



2018

Annual Activity Report

**Directorate-General
for Agriculture and
Rural Development**

Foreword

Dear stakeholders,

The Juncker Commission committed to a clear agenda for Jobs, Growth, Fairness and Democratic Change, focussing action on those challenges where the EU can deliver real added value for our citizens.

My Annual Activity Report for 2018 explains how DG AGRI delivered on this Commission agenda and how the Common Agricultural Policy (CAP) contributes to the Commission priorities such as Jobs, Growth and Investment; Digital Single Market; Energy Union and Climate; and a balanced and progressive trade policy to harness globalisation.

In the chapter on key results you will find an overview of the challenges faced, an analysis of the lessons learned and the actions DG AGRI has taken to respond as well as the impact observed on the ground.

2018 was the fourth year of full implementation of the CAP reform of 2013 and the third year of implementation of the rural development programmes 2014-2020. Important policy measures have been adopted during that year. The key measures adopted in 2018 tackle unfair trading practices in the food supply chain, they set the framework for a level playing field in the organic sector and they ensure coherent labelling of spirit drinks. Furthermore, DG AGRI continued to foster the long-term development of agriculture, rural areas and the food sector as a whole, through the implementation of direct payment schemes, rural development programmes as well as through market stabilisation tools to address problems in the various sectors and by playing an active role in international negotiations.

2018 was a crucial year for the development of the future agricultural policy. The Commission presented its legislative proposals to modernise and simplify the CAP policy. Focussed on nine specific objectives, the envisaged policy gives flexibility to Member States to address their diverse agricultural and rural needs. Each Member State will be required to design its policy by means of a CAP Strategic Plan within clear boundaries set at EU level. This proposal will allow Member States to provide for simpler rules for farmers, while at the same time reaching environmental objectives more efficiently.

DG AGRI has achieved the above successes with the robust assurance framework in place which ensures the protection of the EU's financial interests.

This report gives a fair and comprehensive overview of DG AGRI's activities and achievements in 2018, and I am confident that it will provide valuable information about the performance of the CAP and its practical and administrative functioning.

Let me close by expressing my respect and gratitude to all DG AGRI staff.

*Jerzy Plewa
Director-General*

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THE DG IN BRIEF

Mission

The mission of the Directorate-General for Agriculture and Rural Development is to promote the sustainable development of Europe's agriculture and to ensure the well-being of its rural areas.

Treaty obligations and competences of the EU

The **Common Agricultural Policy** (CAP) is a genuinely European policy as Member States pool resources to operate a single European policy with a single European budget. The objectives of the CAP as laid out in Article 39 of the Treaty of the Functioning of the European Union (TFEU) are:

- to increase agricultural productivity;
- to ensure a fair standard of living for the agricultural community;
- to stabilise markets;
- to assure the availability of supplies;
- to ensure that supplies reach consumers at reasonable prices.

The **Treaty objectives**, together with horizontal policy clauses (e.g. on the protection of the environment, consumer protection or animal welfare), provide the framework for all EU initiatives and activities. Fulfilling these objectives in the light of changing internal and external challenges requires formulating **political priorities** which reflect the specific needs of a given point in time. This is the case for the key strategic orientation at EU level as well as for the key aims any EU policy intends to achieve.

In the case of the CAP, to reach the TFEU objectives, three overarching **objectives for the CAP** of

- **viable food production,**
- **sustainable management of natural resources and climate action, and**
- **balanced territorial development**

were set out in the Regulation on the financing, management and monitoring of the CAP¹. The CAP sets out complementary measures designed to jointly achieve all three objectives. They contribute to the relevant **political priorities of the Juncker Commission**² as well as to headline targets (climate and energy, research and development, employment, social inclusion) and flagship initiatives (innovation, resource efficiency, youth, digital agenda, new skills and jobs) of the **EU 2020 Strategy**³ and to the fundamental Treaty objectives. In addition, the CAP participates in the Commission actions to implement the UN 2030 Agenda for Sustainable Development and meet the **Sustainable Development Goals** (SDGs)⁴.

¹ Regulation (EU) No 1306/2013 of the European Parliament and of the Council of 17 December 2013 on the financing, management and monitoring of the common agricultural policy and repealing Council Regulations (EEC) No 352/78, (EC) No 165/94, (EC) No 2799/98, (EC) No 814/2000, (EC) No 1290/2005 and (EC) No 485/2008.

² The ten priorities of the Juncker Commission (http://ec.europa.eu/priorities/index_en)

³ https://ec.europa.eu/info/strategy/european-semester/framework/europe-2020-strategy_en and the Communication from the Commission EUROPE 2020 - A strategy for smart, sustainable and inclusive growth (COM(2010)2020)

⁴ Communication from the Commission to the European Parliament, the Council, the European Economic and Social Committee and the Committee of the Regions - Next steps for a sustainable European future - European action for sustainability, 22/11/2016, COM(2016)739; Reflection paper "[Towards a sustainable Europe by 2030](#)".

The contribution of the CAP to the **political priorities of the Juncker Commission** is particularly significant towards the delivery of the following four **Commission general objectives**:

1. A New Boost for Jobs, Growth and Investment (Juncker priority 1)
2. A Connected Digital Single Market (Juncker priority 2)
3. A Resilient Energy Union with a Forward-Looking Climate Change Policy (Juncker priority 3)
4. A balanced and progressive trade policy to harness globalisation⁵ (Juncker priority 6).

In addition, DG AGRI's international cooperation activities contribute to the Commission general objective "A Stronger Global Actor" (Juncker priority 9). Some rural development programmes provide support to migration issues and therefore contribute as well to Commission general objective "Towards a new policy on Migration" (Juncker priority 8).

Types of Commission intervention

DG AGRI acts through different types of interventions:

- The overall policy conception and formulation of the CAP is based on **policy and economic analysis**, evaluation and impact assessments.
- DG AGRI is managing an allocation amounting to EUR 408.3 billion in commitments (in current prices) or around 37.7% of the overall amounts for the programming period of the Multiannual Financial Framework (MFF) 2014-2020.

The CAP is financed through two funds⁶:

- the **European Agricultural Guarantee Fund** (EAGF)

The EAGF finances market-support measures (for example when adverse weather conditions destabilise markets) as well as income support for farmers and assistance for complying with sustainable agricultural practices: farmers receive direct payments, provided they live up to strict standards relating to food safety, environmental protection and animal health and welfare. 30% of direct payments are linked to European farmers' compliance with sustainable agricultural practices which are beneficial to soil quality, biodiversity and the environment generally, such as crop diversification, the maintenance of permanent grassland or the preservation of ecological areas on farms.

⁵ The title of Priority 6 has been updated in 2017 to make it geographically neutral in view of the slowing down of trade talks with the United States, the new geopolitical context, and the new dynamism in trade talks with other important regions of the world. The Commission has reflected this reality by changing the previous General Objective ("A Reasonable and Balanced Free Trade Agreement with the U.S.") and introducing a new impact indicator replacing the old one.

⁶ For further information, see paragraph on "Budget implementation" hereafter or Programme Statements related to EAGF and EAFRD.

- the **European Agricultural Fund for Rural Development** (EAFRD)

The EAFRD is part of the Common Strategic Framework⁷ (CSF) for ESI Funds 2014-2020, where Rural Development (RD) priorities translate and feed into the CSF thematic objectives. Rural Development measures are intended to help farmers modernise their farms and become more competitive, while protecting the environment, contributing to the diversification of farming and non-farming activities and the vitality of rural communities. These payments are part-financed by the member countries and generally extend over a number of years.

DG AGRI also contributes to the **Instrument for Pre-accession assistance** (IPA II) for the part related to rural development (IPARD).

Furthermore, DG AGRI participates in the implementation of the **Horizon 2020 Framework Programme** for Research and Innovation for the part related to securing sufficient supplies of safe and high quality food and other bio-based products.

- By its assurance and **audit activities**, DG AGRI verifies that the conditions under which controls and payments have been carried out by the Member States give reasonable assurance that the CAP expenditure has been effected in conformity with EU rules and, where it is not the case, exclude the expenditure concerned from EU financing.
- DG AGRI contributes to the negotiation of **international agreements** touching upon areas of agricultural policy (trade in agricultural products, quality policy, food security etc.), contributes to the implementation of such international agreements and manages the relations with third countries related to agriculture.
- **By its regulatory and enforcement actions**, DG AGRI prepares legislative proposals, negotiates these with the other EU institutions and monitors their implementation to ensure a harmonised application. The DG manages various Commission regulations laying down detailed implementing rules as well as their adaptation over time. DG AGRI also deals with state aid / competition and infringements, control of implementation of the acquis, complaints and Ombudsman inquiries.

Budget implementation⁸

In 2018, DG AGRI managed a budget of around EUR 55.5 billion in voted payment appropriations (which accounts for around 39% of the overall EU budget⁹), split between nine activity areas: Administrative expenditure (ABB01), Interventions in agricultural markets (ABB02), Direct support (ABB03), Rural development (ABB04), Pre-accession measures (ABB05), International aspects (ABB06), Audit (ABB07), Horizon 2020 —

⁷ The Common Strategic Framework (CSF) for 5 European Structural and Investment Funds (ESI Funds) was adopted to enhance the coordination and complementarity between the EU's main funding instruments (Regulation (EU) No 1303/2013 of the European Parliament and of the Council of 17 December 2013 laying down common provisions on the European Regional Development Fund, the European Social Fund, the Cohesion Fund, the European Agricultural Fund for Rural Development and the European Maritime and Fisheries Fund and laying down general provisions on the European Regional Development Fund, the European Social Fund, the Cohesion Fund and the European Maritime and Fisheries Fund and repealing Council Regulation (EC) No 1083/2006).

⁸ See Section 2.1 for more details

⁹ Execution 2017: 42,1% for CAP.

Research and innovation (ABB09) and Policy strategy and coordination (ABB08). The three major activity areas ABB02, ABB03 and ABB04 (all executed under shared management mode) accounted in total for EUR 54.8 billion¹⁰.

DG AGRI operates in three management modes:

- **Shared management** (99.1%) for interventions in agricultural markets and direct support (EAGF) as well as rural development (EAFRD): Implementation vis-à-vis final beneficiaries is delegated to the Member States, while the Commission is responsible for the implementation of the overall legal framework, budget implementation and for Member States' supervision;
- **Indirect management** (0.2%) for pre-accession measures (IPARD): Implementation vis-à-vis the final beneficiaries is delegated to the authorities of the beneficiary countries;
- **Direct management** (0.7%) for other activities: contracts are concluded directly with third parties to supply the DG with studies, promotion activities and information and communication activities. With the launch of Horizon 2020 – the Framework Programme for Research and Innovation (2014-2020) – in 2014, DG AGRI has delegated the entire operational management of its research activity to the Research Executive Agency (REA). DG AGRI has also delegated an important part of the operational management of the promotion of agricultural products to the Consumers, Health, Agriculture and Food Executive Agency (CHAFAE).

For direct payments, which is the largest part of the EAGF, expenditure compared to the net ceilings laid down in Annex III of Regulation 1307/2013 reached 98 % in 2016 (first year of reform implementation) and 99 % in 2017 and 2018.

For EAFRD, execution has reached cruising speed. By end 2018, it stands at an average of more than 36 % of the total envelopes: a good performance of Rural Development among the European Structural and Investment Funds (ESIF).

The reasons for the good execution are the following:

- clear financial management rules and payment deadlines for Direct Payments,
- actions taken to ensure a smooth launching and implementation of 2014-2020 Rural Development Programmes and
- a solid governance structure for the management and control of CAP support.

¹⁰ More detailed figures see section 2 Organisational management and internal control.

Organisation and human resources

In 2018, the Directorate-General for Agriculture and Rural Development (DG AGRI) had a staff of around 1000¹¹ and was made up of 10 directorates. Seven operational directorates were responsible for managing agricultural market measures, direct support, rural development and pre-accession assistance, research and innovation, international relations and audit. Three directorates were in charge of policy strategy and coordination (covering the design, implementation, enforcement and evaluation of the Common Agricultural Policy (CAP)), resources (including budget and financial management), and legal and procedural matters (including internal control).

In the context of the Synergies and Efficiencies Review, a thorough review of DG AGRI's structure and of certain processes (notably finances and administrative support) led to the new organisation chart which applies since January 2017. It also required a very strict staff allocation policy in a particularly busy period for the DG. This demanding exercise was successfully closed in October 2018.

External factors that could impact on the achievement of the objectives and general risk environment

Agriculture, as the primary sector producing food, feed and biomass, depends on economic developments, but it also interacts with nature and depends on natural resources and climate. It is also closely interlinked with the wider rural economy and its development. The relative importance of these external factors differs across CAP instruments, agricultural sectors, as well as geographically.

To be able to better interpret the impact and result indicators of the CAP, as part of the monitoring and evaluation framework, a set of context indicators have been developed.

CAP implementation

The CAP has around **seven¹² million beneficiaries**, supported under a variety of **different schemes**.

Implementation takes place predominantly in **shared management** where DG AGRI relies on Member States' cooperation in taking all necessary measures to achieve the CAP objectives and ensure effective as well as legal and regular implementation of the various support schemes.

The natural cycle of agricultural activities shapes the controls to be carried out (e.g. many on-the-spot checks to verify eligibility conditions can only take place in certain periods of the year) and the frequency of payments to beneficiaries. Paying Agencies account for payments to beneficiaries on an annual basis in their accounting and

¹¹ DG AGRI staff (officials and external staff) on 01/01/2018: 996; on 01/01/19: 951.

¹² There were approximately 6.5 million beneficiaries under direct support schemes, around 3.3 million beneficiaries under rural development measures and some 0.13 million beneficiaries of market measures in financial year 2017. As a majority of beneficiaries of payments under rural development measures are also beneficiaries of direct payments (but are only counted once when considering total beneficiary numbers), the total number of beneficiaries, up to 7 million for both Agricultural Funds, is lower than the sum of the individual figures. The small decrease in direct support beneficiaries (-2.6% with the highest relative reductions in EE and ES) compared to financial year 2016 is partly due to structural adjustments in the European agricultural sector, but is also the result of stricter eligibility conditions such as the higher minimum requirements and the 'active farmer' clause.

declaration to the Commission. Expenditure declarations from the Member States are cleared by the Commission via an **annual financial clearance of accounts** exercise, combined with **conformity clearance procedure** following up on errors, addressing weaknesses and leading to net financial corrections. In addition, a legal framework for interruptions, reductions and suspension of CAP payments to Member States entered into force in 2014¹³, which strengthens the Commission's powers to protect the EU financial interests in cases where serious risks of irregular payments have been identified.

These features underpin the design of the CAP management and control system, described in section 2 of the AAR.

The implementation of the 2013 CAP reform and its impact on the general risk environment require additional efforts in term of control activities and administrative capacity of the DG.

¹³ Regulation (EU) No 907/2014

EXECUTIVE SUMMARY

The Annual Activity Report is a management report of the Director-General of DG Agriculture and Rural Development (DG AGRI) to the College of Commissioners. Annual Activity Reports are the main instrument of management accountability within the Commission and constitute the basis on which the College takes political responsibility for its decisions as well as for the coordinating, executive and management functions it exercises, as laid down in the Treaties¹⁴.

a) Key results and progress towards the achievement of general and specific objectives of the DG

In 2018, DG AGRI has presented its **legislative proposals together with an impact assessment to modernise and simplify the Common Agricultural Policy (CAP)**.

With these proposals, the Commission addresses the repeated calls for increased result orientation, simplification and subsidiarity. The legislative proposals focus on three general objectives that are further subdivided into 9 specific objectives which all contribute to the Commission's 10 priorities. Member States shall implement these objectives via a Strategic CAP Plan that encompasses types of interventions financed under both funds, the EAGF and the EAFRD. In doing so, Member States will enjoy a large degree of flexibility allowing them to respond to the considerable diversity and heterogeneity of agriculture in the EU. A solid performance-based assurance model accompanies this new delivery model.

These proposals have been adopted by the Commission on 1 June 2018, and are now under discussion with the European Parliament and the Council (the co-legislators).

Already since 2017, in line with the principles outlined in the Commission of the Communication on the "Future of food and farming"¹⁵, important efforts have been made to incorporate the new societal demands and enhance the synergies with other EU policies. In that context, the **cooperation with other DGs** has been reinforced.

In 2018, DG AGRI put forward further important legislative proposals (a) to tackle **unfair trading practices** in the food supply chain and (b) concerning the definition, presentation and labelling of spirit drinks.

The rules of the "Omnibus" regulation, introducing simplifications of the existing framework for farmers, entered into force on 1 January 2018.

The new **Organic** Regulation of June 2018 provides operators with a modern tool that will help the organic sector to further expand. It foresees the harmonisation of existing rules creating a level playing field for operators within the EU. It puts an end to the so-called "à la carte derogations" within the Union but also vis-à-vis third countries operators, by introducing the principle of compliance with EU rules for imports.

¹⁴ Article 17(1) of the Treaty on European Union.

¹⁵ https://ec.europa.eu/agriculture/sites/agriculture/files/future-of-cap/future_of_food_and_farming_communication_en.pdf

DG AGRI fostered the long-term development of agriculture, the food sector and rural areas as a whole, by assisting in the implementation of direct payment schemes and rural development programmes (RDPs), through market stabilisation tools as well as through international negotiations.

With regard to the general objective "**Jobs, growth and investment**", the productivity continued its positive trend. This development constitutes a challenge with regard to agricultural jobs. Nevertheless, the employment rate in rural areas continued to increase despite the decline of the workforce in agriculture. The continuation of this trend remains a priority of the policy. The sector's agricultural factor income remained stable and the farm sector continues to operate at prices close to world market prices. The market situation improved significantly in the sectors mostly affected by the previous years' crises, e.g. dairy or fruit and vegetables. DG AGRI contributed to farm income and development, business start-ups, knowledge-building, innovation and general investment by assisting MS in the implementation of direct payment schemes and of RDPs.

With regard to the general objective "**Digital Single Market**", broadband access in rural areas continues to improve, but closing the connectivity gap between urban and rural areas remains a challenge, especially for high-speed internet access. In 2018, DG AGRI continued its cooperation with DGs REGIO, CNECT and COMP to develop further the Broadband Competence Offices in Member States together with a Support Facility helping businesses and individuals to access related EU funds more easily. DG AGRI also worked on the implementation of an "Action Plan for Rural Broadband" and further developed the initiative "EU action for Smart Villages".

With regard to the general objective "**Energy Union and climate**", the long-term decrease in greenhouse gas emissions from agriculture has slowed down in recent years. Further reductions of those emissions remain a pre-occupation for DG AGRI. The area farmed organically steadily increases and now represents 7% of the EU's utilised agricultural area (UAA). Furthermore, a large portion of the agricultural area is being farmed according to specific eco-friendly practices: the "greening" layer of the direct payments system now covers 80 % of utilised agricultural area. The 2014-2020 RDPs also support other measures facilitating more demanding environmental practices.

With regard to the general objective "**A balanced and progressive trade policy to harness globalisation**", the EU further expanded its agri-food trade, thanks in part to the CAP's focus on building a market-oriented and competitive farm sector through fair and efficient policy tools. At the same time, the EU also assumes its responsibility for developing countries through policy cooperation and by providing preferential access to EU markets for their imports. In this context, the CAP is now fully in line with development objectives. In May 2018, the Commission set up the Task Force for Rural Africa¹⁶ to explore ways to strengthen the EU-Africa partnership in food and farming and enhance the role of the EU in African job-creating economic development in agriculture, agri-business and agro-industries. DG AGRI also played an active role in trade negotiations, for instance with Japan, Canada or Mexico.

¹⁶https://ec.europa.eu/info/food-farming-fisheries/farming/international-cooperation-and-agreements/africa/eu-africa-partnership_en

b) Key Performance Indicators (KPIs)

The four key indicators which monitor the core aspects of the CAP are the following:

The CAP Key Performance Indicators	Baseline	Target	Impact/Result
1. Agricultural factor income (see p. 23)	(2012) EUR 14 865 / AWU¹⁷ Index: 107.5 (100 in 2010)	To increase	Substantial increase (2017) EUR 17 304 / AWU Index: 125.2
2. EU commodity prices compared to world prices (see p. 25)	1.21¹⁸ (2013)	Close to each other (ratio 1.00)	close 1.19 (2018)
3. Minimum share of land with specific environmental practices/commitments¹⁹ (see p. 50) - Share of agricultural area under <u>greening</u> practices	75 % (2015)	To maintain	Increasing 80 % (calendar year 2018)
4. Rural employment rate (see p. 21)	63.4 % (2012)	To increase	Increasing 67.7 % (2017)

¹⁷ AWU = Annual work unit. Values have changed compared to figures published in 2017 AAR because Eurostat has updated figures.

¹⁸ The baseline for the ratio between EU and World agricultural commodity prices has changed from the data in 2017 AAR due to a change of the reference price for pigmeat (US).

¹⁹ In addition to the share of agricultural area under greening practices, this KPI consists of the following indicators: Share of area under organic farming; % of agricultural land under management contracts supporting biodiversity and/or landscapes; % of forest area/other wooded land under management contracts supporting biodiversity; % of agricultural land under management contracts to improve water management; % of forestry land under management contracts to improve water management; % of agricultural land under management contracts to prevent soil erosion and to improve soil management; % of forestry land under management contracts to prevent soil erosion and to improve soil management; % of LU concerned by investments in livestock management in view of reducing greenhouse gas and/or ammonia emissions; % of agricultural land under management contracts targeting reduction of greenhouse gas and/or ammonia emissions.

On much of the farmland, "greening" requirements apply at the same time as other environmental practices/commitments. In those cases, the contracts funded by rural development policy build on the environmental benefits of the greening requirements. Likewise, the area figures concerned by rural development support overlap with each other. To avoid double counting, these figures have not been added up.

The key indicator linked to the achievement of the internal control objectives is:

5. Error Rate and corrective capacity (see Section 2.1.1)

	Payments made ¹	Pre-financing paid	Cleared pre-financing	Relevant expenditure	Adjusted error rate	Estimated amount at risk at payment	Average financial corrections	Average recoveries	Average recoveries and corrections (in % of relevant expenditure)	Corrective capacity	Estimated final amount at risk
	million EUR	million EUR	million EUR	million EUR	%	million EUR			%	million EUR	million EUR
1	2	3	4	5	6	7	8a	8b	8	9	10
				= 2 - 3 + 4		= 5 x 6				= 5 x 8	= 7 - 9
Title 04 Employment, social affairs and inclusion											
0401 Administrative expenditure	0.43	0.00	0.00	0.43	1.00%	0.00	0.00	0.00	0.00%	0.00	0.00
Title 09 Communications networks, content and technology											
0903 Connecting Europe facility (CEF)	0.24	0.00	0.00	0.24	1.00%	0.00	0.00	0.00	0.00%	0.00	0.00
Title 13 Regional and urban policy											
1303 European regional development fund	0.17	0.00	0.00	0.17	1.00%	0.00	0.00	0.00	0.00%	0.00	0.00
1304 Operational technical assistance	0.07	0.00	0.00	0.07	1.00%	0.00	0.00	0.00	0.00%	0.00	0.00
Title 18 Migration and home affairs											
1801 Administrative expenditure	0.36	0.00	0.00	0.36	1.00%	0.00	0.00	0.00	0.00%	0.00	0.00
Title 05 Agriculture and rural development											
SHARED MANAGEMENT											
0502 Interventions in Agricultural Markets	2 620.32	0.00	0.00	2 620.32	2.53%	66.25	87.38	0.00	0.00%	0.00	0.00
0503 Direct payments	41 496.52	0.00	0.00	41 496.52	1.83%	757.96	588.95	0.00	0.00%	0.00	0.00
EAGF total	44 116.84	0.00	0.00	44 116.84	1.87%	824.22	676.33	97.92	1.75%	774.25	49.97
0504 Rural development ²	12 444.98	19.50	11.32	12 436.80	3.20%	397.62	195.20	112.38	2.47%	307.37	90.25
0507 Audit	106.91	0.00	0.00	106.91	0.00%	0.00	0.00	0.00	0.00%	0.00	0.00
INDIRECT MANAGEMENT											
0505 Pre-accession Measures	98.30	34.50	80.71	144.51	0.09%	0.12	0.00	0.00	0.00%	0.00	0.12
DIRECT MANAGEMENT											
0501 Administrative expenditure	9.55										
0502 Interventions in agricultural markets	0.00										
0504 Rural development	11.87	7.08	8.56	63.44	1.00%	0.63	0.00	0.00	0.00%	0.00	0.63
0506 International aspects	4.60										
0508 Policy strategy and coordination	35.95										
0509 Horizon 2020 - Research and innovation	0.00										
Total CAP	56 828.99	61.08	100.60	56 868.51	2.15%	1 222.59	871.53	210.29	1.90%	1 081.62	140.97
Total DG AGRI	56 830.27	61.08	100.60	56 869.78	2.15%	1 222.60	871.53	210.29	1.90%	1 081.62	140.98
											0.25%
											0.25%

Footnote (1): relevant expenditure includes the payments made, subtracts the new pre-financing paid out and adds the previous pre-financing actually cleared during financial year 2018
Footnote (2): For Rural Development for the purpose of estimating the final amount at risk, the estimated amount at risk is calculated: i) on the amount of intermediate payments made in 2018 for which an adjusted error rate of 3.21% was calculated, ii) on the amount of cleared pre-financing for the EAFRD Rural development programmes from previous programming periods with the same methodology applied for intermediate payments, resulting in an adjusted error rate of 3.20% and an estimated amount at risk equal to EUR 390.83 million and thirdly, on closure balance paid in 2018 for the 2007-2013 programming period for which an error rate of 2.94% was used; which leads to an adjusted error for the relevant expenditure for Rural development of 3.196%

c) Key conclusions on Financial management and Internal control

In accordance with the governance arrangements of the European Commission, DG AGRI conducts its operations in compliance with the applicable laws and regulations, working in an open and transparent manner and meeting the expected high level of professional and ethical standards.

The Commission has adopted a set of internal control principles, based on international good practice, aimed to ensure the achievement of policy and operational objectives. The Financial Regulation requires that the organisational structure and the internal control systems used for the implementation of the budget are set up in accordance with these principles. DG AGRI has assessed the internal control systems during the reporting year and has concluded that the internal control principles are implemented and function as intended. Please refer to AAR section 2.1.3 for further details.

In addition, DG AGRI has systematically examined the available control results and indicators, including those aimed to supervise entities to which it has entrusted budget implementation tasks, as well as the observations and recommendations issued by internal auditors and the European Court of Auditors. These elements have been assessed to determine their impact on the management's assurance as regards the achievement of control objectives. Please refer to Section 2.1 for further details.

In conclusion, management has reasonable assurance that, overall, suitable controls are in place and working as intended; risks are being appropriately monitored and mitigated; and necessary improvements and reinforcements are being implemented. The Director-General, in his capacity as Authorising Officer by Delegation, has signed the Declaration of Assurance, albeit qualified by the following reservations:

- ABB02 – Payments made on Market Measures: 5 aid schemes comprising 6 Member States (8 elements of reservation): Italy (for 2 aid schemes), Spain, Poland, Portugal (for 2 aid schemes), United Kingdom, and 1 general reservation for expenditure managed by France AGRIMER;
- ABB03 – Payments made on Direct Payments: 17 Paying Agencies, comprising 10 Member States: Austria, Cyprus, Denmark, Spain (2 Paying Agencies), France (1 Paying Agency), United Kingdom (1 Paying Agency), Italy (7 Paying Agencies), Poland, Sweden, Slovakia;
- ABB04 – Payments made on Rural development: 21 Paying Agencies, comprising 14 Member States: Belgium (2 Paying Agencies), Croatia, Czech Republic, Germany (1 Paying Agency), Spain (4 Paying Agencies), France (2 Paying Agencies), United Kingdom (3 Paying Agencies), Greece, Hungary, Italy (1 Paying Agency), The Netherlands, Portugal, Sweden, Slovakia.

d) Provision of information to the Commissioner(s)

In the context of the regular meetings during the year between the DG and the Commissioner on management matters, also the main elements of this report and assurance declaration, including the reservations envisaged, have been brought to the attention of Commissioner Hogan, responsible for Agriculture and Rural Development, on 25 March 2019.

CAP post 2020

Following an intensive year of debate, analytical work and a broad and extensive impact assessment, with the participation of several DGs and stakeholders, on 1 June 2018 the European Commission put forward its legislative proposals for the Common Agriculture Policy (CAP) post-2020²⁰ under the 2021-2027 Multiannual Financial Framework (MFF):

- a regulation on the CAP Strategic Plans (a proposed new way of working covering direct payments to farmers, rural development support and sectoral support programmes) (COM(2018) 392),
- a horizontal regulation on financing, managing and monitoring the CAP (COM(2018) 393) and
- a regulation amending the Common Market Organisation (CMO) as well as certain quality regulations (COM(2018) 394).

The impact assessment analysed the current performance of the CAP, taking into account the public consultation launched in 2017, identifying challenges, considering EU value-added, objectives and policy options. It tested various combinations of interventions in different options to draw conclusions on the optimum mix for the legislative proposals.

Despite the very challenging budgetary context, the Commission has proposed to maintain a strong **support for EU farming and rural areas** by allocating **EUR 365 billion** to the CAP for the period 2021-2027.

The CAP proposals focus on the **simplification and modernisation** of the policy to keep it fit for the future and to maximise its contribution to the achievement of the EU's international commitments, in particular the Sustainable Development Goals (SDG)²¹ and the COP21 Paris Agreement. The new CAP will address nine Specific Objectives (see graph below), which, in addition to the traditional objectives of farm income, food security and environmental protection, include new societal demands (e.g. animal welfare).

The Commission proposes a **new delivery model** based on a new partnership between the EU and its Member States. In the future, the EU level framework will define those elements which are needed to achieve the EU common objectives and the smooth functioning of the single market. Within one single strategic document, the CAP Strategic Plan, Member States will choose the design and propose interventions targeted to the needs of their farmers and rural areas. Moving away from prescriptive and "one size fits all" rules does not only open up a clear potential for simplification²², but it also **shifts the focus from compliance to the results of the policy** which will be assessed based on a common framework for monitoring and evaluating policy performance (Performance and Monitoring Evaluation Framework – PMEF).

²⁰ See COM(2018)392 final, COM(2018)393 final and COM(2018)394 final/2. See https://ec.europa.eu/info/food-farming-fisheries/key-policies/common-agricultural-policy/future-cap_en#proposal

²¹ Progress towards the SDGs is monitored annually. The latest edition of the report is available on <https://ec.europa.eu/eurostat/documents/3217494/9237449/KS-01-18-656-EN-N.pdf/2b2a096b-3bd6-4939-8ef3-11cfc14b9329>

²² See also Remarks by Commissioner Phil Hogan on Simplification and Subsidiarity, July AGRI Council, Brussels; available at https://ec.europa.eu/commission/commissioners/2014-2019/hogan/announcements/remarks-commissioner-phil-hogan-simplification-and-subsidiarity-july-agri-council-brussels_en

On top of this important change in the CAP governance, the Commission also proposes

- a fairer and **better targeted distribution of direct aids** with a strong focus on small and medium-sized farms and young farmers,
- a new green architecture for an **enhanced environmental and climate delivery** in line with the EU's higher ambition on environmental care and climate action, based on three layers (conditionality, eco-schemes and climate-agro-environmental interventions).
- a continued support of growth, **jobs and investments** in rural areas and
- a push for fully using the latest technologies and **innovations** for a more sustainable and competitive agricultural production
- as well as administrative **simplification**.

All these tools will help to ensure that the future CAP empowers EU farming to continue to provide benefits to EU citizens and contribute to keep EU rural areas as vital living spaces.

The objectives of the CAP post-2020



1. KEY RESULTS AND PROGRESS TOWARDS THE ACHIEVEMENT OF GENERAL AND SPECIFIC OBJECTIVES OF THE DG

This section presents key results and progress in terms of the general objectives of the Juncker Commission.

It should be recalled here that, in line with Art. 110 of Regulation (EU) No 1306/2013 of the European Parliament and of the Council, the performance of the CAP is also assessed in relation to the following objectives, conventionally referred to as "CAP common objectives":

- viable food production, with a focus on agricultural income, agricultural productivity and price stability;*
- sustainable management of natural resources, and climate action, with a focus on greenhouse gas emissions, biodiversity, soil and water;*
- balanced territorial development, with a focus on rural employment, growth and poverty in rural areas.*

These objectives are clearly linked with the Commission general objectives²³. One point deserves particular mention. The very substantial action of the CAP in the domain of the environment and the climate includes policy measures relevant to the explicit content of Commission general objective 3 – Energy Union and Climate– but at the same time also ranges more widely (e.g. to influence biodiversity, soil quality and water quality). So to make sure that this important policy activity is not lost from view, it has also been mentioned in connection with Commission general objective 3.

With regard to each of the Commission general objectives addressed by the CAP, the key quantified facts are presented together, before an explanation of significance, cause and general context is offered. This approach should give the reader a rapid, easily accessible overview of the essential information for each objective.

Long-term trends in the key indicators for the CAP are the most useful means of assessing the policy's achievement of its objectives. This is because of the long lag effects of the policy's operation. It is furthermore important to take into account that some of the indicators are influenced also by exogenous factors outside the control of the policy.

²³ The CAP objective of a viable food production is directly linked to the Commission general objective 1 "A new boost for jobs, growth and investment" as a large number of jobs in agriculture, together with food processing, food retail and food services, depend on it. Promoting the sustainable management of natural resources and climate action ensures to keep the basis for agricultural jobs sustainable. A key tool for boosting employment, growth and investment is the fostering of a balanced territorial development including rural areas. Through this objective, the CAP also contributes to the Commission general objective 2 "A Connected Digital Single Market": closing the digital divide between urban and rural areas is an important enabler for businesses to remain competitive, for rural communities to deploy their potential and for the EU farm sector to reap the benefits that ICT represents in terms of economic and environmental performance as well as climate change. The Commission general objective 6 "A balanced and progressive trade policy to harness globalisation" is connected to the CAP common objective of a viable food production with DG AGRI playing an active role in trade negotiations, leading to an increase in two-way trade, without compromising our high food safety standards.

Commission services are aware about the limitations of some indicators used. The limited data currently available for areas such as biodiversity, soil and water-quality, exemplify the challenges that the policy faces in securing good monitoring of the policy and its impact. In the framework of the CAP post-2020, work is being carried out to improve these indicators and, where needed, find alternative indicators to measure the performance of the policy.

With regard to the various indicators presented, the most recent available values are used. In many cases, these predate 2018; it nevertheless makes sense to present them in AAR 2018 as they are more recent than the information presented in AAR 2017, and the relevant trends thus continue to unfold. The choice of a baseline year for any given indicator depends on how recent the latest data are and on the period over which observation is necessary in order to discern genuine trends. A full set of objectives and indicators is presented in Annex 12; 2018 evaluation information is presented in Annex 9. Observations stemming from the performance audits by the Court of Auditors are presented under point 2.1.2.

*In view of preparing for the **UK's withdrawal from the European Union**, DG AGRI put forward two proposals in May 2018; a draft authorisation to open negotiations to apportion the EU's WTO TRQs as well as a draft regulation of the European Parliament and the Council, apportioning WTO TRQs. The latter was agreed upon by the co-legislators in December 2018. At the same time, toward the end of the year, preparations picked up for the drafting of two Brexit preparedness implementing acts, one in relation to POSEI, the other putting in practice the newly apportioned WTO TRQs. In addition to legislative changes, preparations for BREXIT also concerned non-legislative matters such as actively informing stakeholders on the matter or preparing for adaptations to various IT systems.*

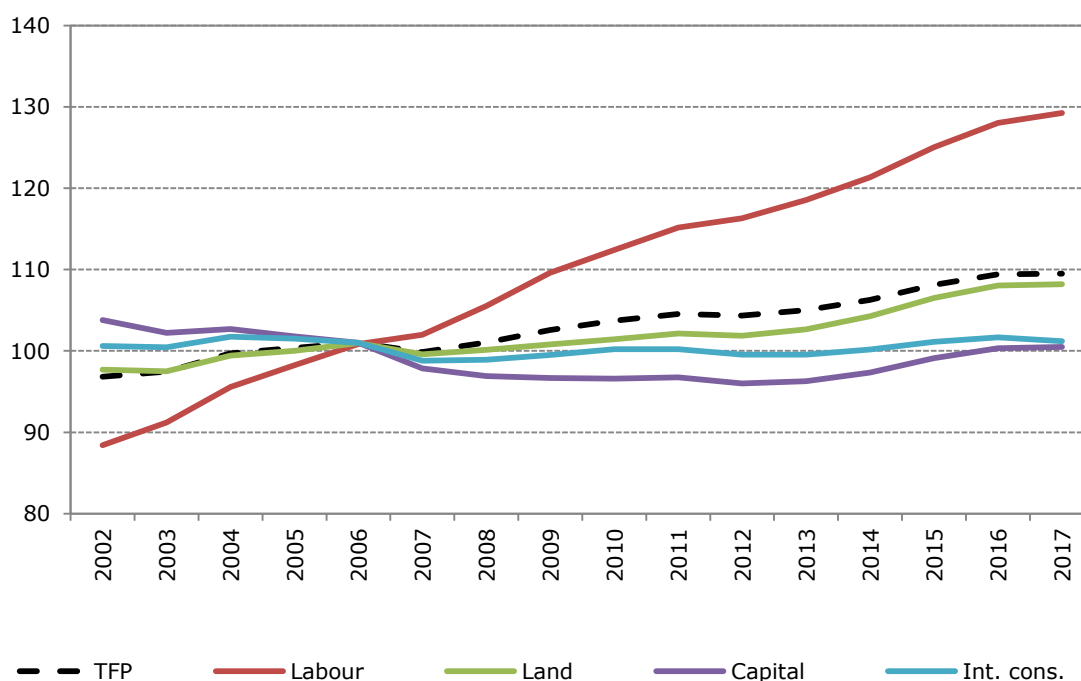
1.1 Commission General Objective 1: Jobs, Growth and Investment

What are the key outcomes to be reported?

1. The farm sector's productivity continues its positive trend

Total factor productivity²⁴ compares total outputs relative to the total inputs used in production of the output. Measured with rolling three-year averages, the sector's total factor productivity has been climbing over time, reaching 109.5 % of its 2005 value in 2015-2017 (3-year moving average).

Total Factor Productivity and partial productivity growth in the EU-28
(index 2005 = 100, 3-year moving average)



"TFP" means Total Factor Productivity

"Int. cons." means "Intermediate Consumption". It measures the value of the goods and services consumed as inputs by a process of production.

Source: DG AGRI, https://ec.europa.eu/agriculture/cap-indicators/context_en

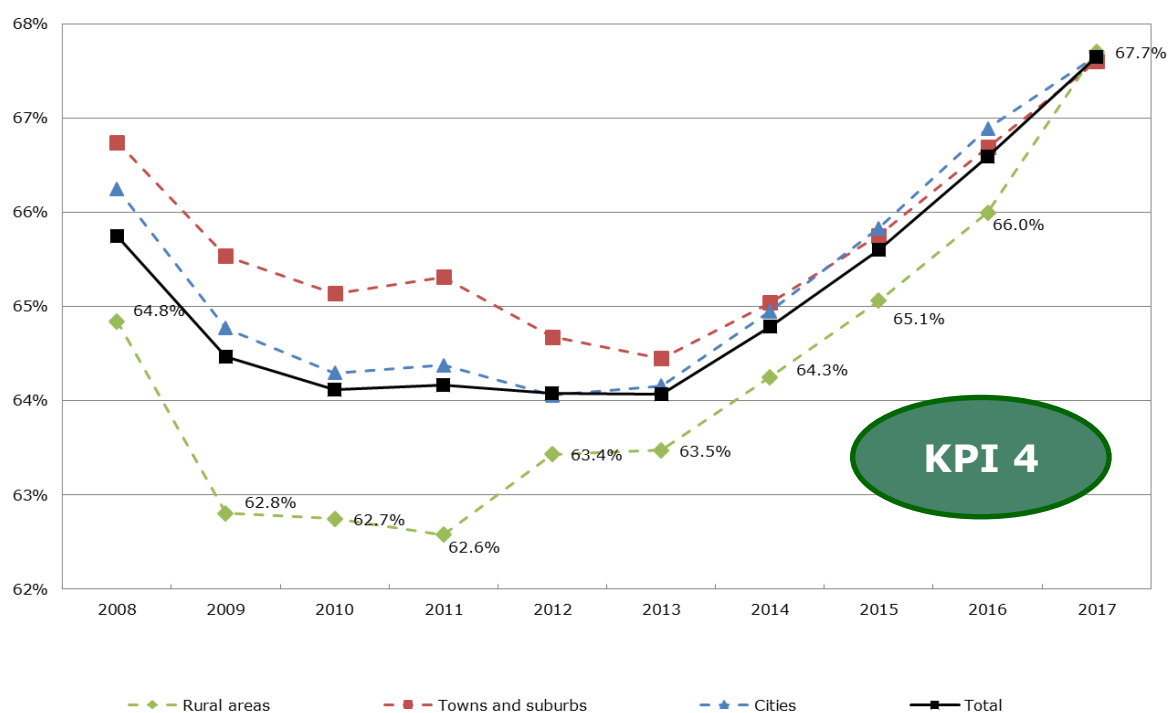
²⁴ Both output and inputs are expressed in term of volumes.

2. Employment in the EU's rural areas has climbed above its pre-crisis level

The indicator "Employment rate in rural areas"²⁵ has been selected as Key Performance indicator because it is related to the CAP common objective "Balanced territorial development". This indicator (like other KPIs) covers both pillars of the CAP: it does not only reflect the changes in the agricultural sector, but also the effects of the policy for Rural Development.

The employment rate in rural areas has increased and the gap with urban areas has disappeared in 2017 (the most recent year for which data are available), when 67.7 % of the working-age population (aged 15 to 64) were in jobs in rural areas²⁶.

**Employment rate (15 to 64 years old) in EU-28
by type of area (2009-2017)**



Source: Eurostat²⁷

²⁵ The indicator "Employment rate in rural areas" is established in the Commission Implementing Regulation (EU) No 808/2014 laying down rules for the application of Regulation (EU) No 1305/2013 of the European Parliament and of the Council on support for rural development by the European Agricultural Fund for Rural Development (EAFRD).

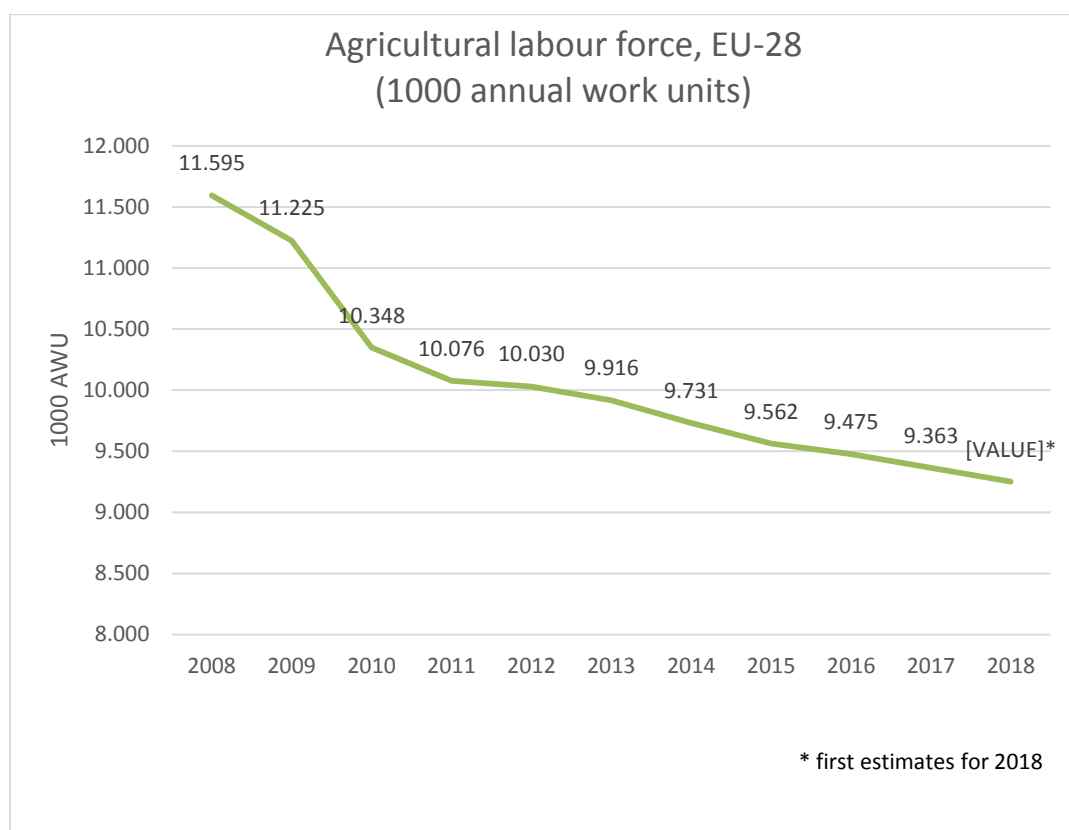
²⁶ This indicator uses the Degree of Urbanisation classification (DEGURBA), which creates a classification of all LAU2s (Local Administrative Units - Level 2/municipalities) into the following three categories: (1) Cities (densely populated areas); (2) Towns and suburbs (intermediate density areas); (3) Rural areas (thinly populated areas).

This is done using a criterion of geographical contiguity in combination with a minimum population threshold based on population grid square cells of 1 km². For more details, please consult:

http://ec.europa.eu/eurostat/ramon/miscellaneous/index.cfm?TargetUrl=DSP_DEGURBA.

²⁷ Values have changed compared to figures published in the Strategic Plan 2016-2020 because Eurostat has updated figures.

The agricultural labour force has steadily declined as a consequence of the modernisation of agriculture (greater mechanisation, Information and Communication Technology (ICT), economies of scale).



Source: Eurostat

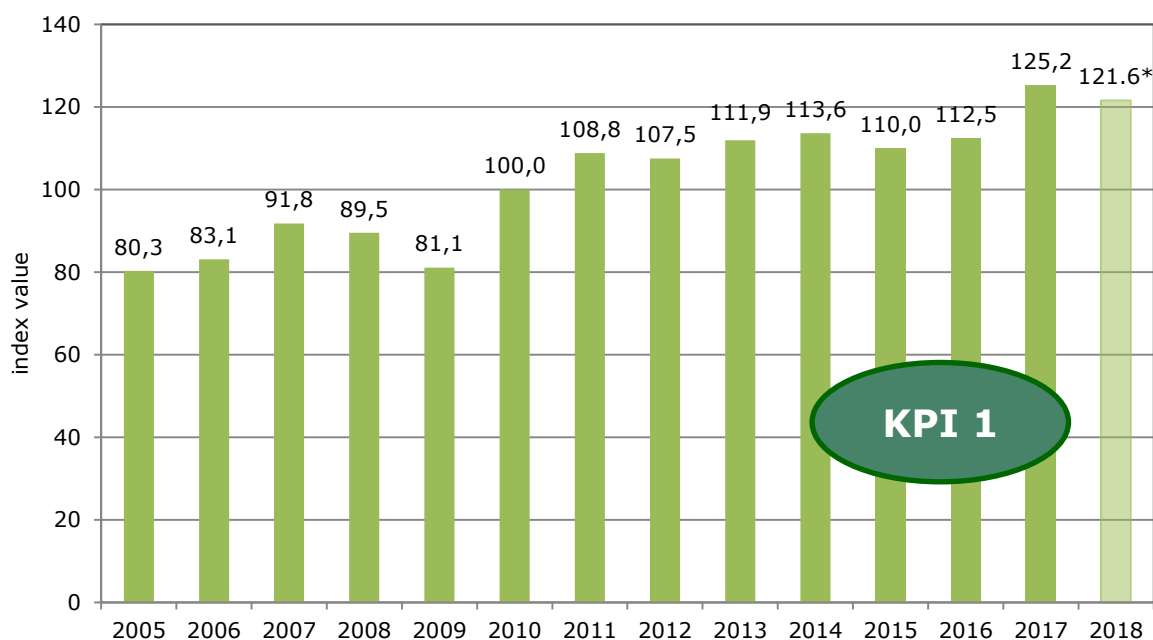
3. The farm sector's value added has recovered from the crisis, but remains lower than the rest of the economy

After the crisis year 2009, agricultural factor income per full-time work unit has recovered in real terms. 2017 was a particularly good year, and first estimates²⁸ for 2018 are also positive.

On the basis of first estimates for 2018, the cost increased by 3.6 %, driven mainly by **higher prices for energy and animal feed**. A further explanation of the decrease in income since 2017 are the dry weather conditions in large parts of the EU, which led to a shortage of animal fodder produced on farm.

Agricultural factor income is defined as the net value added at factor costs.

Index of real factor income in agriculture per full time work unit²⁹, EU-28



* First estimates for 2018

Source: Eurostat

²⁸ The first estimates for 2018 give an indication of the main trends in income developments and are calculated by Member States on the basis of estimations and projections. They may become subject to corrections.

