Basic information

2005/2184(INI) INI - Own-initiative procedure	Procedure completed
Protection of the financial interests of the Communities, fight against fraud. 2004 annual report **Subject** 8.70.04 Protecting financial interests of the EU against fraud	

Key players

European Parliament

Committee responsible	Rapporteur	Appointed
CONT Budgetary Control	BÖSCH Herbert (PSE)	12/09/2005

Committee for opinion	Rapporteur for opinion	Appointed
BUDG Budgets	The committee decided not to give an opinion.	
IMCO Internal Market and Consumer Protection	The committee decided not to give an opinion.	
REGI Regional Development	The committee decided not to give an opinion.	
AGRI Agriculture and Rural Development	The committee decided not to give an opinion.	

Council of the European Union

Council configuration	Meetings	Date
Agriculture and Fisheries	2685	2005-10-24

European Commission

Commission DG	Commissioner
European Anti-Fraud Office (OLAF)	

Key events

Date	Event	Reference	Summary
		COM(2005)0323	Summary

19/07/2005	Non-legislative basic document published		
24/10/2005	Resolution/conclusions adopted by Council		
27/10/2005	Committee referral announced in Parliament		
15/05/2006	Vote in committee		Summary
16/05/2006	Committee report tabled for plenary	A6-0185/2006	
15/06/2006	Decision by Parliament	T6-0277/2006	Summary
15/06/2006	Results of vote in Parliament		
15/06/2006	Debate in Parliament		
15/06/2006	End of procedure in Parliament		

Technical information	
Procedure reference	2005/2184(INI)
Procedure type	INI - Own-initiative procedure
Procedure subtype	Initiative
Legal basis	Rules of Procedure EP 55
Stage reached in procedure	Procedure completed
Committee dossier	CONT/6/31124

Documentation gateway

European Parliament

Document type	Committee	Reference	Date	Summary
Committee draft report		PE371.907	29/03/2006	
Amendments tabled in committee		PE372.164	28/04/2006	
Committee report tabled for plenary, single reading		A6-0185/2006	16/05/2006	
Text adopted by Parliament, single reading		T6-0277/2006	15/06/2006	Summary

European Commission

Document type	Reference	Date	Summary
Non-legislative basic document	COM(2005)0323	19/07/2005	Summary

Protection of the financial interests of the Communities, fight against fraud. 2004 annual report

2005/2184(INI) - 15/06/2006 - Text adopted by Parliament, single reading

The European Parliament adopted a resolution based on the own-initiative report drafted by Herbert **BÖSCH** (PES, AT) in response to the Commission's 2004 annual report on protection of the financial interests of the Communities and the fight against fraud.

Scale of the irregularities and cases of fraud reported: Parliament notedthat in 2004, in the areas of own resources, agriculture and structural policy, irregularities and cases of fraud totalling some EUR 982.3 million were reported by the Member States. It stressed that the importance of year-on-year fluctuations in losses reported should not be overestimated and that they might be affected by a wide variety of factors. It was completely unacceptable that there were still 'old' Member States (Germany, Greece and Spain) failing to forward notifications on irregularities to the Commission electronically, and that those notifications were incomplete and that they were forwarded with several years" delay. Parliament highlighted the fact, however, that taken over a longer period, the trend in losses in the EAGGF area was clearly downwards, whereas in the area of the Structural Funds a substantial increase had been seen. The IACS system, which was partly responsible for lower losses in agriculture, should be used in all Member States. Parliament also pointed out that Spain and Germany accounted for more than 65% of losses. With regard to the Structural funds, it appeared that, as a rule, 86% of irregularities were not reported until two years after they are detected. The ERDF accounted for most of the loss; and losses reported from Italy, Germany and Greece represented 81.6% of the aggregate loss reported. Parliament stated that it expected a report from the Commission, before 1 November 2006, setting out the steps it has taken to prevail upon the Member States concerned to fulfil their Treaty obligations, withy particular reference to reporting. With regard to pre-accession aid, Parliament noted that in the period from 2002 to 2004, the amount corresponding to the total eligible cost of projects concerned by irregularities, amounted to EUR 2.38 billion. It was concerned to note that, in 90% of all reported cases concerning pre-accession aid, the Commission was unable to establish the nature of the irregularities, the amounts which could be recovered and the amounts which still have to be collected. The Commission ascribed this to a lack of experience on the part of the countries concerned. Parliament felt that commitments should only be authorised if a country has effective management capacity.

