Basic information

2011/2154(INI) INI - Own-initiative procedure	Procedure completed
Protection of the Communities' financial interests - Fight against fraud. Annual report 2010 **Subject** 8.70.04 Protecting financial interests of the EU against fraud	

Key players

European Parliament

Committee responsible	Rapporteur	Appointed
CONT Budgetary Control	BALČYTIS Zigmantas (S&D)	21/06/2011

Committee for opinion	Rapporteur for opinion	Appointed
REGI Regional Development	The committee decided not to give an opinion.	

European Commission

Commission DG	Commissioner
European Anti-Fraud Office (OLAF)	ŠEMETA Algirdas

Key events

Date	Event	Reference	Summary
15/09/2011	Committee referral announced in Parliament		
27/03/2012	Vote in committee		
11/04/2012	Committee report tabled for plenary	A7-0121/2012	Summary
10/05/2012	Decision by Parliament	T7-0196/2012	Summary
10/05/2012	Results of vote in Parliament		
10/05/2012	End of procedure in Parliament		

Technical information

Procedure reference	2011/2154(INI)
Procedure type	INI - Own-initiative procedure

Procedure subtype	Annual report
Legal basis	Rules of Procedure EP 55
Other legal basis	Rules of Procedure EP 165
Stage reached in procedure	Procedure completed
Committee dossier	CONT/7/06487

Documentation gateway

European Parliament

Document type	Committee	Reference	Date	Summary
Committee draft report		PE475.951	06/02/2012	
Amendments tabled in committee		PE483.646	06/03/2012	
Committee report tabled for plenary, single reading		A7-0121/2012	11/04/2012	Summary
Text adopted by Parliament, single reading		T7-0196/2012	10/05/2012	Summary

European Commission

Document type	Reference	Date	Summary
Commission response to text adopted in plenary	SP(2012)541	20/09/2012	

Protection of the Communities' financial interests - Fight against fraud. Annual report 2010

2011/2154(INI) - 11/04/2012 - Committee report tabled for plenary, single reading

The Committee on Budgetary Control adopted the own-initiative report by Zygmantas BALČYTIS (S&D, LT) on the protection of the European Union's financial interests - Fight against fraud - Annual Report 2010. It stresses that the global financial crisis, and in particular the euro area crisis, which the EU is now facing, call for special measures to be put in place in order to ensure adequate protection of EU financial interests in terms of revenue, which are directly linked to the financial interests of the Member States. Members are of the opinion that a **more rigorous implementation of fiscal policy** has the potential of leading Europe out of the crisis, in particular by decreasing the size of the EU's shadow economy, estimated to be at around one fifth of the official GDP.

Better evaluation of the actual extent of irregularities: the report notes that in 2010 the financial impact of irregularities in the area of expenditure rose and amounted to EUR 1.8 billion (or 1.27 % of allocations), as compared to EUR 1.4 billion (or 1.13 %) in 2009. The financial impact in the area of revenue is also higher: EUR 393 million (or 1.88 % of total collected traditional own resources, gross) as compared to EUR 357 million (or 1.84 %) in 2009.

Members deplore the fact that large amounts of EU funds are still wrongly spent and call on the Commission to take decisive action in order to recover more erroneous payments. **They note that for 2010 the number of irregularities reported has increased for all sectors** except pre-accession funds and traditional own resources. Although improvements have been made to the Irregularities Management System (IMS), Members note there are still **differences in the Member States' approaches to reporting irregularities** and, consequently, there are doubts about the adequacy of national reporting systems. They call on all Member States to **fully implement the IMS and to further improve their reporting compliance**, and to improve the speed with which irregularities are reported. They are further concerned that some Member States are not yet using the **electronic reporting system** fully and call on these Member States to remedy the situation as a matter of urgency.

The committee reiterates its regret, given the serious doubts about the quality of the information provided by the Member States. It stresses the **need for reliable statistical data** about the scale of fraud and corruption, particularly related to tax and customs evasion and the organised activities of criminals misusing EU funds. It regrets that, despite repeated requests from the European Parliament, the Commission has been unable to provide such data.

Generally, Members are disappointed that the **Commission is unable to assess the actual scale of irregularities and fraud** and that consequently it is not possible to evaluate the overall scale of irregularities and fraud in individual Member States or to identify and discipline those Member States with the highest level of irregularities and fraud, as called for by the European Parliament back in 2009.

The report calls for the **responsibility for the development of the measurement tools of fraud and corruption** related to the EU funds to be taken by the Commission in close cooperation with the European Parliament, the European Court of Auditors and other EU auditing and control bodies.

