

2017 Discharge to the Commission

WRITTEN QUESTIONS TO COMMISSIONER HOGAN

Hearing on 25 October 2018

Food imports and exports to and from developing countries in 2017

1. Beet and cane sugar: Exports from the EU to developing countries grew about 28,5% (2016-2017), meanwhile imports from developing countries dropped by half (since 2013). Could the Commission give an explanation to this evolution? How much EU money is invested in beet and sugar cane in the EU?

The EU market is completely open to imports from the African, Caribbean and Pacific (ACP) countries and the least developed (LDC) countries through the Everything But Arms initiative (EBA) and the European Partnership Agreements (EPA) which provide these countries full duty-free and quota-free access to the EU sugar market.

The changes in trade patterns, referred to in the question, were market-driven. In 2017, in a context of global sugar deficit and high international prices for most of the year, European sugar prices were not attractive for exporting developing countries. Moreover, with the end of the quota system, the EU sugar production increased by 24%, which brought a significant decrease in prices and a further reduction in imports for the last quarter of 2017. In addition, the end of the production quotas system led to the removal of the WTO limit for European exports to 1.35 million tonnes, leading to a significant increase in EU exports from October 2017. The main destinations of EU sugar exports are neighbouring countries in the North of Africa and Middle East, which are not sugar beet or cane producers.

As any other agricultural sector, sugar beet and sugar cane benefit from the CAP non-specific support measures in both first and second pillar such as decoupled direct payments. As this support measure is granted per area and not in relation to a given type of production, the Commission has no information as to how much of the decoupled direct payments are actually received by farmers growing beet or cane sugar. For this reason, it is not possible to give a concrete figure. As regards sector specific support, 11 Member States have notified the Commission their decision to grant Voluntary Coupled Support for the beet sector. The annual amount available at EU level averages EUR 177 million per year. Also the support programmes for the outermost regions (POSEI) include, in two programmes, specific measures for the sugar sector which amounts to EUR ±76.5 million per year.

2. Rice: Exports from the EU to developing countries grew about 50% (2016-2017). Could the Commission give an explanation to this evolution? How much EU money is invested in rice in the EU?

The EU rice market is very open due to the EU's trade regime, which is particularly

generous towards developing countries. In fact, in the Marketing Year 2016-2017, at least 92% of EU imports of rice came from developing countries. In the same Marketing Year, the EU exported 270 900 Tonnes of rice (milled equivalent) to the rest of the world. This amounts to only 21% of total rice imports for that Marketing Year into the EU. While exports were larger than the previous Marketing Year, a very small percentage of those go to developing countries. Most EU exports go to Turkey, Switzerland and other neighbourhood countries. EU rice is comparatively expensive compared to rice from other origins (including developing countries). Lebanon, Syria and Libya were the main developing country export destinations for EU rice. In the year in question, EU exports were helped primarily by exchange rate advantages and lower exports from other origins, such as the US.

The essential point is that, while the level of exports of rice to developing countries increased by 50%, the volumes involved are relatively modest.

As to the question how much EU funds go to the rice sector, it is not possible to give a precise answer because support to farmers is largely decoupled from production. As in other sectors, rice farmers benefit indirectly from decoupled direct payments and Rural Development measures managed by Member States. As specific support, all rice producing Member States (Italy, France, Spain, Greece, Romania, Hungary, Portugal), except Bulgaria, have Voluntary Coupled Support payments allocated to rice farmers. The total amount is around Euro 56 million per year on average (notification for period 2017-2020).

3. Milk powder and whey: Exports from the EU to developing countries grew by 28%, meanwhile imports from developing countries dropped by -60%. Could the Commission give an explanation to this evolution? How much EU money is invested in milk powder and whey in the EU?

Based on the UN classification of developing countries, EU exports of milk powder and whey increased by 16% in 2017 compared to 2016, while imports into the EU decreased by 70%. However, rather than looking at the relative figures, it is more informative to look at the actual volumes of product involved, which are not at all comparable. For example, while exports totalled some 1.6 million tonnes, imports amounted to only a fraction of that at 600 tonnes.

The importing countries concerned are not self-sufficient in milk products, while the EU produces enough to feed its own population and export some 10-15% of its production to countries where there is a demand for milk products. It is important to stress that these exports are not supported by export subsidies.

Investment in milk powder and whey production in the EU is done on a private commercial basis without involvement of public authorities. As such, they respond to business needs or opportunities.

However, the EU does provide support the milk sector through such measures as: storage measures for skimmed-milk powder, butter and cream, the school milk scheme and other measures for milk and milk products. The total EU support for milk

and milk products amounted to EUR 468 million in 2017.

4. According to the Commission, were there any other meaningful tendencies in 2017 concerning imports and exports to developing countries?

The EU is a net-importer of agri-food products from developing countries (r which, by reference to the FAO definition, includes major players on global markets such as China, India, Indonesia, Brazil, Argentina, Mexico, South Africa, Turkey and Israel).

In 2017 agri-food imports from developing countries reached a value of EUR 83.6 billion, or 71% of the total value of EU agri-food imports. Over the last decade imports increased significantly at an annual average growth rate of 3.7%. Main imported products are tropical fruits, coffee and tea, palm oil and oilcakes. In Last year, the value of cocoa bean imports fell significantly, but this was principally due to a fall in prices rather than a reduction on volume.

Also exports have been growing significantly over the last decade at an annual growth rate of 9.7%. However, over the last three years the increase was limited. In 2017, the value of agri-food exports was EUR 73 billion. Developing countries account for 53% of the EU's agri-food exports. Following the EU-led elimination of export refunds and market distorting support on the internal market, EU exports of agri-food products to developing countries are now responding to supply and demand. The main export categories include infant food and milk preparations, spirits and liquors, milk powder and whey and wine.

For more details, please see in [Annex 1](#) the AGRI-FOOD TRADE STATISTICAL FACTSHEET European Union - Developing countries (FAO definition).

Food imports and exports from and to the least developed countries (LCD).

5. Beet and cane sugar: Exports from the EU to LCD rose by 141,1%, imports dropped by 39,4%. Could the Commission give an explanation to this evolution? How much EU money is invested in beet and sugar cane in the EU?

Please see the reply to question 1, in which I confirmed that the EU market is completely open to imports from LDC countries through the Everything But Arms initiative, which give full duty free and quota free access to the EU.

The explanation for the change in trade patterns is the same as in the reply to Question 1: In 2017, low European sugar prices were not attractive for exporting LDC countries, all the more so with the end of the quota system when EU sugar production grew by 24%, which brought a significant decrease in prices and a substantial reduction in imports. In addition, the end of the production quotas system led to the removal of the 1.35 million tonnes WTO limit for European exports. Consequently, EU exports increased significantly from October 2017.

On investments in beet and sugar cane, please also see reply to Question 1: As any

other agricultural sector, sugar beet and sugar cane benefit from the CAP non-specific support measures in both first and second pillars. When the support is not measure or crop specific, e.g. decoupled direct payment it is not possible to calculate the total level of support given to sugar beet and cane production.. As regards sector specific support, 11 EU Member States have notified the Commission their decision to grant Voluntary Coupled Support for the beet sector. The annual amount available at EU level averages EUR 177 million per year. Also the support programmes for the outermost regions (POSEI) include specific measures in two programmes for the sugar sector which amounts to roughly EUR 76.5 million per year.

6. Vegetable oils other than palm & olive oils: exports from the EU to LCD rose by 58,6%, meanwhile imports from LCD dropped by 14,8%. Could the Commission give an explanation to this evolution? How much EU money is invested in those oils in the EU?

EU exports of vegetable oils to LCD countries consist mainly of two types of oil: soya oil and sunflower oil. Soya oil represents the majority of exports in vegetable oils other than palm and olive oils (80%, slightly above 100 000 tonnes in 2017) and the sunflower oil represents only 18%.

The EU is a very small producer of soya beans which are necessary to produce soya oil. Soya oil is mainly obtained from beans imported into the EU from third countries (South America and the US). The EU is heavily dependent on these imports to produce the soya meal being one of the main ingredients in the compound feed necessary for the EU livestock sector.

The rise in the EU exports of soya oil can be explained largely by an increase in demand side from the LCD countries, which use these oils for food purposes.

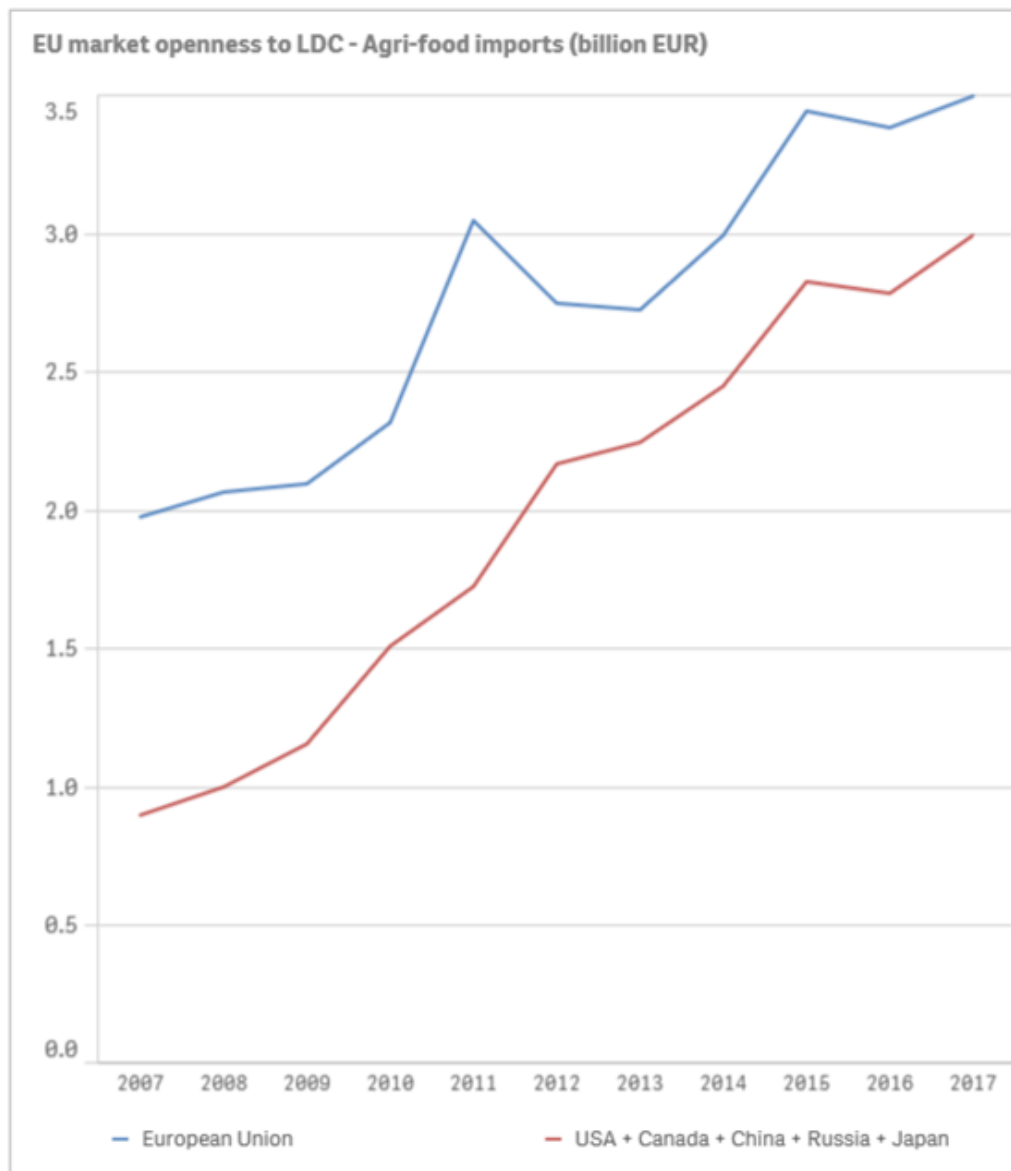
The EU does not grant any subsidies to produce vegetable oils and the existing voluntary coupled support for soya bean production (applicable in few Member States) is not really relevant since the EU is soya bean importer. As any other agricultural sector, the small soya production as well as sunflower seed production benefit from the CAP non-specific support measures in both first and second pillars.

7. Raw hides, skins and fur skins: exports from the EU to LCD rose by 81%, meanwhile imports from LCD fell by 28,6%. Could the Commission give an explanation to this evolution? How much EU money is invested in raw hides, skins and fur skins in the EU?

Hides and skins do not fall under the CMO Regulation (not covered by Annex I of this Regulation). They are DG GROW's competence but without any EU support being paid.

8. According to the Commission, were there any other meaningful tendencies in 2017 concerning imports and exports to LCDs?

