule of law. The EU welcomes the PA's efforts to develop an effective and reformed security sector and will cooperate towards additional improvement in restoring law and order, countering terrorism, the implementation of a more comprehensive security strategy, developing an effective and reformed security sector and criminal justice system*". This will require important resources.

There are renewed hopes of progress towards peace in the coming months, partly linked to the new American administration and the priority given to the resolution of the conflict. The survival of the PA is crucial for the peace process, especially while the international community is maintaining its pressure on Israel to remain committed to the two-state solution.

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[3] Council of the European Union, document 11017/09 of 15.6.2009

A collapse of the PA would eliminate the only credible interlocutor with devastating consequences for the prospects of peace and for the long-standing investment in state building.

In light of the need to continue a realistic level of funding in 2010, taking account of the state of the Palestinian public finances as well as the restraints of Heading 4, the Commission proposes to increase the budget line "European Neighbourhood and Partnership financial assistance to Palestine, the peace process and UNRWA" in 2010 by EUR 95 million to reach EUR 270 million (it is EUR 300 million in Budget 2009), while also expecting appropriate additional assistance as pledged by other donors at the Conference at Sharm El-Sheik of 2 March 2009. The requested additional amount will be used in particular to assist the Palestinian Authority in its efforts of institution building in view of the future Palestinian state. The resulting level of funds available under ENPI will allow for a continued support of the PA in 2010 while at the same time approximating assistance for Palestine to a level more commensurate with the initial programming after a number of years of exceptional budgetary arrangements. The European Union funds disbursed under ENPI are complemented by assistance under thematic and crisis intervention programmes, especially for the reconstruction efforts in Gaza.

As regards payment appropriations, the Commission request an additional EUR 60 million on top of the amount requested in the 2010 PDB (EUR 175 million).

2.2. Budget lines, legal bases and remarks

The additional amount requested (EUR 95 million in commitment and EUR 60 million in payment appropriations in 2010) will be included under item 19 08 01 02 "European Neighbourhood and Partnership financial assistance to Palestine, the peace process and UNRWA" of title "External Relations", chapter 19 08 "European Neighbourhood policy and relations with Russia".

Item 19 08 01 02 European Neighbourhood and Partnership financial assistance to Palestine, the peace process and UNRWA

(EUR)

Appropriations PDB 2010		Letter of amendment No 1/2010		New amount	
Commitments	Payments	Commitments	Payments	Commitments	Payments
175 000 000	175 000 000	95 000 000	60 000 000	270 000 000	235 000 000

3. Bananas Accompanying Measures (BAM)

3.1. Background

The European Community's Common organisation of the market (CMO) in bananas has traditionally provided a preferential trade regime in favour of African, Caribbean and Pacific (ACP) exporters. This regime has been challenged since 1995 through the World Trade Organisation's (WTO) Dispute Settlement Mechanism, whose Appellate Body decisions have repeatedly ruled against the Community.

Since 1 January 2008, ACP bananas suppliers have duty and quota free access to the EC market in the framework of the Everything But Arms (EBA) Initiative and the (interim) Economic Partnership Agreements (EPAs).

To comply with the rulings of the WTO Appellate Body, the Commission has been negotiating a trade agreement on bananas within the framework of the Doha Development Agenda (DDA) ahead and in support of the completion of agricultural modalities and the full Doha Round. The ACP Group indicated its acceptance of such an agreement subject to a development-related assistance package for ACP banana suppliers.

The Special Framework of Assistance (SFA) for bananas, which operated since 1999 in twelve bananas exporting ACP countries[4], expired in December 2008. Despite the SFA, only certain countries are diversifying successfully or become competitive under current Most Favoured Nation (MFN) tariff rates. A reduction in tariff preferences is therefore expected to lead to additional adjustment requirements and efforts on the part of most ACP banana supplying countries.

