Resolution on the protection of the European Union’s financial interests – combating fraud – annual report 2021

2022/2152(INI) - 19/01/2023 - Text adopted by Parliament, single reading

The European Parliament adopted by 459 votes to 33, with 56 abstentions, a resolution on the protection of the European Union’s financial interests – combating fraud – annual report 2021.

Members recalled that 2021 was a challenging year in which the impact of the COVID-19 pandemic required the adaptation of control strategies and a focus on prevention through specific mitigating measures and targeted actions to detect irregularities and fraud.

In 2021, EU funding was available under the Multiannual Financial Framework (MFF) 2014-2020, under the MFF 2021-2027 and under NextGenerationEU (NGEU). Together with NGEU, the new MFF 2021-2027 provides the EU with EUR 1.8 trillion. The unprecedented increase in EU spending under the 2021-2027 MFF and the NGEU recovery plan poses significant risks, including the possibility of misuse of funds by organised criminals.

Members consider that a high level of scrutiny and control is needed to ensure that EU funds contribute to the common goals of the Union in the best possible way. They called for increased levels of digitalisation, interoperability of data systems and harmonisation of reporting, monitoring and auditing across the Union. They called on the Commission to:

- harmonise definitions so that comparable data can be obtained across the EU;

- present a legislative proposal on mutual administrative assistance in those areas of EU funds spending which do not currently provide for this practice;

- **develop a system of information exchange** between the competent authorities to allow cross-checking of accounting documents relating to transactions between two or more Member States in order to avoid transnational fraud in the area of the European Structural and Investment Funds (ESI Funds) and thus ensure a horizontal approach to the protection of the EU's financial interests.

Fraudulent and non-fraudulent irregularities detected

Parliament noted that the number of cases of fraud and irregularities reported by the competent EU and national authorities – 11 218 in total – **remained stable in 2021** relative to 2020 (when there were 11 755 cases overall). The value involved in these irregularities rose significantly, more than doubling (+121 %) from EUR 1.46 billion in 2020 to EUR 3.24 billion in 2021, due to a small number of large cases in certain Member States.

The vast majority of reported irregularities were detected during ex post controls. Therefore, on average, two and a half to three years elapse between the time when irregularities are committed and the time when they are reported to the Commission.

Major threats

Members are concerned by the increasing threat to the EU budget posed by **organised crime**, including mafia-type organisations and oligarchic structures. Fraud affecting European funds is increasingly taking on transnational dimensions as criminal organisations take advantage of the heterogeneity of legal systems to engage in fraudulent activities. Parliament therefore called on the Commission to **harmonise Member States' criminal law** and reiterated its calls for the revision of Council Framework Decision 2008/841 /JHA on the fight against organised crime and its position on the need to establish a new common definition of organised crime that takes into account the latest developments.

Members stressed that timely cooperation between national law enforcement authorities, as well as between such authorities and the relevant EU agencies and bodies, is a key component of an effective response to transnational crime to protect the EU's financial interests. To effectively fight corruption and protect the financial interests of the Union, the Commission should adopt a **consistent approach to transparency, incompatibilities, illegal lobbying, revolving-door situations and conflicts of interest**, while also strengthening internal control mechanisms.

Furthermore, Members considered that **offshore companies and organisations** that involve offshore companies and organisations in their ownership structures should be excluded from the use of EU funds.

Revenue

Parliament observed that, for TOR and compared to the five-year average, in 2021 the number of irregularities remained stable while the amounts affected increased by 32 % for fraudulent irregularities and 13 % for non-fraudulent irregularities. **China** remained the country of origin for most goods affected by irregularities. The Commission is called on to adopt countermeasures and deploy them intensively to address unfair trade.

The EU and its Member States are called on to **join forces in tackling missing trader intracommunity VAT fraud**, which, according to Europol, costs EUR 50 billion annually in tax losses or up to 27 % of the annual EU budget. Members believe that this measure would significantly increase the resources available for EU policies and reduce the annual contributions of the Member States to the EU budget.

Expenditure

Parliament remarked that that the **level of controls and audits on expenditure remained high**, and that the measures put in place to mitigate the risks arising from the pandemic-related constraints on audits and controls were robust and effective.

For **agriculture**, the report notes that the analysis in the PIF Report 2021 confirms a very low incidence of reported fraud in proportion to disbursements for direct payments, with the highest level observed for market measures in the fruit and vegetable sector and related to the promotion of agricultural products. It notes, however, the progressive increase in fraudulent irregularities in **rural development** related to the 2014-2020 programming period.

Parliament noted that the financial amounts involved in fraudulent irregularities related to **cohesion policy** have increased by 186% compared to the five-year average for the period 2017-2021. It noted with concern that, for the ESIFs, the majority of fraudulent irregularities in the area of ethics and integrity concerned **conflicts of interest**. Member States should ensure that strict rules against conflicts of interest are in place.

Members stressed the importance of addressing the lack of information on the owners or ownership structure of companies or groups of companies in order to make the current distribution of funds more transparent.

External dimension of the protection of the EU's financial interests

More attention should be given to the **control of funds for assistance in non-EU countries** under the Neighbourhood, Development and International Cooperation Instrument (NDICI-Global Europe). This is especially important in the light of the COVID-19 pandemic and the EU's response to the war in Ukraine. The Commission is invited to update the fraud declaration system for funds spent in countries outside the EU.

Members recommend the **suspension of budgetary support in non-EU countries**, including candidate countries, where authorities manifestly fail to take genuine action against widespread corruption, while ensuring that the assistance reaches the civil population through alternative channels.

Lastly, Parliament emphasised the role of the **European Public Prosecutor's Office, Eurojust, Europol and OLAF** in the fight against corruption. It called on the Commission and the Member States to strengthen their cooperation in order to enable the full implementation of the European Public Prosecutor's Office's mandate. Regretting that the participation of Member States in the European Public Prosecutor's Office is not obligatory, it called on those Member States that have not yet done so to join the European Public Prosecutor's Office as soon as possible.