²⁹ Agricultural factor income is calculated according to the following equation:

Value of agricultural production

- variable input costs (fertilisers, pesticides, feed, etc.)

- depreciation

- total taxes (on products and production)

+ total subsidies (on products and production)

= factor income (net value added at factor costs)

An annual work unit is the work performed by one person who is occupied on an agricultural holding on a full-time basis.

Farming income generally lagging behind salaries in the whole economy

Farming income³⁰ is significantly below the average wage in the economy in most Member States. Operating subsidies allow to compensate partially or totally this gap (and in some cases go beyond, such as for ES, SK and CZ). For some Member States, there would be a negative income without CAP support (LU and FI).



Source: DG AGRI based on Eurostat data, 2015-2017

Average CAP support=operating subsidies per worker.

Average farmer income (without CAP support) = entrepreneurial income per worker – operating subsidies.

Note: CAP support does not include investment support; average farmer income without CAP support in LU and FI was negative over the period considered; the operating subsidies received will have to compensate for this loss, the overall agricultural income is thus equal to the difference between operating subsidies and market income.

³⁰ The Treaty establishes a link between increasing agricultural productivity and ensuring a fair standard of living for the agricultural community, in particular by increasing the individual earnings of persons engaged in agriculture. Direct Payments are one means to close the gap between farmers earnings and the average salary in the economy as a whole. The CAP is often criticised for not looking at total income of farm households, taking into consideration also income sources outside farming, pensions or income gained by other household members. However, data on household income is only available in very few Member States and the overall income level of farm households depends on policies under national responsibility that are outside of the scope of the CAP (inheritance law, land markets, taxation system, pension schemes). It is thus appropriate that the Commission's objective and data focus on the income derived from agricultural activities, as this income is of primary importance for the CAP.

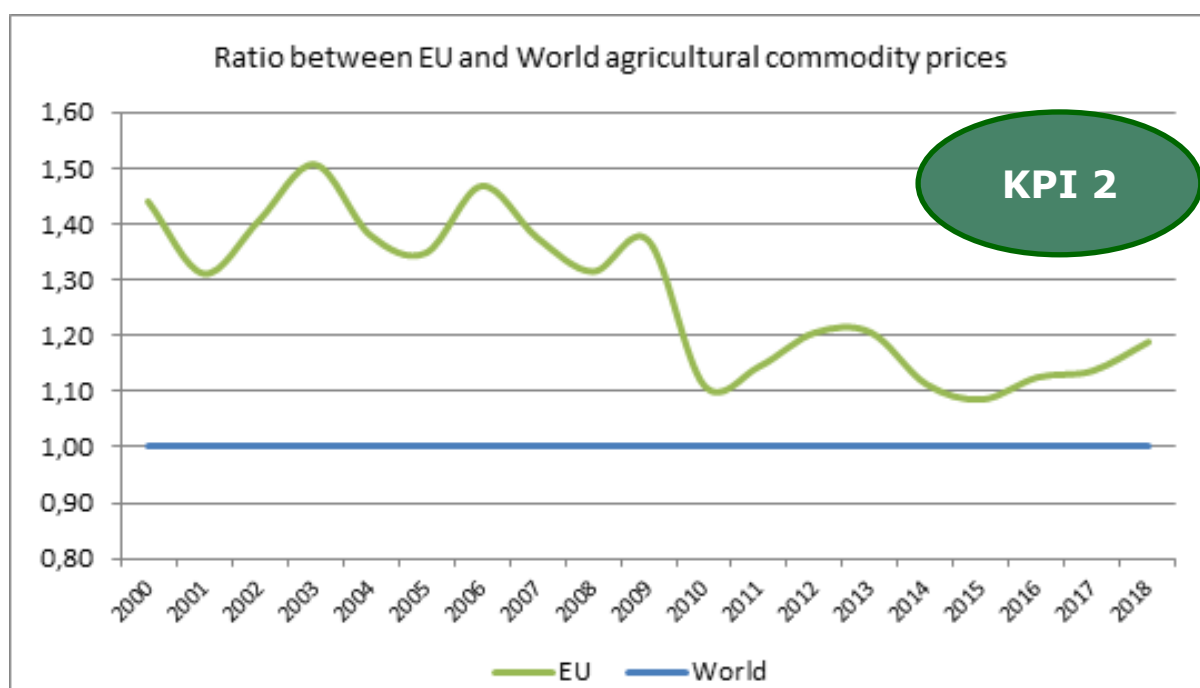
4. The farm sector continues to operate at prices close to world market prices

In 2018, a weighted average of the EU market prices of various commodities was at 119 % of equivalent world market prices – compared to 121 % in the baseline year of 2013³¹. Overall, this is in line with the target of getting generally closer to world market prices.

The price relationship EU/world slightly deteriorated in 2018, mainly driven by a lower competitiveness for butter and beef.

It is not intended that the EU market should exactly match or track world market prices, but the two values should be more aligned than in the past as this indicates that EU farmers are growing more competitive internationally – while receiving non-trade-distorting support.

(For information on the EU's agri-food export performance in 2018, see section 1.4).



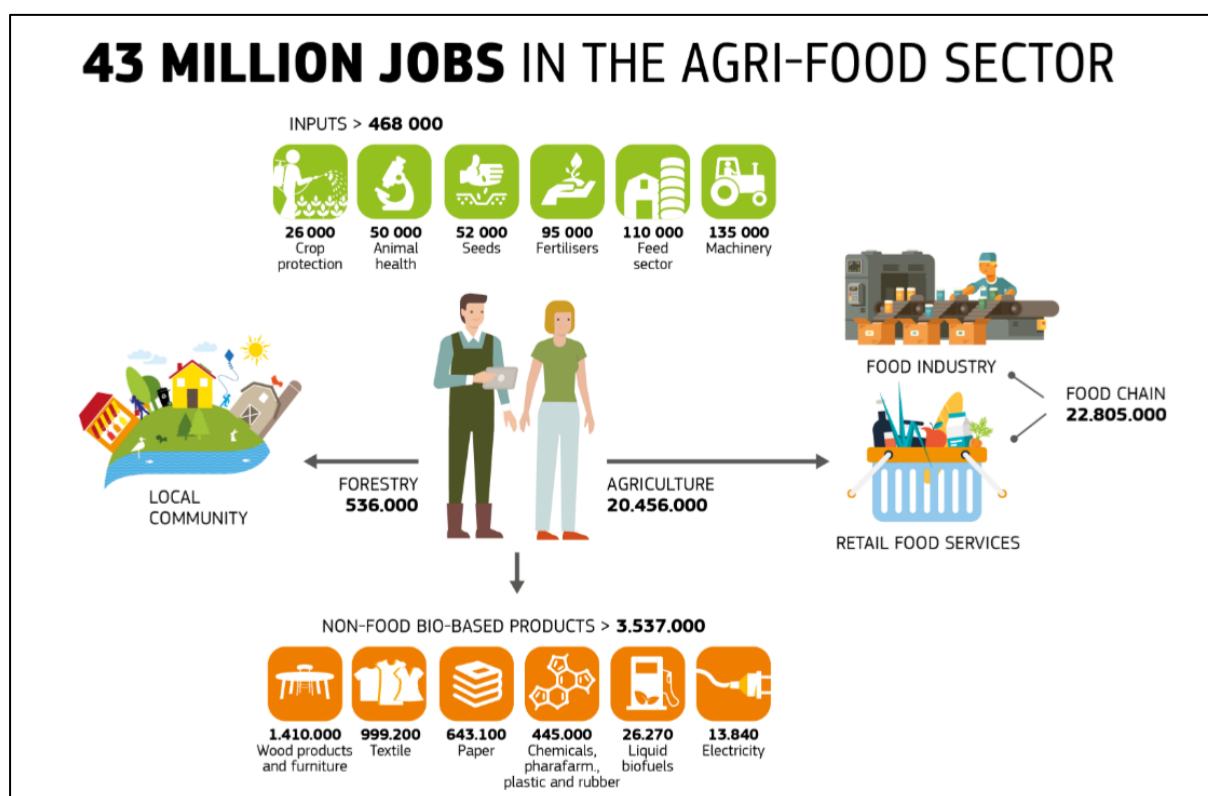
Source: DG Agriculture and Rural Development, based on European Commission, USDA, World Bank, IGC, London International Financial Futures and Options Exchange, National sources. Sugar is included only from 2006.

³¹ The baseline for the ratio between EU and World agricultural commodity prices has changed from the data in 2017 AAR due to a change of the reference price for pigmeat (US).

Why are these outcomes important?

Boosting overall employment is one of the Commission's top priorities – not only for cities but also for the countryside, where large numbers of people live and work.

The above trends in productivity, income and prices specifically concerning the farm sector are important for the agricultural sector, but also for the other economic activities connected to it. Even though agriculture is gradually taking a lower share of overall employment, around 10.5 million farms still provide work for roughly 20.5 million people (full and part-time jobs)³². Together with food processing, food retail and food services, agriculture makes up a sector supporting about 43 million jobs³³ in the EU. It also has strong links to various other upstream and downstream sectors, as well as to other (local) rural businesses. However, ensuring a fair standard of living for the agricultural community continues to be a challenge.



Figures provided indicate the number of jobs in the corresponding sector.

Reference periods: 2017 (forestry), 2016 (agriculture, food industry and retail food services), 2015 (bio-economy) and 2009 (input sectors).

Source: DG AGRI elaboration based on Eurostat data, DataM – Bioeconomics, European Commission / Joint Research IPTS and nova Institut, industry sources.

As the farm sector has moved away from trade-distorting support, it must be in a position to operate successfully at prices close to those on the world market. Long-term productivity gains are also an important part of remaining economically viable and are in line with the CAP's Treaty objectives.

³² Source of data: Eurostat Farm Structure Survey 2016.

³³ DG AGRI calculations based on Eurostat data for 2016 (agriculture, food industry and retail food services).

Higher productivity gradually leads to job losses in the farm sector as capital is substituted for labour, but it also tends to make the remaining jobs more economically sustainable (and therefore more likely to attract new entrants). Furthermore, if the right conditions are set for job creation in other related sectors, the net effect on employment can be positive (as the graph on rural employment indicates, see p. 21). Jobs in rural areas will increasingly be non-agricultural.

How closely are the outcomes linked to the CAP?³⁴

The CAP is strongly linked to these outcomes through the ways in which it acts within the farm sector and food supply chain, and within rural areas more generally.

The farm sector's commercial success, productivity and general economic performance are always strongly influenced by factors other than policy – such as supply and demand in agricultural markets but also broader macroeconomic developments, input costs and political events.

Likewise, total rural employment is – like urban employment – affected by various macroeconomic forces as well as other policies.

The CAP exerts a strong positive influence through a number of instruments.

Direct payments partially fill the gap between agricultural income and income in other economic sectors. They provide an important income safety net, ensuring there is agricultural activity in all parts of the Union including in areas with natural constraints (which also receive income payments under Rural Development Policy) with the various economic, environmental and social associated benefits, including the delivery of public goods. Therefore, direct payments remain an essential part of the CAP in line with its EU Treaty obligations.

More than 6.5 million farms, covering 90 % of farmed land, benefitted from direct payments. In 2017, this support constituted 38 % of their farming income³⁵. Thanks to the last CAP reform, direct payments have been better targeted since 2015 thanks to different payment "layers" addressing the particular needs of young farmers, smaller farmers, specific sectors or regions in difficulties, and the environment. These changes to the structure of the direct payments system – along with provisions addressing redistribution more specifically – contribute to a more equitable payment distribution. As direct payments are mostly decoupled from production, farmers base production decisions essentially on market signals rather than attempts to maximise support payments.

The support study for the ***Evaluation of the impact of CAP measures towards the general objective of "viable food production"*** confirms that direct payments allow farmers to better cope with the negative income effects caused by drops in agricultural prices, hence contribute to the stability of farms income. Yet, despite CAP direct support, a large share (74% in 2015) of farm labour does not reach the benchmark of the average national labour productivity. Further details regarding the findings of this study can be found in Annex 9.

³⁴ These outcomes cannot be "attributed" solely to the CAP; nevertheless, the CAP makes a strong contribution to them.

³⁵ Estimated on the basis of agricultural entrepreneurial income.

Trends in the distribution of direct payments

The CAP 2014-2020 provides much greater **flexibility** to Member States for the implementation of direct payments. The 2013 reform fosters that direct payments are distributed more fairly, are "greener" to promote sustainability and combat climate change, and are better targeted for example towards young farmers, small farmers or farmers in areas with natural constraints.

Provisions addressing the issue of a **fairer distribution** of direct aids per hectare to farmers are a key element of the system.

Every year, DG AGRI publishes the breakdown of direct payments by Member State and size of payment. In financial year 2017 (claim year 2016), direct payments reached EUR 41.6 billion and represented 74% of the whole CAP; 85% of them were decoupled.

The 2018 report on the distribution of direct payments to agricultural producers (financial year 2017)³⁶ shows that, after the peaks of the enlargement, the **number of beneficiaries has been decreasing** constantly (with the exception of the financial year 2014, corresponding to the accession of Croatia in the EU) and amounted to 6.5 million holdings. This reduction in the number of beneficiaries (linked to structural adjustments that both reduce the number of farms and increase their size, and possibly due to stricter eligibility conditions), together with the increasing amounts received by the EU-N13 countries, has resulted in a smaller share of beneficiaries receiving low amounts of direct payments and thus in a higher average amount per beneficiary.

As direct payments are granted per hectare of eligible area, there is a strong correlation between the distribution of direct payments and the distribution of area between farmers. This results in larger farms concentrating the largest amounts of support³⁷ and in a high number of very small beneficiaries, reflecting the high fragmentation of the farm sector in the EU and the relative contribution of these farm groups to the economics of the sector. For financial year 2017, **nearly 50 % of the beneficiaries of direct payments had less than 5 hectares and covered less than 5 % of the total area supported** (see the figure below showing the "Distribution of EU direct support to farmers").

³⁶ See: https://ec.europa.eu/agriculture/sites/agriculture/files/cap-funding/beneficiaries/direct-aid/pdf/direct-aid-report-2017_en.pdf

³⁷ Although to a lesser extent than for the land.

DISTRIBUTION OF EU DIRECT SUPPORT TO FARMERS



Source: CATS control data (Claim year 2016)

The above figures show that the CAP is currently operating a very inclusive system of support where very small farms, having less than 5 ha, represent nearly half of the beneficiaries. The share of total farmland of these small farms is 4.66% while their share of total direct support is 5.53%.

Professional family farms managing between 5 and 250 ha represent 49.77% of farms, manage 67.41% of the farmland and receive 71.83% of the total direct aid.

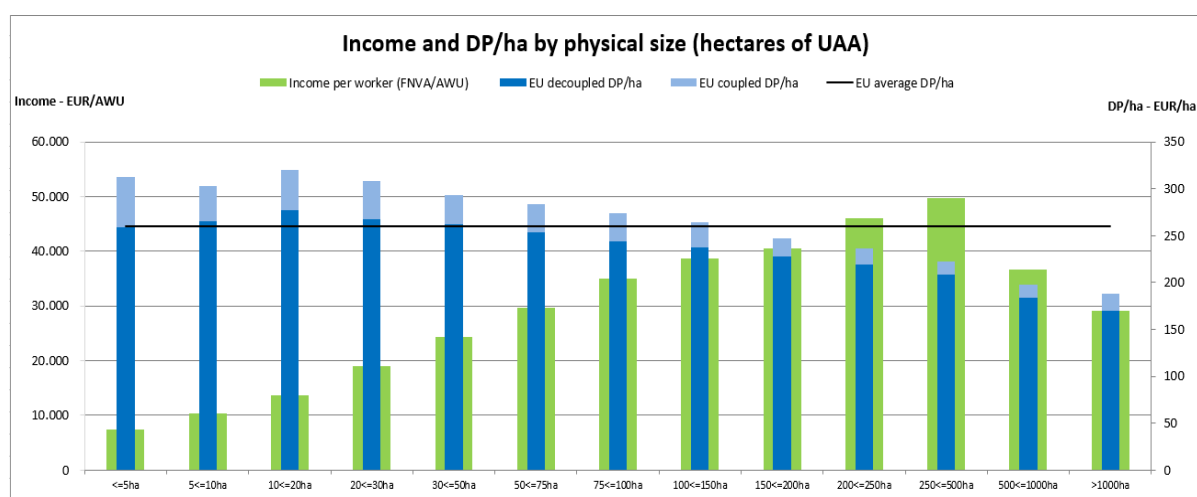
Big farms managing over 250 ha represent 1.27% of farms, manage 27.93% of the total farmland and receive 22.64% of total direct aid. Among these "big farms", the majority has between 250 and 500 ha³⁸.

³⁸ Less than 0.4% had more than 500 ha in 2015.

Redistribution of direct payments

The 2013 CAP reform introduced **several provisions for redistributing direct payments between beneficiaries**. Member States must reduce the differences between per-hectare payment levels to beneficiaries on their respective territories (this is referred to as "internal convergence"). There is also a provision to gradually adjust the envelopes per Member State in order to bring average levels of payments closer to one another between countries ("external convergence"). An active farmer clause has been put in place to exclude from support those who have only a marginal agricultural activity.

In addition, Member States must also reduce by at least 5 % the receipts above EUR 150 000 which any beneficiary obtains from the basic payment scheme or the single area payment scheme. They may even cap these receipts (Nine Member States have decided to apply a capping as from 2015). Besides, Member States have the option to redistribute up to 30 % of their direct payments national envelope to the first hectares on every farm ("redistributive payment"). In 2017, 9 Member States have implemented this scheme, using between 0.5 % and 15 % of their total expenditure for direct payments³⁹.



Source: EU FADN DG AGRI, 2015 price and structure, estimated 2019 DP

The effect of the provisions in the 2013 CAP reform to redistribute direct payments are visible in the graph 'income and DP/ha by physical size'⁴⁰ (see chart above). Small size farms, who have on average lower incomes per worker, receive on average a higher per-hectare payment. In general, direct payments per hectare decrease with increasing farm size while the income per worker increases. Furthermore, direct payments per hectare are on average higher for types of farms with low average income.

The two charts above **combined** show that the picture of the distribution of direct payments is more nuanced than currently perceived in the public. Nevertheless, targeting could still be further improved with a view to better achieving the CAP objectives.

³⁹ The options chosen by MS for the direct payments 2015-2020 are summarised in the information note available on Europa website: https://ec.europa.eu/agriculture/sites/agriculture/files/direct-support/direct-payments/docs/implementation-decisions-ms-2016_en.pdf. On the share that the product of reduction and capping represents compared to the total basic payment, please see this document p. 19 (figures for Claim Year 2015): https://ec.europa.eu/agriculture/sites/agriculture/files/direct-support/direct-payments/docs/implementation-of-direct-payments-for-cy-2015_en.pdf.

⁴⁰ For more information on the implementation of direct payments (figures for Claim Year 2016) see https://ec.europa.eu/agriculture/sites/agriculture/files/direct-support/direct-payments/docs/implementation-direct-payments-2016-summary_en.pdf

Direct payments' stabilising effect is supplemented by **market instruments**, which now operate at a "safety net" level, instead of frequently steering the EU market as they once did.

Rural development policy lifts the economic resilience of both the farm sector and non-agricultural businesses through support for setting up in business, business development and diversification, building knowledge, making investments, establishing (and getting connected to) infrastructure and services (including in relation to ICTs – see section 1.2), pursuing innovation and working with others in new ways.

Key targets⁴¹ aggregated from the 2014-2020 rural development programmes (RDPs) include the following:

- 3.8 million training places to be funded;
- 14 000 co-operation projects to be supported;
- More than 331 000 holdings to invest in restructuring or modernisation;
- 178 000 holdings with supported business development and investments for young farmers;
- 216 000 farms to become involved in quality schemes, short supply chains, local markets or producer groups/organisations;
- 593 000 farms to be covered by risk management schemes;
- 113 900 non-agricultural jobs to be created, of which:
 - 76 400 from the creation, diversification and other development of small businesses;
 - 44 000 through the LEADER approach to local development;
- 48 million rural citizens to benefit from improved services.

Latest data are collected from the Annual Implementation Reports 2017 (submitted in 2018). The data on the implementation in 2018 will become available in the second half of 2019⁴².

The **support study for the synthesis of Rural Development Programmes (RDP) ex-post evaluations of period 2007-2013** found that the three RDP objectives were achieved to a moderate (Improving the competitiveness of agriculture and forestry; Improving the environment and countryside) or at least limited (Improving quality of life in rural areas and encouraging diversification of the rural economy) extent. Overall, effectiveness varies from measure to measure. Further details regarding the findings of this study can be found in Annex 9.

⁴¹ Certain targets have been updated because of modifications in Rural Development programmes. Member States have the possibility to adjust their strategy, and this decision may have implications on the quantification of targets.

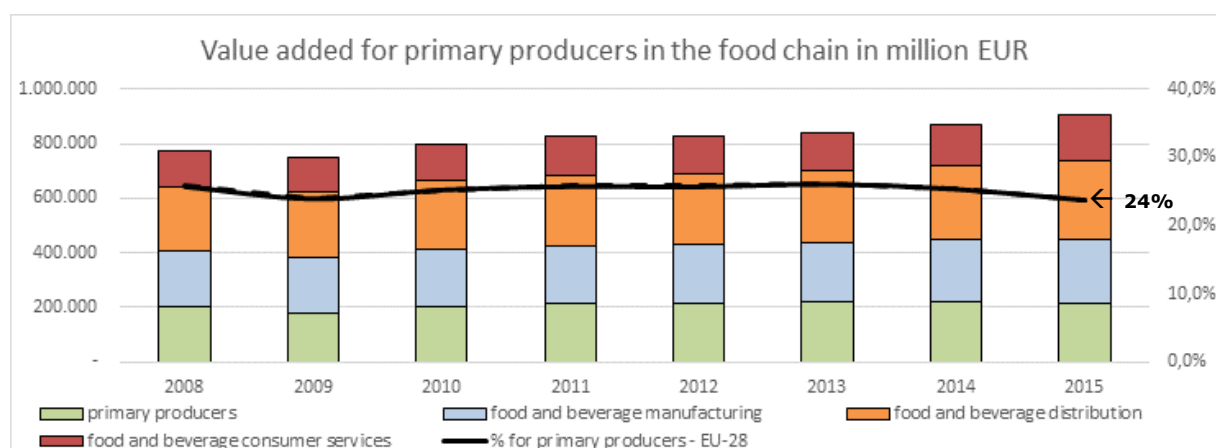
⁴² Figures for support by 17/02/2019 are the following: Training places: 1 057 714; co-operation projects: 1 974; holdings to invest in restructuring or modernisation: 80 903; holdings with supported business development and investments for young farmers: 52 047; farms to become involved in quality schemes, short supply chains, local markets or producer groups/organisations: 47 686; farms to be covered by risk management schemes: 125 448; non-agricultural jobs from the creation, diversification and other development of small businesses: 6 578; non-agricultural jobs through the LEADER approach to local development: 4 157; rural citizens to benefit from improved services: 36 million.

What supporting steps did the DG take in 2018?

Improving the farmer's position in the food supply chain

The common agricultural policy is progressively paying more attention to the functioning of the food supply chain. Because of the fragmentation of the primary sector in relation to the concentrated food processing and distribution sectors, changes are needed to guarantee a regulatory environment that positively enables the profession of farming and preserves its viability.

Actions to improve the farmers' position in the value chain also play a key role in safeguarding generational renewal; they are increasingly seen as an important component of a common agricultural policy, one complementary to Direct Payments, Rural Development and crisis measures.



Source: DG AGRI (calculations based on Eurostat EAA and SBS data)

The rules adopted in the **Omnibus initiative** (which entered into force on 1 January 2018) improve the legal possibilities of **agricultural producers to act collectively** in the food supply chain.

Additionally, the Commission has taken other measures to enhance **market transparency**: the four market observatories (milk, meat, arable crops, sugar) created in the previous years have continued to meet and deliver, as recommended by the Agricultural Markets Task Force. DG AGRI has activated a data portal that includes timely market information for some sectors in a pilot phase⁴³ and organised two workshops on market transparency (academic workshop with JRC in May 2018 and stakeholders workshop in September 2018).

After several years of preparation, the Commission adopted a proposal for a Directive in the area of **unfair trading practices** on 12 April 2018, accompanied by an impact assessment. The institutions reached a political agreement in December 2018, eight months after the Commission's proposal.

The directive aims at protecting weaker operators in the food chain from unfair trade practices and will thus contribute to a better functioning food chain and a rebalancing of market power along the chain.

⁴³ https://agridata.ec.europa.eu/extensions/DataPortal/agricultural_markets.html

The Directive protects against 16 specific unfair trading practices, such as

- payments later than 30 days for perishable agricultural and food products;
- short-notice cancellations of perishable agri-food products;
- unilateral contract changes by the buyer;
- refusal of a written confirmation of a supply agreement by the buyer, despite request of the supplier; and
- commercial retaliation by the buyer.

Furthermore, the proposal of the CAP post-2020 has included a specific objective in order to improve the farmers' position in the value chain, and has streamlined some of the existing initiatives (such as the support to producer organisations) under a more efficient and performance-oriented framework.

EU added value Unfair Trading Practices

Currently, no common EU framework exists yet which would provide a minimum European standard of protection by approximating or harmonising Member States' diverging UTP measures. In the absence of such a framework, certain Member States have no rules on UTPs and others do not address important aspects of effective UTP enforcement. This leads to under-protection of vulnerable operators, in particular agricultural producers, against UTPs. EU legislation targets the problem by providing for a common minimum standard of protection in the EU, including enforcement and coordination aspects.

The added value of EU action was confirmed by the replies to the public consultation on the CAP post 2020: 96 % of the respondents agreed with the proposition that improving farmers' position in the value chain including addressing UTPs should be an objective of the EU's Common Agricultural Policy.

The voluntary initiatives and national measures so far have not or only to a limited extent been able to bring about a guaranteed level of minimum protection against UTPs including enforcement and coordination.

The Directive will address the problem of under-protection against UTPs and have a deterrent effect. The complementary character of EU measures in relation to existing voluntary and Member States rules will respect subsidiarity and have a reinforcing impact.

Plant proteins

In November 2018, the European Commission adopted its report on the development of **plant proteins** in the European Union.

The report reviews the supply and demand situation for plant proteins (such as soya, pulses, oilseed meals or lentils) in the EU and explores ways in which to further develop their production in an economically and environmentally sound way. It presents a number of existing policy instruments and new policy proposals, which can contribute to realise the economic and environmental potential of protein plants in the EU. These include:

- Supporting farmers growing plant proteins via the proposed future CAP, by including them in national CAP strategic plans, in particular through rewarding the benefits of legumes for environment and climate objectives through eco-schemes and environmental/climate management commitments under rural development programmes; mobilising rural development support e.g. to stimulate investments and cooperation along the food chain; coupled income support; knowledge transfer through farm advisory services;
- Boosting competitiveness through research & innovation from EU and Member States' research programmes and the doubling of the agri-food budget of the Horizon Europe programme for 2021-2027;
- Improving market analysis and transparency through better monitoring tools;
- Promoting the benefits of plant protein for nutrition, health, climate and environment with the support of the Commission's promotion programme, amounting to close to EUR 200 million;
- Improve knowledge sharing/best practices in supply chain management and sustainable agronomic practices through a dedicated online platform for example.

There is a high demand for plant proteins in Europe, amounting to around 27 million tonnes of crude protein in 2016/2017 and the EU's self-sufficiency rate varies substantially depending on the source (79% for rapeseed and 5% for soya, for example). As a consequence, the EU imports annually around 17 million tonnes of crude protein of which 13 million are soya based. However, there are positive trends: the soya area in the EU has doubled to almost one million hectares since the CAP reform in 2013. Similarly, in the case of pulses (field peas, faba beans, lentils, chickpeas), production has almost tripled in the EU since 2013.

While animal feed remains the most important outlet (93%), the market for plant proteins has experienced considerable segmentation, with growing demand in high-value feed and food sectors.

Other market-related actions

DG AGRI took action through many of the main instruments of the CAP, in particular through market stabilisation tools.

In 2018, the market situation was on average better than in the previous years. Market stabilisation tools were therefore less mobilised than during 2014-16 when the Russian embargo in particular impacted on markets.

The exceptional temporary measure in the **fruit and vegetables sector** was extended until end June 2018. In view of the time elapsed (over 4 years) since the Russian embargo, the measure had lost its emergency support character and become a parallel support system, competing with the mainstream producer organisations' support. This measure was discontinued in 2018.

In the **dairy sector**, the challenge was like in the previous year to ensure the smooth sale of skimmed milk powder (SMP), bought in 2015, 2016 and 2017, back onto the market. The SMP market improved substantially in 2018 and significant volumes were released from intervention stocks as of April. In view of the increasing interest of operators for the stocks, the frequency of the tenders was doubled to twice per month from October. In parallel with the release of 277 000 tonnes (73% of the stocks) by the end of the year, SMP prices improved by more than 30% (SMP was, together with whey powder, the dairy product showing the biggest price increase in 2018). Eventually, the stocks were virtually depleted following the two tenders operated in January 2019.

With regards to buying-in of SMP during the 2018 public intervention period, a tender was operated from March to September (following the setting to zero of the ceiling under which intervention takes place at fixed price). Offers were lodged only in the first two periods, for a total quantity of some 2 600 tonnes, and were all rejected.

Public intervention of SMP has proven to be an effective tool, especially when used in a responsible and effective manner. It also illustrates that the Common Agricultural Policy contains an effective safety net in the event of such market disturbance as we saw in the years 2014-2016.

Sugar quotas ended in 2017, in a context of a large EU harvest and ample world supplies, which led to significant price decrease in 2018, still dominating the situation in early 2019. With a more reduced 2018/19 harvest and prospects for improved conditions on the world market, the situation may not aggravate further and prices are likely to recover. However, the Commission will continue to closely monitor the sugar market developments, with the support of the sugar market observatory. A high-level group on sugar to discuss issues related to the sector was also launched in 2018.

Animal health issues continued to influence market developments in 2018. **African Swine Fever** outbreaks occurred in one additional Member State (Belgium) in 2018, although it has been contained to date. Earlier outbreaks of Avian Influenza justified specific exceptional market measures to be continued or taken in 2018 (in France and Italy).

In October 2018, the Commission hosted a meeting to take stock of achievements under the **EU school fruit, vegetables and milk scheme** after its first year of implementation. The meeting gathered representatives from EU institutions, national governments and other public and private bodies involved: business, trade organisations, environment and health NGOs, as well as civil society. It showed lessons learnt and good practice, including concrete examples of the enhanced health and educational dimension.

In the framework of the legislative proposals for the CAP post 2020, the CAP Strategic Plans include the interventions needed to implement the **sectoral programmes** of fruit and vegetables, apiculture, wine, hops, olive oil and table olives as well other sectors. This would ensure a higher synergy and consistency with the other CAP types of intervention.

Direct payments

In 2018, DG AGRI developed concepts and methods for improving farming income support in the future, in particular concerning the targeting and distribution of direct payments. This materialised in the proposal for a Regulation on the future CAP (rules on support for Strategic Plans, COM(2018)392/2 of 1.6.2018) which includes the following types of interventions under direct payments:

- Basic income support for sustainability (BISS),
- Complementary redistributive income support for sustainability (CRISS),
- Complementary income support for young farmers (CISYF),
- Voluntary schemes for the climate and the environment "eco-schemes" and
- Coupled income support.

In addition, the reduction (including capping) of all direct payments aims to ensure a fairer distribution of income support.

The improvement of the distribution of CAP support is also part of the CAP objectives put forward in the post-2020 proposals, which will be assessed on the basis of common indicators related to output, result and impact.

Other activities carried out by DG AGRI in 2018 on direct payments included adapting secondary regulations following the adoption of the "Omnibus" Regulation and continuing to collect and analyse data on the implementation of direct payments, with a view to identify successes and failures and to share information with Member States.

In relation to the Integrated Administration and Control System (IACS), a significant development in 2018 was the introduction of "checks by monitoring" whereby Member States can replace on-the-spot checks of agricultural areas claimed for aid with automated, continuous monitoring of those areas based on the freely available satellite images from the Sentinel family of satellites under the EU Copernicus programme. With the legal provisions and technical support now in place, the monitoring approach offers significant simplification and streamlining of Member States' administration and control systems and will reduce costly inspections in the field.

Attracting young farmers

The proportion of younger farmers continues to be low in most European countries. In 2016, only 5.1% of farmers were 35 years or younger. The current CAP addresses this issue by providing tools to attract young farmers and facilitate their business development.

More precisely, the mandatory Young Farmer Payment (YFP), available under Pillar 1, provides an enhanced income support to newly established young farmers during their initial setting up period (a period of 5 years) which is generally characterized by a higher income risk and structural adjustment needs.

In Claim Year 2017, more than 360.000 newly set-up young farmers, which correspond to almost 5.8% of all direct payment beneficiaries in the EU, benefited from this additional top-up payment.

The young farmer payment contributed to increase their income by more than EUR 390 million. We observe a gradual increase in the period 2015-2017: the number of YFP beneficiaries increased by 28% whereas the support granted under YFP increased by 17%. The share of direct payments beneficiaries benefiting from the YFP increased from 4.3% in 2015 to 5.8% in 2017.

Further to the above, newly setting young farmers below the age of 40 benefit from priority access to the national reserve for payment entitlements so that they can access direct payments for the first time. This is important for young farmers who do not have payment entitlements under the Basic Payment Scheme, who have less payment entitlements than hectares of agricultural land or who have low value payment entitlements.

Under Pillar 2, the Business start up support for young farmers facilitates the setting up of young farmers and the structural adjustment of their holdings by providing cash flow and financial security during the first five years of farming. The support is conditional to the correct implementation of a business plan and to minimum requirements in terms of training and skill acquisition.

For the programming period 2014-2020, it is foreseen to support more than 181 000 young farmers. By the end of 2017, more than 51 000 young farmers or some 28% of the above-mentioned target have already benefited from this support. 38% of supported young farmers are women. Compared to the results stemming from the previous Annual Implementation Reports (7% of the target achieved), significant progress in 2017 towards the achievement of the target can be noted.

Attracting young farmers and facilitating their business development will be one of the main priorities of the Common Agricultural Policy post-2020. The legal proposals for the future CAP introduce changes to make the system more consistent, flexible and better targeted and funded.

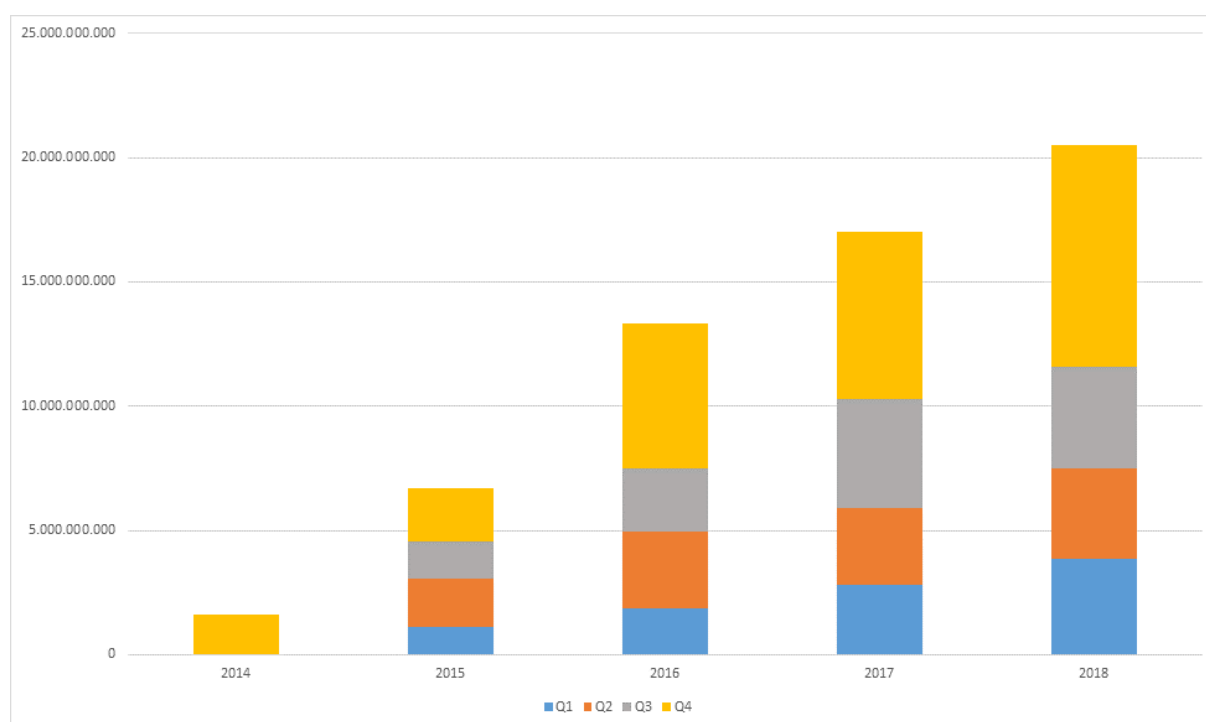
Taking into account that the key barriers to access the sector fall under the competence of the Member States, Member States would have to explain in the future CAP Strategic Plans the interplay with national instruments with a view of improving the consistency between Union and national actions: notably access to land, access to finance / credit and access to knowledge and advice. It will be important to describe how national instruments, e.g. taxation, inheritance law, regulation of land markets or territorial planning, interplay with EU-supported interventions for young farmers.

Rural Development

The implementation of area and animal-related support in 2014-2020 (e.g. related to environmental commitments) is quite well advanced, and with the introduction of the payment deadlines to the beneficiaries as of claim year 2019, the process will become smoother and more stable. Some delays are still observed in relation to those measures that can take several years to be completed, such as long-term investments (e.g. broadband, other infrastructures) or business start-up conditional to the implementation of a business plan (e.g. setting-up of young farmers, which can take up to five years to be "completed"). Significant progress in the implementation of those measures has been reached in the last year and is expected to further increase in the next years.

Overall, the screening of the Annual Implementation Reports confirms a steady acceleration in spending levels compared to the first years of implementation. This situation has permitted to catch up the initial delays linked to the relatively late starting of the 2014-2020 RDPs. In January 2019, spending levels reached 39 % of total EAFRD resources⁴⁴, matched by 50 % in terms of commitments over planned total public expenditure. The latest figures indicate that, among the ESI Funds, the progress in EAFRD-related expenditure is progressing relatively well. With programme implementation having now reached their cruising speed, the situation is likely to further improve in the next years, as shown in the following graph.

Evolution of RD reimbursement claims by the Member States
(total Union contribution, billion EUR on 31/01/2019)



Source: Rural Development Quarterly declarations of expenditure

⁴⁴ Q4 2018 is paid from budget 2019

In order to continue the support of farmers in areas facing natural constraints (ANC), a new delimitation of areas with natural or other specific constraints in the European Union was implemented in the last years, mainly in 2018. DG AGRI has developed together with the Joint Research Centre (JRC) a procedure to assess the new delimitation of the Member States. JRC supported DG AGRI in this politically very sensitive and technically complex procedure with its high-level expertise.

The legislative proposal on the CAP Strategic Plans take into account the main lessons learnt from the current Rural Development period, reducing the level of prescription of the interventions and improving the synergies with the instruments of the CAP (i.e. direct payments and sectoral programmes). The new CAP Strategic Plans will have to pay a specific attention to attracting young farmers and will also promote employment, growth, social inclusion and local development in rural areas. The future CAP plans will include the following types of interventions, funded by the EAFRD:

- environmental, climate and other management commitments;
- natural or other area-specific constraints;
- area-specific disadvantages resulting from certain mandatory requirements;
- investments;
- installation of young farmers and rural business start-up;
- risk management tools;
- cooperation;
- knowledge exchange and information.

DG AGRI in 2018 pursued its **State aid** control to safeguard the internal market, while also ensuring that national subsidies comply with the EU State aid rules playing their role in addressing market failures and ensuring a well-functioning and equitable economy in the agriculture and forestry sectors. To this same end, DG AGRI launched the ***support study for the evaluation of the instruments applicable to State aid in the agricultural and forestry sectors and in rural areas***⁴⁵ to assess the rules of the agricultural State aid framework 2014-2020 regarding eight aid measures. The study examines the choices made by the Member States with regards to State aid clearance and the appropriateness of the rules set forward, their efficiency, effectiveness (in terms of balance of positive effects with the negative effect on competition and trade within the internal market) and coherence. The study finds that for compensatory agricultural risk management measures, State aid responds to needs of the agricultural sector and addresses market failures specific to the different events. Further details regarding the findings of this study can be found in Annex 9.

DG AGRI has furthermore launched a **study on Risk management in EU agriculture** which was published in 2018⁴⁶. This study analysed the risks farmers are confronted with and assessed the design and possible deployment of different tools that can address these risks. Further details regarding the findings of this study can be found in Annex 9.

⁴⁵ https://ec.europa.eu/agriculture/evaluation/market-and-income-reports/state-aid-agriculture-forestry_en

⁴⁶ https://ec.europa.eu/agriculture/external-studies/2017-risk-management-eu-agriculture_en

Despite the positive performance of the agricultural sector and its contribution to the Commission Objective on "jobs, growth and investments", there are still important challenges that need to be addressed in the following years: farmers' income is still lagging behind salaries in the whole economy and remains dependent on direct support (around 46% of the income of the EU farming community depends on direct support); also, the EU Agricultural Outlook points to an agricultural income decline in real terms up to 2030 at sectoral level (but income per agricultural working unit is expected to increase driven by the continuous labour outflow from agriculture); furthermore, the sector continues to face low profitability - due inter alia to the EU's high production standards, high costs of production factors and the fragmented structure of the primary sector.

In that context, the proposals for the CAP post-2020 will aim, among other objectives:

- a) to support viable farm income and resilience across the Union to enhance food security⁴⁷;
- b) to enhance market orientation and increase competitiveness, including greater focus on research, technology and digitalisation; and
- c) to improve the farmers' position in the value chain.

⁴⁷ A Brief has been published in order to analyse and explain this specific objective: https://ec.europa.eu/info/sites/info/files/food-farming-fisheries/key_policies/documents/cap_specific_objectives_-_brief_1_-_ensuring_viable_farm_income.pdf

EU added value
Intellectual property rights held in geographical indications

The Commission continued to manage the exclusive EU registers protecting the intellectual property rights of farmers and producers of agricultural products, foodstuffs and beverages held in geographical indications (GIs). By the end of 2018, the Commission had registered 3405 GIs and protected a further 1534 GIs and names of origin pertaining to goods of non-EU countries through bilateral agreements.

The Commission proposal of June 2018 to enhance and simplify protection of GIs in the sectors of agricultural products and foodstuffs, wines and aromatised wines will significantly streamline the management of the EU registers by simplifying the GI systems and ensuring faster registration of GIs. Important clarifications are also proposed concerning protection of GIs on the internet and on goods in transit through the EU customs territory.

The political agreement reached in November 2018 between the Council and the EP on the Commission's proposed Spirit Drinks regulation will provide for a functioning register for GIs in the spirit drinks sector and clarification of protection for GIs in electronic commerce, when used in ingredient labelling, in conflicts with trademarks, and on goods in transit.

As regards wine GIs, simplification approach for GI procedures in the delegated and implementing acts, adopted in October 2018, represents a substantial improvement in terms of efficiency of the system and protection of the interests of the EU wine sector.

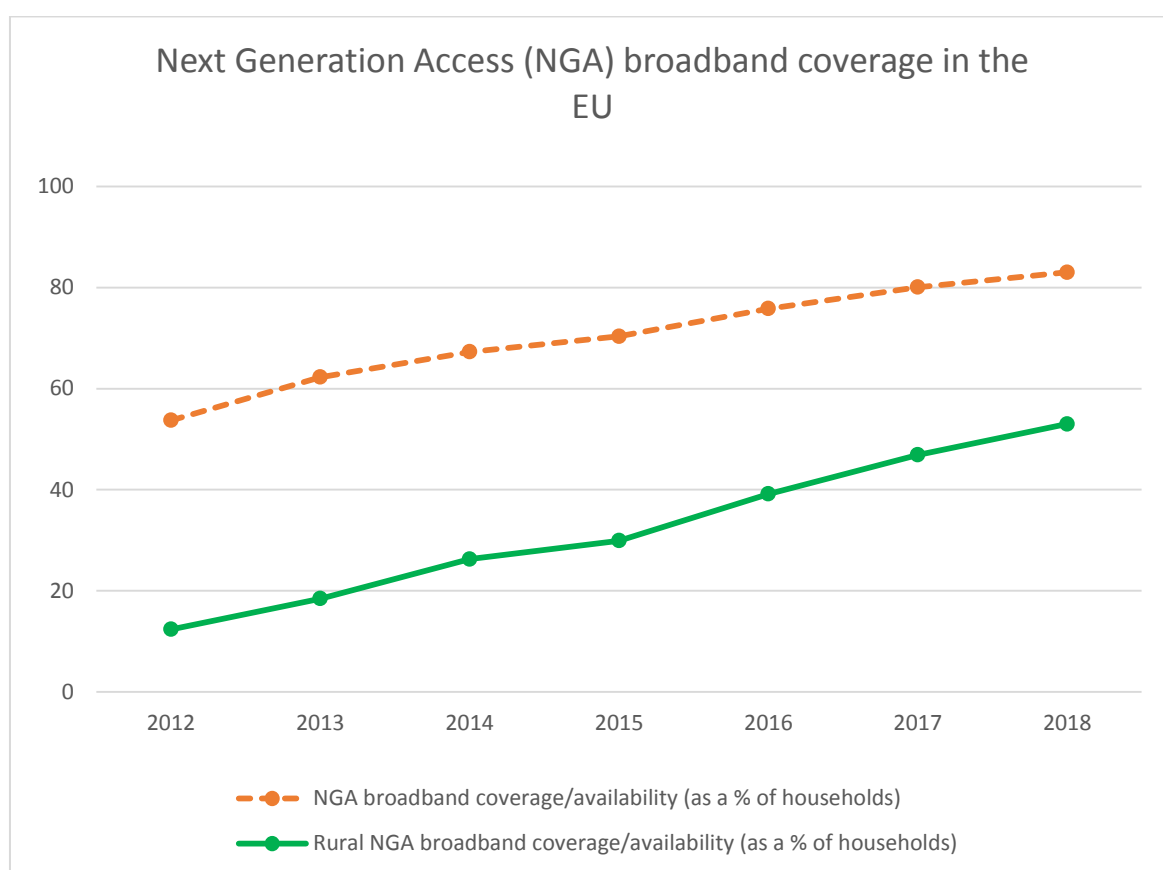
1.2 Commission General Objective 2: Digital Single Market

What are the key outcomes to be reported?

Broadband access in rural areas continues to improve, but is lagging behind urban areas

At the end of 2018, 53 % of rural⁴⁸ households had next generation access⁴⁹ compared to 83 % of total EU households. There is a clear improvement on last year's situation (47%:80%), in particular in rural areas, but is still clear that closing the connectivity gap of rural areas with regard to New Generation Access remains a challenge.

The percentage of rural households that have fixed standard coverage⁵⁰ is 87% and is the same as in 2017 with an improvement from 80% in 2011.



Source: European Commission, Digital Scoreboard (<https://ec.europa.eu/digital-single-market/digital-scoreboard>)

⁴⁸ Rural areas are defined here as areas with less than 100 people per km². There is no reporting on urban coverage.

⁴⁹ Next Generation Access includes the following technologies: FTTH, FTTB, Cable Docsis 3.0, VDSL and other superfast broadband (at least 30 Mbps download).

⁵⁰ Rural standard fixed broadband coverage (as a % of households): Percentage of Households living in areas served by xDSL, cable (basic and NGA), FTTP or WiMax networks.

Why is this outcome important?

Broadband internet access is important for rural businesses in general, efficient provision of public services and the general attractiveness of life in the countryside. It helps improve agricultural competitiveness, by creating the underlying conditions necessary for innovation and digital transformation, for instance by paving the way for the use of precision farming.

How closely is the outcome linked to the CAP?

The level of broadband access depends significantly on general developments in telecoms markets (and finance from other policy tools – including the European Regional Development Fund). The CAP plays its part by offering explicit support for setting up, expanding and improving broadband infrastructure, as well as for the provision of broadband internet access (i.e. improved connections to infrastructure), and access to e-government. According to targets aggregated from the 2014-2020 RDPs, in the current programming period, the CAP will help 18 million people living in rural areas to benefit from improved access to ICT services and infrastructure.

What supporting steps did the DG take in 2018?

In 2018, DG AGRI continued to work closely with DG REGIO, CNECT and COMP to further develop the **network of Broadband Competence Offices** (BCOs) in Member States and their regions, as well as a Brussels-based Support Facility, contracted and managed by DG AGRI.