Groundwork for amending the OLAF Regulation: Parliament stated that it would endorse no proposal which would restrict its existing prerogatives. It advocated in particular that all OLAF's investigatory powers be grouped together in a single regulation. It recommended, inter alia, that the provisions of Council Regulation 2185/96/EC concerning on-the-spot checks and inspections by the Commission in order to protect the European Communities' financial interests against fraud be brought up to date and incorporated into Regulation 1073/1999/EC.

OLAF investigations and protection of fundamental rights: Parliament referred to a recent case involving an officialwherethe Court of First Instance concluded that OLAF clearly behaved unlawfully in its conduct of the investigation and acted in serious and manifest breach of the requirement of impartiality. Parliament felt this judgement confirmed the view taken by the OLAF Supervisory Committee, which had persistently drawn attention to the need to observe fundamental rights and the fact that this was a precondition for effective OLAF investigations, the results of which must stand up in court if necessary. It took the view that OLAF must cooperate with the European Ombudsman and the European Data Protection Supervisor on the basis of trust, and expected the OLAF Director-General to ensure vigorous monitoring of the quality its investigations. With regard to priorities for OLAF's work, Parliamentbacked the recommendation by the European Court of Auditors in its Opinion No 8/2005 that the activities of OLAF should be geared to its investigative function.

Combating cigarette smuggling and the marketing of counterfeit products: Parliament pointed out that in 2004, it was estimated that some EUR 418.5 million less in own resources was collected as a result of cigarette smuggling and the total loss was in all probability very much greater. This represented a doubling of losses over 2003. Parliament went on to indicate the importance of the agreement on combating cigarette smuggling concluded between the Commission (together with Belgium, Germany, Greece, Spain, France, Italy, Luxembourg, the Netherlands, Portugal and Finland) and Philip Morris International (PMI). The agreement provided for measures to prevent cigarette smuggling in the long term and at the same time sought to settle the disputes between the Community and PMI. Since July 2004 fourteen Member States had joined the Community and the initial ten Member States by signing the agreement. Parliament criticised the United Kingdom for not having signed the agreement, the only Member State not to have done so. It took the view that the agreement with PMI was of such far-reaching importance that OLAF and the Commission should do everything within their power to conclude similar agreements with other international cigarette manufacturers.

Combating VAT fraud: Parliament was extremely concerned at the financial loss caused by what are termed 'carousel' transactions. From recent research in Germany and extrapolating across the board, Member States assumed that they lose about 10% of their VAT receipts each year; one third of such losses was ascribed to cross-border 'carousel' transactions. Parliament pointed out that only actual receipts could be used for levying VAT own resources. It welcomed the fact that the Commission had contracted for a study on combating VAT fraud, and called on the Commission to forward a copy, upon completion, to the Committee on Budgetary Control.

Internal policy areas: Parliament regretted the fact that the Commission had failed to draw up an internal blacklist covering all directorates-general and all directorates of the same DG concerning firms and branches of companies and laboratories participating in research and development programmes which had been found guilty of fraud following an internal audit, an OLAF audit or by the ordinary courts. Such a list should prevent a company, laboratory or other body from being able to obtain Community funding from directorates other than those in which the fraud was discovered.

Commission follow-up to Parliament's resolution of 7 June 2005 on the protection of the financial interests of the Communities and the fight against fraud:Parliament pointed to the work the Commission had done in this area, and made several points on the matter of recovery of amounts paid in excess or in error. It underscored Member States' primary responsibility for prompt recovery of lost budget funds, and regretted the fact that Member States had been inadequately meeting that responsibility and, in particular, were only sketchily meeting their reporting obligations towards the Commission. It went on to criticise the fact that the information on the Eurostat case transmitted by the Commission was only of a very general nature. Parliament wanted detailed information especially with regard to the financial implications of the irregularities and with regard to the non-respect of public procurement rules, in particular with regard to non-subdelegated contracts (list of beneficiaries of such contracts, amounts involved, irregularities found).