Revenue Own resources: Members recall that **proper collection of VAT and customs duties influences directly** both the economies of the Member States and the EU budget. According to a study carried out on behalf of the European Commission, the estimated average EU VAT gap has been found to be at the level of 12% (30 % and 22 %, in Greece and Italy respectively). They underline that proceeds from customs duties are an important part of the EU's traditional own resources (TOR) and that efficient prevention of irregularities and fraud in this field protects the Union's financial interests.

Accordingly, the report underlines that **improving the systems for collecting revenue should be the utmost priority for all Member States**, in particular those facing the biggest difficulties in the current economic climate;

It calls on the Commission to continue to focus on the implementation of the Member States' customs control strategies, particularly in the area of imports associated with high risk, and to improve activities concerning the detection of irregularities and cases of alleged fraud in the area of TOR. Members note that a large proportion of revenue comes from value-added tax (VAT), and the Commission and Member States therefore need to monitor and effectively respond to both existing and new trends in fraud. They welcome the Action Plan drawn up by the Commission to combat the **smuggling of cigarettes and alcohol** along the EU's Eastern border, as well as the renewal of customs cooperation with China and Russia at the end of 2010 and the Strategic Framework for Customs Cooperation endorsed with both countries.

Expenditure: the report reiterates that it is **necessary to continue to strengthen the independence, effectiveness and efficiency of OLAF**. It calls on the Commission and Member States to ensure the effective implementation of recommendations made once cases have been investigated by OLAF;

-Agriculture: Members note that in 2010 there was an increase in reports of irregularities and cases of suspected fraud, while the financial impact of these increased from EUR 13 million in 2009 to EUR 69 million in 2010. They regret that the situation as regards overall funds recovered remains unsatisfactory and that in 2010 some Member States failed to meet the deadlines for reporting irregularities. Furthermore, they are concerned that, in 2010, Italy and EU-12 Member States have qualified more than 90 % of the reported cases of irregularities as 'suspected fraud', and are concerned by the suspiciously low suspected fraud rates reported by France, Germany, Spain and the United Kingdom.

The Commission is asked to: (i) include detailed information on the applied reported methodology and the fraud detection capability in these Member States; (ii) monitor closely the effectiveness of supervisory and control systems in the Member States and to ensure that information about the level of irregularities in the Member States reflects the true situation; (iii) provide information in the Protection of the EU's Financial Interests Report about actions taken in this area in 2011.

-Cohesion policy: the report notes that on the basis of data provided in the Protection of the European Union's financial interests Annual Report 2010, around 70 % of all cases of reports about irregularities were related to cohesion policy, and in 2010 the area of cohesion policy had the highest expenditure recovery rate (over 60 %).

It stresses that according to the data provided it is impossible to objectively evaluate the actual number of irregularities and cases of fraud in this area. Analysis of those categories of irregularity which are the most reported shows that irregularities are most frequently identified in the implementation phase of the project cycle and that the greatest financial impact occurs in the selection and procurement phases. Members stress that a transparent, clear and flexible public procurement system, using the Electronic Public Procurement System more actively, and the laying down of general procurement principles at EU level would make it possible to ensure more efficient use of Member State and EU funds.

-Pre-accession funds: the committee is concerned that the pre-accession funds show the lowest recovery rates for expenditure: in 2010 this rate barely reached 10 %, as compared to 27 %. It notes with concern that the recovery rate for the period 2002-2006 remains low (around 30 %), particularly in Bulgaria, Turkey, Lithuania and Latvia. The Commission is asked to take action to ensure that beneficiary countries explain the reasons for low recovery rates, improve their performance and update the missing information on completed recovery procedures.

Public Procurement, increased transparency and the fight against corruption: the report calls on the Commission, the relevant Union agencies and Member States to take measures and provide resources to ensure that EU funds are not subject to corruption, to adopt dissuasive sanctions where corruption and fraud are found, and to step up the confiscation of criminal assets involved in fraud, tax evasion and money laundering-related crimes.

Members reiterate their call on the Commission and Member States to: (i) design, implement and periodically evaluate uniform systems of procurement to prevent fraud and corruption, (ii) define and implement clear conditions for participation in public procurement and criteria on which public procurement decisions are made, and (iii) adopt and implement systems to review public procurement decisions at national level.