- The BCOs ("one stop shops" for technical support on ways to invest effectively in broadband projects and improve broadband access) help businesses and individuals to access more easily the various support possibilities offered by EU funds under the umbrella of the Digital Single Market, and specifically to widen next-generation broadband access in rural areas. By the end of 2018, the BCO network was made of 28 National and 87 Regional BCOs. It will be further developed and completed in 2019 with the focus to adding more regional offices to the network.
- The BCO Network Support Facility (SF) connects European BCOs in a network in order to promote knowledge exchange, overcome broadband project hurdles and build capacity in the areas of funding, planning and policy. The Support Facility has gone live following the signature of the necessary contracts by DG AGRI at the end of 2016. A number of deliverables such as training courses, thematic groups, publications and videos are being produced by the SF to support and animate the network and to promote the setting up of national and regional BCOs. The contract has already been renewed twice.

In the margins of the Broadband Days in November 2017, the Commission launched an **"Action Plan for Rural Broadband"**, a coordinated set of actions with concrete deadlines to ensure that the specific difficulties in rolling out broadband in rural areas are addressed, thus contributing to overcome the rural-urban digital gap. In close cooperation with REGIO, CNECT and COMP, DG AGRI is implementing the Action Plan which is subject to regular reporting to the Digital Single Market Project Team of Commissioners.

In 2018 DG AGRI participated in 5 broadband missions (to HR, BG, SK, CZ and RO) and prepared and presented the "rural proofing checklist", a tool aiming to prevent the transferring of funds originally allocated to broadband actions in rural and remote areas to other non-rural or non-broadband related projects without proper guarantees.

The work on the Action Plan will carry on in 2019 with the continuation of the broadband missions and the presentation of a "handbook" of best practices of rural broadband projects.

In April 2017, Commissioners Hogan, Crețu and Bulc launched the "**EU Action for Smart Villages**". Building on the "Smart Cities" concept, the initiative is a compilation of actions that the Commission is taking to promote the use of digital and innovative solutions in providing jobs and business opportunities in agriculture and other sectors in the rural economy as well as better services for rural citizens. A number of events and working groups related to digitisation of agriculture and rural areas and smart rural services and innovation were held in the course of 2018. The pilot project on "Smart Eco-Social Villages", which was launched towards the end of 2017, is carrying out a study elaborating the concept of smart villages and analysing best practice examples for communities wishing to develop their own Smart Village strategies. The final report will be delivered to the Commission in April 2019. Furthermore, a preparatory action for smart villages in view of preparing for the post 2020 policy framework is under preparation. The call for tenders will be launched in spring 2019.

In the last EU Agricultural Outlook conference, on 6 and 7 December 2018, one of the main topics of the conference was Farming 4.0. More precisely, several examples showing how digitalisation helps already farmers to reach CAP objectives were shared with an audience of more than 600 participants. A strong highlight was how to improve environmental sustainability with digitisation but also how to simplify the life of farmers and the administration with CAP support declarations. It was also an occasion to fight back the *a priori* that digitisation is only for large farmers since today the main tool is mobile phone. However, it came out regularly also in the exchange with the audience, that access to broadband is still a bottleneck in some rural areas.

EU added value
Broadband Competence Offices

The Broadband Competence Offices (BCO) Network is a voluntary initiative launched by the Commission in 2016. The initiative is a key part of the EU Rural Broadband Action Plan aimed at assisting Member States' authorities in charge of the deployment of next generation broadband networks, especially in the rural and remote regions that are often unattractive to private investors.

The BCO network is supported by a contractor (BCO Support Facility), providing media, communication, networking activities and carrying out administrative tasks to the network members. At EU level, the budget for the BCO Support Facility activities is up to EUR 880 000 per year, financed by the technical assistance budgets of the three involved Commission services, as published in the relevant Commission's financing decisions; the final amount depends on the number of activities requested by the Commission.

Within two years of the existence of this network, the number of Broadband Competence Offices has increased from 15 at the beginning of 2017 to 115 (28 national and 87 regional offices) at the end of 2018. These one-stop-shops offer advice on broadband deployment, investment models, state aid issues and have created a platform of exchange among national and regional administrations and Commission experts from several fields.

The success of the initiative is such that even some non-EU Member States have requested to become part of the network.

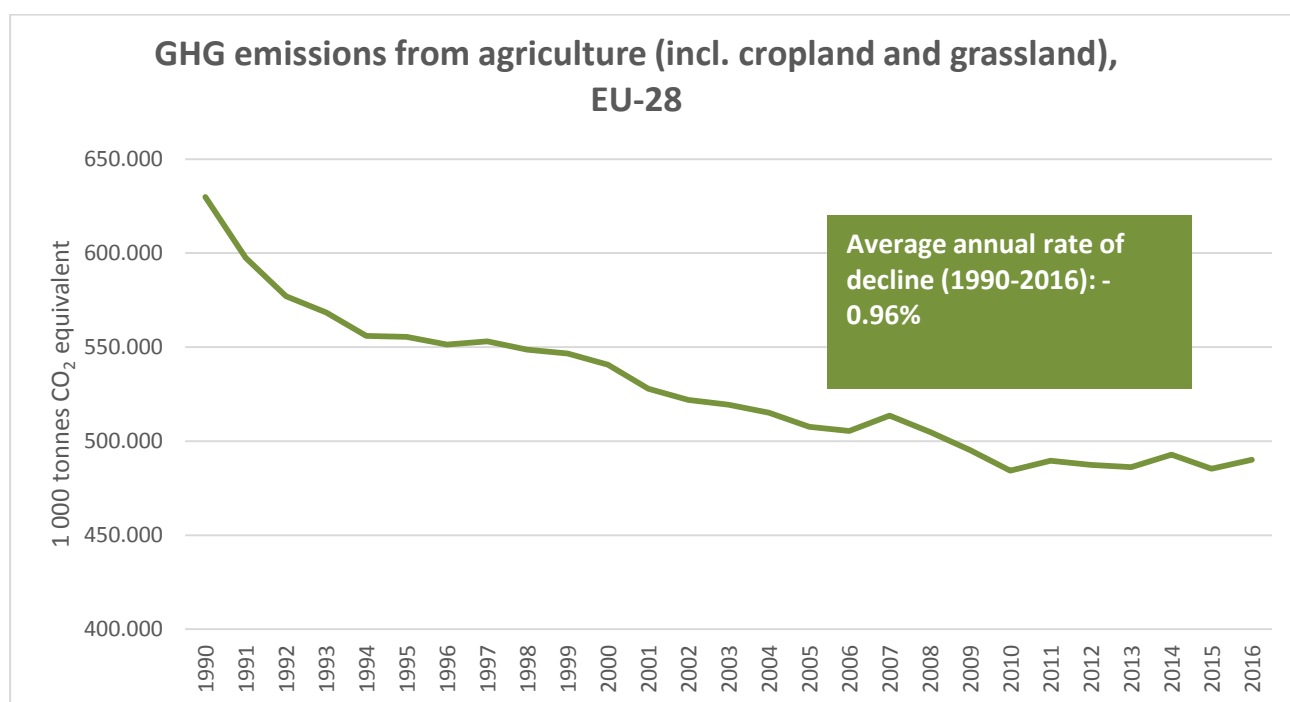
1.3 Commission General Objective 3: Energy Union and Climate

What are the key outcomes to be reported?

1. The long-term decrease in greenhouse house gas emissions from agriculture has slowed down in recent years

Greenhouse gas emissions (GHG) from agriculture⁵¹ have declined substantially between 1990 and 2010. Since then, emission levels appear to be relatively stable.

Between 2015 and 2016, there was an increase in emissions from cropland and a smaller one from enteric fermentation (details below).



Source: Annual European Union GHG inventory (see chart on GHG emissions from agriculture by subsector for details).

⁵¹ The indicator measures **net GHG emissions from agriculture including agricultural soils:**

1. *Aggregated annual emissions of methane (CH₄) and nitrous oxide (N₂O) from agriculture* reported by Member States under the 'Agriculture' sector of the national greenhouse gas inventory submitted to the United Nations Framework Convention on Climate Change (UNFCCC).

That sector includes the following sources of GHG from agriculture

- enteric fermentation of ruminants (CH₄) – UNFCC Sector 3.A;
- manure management (CH₄, N₂O) – UNFCC Sector 3.B;
- rice cultivation (CH₄) – UNFCC Sector 3.C;
- agricultural soil management (mainly CH₄, N₂O) – UNFCC Sector 3.D.

2. *Aggregated annual emissions and removals of carbon dioxide (CO₂), and (where these are not reported under the agriculture inventory) emissions of methane (CH₄) and nitrous oxide (N₂O) from agricultural land uses (grassland and cropland),* are reported by Member States under the 'Land Use, Land Use Change and Forestry' (LULUCF) sector of the national GHG inventory to the UNFCCC:

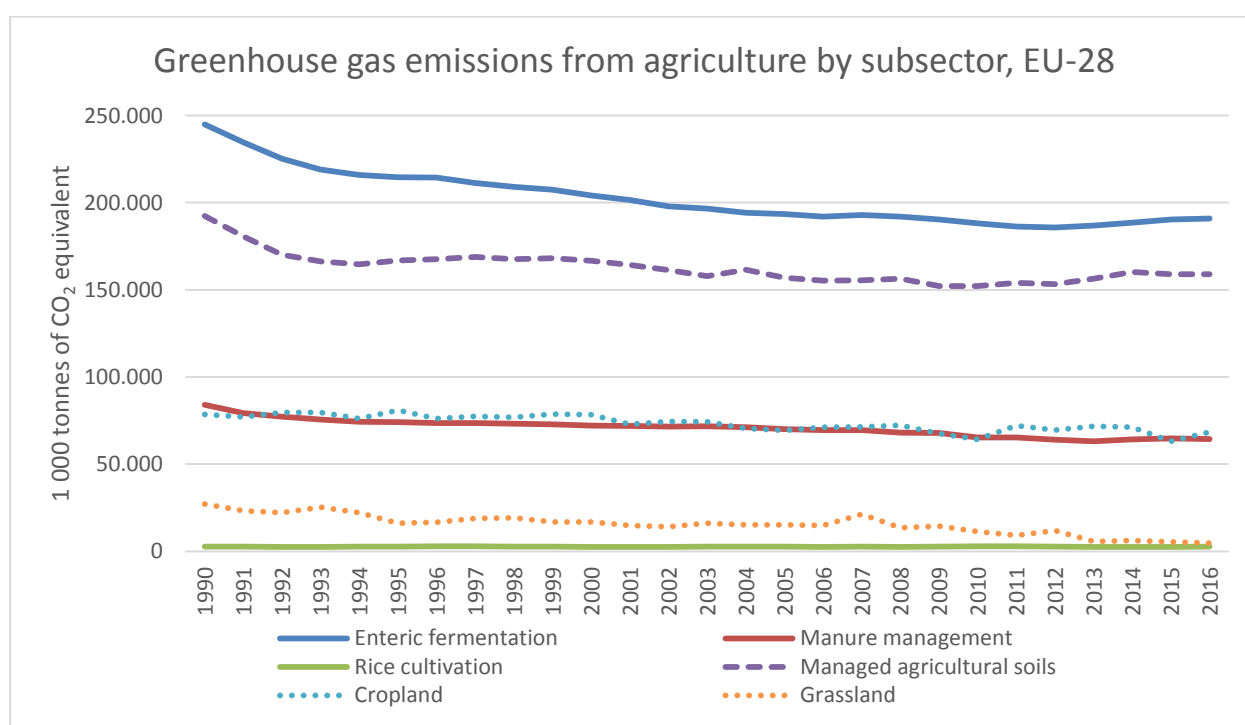
- Grassland – UNFCC Sector 4.C;
- Cropland – UNFCC Sector 4.B.

Emissions of CO₂ from the energy use of agricultural machinery, buildings and farm operations, which are included in the 'energy' inventory under UNFCCC, are not included in this indicator.

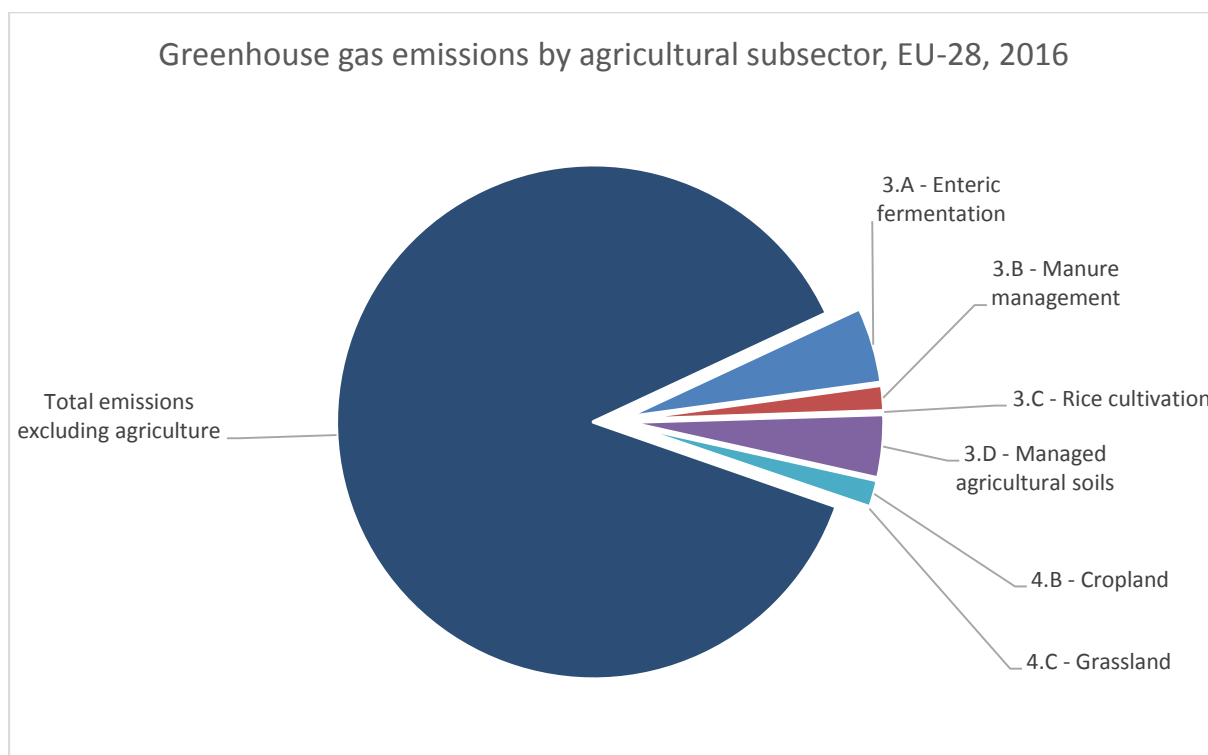
Values have changed compared to figures published in 2016 AAR because the EEA has updated figures also for previous years.

Emissions from agriculture (including croplands and grasslands) account for roughly 11.9 % of total EU GHG emissions. Enteric fermentation and agricultural soil management are the two main components of agricultural emissions. Total emissions from agriculture have declined by more than 20 % since 1990, mainly thanks to the combination of reduced nitrous oxide emissions from agricultural soil management that decreased by 17 % largely due to a decline in the use of nitrogenous fertilisers, and reduced methane enteric fermentation emissions that decreased by 22 %, due to an overall reduction in livestock numbers (cattle and sheep). Between 2010 and 2016, a slight increase of GHG emissions (1.2%) was observed for the categories "enteric fermentation", "agricultural soils" and "cropland". This is mainly due to an increase of the EU cattle herd, an augmented use of fertiliser as well as the farm management of cropland.

DG AGRI continues to closely monitor the evolution of this indicator and the future CAP will also pay specific attention to it.



Source: Annual European Union GHG inventory. The inventory is based on national submissions to the United Nations Framework Convention on Climate Change (UNFCCC) and to the EU Monitoring Mechanism of CO₂ and other GHG emissions. It is compiled and held by the European Environment Agency (EEA) and the European Topic Centre on Air and Climate Change (ETC/ACC). The European Union (EU) as a party to the UNFCCC reports annually its greenhouse gas inventory for the year t-2 and within the area covered by its Member States. The EEA publishes the validated GHG inventory data annually in June. Eurostat re-publishes the data shortly thereafter.

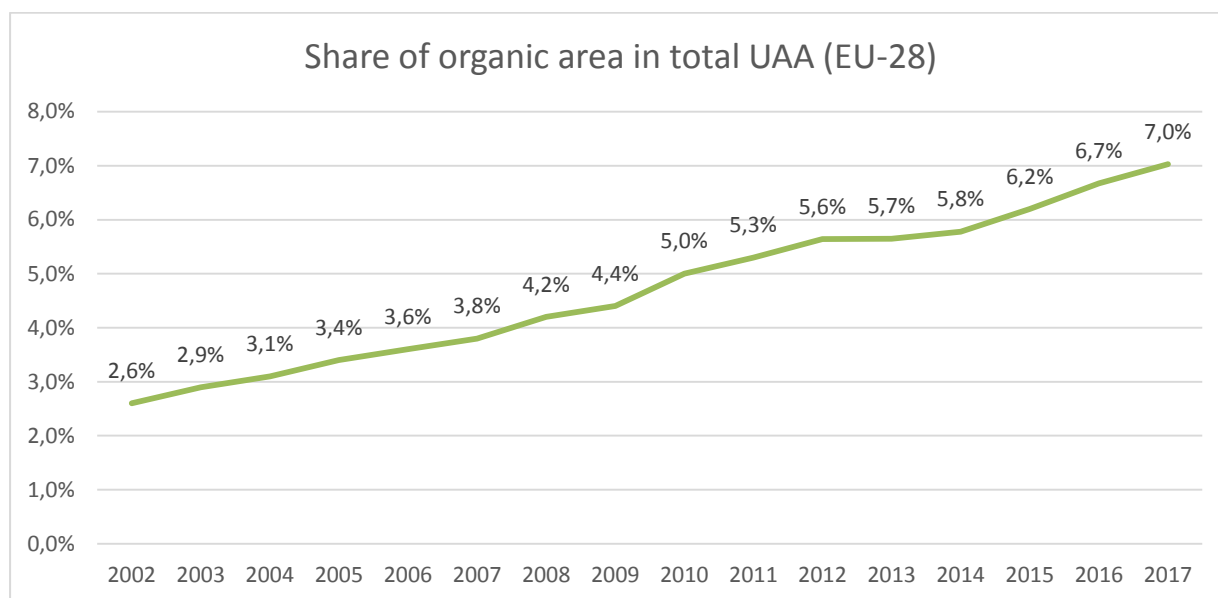


Source: Annual European Union GHG inventory. The inventory is based on national submissions to the United Nations Framework Convention on Climate Change (UNFCCC) and to the EU Monitoring Mechanism of CO₂ and other GHG emissions. It is compiled and held by the European Environment Agency (EEA) and the European Topic Centre on Air and Climate Change (ETC/ACC). The European Union (EU) as a party to the UNFCCC reports annually its greenhouse gas inventory for the year t-2 and within the area covered by its Member States. The EEA publishes the validated GHG inventory data annually in June. Eurostat re-publishes the data shortly thereafter.

2. Organic farming continues to be taken up by farmers⁵²

In 2017, 7 % of the EU's utilised agricultural area (UAA) was being farmed organically, corresponding to 12.8 million ha, going up from 10.1 million ha in the baseline year of 2012, when the share was 5.6 %.

Evolution of the share of the organic area in the UAA in the EU



Source: Eurostat

3. A large portion of EU agricultural area is being farmed according to specific eco-friendly practices

The "greening" layer of the direct payments system⁵³, first implemented in 2015, is intended to ensure that a majority of EU agricultural area is farmed according to basic environment- and climate-friendly practices. In 2015, 75 % of UAA was subject to at least one of the greening obligations. The total for 2016 was 77 %, 79% in 2017, and the estimates for 2018⁵⁴ show a share of 80 %.

The 2014-2020 RDPs build on the effect of greening by supporting more demanding, voluntary, multi-annually programmed practices. According to updated targets from the programmes, some proportions of farmland and forest area will be covered by funded contracts concerning such practices (see table below).

⁵² The figures and graphs in this sub-section refer to the area devoted to organic farming, irrespective of whether the area in question is benefiting from CAP payments or not. By contrast, sub-section 3 concerns only areas subject to various kinds of environmentally related CAP support (for organic farming and various other farming systems or practices).

⁵³ In full: "Payment for agricultural practices beneficial for the climate and the environment", as provided for in Arts. 43-47 of Regulation (EU) No 1307/2013.

⁵⁴ Year 2015, 2016 and 2017: including notifications from all MS. Year 2018: Including notifications from 21 MS, so the indicated share is provisional. The share is calculated as total agricultural area for farms with at least one greening obligation on total agricultural area from Eurostat statistics revised by DG AGRI.

CAP Key Performance Indicator	Baseline	Target	Achieved value
KPI 3 - Minimum share of land with specific environmental practices/commitments		To increase	Increasing
- Share of agricultural area under <u>greening</u> practices	75 % (2015)	To maintain	80% (2018)
- Share of area under <u>organic</u> farming	5.6 % of total UAA (2012)	To increase	7 % of total UAA (2017)
- <u>Biodiversity</u> *: a) % of agricultural land under management contracts supporting biodiversity and/or landscapes b) % of forest area/other wooded land under management contracts supporting biodiversity	0 at the start of the programming period	a) 17.95 %** b) 2.1 %**	a) 14.83 % b) 0.34 % (2017)
- <u>Water management</u> *: a) % of agricultural land under management contracts to improve water management b) % of forestry land under management contracts to improve water management	0 at the start of the programming period	a) 15.0 %** b) 0.8 %	a) 11.0 % b) 0.11 % (2017)
- <u>Soil</u> *: a) % of agricultural land under management contracts to prevent soil erosion and to improve soil management b) % of forestry land under management contracts to prevent soil erosion and to improve soil management	0 at the start of the programming period	a) 14.9 %** b) 1.3 %	a) 10.47 % b) 0.11 % (2017)
- <u>Emissions from agriculture</u> *: a) % of LU concerned by investments in livestock management in view of reducing greenhouse gas and/or ammonia emissions b) % of agricultural land under management contracts targeting reduction of greenhouse gas and/or ammonia emissions	0 at the start of the programming period	a) 0.8 % b) 3.3 %**	a) 0.26 % b) 2.03 % (2017)

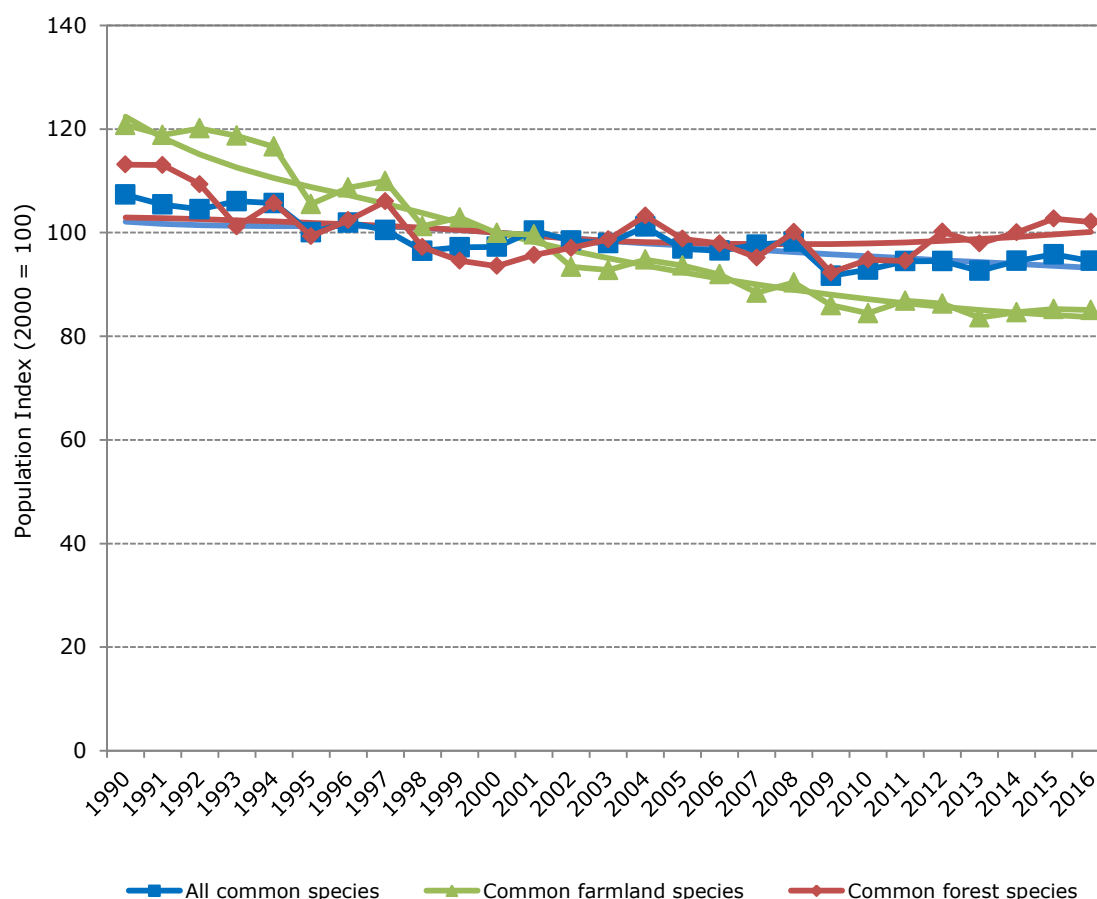
* Targets for the programming period 2014-2020. The target levels are expected to be achieved at the end of the programming period.

** Certain targets have been updated from last AAR because of modifications in Rural Development programmes which were made in accordance with the legislation for rural development. For all targets expressed in relative terms, DG AGRI has changed the method of aggregation at EU level, in view of providing a more comprehensive overview on expected/achieved results. In particular, for area and animal-related measures, from this year the share for the respective targets is calculated by considering the total relevant area/number of animals of the EU, instead of referring solely to the area/number of animals of the Member States where those measures are included in the programmes.

NB: On much of the farmland, "greening" requirements apply at the same time as other environmental practices/commitments. In those cases, the contracts funded by rural development policy build on the environmental benefits of the greening requirements. Likewise, the area figures concerned by rural development support overlap with each other. To avoid double counting, these figures have not been added up.

4. The decline in the population of farmland birds has slowed over time

According to the Farmland Bird Index⁵⁵, for those countries for which data are available, populations of common farmland birds have significantly declined since 1980. However, this decline is levelling off, with very small changes in the last 8-10 years. For common forest birds, the situation is more positive: populations are slightly above 1980 levels.



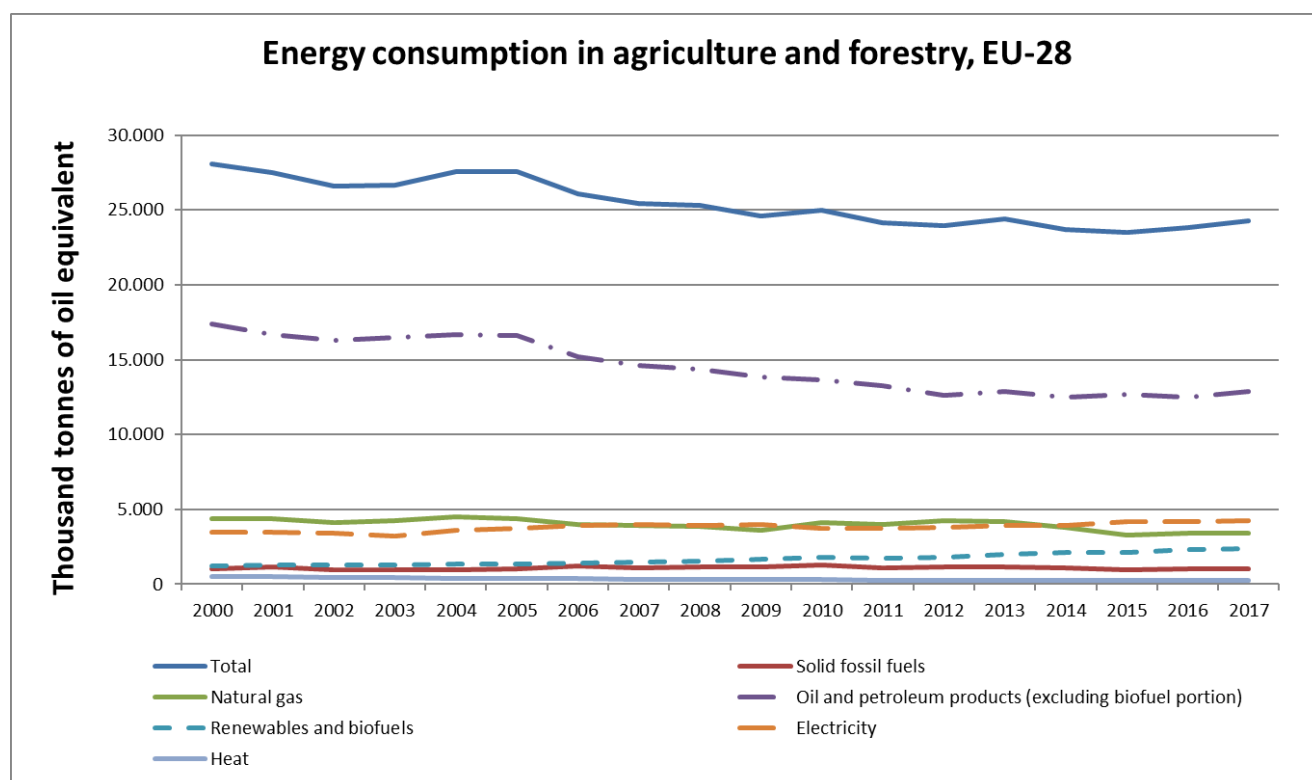
Source: EBCC/RSPB/BirdLife/Statistics Netherlands: the European Bird Census Council (EBCC) and its Pan-European Common Bird Monitoring Scheme (PECBMS); data are published on Eurostat database and this indicator is used as a CAP context indicator ([n° 35](#)).

⁵⁵ This indicator is an index and integrates the population abundance and the diversity of a selection of common bird species associated with specific habitats. An agreed European list of bird species is used, from which each country chooses the species to be covered by the data collected in the field. Data are for the EU, an aggregate that changes according to countries joining the Pan-European Common Birds Monitoring Scheme (In 2016, for EU: Austria, Belgium, Bulgaria, Cyprus, Czech Republic, Denmark, Estonia, Finland, France, Germany, Greece, Hungary, Italy, Latvia, Lithuania, Luxembourg, Netherlands, Poland, Portugal, Ireland, Romania, Slovakia, Slovenia, Spain, Sweden, United Kingdom).

5. Energy use in agriculture and forestry

Energy use in agriculture and forestry shows a downward trend for the EU as a whole over the last 17 years. This is a positive signal indicating greater efficiency in agricultural and forestry energy use. However, in the last two years, an increase was registered.

The use of renewable energy is going up (although it is still only a very low share of total energy consumption in agriculture/forestry). This positive trend is also the result of promoting the deployment of renewable energy (on-farm and in rural areas overall) as part of the rural development policy under the CAP, translating this way the objectives set up in the Clean Energy package⁵⁶.



Source: Eurostat, Energy Statistics (Simplified energy balances - annual data [nrg_100a])⁵⁷

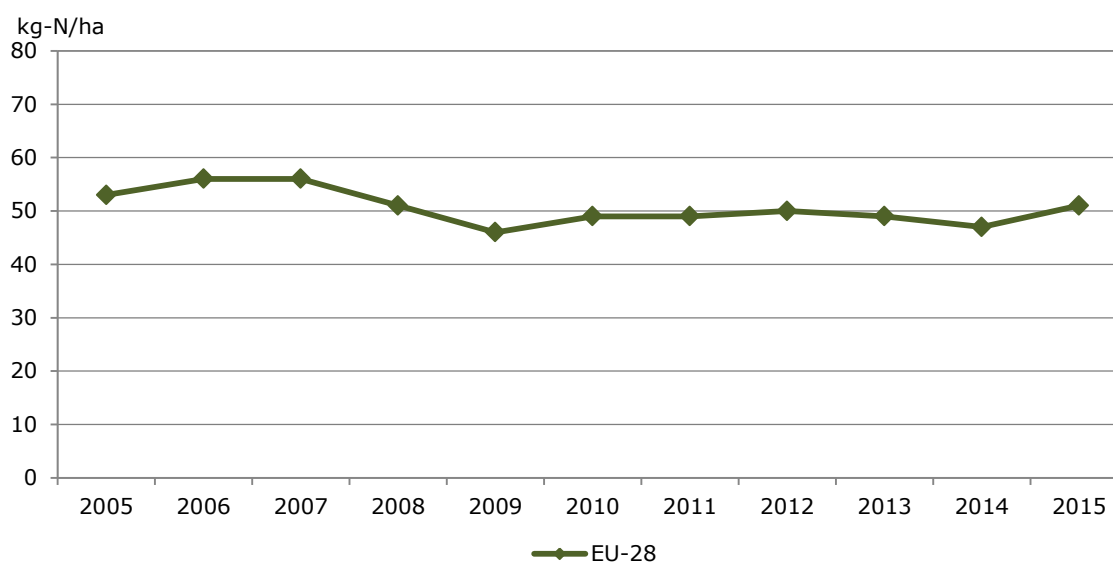
⁵⁶ <https://ec.europa.eu/energy/en/topics/energy-strategy-and-energy-union/clean-energy-all-europeans>

⁵⁷ The apparent recent rise in energy use remains to be confirmed in the coming years.

6. After having achieved a decrease in the nitrogen balance, an increase was registered recently

Some farming practices use or produce substances (fertilisers and pesticides in the first case, animal excreta in the second) that, in excess, can cause pollution to water bodies. The gross nitrogen balance on agricultural land gives information about the potential environmental impacts of use and management on farms of nitrogen-containing substances used to provide nutrients to crops and pasture. This measure represents the balance of nitrogen inputs (e.g. mineral fertilizer and manure) and outputs (e.g. via harvested crops) from agricultural production. A nitrogen balance surplus or deficit does not necessarily indicate a beneficial or harmful environmental impact, at least over the short term: the "ideal balance" from an environmental perspective in a given area will depend on a range of local circumstances. Nevertheless, persistently high levels have the potential to cause nitrate leaching (water pollution), ammonia emissions and ecosystem disruptions. After having achieved a decrease in the nitrogen balance to 46 kg per hectare in 2009, in the most recent year for which data are available, the EU has seen an increase in the nitrogen balance, reaching again 51 kg per hectare in 2015 – which is a (modest) step in the wrong direction.

Trend of gross nutrient balance - surplus of nitrogen in the EU, 2005-2015



Source: Eurostat. Data for BE, BG, DK, EL, HR, IT, CY, LV, LT, LU, MT, AT, RO are Eurostat estimates.

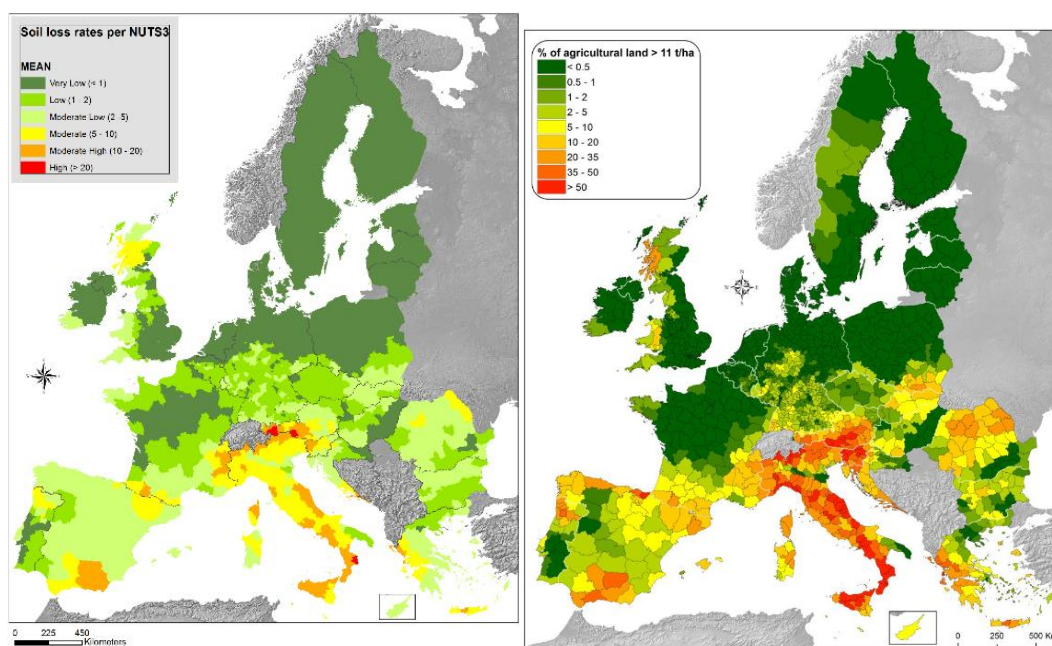
The future CAP is paying strong attention to water quality (included in one of the nine Specific Objectives) and new tools, such as the new Farm Sustainability Tool for Nutrients, have been proposed to help to reduce nutrient leakage.

7. Water erosion has decreased, yet it is higher than the sustainable rates in some areas

According to available studies, approximately 11.4 % of the EU's territory is estimated to be affected by a moderate to severe *water erosion* (more than 5 tonnes per hectare per year)⁵⁸. This estimate is lower compared to the previous estimations that 17 % of EU's land area is affected by soil erosion⁵⁹, mainly due to the introduction of management practices against *soil erosion* (reduced tillage, cover crops, plant residues, grass margins, stone walls and contour farming), which have been applied in Member States during the last decade.

Yet more than 24 % of the EU land and almost 1/3 of agricultural areas are subject to erosion at higher than the sustainable rates (2 tonnes per hectare per year), and this despite the fact that between 2000 and 2010, erosion has decreased by 20% on arable land in Western and Central Europe because of erosion control.⁶⁰

Soil erosion from water (left) and in farmland (right), EU-28



Soil erosion by water (tonnes per ha per year), 2010, EU-28, NUTS 3 (left) and Severe soil erosion in agricultural lands (right) - % of agricultural land with > 11t/ annually.

Source: Joint Research Centre, European Commission

⁵⁸ Panagos, P., Borrelli, P., Poesen, J., Meusburger, K., Lugato, E., Montanarella, L., Alewell, C. (2015). *The new assessment of soil loss by water erosion in Europe*. Environmental Science & Policy. 54: 438-447.

⁵⁹ European Environmental Agency (2003). *Assessment and reporting on soil erosion*. Technical report No 94

⁶⁰ IPBES (2018). *Summary for Policymakers of the Regional Assessment Report on Biodiversity and Ecosystem Services for Europe and Central Asia*.

Panagos, P., Borrelli, P., Meusburger, K., Alewell, C., Lugato, E., Montanarella, L. (2015). *Estimating the soil erosion cover-management factor at the European scale*. Land Use policy 48C: 38-50

Why are these outcomes important?

Climate change and constraints on natural resources will continue affecting farming and driving food security challenges. The EU 2030 Climate and Energy targets set ambitious goals. As all sectors, agriculture should make a fair contribution to these targets.

Climate actions in agriculture and forestry are required, both to contribute to EU climate objectives and to increase the resilience of the sector against climate change. Agriculture and forestry can contribute to EU climate objectives by providing other sectors with raw materials to substitute fossil-based products and by sequestering and storing carbon through the photosynthesis. The agriculture sector also needs to reduce its emissions, while ensuring food security. A wide range of practices in farming (and sustainable forest management) are important for delivering benefits in terms of soil, water, air and biodiversity in line with the EU's needs and expectations, which is why one of the CAP's key performance indicators is the proportion of agricultural land farmed according to specific environmentally friendly practices.

One of the farming systems that can deliver broad environmental benefits (some related to climate change) is **organic farming**. For this reason, its continued uptake is encouraging.

Recent production and market trends show the importance that organics has gained over the last decade. Organic farming responds to a specific consumer demand for sustainable food products, promoting more sustainable farming practices and contributing to the protection of the environment and improved animal welfare.



Farming and forestry have a profound influence on biodiversity conservation in Europe because they have shaped a varied mosaic of semi-natural habitats (meadows, pastures, agroforestry systems and traditional orchards, as well as forests of all kinds) which cover a large part of the EU. Trends in biodiversity are of concern, as shown by the continued decline in farmland bird populations. The reasons for biodiversity decline in the EU include the fragmentation of habitats that results from infrastructure-building and urban growth, invasion by alien species, land use change and climate change. Biodiversity loss attributed to farming is often linked to intensification and specialisation on the one hand, and abandonment of agricultural activity on the other hand. However, it is difficult to determine the respective weights of the various influences and how they interact.

How closely are the outcomes linked to the CAP?

The CAP makes a substantial contribution to the achievements mentioned above, as well as to general environmental integrity in rural areas.

In the period 2007-2013 the system of cross-compliance already linked all direct payments (as well as some wine market payments and some rural development payments) to a number of legal requirements related to the environment and climate change. In addition to that, from 2015 onwards the "greening" layer of the direct payments system has rewarded farmers for diversifying their crop rotations, conserving permanent grassland and caring for ecologically beneficial zones ("ecological focus areas").

Rural development policy continues to offer for the period 2014-2020 – as it did in 2007-2013⁶¹ – various types of area-related payments linked with requirements for management practices that have a proven positive impact on biodiversity, soil, water and air in both the farm and forest sectors. The total support planned for the programming period amounts to EUR 70.9 billion, in particular for the following measures:

- Support for Agro-Environment Climate measure = EUR 25.3 billion. The target area for coverage by this measure is 31.7 million ha;
- Support for Organic Farming measure = EUR 10.9 billion;
- Support for Area facing Natural Constraints = EUR 24.9 billion.

Support for knowledge-building, investments, co-operation and innovation also contribute strongly to environmental improvements. In addition, according to targets, the 2014-2020 Rural Development Programmes will help to bring about investments of EUR 2.9 billion in energy efficiency and EUR 2.7 billion in renewable energy production – in the farm and forestry sectors and in rural areas overall.

⁶¹ From one budgetary period to the next, rural development measures have been refined and their architecture modified, but much of the content remains the same. In the 2007-2013 period, support for delivering environmental benefits through organic farming was paid through the *Agri-environment* measure, whereas now it is paid through a distinct measure explicitly intended for organic farming.

What supporting steps did the DG take in 2018?

The legal proposals for the future CAP put forward by the Commission on 1 June 2018 pay specific attention to the climate and environmental challenges faced by EU agriculture. Three⁶² out of the nine specific objectives of the future CAP are linked to these challenges. A new green architecture is proposed in order to increase the effectiveness and environmental/climate ambition of the policy, based on three key elements under which the available tools can be regrouped:

- In the first layer, a new system of "conditionality" will link area- and animal-based payments to the application of environment- and climate-friendly farming practices. The standards/requirements laid down imply higher environmental ambition through certain new standards and improvements to existing standards.
- The next layer consists of "eco-schemes" funded by the CAP Pillar I budget – which Member States will have to offer, but which will be optional for farmers. Pillar I eco-schemes will have to address the CAP environment and climate objectives – in ways that complement the other relevant tools. The content will be up to Member States, and could range widely (though it must go beyond that of conditionality).
- The third main layer consists of payments within CAP Pillar II (rural development) for various kinds of interventions, i.e. particular practices in farming or forestry, especially agri-environment-climate payments (AEC). Member States will have to offer AEC payments in their CAP plans, but uptake will be voluntary for farmers, as it currently is. AEC payments can be used to cover a potentially wide range of agricultural practices (though the practices must go beyond the requirements of conditionality).

In addition to these three main layers, Member States will continue to be able to use their rural development budgets to fund a range of other types of support which could be relevant for the environment and climate – such as funding for knowledge transfer, eco-friendly investments, innovation and co-operation.

These proposals take stock of the experience of the current policy and of the results of the evaluations and studies carried out.

Following the review and analysis of how the "**greening**" system had been applied (The "greening review after one year", June 2016⁶³; the Commission Report on Ecological Focus Areas (EFA) was issued in March 2017⁶⁴), a full-fledged **evaluation of greening for the first two years of implementation** was launched. The results of the work of the contractor were issued at the end of 2017 and a consecutive Commission Staff Working Document was adopted in November 2018 (SWD(2018) 478 final⁶⁵). This evaluation underlined some relevant impacts but also some weaknesses that held the greening system back from achieving its full potential. It showed that Member States and farmers could do more to fully deliver on greening. Moreover, more could be done at EU

⁶² Contribute to climate change mitigation and adaptation, as well as sustainable energy; foster sustainable development and efficient management of natural resources such as water, soil and air; contribute to the protection of biodiversity, enhance ecosystem services and preserve habitats and landscapes.

⁶³ Originally the review was to centre on "ecological focus area", as this reflected the commitment made by the Commission when the 2013 CAP reform was adopted. However, in the end the review acquired a broader scope – encompassing all the elements of greening – within the framework of general simplification of the CAP. It resulted in Commission Staff Working Document SWD(2016)218 of 23/06/2016.

⁶⁴ COM(2017) 152 of 29.3.2017

⁶⁵ https://webgate.ec.testa.eu/Ares/documentInfoDetails.do?documentId=080166e5c2243d7c&tofill=ATT&_f=ext

level to simplify the scheme. Member States have significant flexibility in implementing the measures, yet, in general, they do not use this flexibility to maximise the environmental and climate benefits. Decisions seem to have been driven rather by administrative issues and agricultural considerations, including wanting to ensure minimal disturbance to farming practices. In the Commission proposals for the CAP post 2020, the existing greening requirements are reshaped in a broader framework including a new conditionality and responding to three specific objectives, contribution to climate change mitigation and adaptation, foster sustainable development and efficient management of natural resources and contribution to the protection of biodiversity.

The **support study of the evaluation of the impact of the CAP on climate change and greenhouse gas (GHG) emissions** assessed the impact of CAP measures on agriculture's GHG emissions and on the sector's ability to adapt to climate change. The study considered 24 CAP measures, including those designed as climate measures and others not so designed but having climate impacts. The study could not quantify the impact of Voluntary Coupled Support (VCS) to livestock on GHG emissions. However, the evaluators did not expect that the emissions which are avoided when VCS protects grassland that would otherwise be ploughed will not offset the emissions impact of supporting additional production. VCS support for protein crops was found to reduce emissions, but is to date on a small scale. The impact of the Basic Payment Scheme (BPS) on GHG mitigation is likely to be low. Further details regarding the findings of this study can be found in Annex 9.

In December 2018, the Commission adopted the report on the review of the **EU Forest Strategy** (COM(2018) 811 final). The report concludes that the Strategy has effectively framed EU actions, facilitating the coordination of all EU policy areas relevant to forests and the forest-based sector, promoting a consistent approach in both domestic and international policies, and allowing the EU and Member States to be world-leading advocates for sustainable forest management. The continued implementation of the Strategy, supported by the EU budget, will help the EU forests, to contribute effectively to territorial balance, growth and jobs in rural and urban areas, support the forest-based sector to stay competitive and the bio-economy to develop, while protecting biodiversity and ensuring the provision of ecosystem services. Communicating the value and importance of well-managed forests to the society, thus ensuring strong societal support for sustainable forest management, is essential to underpin these goals.

According to the Annual Implementation Reports of Rural Development Programmes, 34.8% of 2014-2020 Rural Development measures for the environment have been implemented at the end of 2017. See also the reporting on Rural Development in part 1.1 (p. 31).

The 24th session of the Conference of the Parties (COP 24) of the UNFCCC took place in Katowice (Poland) in December 2018. The first workshop of the specific programme on agriculture (Koronivia Joint Work on Agriculture) was held during this session. The work programme addresses a broad range of issues encompassing the reduction of agricultural GHG emissions, adaptation to climate change, enhancing farm resilience and risk management. The overall aim of the work programme is to produce recommendations on how to help farmers worldwide to address climate change while safeguarding food security.

Despite the positive contribution of the CAP to improve the environmental performance of the EU agricultural sector, substantial environmental challenges remain. The EU has committed itself to further deep cuts in greenhouse gas emissions; the key natural resources of soil, air and water are still under pressure in many areas; and the available indicators on farm and forest biodiversity still do not paint a rosy picture.

The citizens of the EU expect the CAP to make a stronger contribution to care for the environment and climate. Furthermore, there is a need to improve the effectiveness and targeting of the policy. Taking these challenges into account, the future CAP has an explicit commitment to "aim higher" with regard to the environment and climate. At the same time, taking into account the need for simplification, the current "greening measures" are replaced by a new green architecture based on the following three objectives:

- a) contribute to climate change mitigation and adaptation, as well as sustainable energy;
- b) foster sustainable development and efficient management of natural resources such as water, soil and air⁶⁶; and
- c) contribute to the protection of biodiversity, enhance ecosystem services and preserve habitats and landscapes.

⁶⁶ A Brief has been published to develop the challenges and policy responses to promote soil protection: https://ec.europa.eu/info/sites/info/files/food-farming-fisheries/key_policies/documents/cap-specific-objectives-brief-5-soil_en.pdf

EU added value Organic production

The publication of the new Organic Regulation in June 2018 provides operators with a modern tool that will help the organic sector to further expand. With a yearly market growth of 10 %, organic production is the most dynamic of all agricultural sectors. Organic surfaces have more than doubled in the last decade and with around EUR 30 billion of market value, organics cannot be considered as a niche market anymore. On the contrary, it represents a solid and growing industry, which deserves a solid legal framework.