The EU provides duty-free, quota-free access for LDCs under the "Everything But Arms" scheme as well as under the Economic Partnership Agreements (EPAs). As a direct result of this policy, the EU remains by far the top importer of agri-food products from least developed countries. In 2017, EU imports of agri-food products from LDCs reached a value of EUR 3.5 billion, an increase of 3.3% from 2016. Since 2008, imports from LDC have surged by 70%. The other top world importers US, China, Japan, Russia and Canada ("Big 5") together reach only EUR 3 billion, making the EU the dominant importer in absolute as well as relative terms. While the EU sources 3% of its total imports in agri-food products from LDCs, the average of the individual countries of the Big 5 is around 1%.



The EU also continues to be a main supplier of LDCs with agri-food products. LDCs absorb 3.7% of EU exports, valued at EUR 5.1 billion. It should be recalled that these exports no longer benefit from export refunds and market distorting support on the

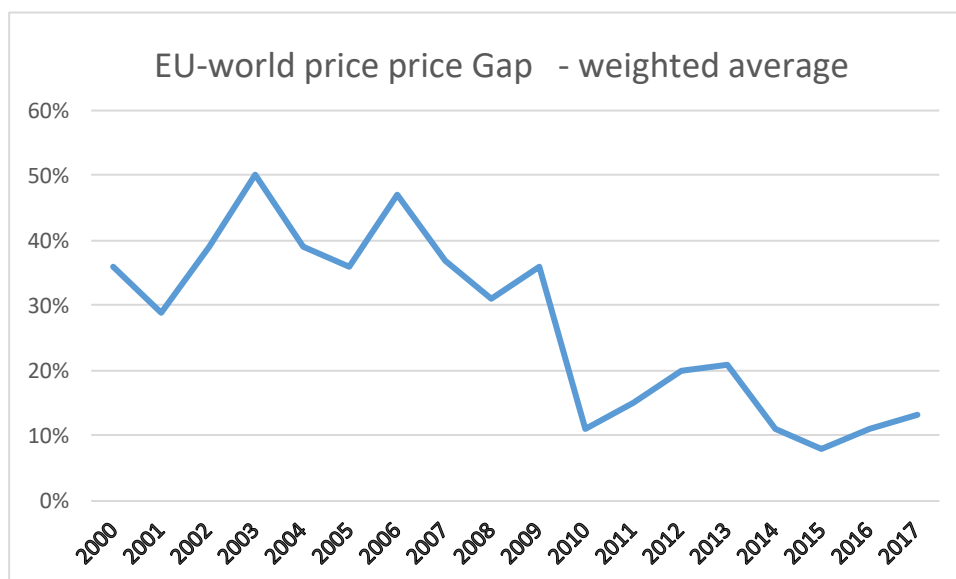
internal market. Instead EU exports of agri-food products to LDCs are simply a response to supply and demand. Due to rapid population growth and urbanisation, demand greatly outstrips supply in many LDCs and they are not able to satisfy the nutritional needs of their populations, in terms of quantity as well as quality, without imports.

For more details, please see in [Annex 2](#) the AGRI-FOOD TRADE STATISTICAL FACTSHEET European Union - LDC (Least Developed Countries).

EU agri-food exports

9. According to the AAR of DG AGRI, the annual value of EU agri-food exports in 2017 reached a new record level of EUR 137,9 billion, which is an increase of 5,1 %.
 - a. Could the Commissioner please comment on the impact of Common Agricultural Policy on the agricultural exports? Is there an overproduction within the EU that leads to a greater export?

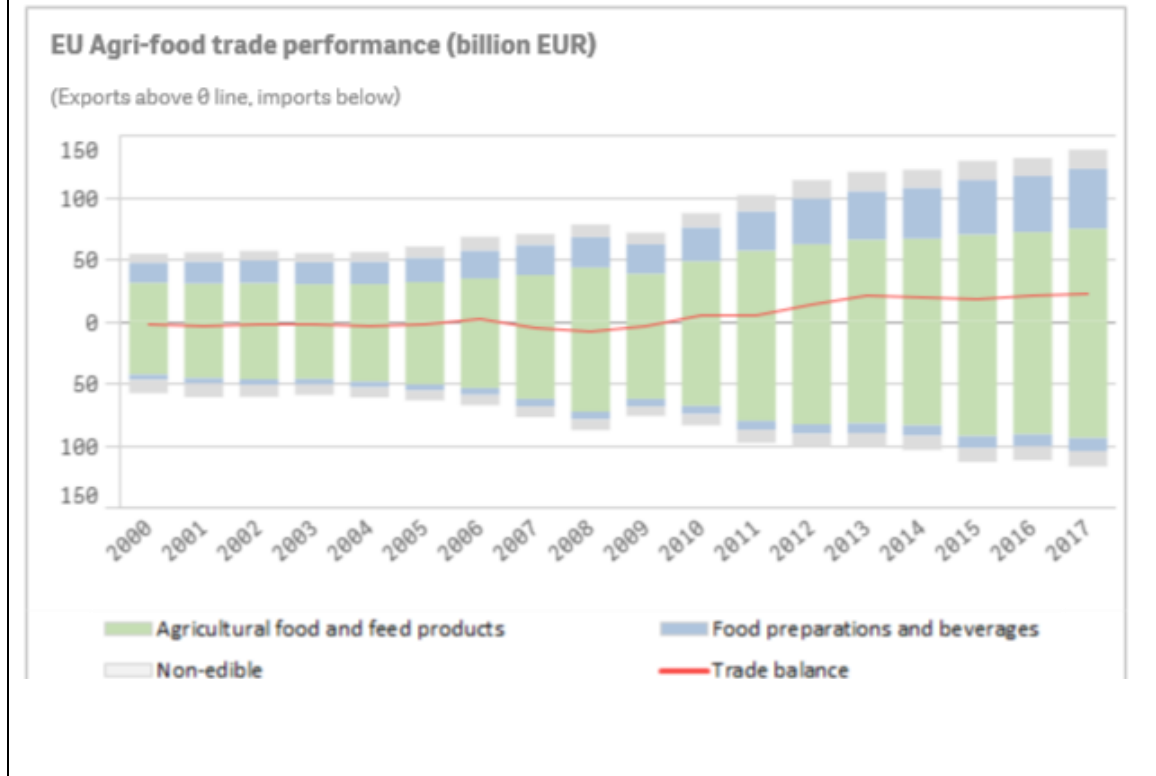
Reforms of the Common Agricultural Policy, moving away from distortive price support towards decoupled income support, have allowed for greater market orientation and resulted in EU prices coming closer to world prices for most agricultural products. Over the last 15 years the gap between average EU and world price for agricultural commodities shrunk by around 25%.



For many commodities, EU prices are at world market price level and EU producers can grasp the opportunities offered by growing world demand. Furthermore, the growing exports of EU agro-food products are characterised by higher value-added and quality products, rather than bulk commodities.

The greater market orientation of the CAP means that farmers and other operators must be and are more reactive to market demands. The EU has also concluded a number of beneficial trade agreements which have increased market access in third countries and

the European Commission has led a number of successful trade missions which have also facilitated greater market access in important markets. The continued increase in EU agri-food exports reflects a combination of factors, including greater competitiveness of EU agro-food produce, increased focus on high-value products and a successful trade policy.



- b. Could you please provide us with information on the relation between the size of a farm and its value of its agri-food export?

There is limited information about the final destination of most agricultural products once they leave the farm gate, particularly as most primary produce is further processed before its consumption or export. For example, there is little or no information as to the processed products into which they are transformed into or whether they are consumed in the EU (and roughly 90% of EU production is consumed in the EU) or exported. However, since we know that 50% of farms operate on less than 5 hectares, and thus farm only 5% of total farmland, one can deduct that most of the production take place in larger farms (95% of land is used by the remaining 50% of larger farms).

Distribution of EU direct support to farmers and farmer's income

10. Who gains the money? 1,1% of the farms (=big farms > 250 hectares) received in 2017 22,1% of the direct support. Could the Commission please provide us with a timeline since the year 2000 indicating the distribution of EU direct support for the 1% biggest farmers per year?

The farms above 250 hectares (about 1% of total EU farms) received around 22% of total direct payments in claim year 2015 and 23% in claim year 2016. However, this information has to be put in the context of a policy in which payments are largely area-based. For example, these 1% of beneficiaries farm 28% of the eligible area. Moreover the average income of large farms (in physical size) is not always higher than small and medium-size farms (see the Impact Assessment statistical annex on direct payments:

<https://ec.europa.eu/agriculture/sites/agriculture/files/statistics/facts-figures/direct-payments.pdf>.

This analysis was made specifically in the context of the preparation of the legislative proposal for the CAP post 2020, and the information is not directly available for other years.

Furthermore, conscious of the demand for greater equality in the distribution of CAP payments, the Commission has included specific measures in the post-2020 legislative proposals designed to achieve greater fairness in the distribution of payments.

11. According to the 2017 AAR “Farming income generally lagging behind salaries in the whole economy” graph (p. 21), Finland, Luxembourg and Sweden are showing negative income that must be fully compensated by CAP to deliver any income for the farmer income. What are the aspects behind this situation and how should the CAP tackle the issue having in mind European added value principle?

In the mentioned graph, most data are based on Eurostat's Economic Accounts for Agriculture (EAA) average for the years 2011-2013. Where farming income is negative (as in Finland, Luxembourg and Sweden), costs of production (including fixed capital consumption, interests and rents) were higher than agricultural output for the years in question. This situation can arise occasionally in different countries and years depending on yields and prices.

EU agriculture is now more open and closely linked to global market developments than at any other time in the history of the CAP. This offers opportunities, but also increases exposure to price volatility. This is coupled with more risks coming from climate change, geopolitical events as well as the increase in the frequency and intensity of extreme weather events and the consequent increased exposure to sanitary and phytosanitary risks leading to further vulnerability of production.

The CAP post-2020 proposal aims to protect farmers from increased income variability by maintaining direct income support and by providing an income stabilisation tool. Decoupled direct payments provide essential income support and act as an annual, stable cushion against income variability. Their importance is illustrated by the question, which acknowledges that farm incomes generally lag behind salaries in the whole economy. The proposed income stabilisation tool can be used by Member States for specific sectors, in the framework of their CAP strategic plan.

12. In the AAR 2017 DG AGRI refers to a slight increase of the farmer income. Is it possible that this increase is linked to the decrease of the number of farmers?

Income figures referred to in the AAR 2017 come from Eurostat's Economic Accounts for Agriculture (EAA), which are based on figures reported by Member States for the whole agricultural sector. These are expressed as an index per annual work unit, which shows a certain variation from year to year (see the graph on p.20 of the AAR 2017). The decrease in the number of farmers has some impact in as much as it affects the number of annual work units; however, other factors play an important role as well. A good or bad harvest, as well as changes in commodity and/or input prices, influence the overall agricultural income in any given year, though it is difficult to pinpoint the exact contribution of each of these factors.

13. Concerning young farmers, can the Commission specify how many new farmers were supported in entering the profession in 2017?

At the end of 2017, 51.398 young farmers benefited from the support provided for in article 19 of Regulation (EU) No 1305/2013 (under EAFRD). In 2016, 11.634 young farmers had benefited from this same support.

This means that about 40.000 [39.764 precisely] new farmers were supported in entering the profession in 2017. The target at the end of the 2014-2020 programming period is to reach 177.000 beneficiaries.

Additionally, 4.2% of basic payment applicants benefited from the young farmer payment in the EU in 2015 (under EAGF). This share increased to 4.8% of applicants in 2016.

Additionally, as regard the Young Farmer Payment (YFP) under Regulation (EU) No 1307/2013 (EAGF):

- more than 320.000 farmers have benefited from it in the EU in claim year 2016 (financial year 2017);
- information regarding claim year 2017 is not yet available (payments made in financial year 2018);
- the information above takes into account all young farmers, who were eligible for the YFP¹ in claim year 2016, not only those who actually entered the profession in that claim year.

¹ Farmers eligible to receive the YFP are those who meet all of the following conditions:

- they are under 40 years of age in the year they first apply to the basic payment scheme;
- they are setting up for the first time as head of an agricultural holding, or they have already set up such a holding during the 5 years preceding the first application for the YFP;
- they have appropriate skills and/or training requirements, if Member States so decides.

Convergence of the ECA and DG Agri audit conclusions

14. This year the audit conclusion of the ECA is consistent with the error rates reported in DG AGRI AAR. ECA estimates the level of error for "natural resources" as a whole to be 2.4%, while the Commission's estimation is 2.2% in DG AGRI's AAR. For direct payments the Commission's estimate is 1.92% and ECA also estimates the level of error to be below the materiality threshold of 2%. In the Commission's view, to what extent can these converging assessments be explained by the Court's new strategy, namely the application of the attestation approach or some other reasons? (We will ask the same question to ECA)

First, the Commission considers that the Court's Annual Reports and the DG AGRI AARs have been presenting convergent error rates for several years now. The Commission also draws attention to the fact that, for auditing the CAP budget, the Court continued to apply an approach of a relative large number of transactions testing combined with reviewing the Commission's work on Certification Bodies.

