



**COUNCIL OF
THE EUROPEAN UNION**

Brussels, 11 October 2012

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**PE 447
BUDGET 44
INST 580
JAI 694**

NOTE

from: General Secretariat of the Council
to: Delegations

Subject: Partial summary record of the meeting of the European Parliament **Committee on Budgetary Control (CONT)**, held in Brussels on 8 and 9 October 2012

The meeting was chaired by Ms IVANOVA (EPP, BG) and Mr THEURER (ALDE, DE).

Items 1 and 2 on the agenda

The agenda was adopted and the Chair invited to proceed with the votes.

Voting time

Item 3 on the agenda

The reform of the European Anti-Fraud Office (OLAF)

CONT/7/06265

Rapporteur: Ms GRÄBLE (PPE, DE)

Consideration and approval of the agreement

CONT approved the agreement on the OLAF reform, as set out in the final compromise text approved by COREPER in July 2012 (12735/12 ADD 1), with 19 votes in favour and two abstentions.

Commissioner SEMETA stated that the Commission would issue two declarations to be attached to the draft Regulation, the first one concerning the working arrangements between OLAF and the EP and the second one on respect of the Protocol on Immunities and the Statute of MEPs.

The draft Regulation aims in particular to strengthen the efficiency of the Office's investigations and the Office's governance, through a better balance between the independence and accountability of the Office. In this sense the new Regulation provides for enhanced cooperation between OLAF and national competent authorities, together with regular meetings on a political level between OLAF, the European Parliament, the Commission and the Council. New rules will also apply for the appointment of OLAF 's Supervisory Committee.

Item 4 on the agenda

Interim report in the interests of achieving a positive outcome of the Multiannual Financial Framework 2014-2020 approval procedure (2011/0177(APP))

CONT/7/09789

Rapporteur for the opinion: Mr MULDER (ALDE)

Rapporteur for the responsible committee (BUDG): Mr BÖGE (PPE)
Mr KALFIN (S&D)

- Adoption of draft opinion

The report was adopted, as amended, by a unanimous vote.

Item 5 on the agenda

Direct payments to farmers under support schemes within the framework of the CAP

CONT/7/07520

Rapporteur for the opinion: Ms HOHLMEIER (PPE)

Rapporteur for the responsible committee (AGRI): Mr CAPOULAS SANTOS (S&D)

- Adoption of draft opinion

The report was adopted, as amended, with 20 votes in favour and 1 abstention.

Item 6 on the agenda

2011 discharge: EU general budget, Section III, Commission

CONT/7/10295

Rapporteur: Mr GEIER (S&D, DE)

- Exchange of views

Mr SEMETA, Commissioner responsible for Taxation and Customs Union, Audit and Anti-Fraud, delivered the speech in Annex I.

Mr GEIER, the rapporteur, in his introductory remarks regretted that the situation had not improved substantially from last year, and that close monitoring of the implementation of EP recommendations was therefore necessary. He was interested in particular in three priority areas: errors in cohesion policy, weaknesses in the area of foreign aid, including the functioning of the EEAS and the inadequacy of the control and management systems within Member States. In addition he asked the Commission about steps undertaken to address the recurrent question of errors in public procurement. Finally, he noted that the situation in the research family had deteriorated in comparison to last year.

Ms GRÄBLE, supported by Mr THEURER, asked how, in the Commissioner's opinion, the EU budget could help in boosting growth and jobs within the eurozone members and how scrutiny of the Galileo system could be improved.

Mr SEMETA responded that the EU budget was an investment budget and that in a few Member States it financed about 70-80 % of the total national investment envelope. The idea of a separate eurozone budget was still under consideration and, in his view, only the next European Council could shed some more light on it. As regards public procurement, surprisingly the errors stemmed from more stringent national legislation. DG MARKT was analysing the issue and the International Accounting Standards (IAS) recommendations would be taken on board for the new public procurement rules. He also explained that the Commission had strengthened the management capacity of the Galileo project in order to mitigate the risks and, finally, on the issue of structural funds, he said that more effective application of sanction mechanisms (interruption and suspension of payments), better monitoring of the national audit authorities and the new provisions on the net financial corrections in the new proposal for 2014-2020 should bring positive results in the near future.

