

Research for REGI Committee – EU tools to respond to natural disasters

KEY FINDINGS

- Natural disaster events have increasingly profound impacts on both the public and private sectors and especially for the most vulnerable.
- The European Union has implemented multiple frameworks and guidelines for promoting disaster resilience and mitigating the impacts of climate change.
- Special tools and mechanisms of the EU to respond to natural disasters include, for example, the Union Civil Protection Mechanism (UCPM), the Emergency Aid Reserve (EAR), as well as the European Union Solidarity Fund (EUSF).
- Due to the COVID-19 pandemic, the scope of the EU Solidarity Fund was extended to cover losses incurred due to major public health emergencies.
- In 2021, the EUSF and EAR were merged into the Solidarity and Emergency Aid Reserve (SEAR) to provide funds for natural disasters, large public health emergencies and unforeseen events.



This study provides an analysis and assessment of EU tools to respond to natural disasters. Particular attention is paid to the European Union Solidarity Fund and the potential synergies and overlaps with other EU instruments including the Emergency Aid Reserve, the EU Civil Protection Mechanism as well as Cohesion Policy. Also, the recent modifications to the EUSF including the extension to address major public health emergencies as well as the modifications linked to the 2021-2027 programming period are examined. Based on this assessment, policy recommendations are put forward.

The present document is the executive summary of the study on EU tools to respond to natural disasters. The full study, which is available in English can be downloaded at: <http://bit.ly/3Fu81Xv>

The number of natural disaster events as well as their associated losses have been increasing in Europe over time. Importantly, such disaster events can have profound impacts on both the public and private sector and especially for the most vulnerable. In addition, natural disaster events can also cause large opportunity costs including the reduction of planned spending for development projects or a deterioration in a country's fiscal position and debt situation. Enhancing disaster resilience can support the mitigation of these disaster impacts. Resilience can be understood as multi-dimensional including physical, social, financial, human and natural resilience components, which can complement each other. Increasing resilience can take the form of structural measures (e.g. physical constructions such as dams against flooding, or building earthquake resistant houses) as well as non-structural ones (e.g. early warning systems, or risk awareness education). The European Union has special tools and mechanisms to respond to natural disasters enhancing resilience including the Union Civil Protection Mechanism (UCPM), the Emergency Aid Reserve (EAR), the European Union Solidarity Fund (EUSF) as well as the Cohesion Policy.

The EAR and the EUSF belong to the so-called special instruments which ensure the flexibility of the EU budget and which enable the EU to mobilise the necessary funds to react to unforeseen events. As these instruments can solicit additional financial support, they are above the expenditure ceilings of the long-term budget. Nevertheless, the amounts reserved for flexibility instruments cannot surpass their own resources ceiling. In the latest EU long-term budget plan – the Multiannual Financial Framework 2021-2027 – one important change made to the existing tools in the disaster response context was merging the EUSF and EAR into the new Solidarity and Emergency Aid Reserve (SEAR). This study examines the advantages and disadvantages of this change as well as the changes made in 2020 to extend the EUSF to cover losses incurred due to major public health emergencies such as the COVID-19 pandemic. Additional issues addressed are related to other instruments, such as the Union Civil Protection Mechanism and the Cohesion Policy.

Extending the scope of the EU Solidarity Fund to include major public health emergencies

