



**COUNCIL OF
THE EUROPEAN UNION**

**Brussels, 2 October 2013
(OR. en, fr)**

14328/13

**PE 430
BUDGET 52
INST 509
JAI 855**

NOTE

from: General Secretariat of the Council
to: Delegations

Subject: Summary record of the meeting of the European Parliament **Committee on Budgetary Control (CONT)**, held in Brussels on 25 and 26 September 2013

The meeting was chaired by Mr THEURER (ALDE, DE).

Items 1 and 2 on the agenda

The agenda was adopted.

Item 3 on the agenda
Approval of minutes

The minutes of the meeting of 10 July 2013 were approved.

Item 4 on the agenda

European Union Agency for Railways and repeal of Regulation (EC) No 881/2004
CONT/7/11848

Rapporteur for the opinion: Mr LIBERADZKI (S&D, PL)

Rapporteur for the committee responsible (TRAN): Mr ŽILĚ (ECR)

- Consideration of draft opinion

The rapporteur said that the European Railway Agency should in future act as the single railway authority and one-stop-shop in the European Union for issuing vehicle authorisations and safety certification authorisations and for the placing in service of trackside systems for the European Rail

Traffic Management System, in order to achieve the key objectives of the European transport policy. Other tasks should include the classification of national rules and systematic supervision of existing or proposed new national rules, and the establishment and maintenance of European registers or standardisation recommendations. According to the rapporteur, with the European Railway Agency acting as the single railway authority, an independent appeal body following fair and transparent processes should also be established. The rapporteur, supported by Mr BRADBOURN (ECR, UK), also stressed the importance of addressing the issue of a single seat for the agency, in particular in order to attract qualified staff.

The Commission representative agreed with a number of the amendments tabled by the rapporteur (6, 7, 8, 15, 17 and 20) but considered amendments 9, 10, 11, 12, 24 and 25 to be problematic.

Deadline for tabling amendments: 30 September 2013, 12.00

Item 5 on the agenda

Mandatory automatic exchange of information in the field of taxation

CONT/7/13025

Rapporteur for the opinion: Mr RIVELLINI (PPE, IT)

Rapporteur for the committee responsible (ECON): Mr CUTAŞ (S&D)

- Consideration of draft opinion

The rapporteur welcomed the Commission proposal but announced some amendments in order to reinforce, in particular, privacy and confidentiality during inquiries, the provision of information to the EP and the extension of the scope of sanctions to cover public policy issues and step up the fight against tax fraud and tax evasion.

The Commission representative said that the Directive already contained provisions to protect privacy and confidentiality, as well as provisions on providing the EP with reports and information. She also recalled that the G20 had endorsed automatic data exchange as a suitable tool for combating tax evasion and tax fraud

Deadline for tabling amendments: 27 September 2013, 12.00

Item 6 on the agenda

The evaluation of the Union's finances based on the results achieved: a new tool for the European Commission's improved discharge procedure

CONT/7/13706

Rapporteur: Mr THEURER

- Consideration of working document

The rapporteur pointed out that the discharge procedure would no longer be based only on compliance audit and a statement of assurance (DAS), but also on results and policy achievements, through a performance audit. The instrument to be used for such performance audit was the evaluation report on the Union's finances based on the results achieved, as provided for in Article 318 TFEU, as modified by the Lisbon Treaty. This could make it possible to highlight the added value of EU spending. He nevertheless felt that the Commission should adapt its reporting obligations to the new audit concept and in particular should put an end to the piecemeal approach to assessing results through programmes and ex ante, mid-term and ex post assessment. In his opinion, the budgetary authority needed a clear view of the real achievements of the main objectives of the Union, and these were, by their very nature, cross-cutting issues in terms of the budget headings. In 2013 the EP guided the Commission on how it should design its evaluation report on the EU's financial performance and in particular linked the financial performance with the political objectives of the EU. Parliament asked the Commission to develop a new culture of performance, defining a number of targets and indicators in its management plan; in their annual activity reports, departments should measure their performance by summarising the results achieved when contributing to the main policies pursued by the Commission; this 'departmental' performance should be complemented by a global evaluation of the performance of the Commission in the evaluation report under Article 318 TFEU.

In conclusion, Parliament urged the Commission to modify the structure of the abovementioned evaluation report, distinguishing the internal policies from the external ones and focusing, within the section relating to internal policies, on the Europe 2020 strategy as the main policy objective of the Union. Mr THEURER recalled that on 3 July 2013 Parliament had asked the Commission to set up a working group composed of representatives of the Commission, the Parliament, the Council and the Court of Auditors to examine measures to implement a performance-based budget and

develop a scheduled action plan in this regard. Mr GEIER (S&D, DE) said that he was in broad agreement with the rapporteur and underlined the importance of valid benchmarks in order to assess the performance of EU spending. As for the compliance audit, he also considered that requesting DAS from MS could lead to difficulties, given the lack of reliability of data. Mr MULDER (ALDE, NL) complained that Mr Barroso had not managed to obtain a positive DAS, despite his promise to achieve this target in five years. He stressed the importance of a political DAS, from each Commissioner and from the MS. Mr BRADBURN stressed the fact that the EP had called for a Commissioner who would be responsible for budgetary control. According to Mr GEIER, such a Commissioner should be given the necessary power to have a real influence on the decisions taken by the College of Commissioners.