Item 7 on the agenda

The Commission's recent initiatives to fight against fraud and corruption and its interaction with the protection of the Union's financial interests

CONT/7/10675

Rapporteur: Mr GEIER (S&D)

- Exchange of views

Mr SEMETA, Commissioner responsible for Taxation and Customs Union, Audit and Anti-Fraud, delivered the speech in Annex II.

Mr SEMETA told Mr GEIER, who asked about the enforcement of the new legislation by MS, that some of the proposals in the legislative package would in part be directly applicable, as they would take the form of a Regulation and that there would be provisions on the enforceability of the legislation. He agreed with Mr BALCYTIS (S&D, LT) that MS have to define the national authority in charge of coordinating OLAF investigations within the MS, but recalled that a unified notion of smuggling across the EU could not be provided as it would conflict with the principle of subsidiarity. As Mr DE JONG asked about the EU added value of the proposals and whether any impact assessment would be carried out, Mr SEMETA responded that the impact assessment had been conducted and was available on the Commission website.

Item 8 on the agenda

Hercule III programme to promote activities in the field of the protection of the European Union's financial interests

CONT/7/08304

Rapporteur: Ms IVANOVA (PPE, BG)

- Consideration of draft report
- Deadline for tabling amendments: **23 October 2012, 12.00**

Ms IVANOVA, after recalling that Hercule III represented the “third phase” of Hercule I, the Community programme established in 2004, explained that her 22 amendments aimed at pursuing four main objectives: coordination within and amongst MS as well as between the Commission and the MS; transparency, mainly through the introduction of yearly reports; results, in particular by setting target levels, and co-financing up to 80 % for weaker MS. Mr KESSLER, OLAF's Director General, underlined the unique role of OLAF, vested with both policy-making and investigative functions. He denied a conflict between these two different functions and considered that OLAF was delivering well. Mr KESSLER stressed the importance of financing MS in acquiring scanners as these represented costly investments, that MS would not otherwise make, despite their key role in countering smuggling. Mr de JONG (GUE, NL), supported by Mr SKYLAKAKIS (ALDE, EL), criticised the higher rate of financing for vulnerable MS and proposed to address circumstances rather than specific MS. Mr de JONG also inquired about indicators to measure MS performance and asked about the future financing of the scheme, in particular if some tobacco industries were to discontinue their financing. Ms GRÄBLE expressed some concerns about the effectiveness of spending the money received from the tobacco industry. Mr GEIER highlighted the titanic effort required from certain MS in protecting the EU borders. Mr KESSLER clarified that, following an agreement between some tobacco industries, MS and the Commission, the tobacco industries had

agreed to pay annual sums to MS and the Commission. The Commission received 9,7 % of that sum and this represented revenue for the general EU budget. In that sense, it was the EU budget and not the tobacco industry that was financing the fight against fraud and smuggling. He stated that a report was to be published the following week with a list of projects funded by the Hercule programme in MS. He insisted that a high level of co-financing was needed to convince MS to pay up to EUR 2 million to buy a scanner. He recalled that smuggling was a phenomenon that was moving geographically, and was not limited to the eastern border.

Item 9 on the agenda

Special Report No 1/ 2012 (2011 discharge) – Effectiveness of European Union development aid for food security in sub-Saharan Africa

CONT/7/09092

Rapporteur: Mr STAES (Verts/ALE, BE)

- Consideration of draft report in the presence of Mr WESSBERG, Member of the European Court of Auditors responsible
- Deadline for tabling amendments: **15 October 2012, 12.00**

Mr WESSBERG delivered the speech in Annex III.

Mr STAES, rapporteur, welcomed the report and asked the Commission about its strategy to address food security, noting that it could not be reduced to food aid. Ms MATHIEU (EPP, FR) regretted that food security had been left out of the country strategy papers. Mr AUDY (EPP, FR) considered that more coordination of all donors was needed, and in particular between MS.

Ms GRÄBLE wondered whether fundamental policy changes were needed.

The Commission representative agreed with the European Court of Auditors (ECA) conclusions and gave some details of Commission action in support of food security. For the future, he stated that 50 indicators would help to identify countries with chronic food security problems. The aim was to strengthen the resilience capacity of such countries and mentioned Nigeria as a good example in overcoming such a crisis. He agreed that coordination of donors was key.

