



Brussels, 20.7.2017  
SWD(2017) 266 final

PART 1/2

**COMMISSION STAFF WORKING DOCUMENT**

**Statistical evaluation of irregularities reported for 2016  
Own Resources, Natural Resources, Cohesion Policy, Pre-accession and Direct  
expenditure**

*Accompanying the document*

**REPORT FROM THE COMMISSION TO THE EUROPEAN PARLIAMENT AND  
THE COUNCIL**

**Protection of the European Union's financial interests - Fight against Fraud  
Annual Report 2016**

{COM(2017) 383 final}  
{SWD(2017) 267 final}  
{SWD(2017) 268 final}  
{SWD(2017) 269 final}  
{SWD(2017) 270 final}

## TABLE OF CONTENTS

COMMISSION STAFF WORKING DOCUMENT Statistical evaluation of irregularities reported for 2016 Own Resources, Natural Resources, Cohesion Policy, Pre-accession and Direct expenditure.....

LIST OF ABBREVIATIONS.....	3
1. Introduction.....	5
1.1. Scope of the document.....	5
1.2. Structure of the document.....	5
2. Traditional Own Resources .....	7
2.1. Introduction.....	7
2.2. General analysis – Trend analysis .....	7
2.2.1. Reporting Years 2012-2016.....	7
2.2.2. OWNRES data vs TOR collection .....	9
2.2.3. Recovery .....	10
2.3. Specific analysis .....	11
2.3.1. Irregularities reported as fraudulent.....	11
2.3.2. Irregularities not reported as fraudulent.....	15
2.4. Member States’ activities .....	18
2.4.1. Classification of cases as fraudulent and non-fraudulent and related rates .....	18
2.4.2. Recovery rates .....	19
2.4.3. Commission’s monitoring .....	20
3. Common Agricultural Policy (CAP) .....	22
3.1. Introduction.....	22
3.2. General analysis – Trend analysis .....	23
3.2.1. Irregularities reported 2012-2016 .....	23
3.2.2. Irregularities reported as fraudulent.....	25
3.2.3. Irregularities not reported as fraudulent.....	28
3.3. Specific analysis .....	30
3.3.2. <i>Fraud and Irregularity Detection Rates by CAP pillar</i> .....	33
3.3.3. <i>Market measures – fraudulent and non-fraudulent irregularities</i> .....	33
3.4. Anti-fraud activities of Member States.....	34
3.4.1. Duration of irregularities .....	35
3.4.2. Detection of irregularities reported as fraudulent by Member State .....	35
3.4.2.1. Reported in 2016.....	35

3.4.2.2.	Reported during the period 2012-16.....	36
3.4.3.	Fraud and Irregularity Detection Rates by Member State .....	37
3.4.4.	Ratio of established fraud / Dismissal ratio .....	41
3.5.	Recovery cases.....	42

## LIST OF ABBREVIATIONS

AMIF	Asylum, Migration and Integration Fund
CAP	Common Agricultural Policy
CF	Cohesion Fund
CFP	Common Fishery Policy
CMO	Common Organisation of the Markets
CN	Combined Nomenclature (Customs)
CP	Cohesion Policy
DetE	Detection Efficiency
DG	Directorate General
EAFRD	European Agricultural Fund for Rural Development
EAGF	European Agricultural Guarantee Fund
EC	European Commission
EFF	European Fisheries Fund
EMFF	European Maritime and Fisheries Fund
ER	Error Rate
ERDF	European Regional Development Fund
ESIF	European Structural and Investment Funds
ESF	European Social Fund
EU	European Union
EU-10	The ten Member States having acceded the EU in 2004
EU-12	The twelve Member States having acceded the EU between 2004 and 2007
EU-15	The fifteen Member States of the EU before the 2004 accession
EU-2	Bulgaria and Romania
EU-27	The 27 Member States before Croatian accession
EUR	Euro

FAL	Fraud Amount Level
FDR	Fraud Detection Rate
FEAD	Fund for European Aid to the most Deprived
FFL	Fraud Frequency Level
IDR	Irregularity Detection Rate
IMS	Irregularity Management System
ISF	Internal Security Fund
GNI	Gross National Income
HRR	Historical Recovery Rate
NR	Natural Resources
OLAF	European Anti-Fraud Office ( <i>Office pour la Lutte Antifraude</i> )
OWNRES	Web application for communication of irregularities in the field of Traditional Own Resources
RepE	Reporting Efficiency
RR	Recovery Rate
SME	Small and Medium Sized Enterprise
TFEU	Treaty on the Functioning of the European Union
TOR	Traditional Own Resources
YEI	Youth Employment Initiative

# **Statistical evaluation of irregularities reported for 2016**

## **Own Resources, Natural Resources, Cohesion Policy, Pre-accession and Direct expenditure**

### **1. INTRODUCTION**

#### **1.1. Scope of the document**

The present document<sup>1</sup> is based on the analysis of the notifications provided by national authorities of cases of irregularities and suspected or established fraud. The reporting is performed in fulfilment of a legal obligation enshrined in sectoral European legislation.

The document accompanies the Annual Report adopted on the basis of article 325 of the Treaty on the Functioning of the European Union (TFEU), according to which “The Commission, in cooperation with Member States, shall each year submit to the European Parliament and to the Council a report on the measures taken for the implementation of this article”.

For this reason, this document should be regarded as an analysis of the achievements of Member States.

The methodology (including the definition of terms and indicators), the data sources and the data capture systems are explained in detail in the *Commission Staff Working Document – Methodology for the Statistical Evaluation of Irregularities* accompanying the Annual Report on the Protection of the EU financial interests for the year 2015<sup>2</sup>.

#### **1.2. Structure of the document**

The present document is divided in two parts.

The first part is dedicated to the analysis of irregularities reported in the area of the Traditional Own Resources (Revenue).

The second part, concerning the expenditure part of the budget, is composed of three sections, dedicated, respectively, to shared, decentralised and centralised management modes.

The section dedicated to shared management, covers agriculture, cohesion policy and fisheries<sup>3</sup>. Decentralised management refers to the pre-accession policy, while the centralised management section mainly deals with internal and external policies for which the Commission directly manages the implementation.

The document is completed by 28 country factsheets, which summarise, for each Member State, the main indicators and information that have been recorded throughout the analyses.

11 Annexes complement the information and data of this document, providing a global overview of the irregularities reported according to the relevant sector regulations. Annexes from 1 to 10 concern Traditional Own Resources, Annex 11

---

<sup>1</sup> This document does not represent an official position of the Commission.

<sup>2</sup> SWD(2016)237final. [http://ec.europa.eu/anti-fraud/sites/antifraud/files/methodology\\_statistical\\_evaluation\\_2015\\_en.pdf](http://ec.europa.eu/anti-fraud/sites/antifraud/files/methodology_statistical_evaluation_2015_en.pdf)

<sup>3</sup> Contrary to previous years, Fishery policy is analysed together with Cohesion policy intervention.

covers all the expenditure sectors for which Member States and beneficiary countries have a reporting obligation.

# Part I - REVENUE

## 2. TRADITIONAL OWN RESOURCES

### 2.1. Introduction

The technical explanations and the statistical approach are explained in the accompanying document 'Methodology regarding the statistical evaluation of reported irregularities for 2015'.

The following analysis is based on the data available on the cut-off date (5 April 2017) and aims to provide an overview of the reported cases of fraud and irregularities reported for 2016 together with their financial impact.

### 2.2. General analysis – Trend analysis

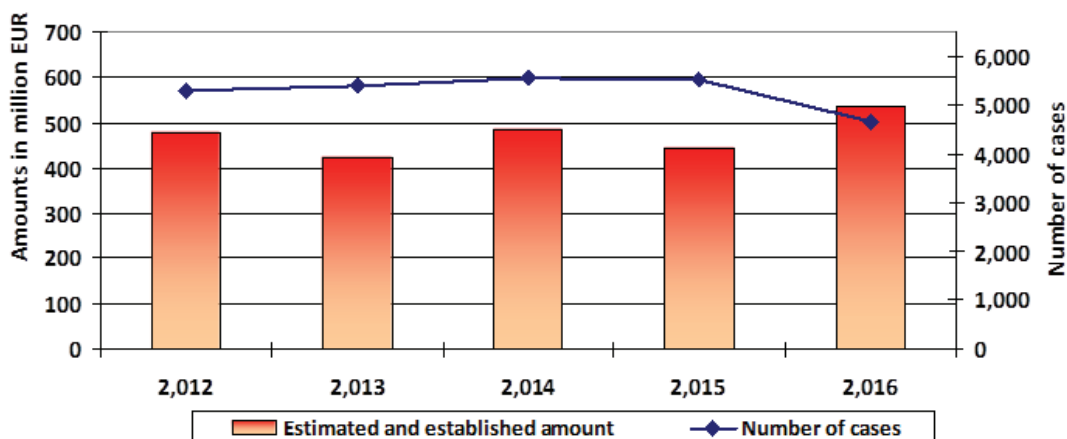
#### 2.2.1. Reporting Years 2012-2016

The number of cases reported via OWNRES for 2016 (4647) is about 12% *lower* than the average number of cases of irregular cases reported for the 2012-2016 period (5281).

The total estimated and established amount of TOR involved (EUR 537 million) is about 13% *higher* than the average estimated and established amount for years 2012-2016 (EUR 474 million).

In 2016, 5 big<sup>4</sup> cases for a total amount of about EUR 115<sup>5</sup> million were reported compared to 2015, when 2<sup>6</sup> big cases with a total amount of about EUR 31 million affected the total estimated and established amount. Luxemburg did not communicate any case exceeding an amount of EUR 10 000.

CHART TOR1: Total number of OWNRES cases and the related estimated and established amount (2012-2016)



Annex 1 of the summary tables shows the situation on the cut-off date (5 April 2017) for the years 2012-2016.

<sup>4</sup> Cases with an amount of TOR exceeding EUR 10 million.

<sup>5</sup> NL (3 cases – EUR 77.8 million) and the UK (2 cases – EUR 37.6 million).

<sup>6</sup> NL (2 cases – EUR 30.9 million).



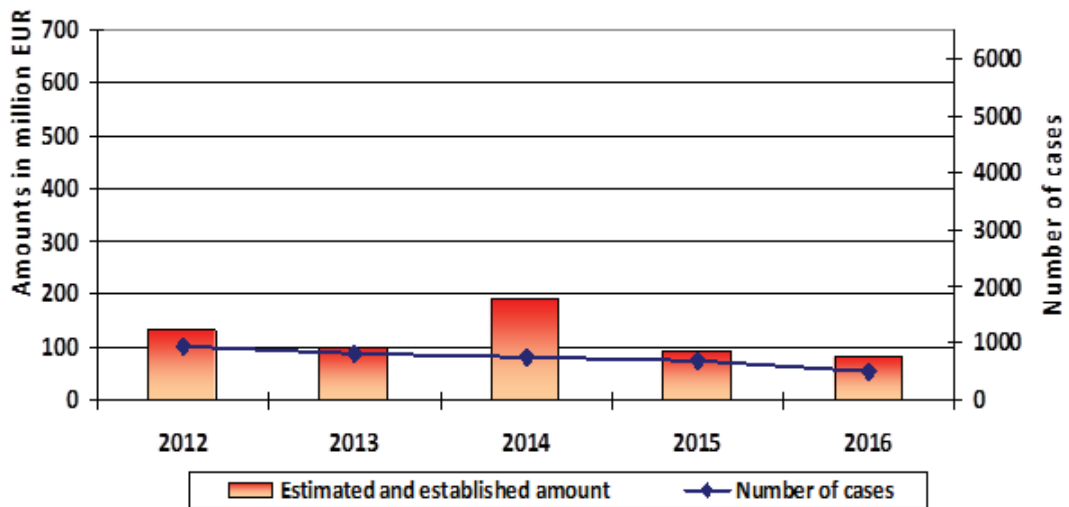
### 2.2.1.1. Irregularities reported as fraudulent

The number of cases reported as fraudulent registered in OWNRES for 2016 (513) is currently 32 % lower than the average number of cases reported for the 2012-2016 period (749).

The total estimated and established amount of TOR involved (EUR 83 million) represents a decrease of 30 % of the average estimated and established amount for the years 2012-2016 (EUR 119 million).

For 2016, Luxemburg, Portugal and Slovenia did not communicate any fraudulent case exceeding an amount of EUR 10 000.

CHART TOR2: OWNRES cases reported as fraudulent and the related estimated and established amount (2012-2016)



On the cut-off date, 11 % of all cases detected in 2016 were classified as fraudulent. The percentage remained quite stable in comparison to 2015.

Annex 2 of the summary tables shows the situation on the cut-off date for years 2012-2016.

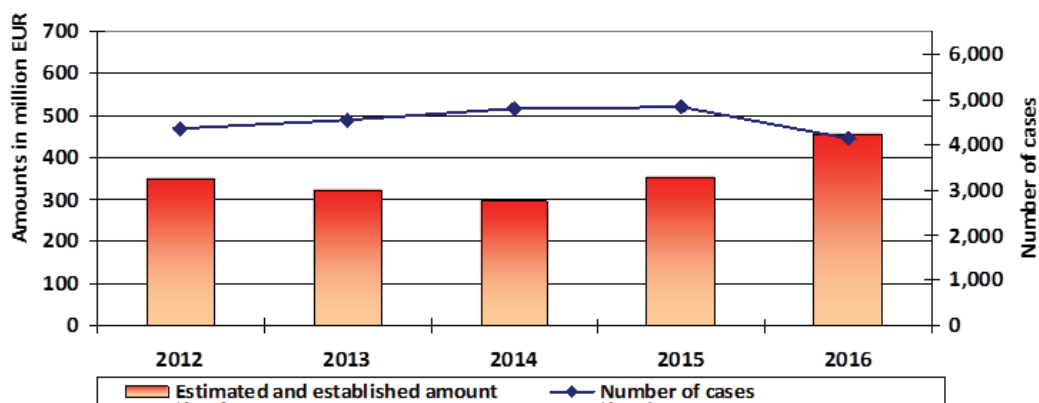
### 2.2.1.2. Irregularities not reported as fraudulent

At the same time, the number of cases not reported as fraudulent communicated via OWNRES for 2016 (4 134) was 9 % lower than the average number reported for 2012-2016 (4 532).