The Commission representative agreed that a proper implementation of Article 318 TFEU was key and recalled that the discharge was granted to the Secretary-General. As for the working party, he announced that an internal paper was being prepared in order to liaise with the Court of Auditors and the Council. On DAS, he told Mr MULDER that dialogue with MS was ongoing.

The other Commission representative said that Article 318 TFEU tasked the Commission to produce a report illustrating the extent to which the results of each programme matched the political objectives of the EU 2020 strategy.

Item 7 on the agenda

Special Report No 3/2013 (2012 Discharge) - Have the Marco Polo programmes been successful in shifting traffic off the road?

CONT/7/13457

Rapporteur: Ms AYALA SENDER (S&D)

- Exchange of views and consideration of a working document, in the presence of the Member of the European Court of Auditors responsible, *Ville Itälä*

Mr ITÄLÄ delivered the speech in ANNEX 1.

The rapporteur said that it was difficult to acknowledge that the programme had not been successful. She felt that the political will to support the programme had failed at a certain point. Nevertheless, she underlined the fact that ports had regained their importance thanks to the programme. In her view, the lessons learnt should be channelled into future programmes, and she mentioned the connecting Europe Facility. Mr BALCYTIS underlined the role of road transport undertakings in influencing policymakers through a huge lobbying campaign.

The Commission representative said that the programme had not been a complete failure. He nevertheless announced that the programme would be discontinued and that other programmes, such as TEN-T, would take account of lessons learnt in order to seek new solutions, in particular to strengthen intermodality.

Item 8 on the agenda

Special Report No 23/2012 (2012 Discharge) - Have EU Structural Measures successfully supported the regeneration of industrial and military Brownfield sites?

CONT/7/12520

Rapporteur: Mr SKYLAKAKIS (ALDE)

- Exchange of views and consideration of a working document, in the presence of the Member of the European Court of Auditors responsible, *Henri Grethen*

Mr GRETHEN delivered the speech in ANNEX 2.

The rapporteur explained that regeneration was tackled in the Member States as a dimension of environmental policy and spatial development. The support through the structural funds could be as much as 85% of the eligible expenditure. He called on the Commission and the Member States to apply, in each grant, a reimbursement agreement clause that takes into account a 15-year period in which a regeneration project should mature and generate revenue. Ms WEILER (S&D, DE) said that the results of the programme were modest and that EU minimum standards should be set for regeneration projects, together with a market analysis.

The Commission representative agreed with the rapporteur that a 15-year period was needed to see if revenues are generated by the project and reminded CONT that the Commission had presented a proposal for a Soil Framework Directive addressing a number of the issues raised by the Court back in 2006.

Item 9 on the agenda

Special Report No 2/2013 (2012 Discharge) - "Has the Commission ensured efficient implementation of FP7 (Seventh Framework Programme)?"

CONT/7/12529

Rapporteur: Ms PANAYOTOVA (PPE)

- Exchange of views and consideration of a working document, in the presence of the Member of the European Court of Auditors responsible, *Ladislav Balko*

Mr Balko delivered the speech in ANNEX 3.

The rapporteur welcomed the recommendations of the Court, in particular on simplification, financial control, efficiency and effectiveness, new instruments and synergy. As for simplification, she considered that the measures taken by the Commission to simplify the rules of participation had already contributed towards reducing red tape and shortening periods, but she called on the Commission to further reduce such periods through improved internal communication.

On financial control, she recommended that the Commission concentrate on ex ante checks on riskier beneficiaries. She underlined the importance of synergy between the FP7 and the structural funds.

The Commission representative announced that a common support centre would be set up for the implementation of the EU 2020 strategy in order to provide legal advice on and interpretation of the provisions of the programme.

Item 10 on the agenda

Hearing on "European Court of Auditors: from legality and regularity audits to evaluation of efficiency and effectiveness of EU projects and programmes. The special reports as a useful instrument for the legislator"

CONT/7/11801

Rapporteur: Mr SKYLAKAKIS (ALDE)

Performance audit of federal spending in the US - the experience

Mr Christopher MIHM, Managing Director for Strategic Issues at the US Government Accountability Office (GAO), and Mr Jean-Marie BERTRAND, Rapporteur-General and President of Chamber of the French Court of Auditors, described their experience of audit from the perspective of a Federal and a National Court of Auditors.