Item 10 on the agenda

Study on "Deterrence of fraud with EU Funds through investigative journalism in EU-27"

CONT/7/07893

Rapporteur: Mr STAES (Verts/ALE)

- Presentation of the study and exchange of views

NOT covered

Item 11 on the agenda

Special Report No 7/2012 (Discharge 2011) - The reform of the common organisation of the market in wine: Progress to date

CONT/7/09973

Rapporteur: Ms ORTIZ VILELLA (PPE, ES)

- Consideration of draft report in the presence of Mr Wögerbauer, the Member of the European Court of Auditors responsible
- Deadline for tabling amendments: **15 October 2012, 12.00**

Mr WÖGERBAUER recalled that the EU was the biggest wine producer in the world with a market share of 60 %, accounting for 5 % of the EU's agricultural production. The main problem it faced was the persistent imbalance between production and consumption. Consumption had dropped in the EU, especially in the main producing Member States - France, Italy and Spain. Moreover, consumption in MS was usually covered by wine imports, an indication of the loss of competitiveness of EU wine. Two most important measures taken by the EU had been a premium for grubbing-up and the restructuring and conversion of vineyards. In the three-year period of application of the grubbing-up scheme, the funds available were far exceeded by applications and the amount of funds for the three years totalled EUR 1.074 billion. Nevertheless, the expected quantitative reduction was not achieved.

The ECA recommended that the Commission establish an estimate of the balance between supply and demand in the wine sector based on updated data, included the planned liberalisation of planting rights.

Concerning the restructuring measures, the ECA recommended a clear definition of eligible restructuring operations. In order to avoid overcompensation, where payment was based on a flat rate per hectare, the Commission should require MS to check, at least on a random basis, that the EU subsidy did not exceed the eligible percentage of the actual costs.

The ECA concluded that an appropriate policy mix was needed to achieve the main objective of the reform, i.e. a better balance between supply and demand, in order to avoid any contradiction between grubbing-up and increasing yields by restructured vineyards.

Ms ORTIZ VILELLA, rapporteur, took note of the ECA finding that the EU financed the grubbing-up measure to reduce the surplus of wine, while at the same time restructuring and conversion measures led to some increases in vineyard yields. She encouraged the Commission to ensure that an appropriate policy mix was made available to avoid future imbalances. She also insisted on the need to carry out a study assessment of the planting rights liberalisation requested by 16 MS. In her view, free planting rights would impact on competition and quality of the vine.

The Commission representative disagreed about the existence of an imbalance between production and consumption of wine. He recalled that in the past two years the production of wine was lower than its consumption. Moreover, the positive trend in wine exports would be jeopardised by lack of supply. He recalled that grubbing-up schemes reduced yields in some MS and allowed some other producers to become competitive. He recalled that such measures allowed lower prices for EU wines, which made them competitive with wine imported from third countries. Concerning the reform of the wine sector, he recalled that a high-level working party had been appointed by Commissioner CIOLOS and that a report was to be tabled next November.

Item 12 on the agenda
Coordinators' meeting

The item was dealt with in camera.

Item 13 on the agenda
Any other business

No other business was discussed.

Item 14 on the agenda
Next meeting(s)

- 15 October 2012, 15.00 – 18.30 (Brussels)

Dear Chairman, Honourable Members, Ladies and Gentlemen,

Let me first thank you for giving me today the opportunity to present the most recent reports from the Commission which are of particular interest to this committee.

Firstly, the "follow-up report" by which the Commission presents in great details the measures and actions taken on the requests that this House and the Council presented during the 2010 discharge procedure.

Secondly, the "Synthesis report for 2011" : this is the report by which the Commission assumes its political responsibility for the management of resources and the achievement of objectives;

Finally, the Annual Report on internal audits carried out in 2011.

I know that this House attaches great importance to identifying the trend in the budget management performances. You want to see whether actions taken on recommendations actually improved the situation. So does the Commission.

Linking the successive discharge exercises enables all stakeholders comparing the performances in budget management but also identifying the weaknesses that deserve enhanced attention.

So let's start with the follow-up report.

You have received 3 documents:

A short report which presents the follow-up to the most "critical" requests of this House: on the one hand, the 4 priority actions and, on the other hand, key requests concerning the main EU policy areas;

Two – quite voluminous - Staff Working Documents. These documents contain the Commission's replies to each specific request from the European Parliament and the Council recommendation.

Let's focus on the four priority actions that we had already and thoroughly discussed before your vote in May.

First priority action.

