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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 5 and 6 November 2014

For the twentieth time in succession the Court of Auditors serves a negative opinion on EU payments. The estimated error rate is 4.7%. Member States are responsible for the material error rate. Top heavy EEAS to be addressed by the new HR.
Ms O'REILLY, Ombudsman, considers transparency vital to restoring citizens' trust in a time of economic crisis and calls on the Council to join the transparency register. Comments on revolving doors and Commissioner CANETE.

The meeting was chaired by Ms GRÄSSLE (EPP, DE).

1. **Presentation of the European Court of Auditors' Annual Report concerning the financial year 2013 by the President of the Court, Vítor Manuel da Silva Caldeira**

Mr CALDEIRA stated that 2013 was the last year of the previous programming period. Although revenues and commitments were legal and regular, he stressed that payments for 2013 were materially affected by errors. For this reason, the ECA had issued a negative opinion on their regularity and legality. Overall, the estimated error rate amounted to 4.7% which was slightly lower when compared with 4.8% in 2012. He stressed the positive impact of financial corrections in lowering the error rate, which would otherwise have been higher (6.3%).
Mr CALDEIRA stated that shared management was the main source of error (5.2%). The estimated error rate for money directly managed by the Commission was 3.7%. All sectors were affected by material errors, except administration. Regional policy and rural development were the most badly affected sectors.

Mr CALDEIRA also raised the issue of outstanding commitments and explained that this was a matter of concern, as payment ceilings were set to remain stable. As regards the financial engineering instruments, he observed that the disbursement rate remained low - under 50% at the end of 2013 - and that their complexity made it difficult for the ECA to audit them. As a whole, Mr CALDEIRA felt that focus on performance remained insufficient. He complained that Commission reporting was fragmented, saying that it did not address the EU 2020 Strategy and did not provide a comprehensive overview of results in terms of added value for the EU.
Ms GEORGIEVA, Commissioner in charge of Budget & Human Resources, stated that Mr JUNCKER in his mandate letter had given her the task of rebuilding EU credibility. She felt that a negative declaration of assurance by the ECA for the twentieth year in succession needed to be addressed as a matter of urgency. She emphasised the responsibility borne by MSs in the rate of error and pointed out that action had already been taken on the "preventive arm" through management training in MSs, and on the "remedial arm" through financial corrections that MSs had been asked to take. She also mentioned other measures taken to address the error rate. These comprised, in particular, a 10% retention in cohesion, management declarations and national declarations (on a voluntary basis), along with net financial corrections, interruptions and suspensions. She nevertheless warned against a further increase in controls, since this would have a negative impact in terms of bureaucratic burden. She added that the new generation of programmes under the Multiannual Financial Framework were performance-oriented. She stated that long term performance, in particular, was integrated into the new programmes and mentioned the creation of the Inter-institutional working group on performance.

Ms GRÄSSLE, rapporteur, insisted on the need for MSs to provide the Commission with appropriate information. She also expressed doubts on the solution provided by financial corrections, since the tax payer was to foot the bill at the end of the day. She also raised the question of the effectiveness of banks in managing the financial engineering instruments.
Mr ARTHUIS (ALDE, FR) raised, in particular, the issue of outstanding commitments and asked about an ECA assessment regarding their volume, in view of the conciliation procedure with the Council.
Outstanding commitments were also an issue for the speakers of the S&D, ECR, ALDE and EFDD groups.
Ms AYALA SENDER (S&D, ES) and Mr SARVAMAA (EPP, FI) considered that the Commission was not yet able to address the cause of the error rates, in particular as regards MSs spending. She raised the question as regards the suitability of the legislative tools. Mr THEURER (ALDE, DE) seconded this and considered that a result oriented budget spending was needed. Mr CZARNECKI (ECR, PL) considered that programmes were tailored more to spending than to EU added value. Mr de JONG (GUE, NL) added that lack of results in terms of EU added value made it difficult for the Dutch authorities to justify an additional contribution of EUR 640 million to the EU budget. Mr STAES (GREENS, BE) highlighted the fact that errors did not constitute fraud and that this should be made clear to the public. Mr VALLE (EFDD, IT) considered that MSs ensure that EU funds were spent more appropriately.

