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2017

Annual Activity Report

DG Maritime Affairs and Fisheries

Table of Contents

THE DG IN BRIEF

The Directorate-General for Maritime Affairs and Fisheries ('DG MARE') reports to Commissioner Karmenu Vella and manages and implements the **Integrated Maritime Policy** (IMP) and the **Common Fisheries Policy** (CFP). Based on input from various stakeholders and scientific evidence, the DG proposes legislative and policy initiatives in these areas for consideration by the Council and the European Parliament, and, once adopted or endorsed, ensures their proper implementation, in coordination with Member States.

Building on President Juncker's Agenda for Jobs, Growth, Fairness and Democratic Change and Commissioner Vella's Mission Letter, and in line with the United Nations' Sustainable Development Goals (SDG) - notably SDG 14 "Conserve and sustainably use the oceans, seas and marine resource for sustainable development" - and the reformed CFP, DG MARE focuses on actions that enable the European Union to further develop its leading role in tackling the growing ocean challenges, both within its own geographical area and at international scale.

The Commission's strong commitment to the sustainability, security and prosperity of our oceans is reflected in DG MARE's **main priorities**: Ensuring that the ocean resources are used sustainably and that coastal communities and the fishing sector have a prosperous future, stimulating a sustainable Blue Economy and promoting Ocean Governance at international level.

DG MARE contributes to the effective and efficient delivery of the Juncker Commission's political priorities. Following a workload assessment and an intensive consultation process, the DG was redesigned as of 1 January 2017 to be better aligned with the political priorities. With 361 staff members[1], DG MARE in 2017 was composed of five directorates[2], which report directly to Director-General João Aguiar Machado. The General affairs and Resources Director is in charge of risk management and internal control for the DG.

The **main partners** for DG MARE are public bodies (other EU institutions, Member States and their national or regional administrations, coastal regions and third countries); the blue economy industries, including fishing and aquaculture, and related organisations; scientific advisory bodies, such as the Scientific, Technical and Economic Committee for Fisheries (STECF) and the International Council for the Exploration of the Sea (ICES); a wide range of maritime stakeholders (maritime professions, NGOs and civil society, opinion makers, marine and maritime research, academia); as well as the public at large, and namely consumers or citizens of coastal regions. We work closely with the Advisory Councils, the European Fisheries Control Agency (EFCA), the Executive Agency for Small and Medium-sized Enterprises (EASME), other Commission services as well as administrations of partner countries and international organisations.

The major part of the DG’s **budget** is implemented in shared management (63% of payments in 2017). The European Maritime and Fisheries Fund (EMFF) 2014-2020 is the main financial instrument to finance the CFP. Member States implement the budget and establish management and control systems to ensure correct programme implementation.

Sustainable Fisheries Partnership Agreements (SFPAs) is the second highest area of expenditure (26% of payments in 2017). The main risk associated with SFPAs is

[1] Situation at 31.12.2017 (establishment plan posts and external personnel).

[2] The five directorates cover: Maritime Policy and Blue Economy (directorate A), International Ocean Governance and Sustainable Fisheries (B), Fisheries Policy in the Atlantic, North Sea, Baltic and Outermost Regions (C), Fisheries Policy in the Mediterranean and Black Sea (D), and General Affairs and Resources (E).

operational and relates to the evaluation of fishing opportunities either in terms of available stock or take-up by the EU fleet.

As for the financial management of DG MARE, the residual error rates for expenditure in 2017 under shared management were 1,53% for the EFF and 1,09% for the EMFF.

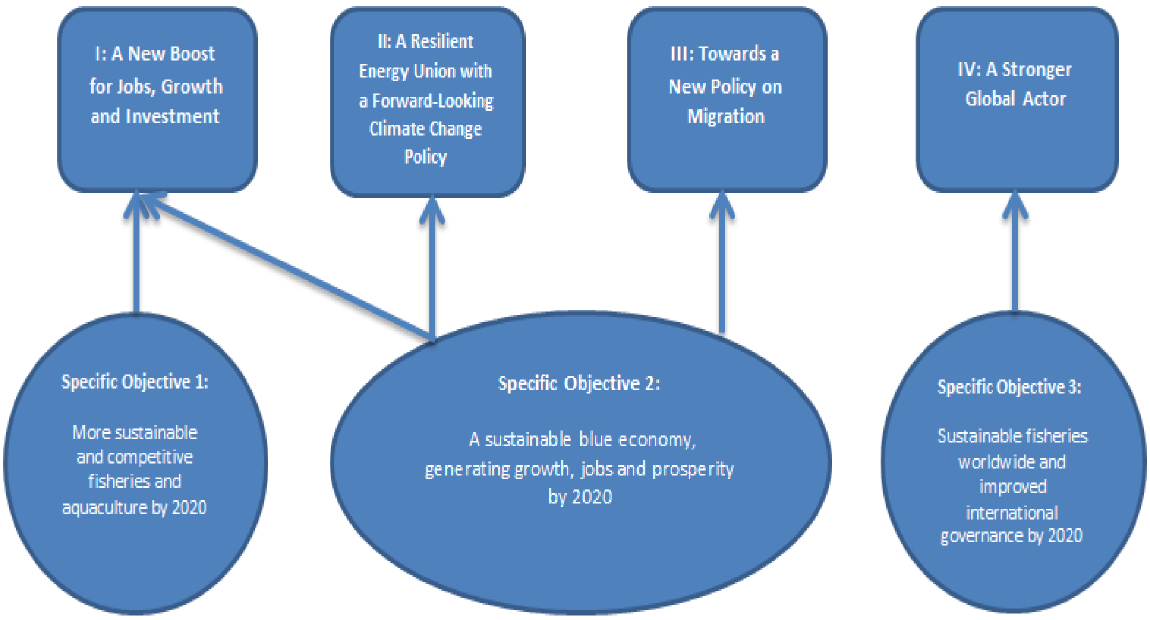
This Annual Activity Report (AAR) describes **DG MARE's main achievements in 2017** and the challenges it faced. It mirrors the 2017 Management Plan that translates the DG's mission into general and specific objectives. An account is given of how these objectives have been achieved, with the resources DG MARE had at its disposal. Progress is measured through key performance indicators. The AAR also covers management aspects and assesses the effectiveness of the Commission's internal control standards.

EXECUTIVE SUMMARY

The Annual Activity Report is a management report of the Director-General of DG MARE 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 the decisions it takes as well as for the coordinating, executive and management functions it exercises, as laid down in the Treaties[3].

a) Key results and progress towards the achievement of general and specific objectives of the DG (executive summary of section 1)

DG MARE's main priorities for 2017 reflected the three specific objectives set out in our Strategic Plan 2016-2020, which contribute to four general objectives of the Commission, each corresponding to one of the ten priorities set out in President Juncker's political guidelines. The graph below illustrates the inter-linkages between specific and general objectives.



Among the key actions undertaken in 2017 by the Commission to help achieving these general and specific objectives, the following should be highlighted:

In implementing its **Agenda for better international ocean governance**, the EU has set a landmark in 2017 in successfully organising the global **Our Ocean Conference** in Malta (5-6 October), which confirmed the EU's role as the world's "oceans champion" and strong global actor. The conference resulted in 437 measurable commitments worth EUR 7.2 billion, which will contribute to our objectives as regards environmental protection (marine pollution, biodiversity, climate etc.), maritime security, and sustainable fisheries, as well as the creation of an additional 2.5 million km² of Marine Protected Areas, or more than half the size of the EU. The Commission has also launched negotiations with China in view of its first Ocean Partnership.

[3] Article 17(1) of the Treaty on European Union.

Following up to commitments made at Our Ocean 2017, and in line with the **integrated EU policy for the Arctic**, the EU as a global actor and partner countries agreed on 1 December to prevent unregulated high seas fisheries in the Central Arctic Ocean until sufficient scientific information to support the sustainable exploitation of fish stocks in the region is available. This is a first step towards the creation of regional fisheries management organisations for the Central Arctic Ocean, to ensure that any future fishing is carried out sustainably.

In its report on the **Blue Growth Strategy** of March 2017[4], the Commission took stock of its Blue Growth policy initiated in 2012. It confirms that the Commission's focus on five key sectors of the blue economy (ocean energy, aquaculture, coastal and maritime tourism, blue biotechnology and the exploitation of marine mineral resources) is delivering. Much progress has been done towards the objective of developing a sustainable blue economy. Indeed, Blue Growth has gained considerable traction on the ground. For instance, offshore wind has been the fastest growing sector. The global blue economy is set to grow at twice the rate of the mainstream economy by 2030. For Europe, this could mean growth to 10.8 million jobs and nearly 1 trillion euro in turnover. The report makes it clear that the EU should not miss this opportunity and examines what is still missing to grasp it. This analysis and the need for further action were supported by the Member States, the European Parliament and the European Committee of the Regions.[5]

The second implementation report of the **EU Maritime Security Strategy** Action Plan, was presented to and endorsed by the Council in June 2017. The report concludes that implementation progressed well and led to more cross-sector collaboration between maritime authorities. It sets priorities among the 130 actions and recommends a revision of the Action Plan in 2018. As a major action, work on Maritime CISE (Common Information Sharing Environment) continued in 2017 with initiatives at EU and Member States' level. Also, the European Fisheries Control Agency was granted additional means for its cooperation with the European Border and Coast Guard Agency (ex-FRONTEX) and the European Maritime Safety Agency on Coastguard functions and to support national authorities. This enables the European Fisheries Control Agency to better implement its tasks related to fisheries control whilst contributing to the achievement of the Union's objective "Towards a new policy on Migration".

2017 also saw significant progress in **implementing the reformed CFP** in view of sustainable and competitive fisheries by 2020. There was significant progress towards reaching Maximum Sustainable Yield (MSY) for all commercially exploited stocks by 2020 in the North-East Atlantic and adjacent waters. Fishing opportunities decided at the end of 2017 for the following year show 53 TACs are in line with MSY advice, which represents 75% to 80% of the catches (in comparison 2017: 44 TACs, or 61% of all catches in the North-East Atlantic, North Sea and Baltic Sea).
To implement the landing obligation for all species by 2019, ten discard plans were adopted in 2017. Further efforts continue to be needed however to ensure the full implementation of the landing obligation and to reduce overfishing.

However, achieving MSY by 2020 in the Mediterranean and the Black Sea remains a challenge. The Commission in 2017 continued therefore to work on the implementation of a new dynamic in fisheries governance in the Mediterranean through the Malta **Medfish4Ever Ministerial Declaration** of March 2017, in the Black Sea through the follow-up to the Bucharest Declaration and the work done through the General Fisheries Commission for the Mediterranean.