Your first priority action was calling for a closer monitoring of the use of the Financial Engineering Instruments. The Commission accepted all your requests: some of them are already "done" – such as the amendment of the existing EU legal framework – and some others are imminent such as the regular reporting to the Discharge authority.

In this regard, I am pleased to inform you that you will receive by the end of this month a detailed report on how existing EU funded Financial Engineering Instruments are being implemented by the Member States.

Second priority action

The Commission also accepts many of the requests made under "priority action two" calling for an improvement of the Commission accountability chain. You will remember that I have handed over to this committee all Member States' annual summaries.

And we will continue to do so in the future, respecting fully the role of the discharge authority under the Treaty.

The Commission is also ready to improve further the quality and comparability of the annual activity reports. Horizontal services have strengthened the instructions, which now contain clearer guidance on many issues highlighted by this committee (for instance, how to estimate residual error rates, how to calculate amounts at risk...).

There are only few actions which – and this should not be a surprise – the Commission cannot accept. I am referring in particular to the signature by the Commissioners of the different Annual Activity reports.

The respective roles and responsibilities of the managers and the Commissioners are complementary but not similar.

Regular meetings take place between the Commissioners and their services to ensure the political level of the Commission is kept well informed about what is going on at management level. I can say that today's settings perfectly allow the Commissioners, individually and as a College, to fully assume their political responsibility.

Third priority action

In its replies to your third priority action, the Commission shares Parliament's views that pre-financing deserves more rigorous monitoring. I am confident that the changes that we have introduced in the Financial Regulation will help improving the monitoring and regular clearing of pre-financing payments.

Fourth priority action

Concerning the fourth priority action calling for an "effective sanctioning mechanisms in the area of Cohesion policy", let me reiterate the Commission's firm commitment to closely supervise the implementation of Cohesion policy programmes and to stop payments in case weaknesses identified are not addressed adequately.

The Commission tabled ambitious proposals for the next generation of cohesion funds. I would like to specifically refer to the net financial corrections proposal.

At this stage of the negotiations, we see that positions are moving away from what the Parliament actually requested in the discharge resolution. I can only reiterate my call for this House to support this proposal, including in the sectoral committees who are in the lead as co-legislators for the sectoral legal bases.

Role and responsibility of financial actors

Under the Treaty, the Commission shall implement the budget on its own responsibility. However, the reports of the Court of Auditors and our own audits reveal that without a strong commitment from other financial actors, in particular the Member States authorities, it would be impossible to guarantee the respect of the sound financial management principles.

Therefore, the Members States should not only "cooperate" with the Commission but should also share responsibility for the proper management of about 80% of the EU budget.

The amended Financial Regulation will be adopted later this month. It includes a number of substantial changes as regards the roles and responsibilities of financial actors, the sanctions vis-à-vis national administrations that don't manage adequately the budget and important simplification measures.

I do expect and believe that all these actions will contribute to improve the quality of the budget execution, by all actors.

Conclusion - Dialogue Commission-EP

You can see that a huge part of Parliament's requests are either already implemented or well advanced in the implementation process. This is indeed a success for this House, for your committee. But it is also a strong support for the Commission, as it reinforces its position in the current inter-institutional discussions on the future of the EU programmes.

This follow-up exercise demonstrates that we are effectively acting on your recommendations, including the ones based on the Court of Auditors annual reports. I do hope this will be duly taken into account in the assessment of our work.

Our constructive dialogue will further develop with the responsible Commissioners, in the framework of the hearings of the next discharge procedure which will start soon. I personally remain at your disposal for any possible further query you may raise.

I am now glad to present to you the Synthesis Report of Management Achievements in 2011 and the Annual Report on internal audits carried out in 2011.

First, the Synthesis Report of Management Achievements is an important accountability instrument by which the Commission assumes its political responsibility for the management of resources and the achievement of objectives.

Assuming this responsibility is an important political statement of the College. This is why the adoption of the Synthesis Report is given full visibility. It is on the agenda of the Commission weekly meeting, not only for information, but for proper discussion and collegial adoption by so-called "oral procedure".

The adoption of the synthesis follows on systematic dialogues between the Commissioners and their respective services before each Director-General signs his/her Annual Activity Report.

For these reasons, one can hardly consider the adoption of the Synthesis report as a pure formality. It is part of a dynamic and responsible accountability process within the Commission.

