Basic information

2022/2152(INI) INI - Own-initiative procedure	Procedure completed
Resolution on the protection of the European Union's financial interests – combating fraud – annual report 2021 **Subject** 8.70.04 Protecting financial interests of the EU against fraud	

Key players

European Parliament

Committee responsible	Rapporteur	Appointed
CONT Budgetary Control	PIGNEDOLI Sabrina (NI)	10/10/2022
	Shadow rapporteur LEGA David (EPP) CHINNICI Caterina (S&D) CSEH Katalin (Renew) PEKSA Mikuláš (Greens/EFA) CZARNECKI Ryszard (ECR) ADINOLFI Matteo (ID)	

Key events

Date	Event	Reference	Summary
20/10/2022	Committee referral announced in Parliament		
05/12/2022	Vote in committee		
16/12/2022	Committee report tabled for plenary	A9-0299/2022	Summary
18/01/2023	Debate in Parliament		
19/01/2023	Decision by Parliament	T9-0018/2023	Summary
19/01/2023	Results of vote in Parliament		
19/01/2023	End of procedure in Parliament		

Technical information

Procedure reference	2022/2152(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/9/10204

Documentation gateway

European Parliament

Document type	Committee	Reference	Date	Summary
Committee draft report		PE737.341	19/10/2022	
Amendments tabled in committee		PE738.710	16/11/2022	
Committee report tabled for plenary, single reading		A9-0299/2022	16/12/2022	Summary
Text adopted by Parliament, single reading		T9-0018/2023	19/01/2023	Summary

European Commission

Document type	Reference	Date	Summary
Commission response to text adopted in plenary	SP(2023)126	12/04/2023	

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.

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

2022/2152(INI) - 16/12/2022 - Committee report tabled for plenary, single reading

The Committee on Budgetary Control adopted the own-initiative report by Sabrina PIGNEDOLI (NI, IT) on the protection of the European Union's financial interests – combating fraud – annual report 2021.

Member State authorities manage more than 85 % of EU expenditure, including the Recovery and Resilience Facility (RRF), and collect the EU's traditional own resources (TOR) while the Commission oversees both of these areas, sets standards, verifies compliance and reports to both Parliament and the Council on the measures taken to counter fraud and other illegal activities affecting the EU's financial interests.

In 2021, the EU completed the adoption of the 2021-2027 spending programmes, including the Union Anti-Fraud Programme, which supports the fight against fraud by providing grants for specific initiatives and enabling the financing of dedicated IT platforms and tools to facilitate the exchange of information between the Member States and the EU.

The unprecedented increase in EU spending under the multiannual financial framework (MFF) 2021-2027 and the NextGenerationEU (NGEU) recovery plan poses significant risks, including the potential for misuse of funds by organised criminals.

Annual report

While welcoming the 2021 annual report on the protection of the EU's financial interests and the fight against fraud, Members are aware that this 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, operations were eligible for EU financing under the MFF 2014-2020 (which will end in 2024), under the MFF 2021-2027 and within the NGEU recovery package. The new MFF 2021-2027, the last programmes for which were adopted in 2021, coupled with the NGEU recovery plan, provides the EU with EUR 1.8 trillion, representing an unprecedented volume of resources.

Members stressed that the enhancement of transparency, the digitalisation of the fight against fraud and the continuous strengthening and development of fraud risk assessment and fraud risk management should be pursued in parallel with a sound implementation of the EU anti-fraud architecture..

A system for the exchange of information between competent authorities to enable cross-checking of accounting records concerning transactions between two or more Member States should be developed in order to avoid transnational fraud within the European Structural and Investment Funds (ESIF), so as to ensure a cross-cutting approach to the protection of the financial interests of the EU.

Fraudulent and non-fraudulent irregularities detected

The report notes 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.

Major threats

Members are concerned by the increasing threat to the EU budget posed by organised crime, including mafia-type organisations and oligarchic structures. They stress 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 consider 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

The report observes 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 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

The report remarks that the level of controls and audits on expenditure remained high, despite the flexibility introduced to address the COVID-19 pandemic crisis, 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.

Members call on the Commission to propose legislation as soon as possible against strategic lawsuits against public participation (SLAPPS), which are often used to silence people who report fraud and irregularities.

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 report recalls that overall, the EU dedicates around 10 % of its budget to external action.

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, the report highlights the fact that cooperation with international partners is crucial to protect EU funds spent outside Europe and the revenue side of the EU budget.