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[4] COMMISSION STAFF WORKING DOCUMENT - Report on the Blue Growth Strategy Towards more sustainable growth and jobs in the blue economy (SWD(2017) 128 final).

[5] See the Valetta Declaration endorsed under the Maltese Presidency, the June Council Conclusions on Blue Growth, the opinion on 'A new stage in the European policy on Blue Growth' adopted by the Committee of the Regions, and the Declaration of the EP Intergroup – SEARICA- on 'Strengthening the blue Europe to the benefit of EU citizens'.

The CFP also aims at improving the economic situation of European fishing industry and the prosperity of coastal communities. The 2017 Annual Economic Report pointed to a clear correlation between more sustainable fisheries and a stronger **economic performance of the sector**. According to the latest available data, record net profits amounted to EUR 770 million in 2014 (compared to EUR 500 million in 2013), while gross value added amounted to EUR 3.7 billion in 2014. Likewise, average salaries in the EU fleet have been growing over recent years.

After the adoption of the Baltic plan in 2016, the Commission proposed and negotiated with the European Parliament and the Council **multiannual plans** for demersal fish stocks in the North Sea and for small pelagics in the Adriatic. A political agreement was reached for the North Sea Plan in late 2017 thus contributing to reaching the CFP objectives, including achieving MSY by 2020. It is expected that the Plan will enter into force early 2018.

The new **data collection framework**, which revises the rules on the collection, management and use of data (biological, environmental, technical and socio-economic) in the fisheries sector, entered into force in 2017, and will improve the evidence-based decision-making at the core of the reformed CFP. The science basis for the policy development and decision making has further improved during 2017.

The Commission in 2017 also continued its commitment towards the objective of more **sustainable fisheries worldwide.** The new Regulation on the **sustainable management of external fishing fleets** considerably modernised and simplified the fishing authorisation system, thereby setting a level playing-field for operators and improving transparency. It regulates direct fishing arrangements made by the EU fleet outside EU waters, addresses key issues such as repetitive reflagging and clarifies the distribution of tasks between the Commission and Member States.

It was the first year in which all EU fishing operators used the electronic catch documentation system for bluefin tuna ("eBCD") developed by ICCAT. The system makes it easier to detect fraud, deters illegal, unregulated, and unreported (IUU) shipments, and improves tracking of bluefin tuna catches and trading. As regards **IUU fishing** more generally, two countries (the Comoros and Saint Vincent and the Grenadines) were identified in 2017 as non-cooperating third countries in fighting IUU fishing, bringing the number of countries having received such a "red card" up to 3.

Work also continued on the evaluation of existing and negotiation of new **Sustainable Fisheries Partnership Agreements**, which are widely recognised as a regulated and transparent tool to frame the activities of the EU fishing fleet beyond EU waters. The agreements contribute to safeguarding the traditional fisheries activities of the EU fleet in partner country waters and to the fight against IUU fishing and help partner countries to sustainably manage their fisheries resources and to develop their local economy. At the end of 2017, 12 such agreements were in force.

b) Key Performance Indicators (KPIs)

The five KPIs – of which four operational indicators (KPI 1 to KPI 4) and one management indicator (KPI 5) – stem from the DG MARE Strategic Plan 2016-2020. They are used to measure progress towards the achievement of our operational and organisational objectives respectively.

KPI 1. Specific measurement related to growth for fisheries:

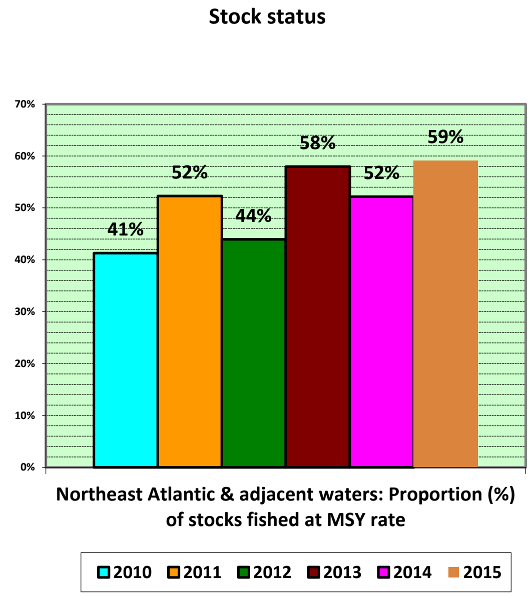
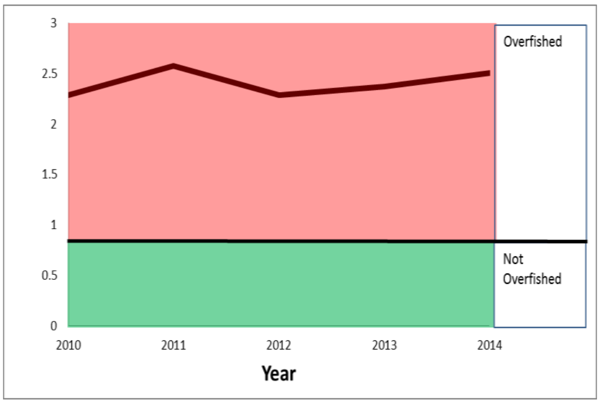
Economic growth potential and environmental sustainability measured by the proportion of stocks that are fished at MSY levels[6] in the Atlantic and the average rate of fishing compared to MSY levels in the Mediterranean Sea.

This indicator measures the potential for yield (fish catches) derived from the sustainable exploitation of marine biological resources. Fishing at MSY (Maximum Sustainable Yield) means fishing at a rate such that the average long-term catches are the highest that the stock can provide over the long-term. This ensures higher and more stable revenue for fishermen. The fishing mortality rate is the annual catch divided by the annual average biomass of exploitable fish in the sea.

Source of data:

- For the North-East Atlantic and adjacent waters: STECF report "Monitoring the performance of the Common Fisheries Policy", STECF-17-04, Table 3.2.
- For the Mediterranean and Black Seas, within the Working Groups of the STECF and GFCM-SAC:
  - STECF 17-14: Stock assessments in the Black Sea 2017 (EWG 17-11, Ispra, September 2017);
  - STECF 17-15: Stock assessments in the Mediterranean Sea 2017 - Part I (EWG 17-09, Barza, September 2017);
  - STECF 18-XX: Stock assessments in the Mediterranean Sea 2017 - Part II (EWG 17-15, Barza, September 2017) – *Report to be endorsed at the STECF spring plenary by March 2018*;
  - GFCM Working groups on stock assessment of demersal species and small-pelagic species (Rome, November 2017) – *Reports to be endorsed at the 20th session of the SAC (Marrakech, June 2018)*.

[6] In the Mediterranean and Black Seas, the proportion of stocks fished sustainably is not provided because only part of the stocks is assessed every year. The respective catches, in live weight, of the known stocks correspond to a limited part of the total catches (i.e. approx. 495 Kt out of 1.4.Mt total estimated. Source: STECF, GFCM-SAC, and FAO Capture Production). Instead, the average fishing mortality compared to MSY is presented. The method for assessing Mediterranean stocks is still being developed and these figures are preliminary. An assessment for the Black Sea is not available yet.

Baseline 2013[7]	**Interim milestone**	**Target: by 2020 at the latest**
 In 2015, 59% of the commercially exploited stocks (with F_{MSY} advice) in the North-East Atlantic and adjacent waters were fished at MSY. 51% of the TACs (volume) in the North-East Atlantic and adjacent waters had a scientific advice on MSY.  Average fishing mortality compared to MSY values (where =1 means that the stock is fished at Fmsy (F=FMSY); where >1 means that the stock is classified as overfished in relation to the CFP Fmsy objective), for stocks in the Mediterranean and Black Seas. Based on Figure 4.3 and Table 4.2 of STECF-17-04, as updated by STECF 54th Plenary Meeting Report.	No interim milestones have been set in EU legislation.	Exploitation at MSY rate for all commercially exploited stocks. Target set by Article 2 of Regulation (EU) No 1380/2013 of the European Parliament and of the Council of 11 December 2013 on the CFP.

[7] Methodology used to assess the situation of fish stocks, and its outcomes: see SWD(2016) 199 accompanying the Communication from the Commission to the European Parliament and the Council – Consultation on the fishing opportunities for 2017 under the Common Fisheries Policy (COM(2016) 396).

Latest known results (2017)[8]:

According to the latest available information 39 out of 66 assessed fish stocks in the **North-East Atlantic and adjacent waters** are fished at or below the rate corresponding to MSY[9].

In the **Mediterranean and Black Seas** stocks are on average fished between 2 and 3 times the rate corresponding to MSY. In 2017, the number of stocks assessed was 60 and this represents a small proportion of the total number of stocks. The most recent analysis of the stocks where MSY assessments are available shows that only 7 stocks were assessed as being above MSY. New figures from STECF based on the 2017 stock assessments will be available in March 2018.

Data reliability is high as far as the *North-East Atlantic and adjacent waters* are concerned (annual reporting).For the *Mediterranean and Black Seas*, data reliability is low due to the low coverage of the analysis.

For more information, please refer to Annex 12.

2. Specific measurement of Jobs for Fisheries:

Employment created and maintained with support from the European Maritime and Fisheries Fund (EMFF).

This indicator measures the direct effects of the EMFF on employment. It does not measure changes in employment due to external factors (e.g. job losses due to the 2008 fuel crisis or the 2012 economic crisis).

Source of data:
- Annual Economic Reports (AER), STECF
- Member States' EMFF Annual Implementation Reports (AIRs).

Baseline 2012-2013	**Interim milestone 2017[10]**	**Target 2023[11]**	**Latest known results (2017)[12]** Source: AIRs 2016 (*)
Fisheries: 110.096 in Full Time Equivalent (FTE). Source: 2013, AER fishing fleet.	• 0 FTE created. • 35.910 FTE maintained.	• 4.083 jobs created in FTE (jobs created represent 4% of the baseline employment). • 35.910 FTE jobs maintained.	• 469 FTE created. • 4.075 FTE maintained.

8 See previous footnote.

9 Communication from the Commission on the State of Play of the Common Fisheries Policy and Consultation on the Fishing Opportunities for 2018: COM(2017) 368 final and SWD(2017) 256 final.