The Synthesis Report focuses on the assurance obtained through the Services' Annual Activity Reports including the reservations and the actions planned to address them.

The 2011 Synthesis presents a transparent overview of our achievements, but also of our weaknesses, in particular the twenty-seven reservations made this year by the Directors-General and on cross-cutting issues flowing from the Annual Activity Reports.

The report explains developments in the respective policy areas, as well as the actions to be taken in response to the weaknesses identified.

The Annual Activity Reports constitute a major source of information for the Court and for the Discharge Authority.

The Standing Instructions for the 2011 AARs have been fine-tuned to further improve the quality of the evidence supporting assurances made, and to enhance the readability of the reports.

At the same time, efforts have been made to further harmonise the reporting on issues such as the calculation of residual error rates or the use of multiannual materiality criteria in shared management.

Attentive readers of the Synthesis report did note major improvements towards a more objective and accurate determination of the scope of the reservations and the resulting financial exposure. These improvements include better consistency in the use of terminology, in the presentation of error rates, in the calculation of the amount at risk and the application of materiality criteria as well as the use of the best reliable information available in the shared management area.

All Authorising Officers by Delegation reported having reasonable assurance that the resources assigned to the activities have been used for their intended purpose and in accordance with the principles of sound financial management.

They also reported that their control procedures give the necessary guarantees concerning the legality and regularity of the underlying transactions.

However, due to a number of technical and structural factors, the number of reservations and the related quantification increased, presenting a situation that is globally closer to the findings of the Court of Auditors.

Generally, the most common issues in the reservations stem from the complex eligibility rules for grant beneficiaries and from the incorrect application of public procurement rules.

While progress has been made with current programmes, the Commission has proposed more ambitious simplifications for the future. The Synthesis Report sheds some light on a number of our initiatives in this regard. I would like to bring to your attention few of them:

1/ First, we expect positive effects for beneficiaries in the research field from the Common Representative Audit Sample (CRAS), being introduced across the Research family.

2/ Secondly, the revision of the Financial Regulation provides a new accountability framework. A substantial step forwards is the introduction of annual management declarations of assurance.

3/ Thirdly, the reports of the structural fund DG's provide more detailed information on suspensions, recoveries and financial corrections;

4/ Fourthly, in the annual activity reports, more focus is given on how policies have generated added value for EU society.

5/ And last but not least, the preparation of the sectoral proposals for the period after 2013 is a crucial occasion for the Commission to further improve the internal control environment, taking into account cost-benefit of controls and internal controls systems proportionate to risk.

Chairman, Honourable Members, Ladies and Gentlemen, the Synthesis process has improved further also thanks to your past suggestions and requests. I believe that the way it is organised today and the information it is providing to our stakeholders fulfil a number of expectations expressed in this committee in previous occasions.

I am very interested to hear from you how you assess this accountability process. I am open to any suggestions that could further improve it in the mutual interests of the Commission and the discharge authority.

Dear Chairman, Honourable Members of Parliament,

Let me now say a few words about the Annual Report on internal audits carried out in 2011, which has been adopted by the Commission on September 28th.

It is based on the internal report issued by the Internal Auditor on its audit work during 2011 that feeds his overall opinion on the state of financial management in the Commission, and that has been presented in support to the Synthesis Report.

The priority audits were set up in order to address the risks of error in financial transactions, and to verify that the levels of monitoring and implementation are adequate.

For this period, the Internal Auditor did not formulate critical recommendations. The rate of acceptance, by the audited services, of the very important recommendations issued by the IAS, is still close to 100%.

Finally, according to an annual stakeholders survey, 87 % of participants are of the opinion that the recommendations issued by the Internal Auditor lead to better risk control in the Commission and the Executive Agencies.

However, the Commission considers that there is still room for improvements on the level of implementation by the audited services, of the recommendations formulated by the IAS.

I would like to mention the main issues raised by our Internal Auditor and to explain the action taken to implement the corresponding recommendations:

(1) Under the theme "performance", the IAS considered that the first performance audits produced positive results, but highlighted the need to ensure that the activities of DGs can be subject to performance measurement.

The Commission considers that this type of audit is particularly relevant in a period where internal control systems are mature but where we also must strive to do more with fewer resources, and to demonstrate increased efficiency.