Mr MIHM told Mr BALCYTIS, who asked whether any inquiries had ever been stopped because of lack of data, that gathering reliable data was indeed a challenge in performance audit. Nevertheless, he considered that the real issue was assessing the information rather than obtaining it from the relevant bodies, which usually had no problems in providing it. He confirmed that the GAO budget was about \$ 550 million. GAO submitted the budget directly to the Congress. In his reply to Ms AYALA SENDER, Mr MIHM explained that GAO responded to all the Committees of the Congress, and that it was allowed to investigate how every federal dollar had been spent.

This included spending for the bodies of the UN, in particular the current reshuffling of the headquarters in New York. However, GOA had no enforcement powers on States. Mr MIHM told Mr MULDER that error rate would be assessed for programmes on a case-by-case basis, in particular when the statutory provisions provided for it. Mr ŠEMETA, Commissioner responsible for Taxation, Customs, Statistics and Audit, told Mr PIEPER (EPP, DE) - who considered that performance indicators should only concern EU added value in infrastructure projects, leaving out social policy areas within the remit of MS - that only benchmarks contained in EU legislation would normally be assessed. Mr BALCYTIS disagreed and said that benchmarks were key to assessing the efficient use of resources. Mr CALDEIRA suggested that they be used by managers to assess whether targets were being met while the programme was in progress. Mr CALDEIRA also agreed with Mr AUDY that cooperation amongst Supreme Audit Authorities was essential to ensure that EU money was well spent.

Voting time

Item 11 on the agenda

Budgetary management of European Union pre-accession funds in the areas of judicial systems and the fight against corruption in the candidate and potential candidate countries
CONT/7/05332

Rapporteur: Ms MACOVEI (PPE)

- Adoption of draft report

The draft report was adopted unanimously, as amended, with 24 votes in favour.

Item 12 on the agenda

2011 discharge: EU general budget, European Council and Council
CONT/7/12913

Rapporteur: Ms ČEŠKOVÁ (ECR)

- Adoption of draft report

CONT recommended that Parliament refuse to grant discharge to the Council and the European Council, by adopting the amendment by Mr SONDERGAARD (GUE, DK) by 23 votes to 1. The amendment to grant discharge, tabled by Mr AUDY (PPE, FR), fell.

The motion for a resolution was adopted unanimously, as amended. All the amendments to the draft resolution were carried.

This vote concerned the second report by Ms CESKOVA (ECR, CZ) on the 2011 discharge, after the EP plenary had voted on 17 April 2013 to postpone granting discharge to the Council and the European Council.

The EP vote is scheduled for the October I plenary in Strasbourg.

End of Voting time

Item 13 on the agenda

Annual Report 2012 on the Protection of the EU's Financial Interests - Fight against fraud CONT/7/13187

Rapporteur: Ms AYALA SENDER (S&D)

- Presentation in the presence of Mr ŠEMETA, Member of the European Commission responsible for Taxation, Customs, Statistics, Audit and Anti-Fraud, and *Giovanni Kessler*, Director-General of the European Anti-Fraud Office (OLAF)

Mr ŠEMETA delivered the speech in ANNEX 4.

Ms AYALA SENDER welcomed the report since, in her view, it addressed positive elements that were relevant for CONT and legislative in nature. She referred in particular to the proposal for the European Public Prosecutor Office (EPPO). She felt that the EPPO could streamline a common culture of fighting fraud amongst and within MS. Mr ŠEMETA welcomed the ambition shown by the rapporteur on the EPPO legislative file. He told Ms MACOVEI, who inquired about specific details concerning nine reported cases of corruption, that details needed to be requested from MS, since the report was based on MS reporting, but assured her that further information on funds recovered or being recovered would be requested. He also told Mr MULDER that the main benefits resulting from the creation of the EPPO would include the fact that a EU body would be able to deal with criminal law at EU level. This was not the case with OLAF, whose remit was limited to administrative investigations. This led to duplication of investigative activities, since MS need to apply their own provisions when a dossier with criminal implications is passed on by OLAF. To limit intrusion in national systems, the EPPO would delegate national public prosecutors to carry out investigations within MS in conformity with national provisions. National authorities could ask the ECJ for a preliminary ruling on the interpretation of the EPPO Regulation, if need be. He added that the timing for setting up the EPPO was not predictable, but stressed that the Treaty contained provisions on specific enhanced cooperation that would allow adoption of EPPO legislation, even if some MS were not supportive of the proposal at this stage.

Mr KESSLER underlined that 2012 had been a transitional year and that a large internal reorganisation had begun on 1 February 2012. A substantial backlog had to be managed. He also recalled that 1 264 pieces of information of investigative interest had reached the office in 2012 (the highest number ever, followed by 2011, with 1 046 such pieces of information). Mr KESSLER drew attention to new statistics indicating the distribution of incoming information by MS and public or private sources within each MS.