Mr CALDEIRA agreed that the level of outstanding commitments was too high and highlighted their high percentage they accounted for in the cohesion policy budget. He agreed with Mr GERBRANDY (ALDE, NL) that performance and EU added value should replace the current 'use it or lose it' approach in EU budget spending. He also argued that the new programming period should focus on targets, objectives and indicators to measure performance. Nevertheless, he felt that incentives should be provided to MSs to detect errors, thus avoiding any conflict of interest that could emerge if they were penalised for finding errors. He told Mr STAES that 14 cases had been brought to OLAF attention. Commissioner GEORGIEVA welcomed the fact that new programmes placed an emphasis on performance. However, she stated that her experience at the World BANK made her concerned about a possible shift towards projects whose performance was easy to measure, which may have a negative impact on durable growth. She said that there would be more focus on keeping programme implementation simple and highlighted gold plating by national authorities. National parliaments would be invited to be more proactive and to cooperate with national audit authorities to controlling EU spending. She agreed with Mr GEIER (S&D, DE) that the cooperation of national authorities had allowed early corrections and interruptions to protect the EU budget. She felt that the budgetary authorities' agreement was needed so as to prevent a further increase in outstanding commitments.

2. **European Investment Bank - Annual Report 2013**

Mr CZARNECKI (ECR, PL), rapporteur, concluded that the EIB worked well and stated that his draft report only included four suggestions for improvement. In his reply, Mr KNAPEN explained that the EIB could not provide a more exact definition of investment, since this was a treaty concept that was not for the EIB to interpret. On risk management, Mr KNAPEN reminded the rapporteur of the fact that risk management was the core business of the Bank. Its solid reputation had resulted in a triple A rating. He stressed that this was a useful instrument to ensure low interest rates on Member States' investments. As regards political strategies, he stressed that it was not for the EIB to define them, since its task was operational only. He told Ms GRÄSSLE that delays in financial disbursement were due to the differing absorption capacities of Member States or Regions. Technical support was provided by the EIB to shorten the gap between the signing of and disbursement on a contract. He would reply in writing on the amount paid to Ireland, Portugal and Greece. He then addressed the issue raised by some MEPs about the financing of SMEs and explained that the EIB could not deal with individual SMEs because of the small amount at stake and that it therefore operated through a mediator within Member States, usually a bank. The amount of available credit had increased, but demand was very low owing to the economic crisis (in response to a question put by AYALA SENDER). He told Mr VALLE (EFDD, IT) that intermediation by banks in Europe represented 70% of the total SMEs financing. However, in the United States the same share was represented by equity funds.

In his view equity funds were preferable. However, he felt that the trend would not change quickly in Europe. The EIB made 90% of its investments in the EU but had been allowed by the Finance Ministers of the Member States to invest 10% outside the EU, also in view of protecting EU interests abroad. He told Mr de JONG (GUE, NL) that the EIB applied a transparency policy allowing citizens to request and receive information. He also told him that integrity checks were carried out on counterparts, in particular so as to prevent tax evasion. On the project bond initiative, he told Mr ZANNI (EFDD, IT) that the pilot phase included a limited target of 5/7 projects and would continue until the end of 2015. In general, lending, blending and advising was the bank's motto when it came to the financing of projects, that needed to have an economic return to allow reimbursement, given that the EIB was not a charity agency.

3. Special Report No 11/2014 (2013 Discharge) "The establishment of the European External Action Service"

Mr CZARNECKI, rapporteur, first expressed his appreciation for the Court of Auditors' report. He expressed his view that the European External Action Service (EEAS) still had some teething problems. He highlighted, in particular, the EEAS reaction to the Ukraine crisis, which he felt was inadequate and dangerous for peace. He also pointed to problems in the geographical balance of senior staff, gender balance and monitoring of the EU delegations. MS JÄÄTTEENMÄKI (ALDE, FI) on behalf of the AFET committee mostly agreed with the rapporteur and added that the EEAS structure remained top heavy. Mr SARVAMAA asked about steps taken to promote clarification of the HR's role.