The total estimated and established amount of TOR (EUR 454 million) was 28 % higher than the average estimated and established amount for the years 2012-2016 (EUR 355 million).

Cyprus, Luxemburg and Malta did not report any case of irregularity exceeding an amount of EUR 10 000 for 2016.

CHART TOR3: OWNRES cases not reported as fraudulent and the related estimated and established amount (2012-2016)



Annex 3 of the summary tables shows the situation on the cut-off date for years 2012-2016.

### 2.2.2. OWNRES data vs TOR collection

In 2016, the total established amount of TOR (gross) was EUR 25.7 billion and more than 98% was duly recovered and made available to the Commission via the A-account. According to the OWNRES data, around EUR 537 million has been *established or estimated* by the Member States in connection with cases reported as fraudulent/not fraudulent where the amount at stake exceeds EUR 10 000.

The total estimated and established amount reported in OWNRES represent 2.14% of the total collected TOR (gross) amount in 2016.<sup>7</sup> This proportion has increased compared with 2015 when it was 1.71%<sup>8</sup>. A percentage of 2.14% indicates that of every EUR 100 of TOR (gross) established, an amount of EUR 2.14 is registered as irregular (fraudulent or non-fraudulent) in OWNRES. There are differences among the Member States. In 11 Member States<sup>9</sup>, the percentage is above the average of 2.14%. The highest percentage for 2016 can be seen in Latvia, Greece and Austria with 7.35%, 7.14% and 6.07% respectively.

For the seven<sup>10</sup> Member States which established and made available most of the TOR amounts, the percentage of the estimated and established OWNRES amounts to established TOR for 2016 was equal to 2.13%. In comparison with the previous year, this represents an increase of 0.38%. For Belgium, the proportion of estimated and established OWNRES amounts to established TOR remained almost stable in 2016 compared to the previous year, while for Germany it has decreased. For other five Member States, the proportion of estimated and established OWNRES amounts to established TOR increased in 2016 compared to the previous year.

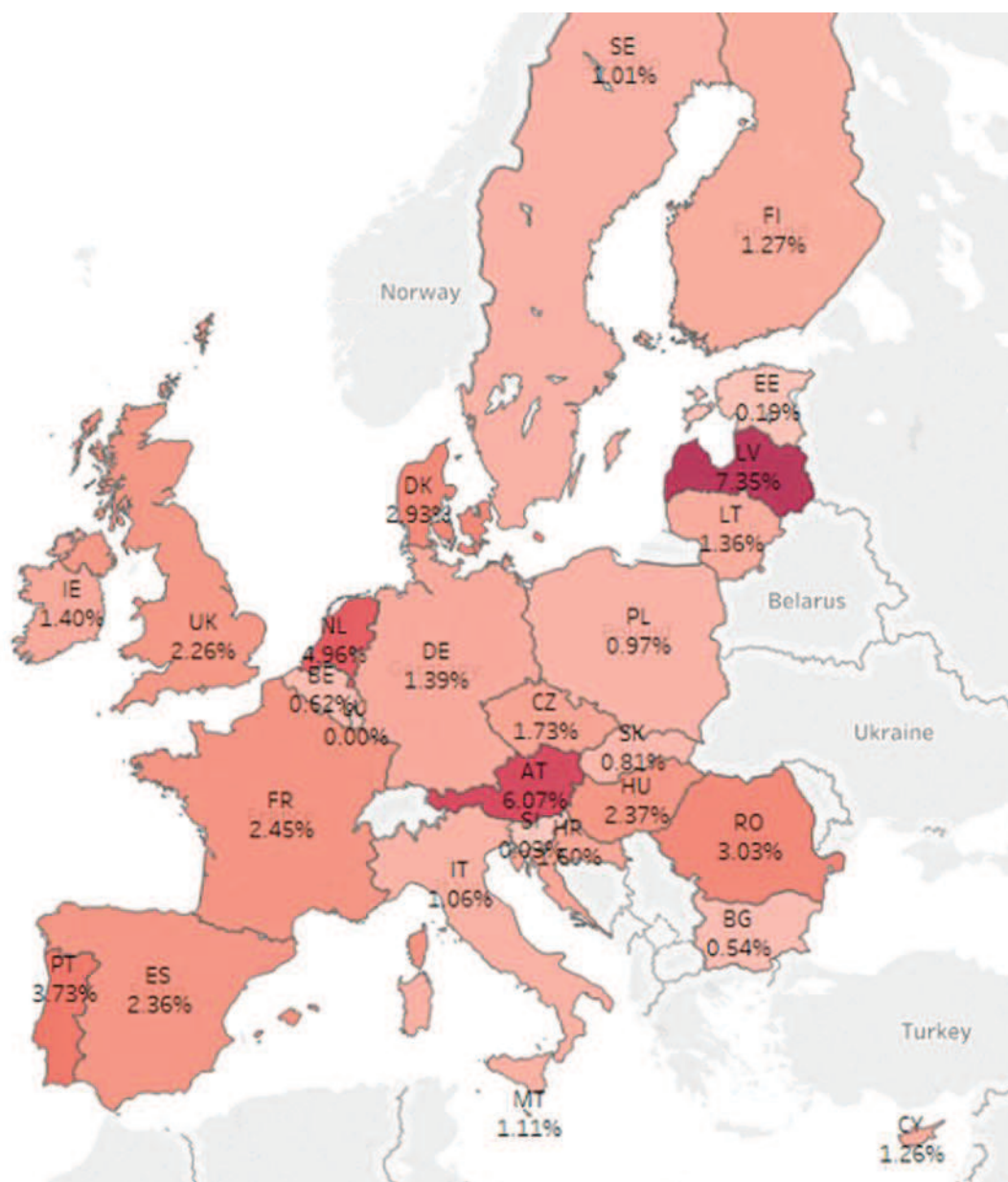
<sup>7</sup> See Annex 4.

<sup>8</sup> On the cut-off date.

<sup>9</sup> Denmark, Greece, Spain, France, Latvia, Hungary, the Netherlands, Austria, Portugal, Romania and the UK.

<sup>10</sup> Germany, the Netherlands, Belgium, Italy, France, Spain and the UK.

*TOR MAP1: Showing the percentage of established and estimated amounts in OWNRES of established TOR for 2016*



### 2.2.3. Recovery

The fraud and irregularity cases detected in 2016 correspond to an established amount of EUR 525 million<sup>11</sup>. Nearly EUR 189<sup>12</sup> million of this was recovered in cases where an irregularity was at stake and EUR 17<sup>13</sup> million in fraudulent cases. In total EUR 205 million was recovered by all Member States for all cases which were detected in 2016. In absolute numbers, Germany recovered the highest amount in 2016 (EUR 66 million) followed by the United Kingdom (EUR 32 million). This is a starting point for the recovery. Analysis shows that lengthy recovery procedures spread over several years are usually required due to administrative and judicial procedures in complex cases or cases with huge financial impact.

<sup>11</sup> The estimated amounts are excluded.

<sup>12</sup> See Annex 9.

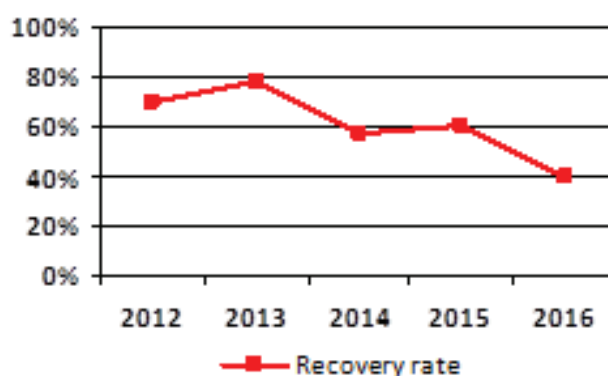
<sup>13</sup> See Annex 9.

In addition, Member States continued their recovery actions related to the detected cases of previous years. The EU-28 recovered EUR 139 million in 2016 related to cases detected between 1989 and 2015.

### 2.2.3.1. Recovery rates

Over the past five years the annual recovery rate has varied between 39 % and 78 % (see Chart TOR4). The recovery rate for 2016 is currently 39 %<sup>14</sup>. In other words, out of every amount over EUR 10 000 of duties established and reported for 2016 in OWNRES as irregular/fraudulent, approximately EUR 3 900 has already been paid.

CHART TOR4: Annual recovery rates (2012-2016)



The overall recovery rate is a correlation between the detection, the established amount and the current recovery stage of individual cases (high additional duty claims are more frequently associated with long lasting administrative and criminal procedures).

Recovery rates vary among the Member States. The highest recovery rates for 2016 are in Estonia (100%), Slovenia (100%), Sweden (97%), Germany (92%), Czech Republic (88%) and Finland (84%). Differences in recovery results may arise from factors such as the type of fraud or irregularity, or the type of debtor involved. Because recovery is ongoing, it can be expected that the recovery rate for 2016 will also go up in the future.

On the cut-off date, the overall recovery rate for all years 1989-2016 was 61 %.

## 2.3. Specific analysis

### 2.3.1. Irregularities reported as fraudulent

#### 2.3.1.1. Modus operandi

A breakdown of frauds by mechanism type reveals that most fraudulent cases relate to smuggling of goods. Incorrect value, country of origin, country of dispatch, or incorrect classification are frequently mentioned in 2016.

In 2016, the customs procedure ‘release for free circulation remained the procedure most vulnerable to fraud (79% of the number of cases and 84% of the estimated and

<sup>14</sup> See Annex 5.

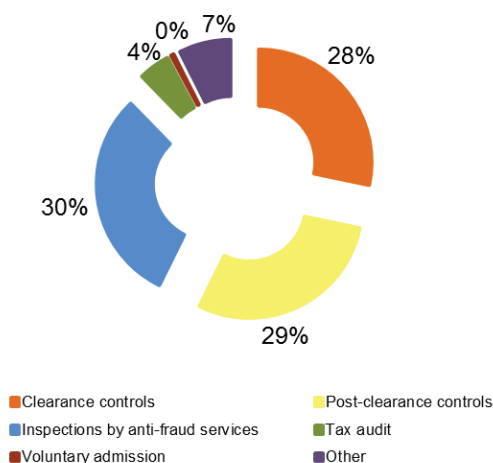
established amount). A total of 13 % of all cases reported as fraudulent and 8 %<sup>15</sup> of all estimated and established amounts in OWNRES cases registered as fraudulent for 2016 fall under the category "Other".<sup>16</sup> A total of 7% of all cases reported as fraudulent and 8% of all estimated and established amounts in OWNRES cases registered as fraudulent for 2016 involve the transit procedure.

Of all cases reported as fraudulent about 72 % concern such goods as tobacco, textiles, articles of iron and steel, electrical machinery and equipment, and vehicles. In monetary terms those groups of goods represent about 71 % of all amounts estimated and established for cases reported as fraudulent. China, Morocco, United Arab Emirates and Malaysia are the most important - in monetary terms - countries of origin of goods affected by fraud.

### 2.3.1.2. Method of detection of fraud cases

In 2016<sup>17</sup>, inspections by anti-fraud services (30 %) and customs controls carried out at the time of clearance of goods (29 %) and post-clearance controls (28 %) were almost equally successful methods of detecting fraudulent cases.

CHART TOR5: Method of detection 2016 – Cases reported as fraudulent – by number of cases



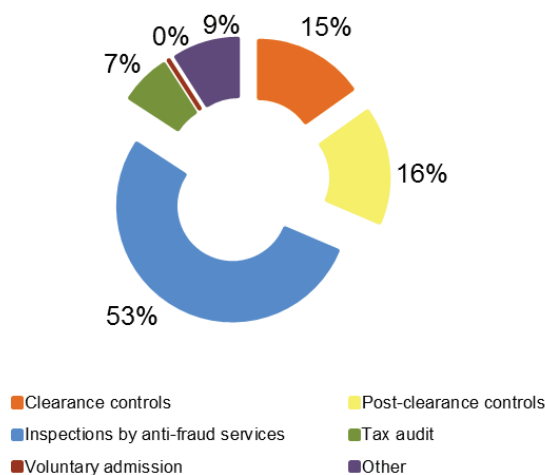
In monetary terms, of the EUR 83 million estimated or established in fraudulent cases registered for 2016, around 53 % were discovered during an inspection by anti-fraud services, 16 % during a post-clearance control, 15 % during a control at the time of clearance of goods.

<sup>15</sup> This is mainly due to the cases of cigarette smuggling detected in free zones or free warehouses and reported by Greece.

<sup>16</sup> The category "Other" combines, among others, the following procedures or treatments: Processing under customs control, temporary admission, outward processing and standard exchange system, exportation, free zone or free warehousing, reexportation, destruction and abandonment to the Exchequer.

<sup>17</sup> See Annexes 7 and 8.

CHART TOR6: Method of detection 2016 – Cases reported as fraudulent – by established amounts



In 8 Member States more than 50% of all estimated and established amount in fraudulent cases were detected by anti-fraud services<sup>18</sup>. As regards amounts, controls at the time of clearance of goods were the most important method for detecting fraudulent instances in Greece, Croatia, Latvia, Lithuania, Finland and the United Kingdom whereas post-clearance controls were in Bulgaria, Hungary, Poland and Slovakia.

In Cyprus and Austria the greatest part (89% and 69% respectively) of all estimated and established amounts in fraudulent cases were detected by an inspection by services or bodies other than customs.

**Case study: Portugal, fraudulent import declarations of steel**

*In 2015, the Portuguese customs authorities (Tax and Customs Authority – AT) opened an investigation into a complaint concerning suspicions that, in 2013 and 2014, Portuguese companies had been making fraudulent declarations of imports of ‘flat-rolled products of non-alloy and alloy steel which are painted, varnished or coated with plastics on at least one side’. The companies were declaring the origin of the goods as Vietnam, when in fact they were from China, to avoid paying anti-dumping and countervailing duties.*

*As part of the nationwide investigation, the documents seized and information gathered were analysed (relating to the companies involved and the products traded), including commercial documentation, contracts, electronic communications between the Portuguese companies and the Chinese supplier and the product references (same type and price before and after the imposition of the anti-dumping duties). This led to the conclusion that the case under investigation was a specific type of commercial fraud, whereby the goods are transited through countries for which the EU does not have trade measures in place, meaning that the true origin of the goods traded is artificially ‘lost’, and, as a result of this illicit practice, the duties due are avoided.*

*This transiting of goods involved the fraudulent use of Vietnamese companies as the supposed producers of the goods, and traders based in Hong Kong and Singapore were used to export the goods to importers in the EU. In short, once trade measures began to be applied to Chinese goods, the imports were then brought into the EU through intermediaries (and not directly from the Chinese companies, as had previously been the case). The intermediaries were the link between the two Vietnamese companies (the ‘fraudulent’ suppliers) and the EU importers.*

*On the basis of the evidence gathered, on 19 January 2016 the AT sent the information to OLAF, in accordance with Council Regulation (EC) No 515/97 of 13 March 1997, so that an on-site visit to Vietnam could take place. In the course of the investigation carried out by OLAF in Vietnam, and with the full cooperation of the Member*

<sup>18</sup> Belgium, the Czech Republic, Denmark, Germany, Ireland, Spain, France and Romania.