Mr KESSLER said that efficiency had increased, since a higher amount of incoming information had been dealt with, while the average duration of investigation cases had been reduced significantly compared to previous years. Mr KESSLER stressed the importance of the newly created Investigation Selection and Review Unit (0.1 Unit), which advises OLAF's Director-General on the opening or dismissal of a case. The average duration of the selection phase had dropped from 7 to 1.5 months. Areas of investigation involved inter alia the Structural Funds, the agricultural funds and external aid. Ms GRÄBLE said that statistics on opened cases had been embellished by the opening of a number of cases on the same day, and wondered about the quality of procedures for cases that were closed without follow-up. Mr KESSLER explained that some 400 cases that had been opened on 1 February 2012 represented a backlog that OLAF investigation teams had to address alongside fresh cases, also in order not to create a new backlog. Even without such backlog cases, though, cases that had been opened in 2012 had doubled compared to 2011. As for cases closed without recommendations, Mr KESSLER explained that this meant that the person was found innocent, and he disagreed that good statistics should only be based on cases closed with further prosecution activities. He also told Ms GRÄBLE that cases without recommendations still needed to be investigated, and explained that interviews or written information were collected in order to allow persons under investigation to conduct an appropriate defence. Mr KESSLER told Ms AYALA SENDER that external staff hired by OLAF were either national experts seconded from MS to cover professional profiles, such as judges or prosecutors, that could not be found through general competitions or intra muros agents hired for the IT system. He also told Ms AYALA SENDER that in the single instance when OLAF had been taken to court in 2012, the court had decided that OLAF's activities were legal.

Item 14 on the agenda

**Exchange of views with the Public Accounts Committee of the Danish Parliament
CONT/7/13814**

This item was cancelled.

Item 15 on the agenda

Ad-hoc meeting open to CONT Members on the Cooperation Agreements with the Tobacco Industry

The item was not covered as it was debated in camera

Item 16 on the agenda

Any other business

No other business was debated.

Item 17 on the agenda

Next meeting(s)

- 2 October 2013, 15.00 – 18.30 (Brussels)
-

Mr Chairman, Honourable Members,

It is my pleasure to present to you the main results of the European Court of Auditors' Special Report on the Marco Polo programmes.

Before I go into the details of the audit itself, I will present briefly the main elements of these programmes.

The purpose of the Marco Polo programmes is to shift the freight traffic off the roads (onto railways, inland waterways and short sea shipping). In other words, the programmes aim to reduce the use of "roads-only" transport operations. This is of course a **very good and generally accepted objective**. It would mean less environmental burden from the road traffic and a reduction in road accidents and congestion.

The first Marco Polo programme ran from 2003 to 2006, and the current programme is running from 2007 to 2013. The overall budget for these two programmes has been around 550 million euros.

The Marco Polo programme provides EU budget support for transport operators (such as railway freight companies) for the initial losses on new or upgraded services that shift traffic off the road. This design can be described as "*top-down supply push*". It is based on the assumption that [just] by increasing the supply of transport services, there would also be increased demand for such services. I will come back to this issue later when talking about our recommendations.

So, what did we audit? The main audit question was: **Have the Marco Polo programmes been effective?**

The audit work included several different elements: for example an analysis of impact assessments, a review of project proposals and a survey concerning national transport support schemes. We also visited 16 completed projects on-the-spot in six different Member States.

On the basis of our audit – which covered the Marco Polo One and Marco Polo Two up to July 2012 – we came to the following conclusions:

The main conclusion was that **the programmes are not effective**. There were a number of reasons for this ineffectiveness.

First of all, the outputs were far below the targets. For example under Marco Polo One, the target was to shift **48** billion ton kilometres off the roads during the period 2003 to 2006. The actual output was **22** billion ton kilometres, in other words less than half of the target. The same trend applies for Marco Polo Two. So, it is very likely that Marco Polo Two will not deliver any better results than Marco Polo One.

Secondly, the Programmes had very little impact on overall freight transport in the EU. The reported shift under Marco Polo One (the 22 billion ton kilometres, I mentioned before) corresponds to only **0.3 per cent** of all EU international road freight transport.

Thirdly, there are **no data to assess the real benefits** for the environment or for the other policy goals, such as *reducing traffic accidents or road congestion*.

On the positive side, I would like to mention the payment mechanism. In the case of the Marco Polo programmes, the payment mechanism is **based on results**. In other words, the operators are paid on the basis of the freight shifted off the road. [However, the problem was that there were not enough relevant project proposals put forward, because of the market situation and because of the unattractive conditions for the businesses in terms of the time it took to be selected, the risks, complexity and costs. Moreover, the quantities declared as having been shifted are not always the correct ones either.]