The Commission considers that the results are similar because they reflect the reality: the error rate in direct payments is low. The Court acknowledged that direct payments are less prone to errors as they fall into the category of entitlement-based schemes. The Court also highlighted the positive contribution of the Integrated Administration and Control System (IACS) in preventing and detecting errors. The use of Geo-Spatial Aid Application (GSAA) is also an important step to avoiding errors.

The Commission fully shares these conclusions and will continue working with the Member States on maintaining the modern and high quality management and control systems.

Key performance indicators

15. What did the Commission do in 2017 to get more precise data as to the number of farmers?

What did the Commission do to follow the recommendations issued by the Parliament in conclusion of the examination of ECA special report 1/2016 which states that the Commission's system for measuring the performance of the CAP in relation to farmers' incomes is not sufficiently well designed?

The Commission has solid statistics on the number of farmers in the EU. These data are collected by Eurostat (in collaboration with the Member States) through Farm Structure Surveys, conducted every 3-4 years (data from the 2016 survey are now becoming available). In 2017, the Commission made significant progress in modernising agricultural statistics, by proposing a new framework regulation on integrated farm statistics (IFS). This Regulation has been adopted in July 2018 and will serve as the legal basis for the next agricultural census in 2020, which will provide a full update on the number of farmers in the EU. The CAP has around seven million beneficiaries, supported under a variety of different schemes.

As regards ECA' special report 1/206, the Commission is following up on ECA's

recommendation. The impact of measures designed to support farmers income is assessed in evaluations. The Commission has ensured that in the relevant evaluations the data collected through the common monitoring and evaluation framework (CMEF) have been supplemented with additional data sources.

16. The indicators related to the Minimum share of land with specific environmental practices/commitments seem to be a little bit optimistic bearing in mind the different reports and evaluations made as to the greening.
- In particular, page 47 of the 2017 AAR the Director General refers to an analysis made by an external contractor which found that : “overall, the greening measures have led to only small changes in farmers' management practices, except in a few specific areas. For both Member States and farmers, instead of environmental priorities, the main concern tended to consist in minimising the administrative burden of implementation, and avoiding any errors as controls and enforcement may lead to the reduction of CAP payments.” According to the Commission, what measures will result in genuine changes in farming practices?

Why has the Commission contracted an external study concerning the greening whilst the Commission itself made last year a first assessment of the impact of greening measures and whilst the ECA made a critical review of the greening in its annual report 2016 and in a special report?

The Commission has taken full account of all evaluations made on CAP environmental instruments and, in particular, on the greening of direct payments. First, the Commission notes that, reflecting some of those evaluations, improvements have already been made to increase the environmental performance of greening by e.g. including a ban on pesticides on Ecological Focus Areas. Evaluations. Lessons learnt with regard to greening and cross-compliance have also contributed to proposals for a new environmental and climate architecture for the future CAP. This new green architecture includes several instruments:

- An **enhanced conditionality**, which will include not only the current prescriptions under cross-compliance but will also streamline the current greening requirements. To this framework are added some important standards for Good Agricultural and Environmental Condition (GAEC) and Statutory Management Requirements (SMRs), stemming from non-CAP legislation (for example: GAEC for the protection of peatland wetland, new SMR stemming from directive on the sustainable use of pesticide (SUD)) but linked to CAP payments through the system of conditionality. Conditionality requirements form the baseline of other, incentive, green CAP instruments.
- In Pillar I, Member States will have to define **eco-schemes** which will support annual voluntary measures undertaken by farmers to enhance the environmental and climate delivery of the CAP. The flexibility given to Member States will allow them to design eco-schemes adapted to local situations and needs.
- The set of **environmental and climate interventions under Pillar II** will allow the green architecture to be complemented by targeted and ambitious prescriptions for farmers willing to engage in multiannual commitments.
- **Cross-cutting or supporting tools (such as advice, research, support to investments, etc.)** will help farmers to fulfil obligations and make the best use of support measures aiming at improving the environmental and climate delivery of the CAP.

Overall, the environmental and climate ambition of the CAP as implemented by Member States and farmers shall be higher than in the current situation. In the context of the new delivery model proposed by the Commission, Member States shall describe in the CAP Strategic Plans how this higher ambition will be achieved and the Commission will approve these Plans.

The roadmap published by the Commission in September 2016 explained the rationale for the greening evaluation and the link between the evaluation and the first assessment.

The external evaluation served to provide a full view on how this new policy instrument was performing against its objectives, to provide answers on issues raised in the public domain and provide a solid evidence basis for considering possible policy changes. It was designed to feed into the 2018 performance report the Commission publishes in accordance with Article 110 of Regulation (EU) No 1306/2013 on the common monitoring and evaluation framework of the CAP (CMEF). The first assessment made by the Commission, which was more limited in scope than the subsequent external evaluation. The Commission also used the findings of the ECA in the preparation of the staff working document on the evaluation.

Furthermore, at first glance, the views of the Commission, the ECA and the external evaluator seem to be convergent.

Who is this external evaluator? What is the cost of the evaluation?

Indeed, the views are converging in the different studies/audits. This convergence of views expressed in the different studies gives confidence as to the soundness of their conclusions.

The contract for this evaluation was signed with Alliance Environment GEIE for an amount of EUR 478 280.

Cross compliance

17. Page 183- 184 of annex 10 of the 2017 AAR; the results of the cross compliance on the spot checks are concerning: 23, 47 % of the total number of on the spot checks has led to sanctions.

As such, the cross compliance dimension is not taken on board anymore by the ECA to calculate the error rate in CAP but the data provided by the Commission show that there is margin for improvement as to the respect of the environmental requirements

What is the mission of DG AGRI in this file: recuperation of money, controls, internal assigned revenue?

Cross-compliance is a sanction system aimed at enhancing the environmental dimension of the CAP and raising farmers' awareness. The application of administrative penalties does not affect the legality and regularity of payments.

For this reason the Court of Auditors does not include findings as regards cross compliance in its error rate. Also DG AGRI AAR presents separately the figures of financial corrections on cross-compliance.

Nonetheless, cross-compliance requirements must be checked and the sanctions applied when necessary. The sanctions are usually deducted from the aid amount actually due. Thus, cross compliance sanctions lead to reductions of EU expenditure. Where a need to apply a cross compliance sanction is identified after the payment of the aid, the relevant amount is recovered and transferred to the EU budget as assigned revenue.

The Commission carries out audits to check that whether the Member States have in place an appropriate control system and whether the sanctions are applied as stipulated by EU law. The purpose of these audits is to ensure that cross compliance is applied appropriately by the Member States and that penalties are applied to ensure preventive effect. Financial corrections are only applied as regards the risk of financial damage from the non-application of penalties and where cross compliance is not correctly applied by Member States.

Paying Agencies

18. How was the Commission monitoring the proper functioning of the Paying Agencies in 2017? Was there an active supervisory mechanism?

Under shared management, Member States are required to take all the necessary measures to ensure that actions financed from the EU budget are implemented correctly and effectively and in accordance with the EU rules. They are responsible for putting in place systems which prevent, detect and correct irregularities and fraud.

The CAP legislation provides that the Member States shall accredit Paying Agencies which are dedicated bodies responsible for the management and control of Union funds, notably payments to beneficiaries and financial reporting to the Commission.

The Certification Bodies designated by the Member States shall provide every year an opinion covering the completeness, accuracy and veracity of the annual accounts of the Paying Agency concerned, the proper functioning of its internal control system and the legality and regularity of the expenditure declared to the Commission. The Certification Bodies in this context also assess the internal control system functioning on the basis of the accreditation criteria.

Since 2015, in the framework of the annual financial clearance exercise, the Certification Bodies have been auditing, at the level of each Paying Agency, the legality and regularity of the expenditure and expressed an opinion thereon. This additional audit work allows DG AGRI to consolidate and/or fine-tune its adjustments of the error rates reported by the Paying Agencies. With further experience gained by all the actors concerned, the opinion of the Certification Bodies on legality and regularity progressively becomes, where the audit work of the Certification Bodies is done in accordance with the applicable regulations and guidelines, a key element of the assurance model of the CAP expenditure.

Each year in the context of the annual clearance of accounts of the Paying Agencies, the Commission opens a conformity enquiry where necessary to follow-up on the findings identified by the Certification Bodies in their reports. Several enquiries were launched in 2017 by AGRI in this respect.

Hence DG AGRI is applying the Single Audit approach to Paying Agencies.

DG AGRI also performs dedicated audits on selected aspects of the control environment of the Paying Agency, relevant for its accreditation, in particular the IT systems. Member States are requested to take corrective actions. The conformity audits may also lead to applying financial corrections, where necessary.

What action does the Commission carry out in order to deal with the issue regarding the management and/or the suspension of the EU agricultural funds for farmers for whom the Paying Agencies detected measurement irregularities? How often are small entities concerned?

First of all, the Commission notes that the error rate for the main area-based scheme, the direct payments, is very low. This shows that measurement irregularities (or over-declaration of areas) have a small impact. The Commission considers that area

measurements are, in general, accurate and based on a solid control system, which also sets out tolerance levels for measurement accuracy.

In its 2017 Annual Report, the Court reaches a similar conclusion. The Court found that, out of 121 direct payments transactions tested, 103 were unaffected by error. 11 transactions were subject to minor overpayments (below 5%), errors exceeding 5% of the amount were found in 7 direct payments transactions.

Both institutions agree that this outcome results from the very robust IACS system, incorporating the Land Parcel Identification System (LPIS), which allows preventing errors. The use of Geo-Spatial Aid Application also helps to reduce significantly the number and scope of potential over-declarations.

Finally, the Commission has no reason to believe that small entities are more concerned by over-declarations than big holdings. Additionally, small entities may decide to opt for the small farmers' scheme, which provides for simplified eligibility conditions in direct payments (also in relation to the area claimed).

19. Does the Commission carry out any crosschecks on companies - and individuals tied to them - which operate in different Member States and receive EU agricultural funds?

The Commission recalls that, in shared management, it is for the Member States to organise the system to ensure the legality and regularity of payments to beneficiaries. It is therefore the responsibility of the Member States to carry out the necessary checks, covering all elements to establish the right to aid and its value. The Commission performs audits on the Member States' management and control systems to check whether they are robust and can guarantee appropriate disbursement of EU funds.

For some measures it is appropriate to cross-check entities linked to the beneficiary, for example when the SME status is required (small/medium size company) to access the measure. In such a case, the Commission would expect the Member States to establish procedures to check thoroughly the links to other companies (including companies in other Member States).

The Commission is also in the process of ensuring that the Arachne IT tool used by Member States for other ESI Funds will be made available for Member States authorities for EAFRD and EAGF.

In case the Commission audits finds the Member States checks insufficient or lacking, the Commission will follow it up in a conformity clearance procedure.

20. ABB03: With reference to the table in the annex of the 2017 Annual Activity Report of DG AGRI (p. 130 onwards), for 58 of the 69 Paying Agencies the adjusted error rate is higher than the reported (residual) error rate. How reliable are the reported information of the Paying Agencies of the Member States? How reliable are the information for the adjustment of the reported error rates? What are the deficiencies that Member States may not have detected all errors?

The Commission considers that the information reported by the Paying Agencies is reliable and reflects the errors they actually **find**. Due to certain deficiencies in their systems, Paying Agencies may **not detect** all errors and therefore not all errors are reported to the

Commission in the control statistics.

To cater for that any deficiency in the Paying Agencies' detection of errors, DG AGRI uses all available information, to make appropriate adjustments. These adjustments are meant to quantify the errors undetected due to system weaknesses. Meanwhile the audit findings and resulting reservations trigger action plans meant to address these weaknesses.

The information reported by the Paying Agencies is verified at several instances:

a) DG AGRI auditors carry out extensive check of the consistency and completeness of the data that has been reported by the Member States. Whenever needed, clarifications are sought from the Member States.

b) Furthermore, the Certification Bodies are required to give an opinion on the completeness, accuracy and veracity on the annual accounts of the Paying Agency, as well as on the legality and regularity of expenditure including the quality of the control data.

The adjustments are made taking into account all relevant and available information to ensure the maximum reliability of the decision: DG AGRI's own audits, the opinion of the Certification Bodies, ECA's previous Annual Reports, information from OLAF (if relevant), and information from the DG AGRI operational units. The adjustments of the reported error rates are always based on the seriousness and extent of the deficiencies identified and on the professional judgement of the DG AGRI auditors, in line with the guidelines on calculation of the financial corrections. The level of adjustment corresponds to the information that is available at the moment of the preparation of the AAR. The Commission therefore considers that the audit findings and information DG AGRI uses as a basis for the adjustments are reliable.