(2) Regarding the different policy areas, the Internal Auditor: underlines the need for a common audit strategy in the Research Area, recommends stronger supervision and controls both at Commission headquarters and in the EU Delegations in the domain of External Aid, and, concludes that the control strategies of the Structural Funds are on the right track.

(3) In the domain of "Information Technologies" the Commission has set up a new IT governance structure and taken a number of initiatives in order to rationalise its IT systems and to better integrate them.

To conclude, the Commission considers that the work performed by the Internal Auditor during 2011 complied with the international standards for the internal audit function.

But more than being standard compliant, the Commission also considers that the Internal Auditor has concretely contributed to improving the efficiency and the effectiveness of the Commission's management and control systems.

The Commission also concludes that its services provided the adequate action plans responding to the weaknesses identified and it will ensure, namely through the Audit Progress Committee, the regular monitoring of their effective and timely implementation.

Philippe Taverne, the new Head of the Commission's Internal audit service is available to reply to more specific questions you might have on this subject.

I thank you for your attention.

Dear Mr Chairman, honourable members, ladies and gentlemen,

Let me now turn to the second subject of my intervention in this Committee today, the Commission's current initiatives to fight fraud affecting the budget of the European Union. Next week, Mr Geier is organising a hearing here in the CONT committee on this subject, and I would like to thank him for inviting me to that hearing. However, I will have to be on my way to India that day. Therefore, Mr Kessler the Director-General of OLAF, will replace me on the 15th of October.

Nevertheless, the fight against fraud is a subject that is dear to my heart. Therefore I am very pleased that you have given me the opportunity to talk to you today about the initiatives that I have already launched in that area, and about those that are forthcoming.

While the OLAF reform has been on the agenda of the institutions for a long time, the next initiatives that I would like to mention to you are much more recent or even still to come.

In July 2012, the Commission adopted a proposal for a Directive on the protection of the financial interests of the EU by criminal law. This proposal, that I put forward together with my colleague, Vice-President Reding, aims to clarify, harmonise and strengthen Member States' criminal law as regards offences related to the EU budget.

Why is this Directive necessary?

There are currently considerable differences in the level of protection of the EU budget across Member States. Let me give you an example of what I mean: Since the year 2000, 281 out of a total of 647 cases transferred by OLAF to national judicial authorities were dismissed. This means, no further follow-up was given to these cases by the national judicial authorities. And even where such follow-up was given, the picture is not encouraging. Thus, conviction rates for these cases range from 14% to 80% across Member States, with an EU average of 41%.

These differences are largely due to a patchy legal framework in the EU.

The Directive we proposed in July should be a first step to remedy this problem. It contains three main elements:

Firstly, better definitions of offences affecting the EU's financial interests. This will ensure that all Member States have the same understanding of what behaviour is to be considered as criminal.

Secondly, minimum sanctions for these offences, in order to provide for equivalent, proportionate, but also sufficiently deterrent sanctions throughout the EU.

And thirdly, an extension of the statutory limitation, in order to make sure that investigators and prosecutors have enough time to carry out complex cross-border investigations in a thorough way.

This proposal has been transmitted to the European Parliament and the Council and I count on your support for its rapid adoption.

EPPO, PIF procedural measures and reform of Eurojust

Its rapid adoption is even more important as it fits into a greater plan of how we want to redesign the protection of the EU's financial interests in future.

In June next year, the Commission plans to put forward a proposal for the establishment of a European Public Prosecutor's Office, the so-called EPPO. Furthermore, we will propose a separate Directive on the harmonisation of procedural criminal law in the Member States in 2013. A proposal for the reform of Eurojust will complete this 2013 legislative package.

EPPO

As you are aware, the possibility to establish an EPPO “from Eurojust” has been enshrined in the Lisbon Treaty, in Article 86.

The reason for this is that criminality affecting the financial interests of the EU requires effective measures across the Member States. Experience has shown that national territoriality and jurisdiction do not provide the appropriate framework to combat complex cases which by their nature are European and go beyond the national context.

The current situation means that we are not able to give a clear response to the challenges posed by international – and often organised – crime. This is unacceptable, especially in view of the current economic and fiscal crisis in Europe. This crisis requires that we spend resources in such a way as to support growth of the licit economy. And that we do not let fraudsters pocket the money and run away with it. The European taxpayer rightly expects that we do better than that. However, in accordance with its basic regulation, OLAF can only conduct administrative anti-fraud investigations. The EPPO should contribute in a decisive manner to the criminal investigation and prosecution of offences against the EU budget. It could without difficulty gather evidence in all Member States and would possess the necessary expertise to investigate complex fraud cases.