Before going to the Recommendations, I would like to highlight one important finding from the audit. It is about so called “**deadweight**” which was very evident in the Marco Polo Programmes. We found that most of the 16 projects that we audited would have gone ahead anyway, without EU money. Next to this, I must also underline the **weak sustainability**, as the Court also found that a lot of the supported services do not exist anymore or if they do exist, it is on much smaller scale.

So, what do we recommend? How should these kinds of programmes be designed and implemented?

Our first recommendation is that the decision-makers should consider **discontinuing EU funding for transport freight services, which follow the same design as Marco Polo.** As I mentioned earlier, this design can be described as “*top-down supply push*”.

We have of course noted that there will be **no** dedicated or separate Marco Polo programme in the next programming period. **Instead,** the Commission has proposed **general support framework for the transport freight services.** The money would come from the Connect Europe Facility.

Our second recommendation is that any EU support for the transport freight services should be conditional upon an **ex-ante impact assessment** showing whether and to what extent there is an EU added value. If – on the basis of this assessment – there is a positive answer for meaningful EU action, the Commission should further make sure that:

- The programme has realistic targets;
- EU funding continues to be based on results;
- Needs for infrastructure and equipment support are assessed;
- Technical, operational and infrastructure barriers are tackled;
- Sustainability of the projects is made a necessary condition;
- Deadweight problem is addressed.

Mr Chairman,

I would like finish my presentation by thanking the Rapporteur, Ms Ayala Sender, for her contribution. As always, I have had good cooperation with her, and I can in most instances agree on the recommendations she has put forward.

Thank you for your attention.

**Les actions structurelles de l'UE ont-elles contribué avec succès
à la régénération de friches industrielles et militaires?**

Rapport spécial n° 23/2012 de la Cour des comptes européenne

Intervention de Monsieur Henri GRETHEN, Membre de la Cour des comptes européenne, au Comité du contrôle budgétaire du Parlement Européen, le mercredi 25 septembre 2013.

Mesdames, Messieurs,

Le rapport que je vous présente aujourd'hui, a pour thème les financements de l'UE en matière de régénération de friches, et vise en particulier à répondre à la question suivante: «Les actions structurelles de l'UE ont-elles contribué avec succès à la régénération de friches industrielles et militaires?»,

Il importe de préciser **le contexte** dans lequel l'audit a été réalisé.

Premièrement, de nombreuses zones urbaines et régions européennes connaissent un déclin industriel. Les sites auparavant dédiés à un usage industriel ou militaire situés dans ces zones sont aujourd'hui souvent dégradés; ils sont fréquemment appelés «friches» et leur nombre en Europe augmente.

Deuxièmement, parmi ces sites, nombreux sont ceux qui sont contaminés par des polluants industriels, ce qui peut poser des problèmes en matière de santé publique et d'environnement.

Finalement, il est essentiel que ces sites soient nettoyés, sécurisés et transformés de manière à respecter le principe "brown field over green field" c à d la régénération de friches plutôt que l'aménagement de sites vierges.

Le point de départ des travaux engagés, dans le cadre de cet audit de performance de la Cour, étaient les 5,7 milliards d'euros investis par l'intermédiaire des actions structurelles au cours des périodes de programmation 2000-2006 et 2007-2013.

Le problème de la pollution des friches reste aujourd'hui un défi de taille.

Alors, est-ce que les actions structurelles de l'UE ont contribué avec succès à la régénération de friches industrielles et militaires ?

Les projets de régénération cofinancés par l'UE ont apporté les transformations promises en matière d'infrastructures

...mais...

les avancées ont souvent été plus lentes que prévu et la création d'emploi est moins importante qu'escompté.

Sur base de nos conclusions retenues dans le cadre de cet audit de performance **il conviendrait notamment que la Commission:**

- promeuve une approche intégrée de la régénération des sites de friches;
- propose des définitions et des méthodologies normalisées pour évaluer les risques que présentent les sites de friches pour l'environnement et pour la santé.
- envisage de définir des principes communs relatifs à l'application du principe du pollueur-payeur;
- accorde davantage d'attention aux évaluations du déficit de financement.

La Cour recommande à la Commission à mettre en œuvre ces recommandations.

**PRESENTATION TO THE COMMITTEE ON BUDGETARY CONTROL – 25 SEPTEMBER
2013**

Special Report N° 2/2013: Audit of the efficiency of implementation of FP7

Dear Mr Chairman of the Committee on Budgetary Control,

Dear rapporteur Ms Panayotova,

Dear Ladies and Gentlemen – Members of the European Parliament,

In times of mounting pressure on the EU's and the Member States' budgets, high-quality research is essential for EU's long-term economic prosperity, because it contributes to creating and maintaining jobs and growth. Accordingly, the next multiannual financial framework for the years 2014-2020 will see an increase in the funding of research and innovation.