A trade agreement on bananas is being negotiated with Latin American MFN suppliers that will reduce the preferential advantage enjoyed thus far by ACP banana supplying countries. As part of the overall deal the Commission intends to propose the establishment of Bananas Accompanying Measures (BAM) that will contribute to the necessary adjustment processes of traditional ACP banana exporters by supporting the adaptation and restructuring processes in mostly bananas-dependent areas. Hence, the BAM will be part of the package allowing for the expected MNF tariff rate reductions in the framework of the WTO.

3.2. Budget lines, legal bases and remarks

Once an agreement is in sight, the Commission intends to propose the Development Cooperation Instrument[5] (DCI) as legal basis of the BAM integrating it into the main instrument for development cooperation in line with the objective of harmonising external cooperation instruments. That will require an amendment to the DCI legal base and the creation of a new budget line. Hence, the financing of such measures is expected to be covered by the Community General Budget for the period 2010 to 2013. Although the exact amount will be known only once the final agreement is reached, its financing will require the use of part of the unallocated margin of Heading 4 and redeployment, the Commission proposes only to create the budgetary structure at this stage.

Article 21 06 07 — Bananas Accompanying Measures (BAM)

(EUR)

Appropriations PDB 2010		Letter of amendment No 1/2010		New amount	
Commitments	Payments	Commitments	Payments	Commitments	Payments
		p.m	p.m	p.m	p.m

4 Belize, Cameroon, Cape Verde, Côte d'Ivoire, Dominica, Grenada, Jamaica, Madagascar, St. Lucia, St. Vincent and the Grenadines, Somalia and Suriname. Cape Verde, Grenada, Madagascar and Somalia no longer export (significant volumes of) bananas to the EU.

5 Regulation (EC) No 1905/2006 of the European Parliament and of the Council of 18 December 2006 establishing a financing instrument for development cooperation (DCI).

4. CLIMATE CHANGE, FUNDING ADAPTATION AND MITIGATION IN DEVELOPING COUNTRIES

4.1. Background

The European Council conclusions of 18/19 June 2009[6] reiterated the importance of the establishment of an agreement on combating climate changes. "*The European Council took further steps towards forging the EU's position for the Copenhagen Climate Change Conference at the end of the year. It sent out a strong signal of its intention to maintain a driving role in this process and called on the rest of the international Community to play its full part in bringing about a successful and ambitious outcome at Copenhagen*."

For an international climate change deal in Copenhagen to be effectively limiting global average temperature increase below 2 degrees Celsius, a substantial reduction in the growth of greenhouse gas emissions in developing countries over the coming two decades will be crucial. Reducing collectively emissions by 15-30% below business as usual for the group of developing countries is the political corollary of developed countries reducing their emissions by 25-40% by 2020 compared to 1990. Undoubtedly, this will be very challenging, and will require a major international effort to finance it.[7]

The Commission has, in order to achieve this objective, identified actions for mitigation and adaption that it finds important to support. While benefits from adaptation actions are local or regional, the benefits of mitigation actions are also shared globally. Efficient adaptation is in the immediate interest of all affected countries.

It is therefore of utmost importance that the Community is in a position to mobilise additional resources as soon as an agreement is reached in the framework of the December 2009 Copenhagen Climate Conference, for the actions to start as soon as possible in 2010.

The proposed measures do not prejudge any future needs for the implementation of the provisions of the new international climate regime to be agreed at the Copenhagen Conference. However, sending a clear signal before Copenhagen that the funding, in particular for the Global Climate Change Alliance (GCCA), has been increased, improves the credibility of the initiative by showing that the interests of poor developing countries most affected by the impact of climate change are taken seriously in view of the final round of the negotiations.

4.2. Budget lines, legal bases and remarks

In order to ensure timely preparation for the implementation of a new international climate agreement, the Commission proposes to increase the resources of budget line 21 04 01 by an amount of EUR 50 million:

– EUR 25 million to support the further development of actions under the GCCA aimed at Least Developed countries (LDCs) and Small Island Developing States (SIDS);

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6 Council of the European Union, document 11225/09 of 19.6.2009

7 [The upcoming Commission communication (COM(2009)xxxx) titled "Stepping up international climate finance: A European blueprint for the Copenhagen deal" details the Commission's position on further aspects of the institutional architecture, governance and financing sources of the international "post-2012" climate regime.]