The reform brings a substantial added value to the sector, due to the harmonisation of the rules, by creating a level playing field for operators within the EU, by putting an end to the so-called "à la carte derogations", and vis-à-vis third countries operators, by introducing the principle of the compliance for imports.

- By specifically referring to the organic sector into the Official Controls Regulation and by providing specific additional provision for the controls of organics, the control on the sector is increased, wiping away grey areas and strengthening the reliability of the organic logo for the European consumers.
- Moreover, the new regulation also simplifies the life of small producers who will be able to join the group certification, hence reducing certification costs and administrative burden. In addition, the principle of annual control remains but with a possibility to exempt certain producers for a short period of time of on-the-spot visits, reducing again costs and administrative burden for those producers who comply with the legislation.
- New opportunities will be given to the sector through the introduction of organic heterogeneous material, seeds that, due to the higher genetic variability, will be able to express characteristics that will allow a better adaptation of plants to the different pedo-climatic conditions.
- The regulation will bring harmonised rules for new species and will give the possibility to extend the scope of the regulation to new products.

The production of secondary legislation is the second step of this process and it will take a couple of years to produce delegated and implementing acts which will integrate the legislation. The secondary legislation will cover production rules, controls and trade.

EU added value Bioeconomy

The bioeconomy is a promising avenue to develop and diversify rural economies, and a strong driver for agricultural modernisation and rural industrialisation. It is estimated that it could create up to one million jobs by 2030, many of which in rural areas. For these reasons, the bioeconomy features prominently in the new CAP Communication, and is well integrated into its objectives.

For the bioeconomy to deliver all its potential benefits for rural development, farmers need to be empowered in the value chains, either by taking the initiative or through balanced partnerships with industry. DG AGRI has thus supported the development of a bioeconomy that is inclusive and farmer-oriented, through the following activities:

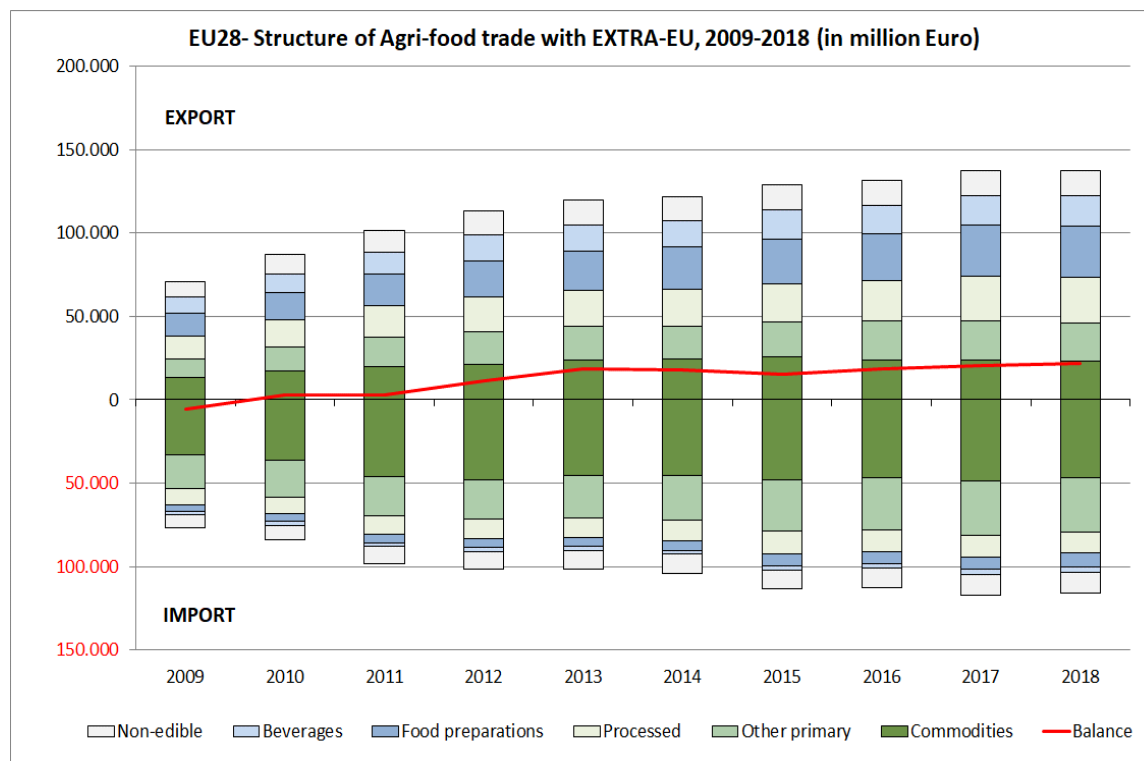
- Update of the EU Bioeconomy Strategy: DG AGRI was one of the co-drafting DGs, and contributed developing a strategy that promotes inclusive business models, empowerment of primary producers and rural development, and which creates linkages and synergies with the CAP.
- Steering of the Bio-Based Industries Joint Undertaking: DG AGRI was instrumental in the creation of a task force to assess and improve the participation of the agricultural sector in the projects financed by this important initiative.
- Support the development of small-scale, inclusive bioeconomy value chains through the Horizon 2020 work programmes.
- Promoting the deployment of bioeconomy solutions at local level in the framework of EIP-AGRI.

1.4 Commission General Objective 6: A balanced and progressive trade policy to harness globalisation⁶⁷

What are the key outcomes to be reported?

Total EU agri-food exports continue to increase

- In 2018, the value of EU trade in agri-food products (exports and imports) reached EUR 253.1 billion, compared to EUR 255.3 billion in 2017.



Source: COMEXT

- The annual value of EU agri-food exports in 2018 remained near the new record level achieved the previous year, at EUR 137.4 billion, which is only 0.2 % lower in value terms than in 2017. Driven by stable export performance and a decrease in imports, the trade surplus now stands at EUR 21.7 billion, which represents a growth of 7 % compared to last year and the 9th consecutive year of agricultural trade surplus.
- Compared to 2017, further gains have been achieved in agri-food exports to the USA (EUR +297 million; +1.3%), Ukraine (EUR +251 million; +14%) and Algeria (EUR +237 million; +9.8%), as well as several Asian markets: Japan (EUR +226 million; +3.5%), Singapore (EUR +216 million; +9.8%) and Korea (EUR +137 million; +4.7%). Annual increases of more than EUR 100 million were also recorded in exports to Australia, Canada, Israel and Russia. 2018 export values

⁶⁷ The title of Priority 6 has been updated in 2017 to make it geographically neutral in view of the slowing down of trade talks with the United States, the new geopolitical context, and the new dynamism in trade talks with other important regions of the world. The Commission has reflected this reality by changing the previous General Objective ("A Reasonable and Balanced Free Trade Agreement with the US") and introducing a new impact indicator replacing the old one.

remain down for certain Asian and Middle East destinations, in particular China (EUR -754 million; -6.4%), Turkey (EUR -527 million; -14%), Hong Kong (EUR -399 million; -9.8%), the United Arab Emirates (EUR -325 million; -11%) and Saudi Arabia (EUR -232 million; -5.7%).

- Agri-food imports from third countries in 2018 accounted for EUR 115.7 billion, which represents a decrease by 1.5% compared to 2017. Nevertheless the value of imports from the USA (EUR +958 million; +8.7%) and China (EUR +288 million; +5.3%) increased noticeably. On the other hand, a significant drop was recorded in the value of imports from Indonesia (EUR -947 million; -18%). EU imports of agri-food products also decreased by over EUR 100 million from Argentina, Ivory Coast, India, Vietnam and Colombia, among others.

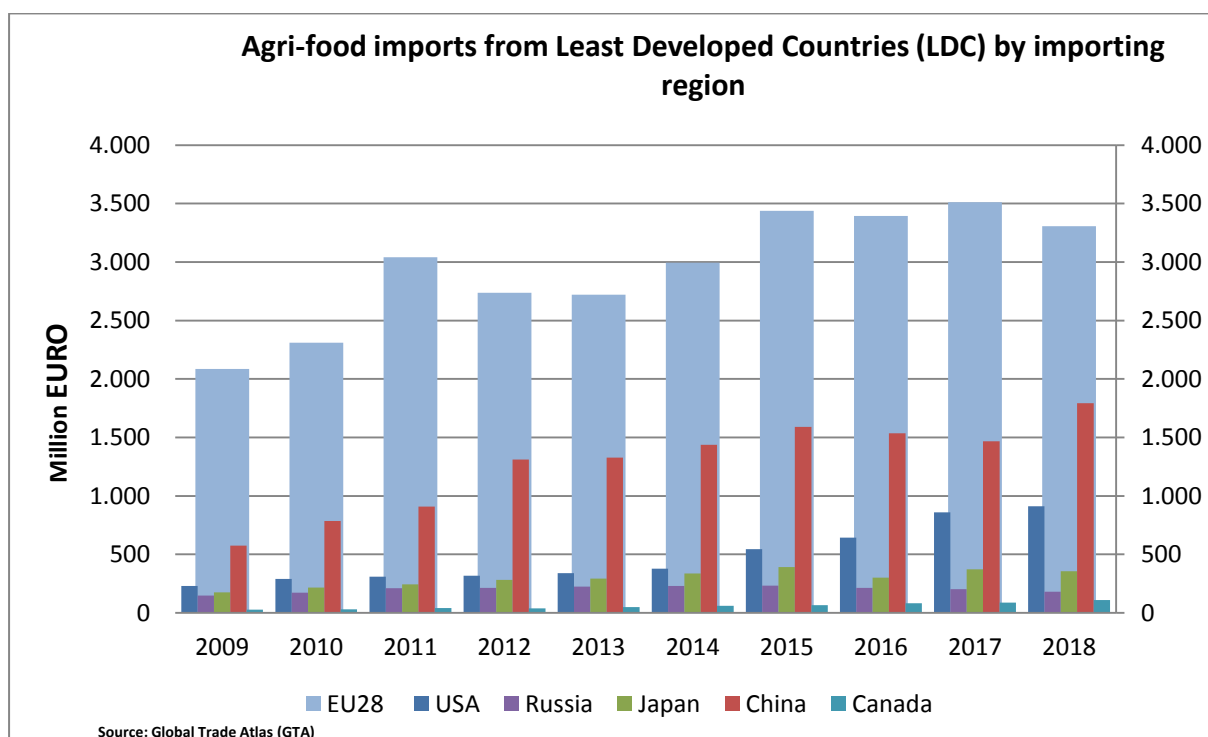
Why are these outcomes important?

The agri-food sector plays a central role for a balanced and progressive trade policy.

Worldwide and growing demand for EU agri-food exports has brought benefits to the sector and there is huge potential to continue to do so. EU trade policy can help EU farmers and food producers to make full use of these opportunities. At the same time, it cannot be ignored that for certain specific agricultural sectors, trade liberalisation and unfettered competition with imports is more challenging. The right balance will have to be maintained for agriculture within trade agreements and also across all agreements, finding an equilibrium between offensive and defensive interests. As part of its trade relations, the EU also works on resolving Sanitary and Phytosanitary (SPS) issues and the protection of geographical indications.

The market-orientation of the agri-food sector also allows the EU to retain its leading role in international bodies such as the World Trade Organisation (WTO), working towards a further levelling of trading conditions, for example in the area of trade distorting domestic support, which would lead to an improved situation for EU agri-food exporters.

As the world's biggest importer of agricultural products, the EU imports more from the least developed countries than the "big 5" importers (US, Canada, Japan, China and Russia) combined, as shown in the graph below, and provides preferential market access conditions for developing country imports. This, along with a CAP that is now fully in line with development objectives, better equips the EU to influence global agriculture policy and to take a leading role in global initiatives (for example in the context of the UN (FAO), the OECD and the G20) as well as to foster relationships with developing countries that assist them in advancing their agriculture and rural potential. This will help stimulating agricultural job creation, addressing the [Sustainable Development Goals](#) of Agenda 2030 as well as finding long-term solutions to counter irregular migration and tackling its root causes.



How closely are the outcomes linked to the CAP?

Past CAP reforms have increased the market-orientation and competitiveness of EU producers. The freedom to respond to consumer tastes – within a legal framework that guarantees key standards – has helped make sustainably produced, safe, high-quality and innovative food the EU's calling card on international agri-food markets.

The EU no longer offers agricultural export refunds. However, with fairness and economic efficiency, the CAP strengthens the farm and agri-food sectors' ability to compete on overseas as well as domestic markets. The exercise for the modernisation of the CAP is also relevant in this context as it must help maintain a strong and well-resourced agricultural policy that enables also the more sensitive sectors to adjust to greater international competition.

In addition, a reinforced promotion policy and certain EU quality schemes⁶⁸ help to cement recognition of EU products around the world.

⁶⁸ e.g. Protected Designation of Origin (PDO) and Protected Geographical Indication (PGI)

What supporting steps did the DG take in 2018?

DG AGRI played an active role in trade negotiations, which reached various stages in 2018, including:

- The ratification of the EU-Japan Economic Partnership Agreement (EPA) was finalised in 2018. This agreement with the 4th biggest market for EU agri-food exports in the world entered into force on 1 February 2019 and provides better opportunities and greater access for EU agricultural exporters to a market of 127 million consumers currently worth EUR 5.7 billion per year of EU agri-food exports. It is in fact the most successful agreement ever achieved for EU agriculture and the biggest concession Japan ever granted to a trade partner.
- In the last EU Agricultural Outlook conference, on 6 and 7 December 2018, one of the main topics was trade opportunities with a specific focus on Japan and Africa. More precisely, the fact was highlighted that trade agreements with food import-oriented countries like Japan provide several advantages such as access to an even wider range of diversified food at a reasonable price for both Japanese and European consumers, but also improved export opportunities for high-quality EU products.
- At the Outlook Conference, participants stressed the importance of the EU as the main agri-food trade partner of the African continent, and several guests from Africa, particularly from Least Developed Countries (LDCs) emphasised the potential to develop their exports to the EU and gave concrete examples of success stories. It was also stressed, however, that the development of infrastructure remains a limiting factor.
- An agreement in principle reached with Mexico in April 2018 on the modernisation of the existing Global Agreement, in force since 2000. The new agreement brings the number of liberalised agricultural products (i.e. 'All Market Access', not subject to tariffs) from 62% to 95%, creating new export opportunities for EU exporters in a market of 125 million people, currently worth EUR 1.45 billion per year of EU agri-food exports. Rules have been upgraded and the agreement includes a very ambitious Sanitary and Phytosanitary (SPS) chapter as well as the protection of 340 food and wine geographical indications (GIs). It will also incorporate the 1997 Spirits Agreement, raising the level of protection of the spirits GIs. The text of the Agreement is to be finalised in 2019.
- Monitoring the implementation of recently concluded agreements, such as the Comprehensive Economic and Trade Agreement (CETA) with Canada, and the Free Trade Agreement with the Republic of Korea. On CETA, three committees meetings were held in 2018 for the first time. The key point of the Agriculture Committee meeting was the administration of the cheese Tariff-Rate Quota (TRQ), the Wine and Spirits Committee meeting shone the spotlight on many longstanding discriminatory practices, and the focus of the Geographical Indications Committee meeting was on enforcement of the protection of the EU's 143 food GIs in Canada. EU-28 agri-food exports to Canada are up 2,2% in value over the year from January to October 2018 compared to the same period in 2017, while imports from Canada have fallen by 7.3% in value over this period.
- The preparation for the ratification of the EU-Singapore and the EU-Vietnam FTAs for their entry into force in the near future.

- The preparation for the launch of negotiations with Australia and New Zealand in July 2018.
- Ongoing talks with China on a GI Agreement, as well as with Russia and Turkey on trade, among others.

In order to ensure that all opportunities from trade agreements can be fully used by producers and exporters in the EU, DG AGRI accompanied and monitored the correct implementation of existing agreements, such as CETA mentioned above, and worked on resolving trade irritants that provide obstacles to real market access.

The DG also organised a high-level visit of Commissioner Hogan to China as a non-EU country with strong potential for EU agricultural exports, in which he was accompanied by business delegations representing key sectors in the EU agri-food business. The visit helped to identify export opportunities and secure business deals.

In addition, DG AGRI was active in promoting the modernised CAP as a viable model for agricultural development in partner countries, including in Africa.

Sustainable agriculture is a cornerstone of economic development and sustainable growth in both regions. Agriculture plays a substantial role in the 2030 Agenda for Sustainable Development as it is intrinsically linked to issues such as jobs, food, climate change, gender, responsible investments, innovation, water, soil and biodiversity. The African Union (AU) and the European Union have long-standing experience in agricultural and rural development policies. Recognizing the challenges, both the EU and AU need to step up their efforts to achieve poverty eradication, food security, improved nutrition, rural growth, resilient livelihoods, as well as sustainable management and protection of natural resources.. Alignment with the Comprehensive Africa Agriculture Development Programme (CAADP) and the Malabo Declaration is an essential part of the agricultural cooperation between the AU and EU. In this context, DG AGRI was active in promoting the modernised CAP as a viable model for agricultural development in Africa.

The enhanced cooperation between the African Union (AU) and EU on agriculture has been made operational through two Agriculture Ministerial Conferences (2016 in Noordwijk and 2017 in Rome)⁶⁹. These conferences have contributed to bring the EU-Africa relations to the next level, setting the dialogue on agricultural policy at the forefront of the partnership. In May 2018, the Commission⁷⁰ (supported by DG AGRI and DG DEVCO) established the **Task Force for Rural Africa** to nourish and foster this cooperation. The Task Force was a group of experts that assisted the Commission, providing expertise, advice and recommendations on options for strengthening the partnership in food and farming and enhancing the role of the EU in African job-creating economic development in agriculture, agri-business and agro-industries. The main recommendations were presented at the Africa-Europe High Level Group on 18 December 2018, hosted by the Austrian Presidency of the Council. The Task Force completed its work with the publication of its final report⁷¹ on 7 March 2019. The recommendations of the Task Force for Rural Africa will be instrumental in implementing the new Africa Europe Alliance for Sustainable Investments and Jobs⁷². These recommendations target four strategic areas:

⁶⁹ <https://www.agri.ee/en/making-sustainable-agriculture-a-future-for-youth-in-africa>

⁷⁰ https://ec.europa.eu/info/food-farming-fisheries/farming/international-cooperation-and-agreements/africa/eu-africa-partnership_en

⁷¹ [An Africa-Europe Agenda for Rural Transformation](#)

⁷² https://ec.europa.eu/commission/africaeuropealliance_en

- A territorial approach to development for income and job creation in rural areas;
- The sustainable management of land and natural resources and building resilience against the impact of climate change on rural livelihoods and food security;
- The sustainable transformation of African agriculture to realise its full potential; and
- The development of the African agro-food industry and the continent's local and regional value chains for improved food supply and market access.

Along with other third country markets, the African agricultural sector merits continuous close attention.

Executive agencies

REA

The Research Executive Agency (REA) has been implementing its mandate for DG AGRI since 2014. In 2018, REA managed 272 projects of Social Challenge 2 and it performed its tasks in an effective, efficient and cost-effective way.

For the operational budget 2018, the execution of commitment and payment appropriations progressed according to schedule.

Evaluations and grant preparations (GAP) progressed according to plan. The Time-To-Grant (TTG) performance was fully satisfactory for all calls. The performance was supported by the electronic grant agreement signature which allowed for a reduced duration of the granting process.

The Time-To-Pay (TTP) performance for all types of payments was also very high, including time-to-pay for experts.

The validation of participants and the extended mandate of the Legal Entity Authorised Representatives (LEARs) continued at a high rate, without generating problems regarding the respect of the 8-months deadline for signing grant agreements.

CHAFEA

In 2018, the third year of the implementation of the reformed promotion policy (Regulation (EU) No 1144/2014), the Consumers, Health, Agriculture and Food Executive Agency (hereafter Chafea) has been entrusted by the Commission with the management of certain parts of the information provision and promotion measures concerning agricultural products implemented in the internal market and in third countries, notably the evaluation of the proposals submitted for simple and multi programmes following the publications the calls for proposals. With the assistance of 44 external experts from 17 Member States, 58 simple programmes and 21 multi programmes have been selected from 146 and 36 proposals submitted respectively. In this regard, Chafea produced Call evaluation reports for both calls as well as the necessary documentation for the ISC for the adoption of Commission Implementing Decision on selecting proposals for simple programmes.

Additionally, Chafea actively contributed to the communication of the reform: notably it participated in the Infoday in Brussels (for which a web portal on promotion policy had been created). The portal, launched in the beginning of 2017, has been updated throughout 2018 with information useful to potential applicants, such as webinars and market reports.

As part of the measures on the initiative of the Commission, Chafea organized

- one High Level Mission with business delegation to China (68 participants) in May;
- two EU pavilions at two agri-food fairs: SIAL China and CIIE in Shanghai in November;
- two promotion seminars: one in Seoul in March and one in Iran in November 2018.

Chafea also produced one market report for the country visited by the HLM (China) and started the preparation of six other ones.

2. ORGANISATIONAL MANAGEMENT AND INTERNAL CONTROL

This section explains *how* the DG delivered the achievements described in the previous section. It is divided into two subsections.

The first subsection reports the control results and all other relevant information that support management's assurance on the achievement of the financial management and internal control objectives⁷³. It includes any additional information necessary to establish that the available evidence is reliable, complete and comprehensive and appropriately covering all activities, programmes and management modes relevant to the DG.

The second subsection deals with the other components of organisational management: human resources, better regulation principles, information management and external communication.

2.1 Financial management and internal control

Assurance is an objective examination of evidence for the purpose of providing an assessment of the effectiveness of risk management, control and governance processes.

This examination is carried out by management, who monitors the functioning of the internal control systems on a continuous basis, and by internal and external auditors. Its results are explicitly documented and reported to the Director-General.

This section reports the control results and other relevant elements that support management's assurance. It is structured into (2.1.1) Control results, (2.1.2) Audit observations and recommendations, (2.1.3) Assessment of the effectiveness of the internal control systems, and (2.1.4) Conclusions on the impact as regards assurance.

2.1.1 Control results

This sub-section reports and assesses the elements identified by management that support the assurance on the achievement of the internal control objectives. The DG's assurance building and materiality criteria are outlined in the AAR Annex 4. Annex 5 outlines the main risks together with the control processes aimed to mitigate them and the indicators used to measure the performance of the relevant control systems.

⁷³ Art 36.2 FR: a) effectiveness, efficiency and economy of operations; b) reliability of reporting; c) safeguarding of assets and information; d) prevention, detection, correction and follow-up of fraud and irregularities; and e) adequate management of risks relating to the legality and regularity of underlying transactions

EFFECTIVENESS (The control results and benefits)

A) Legality and regularity

DG AGRI has set up internal control processes aimed to ensure the adequate management of the risks relating to the legality and regularity of the underlying transactions, taking into account the multiannual character of programmes as well as the nature of the payments concerned.

2.1.1.1 Payments executed in 2018 for the CAP

In 2018, total EU outturn on payment appropriations⁷⁴ in respect of Title 05 'Agriculture and Rural Development', under DG AGRI responsibility was EUR 56 828.99 million. Of this, EUR 56 668.73 million (99.72% of CAP budget) was under shared management. Payments executed under the EAGF amounted to EUR 44 116.84 million. Payments executed under the EAFRD amounted to EUR 12 444.98 million. Direct management and indirect management accounted altogether for only around 0.3% of total EU expenditure under DG AGRI responsibility.

The table below shows the payment appropriations executed broken down by activity and by management mode:

Title 05	Agriculture and rural development	Shared management (EUR)	Direct management (EUR)	Indirect management (EUR)	Total (EUR)	% of CAP budget
0501	Administrative expenditure		9 545 390		9 545 390	0.02%
0502	Interventions in agricultural markets	2 620 322 737	-		2 620 322 737	4.61%
0503	Direct aids	41 496 516 339			41 496 516 339	73.02%
0504	Rural development	12 444 981 221	11 867 856		12 456 849 077	21.92%
0505	Instrument for Pre-accession Assistance			98 301 147	98 301 147	0.17%
0506	International aspects		4 600 059		4 600 059	0.01%
0507	Audit	106 910 905			106 910 905	0.19%
0508	Policy strategy and coordination		35 946 108		35 946 108	0.06%
0509	Horizon 2020 - Research and innovation		-		-	0.00%
Total		56 668 731 203	61 959 413	98 301 147	56 828 991 762	100.00%
% of Title 5		99.72%	0.11%	0.17%	100.00%	

Table: 2.1.1.1-1

The detailed financial data and the draft annual accounts are presented in Annex 3. Annex 10 to this report sets out in detail the management and control system in place for shared management funds and demonstrates how assurance is obtained with regard to legality and regularity in respect of each of the three principal ABB activities for which the Directorate-General is responsible, ABB02, ABB03 and ABB04, which together account for 99.5%⁷⁵ of the CAP spending in 2018.

The principal conclusions in respect of each of these are summarised in sub-section 2.1.1.2.2 below (ABB02 – Market Measures, ABB03 – Direct Payments and ABB04 – Rural Development).

⁷⁴ Including assigned revenue.

⁷⁵ This percentage is calculated on the total payments executed in financial year 2018.

2.1.1.2 Control effectiveness as regards legality and regularity

DG AGRI has set up internal control processes aimed to ensure the adequate management of the risks relating to the legality and regularity of the underlying transactions, taking into account the multiannual character of programmes as well as the nature of the payments concerned.

The control systems are explained in more details in Part 2 (on the functioning of the Paying Agencies and the role of the Certification Bodies) and Part 3 (which deals separately with each of the ABBs) of Annex 10.

The following sections describe the key elements which are taken into consideration for building assurance at Commission level as regards the legality and regularity of operations at Paying Agency level.

2.1.1.2.1 Control framework as regards legality and regularity

With around seven million beneficiaries of the CAP, EAGF and EAFRD expenditure is implemented under **shared management** through a comprehensive management and control system (described in detail in Annex 10 of the report) which is designed to ensure the legality and regularity of the underlying transactions at the level of the final beneficiaries. Where the Commission implements the budget under shared management, implementation tasks are shared with the Member States. The latter 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 EU rules. They are obliged to have systems in place which prevent, detect and correct irregularities and fraud. The CAP legislation provides that they 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. There were 76 such Paying Agencies at the end of 2018. **Certification Bodies** designated by 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 since 2015 the **legality and regularity** of the expenditure declared to the Commission.

The **EAGF** (1st pillar) is funded almost completely by the EU budget. It is managed on an annual basis and commitment and payment appropriations match (almost entirely non-differentiated appropriations). Aid measures and schemes are legislated at EU level via EU-wide rules.

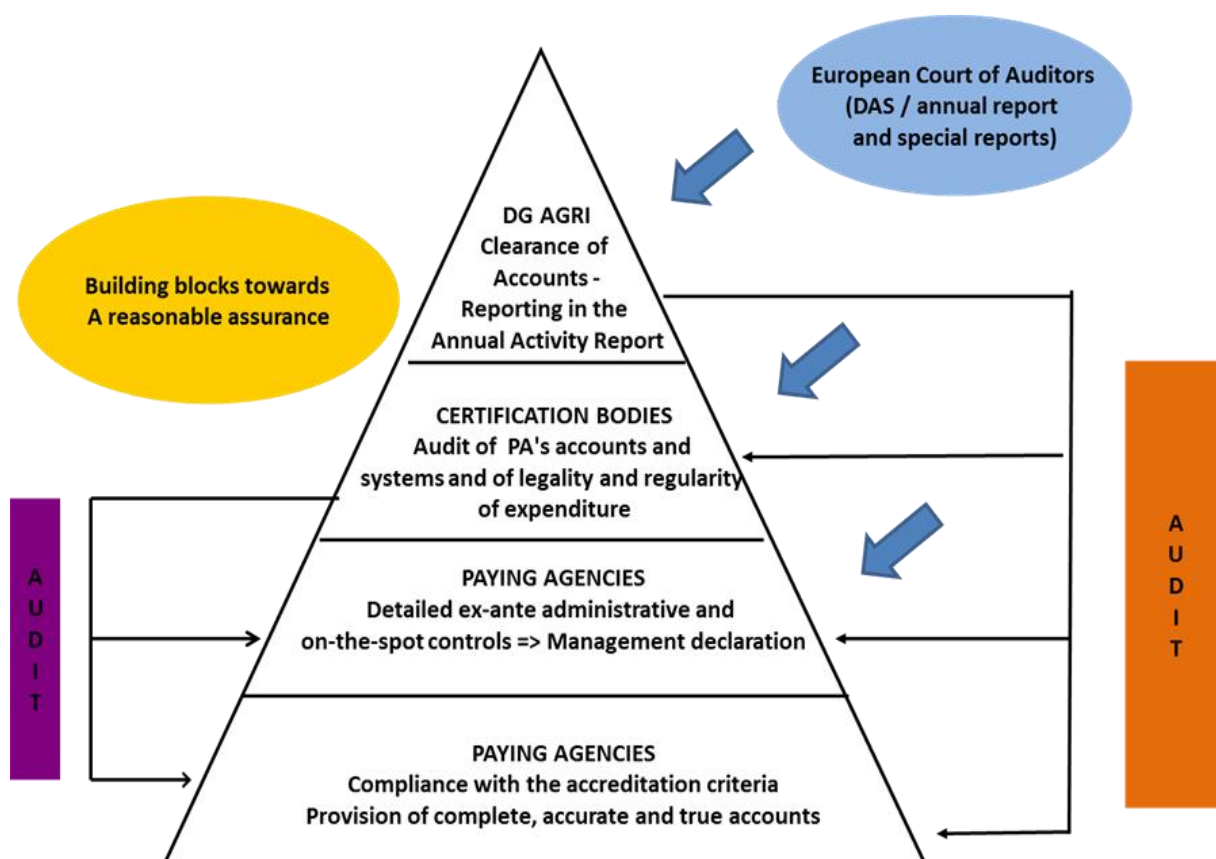
The **EAFRD** (2nd pillar) programmes are co-funded by the EU and national budgets. They are managed on the basis of national or regional **multiannual programmes** where measures can be tailored at national and regional level in order to meet specific objectives. The appropriations are differentiated in order to reconcile the principle of annuality with the need to manage multi-annual operations.

However, a single set of specific financial management, control rules and assurance on legality and regularity apply to both pillars of the CAP⁷⁶. The results of controls under the responsibility of the Paying Agencies (control data and statistics) are provided to the Commission in respect of the financial year which is being reported upon. An adjusted error rate (which extrapolates Member States' reported error rates, as

⁷⁶ Regulation (EU) No 1306/2013 of the European Parliament and of the Council on the financing, managing and monitoring of the common agricultural policy (OJ. L 347 of 20/12/2013).

validated and adjusted by DG AGRI on the basis of all available information, to the non-controlled population – see Annex 4) is calculated in respect of the 2018 expenditure. 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 audit evidence also serves as a basis for DG AGRI's adjustments of the error rates reported by the Paying Agencies. The opinion of the Certification Bodies on legality and regularity is progressively becoming, where the audit work of the Certification Bodies is done in accordance with the applicable regulations and guidelines, the key element of the assurance model of the CAP expenditure. In parallel, annual accounts are declared by the Paying Agencies, certified by the Certification Bodies and are cleared (financial clearance procedure) by the Commission, without prejudice to future net financial corrections to be decided by the Commission resulting from DG AGRI own audit activities pursuant to the conformity procedure.

The following flow chart sets out the CAP shared management model:



The Commission has set up processes designed to ensure the adequate management of the risks related to the legality and regularity of the underlying transactions, taking into account the annual nature of the payments and the very large number of beneficiaries. The assurance objective is to ensure that the remaining risk to the EU budget does not exceed 2%.

The Commission is of the view that the corrective capacity in the years after the year of expenditure of its net financial corrections imposed on Member States and of the amounts recovered from beneficiaries by the Member States and reimbursed to the EU budget must also be considered. It is not until this corrective capacity has been taken into account that the picture of the risk to the EU budget is complete and it is possible to assess the remaining financial risk to the EU budget (estimated final amount of risk).

As the three principal ABB activities (ABB02 – Market Measures, ABB03 – Direct Payments and ABB04 – Rural Development) are dealt with under shared management with the Member States, the Commission (DG AGRI) cannot, on its own, reduce the level of error. While DG AGRI is fully assuming its responsibilities, the detection and correction of errors is first and foremost in the hands of the Member States. The latter are responsible for the management and controls at beneficiary level and, as repeatedly pointed out by the European Court of Auditors, they are primarily responsible for the errors which occur. They are also responsible for implementing the necessary actions to remedy control system deficiencies identified by the Certification Bodies and/or the Commission. In cases where Member States fail to implement action plans in due time, the Commission may decide to reduce or suspend its payments, to prevent further risks to the EU budget.

DG AGRI carried out 115 audit missions and opened 64 conformity procedures after desk audits in 2018 for the Member States in order to check that EU rules, and in case of the EAFRD also national rules, are complied with by the Paying Agencies when making payments to beneficiaries or recovering undue payments. As a result of the conformity clearance procedures, the Commission imposes net financial corrections on the Member States by which they reimburse to the EU budget the amounts corresponding to those corrections.

In 2018 DG AGRI also audited 16 (+2⁷⁷) Certification Bodies, to check the quality of their audit work and consequently consolidate assurance on the reliability of their opinion on legality and regularity of the expenditure. Furthermore, most of the conformity audits carried out also re-performed and reviewed the work of the Certification Bodies.

It is recalled that Article 36(5) of the Financial Regulation 2018/1046⁷⁸ states:

"If, during implementation, the level of error is persistently high, the Commission shall identify the weaknesses in the control systems, analyse the costs and benefits of possible corrective actions and take or propose appropriate action, such as simplification of the applicable provisions, improvements of the control systems and re-design of the programme or delivery systems."

The Commission published, at the beginning of 2017, a Communication to the Council and the European Parliament analysing the root causes of errors and actions taken⁷⁹ for several policy areas, including the CAP. The following sections, and Annex 10 of this report, present in detail the weaknesses found in the control systems, remedial actions being taken and describe how the multiannual control system of the CAP protects the EU financial interests.

Substantial work has been done implementing strengthened rules on the avoidance of conflicts of interest in shared management (Article 61 of the Financial Regulation No 1046/2018, in force since 2 August 2018). Member States' authorities responsible for managing and auditing EU funds have received guidance during meetings held in November and December 2018. All Member States have been contacted to raise awareness on the new provisions and to gather information on the procedures and controls in place. Member States have been asked about the measures they have taken to ensure respect of the revised rules. In continuation of these activities, a conference on

⁷⁷ Two missions carried out in January-February 2019, included in the audit plan for 2019, where the Certification bodies' work for financial year 2018 was assessed.

⁷⁸ Regulation (EU, Euratom) 2018/1046 of the European Parliament and of the Council on the financial rules applicable to the general budget of the Union, applicable as of 2 August 2018 (previously Article 32(5) of Regulation (EU, Euratom) No 966/2012 of the European Parliament and of the Council on the financial rules applicable to the general budget of the Union).

⁷⁹ Communication from the Commission to the Council and the European Parliament - Root causes of errors and actions taken (Article 32(5) of the Financial Regulation) - COM(2017)124 final, 28 February 2017.

10 April 2019 brought together Member States authorities and the European Commission to discuss measures taken to deal with conflicts of interest, and to exchange best practices.

The Commission is also following up specific allegations of conflicts of interest.

2.1.1.2.2 Assessment of the amount at risk for Shared management

Given the annual declaration cycle and financial clearance of accounts procedure, the necessary information on the results of the controls carried out for financial year N is received in sufficient time to be used in the AAR for that year. In line with the detailed materiality criteria set out in Annex 4, reservations are made as a general rule for the Paying Agencies for which the annual adjusted error rate exceeds 2%. However, for those for which the adjusted error rate falls between 2% and 5%, the existence of sufficient mitigating factors may justify not making a reservation. Full details are presented in Annex 10, Part 3.

ABB02 – Market Measures

Market measures, at EUR 2 620.32 million, accounted for 4.61% of the CAP budget in 2018. The market measures split over 11 sectors, the most important of which are wine and fruit and vegetables:

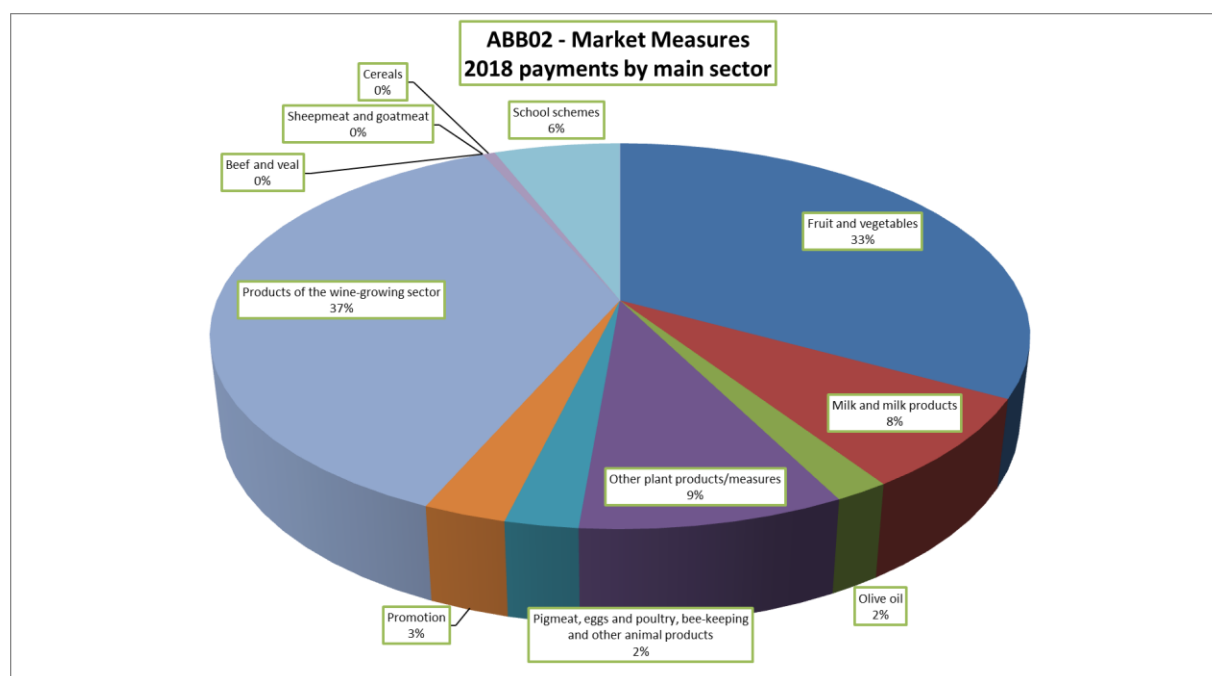


Chart 2.1.1.2.2-1

The following table sets out the expenditure in 2018 for ABB02 by budget article (sector). A measure by measure approach has been taken for assurance purposes in order to estimate, as precisely as possible, the adjusted error rates and amounts at risk.

Overall assessment of risk for ABB02 - Market Measures									
Budget item	Sector	Expenditure EUR	Expenditure covered by statistics		Expenditure for which no control statistics are available				
			Expenditure ⁽¹⁾ EUR	Risk EUR	No statistics available EUR	Measures risk assessed by auditors		ABB02 error rate applied* 1.98%	
						Expenditure ⁽¹⁾	Risk	Expenditure ⁽¹⁾	Risk
050201	Cereals	14 897 957			14 897 957		-	14 897 957	376 615
050202	Rice	-			-		-	-	-
050203	Non-annex I products	-			-		-	-	-
050204	Food Aid	-			-		-	-	-
050205	Sugar	-			-		-	-	-
050206	Olive Oil	47 920 784	47 920 784	762 851	-		-	-	-
050207	Textile Plants	-			-		-	-	-
050208	Fruit and Vegetables	865 146 648	811 116 460	24 482 287	54 030 189	54 030 189	321 701	-	-
050209	Wine ⁽²⁾	968 094 138	968 003 038	32 105 299	91 100			91 100	2 303
050210	Promotion (shared management only)	72 614 706			72 614 706	72 614 706	2 875 627	-	-
050211	Other plant products and POSEI	231 198 002	228 750 836	259 819	2 447 166			2 447 166	61 864
050212	Milk and Milk Products	201 081 275	19 055 851	32 982	182 025 425	182 025 425	-	-	-
050213	Beef and Veal	129 787			129 787			129 787	3 281
050214	Sheepmeat and goatmeat	- 1 391			(1 391)			(1 391)	(35)
050215	Pigmeat, eggs, poultry & apiculture	63 949 056			63 949 056	63 949 056	1 935 115	-	-
050218	School scheme ⁽³⁾	155 817 892			155 817 892	155 817 892	3 034 497	-	-
	Total	2 620 848 854	2 074 846 969	57 643 239	546 001 885	528 437 268	8 166 940	17 564 618	444 028
						Expenditure	Amount at risk	% coverage	Error rate
Expenditure covered by control statistics						2 074 846 969	57 643 239	79.17%	
Expenditure for which there are no statistics but for which risk assessment carried out						528 437 268	8 166 940	20.16%	
Risk for expenditure covered by statistics and by risk assessment						2 603 284 237	65 810 179	99.33%	
*Error rate used on expenditure covered by statistics and risk assessed									2.53%
Extrapolated risk for non-risk assessed expenditure						17 564 618	444 028		
ABB02 - shared management - monthly declaration						2 620 848 854	66 254 207		
Suspension of payments ⁽⁴⁾						-526 117	-		
ABB02 - shared management - payments made						2 620 322 737	66 254 207		2.53%
ABB02 - direct management - payments made on Promotion measures - direct payments by the Union							-		
Total ABB 02 - payments made						2 620 322 737	66 254 207		2.53%

Footnote: ⁽¹⁾ Monthly declaration of expenditure affected by Paying Agencies.

⁽²⁾ There are still payments and reimbursements made to Member States for measures from previous claim years. No control statistics are available on these measures, hence the average error rate is applied only on payments made but not on reimbursements.

⁽³⁾ For the new School Scheme the control statistics will be reported to DG AGRI only in October 2019. Therefore in this table the measure is reported in the section including the "Measure risk assessed by auditors" as to date DG AGRI has already performed three audits on the scheme.

⁽⁴⁾ Suspension of payments made in respect of financial year 2017 for Poland. The amounts corresponding to payments suspended have been declared by the Paying Agency to the Commission in its monthly declarations (i.e. no recovery order issued for the amounts concerned) but the amounts are suspended and not reimbursed to the Member State by the Commission.

Table: 2.1.1.2.2-1

Control statistics are available in respect of 79% of the expenditure covering EUR 2 074.85 million. For a further EUR 528.44 million, DG AGRI's auditors have considered that they have assurance on the basis of an examination of all available information on the schemes concerned and have used their judgement to estimate the maximum amount at risk in that expenditure.

Both the quantitative (where control statistics were available) and the qualitative approaches are set out in Annex 10 –Part 3.1 (ABB02).

This assessment process led to a number of adjustments being proposed by DG AGRI to the error rates calculated by the Member States, based on its own audits and on the assessment of the Certification Bodies.

As a result, in 31 cases the adjusted error risk rate is above 2%. In line with its materiality criteria in Annex 4, **5 cases – where the error rate is above 5% –** were automatically **subject to a reservation**.

Each case where the adjusted error rate was between 2% and 5% was examined in order to determine if risk mitigation conditions existed and if a reservation should be made. In **3 cases** a reservation was made (Italy and Spain for the fruit and vegetables sector, and Portugal for the wine sector).

Given the widespread nature of the Certification Body findings for the Paying Agency France AGRIMER, a general reservation is entered in respect of all market expenditure managed by that agency. This reservation covers the specific reservation for the wine and poultry sectors.

Finally, for 22 cases, the amount at risk is below DG AGRI *de minimis* threshold of EUR 1 million as established in Annex 4, therefore no reservation was necessary.

The results of this analysis are set out for each case in Annex 10 – Part 3.1 (ABB02).

The overall outcome of this exercise is that 7 reservations are necessary at measure level and **one general reservation** is entered at Paying Agency level:

- Fruit and Vegetables: Operational programmes for producer organisations (Spain, United Kingdom, Italy and Portugal)
- Promotion measures (Italy)
- Wine sector (Portugal)
- School Scheme (Poland)
- Market measures (France AGRIMER).

Annex 10 provides information on the corrective actions which are envisaged in each case that a reservation is made.

The following table summarises the situation at Member State level for ABB02 expenditure under shared management. Annex 10 – Part 3.1 (ABB02) provides the full details per main sector.

Member State	N° of Aid schemes subject to reservation	Relevant Expenditure ⁽¹⁾ in 2018	Reservations (by aid schemes) - shared management	Adjusted error rate	Amount under reservation EUR	Amount at Risk EUR	2018 Expenditure managed by Paying Agencies with reservation
AT	0	26 379 793		1.75%		462 897	
BE	0	99 759 745		0.06%		64 174	
BG	0	31 626 156		1.11%		350 636	
CY	0	7 853 465		2.23%		174 797	
CZ	0	18 533 086		1.33%		247 196	
DE	0	145 090 975		1.16%		1 689 280	
DK	0	8 426 349		0.32%		26 835	
EE	0	3 161 426		1.07%		33 848	
ES	1	505 070 975	F&V Producer organisations	1.56%	6 681 173	7 862 948	222 941 686
FI	0	8 539 053		0.44%		37 291	
FR	2			3.97%		24 042 838	
FR20		605 290 626	Wine		21 733 111		280 544 997
FR20			Pigmeat, eggs, poultry & apiculture		1 422 603		29 105 243
FR5			POSEI ABB02 (+ABB03 but not included in this calculation)				
GB	1	48 436 992	F&V Producer organisations	9.10%	3 901 187	4 407 206	38 550 271
GR	0	69 120 043		2.65%		1 833 764	
HR	0	8 733 396		1.20%		105 014	
HU	0	40 357 706		0.91%		366 231	
IE	0	28 227 064		0.00%		22	
IT	2	640 306 928		2.64%		16 897 041	
	Breakdown of reservation in IT by measure		F&V Producer organisations		9 101 363		243 693 065
			INT Promotion		1 445 137		14 121 222
LT	0	28 934 646		1.20%		347 108	
LU	0	473 242		-		0	
LV	0	8 943 840		0.96%		85 857	
MT	0	171 939		-		0	
NL	0	50 306 571		0.09%		43 552	
PL	1	68 693 013	School scheme	4.12%	2 536 349	2 830 349	25 363 488
PT	2	104 040 075		3.52%		3 666 423	
	Breakdown of reservation in IT by measure		F&V Producer organisations		1 218 385		10 990 062
			Wine		1 745 651		65 207 564
RO	0	35 956 636		0.20%		72 908	
SE	0	11 585 505		2.84%		329 311	
SI	0	7 341 839		3.77%		276 680	
SK	0	9 487 773		-		0	
Total	9	2 620 848 854					
Suspension of payments⁽²⁾		-526 117					
Total ABB02 - payments made		2 620 322 737		2.53%	49 784 958	66 254 207	930 517 598

Footnote: ⁽¹⁾ Monthly declaration of expenditure affected by Paying Agencies.

⁽²⁾ Suspension of payments made in respect of financial year 2018 for Poland. The amounts corresponding to payments suspended have been declared by the Paying Agency to the Commission in its monthly declarations (i.e. no recovery order issued for the amounts concerned) but the amounts are suspended and not reimbursed to the Member State by the Commission.

Table: 2.1.1.2.2-2

The total amount at risk for ABB02 – Market measures is estimated at EUR 66.25 million corresponding to an error rate of 2.53%.

Table 2.1.1.2.2-2 indicates the expenditure managed by the Member States for which a reservation is issued. It is emphasised that of this amount, **the amount at risk for the expenditure under reservation is EUR 49.78 million.**

ABB03 – Direct Payments

Direct payments constitute the largest area of expenditure in the CAP (73%) and amounted to EUR 41 496.52 million in 2018. The Basic payment scheme, greening and the Single area payment scheme account for 80% of this amount.