And already the current 7th Framework Programme for Research (FP7) is one of the largest single research funding programmes in the world and one of the Union's key instruments for funding research. One of the very important features of FP7 is the trans-national nature - a typical project involves transnational collaboration between five or six participants, but for collaborative projects (which represent around two thirds of the FP7 budget), the average number of participants is eleven. What matters the most for these participants? They need to be able to apply for grants based on clear and simple rules, without unnecessary administrative burden and taking into account their usual practices. And they need to have the best proposals selected, and the grants awarded and managed fast and in a consistent manner.

Therefore, in its Special Report No 2/2013 "*Has the Commission ensured efficient implementation of the Seventh framework programme for research?*", the European Court of Auditors assessed that very topic, by looking at three main audit questions relating respectively to (a) the FP7 rules for participation, (b) the FP7 processes, and (c) the new instruments under FP7.

The principal findings from this performance audit are very well summarised in the Working Document drafted by rapporteur Ms Panayotova, to whom I would like to thank very much for the excellent working relationship and collaboration. And I would like to take this opportunity to provide you with a brief overview of the Court's findings and recommendations.

The first audit question focused on the FP7 rules for participation, which define the conditions for project selection, the participation of entities in the projects and the financing of projects such as funding rates and cost eligibility requirements. The Court found that the Commission has introduced a number of simplifications to the rules, mainly by rationalising requirements and improving guidance documents for beneficiaries. For example, bank guarantees had been replaced by the Participant Guarantee Fund, and the guidance documents have become shorter and clearer. New IT tools facilitate interaction between the Commission and beneficiaries, and specialised help desks for the latter have been introduced.

Nevertheless, despite the introduction of new modalities for funding under the FP7 based on flat rates, the financing based on actual costs remains the main funding model in FP7. This funding model is complex because of the high number of combinations of cost categories, methods for calculating costs and reimbursement rates. This is not only a burden for the beneficiaries but has also consequences for the administrative processes in the Commission. Simplification of the cost funding model is an important element of the proposal for the rules for participation in the next EU research Framework Programme Horizon 2020, and the Court of Auditors acknowledged this both in its Opinion 6/2012 on that proposal and in its present audit report.

The Court also found that the Commission has aligned FP7 provisions with beneficiaries' practices in some cases, for example to accept average personnel costs under certain conditions, but the objective of improving alignment of FP7 provisions with beneficiaries' practices has not been fully met. For instance, there was a low take-up of the ex-ante certification mechanism for the approval of beneficiaries' cost methodologies. The Court's interviews with research organisations and participants also revealed their positive reaction to the wider acceptance of the average personnel cost methodologies which the Commission introduced in January 2011, but in the

Court's view this decision came too late. Beneficiaries are also faced with inconsistencies related to implementation of some aspects of the rules for participation. In this regard, the Court welcomes as a step in the right direction to tackle these inconsistencies the establishment of the Research Clearing Committee. However, the Court has found that even though the Research Clearing Committee is effective in finding uniform positions on matters brought to its attention, the mechanisms put in place do not identify all divergent procedures.

The second audit question focused on processes, which the Court found to be geared to ensuring that funding is invested in high-quality research; however, with less focus on efficiency. The Commission's management of FP7 is strong in three areas - process design, improvement activities and management information, but less so as regards harmonisation of tools and alignment of resources. FP7 electronic tools generally compare favourably with those of most national funding agencies visited. On the front-office side, the IT tools have been improved by the Participant Portal and interaction with beneficiaries occurs mostly through the same tools across the research family. However, corresponding back-office tools have not been harmonised to the same extent. As regards resources, within the Cooperation Specific Programme which is the largest programme in financial terms, there are indications that the utilisation of staff resources varies significantly from one theme to another, even though the complexity of the project management is not significantly different.

Processing times for awarding grants have become shorter, and the audit has shown a clear trend towards shortening the time to grant and converging time to grant statistics per service with the continuing improvement of internal procedures. But the time to grant has only come down to nine months in 2012, and there have been differences between services during the first five years of FP7. As regards time to pay, on average more than 85 % of payments related to research grants were made on time.

The quality controls on the selection and follow-up of projects are functioning well, but the FP7 financial control model does not sufficiently take into account the risk of errors, so that low-risk researchers are subject to too many controls. The model differs significantly from those of the national funding agencies, which carry out more in-depth ex-ante checks and ex-post controls which are more risk-based. The

introduction at the end of 2011 of a single representative sample for the Commission's ex-post audits across its research family Directorates General constitutes an improvement, and the Court encourages the Commission to extend it to all parts of FP7.