*States' authorities, and particularly the AT, and with the help of the Vietnamese Ministry of Industry and Trade (MOIT) and the Vietnamese Chamber of Commerce and Industry (VCCI), it was proven that the goods imported into the EU were Chinese and that anti-dumping and countervailing duties had indeed been avoided.*

### 2.3.1.3. Smuggled cigarettes

In 2016, there were 147 cases of smuggled cigarettes registered (CN code<sup>19</sup> 24 02 20 90) involving estimated TOR of around EUR 25 million. In 2015 the number of cases of smuggled cigarettes was 241, totalling around EUR 31 million.

The highest number of cases was reported by Poland (29) and Greece (27). The highest amount was reported by Greece (EUR 13.3 million). No cases were reported by ten Member States<sup>20</sup>.

Table TOR1: Cases of smuggled cigarettes in 2016

TOR: Cases of smuggled cigarettes in 2016		
MS	Cases	Established and estimated amount
	N	EUR
BE	4	2,409,819
BG	1	170,896
CZ	1	118,131
DE	5	225,088
IE	3	445,574
EL	27	13,288,089
ES	9	617,317
FR	15	1,294,284
HR	1	284,373
IT	4	1,327,532
LV	7	422,035
LT	9	246,756
AT	3	273,695
PL	29	1,681,717
RO	14	1,779,270
FI	5	107,717
SE	2	101,720
UK	8	279,810
<b>Total</b>	<b>147</b>	<b>25,073,822</b>

### 2.3.1.4. Cases reported as fraudulent by amount

In 2016, the estimated and established amount was below EUR 50 000 in 378 cases reported as fraudulent (74% of all fraud cases), whereas it was above EUR 50 000 in 135 cases (26%).

<sup>19</sup> Combined nomenclature or CN – nomenclature of the Common Customs Tariff.

<sup>20</sup> Denmark, Estonia, Cyprus, Malta, Luxembourg, Hungary, the Netherlands, Portugal, Slovenia and Slovakia.



The total estimated and established amount in cases reported as fraudulent, where the amount at stake was above EUR 50 000, amounted to EUR 66 million (79% of the total estimated and established amount for cases reported as fraudulent).

Table TOR2: Cases reported as fraudulent by amount category in 2016

Table TOR2: Cases reported as fraudulent by amount category in 2016		
Amount, EUR	N	Estimated and established amount, EUR
< 50 000	378	17,250,722
>= 50 000	135	65,733,647
<b>Total</b>	<b>513</b>	<b>82,984,369</b>

### 2.3.2. Irregularities not reported as fraudulent

#### 2.3.2.1. Modus operandi

A breakdown of irregularities by mechanism type shows that most cases of irregularity relate to incorrect declarations (incorrect classification, customs value or country of origin or dispatch) and formal shortcomings (incorrect use of preferential arrangements or failure to fulfil obligations or commitments).

Not all customs procedures are equally susceptible to irregularities; their vulnerability may change in the course of time as certain economic sectors are briefly targeted. The customs procedure ‘release for free circulation’ is the customs procedure mostly affected by irregularities since at the time of release for free circulation the non-compliance in the customs declaration may relate to a large number of irregularities, e.g. to the tariff, CN code, (preferential) origin, incorrect value, etc. On the other hand, in customs suspension regimes (like warehousing, transit, etc. - where the payment of duties is suspended) the sole irregularity that might occur is the subtraction of the goods from customs supervision. Thus it is normal, and indeed to be expected, that most fraud and irregularities be reported in connection with the procedure ‘release for free circulation’.

In 2016 most of the estimated and established amounts in OWNRES in the EU-28 (72%) for cases reported as non-fraudulent related to the customs procedure ‘release for free circulation’.<sup>21</sup> In all, 19% of all amounts estimated or established in cases not reported as fraudulent in 2016 involved customs warehousing<sup>22</sup>, 8% of all amounts estimated or established related to inward processing. Other customs procedures are only marginally affected in 2016.

Of all cases reported as non-fraudulent about 49 % concern electrical and mechanical machinery, vehicles, mechanical appliances, plastics, articles of iron and steel and textiles. In monetary terms those groups of goods represent about 46 % of all amounts estimated or established for cases reported as non-fraudulent. China, USA, Taiwan, Brazil, Russia are - in monetary terms - the most important countries of origin of goods affected by irregularities.

<sup>21</sup> See Annex 6.

<sup>22</sup> In relation to inward processing Germany and the United Kingdom reported cases amounting to EUR 15.9 and 12 million respectively.



#### **Case study: Poland, EU budget revenue - irregularities regarding the import of apple concentrate**

*The market for concentrate produced in Ukraine and Moldova (for export to the EU) is dominated by factories belonging to a single group. The group transports concentrate from its factories in Ukraine and Moldova to factories in Poland and on to Western Europe. Following its release for free circulation some of the concentrate is exported from the EU (USA, Canada, Russia). Before actually entering the EU the goods are subject to purchase/sale (chain transactions). In most transactions the exporters to the EU are companies registered in Great Britain.*

*The aim of creating trading scenarios in which the major player in the production of apple concentrate in Ukraine and Moldova does not appear as the actual exporter of the goods from Ukraine and creates a chain of purchases/sales is, inter alia:*

- *to avoid challenges from the EU customs authorities concerning direct links between the exporter and the importer that might affect the value of the goods entered in the declaration of release for free circulation;*
- *to avoid challenges from the Ukrainian tax and customs authorities regarding fraudulent VAT evasion (overdeclaration of the value of the goods at export) or irregularities linked to corporate income tax.*

*There are cases where one of the group presents, in the declaration for release for free circulation, invoices, transfers and contracts relating to companies in the chain, whereas it is actually selling the goods to itself (moving between the establishments from UA/MD to PL).*

*The above situation is highly relevant where there is a risk that the customs value of goods has been underdeclared. In such cases the importer's claims that changes to the prices result from slumps in the market, which it itself largely controls, should be treated with caution (Ukraine - Moldova). In the case of customs declarations concerning apple concentrate, the real risks are aggravated by additional risk factors:*

- *correct tariff classification;*
- *correct use of preferential tariff quotas.*

*All risks are present at the same time and can have fiscal consequences.*

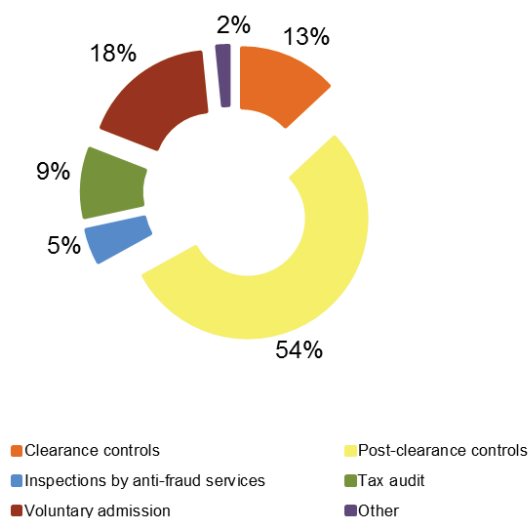
#### **2.3.2.2. Method of detection of non-fraudulent cases**

In 2016, most non-fraudulent cases (54%) were revealed during post-clearance customs controls. Other methods of detection for non-fraudulent cases that featured frequently were voluntary admission (18%), clearance controls (13%), tax audits (9%), followed by anti-fraud services (5%).<sup>23</sup>

---

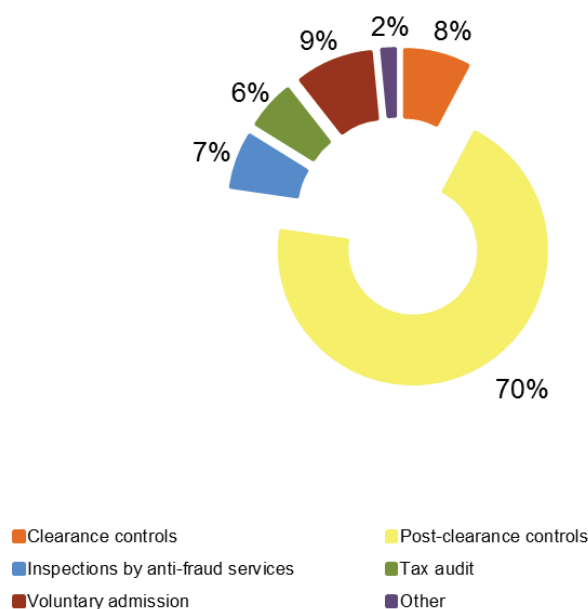
<sup>23</sup> See Annex 7 and 8.

CHART TOR7: Method of detection 2016 – Cases not reported as fraudulent – by number of cases



Considering *the estimated or established amounts*, around 70% of all irregularity cases registered for 2016 were discovered during a post-clearance control, 9% were related to voluntary admission, 8% were found during a control at the time of clearance of goods, whereas 7% related to a tax audit, and 6% to an inspection by anti-fraud services.

CHART TOR8: Method of detection 2016 – Cases not reported as fraudulent – by established amounts



In 15 Member States, more than 50% of all non-fraudulent cases — in amounts — were detected by post-clearance controls.<sup>24</sup> In France and Romania more than 50% of the amounts relating to non-fraudulent cases were detected by anti-fraud services.

<sup>24</sup> Bulgaria, the Czech Republic, Denmark, Estonia, Croatia, Italy, Latvia, Lithuania, Hungary, the Netherlands, Poland, Portugal, Slovenia, Sweden and the UK.

Significant amounts were reported as non-fraudulent following voluntary admission by the United Kingdom (EUR 13 million) and Germany (EUR 12 million). In 16 Member States voluntary admission was keyed in as a method of detection of cases reported as non-fraudulent.

### 2.3.2.3. Solar panels vulnerable to irregularities – mutual assistance

In 2016, solar panels originating in China were especially vulnerable to non-fraudulent irregularities in monetary terms. About 21 % (EUR 97 million) of the total amount that was established in non-fraudulent irregularities concerned this type of goods. Incorrect country of origin or dispatching country was the main pattern of the infringement reported. The Netherlands and the United Kingdom were particularly affected by this type of goods and infringement. Other 11 Member States reported also cases related to solar panels to a smaller extent<sup>25</sup>. Following Mutual Assistance notices issued by OLAF 59 cases totalling to 32 million were detected. This underlines the importance of investigations conducted by OLAF in this particular field.

#### **Case study: Netherlands, Customs – evasion antidumping solar panels/confiscation**

*Last year we reported on the coordination group on solar panels. In 2016, a number of successful results were reported. Due to the coordination group, DG Trade was informed about companies that were involved in the misuse of the Minimum Import Prices of solar panels (MIP). We confiscated in one case 43 containers with solar panels and in the same investigation, €4 million in anti-dumping was recovered. In several cases of solar panels a total of €27 million was involved and another 27 containers with solar panels were blocked as a guarantee for payment. The working method with a dedicated group on a specific issue, e.g. antidumping on solar panels, worked well, also due to the fact that specialists of several disciplines/units (import, physical checks, administrative controls) worked jointly in this group.*

### 2.3.2.4. Cases not reported as fraudulent by amount

In 2016, the established amount was below EUR 50 000 in 3 185 non-fraudulent cases (77% of all irregularity cases), whereas it was above EUR 50 000 in 949 cases (23%).

The total estimated and established amount in non-fraudulent cases where the amount at stake was above EUR 50 000 amounted to EUR 393 million (87% of the total estimated and established amount for non-fraudulent cases).

Table TOR3: Cases not reported as fraudulent by amount category in 2016

Amount, EUR	N	Estimated and established amount, EUR
< 50 000	3185	61,148,424
>= 50 000	949	392,609,198
<b>Total</b>	<b>4,134</b>	<b>453,757,622</b>

## 2.4. Member States' activities

### 2.4.1. Classification of cases as fraudulent and non-fraudulent and related rates

For 2016, Member States reported 513 cases as fraudulent out a total of 4 647 cases reported via OWNRES, which indicates a Fraud Frequency Level (FFL) of 11 %. The differences between Member States are relatively large. In 2016 most Member States categorised between 10-50% of all cases reported as fraudulent. However, Portugal

<sup>25</sup> Belgium, the Czech Republic, Denmark, Germany, Ireland, Greece, France, Italy, Austria, Romania and Sweden.

and Slovenia did not categorise any cases reported as fraudulent.<sup>26</sup> Six Member States categorised less than 10% of cases as fraudulent.<sup>27</sup> Five Member States registered more than 50%<sup>28</sup> of cases as fraudulent.

In 2016, the total estimated and established amount affected by fraud in the EU was EUR 83 million and the overall incidence of fraud<sup>29</sup> was 0.33%. For 2016, the highest percentages can be seen in Greece (2.83%), Austria (2.14%) and Denmark (2.04%).<sup>30</sup>

The total estimated and established amount affected by irregularities was more than EUR 454 million which indicates an irregularity incidence<sup>31</sup> of 1.81%. The highest percentages can be seen in Latvia (5.82%), the Netherlands (4.96%) and the Greece (4.34%).<sup>32</sup>

There are large differences between Member States' classifications, which may partly depend on their classification practices. This can influence the comparison of the amounts involved in cases reported as fraudulent and as non-fraudulent by Member States. Moreover, individual bigger cases detected in a specific year may affect annual rates significantly. Factors such as the type of traffic, type of trade, the level of compliance of the economic operators, the location of a Member State can influence the rates significantly. Bearing in mind these variable factors, the rates of incidence can also be affected by the way a Member State's customs control strategy is set up to target risky imports and to detect TOR-related fraud and irregularities.