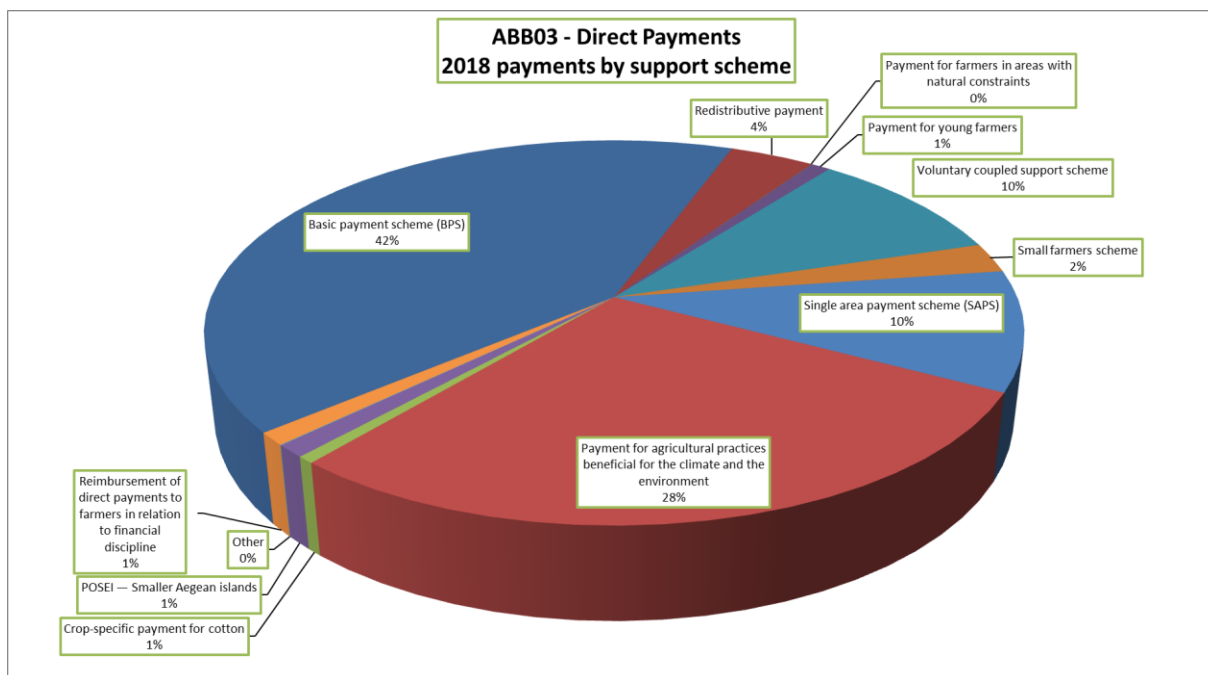


Chart 2.1.1.2.2-2

Control data and statistics have been provided by each Paying Agency in respect of 99% of the expenditure for the ABB activity.

DG AGRI has examined the data sent on a case-by-case basis and, based on its own audits and on the work carried out by the Certification Bodies, has made adjustments to the error rates resulting from the Paying Agency data where the latter was considered to reflect only part of the error existing in the expenditure. Thus, account has been taken of the opinions of the Certification Bodies and the DG AGRI auditors in respect of the audits carried out in the past three years. Annex 10 – Part 3.2 (ABB03) explains how the adjustments proposed were determined.

The results of the calculations have been extrapolated to the entire expenditure of the ABB in order to cover the remaining expenditure for which control statistics were not provided.

As a result, an adjusted error rate of 1.83% has been calculated with 23 Paying Agencies out of 69 having an error above 2% (out of which 2 Paying Agencies above 5%).

For the 21 Paying Agencies with an error rate between 2% and 5%, an examination was carried out of any risk mitigating factors which indicated that the EU budget was protected for the past (conformity clearance procedure, culminating in a financial correction, underway) and that it is protected for the future (the deficiencies have been addressed by the Paying Agency). In 4 cases (Estonia, Croatia, Romania and Slovenia), it was considered that, given the mitigating factors present (see summary under Part 3.2.5 of Annex 10), it would not be necessary to make reservations.

In 2 cases (IT24 - OPPAB and IT25 - APPAG), as the amount at risk is below DG AGRI *de minimis* threshold, no reservation is required. Annex 10 – Part 3.2.5 (ABB03) sets out the reasoning for these cases.

The overall outcome of this exercise is that 17 reservations are necessary at Paying Agency level:

- Austria
- Cyprus
- Denmark
- Spain (2 Paying Agencies)
- France (1 Paying Agency)
- The United Kingdom (1 Paying Agency)
- Italy (7 Paying Agencies)
- Poland
- Sweden
- Slovakia.

The following table presents the situation at Member State level for ABB03. Annex 10 – Part 3.2 (ABB03) provides the full picture per Paying Agency.

Member States	Relevant Expenditure ⁽¹⁾ 2018	N° of Paying Agencies	N° of Paying Agencies under Reservation	Adjusted Error Rate	Amount at Risk	Amount at Risk Covered by Reservation	2018 Expenditure managed by Paying Agencies with a Reservation
AT	691 337 010	1	1	6.79%	46 959 188	46 959 188	691 337 010
BE	501 563 795	2	0	1.00%	5 019 874	0	0
BG	783 866 869	1	0	0.59%	4 616 308	0	0
CY	49 452 062	1	1	5.22%	2 579 835	2 579 835	49 462 068
CZ	834 152 088	1	0	1.47%	12 299 567	0	0
DE	4 815 138 717	13	0	0.47%	22 840 667	0	0
DK	827 476 354	1	1	3.06%	25 294 320	25 294 320	827 461 077
EE	122 581 599	1	0	2.28%	2 793 406	0	0
ES	5 074 077 591	17	2	1.17%	59 463 153	3 763 726	101 194 896
FI	523 458 826	1	0	0.72%	3 757 247	0	0
FR	7 193 521 695	2	1	1.65%	118 896 972	2 935 605	138 927 304
GB	3 132 843 495	4	1	1.30%	40 802 937	13 159 970	504 506 529
GR	2 046 835 621	1	0	1.69%	34 663 121	0	0
HR	240 476 362	1	0	3.78%	9 088 962	0	0
HU	1 279 781 888	1	0	1.58%	20 206 926	0	0
IE	1 197 015 135	1	0	0.47%	5 668 444	0	0
IT	3 675 691 608	9	7	2.67%	98 299 261	97 184 617	3 625 916 001
LT	462 508 695	1	0	1.42%	6 550 797	0	0
LU	33 079 814	1	0	0.10%	33 336	0	0
LV	228 118 525	1	0	0.43%	985 482	0	0
MT	5 105 623	1	0	1.42%	72 547	0	0
NL	720 299 561	1	0	0.48%	3 444 762	0	0
PL	3 364 597 975	1	1	4.46%	149 936 915	149 936 915	3 364 531 584
PT	665 010 700	1	0	1.24%	8 215 396	0	0
RO	1 774 565 555	1	0	2.00%	35 471 838	0	0
SE	685 649 771	1	1	3.55%	24 364 559	24 364 559	685 649 771
SI	134 875 841	1	0	2.59%	3 487 180	0	0
SK	438 444 526	1	1	2.77%	12 148 532	12 148 532	438 449 026
Total	41 501 527 302	69					
-5 010 963 Amounts reimbursed to DG AGRI by Coordinating Bodies							
Total ABB 03 - Payments made	41 496 516 339	69	17	1.83%	757 961 531	378 327 268	10 427 435 265

Footnote: ⁽¹⁾ Monthly declaration of expenditure affected by Paying Agencies.

Table: 2.1.1.2.2-3

The total amount at risk for ABB03 - Direct payments is estimated at EUR 757.96 million corresponding to an error rate of 1.83%.

Table 2.1.1.2.2-3 indicates the expenditure managed by the Paying Agencies for which a reservation is issued. It is emphasised that of this amount, **the amount at risk for the expenditure under reservation is EUR 378.33 million.**

ABB04 – Rural Development

In 2018, EUR 12 456.85 million was paid to Member States in respect of rural development which represents 22% of the CAP spending. Expenditure paid in 2018 under the 2007-2013 programming period amounted to EUR 271 929 053, out of which EUR 224 768 001 was paid as balance payments and EUR 47 161 052 was reimbursed following Court cases. Expenditure paid and financed under the 2014-2020 programming period, amounted to EUR 12 173 540 691. Of this, EUR 19 501 317 was paid as pre-financing, EUR 12 154 039 375 was paid as interim payments and an amount of EUR 11 867 856 paid in respect of technical assistance. In addition, a reimbursement of EUR 488 523 has been made by Member States to the Commission in respect of the previous programming period 2000-2006 (budget item 05040114).

Payments reimbursed by DG AGRI to the Member States in 2018				
Management type	Chapter	Budget item	Description	Payments (EUR)
Shared Management	0504	05040114	Completion of rural development financed by the EAGGF Guarantee Section - Programming period 2000 to 2006	-488 523
		05040201	Completion of the European Agricultural Guidance and Guarantee Fund, Guidance Section - Objective 1 regions (2000 to 2006)	-
		05040501	Rural development programmes 2007-2013	271 929 053
			Reimbursements following Court cases	47 161 052
			Final balance 2007-2013	224 768 001
		05046001	Promoting sustainable rural development, a more territorially and environmentally balanced, climate-friendly and innovative Union agricultural sector	12 173 540 691
			Interim payments for promoting sustainable rural development, a more territorially and environmentally balanced, climate-friendly and innovative Union agricultural sector 2014-2020	12 154 039 375
			Pre-financing for promoting sustainable rural development, a more territorially and environmentally balanced, climate-friendly and innovative Union agricultural sector 2014-2020	19 501 317
			Sub-Total Shared Management	12 444 981 221
		Direct Management	0504	05040206
05040502	Operational technical assistance 2007-2013			-
05046002	Operational technical assistance 2014-2020			11 867 856
Sub-Total Direct Management	11 867 856			
Grand Total 0504				12 456 849 077

Table: 2.1.1.2.2-4

Control statistics have been provided by each Paying Agency in respect of 98% of the expenditure financed under the Rural Development Programmes amounting to EUR 12 161.68 million.

The following chart sets out 2018 expenditure declared by Member States for the Rural Development Programmes divided among the IACS and non-IACS measures (see Annex 10-3.3.2 for more information).

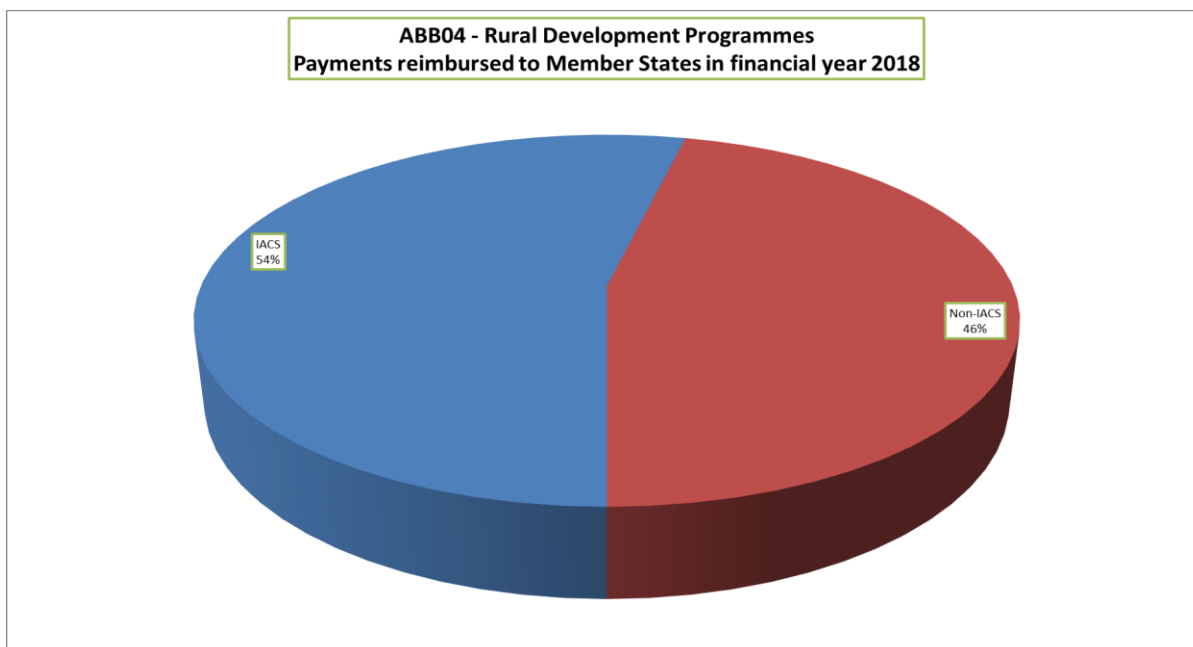


Chart 2.1.1.2.2-3

DG AGRI has examined the data sent on a case-by-case basis and has made adjustments to the error rates resulting from the Paying Agency data where the latter was considered to reflect only part of the error existing in the expenditure, based on its own audits and on the assessment of the Certification Bodies. Thus, account has been taken of the opinions of the Certification Bodies and the DG AGRI auditors in respect of the audits carried out in the past three years. Annex 10 – Part 3.3 (ABB04) explains in detail the assessment process and how the adjustments proposed were determined.

As a result of the adjustments made, 30 out of 72 Paying Agencies have an adjusted error rate above 2% (of which 10 were above 5%: Croatia, Cyprus, France (2 Paying Agencies), Germany (1 Paying Agency), United Kingdom (1 Paying Agency), Portugal, Spain (2 Paying Agency), Sweden).

In line with its materiality criteria in Annex 4, **7 cases where the error rate is above 5%** (Croatia, France (2 Paying Agencies), Portugal, United Kingdom (1 Paying Agency), Spain (1 Paying Agency) and Sweden) were automatically **subject to a reservation**. In 3 cases, the amount at risk is below DG AGRI's *de minimis* threshold of EUR 1 million as established in Annex 4 (materiality criteria), therefore no reservation was necessary.

For 20 Paying Agencies with an error rate between 2% and 5%, DG AGRI examined the situation for each Paying Agency concerned to determine if risk mitigation conditions existed rendering it unnecessary to make a reservation. In 5 cases, it was considered that, given the mitigating factors present, it would not be necessary to make reservations. For 1 Paying Agency (IT24), the amount at risk is below DG AGRI's *de minimis* threshold of EUR 1 million as established in Annex 4 (materiality criteria), therefore no reservation was necessary. For the remaining 14 Paying Agencies, a reservation was deemed necessary.

As regards reservations from 2017, in 9 cases (Austria, Bulgaria, Finland, Germany (2 Paying Agencies), United Kingdom (1 Paying Agency), Italy (1 Paying Agency), Spain (2 Paying Agencies), it was not considered necessary to carry over reservations from the 2017 AAR with regard to 2018 expenditure. The reasons for each decision are detailed in Annex 10 – Part 3.3.

In total, 13 reservations from 2017 are repeated in 2018 as the deficiencies persist, while 8 new reservations are introduced (Belgium (1 paying Agency), Germany (1 Paying Agency), Spain (3 Paying Agencies), Greece, Croatia, The Netherlands).

The overall outcome of this exercise is that 21 reservations are necessary at Paying Agency level:

- Belgium (2 Paying Agencies)
- Croatia
- Czech Republic
- Germany (1 Paying Agency)
- Spain (4 Paying Agencies)
- France (2 Paying Agencies)
- The United Kingdom (3 Paying Agencies)
- Greece
- Hungary
- Italy (1 Paying Agency)
- The Netherlands
- Portugal
- Sweden
- Slovakia.

The following table presents the situation at Member State level for ABB04 for the interim payments in financial year 2018. Annex 10 – Part 3.3 (ABB04) provides the picture per Paying Agency:

Member States	Interim Payments FY2018	N° of Paying Agencies	N° of Paying Agencies under reservation	Adjusted error rate	Amount at risk	Amount at risk covered by reservation	Payments managed by Paying Agencies in 2018 with a reservation
AT	512 804 158	1	0	1.47%	7 514 548	0	0
BE	69 095 529	2	2	3.33%	2 304 275	2 304 275	68 814 988
BG	205 683 318	1	0	1.70%	3 500 258	0	0
CY	14 530 171	1	0	5.22%	758 618	0	0
CZ	324 647 223	1	1	2.11%	6 844 111	6 844 111	323 611 582
DE	1 117 668 890	15	1	1.22%	13 622 472	1 690 145	74 846 524
DK	89 687 155	1	0	1.92%	1 721 730	0	0
EE	128 104 065	1	0	0.37%	471 207	0	0
ES	899 726 086	18	4	2.15%	19 375 588	10 329 510	251 309 260
FI	351 787 931	1	0	1.55%	5 463 400	0	0
FR	1 708 849 535	2	2	7.29%	124 649 636	124 649 636	1 708 558 236
GB	580 998 528	4	3	4.48%	26 063 786	25 797 008	560 559 502
GR	579 944 832	1	1	4.89%	28 342 338	28 342 338	579 944 680
HR	206 150 392	1	1	12.42%	25 603 366	25 603 366	206 317 523
HU	385 929 544	1	1	3.12%	12 035 164	12 035 164	385 929 544
IE	318 709 149	1	0	2.94%	9 357 506	0	0
IT	1 045 757 040	9	1	2.10%	21 974 976	3 913 758	91 232 710
LT	217 968 861	1	0	0.31%	686 561	0	0
LU	14 530 735	1	0	0.75%	109 117	0	0
LV	192 664 101	1	0	0.76%	1 456 521	0	0
MT	9 391 195	1	0	1.17%	109 843	0	0
NL	78 872 378	1	1	3.53%	2 781 022	2 781 022	0
PL	944 569 722	1	0	1.01%	9 568 419	0	0
PT	503 033 323	1	1	5.41%	27 203 310	27 203 310	0
RO	1 146 152 415	1	0	0.95%	10 913 865	0	0
SE	195 642 880	1	1	8.33%	16 297 867	16 297 867	195 643 074
SI	110 943 349	1	0	1.67%	1 858 143	0	0
SK	200 196 868	1	1	4.74%	9 484 306	9 484 306	200 198 632
Grand Total	12 154 039 375	72	21	3.21%	390 071 955	297 275 817	4 646 966 256

Table: 2.1.1.2.2-5

As regards the interim payments for the **2014-2020 Rural Development Programmes** paid in 2018, the adjustments made by DG AGRI led to an adjusted error rate of 3.21%, as presented in the table above, corresponding to an **amount at risk of EUR 390.07 million**.

Table 2.1.1.2.2-5 indicates the expenditure managed by the Paying Agencies for which a reservation is issued. It is emphasised that of this amount, **the amount at risk for the expenditure under reservation is EUR 297.28 million**.

In addition, an amount of EUR 19.5 million has been paid as **pre-financing** for the 2014-2020 rural development programmes. This expenditure is considered to be risk free and therefore has an **associated error rate of 0%**.

As regards the **2007-2013 rural development programmes**, following the **closure of 17 programmes and the payment of the balance in 2018**, the risk associated with the payments of the closure balance has been assessed. The adjusted error rates estimated for each individual Paying Agency concerned for financial year 2015 (last year for which payments could be made to beneficiaries for 2007-2013 programmes) has been used to estimate the amount at risk. This results in an overall 2.98% adjusted error rate

for the closure balance and a corresponding **amount at risk of EUR 6.71 million**. As these programmes have been closed, no remedial actions by Member States are needed, deficiencies in the management and control systems are followed up where necessary via conformity clearance procedures. No reservation is entered.

In addition, an amount of EUR 47.16 million has been reimbursed to the Member States following Court cases. This expenditure is considered to be risk free and therefore has an **associated error rate of 0%**.

When taking into account all payments made by DG AGRI in 2018, the overall situation for the ABB04 is as follows:

Payments reimbursed by DG AGRI to the Member States in 2018						
Management type	Chapter	Budget item	Description	Payments (EUR)	Error rate (%)	Amount at risk (EUR)
Shared Management	0504	05040114	Completion of rural development financed by the EAGGF Guarantee Section - Programming period 2000 to 2006	-488 523	0.00%	-
		05040201	Completion of the European Agricultural Guidance and Guarantee Fund, Guidance Section - Objective 1 regions (2000 to 2006)	-	-	-
		05040501	Rural development programmes 2007-2013	271 929 053		
			Reimbursements following Court cases	47 161 052	0.00%	
			Final balance 2007-2013	224 768 001	2.98%	6 706 634
		05046001	Promoting sustainable rural development, a more territorially and environmentally balanced, climate-friendly and innovative Union agricultural sector	12 173 540 691		390 071 955
			Interim payments for promoting sustainable rural development, a more territorially and environmentally balanced, climate-friendly and innovative Union agricultural sector 2014-2020	12 154 039 375	3.21%	390 071 955
			Pre-financing for promoting sustainable rural development, a more territorially and environmentally balanced, climate-friendly and innovative Union agricultural sector 2014-2020	19 501 317	0.00%	-
			Sub-Total Shared Management	12 444 981 221	3.19%	396 778 589
Direct Management	0504	05040206	Completion of Leader (2000 to 2006)	-	-	-
		05040502	Operational technical assistance 2007-2013	-	-	-
		05046002	Operational technical assistance 2014-2020	11 867 856	1.00%	118 679
			Sub-Total Direct Management	11 867 856	1.00%	118 679
Grand Total 0504				12 456 849 077	3.19%	396 897 267

Table: 2.1.1.2.2-6

The adjusted error rate for payments made for ABB04 is 3.19% and the amount at risk is estimated at EUR 396.90 million.

Finally, for the purpose of estimating the **final amount at risk** for ABB04, account has to be taken of all amounts reimbursed by the Commission, excluding the pre-financing, including the cleared pre-financing amounts⁸⁰ and the closure balances paid in 2018 i.e. **the relevant expenditure. This results in an overall estimated final amount at risk at payment of EUR 397.62 million corresponding to an adjusted error rate of 3.20%** (see table 2.1.1.2.2-15 for the details).

Overall assessment on the functioning of the management and control systems

Article 74 of the Financial Regulation⁸¹ requires the Director-General to report in his Annual Activity Report on whether, except as otherwise specified in any reservations, he has reasonable assurance that, inter alia, the control procedures put in place give the necessary guarantees concerning the legality and regularity of the underlying transactions.

In this chapter, the previous sections set out the situation with regard to the functioning of the management and control systems for ABB02 – Market Measures, ABB03 – Direct Payments and ABB04 – Rural Development expenditure.

⁸⁰ The cleared pre-financing of EUR 11.32 million concerned only the Romanian programme and the error rate of the AAR2015 interim payments (7.41%) was used, which results in an additional estimated amount at risk of EUR 0.84 million (see table 2.1.1.2.2-15).

⁸¹ Regulation (EU, Euratom) 2018/1046 of the European Parliament and of the Council on the financial rules applicable to the general budget of the Union, applicable as of 2 August 2018 (previously Article 66 of Regulation (EU, Euratom) No 966/2012 of the European Parliament and of the Council on the financial rules applicable to the general budget of the Union).

In delivering the conclusions in each case, DG AGRI has based itself on the four level structure of management and control, which is described in Annex 10, Part 1 and on the reports and indicators which emanate from those levels. **For financial year 2018, DG AGRI shared the management of the CAP expenditure with 77 (1 of them ceased to exist during financial year 2018) Paying Agencies in the 28 Member States and reports extensively in Annex 10, Part 2 on the annual management declarations, which are delivered by those Paying Agencies as well as on the opinion delivered by the Certification Bodies.** DG AGRI also, via its various forms of follow-up including on-the-spot audits, checks that the Paying Agencies respect the strict accreditation criteria which regulates them as well as the quality of the work carried out by the Certification Bodies.

KEY INDICATORS FOR LEGALITY AND REGULARITY – EAGF AND EAFRD FINANCIAL YEAR 2018		
ASSURANCE DERIVING FROM THE FUNCTIONING OF THE PAYING AGENCIES		
Accreditation of Paying Agencies (as of 16/10/2018)	Fully accredited	76
	Provisional accreditation	0
	On probation	0
	Total	76
Certificates and reports of Certification Bodies on functioning of Paying Agencies' internal control systems	Received	77
	Not received	0
	Effective ⁸²	77
	Not effective	0
Management Declarations signed by the directors of Paying Agencies	Received	77 ⁸³
	Not received	0
	Unqualified	76 ⁸⁴
	Qualified with reservation	1
Opinions of Certification Bodies on the Management Declarations	Received	77
	Not received	0
	Unqualified	71
	Qualified ⁸⁵	6

Table: 2.1.1.2.2-7

DG AGRI also carries out conformity clearance audit missions which check the management and control systems in individual Paying Agencies and provide valuable information on how effectively those systems protect the EU funds which they are responsible for disbursing.

⁸² Effective means very good, good or adequate.

⁸³ The accreditation of IT03 was withdrawn on 10/08/2018 but they submitted their annual accounts for period that it was active.

⁸⁴ 10 out of the 76 included an emphasis of matter note on specific issues.

⁸⁵ The qualifications vary and may be for one population or all populations.

Conformity audit missions carried out in EAGF and EAFRD in financial years 2016-2018 (from 16/10/2015 until 15/10/2018)

	ABB-specific audit missions ¹				Non-ABB specific audit missions	Total number of audit missions
	ABB 02	ABB 03 ²	ABB 04 ³	Sub-total		
Number of conformity audit missions carried out	70	108	135	286	115	401
Member States covered	All Member States, except CY, EE, LV, SK	All Member States, except FI	All Member States except CY	All Member States	All Member States except MT	All Member States
	24 Member States	27 Member States	27 Member States	28 Member States		

¹ If an audit covers more than one ABB, it is allocated to all ABBs covered by the audit scope. However, each audit is counted only once in the sub-total.

² Excluding audits on cross-compliance.

³ Concerns only EAFRD, thus excluding the EAGGF Guidance section.

Table: 2.1.1.2.2-8

DG AGRI has carried out **401** conformity audit missions to Member States, of which **286** audits targeted the 3 main ABBs (audits targeting more than one ABBs are counted only once) in the past 3-year period. Audits carried out in respect of ABB03 included 14 audits specifically on entitlements. The other **115** audits carried out in this period were not specific to a particular ABB area, including:

- 31 audits on cross-compliance;
- 18 audits in relation to information system security;
- 1 audit on direct expenditures;
- 4 audits on *ex-post* scrutiny;
- 4 audits on debt management;
- 1 audits on accreditation and/or certification;
- 2 audits on the verification of the implementation of action plans by Member States;
- 8 pre-accession related audits; and
- 46 specific audits on the review of the work on the Certification Bodies to check the quality of their audit work and the reliability of their opinions on legality and regularity of the expenditure.

**Conformity audit missions carried out in EAGF and EAFRD financial year 2018
(from 16/10/2017 until 15/10/2018)**

	ABB-specific audit missions ¹				Non-ABB specific audit missions	Total number of audit missions
	ABB 02	ABB 03 ²	ABB 04 ³	Sub-total		
Number of conformity audit missions carried out	23	36	40	87	35	122
Member States covered	All Member States except BG, CY, CZ, DE, EE, LV, MT, NL, SE, SK	All Member States except BG, DK, FI, HR, MT, NL, PT, SK	All Member States except BG, CY, FI, IE, LT, LV, MT, RO	All Member States except BG, MT	12 Member States: BE, CY, DE, ES, FR, GB, GR, IE, IT, NL, PL, PT	All Member States except BG, MT
	(18 Member States)	(20 Member States)	(19 Member States)	(26 Member States)		
Expenditure 2018						
- total, million EUR ⁴	2 618.5	41 487.8	12 162.3	56 268.6		
- covered ⁵ , million EUR	1 144.0	29 584.0	7 040.7	37 768.7		

¹ If an audit covers more than one ABB, it is allocated to all ABBs covered by the audit scope. However, each audit is counted only once in the sub-total.

² Excluding audits on cross-compliance.

³ Concerns only EAFRD, thus excluding the EAGGF Guidance section.

⁴ Payments made (DG AGRI Annual Accounts - Annex 3).

⁵ Based on expenditure declared by the Paying Agency (x-table data) during the 24 months prior to the date of DG AGRI's letter of finding/closure letter.

Table: 2.1.1.2.2-9

DG AGRI carried out **122** audit missions, which includes **87 conformity audits** targeting the 3 ABBs areas (audits covering more than one ABB area are counted only once) in the period under financial year 2018. Apart from that, **35** other audit missions were carried out covering areas not specific to a particular ABB. They included:

- 6 audits on information system security;
- 8 audits on cross-compliance;
- 1 audit on direct expenditure;
- 1 audit on accreditation;
- 3 pre-accession related audits, and
- 16 audits on the Certification Bodies as regards legality and regularity.

Those audits also result, through the ensuing conformity clearance procedures, where deficiencies in the management and control systems are detected, in net financial corrections. It is noted that audits carried out in 2017 and 2018 will also cover the 2016 expenditure ("24 month rule"⁸⁶).

The Paying Agencies are required to send statistical data reporting on the outcome of the controls which they have performed and this enables DG AGRI to calculate the level of error detected at Paying Agency level. The following table shows the percentage of expenditure for which the Member States send statistical data on the results of the controls carried out.

Expenditure under shared management (EUR)		Expenditure covered by control statistics (EUR)	% ABB covered by control statistics	% Fund covered by control statistics	% CAP covered by control statistics
ABB02	2 620 322 737	2 074 846 969	79%		
ABB03	41 496 516 339	41 042 569 114	99%	98%	
ABB04	12 444 981 221	12 161 686 268	98%	98%	
CAP	56 561 820 298	55 279 102 352			98%

Table: 2.1.1.2.2-10

As mentioned in sub-section 2.1.1.2.1, the Certification Bodies also assess the proper functioning of the Paying Agencies' internal control system and give an opinion on the legality and regularity of the expenditure declared to the Commission.

In addition, DG AGRI carries out a thorough validation and evaluation of the data. Consequently, it takes into account all available relevant information, notably the assessment of the Certification Bodies and the results of its own audit findings and where relevant those of the European Court of Auditors. This process is explained in detail in Annex 4 (materiality criteria) as well as in Annex 10 – Parts 3.1 (Market Measures), 3.2 (Direct Payments) and 3.3 (Rural Development).

This allows DG AGRI to make adjustments on a case-by-case basis at the appropriate level (Paying Agency for ABB03 and ABB04 and measure level per Member State for ABB02) in order to arrive at its best estimate, using its professional judgement, of the "real" level of error in each case – **the adjusted error rate**.

The fact that DG AGRI adjusts the Member States' error rates does not mean that the data sent by the latter is unreliable. The adjustments are made because the Commission, the Certification Bodies and European Court of Auditors find deficiencies when they audit the management and control systems in the Member States. The impact of such deficiencies is that Member States may not have detected all errors – that is why the Commission tops-up the figures reported to establish the error rate. See also Explanatory Box: 3.2.3.2-3 in Annex 10.

⁸⁶ In accordance with the provisions of Article 52(4) of Regulation (EU) No 1306/2013, the conformity clearance covers expenditure incurred up to 24 months before the Commission officially notifies the Member State of its audit findings (i.e. the receipt by the Member State of the Letter of findings in its national language).

Following this assessment stage and taking into account the adjusted error rate, the Paying Agencies for ABB03 and ABB04 and aid measures per Member State for ABB02, are classified into four categories in accordance with the level of assurance that they provide as to the legality and regularity of payments made during the reporting year.

These categories are set out in the following table (2.1.1.2.2-11) which summarises the situation for each of the ABB activities:

Impact on the Declaration of Assurance (based on the functioning of systems, materiality and legality and regularity criteria)	Coverage											
	Number of aid schemes/Paying Agencies				as % of aid schemes/Paying Agencies				Payments to aid schemes/Paying Agencies in question as % of expenditure 2018			
	ABB02	ABB03	ABB04	Total	ABB02	ABB03	ABB04	Total	ABB02	ABB03	ABB04	Total
Reasonable assurance (= adjusted error rate below 2% or under 'de minimis')	172	49	45	266	74.5%	71.0%	63.4%	71.7%	59.4%	73.7%	51.7%	68.2%
Reasonable assurance with low risk (= adjusted error rate between 2% and 5%, with mitigating factors, no reservation)	50	3	5	58	21.6%	4.3%	7.0%	15.6%	5.1%	1.2%	5.3%	2.3%
Limited assurance with medium risk (= adjusted error rate between 2% and 5%, no mitigating factors, with reservation)	4	15	14	33	1.7%	21.7%	19.7%	8.9%	21.4%	23.4%	20.6%	22.7%
Limited assurance with high risk (= adjusted error rate above 5%, with reservation)	5	2	7	14	2.2%	2.9%	9.9%	3.8%	14.1%	1.8%	22.4%	6.8%
Grand Total	231	69	71	371	100%	100%	100%	100%	100%	100%	100%	100%

Table: 2.1.1.2.2-11

All aid schemes/Paying Agencies falling under the categories 'limited assurance – medium risk' and 'limited assurance – high risk' in the above table are subject to a reservation. Therefore, reservations are necessary in respect of:

- ABB02: 8 elements comprising 5 aid schemes in 5 Member States and 1 general reservation for 1 Paying Agency.
- ABB03: 17 Paying Agencies in 10 Member States.
- ABB04: 21 Paying Agencies in 14 Member States.

Tables 2.1.1.2.2-12, 2.1.1.2.2-13 and 2.1.1.2.2-14 set out the situation underlying the above table 2.1.1.2.2-11 on the risk assessments for each of the three ABB activities. These tables show for ABB02, ABB03 and ABB04, the classification of expenditure, following management assessment, into four categories of the level of assurance that they provide as to the legality and regularity of payments made during the reporting year.

ABB02: Classification of expenditure, following management assessment, into four categories of the level of assurance that they provide as to the legality and regularity of payments made during the reporting year

ABB02:		Total payments in 2018 per level of assurance (shared management only)								2018			
Member State	Reasonable assurance		Reasonable assurance with low risk		Limited assurance with medium risk		Limited assurance with high risk		Total relevant expenditure ⁽¹⁾	N° of Aid schemes/Paying Agencies	Amount at risk	Adjusted error rate	AAR 2018 reservations
	Expenditure ⁽¹⁾	N° of Aid schemes/Paying Agencies	Expenditure ⁽¹⁾	N° of Aid schemes/Paying Agencies	Expenditure ⁽¹⁾	N° of Aid schemes/Paying Agencies	Expenditure ⁽¹⁾	N° of Aid schemes/Paying Agencies					N° of Paying Agencies
AT	18 173 518	6	8 206 275	2					26 379 793	8	462 897	1.75%	0
BE	99 762 156	9	-2 411	1					99 759 745	10	64 174	0.06%	0
BG	31 048 230	5	577 926	2					31 626 156	7	350 636	1.11%	0
CY	3 207 596	7	4 645 869	2					7 853 465	9	174 797	2.23%	0
CZ	15 786 918	6	2 746 168	3					18 533 086	9	247 196	1.33%	0
DE	142 782 085	9	2 308 890	1					145 090 975	10	1 689 280	1.16%	0
DK	8 426 349	7		1					8 426 349	8	26 835	0.32%	0
EE	1 822 563	5	1 338 863	1					3 161 426	6	33 848	1.07%	0
ES	281 996 608	9	132 681	1	222 941 686	1			505 070 975	11	7 862 948	1.56%	1
FI	7 460 581	5	1 078 473	1					8 539 053	6	37 291	0.44%	0
FR	294 353 467	9	1 286 919	3	29 105 243	1	280 544 997	1	605 290 626	14	24 042 838	3.97%	2
GB	8 455 814	5	1 430 907	2			38 550 271	1	48 436 992	8	4 407 206	9.10%	1
GR	32 862 126	6	36 257 917	4					69 120 043	10	1 833 764	2.65%	0
HR	7 729 968	6	1 003 427	2					8 733 396	8	105 014	1.20%	0
HU	33 618 424	5	6 739 282	3					40 357 706	8	366 231	0.91%	0
IE	28 227 064	6		1					28 227 064	7	22	0.00%	0
IT	348 363 482	7	34 129 159	2	243 693 065	1	14 121 222	1	640 306 928	11	16 897 041	2.64%	2
LT	17 882 471	5	11 052 175	2					28 934 646	7	347 108	1.20%	0
LU	473 242	3		1					473 242	4		0.00%	0
LV	5 547 547	6	3 396 294	1					8 943 840	7	85 857	0.96%	0
MT	171 939	3		1					171 939	4		0.00%	0
NL	50 306 571	7		1					50 306 571	8	43 552	0.09%	0
PL	40 409 886	8	2 919 639	2			25 363 488	1	68 693 013	11	2 830 349	4.12%	1
PT	25 956 243	5	1 886 205	3	65 207 564	1	10 990 062	1	104 040 075	10	3 666 423	3.52%	2
RO	35 956 636	10		1					35 956 636	11	72 908	0.20%	0
SE	5 039 962	3	6 545 543	2					11 585 505	5	329 311	2.84%	0
SI	1 346 780	3	5 995 058	3					7 341 839	6	276 680	3.77%	0
SK	9 487 773	7		1					9 487 773	8		0.00%	0
Total - monthly declaration	1 556 655 996	172	133 675 260	50	560 947 558	4	369 570 040	5	2 620 848 854				
Suspension of payments ⁽²⁾									-526 117				
ABB02 - shared management - payments made									2 620 322 737	231	66 254 207	2.53%	9

Footnote: ⁽¹⁾ Monthly declaration of expenditure affected by Paying Agencies.

⁽²⁾ Suspension of payments made in respect of financial year 2018 for Poland. The amounts corresponding to payments suspended have been declared by the Paying Agency to the Commission in its monthly declarations (i.e. no recovery order issued for the amounts concerned) but the the amounts are suspended and not reimbursed to the Member State by the Commission.

Table: 2.1.1.2.2-12

ABB03: Classification of expenditure, following management assessment, into four categories of the level of assurance that they provide as to the legality and regularity of payments made during the reporting year

ABB03:		Total payments in 2018 per level of assurance								2018			
Member State	Reasonable Assurance		Reasonable Assurance with Low Risk		Limited Assurance with Medium Risk		Limited Assurance with High Risk		Total Relevant Expenditure ⁽¹⁾	Total N° of Paying Agencies	Amount at Risk	Adjusted Error Rate	AAR 2018 reservations
	Expenditure ⁽¹⁾	N° of Paying Agencies	Expenditure ⁽¹⁾	N° of Paying Agencies	Expenditure ⁽¹⁾	N° of Paying Agencies	Expenditure ⁽¹⁾	N° of Paying Agencies					N° of Paying Agencies
AT							691 337 010	1	691 337 010	1	46 959 188	6.79%	1
BE	501 563 795	2							501 563 795	2	5 019 874	1.00%	0
BG	783 866 869	1							783 866 869	1	4 616 308	0.59%	0
CY							49 452 062	1	49 452 062	1	2 579 835	5.22%	1
CZ	834 152 088	1							834 152 088	1	12 299 567	1.47%	0
DE	4 815 138 717	13							4 815 138 717	13	22 840 667	0.47%	0
DK					827 476 354	1			827 476 354	1	25 294 320	3.06%	1
EE			122 581 599	1					122 581 599	1	2 793 406	2.28%	0
ES	4 972 828 738	15			101 248 853	2			5 074 077 591	17	59 463 153	1.17%	2
FI	523 458 826	1							523 458 826	1	3 757 247	0.72%	0
FR	7 054 594 391	1			138 927 304	1			7 193 521 695	2	118 896 972	1.65%	1
GB	2 624 168 878	3			508 674 617	1			3 132 843 495	4	40 802 937	1.30%	1
GR	2 046 835 621	1							2 046 835 621	1	34 663 121	1.69%	0
HR			240 476 362	1					240 476 362	1	9 088 962	3.78%	0
HU	1 279 781 888	1							1 279 781 888	1	20 206 926	1.58%	0
IE	1 197 015 135	1							1 197 015 135	1	5 668 444	0.47%	0
IT	47 910 727	2			3 627 780 881	7			3 675 691 608	9	98 299 261	2.67%	7
LT	462 508 695	1							462 508 695	1	6 550 797	1.42%	0
LU	33 079 814	1							33 079 814	1	33 336	0.10%	0
LV	228 118 525	1							228 118 525	1	985 482	0.43%	0
MT	5 105 623	1							5 105 623	1	72 547	1.42%	0
NL	720 299 561	1							720 299 561	1	3 444 762	0.48%	0
PL					3 364 597 975	1			3 364 597 975	1	149 936 915	4.46%	1
PT	665 010 700	1							665 010 700	1	8 215 396	1.24%	0
RO	1 774 565 555	1							1 774 565 555	1	35 471 838	2.00%	0
SE					685 649 771	1			685 649 771	1	24 364 559	3.55%	1
SI			134 875 841	1					134 875 841	1	3 487 180	2.59%	0
SK					438 444 526	1			438 444 526	1	12 148 532	2.77%	1
Subtotal	30 570 004 146	49	497 933 802	3	9 692 800 282	15	740 789 072	2	41 501 527 302				
Amounts reimbursed to DG AGRI by Coordinating Bodies									-5 010 963				
TOTAL									41 496 516 339	69	757 961 531	1.83%	17

Footnote: (1) Monthly declaration of expenditure effected by Paying Agencies.

Table: 2.1.1.2.2-13

ABB04: Classification of expenditure, following management assessment, into four categories of the level of assurance that they provide as to the legality and regularity of payments made during the reporting year

ABB04:		Total payments in 2018 per level of assurance							2018				
Member State	Reasonable assurance		Reasonable assurance with low risk		Limited assurance with medium risk		Limited assurance with high risk		Total payments ⁽¹⁾	Total N° of Paying Agencies	Amount at risk	Adjusted error rate	AAR 2018 reservations
	Payments ⁽¹⁾	N° of Paying Agencies	Payments ⁽¹⁾	N° of Paying Agencies	Payments ⁽¹⁾	N° of Paying Agencies	Payments ⁽¹⁾	N° of Paying Agencies					N° of Paying Agencies
AT	512 804 158	1							512 804 158	1	7 514 548	1.47%	0
BE					69 095 529	2			69 095 529	2	2 304 275	3.33%	2
BG	205 683 318	1							205 683 318	1	3 500 258	1.70%	0
CY	14 530 171	1							14 530 171	1	758 618	5.22%	0
CZ					324 647 223	1			324 647 223	1	6 844 111	2.11%	1
DE	882 825 062	12	159 980 252	1	74 863 576	1			1 117 668 890	14	13 622 472	1.22%	1
DK	89 687 155	1							89 687 155	1	1 721 730	1.92%	0
EE	128 104 065	1							128 104 065	1	471 207	0.37%	0
ES	648 422 172	14			232 392 962	3	18 910 952	1	899 726 086	18	19 375 588	2.15%	4
FI	351 787 931	1							351 787 931	1	5 463 400	1.55%	0
FR							1 708 849 535	2	1 708 849 535	2	124 649 636	7.29%	2
GB	17 901 880	1			468 127 325	2	94 969 323	1	580 998 528	4	26 063 786	4.48%	3
GR					579 944 832	1			579 944 832	1	28 342 338	4.89%	1
HR							206 150 392	1	206 150 392	1	25 603 366	12.42%	1
HU					385 929 544	1			385 929 544	1	12 035 164	3.12%	1
IE			318 709 149	1					318 709 149	1	9 357 506	2.94%	0
IT	793 455 967	5	161 068 366	3	91 232 707	1			1 045 757 040	9	21 974 976	2.10%	1
LT	217 968 861	1							217 968 861	1	686 561	0.31%	0
LU	14 530 735	1							14 530 735	1	109 117	0.75%	0
LV	192 664 101	1							192 664 101	1	1 456 521	0.76%	0
MT	9 391 195	1							9 391 195	1	109 843	1.17%	0
NL					78 872 378	1			78 872 378	1	2 781 022	3.53%	1
PL	944 569 722	1							944 569 722	1	9 568 419	1.01%	0
PT							503 033 323	1	503 033 323	1	27 203 310	5.41%	1
RO	1 146 152 415	1							1 146 152 415	1	10 913 865	0.95%	0
SE							195 642 880	1	195 642 880	1	16 297 867	8.33%	1
SI	110 943 349	1							110 943 349	1	1 858 143	1.67%	0
SK					200 196 868	1			200 196 868	1	9 484 306	4.74%	1
Total	6 281 422 257	45	639 757 766	5	2 505 302 946	14	2 727 556 406	7	12 154 039 375	71	390 071 955	3.21%	21
Other payments													
Shared management	05040114	Completion of rural development financed by the EAGGF Guarantee Section - Programming period 2000 to 2006							-488 523		0	0.00%	
	05046001	Pre-financing for promoting sustainable rural development, a more territorially and environmentally balanced, climate-friendly and innovative Union agricultural sector 2014-2020							19 501 317			0.00%	
	05040501	Final balance 2007-2013							224 768 001		6 706 634	2.98%	
		Reimbursements following Court cases							47 161 052			0.00%	
	05040114	Completion of the European Agricultural Guidance and Guarantee Fund, Guidance Section - Objective 1 regions (2000 to 2006)									0	0.00%	
Total shared management									12 444 981 221		396 778 589	3.19%	
Direct management	05046002	Operational technical assistance 2014-2020							11 867 856		118 679	1.00%	
Total direct management									11 867 856		118 679	1.00%	
Total ABB 04									12 456 849 077		396 897 267	3.19%	

Table: 2.1.1.2.2-14

In the context of the protection of the EU budget, at the Commission's corporate level, the DGs' estimated overall amounts at risk and their estimated future corrections are consolidated.

For DG AGRI, the estimated overall amount at risk at payment⁸⁷ for the 2018 expenditure is EUR 1 222.60 million. This is the AOD's best, conservative estimation of the amount of *relevant expenditure*⁸⁸ during the year (EUR 56 869.78 million) not in conformity with the applicable contractual and regulatory provisions at the time the payment is made.

The 2018 expenditure will be subsequently subject to ex-post controls and sizeable proportion of the underlying error will be detected and corrected in successive years. When applied to the 2018 *relevant expenditure*, the conservatively estimated corrective capacity⁸⁹ of 1.90% results in an amount of EUR 1 081.62 million. This is the best estimate of irregular amounts paid in 2018 which will be reimbursed to the EU budget in subsequent years.

The difference between the overall amount at risk at payment and the corrective capacity leads to the estimated final amount at risk of EUR 140.08 million when all corrections will have been applied. The estimated final amount at risk used by DG AGRI corresponds to the estimated overall amount at risk at closure used by other DGs for expenditure where the Commission cannot apply corrections after the closure of the multiannual programmes.

⁸⁷ In order to calculate the weighted average error rate (AER), the *detected or equivalent* error rates have been used.

⁸⁸ For the purpose of calculating the final amount at risk, "*relevant expenditure*" during the year = payments made (including balance payments at closure of programmes 2007-2013), minus new pre-financing paid out, plus previous pre-financing cleared. "Expenditure" in the text of the report and its annexes corresponds to payments reimbursed by the Commission.

⁸⁹ The corrective capacity is calculated as the 5 years historic average of recoveries and financial corrections, which is the best available indication of corrective capacity of the ex-post controls systems implemented by DG AGRI and the Member States. See sub-section 2.1.1.3 for further detailed explanation.

Table 2.1.1.2.2-15 - Estimated final amount at risk

		Payments made ¹	Prefinancing paid	Cleared prefinancing	Relevant expenditure	Adjusted error rate	Estimated amount at risk at payment	Average financial corrections	Average recoveries	Average recoveries and corrections (in % of relevant expenditure)	Corrective capacity	Estimated final amount at risk
		million EUR	million EUR	million EUR	million EUR	%	million EUR			%	million EUR	million EUR
1		2	3	4	5	6	7	8a	8b	8	9	10
					= 2 - 3 + 4		=5 x 6				=5 x 8	=7 - 9
Title 04 Employment, social affairs and inclusion												
0401	Administrative expenditure	0.43	0.00	0.00	0.43	1.00%	0.00	0.00	0.00	0.00%	0.00	0.00
Title 09 Communications networks, content and technology												
0903	Connecting Europe facility (CEF)	0.24	0.00	0.00	0.24	1.00%	0.00	0.00	0.00	0.00%	0.00	0.00
Title 13 Regional and urban policy												
1303	European regional development fund	0.17	0.00	0.00	0.17	1.00%	0.00	0.00	0.00	0.00%	0.00	0.00
1304	Operational technical assistance	0.07	0.00	0.00	0.07	1.00%	0.00	0.00	0.00	0.00%	0.00	0.00
Title 18 Migration and home affairs												
1801	Administrative expenditure	0.36	0.00	0.00	0.36	1.00%	0.00	0.00	0.00	0.00%	0.00	0.00
Title 05 Agriculture and rural development												
SHARED MANAGEMENT												
0502	Interventions in Agricultural Markets	2 620.32	0.00	0.00	2 620.32	2.53%	66.25	87.38	0.00	0.00%	0.00	0.00
0503	Direct payments	41 496.52	0.00	0.00	41 496.52	1.83%	757.96	588.95	0.00	0.00%	0.00	0.00
	EAGF total	44 116.84	0.00	0.00	44 116.84	1.87%	824.22	676.33	97.92	1.75%	774.25	49.97
0504	Rural development ²	12 444.98	19.50	11.32	12 436.80	3.20%	397.62	195.20	112.38	2.47%	307.37	90.25
0507	Audit	106.91	0.00	0.00	106.91	0.00%	0.00	0.00	0.00	0.00%	0.00	0.00
INDIRECT MANAGEMENT												
0505	Pre-accession Measures	98.30	34.50	80.71	144.51	0.09%	0.12	0.00	0.00	0.00%	0.00	0.12
DIRECT MANAGEMENT												
0501	Administrative expenditure	9.55	7.08	8.56	63.44	1.00%	0.63	0.00	0.00	0.00%	0.00	0.63
0502	Interventions in agricultural markets	0.00										
0504	Rural development	11.87										
0506	International aspects	4.60										
0508	Policy strategy and coordination	35.95										
0509	Horizon 2020 - Research and innovation	0.00										
Total CAP		56 828.99	61.08	100.60	56 868.51	2.15%	1 222.59	871.53	210.29	1.90%	1 081.62	140.97
Total DG AGRI												
		56 830.27	61.08	100.60	56 869.78	2.15%	1 222.60	871.53	210.29	1.90%	1 081.62	140.98
												0.25%
												0.25%

Footnote (1): *relevant expenditure* includes the payments made, subtracts the new pre-financing paid out and adds the previous pre-financing actually cleared during financial year 2018

Footnote (2): *For Rural Development for the purpose of estimating the final amount at risk, the estimated amount at risk is calculated: i) on the amount of intermediate payments made in 2018 for which an adjusted error rate of 3.21% was calculated, ii) on the amount of cleared prefinancing for the EAFRD Rural development programmes from previous programming periods with the same methodology applied for intermediate payments, resulting in an adjusted error rate of 3.20% and an estimated amount at risk equal to EUR 390.83 million and thirdly, on closure balance paid in 2018 for the 2007-2013 programming period for which an error rate of 2.94% was used; which leads to an adjusted error for the relevant expenditure for Rural development of 3.196%*

2.1.1.2.3 Assessment of the amount at risk for Indirect management

SAPARD (Special Accession Programme for Agriculture and Rural Development) and IPARD (Instrument for Pre-Accession Assistance in Rural Development) expenditure are managed by DG AGRI under the decentralised or indirect management mode⁹⁰.