– EUR 25 million for support to low carbon development strategies in developing countries.

The level of additional payment appropriations is set at EUR 20 million.

Article 21 04 01 — Environment and sustainable management of natural resources, including energy

(EUR)

Appropriations PDB 2010		Letter of amendment No 1/2010		New amount	
Commitments	Payments	Commitments	Payments	Commitments	Payments
150 345 000	127 800 000	50 000 000	20 000 000	200 345 000	147 800 000

5. EFFECT ON THE HEADING 4 MARGIN

The requested additional commitments appropriations amount to EUR 145 million: EUR 95 million for Palestine and EUR 50 million for Climate Change, leaving a residual margin of EUR 75.8 million under the expenditure ceiling of Heading 4.

The requested additional payment appropriations amount to EUR 80 million: EUR 60 million for Palestine and EUR 20 million for Climate Change.

Part of the outstanding margin in commitment appropriations will be necessary to cover the budgetary implications of the expected agreements on bananas in the framework of WTO trade negotiations. The enclosed annex provides an assessment of the situation of Heading 4.

6. SUMMARY TABLE BY HEADING OF THE FINANCIAL FRAMEWORK

Financial framework Heading/subheading	2010 Financial Framework		PDB 2010		AL 1/2010		PDB 2010 + AL No 1/2010	
	CA	PA	CA	PA	CA	PA	CA	PA
1. SUSTAINABLE GROWTH								
1a. Competitiveness for growth and employment	12.388.000.000		12.769.410.253	10.982.271.303			12.769.410.253	10.982.271.303
1b. Cohesion for growth and employment	49.394.000.000		49.382.092.092	36.382.385.000			49.382.092.092	36.382.385.000
Total	**61.782.000.000**		**62.151.502.345**	**47.364.656.303**			**62.151.502.345**	**47.364.656.303**
Margin[1]			*130.497.655*				*130.497.655*	
2. PRESERVATION AND MANAGEMENT OF NATURAL RESOURCES								
Of which market related expenditure and direct payments	47.146.000.000		43.744.926.768	43.626.432.586			43.744.926.768	43.626.432.586
Total	**60.113.000.000**		**59.003.698.302**	**58.074.905.809**			**59.003.698.302**	**58.074.905.809**
Margin[2]			*1.109.301.698*				*1.109.301.698*	
3. CITIZENSHIP, FREEDOM, SECURITY AND JUSTICE								
3a. Freedom, Security and Justice	1.025.000.000		980.187.370	720.010.370			980.187.370	720.010.370
3b. Citizenship	668.000.000		649.265.000	639.717.500			649.265.000	639.717.500
Total	**1.693.000.000**		**1.629.452.370**	**1.359.727.870**			**1.629.452.370**	**1.359.727.870**
Margin			*63.547.630*				*63.547.630*	
4. EU AS A GLOBAL PLAYER[3]	**7.893.000.000**		**7.921.091.270**	**7.664.618.753**	**145.000.000**	**80.000.000**	**8.066.091.270**	**7.744.618.753**
Margin			*220.790.730*				*75.790.730*	
5. ADMINISTRATION[4]	**8.008.000.000**		**7.851.402.677**	**7.851.897.677**			**7.851.402.677**	**7.851.897.677**
Margin			*236.597.323*				*236.597.323*	
TOTAL	**139.489.000.000**	**134.155.000.000**	**138.557.146.964**	**122.315.806.412**	**145.000.000**	**80.000.000**	**138.702.146.964**	**122.395.806.412**
Margin			*1.760.735.036*	*12.168.075.588*			*1.615.735.036*	*12.088.075.588*

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

2 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).

3 The 2008 margin for Heading 4 does not take into account the appropriations related to the Emergency Aid Reserve (EUR 248,9 million).

4 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 80 million for the staff contributions to the pensions scheme.