#### 2.4.2. *Recovery rates*

##### 2.4.2.1. Cases reported as fraudulent

Over the 1989-2016 period, OWNRES shows that, on average, 21% of the initially established amount was corrected (cancelled). The recovery rate (RR) for all years (1989-2016) is 36%.<sup>33</sup> The RR for cases reported as fraudulent and detected in 2016 was 23%<sup>34</sup> which is below the average rate of 40% for fraudulent cases for the 2012-2016 period.<sup>35</sup> In general, the RR in cases reported as fraudulent is clearly much lower than that for cases not reported as fraudulent.

##### 2.4.2.2. Cases not reported as fraudulent

OWNRES shows that on the cut-off date, on average 37% (1989-2016) of the initially established amount in relation to cases not reported as fraudulent has been corrected (cancelled) since 1989. The RR for non-fraudulent cases reported for 2016 is 42%.<sup>36</sup> On the cut-off date, the annual RR for the last five years has varied between

<sup>26</sup> Luxembourg did not report any irregular case in 2016.

<sup>27</sup> The Czech Republic (2%), Denmark (6%), Germany (6%), the Netherlands (1%), Sweden (2%) and the UK (1%).

<sup>28</sup> Bulgaria (85%), Greece (79%), Cyprus (100%), Malta (10%) and Poland (5%).

<sup>29</sup> The percentage that the total established and estimated amounts related to fraudulent cases represent on the total TOR collected by Member States.

<sup>30</sup> See Annex 4.

<sup>31</sup> The percentage that the total established and estimated amounts related to non-fraudulent cases represent on the total TOR collected by Member States.

<sup>32</sup> See Annex 4.

<sup>33</sup> This calculation is based on 17 948 cases, an established amount of EUR 2.1 billion (after already processed corrections) and a recovered amount of EUR 0.75 billion.

<sup>34</sup> See Annex 9.

<sup>35</sup> On the cut-off date, for years 2012-2016, the annual RR for fraud cases varied between 23% and 60%.

<sup>36</sup> See Annex 9.

42% and 83%. The overall RR for all years (1989-2016) for all cases not reported as fraudulent is 71%.<sup>37</sup>

### 2.4.2.3. Historical recovery rate

The HRR confirms that in the long term recovery in cases reported as fraudulent is generally much less successful than in cases not reported as fraudulent (see table TOR4). Classification of a case as fraudulent is thus a strong indicator for forecasting short- and long-term recovery results.

Table TOR4: Historical recovery rate (HRR)

*Table TOR4: Historical recovery rate (HRR)*

Irregularities	HRR 1989 – 2013
Reported as fraudulent	62.37%
Reported as non-fraudulent	90.46%
<b>Total</b>	<b>83.93%</b>

### 2.4.3. Commission's monitoring

#### 2.4.3.1. Examination of the write off reports

In 2016, 17 Member States submitted 92 new write-off reports to the Commission. In 2016, the Commission assessed 219 cases totalling EUR 88 million. In 92 of these cases amounting to EUR 46 million<sup>38</sup>, the Commission's view was that the Member States did not demonstrate satisfactorily that the TOR was lost for reasons not imputable to them so they were considered financially responsible for the loss.

Examination of Member States' diligence in write-off cases constitutes a very effective mechanism for gauging their activity in the field of recovery. It encourages national administrations to step up the regularity, efficiency and effectiveness of their recovery activity, since any lack of diligence leading to failure to recover results in individual Member States having to foot the bill.

#### 2.4.3.2. Commission's inspections

In its TOR inspections, the Commission has put a special emphasis on Member States' customs control strategies and closely monitors their actions and follow-up in relation to the observations made during the inspections. Member States generally show their willingness to adapt their control strategies and to progressively implement systems that provide for efficient and effective risk analysis to protect the EU's financial interests. However, budgetary constraints and the increase of tasks related to security have led to cuts in the number of customs officials in charge of duty collection control in many Member States. Coupled with continuing trade facilitations and simplification of procedures and controls, this may undermine the control efficiency and thus pose risks to the protection of the EU financial interest.

In 2016, "Tariff suspensions and quotas", "Preferential tariff measures", "Reliability of the normal and separate accounts statements" and "Control strategy in the field of customs value" were the main inspection themes of the on-the-spot customs inspections by the Commission services in Member States.

<sup>37</sup> This calculation is based on 78 103 cases, an established amount of EUR 4.91 billion (after already processed corrections) and a recovered amount of EUR 3.49 billion.

<sup>38</sup> See Annex 10.

The on-the-spot inspection carried out in the United Kingdom found significant weaknesses in the management and control of undervalued imports of textiles and footwear and concluded, on the basis of the evidence available at the time of the inspection, that the United Kingdom had wrongly cancelled a very significant amount of customs debts concerning undervalued imports.

OLAF also has concluded in March 2017 an investigation on the undervaluation of textiles and footwear imported in the United Kingdom from the People's Republic of China. This report indicates that the United Kingdom failed, even after repeated warnings and requests to that effect by OLAF, to apply the appropriate measures to prevent systematically undervalued imports of textiles and footwear from P.R. China from entering the EU through the United Kingdom, resulting in very significant losses to the EU budget between 2013 and 2016. The related fraud/irregularities were only partially reflected in the OWNRES figures reported since 2013.

These elements led the Director-General of DG BUDG to make a reservation in the 2016 Annual Activity report on the inaccuracy of the TOR amounts transferred to the EU budget by the United Kingdom since 2013.

The Commission is taking appropriate actions to ensure an effective follow up of the recommendations of the European Anti-fraud Office's investigation report and of the DG BUDG's inspection findings<sup>39</sup>.

One general conclusion drawn by the Commission from its inspections in Member States in recent years is that their control strategies are increasingly shifting from customs controls at the time of clearance of goods to post-clearance customs controls. The customs controls before or at the time of clearance of goods remain however indispensable for addressing undervaluation and the detection of new types or patterns of fraud or irregularities. Therefore, the customs controls strategy should be frequently reviewed taking into account recent detections or new risks.

Considering the fraud diversion and spreading of specific fraud mechanism, EU-wide and international cooperation in detection of irregular cases is more and more required.

#### 2.4.3.3. Particular cases of Member State failure to recover TOR

If TOR are not established because of an administrative error by a Member State, the Commission applies the principle of financial liability.<sup>40</sup> Member States have been held financially liable in 2016 for over EUR 32 million<sup>41</sup>, and new cases are being given appropriate follow-up.

---

<sup>39</sup> The Commission performed in 2016 in Slovakia a traditional own resources inspection dedicated to undervaluation. In this inspection, significant weaknesses were also detected.

<sup>40</sup> Case C-392/02 of 15/11/2005. These cases are typically identified on the basis of Articles 220(2)(b) (administrative errors which could not reasonably have been detected by the person liable for payment) and 221(3) (time-barring resulting from Customs' inactivity) of the Customs Code, Articles 869 and 889 of the Provisions for application of the Code, or on the basis of non-observance by the customs administration of Articles of the Customs Code giving rise to legitimate expectations on the part of an operator.

<sup>41</sup> It includes customs duties and interest.

## Part II - EXPENDITURE

### SECTION I - SHARED MANAGEMENT

#### Sustainable Growth: Natural Resources

Success in previous decades in guaranteeing sufficient food production, has led to a shift in emphasis to, producing higher quality food for consumers, increasing farms' profitability, diversifying the rural economy and protecting the natural environment. There is a direct management component but the majority of expenditure is disbursed by Member States under the following shared management funds.

- The European Agricultural Guarantee Fund (EAGF) which finances direct payments to farmers and measures to respond to market disturbances, such as private or public storage and export refunds.
- The European Agricultural Fund for Rural Development (EAFRD) which finances the rural development programmes of the Member States.
- The European Maritime and Fisheries Fund (EMFF) which provides funding and technical support for initiatives that can make the fishery industry more sustainable.

EAFRD and EMFF are among the five European Structural and Investment Funds (ESIF or ESI funds) which complement each other and seek to promote a growth and job based recovery in Europe.

The EMFF is the successor of the European Fisheries Fund (EFF), for which the full resources have been committed by the end of 2014.

Table NR1 shows the financial resources available for this policy area.

However, in light of their belonging to the ESIF family, EFF and EMFF will be treated together with the other structural funds. EAFRD, also part of ESIF, will be analysed separately from the EAGF, with the exception of a general introduction.

*Table NR1: Financial instruments and 2016 appropriations for the Natural Resources Policies*

Financial instrument	Management mode	Appropriations 2016		As % of total budget	
		Commitments	Payments	Commitments	Payments
		EUR million	EUR million	%	%
EAGF	Shared	42 220	44 285	26.0%	31.3%
EARDF	Shared	18 676	12 306	11.5%	8.7%
EMFF + EFF	Shared	897	560	0.6%	0.4%
Other programmes	Direct	691	592	0.4%	0.4%
<b>TOTAL</b>		<b>62 484</b>	<b>57 743</b>	<b>38.5%</b>	<b>40.9%</b>

### 3. COMMON AGRICULTURAL POLICY (CAP)

#### 3.1. Introduction

For the last 50 years the Common Agricultural Policy (CAP) has been the European Union's (EU) most important common policy. This explains why traditionally it has



taken a large part of the EU's budget, although the percentage has steadily declined over recent years.

The CAP is financed by two funds, EAGF and EAFRD, which form part of the EU's general budget.

Under the basic rules for the financial management of the CAP, the Commission is responsible for the management of the EAGF and the EAFRD. However, the Commission itself does not make payments to beneficiaries. According to the principle of shared management, this task is delegated to the Member States, who themselves work through national or regional paying agencies. Before these paying agencies can claim any expenditure from the EU-budget, they must be accredited on the basis of a set of criteria laid down by the Commission.

The paying agencies are, however, not only responsible for making payments to the beneficiaries. Prior to doing so, they must, either themselves or through delegated bodies, satisfy themselves of the eligibility of the aid applications. The exact checks to be carried out are laid down in the different sectorial regulations of the CAP and vary from one sector to another.

The expenditure made by the paying agencies is then reimbursed by the Commission to the Member States, in the case of the EAGF on a monthly basis and in the case of EAFRD on a quarterly basis. Those reimbursements are, however, subject to possible financial corrections which the Commission may make under the clearance of accounts procedures.

Apart from a difference in scope and objectives, the two funds also function differently. While entitlements and measures supported under the EAGF follow a yearly flow, those under the EAFRD are implemented through multi-annual programmes, very much like the interventions financed through the other ESI funds.

Table NR2 shows the financial resources available for the CAP.

*Table NR2: Financial instruments and 2016 appropriations for the CAP*

Financial instrument	Management mode	Appropriations 2016		As % of total budget	
		Commitments	Payments	Commitments	Payments
		EUR billion	EUR billion	%	%
EAGF	Shared	42 220	44 285	26.0%	31.3%
EARDF	Shared	18 676	12 306	11.5%	8.7%
<b>TOTAL</b>		<b>60 897</b>	<b>56 591</b>	<b>37.5%</b>	<b>40.1%</b>

### 3.2. General analysis – Trend analysis

#### 3.2.1. Irregularities reported 2012-2016

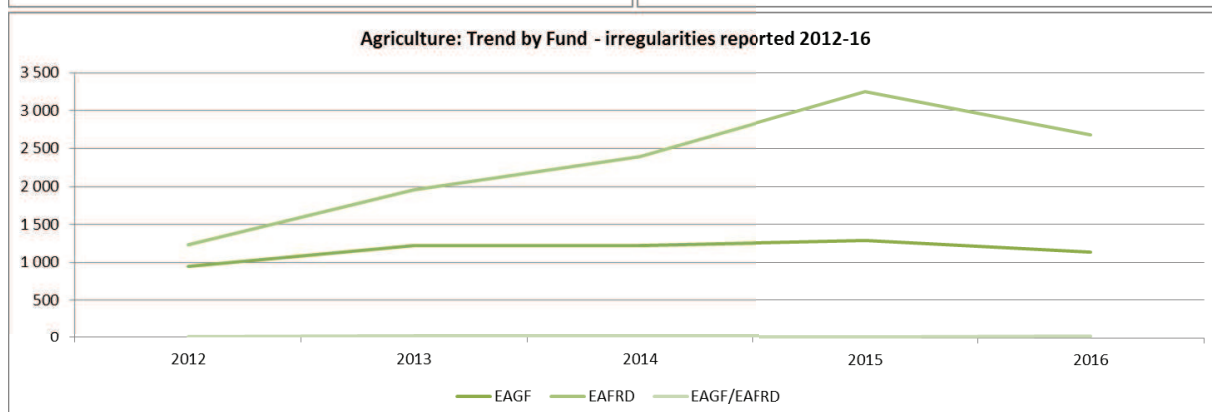
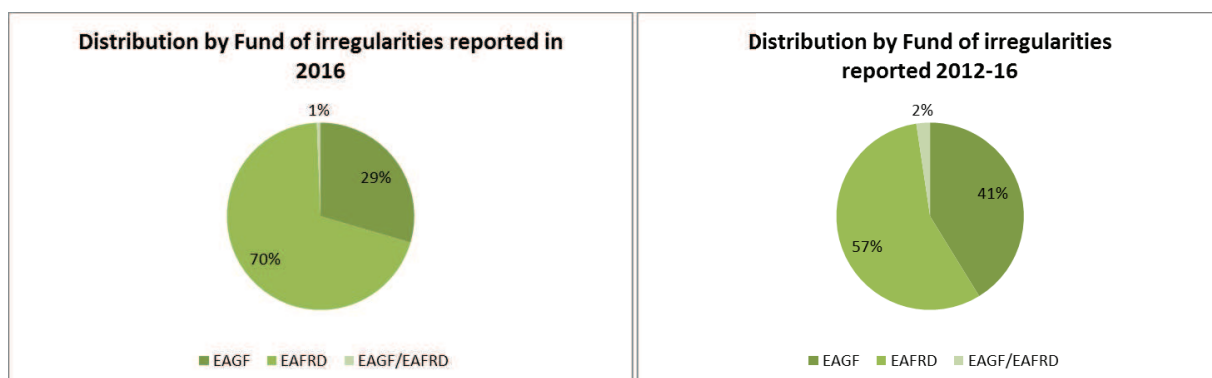
Table NR3 presents the trend of the irregularities (fraudulent and non-fraudulent) reported by Member States for the period 2012-16 in relation to the funds concerned.