10 Data source: Member States' Annual Implementation Reports.

11 Article 65(2) of the Common Provisions Regulation (EU) No 1303/2013: Expenditure shall be eligible for a contribution from the ESI Funds if it has been incurred by a beneficiary and paid between the date of submission of the programme to the Commission or from 1 January 2014, whichever is earlier, and 31 December 2023.

12 See also the EMFF Programme statement for the draft budget 2019.

Aquaculture: 34.400 FTE. Source: 2012, AER aquaculture (freshwater aquaculture is not included).	• 310 FTE created. • 22.462 FTE maintained.	• 1.546 jobs created in FTE (jobs created represent 4% of the baseline employment). • 22.462 FTE jobs maintained.	• 0 FTE created • 542 FTE maintained.
Coastal communities: 140.000 FTE. Source: no data requested in context indicators. 100% of jobs in fisheries are in coastal areas. 90% of jobs in aquaculture are in coastal Member States and at least 95% of jobs are in coastal areas.	• 890 FTE created. • 6.000 FTE maintained.	• 4.624 jobs created in FTE due to Community-led Local Development. • 6.000 FTE jobs maintained.	• 266 FTE created • 234 FTE maintained
(*)The discrepancy between the latest known results at the end of 2017 and the interim milestone 2017 and the target for 2023 can be explained as follows: The slow EMFF implementation was essentially due to the late approval of the legislative framework, the overlap with the previous programming period (EFF), the difficulties to adapt to new rules and administrative requirements and the delay in designating Managing Authorities in some Member States. Most Member States' administrations had to cope with the closure of the EFF at the same time as starting up the EMFF. Data reliability is medium. For more information, please refer to Annex 12.			

KPI 3. Specific measurement for Stronger Global Actor in fisheries: **Improvement in global fisheries governance, measured by the sustainable management of emblematic tuna and tuna-like species as per relevant scientific advice.** This indicator measures to what extent some highly significant tuna and tuna-like species (Bigeye tuna, Bluefin tuna, Skipjack tuna, Yellowfin tuna, Pacific Bluefin tuna and swordfish) are fished at sustainable levels (Fcurr/Fmsy ≤ 1) in relevant geographical areas (Atlantic Ocean, Indian Ocean and Pacific Ocean). This advice is a direct result of EU action in the relevant RFMO[13] for a number of years. **Source of data**: Annual stock situation in scientific reports of RFMOs concerned.			
Baseline 2013	**Interim milestone 2017**	**Target 2020**	**Latest known results (2017)**
14 out of 19 selected stocks are at sustainable levels.	15 stocks	19 stocks Target set by DG MARE.	16 out of the world's 18 (*) emblematic tuna stocks were at sustainable levels according to the relevant scientific advice. This means we have reached our intermediate target of bringing 15 stocks within safe limits by end 2017. The following 2 stocks still suffer from overfishing: – Bigeye tuna in the Atlantic Ocean – Yellowfin tuna in the Indian Ocean. (*) The DG MARE Strategic Plan 2016-2020 refers to a total of 19 stocks. DG MARE has decided to remove swordfish which has been treated as one stock, but in reality should be looked at differently according to the oceans concerned.

[13] RFMOs which manage highly-migratory species, mainly tuna: http://iccat.int/en/, http://iotc.org/, https://www.wcpfc.int/, http://iattc.org/, http://www.ccsbt.org/site/

KPI 4. Result indicator related to the blue economy:

EU investment relating to the blue economy expressed as percentage of total European Structural and Investment Funds (ESIF).

An analysis of ESIF operational programmes indicated that of the 120 categories of spending, only 3 (2 on ports and one that included ocean energy) could be directly linked to the blue economy, apart from the funding that the EMFF will bring to fisheries and aquaculture and other maritime issues. The same goes for Smart Specialisation Strategies. Nevertheless, maritime projects could fit easily into many of the other categories – support to SMEs, research infrastructure, wind energy, making use of cultural or natural heritage to enhance attractiveness for tourism etc. Initial estimates suggest about 3% of total structural and investment funding could be spent on maritime issues. DG MARE has been raising awareness of these opportunities through events in all the sea basins and now the work has been taken up by regional and national administrations in the countries concerned.

Source of data: Reports sent by Management Authorities and accessed through Infoview.

Baseline 2015	Interim milestone 2017	Target 2023	Latest known results 2017 (*)
3% of total Source: estimate based on analysis of the Member States' ESIF operational programmes.	4% of total	5% of total Target set by DG MARE.	The latest information suggests that spending in these areas is lower than the 2017 milestone of 4% (cf. Annual Activity Report 2016). The mid-term review of the DG MARE Management Plan 2017 reveiled that it is not feasible to estimate the proportion with any reliability at present because the Managing Authorities do not provide this information to the Commission. This would require a sampling of Managing Authorities which is not planned for the near future.

(*) Data reliability is low. For more information, please refer to Annex 12.

KPI 5. Management indicator: Estimated residual error rate[14].

Source of data: 2017 Annual Activity Report

Baseline	Target	Latest known results (AAR 2017)
The estimated residual error rate (RER) should not exceed 2% of cumulative interim payments made during each financial year.	The estimated residual error rates should remain below the materiality threshold throughout the period 2016-2020.	• For the EFF, the residual risk rate at closure (which equates to the cumulative residual risk) is 1,53%. • For the EMFF[15], the residual total error rate is 1,09%.

[14] Residual error rate is "the best estimation of the value of the total expenditure which was not in conformity with the applicable regulatory and contractual provisions after corrective measures have been implemented; expressed as a percentage of the total expenditure". It is represented by the residual risk rate (RRR) at closure for the EFF, and by the residual total error rate (RTER) for the EMFF.

c) Key conclusions on Financial management and Internal control (executive summary of section 2.1)

In accordance with the governance arrangements of the European Commission, (the staff of) DG MARE 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 standards, 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 standards/principles. DG MARE has assessed the internal control systems during the reporting year and has concluded that the internal control standards are implemented and function as intended. Please refer to AAR section 2.1.3 for further details.

In addition, DG MARE 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 a reservation concerning EFF).

d) Provision of information to the Commissioner

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 reservation envisaged, have been brought to the attention of Commissioner Vella, responsible for Environment, Maritime Affairs and Fisheries.

[15] There is a new annual acceptance of accounts procedure for the 2014-2020 (EMFF) programming period, where material irregular expenditure should be corrected in-year, represented by the residual total error rate (RTER).

1. KEY RESULTS AND PROGRESS TOWARDS THE ACHIEVEMENT OF GENERAL AND SPECIFIC OBJECTIVES OF THE DG[16]

1.1 Ocean Governance

The EU as a global actor has set a landmark in 2017 in terms of international ocean governance by its organisation of the global **Our Ocean Conference** in Malta (5-6 October). The results achieved were unprecedented and confirmed the EU's role as the world's "oceans champion" and as a strong global actor. In particular, the conference resulted in 437 measurable commitments worth EUR 7.2 billion, addressing critical issues such as environmental protection (marine pollution, biodiversity, climate…), maritime security, and sustainable fisheries. Also, participants announced the creation of an additional 2.5 million km² of Marine Protected Areas[17], or more than half the size of the EU.

During the Our Ocean Conference, and with its objective of achieving sustainable fisheries worldwide in mind, the EU emphasised its position that no commercial fisheries should begin in the **Arctic** high seas before a science-based and precautionary management is in place.

"The commitment and leadership shown by all parties have made it possible to reach this historic agreement on the Arctic. It will fill an important gap in the international ocean governance framework and will safeguard fragile marine ecosystems for future generations."

Karmenu Vella, Commissioner for the Environment, Maritime Affairs and Fisheries

On 1 December, the EU and partner countries[18] agreed to prevent unregulated high seas fisheries in the Central Arctic Ocean.[19] That is, until sufficient scientific information to support the sustainable exploitation of fish stocks in the region is available. This is a first step towards the creation of regional fisheries management organisations for the Central

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16 An Executive Agency uses as heading: "Implementation of the Agency's Annual Work programme - Highlights of the year".

17 http://ourocean2017.org

18 Canada, China, Denmark in respect of Greenland and the Faroe Islands, Iceland, Japan, Korea, Norway, the Russian Federation and the US.

19 https://ec.europa.eu/maritimeaffairs/content/eu-and-arctic-partners-agree-prevent-unregulated-fishing-high-seas_en

Arctic Ocean, to ensure that any future fishing is carried out sustainably. The agreement will enter into force when all ten Parties have signed and ratified the agreement.
In addition, the Arctic Stakeholder Forum, set up in 2016 by the Joint Communication on an integrated EU policy for the Arctic, has issued a set of recommendations[20] for EU investment priorities in the area and identified ways to reduce the administrative burden of EU funding programmes for the Arctic region.

High level bilateral meetings were held with key ocean players such as the US, Japan, Australia and China. The third **EU-China** High Level Dialogue on Ocean affairs took place on 2 March. It reinforced the EU-China cooperation on ocean affairs. The very first symbolic step was the successful "EU-China Blue Year"[21] bringing together experts from both sides to undertake joint actions. We are currently negotiating an EU-China Ocean Partnership, which will further deepen our relations.

1.2 Blue economy

Promoting a sustainable blue economy in our regions contributes to growth and jobs, healthy marine and coastal ecosystems, and more safety and security – all this within the Union's priorities of "Jobs, Growth and Investment", the "Migration agenda" and "A stronger Global Actor".

The global blue economy, which covers all activities making use of the ocean's resources – from fisheries over renewable energy to biotechnology or tourism, is set to grow at twice the rate of the mainstream economy by 2030. For Europe, this could mean growth to 10.8 million jobs and nearly 1 trillion euro in turnover. At the same time, we have to ensure that this growth is based on a sustainable use of our marine resources, in line with the UN SDG 14 on oceans.