See also reply to Question 14: the error rate estimated by the Court of Auditors, using another methodology, is similar to the one by the Commission. This also supports that the system of adjustments to the reported error rate of Member States resulting in a reliable estimated error rate in the AAR.

Examples of deficiencies that the Member States have not detected all errors, i.e. examples of the reasons why DG AGRI has had to adjust the error rates include:

For Direct Payments: deficiencies in checks of active farmer status, the incorrect interpretation of permanent grassland following the new definition and the effect on the correct allocation of entitlements, the distinction of permanent versus temporary grassland and the Land Laying Fallow combined with the inappropriate choice of the crop diversification period, the inappropriate timing of on-the-spot checks in relation to greening and area based voluntary coupled support measures.

21. The highest top-up of the adjusted error rate was for the Italian Paying Agencies. What are the reasons for the high top-up? Could you please provide us with detailed information on the identified weaknesses, which caused the top-up? What are the weaknesses in the LPIS (correct recording of grassland), and problems with the fixing of entitlements and the verification of the active farmer status?

The reason for the adjustment for the Italian Paying Agencies was that Commission audits of these Paying Agencies identified weaknesses in the systems for the verification of the active farmer provision and in the correct allocation of payment entitlements (PE) under the Basic payment scheme (BPS) which are due to the incorrect recording of the eligible land in the Land Parcel Identification System (LPIS) as of 2015.

The main issues found in relation to the allocation of the payment entitlements concern the incorrect calculation of their number and value, the non-respect of certain financial ceilings and the lack of retroactive recovery of unduly allocated payment entitlements.

Concerning the verification of the active farmer status, the relevance of the VAT code used as a criterion in assessing that the agricultural activity of farmers is the principal business/company object, was not demonstrated. This verification concerns all the farmers that submitted an application for direct payments, except those that in the previous year have received direct payments not exceeding a certain amount. Therefore, the above mentioned weakness has a negative impact on the legality and regularity of all direct payments made to farmers not covered by the above mentioned exemption.

22. A Polish farmer received aid under a measure supporting farmers purchasing heifers from other herds to increase their own herd's breeding value and the competitiveness of their holding. The farmer received the support after purchasing heifers from his father. The beneficiary had sold a similar number of heifers to his father, who also received support under the same measure. There was no physical transfer of animals. Therefore, the farmer should not have received the aid (ECA Annual report p. 258 Box 7.6). Why was this case discovered that late? Could you please provide us with detailed information about all cases where Paying Agencies had reimbursed costs that were partly ineligible in the above mentioned sense?

The payment at stake was made to the farmer at the end of August 2017 and the irregularity was detected by an audit by the Court of Auditors carried out in January 2018. The payment was made under support measure implemented in Poland in 2017: the exceptional adjustment aid implemented according to Commission Delegated Regulation (EU) No 2016/1613. This farmer was not subject to an on-the-spot check by the Paying Agency (there is no requirement to carry out 100 % on the spot check).

The Court communicated its findings to the Member State and the Commission in March 2018. The Commission followed up promptly, in the framework of its own audit to Poland covering the relevant measure carried out in July 2018. The conformity clearance enquiry is on-going. Any risk to the EU budget will be covered by financial corrections.

Slovakia

23. With regard to the events in Slovakia, did the Commission put a special supervisory mechanism in place in 2017 for that Member State? Was any fraud episode reported during that year? What action has the Commission carried out to guarantee the proper functioning of the CAP in 2017?

As reflected in the AAR 2017, several audit enquiries for Slovakia were on-going in 2017 as reservations were made with regard to both rural development expenditure and direct payments (due to high reported error rate). In 2017, DG AGRI received one allegation of fraud or irregularities in relation to Slovakia which was, in accordance with the standard DG AGRI procedure of dealing with fraud or irregularities, referred to OLAF. However, this allegation is in no way linked to the events in Slovakia in 2018.

Following the recent events in Slovakia, the Commission services have followed up with a letter to the Slovak Paying Agency requesting further information. All information received has been handed over to OLAF for the on-going investigation. DG AGRI is awaiting the outcome of the investigation before taking any follow-up action which could be financial corrections, depending on the outcome.

DG AGRI also addressed a letter to the Slovak Competent Authority to obtain its assessment of the allegations relating to the alleged systemic failure in implementing the Common Agricultural Policy and with regard to the accredited Slovak Paying Agency's capability to detect and address such Internal Control system failures.

The Competent Authority replied recently that, according to its assessment, the Paying Agency has the appropriate procedures in place to comply with the accreditation criteria. DG AGRI is currently analysing the reply and will decide on the appropriate course of action to ensure that the accreditation criteria are adhered to and that the CAP budget is spent in line with all the requirements.

24. Is the Commission aware of any cases of land grabbing in Slovakia?

The Commission is aware of the allegations made in this respect. The relevant information has been transmitted by DG AGRI to OLAF, which is the competent body to investigate such allegations.

25. Is the Commission aware of any possible complicity of Slovakian Agriculture Paying Agency (APA) staff concerning land grabbing?

The Commission has no such information at this stage. OLAF is competent to investigate this matter, as it is related to fraud allegations.

26. The Slovakian APA informed us on 9.07.2018 that "*overlaps [in "crossing of claims"] are removed as part of the application procedure. APA communicates with applicants and most of these errors are eventually administratively removed. If errors still persist, APA performs an on-the-spot check with the applicant during which it detects the real situation in the field*". Could the Commission comment on these results communicated to the Commission?

Overlaps between areas claimed by several beneficiaries are not unusual. However, it is the

responsibility of the Paying Agency to ensure that the same area is not paid twice.

Regarding double claims, the national authorities are to establish who has the decision-making power in relation to the agricultural activities exercised on the land in question and who bears the benefits and risks related to those activities. Hence, the Paying Agency must resolve the issues of overlapping claims by whatever means it considers appropriate, either administrative or on-the-spot.

The Paying Agency is also expected to keep the farmer(s) informed of its decision and offer him/her the opportunity to dispute it. Paying Agencies are encouraged to use, as much as possible, tools which allow area disputes to be solved at the early stages of the application procedure (so called preliminary checks) in order to avoid the need for subsequent recoveries of undue payments.

The issue is currently covered by a conformity clearance procedure. Where it is found that there have been weaknesses in the system, financial corrections will protect the EU budget. The results of the work done by the Slovakian Paying Agency are subject to review as part of the contradictory procedure in an on-going conformity clearance audit.

The Commission cannot comment further on on-going conformity clearance procedures.

27. APA informed us furthermore *“that at the time of filing the application, the applicant is not obliged to prove the right to use the land by submitting property title deeds, or renting contracts, as such obligation does not arise from the European or national legislation”*. Could the Commission please comment on the information by the Slovakian APA?

The EU legislation on direct payments does not specify the nature of the legal relationship that allows the farmer to use the area. However, according to EU law, the land needs only to be at the disposal of the beneficiary. It is for the Member States to ensure correct implementation of direct payments, taking into account also the jurisprudence in this area, in particular Case C-61/09 "Landkreis Bad Dürkheim" and C-375/08 "Pontini".

In principle, therefore, Member States cannot reject an application for aid directly on the basis of its national law/practice requiring evidence of a particular legal relationship with land. However, it is possible for Member States to take certain proportionate measures, particularly in cases where they have doubts or strongly question the good faith of the beneficiaries' disposal of the land.

28. The Slovakian APA informed us *“in case of fragmentation of agricultural land ownership (about 4 million parcels, an average of 11 co-owners), up to 44 million potential renting contracts can be assumed in the theory (for comparison, Slovak Republic has 5.000.000 inhabitants), not considering (1) the possibility of renting only part of lands, (2) the possibility of tenants to sublet lands, (3) the possibility of subtenants to sublet lands for use to another person, or (4) other titles of use (decisions of state administration authorities, statutory rental contracts).”* How does the Commission then ensure that only farmers who cultivate the land get the money?

The EU legislation on direct payments does not specify the nature of the legal relationship that allows the farmer to use the area (see reply to Question 27). To tackle the issue of double claims on the same area, the paying agency must perform administrative and/or on-the-spot checks and must have in place the appropriate procedures to solve potential issues. (see reply to Question 26).

It should also be recalled that, in the context of shared management, it falls within the responsibility of the Member States to assess the eligibility of farmers to receive direct payments.

29. The Slovak Agriculture Paying Agency confirmed that “When applicants file their applications for a payment on agricultural area it may happen that two or more applicants draw their farmed agricultural area on the same area specified in the application,” and that “at the time of filing an application, the applicant is not obliged to prove the right to use the land by submitting property title deeds or renting contracts, as this obligation does not arise from European or national legislation”. Why doesn’t such an obligation arise from European legislation and how is this being addressed?

The national legislation on the possession of land varies from one Member State to another and the EU rules cannot interfere with this. The CAP is aimed at supporting farmers, i.e. persons whose holding is situated in the EU and who exercise an agricultural activity on land at their disposal.

Regarding the legal possession of the land, please see reply to Question 27.

Regarding overlaps/double claims, please see reply to Question 26.

30. Confronted with the suspicion that it has for years at least tolerated a malicious practice by easily identifiable persons and companies, consisting in delaying direct payments to farmers through protracted litigations about their entitlements, the Slovak Agriculture Paying Agency stated “APA does not investigate the links between companies in connection with direct support, as no legislation stipulates such an obligation or APA’s authorization to do so. Although the Slovak Republic introduced the Act No. 315/2016 Coll. on the register of public sector partners, APA does not examine the data and outputs resulting from the registration because they are not relevant for the purpose of examining the eligibility of the applicant. The condition of registration in the register in question is verified in relation to defined payments, which are funded, for example, from the EAFRD and the state budget of the SR.” What practical consequences does the Commission draw from this unsatisfactory situation?

The Commission understands that the question relates to the implementation of “Active farmer” provisions in Slovakia and, in particular, the issue with connected/affiliated companies.

When implementing the “Active farmer” provisions², National authorities should ensure that no direct payments are granted to natural or legal persons, or to groups of natural or

² Article 9(2) of Regulation (EU) No. 1307/2013

legal persons, who operate activities included in the negative list, unless such persons can demonstrate that their agricultural activity is not marginal.

When establishing whether a claimant is operating an activity of the negative list, the national authorities should assess whether the claimant is connected to other entities. If this is not done, the provisions on “Active farmer” lose their effectiveness in better targeting the support – which is exactly the purpose of the provision.

Accordingly, Paying Agencies should ensure that the “Active farmer” status of all beneficiaries is verified as part of the eligibility checks. The Paying Agencies should have appropriate procedures in place to check the implementation of the provisions, e.g. cross check with business registers. The implementation of the check of “Active farmer” differs between Member States, depending on the availability of registers, data access etc.

For some EAFRD measures it is also relevant to cross-check entities linked to the beneficiary, for example when the SME status is required (small/medium size company) to access the measure. In such a case the Commission would expect the Member States to provide procedures to check thoroughly the links to other companies, including in other Member States.

The Commission performs audits on the Member States' management and control systems to check that they are sufficiently robust and can guarantee appropriate disbursement of EU funds. (Please see also reply on question 31).

31. The Slovak Agriculture Paying Agency does not agree with the assessment that there would be “systematic mistakes in implementing the rules of the Common Agricultural Policy in the Slovak Republic. APA proceeds in line with current EU legislation, our procedures are audited annually by the certification body, continuously audited by DG AGRI audits as well as by the European Court of Auditors.” Simultaneously, the Slovak Agriculture Paying Agency seeks to reassure the European Parliament that it has taken all the necessary steps (possible under the current EU and national legislations) to protect the financial interests of the EU once investigative journalists have brought such scandalous practices (going on for years) to light and farmers organised spectacular public protests against them. What is the Commission’s assessment of the situation in Slovakia: are there systemic problems to remedy?

There are currently 6 conformity enquiries ongoing in relation to Slovakia.

For Rural Development, DG AGRI audits have found a number of deficiencies in the management and control of investment and forestry measures.

As regards the management of the area-based direct payments, a DG AGRI audit performed in 2017 indicated that there are certain weaknesses in the administration and control system, as a result of which the Paying Agency is taking remedial action. The results of these remedial actions, regarding recoveries at the level of the farmer are not finalised yet.

The enquiries are still open and follow the normal course. The Commission is not in a position to disclose details about on-going conformity clearance procedures.

