Fight against fraud and protection of the Community's financial interests. Working programme 1997-1998, 1996 Report

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OBJECTIVE: the seventh annual report by the European Commission on the protection of financial interests and the fight against fraud assesses all the action taken in this field. This 1996 report also seeks to summarize the progress made since the new Commission strategy was implemented in 1994 and to highlight future prospects and priorities. CONTENT: according to the annual report by the European Commission, irregularities (affecting income and expenditure) detected by the Member States and the Commission totalled ECU 1.3 billion in 1996, out of a total budget of ECU 82 billion. In comparison, the figure for 1995 was ECU 1.1 billion. Over the year as a whole, some 4,500 cases were detected by the customs and financial services of the Member States and by the European Commission anti-fraud unit (UCLAF). - With regard to traditional own resources (VAT, customs duties and agricultural duties), irregularities accounted for 5.8% (ECU 787 million) of traditional own resources collected by the Member States in 1996 on behalf of the Community (approximately 2,000 cases). This impact has risen from 3.6% in 1995 and applies, for example, to cases of major organized fraud, cigarette smuggling or VAT fraud on computer parts sold between companies in different Member States. - With regard to expenditure which passes through the Member States (i.e. over 80% of expenditure from the Community budget, including the common agricultural policy and structural actions), overall fraud accounted for 0.7% (ECU 498 million) of total funding granted, i.e. approximately 2 400 cases. In the case of expenditure managed directly by the Commission (15% of the budget), this impact was 0.1% (ECU 16 million) of the payments granted. The Commission detected irregularities in all decentralized Mediterranean cooperation programmes. In agriculture, the move towards a greater proportion of aid paid directly to farmers has resulted in an increase in the number of cases detected, while the sums communicated have remained relatively stagnant. With regard to structural policies, there was both a considerable increase in the number of cases compared with 1995 and the sums involved rose fourfold as the result of the implementation in 1996 of practical methods for Member States to communicate information on fraud. In addition, with regard to structural actions, fraud relating to subsidies affects both Community contributions and national cofinancing. The Commission emphasizes that fraud against Community finances also has a direct impact on national financial interests. In cigarette smuggling, for example, the overall impact in 1996 from transit system fraud was ECU 800 millions (customs duty, excise, VAT), 25% of which represented customs duties for the benefit of the Community. The lion's share (75%) is borne by national budgets. In the case of alcohol, excise fraud in intra-Community traffic results in considerable losses of tax revenue, to the detriment of national interests (ECU 450 million in 1996). The Commission notes that a small number of cases (2-3%) account for the most important instances of fraud and most of the sums at stake (over 2/3). This phenomenon demonstrates the existence of well organized crime to which frontiers are no object and which organizes carousels, sets up financial operations and launders the income from its activities via "front" companies using banking networks spread over numerous financial centres both inside and outside the Community. The Community is in a better position to intervene in order to collect information and launch the operations needed against transnational fraud. The results achieved on the ground by Community teams (especially task groups) benefit both Community and national finances. Some 4,000 calls were logged on the freephone number in 1996, 42 of which resulted in investigations. The Commission considers that if emphasis is to be placed on operational measures within the framework of the overall problem of the fight against fraud, preventive action is one of the best ways of protecting public finances. It reiterates that the fight against fraud is, first and foremost, the responsibility of the Member States, which alone have the means needed to fight fraud

through their various financial police services. However, it is essential that the Commission coordinate action and intervene on the ground in areas in which it is able to provide added value, especially in the case of transnational fraud and major financial crime.