In a report on the Blue Growth Strategy of March 2017[22] the Commission took stock of its Blue Growth policy, initiated in 2012.[23] Our focus on five key sectors (ocean energy, aquaculture, coastal and maritime tourism, blue biotechnology and the exploitation of marine minerals) is delivering. But if the EU is to grasp the full potential of the blue economy, further efforts are needed. The report makes it clear that the EU should not miss this opportunity and examines what is still missing to grasp it. This analysis and the need for further action were supported by the Member States, the European Parliament and the European Committee of the Regions.[24]

Offshore wind is the fastest growing sector in the blue economy. In Europe, offshore wind capacity installed in the first half of 2017 grew by 100% year-on-year. As of January 2017, 12.631 MW of capacity was connected to the grid. 90% of global offshore wind capacity is delivered by European countries, mainly the United Kingdom (5.1 GW) and Germany (3.3 GW), followed by Denmark (1.3 GW).[25]

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20 https://publications.europa.eu/en/publication-detail/-/publication/6a1be3f7-f1ca-11e7-9749-01aa75ed71a1/language-en/format-PDF/source-60752173
21 http://europa.eu/rapid/press-release_IP-17-1524_en.htm
22 COMMISSION STAFF WORKING DOCUMENT - Report on the Blue Growth Strategy Towards more sustainable growth and jobs in the blue economy (SWD(2017) 128 final).
23 COMMUNICATION FROM THE COMMISSION TO THE EUROPEAN PARLIAMENT, THE COUNCIL, THE EUROPEAN ECONOMIC AND SOCIAL COMMITTEE AND THE COMMITTEE OF THE REGIONS - Blue Growth opportunities for marine and maritime sustainable growth (COM (2014) 494).
24 See the Valetta Declaration endorsed under the Maltese Presidency, the June Council Conclusions on Blue Growth, the opinion on 'A new stage in the European policy on Blue Growth' adopted by the Committee of the Regions, and the Declaration of the EP Intergroup – SEARICA- on 'Strengthening the blue Europe to the benefit of EU citizens'.
25 JRC Wind Energy Status Report 2016 Edition.

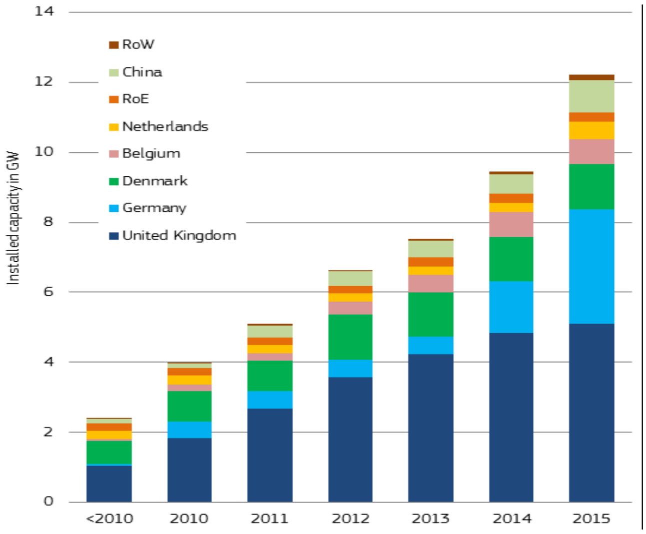


Figure: Cumulative worldwide installed offshore wind capacity 2010-2015. Source: JRC wind energy database

The EU accounted for 14 MW of **ocean energy** installed capacity at the end of 2016. European projects could reach 600 MW by 2020 but the actual installation of new devices is slower than expected.

Aquaculture in the EU counts for about 20% of the EU seafood production and directly employs some 80.000 people. The average volume produced has remained relatively constant over the last 10 years, declining between 2009 and 2013, but increasing steadily again since 2013. Over the same period, value has grown steadily by more than 40%.
In their latest scientific opinion, "Food from the Oceans"[26], the SAM High Level Group[27] advises that aquaculture be further developed if we want to feed the global population sustainably. DG MARE has been active in promoting the results of this opinion, raising the topics of modern, innovative aquaculture techniques and growth in output in two workshops with Member States in 2017. These workshops examined lessons learnt and concerns shared on the barriers that hinder the sector's growth, and how best to address them. The Commission also adopted an implementing regulation on organic shrimp feed in May 2017 which serves to bring clarity to the organic farming of shrimp.[28]

Coastal and maritime tourism is by far the largest employer in the blue economy. 21% of the EU's population live in coastal municipalities. The proportion of young people finding a job in this sector is higher than the average in the blue economy – but the work is often temporary, seasonal and poorly paid. In March 2017, the Commission proposed measures to remove barriers to the growth of **nautical tourism**[29] in the EU. The sector employs up to 234.000 people and generates about EUR 28 billion per year on revenues. It has the potential to provide more high-value-added jobs and growth in the Blue Economy. A study published in April on the 'impact of business development improvements around nautical tourism' found issues that could benefit from EU action.[30] Fisheries Local Action Groups support projects identified by partners in a local development strategy. Many of these action groups are supporting local fishermen with the investments to take tourists on

26 https://ec.europa.eu/research/sam/index.cfm?pg=oceanfood
27 The High Level Group of the European Commission's Scientific Advice Mechanism (SAM) provides independent scientific advice to the College of European Commissioners to support their decision making.
28 COMMISSION IMPLEMENTING REGULATION (EU) 2017/838 of 17 May 2017 amending Regulation (EC) No 889/2008 as regards feed for certain organic aquaculture animals (C(2017) 3145).
29 COMMISSION STAFF WORKING DOCUMENT on Nautical Tourism SWD(2017) 126.
30 https://publications.europa.eu/en/publication-detail/-/publication/473c0b82-18f9-11e7-808e-01aa75ed71a1

board of their vessel, which helps diversifying their activities and reducing the pressure on stocks.

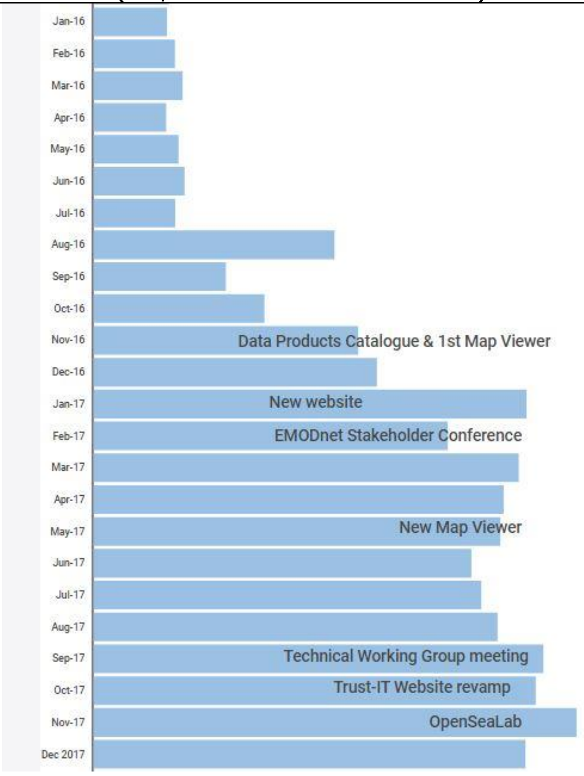
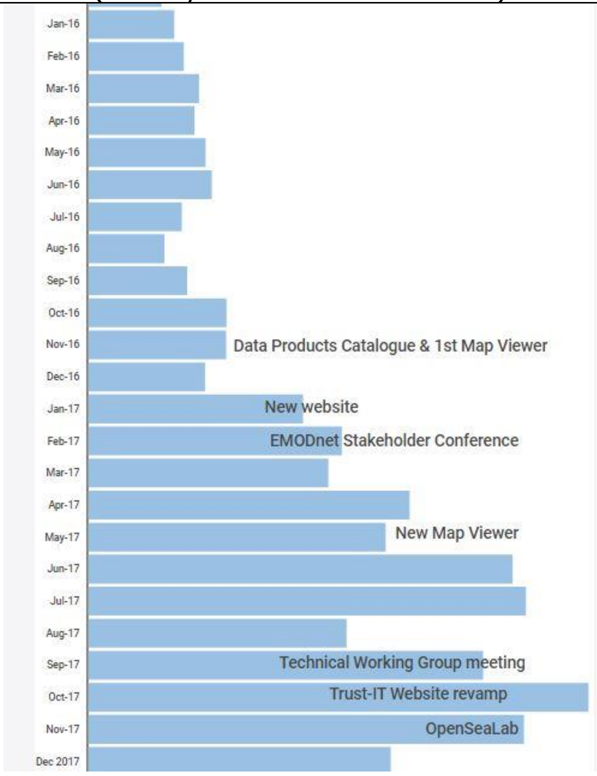
To strengthen Europe's competitive position in the **blue biotechnology**, the EMFF will support the creation of a marine bio-economy forum bringing together industry, public authorities, academia and finance. The evaluation of the call for tenders was finalised end 2017.

Marine data, spatial planning and maritime surveillance facilitate growth in the blue economy.

Marine Knowledge 2020 brings together marine data from different sources to help industry, public authorities and researchers to find the data, make more effective use of them and improve our understanding of how the seas behave.

There is now full coverage of European seas. It has improved forecasting of storm surges in the North Sea. Since 2016, businesses have reported that the availability of quality-assured data is saving time and therefore money. The number of visitors to the central portal and the bandwidth of data delivered have increased substantially in 2017. Stronger collaboration has been established with the European Environment Agency and regional sea conventions on nutrient measuring and reporting and with the Copernicus marine service on archiving and access to physical and chemical parameters. A meeting and seminar with officials from the Chinese State Ocean Administration paved the way for more interoperable standards. A user group advising on the further development of EMODnet, with particular emphasis on business, has been set up and will have its first meeting in early 2018.

Previously, the monthly number of downloads was used to measure progress but this has become impractical because of the inhomogeneity of the different thematic groups. Physical parameters are downloaded frequently in small quantities. Topographic maps are downloaded less frequently but in larger quantities. It was decided to separate the metric between the number of visitors and bandwidth of downloads.

Number of visitors (16,000 in December 2017)	Bandwidth of downloads (18 Gbytes in December 2017)
	

In March 2017, we organised a second international conference on **Maritime Spatial Planning** (MSP) together with the Intergovernmental Oceanographic Commission of UNESCO. Regular meetings during the year of the Member State Expert Group on MSP helped exchanging practice and prepare for the national maritime spatial plans. We set up a workshop on Land-Sea Interaction in MSP (Malta, June) and a Conference on MSP for Blue Growth (Brussels, October).

The "Study on International Best Practices for Cross-Border MSP"[31] published in May, identified good practices in MSP, with a particular focus on cross-border cooperation. Findings include a large inventory of cross-border MSP processes across the globe and an in-depth analysis of four case studies of MSP implementation. The recommendations support the promotion and exchange of MSP at the international level, relevant to the implementation of the EC International Ocean Governance Agenda.