As described in the answer to Question 18 above, the responsibility for granting accreditation to Paying Agencies and monitoring their compliance with the accreditation criteria is that of the Competent Authority. As such, the Commission addressed a letter to

the Competent Authority to obtain its assessment of the allegations relating to systemic failure in the current Slovakian system for implementing the Common Agricultural Policy and also with regard to the accredited Slovak Paying Agency's capability to detect and address such Internal Control system failures.

According to the Competent Authority, all the procedures and controls are in place in the Paying Agencies to address the issues related to the allegations of fraud.

An OLAF investigation is currently ongoing on allegations of fraud. See also reply to Question 23.

In the context of the clearance of the annual accounts of the Paying Agencies, the Certification Body should assess the compliance of the Paying Agency with the accreditation criteria and report on it. The assessment in the report of the Certification Body is analyzed and may result in an opening of a conformity clearance procedure.

32. The Slovak Agriculture Paying Agency is rejecting any responsibility for the scandals reported in the media by pointing either at the absence of relevant European law constraints or at a (allegedly) specifically Slovak extreme fragmentation of agricultural land ownership. By doing so, the Slovak Agriculture Paying Agency implicitly recognizes that the Slovak republic has, over the many years that it is a net receiver of EU funds, failed to make the necessary reforms to address a structural problem. In this context, does the Commission still believe that giving Member States in general, and Slovakia in particular, an even bigger leeway in implementing the EU budget is the right way to ensure that the policy objectives set at EU level are fulfilled and the European financial interests from the EU?

The Commission considers that this must be looked at in a wider perspective, taking account of and distinguishing the various elements and avoid presenting them in an over-simplistic way

1. Providing Member States with more flexibility reflects clear demands identified during an intensive preparatory process (more simplification, one-size-fits all does not work, better targeting and result orientation, yet still common framework). Such an approach is also consistent with the principle of greater subsidiarity, a principle which is widely shared as a way of ensuring that EU decision-making is taken closer to the citizens on whom such decisions impact.
2. This does however not mean that the Commission is giving up its role in ensuring the integrity of the internal market or the common nature of a policy which has served European agriculture so successfully for over 60 years. Within the new CAP proposal, we maintain all of the essential elements to safeguard a common policy and to ensure the pursuit and achievement of our common objectives.

It goes without saying that the fundamental principles of sound financial management and good administration which – beyond the CAP – apply to the management of all EU funds and will continue to apply also in future, including the necessary margin of manoeuvre of the Commission to ensure its role of guardian of these principles. The

new delivery Model proposed in the CAP post 2020 includes a solid assurance framework based on proven governance structures.

33. Does “cutting of some grass” fulfil the obligation in the sense of Art 4 (1c) of the European Parliament and Council Regulation No. 1307/2013 “agricultural activity” (minimum activity)? How much money is the EU paying for such activity (“cutting some grass”)?

The Member States have the responsibility to establish the criteria for the maintenance of the land in accordance with Article 4(1)(c)(ii) of Regulation (EU) No 1307/2013.

The Commission does not have the empowerment to adopt/reject the choices of the Member States. However, it provided its comments. Cutting the grass at least once a year may, in certain Member States, be a sufficient activity for maintaining the land in good condition (e.g. preventing encroachments of ligneous species, the spread of invasive weeds, reducing the risk of fires).

34. How many cases of disputed land are known by the Commission in Slovakia? And how many cases of disputed land are known by the Commission in other member states (Which ones)? What kind of settlement procedures are foreseen in such cases?

In respect of the CAP direct payments, the decisive element is to establish who has the land at his/her disposal, which does not necessarily entail ownership (cf. reply Question 27).

The Commission has no other information about concrete cases in Slovakia than what has been provided via the Budgetary Control Committee or in other Member States about land disputes. The Commission does not follow up such individual disputes as it falls under the responsibility of the Member States to establish the right to receive direct payments.

The relevant settlement procedures are designed and implemented at national level; please see also reply to Question 26.

35. Has the Commission in its audits on-the-spot ever encountered problems to determine who is the “active” farmer? Who did the audits on-the-spot in Slovakia for the direct payments?

During its audits, the Commission does not determine who is the “active” farmer, but rather verifies that the administration and control systems implemented by the Member State are in line with the legal requirements applicable and are, therefore, effective in identifying the non-active farmers and excluding them from the receipt of direct payments.

The audits in Slovakia were carried out by DG AGRI’s auditors as concerns direct payments. The implementation of the "active" farmer clause was not in the scope of the audit.

36. Which steps are being taken by the Commission following the allegations of misuse of EU agricultural funds in Eastern Slovakia?

The Commission is following very closely the information available in order to ensure that the CAP funds are spent in accordance with the applicable rules. OLAF is currently investigating the fraud allegations as regards Slovakian and DG AGRI transmitted the available information to OLAF for the purpose of this fraud investigation. (See also reply to question 23)

37. Farmers made corruption allegations against the Slovakian APA: Minor irregularities would cost 10% of the requested payments. What measures is the Commission undertaking to ensure that the APA works properly?

OLAF is currently carrying out an investigation. OLAF is competent to investigate fraud allegations. See also reply to Question 23.

38. Which assessment does the Commission have on the performance of the Slovakian Paying Agency (SK01/APA)?

The Commission *is not aware* of any general issues with the accreditation criteria for the Paying Agency of Slovakia. In light of the recent allegations in the media, the Commission took action to follow-up on the new facts indicating potential weaknesses. DG AGRI services sent a letter [in August] to the Competent Authority in Slovakia requesting its assessment of the respect of the accreditation criteria by the Slovak Paying Agency, including procedures to prevent corruption, detect and pursue fraud.

Certain findings from the Commission's audits relate to deficiencies in particular aspects of the management and control system, which will have to be addressed by the Paying Agency. These include deficiencies in the execution of the on-the-spot checks for Direct Payments, as well as deficiencies under investment and forestry measures for Rural Development.

Reservations were entered in respect of 2017 expenditure for both Direct Payments and Rural Development. Slovakia has been requested to and is taking corrective actions to strengthen their systems. The ongoing conformity clearance procedures will ensure that the financial risk to the EU budget is covered.

39. The adjusted error rate for the Paying Agency SK01 is 5,63% (ABB03) (AAR DG AGRI p. 75) and 10,44% (ABB04) (AAR DG AGRI p. 76) What are the reasons for such a high adjusted error rate? Could you please provide us with detailed information on the identified weaknesses, which caused the high error rate? H3/ H4

The main reason for the high adjusted error rate for Direct Payments is the material error rate reported by the Member State in the control statistics submitted to the Commission, that is to say 3.36%. As for the weaknesses that led to the adjustment, please see the reply to Question 38 above.

The Member State has reported high error rates under IACS measures for Rural Development. DG AGRI audits in 2017 identified deficiencies under forestry measures, both in area payments and investments.

Moreover, deficiencies were identified in 2016 under investments and start-up support for non-agricultural activities, and in 2017 for public procurement.

The enquiries are still open and follow the normal course. The Commission cannot disclose further details about on-going conformity clearance procedures.

Certification Bodies

40. As to the reliability of the opinions provided the Certification Bodies required since 2015, albeit a general improvement, the Court still noted that these are not fully compliant with the applicable standards and rules. Between 2015-2017 the Commission concluded 47 specific reviews and only in 10 cases the Commission concluded that the work of the Certification Bodies was reliable. As regards 2017, the Commission concluded that only 4 of the 15 Certification Bodies it had visited during the year were reliable. The Court examined and re-performed some of these reviews and noted certain issues that had not been raised in the Commission's reviews. For example one certification body had not selected any greening payments in its sample, although they represented 30% of spending on direct payments. How could the Commission consider statistically representative the sample? (ECA annual report 7.32 a)

The Commission has taken a prudent approach vis-a-vis the level of reliance on the Certification Bodies' work. As regards 2017 and apart from the 4 cases where the certification body's work was found reliable, there were 7 more cases where the assessment of DG AGRI was that limited reliance could be placed on the CB's work.

In 3 of these cases, the Certification Bodies implemented the Commission recommendations addressed during the mission in the same financial year. This was verified by the Commission during the annual financial clearance exercise following the review of the certification report. In these cases, the reliance on the certification body's work was increased for the current and subsequent financial years. The Commission notes a significant improvement in the financial clearance reporting for FY2017 (the third year of application of the new rules concerning the Certification Bodies work on legality and regularity), in terms of quality and quantity of audit findings. De facto, the reliance on the Certification Bodies' work has increased since 2015. This is also acknowledged by the ECA in its annual report (ECA annual report 7.37). As it is an ongoing process, the Commission expects the reliability to further increase in the coming years.

The entire sampling methodology (including representativeness of the sample) of the Certification Bodies is assessed, during missions carried out by DG AGRI and dedicated to legality and regularity. Schemes representing a significant part of expenditure (e.g. greening payment) were included in the Certification Bodies' samples. However, it should be noted that it is statistically possible not to select a greening transaction when using one of the two most frequently used sampling methodologies (Monetary unit sampling or Simple random selection). In particular, when using monetary unit sampling, every individual item sampled is more likely to represent a basic payment scheme item because they "consume" the largest part of the interval (higher amount than Greening payment, high number of items tested randomly by the paying agency). It should be noted that greening does not represent 30% in the

size of the random on-the-spot checks of the paying agency (which is the basis for the certification body's sample selection).

41. In another case one paying agency had not finalised its checks when it was informed of the transactions that the certification body had sampled. Did the Certification Bodies put in place the necessary safeguards not to disclose their sample before the paying agency carried out its controls?

The Commission agrees that there may be a risk of the paying agency having carried out more thorough inspections for the transactions in this particular certification body's sample. This topic was discussed on several occasions with Certification Bodies. The Commission advised Certification Bodies to put in place safeguards to ensure that their samples are not disclosed before the paying agency carried out its own controls. If the certification body had doubts that the paying agency performed more thorough inspections on some transactions, the certification body was advised to perform additional audit procedures in order to ascertain this (e.g. the error rate coming from the random on-the-spot checks sample could be analysed and compared to the risk-based one, etc.).

42. Based on their Paying Agencies' control statistics Member States reported an overall level of error close to 1%. The adjusted error rate by DG AGRI is more than the double of this amount. ECA found that only a quarter of the adjustments was directly attributable to the Certification Bodies' work and often the adjustments were calculated by using flat rates. How robust and reliable is this calculation method, when the Certification Bodies' contribution to the assurance model is still not optimal?

The Commission does not calculate an overall reported error rate per Member State as not all spending areas are covered by control statistics. Considering market measures, for example, for 25% of the expenditure no control statistics are required by legislation. As a consequence, in its AAR, DG AGRI reports on the error rates in the control statistics per spending area (market measures, direct payments and rural development).

DG AGRI's adjustments combine the results of the Certification Bodies' work and DG AGRI's audit findings (as well as other sources). In certain cases these findings overlap – one confirming the other - and sometimes they relate to different areas. The information from the different sources is combined and should be considered together, not separately.

Finally, see also reply to question 14. ECA's results confirm the adjusted error rate reported by DG AGRI in the AAR 2017.

Geospatial aid application

43. The use of the geospatial aid application (GSAA) for area-based payments and rural development investment projects was assessed favourably by the beneficiaries, the Paying Agencies and the Court too. The majority of the beneficiaries found the application time-saving and user-friendly. For how long does the Commission intend to maintain the paper-based claims? Is there any training or guidance provided to those

who lack the necessary computer skill or equipment do not trust the computerised system?

As from claim year 2018, the GSAA is the default tool for submitting applications. EU legislation requires the competent authorities to provide all beneficiaries with the GSSA (Articles 17(2)(c) and (3) of Regulation (EU) No 809/2014).

Paper-based applications are an option to be provided by the authorities only when a beneficiary is not in a position to submit the aid application/payment claim using the GSAA. Member States can specify cases in which beneficiaries are considered “not in a position” to submit the GSAA, thus allowing them to submit paper-based application forms.

A limited number of Member States has been granted an extension of the deadline for completing the implementation of the GSAA. The use of the GSAA is associated with fewer errors and penalties coupled with lower administration costs. It is understandable, therefore, that Member State administrations are generally very active in giving support and guidance to those farmers not yet submitting their applications electronically.

44. Certification Bodies_ Table annex 10 -2.3.1.1 (Page 80 of annex 10 of the AAR)

It seems that Deloitte is the certification body in Denmark, Germany and Slovakia.

Indeed, Deloitte is the Certification Body for some Paying Agencies.

Which are the rules to designate the Certification Bodies? How does the Commission ensure avoiding conflict of interest cases?

Article 9(1) of Regulation (EU) No 1306/2013 of the European Parliament and of the Council stipulates the rules of appointment of the Certification Bodies. The certification body shall be a public or private audit body designated by the Member State. When it is a private audit body, and the applicable Union or national law so requires, it shall be selected by the Member State by means of a public tendering procedure. The certification body shall have the necessary technical expertise. It shall be operationally independent from the paying agency and the coordinating body concerned as well as from the authority which has accredited that agency.