The EEAS representative stated that geographical balance was not an issue at AD level, while gender balance still represented a challenge. As for the HR's role, he referred to a paper by Ms ASHTON on lessons learnt in the functioning of the EEAS. He told in response to Mr ZELLER, who felt that the role of Special Representatives should be reconsidered, that the number of these Representatives had decreased. As regards the organigram, and the issue of the EEAS being top heavy, he observed that senior posts had already been reduced and that the new HR would take further decisions in due course.

4. Special Report No 8/2014 (2013 Discharge) "Has the Commission effectively managed the integration of coupled support into the Single Payment Scheme?"

On behalf of the ECA, Mr KUBIK stated that the Commission management of the Scheme had been only partially effective. He acknowledged that MSs had been involved in managing the scheme since 2010, but believed that the Commission should have provided detailed guidance, ensured that ceilings were not exceeded and that National legislation was in line with EU rules. In view of the new scheme applicable from 2015, he called on the Commission to issue clear guidance to Member States with clear guidance.

Ms SULIN (EPP, SL) rapporteur, stated that the EP had asked for the reduction of burdens on farmers and the end to unequal treatment. The Commission representative said that the ECA observations and recommendations had been observed by the Commission but pointed to the responsibility of MSs in managing the scheme and in providing appropriate information. In view of the entry into force of the new scheme, the Commission had prepared detailed implementing rules.

5. Follow-up of the 2012 discharge to the European Parliament

Mr VAUGHAN (S&D, UK), on behalf of Mr IVAN (S&D, RO), rapporteur, specifically inquired about the follow-up on internalisation of the security services, the assessment of the electoral information campaign and the savings through inter-institutional cooperation.
Mr WELLE highlighted the structural savings resulting from the reorganisation of the translation and interpreting services and from the lower costs in the purchase of a new building in Luxembourg. He also raised the issue of new savings opportunities. In particular, this was with regard to the cooperation agreement in place with the Committee of the Regions and the Economic and Social Committee, the scheduling of Committee meetings to start at 14.30, to allow longer interpretation, paperless policy and reduced translation of Committee's amendments. He stated that the policy of internalisation of security staff had encouraged their loyalty and had also resulted in budgetary savings. He explained that the Belgian government had been asked to improve security outside the building. An assessment of the information campaign showed that the campaign had reached out to 9 million citizens. He told Mr de JONG that the success of the campaign needed to be seen against the lower reduction of the voter turnout in EP elections compared to the average reduction of 2.5 % in turn-out in democratic countries from an election to another. The transparency of flat rate allowances was also raised (Mr HARNOTT and Mr GERBRANDY). Mr GERBRANDY, in particular, felt that the credibility of MEPs was at stake and complained that the Bureau had not yet set transparent criteria to calculate the amount of flat rate allowances, as requested by a Plenary resolution. Mr WELLE told Mr PIEPER that estimated savings from discontinuing the service of coffee and tea at the EP committee meetings amounted to EUR 500.000. Mr WELLE told Mr PARGNEUX (S&d, FR),rapporteur for the EP 2013 discharge, that the study on multimedia production would be available by the end of the year. He also mentioned the substantial increase of viewers of Europarl TV.