Description of the management and control system

For both SAPARD and IPARD funds, assurance is obtained based on a management and control system for programmes established in line with both the principles of the agricultural funds and the relevant external aid provisions of the Financial Regulation.

In particular, for both SAPARD and IPARD, the management and control system has a structure similar to the one applicable under EAGF and EAFRD, with however some more stringent conditions. The main ones are the following:

- The accreditation of the structures at national level only, is not sufficient to enable the management and control systems in the beneficiary countries to start operating. In accordance with the rules established in the Financial Regulation for indirect management, following the setup of the management and control system by the national authorities, the Commission needs to formally entrust the budget implementation tasks to the beneficiary countries, after having verified their level of preparedness;
- Once budget implementation tasks have been entrusted, substantial changes to the management and control procedures need the prior approval of DG AGRI before they can be put into operation;
- More extensive control procedures and stricter conditions for payments to the final beneficiaries apply, compared to the same measures in EAFRD.

Audit work by DG AGRI

The Framework and Sectoral Agreements for IPARD provide for financial and conformity audits. Following the above agreements, principles and procedures similar to EAGF and EAFRD apply with however some important differences as described above.

For both SAPARD and IPARD funds, the audit work by DG AGRI focuses on the verification of compliance with the conditions laid down in the legal framework, as set out in the applicable regulations and agreements signed between each beneficiary country and the Commission.

As regards IPARD, the audit work is about assessing the procedures and structures of the entities in charge of the implementation of the IPARD component prior to entrustment/conferral of management (entrustment audits)⁹¹, ex-post audits (conformity audits) and the audit work conducted by independent Audit Authorities⁹² at national level (whose results are used in the financial clearance) as well as audit work to verify the proper functioning of the said Audit Authorities (Verifications audits).

Explanatory box 2.1.1.2.3-1

⁹⁰ Chapter 2, Section 1 of Regulation (EU, Euratom) 2018/1046 of the European Parliament and of the Council of 30 July 2018 on the financial rules applicable to the general budget of the Union, applicable as of 2 August 2018, and repealing Regulation (EU, Euratom) No 966/2012 of the European Parliament and of the Council on the financial rules applicable to the general budget of the Union).

⁹¹ The "conferral of management powers" in IPARD 2007-2013 corresponds to the "Entrustment of budget implementation tasks" in IPARD 2014-2020.

⁹² The Audit Authorities in IPARD correspond to the Certification Bodies in EAGF/EAFRD.

SAPARD

SAPARD helped countries of [Central and Eastern Europe](#) deal with the problems of the structural adjustment in their agricultural sectors and rural areas, as well as in the implementation of the [acquis communautaire](#) concerning the Common Agricultural Policy (CAP) and related legislation.

The last payments under the SAPARD Programme for Bulgaria, Croatia and Romania were made in December 2009. The expenditure effected in 2009 had been subject to a number of audits carried out between 2010 and 2015 in order to ensure that during the five years after the final payment the projects did not undergo a substantial modification and that a debtors' ledger continued to be used until the end of 2016. A number of recommendations were issued as a result of these audits, not only for the SAPARD Programme but also for the EAFRD Axis I, II and III measures. All recommendations were taken into account and implemented. No financial corrections were applied following the above mentioned audits. Therefore, the amount of EUR 73.78 million of cleared pre-financing in 2018 is considered to be risk free.

By the end of 2017, the SAPARD accounts, for all countries and all years, were cleared. Further work was carried out to clear the debts. This will allow for the calculation of the final balance and the closure of the last two programmes (Bulgaria and Romania) in 2019.

IPARD I (2007-2013)

IPARD is a pre-accession Programme of the EU for the period 2007-2013, the implementation of which is still on-going. It is an integral part of the IPA (Instrument for Pre-accession Assistance), of which the main objectives are to assist candidate and potential candidate countries in their harmonisation and implementation of the EU acquis, as well as preparation for the management of the future EU funds. The objectives of IPARD are to provide assistance for the implementation of the acquis concerning the Common Agricultural Policy and to contribute to the sustainable adaptation of the agricultural sector and rural areas in the candidate country.

IPARD continues to operate **without ex-ante controls by the Commission**. This approach was deliberately chosen by the Commission in view of the potentially large number of small projects to be implemented under the programmes which would require a considerable number of additional staff in the EU delegations. This form of management is also considered to be the best preparation for candidate countries for the implementation of rural development funds after accession.

The IACS (Integrated Administration and Control System) is not yet operational in the IPARD countries, because it is not a legal requirement for pre-accession countries and because area and animal based measures are still being subsidised with national funds. Turkey has set up a system to implement, on a very small scale, an area support measure (Agri-environment), and a call for applications was launched in September 2018 (under IPARD II).

In 2018, there were no reimbursements by the Commission to the beneficiary countries (Croatia, North Macedonia and Turkey), as shown in the table below. This was due to the following reasons:

- i) Turkey has reached 95% of the total EU contribution;
- ii) for Croatia the invoices had been cleared with the pre-financing; and
- iii) North Macedonia was asked to continue using the pre-financing.

The outstanding invoices of the latter were cleared in 2018.

Croatia and Turkey could make payments under IPARD I until 31 December 2016. Following a request from North Macedonia, the Sectoral Agreement was amended in order to allow the use of the IPARD I funds until 31 December 2017. After the time limit for payments, the national authorities need to check ex-post for another five years. Subsequently they need to keep debts in the debtors' ledger for two years.

IPARD I expenditure in 2018 in EUR				
Measures	HR	MK	TR	Total
Pre-financing paid in 2018	-	-	-	
Pre-financing paid in previous years and cleared in 2018		6 927 850.16		
Total		6 927 850.16		6 927 850.16

Table: 2.1.1.2.3-1

In 2017, a conformity enquiry was carried out in North Macedonia, which resulted in findings regarding a weakness in the key control "*Appropriate checks to ensure that the applicant fulfils all eligibility criteria of the aid scheme and/or support measure*" and especially the verification of whether the beneficiary is a Small or Medium Enterprise. Furthermore weaknesses in a key control as regards the reference price list and the three offer system were detected. For these weaknesses, no financial correction was proposed; however, the authorities were recommended to improve the management and control system.

In 2018, a conformity enquiry was carried out in the Republic of Turkey, which resulted in findings regarding weaknesses in the key controls "*Appropriate checks to ensure that the applicant fulfils all eligibility criteria of the aid scheme and/or support measure*", "*Sufficient quality of ex-post controls on investment operations*", "*Appropriate checks to ensure that investment/project/application fulfils all eligibility criteria as laid down in the regulatory framework and the eligibility criteria as laid down in the IPARD II programme*". For these weaknesses at this stage in the procedure, a financial correction may be foreseen for measures 101, 103 and 302.

Audit work as regards financial clearance

Under IPARD I, the beneficiary countries have to send the **Accounts**, the Statement of Assurance (**Management Declaration**) and the **Audit Authority opinion and report** on the management and control system as well as on the expenditure declared to the Commission.

DG AGRI assesses the above documents and, by 15 July N+1, has to inform the countries on the result of the clearance of accounts exercise. In case the conditions to clear the accounts are met, the Commission adopts a decision by 30 September N+1.

In 2018, DG AGRI cleared the 2015 and 2016 accounts for **Turkey** and the 2016 accounts for **North Macedonia**.

The 2017 accounts of **North Macedonia** have not been proposed for clearance due to the presence of material errors in the expenditure and a conformity enquiry was opened as a result in 2018.

Conclusion for IPARD I (2007-2013)

As regards expenditure implemented under indirect management (ABB05), in 2018 there were no payments, only cleared pre-financing by the Commission concerning North Macedonia.

Based on the results of the 2017 audit in North Macedonia, no amount is at risk (see below table), and therefore it is not necessary to issue a reservation for IPARD I expenditure (ABB05) for financial year 2018.

Overall adjusted error rate as regards IPARD I expenditure and cleared pre-financing (ABB05) in 2018						
Country	Payments made (EUR)	Pre-financing paid (EUR)	Cleared pre-financing (EUR)	TOTAL relevant expenditure (EUR) (payments made – pre-financing + cleared amounts)	Adjusted error rate	Amount at risk (EUR)
HR	-	-				
MK	-	-	6 927 850.16	6 927 850.16	0.00%	0
TR	-	-				
Total ABB 05	-	-	6 927 850.16	6 927 850.16	0.00%	0

Table: 2.1.1.2.3-2

IPARD II (2014-2020)

Albania was entrusted under IPARD II in the last quarter of 2018 and, in the same year, it received pre-financing of EUR 5.85 million.

Montenegro was entrusted under IPARD II at the end of 2017 and, in the same year, it received pre-financing of EUR 2.4 million. Additional pre-financing of EUR 3 million was paid in 2018. The country had no expenditure in 2018.

North Macedonia effected in 2018 IPARD II expenditure of EUR 4 152 788.07. This expenditure was composed of pre-financing of 3.15 million and declared expenditure of EUR 1 002 788.07.

In the first half of 2018, entrustment under IPARD II was granted to Serbia. The country received pre-financing in 2018 equal to EUR 22.5 million.

Turkey effected expenditure in 2018 of EUR 73 247 043.18.

IPARD II expenditure in 2018 in EUR						
Measures	AL	ME	MK	RS	TR	Total
Pre-financing paid in 2018	5 850 000	3 000 000	3 150 000	22 500 000	-	34 500 000
Pre-financing paid in previous years and cleared in 2018	-	-	-	-	-	-
Total	5 850 000	3 000 000	3 150 000	22 500 000	-	34 500 000

Table: 2.1.1.2.3-3

Reference is made to the conformity enquiry in Turkey mentioned under IPARD I, as it also covered IPARD II expenditure. The amount at risk for IPARD II expenditure is estimated at EUR 123 551.48.

Audit work as regards financial clearance

Under IPARD II, the beneficiary countries have to send the **Accounts**, the Statement of Assurance (**Management Declaration**) and the **Audit Authority opinion and report** on the management and control system as well as on the expenditure declared to the Commission.

DG AGRI assesses the above documents and, by 15 July N+1, has to inform the countries on the result of the clearance of accounts exercise. In case the conditions to clear the accounts are met, the Commission adopts a decision by the end of N+1.

In 2018, DG AGRI cleared the 2017 accounts for **Montenegro, North Macedonia and Turkey**. There was no expenditure in all 3 cases.

Conclusion for IPARD II (2014-2020)

As regards expenditure implemented under indirect management (ABB05), DG AGRI estimates that the overall adjusted error rate for IPARD II expenditure is very low.

The table below shows the amount at risk for IPARD II.

The maximum amount at risk is estimated at EUR 123 551 indicating an estimated adjusted error rate for relevant expenditure of 0.17%. Therefore, it is not necessary to issue a reservation for IPARD II expenditure (ABB05) for financial year 2018.

Overall adjusted error rate as regards IPARD II expenditure and cleared pre-financing (ABB 05) in 2018						
Country	Payments made (EUR)	Pre-financing paid (EUR)	Cleared pre-financing (EUR)	TOTAL relevant expenditure (EUR) (payments made - pre-financing + cleared amounts)	Adjusted error rate	Amount at risk (EUR)
AL	0	5 850 000	0	-5 850 000		
ME	0	3 000 000	0	-3 000 000		
MK	1 002 788.07	3 150 000	0	-2 147 211.93		
RS	0	22 500 000	0	-22 500 000		
TR	73 247 043.18	0	0	73 247 043.18	0.17%	123 551.48
Total ABB 05	74 249 831.25	34 500 000	0	39 749 831.25		123 551.48

Table: 2.1.1.2.3-4

Conclusion for Indirect management

Title 05	Agriculture and rural development	Payments made (EUR)	Pre-financing paid (EUR)	Cleared pre-financing (EUR)	Relevant expenditure (EUR)	Adjusted error rate	Amount at risk (EUR)
0505	Instrument for Pre-accession Assistance	98 301 147	34 500 000	80 711 753	144 512 899	0.09%	123 551
Total		98 301 147				0.09%	123 551

Table: 2.1.1.2.3-5

Taking IPARD I and IPARD II together, for the EUR 98.30 million in indirect management under the pre-accession programmes, **the maximum amount at risk is estimated at EUR 123 551 indicating an estimated adjusted error rate for relevant expenditure of 0.09%.**

2.1.1.2.4 Assessment of the amount at risk for direct management

For the EUR 61.96 million managed directly by DG AGRI, the maximum amount at risk is estimated at EUR 0.62 million with an error rate of 1%. Table 2.1.1.2.4-1 shows the expenditure spent for each budget item under direct management, as well as the estimated amount at risk.

Title 05	Agriculture and rural development	Direct management payments made (EUR)	Error rate	Amount at risk at payment (EUR)
0501	Administrative expenditure	9 545 390	1.00%	95 454
0502	Interventions in agricultural markets	-	-	-
0504	Rural development	11 867 856	1.00%	118 679
0506	International aspects	4 600 059	1.00%	46 001
0508	Policy strategy and coordination	35 946 108	1.00%	359 461
0509	Horizon 2020 - Research and innovation	-	-	-
Total		61 959 413	1.00%	619 594

Table: 2.1.1.2.4-1

2.1.1.2.5 Budget implementation tasks entrusted to other DGs and Agencies

Executive agencies

The **Commission supervises the implementation of the Community programmes entrusted to Executive Agencies** (EA) in line with the requirements of Council Regulation (EC) 58/2003. Supervision through appointment of the director and members of the steering committee, the secondment of staff to positions of responsibility, and the legal review of the EA's acts as well as audits performed by the IAS and the ECA are, as concluded in the guidelines for the establishment and operation of executive agencies financed by the general budget of the Union, a solid foundation on which parent DG's build additional supervision arrangements.

Supervision of Executive Agencies

A meeting at Director level was organised by DG BUDG to discuss the final 'Non-paper on **Supervision of Executive Agencies**' summarising the discussions of a working group which met three times in 2018 with the aim to debate the lessons learned. DG AGRI's supervision strategies overall follow the principles outlined in the non-paper. DG BUDG shared the conclusions at the end of the year.

Research activities (REA)

REA implements DG AGRI's Horizon 2020 activity under Societal Challenge 2 (SC2) since the handover on 1 November 2014. A **supervision strategy for the Research Executive Agency** was defined in 2015 by DG AGRI. The main elements are the preparation and participation in the Steering Committee meetings, the regular coordination meetings both at Director and at working level, the annual planning and reporting cycle from the Annual Work Programme (AWP) to the AAR - including the interim reporting - and the budget cycle and management reporting.

REA's Steering Committee (of which DG AGRI is a member) constitutes the main supervision mechanism allowing for the appropriate monitoring of the Agency's activities. DG AGRI participated in the four Steering Committees chaired by DG RTD held in 2018. The analysis of meeting documents and outcome did not raise major concerns or particular comments, nor called for further specific actions.

At the last Steering Committee meeting of 2018, REA presented its **risk assessment** and the **revision** of its **Internal Control Framework** in the context of the AWP 2019. The outcome of the assessment did not identify any critical risks. It identified two significant risks, of which a "No deal" Brexit (carried over from 2018). REA drafted an action plan for the risks as well as for a number of management issues recorded during this exercise.

At the above meeting, REA also informed the parent DGs about the findings and recommendations of the **IAS audit report** on Project Monitoring and ex ante controls. The report was described as positive and highlighting REA's strengths. The audit work did not identify any critical or very important issues; a draft action plan was presented to address the two recommendations.

Six **SC2 operational coordination meetings** both at Director and Unit level were held in 2018 between REA and its parent DGs AGRI and RTD to ensure the monitoring and follow-up of delegated activities. In addition, three **budgetary coordination meetings** were organised following the yearly budgetary cycle. DG AGRI also participated in the three **Research Budget Network** (RBN) meetings held in 2018 and chaired by DG RTD.

DG AGRI further attended ten **CLAR meetings (Client in Audit Research) chaired by the Common Audit Service (CAS)**, which aim at defining and discussing common approaches, guidance and implementation of audit principles. DG AGRI further participated in a **coordination meeting of the H2020 Executive Agencies and Parent DGs** chaired by DG RTD as lead parent DG who briefly presented the latest developments with respect to the European Court of Auditors (ECA) and the Internal Audit Service (IAS) – no major concerns were raised.

In the framework of the **annual planning and reporting cycle**, the programming documents such as the AWP and the AAR - including the 2018 Interim report covering the first six months - were scrutinised, summarised and commented upon. There are no major difficulties to be reported and some elements worth following-up have been fed into the supervision cycle.

Three inter-service steering group (ISSG) meetings were organised in the framework of the **three-year evaluation of REA** for the period **2015-2018**. The draft final report is due at the beginning of 2019.

Finally, through close collaboration with REA, full execution of the relevant part of the 2018 operational budget under its responsibility was ensured both in commitments and payments (CA: EUR 212.706.739 (100%) – PA: EUR 148.848.826 (100%)).

The flash report of REA's Steering Committee meeting of 18/02/2019 indicates that "the Committee endorsed the Draft Annual Activity Report 2018", commented upon by DG AGRI. During the above-mentioned meeting, REA stated that "under the prevailing risk environment, considering the balance between all the control objectives, the REA AOD's professional judgment regarding the assurance remains positive even with a reservation for the FP7 Space and Security themes and for the FP7 SME actions". It was further mentioned that there was no reservation for Horizon 2020. The draft minutes of the meeting indicate that "as in previous years, the REA would make reservations for the Space and Security themes of the FP7 Cooperation Programme and for the SME actions of the FP7 Capacities Programme".

Agricultural Promotion (CHAFEA)

DG AGRI defined in 2017 its **supervision strategy for the Consumers, Health, Agriculture and Food Executive Agency** which manages, since the handover on 15/03/2016, specific tasks related to the information provision and promotion measures concerning agricultural products implemented in the internal market and in third countries. The main elements are again the preparation and participation in the Steering Committee meetings, the regular coordination meetings both at Director and at working level, and the annual planning and reporting cycle from the AWP to the AAR (including the interim reporting).

DG AGRI participates in **CHAFEA's Steering Committee** as parent DG which constitutes the main supervision mechanism allowing for the appropriate monitoring of the Agency's activities. DG AGRI participated in the four Steering Committees chaired by DG SANTE held in 2018.

Following confirmation in 2018 by the complainant of the request for review of legality under **Article 22 of Council Regulation (EC) 58/2003** against a decision of CHAFEA initially received in 2017 and after analysis, the Commission rejected this request as unfounded and CHAFEA's decisions were upheld.

The programming documents such as the AWP and the AAR as well as the 2018 quarterly reports were scrutinised, summarised and commented upon from a supervision point of view in the framework of the **annual planning and reporting cycle**. There are no major difficulties to be reported from an administrative supervision point of view and some elements worth following-up have been fed into the supervision cycle.

In the first half of the year, the parent DGs discussed with CHAFEA the revised template to simplify and improve the Executive Agency's **quarterly reporting** effective as from 2018. A **task force** (working group) **on simplification** was set up by the Steering Committee with participation of representatives of CHAFEA and its parent DGs to look at possible simplification measures. Two meetings were held.

Finally, following the signature of the contract for the study at the end of 2017, the process for the **three-year evaluation of CHAFEA** for the period 2014-2016 launched in 2017 continued during 2018, with the Final Report presented at the third CHAFEA Steering Committee of the year.

At CHAFEA's Steering Committee meeting of 27/02/2019, the Director presented the Agency's Draft Annual Activity Report 2018. She mentioned that there were no reservations, and no critical risk was identified for management or internal controls. This was further indicated in the Draft AAR 2018 circulated, and commented upon by DG AGRI, before the Steering Committee meeting. The draft minutes of the meeting point out that *"CHAFEA's director indicates that there are no critical / very important risks identified in the report and therefore no reservation is made"*.

Based on the (draft) AARs presented by both Executive Agencies REA and CHAFEA at their respective Steering Committee meetings as well as on the draft minutes of these meetings, it would therefore appear that there are no reservations or critical risks which would have been identified, except for the FP7 actions under REA's remit but which do not concern DG AGRI's 'Societal Challenge 2' activities delegated under Horizon 2020.

Cross-delegations

When the Authorising Officer by Delegation cross subdelegates the management of a budget line or part of a line to one or several Directors-General or Heads of Service, the Authorising Officers by cross subdelegation shall report to the Authorising Officer by Delegation on the implementation of the amounts subdelegated. In their reports, they have to provide assurance that the programmes, operations and actions were implemented in respect of the powers cross subdelegated to them. In this respect, they shall inform in writing of the management problems encountered and the solutions proposed to remedy them.

In order to implement its 2018 budget, DG AGRI sub-delegated the management of several actions to other Directorates-General. The Directorates-General concerned are: ESTAT, EMPL, SANTE, REGIO and ENV.

For each report provided by the respective DGs, the Heads of Unit of DG AGRI in charge of the cross subdelegated activities and budget lines have been consulted. None of the DGs concerned has reported issues or anomalies.

Regarding the report sent by DG ENV, no financial operations are reported for 2018 on the budget line 05.046002.

For Eurostat, the difference between the transferred and the consumed credit is explained in their report.

The cross sub delegations are summarised in the table below:

Cross delegations

In 2018, DG AGRI has cross-delegated activities to five other DGs (ESTAT, EMPL, SANTE, REGIO and ENV). In addition, a former sub-delegation remains open with the JRC pending the completion of a national court case in the frame of the Expo Milan (no credits involved so not included in the table).

B2018 credits transferred by DG AGRI (receiver Abac appropriations BGUE-B2018-05.XXXXXX-C1-AGRI/XXX):

Crossed Subdeleg. To:	ESTAT		EMPL	SANTE	REGIO	ENV
Budget Line (Differentiated Credits):	05.080200	05.080300	05.046002		05.046002	05.046002
Transferred Comm. Credit	0,00	0,00	0,00		4.523.225,00	0,00
Transferred Pay. Credit	6.826.858,00	2.643.121,00	131.986,63		1.800.000,00	0,00
Consumed Comm. Credit	0,00	0,00	0,00		4.523.225,00	0,00
Consumed Pay. Credit	6.570.682,44	2.643.104,23	131.986,63		1.800.000,00	0,00
Budget Line (Non-Differentiated Credit):				05.010401	05.010404.11	
Transferred Non-Diff. Credit				0,00	0,00	
Consumed Non-Diff. Credit				0,00	0,00	

Remarks: if no credit transferred, cross sub delegation remain open, for RAL (C8) consumptions.

2.1.1.2.6 Financial instruments

Financial instruments (FI) are the key tool for providing access to finance for the farming sector and the rural economy. They also allow by leveraging with private capital and by their revolving nature to complement the rural development budget. EAFRD already met the target of doubling the use of FIs as compared to the 2007-2013 programming period. In 2018, eight FIs were operational (in Estonia, Germany, Italy, Spain and France). The signed funding agreements between EAFRD managing authorities and fund managers, including the European Investment Fund (EIF), totalled 21 in 2018.

By end 2018, FIs are programmed in 30 RDPs in nine Member States with a total public budget of EUR 730 million (EAFRD EUR 519 million, national co-financing EUR 211 million). The amount declared to the Commission in 2018 equals to EUR 68.5 million.

The Commission together with the European Investment Bank (EIB) identified and developed the FI schemes that can be used by farmers, foresters and related rural businesses. It has also launched a specific EAFRD – EFSI Initiative, based on the Omnibus proposal with five pilot projects already in advanced stage end 2018. Under the technical assistance fi-compass, in total 25 cases of targeted coaching on financial instruments for EAFRD managing authorities' were carried out in the period 2016-2018, of which 4 were completed in 2018. In 2018, three specific EAFRD FIs studies were finalised under fi-compass and an EU wide survey of farmers was undertaken. A market assessment as regards the access to capital for EU agriculture and agro-food industry was initiated. The activities related to dissemination of information through conferences, specific brochures, websites and communication newsletters, etc. continued.

The Commission also tabled the new CAP proposal where financial instruments will continue to play an important part to foster investments in rural areas and which also introduced further simplifications.

2.1.1.3 How DG AGRI protects the EU budget

2.1.1.3.1 Corrective capacity

Protection of the EU budget via net financial corrections

According to the CAP legal framework, financial corrections imposed by the Commission on Member States upon completion of a conformity procedure have always been net corrections since the first clearance of accounts decision in 1976 and will continue to be net corrections for both European Agricultural Guarantee Fund (EAGF) and European Agricultural Fund for Rural Development (EAFRD) as:

- the corrected amounts are actually reimbursed by the Member States to the EU budget; and
- the amounts received are treated as assigned revenue to the EU budget. They are used to finance CAP expenditure as a whole without being earmarked for any particular Member State.

Every year the Commission adopts around 3 conformity ad-hoc decisions on a package of individual financial corrections. **In 2018 the Commission adopted 3 such decisions published in the Official Journal⁹³**, covering 108 individual net financial corrections for a total amount of **EUR 383.377 million**.

Net financial corrections decided in 2018				
million EUR				
Commission Conformity Decisions		EAGF	EAFRD	Total
ad-hoc 56	(EU)2018/304	28.126	52.373	80.499
ad-hoc 57	(EU)2018/873	89.702	73.286	162.988
ad-hoc 58	(EU)2018/1841	101.367	38.523	139.890
Total		219.195	164.182	383.377

Table 2.1.1.3.1-1

Is the amount executed in a given year the same as the amount adopted in the same year?

For EAGF, financial corrections are executed by deducting the amounts concerned from the monthly payments made by the Commission in the second month following the Commission decision on a financial correction to the Member State concerned. For EAFRD, the financial corrections are executed through a recovery order requesting the Member State concerned to reimburse these amounts to the EU budget, mostly executed by set-off in the reimbursement in the following quarter. It therefore occurs that decisions adopted at the end of year N are only executed at the beginning of year N+1.

Furthermore, the execution of the decision may be delayed due to instalment and deferral decisions.

This is particularly the case since 2010 when, due to the financial and economic crisis, Member States requested more frequently the benefit of an existing provision in the legislation allowing reimbursement of financial corrections via annual instalments (rather

⁹³ Decision (EU)2018/304 of 27/02/2018, OJ L 59, 1.3.2018, p.3 (ad hoc decision No 56).
Decision (EU)2018/873 of 13/06/2018, OJ L 152, 15.6.2018, p.29 (ad hoc decision No 57).
Decision (EU)2018/1841 of 16/11/2018, OJ L 298, 23.11.2018, p.34 (ad hoc decision No 58).

than a one-off payment): if the amount to be reimbursed by the Member State is more than 0.01% of its GDP, it may request that the deductions are made in annual instalments (maximum 3) instead of all at once. **In 2018, instalment decisions have been adopted in respect of EUR 169.9 million of financial corrections** (see Annex 10 – 4.2.3-1 for details).

In 2017 the deferral decision under Commission Implementing Regulation 908/2014, Article 34(8)(a), adopted in 2015 for Greece, was extended by one year. This decision allows the deferral of the execution date for financial corrections for a further period of 12 months from the date of adoption. After the expiry of the deferral period the corrections are required to be executed in five annual instalments. The deferral granted to Greece expired on 22 June 2018. So far, and including the ad hoc decisions adopted in 2018 before 22 June 2018, EUR 550.9 million were deferred (see Annex 10 – 4.2.3-2 for details).

In order to ensure comparability with previous years, DG AGRI continues to use the **executed amounts**, and not those decided, in the calculation of the corrective capacity as the executed amounts are those best reflecting the actual protection of the EU budget.

Tables giving details of the various instalments and their repayment schedules as well as the deferral decisions (see Annex 10 – 4.2.3-1 and 4.2.3-2 for details) can be found in Annex 10 – Part 4 which gives more information on net financial corrections and explains the clearance of accounts system.

Does the amount of financial corrections decided in a given year correspond to the expenditure of the same year?

In general, there is a time-lag between the expenditure which is incurred in the Member State, the Commission's detection of the error and the decision and eventual execution of the financial corrections. In addition, very often a financial correction covers two or more expenditure years.

Protection of the EU budget via Recoveries

It is not only the Commission which acts to recover ineligible expenditure from the Member States and thus protect the EU budget. Member States also take steps to recover amounts from beneficiaries.

Under shared management, it is entirely the responsibility of the Member State to recover from beneficiaries. Amounts paid to beneficiaries which the Member States themselves have identified as being ineligible shall be recovered from the beneficiaries and reimbursed to the EU budget. Annex 10 – Part 5 explains the legal framework and provides detailed information on recovered amounts.

Corrective Capacity

What is the corrective capacity?

Recoveries and net financial corrections are effective mechanisms for correcting the errors made by the Member States and protecting the EU budget and should be considered in any comprehensive assessment of the overall control system.

However, these mechanisms apply ex-post and imply contradictory procedures that might take time to complete. Therefore, **the full picture of the actual financial damage to the EU budget for a given annual expenditure**, as a result of Member States' insufficient management and control of EU funds, but after the implementation of the ex-post corrective mechanisms, is not known until some years later. However, failing to consider these amounts of future corrections would result in an incomplete view of the real risk to the EU budget.

The estimate of the amounts of future corrections and the corrective capacity is taken up as an essential element in considering the effectiveness of the control system in protecting the EU budget. It is to be considered when assessing the remaining EU financial risk that still affects a given expenditure once all corrective actions will have been completed - i.e. the estimated final amount at risk.

How is the corrective capacity calculated in respect of net financial corrections?

As in previous years, DG AGRI uses a historical average of the net financial corrections executed for calculating its corrective capacity. To take into account that 2015, 2016 and 2017 amounts of financial corrections included significant amounts related to backlog cases⁹⁴ and to avoid overestimating the corrective capacity, DG AGRI has since 2016 used an average of the five previous years instead of the three previous years used in 2014 and 2015, as it was considered to give a better assessment of what financial corrections can be expected to be made in respect of the reporting year of the AAR (i.e. 2018 expenditure). The corresponding figures for each of the years 2014 to 2017 were already published in previous DG AGRI AARs.

Using **the executed amounts**, i.e. the amounts actually reimbursed to the EU budget in the years concerned, instead of the decided amounts, takes into account payments in annual instalments and deferrals and is the best way to reflect how these net corrections are actually protecting the EU budget. This approach of using the executed amounts is used also for 2018 as it best reflects the actual impact on the EU budget and allows comparability with figures from previous years.

DG AGRI excludes corrections in respect of cross-compliance infringements from its calculation of the corrective capacity for net financial corrections. Cross-compliance infringements are not "errors" as regards eligibility and are therefore not included neither in the estimates of the error rates nor in the corrective capacity. However, as the amounts of financial corrections for deficiencies in the cross-compliance controls and sanctions are significant, they are disclosed separately (see Annex 10 - 4.2.2-2).

Similar to the AAR 2017 calculation of the corrective capacity, for this year's calculation DG AGRI carefully reviewed the individual corrections for market measures ABB02 and has excluded factors from the past years that would no longer be relevant for current measures, in order to come to the best, but conservative, estimate of the expected

⁹⁴ Backlog cases refer to conformity clearance enquiries, which had been opened before 1 January 2014 and had been pending for a considerable period and therefore also covered several financial years and thus resulted in substantial financial corrections being decided during the period where DG AGRI made an effort to close all such old cases.

corrective capacity average to be applied to the reporting year's relevant expenditure, so as to get the related estimated future corrections. The corrections excluded refer exclusively to ABB02 (market measures) and are those which concern aid schemes which no longer exist, notably, export refunds, food for the most deprived, sugar restructuring, historic wine plantation rights, certain irregularities and aid for fruit and vegetables producer groups with historically high financial corrections as the measure is now under EAFRD and with limited expenditure.

The table below shows the 5-year average with the above-mentioned deductions.

DG AGRI 5-year average from financial corrections executed - 2014-2018				
million EUR				
	ABB02	ABB03	ABB04	Total
2014	58.117	533.356	62.342	653.815
2015	17.856	756.932	243.985	1 018.773
2016	183.487	1 191.485	226.396	1 601.368
2017	129.323	517.097	303.807	950.227
2018	48.139	548.407	139.456	736.002
Total	436.922	3 547.277	975.986	4 960.185
5-year average	87.384	709.455	195.197	992.037

Table: 2.1.1.3.1-2

Table 2.1.1.3.1-2 shows that for ABB03 the amount of the net financial corrections executed in 2016 (EUR 1 191.485 million) is much higher than the amount executed in each of the other 4 years taken into account. This is due to the backlog cases⁸⁹ and DG AGRI considers it to be an outlier for the purpose of estimating the amounts of future corrections, as with the introduction of administrative deadlines in the conformity audit procedures a backlog cannot reappear. Therefore, in order to avoid an overestimation of the corrective capacity, DG AGRI calculates the historical average for ABB03 using the amounts of the net financial corrections for the years 2014, 2015, 2017 and 2018 (see table 2.1.1.3.1-3 below).

DG AGRI corrective capacity for ABB03	
Year	ABB03 million EUR
2014	533.356
2015	756.932
2017	517.097
2018	548.407
Total	2 355.792
4-year average	588.948

Table: 2.1.1.3.1-3

Consequently, the corrective capacity from financial corrections executed to be used for the estimating the final amount at risk is:

DG AGRI corrective capacity from financial corrections executed - 2014-2018				
				million EUR
	ABB02	ABB03	ABB04	Total
Historical average	87.384	588.948	195.197	871.529

Table 2.1.1.3.1-4

How is the corrective capacity calculated in respect of recoveries?

As is the case for net financial corrections, the corrective capacity for recoveries is calculated on the basis of an average of the previous five years. DG AGRI also excludes recovered amounts in respect of cross-compliance infringements from its calculation of the corrective capacity for recoveries (the total recoveries are disclosed in Annex 10, Part 6). Since the entry into force of Commission Implementing Regulation (EU) No 908/2014, the Paying Agencies are required to record the budget code of the amounts recovered. However, this requirement is only applicable to new debt cases (as per Article 41(5) of the Commission Delegated Regulation (EU) No 907/2014). Consequently, since the Paying Agencies are still presently reporting old debts cases, it is still not possible to provide a breakdown of recovered amounts at ABB level and this is why the corrective capacity continues to be reported at Fund level.

DG AGRI corrective capacity from recoveries 2014 - 2018			
			million EUR
	EAGF	EAFRD	Total
2014	112.359	121.899	234.258
2015	96.732	124.140	220.872
2016	82.604	135.613	218.217
2017	100.202	83.204	183.407
2018	97.683	97.032	194.714
Total	489.580	561.888	1 051.469
5-year average	97.916	112.378	210.294

Table 2.1.1.3.1-5

Conclusion

The total corrective capacity in respect of the EAGF and EAFRD funds in shared management is calculated to be EUR 1 081.62 million. This amount is DG AGRI's best estimate of what will be recovered to the EU budget via net financial corrections and recoveries in respect of 2018 expenditure.

DG AGRI corrective capacity 2018			
			million EUR
	EAGF	EAFRD	Total
2018	774.25	307.57	1 081.62

Table 2.1.1.3.1-6

2.1.1.3.2 Interruptions, reductions and suspensions

In 2018, DG AGRI continued to apply the interruptions and reductions/suspensions of monthly payments (EAGF) and interim payments (EAFRD) in order to safeguard the EU financial interest. The Commission powers for this preventive mechanism were significantly reinforced with the entry into force of the CAP Horizontal Regulation (EU) No 1306/2013 (and the Common Provisions Regulation (EU) No 1303/2013) in December 2013.

The EAFRD payments deadline may be interrupted under Article 22 of Commission Implementing Regulation (EU) No 908/2014 for verifications due to inconsistent, incomplete or unclear information. If there is a clear indication of a deficiency in management and control system or that the expenditure is linked to an irregularity having serious financial consequences the expenditure may be interrupted - as for other structural funds - based on Article 83 of the Common Provisions Regulation.

The payments for both pillars may be reduced or suspended based on Article 41 of Regulation (EU) No 1306/2013 when the payments were not effected in accordance with EU rules, or there is an evidence of a deficiency in the national management and control or recovery systems.

In particular, according to Article 41(1) of Regulation (EU) No 1306/2013, if the declarations of expenditure or the annual accounts enable the Commission to establish that expenditure has been effected by bodies which are not accredited Paying Agencies, that payment periods or financial ceilings set by Union law have not been respected or that expenditure has otherwise not been effected in accordance with Union rules, the Commission may reduce or suspend the monthly or interim payments to the Member State, after giving the Member State an opportunity to submit its comments.

Where the declarations of expenditure or the annual accounts do not enable the Commission to establish that the expenditure has been effected in accordance with Union rules, the Commission shall ask the Member State concerned to supply further information and comments within 30 days. If the Member State fails to respond within this period or if the response is unsatisfactory or demonstrates that the expenditure has not been effected in accordance with Union rules, the Commission may reduce or suspend the monthly or interim payments to the Member State.

Article 41(2) of Regulation (EU) No 1306/2013 refers to deficiencies of the national control system. The Commission may reduce or suspend the monthly or interim payments to a Member State if one or more of the key components of such control system do not exist or are not effective due to the gravity or persistence of the deficiencies found, or if there are similar serious deficiencies in the system for the recovery of irregular payments and either these deficiencies are of a continuous nature or the Commission concludes that the Member State is not in a position to implement in the immediate future the necessary remedial measures in accordance with an action plan. Before acting, the Commission informs the Member State concerned of its intention and asks it to react within 30 days.

Reductions and suspensions shall be applied in accordance with the principle of proportionality and shall be without prejudice to the application of the conformity clearance procedures.

In order to ensure a consistent and timely treatment of cases for both pillars, in 2014 DG AGRI established the Suspension Board, an advisory body to the Director-General, co-chaired by two Deputy Directors-General responsible for the 1st pillar and the 2nd pillar. The Board meets on a monthly basis to take into account the rhythm of interim payments (monthly payments for EAGF and quarterly payments for EAFRD). In urgent cases, the Board has been consulted by an ad hoc written consultation.

The interruptions and reductions/suspensions are provisional. When relevant, these could be accompanied by an audit of DG AGRI audit service. If the deficiency is confirmed, the relevant expenditure is definitely excluded from EU financing by application of a financial correction.

An overview of interruptions and reductions/suspension applied in 2018 for each of the funds (EAGF and EAFRD) is provided below.

EAGF

Reductions/Suspensions of payments in respect of EAGF declarations of expenditure reimbursed in 2018.

The **reductions** made in 2018 concerned 22 Member States and a total amount of **EUR 58 418 905.68**. There were no reductions in the monthly payments due to deficiencies in the control system in 2018. The reductions concern overruns of ceilings, deadlines and other eligibility issues. There were 87 operations in total related to the reductions.

Suspensions of payments for deficiencies in the control system were made for Poland (for a total amount of EUR 526 116.83).

The following table shows the amounts and number of cases reduced/suspended for each Member State:

Summary of reductions and payment suspensions executed during financial year 2018

Member States	Reductions (see Annex I)	Number of cases	Payment suspension (see Annex II)	Number of cases
BE	115 693.15	4		
BG	198 507.53	1		
DK	26 565.01	2		
IE	56 088.09	1		
EL	3 028 436.21	2		
ES	2 340 457.67	38		
FR	2 103 929.28	1		
HR	143.08	2		
IT	31 523 003.50	1		
CY	7 347.35	7		
LV	25.73	1		
LT	14 939.54	1		
HU	6 163 754.07	11		
NL	571 878.01	1		
AT	18 282.75	1		
PL	507 066.20	1	526 116.83	5
PT	3 047.74	7		

Member States	Reductions (see Annex I)	Number of cases	Payment suspension (see Annex II)	Number of cases
RO	1 986 514.53	1		
SK	2 522 382.96	1		
FI	54 155.68	1		
SE	337 837.06	1		
UK	6 838 850.54	1		
Total MS	58 418 905.68	87	526 116.83	5

The detailed list of reductions/suspensions applied on EAGF payments in 2018, including reductions for overrun of ceilings, deadlines and eligibility issues, is attached as **Annex 13** to the present report.

EAFRD

Interruptions and reductions/suspensions of payments in respect to EAFRD declarations of expenditure for financial year 2018

The interruptions and reductions/suspensions of EAFRD payments concerned 10 out of 115 RDPs from the 2014-2020 programming period. The two cases of reduction for the programming period 2007-2013 open by 31/12/2017 reported in the previous Annual Activity Report were closed by the end of 2018.

The following table shows the cases of interruptions and reductions/suspensions by Member State, programming period and quarter with the amounts and measures involved. For the programming period 2014-2020, it covers the quarterly declarations of expenditure received and processed during the budget year 2018. The Q4 2017 data corresponds to payments made as from 01/02/2018 based on declarations received by 31/01/2018. The Q3 2018 data corresponds to declarations received by 10/11/2018 and executed by 31/12/2018.

PROGRAMMING PERIOD 2014-2020

Member States	Quarter	Type	Amount interrupted	Amount reduced / suspended	Measure
Austria	2017Q4	Interruption	248 712.68		3
Estonia	2017Q4	Interruption	27 384.90		3
Spain ⁹⁵	2017Q4	Interruption	1 833 131.18		3
Greece	2017Q4	Interruption	159 954.91		3
Lithuania	2017Q4	Interruption	20 598.89		3
Poland	2017Q4	Interruption	244 122.35		3
Slovenia	2018Q2	Interruption	52 598.18		3
Slovenia	2018Q3	Interruption	82 275.38		3
Romania ⁹⁶	2017Q4	Interruption	13 537.45		14
Romania ²⁶	2018Q1	Interruption	5 729 340.42		14
Romania ²⁶	2018Q2	Interruption	5 040 466.02		14

⁹⁵ The interruption affected 3 Rural Development Programmes.

⁹⁶ This interruption was lifted and transformed into a suspension.

Member States	Quarter	Type	Amount interrupted	Amount reduced / suspended	Measure
Romania	2018Q3	Interruption	175 580.79		14
Romania	2017Q4	Suspension		13 537.45	14
Romania	2018Q1	Suspension		5 729 340.42	14
Romania	2018Q2	Suspension		5 040 466.02	14
Total			11 358 519.48	10 783 343.89	

The following table shows the number of interruption and reduction/suspension cases related to EAFRD declarations of expenditure for the Member states concerned.

Member State	Number of interruption	Number of reductions / suspensions
Austria	1	
Estonia	1	
Spain	3	
Greece	1	
Lithuania	1	
Poland	1	
Slovenia	2	
Romania	4 ⁹⁷	3

B) Fraud prevention, detection and correction

DG AGRI has developed and implemented its own anti-fraud strategy (AGRI AFS) since 12 September 2012, elaborated based on the methodology provided by OLAF. It was updated on 13 May 2014, 18 November 2014 and 18 January 2016 and will be adapted again after the – pending – revision of the Commission's anti-fraud strategy.

All actions defined in the different versions of the AGRI AFS have been implemented.

Almost the entirety of the funds of the CAP in both Pillars are under shared management between the Commission and the relevant authorities of the Member States, the latter being in charge of legality and regularity of payments to beneficiaries. Therefore, the AGRI AFS since its inception has heavily relied on capacity building in the relevant authorities of the Member States to prevent, detect and correct fraud and other serious irregularities. To this end, all Member States (and candidate countries) have received specific training in this area in the past as well as written guidance. The effectiveness of this approach appears to be reflected in the relatively low number of cases of (suspected) fraud detected and reported by Member States⁹⁸.

Throughout 2018, DG AGRI referred 4 allegations of fraud and other irregularities to OLAF⁹⁹ (compared to 9 in 2017). At the end of 2018, 38 OLAF investigations and coordination cases dealing with possible fraud against the CAP budget and pre-accession

⁹⁷ 3 interruptions were lifted and transformed into suspensions.

⁹⁸ See Annex 1 of the 29th Annual Report from the Commission to the European Parliament and the Council on the on the Protection of the Europeans Union's financial interests (COM(2018)553).

⁹⁹ DG AGRI has closely liaised with OLAF in relation to allegations of illicit land use in the Slovak Republic. In this context, DG AGRI has referred to OLAF all information on this subject in order to ensure that OLAF could integrate the allegation into its on-going investigations.

funds were on-going, an increase by 10 in comparison to 2017. 31 of the 38 on-going cases concern allegations of fraud in the EAFRD.

C) Other control objectives

DG AGRI has set up a full range of measures to ensure the adequate safeguarding of its IT systems. In particular:

- All Information Systems are protected from unauthorized access through advanced access rights mechanisms and a thorough review of the access rights is performed once a year. The local infrastructure where Information Systems are hosted is segregated from the rest of EC internal network by a firewall, and the Agri-food Data Portal hosted on the cloud is also protected via secure protocol. Security plans have been defined for the key DG AGRI Information Systems, for the implementation of specific security measures: for instance, DG AGRI implemented some specific security features to ensure full confidentiality of data during the sensitive phases of communication (embargo period) for Member States notifications.
- The databases are also duplicated with immediate synchronisation on a backup site to prevent from data loss.
- The Business Continuity Plan is kept up to date, with a Disaster Recovery exercise being tested on a yearly basis to ensure continuity of operations in case of incident.
- End-user IT equipment is managed centrally by DG DIGIT: all workstations are safeguarded with technical means that protect them from security threats; laptop computers are encrypted and secure e-mail is made available for the exchange of sensitive information.
- The DG AGRI LISO intervenes each time a security threat is detected. Quarterly reports are provided to the DG AGRI Director R and to the DG AGRI Security Committee. In 2018, no significant security threat had to be reported.

Based on an audit carried out by DG BUDG in 2017 on the Local Systems, DG AGRI has addressed the findings and recommendations of that audit through an action plan compiling the envisaged actions with an indicative timetable. In 2018, DG AGRI has already finalised some of the actions and is progressing on the other ones. In particular; DG BUDG has confirmed that:

- Recommendations on accounting risk analysis and on the EAGF Vademecum can be considered as closed;
- Material progress has been made on Recommendations on timely establishment of Recovery Order in ABAC, financial corrections, EAFRD interruptions, suspensions and reductions, EAFRD and EAGF checklists.

EFFICIENCY

Shared management

99.5%¹⁰⁰ of DG AGRI's total expenditure is executed under shared management mode. The table below shows DG's AGRI's performance for EAFRD and EAGF:

	2016	2017	2018
EAFRD average time to pay*	25 days	34 days	31 days
EAGF average time to pay**	NA	NA	NA
EAFRD % of payments made on time	100	100	100
EAGF % of payments made on time	100	100	100
* deadline is 45 days			
** According to the legislation in force, the payments are executed on the 3 rd working day of each month.			

As regards Member States, for financial year 2018 all Paying Agencies were accredited.

Indicator	2017	2016
% of Paying Agencies accredited ¹	100%	100%

Direct management

DG AGRI also manages a small budget under direct management mode. The section below describes DG AGRI's performance with regard to those commitments.

Time to inform and Time to grant

In accordance with Article 194(2)(a) of the Financial Regulation¹⁰¹, applicants shall be informed of the outcome of the evaluation of their application within a maximum of six months from the final date for submission of complete proposals. In accordance with Article 194(2)(b) of the Financial Regulation, grant agreements shall be signed with applicants within a maximum of three months from the date of informing applicants that they have been successful.

DG AGRI has informed applicants of the outcome of the evaluation on average within five months of the final date for submission of proposals. As next step, DG AGRI signed the respective grant agreements with two to three months from the date of informing successful applicants.

¹⁰⁰ This percentage is calculated on the total payments executed in financial year 2018 (actual payments).

¹⁰¹ Regulation (EU, Euratom) 2018/1046 of the European Parliament and of the Council on the financial rules applicable to the general budget of the Union, applicable as of 2 August 2018 (previously Article 129(2) of Regulation (EU, Euratom) No 966/2012 of the European Parliament and of the Council on the financial rules applicable to the general budget of the Union).

Time to pay

Article 116(1) of the Financial Regulation¹⁰² fixes the time limits for payments for contribution agreements, contracts and grant agreements.

Regarding the marginal share of direct management mode in DG AGRI, the number of payments has increased by 1.5% in 2018 compared to 2017. The percentage of transactions not paid in time has been reduced by 50% (from 1.8% (2017) to 0.9% (2018)). Compared to 2016, this represents a reduction of 82%. This very good result is mainly due to the positive impact of the centralisation of the financial management. The consecutive professionalization of the financial management team and the redesign of the financial circuit related to the direct management allowed for a significant reduction of the "Time-To-Pay".