During 2017, three projects, funded through the EMFF and designed to facilitate cross-border cooperation between EU countries in MSP, were completed: SIMCELT in the Celtic Seas, Baltic SCOPE in the Baltic and MARSPLAN in the Black Sea. The evaluation of the call for proposals was finalised end 2017 for two similar projects involving Outermost Regions[32] and for two other projects focusing on sea-basins.[33]

The Commission launched an "Initiative for the sustainable development of the blue economy in the **Western Mediterranean**", together with the Union for the Mediterranean Secretariat. The Commission presented its Communication of 19 April 2017[34] at the Ministerial Conference on Blue Growth (Valletta, 20 April). The Council

31 https://publications.europa.eu/en/publication-detail/-/publication/985c28bb-45ab-11e7-aea8-01aa75ed71a1
32 MarSP (Macaronesian Maritime Spatial Planning) and OCEAN METTISS (Réunion Island and Indian Ocean).
33 Pan Baltic SCOPE and SEANSE (the Baltic and North Sea).
34 COM(2017) 183 final and SWD(2017) 130 final

endorsed the Initiative in June, followed by the ten participating countries in November. A first meeting of the Steering Committee to advance on the action plan is planned for March 2018.

The 4th annual High-Level **Black Sea** Stakeholder Conference on blue economy[35] gathered delegations from all coastal countries, including Russia. The 140 participants debated across sectors and stakeholder groups. Two Memorandums of Understanding were signed – on marine environment cooperation and on scientific cooperation. Both result from EU-funded projects.

The 4th **Atlantic** Stakeholder Platform conference[36] gathered around 150 stakeholders and discussed the implementation of the Atlantic action plan and other issues at stake for the Atlantic. Meanwhile, preparatory work for the review of the Atlantic action plan[37] has started, including an external study[38] and a public consultation.

The 8th Annual Forum of the EU Strategy for the **Baltic Sea** Region was attended by some 800 stakeholders. It was a good opportunity to present the report "Towards an implementation strategy for the sustainable Blue Growth Agenda for the Baltic Sea Region" of June 2017.[39] It collates the results of a stakeholder dialogue that has identified the needs to realise the Baltic Blue Growth Agenda in the coming years. We have participated in relevant events promoting this report and ensuring close collaboration with local stakeholders.

Our dialogue with **North Sea** stakeholders also focused on the promotion of the blue economy in the region, for instance during the Annual Business Meeting 2017 of the North Sea Commission.

1.3 Maritime security

Maritime security issues are managed under the **EU Maritime Security Strategy** (EUMSS) and its Action Plan, both adopted by the Council in 2014.[40] The aim is to improve cross-sector collaboration, in particular between civilian and military authorities, for the safety and security of our seas and oceans. Better coordination between maritime actors helps to manage migration flows, in particular in the Mediterranean Sea, protect the EU's maritime borders and rescue operations at sea.

In June 2017, the second **implementation report**[41] of the EUMSS Action Plan was presented to and endorsed by the Council. The report was a joint effort of Commission services, the European External Action Service and the European Defence Agency, with input from Member States' reports. It concludes that implementation progressed well and led to more cross-sector collaboration between maritime authorities.

Several Member States are participating in the 'single window' solution that national authorities are cooperating on. For example, Italian coast guard headquarters are developing the Maritime National Single Window as part of their national Vessel Traffic Management Information System. This system was recognised as direct information-sharing on civilian and productive uses of the sea. In Greece, this national system will be modernised and its range of capabilities regarding sea area coverage and data sharing

35 Batumi, 15 September: https://webgate.ec.europa.eu/maritimeforum/en/node/4048
36 Glasgow, 8 November: http://www.atlanticstrategy.eu/en/news-and-events/news/4th-atlantic-stakeholder-platform-conference-8-november-2017-glasgow-scotland
37 COM(2013) 279 final
38 https://publications.europa.eu/en/publication-detail/-/publication/8d43aa62-1139-11e8-9253-01aa75ed71a1
39 Berlin,13-14 June: https://sustainable-projects.eu/index.php?node_id=787&lang_id=1
40 https://ec.europa.eu/maritimeaffairs/policy/maritime-security_en
41 JOINT STAFF WORKING DOCUMENT - Second report on the implementation of the EU Maritime Security Strategy Action Plan (SWD(2017) 238).

will be broadened in order to advance cross-sectorial cooperation and interoperability.

It also sets priorities among the 130 actions and recommends a revision of the Action Plan in 2018 to make sure that it is fit for purpose in the light of the current Union priorities.

The European Fisheries Control Agency was granted additional means for its cooperation with the European Border and Coast Guard Agency (ex-FRONTEX) and the European Maritime Safety Agency on **Coastguard functions** and to support national authorities in this area. This new cooperation enables the Control Agency to better implement its tasks related to fisheries control whilst contributing to the achievement of the Union's objective "Towards a new policy on Migration".

DG MARE continued supporting the European Coast Guard Functions Forum plenary to foster dialogue between national authorities performing Coast Guard Functions and to achieve their coordination within the interagency cooperation framework.

Another key deliverable under the EUMSS is the **Maritime CISE** (Common Information Sharing Environment). The CISE should improve the interoperability between EU and some 400 national surveillance systems so that they can cooperate better. The EUCISE2020project[42] designs, implements and tests CISE at a large scale. It is expected that the network and the solutions for interoperability will be maintained to achieve an operational CISE by 2020. The study "Benchmarking the operational added value and preparing end users' uptake of the maritime CISE"[43] was finalised in 2017. It pointed out the relevance of CISE for the Member States' maritime authorities and identified useful information services that could be provided by CISE. Also, 7 national IT interoperability projects were completed, increasing the authorities' potential to connect within the future CISE. In addition, a high level concept paper from the Commission services to support the operational implementation of CISE has been discussed with the Member States in December 2017.

42 http://www.eucise2020.eu/

43 https://publications.europa.eu/en/publication-detail/-/publication/2301a305-3c41-11e7-a08e-01aa75ed71a1

1.4 Fisheries conservation[44]

Over the past few years significant progress has been made in implementing the Common Fisheries Policy, thus contributing to the objective of a more sustainable and competitive fisheries by 2020. However, the risk of not achieving fully the **Maximum Sustainable Yield** (**MSY)** objective by 2020 in all sea basins remains, given that it is largely dependent on external factors as explained below.

There are in particular positive results towards MSY in the **North-East Atlantic and adjacent waters**.[45]

The Commission's proposals on the 2018 fishing opportunities were based on independent scientific advice[46]. Adherence to scientific advice in Council decisions is increasing: for 2018, 53 TACs are in line with MSY advice, which represents 75% to 80% of the catches (for 2017: 44 TACs, or 61% of all catches in the North-East Atlantic, North Sea and Baltic Sea).

The Baltic Sea TACs for 2018 follow the multiannual plan, ensuring that all stocks therein are fished sustainably.[47]

As to rebuilding stocks, scientific advice showed that average stock biomass in the North-East Atlantic was 35% higher in 2015 than in 2003. The percentage of stocks within safe biological limits is also increasing in this area: 68% of stocks in 2015 compared to 35% in 2003. The positive trend is less apparent for data-poor stocks. By contrast, average biomass in the Mediterranean declined by 20% from 2003 until 2014.[48]

Further efforts are needed to bring down the high levels of overfishing in the **Mediterranean and the Black Sea**. Over 90% of the assessed stocks in 2017 are overfished[49], including iconic species such as hake, red mullet, deep-water rose shrimp, sardine and anchovy. In general, crustacean species (such as red shrimps) are closer to sustainable exploitation levels. On average, stocks are fished between 2 and 3 times the rate corresponding to MSY.

The main causes of overfishing in the Mediterranean and the Black Sea are: the large number of small-scale vessels (which makes control, enforcement, monitoring and reporting of catches difficult), the multispecies nature of the fishery, the many landing sites, the shared stocks with non-Member States, and the low number of stocks assessed yearly.

To reverse this situation, we have encouraged a new dynamic in fisheries governance:

- in the Mediterranean through the Medfish4Ever Ministerial Declaration (March 2017)[50],
- and in the Black Sea through the Bucharest Declaration (October 2016).[51]

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44 COM(2017) 368 final

45 Adjacent waters of the Northeast Atlantic: North Sea, Baltic Sea, Skagerrak, Kattegat, West of Scotland Sea, Irish Sea and Celtic Sea.

46 From the International Council for the Exploration of the Sea (ICES) and the Scientific, Technical and Economic Committee for Fisheries (STECF).

47 REGULATION (EU) 2016/1139 OF THE EUROPEAN PARLIAMENT AND OF THE COUNCIL of 6 July 2016 establishing a multiannual plan for the stocks of cod, herring and sprat in the Baltic Sea.

48 Scientific, Technical and Economic Committee for Fisheries (STECF) - Monitoring the performance of the Common Fisheries Policy (STECF-17-04). Publications Office of the EU, Luxembourg; EUR 28359 EN.

49 In 2017, the total number of stocks assessed in both seabasins was 60, where only 7 stocks were assessed as being below F_{MSY} - Preliminary results pending endorsement of report STECF EWG 17-15 and the GFCM Working groups on stock assessments.

50 https://ec.europa.eu/fisheries/sites/fisheries/files/2017-03-30-declaration-malta.pdf

51 http://www.fao.org/publications/card/en/c/d035a4f9-ff78-4c01-80d2-7711f64309e9/

In October 2017, the GFCM adopted 14 decisions to advance in the implementation of its strategy 2017-2020 for sustainable fisheries and aquaculture in the Mediterranean and Black Sea.[52]

Governance of the CFP has shifted to **regionalisation** whereby Member States develop joint recommendations for multiannual plans, discard plans, fish stock recovery areas, and conservation measures to comply with Natura 2000 rules and the Maritime Strategy Framework Directive. The recommendations are processed into delegated acts adopted by the Commission.

After the adoption of the Baltic plan in 2016, the Commission proposed **multiannual plans** (MAPs) for demersal fish stocks in the North Sea[53] and for small pelagics in the Adriatic.[54] A political agreement was reached for the North Sea MAP in late 2017 and negotiations on the Adriatic MAP will continue in 2018.
As a number of discard plans were to expire without the appropriate provisions in place in MAPs, the Basic Regulation was adjusted.[55]
An Impact Assessment was finalised to launch in 2018 a proposal for demersal species in the Western Mediterranean and for a MAP on demersal fisheries in Western EU waters.
We worked with Member States to align national management plans under the Mediterranean Regulation to the objectives of the reformed CFP.

Ten **discard plans**[56] were adopted to implement the landing obligation[57] for all species by 2019.
Consistency between MSY and the landing obligation has been ensured during the negotiations with the Member States on the 2018 fishing opportunities. Fleets for which the landing obligation applies are candidates for limited compensation through higher quotas. It is important to ensure that these so-called "TAC top-ups" remain limited within the boundaries of sustainable fishing.