Due to the COVID-19 pandemic and as a part of the EU coordinated package responding to it, the scope of the European Union Solidarity Fund was extended by a modifying regulation which was adopted on 1 April 2020. EUSF contributions to help states cope with public health emergencies have accumulated to around EUR 530 million of assistance since 2020. We found that given the COVID-19 pandemic and the high disbursements that significantly depleted the EUSF, the need for assistance from the EUSF in the event of a natural disaster would be much higher due to the decrease in fiscal resources as a result of the COVID-19 pandemic. Meanwhile the available funding from the EUSF would be significantly lower. We, therefore, conclude that support for natural disasters and large-scale public health emergencies from the same fund is diametrically opposed to the concept of solidarity, as the two are inextricably linked. When a public health emergency occurs, resources are drawn from the EUSF while at the same time the need for assistance from the EUSF increases in countries affected by a disaster. At the same time, the risk increases that the EUSF will not be able to provide the appropriate assistance (and vice versa) due to limited funding availability. With respect to the capitalization of the EUSF, we showed that the past performance of the EUSF does not indicate adequate capitalization and that several plausible scenarios of past weather events in the EU outermost regions could put the EUSF under severe pressure. Therefore, a significant change in the capitalization of the EUSF would be required to address pay-outs for hazards in the outermost regions and for hazards occurring simultaneously in continental Europe, such as flooding.

Merging the EUSF and EAR under the new MFF 2021-2027 to create the Solidarity and Emergency Aid Reserve

Under the new MFF 2021-2027, the SEAR is responsible for both the former EUSF coverage and EAR obligations. As shown in our study, the new distribution of the fund is now very complicated, missing flexibility and causes dangers to receive necessary resources given large events happened in previous years. We conclude that merging the EUSF and the EAR into SEAR significantly increases the uncertainty of possible capital shortfalls for the EUSF and makes it virtually impossible to determine adequate funding requirements for solidarity in the event of current and future natural disasters. This brings us to one of the most important findings of the study: The risk of losses due to natural disasters is measurable. This is not the case for major public health emergencies and emergencies as set out in the EAR.

More specifically, contingent liabilities due to natural disasters and severe public health emergencies and emergencies covered under the EAR are different in nature, including the assessment of potential cost. Therefore, they should not be managed with the same tool. We argue that, particularly in the case of natural disasters, there is an untapped potential to transform these contingent liabilities into direct obligations that can then be incorporated into EU budgetary practice. Natural disasters, while inherently random, can be assessed using probabilistic approaches, and losses can be quantified in the necessary detail. If this were not the case, there would be no form of insurance for natural disaster risk. In contrast to natural disasters, the assessment of risks associated with public health emergencies such as the COVID-19 pandemic is of a very different nature, particularly with respect to the possibility of detailed probabilistic assessment. Compared to natural disasters, such large-scale public health emergencies or emergencies as defined in the EAR are more difficult to quantify and may be considered more unpredictable (at least from a quantitative risk perspective). They should, therefore, be addressed accordingly through a flexible budget or tools, such as the dedicated instruments.

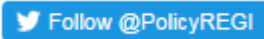
Policy recommendations and links with other EU instruments and mechanisms

Based on our analysis, we recommend separating the EUSF from coverage of large-scale public health emergencies and emergencies covered under the EAR. In addition, we recommend establishing a new flexibility instrument to cover public health emergencies as well as EAR emergencies, as they are unpredictable and therefore require a more flexible approach. Given the measurability of the risk of losses due to natural disasters, we also recommend that the EUSF be incorporated into the MFF to more clearly link it to risk reduction efforts, including the ability to make successes more tangible. Due to the availability of advanced risk assessment approaches for hazards in Europe, it is also recommended that capitalization levels be estimated based on the risk to which the EUSF is exposed now and in the future. In the event that no changes are made to the SEAR, we recommend that the budget allocation and payment rules of the SEAR be further clarified through amendment documents. Specifically, we propose improving the flexibility of the SEAR by allowing repayment of overdrafts through annual surplus. We also suggest implementing risk mitigation and awareness programs under the UCPM and Cohesion Policy that can be linked to the EUSF. The link between the EUSF and possible other disaster risk reduction tools can be made through various cohesion policy investments, particularly reducing risk and building back better that could reduce the future need for the EUSF.

Further information

This executive summary is available in the following languages: English, French, German, Italian and Spanish. The study, which is available in English, and the summaries can be downloaded at: <https://bit.ly/3Fu81Xv>

More information on Policy Department research for REGI: <https://research4committees.blog/regi/>



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