The third audit question focused on two of the new instruments introduced under the FP7 – the Joint Technology Initiatives (JTIs) and the Risk Sharing Finance Facility (RSFF). The JTIs are long-term public-private partnerships combining private sector investment with EU and national public funding, supporting cooperative research across Europe. The RSFF is a financial instrument designed to improve access to debt financing of research, development and innovation investments on acceptable terms for private companies or public institutions promoting research activities. The Court found that the new instruments showed their potential to enhance the EU research funding landscape. For example, the responses of the beneficiaries to the Court's survey confirmed that the RSFF remained one of the few financial instruments available for public companies to maintain research, development and innovation activities, and that the RSFF loans contributed to avoiding the "brain drain" of highly qualified persons from the EU. However, the Court also found that the implementation of the JTIs has suffered from an overly complex legal framework which contains requirements not appropriate to their size and which requires the approval of the JTIs' governing board for a long list of administrative decisions, thus hampering the board's focus on strategic issues.

The Court's survey among the RSFF beneficiaries revealed that access to finance was not a major barrier to their investing in research, development and innovation. More than half of them stated that the lower interest rate was a decisive or major factor for taking a RSFF loan. This indicates that RSFF could have a crowding out effect. Furthermore, in December 2011, a revision of the cooperation agreement between the EIB and the Commission shifted the original risk sharing arrangements from the EIB to the EU, and the legal basis is not entirely clear on the level of risk that the EU could accept.

The Court of Auditors basically recommends the Commission to:

- Make further efforts to ensure that, in Horizon 2020, beneficiaries can use their usual practices when applying for funding;

- Improve the coherence in its management of the FP7;
- Ensure that resources are properly aligned, distribution of responsibilities harmonized and processes automated;
- Make its control activities more risk-driven; and
- Bring the JTIs' legal framework, together with the Legislative Authorities, more into line with their staff complement.
- Finally, the Commission should demonstrate that the RSFF is targeting beneficiaries with limited access to finance, and the risk-sharing arrangements between the Commission and the EIB should be more clearly set out in the legal basis.

Mr Chairman, Ms rapporteur, honourable Members of the European Parliament, as usual, also this Special Report contains the Commission's replies. I appreciate that the replies are constructive and the Commission accepts most of the Court's findings and recommendations. This means that the Court's audit of the efficiency of the implementation of the FP7 was relevant and useful, and I trust that it will add value not only for the management of the FP7 during the remaining period, but also for the design of the operational setup and implementing procedures of the next EU research Framework Programme Horizon 2020.

Thank you very much for your attention.

Commissioner Šemeta – SPEECH

Honourable Members, Ladies and Gentlemen,

I am pleased to present to you the Commission's 2012 Annual Report on the Protection of the EU's financial interests and the fight against fraud.

As you know, this report is an important part of the Commission's budgetary transparency on how EU funds are being managed and controlled across the Union.

Not only does it allow us an overview of the situation in each Member State, but it also serves to pinpoint where weaknesses remain. And, in doing so, it enables us to better target our actions against fraud and irregularities affecting EU funds.

As every year, the Report gives an overview of all the irregularities notified to the Commission by Member States in 2012, as well as the measures taken to address them.

It also contains recommendations for future improvements.

As for the **reporting method**, we have maintained two practices introduced last year which have proved useful:

- firstly, the clear **distinction between fraudulent and non-fraudulent irregularities**, as reported to us by the Member States;
- secondly, the practice of **harmonising information on preventive and corrective measures with the** figures contained in the EU's consolidated **annual accounts**.
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Meanwhile, there are two important new elements to this year's report, which reflect comments that this Committee has previously made in relation to the PIF report:

- First, we have re-evaluated the **link between detection and reporting** of irregularities by Member States.

From our intense analysis and contacts with national authorities, we are confident that their reporting of irregularities has improved a great deal over the past few years.

This is already progress. As you'll remember, I had, in previous years, expressed concerns that the reporting itself was inadequate.

However, if we assume now that fraud detected is mostly reported, it does mean that we need to take a fresh look at the figures.

Questions particularly arise in relation to those countries with very low levels of reported fraud.

Is the low number of reported irregularities really an indication that the fraud rate in that country is close to zero?

Or does it mean that there are issues with the detection of fraud in that country?

This is an issue that the Commission is committed to investigating further.

- Our second new feature in the 2012 Report is a greater analysis of those **irregularities reported as fraudulent**, in order to better understand their scope and nature, and how they are dealt with in Member States.

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Finally, in terms of structure, the report as usual contains additional information on one specific theme. This year, we focussed on the controls in the area of **agriculture**.

The usual **working documents are also annexed to the Report**, including a new one containing an annual overview of the Hercule II programme.

Turning now to the **substance of the report**:

First, **focussing on the figures** themselves, we see that the total number of **fraudulent activities** (1231) and their related amounts (€392 million) have remained largely stable in comparison to 2011.

While there is an increase of around 8 % in fraud on the expenditure side, this can be almost entirely linked to two particular cases involving pre-accession funds, which are now before the judiciary in the Member State concerned.