6. Exchange of views with the European Ombudsman, Emily O'Reilly, in the context of the on-going "revolving-doors" enquiry as regards the Commission

Ms O'REILLY highlighted the importance of conflicts of interest in the current period, when Commissioners and officials change professional activities, moving from the private to the public sector or vice versa. Poor supervision of such changes mean that conflicts of interest can remain undetected. This concerned, in particular, the risk of abuse of information. Ms O'REILLY commended the Commission for the way in which it had addressed the issue and stated that her office had issued a Recommendation in September. In her view, citizens paid more attention to transparency in times of economic crisis, as their trust in the EU institutions had declined. She felt that staff provisions in place were appropriate and praised the EP for the efforts made to achieve such a result. Implementation of the rules was unsatisfactory, in particular as regards decisions on staff entering a new professional activity, evaluation of the new activity, and measures taken in respect of those who did not pass on information regarding their new activity. She felt, in particular, that amended provisions should apply to senior staff, whose names should be published online, together with the limitations and conditions set by the institution as regards their new professional activities. She acknowledged that this may create problems with the EU provisions on data protection. On a general point, she told Ms GRÄSSLE that she was also concerned that data protection may be used as a pretext to reduce transparency. In view of this, she explained that she would meet the new European Data Protection Supervisor as soon as that person was appointed. More detailed provisions were also needed for staff leave on personal reasons and for staff who undertook another professional activity. She agreed with Mr SOLTES (GREENS, SL) that transparency was a key issue in the TTIP file and referred to her recommendation to the Council to publish the mandate. In her view, in order to restore citizens' trust, the Commission should make available a list of negotiating documents and also publish meetings with stakeholders. She told Ms AYALA SENDER, who had raised the issue of Mr CANETE's conflict of interest, that Commissioners had been approved by the EP and that it was not for her to comment in the absence of a complaint. As a rule, she considered that transparency could bring about a change in culture. She referred to the success of the transparency register, and lobbyists were extremely interested in being included on the register. In her view the register should be made mandatory and expanded to include the Council. In response to a request by Ms GRÄSSLE to testify in a discussion on conflict of interest of members of National Governments, she stated her belief that this pertained more to the political sphere.

7. Special Report No 11/2013 (2013 discharge) - Getting the Gross National Income (GNI) data right: a more structured and better-focused approach would improve the effectiveness of the Commission's verification

Mr STAES, rapporteur, emphasised that, despite its high level of technicality, GNI data calculation had become a source of political conflict. He stressed the importance of GNI, which contributed to 70% of EU budget revenues. In addition, he referred to the recommendations contained in the ECA special report[1]. Mr VAUGHAN stressed his belief that the Commission needed to clarify how the shadow economy was taken into account to calculate MSs contribution and the timing of the verification cycle, and how the procedure could be made more transparent. Mr ALI expressed strong criticism of the Commission's replies to the ECA. Mr CVIKL, Member of the ECA, insisted

[1] http://www.eca.europa.eu/Lists/ECADocuments/SR13_11/SR13_11_EN.pdf and doc. **13755/14.**

that the GNI calculation system was too complex and lacked transparency. Mr KRAFF, accounting officer of the Commission, stated that the ECA had concluded that revenues were regular. The EUROSTAT's representative said that no systematic errors had arisen and, as a rule, inconsistencies in the statistical models did not substantively affect the GNI calculation, as figures remained within the negligibility threshold. He acknowledged that timing was more of an issue, in particular given the overlapping of a number of deadlines last September. As for the definition of the shadow economy, he referred to agreed guidelines of the GNI Committee of October 2012 which extended the concept to drug production and trafficking, prostitution and cigarette smuggling. He stressed that the statistical data had been submitted to an MS Committee for approval. The representative of the Commission said that MSs pay monthly contributions on the basis of estimates. The following year, DG BUDG calculates the contribution MSs should have really paid on the basis of the statistical data as approved by the MS Committee. MSs should pay those contributions (balances) on the first working day of December. He then referred to the amending budget of EUR 9.5 billion that could offset MSs' contribution. This elicited a number of questions, in particular from Ms AYALA SENDER, on the use of surpluses, which she felt should go towards meeting outstanding commitments.

8. **Next meetings**

- 17 November 2014, 15.00 – 18.30 (Brussels)
- 20 November 2014, 9.00 – 12.30 (Brussels)