It is the responsibility of the Member States to appoint the Certification Bodies in compliance with the above conditions. The provision clearly requires the certification body to be independent. Certification Bodies are also audited by the Commission.

SAPARD (AAR DG AGRI, p.80)

45. The last expenditure effected in 2009 under SAPARD has been subject to audits and a number of recommendations were issued. Could you please inform the EP about these recommendations and why they were issued?

The recommendations issued following the audits between 2010 and 2015 were focused on the final stage of the SAPARD Programme – the ex-post on-the-spot checks. Amongst the recommendations given are those in relation to the sample selection, the quality of the on-

the-spot checks and the utility of the infrastructure projects.

Below is a list of the recommendations given to the SAPARD Agencies of the three countries (Bulgaria, Romania and Croatia):

1. Recommendations in relation to the sample selection:

- To improve the sample selection for the ex-post checks by adding specific risk factors;
- To ensure a minimum and homogeneous rate of checks among the different regions and the different types of investment, otherwise the fluctuation of the projects to be checked from one year to another can be considerably high;
- To introduce certain criteria in order to give the possibility for a project to be selected not only in the fifth year of the ex-post phase but, also at any other moment within the five-year period.

2. Recommendations to verify that the project is constantly running throughout the whole period: to take into consideration for the annual sample of beneficiaries to be checked ex-post all those projects which were already in the ex-post phase, without excluding those for which no deficiencies were found during the previous check.

3. In relation to the planning of the ex-post checks: the national authorities of the three SAPARD countries were recommended to take into account the "seasonal character" of the investment when the planning for the ex-post checks was established.

4. Several recommendations were given in relation to the ex-post controls: notification of the beneficiaries; completeness of the checklists and control reports; quality of the on-the-spot checks (best period of the year to perform such checks; traceability of the checks);

5. Recommendations were issued in order to improve the technical qualification of the staff involved in the ex-post on-the-spot checks and the supervision of the work of the staff.

6. As concerns the Public Procurement measures, recommendations were given to the Paying Agencies to verify that the projects were fully operational and serve the purpose of which they were implemented, paying particular attention to evaluation of the level of the public benefit they were supposed to generate.

All the recommendations given aimed to improve the checks in relation to the ex-post phase of the SAPARD Programmes as well as to prepare the 3 Member States (Bulgaria, Romania and Croatia) for the Rural Development measures and their control.

IPARD I expenditure (2007-2013) (AAR DG AGRI, p. 81ff.)

46. What are the deficiencies found in the Former Yugoslav Republic of Macedonia? Could you please provide us with information why FYROM did not receive any payments in 2017?

The former Yugoslav Republic of Macedonia uses two systems for controls of

reasonableness of costs (reference price lists and three offers system). The Commission noted that these two systems - when viewed together - lead to a situation where there is a potential risk to the fund of:

- accepting inappropriate justifications for selecting the not-cheapest offer and;
- having an unreliable price reference database with prices that are sometimes twice as high as those found in the market.

However, the impact of this deficiency could be limited to the population of projects where irrigation systems were purchased under IPARD M101 for which the applicants selected the not-cheapest offer.

As to why FYROM did not receive payments in 2017, the **lack of capacity** in public and private sectors and **deficiencies** in the projects selection's procedures resulted in **low absorptions of funds**. The former Yugoslav Republic of Macedonia **forecasted low amounts** for expenditure for the financial year 2017. The payment claims submitted also contained small amounts. Since there were **sufficient funds** available in the IPARD Euro Account, in the interest of sound financial management, the Commission considered it appropriate to continue reducing the balance of the IPARD Euro Account by not replenishing it until it was viewed necessary. As a result, the risk of de-commitments was significantly decreased. The total expenditure for the IPARD Programme reached 90% at the end of the 2007-2013 programming period. The **final clearance** is on due course.

47. Why were the 2016 accounts, also the 2013 and 2014 accounts of Turkey disjoined? Could you please inform us more about the material error found?

For the years 2013, 2014 and 2016, the National Audit Authority found errors in the sample of transactions tested substantively. Since the samples were statistically representative, the errors found were extrapolated to the whole expenditure. The extrapolated errors were above the materiality level and therefore the accounts could not be cleared. That was however the initial assessment, made on the basis of the Audit Authority's reports. Subsequently, during the conformity clearance procedure, some issues could be clarified with the national authorities and the financial impact was reassessed. The final quantification of the financial impact for the years 2013 and 2014 is respectively EUR 357 423.35 and EUR 4 567 901.00. Financial corrections were applied for those amounts. For the 2016 accounts, the conformity clearance procedure is still ongoing.

48. Corrected weaknesses for calculating financial corrections. What were the effects of those weaknesses in DG AGRI financial correction system before their detection?

DG AGRI has reviewed its own procedure for applying financial correction following the introduction of the Certification Bodies work on legality and regularity of expenditure as DG AGRI's own conformity audit may cover the same weaknesses. DG AGRI has analysed carefully the potentially affected open files and informed Member States of the results. The corrective actions to address the issue identified by IAS have been implemented. Therefore, the Commission is reassured that the issue flagged by IAS did not have impact on the system of financial corrections applied or the corrective capacity.

49. ECA notes in 7.64 of its annual report 2017 that Member States made little use of simplified cost options in case of rural development investment projects. Out of the 23 examined projects that could have applied simplified cost options only 5 did actually do so. What are the reasons for this reluctant approach? Have you discussed this in an expert group?

The Commission considers that the use of simplified cost options (SCOs) is still something of a novelty for Member States in implementing non-area and non-animal related measures. It needs some time to be taken up by Member States.

The Commission proposed systemic solutions and guidance to increase the uptake of the SCOs in the current programming period. For example, the Omnibus regulation improved the legal framework. New off-the-shelf simplified cost options have been included. Also the methodology to design the SCOs has been updated to take account of the difficulties Member States were encountering in the process. This means that Member States will still be encouraged and have greater autonomy to use simplified cost options while, at the same time, the EU requirements are intentionally not prescriptive on the design of the methods.

The Commission has continuously promoted the use of SCOs in different contexts, such as seminars, Comitology meetings, trainings and workshops. Furthermore, Member States and regions are in constant dialogue with the Commission as regards the use of SCOs.

The above Commission initiatives, together with the fact that Member States and regions are becoming more knowledgeable on SCOs methodologies, have led to an increase in the use of SCOs in the Rural Development programmes 2014-2020.

The Commission will continue to encourage Member States to use SCOs to facilitate reimbursement of beneficiaries.

50. ECA Special Report 11/2018 “New options for financing rural development projects: Simpler but not focused on results” notes that the use of simplified cost options does not increase the focus on results. Furthermore, the role of the Certification Bodies in auditing them is unspecified, which creates risk. Does the Commission share these concerns, and what steps have you taken in order to clarify the role of the Certification Bodies in auditing simplified cost options?

As set out in the replies to the ECA recommendations, the main purpose of the SCOs is to reduce administrative burden for authorities and beneficiaries. The way of disbursing the support - i.e. by using SCOs or reimbursing real costs - does not affect the effectiveness of the underlying interventions. The use of SCOs is not intended for that purpose. By lowering the pressure on administrative procedures, the use of SCOs can also directly alleviate the administrative burden on the paying agency as well as simplify on the side of beneficiaries.

The Commission considers that the recommendation is being implemented in relation to the work of Certification Bodies.

The Certification Bodies currently provide an opinion on the internal control systems, as well as of the legality and regularity of expenditure, including compliance with applicable law as regards simplified cost options.

The guidelines are clear as to the audit work to be performed by Certification Bodies for simplified cost options at Paying Agency level. As part of the review of the internal control system, the Certification Bodies are expected to check the procedures for simplified cost options in order to review the design of the process. In addition, they test some transactions against the list of key and ancillary controls to see if the Paying Agency's checks are properly designed and implemented. This is developed in the guidelines to the Certification Bodies to be applied mandatorily from Financial Year 2019 onwards, and voluntarily in Financial Year 2018.

Moreover, during the statistical substantive testing of files, the Certification Bodies should check in detail the payment claim, the Paying Agencies' controls (administrative and/or on-the-spot) and the payment calculation. In case the Certification Body has already reviewed the procedure, only the arithmetical accuracy of the payment calculation may need to be verified.

The Certification Bodies' role in auditing simplified cost options was clarified in the specifically dedicated workshop on simplified cost options during the November 2017 Expert Group for Certification Bodies.

51. ECA Special Report No 10/2018 “Basic Payment Scheme for farmers – operationally on track, but limited impact on simplification, targeting and the convergence of aid levels” concluded that the scheme does not take account of market conditions, use of agricultural land or the individual circumstances of the holding, and is not based on an analysis of the overall income situation of farmers. For the period after 2020, is the Commission going to analyse factors impacting income for all groups of farmers, their income support needs and the value of the public goods that farmers provide?

The Commission would recall that the aim of the basic payment scheme (and of direct payments in general) is to contribute to income stability, while allowing farmers to take advantage of market opportunities.

As regards an analysis of income and public goods analysis, the Commission has in fact already taken action in this regard. The impact assessment (IA) spells out detailed results on income, including by types of farming, size (both economic and area-based), Annual Working Units... In the impact assessment, results on farm income are based on the IFM-CAP Model, run by the Joint Research Centre. To guarantee the highest representativeness of the EU agricultural sector, the *model is applied to the majority of EU-FADN individual farms*. In addition to modelling, a Multi-Criteria Analysis (MCA), gathering expert views within Commission services (AGRI and JRC), was also carried out. The results clearly show that securing an adequate level of support remains a key element for the future in order to ensure food security, environmental and climate ambition as well as rural vitality.

For the future, Member States will be required to analyse their needs by reference to 9 common CAP objectives, including support for viable farm income Using that analysis,

they will choose and design their interventions in line with them; this means that not only will interventions need to be clearly justified, but there is a real opportunity for MS to ensure that their interventions are better targeted and simpler; they will also be subject to Commission assessment and approval (via approval of CAP plans), which will ensure the integrity of the internal market and the common nature of the policy.

ECA Special reports

52. How have the problems and recommendations been followed up from Special Report 12/2018 on Broadband in member states, particularly when it comes to rural areas still awaiting the full coverage needed for effectiveness of a more technology dependent CAP in the future?

The Commission has, for a long time now, identified the problem of lack of connectivity in the rural areas, especially in terms of fast and ultra-fast broadband that is the enabler of all the technological applications linked to the future CAP.

National efforts to improve connectivity have and will continue to be supported by the Commission through regulatory (including the new European Electronic Communications Code), as well as funding initiatives. For instance, to further stimulate ongoing investments in this area, the EU has mobilized around EUR 6 billion up to 2020 through the European Structural and Investment Funds (ESIF). In addition, high speed broadband projects have also benefitted from EUR 2.54 billion from the European Fund for Strategic Investments.

The Connecting Europe Broadband Fund launched this summer will also support smaller-scale and higher-risk broadband projects in remote areas across Europe with an expected leverage of EUR 1-1.7 billion. Financial support for broadband deployment will continue in the post-2020 budget of the EU. The Commission proposal for a 2nd generation of the Connecting Europe Facility (CEF) will focus on supporting deployment of very high capacity digital networks, including 5G, with a proposed budget of EUR 3 billion, complementing the ERDF funding during the 2021-2027 period, which should continue to be the main instruments for rural broadband rollout.

The Commission has been working closely with all the Member States and has set up a network of Broadband Competence Offices in all 28 EU Member States and 85 EU regions. The role of these offices is, among others, to provide assistance to project promoters in rural areas trying to set up a broadband network. At the same time, the Commission is carrying out an “action plan for rural broadband”: a shared initiative among colleagues from DG AGRI, DG REGIO, DG CNECT, and DG COMP with the aim to assist national administrations in rolling out fast broadband in rural areas.

The Commission services are in daily contact with Member States' administrations in order to assess their progress in the achievement of the EU 2020 targets on broadband and the absorption rate of broadband funds and clarify potential issues linked to application of State Aid rules.

The Commission carries out targeted advisory missions on broadband to Member States where there is a need for a more comprehensive discussion. The Commission is also preparing two different guidance documents: A guide updating both the “Guide of High

Speed Broadband Investment” and "The broadband State aid rules explained " for investors and policy makers, and a ‘hands-on’ guide of good practices on rural broadband with advice to local community leaders.

Annual Activity Report - reservations

53. There has been a Reservation (Nr. 3: ABB04 - Rural Development - p. 124-127 of the 2017 AAR) applied for 22 Paying Agencies comprising 15 Member States. How are the Paying Agencies dealing with the situation in terms of communication with DG AGRI, improving the situation, correcting the weaknesses identified etc.?