The Commission proposed in 2017 a prohibition of **eel fishing**. In December, the Council decided to ban fishing for eel of 12 cm or more in EU waters of ICES areas (including the Baltic Sea) for a 3-months period when eels are migrating. Also, Member States need to strengthen national management plans to protect eels in the inland waters.

A new data collection framework was established by Regulation (EU) 2017/1004.[58] It revises the rules on the **collection, management and use of data** (biological, environmental, technical and socio-economic) in the fisheries sector. The goal is to contribute better towards reaching the CFP objectives[59], including achieving MSY by 2020. Also, it addresses an increasing need for economic data (such as profit margins and values) and economic advice in fisheries management. To that end, we facilitated the setting up of six new Regional Coordination Groups.

Negotiations continue on the Commission's proposal for the revision of the **technical**

52 http://www.fao.org/gfcm/news/detail/en/c/1054060/
53 COM(2016) 493 final
54 COM(2017) 097 final
55 REGULATION (EU) 2017/2092 OF THE EUROPEAN PARLIAMENT AND OF THE COUNCIL of 15 November 2017 amending Regulation (EU) No 1380/2013 on the common fisheries policy.
56 The landing obligation (or 'discard ban') included in the new CFP prohibits the discarding of species subject to catch limits and those subject to minimum size limits in the Mediterranean Sea. However, some exemptions may apply, and to this end a discard plan is required. Since October 2014 the Commission has adopted several discard plans (through delegated acts) in preparation of the implementation of the landing obligation.
57 The landing obligation requires all catches of regulated commercial species on-board to be landed and counted against quota (article 15(1) of Regulation (EU) No 1380/2013).
58 REGULATION (EU) 2017/1004 OF THE EUROPEAN PARLIAMENT AND OF THE COUNCIL of 17 May 2017 on the establishment of a Union framework for the collection, management and use of data in the fisheries sector and support for scientific advice regarding the common fisheries policy and repealing Council Regulation (EC) No 199/2008.
59 Article 2 of Regulation (EU) No 1380/2013.

measures.[60] The PECH Committee at the European Parliament voted on 21 November 2017. The European Parliament adopted its position on 16 January 2018. Negotiations will now begin with the Council and the European Commission.

The reformed CFP foresees the establishment of four new **Advisory Councils** to increase the participation of stakeholders in the decision making. The setting up of a new Advisory Council is led by the stakeholders from the Member States concerned and they submit an application to the Commission. Three of these new Advisory Councils are already declared operational by the Commission, two in 2016 (Aquaculture and Markets), one in 2017 (Black Sea). The Commission received 64 recommendations in 2017. Regarding the Advisory Council for Outermost Regions, stakeholders are working on a proposal which could reach the Commission in 2018.

All but one Member State implement the **FLUX** (Fisheries Language for Universal Exchange) standard for their monthly catch reporting to the Commission. With this standard, fisheries management organisations around the world have for the first time a communication tool to automate the collection and dissemination of fishery catch data needed for sustainable fishery management and to detect and combat IUU fishing. The standard is also harmonised with standards used for taxes and food traceability. The exchange of vessel positions between Member States was foreseen by 1 February 2017 and is working partially. The exchange of fishing activities and fishery sales data is planned for May 2018.

[60] COM(2016) 134

1.5 Balance between fishing capacity and fishing opportunities

From 1 January 2014, Member States must ensure that the fishing capacity of their fleets does not exceed at any time the **fleet capacity** ceilings set out in Annex II of the CFP Regulation.[61]

The EU fleet report 2015[62] indicates that there are 84.134 vessels in the EU fleet register with an overall capacity at 1.592.057 gross tonnes (GT) and 6.375.340 kilowatts (kW). This means that the fishing capacity of the EU fleet is 25,50% below the capacity ceilings for tonnage and 22,21% below the power ceilings:

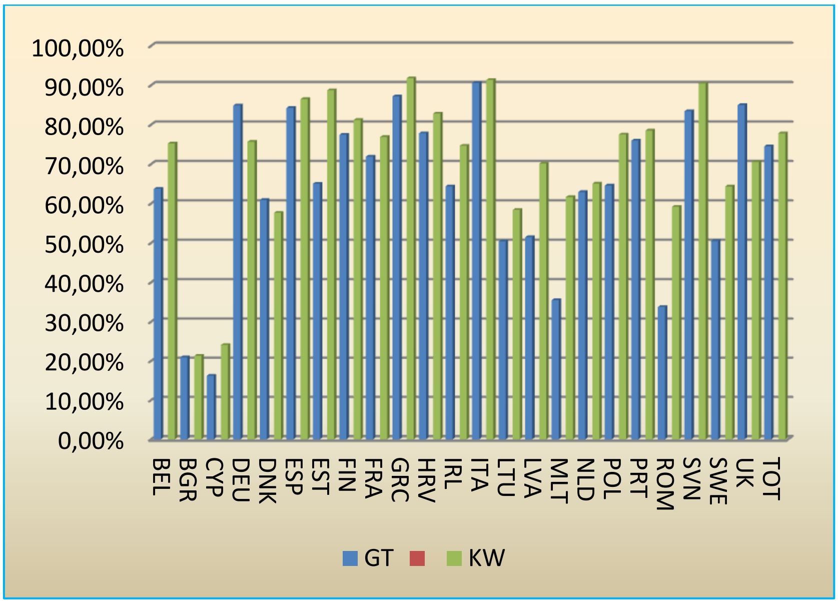

Figure: Compliance with capacity ceilings in December 2016. Effective capacity as percentage of capacity ceiling by Member State (excluding outermost regions).

In recent years, the balance between fishing capacity and fishing opportunities across the entire EU fleet has improved: between 2007 and 2015, the capacity of the EU fishing fleet decreased gradually in number of fishing vessels (-6%), in engine power (-14%) and in tonnage (-24%).[63]

To reduce fishing capacity, Member States used **permanent cessation** measures under the European Fisheries Fund (EFF) to decommission vessels from their fleet.
In the period 2007-2015, 4.378 vessels were decommissioned with public support. Public expenditure (certified payments) amounted to almost EUR 932 million, of which EUR 554 million from the EFF.
Vessels decommissioned with EFF support cannot be replaced. This is to ensure that overall fleet capacity is reduced.
A further 3.608 vessels (totalling 92.292,89 GT and 289.474,28 kW) were removed from the fleet without public aid. Fleet capacity withdrawn in this way can be reintroduced.

In the **North-East Atlantic**, fishing capacity in terms of GT and kW continues to decrease. However, some fleet segments in the North-East Atlantic remain out of balance with their fishing opportunities and rely on stock considered at risk.

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61 Article 22(7) of REGULATION (EU) No 1380/2013 OF THE EUROPEAN PARLIAMENT AND OF THE COUNCIL of 11 December 2013 on the Common Fisheries Policy.
62 SWD(2017) 256 final. The report covers 2015 and also some updated data for 2016.
63 COM(2017) 368 final

Overcapacity is considered a leading cause of overfishing in the **Mediterranean Sea**, given the general lack of catch controls and the reliance on effort to regulate fishing mortality. In such circumstances, the Member States concerned must include in their annual fleet report action plans for the fleet segments with a structural imbalance. Under the EMFF, permanent cessation measures were only possible for imbalanced fleet segments and only until the end of 2017. Engine replacement and start-up support for young fishermen are only possible in balanced fleet segments.

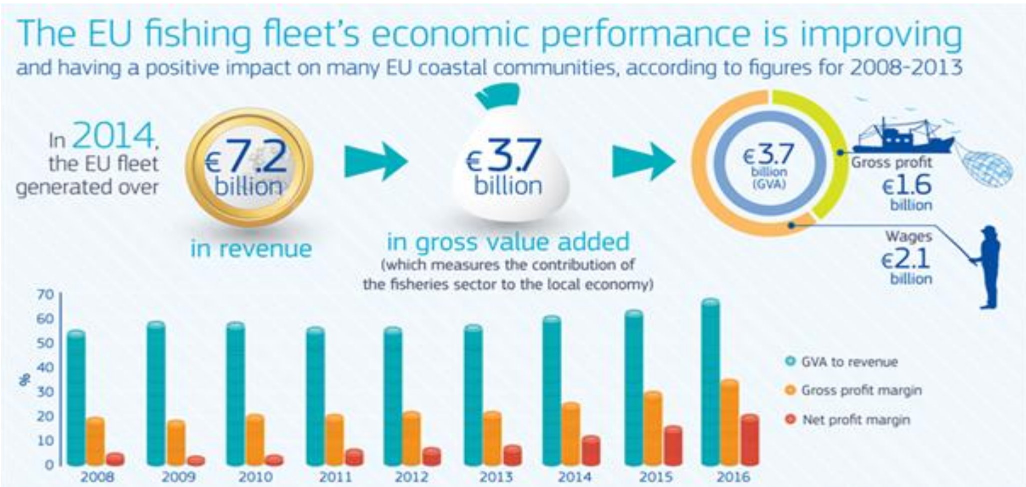
1.6 Economic performance of the EU fishing fleet[64]

Healthy stocks are important for the profitability of the EU fishing fleets. The 2017 Annual Economic Report[65] points to a clear correlation between more sustainable fisheries and achieving the objective of a stronger economic performance of the sector. This was also confirmed by the Commission's analysis[66] supporting its proposals on the 2018 fishing opportunities.

According to the latest available data record net profits amounted to EUR 770 million in 2014 (compared to EUR 500 million in 2013).[67] Gross value added[68] amounted to EUR 3.7 billion in 2014. Also, a substantial increase compared to previous years.

Likewise, average salaries in the EU fleet have been growing over recent years.

Due to reductions in fleet capacity, overall employment continues to decline.[69] In recent years, the balance between fishing capacity and fishing opportunities across the EU fleet has improved. Between 2007 and 2015, capacity decreased by 6% in number of fishing vessels, by 14% in engine power and by 24% in tonnage.



Source: COMMISSION STAFF WORKING DOCUMENT accompanying the document 'COMMUNICATION FROM THE COMMISSION on the State of Play of the Common Fisheries Policy and Consultation on the Fishing Opportunities for 2018' (SWD(2017) 256 final)

Despite this overall economic progress, economic performance varies considerably between Member States, regions and fisheries.