Parliament also expressed its deep concern at the reports of alleged overcharging in the rent payments that Parliament had made to the City of Strasbourg in connection with the SDM and WIC parliamentary buildings and in the purchase price of the same buildings. It was determined to pursue these allegations by actively investigating the in order to ensure that the financial interests of the EU as well as of European taxpayers were adequately safeguarded.

Finally, Parliament was concerned, against the backdrop of the current risk of bird flu, that a new trend was emerging involving the illegal import of poultry meat from countries banned by the EU (particularly China), and called on the Commission and OLAF to take the necessary measures as soon as possible.

Protection of the financial interests of the Communities, fight against fraud. 2004 annual report

2005/2184(INI) - 19/07/2005 - Non-legislative basic document

PURPOSE : to present the Commission's annual report 2004 on the protection of the financial interests of the Communities - fight against fraud.

CONTENT : The protection of the European Communities' financial interests and the fight against fraud is an area in which responsibility is shared between the Community and the Member States. Consequently, each year the Commission draws up a report in cooperation with the Member States on the measures taken to implement this obligation. In order to make the report more readable, this year the Community and national measures are presented in parallel in each area (rather than being treated separately in two different parts as in previous reports). The aim of this new presentation is to give a fuller overview of an area where Community and national powers complement each other.

The first section of the report deals with major developments in 2004 in the protection of the Communities' financial interests: the reform of the European Anti-Fraud Office (OLAF), the accession of ten new Member States, the signing of a cooperation agreement with the Swiss confederation, the fight again cigarette smuggling, the cooperation agreement concluded with the cigarette company Philip

Morris International to fight against fraud and the signing of the Treaty establishing a Constitution for Europe.

The second section begins by summarising the results of the statistics on the irregularities reportedby the Member States under the sectoral Regulations. The total number of irregularities notified in 2004 was 9 463. The total amount involved was EUR 982 291. There was an overall increase in the number of irregularities notified for 2004. However, the estimated financial impact of the irregularities is lower for all areas except for structural funds. The average financial impact of the irregularities is around 0.19% for agricultural expenditure, 1.5% for own resources and 2% for structural funds (including cohesion funds). The report cautions that there is a distinction between fraud and irregularities. In the case of structural funds, fraud accounts for around 20% of irregularities, i.e. 0.4% of the structural and cohesion fund appropriations.

The report goes on to discuss the measures taken in 2004.The Member States indicated that they had adopted very wide ranging measures aimed at improving the protection of the Community's financial interests: measures to counter money laundering or corruption, national anti-fraud strategies, widening of the area of customs investigations, extension of the definition of certain offences so as to include attacks on the European budget, improvements in financial controls or procedures for the processing of data held on computers and so on.

The report gives a mid-term review of the Commission's 2004-05 action plan and the efforts made to increase OLAF's efficiency. OLAF has made considerable efforts to reduce the length of preliminary assessments and investigations. The average length of assessments of information on suspected irregularities, which rose to 18 months in the period July 2000-June 200139, fell to 5 months in 2003-04. The average length of investigations has been falling steadily since 1999 and is now around 22 months compared with 29 months five years ago. In addition, 29 legislative measures programmed were identified as risk measures in terms of fraud proofing. The Office has thus been able to contribute its operational experience in relation to the drafting of Community documents. A sub-section discusses the question of public information in the fight against fraud.

The third section deals with the implementation of the Regulation on mutual assistance in the area of customs and agriculture (Regulation 515/97/EC.) While in general the implementation of the Regulation is satisfactory. Analyses shows that the quality of both Member State and Commission statistical data could be improved and that certain practical problems should be resolved. Given the numerous different kinds and levels of authorities with powers in these fields, cooperation is essential to ensure that the Community's financial interests are effectively protected. This year, mutual assistance between the relevant authorities was chosen by the Commission and the Member States as one of the central questions covered in the questionnaire on which the Member States' contributions are based.

Lastly, section 4outlines the measures taken to improve recoveryof amounts not received or wrongly paid. Clearly, organised financial monitoring is the only way of remedying damage caused to the European budget by fraud and other irregularities. The report only gives a summary and overview of the measures taken and the results achieved by the 25 Member States.