The Member States are requested by DG AGRI to set up a new or to update an existing corrective action plan whenever an audit (DG AGRI, ECA or national/Certification Body) establishes new serious findings. These action plans address the identified deficiencies and describe for each of them a corrective action to be taken together with benchmarks and timetable.

Corrective action plans are also requested for those Paying Agencies that are subject to a reservation in the AAR, provided that the reservation has ongoing effects. In the framework of the AAR 2017, such requests were sent out to the concerned Member States in June 2018.

The AAR 2017, like every AAR, reports on the results of the implementation of action plans. If the deficiencies behind the reservation have been addressed and the action plans implemented, the reservations will be lifted and also reported as such in the AAR of the following year. For 2016 there were 53 reservations in the AAR and a number of them have been lifted, as shown in the table below. In the AAR 2017, there are currently 42 reservations in total and, depending on the implementation of the action plans, it is expected that a number of them will be lifted in the AAR 2018.

ABB	Reservations 2016	Reservations 2017
Markets	14	5
Direct Payments	19	15
Rural Development	20	22
Totals	53	42

54. There are 42 targeted reservations (5 for Market Measures, 15 for Direct Payments and 22 for Rural Development) in respect of 2017 expenditure:

ABB02 – Expenditure on Market Measures: 3 aid schemes, comprising 3 Member States (5 elements of reservation): France (for 1 aid scheme (POSEI managed by FR Odeadomc) and 1 general reservation for expenditure managed by France AGRIMER), Italy (for 2 aid schemes) and Spain;

ABB03 – Expenditure on Direct payments: 15 Paying Agencies, comprising 8 Member States: Croatia, France, Hungary, Italy (8 Paying Agencies), Romania, Slovakia, Sweden and the United Kingdom;

ABB04 – Rural development expenditure: 22 Paying Agencies, comprising 15 Member States: Austria, Belgium, Bulgaria, Czech Republic, Germany (2 Paying Agencies), Denmark, Spain (3 Paying Agencies), Finland, France (2 Paying Agencies), UK (3 Paying Agencies), Hungary, Italy (2 Paying Agencies), Portugal, Sweden and Slovakia.

Could you provide us with an overview of the latest state of play of the follow-up actions taken by the Commission?

Following targeted reservations, the Commission requests Member States with Paying Agencies that have audit findings leading to a reservation in the AAR, to implement corrective action plans, provided that the reservation is of such nature that it would require follow-up actions (see also reply to question 53).

In the framework of follow-up of the reservations introduced in the DG AGRI AAR 2017, such requests were sent out to the concerned Member States in June 2018 with a deadline for reply by 15 September 2018. Most of the replies have been received and are being analysed by DG AGRI.

For ABB 02, the following is the latest state-of-play:

France: The necessary remedial actions in the form of an action plan were assessed and an action plan was requested for POSEI managed by FR Odeadom and received in October 2018.

Italy: The Member State authorities are taking the needed steps to remedy the situation and no action plan has been requested by DG AGRI.

Spain: The Member State authorities are taking the needed steps to remedy the situation and no action plan has been requested by DG AGRI.

For ABB 03, the following is the state-of-play:

Italy: The necessary remedial actions in the form of an action plan were assessed and agreed with Italy. The action plan entered into force on 9/8/2018 for all Paying Agencies concerned.

Sweden: An action plan proposed by the Swedish authorities on 15 February 2018 did not satisfactorily address the identified deficiencies, also as assessed in the light of further audit findings. In the context of the AAR 2017, the Member State was invited to revise and submit a reworked version. SE submitted a reinforced action plan on 21 September 2018. The remedial actions addressing the weaknesses that led to a reservation for 2016 and 2017 expenditures are currently under assessment.

UK/Scotland: UK-Scotland was requested to set up an action plan on 17 July 2018. The requested action plan was submitted on 17 September 2018. The remedial actions addressing the weaknesses that led to a reservation in respect of 2017 expenditure are currently under evaluation.

Slovakia: Slovakia was requested to put in place an action plan on 17 July 2018. The requested action plan was submitted on 17 September 2018. The remedial actions addressing the weaknesses that led to a reservation in respect of 2017 expenditure are currently under evaluation.

Romania: Romania is implementing an action plan since 13/11/2017. DG AGRI closely monitors the progress on the ongoing action plan. Romania sends regularly progress reports on the status of the action plan.

As indicated in AAR 2017 for Croatia, Hungary and France for ABB03 it was not foreseen to request action plans as the issues at hand were adequately followed up with the MS during the conformity procedure. dialogue.

For ABB 04, the following is the state-of-play:

Within the Annual Activity Report 2017, 22 Reservations were raised, of which 19 needed an action plan:

- New action plans were requested for the following MSs: 9 (AT, DE-Sachsen, ES-Extremadura, ES-Galicia, FR-Corsica, UK-Scotland, UK-Wales, UK-England, IT-Calabria)
- Updated/Reinforced action plans were requested for the following MSs: 10 (BE, BG, CZ, DK, ES-Castilla y Leon, FR-ASP, HU, PT, SE, SK)

The main causes of error identified were: Non-achievement of minimum control rate; Insufficient checks of the active farmer status; Deficiencies with reporting; Weakness under investments, start-up support, area-related payments and animal welfare; Deficiencies with implementation of public procurement.

Member States were requested to submit an update of their Action Plans by the 15th of September 2018: so far, 17 action plans updates have been submitted and are under assessment:

- AT, BE, BG, CZ, DE-Sachsen, DK, ES-Castilla y Leon, ES-Extremadura, ES-Galicia, FR-ASP, FR-Corsica, IT-Calabria, PT, SE, SK, UK-Scotland, UK-Wales.
- HU has not yet submitted the update and will be reminded to do so.
- As regards UK-England, DG AGRI and the UK authorities are in the process of assessing the necessary remedial action to be taken following the audit findings.
- BE and UK-Scotland action plans are considered as implemented.

55. Annex 10 of the 2017 AAR, page 111. Table Annex 10-3.1.9-2 indicates that a reservation is required for France in respect of 2017 expenditure on temporary exceptional measures in the "Pig meat, eggs, poultry & apiculture" sector.

The adjusted error rate is 7.23 %, there had been a top- up, a reservation has been decided, why? What is the problem?

The Certification Body has identified significant errors with regard to 2017 expenditure on market measures for the Paying Agency FranceAgrimer (FR20). Based on the Certification Body's assessment, adjustments have been made to the error rates reported by the Member

State or, for measures for which there are no control statistics, the amount at risk has been estimated by DG AGRI.

The main non-compliances identified: late payments, ineligible expenditure and amendment to the original application.

These significant errors led to an overall reservation on market measures including the temporary exceptional measures in the "Pig meat, eggs, poultry & apiculture" sector.

56. Annex 10 page 116 and 117, adjusted error rates of 54, 52 % for school fruit scheme and 23, 09% for school milk scheme in France? What is the explanation?

The Certification Body has identified significant errors with regard to 2017 expenditure on market measures for the Paying Agency FranceAgrimer (FR20). Based on the Certification Body's assessment, adjustments have been made to the error rate reported by the Member State or, for measures for which there are no control statistics, the amount at risk has been estimated by DG AGRI. See also reply to Question 55.

The main non-compliances identified: late payments.

These significant errors led to an overall reservation on market measures including the School Fruit and School Milk schemes.

57. Annex 10 page 130- 131, table 3.2.4.1;

The adjusted global error rate for ABB3: Direct payments: is 1.92% but 23 Paying Agencies are above 2 %? All the Italian Paying Agencies are adjusted around 5 %. What is the matter? Is the number of top-ups a matter of concern for the Commission?

The top-ups are mainly the result of Commission's own audits. Therefore, any financial risk for the EU budget related to irregular payments made in respect of 2016 will be recovered through the on-going conformity clearance procedures. See reply to Question 21 for the causes.

The Member States are requested by DG AGRI to set up a new or to update an existing corrective action plan whenever an audit (DG AGRI, ECA or national/Certification Body) establishes new serious findings. These action plans address the identified deficiencies and describe for each of them a corrective action to be taken together with benchmarks and timetable.

In the framework of the AAR 2017, such requests were sent out in June 2018 requesting Member States to set up a new or to update an existing corrective action plan whenever an audit (DG AGRI, ECA or national/Certification Body) establishes new serious findings (see also reply to Question 54).

The number of top-ups is not in itself a concern for the Commission considering that the overall error rate for direct payments is below materiality. The top-ups and resulting reservations ensures that for Paying Agencies where errors persist corrective action is being taken.

58. Same question as to table 3.3.4.1 page 151 and 152 regarding ABB04 rural development

Which deficiencies have been detected as regards the following Paying Agencies: MT 01: adjusted error rate: 8.63%, PT 03: 9, 56%, SK 01: 10, 44% IT26: 9.80%, BE03 7, 61% FR 19: 7, 03%, and what action is being taken?

MT01 adjusted error rate: 8.63%

The Member State has reported high error rates under IACS measures mainly for area discrepancies and non-respect of commitments. The Member State itself found the deficiencies and is addressing the underlying problems.

PT 03 adjusted error rate: 9.56%

For non-IACS measures, the Member State has reported high error rates and the minimum control rate was not achieved. Moreover, a DG AGRI audit in 2017 identified deficiencies under afforestation (double financing) and transitional expenditure under processing and marketing investments. Furthermore, DG AGRI has identified deficiencies in the checks on active farmer status.

For IACS measures the error rate coming from the control data is of 5.94%. The root causes are non-compliance with commitments (M10, M11) and more precisely of lack of documents. The Portuguese authorities will implement more robust administrative checks and highlighted that the overall reported error rate has decreased compared to last year.

The Portuguese authorities are implementing an action plan to remedy the deficiencies found. An update of the action plan was submitted in September 2018 and is currently being analysed by DG AGRI.

SK 01 adjusted error rate: 10.44%

For the deficiencies found, see above answer to Question 39.

The Slovak authorities are implementing an action plan to remedy the deficiencies found. An update of the action plan was submitted in September 2018 and is currently being analysed by DG AGRI.

IT26 adjusted error rate: 9.80% The Member State has reported high error rates under IACS measures.

DG AGRI audits in 2017 identified deficiencies under agro-environment-climate, organic and areas with natural constraint measures.

As regards non-IACS, several deficiencies have been identified by DG AGRI affecting investment, infra-structure, business start-up, afforestation and technical assistance support.

Furthermore, DG AGRI has identified deficiencies in the checks on active farmer status.

Based on the Certification Body's assessment, a further adjustment was made to the error rate reported by the Member State.

The reported error rate is of 9.80%, due to high error rates for all measures.

The necessary remedial actions in the form of an action plan were assessed and communicated to Italy in June 2018. The action plan was received by DG AGRI in September 2018 and is currently being analysed.

BE03 adjusted error rate: 7.61%

A DG AGRI audit performed in 2017 revealed serious deficiencies in the management and control system of the Paying Agency for area-related measures. In 2016, audits also revealed serious deficiencies for start-up support and investments, the latter supported by findings from the ECA.

The Belgian authorities are implementing an action plan to remedy the deficiencies found. An update of the action plan was submitted in September 2018 and is currently being analysed by DG AGRI.

FR 19 adjusted error rate: 7.03%

The Member State has reported high error rates for non-IACS measures payments.

A DG AGRI audit in 2017 followed up deficiencies in the management and control systems reported in 2015 for area-related payments, which had been adequately addressed, although new deficiencies were identified. Moreover, serious deficiencies persist in investments, start-up aid and public procurement.

Furthermore, DG AGRI has identified deficiencies in the checks on active farmer status.

The French authorities are implementing an action plan to remedy the deficiencies found. An update of the action plan was submitted in September 2018 and is currently being analysed by DG AGRI.

For all these Paying Agencies, the clearance of accounts procedures are ongoing and further details on the deficiencies cannot be shared at this stage.

59. Since years, there was a reservation concerning the pre recognition of producers group in Poland. Deficiencies were detected and reported on already in the 2013 annual report of the ECA.

In 2016, the Commission suspended payments at a rate of 25% from March 2016 to February 2017. A top-up was, therefore, only necessary in respect of expenditure from October 2015 to February 2016 as the 25% suspension covers the risk for the remaining period.

In 2017, since the Commission had suspended payments to Poland (at a rate of 25%) due to long standing serious deficiencies which had not yet been remedied via an action plan, and since this suspension was in effect for all of 2017 and thus covered the risk to the EU budget, it was not necessary to make an adjustment to the reported error rate.(see agri_aar_2017_annexes Page 98)

What is the problem at the origin of those measures? Could you describe the situation as to the producers group in Poland?

Since the 2013 AAR, reservations had been maintained for Poland due to the persistent grave deficiencies in controls of producer groups (PG).