64 COM(2017) 368 final
65 STECF 17-12: https://ec.europa.eu/jrc/en/publication/eur-scientific-and-technical-research-reports/2017-annual-economic-report-eu-fishing-fleet-stecf-17-12
66 SWD(2017) 256 final
67 COM(2017) 368 final
68 The fish-catching sector's contribution to the economy through wages and gross profit.
69 STECF 17-12

1.7 Sustainable fisheries worldwide

In 2017, the Commission continued to push for sustainable fisheries around the globe. As a global actor, the EU based all its proposals and positions in international and regional fisheries management organisations (RFMOs) on the best available scientific advice, with a view to managing fishery resources in accordance with the objectives of the CFP[70].

This push for sustainability paid off: at the end of 2017, 16 out of the world's 18[71] **emblematic tuna stocks** were at sustainable levels, according to the relevant scientific advice. This means we have reached our intermediate goal of bringing 15 stocks within safe limits by end 2017.

The EU pursued a similar course for the 2 outstanding stocks that still suffer from overfishing:

- Bigeye tuna in the Atlantic Ocean
- Yellowfin tuna in the Indian Ocean.

Success was hampered by external factors that are difficult to control or influence, for instance a lack of compliance or support by other parties and the impact of technological creep on fishing effort and fishing mortality. RFMOs are taking corrective action in order to have all 18 stocks at sustainable levels; the EU is a leader in this work. The timetable and effective success depends on a number of external factors, such as support by other parties, compliance and the impact of technological creep on fishing effort and fishing mortality.

On 7 June, the Council adopted the Commission proposals establishing the EU position to be adopted for the next five years in the meetings of three **RFMOS**: the Convention on the Conservation and Management of Pollock Resources in the Central Bering Sea, the Southern Indian Ocean Fisheries Agreement, and the South Pacific Regional Fisheries Management Organisation (SPRFMO).[72] This will ensure that the EU can continue to play its global leadership role.

2017 was also the first year in which all EU fishing operators used the electronic catch documentation system for bluefin tuna ("eBCD") developed by ICCAT. The system makes it easier to detect fraud, deters illegal, unregulated, and unreported (IUU) shipments, and improves tracking of bluefin tuna catches and trading.[73] The Commission's proposal on the **transposition** of ICCAT measures was adopted by the legislators on 15 November.[74]

The Commission's proposal for the SPRFMO transposition[75] was adopted on 29 March. The trilogue with the other institutions should start in February 2018.

The Commission also adopted delegated acts to clarify how EU vessels subject to RFMO measures[76] should implement the EU's **landing obligation**.[77] It ensures that EU rules are

70 Article 2 of Regulation (EU) No 1380/2013.
71 The DG MARE Strategic Plan 2016-2020 refers to a total of 19 stocks. It has been decided to remove swordfish which has been treated as one stock, but in reality should be looked at differently according to the oceans concerned.
72 http://data.consilium.europa.eu/doc/document/ST-10120-2017-INIT/en/pdf
73 https://ec.europa.eu/fisheries/smooth-running-2017-bluefin-tuna-season-first-time-all-eu-operators use-electronic-catch_en
74 REGULATION (EU) 2017/2107 OF THE EUROPEAN PARLIAMENT AND OF THE COUNCIL of 15 November 2017 laying down management, conservation and control measures applicable in the Convention area of the International Commission for the Conservation of Atlantic Tunas (ICCAT).
75 Proposal for a REGULATION OF THE EUROPEAN PARLIAMENT AND OF THE COUNCIL laying down management, conservation and control measures applicable in the Convention Area of the South Pacific Regional Fisheries Management Organisation (SPRFMO) (COM(2017) 128 final).
76 NAFO: C(2017) 2358 final
ICCAT: C(2017) 7875 final.
77 Article 15(1) of the CFP Basic Regulation.

in line with international obligations and that the EU complies with decisions taken by RFMOs.

1.8 Fight against IUU fishing

The implementation of the IUU Regulation[78] aims, amongst other things, to deter imports of IUU fish to the EU market and to ensure a legal and stable supply of seafood.

Illegal, unreported and unregulated (IUU) fishing is a serious and increasing worldwide problem. It not only depletes fish stocks and destroys marine habitats but also endangers food security and distorts competition. It puts honest fishermen at an unfair disadvantage and weakens coastal communities. Although there is a lack of precise data on the impacts of IUU fishing, its value is estimated at least at 10 billion euros per year, or minimum 15% of worldwide catches.

The EU market is a valuable target for IUU operators as the EU is the largest importer of fishery and aquaculture products in the world. Around 2/3 of such products consumed in the EU are imported from a wide range of trading partners on all continents. This explains why fighting IUU fishing abroad is a key priority of the EU fisheries policy.

The Commission monitors and enforces an effective implementation of the CFP rules by Member States mainly through the Control Regulation.[79] The capacity of the Commission is more limited when it comes to encouraging third countries to abide by international rules in their capacity as flag, coastal, port or market States. The same applies to economic operators such as owners or operators of fishing vessels, processing companies, importers, exporters and civil society stakeholders.

In this context, the IUU Regulation has proven its value as an instrument of change. Administrative cooperation with third countries based on the IUU Regulation has helped them reform their fisheries policy and structures, especially in the areas of control and the fight against IUU fishing.

In 2017, two countries (the Comoros[80], and Saint Vincent and the Grenadines[81]) were identified as non-cooperating third countries in fighting IUU fishing ("red card) and were included by the Council in the list of non-cooperating countries in fighting IUU fishing. In total, 3 countries are now in the list of non-cooperating countries: the Comoros, Saint Vincent and the Grenadines and Cambodia.

Two other countries (Liberia[82] and Vietnam[83]) were notified that they risked being identified as a non-cooperating third country in fighting IUU fishing (pre-identification). The Commission found that these countries fell short in the fight against IUU fishing and suggested action plans that would allow the national authorities to rectify the deficiencies in their national frameworks. In total, 9 countries now have such a "yellow card" in place.

3 countries (Sri Lanka[84], Guinea[85] and Belize[86]) were delisted as non-cooperating countries, as proposed by the Commission. The Commission also decided to revoke the pre-identification of Curaçao[87] and the Solomon Islands[88]. The Commission considered

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78 COUNCIL REGULATION (EC) No 1005/2008 of 29 September 2008 establishing a Community system to prevent, deter and eliminate illegal, unreported and unregulated fishing.
79 COUNCIL REGULATION (EC) No 1224/2009 of 20 November 2009 establishing a Community control system for ensuring compliance with the rules of the common fisheries policy.
80 C(2017) 3183 and COM(2017) 241
81 C(2017) 3204 and COM(2017) 243
82 C(2017) 3174
83 C(2017) 6941
84 C(2017) 7042
85 C(2017) 7262
86 C(2017) 7266
87 C(2017) 1043

that these countries had embarked on sufficient reforms and improvements in order to abide by international rules regarding flag, coastal, port or market States.

In addition to continuing the dialogue on IUU with a number of third countries, DG MARE updated the EU list of vessels engaged in IUU fishing.[89] Member States reported 7 instances where they refused to grant catch certificates for imports in 2017.

1.9 Fisheries agreements

Sustainable Fisheries Partnership Agreements (SFPAs) are widely recognised as a regulated and transparent tool to frame the activities of the EU fishing fleet beyond EU waters. The agreements contribute to safeguarding the traditional fisheries activities of the EU fleet in partner country waters and to the fight against IUU fishing. In addition, the sectoral support that we provide helps partner countries to sustainably manage their fisheries resources and to develop their local economy.

At the end of 2017, 12 protocols to SFPAs were in force:
- 3 multi-species (or mixed) agreements: for Mauritania, Morocco and Greenland;
- 9 tuna agreements: for Cape Verde, Ivory Coast, Sao Tomé and Principe, Madagascar, Mauritius, Senegal, Seychelles, Liberia and Cook Islands.

Our goal for 2017 was to have 14 SFPAs in force. However, negotiations with Guinea-Bissau took longer than expected, leading to an interruption of the SFPA. In addition, Comoros failed to comply with IUU Regulation requirements, and was added to the list of non-cooperating countries. As a result, and following a Commission proposal, the Council formally denounced the SFPA with Comoros in December.

The main risk with SFPAs is that agreements are not renewed (on time) because of the unstable political situation in the partner country, of financial expectations which are unrealistically high, or because the partner country is identified as a non-cooperating country under the IUU Regulation. Member States and stakeholders are aware of these risks, allowing the EU fleet to anticipate the effect of a non-renewal.

Nevertheless, in a context of sharp global competition between long-distance fleets, some EU ship-owners had to stop their fishing activities or modify their strategies. This has put pressure on the Commission to negotiate SFPAs with new partner countries and to review dormant agreements, such as with Equatorial Guinea and Gambia.

In 2017, the protocol with Mauritius was renewed after some interruption of the fishing activities. Negotiations started with Guinea-Bissau and continued with Mozambique and Kiribati. The Commission also proposed negotiation mandates for Guinea-Bissau, Sao Tome e Principe and Ivory Coast, and took first steps towards a negotiation mandate with Morocco.

Ex-post and ex-ante evaluations were undertaken before the renewal of each Protocol. The findings and recommendations were presented to the other Institutions and the public at large in related Staff Working Documents[90]. The implementation of the protocols, and in particular of the sectoral support, was monitored in Joint Committee meetings with the partner countries, and in Joint Scientific Meetings for mixed agreements.

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[88] C(2017) 1045
[89] C(2017) 7700

[90] Evaluation on the Protocol with:
- São Tomé e Príncipe (SWD(2017) 434 final);
- Côte d'Ivoire (SWD(2017) 446 final).

The number of fishing authorisations granted under SFPAs remained stable, with 323 authorisations for tuna fisheries and 516 authorisations for mixed fisheries. In addition, 55 licences were given to non-EU vessels in the framework of access agreements concerning French Guyana and Mayotte waters. At the end of 2017, 200 vessels flagged in one of the EU Member States were benefiting from a fishing authorisation granted under an SFPA protocol.

The commitment appropriations for SFPAs amounted to €120.8 million and were committed up to 99.7%. Payment appropriations amounted to €135.2 million and were fully spent.

Administration was further improved by the new Regulation on the sustainable management of external fishing fleets.[91] The Regulation modernises and simplifies the fishing authorisation system, thereby setting a level playing-field for operators and improving transparency. It regulates direct fishing arrangements made by the EU fleet outside EU waters, and also addresses key issues such as repetitive reflagging. The distribution of tasks between the Commission and Member States is now clearer and the administration simpler.