Financial year	2016	%	2017	%	2018	%
Number of payments	1020	100%	914	100%	928	100%
Payment on time	975	95.6%	898	98.2%	920	99.1%
Payment delayed	45	4.4%	16	1.8%	8	0.9%

Monitoring of timing indicators in days	2016	2017	2018
N° of days between receipt of invoice and "pass for payment"	9	10	8
N° of days between receipt of invoice and "bank date"	14	14	13

ECONOMY (Cost of controls)

For the EAGF and the EAFRD, the two main funds managed by DG AGRI representing 99.1% of the CAP budget, the following indicators can be reported:

Indicator	2018
Cost of management and control of the Commission (as a % of 2018 payment appropriations executed by the Commission for shared management)	0.1%
Cost of management and control of the Member States –i.e. the 'delivery cost' (as a % of 2018 total public expenditure)	3.5%

Table: 2.1.1.4-1

The annual overall **Commission** cost for managing the management and control systems in place for shared management is estimated at around **EUR 55 million** or 0.1% of total payments in 2018. A comparison of the results indicates that the results are in line with the results obtained for earlier reporting exercises (financial years 2016-2017).

DG AGRI considers this overall cost to be very reasonable and very cost effective.

The costs have been calculated using the common methodology developed by the Commission to measure the cost of controls. The data used result from a survey performed in the services and updated for 2017. They relate, for nearly one third, to the

¹⁰² Regulation (EU, Euratom) 2018/1046 of the European Parliament and of the Council on the financial rules applicable to the general budget of the Union, applicable as of 2 August 2018 (previously Article 131 of Regulation (EU, Euratom) No 966/2012 of the European Parliament and of the Council on the financial rules applicable to the general budget of the Union).

staff involved in audit activities. The remaining costs relate to staff in the operational directorates and to staff involved in the financial management of the funds. In addition, staff responsible for evaluation, legal affairs, IT systems and general management overheads are also included in the calculation, following an apportionment estimated by the units concerned.

The detailed figures (only at Commission level) are reported in Annex 10 (see table 6.1 on Overview of the estimated cost of controls at Commission level).

The **delivery costs at the level of the Member States** and ABBs are related to all the activities of the Paying Agencies for managing and controlling the CAP expenditure, from providing to all potential beneficiaries the necessary means to lodge an application and including controls, payments, accounts and their reporting to the Commission.

DG AGRI carries out a survey on the delivery cost in the Paying Agencies every two years. For the 2017 Annual Activity Report, DG AGRI requested an update of information from Member States in order to provide a more recent estimation of the delivery cost¹⁰³. On the basis of the 2017 survey, the overall delivery cost of managing and controlling CAP expenditure for the Member States is estimated at around **EUR 2 180.8 million**, corresponding to 3.5% of the CAP expenditure for financial year 2018 (3.9% for financial year 2017). The delivery costs are borne by Member States.

	2017		2018	
	Member States Management and Control Costs ¹ (EUR million)	in % of 2017 expenditure	Member States Management and Control Costs ¹ (EUR million)	in % of 2018 expenditure
Market measures (ABB02)	225.7	7.7%	225.7	8.6%
Direct payments (ABB03)	869.2	2.1%	869.2	2.1%
Rural development (ABB04)	1 085.9	6.7% ²	1 085.9	5.9% ⁴
Total	2 180.8	3.9% ³	2 180.8	3.5% ⁵

¹ As provided by Member States in 2017

² In % of 2017 expenditure including total public expenditure

³ In % of 2017 CAP expenditure (payments made)

⁴ In % of 2018 expenditure including total public expenditure

⁵ In % of 2018 CAP expenditure (payments made)

Table: 2.1.1.4-2

The quantifiable benefits of the delivery costs in the Member States mainly relate to the detection and correction by Member States of undue amounts claimed and the recoveries by Member States from beneficiaries after payment. When assessing the effectiveness of detecting and correcting undue claimed amounts, Member States have reported, in their control statistics, an amount of EUR 521.61 million of undue claimed amounts detected and corrected prior to payments (see table 2.1.1.4-3). Furthermore, Member States recovered (annual average for the period 2014-2018) an amount of EUR 210.29 million from beneficiaries.

¹⁰³. This update of information also led to the revision of the management and control costs reported in 2016, as indicated in the 2017 AAR.

In order to protect the EU financial interests, the Commission applies net financial corrections to Member States following DG AGRI's audit work. Taking into account the corrective capacity of DG AGRI estimated at EUR 871.53 million, the total quantifiable benefits consequently amount to EUR 1 603.43 million. This represents 2.83% of the expenditure paid in respect of the 3 ABBs.

	Net Financial Corrections ¹ (EUR million)	Undue claimed amounts detected and corrected by Member States prior to payment ² (EUR million)	Member States' recoveries from beneficiaries after payment ¹ (EUR million)	Total (EUR million)	Total in % of 2018 expenditure
ABB02	87.38	93.01	97.92	1 157.70	2.62%
ABB03	588.95	290.44			
EAGF	676.33	383.45			
ABB04	195.20	138.17	112.37	445.73	3.58%
Total	871.53	521.61	210.29	1 603.43	2.83%

Table: 2.1.1.4-3

¹ See corrective capacity.

² As reported in the 2018 control statistics.

Also, there are a number of benefits resulting from the controls operated throughout the various control stages which cannot be precisely quantified. This includes notably (but not exclusively) the deterrent effects of controls as well as the increased level of assurance resulting from, for instance, improvements in the management and control systems implemented at DG AGRI request and DG AGRI's adjustments to the error rates reported by Member States.

2018 studies on cost of controls

The delivery costs at the level of the Member States estimated through the DG AGRI survey (see above) cover the CAP as a whole.

In 2018 two separate studies have been carried out in order to have more details on delivery cost by Member States relating to specific parts of the CAP or to other funds. The results of these studies are similar to the results presented above.

The Commission study on "New assessment of ESIF¹⁰⁴ administrative costs and burden" (covering EAFRD) indicated that the overall administrative costs are reasonable, considering the level of transparency and accountability with these funds. 4% of administrative costs – corresponding to around EUR 26 billion over the programming period 2014-2020, handling EUR 646 billion - is not considered excessive, although there are considerable variations between ESI funds and types of operational programmes. For Rural Development, the study indicates higher costs than the 4% average estimated for the ESI funds. This is in line with the percentages calculated based on DG AGRI 2017 survey on delivery costs (6.7% in 2017 and 5.9% in 2018).

The DG AGRI study on "Analysis of administrative burden arising from the CAP"¹⁰⁵ examined the costs and administrative burden of the IACS under the 2013 CAP reform and analysed the different elements of IACS, such as the Land Parcel Identification System (LPIS) and the related control mechanisms in place across the EU. The study covered 12 Member States and shown that, on average, the administrative costs related to IACS remain at reasonable levels. For the Member States administrations (ministries and Paying Agencies) covered by the study, the total annual administrative costs of IACS

¹⁰⁴ ESIF = European Structural and Investment Funds.

¹⁰⁵ Please consult: https://ec.europa.eu/regional_policy/en/information/publications/studies/2018/new-assessment-of-esif-administrative-costs-and-burden

are estimated at 3% of the CAP budget. Compared to other funds, the administrative cost of CAP is below the overall rate for ESI funds.

In conclusion, although the two studies carried out in 2018 cover only some areas of the CAP, their results are in the same range (between 3% and 4%) as the estimation of the delivery costs based on the DG AGRI 2017 survey.

Conclusion on the cost effectiveness of the Member States' controls

DG AGRI considers that this delivery cost represents a reasonable amount, especially when taking into account the high number of CAP beneficiaries (around 7 million of beneficiaries in 2018)¹⁰⁶, the relatively small size of most payments to individual beneficiaries, the necessity of protecting the EU financial interests and the overall performance of the policy. Still, DG AGRI considers there is possibly some scope for improving the cost-effectiveness at the level of the Member States for certain ABB activities.

Overall, the CAP support is delivered to beneficiaries in a way that protects the EU financial interests as confirmed by the Director-General's conclusion that he has assurance for almost 98% of the resources assigned to him, with the remaining overall financial risk, after all corrective actions will have taken place, being significantly below materiality (see sub-section 2.1.4.3 of this report).

Conclusion on the control efficiency

In view of the results indicators mentioned above, DG AGRI considers that the relative level of efficiency of the controls operated is adequate.

CONCLUSIONS ON THE COST-EFFECTIVENESS OF CONTROLS

Based on the most relevant key indicators and control results, DG AGRI has assessed the effectiveness, efficiency and economy of the control system and reached a positive conclusion on the cost-effectiveness of controls.

Compared to 2016 and 2017, the DG AGRI control environment and control strategy have remained stable. In view of the result indicators mentioned above, DG AGRI considers that the relative level of cost-effectiveness, economy and efficiency of the controls operated is adequate.

¹⁰⁶ See "The DG in Brief" of this report.

2.1.2 Audit observations and recommendations

This section reports and assesses the observations, opinions and conclusions reported by auditors in their reports as well as the limited conclusion of the Internal Auditor on the state of control, which could have a material impact on the achievement of the internal control objectives, and therefore on assurance, together with any management measures taken in response to the audit recommendations.

The section is subdivided in three subsections: the Internal Audit Service (IAS), the 2017 Annual Report of the European Court of Auditors (ECA), and the ECA's Special Reports issued for 2018.

2.1.2.1 Internal Audit Service (IAS)

In 2018, the IAS finalised three audits, two limited reviews and one follow up audit involving DG AGRI. The engagements concerned were the following:

Audit field	Title	Final report/Closure note
<i>Agricultural expenditure</i>	Limited review on the Reporting on the corrective capacity	19/3/2018
<i>Agricultural expenditure</i>	Limited review on the Validation and adjustment of the reported error rates by DG AGRI and the calculation of the amount at risk at payments	24/4/2018
<i>Evaluation</i>	Audit on the Evaluation process in DG AGRI	2/5/2018
<i>Direct Payments</i>	Follow up Audit on the Voluntary Coupled Support	29/8/2018
<i>Agricultural expenditure</i>	Audit on the Implementation of payments and corrections in DG AGRI (shared management)	20/12/2018
<i>Pre-accession assistance</i>	Audit on the IPARD II	15/1/2019

There were no critical recommendations and only one very important (VI) recommendation issued. The VI recommendation stemmed from the *limited review on corrective capacity*. It concerned the approach for calculating the financial corrections on which IAS recommended to be clearly explained in the AAR and to be closely monitored. IAS already reviewed the implementation of this recommendation, concluded that it was adequately and effectively implemented and closed it.

The recommendations stemming from the *limited review the validation and adjustment of the reported error rates* have already been implemented. In the *audit on the Evaluation process* in DG AGRI, IAS concluded that the controls put in place were effectively designed and implemented at the time of the audit and therefore no formal report and recommendations were issued. The recommendations stemming from the *follow up audit on the Voluntary Coupled Support (VCS)* have also been implemented. The *audits on Implementation of payments and corrections in DG AGRI (shared management)* and *on IPARD II* resulted in two important (I) recommendations each and they will be implemented in accordance with the accepted action plans.

Follow-up of open recommendations - DG AGRI management closely monitors the implementation of the audit recommendations, and an action plan is agreed with the IAS for all audits. DG AGRI has not rejected any recommendations during the year and has no critical recommendations. By 31 January 2019, six IAS audits with only two very important (VI) recommendations were pending.

IAS conclusion on the state of the internal control

Apart from its participation in the peer review process and in line with its mission charter, the contribution of the IAS to the 2018 AAR process consists of providing a limited conclusion on the state of internal control for each DG. The limited conclusion on the state of internal control draws on the audit work of previous years and lists all 'critical' and 'very important' IAS recommendations which have not been implemented. The Internal Auditor issued his conclusion on the state of internal control in DG AGRI in February 2019.

The Internal Auditor concluded that the internal control systems in place for the audited processes are effective, except for the observations giving rise to the 'very important' recommendations that remain. These recommendations still need to be addressed, in line with the agreed action plans.

Pending VI recommendations in DG AGRI on 31/01/2019

- ***2016 Audit on managing & sharing agri-environmental-climate data¹⁰⁷:***

- **Recommendation 1 – Mapping information needs - Overdue more than 6 months**

The IAS found that there was no comprehensive and coordinated inventory of information needs, and that existing inventories were limited in scope and not always shared amongst DG AGRI, DG CLIMA and DG ENV. The IAS found also that there was insufficient coordination on agri-environmental-climate indicators. This meant that services were unlikely to be aware of all existing data which may cause additional and unnecessary costs and the policy making process may also suffer therefrom. Furthermore, IAS observed a risk that additional data was collected unnecessarily in order to drive similar, but not absolutely identical indicators as well as a reputational risk for the Commission in publishing similar indicators with different values and without a clear explanation as to the differences.

IAS recommended that DG AGRI, DG CLIMA and DG ENV should (taking into account the role played by the main EU data providers) reinforce the coordination and sharing of agri-environmental-climate data and related indicators and establish a coordinated inventory of agri-environmental-climate information needs and available data.

Summary of work done: The initial deadline for implementation of this recommendation was 30/06/2018. While the implementation is advancing, six actions still remain on-going. Two of the remaining actions depend on the progression of the revision of the CAP, for instance regarding establishing lists of data to be collected by SAIO¹⁰⁸. A set of draft context indicators and their methodological fiches are under development. Two actions depend on contributions from Eurostat. The final two actions concern a memorandum of

¹⁰⁷ IAS Audit Report: IAS.B.2-2016-Y COMM-001 of 12 January 2017.

¹⁰⁸ SAOI = Regulation on statistics on agricultural inputs and outputs.

understanding that, at the time of the audit, was thought to only need a revision, while it was concluded during 2018 that a new agreement is to be preferred and therefore the deadline had to be extended.

A large number of meetings and presentations between DG AGRI, DG CLIMA, DG ENV and Eurostat regarding agri-environmental indicators and statistics have been carried out. An indicator inventory has been created by DG ENV, in which DG AGRI has introduced indicators. The inventory of "other statistics" is under revision in Eurostat. During the impact assessment for the new CAP, DG AGRI worked extensively with the JRC to ensure that agri-environmental interaction was taken into account in the modelling. Annex 1 of the new CAP proposal on the Strategic plan includes several agri-environmental indicators.

- **2017 Audit on DG AGRI's management of agricultural market crises**

- **Recommendation 2 - Risk management and performance monitoring**

The IAS found that in practice DG AGRI had made only very limited analyses of the management implications of the various crisis packages implemented. In addition, although it had been constantly in crises management mode for certain sectors since August 2014, the DG AGRI had not adequately reflected the related operational risks in its risk management process and not identified explicitly any mitigating actions. The IAS also observed that the follow-up given to crisis measures concentrated more on reporting on the uptake of the individual measures and the main sectors impacted, but did not include an analysis of the potential broader impact of those measures. DG AGRI may therefore not be able to effectively and efficiently deal with crisis situations in the future and may not detect at an early stage whether or not these crises measures need adjusting.

The IAS recommended that DG AGRI should enhance its risk management process taking into account the risks stemming from the adopted crisis measures, analyse the role of all CAP tools used to respond to the crisis, including the structural impact of the measures on other farming sectors and policies, and evaluate the prevention and management of crises.

Summary of work done: DG AGRI is well advanced in implementing this recommendation. In 2017, a new procedure "Management of market crises", describing the work arrangements at the level of staff, middle management and senior management, was adopted and a regular coordination mechanism as well as a ready-to-act **Task force on market crisis management** were set up. An analysis has also been carried out of the 2014-16 crisis, ongoing crises as well as possible ways forward. The DG, DDGs, directors and units involved in the Taskforce on Crisis Management and the Cabinet are informed biannually on risk scenarios and crisis management. The RMIC is informed of risk reviews carried out in the context of the new procedure mentioned above, to make sure that identified risks are addressed in the risk register where appropriate. As a result, only one of four actions is pending: it regards an evaluation/study that is ongoing and has as initial deadline 31/03/2019.

The following VI recommendations are considered implemented by DG AGRI and awaiting follow-up by the IAS

- ***DG AGRI's performance measurement system***

Three VI recommendations concerning a) the quality of the objectives, b) the indicators and intervention logic, the reliability and the availability of data and c) the consistency and completeness of the CMEF: The first two were implemented in 2017 and the latter was implemented during 2018 by the publication of the CAP proposal and the dashboards and database on current CMEF indicators.

- ***Audit on managing & sharing agri-environmental-climate data***

Recommendation 2 regarding the coordinating Member States' reporting requirements: The initially planned work from the recommendation has been implemented. However, additional work was agreed between the DGs involved that concerns the development and implementation of a methodology for sharing of all IACS¹⁰⁹ data (instead of only LPIS¹¹⁰ data as initially planned). In addition, DG AGRI, DG CLIMA and DG ENV have appointed EEA¹¹¹ contact points and Eurostat statistics correspondents, and they have developed actions in order to streamline the environmental reporting.

- ***DG AGRI's control strategy for the CAP 2014-2020***

The VI recommendation on financial corrections was implemented in January 2019, among others with the revision of the Audit manual.

The IAS has started follow up audits on the implementation of the three VI recommendations above.

The recommendations stemming from the audit on Payments suspensions and interruptions in the CAP 2014-2020 framework in DG AGRI (one VI recommendation regarding the application of guidance and procedures and three important recommendations) were closed after a follow up audit from IAS.

¹⁰⁹ IACS = Integrated Administration and Control System

¹¹⁰ LPIS = Land Parcel Identification System

¹¹¹ EEA = European Environment Agency

Conclusion on IAS audits and recommendations

DG AGRI is taking action to implement the recommendations that were addressed to the Directorate-General. The follow-up of IAS audit recommendations is a well-established element of internal control in DG AGRI which includes regular requests for updates for all open recommendations throughout the year, regardless of their qualification or implementation deadlines, as well as regular reporting to the senior management on the progress.

Most of the planned actions for the audit on data sharing have been implemented, and as described above, the remaining work is progressing except the two actions related to the lack of resources in Eurostat. The question of data sharing and data quality has also been discussed in the context of risk management within DG AGRI as the declining of human and financial resources of data providers (not only Eurostat, but also Member States' Statistical Institutes and non-governmental data providers) may impact the EU analytical capacity to support decision-making for the CAP. For this reason, DG AGRI is working closely with Eurostat in evaluating the organisational and financial needs and is exploring new sources for data collection.

The ongoing study/evaluation for the audit on market crises is also progressing well and is expected to be finalised within the initial deadline.

DG AGRI's management therefore considers that the current state of play regarding the follow-up of IAS recommendations does not lead to assurance-related concerns and concludes that it has **reasonable assurance**.

2.1.2.2 European Court of Auditors: 2017 Annual Report

The ECA's 2017 Annual Report was published on 4 October 2018 and presented on that day to the Budgetary Control Committee of the European Parliament (CONT). For the EU budget as a whole, the Court estimated the level of error in expenditure at 2.4%. The Court clarified that material error was mostly confined to reimbursement-based expenditure representing around 47% of the audited population. The overall estimated level of error decreased compared to previous years when it was at 3.1% and 3.8%, in relation to financial years 2016 and 2015 respectively.

Chapter 7 of the Report presents the results for MFF¹¹² Heading 2 - Natural resources. The CAP spending represents 98% of the audited population and it is covered together with environment, climate action and fisheries. In financial year 2017, the level of error for the Chapter is at 2.4%. This is lower than in previous years, when it was at 2.5% in financial year 2016 and 2.9% in financial year 2015. This level of error is also comparable to the overall error rate for the CAP, which DG AGRI disclosed in the 2017 Annual Activity Report (2.22%).

The 2017 results confirm that the error rate for the CAP is low and continues the downward trend. In 2017 for the first time, the Court does not disclose the error rates for the separate assessments included in the Chapter (in previous years, there was an error rate disclosed for EAGF and another one for EAFRD together with environment, climate action and fisheries). The Court also makes a distinction between different schemes financed under EAGF. Thus, the Court analyses separately the direct payments and the market measures, the latter being considered as more prone to risk.

The Court concludes that EAGF direct payments expenditure is free of material error. It is a very positive result, since direct payments, with the amount of EUR 41.5 billion in 2017, constitute a prevailing part of the total CAP expenditure and 74% of the expenditure under the MFF Heading 2 "Natural resources".

This proves that CAP has a solid governance structure with the error rate under control and the situation constantly improving. The low error rate for the CAP also allowed the Court to express, again this year, a qualified opinion on the legality and regularity of payments for the Commission as a whole. The Court clarified that the error found is above materiality, but it is not pervasive.

The Court highlights the role the Land Parcel Identification System (LPIS)¹¹³ in preventing and detecting errors. The Court notes that the Member States' Paying Agencies had identified eligible land more accurately than in the past. In addition, they started carrying out preliminary cross-checks on direct aid applications.

On the other hand, the main reasons for errors in transactions under Chapter 7, according to the Court, are due to ineligibility of beneficiary, activity, expenditure or project; provision of inaccurate information on areas or animals and non-respect of agri-environmental-climate commitments. DG AGRI recognised the causes of errors, which are in line with the audit findings of the DG AGRI conformity audit enquiries. DG AGRI continues working with the Member States to improve the situation and address the system deficiencies, which lead to the occurrence of errors.

¹¹² Multi-Annual Financial Framework.

¹¹³ LPIS is the main component of the Integrated Administration and Control System (IACS).

Recommendations

The Court made four recommendations in Chapter 7:

1. The Commission should continue working with the Member States to address deficiencies in areas where the error rate is still high (market measures and rural development).
2. The Commission should carry out a closer examination of the quality of work of the certification bodies (who are the independent auditors of paying agencies).
3. The Commission should check the implementation of remedial actions taken by the Member States in cases where the quality of work of certification bodies was not satisfactory.
4. The Commission should monitor progress made by the Paying Agencies in supporting farmers not yet using the Geo-Spatial Aid Applications and promote best practices, in order to maximise the benefits and achieve the implementation of the new system within the regulatory deadlines.

The Commission accepted all the recommendations.

For recommendation 1, DG AGRI is taking action to implement it. DG AGRI will continue to request Member States to prepare remedial action plans when serious deficiencies and weaknesses are identified and to monitor the effectiveness of their implementation.

Recommendations 2 and 3 are considered already implemented with the continuous work of DG AGRI on the quality and reliability of the certification bodies' work. DG AGRI is putting significant efforts into further progress in the implementation of the single audit approach where the certification bodies have a key role to play. DG AGRI also notes the Court's assessment on improvements in the work of certification bodies as well as in the DG AGRI audits of that work expressed in Chapter 7.

For recommendation 4, which is in the performance part of Chapter 7, DG AGRI considers that it is being implemented. DG AGRI is monitoring progress in the Member States and will continue to do so.

Performance

Chapter 7 contains a separate part dealing with performance of the CAP expenditure. The Court is focusing on two aspects: investment projects under rural development and the use of the Geo-Spatial Aid Applications (GSAA).

For GSAA the Court had very positive conclusions, as this tool enables preventing errors and contributes to reducing the administrative burden for both farmers and the Paying Agencies. The Court encourages Member States to accelerate the transition from paper-based applications to the full use of GSAA.

In relation to rural development, the Court found that in 26 out of 29 cases the measures were in line with the priorities and focus areas identified. The Court found difficult to assess the contribution of these priorities to each thematic objective. The Commission replied on that point that the link may be difficult to establish due to diversity and multi-purpose nature of the measures. Such correspondence becomes evident once the measures are attributed to the focus areas.

2.1.2.3 European Court of Auditors: Special Reports

In 2018, ECA published 7 special reports concerning DG AGRI's activities:

1) Special report 5/2018 "Renewable energy for sustainable rural development: significant potential synergies, but mostly unrealised" (multi DG audit)

ECA concluded that the EAFRD support for renewable energy could add value at European level but that the Commission had not provided sufficient clarification or guidance in this regard, nor on how the EAFRD should complement the existing EU and national funding schemes. ECA found that, as a result, most of the Member States visited did not prioritise those renewable energy projects that could make a contribution to sustainable rural development. ECA also observed that the Commission had no comprehensive information on the EAFRD expenditure for renewable energy in the 2007-2013 rural programming period and that there were weaknesses in the monitoring system currently, mainly because of complications in the programming exercise and the restricted scope of the main indicators.

As regards DG AGRI activities, ECA recommended:

- when designing their future rural development policy, to set out what EAFRD investments in renewable energy should achieve; how they should add value in rural areas; and how the EAFRD should complement the existing EU and national funding schemes for renewable energy.

This recommendation has already been implemented. One of the specific objectives of the new CAP post 2020 as proposed by the Commission focuses on sustainable energy. Under the new CAP delivery model, Member States have more flexibility to set-up in their Strategic Plans interventions which are tailor-made to address the specific needs identified on their territory, while delivering results which are contributing to achieve the specific objectives set out for the CAP.

- with regard to EAFRD support for renewable energy, to require the Member States to provide pertinent information on programme achievements of renewable energy projects in their enhanced annual implementation reports of 2019.

This recommendation has already been implemented with respect to data on expenditure on renewable energy and the renewable energy produced from supported projects. The enhanced annual implementation reports of 2019 will contain this information. However, the Commission has no mandate to require Member States to provide information in these reports which they have not been asked to collect from the outset of the programming period, such as data on the energy capacity installed.

- to reinforce with the Member States the need to apply relevant selection procedures, in order to give support only to viable renewable energy projects with a clear benefit for sustainable rural development.

This recommendation has already been implemented. Upon receiving Rural Development Programme amendment proposals, the Commission highlights to the Member States that only viable project with a clear benefit for sustainable rural development should be supported. The Commission encouraged the Member States to use suitable and appropriate selection criteria to address this aspect.

2) Special Report 10/2018 "Basic Payment Scheme for farmers – operationally on track, but limited impact on simplification, targeting and the convergence of aid levels"

ECA concluded that the Commission adequately supported the introduction of the BPS (Basic Payment Scheme) and supervised the implementation process well, provided extensive guidance and that the Commission's own audits yielded good results. However, ECA criticised that the impact of BPS on simplification, targeting and the convergence of aid levels is limited. ECA found that the complex rules on BPS and eligible land contained numerous options and exceptions for implementation of the scheme; that the "active farmer" notion implemented through a negative list resulted in a different treatment of similar applicants and represented a significant administrative burden for Paying Agencies; and that there were no measurable targets and no baseline to which the results achieved could be compared.

ECA recommended to:

- ensure the appropriate implementation of key controls by Member States and that Member States correct BPS entitlements where values are significantly affected.

This recommendation has already been implemented. The Commission already issued guidelines and performed monitoring conformity audit procedures.

- review and take stock of the effectiveness of its systems for disseminating information among Member States, with a view to maximising their consistent interpretation and application of the BPS legal framework.

The Commission did not accept this recommendation, as, in accordance with the principle of shared management, it is the responsibility of Member States to apply the consistent interpretation of the BPS legal framework. The Commission considered it made appropriate steps of disseminating information.

- assess options for future legislation that would enable the Commission to enforce the transmission of key information by Member States on the implementation of direct support schemes.

This recommendation has already been implemented. The Commission proposed in the CAP post 2020 legislative proposal a new delivery model to integrate all CAP interventions in a CAP Strategic Plan which will be subject to performance assessment. Information on the implementation of the CAP Strategic Plans will become the basis of assurance in the new delivery model.

- clarify the respective roles of the Commission and of the Certification Bodies in checking the existence of effective key controls, and the central calculation of BPS entitlements.

This recommendation has already been implemented. The Commission laid down the requirements for the Certification Bodies' audit work on entitlements in the Guidelines.

- analyse, before making any proposal for the future design of the CAP, the factors impacting income for all groups of farmers, their income support needs and the value of the public goods that farmers provide.

This recommendation has already been implemented. The Commission covered in the Impact Assessment of the CAP post 2020 legislative proposals impacts of changes in support on farm income, environment as well as broader socio-economic effects.

3) **Special Report 11/2018 "New options for financing rural development projects: simpler but not focused on results"**

ECA concluded that by basing payments on output, SCOs (Simplified Cost Options) shifted the focus away from invoices but did not increase the focus on results. ECA found that the SCOs could keep the costs of Rural Development (RD) under control, but only if set at the right level and based on a fair, equitable and verifiable methodology. However, as the role of the Certification Bodies in auditing SCOs was not specified, this created risks, which were not addressed. ECA also observed that the SCOs remained a marginal part of RD and considered that the main reasons being the diverse nature of RD projects and the investment needed for developing methodologies.

ECA recommended to:

- update the guidance on SCOs to cover key principles for developing methodologies.

The Commission is currently updating the guidance on SCOs to include the novelties introduced by Regulation 2018/1046¹¹⁴.

- clarify who is required to check the methodology and calculation of SCOs, including the roles of the Certification Bodies.

This recommendation has already been implemented. The Certification Bodies are required to 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.

- facilitate the appropriate use of SCOs.

This recommendation has already been implemented. New off-the-shelfs SCOs are included in Regulation 2018/1046. Such options are also proposed in the CAP post 2020 legislative proposals.

¹¹⁴ Regulation (EU, Euratom) 2018/1046 of the European Parliament and of the Council of 18 July 2018 on the financial rules applicable to the general budget of the Union, amending Regulations (EU) No 1296/2013, (EU) No 1301/2013, (EU) No 1303/2013, (EU) No 1304/2013, (EU) No 1309/2013, (EU) No 1316/2013, (EU) No 223/2014, (EU) No 283/2014, and Decision No 541/2014/EU and repealing Regulation (EU, Euratom) No 966/2012

- examine the potential for moving away from reimbursement of costs incurred towards reimbursement based on results.

The Commission has included in Regulation 2018/1046 the option of financing not linked to costs but based on the fulfilment of conditions related to the implementation or the achievement of objectives of programmes. The Commission is now working on the preparation of Delegated Acts to implement this option.

4) Special report n°12/2018: "Broadband in the EU Member States: despite progress, not all the Europe 2020 targets will be met" (multi DG audit)

ECA found that broadband coverage had generally improved across the EU, but that not all Europe 2020 targets would be achieved. Rural areas, where there was less incentive for the private sector to invest, remained less well connected than cities, and the take-up of ultra-fast broadband was significantly behind target. ECA also observed that financing needs in rural and suburban areas were not always properly addressed, and the European Investment Bank support did not focus on areas of greatest need.

ECA recommended for the post 2020 programming period to develop common, consistent output and result indicators for use in Member States' operational programmes enabling progress against relevant high-level objectives to be tracked while taking account of the need to limit the number of indicators. DG AGRI was associated service for the implementation of this recommendation.

The Commission is considering different possibilities for establishing a more streamlined, simplified and harmonised system of indicators for the post-2020 MFF.

5) Special report n°25/2018: "Floods directive: progress in assessing risks, while planning and implementation need to improve" (multi DG audit)

ECA found that the coordination between the Member States and the Commission improved, however the flood-related action suffered from weaknesses in allocating funds: the sources of financing were only partially identified and secured, funding for cross-border investment was limited, and money was generally not allocated in line with the priorities. ECA also considered that major future challenges remained concerning the integration of climate change, flood insurance systems and land use planning into flood risk management.

ECA recommended checking that Member States have analysed the feasibility of implementing green measures in combination with grey infrastructure where appropriate. DG AGRI was associated service for the implementation of this recommendation.

The Commission partially accepted this recommendation. The Commission can recommend the use of green infrastructure, where relevant, in projects co-financed by the EU. However, the legal framework does not provide for a possibility to check whether the Member States have analysed the feasibility of implementing significant green measures.

6) Special report n°31/2018: "Animal welfare in the EU: closing the gap between ambitious goals and practical implementation" (multi DG audit)

ECA considered that the Commission has used both guidance and enforcement to achieve compliance. It has been successful in important areas, notably the group housing of sows and the ban on cages that restrict laying hens. Weaknesses persist in some areas, particularly in relation to the routine tail docking of pigs, the lack of compliance with rules on long-distance transport and the transport of unfit animals, and the use of stunning procedures at slaughter. ECA found good examples of actions beneficial for animals in the Member States visited. However, there were certain weaknesses in the cost-effectiveness of the measure, and Member States rarely used the opportunity to support animal welfare through other rural development measures.

As regards DG AGRI activities, ECA recommended to:

- in its conformity audits on cross-compliance, assess the completeness of Member States' reporting of non-compliances identified during official inspections performed by the same control authority as for cross-compliance checks.

The Commission did not accept this recommendation as for the official inspections carried out above the minimum control rate of 1% of beneficiaries, there is no legal obligation for the inspectors to qualify and assess their findings in light of cross-compliance rules and to subsequently report them.

- further share best practices on cross-compliance and inform Member States of the conformity findings underlying decisions to impose financial corrections.

The Commission considers this recommendation as implemented. The Commission held an expert meeting working group on cross-compliance on 19/12/2018. In this meeting, experts exchanged views and shared experience on best practices on cross-compliance and conformity findings.

- when approving changes to the existing rural development programmes, as well as when approving the new programming documents, challenge Member States on the use of the animal welfare measure in sectors where there is evidence of widespread non-compliance.
- encourage the exchange between Member States of good practices on additional, voluntary result and impact indicators for the animal welfare measure.
- for the programming period post-2020, provide guidance to Member States on the use of other rural development measures to support improved animal welfare standards.

The Commission accepted these recommendations. The implementation will follow within the target implementation date as set in the ECA report: 2021.

7) Special report n°33/2018: Combating desertification in the EU: a growing threat in need of more action (multi DG audit)

ECA found that there was no EU-level strategy on desertification and land degradation, but a range of strategies, action plans and spending programmes, such as CAP, EU Forest Strategy, EU strategy on adaptation to climate change, which were relevant to combating desertification, but did not focus on it. EU projects related to desertification were also spread across different policy areas – rural development, environment and climate action, research, and regional policy. They could have a positive impact on combating desertification, but there were concerns about their long-term sustainability. Although the Commission and the Member States collected data about various factors with an impact on desertification and land degradation, a full assessment is lacking.

One ECA recommendation related to CAP, namely that the Commission should assess the appropriateness of the current legal framework for the sustainable use of soil across the EU, including addressing desertification and land degradation.

The Commission accepted this recommendation. The implementation will follow within the target implementation date as set in the ECA report: 30 June 2021.

In the period covered by the AAR, ECA issued a **briefing paper on the Future of CAP**, based on the Commission Communication on the Future of Food and Farming, as well as **an opinion on CAP for the post-2020 period** based on the Commission's legislative proposals. DG AGRI has engaged in a dialog with ECA in order to increase the understanding on the future CAP policy design. In previous reports, the ECA had recurrently invited the Commission to strengthen the CAP performance orientation. This is addressed with the new delivery model: tracking achievement of targets by Member States and putting assurance at Member State level. Keeping the current CAP governance system and combining it with multi-annual monitoring and annual clearance would allow addressing under-performance (action plans, suspensions, reductions). The Commission's proposals include all essential elements to ensure that Member States' performance can be properly assessed and that the achievement of EU objectives can be measured. The ECA opinion alleges a lack of a clear increase in environmental and climate ambition but the Commission's proposal addressed earlier suggestions from the ECA regarding the need for explicit objectives in relation to climate change, protection of natural resources and biodiversity. On the assurance model, the Commission's proposals clearly state the legal architecture underlying the new delivery model including the role of EU law to guide Member States in setting up national provisions applicable to beneficiaries as well as the role of Certification Bodies to check the Member States' governance systems.

ECA also launched the following audits, which are still on-going or pending publication:

- Organic (follow up of SR 9/2012);
- Risk management and exceptional measures in the framework of the CAP;
- Performance measurement (follow up of SR 12/2013).

Follow-up of open recommendations

DG AGRI management closely monitors the implementation of the audit recommendations stemming from ECA annual and special reports or those from Council and the European Parliament issued in the course of the discharge procedure. Following the adoption and the publication on 1 June 2018 of the CAP post 2020 legislative proposals, DG AGRI was able to close 43 recommendations.

By the end of 2018, there remained 37 open recommendations for which DG AGRI is chef de file. Two of these recommendations stemming from ECA Special Reports (SR) were substantially overdue (> 12 months) in 2018: one recommendation is still overdue while the other one is considered as implemented.

SR 20/2015 – Cost-effectiveness of rural development support for non-productive investments. The first recommendation of this report requests the Commission to maximise the complementary role of non-productive investments (NPI) with other rural development measures and/or environmental schemes. The recommendation is considered partially implemented. The Commission promoted the topic with the help of the European Network for Rural Development and will continue offering operational support to help Member States to improve reporting, in particular as to the enhanced annual implementation report 2019. The Commission also supports the Member States in order to make full use of the potential of the Common Evaluation and Monitoring System, which exists for the Rural Development Policy.

SR 26/2016 – Making cross-compliance more effective and achieving simplification remains challenging. The Commission considers this recommendation as implemented. The recommendation encourages the Commission to develop a methodology to measure the costs of cross-compliance. The Commission has launched a study on administrative burden for farmers in the context of the CAP which was finalised on 31/12/2018. As regards the CAP post-2020, the new delivery model will provide Member States with great flexibility in designing the compliance and control framework applicable to beneficiaries (including controls and penalties).

Conclusion on ECA audits and recommendations

DG AGRI is taking action to implement the recommendations that were addressed to the Directorate-General and which have been accepted. Some recommendations were addressed to the Member States and DG AGRI accepts recommendations within the limits of its competencies provided by the legal framework under shared management. The follow-up of ECA audit recommendations is a well-established element of internal control in DG AGRI, which includes regular requests for updates for all open recommendations throughout the year, regardless of their qualification or implementation deadlines.

DG AGRI is in constant contact with Member States to ensure correct interpretation and application of EU legislation and robust management and control systems. DG AGRI requires remedial action where this is not the case and has established reporting mechanisms to monitor efficient and effective implementation and to detect issues at an early stage.

DG AGRI's management therefore considers that the current state of play regarding the follow-up of ECA recommendations does not lead to assurance-related concerns and concludes that it has **reasonable assurance**.

2.1.3 Assessment of the effectiveness of the internal control systems

The Commission has adopted an Internal Control Framework¹¹⁵ based on international good practice, aimed to ensure the achievement of policy and operational objectives. In addition, as regards financial management, compliance with the internal control framework is a compulsory requirement.

DG AGRI has put in place the organisational structure and the internal control systems suited to the achievement of the policy and control objectives, in accordance with the 17 principles of this framework and having due regard to the risks associated with the environment in which it operates.

DG AGRI reported on the implementation of the new framework already in the AAR 2017. In 2018, the implementation was fine-tuned by sharing the best practices with the other DGs/services, supported by guidance of the central services.

2.1.3.1 Source and Methodology for the Internal Control assessment

In DG AGRI, the internal control system is based on the clear definition of **roles** and **responsibilities** within the DG. The internal control monitoring criteria have been selected together with the **AGRI services** contributing to internal control. The **Director-General** signs the most important notes related to internal control. The **Deputy Director-General RMIC** addresses to the Director-General an annual note on the implementation of the internal control system in the DG, thereby supporting the conclusions in the Annual Activity Report. **Senior management** is consulted and kept informed of most important activities under internal control, i.e. risk management, the annual report to the Commissioner, the follow-up of audit recommendations, the analysis of management supervision reports.

The internal control **self-assessment** for 2018 was carried out following the methodology established in the *"Implementation Guide of the Internal Control Framework of the Commission"* and is based on the following main sources of information:

- *Desk review of the internal control monitoring criteria* and the specific actions implemented by the services contributing to each principle;
- *Management supervision reports* submitted by Directors and Heads of Unit on the operational performance of the services and supervision of their activities;
- *Audit findings and follow-up of recommendations* (see Part 2.1.2);
- Results of the *risk assessment* exercises;
- Reported instances of *exceptions and non-compliance events*.

The assessment also considered the **IAS limited conclusion** on the state of internal control and audit recommendations in DG AGRI for the year 2018.

¹¹⁵ C(2017)2373 final, 19.4.2017

2.1.3.2 Internal Control self-assessment results for 2018

Based on the approach described above and the self-assessment performed at the level of the principles, of the components and at the level of the internal control system as a whole, DG AGRI concluded that **internal control in DG AGRI is present and functioning well, but some improvements are needed** for 2 principles:

Under Principle 3 "*Establishes structure, authority and responsibility*", the assessment noted a moderate deficiency as the list of sensitive functions has not yet been updated. This deficiency is mitigated by the regular exchange between the Director-General and the Business Correspondent (BC) on appointments and mobility issues and the close follow-up of the Director-General of staff issues.

Under Principle 10 "*Selects and develops control activities*", the Disaster Recovery Plan (DRP) which verifies the functioning of the IT database infrastructure could only be partially executed in 2018. The general business continuity arrangements were only partially tested in 2018. Outstanding actions related to the above issues are planned for 2019.

These very moderate deficiencies **do not affect** negatively the functioning of the internal control system in DG AGRI.

DG AGRI **managers** formally reported on the supervision carried out on the activities under their responsibilities in the course of 2018. In this context, managers did not report any major operational risk/issue having an effect on the achievement of objectives in addition to what was reported under other internal control exercises (e.g. risk management, audits).

As part of the internal control self-assessment, **IAS** recommendations are checked. There are two very important IAS audit recommendations pending (see section 2.1.2.1). They are addressed in line with the agreed action plans and implementation status is followed up closely. Actions for which implementation is delayed are either linked to the on-going negotiations of the CAP reform process or depend on contributions from other DGs/services. These pending recommendations do not constitute an internal control weakness. As regards recommendations issued by the **European Court of Auditors (ECA)** in their special reports (see section 2.1.2.3) or in their annual report (see section 2.1.2.2), in the framework of shared management these cannot be directly linked to weaknesses in the internal control system of the Directorate-General. Governance systems in place and processes designed to ensure the adequate management of the risks related to legality and regularity of expenditure are constantly monitored and improved to maximise the level of assurance.

2.1.3.3 Risk Management

DG AGRI has put in place a **solid risk management process** ensuring an appropriate coverage of its objectives/activities. In 2018, DG AGRI performed a comprehensive risk identification and assessment by requesting contributions from all services. The process is organised as a bottom-up exercise with top-down steering when launching and concluding. Senior management was involved at all stages of the process. The assessment covered in particular the substance of the risks, their rating (likelihood and impact), mitigating controls in place and related action plans. One risk was considered critical and was further discussed during the peer review meetings organised by the Secretariat General. The risk identified and assessed in that context did not reveal internal control weaknesses, but required an active preparation in the framework of Brexit.

2.1.3.4 Exceptions and non-compliance

The functioning of the internal control systems is monitored throughout the year by the registration of exceptions and non-compliance events. Accordingly, a register of **exceptions and non-compliance events** was finalised and the content analysed in parallel with the assessment on the functioning of internal control for the year 2018. The purpose of this register is to make sure that the exceptions to the procedures and the non-compliance events are not caused by systemic faults in the processes, and, if necessary, to correct the processes and the relevant procedures. For the year 2018, the register included seven exceptions and two non-compliance events.

These exceptions to procedures and non-compliance events remained limited and non-systemic in DG AGRI and therefore they have no impact on the assurance given by the Authorising Officer.

2.1.3.5 Conclusions on the internal control system

Based on the methodology and information sources described above, DG AGRI has assessed its internal control system during the reporting year and has concluded that it is effective and that **the components and principles are present and functioning as intended** with some minor improvements needed.

Some moderate deficiencies were observed under Principle 3 "*Establishes structure, authority and responsibility*" and Principle 10 "*Selects and develops of control activities*". These deficiencies have a moderate impact on the presence and functioning of the principles, considering the extent of the problem and the presence of compensating controls.

No critical weaknesses were found in any of the components that could jeopardise the achievement of operational, financial or control objectives and prevent the Director-General from signing his declaration of assurance.

2.1.4 Conclusions on the impact as regards assurance

This section reviews the assessment of the elements reported above (in Sections 2.1.1, 2.1.2 and 2.1.2), the sub-conclusions above, and draws the overall conclusion supporting the declaration of assurance and whether it should be qualified with reservations.

2.1.4.1 Review of the elements supporting assurance

The information reported in Part 2 stems from the results of management and auditor monitoring contained in the reports listed. These reports result from a systematic analysis of the evidence available. This approach provides sufficient guarantees as to the completeness and reliability of the information reported and results in a complete coverage of the budget delegated to the Director-General of DG AGRI.

The Commission gives the highest priority to the exercise of its responsibilities for implementing the budget under Article 317 of the Treaty for the Functioning of the European Union (TFEU).

DG AGRI has assessed the effectiveness of its key internal control systems during the reporting year (Part 2.1.3) and identified areas for improvements, although in no case the weaknesses identified were of a nature to call into question the reasonable assurance.

In addition, DG AGRI has systematically examined the available control results and indicators, including the results of the assessment of the Certification Bodies and its own audits, those aimed to supervise entities to which it has entrusted budget implementation tasks, as well as the observations and recommendations issued by internal auditors and the European Court of Auditors. These elements have been assessed to determine their impact on the management's assurance as regards the achievement of control objectives (Part 2).

Follow-up of 2017 reservations

In the 2017 AAR, DG AGRI issued reservations at the level of Paying Agency or measure. This led to a total of 42 reservations.

Member States were requested to submit action plans to remedy the weaknesses underlying the reservations where necessary. Those action plans were then assessed to check whether they would, if properly implemented, actually remedy the identified deficiencies in due time.

Member States are responsible for the actual implementation of an action plan. DG AGRI monitors the implementation on the basis of the reporting done by Member States, i.e. verifies that the Member State is providing its progress report in a complete manner and on time. The Certification Bodies are also supposed to report on progress on action plans. The Assurance and audit Directorate of DG AGRI offers its opinion and checks on-the-spot at appropriate times the implementation of an action plan in accordance with its audit work programme.

In the framework of the establishment of the Annual Activity Report, DG AGRI assessed the effectiveness of the remedial actions that have already been taken by the Member States. The detailed conclusions are available in Annex 10 for reservations issued under shared management for ABB02, ABB03 and ABB04.

The risk for the EU budget is systematically covered by the conformity clearance procedure and the net financial corrections.

Sound Financial Management

With 99.5% of the CAP budget¹¹⁶ being implemented in shared management, its sound management is based on Member States' compliance with the rules set down in the legislation, which is then audited by DG AGRI. The CAP legislation imposes compulsory administrative structures (Paying Agencies) in the Member States with strict accreditation criteria applying in particular to control and payment functions. Annual accounts are required to be sent to the Commission and the Certification Body is required to certify them. The Certification Body is requested to certify whether it has gained reasonable assurance that the accounts transmitted to the Commission are true, complete and accurate and, for the fourth time in financial year 2018, gives an opinion on the legality and regularity of the expenditure.

The Paying Agencies carry out ex-ante administrative checks on each payment as well as on-the-spot checks for at least 5% of beneficiaries of Direct payments and Rural Development expenditure. For Market Measures, the level of checks is higher with up to 100 % control rates required for certain schemes. The CAP legislation also imposes strict payment deadlines on the Paying Agencies. Those which do not respect these deadlines, are subject to penalties where a significant part of payments are made late.

Weaknesses detected by DG AGRI via its own audits are systematically subject to net financial corrections through the clearance of accounts procedures in order to protect the EU financial interests.

Resources used for the intended purposes

While deficiencies are found in the management and control systems of some Paying Agencies, no evidence has come to light that significant resources have been diverted from the intended purpose. In particular, while DG AGRI identified a number of deficiencies and errors, in most cases these errors concerned formal and procedural mistakes while the funds were still effectively used for the stated objectives.

Legality and regularity

Part 2 sets out in detail the processes in place to ensure the management of the risk relating to legality and regularity of the funds managed under the CAP. It demonstrates that when taking into account the corrective capacity, i.e. the estimated amount related to the CAP expenditure in 2018 that will be reimbursed by Member States to the EU budget by net financial corrections as well as by the recoveries effected by the Member States and reimbursed to the EU budget, there is sufficient assurance that the remaining risk to the EU budget is significantly below 2%.

In the framework of shared management, the detection and correction of errors is the direct responsibility of the Member States. Each time deficiencies are found in the management and control system, conformity procedures are opened and, at the same time, Member States are requested to take remedial action. The latter are closely monitored, failures to implement them may lead to interruption, reduction or suspension of the EU payments for the measure concerned.

¹¹⁶ This percentage is calculated on the total payments executed in financial year 2018.

DG AGRI has thoroughly examined all relevant available information, including the Certification Bodies' opinions on legality and regularity of the expenditure, and used its professional judgement to identify as precisely as possible the amounts at risk for the EU budget. Three reservations are made on each of the ABB activities in shared management, covering 46 reservations at Paying Agency level or Member States. This careful examination enables the Director-General to consider that he has reasonable assurance as to the legality and regularity of the expenditure effected in 2018 with a qualification in respect of the three reservations made for ABB activities as detailed in the following section.

2.1.4.2 Conclusion on assurance and reservations

The Director-General for Agriculture and Rural Development considers it necessary to enter three reservations in respect of 2018 expenditure in shared management with the Member States.