This shows a decrease between 2015 and 2016 by 16% and an increase by 76% between 2012 and 2016. However, while the irregularities affecting EAGF have remained relatively stable over time (-12% in comparison with 2015 and +20% with 2012), those related to the EAFRD have been constantly increasing until 2015 and then declined in 2016, as showed by the chart below (-18%% in comparison with 2015 and +117% in comparison with 2012).



Table NR3: Irregularities reported by Fund – 2012-16 for the CAP

FUND	REPORTING YEAR					TOTAL PERIOD
	2012	2013	2014	2015	2016	
	N	N	N	N	N	N
EAGF	943	1 219	1 218	1 286	1 132	6 531
EAFRD	1 231	1 961	2 398	3 250	2 676	8 935
EAGF/EAFRD	7	13	16	20	25	374
<b>TOTAL</b>	<b>2 181</b>	<b>3 193</b>	<b>3 632</b>	<b>4 556</b>	<b>3 833</b>	<b>15 840</b>



It should be noted that the two funds function very differently, with the EAGF following an annual implementation, while programmes financed by the EAFRD have a multiannual logic, which resembles that of the ESI Funds. The trend of irregularities detected and reported further highlights those similarities and therefore appears physiological.

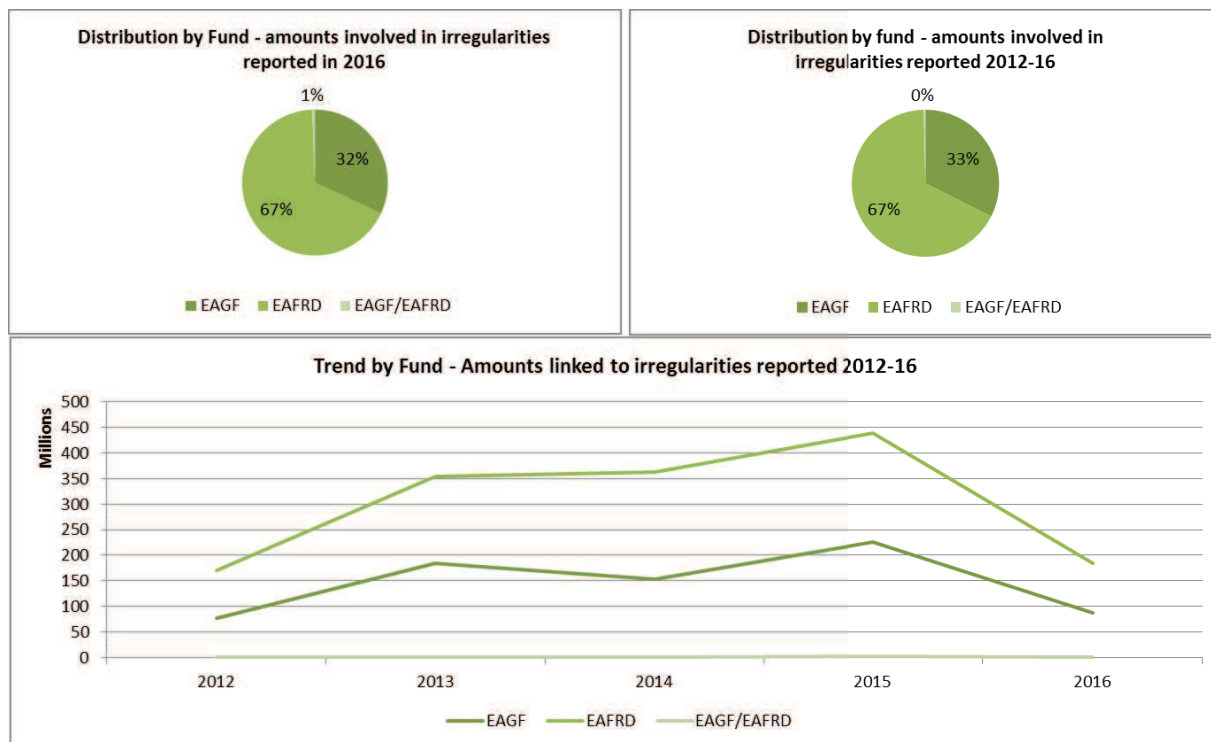
The irregularities notified by a minority of Member States (Romania, Italy, Spain, Poland, Hungary, Portugal and France) represent about 70% of the total number of reported irregularities in 2016.

Table NR4 provides in the same form of Table NR3 information about the trends linked to the financial amounts involved in cases of reported irregularities, which have decreased by 59% in comparison with the previous year. For the monetary value, the largest share in 2016 is still represented by the EAFRD component, which becomes relatively predominant, if one bears in mind that it represents between 20% and 30% of the total resources for the CAP and the financial value of the irregularities reported counts for 67% of the total amount in 2016 and for the period 2012-2016.

The impact of the financial amounts involved in irregularities on payments is also very different between the two funds, as it is 0.20% for the EAGF and 1.50% for the EAFRD (0.48% on the overall 2016 CAP expenditure).

Table NR4: Financial amounts involved in reported irregularities by Fund – 2012-16 for the CAP

FUND	REPORTING YEAR					TOTAL PERIOD
	2012	2013	2014	2015	2016	
	EUR	EUR	EUR	EUR	EUR	EUR
EAGF	78 097 164	184 725 612	152 480 372	225 427 348	87 289 499	728 019 995
EAFRD	170 192 527	353 987 081	361 790 573	437 684 842	184 175 448	1 507 830 471
EAGF/EAFRD	460 548	1 149 970	1 936 513	2 796 963	1 652 729	7 996 723
<b>TOTAL</b>	<b>248 750 238</b>	<b>539 862 663</b>	<b>516 207 459</b>	<b>665 909 153</b>	<b>273 117 676</b>	<b>2 243 847 188</b>



The trend analysis about the financial amounts can be misleading as it can be greatly influenced by single observations of significant value. The continuous growth of the financial value of irregularities related to the EAFRD until 2015 is, however, in line with the general trend of irregularities reported showed in Table NR3.

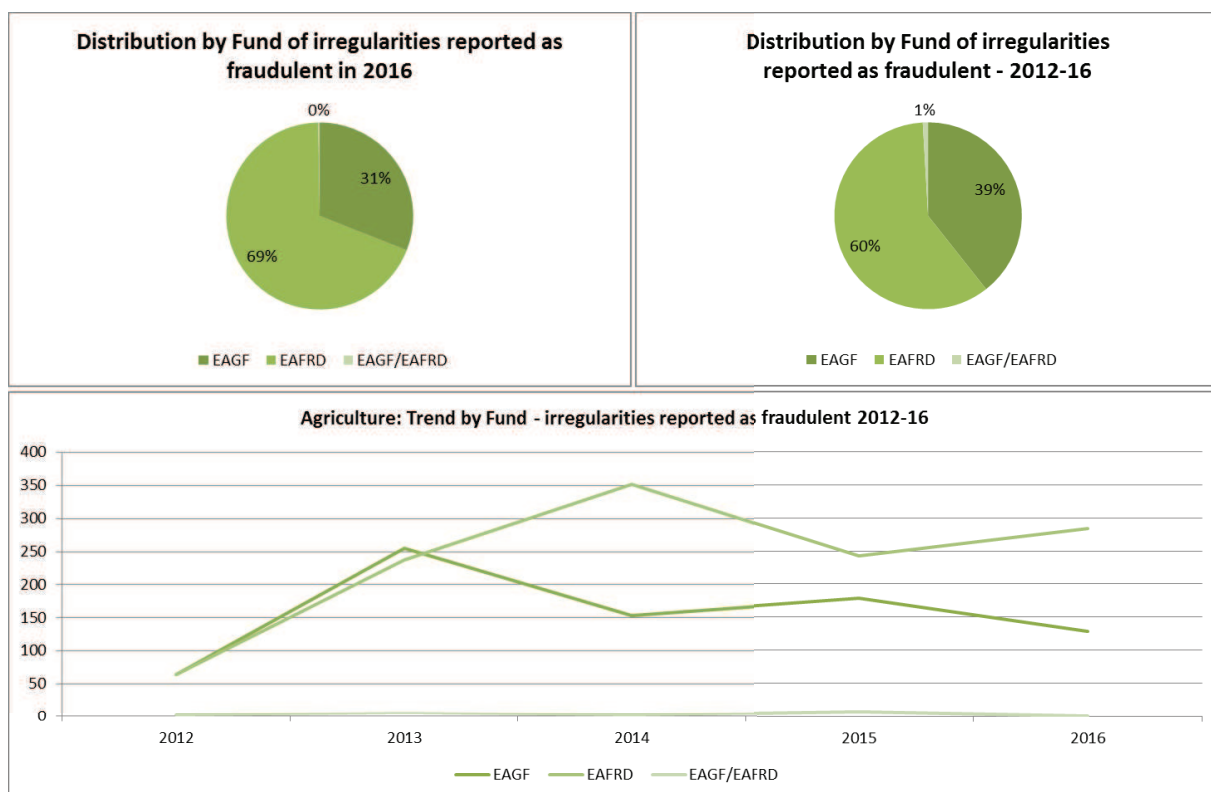
### 3.2.2. Irregularities reported as fraudulent

Table NR5 presents the trend of the irregularities reported as fraudulent by Member States for the period 2012-16 in relation to the fund concerned. This shows a situation which is stable in comparison to 2015 (-3.5%). However, while the fraudulent irregularities related to the EAGF have decreased by 28%, those linked to the EAFRD have increased by 17%.

Despite these contrasting trends, for the third consecutive year in the analysed period, the irregularities reported as fraudulent related to the EAFRD have the highest share on the total (69%) and reaching 60% on the whole reference period 2012-16 (up from 47% in the previous analysis for 2011-15). The share of irregularities committed by beneficiaries of both funds appeared in only 1 occurrence.

Table NR5: Irregularities reported as fraudulent by Fund – 2012-16 for the CAP

FUND	REPORTING YEAR					TOTAL PERIOD
	2012	2013	2014	2015	2016	
	N	N	N	N	N	N
EAGF	64	255	153	178	128	778
EAFRD	64	238	351	243	284	1 180
EAGF/EAFRD	2	6	2	7	1	18
<b>TOTAL</b>	<b>130</b>	<b>499</b>	<b>506</b>	<b>428</b>	<b>413</b>	<b>1 976</b>



The irregularities notified by three Member States (Romania, Poland and Bulgaria) represent about 55% of the total number of irregularities reported as fraudulent. This concentration is far lower than in previous years.

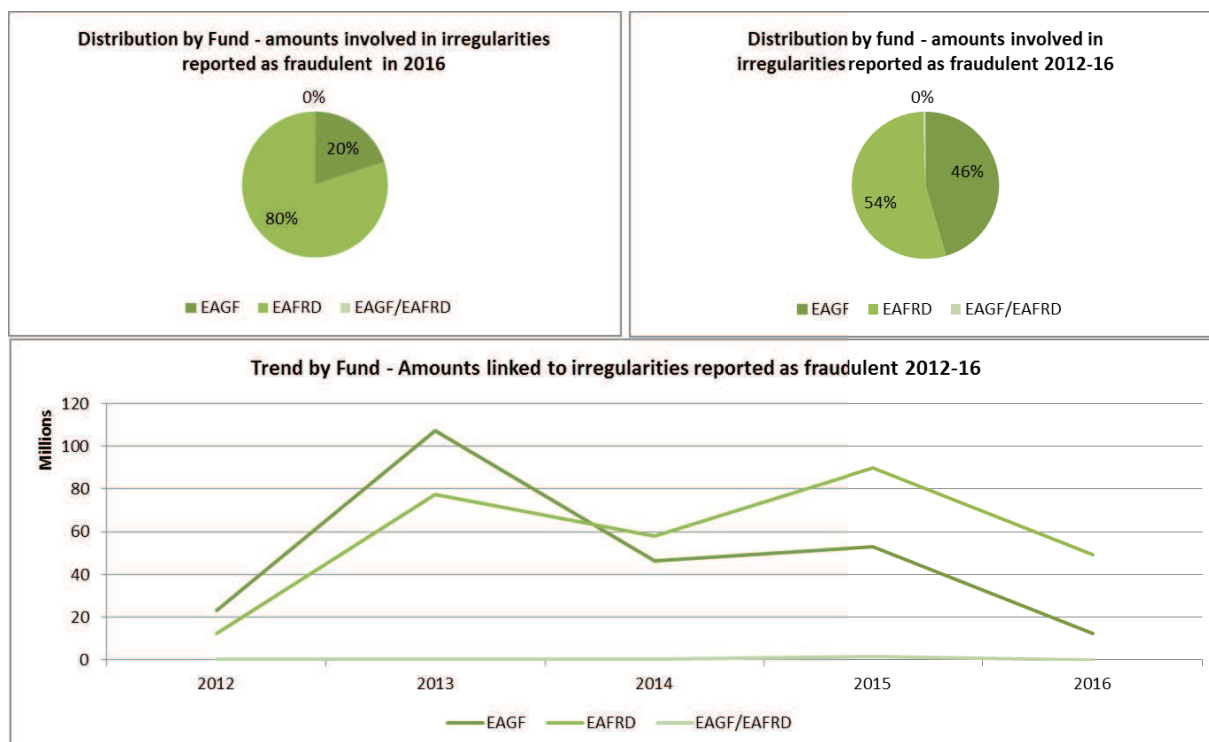
Austria, Bulgaria, the Czech Republic, Denmark, France, Latvia and Sweden reported an increasing number of fraudulent cases.

The first ten countries taken together have reported 378 potential fraudulent cases, which represents 91% of the total (in 2013 they had reported 94% and in 2015 92% of the total fraudulent irregularities).

Table NR6 provides in the same form of Table NR5 information about the trends linked to the financial amounts involved in cases reported as fraudulent, which have decreased by 57% in comparison with the previous. For the monetary value, the largest share in 2016 is still represented by the EAFRD, which is predominant also if one takes into account the whole analysed period 54% of the total amount.