Those deficiencies found by the EC and the ECA had revealed the widespread nature of irregularities in the controls of the approvals of PG recognition plans and serious weaknesses during the implementation of those plans (e.g. soundness of estimates, necessity of investments, commercial coherence and consistency).

The action plan on the remedial measures had been requested in 2014, and, due to its ineffective implementation and numerous delays, it continued until April 2018.

Improvement in the controls of PGs affecting the expenditure paid from FY 2016 had been observed since October 2015, while PG recognition tasks had been assigned to the Paying Agency.

DG AGRI had monitored the situation very closely, ensuring that the EU budget is adequately protected. Therefore, significant suspension of payments (25% of expenditure for the measure) was extended from March 2016 to February 2018. Moreover, financial corrections were adopted in 2015 (55.5 million euro for FYs 2009-part of 2012), in 2016 (108.3 million euro for FYs 2012-2013), in 2017 (74.9 million euro for FYs 2014-2015), and for FYs 2016-2018 conformity clearance procedures are ongoing.

In April 2018, Poland confirmed their implementation of the PG control remedial measures.

It should also be noted that, from the 2014-2020 programming period, PGs for fruit and vegetables are now financed under the EAFRD. The old measure under the EAGF, which the reservation for Poland applies to, is being phased out and payments are only being made for PGs recognised before this transfer to the EAFRD.

Types of error

60. According to the Court's 2017 Annual Report (Box 7.2, p. 250), the most common type of error were "ineligible beneficiaries, activities, projects or expenditure" that accounted for 64 % of the estimated level of error. That shows an increase of more than 50 % when compared to 2016. What are the factors behind the increase - complexity of the rules on eligibility, insufficient control mechanism, persistent errors in LPIS or others? What are the action of the Commission to improve the situation?

First, the Commission notes that the overall error rate is decreasing, which is a good indication that the management and control systems are improving and remedial actions bring tangible results.

The Commission recalls that the Court's conclusions are based on **random sampling** of transactions. The sample for Chapter 7 of the Court's Annual Report consists of 230 transactions in 21 Member States, covering a variety of different support measures. Therefore, the Commission considers that the information is aggregated and should be

analysed carefully.

At the same time, the Commission continues working with the Member States to further improve the situation, where necessary.

For example, in direct payments, as acknowledged by ECA, Land Parcel Identification System (LPIS) plays a significant role in preventing and reducing the levels of error (para. 7.16 of ECA's Annual Report 2017). LPIS is also relevant for the area and animal based rural development measures are administered under Integrated Administration and Control System (IACS), which makes cross-checks possible.

The Geo-Spatial Aid Application (GSAA) is also an important tool in preventing errors and in contributing to **simplification** for farmers and Paying Agencies, as acknowledged by ECA in its Annual Report 2017 (para. 7.46 to 7.55 of ECA's Annual Report 2017).

In rural development, the Commission is providing guidance to the Member States by developing guidance documents addressing problematic issues, such as reasonableness of costs. The Commission is organising regular seminars on error rate in rural development, the last one in June 2018.

The European Network for Rural Development is playing an enhanced role in disseminating good practices and guidance related to the reduction of errors, and improving overall implementation via workshops and other events.

Besides, the Commission is promoting simplification of rules and the use of Simplified Cost Options to help prevent errors from occurring.

Milk powder and development

61. Since July 2015 and at an accelerated pace in 2016, the European Commission has stored, through the Member States, hundreds of thousands of tons of milk powder in an attempt to stabilize the markets, weighed down by the crisis and overproduction.

At the latest survey of the European Milk Observatory, dated 18 January, no less than 378,578 tonnes were dormant in European warehouses, mainly in France (71,740 tonnes), Belgium (66,235 tonnes) and Germany (65,571 tonnes).

The Commission has so far been cautious in auctioning these stocks. Only 220 tons were sold by auction in 2017, a mixture of caution to avoid harming the market and low interest of operators. Without forgetting that life of the milk powder is estimated at three years, and that its value depreciates with age.

Sales accelerated in January, with 1,864 tons sold, but not enough to satisfy producers.

The Commission "bought between 18 and 20 cents per kilo, and (at the last auction) the stocks were sold at 11-12 cents".

- How is it possible to sell at a loss? How much has the Commission payed for the storage costs?

Sales are operated via tender. They are open as soon as possible from a market situation perspective to minimise the time during which those stocks are held by public authorities.

While the buying-in operates at fixed price, up to a volume of 109 000 tonnes (increased to 350 000 tonnes during the 2016 crisis), sales operating by tender necessarily depend on the level of the bids lodged and on prevailing market conditions at the time of the tender. It can therefore happen that selling prices end up below the price at which the product was bought-in some 1 or 2 years before.

Until 30 September 2018, the Commission has paid EUR 69.6 million for storage costs.

- How many tons of milk powder does the Commission still have in storage today?

As publicly available on the Milk Market Observatory website

(https://ec.europa.eu/agriculture/sites/agriculture/files/market-observatory/milk/pdf/eu-stocks-butter-smp_en.pdf), skimmed milk powder (SMP) public stocks stood at 282 500 tonnes at the end of August. Deducting some 43 000 tonnes that were subsequently allocated at the August/ September and October tenders, the result is a total around 240 000 tonnes mid-October. This figure is a significant reduction on the amount of 380 000 tonnes which were in stock in 2017 after 3 years of buying-in.

- When does the Commission estimate to sell out the rest of the stock?

There is no fixed deadline for selling the rest of the stock. It will continue by tender and depending on market developments. Sales are continuing at the rate of two each month, with the exception of August, September and December where one tender takes place instead of two.

- Could the Commission present all the figures relevant to this issue (costs of purchase, storage, profits from sales and final general balance as of today).

Table with details:

Cost of SMP public intervention	B2015	B2016	B2017	B2018 until 30/9
Intervention storage of skimmed-milk powder - technical costs of public st	117.443,76	6.818.993,49	9.621.265,77	11.080.127,42
Intervention storage of skimmed-milk powder - financial costs of public st	8.756,52	257.262,17	0,00	0,00
Intervention storage of skimmed-milk powder - other public storage costs	-9,98	3.157,49	-37.007,81	41.714.869,45
Total				69.584.858,28

The technical costs (first line in above table) cover the entry into storage, storage and out of storage, which are paid on the basis of standard amounts fixed each year by the Commission.

The financial costs (second line in above table) cover the interest rate (fixed at zero the last 2 budget years) paid for the value of purchase of the goods, which is paid by the Member States, as stocks remain their property.

The "other costs" (third line in above table) cover profits or losses on sales.

62. Over five years, European dairy multinationals have nearly tripled their exports especially to the West Africa weighed down by the crisis and overproduction; shipping

milk powder produced by heavily subsidized European farmers to be transformed into liquid milk for the region's booming middle.

This situation increases long time accusations that poor countries pay the price for EU farm policies crafted in Brussels and is at odds with the EU's stated goals of promoting development in Africa, reducing migration flows and combating radicalization.

West African farmers are struggling to compete. Although local production has never fully met demand, experts warn that the recent milk deluge risks smothering the local industry, miring the region in dependency. They also point out the problem is even aggravating the security situation in the Sahel.

Last February, European Commissioner for Agriculture Phil Hogan announced a task force for rural Africa, meant to advise governments on agricultural policy and help EU companies invest responsibly.

Has this task force already been created? Is there a coordination with DGs DEVCO and NEAR? Have they been incorporated in the task force?

The Task Force Rural Africa held its first meeting in May 2018, inaugurated by Commissioner Hogan, Commissioner Mimica and the African Union Commissioner for Agriculture, Ms Sacko. At service level, each meeting of the Task Force is prepared by an inter-service group which is co-chaired by DGs AGRI and DEVCO, DG NEAR, several other services of the Commission and the European External Action Service are invited. Services are also invited to the meetings of the Task Force.

At its fourth meeting on 11 and 12 October 2018 the Task Force discussed trade and investment as a main topic. To collect additional evidence, 11 external experts from Africa and the EU were invited to present their diverging views to the Task Force members. The external experts represented African farmer organisations, small-scale dairy producers, European development and environmental NGOs, African and European agri-business (including the CSR partner of a large European dairy industry investing in Africa) and academics.

How is the commission going to reconcile the problem of overproduction in the European market and the collapse of the African market (business versus help to local producers).

There is no general problem of overproduction in the European market and no general collapse of the African market. With gradual reforms of the EU Common Agricultural Policy, the problem of overproduction has been addressed, trade distorting elements have been widely reduced, EU production has been oriented towards market prices and the application of export refunds will no longer be possible.

Many successful projects under EU development programmes address agricultural production and value chains, for local, regional and where applicable international markets. The discussions of the Task Force Rural Africa so far have highlighted the importance of local markets and in particular of regional trade within Africa. The final report of the Task Force including their recommendations will be available by early 2019.

Concerning agri-food trade of African countries with the EU and other global players in agriculture, rapid population growth and urbanisation in Africa leads to increasing food demand which outstrips supply in many cases. In order to satisfy the nutritional needs of their populations, African countries have to decide on their strategy and the right balance in enhancing domestic production, and promoting regional and international trade. The Economic Partnership Agreements provide for safeguards which can be triggered if appropriate.

Has been the milk powder bought by the Commission utilised to the refugee camps in Greece, etc?

No specific scheme has been developed to make skimmed milk powder (SMP) from public stocks available to refugee camps in Greece.

Alleged fraud in the Netherlands as to dairy farmers

63. In reply to question for written answer E-000948-18, the Commission informed the Parliament that:

“1. Under EU law, it is for the Member States to organise efficient controls and introduce the necessary dissuasive sanctions to combat fraud. The Commission has a zero tolerance policy when it comes to fraud. Following the revelations about the alleged fraud cases in the Netherlands, the Commission promptly requested the Dutch authorities to provide detailed information on the extent of the problem and the measures intended to remediate it.

Moreover, under the cross-compliance mechanism, receiving full common agricultural policy (CAP) support is linked to compliance with certain requirements, for example bovine animal identification and registration, as well as compliance with certain elements of the Nitrates Directive¹. However, it has to be reminded that only farmers who are CAP support beneficiaries are subject to cross-compliance. If an on-the-spot check reveals that the information in the herd register and the animals present in the holding do not match, a cross-compliance penalty is applied. In case of intentionality, which would be a fraud, such penalty can go up to 100% of the beneficiary’s CAP support.

2. The Commission assesses Member States’ requests for derogations on the basis of Annex III of the Nitrates Directive (ND)¹ according to which the higher manure nitrogen limits should not prejudice the achievement of the ND’s objectives and must be justified on objective agronomic and scientific criteria. The Commission, in considering the Netherlands’ request for a derogation, will ensure that the necessary actions are taken to address and prevent any fraud and to ensure that the objective of improving water quality will not be undermined.”

Did DG AGRI transmit the file to the OLAF? If it is the case, what is the state of play of the inquiry? How much money has been subject to the alleged fraud case? Does the Commission intend launching other proceedings as infringement proceedings? Will the Commission end the pollutant emissions derogations granted to the Netherlands? What measures could be taken to ensure that this kind of situation cannot happen/occur?

The Commission has a zero tolerance policy when it comes to fraud. It takes these matters very seriously and, as explained in its reply to the parliamentary question, the Commission promptly requested the Dutch authorities to provide detailed information on the extent of the problem and the measures intended to remediate it.

The Commission followed up, as also explained in its reply, by ensuring that the necessary actions were taken to address and prevent any fraud and to ensure that the objective of improving water quality will not be undermined. It accordingly put forward a proposal for derogation under the Nitrates Directive for a period of only two years (as opposed to four which is usual) and including the obligation for the Netherlands to adopt an enhanced enforcement strategy.

This strategy should include, at least, (a) an independent assessment of the scale and scope of cases of deliberate non-compliance with the national rules on manure, (b) an identification of the areas of manure handling and management with higher risk of deliberate non-compliance, (c) a strengthening of the capacity for inspections and controls, and (d) a clear methodology for establishing sufficiently effective, propositional and dissuasive penalties and sanctions.

A derogation under the Nitrates Directive was furthermore granted subject to the conditions that it is demonstrated that the pressure on the water does not increase and that the land can take up higher quantities of manure thanks to longer growing periods. The Commission considered that the Netherlands had provided the required scientific underpinning.

The derogation was adopted by the Commission after the Member States voted in favour of it in the Nitrates Committee. The Commission shall monitor the implementation and results of this strategy, as well as the other elements of the derogation.

For this reason, there is no intention at this moment to consider opening formal infringement procedures based on the Nitrates Directive.

OLAF was alerted about the matter by the parliamentary question E-000948/2018 and contacted DG AGRI for further information - which was delivered without delay. The Commission will monitor the implementation and results of this strategy, as well as the other elements of the derogation.

The financial impact this issue could potentially have cannot be assessed.