Protection of the Communities' financial interests - Fight against fraud - Annual report 2007

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The Committee on Budgetary Control adopted an own-initiative report drawn up by Antonio DE BLASIO (EPP-ED, HU) on the protection of the Communities' financial interests and the fight against fraud - Annual report 2007.

The report notes that in the areas of own resources, agricultural expenditure, structural actions and direct expenditure, irregularities notified in 2007 totalled EUR 1.425 billion (compared to EUR 1.143 billion in 2006).

The committee welcomes the efforts already made by the Member States but stresses once again that they should ensure the adequacy of their financial control mechanisms and emphasises **the importance of preventive action** by the Member States in order to increase the detection of irregularities before any payment is effectively made to the beneficiaries. MEPs emphasise the need for greater harmonisation of methods for collecting and using information, with the aim of providing a standardised framework for evaluating more efficiently the risk of fraud as part of an intensified prevention strategy.

Own resources: the report notes that the estimated amount affected by irregularities rose by 6% and that the products most affected by irregularities were, as in previous years, televisions and cigarettes. MEPs deplore the delay in adopting the proposal for a regulation on mutual administrative assistance for the protection of the financial interests of the European Community against fraud and any other illegal activities, as well as the proposal for a regulation amending Regulation No 1798/2003 to combat tax evasion connected with intra-Community transactions. They therefore invite the Council promptly to adopt the regulation.

MEPs stress that new political impetus is needed in order to achieve substantial improvements in cooperation in the fight against VAT fraud. The Commission is called upon to undertake a specific assessment of the potential for fraud, by product and by country, taking into consideration the possibility of carrying out systematic, targeted and, where appropriate, permanent, checks both in the country of origin and the country of destination, paying particular attention to the phenomenon of carousel fraud.

Agricultural expenditure: the report noted that the estimated amount affected rose by 44% and that the sectors most affected were milk and milk products, fruit and vegetables, sugar, rural development, beef and veal. MEPs call on OLAF to pay special attention in its next annual report to the irregularities affecting rural development, which represents alone about 38% of all irregularities reported.

The Commission is called upon to evaluate the efficiency and transparency of monitoring systems relating to payment of farmers in the context of its next annual report.

Structural actions: the report acknowledges that irregularities in the use of EU funds relating to mismanagement and sometimes even fraud occur in a large number of Member States. In this context, MEPs endorse the Commission's position in taking corrective action in the event of the detection of irregularities of a serious nature, including the suspension of payments and the recovery of undue or erroneous payments.

While acknowledging that effective absorption of the Structural Funds has posed significant challenges, especially for the new Member States, MEPs welcome the efforts made by these Member States to improve their implementation capacity and invites them to step up that work.

The report calls on the Commission and the Member States to work methodically to provide advice on ways of avoiding irregularities and administrative errors and failings. The Commission is called upon to simplify further the management and monitoring procedures of the Structural Funds programmes.

Moreover, MEPs are shocked by the lack of reporting discipline of the Member States after a number of years. They find it unacceptable that six Member States still do not use electronic reporting, 14 failed to comply with the reporting deadlines and some did not classify any of their reported cases of irregularities. They urge the Commission to find effective solutions, besides infringement proceedings, to address the situation, and invite the Commission to seriously consider establishing an effective financial sanctions system to be integrated in the future regulations, and to implement it systematically.

Pre-accession funds: the report notes that although the number of irregularities decreased, their financial impact increased by 2.2 times, and the financial impact of suspected fraud increased by 3 times, largely due to "non-eligible" expenditures.

MEPs stress that the insufficient quality of reported information remains an outstanding problem, as well as timely reporting. They therefore call on the Member States concerned to cooperate with the Commission to find ways to remedy this situation.

Recoveries: MEPs regret that recovery rates are still low, especially in sectors where Member States manage recoveries (according to the OLAF report, currently about EUR 3.75 billion in recoveries are still pending). The Commission is called upon to explore the possibility of introducing a system of surety, such as by putting a certain amount into a reserve or earmarking it, to speed up the recovery of outstanding amounts.

OLAF's relationship with Europol and Eurojust: MEPs feel that it is crucial to create a solid basis for operational and intelligence synergies with Eurojust and Europol, for example by means of a common operational and intelligence team, as this would certainly bring added value to the fight against fraud. The currently overlapping competencies of these bodies should be clarified.

OLAF's cooperation with Member States: MEPs support the major aim of the proposal for a regulation amending Regulation (EC) No 1073/1999 concerning investigations conducted by the European Anti Fraud Office (OLAF) of strengthening OLAF’s independence. They recall, however, the importance of interlinking the work and results of OLAF, the Commission’s services and the Member States’ authorities by effective communication channels avoiding duplication of work and lack of information.

The report stresses the need for clearer provisions on procedures and binding time limits for competent authorities in providing the assistance required and generally more binding provisions for cooperation identifying the national authority competent to provide assistance. The Commission is called upon to take appropriate measures, including infringement proceedings, against those Members States which do not assist its services in carrying out on-the-spot checks.

The anti-Fraud coordination service for OLAF in the Member States which acceded to the EU after 2004 are very important information/contact points for OLAF. The report notes, however, that so long as these offices are not independent from the national administration, their functional added value is minimal. It therefore invites the Commission to make a proposal to the relevant committee of Parliament about making the work of these offices more valuable and also considers it necessary to improve collaboration with the candidate countries.

Tobacco - Agreement with Philip Morris: MEPs regret that the Commission was unable to provide a comprehensive report on the follow-up to Parliament's resolution of 11 October 2007 on the implications of the agreement between the Community, Member States and Philip Morris on intensifying the fight against fraud and cigarette smuggling and progress made in implementing the recommendations of Parliament's Committee of Inquiry into the Community Transit System, and in particular paragraph 49 thereof, which explicitly asked the Commission to publish such a report by the end of 2008. MEPs expect that the Commission will come forward with this report before the end of the discharge procedure for the financial year 2007.

Organised crime: MEPs welcome the publication of the Communication from the Commission of 20 November 2008 on proceeds of organised crime, which deals with the confiscation and recovery of crime. They agree with the Commission that confiscation is one of the most effective ways to fight organised crime and that measures should be put in place in order to increase the limited number of confiscation cases and the modest amounts recovered.

The report stresses that it is essential to have in place expedient and effective mechanisms to freeze and confiscate assets abroad and therefore a recasting of the existing EU legal framework should be considered. It reiterates its call on the Commission to provide Parliament with a detailed analysis of the system or systems used by organised crime to undermine the Communities' financial interest.