Table NR6: Financial amounts involved in irregularities reported as fraudulent by Fund – 2012-16 for the CAP

FUND	REPORTING YEAR					TOTAL
	2012	2013	2014	2015	2016	PERIOD
	EUR	EUR	EUR	EUR	EUR	EUR
EAGF	23 057 468	107 363 086	46 161 774	52 778 723	12 393 638	241 754 689
EAFRD	12 436 910	77 286 737	57 915 599	90 055 026	49 437 884	287 132 156
EAGF/EAFRD	323 623	337 603	292 215	1 432 019	27 836	2 413 296
<b>TOTAL</b>	<b>35 818 001</b>	<b>184 987 426</b>	<b>104 369 588</b>	<b>144 265 768</b>	<b>61 859 358</b>	<b>531 300 141</b>



The trend analysis about the financial amounts can be misleading as it can be greatly influenced by single observations of significant value. For instance, the 'distance' observed in 2013 between the two funds, finds entire explanation in very few cases involving high amounts linked to the EAGF, which determine the divergence from the trend highlighted in Table NR5. In the period 2012-16, the share of the EAFRD on the total is 54%, well above the share of the resources allocated to the fund on the total of the CAP resources over the same period.

**Case study: Bulgaria EAFRD - Abuse of EU funds under the Rural Development Programme**

While carrying out checks on projects under RDP 2014-2020, the State Fund Agriculture (DFZ) found six applications which indicated the existence of artificially created conditions for support, particularly operation of a market by the same suppliers and customers. In the cases concerned, six applications were submitted for the same investment (purchase of a certain type of agricultural machinery) to three offices of the State Fund Agriculture regarding investments to be implemented in four different regions of the country. A pointer to the existence of a corrupt scheme was the fact that in all six cases the tenderers' bids for the supply of equipment were submitted by the same three companies, with the same date and validity, and that contracts for the sale and purchase of equipment in all six cases were signed with the same company, on the same date. It was established that the manufacturer of that particular type of agricultural machinery was a US company with an official dealer for Europe based in the Netherlands, and that the Dutch company had only one official representative for Bulgaria, namely the company mentioned as supplier of the equipment in all six bids.

Family relations were established between two of the tenderers, while three of the tenderers' managers were found to be members of the Management Board of a non-governmental sectorial organisation. Since the tenders

and sale/purchase contracts concluded between the tenderers and the Bulgarian supplier quoted a price of EUR 225 000 per unit of machinery, a study of the market environment was carried out using a particular macroeconomic approach called 'control purchase'.

That involved the creation of a special e-mail address used to receive an offer from the Bulgarian supplier that quoted a unit price of USD 160 000, including the possibility for a discount to be applied in the event of purchase of more than one unit. A study of the dynamics of the BGN/USD exchange rate during the relevant period did not show any significant changes. Consequently, the conclusion was drawn that the tender offers submitted for the six projects were intentionally inflated and used unreasonable prices to illegally benefit from EU funds and the national budget. The State Fund Agriculture referred the case to the Supreme Cassation Prosecutors' Office.

The Sofia City Prosecutor's Office initiated a check and asked the Directorate General of the National Police to carry out an audit, which confirmed the above facts. It also found that the managers of two of the applicant companies live as unmarried partners and use different companies to participate in the same tenders as different persons. It was established that the companies/individuals concerned had concluded contracts for the supply of eight units of agricultural machinery for a total of EUR 1 800 000 (unit price EUR 225 000). The real unit price quoted by the official representative was USD 135 000. The Sofia City Prosecutor's Office initiated pre-trial proceedings and asked AFCOS-MVR to check, via OLAF, what the unit price of the equipment in question is in the Netherlands. This check is currently being implemented.

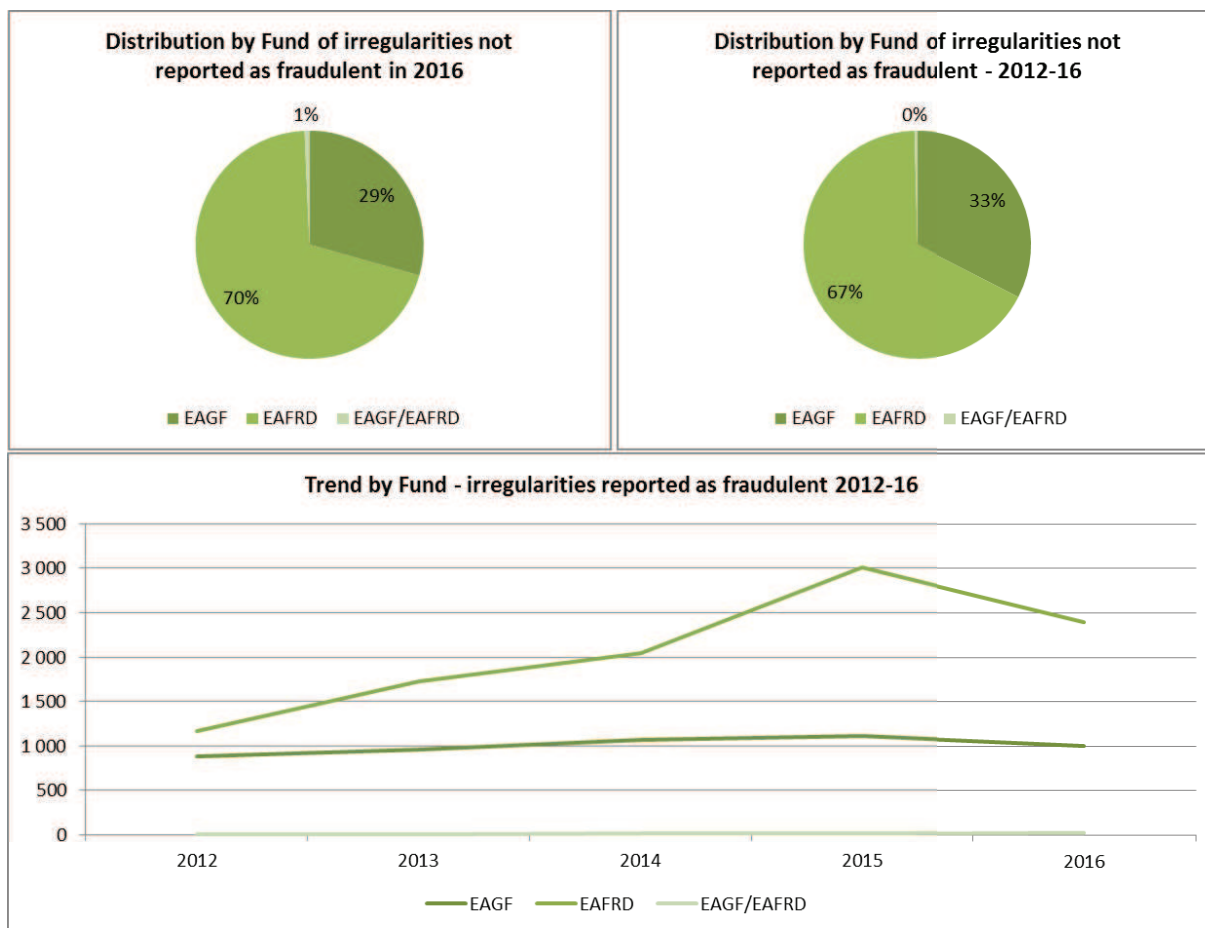
### 3.2.3. Irregularities not reported as fraudulent

Regarding irregularities not reported as fraudulent, the number of those reported relating to EAFRD has been constantly increasing until 2015 (see Table NR7), while those related to EAGF remained relatively stable or recorded minor variations. Consistently with this trend, also the irregular financial amounts linked to the rural development instrument have been constantly increasing until 2015 (as highlighted in Table NR8).

Only a marginal share of the irregularities not reported as fraudulent relates to infringements reported as affecting both funds (1% in 2016 and even less on the analysed period, see Table NR8).

Table NR7: Irregularities not reported as fraudulent by Fund – 2012-16 for the CAP

FUND	REPORTING YEAR					TOTAL
	2012	2013	2014	2015	2016	PERIOD
	N	N	N	N	N	N
EAGF	879	964	1 065	1 108	1 004	5 020
EAFRD	1 167	1 723	2 047	3 007	2 392	10 336
EAGF/EAFRD	5	7	14	13	24	63
<b>TOTAL</b>	<b>2 051</b>	<b>2 694</b>	<b>3 126</b>	<b>4 128</b>	<b>3 420</b>	<b>15 419</b>



Unlike the fraudulent irregularities, the largest share, in terms of numbers, is for the EAFRD since 2012, and in the two last years of the period 2012-16 the number of irregularities linked to this fund have been at least the double of those affecting the EAGF.

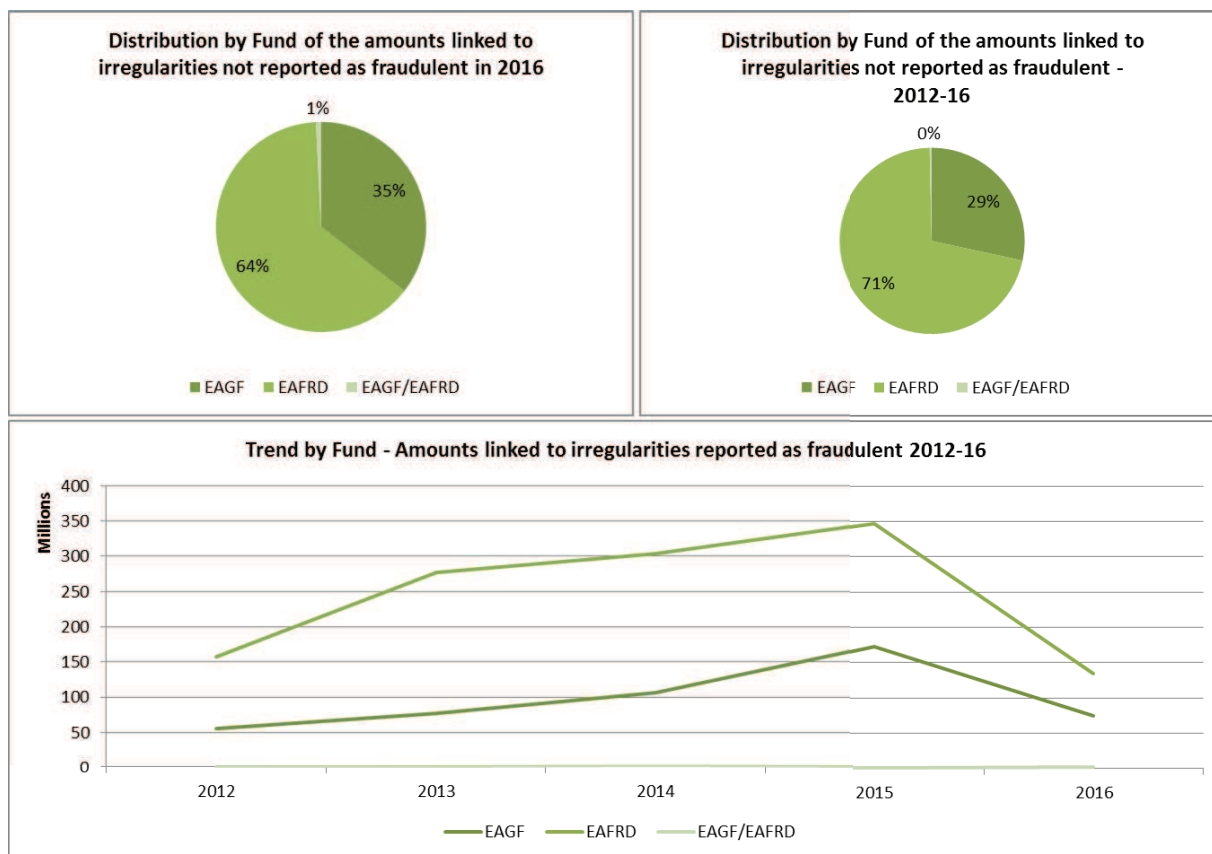
The irregular financial amounts related to the EAFRD have also been progressively increasing until 2015.

Table NR8 shows the information concerning the years 2012-16.

*Table NR8: Financial amounts linked to irregularities not reported as fraudulent by Fund – 2012-16 for the CAP*

FUND	REPORTING YEAR					TOTAL PERIOD
	2012	2013	2014	2015	2016	
	EUR	EUR	EUR	EUR	EUR	EUR
<b>EAGF</b>	55 039 696	77 362 526	106 318 598	172 648 625	74 895 860	486 265 305
<b>EAFRD</b>	157 755 617	276 700 344	303 874 974	347 629 816	134 737 564	1 220 698 315
<b>EAGF/EAFRD</b>	136 925	812 367	1 644 299	1 364 944	1 624 893	5 583 428
<b>TOTAL</b>	<b>212 932 238</b>	<b>354 875 237</b>	<b>411 837 871</b>	<b>521 643 385</b>	<b>211 258 317</b>	<b>1 712 547 048</b>





### 3.3. Specific analysis

#### 3.3.1. Modus operandi

##### 3.3.1.1. EAGF

Table NR9 shows the most frequently categories of irregularity linked to fraudulent cases detected in relation to the EAGF in 2016 and the financial amounts linked to them. It also presents how these most recurrent categories have featured from 2012 to 2016 (included).

The most recurrent *modus operandi* is related to infringements linked to the documentary proofs requested, and in particular, to the use of 'false or falsified declarations', 'false or falsified documents' and 'false or falsified request for aid', 'declaration of fictitious product, species and/or land' in line with what reported in general for the whole period 2011-2015. 'Quantities outside permitted limits, quotas or thresholds' (related, respectively to products, species or land) remained a significant reported type of breach.

For 12 of the 128 cases reported (10%), irregularities related to 'Ethics and Integrity' were specified. This typology refers to cases of 'corruption' and 'conflict of interest' in particular. In the previous four years taken into account for the analysis, other 31 cases had been reported.

Table NR9: Types of irregularities reported as fraudulent in relation to EAGF

Code	Type of irregularity	irregularities reported as fraudulent in 2016		Irregularities reported as fraudulent 2012-16	
		N	EUR	N	EUR
T11	Request	35	2 256 960	147	23 516 603
T14	Documentary proof	28	686 478	245	35 498 502
T15	Product, species and/or land	13	4 636 767	151	36 041 735
T19	Ethics and integrity	12	691 811	43	9 335 560
T16	(Non-)action	7	728 368	23	34 335 927
T11   T13	Request / Accounts and records	6	433 132	12	2 430 490
T11   T14	Request / Documentary proof	6	226 453	8	258 689
T12	Beneficiary	3	205 938	15	49 624 617
T14   T11	Documentary proof / request	3	180 288	3	180 288
T16   T11	(Non-)action / request	3	83 758	4	388 297
	ALL OTHER	12	2 263 687	127	50 143 983
<b>TOTAL</b>	<b>TOTAL</b>	<b>128</b>	<b>12 393 640</b>	<b>778</b>	<b>241 754 691</b>

When looking at the irregularities not reported as fraudulent, the situation is rather consistent with that presented in Table NR9 for those reported as fraudulent, with the top-10 categories represented in almost the same positions, as showed in Table NR10.