With respect to the institutional framework in which the EPPO will operate, our services are currently examining different options. Furthermore, since the 2001 Green Paper of the Commission, preparatory research, has been conducted both at academic and practitioner level. The Commission’s proposal will build on this work and aim for the most effective – and at the same time most cost-efficient - solution.

Together with the initiative for the establishment of the EPPO, the Commission intends to propose a legal instrument on the strengthening of procedural rules for the protection of EU financial interests.

This proposal will aim in particular at improving the exchange of information in multi-disciplinary investigations.

Investigations which require the cooperation of administrative, tax, customs, police and judicial authorities are a challenge, in particular where authorities from different Member States are involved. However, we cannot afford any inefficiency if we want to combat crime effectively. Organised crime does not hesitate to communicate across borders - so neither should we. Also this instrument should facilitate the work of the EPPO. But it is equally important in the current institutional setting.

As last of our forthcoming legislative initiatives I would like to mention one which is not directly linked to the protection of the EU's financial interests. However, it is of similar importance for the European taxpayer.

I am referring to the protection of the euro. Discussions we have had with our experts have shown that we should not only care about the economic stability of the euro. We should also improve the protection of euro banknotes and coins by criminal law.

In particular, we need to make sure that authorities in all Member States can use those investigative methods that are at their disposal for the investigation of other serious crime. And we have to have harmonised and sufficiently deterrent criminal sanctions in place.

This is why the Commission intends to table a proposal for a Directive by the end of this year.

Now, to conclude, let me turn to our non-legislative initiatives.

Fight against cigarette smuggling

In that context, you might remember that my services tabled, in summer last year, the so-called Eastern Border Action Plan, in order to intensify our fight against the smuggling of cigarettes and alcohol at the Eastern Border of the EU.

Implementing this Action Plan has been a priority for me since then. Cigarette smuggling alone costs the EU and the Member States about 10 billion euros per year. In particular in times of tight public budgets this is a huge loss that we cannot tolerate.

Our work seems to show first results, as a recent study from the tobacco industry shows that the illegal market has shrunk to some extent, in particular in the Baltic countries.

However, looking at the entire European Union, illicit tobacco trade unfortunately seems to increase. This seems at least partially to be linked to the economic crisis. A recent study by KPMG comes to the conclusion that the illegal market in the Mediterranean has grown from 13% in 2010 to 19% in 2011, and also in the UK for example the market share of illegally traded cigarettes seems to be growing.

In order to adapt to this situation, my services have started to prepare a new Action Plan to fight cigarette smuggling. The idea is to have a strategy for the entire EU, which would not be limited to the Eastern Border.

We are at an early stage of our work which I plan to submit to the College of Commissioners in the first half of 2013. Our intention is to closely coordinate this initiative with all stakeholders, and in particular with the European Parliament. Any proposals and comments from your side will be welcome.

Finally, I would like to say a word about our work on fighting corruption.

OLAF is closely cooperating with other Commission services on the development of an EU anti-corruption reporting mechanism. This mechanism was announced in June 2011 in the Commission Communication on 'Fighting Corruption in the EU'. My colleague Cecilia Malmström and the Commission's Directorate General for Home Affairs are in the lead on this project. The first report will be published in summer 2013.

Each report will be composed of two main elements: cross-cutting issues of particular relevance to the EU, and selected issues specific to each Member State which will be highlighted in country analyses. While these recommendations will not be legally binding for the EU Member States, we will of course monitor their follow-up.

The Commission, in cooperation with external consultants, is furthermore working on a pilot project, which was assigned to OLAF by the European Parliament. Its primary objective is to develop a methodology to measure the costs of corruption in public procurement. It should also set benchmarks and provide recommendations for Member States.

This project should be finalised by the end of the year.]

Honourable members, ladies and gentlemen,

I think I have given you an overview on our most important, current and future initiatives to protect the EU's financial interests. However, much more work is going on in a less visible way in the Commission. This work is set out, together with the most recent figures on fraud, in the Commission's latest annual report on the protection of EU financial interests, which was adopted just before the summer break.

I look forward to having a detailed discussion with you on this report at one of your future meetings.

Thank you for your attention.