On the revenue side, reported fraud decreased by around 30% compared to the previous year, amounting to €7 million in 2012.

You will find other interesting information – as to the areas in which fraud occurs, the detected *modi operandi* or the complexity of cases – in the report.

Non-fraudulent irregularities (up by 6%), and their estimated financial impact (€2.9 million), weighed more heavily in 2012.

The explanation for this lies in the fact that financial corrections were implemented as the 2000-2006 programming period was closed in the area of Cohesion policy. Also, on-going programmes are being increasingly implemented as the current programming period draws to a close.

Equally important to note in this year's figures is that the Commission **recovered or corrected €4.5 billion** in undue payments last year.

Moreover, we took 187 decisions to interrupt payments (worth over €5 billion) in cohesion policy – 70 of which were still open at the end of 2012. There were also four suspension decisions still on-going at the end of the year.

This shows that these mechanisms to protect the EU budget – and indeed our taxpayers' money – are being put to effective use.

Moving on to another important conclusion we can draw from the 2012 PIF Report:

The reporting of fraud indeed seems to have improved across the board.

However, there are still very divergent approaches to detecting and following up on fraud across the Member States.

Some Member States deploy significant resources to counter fraud; others apply financial corrections without further investigation of potential criminal offences.

In fact, our initial findings show that approaches differ not only between Member States, but even between different administrations in the same country.

This is extremely concerning, given that, as a Union with a Single Market and shared budget, we are only as strong as our weakest link when it comes to fighting fraud.

At the same time, it is not a finding that takes us by surprise. And it was precisely for this reason that the Commission came forward with some crucial policy initiatives that I will outline to you in a moment.

On a more positive note, we see that certain actions that were taken to improve the protection the EU budget are having a real impact.

For example, an important trend noted in the report is that half of fraudulent irregularities were detected by anti-fraud bodies (both national and EU) and during criminal investigations. However, the other half were detected through administrative controls provided for in sectoral regulations.

This is a new development, and one that very much confirms our approach in the 2011 Commission Anti-Fraud Strategy to build up more structured cooperation and coordination of all those responsible for protecting EU funds.

We also see that Member States have followed up on many recommendations made to them in the 2011 report.

This is especially true for the use of the IMS reporting system, and the national risk assessment strategies for customs duties.

Before I conclude, allow me to do a quick recap of some of the **main anti-fraud policy measures** undertaken by the Commission over the past year or so.

These include:

- First steps to implement the new Anti-Fraud Strategy that I have just referred to. For instance, anti-fraud clauses have been included in many international and administrative cooperation agreements and the Commission's proposals for new public procurement rules also include anti-fraud provisions
- In July 2012, together with Vice-President Reding, I presented a proposal for a Directive on the protection of the Union's financial interests by means of criminal law. The main aim of this proposal is ensure to a more harmonised approach to punishing crimes involving the EU budget, so that criminals no longer exploit differences between national legal systems. As the European Parliament, you will have a very important role in ensuring this legislation is a success – but I will come back to that point in a moment.
- And, in July this year, we brought forward the ambitious proposal for a European Public Prosecutors Office. The focus is on creating a new, independent body that gives first priority to the fight against fraud across the EU and will therefore make us far more successful in this battle.
- Coupled to the EPPO proposal was a Communication on how to further improve the governance of OLAF, building on the already agreed reform of the Office. I am very much looking forward to in-depth discussions with you in the coming months on this initiative, and to hearing your views on the ideas we have outlined.

Honourable Members,

The 2012 PIF Report reminds us that, while we have made good progress at EU-level in tackling fraud to our common budget, much still remains to be done.

We are still seeing that some Member States give a rather low priority to following up on fraud to the EU budget. And national approaches to this follow-up fraud differ considerably.

The proposals put forward by the Commission for the EPPO and the PIF Directive, will ensure that fraud against the EU budget is given the due attention and proper follow-up, wherever it takes place in the EU.

We therefore need to make sure that these important initiatives are set in stone – as meaningful legislation – as soon as possible.

Regarding the **PIF Directive**, you know that the Council General Approach has watered down the Commission's proposal. In fact, the changes made even threaten the existing *acquis*.

I count here on Parliament to take a strong stance in favour of effective rules. And not to follow some reflections that – also in this house – appear to be taking the course of reducing the level of ambition of the Commission's proposal.

I therefore call on you, Honourable Members, to be with us on this and to push for real progress on this file in order to ensure an equivalent and effective protection of the EU budget throughout the Union.

I also count on your support in ensuring that the European Public Prosecutors Office is agreed and established as quickly as possible.

Because at the end of the day, I know that the European Parliament is every bit as committed to protecting EU taxpayers' money and fighting fraudsters as is the Commission. Our combined effort and dedication to this goal can deliver real results.

Thank you for your attention. I will be happy to respond now to any question you might have on this subject.