Table NR10: Types of irregularities not reported as fraudulent in relation to EAGF

Code	Type of irregularity	irregularities not reported as fraudulent in 2016		Irregularities not reported as fraudulent 2012-16	
		N	EUR	N	EUR
T11	Request	209	21 016 228	937	69 661 211
T15	Product, species and/or land	158	4 970 385	1257	89 958 790
T14	Documentary proof	150	9 440 594	709	87 595 360
T16	(Non-)action	143	12 133 022	774	75 174 525
T90	Other	130	15 053 740	304	22 845 806
T12	Beneficiary	55	2 761 515	220	13 508 414
T13	Accounts and records	39	1 165 585	69	2 780 773
T19	Ethics and integrity	26	824 313	82	3 894 045
	(blank)	16	551 126	201	11 847 108
T11   T15	request / product, species and/or land	12	535 666	124	31 317 710
	ALL OTHER	66	6 443 689	343	77 681 561
<b>TOTAL</b>	<b>TOTAL</b>	<b>1 004</b>	<b>74 895 863</b>	<b>5 020</b>	<b>486 265 303</b>

### 3.3.1.2. EAFRD

Table NR11 shows the most frequently categories of irregularity linked to fraudulent cases detected in relation to the EAFRD in 2016 and the financial amounts linked to them. It also presents how these most recurrent categories have featured from 2012 to 2016 (included).

In 2016, 61 irregularities reported as fraudulent indicated that breaches had occurred in relation to 'Ethics and Integrity' appearing as the most frequently detected. In the period 2012-2016 this category is the third most frequently detected, although the greatest majority of cases have been reported mainly over the last two years. The remaining detected typologies more frequently are in line with those reported in previous years and relate to the 'documentary proof (supporting documents provided)', the 'request for aid', the 'quality of the beneficiary', the 'implementation' of the action.



Table NR11: Types of irregularities reported as fraudulent in relation to EAFRD

Code	Type of irregularity	Irregularities reported as fraudulent in 2016		Irregularities reported as fraudulent 2012-16	
		N	EUR	N	EUR
T19	Ethics and integrity	61	6 873 057	115	8 810 221
T14	Documentary proof	57	8 692 464	231	56 197 738
T16	(Non-)action	43	7 782 437	137	67 478 241
T11	Request	33	6 992 747	108	26 195 816
T90	Other	16	10 997 173	42	32 829 009
T14   T11	Documentary proof / Request	12	283 907	14	2 031 903
T12	Beneficiary	10	1 711 636	94	20 589 527
T15	Product, species and/or land	10	206 524	64	2 560 749
T12   T14	Beneficiary / Documentary proof	6	606 075	31	6 853 850
	blank	4	1 208 780	23	2 729 208
	ALL OTHER	32	4 083 083	321	60 855 895
<b>TOTAL</b>	<b>TOTAL</b>	<b>284</b>	<b>49 437 883</b>	<b>1 180</b>	<b>287 132 157</b>

When looking at the irregularities not reported as fraudulent, showed in Table NR12, the most frequently detected category is related to 'non-action' ('*action not completed*', '*failure to respect deadlines*', '*action not implemented*', '*irregular termination, sale or reduction*'), which occurred in 39% of the cases not reported as fraudulent affecting the EAFRD in 2016. It is followed by 'documentary proof' representing 17% of the non-fraudulent cases ('*Documents missing and/or not provided*', '*documents incomplete*', '*documents incorrect*' and '*documents provided too late*'). 10% of the cases belongs to the category 'Beneficiary' ('*Operator/beneficiary not having the required quality*'). These three categories together represent 66% of the cases reported in 2016.

Table NR12: Types of irregularities not reported as fraudulent in relation to EAFRD

Code	Type of irregularity	Irregularities not reported as fraudulent in 2016		Irregularities not reported as fraudulent 2012-16	
		N	EUR	N	EUR
T16	(Non-)action	943	40 999 677	3 141	275 620 513
T14	Documentary proof	400	19 576 235	1 239	126 928 586
T12	Beneficiary	241	19 100 604	934	185 658 670
T11	Request	154	10 053 899	1 002	153 983 009
T90	Other	145	12 041 169	596	48 047 161
T15	Product, species and/or land	100	2 540 818	1 176	121 326 241
T16   T12		71	5 434 228	121	11 392 724
T19	Ethics and integrity	49	7 260 020	188	29 250 903
T13	Accounts and records	46	1 695 955	120	6 122 630
T40	Public procurement (see annex Commission Decision C(2013)9527)	31	1 587 687	41	5 165 261
	OTHER	212	14 447 272	1 778	257 202 617
<b>TOTAL</b>	<b>TOTAL</b>	<b>2 392</b>	<b>134 737 564</b>	<b>10 336</b>	<b>1 220 698 315</b>

**Case study: Croatia, EAFRD - Forgery of an official document when applying for projects co-financed by EU funds**

On the basis of a call for the implementation of the agriculture measure: "Supporting the development of small farms", an agricultural cooperative applied for subsidies. In the e-application (via AGRONET), the agricultural cooperative sent all necessary documents needed for the call.

During the review of documents received by the agricultural cooperative and before the payment, Intermediate body level 2 (IB2) suspected that one of documents (Certificate of No Tax Due), a document which is issued only by Tax Administration, was forged. The suspicion was related to mismatch of dates within the document. Namely, the date of issue was 1.1.2015 but the document stated that the agricultural cooperative did not have tax debt on 1.2.2015. Therefore, the date of issue of Certificate and the date of the tax debt were different. IB2 contacted the Tax Administration to check the validity of the Certificate. The Tax Administration determined that the Certificate was issued by the Tax Administration.

*Actions initiated/conducted:*

*IB 2 reported the case to State Attorney's Office and criminal proceedings were initiated against a person who was an employee of an EU funds consultancy. It was found that this person had scanned an older Certificate, changed the dates and sent the forged document along with other necessary data via e- application (AGRONET) on behalf of the agricultural cooperative. It was determined that the responsible person in the agricultural cooperative was not involved in this criminal act. The person concerned (employee of the EU funds consultancy) was convicted for committing criminal act of Forgery of an Official Document and was sentenced to eight months imprisonment, but was given a two-year suspended sentence according to Article 56 (2) & (3) of the Criminal Code on condition of not repeating the crime. Should he commit a criminal act within the period of two years he would be imprisoned for eight months.*

### 3.3.2. Fraud and Irregularity Detection Rates by CAP pillar

Via its two funds (EAGF and EAFRD) the CAP acts on two main paths to support agriculture across Europe. The EAGF itself has two components with different aims: direct payments to farmers and measures regulating or supporting agricultural markets.

Table NR13 shows the FDR and the IDR per type of policy measure. Further details about this calculation can be found in paragraph 3.4.2.

Looking at the overall detection rate (FDR + IDR), direct payments clearly show a very low level of detections. This confirms previous findings of the Commission audit services that the level of errors (and consequently of the possible detections) represent only a marginal part of the resources available. The situation is different for market measures, in particular for the FDR, which is the highest of all shared management policy measures. Interestingly, the "Total detection rate" is equal to that of rural development and to that of the cohesion policy. Rural development, for its part, shows results that are exactly aligned to those of the other Cohesion policy measures (see chapter 4.2).

*Table NR13: FDR and IDR by CAP policy measure*

Policy measure	Irregularities detected and reported 2012-2016 / payments 2012-2016		
	FDR	IDR	Total
Pillar I - direct payments	0.03%	0.07%	0.1%
Pillar I - market measures	1.1%	1.5%	2.6%
Pillar II - rural development	0.5%	2.1%	2.6%
<b>TOTAL</b>	<b>0.1%</b>	<b>0.4%</b>	<b>0.5%</b>

A part of the irregularities used for these calculations are not referred exclusively to a specific policy measure, but the reporting authority may have also included several budget posts as affected, referring to different measures. As it is not possible to attribute the specific amount to each individual budget post, they have been included in their full value for each policy measure. However, the total has been calculated on the total amounts reported by Member States and therefore no double counting has occurred.

### 3.3.3. Market measures – fraudulent and non-fraudulent irregularities

As showed in Table NR13, market measures show high FDR and IDR. Table NR14 shows the number and financial amounts linked to fraudulent irregularities detected by market measure for the period 2012-2016, while Table NR15 shows those not reported as fraudulent.

Table NR14: Irregularities reported as fraudulent in relation to market measures

Market measure	Irregularities reported as fraudulent 2012-2016	
	N	EUR
Products of the wine-growing sector	62	11 766 401
Fruit and vegetables	50	97 217 237
Sugar Restructuring Fund	18	4 281 688
Refunds on non-Annex 1 products	11	6 017 838
Olive oil	8	845 319
Pigmeat, eggs and poultry, bee-keeping and other animal products	6	21 598 329
Beef and veal	5	76 712
Food programmes	4	626 280
Milk and milk products	3	107 526
Other plant products/measures	3	10 777 051
Promotion	2	113 637
Sugar	2	7 539 117
Other plant products/measures / Refund	1	58 876
Refunds on non-Annex 1 products / Fruit and vegetables	1	368 053
<b>TOTAL</b>	<b>176</b>	<b>161 394 064</b>

Table NR15: Irregularities reported as fraudulent in relation to market measures

Market measure	Irregularities not reported as fraudulent 2012-2016	
	N	EUR
Products of the wine-growing sector	793	79 518 331
Fruit and vegetables	363	69 124 341
Pigmeat, eggs and poultry, bee-keeping and other animal products	76	29 670 746
Sugar	41	14 477 343
Sugar Restructuring Fund	78	12 167 836
Other plant products/measures	73	5 435 279
Milk and milk products	29	4 247 053
Food programmes	12	3 437 922
Olive oil	24	2 610 315
Promotion	23	2 557 525
Cereals	3	1 277 214
Refunds on non-Annex 1 products	16	893 261
Beef and veal	17	397 460
(blank)	1	39 049
Textile plants	2	30 952
Sheepmeat and goatmeat	2	30 623
<b>TOTAL</b>	<b>1 553</b>	<b>225 915 250</b>

### 3.4. Anti-fraud activities of Member States

Previous paragraphs have examined the trend and main features and characteristics of the irregularities reported as fraudulent.

The present paragraph aims at examining some aspects linked to the anti-fraud activities and results of Member States. Four elements are analysed and taken into account:

- (1) duration of irregularities (fraudulent and non-fraudulent). No analysis by Member State is presented in this section;
- (2) the number of irregularities reported as fraudulent by each Member State (in 2016 and over a five years' time period);
- (3) the fraud and irregularity detection rates over the last five years (the ratio between the amounts involved in cases reported as fraudulent and the payments occurred in the financial years 2012 to 2016);
- (4) the ratio of cases of established fraud on the total number of irregularities reported as fraudulent.

#### 3.4.1. *Duration of irregularities*

Of the 37 110 detected irregularities (fraudulent and non-fraudulent) reported by Member States in relation to the programming period 2007-13, 18 142 (47% of the total) involve infringements that have been protracted during a given span of time. For the 1 750 irregularities reported as fraudulent this percentage is higher at 60%. The remaining part of the datasets refers to irregularities/breaches which consisted of a single act identifiable on a precise date (19% of the whole dataset and 26% of that represent exclusively by the fraudulent irregularities) or for which no information has been provided (34% of the whole dataset, but only 14% of the irregularities reported as fraudulent).

Taking into account only those irregularities which have been protracted in time, their average duration is almost 20 months (*i.e.* almost 1 year and 8 months). For the irregularities reported as fraudulent, this average is just one month less: 19.

#### 3.4.2. *Detection of irregularities reported as fraudulent by Member State*

##### 3.4.2.1. *Reported in 2016*

Table NR16 offers an overview of the irregularities reported as fraudulent by Member States in 2016. It also shows the related amounts, overall payments for the agricultural policy and the FDR.

Belgium, Cyprus, Finland, Ireland, Malta, the Netherlands and Slovenia have notified no irregularity as fraudulent; seventeen (17) Member States reported less than 30 fraudulent irregularities; one (1) country reported between 30 and 60; two (2) Member States more than 60.

Romania, Poland and Bulgaria are the three countries which have reported the highest numbers.

Table NR16: Irregularities reported as fraudulent by Member States in 2016

Member State	Irregularities reported as fraudulent in 2016		Payments in 2016	FDR 2016
	N	EUR	EUR	
AT	2	27 444	1 357 588 988	0.00%
BE			668 032 722	0.00%
BG	60	12 107 506	1 000 734 848	1.21%
CY			74 682 614	0.00%
CZ	14	852 246	1 205 700 370	0.07%
DE	3	231 833	6 277 306 989	0.00%
DK	4	254 730	994 682 262	0.03%
EE	5	1 735 030	254 025 620	0.68%
ES	10	580 768	6 554 590 467	0.01%
FI			963 599 710	0.00%
FR	22	3 375 812	8 393 964 473	0.04%
EL	2	38 015	2 888 822 583	0.00%
HR	10	2 575 582	341 354 556	0.75%
HU	24	1 154 158	1 664 275 889	0.07%
IE			1 631 481 267	0.00%
IT	20	2 707 009	5 475 136 257	0.05%
LT	11	2 087 218	716 579 085	0.29%
LU			46 158 034	0.00%
LV	12	987 285	362 080 904	0.27%
MT			11 619 941	0.00%
NL			892 525 909	0.00%
PL	97	13 020 953	4 709 693 469	0.28%
PT	4	6 033 837	1 508 523 973	0.40%
RO	108	14 007 684	2 709 162 157	0.52%
SE	1	0	937 094 490	0.00%
SI			275 064 714	0.00%
SK	1	1 483	643 752 969	0.00%
UK	3	80 766	3 968 612 007	0.00%
<b>TOTAL</b>	<b>413</b>	<b>61 859 359</b>	<b>56 526 847 266</b>	<b>0.11%</b>

Paragraph 3.4.3 offers a detailed analysis of the FDR per policy pillar.