No	Title	Type	2018 amount at risk under reservation (in million EUR)	ABB amount covered (in million EUR)
1	ABB02 – Payments made on Market Measures: 5 aid schemes comprising 6 Member States (8 elements of reservation): Italy (for 2 aid schemes), Spain, Poland, Portugal (for 2 aid schemes), United Kingdom, and 1 General reservation for expenditure managed by France AGRIMER	Financial	EUR 49.78 million	Expenditure in 2018 was EUR 2 620.32
2	ABB03 – Payments made on Direct Payments: 17 Paying Agencies, comprising 10 Member States: Austria, Cyprus, Denmark, Spain (2 Paying Agencies), France (1 Paying Agency), United Kingdom (1 Paying Agency), Italy (7 Paying Agencies), Poland, Sweden, Slovakia	Financial	EUR 378.33 million	Expenditure in 2018 was EUR 41 496.51 million
3	ABB04 – Payments made on Rural Development: 21 Paying Agencies, comprising 14 Member States: Belgium (2 Paying Agency), Croatia, Czech Republic, Germany (1 Paying Agency), Spain (4 Paying Agencies), France (2 Paying Agencies), United Kingdom (3 Paying Agencies), Greece, Hungary, Italy (1 Paying Agency), The Netherlands, Portugal, Sweden, Slovakia	Financial	EUR 297.28 million	Expenditure in 2018 was EUR 12 456.85

Table: 2.1.4.2-1

2.1.4.3 Overall Conclusion

In order to assess the overall risk relating to the legality and regularity of transactions, DG AGRI has calculated an adjusted error rate for the annual expenditure and the resulting amount at risk.

Direct management

Title 05	Agriculture and rural development	Direct management payments made (EUR)	Error rate	Amount at risk at payment (EUR)
0501	Administrative expenditure	9 545 390	1.00%	95 454
0502	Interventions in agricultural markets	-	-	-
0504	Rural development	11 867 856	1.00%	118 679
0506	International aspects	4 600 059	1.00%	46 001
0508	Policy strategy and coordination	35 946 108	1.00%	359 461
0509	Horizon 2020 - Research and innovation	-	-	-
Total		61 959 413	1.00%	619 594

Table 2.1.4.3-1

For the EUR 61.96 million managed directly by DG AGRI, the maximum amount at risk is estimated at EUR 619 594 indicating an adjusted error rate of 1%.

Indirect management

Title 05	Agriculture and rural development	Payments made (EUR)	Prefinancing paid (EUR)	Cleared prefinancing (EUR)	Relevant expenditure (EUR)	Adjusted error rate	Amount at risk (EUR)
0505	Instrument for Pre-accession Assistance	98 301 147	34 500 000	80 711 753	144 512 899	0.09%	123 551
Total		98 301 147				0.09%	123 551

Table: 2.1.4.3-2

For the EUR 98.30 million in indirect management under the pre-accession programmes, the maximum amount at risk is estimated at EUR 123 551 indicating an estimated adjusted error rate for relevant expenditure of 0.09%.

Shared management

Title 05	Agriculture and rural development	Shared management (EUR)	Adjusted error rate	Amount at risk (EUR)
0502	Interventions in agricultural markets	2 620 322 737	2.53%	66 254 207
0503	Direct aids	41 496 516 339	1.83%	757 961 531
0504	Rural development	12 444 981 221	3.19%	396 778 589
0507	Audit	106 910 905	0.00%	-
Total		56 668 731 203	2.15%	1 220 994 327

Table: 2.1.4.3-3

The amount at risk for the funds under shared management is estimated at EUR 1 220.99 million, corresponding to an adjusted error rate of 2.15%. This amount at risk is the Director-General's best, conservative estimate of the amount of expenditure authorised in 2018, which may relate to underlying transactions made by the Member States which are not in conformity with the applicable regulatory provisions.

Reservations are targeted at the Paying Agencies or aid schemes where the specific deficiencies have been identified. In total, there are 46 targeted reservations (8 for Market Measures, 17 for Direct Payments and 21 for Rural Development) in respect of 2018 expenditure. In all cases, there is a follow-up: conformity clearance procedures to ultimately protect the EU budget, monitoring of the implementation of remedial actions to be taken by Member States and, where necessary, interruption or reduction/suspension of payments to the Member States. This systematic and precisely targeted approach enables the Director-General to state that he has sufficient assurance that the situation is under control: there are some problems in the payments to the beneficiaries, but they have been identified, are being tackled and ultimately the EU budget is protected.

CAP

The overall situation for the CAP is as follows:

	Payments made ¹	Prefinancing paid	Cleared prefinancing	Relevant expenditure	Adjusted error rate	Estimated amount at risk at payment	Average financial corrections	Average recoveries	Average recoveries and corrections (in % of relevant expenditure)	Corrective capacity	Estimated final amount at risk
	million EUR	million EUR	million EUR	million EUR	%	million EUR			%	million EUR	million EUR
1	2	3	4	5	6	7	8a	8b	8	9	10
				= 2 - 3 + 4		= 5 x 6				= 5 x 8	= 7 - 9
Title 04 Employment, social affairs and inclusion											
0401 Administrative expenditure	0.43	0.00	0.00	0.43	1.00%	0.00	0.00	0.00	0.00%	0.00	0.00
Title 09 Communications networks, content and technology											
0903 Connecting Europe facility (CEF)	0.24	0.00	0.00	0.24	1.00%	0.00	0.00	0.00	0.00%	0.00	0.00
Title 13 Regional and urban policy											
1303 European regional development fund	0.17	0.00	0.00	0.17	1.00%	0.00	0.00	0.00	0.00%	0.00	0.00
1304 Operational technical assistance	0.07	0.00	0.00	0.07	1.00%	0.00	0.00	0.00	0.00%	0.00	0.00
Title 18 Migration and home affairs											
1801 Administrative expenditure	0.36	0.00	0.00	0.36	1.00%	0.00	0.00	0.00	0.00%	0.00	0.00
Title 05 Agriculture and rural development											
SHARED MANAGEMENT											
0502 Interventions in Agricultural Markets	2 620.32	0.00	0.00	2 620.32	2.53%	66.25	87.38	0.00	0.00%	0.00	0.00
0503 Direct payments	41 496.52	0.00	0.00	41 496.52	1.83%	757.96	588.95	0.00	0.00%	0.00	0.00
EAGF total	44 116.84	0.00	0.00	44 116.84	1.87%	824.22	676.33	97.92	1.75%	774.25	49.97
0504 Rural development ²	12 444.98	19.50	11.32	12 436.80	3.20%	397.62	195.20	112.38	2.47%	307.37	90.25
0507 Audit	106.91	0.00	0.00	106.91	0.00%	0.00	0.00	0.00	0.00%	0.00	0.00
INDIRECT MANAGEMENT											
0505 Pre-accession Measures	98.30	34.50	80.71	144.51	0.09%	0.12	0.00	0.00	0.00%	0.00	0.12
DIRECT MANAGEMENT											
0501 Administrative expenditure	9.55										
0502 Interventions in agricultural markets	0.00										
0504 Rural development	11.87	7.08	8.56	63.44	1.00%	0.63	0.00	0.00	0.00%	0.00	0.63
0506 International aspects	4.60										
0508 Policy strategy and coordination	35.95										
0509 Horizon 2020 - Research and innovation	0.00										
Total CAP	56 828.99	61.08	100.60	56 869.78	2.15%	1 222.59	871.53	210.29	1.90%	1 081.62	140.97
Total DG AGRI	56 830.27	61.08	100.60	56 869.78	2.15%	1 222.60	871.53	210.29	1.90%	1 081.62	140.98
											0.25%
											0.25%

Footnote (1): relevant expenditure includes the payments made, subtracts the new pre-financing paid out and adds the previous pre-financing actually cleared during financial year 2018

Footnote (2): For Rural Development for the purpose of estimating the final amount at risk, the estimated amount at risk is calculated: i) on the amount of intermediate payments made in 2018 for which an adjusted error rate of 3.21% was calculated, ii) on the amount of cleared prefinancing for the EAFRD Rural development programmes from previous programming periods with the same methodology applied for intermediate payments, resulting in an adjusted error rate of 3.20% and an estimated amount at risk equal to EUR 390.83 million and thirdly, on closure balance paid in 2018 for the 2007-2013 programming period for which an error rate of 2.94% was used; which leads to an adjusted error for the relevant expenditure for Rural development of 3.196%

Copy of Table: 2.1.1.2.2-15

For both EAGF and EAFRD, action plans by Member States have proven to be an effective tool to remedy the weaknesses identified in management and control systems. The Commission will continue to encourage and support Member States in their implementation in all areas of the CAP, and to reduce or suspend payments in cases where Member States fail in implementing them.

For Direct payments, the adjusted error rate, already below the materiality threshold in the past two years, continued to decrease (from 1.92% in 2017 to 1.83% in 2018). Even if the number of Paying Agencies under reservation increased in comparison to last year (from 15 to 17), the estimated amount at risk is lower. The overall result confirms that, even in continued challenging circumstances with higher inherent risks, the Integrated Administration and Control System (IACS), when implemented in accordance with applicable rules and guidelines, limits effectively the risk of irregular expenditure.

Rural Development remains an area which merits closer scrutiny with an error rate of 3.20% albeit decreasing (for comparison, it was 3.37% in 2017). Although the error rate has declined over recent years, taking into account the need to balance legality and regularity with the achievements of policy objectives while bearing in mind the delivery

costs, it cannot be expected with any real certainty that an error rate for payments to beneficiaries below 2% would be attainable with reasonable efforts for Rural Development. However, when taking into account the corrective capacity, there is assurance that the residual risk to the EU budget is below materiality.

For the overall CAP expenditure, the corrective capacity from net financial corrections by the Commission and recoveries by the Member States is estimated at EUR 1 081.62 million or 1.90% of 2018 expenditure. It allows the Director-General to conclude with sufficient assurance that, with the adjusted error rate for the CAP being at 2.15%, the remaining overall financial risk to the EU budget, after all corrective action will have taken place, is significantly below materiality.

Overall conclusion

Management has reasonable assurance that, overall, suitable controls are in place and working as intended; risks are being appropriately monitored and mitigated; and necessary improvements and reinforcements are being implemented. The Director-General, in his capacity as Authorising Officer by Delegation has signed the Declaration of Assurance albeit qualified by reservations.

2.1.5 Declaration of Assurance and reservations

DECLARATION OF ASSURANCE

*I, the undersigned, **Jerzy Plewa**,*

Director-General of the Directorate-General for Agriculture and Rural Development

In my capacity as authorising officer by delegation

Declare that the information contained in this report gives a true and fair view¹¹⁷.

State that I have reasonable assurance that the resources assigned to the activities described in this report have been used for their intended purpose and in accordance with the principles of sound financial management, and that the control procedures put in place give the necessary guarantees concerning the legality and regularity of the underlying transactions.

This reasonable assurance is based on my own judgement and on the information at my disposal, such as the results of the self-assessment, ex-post controls, the work of the Internal Audit Service and the lessons learnt from the reports of the European Court of Auditors for years prior to the year of this declaration.

Confirm that I am not aware of anything not reported here which could harm the interests of the institution.

However, the following reservations should be noted:

- **ABB02 – Payments made on Market Measures: 5 aid schemes comprising 6 Member States** (8 elements of reservation): Italy (for 2 aid schemes), Spain, Poland, Portugal (for 2 aid schemes), United Kingdom, and 1 general reservation for expenditure managed by France AGRIMER;
- **ABB03 – Payments made on Direct Payments: 17 Paying Agencies, comprising 10 Member States:** Austria, Cyprus, Denmark, Spain (2 Paying Agencies), France (1 Paying Agency), United Kingdom (1 Paying Agency), Italy (7 Paying Agencies), Poland, Sweden, Slovakia;
- **ABB04 – Payments made on Rural development: 21 Paying Agencies, comprising 14 Member States:** Belgium (2 Paying Agencies), Croatia, Czech Republic, Germany (1 Paying Agency), Spain (4 Paying Agencies), France (2 Paying Agencies), United Kingdom (3 Paying Agencies), Greece, Hungary, Italy (1 Paying Agency), The Netherlands, Portugal, Sweden, Slovakia.

Brussels, 25 April 2019

(e-signed)

Jerzy PLEWA

¹¹⁷ True and fair in this context means a reliable, complete and correct view on the state of affairs in the DG/Executive Agency.

Reservation 1 ABB02 - Expenditure on Market Measures: 5 aid schemes comprising 6 Member States (8 elements of reservation): Italy (for 2 aid schemes), Spain, Poland, Portugal (for 2 aid schemes), United Kingdom and France (1 general reservation for expenditure managed by France AGRIMER)

DG	Agriculture and Rural Development
Title of the reservation, including its scope	Expenditure on Market Measures for fruit and vegetables operational programmes for producer organisations in Spain, United Kingdom, Italy, Portugal, for wine sector in Portugal, for School Scheme in Poland and for promotion measures in Italy as well as a general reservation on expenditure managed by the French Paying Agency France AGRIMER.
Domain	Shared Management – European Agricultural Guarantee Fund
Programme in which the reservation is made and total (annual) amount of this programme	ABB02: Market Measures Payments made for this ABB in 2018 amount to EUR 2 620.32 million. Reservations have been made concerning 6 Member States and the respective error rates can be seen in the tables in Annex 10 – Part 3.1.
Reason for the reservation	The reservation is made due to the significant occurrence of weaknesses in the underlying transactions (legality and regularity). In the case of the 4 reservations for <u>fruit and vegetable operational programmes</u>, problems have been identified by the DG AGRI audit services in the checks on the eligibility of the operational programmes carried out by the Member States concerned (Spain, United Kingdom, Italy, Portugal) resulting in ineligible expenditure. Furthermore, deficiencies were found in the quality in the on-the-spot checks (United Kingdom, Portugal), calculation and implementation of standard costs (Italy) and in the soundness of estimates (Italy). Deficiencies were also identified by the Certification Body in Spain under these programmes. In the <u>wine sector</u>, a high error rate was reported for wine restructuring by Portugal. Under <u>school scheme</u>, DG AGRI identified deficiencies in eligibility checks (Poland). In the case of <u>promotion measures</u>, DG AGRI identified deficiencies pertaining to the selection procedures of implementing bodies (Italy). The Certification Body for France AGRIMER found significant amounts at error (including known errors for late payments) across several aid schemes managed by that Paying Agency resulting in the general reservation for France AGRIMER.
Materiality criterion/criteria	DG AGRI's materiality criteria related to the legality and regularity of the transactions was breached in the above cases. In the cases where the error rate is above 5% (20) they were automatically subject to reservation (5) except where (in 15 out of the 20 cases) the amount at risk was below DG AGRI's <i>de minimis</i> threshold of EUR 1 million established in its materiality criteria (Annex 4); in all cases, the high adjusted error rate was determined further to assessment and adjustment of the error rate by DG AGRI also based on Certification Body audits. In 7 cases where the adjusted error rate was between 2% and 5%, it was considered not necessary to make a reservation as the amount at risk was below the <i>de minimis</i> threshold. Further details may be found at Annex 10 – Part 3.1 (ABB02).

Quantification of the impact (= actual "exposure")	The amount at risk for the expenditure under reservation is EUR 49.78 million.
Impact on the assurance	The estimated level of error impacts on the assurance regarding the legality and regularity of the underlying transactions financed by the EAGF for Market Measures. However, the average annual amount of net corrections executed over the past five years for Market Measures and considered for the corrective capacity is EUR 87.38 million. While these amounts refer to expenditure incurred in years prior to 2018, there are conformity procedures underway in respect of the deficient management and control systems which are subject to reservation. Thus the Director-General can be confident that the EU budget is ultimately sufficiently protected by the corrective capacity of Commission's net financial corrections.
Responsibility for the weakness	The concerned Member States are responsible for the proper implementation of the Market Measures concerned in their territory. The Commission supervises them in this respect, notably through audits carried out on-the-spot and, through strict monitoring, a follow-up of the implementation of milestones where action plans are required.
Responsibility for the corrective action	<u>At Commission Level</u> - For 2 of the reservations (IT-operational programmes for producer organisations, IT-promotion measures), high error rates resulting in reservations derive from deficiencies which have been identified by the DG AGRI audit services during their audits on-the-spot. Therefore the corrective actions necessary have already been identified and notified to the Member States concerned. - The general reservation for France AGRIMER is motivated by various findings, a large part of which relates to late payments, spread across several measures identified by the Certification Body. For wine measures, the Paying Agency will be requested to establish an action plan to identify and remedy the causes of error. For one of the wine measures implemented in France, deficiencies have also been identified by DG AGRI and already notified to the Member State. - DG AGRI monitors action plan implementation closely and follows them up with the Member State, including on-the-spot where necessary. - DG AGRI provides further guidance and support to the national authorities where necessary. - DG AGRI will impose net financial corrections to recover to the EU budget the ineligible expenditure until remedial actions have been implemented. - Failure by the Member State to implement an action plan will be addressed where appropriate by DG AGRI via suspension/reduction of payments in line with Article 41(2) of Regulation (EU) No 1306/2013. <u>At Member State level</u> - The Member State is responsible for implementing the necessary corrective actions within an appropriate time schedule, including addressing the findings from the Certification Body.

Reservation 2 ABB03 – Direct Payments: 17 Paying Agencies, comprising 10 Member States: Austria, Cyprus, Denmark, Spain (2 Paying Agencies), France (1 Paying Agency), United Kingdom (1 Paying Agency), Italy (7 Paying Agencies), Poland, Sweden, Slovakia

DG	Agriculture and Rural Development
Title of the reservation, including its scope	Expenditure on Direct Payments for 17 Paying Agencies, comprising 10 Member States: Austria, Cyprus, Denmark, Spain (2 Paying Agencies), France (1 Paying Agency), United Kingdom (1 Paying Agency), Italy (7 Paying Agencies), Poland, Sweden, Slovakia
Domain	Shared Management – European Agricultural Guarantee Fund
Programme in which the reservation is made and total (annual) amount of this programme	ABB03: Direct Payments Payments made for this ABB in 2018 amount to EUR 41 496.52 million. Reservations have been made for 17 Paying Agencies with material error rates which can be seen in the tables in Annex 10 – Part 3.2.
Reason for the reservation	The reservation is made due to the significant occurrence of weaknesses in the underlying transactions (legality and regularity). For Austria, DG AGRI identified weaknesses in recording the permanent grassland in LPIS and in allocation of payment entitlements. In the case of Cyprus, DG AGRI identified weaknesses in the administrative checks concerning the young farmer status, in application of the pro-rata for permanent grassland and in checks (VCS area) on sufficient quality. In Denmark, a DG AGRI audit found weaknesses in the administrative checks concerning the fixing of payment entitlements and in the controls of active and young farmer status. For Spain (Murcia), DG AGRI identified weaknesses in the performance of the on-the spot-checks (VCS animals). The Member State reported a high error rate above materiality level. For Spain (Pais Vasco), DG AGRI identified weaknesses in the quality of the performance of the on-the spot-checks. In the United Kingdom (Scotland), a DG AGRI audit identified weaknesses in the administrative checks concerning the allocation of payment entitlements and in the active farmer status. In Italy, DG AGRI has identified weaknesses affecting all the Italian Paying Agencies (7 are under reservation) in particular with regard to the correct recording of permanent grassland in the LPIS as well as the fixing of entitlements and the verification of the active farmer status. For Poland, a DG AGRI audit identified weaknesses in the administrative checks concerning the active farmer status and in the quality of on-the-spot checks. In Sweden, DG AGRI audits identified weaknesses in the administrative checks concerning the allocation of payment entitlements and the verification of active farmer status. In Slovakia, a DG AGRI audit found weaknesses in the performance of on-the-spot checks. The Certification Body has also identified similar deficiencies. For France (ODEADOM), a DG AGRI audit identified weaknesses in the administrative checks and in the calculation of the amounts of aid under POSEI. The Certification Body has also identified deficiencies.

Materiality criterion/criteria	DG AGRI's materiality criteria related to the legality and regularity of the transactions was breached in the above cases. Two Paying Agencies (Austria and Cyprus) had an adjusted error rate above 5%. For the 21 Paying Agencies with an error rate between 2% and 5%, (Denmark, Estonia, France (1 Paying Agency), Spain (2 Paying Agencies), United Kingdom (1 Paying Agency), Croatia, Italy (9 Paying Agencies), Poland, Romania, Sweden, Slovenia, Slovakia) an examination was carried out of any risk mitigating factors. In 6 out of the 12 cases it was considered that it would not be necessary to make reservations, because of the high error rate reported by the Member State (Estonia, Croatia and Romania), because the remedial actions have been requested in the framework of the ongoing conformity clearance procedure (Slovenia), or because the amount at risk is below <i>de minimis</i> threshold (Italy, 2 Paying Agencies). Further details may be found at Annex 10 – Part 3.2 ABB03.
Quantification of the impact (= actual "exposure")	The amount at risk for the expenditure under reservation is EUR 378.33 million.
Impact on the assurance	The estimated level of error impacts on the assurance regarding the legality and regularity of the underlying transactions financed by the EAGF for Direct Payments. However, the average annual amount of net corrections executed over the past five years for direct aid was EUR 588.95 million. While these amounts refer to expenditure incurred in years prior to 2018, there are conformity procedures underway in respect of the deficient management and control systems which are subject to reservation. Thus the Director-General can be confident that the EU budget is ultimately sufficiently protected by the corrective capacity of Commission's net financial corrections.
Responsibility for the weakness	The concerned Member States and Paying Agencies are responsible for the proper implementation of the Direct Payments schemes concerned in their territory. The Commission supervises them in this respect, notably through audits carried out on-the-spot and through strict monitoring a follow-up of the implementation of milestones where action plans are required.
Responsibility for the corrective action	<u>At Commission level</u> • For all of the Paying Agencies concerned by the reservations, the deficiencies had already been identified by the DG AGRI audit services during their audits on-the-spot. Therefore the corrective actions necessary have already been identified and notified to the Member States concerned. • DG AGRI monitors action plan implementation closely and follows them up with the Member State, including on-the-spot where necessary. • DG AGRI provides further guidance and support to the national authorities where necessary. • DG AGRI will impose net financial corrections to recover to the EU budget the ineligible expenditure until remedial actions have been implemented.

	• Failure by the Member State to implement an action plan will be addressed where appropriate by DG AGRI via suspension/reduction of payments in line with Article 41(2) of Regulation (EU) No 1306/2013. <u>At Member State level</u> • The Member State is responsible for implementing the necessary corrective actions within an appropriate time schedule, including addressing the findings from the Certification Body. • The Member State is required to report regularly on progress milestones in line with the agreed schedule.
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Reservation 3 ABB04 – Rural Development: Belgium (2 Paying Agencies), Czech Republic, Germany (1 Paying Agency), Spain (4 Paying Agencies), France (2 Paying Agencies), United Kingdom (3 Paying Agencies), Greece, Croatia, Hungary, Italy (1 Paying Agency), The Netherlands, Portugal, Sweden, Slovakia

DG	Agriculture and Rural Development
Title of the reservation, including its scope	Expenditure on Rural Development for 21 Paying Agencies, comprising 14 Member States: Belgium (2 Paying Agencies), Czech Republic, Germany (1 Paying Agency), Spain (4 Paying Agencies), France (2 Paying Agencies), United Kingdom (3 Paying Agencies), Greece, Croatia, Hungary, Italy (1 Paying Agency), The Netherlands, Portugal, Sweden, Slovakia
Domain	Shared Management – European Agricultural Fund for Rural Development
Programme in which the reservation is made and total (annual) amount of this programme	ABB04: Rural Development Payments made for this ABB in 2018 amount to EUR 12 456.85 million. Reservations have been made concerning 21 Paying Agencies and the respective error rates can be seen in the tables in Annex 10 – Part 3.3.
Reason for the reservation	The reservation is made due to the significant occurrence of weaknesses in the underlying transactions (legality and regularity). For Belgium (Flanders), deficiencies were identified by DG AGRI in checks on active farmer status. The Member State reported high error rate under IACS measures. The Certification Body has also identified deficiencies for non-IACS measures. For Belgium (Wallonie), deficiencies were identified by DG AGRI in IACS measures. The Certification Body has also identified deficiencies for non-IACS measures. In the case of the Czech Republic, the deficiencies identified by DG AGRI concern animal welfare under IACS measures and checks on active farmer status. The Member State reported high error rate under IACS measures. For Germany (Nordrhein-Westfalen), the Member State reported high error rate under IACS measures. The Certification Body identified deficiencies for non-IACS measures. For Spain (Asturias), deficiencies identified by DG AGRI concern one IACS sub-measure. The Member State reported high error rates under non-IACS measures. The Certification Body has also identified deficiencies. In Spain (Castilla La Mancha), DG AGRI identified deficiencies in some non-IACS measures regarding the on-the-spot and ex-post controls, reasonableness of costs, selection of projects and eligibility checks. For Spain (Extremadura), DG AGRI identified deficiencies under IACS and non-IACS measures, including afforestation. For Spain (Navarra), the deficiencies concern afforestation measures. The Certification Body has also identified deficiencies for non-IACS measures. For France (ODARC), deficiencies include late on-the-spot checks and concern IACS measures. The Certification Body has also identified deficiencies for non-IACS measures.

	For France (ASP), deficiencies concern IACS and non-IACS measures and include late on-the-spot checks, public procurement and checks of active farmer status. The Member State reported high error rates for non-IACS measures. The Certification Body has also identified deficiencies for non-IACS measures. For the United Kingdom (Scotland), deficiencies concern checks of active farmer status. The Member State has reported a high error rate for areas under natural or specific constraints. The Certification Body has also identified deficiencies for IACS measures. For the United Kingdom (Wales), a DG AGRI audit identified deficiencies under non-IACS investment measures. The Member State reported high error rates for IACS measures. The Certification Body has also identified deficiencies for both IACS and non-IACS measures. For the United Kingdom (England), deficiencies concern public procurement and checks of active farmer status. The Certification Body has also identified deficiencies for non-IACS measures. In Greece, DG AGRI audits identified deficiencies in IACS measures, including in the LPIS and in measures for young farmers and investment measures. For Croatia, there are deficiencies in agri-environmental, climate and organic measures, as well as in investment and farm and business development measures. The Member State reported high error rates for IACS measures. The Certification Body has also identified deficiencies in IACS measures. In Hungary, there are deficiencies in forestry measures, setting up the producers groups and in checks of the active farmer status. The Member State reported high error rates under IACS. In Italy (Calabria), deficiencies were found in checks on active farmer status. The Member State has reported high error rate under IACS and non-IACS measures. The Certification Body has also identified deficiencies for non-IACS measures and has confirmed that there are actions to be completed to address the high error rate. For The Netherlands, DG AGRI detected deficiencies in agri-environmental and climate measures, as well as in risk management. In Portugal, deficiencies concern several controls under IACS and non-IACS measures, including afforestation. The Member State has reported high error rates under IACS and non-IACS measures. Furthermore, the minimum required control rate for Leader is not achieved. In Sweden, DG AGRI identified deficiencies in IACS measures and in, investment measures. The Member State has reported high error rates under IACS and non-IACS measures. In Slovakia, deficiencies concern eligibility checks and public procurement procedures for several non-IACS measures. The Certification Body has also identified deficiencies for both IACS and non-IACS measures.
Materiality criterion/criteria	DG AGRI's materiality criteria related to the legality and regularity of the transactions was breached in the above cases. 30 out of the 72 Paying Agencies have an adjusted error rate above 2% (of which 10 were above 5%: Croatia, Cyprus, France (2 Paying Agencies), Germany (1 Paying Agency), United Kingdom (1 Paying Agency), Portugal, Spain (2 Paying Agency), Sweden).

	In line with its materiality criteria in Annex 4, 7 cases where the error rate is above 5% (Croatia, France (2 Paying Agencies), Portugal, United Kingdom (1 Paying Agency), Spain (1 Paying Agency) and Sweden) were automatically subject to a reservation. With the exception of Portugal and Sweden, in all of these cases, the high adjusted error rate was determined by further adjustment of the error rate by DG AGRI, based on the assessment of the Certification Bodies and DG AGRI own audits. In 3 cases (Cyprus, Germany-Saarland and Spain-Madrid), the amount at risk is below DG AGRI's <i>de minimis</i> threshold of EUR 1 million as established in Annex 4 (materiality criteria) therefore no reservation was necessary. For 20 Paying Agencies with an error rate between 2% and 5%, DG AGRI examined the situation for each Paying Agency concerned to determine if risk mitigation conditions existed rendering it unnecessary to make a reservation. In 5 cases (Germany (1 Paying Agency), Ireland and Italy (3 Paying Agencies)), it was considered that, given the mitigating factors present (the high error rate was due to the high error rate reported by these Member States) it would not be necessary to make reservations. For 1 Paying Agency (Italy), the amount at risk is below DG AGRI's <i>de minimis</i> threshold of EUR 1 million as established in Annex 4 (materiality criteria), therefore no reservation was necessary. For the remaining 14 Paying Agencies, a reservation was deemed necessary. In 9 cases (Austria, Bulgaria, Denmark, Germany Sachsen, Germany-Thüringen, Spain-Castilla y León, Spain-Galicia, Finland, Italy-AGEA) it was considered that it was not necessary to carry over reservations from the 2017 AAR with regard to 2018 expenditure. The reasons for each decision are detailed in Annex 10 – Part 3.3. In total, 13 reservations from 2017 are repeated in 2018 as deficiencies persist while 8 new reservations are introduced (Belgium (Flanders), Germany (Nordrhein-Westfalen), Spain (Asturias, Castilla-La Mancha, Navarra) Greece, Croatia and The Netherlands). The overall outcome of this exercise is that 21 reservations are necessary at Paying Agency level. Further details may be found in Annex 10 – Part 3.3 ABB04.
Quantification of the impact (= actual "exposure")	The amount at risk for the expenditure under reservation is EUR 297.28 million.
Impact on the assurance	The estimated level of error impacts on the assurance regarding the legality and regularity of the underlying transactions financed by the EAFRD. However, DG AGRI considers that consideration shall also be given to the corrective capacity of the net financial corrections applied to claw back undue expenditure to the EU budget. The average annual amount of net corrections executed over the past five years for Rural Development is around EUR 195.20 million. While these amounts refer to expenditure incurred in years prior to 2018, there are conformity procedures underway in respect of the deficient management and control systems which are subject to reservation. Thus the Director-General can be confident that the EU budget is ultimately sufficiently protected by the corrective capacity of Commission's net financial corrections.

Responsibility for the weakness	The concerned Paying Agencies are responsible for the proper implementation of the rural development programmes in their territory. The Commission supervises them in this respect, notably through audits carried out on-the-spot and through strict monitoring a follow-up of the implementation of milestones where action plans are required.
Responsibility for the corrective action	<u>At Commission level</u> • DG AGRI monitors action plan implementation closely and follows them up with the Member State, including on-the-spot where necessary. • DG AGRI provides further guidance and support to the national authorities where necessary. • DG AGRI will impose net financial corrections to recover to the EU budget the ineligible expenditure until remedial actions have been implemented. • Where necessary DG AGRI will interrupt payments as provided by Article 36(7) of Regulation (EU) No 1306/2013. • Failure by the Member State to implement an action plan will be addressed where appropriate by DG AGRI via suspension/reduction of payments in line with Article 41(2) of Regulation (EU) No 1306/2013. <u>At Member State level</u> • The Member State is responsible for implementing the necessary corrective actions within an appropriate time schedule, including addressing the findings from the Certification Body. • The Member State is required to report regularly on progress milestones in line with the agreed schedule.

2.2 Other organisational management dimensions

2.2.1 Human resource management

2018 was the second year of the revised structure of DG AGRI following the 2017 reorganisation. It was also the second year of the HR modernisation pilot project. While the new HR service delivery model is under constant evolution (e.g. some of the HR processes have been fully centralised), the roles of the various HR actors still deviate from the model, leaving the HR BC team with many non-strategic tasks.

In the context of the Synergies and Efficiencies Review, a specific agreement was concluded between DG AGRI and central services in April 2016, including concrete staff reduction objectives for the period until end of 2018. Over and above the 73 FTEs already freed up since 2012 as part of the general staff reduction objectives for all Commission services, DG AGRI delivered in total 116.2 additional FTE.

The implementation of the agreement necessitated a thorough review of DG AGRI's structure and of certain processes (notably finances and administrative support), leading to the new organisation chart which applies since January 2017. It also required a very strict staff allocation policy in a particularly busy period for the DG, with, inter alia, the Communication on the future of Food and Farming and the work on the related legislative proposals. This demanding exercise is now officially over. DG HR so confirmed in an official closing note in October 2018 in which they recognised the great efforts made by DG AGRI staff and praised their commitment and exemplary inter-service cooperation.

As part of its core tasks, the HR BC team continued to carefully monitor DG AGRI's job quota and advised on options for its most efficient use in relation to the DG's policy and operational priorities.

In relation to DG AGRI's target of 4 first female appointments to middle management positions by 1 November 2019, the DG's specific objective was fully achieved mid-September 2018 after the nomination of four female heads of unit at different moments during 2018 (AGRI B.2, C.4, I.1 and E.4). The vacancies at middle management level foreseen in 2019 should allow for further progressing towards a more diverse and representative middle management population in DG AGRI. In this context, the third edition of DG AGRI's middle management training programme started in October 2018: ten high potential female and male administrators were selected to take part in the training. They will continue to nurture the pool of potential future managers.

Staff engagement was a key priority in 2018. The results of the 2016 staff survey prompted the adoption of a Staff Engagement Plan in 2017 comprising around 30 actions grouped under six different headings: workload and resource allocation, senior management, working conditions and well-being, middle management, career and professional future, and learning & development. One key action in 2018 was the development of a management pledge for middle and senior managers. This was done via a participatory process, involving all staff, during which it was decided to move away from a management pledge and to rather have a commitment from all staff in DG AGRI to a certain working culture. The document entitled the "AGRI-Culture" was finalised in December 2018.

Other actions undertaken in 2018 under the Staff Engagement Plan include the launch of the above-mentioned third Middle Management Training Programme, the Open Door Policy of senior managers, the revised induction training for newcomers and the participation in corporate staff engagement and well-being initiatives such as VéloMai.

2.2.2 Better regulation

Better regulation

The legislative proposals for the CAP under the 2021-2027 Multiannual Financial Framework (MFF) were supported by an impact assessment (IA). The first steps were already undertaken through the Communication on the Future of Food and Farming, including the publication of an Inception Impact Assessment together with the launch of a public consultation in February 2017¹¹⁸). This process assessed the current performance of the CAP, taking into account the consultation, identifying challenges, considering EU value-added, objectives and policy options. The impact assessment tested various combinations of interventions in different options to draw conclusions on the optimum mix for the legislative proposals. Results of the impact assessment were presented to stakeholders, including in the Council and the European Parliament (EP).

Two other initiatives were also supported by an impact assessment: the proposal regarding Unfair Trading Practices in the food supply chain as well as the review of the *de Minimis* aid in the agricultural sector.

Based on its experience in planning, consultation, REFIT (see below), evaluation and impact assessment, DG AGRI actively participated in the "stocktaking" exercise on Better Regulation, undertaken under the lead of the Secretariat-General.

The report on the implementation and first results of the Common Monitoring and Evaluation Framework foreseen in Art. 110 of Regulation 1306/2013 was published in December 2018, and the related dataset was made available on the internet. The update and review of the indicator data also serves for the CAP Post 2020.

Studies and evaluations

The **DG AGRI multi-annual studies and evaluation** plan has been updated. One Staff Working Document and five evaluation support studies were finalised in 2018:

- Staff Working Document on the 2017 evaluation of the payment for agricultural practices beneficial for the climate and the environment;
- Support study for the evaluation of the CAP measures applicable in the wine sector;
- Support study for the evaluation of the impact of the CAP measures towards the general objective "viable food production";
- Support study of the evaluation of the impact of the CAP on climate change and GHG emissions;
- Support study for the evaluation of the instruments applicable to State aid in the agricultural and forestry sectors and in rural areas;
- Support study for the synthesis of Rural Development Programmes (RDP) ex-post evaluations of period 2007-2013;

¹¹⁸ See https://ec.europa.eu/agriculture/consultations/cap-modernising/2017_en

Furthermore, a **study on Risk management in EU agriculture**¹¹⁹ has been carried out in 2017 and was published in 2018 to shed light on the risks farmers are confronted with, and to better understand the design and possible deployment of different tools that can address these risks.

Three further studies were finalised in 2018 and will be published in the course of 2019:

- Study on progress in implementing the EU Forest Strategy (Mid-term review)
- Analysis of administrative burden arising from the CAP
- Market developments and policy evaluation aspects of the plant protein sector in the EU

Details on the various studies and evaluations can be found in **Annex 9**.

Simplification

Following the 2017 Communication on the future of food and farming¹²⁰, aiming at modernising and simplifying the CAP, the 2018 legislative proposals for the CAP Post 2020 suggest a shift from a compliance-based approach towards a performance-based model. The reshape of the CAP governance on the grounds of the proposed new delivery model replies to different, potentially conflicting demands, notably for a more performance-orientated, better targeted, simpler yet common CAP. In order to do so, the proposed new delivery model strikes a balance between these demands: it combines an EU framework made of common elements¹²¹ for delivery on the common CAP objectives / level playing field with more flexibility for Member States to choose and design the interventions according to their needs. The new delivery model allows for subsidiarity when it comes to the implementation and management of the policy, while providing several safeguards for the common nature of the policy. Member States would have the possibility to tailor the tools and measures available to reflect the reality of their own conditions and the particular challenges which they face. This is achieved through less prescription, fewer detailed provisions at EU level, less complexity and fewer exceptions and more clarity that detailed rules and measures should be set at Member States / regional level, closer to the reality of farmers.

The accompanying impact assessment includes an analysis on simplification (in particular in Annex 7 of Staff Working Document SWD(2018) 301 final¹²²).

The work of the **REFIT-Platform** which adopted 10 opinions (covering 30 submissions) in the area of Agriculture between 2015 and 2018 was also closely followed up.

2.2.3 Information management aspects

Document management

DG AGRI has continued its efforts linked to the visibility of all HAN files and encouraged

¹¹⁹ https://ec.europa.eu/agriculture/external-studies/2017-risk-management-eu-agriculture_en

¹²⁰ http://europa.eu/rapid/press-release_IP-17-4841_en.htm

¹²¹ These common elements include objectives, indicators, mandatory requirements, need for a cross-pillar CAP strategic plan, Commission approval of CAP plans and monitoring and evaluation framework.

¹²² <http://ec.europa.eu/transparency/regdoc/rep/10102/2018/EN/SWD-2018-301-F1-EN-MAIN-PART-3.PDF>.

units to open read-access levels to the whole DG and, where feasible, to the entire Commission. The new Information Security Strategy and the revised marking system will allow us to pursue local awareness-raising actions on the correct use of markings to protect sensitive information, and to further promote the full visibility of AGRI HAN files. In addition, DG AGRI undertook a thorough assessment of both its paper and electronic files whose administrative retention period (ARP) has expired. The relevant post-ARP actions – transfer to the historical archives, elimination or sampling/selection – will be progressively taken in the course of 2019.

In the area of knowledge sharing, DG AGRI hosted the first event of the Senior Management Roadshow on Knowledge Management and Collaboration. DG REGIO colleagues presented to DG AGRI senior managers their experience with matrix organisation and competence centres, and their impact in terms of organisational efficiency, collaboration and information sharing.

Data protection

In the framework of the data protection action plan of 7 November 2018 ([C\(2018\)7432](#)) for the implementation of Regulation (EU) 2018/1725 that entered into force on 11 December 2018, the following actions have been undertaken or set into motion in 2018 to ensure compliance with the new rules:

- DG AGRI's Data Protection Coordinators (DPCs) organised several communication and awareness-raising activities, notably a presentation to all DG AGRI managers in the presence of the Data Protection Officer (DPO) (held on 11 January 2019) and more targeted presentations in several unit meetings and to the AGRI network of Communication Correspondents;
- the inventory of data processing operations has been updated and the related existing notifications imported from the former register DPO-2 into DPMS (Data Protection Records Management System); a data processing operation that had not been notified so far was signalled and a new record has been created;
- an assessment of compliance of these records with general principles (as laid down in Art. 4 of Regulation (EU) 2018/1725 with respect to lawfulness, data minimisation and storage limitation) is ongoing in cooperation with concerned operational services;
- privacy statements are being checked and, where necessary, reviewed, to ensure that appropriate information is provided to the data subjects concerned.

Data management

The single documentation tool to manage knowledge on all relevant EAFRD Regulations, guidance fiches, Q&A and interpretations for the current programming period has well proven its effectiveness in stimulating collaborative working methods. This tool is now evolving to support the CAP reform process and facilitate the discussions with the European Parliament and the Council.

Data Management continues to be improved and particular focus has been put on the extension of the Agri-food Data Portal, for the publication of agricultural markets, CAP

indicators and farm economics data¹²³.

2.2.4 External communication activities

All external communications actions included in DG AGRI's 2018 External Communication Plan (Ares(2018)1244428) have been implemented as foreseen, taking into account the amendments made to this plan during the year (Ares(2018)2864839, Ares(2018)3824144).

In particular:

- 20 grants have been awarded following the annual call for proposals for information measures on the CAP conducted by third parties which act as multipliers in reaching in particular the general public;
- Communication activities, including a social media campaign and an important "outreach team exercise" have been organised to accompany the major policy initiative of the year, i.e. the adoption by the Commission on 1 June 2018 of the legislative proposals on the future CAP in the framework of the MFF package;
- Two major Conferences have been organised, one on "Plant Protein" and a second one on the "EU agricultural outlook" and two roundtables on the proposed "new greening architecture" of the future CAP;
- DG AGRI participated in 5 major agricultural fairs with a modular stand;
- the Ag-press networking activities, the digital and web based communication and in particular the use of social media tools have been further enhanced;
- Communication material has been produced in particular in relation with the GI's and the quality policy;
- DG AGRI participated in the development and implementation of the DG COMM 2018 corporate communication campaigns ("EU invest", "EU empowers" and "EU protects");
- DG AGRI also participated in the work on the digital transformation of the European Commission web presence.

For an extensive reporting on all components of this part 2.2, please refer to **Annex 2**.

¹²³ <https://agridata.ec.europa.eu>

2.2.5 Example(s) of initiatives to improve economy and efficiency of financial and non-financial activities of the DG

Automated centralised monitoring and forecasting tool for overview of programme amendments

Following the IAS Audit recommendations, RDIS2 offers since December 2015 a new tool for the operational forecasting and monitoring of the progress of RDP amendments. The functionality is twofold i.e. it provides an overview of the ongoing amendment process, and it gives a forecast for the reception of the amendments and consequent planning. Based on data entries, RDIS2 is capable of producing an estimate of the future workload/timing for the various actors involved in the amendment process which allows for better planning and subsequently a more efficient management of human resources. The monitoring and forecast report is generated from RDIS2 on a weekly basis and contributes to an effective planning of the workload for all actors involved.

Agriculture Data Portal/Dashboards

Access to accurate information, transparency and prompt publication are key elements to make informed decisions and deal better with agricultural markets' volatility. DG AGRI created the AGRI FOOD DATA PORTAL (<http://agridata.ec.europa.eu>) which is fed among others with data stored into the ISAMM Data Warehouse, and the agriculture dashboards (https://ec.europa.eu/agriculture/dashboards_en). DG AGRI makes publicly available, on a continuous basis and through a single webpage, the data and reports which are needed by farmers, market operators and academics contributing to the creation of a more transparent environment and the more efficient implementation of the CAP. The progressive implementation of the AGRI FOOD DATA PORTAL aims at providing a transparent, systematic and quick data access to external users, for market and policy information. With the modernisation of the data management and dissemination, based on the automation and interconnection of databases, IT systems and dissemination tools, more efficient working methods could be developed answering to the challenge of staff reductions in DG AGRI.

Shared database of standards for good agricultural and environmental condition (GAEC)

Access to information on the implementation by Member States of the GAEC standards is crucial to check compliance of national definitions with the EU framework and to assess properly the baseline to set the Rural Development agri-environment-climate measures as well as the environmental ambition of MS. For these purposes, the GAEC database developed by the JRC has been amended in order to ensure that it contains the appropriate level of detail and to ease the search for information. This updated GAEC database, shared with colleagues and experts, saves them time, reduces the number of solicitations to MS and enhances the level of information between interested parties.

AGM (Advanced Gateway to EU meetings)

AGM is an efficient tool for organising meetings and managing reimbursement of experts' costs. DG AGRI started using this tool progressively in 2018, mainly for the organisation of meetings steered by I4 (i.e. Comitology, Expert Groups and Civil Dialogue Groups meetings). As the experience with AGM in DG AGRI is still short and not all meetings organised (in AGRI) are covered under AGM yet, the efficiency gains should be assessed by end 2019, taking into account DG AGRI's contribution to PMO for financing the costs of AGM.

AGRI sharepoint tool ICM for follow-up of Internal Control and IAS audits

The AGRI workspace 'ICM' (Internal Control Monitoring) is a tool for the follow-up of internal control principles as well as of IAS audit recommendations and constitutes an important instrument to improve resource efficiency. It saves time for all units responsible for different parts of internal control actions and indicators. Furthermore, it facilitates the follow-up of IAS recommendations and gives visibility to recommendations due. It also provides proof that the audited units take responsibility of their recommendations through the respective action plans.

The ICM workspace is considered a best practice by DG BUDG. AGRI continues to present the system to other DG's interested and has distributed copies¹²⁴ to those who wish to use it. This cooperation will continue upon request from other DGs and agencies.

Single portal for stakeholders and enforcement authorities to access information on GIs

Cooperation between DG AGRI and EUIPO on digital systems project in order to provide a single portal for Geographical indications - so-called "GI View" - for stakeholders and enforcement authorities has advanced during 2018. A first draft technical definition of the project (GI View High Level Specifications) has been prepared, for implementation in 2019. It contains a list of the features foreseen for the new web tool "GI View" such as actors, use cases and expected features of the application (data navigation, creation of organisations, user management, data management, data integration etc.).

Framework contracts for evaluating the CAP performance

These framework contracts follow the establishment of the Common Monitoring and Evaluation Framework in Art. 110 of Regulation 1306/2013, which included the objectives for the CAP, an indicator framework, and clear milestones in terms of reporting obligations to Council and Parliament. The use of the framework contracts reduces the administrative resources needed, while ensuring methodologies allowing for comparability across evaluations. They also allow for a better financial management, since the price of each individual evaluation can be known ex-ante, depending on the number and type of evaluation questions envisaged.

¹²⁴ ICM architecture does not fit for a 'corporate' instrument to be used in a multi-DG environment.

Mechanisms to improve coherence across FTA negotiations

The FTA Steering Group to exchange ideas and propose solutions to recurrent issues in negotiations, often also with participation of other DGs such as DG TRADE and TF50, met regularly throughout 2017 and 2018 and will continue to do so in 2019.

CAPReform Wiki to facilitate overview and follow up of the CAP reform process

In 2018, the CAP Reform Wiki was launched - a consolidated collaborative workspace, which facilitates the overview and follow-up of the CAP reform. The database includes information on the positions of the co-legislators on the respective articles of the proposals, as they emerge throughout the legislative process. In addition, it serves as an internal coordination tool as it enables a coherent and consistent approach in the correspondence with Member States on the CAP Strategic Plans by tracking the Member States' questions and the respective answers (Q&A).

In particular, the tool establishes a business workflow for various DG AGRI processes (e.g. approval of Q&A, Strategic Plans preparation, etc.) and links with several relevant IT tools (e.g. Poline, BASIS, RDIS2 etc.). With sufficient and clearly structured information and functionalities, the platform could also serve as a prototype for a future AGRI Wiki.

Convergence of IT financial tools for EAGF and EAFRD

With the objective of increasing synergies between EAGF and EAFRD, DG AGRI launched in 2018 a merging process for the IT tools used internally for finance workflows, following the fusion of financial units for EAGF and EAFRD into a single unit. The merging of RDIS2 finances and AGREX implied the fusion of the respective IT teams under the umbrella of AGREX. This change resulted in increased efficiency in the use of resources, and it has also helped to harmonise procedures and processes by exchanging knowledge, experiences and working methods in IT and business. The merger of IT tools is in line with the increasing convergence between pillars proposed in the CAP reform and will also facilitate the integration with central IT tools, ensuring that the financial procedures and processes relating to EAGF and EAFRD fit seamlessly into the central circuits.

DG AGRI Working Group on the revenue cycle

A working group on the revenue cycle was created end 2017 within DG AGRI, as a platform for concerned units to discuss and coordinate on various revenue related topics. The discussions held in the regular meetings have contributed to support the decision making process on revenue thanks to extensive discussions between the units concerned and increased mutual understanding of the in-house procedures.

Dashboards for CAP indicators

In 2018, DG AGRI achieved a major step forward in terms of data sharing by publishing online all the CAP indicators of the current Common Monitoring and Evaluation Framework (CMEF). On top, 9 interactive and visual dashboards were developed gathering the most important **indicators by theme**, including farming income support, climate change and air quality, market orientation and organic production. This can be useful to Member States when drafting their CAP Strategic plans but also help citizens to understand better the CAP and its impacts.