Protection of the Communities' financial interests - Fight against fraud. Annual report 2010

2011/2154(INI) - 10/05/2012 - Text adopted by Parliament, single reading

The European Parliament adopted a resolution on the protection of the EU financial interests - fight against fraud - Annual report 2010.

It stresses that the global financial crisis, and in particular the euro area crisis, which the EU is now facing, call for **special measures to be put in place** in order to ensure adequate protection of EU financial interests in terms of revenue, which are directly linked to the financial interests of Member States. Members are of the opinion that a more rigorous implementation of fiscal policy has the potential to lead Europe out of the crisis, in particular by decreasing the size of the EU's shadow economy, estimated to be at around one fifth of the official GDP.

Better evaluation of the actual extent of irregularities: in 2010 the overall financial impact of irregularities detected by control systems amounts to **EUR 2 193 million**, as compared to EUR 1 757 million in 2009. Parliament notes that in 2010 the financial impact of irregularities in the area of expenditure rose and amounted to EUR 1.8 billion (or 1.27 % of allocations), as compared to EUR 1.4 billion (or 1.13 %) in 2009. The financial impact in the area of revenue is also higher: EUR 393 million (or 1.88 % of total collected traditional own resources, gross) as compared to EUR 357 million (or 1.84 %) in 2009.

Members deplore the fact that large amounts of EU funds are still wrongly spent and call on the Commission to take decisive action in order to recover more erroneous payments. **They note that for 2010 the number of irregularities reported has increased for all sectors** except pre-accession funds and traditional own resources. Although improvements have been made to the Irregularities Management System (IMS), Members note there are still **differences in the Member States' approaches to reporting irregularities** and, consequently, there are doubts about the adequacy of national reporting systems. They call on all Member States to **fully implement the IMS and to further improve their reporting compliance**, and to improve the speed with which irregularities are reported. They are further concerned that some Member States are not yet using the **electronic reporting system** fully and call on these Member States to remedy the situation as a matter of urgency.

Parliament reiterates its regret, given the serious doubts about the quality of the information provided by the Member States. It stresses the **need for reliable statistical data** about the scale of fraud and corruption, particularly related to tax and customs evasion and the organised activities of criminals misusing EU funds. It regrets that, despite repeated requests from the European Parliament, the Commission has been unable to provide such data.

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It calls on the Commission to continue to focus on the implementation of the Member States' customs control strategies, particularly in the area of imports associated with high risk, and to improve activities concerning the detection of irregularities and cases of alleged fraud in the area of TOR. Members welcome the Action Plan drawn up by the Commission to combat the **smuggling of cigarettes and alcohol** along the EU's Eastern border, as well as the renewal of customs cooperation with China and Russia at the end of 2010 and the Strategic Framework for Customs Cooperation endorsed with both countries.

Expenditure:

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-Cohesion policy: the resolution notes that on the basis of data provided in the Protection of the European Union's financial interests Annual Report 2010, around 70 % of all cases of reports about irregularities were related to cohesion policy, and in 2010 the area of cohesion policy had the highest expenditure recovery rate (over 60 %). It stresses that according to the data provided it is impossible to objectively evaluate the actual number of irregularities and cases of fraud in this area.

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OLAF: Parliament reiterates that it is necessary to continue to strengthen the independence, effectiveness and efficiency of OLAF. It calls on the Commission and Member States to ensure the effective and timely implementation of recommendations made once cases have been investigated by OLAF. Furthermore, Member States should be obliged to report, on an annual basis, on the follow up of cases sent to their judicial authorities by OLAF, including on penal and financial sanctions imposed in such cases.

Public Procurement, increased transparency and the fight against corruption: Parliament calls on the Commission, the relevant Union agencies and Member States to take measures and provide resources to ensure that EU funds are not subject to corruption, to adopt dissuasive sanctions where corruption and fraud are found, and to step up the confiscation of criminal assets involved in fraud, tax evasion and money laundering-related crimes.

Members reiterate their call on the Commission and Member States to: (i) design, implement and periodically evaluate uniform systems of procurement to prevent fraud and corruption, (ii) define and implement clear conditions for participation in public procurement and criteria on which public procurement decisions are made, and (iii) adopt and implement systems to review public procurement decisions at national level.

Follow-up: Parliament asks the Commission to inform Parliament which other indicators, sources or methods, apart from the information provided by whistle-blowers or informants, it can use in order to determine in which areas of EU funding or EU revenues there are increased levels of fraud. Members adopted an amendment in plenary calling on the Commission to **protect and promote investigative and independent journalism**, which is an essential element in fighting crime, fraud and corruption with European funds.