#### 3.4.2.2. Reported during the period 2012-16

Table NR17 offers an overview of the irregularities reported as fraudulent by Member States between 2012 and 2016. It also shows the related amounts, overall payments for the agricultural policy and the FDR.

Only Finland notified no irregularity as fraudulent; the majority of countries (22) reported less than 100 fraudulent irregularities; one (1) country reported between 100 and 200; two (2) Member States notified between 201 and 300 and other two (2) more than 300.

Romania, Poland, Italy and Hungary are the countries which have reported the highest numbers.

Table NR17: Irregularities reported as fraudulent by Member States between 2016 and 2017

Member State	Irregularities reported as fraudulent in 2012-16		Payments in 2012-16	FDR 2012-16
	N	EUR	EUR	
AT	9	87 236	5 965 929 090	0.00%
BE	3	401 569	3 389 649 199	0.01%
BG	163	20 095 312	4 744 822 653	0.42%
CY	6	252 222	371 045 540	0.07%
CZ	53	75 559 902	5 854 643 133	1.29%
DE	25	2 799 744	31 599 980 686	0.01%
DK	81	27 936 608	5 028 985 748	0.56%
EE	30	10 360 149	942 541 988	1.10%
EL	35	2 559 226	13 622 234 149	0.02%
ES	52	2 621 559	33 266 059 904	0.01%
FI			4 206 992 342	0.00%
FR	56	29 413 378	45 446 306 415	0.06%
HR	10	2 575 582	437 803 395	
HU	253	20 142 925	8 641 867 386	0.23%
IE	35	462 723	7 613 331 160	0.01%
IT	280	58 548 849	28 950 919 471	0.20%
LT	37	13 319 249	2 991 946 079	0.45%
LU	1	252 050	215 037 302	0.12%
LV	34	2 365 281	1 462 783 726	0.16%
MT	6	175 628	72 502 220	0.24%
NL	4	53 250 160	4 759 107 865	1.12%
PL	346	55 453 478	24 403 757 307	0.23%
PT	17	8 543 901	6 820 023 602	0.13%
RO	378	134 686 086	12 128 876 705	1.11%
SE	6	507 702	4 586 894 370	0.01%
SI	14	1 213 360	1 224 888 227	0.10%
SK	24	6 854 573	2 865 526 463	0.24%
UK	18	861 693	19 737 269 357	0.00%
<b>TOTAL</b>	<b>1976</b>	<b>531 300 142</b>	<b>281 351 725 481</b>	<b>0.19%</b>

Paragraph 3.4.3 offers a detailed analysis of the FDR per policy pillar.

### 3.4.3. Fraud and Irregularity Detection Rates by Member State

#### 3.4.3.1. EAGF – Market measures

Market measures present FDR and IDR that are significantly higher than those concerning direct payments, as already seen in paragraph 3.3.2.

Table NR16 shows the Member States which have detected and reported potentially fraudulent irregularities in the period 2012-2016. Detections are measured against the expenditure over the same period to calculate the FDR. 16 Member States have detected and reported potential fraudulent cases in this area.

Table NR16: Market measures: number of irregularities reported as fraudulent 2012-2016, amounts involved and fraud detection rate by Member State

MS	Irregularities reported as fraudulent 2012-2016		Expenditure 2012-2016	FDR
	N	EUR	EUR	%
AT	2	19 625	135 007 063	0.0%
BE	2	390 000	376 460 679	0.1%
BG	2	327 118	174 125 844	0.2%
CY	2	81 332	34 717 758	0.2%
DE	2	1 124 773	704 143 130	0.2%
DK	1	7 526 516	68 140 899	11.0%
ES	7	748 968	2 831 263 577	0.0%
FR	49	28 142 814	3 069 506 188	0.9%
EL	2	965 115	327 017 721	0.3%
HU	35	7 670 513	314 030 684	2.4%
IT	36	26 583 494	3 350 911 084	0.8%
NL	3	46 900 603	366 354 074	12.8%
PL	17	37 648 623	1 501 458 293	2.5%
PT	2	1 890 221	573 765 796	0.3%
RO	6	757 077	400 830 790	0.2%
SI	8	617 273	39 839 904	1.5%
<b>TOTAL</b>	<b>176</b>	<b>161 394 065</b>	<b>15 069 304 944</b>	<b>1.1%</b>

Individual cases involving significantly high amounts can produce a distortive effect on the overall analysis. This is particularly the case for Denmark and, even more, the Netherlands, which show the highest FDR despite the low number of detections. The case reported from the Netherlands is also referred to events dating back almost ten years.

Furthermore, a part of these irregularities are not exclusively referred to market measures, but the reporting authority may have also included in the budget post affected also direct payments and/or rural development. As it is not possible to attribute the specific amount to each individual budget post, they have been included in their full value.

Table NR17 shows the IDR per Member State, which therefore, refers to irregularities detected and reported as non-fraudulent.

Combining FDR and IDR, market measures have been the object of significant detections, equalling 2.6% of the payments, by national authorities in several Member States over the last years.



Table NR17: Market measures: number of irregularities reported as fraudulent 2012-2016, amounts involved and irregularity detection rate by Member State

MS	Irregularities not reported as fraudulent 2012-2016		Expenditure 2012-2016	IDR
	N	EUR	EUR	%
AT	3	473 737	135 007 063	0.4%
BE	20	461 366	376 460 679	0.1%
BG	1	800 406	174 125 844	0.5%
CY	10	838 225	34 717 758	2.4%
CZ	6	13 032 936	85 354 021	15.3%
DE	74	1 965 999	704 143 130	0.3%
DK	7	1 656 329	68 140 899	2.4%
ES	429	28 025 486	2 831 263 577	1.0%
FR	304	54 822 395	3 069 506 188	1.8%
EL	42	2 348 581	327 017 721	0.7%
HU	46	3 220 276	314 030 684	1.0%
IE	4	144 252	68 324 277	0.2%
IT	226	19 890 662	3 350 911 084	0.6%
NL	86	15 693 609	366 354 074	4.3%
PL	79	13 405 112	1 501 458 293	0.9%
PT	108	5 062 186	573 765 796	0.9%
RO	68	47 099 160	400 830 790	11.8%
SE	15	16 251 187	88 800 123	18.3%
SI	6	280 219	39 839 904	0.7%
SK	7	244 782	45 447 778	0.5%
UK	12	198 344	264 976 397	0.1%
<b>TOTAL</b>	<b>1 553</b>	<b>225 915 249</b>	<b>15 069 304 944</b>	<b>1.5%</b>

A part of these irregularities are not exclusively referred to market measures, but the reporting authority may have also included in the budget post affected also direct payments and/or rural development. As it is not possible to attribute the specific amount to each individual budget post, they have been included in their full value.

#### 3.4.3.2. EAFRD - Rural development

Fraud and Irregularity Detection Rates concerning EAFRD over the last five years show overall similar results (2.6% of the payments paid out during the period 2012-2016) to those already described for market measures.

There is, however, a wider distribution among Member States and no real distortive effect by individual cases involving high amounts. 25 Member States have reported potential fraudulent cases detected in relation to EAFRD during the period under consideration, as showed in Table NR18. Detections are measured against the expenditure over the same period to calculate the FDR.

FDR in rural development is similar to that recorded in relation to the Cohesion policy. It is worth underlying that EAFRD functions in a way similar to that of the other ESI funds and therefore this finding is not surprising.



Table NR18: Rural development: number of irregularities reported as fraudulent 2012-2016, amounts involved and fraud detection rate by Member State

MS	Irregularities reported as fraudulent 2012-2016		Expenditure 2012-2016	FDR
	N	EUR	EUR	%
AT	5	44 206	2 324 081 145	0.0%
BG	137	17 148 044	1 760 695 227	1.0%
CY	4	170 890	100 708 148	0.2%
CZ	39	69 771 598	1 606 872 681	4.3%
DE	15	1 438 900	5 234 331 221	0.0%
DK	3	212 058	388 967 224	0.1%
EE	30	10 360 149	420 189 963	2.5%
ES	27	1 357 130	4 695 504 081	0.0%
FR	6	913 958	4 012 572 018	0.0%
EL	18	752 593	2 216 344 496	0.0%
HR	10	2 575 582	151 306 384	1.7%
HU	211	11 837 708	2 207 890 533	0.5%
IE	32	385 305	1 369 766 786	0.0%
IT	71	7 455 768	5 922 742 895	0.1%
LT	37	13 319 249	1 073 269 891	1.2%
LU	1	252 050	44 581 031	0.6%
LV	34	2 365 281	681 792 285	0.3%
MT	6	175 628	44 716 000	0.4%
PL	227	13 863 075	8 000 206 091	0.2%
PT	12	6 556 785	3 025 346 083	0.2%
RO	209	117 617 072	5 538 003 478	2.1%
SE	4	436 273	1 086 205 855	0.0%
SI	5	785 522	524 913 236	0.1%
SK	23	6 853 089	918 158 816	0.7%
UK	14	484 244	3 551 763 121	0.0%
<b>TOTAL</b>	<b>1 180</b>	<b>287 132 157</b>	<b>59 076 977 718</b>	<b>0.5%</b>

A part of these irregularities are not exclusively referred to rural development, but the reporting authority may have also included in the budget post affected also direct payments and/or market measures. As it is not possible to attribute the specific amount to each individual budget post, they have been included in their full value.

Table NR19 shows the IDR per Member State, which therefore, refers to irregularities detected and reported as non-fraudulent.

Combining FDR and IDR, rural development interventions have been the object of significant detections, equalling 2.6% of the payments, by national authorities in all Member States over the last years.

Table NR19: Rural development: number of irregularities reported as fraudulent 2012-2016, amounts involved and irregularity detection rate by Member State

MS	Irregularities not reported as fraudulent 2012-2016		Expenditure 2012-2016	IDR
	N	EUR	EUR	%
AT	50	975 737	2 324 081 145	0.0%
BE	25	569 716	249 799 985	0.2%
BG	101	17 901 045	1 760 695 227	1.0%
CY	26	801 282	100 708 148	0.8%
CZ	278	265 908 343	1 606 872 681	16.5%
DE	265	10 695 212	5 234 331 221	0.2%
DK	55	15 306 644	388 967 224	3.9%
EE	152	4 855 816	420 189 963	1.2%
ES	916	72 115 076	4 695 504 081	1.5%
FI	67	1 317 279	1 507 365 232	0.1%
FR	355	7 497 900	4 012 572 018	0.2%
EL	313	6 556 670	2 216 344 496	0.3%
HR	17	317 999	151 306 384	0.2%
HU	862	39 446 980	2 207 890 533	1.8%
IE	119	4 355 186	1 369 766 786	0.3%
IT	872	42 065 039	5 922 742 895	0.7%
LT	480	61 950 748	1 073 269 891	5.8%
LV	113	3 611 278	681 792 285	0.5%
MT	10	206 044	44 716 000	0.5%
NL	291	9 388 976	418 883 813	2.2%
PL	1040	38 863 498	8 000 206 091	0.5%
PT	944	41 259 941	3 025 346 083	1.4%
RO	2402	522 130 345	5 538 003 478	9.4%
SE	103	29 714 251	1 086 205 855	2.7%
SI	62	1 586 511	524 913 236	0.3%
SK	154	15 549 432	918 158 816	1.7%
UK	264	5 751 366	3 551 763 121	0.2%
<b>TOTAL</b>	<b>10 336</b>	<b>1 220 698 314</b>	<b>59 076 977 718</b>	<b>2.1%</b>

A part of these irregularities are not exclusively referred to rural development, but the reporting authority may have also included in the budget post affected also direct payments and/or market measures. As it is not possible to attribute the specific amount to each individual budget post, they have been included in their full value.

#### 3.4.4. Ratio of established fraud / Dismissal ratio

Since the PIF Report 2014, the analysis has also tried to focus on the rate of irregularities reported as fraudulent by Member States for which a final decision was taken, establishing that fraud really occurred. By comparing updated data with those published in 2014, it is also possible to identify how many cases have been dismissed (initially reported as fraudulent and then "declassified" or cancelled).

Table NR20, therefore, updates the table already published in the last two Reports indicating that the "ratio of established fraud" has slightly increased in comparison to last year (from 10% to 11%). Likewise, the *dismissal ratio* increased from 12% to 14%.

Table NR20: Number of cases of suspected and established fraud and ratio of established fraud – cases reported between 2009-13 in the CAP

Member State	Suspected fraud	Established fraud	TOTAL	Ratio established fraud	TOTAL 2013	Dismissal ratio
	N	N	N	%	N	%
AT	9	1	10	10%	10	0%
BE	10	1	11	9%	12	-8%
BG	167	59	226	26%	233	-3%
CZ	24	1	25	4%	20	25%
DE	17	4	21	19%	24	-13%
DK	118		118	0%	118	0%
EE	19	4	23	17%	22	5%
ES	22	1	23	4%	29	-21%
FI			0	#DIV/0!	1	-100%
FR	13		13	0%	27	-52%
GR	28	1	29	3%	34	-15%
HU	66	7	73	10%	89	-18%
IE	4		4	0%	4	0%
IT	301	11	312	4%	409	-24%
LT	5		5	0%	1	400%
LU	1		1	0%	1	0%
LV	5	2	7	29%	8	-13%
MT	5		5	0%	5	0%
NL	5		5	0%	4	25%
PL	144	29	173	17%	194	-11%
PT	2	1	3	33%	2	50%
RO	103	8	111	7%	147	-24%
SE	6		6	0%	6	0%
SI	13	1	14	7%	16	-13%
SK	4	1	5	20%	2	150%
UK	8	2	10	20%	8	25%
<b>TOTAL</b>	<b>1 099</b>	<b>134</b>	<b>1 233</b>	<b>11%</b>	<b>1 426</b>	<b>-14%</b>

If only the "decided" cases are taken into account (established fraud cases and dismissals<sup>42</sup>)

### 3.5. Recovery cases

For an in-depth analysis of recovery and financial corrections in the CAP, see section 2.1.1.3.3 of the Annual Activity Report of DG AGRI and the Communication of the Commission to the Parliament on the protection of the EU budget<sup>43</sup>.

<sup>42</sup> Dismissals are always calculated.

<sup>43</sup> To be adopted by the month of July 2017.