1.10 Control and enforcement

The success of the CFP depends very much on an effective fisheries control system, which can ensure a level playing field where rules are applied in a harmonised way. Overall, our control action underpins delivery of the Commission's priority to "Boost growth, jobs and investments".
Member States must ensure effective control systems and the Commission has the responsibility to oversee and enforce the correct application of the Fisheries Control Regulation[92] and the CFP rules by the Member States. To do so, the Commission carried out in 2017 a total of 34 audits, verifications and inspections in the Member States to verify the state of implementation of the CFP and of the effectiveness of their control systems. Particular emphasis was devoted to the proper functioning, in particular in the Mediterranean Member States, of their catch registration procedures, as well as to the measures put in place to control the landing obligation, in view of its full application by 1 January 2019.
In the framework of these visits, the Commission also verified the necessary follow-up by the Member States of the **fisheries control action plans** addressing shortcomings in their control systems. All the sixteen open action plans were monitored in 2017.

The Commission also devoted particular effort to tackle deficiencies identified in the proper implementation of the sanctioning provisions under the EU legislation on fisheries control. It therefore initiated high level dialogues with key Member States, and continued to address identified weaknesses in the national legal frameworks via EU-Pilots and whenever necessary by opening infringement procedures.

In 2017 the Commission adopted the report on the implementation and evaluation[93] of the Fisheries Control Regulation. The evaluation report concluded that while the Control Regulation contributed to improving the fisheries control system and stepping up compliance with the CFP rules, it is not entirely fit for purpose. The report highlighted a number of key challenges that the EU and its Member States need to address to ensure sustainable fisheries, a level playing field among operators and better synergies with other policies notably environment and market.

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[91] Regulation (EU) 2017/2403 of the European Parliament and of the Council of 12 December 2017 on the sustainable management of external fishing fleets, and repealing Council Regulation (EC) No 1006/2008.

[92] COUNCIL REGULATION (EC) No 1224/2009 of 20 November 2009 establishing a Community control system for ensuring compliance with the rules of the common fisheries policy.

[93] COM(2017) 192 and SWD(2017) 134 final

The report was followed by the launch, in June, of a political initiative to revise the **EU Fisheries Control System**. To this end, an inception impact assessment was published in October 2017[94], followed by extensive targeted stakeholder consultations in November and December 2017[95]. The revision of the fisheries control system will also take into account the Resolution of the European Parliament of 25 October 2016[96], the Special Report No 8/2017 of the European Court of Auditors of 30 May 2017[97] and the opinion of the REFIT Platform of 7 June.[98]

The Commission pursued its efforts to ensure effective cooperation among Member States on control and inspection activities, under the coordination of the European Fisheries and Control Agency (EFCA). To do so, the Commission adopted a **specific control and inspection programme** (SCIP) for the North Sea and Western Waters and undertook the revision of the SCIP for the Mediterranean.

The 2017 grant to the **European Fisheries and Control Agency** (EFCA) was paid to ensure the Agency's functioning. Moreover, the Commission strengthened its coordination with EFCA, including through regular bilateral meetings to have a mutual exchange of information on activities carried out and the attendance to multiple EFCA meetings and workshops.

1.11 Aquaculture

The **growing demand** for fish offers a unique opportunity to expand aquaculture production in the EU in a way that helps achieving our objective of more sustainable and competitive aquaculture. This requires that EU fish farmers stay competitive on the global market for seafood products.

The latest figures available[99] show a 4% **growth in volume** and 8% **growth in value** for EU aquaculture products between 2014 and 2015. Fish products farmed in the EU reached the highest values ever registered (1,31 million tonnes, for a value of EUR 4,14 billion).
EU aquaculture companies also registered the highest profits to date (€402 million) in 2014.
The next STECF aquaculture report at the end of 2018 will bring data for 2015-2016. Based on growth trends in recent years and reduction of administrative burden at national level, the positive trend is expected to remain on track to deliver a 25% increase in the volume of EU aquaculture production by 2020 against the baseline of 2013 figures.

EMFF investments can be expected to complement the improvements driven through the Open Method of Coordination. By December 2017, 15 Member States had accessed EMFF finance for aquaculture (under Union Priority 2), totalling just over €38 million, or 3.2% of the €1.2 billion which Member States planned to spend on aquaculture according to their operational programmes.
However, these figures should not be considered reliable indicators of overall investment, as they may account for initial payments on a small percentage of a project, which will be completed (and funded to completion) over a longer time frame. The impacts of these projects on the output of the sector could be expected to be felt towards the end of the funding cycle and thereafter.

DG MARE continued to work with Member States' authorities in the framework of the

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94 http://ec.europa.eu/info/law/better-regulation/initiatives/ares-2017-4808152_en
95 https://ec.europa.eu/fisheries/cfp/control_en
96 http://www.europarl.europa.eu/sides/getDoc.do?pubRef=-//EP//TEXT+TA+P8-TA-2016-0407+0+DOC+XML+V0//EN
97 https://www.eca.europa.eu/en/Pages/NewsItem.aspx?nid=8439
98 https://ec.europa.eu/info/files/refit-platform-recommendations-maritime-affairs-xiv3a-policy-control-eu-fisheries_en
99 The EUMOFA EU Fish Market (2017), managed by DG MARE.

Open Method of Coordination. Two workshops were held where Member States shared best practices and exchanged information on progress towards the objectives given in their Multiannual aquaculture plans, as well as progress on spatial planning and measures to encourage innovative aquaculture. Member States were encouraged to submit a mid-term review of their progress towards their objectives. In 2018 these reviews will be considered in an overall evaluation of the Open Method of Coordination for EU aquaculture.

Compliance with Regulation (EC) No 708/2007[100] concerning use of alien and locally absent species in aquaculture was verified with Member States. Information was requested about the keeping of registers under this Regulation. As a follow up, 9 EU pilot projects were launched, with 6 closed to date.

The Aquaculture Advisory Council was operational for its first full calendar year and produced useful advice to the Commission on animal health law and began work on a range of other opinions for 2018.

[100] COUNCIL REGULATION (EC) No 708/2007 of 11 June 2007 concerning use of alien and locally absent species in aquaculture.

1.12 Structural support

The **European Maritime and Fisheries Fund** (EMFF[101]) supports the implementation of both the Common Fisheries Policy and the Integrated Maritime Policy. The support is delivered through one operational programme per Member State (except LU) and through directly managed projects. The results and impacts contribute to the EU 2020 priority of a Resource Efficient Europe. However, impacts are sometimes difficult to quantify and the attribution is not always straightforward.

After a difficult start, 2017 has marked an acceleration of the implementation of the EMFF in the majority of the Member States. By the end of 2017[102], an average of 27% was committed in EU Member States. Although commitments are satisfactory, the gap with payments to beneficiaries is substantial in all Member States. By the end of 2017 interim payments reached a bit less than 3.4% of the planned EMFF support for the current period.

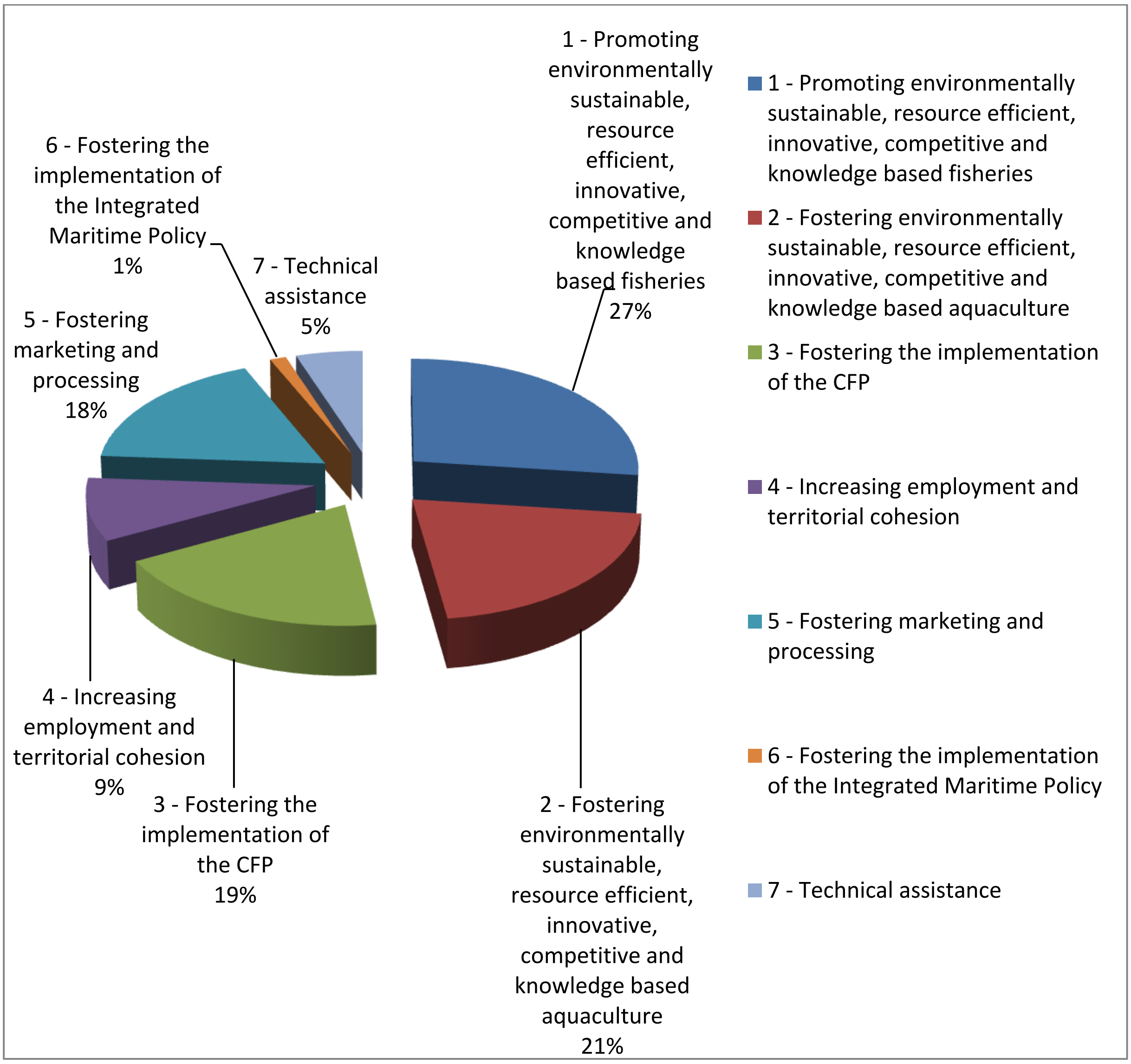
EMFF spending by Union Priority

(from 2014 on, based on Member States' operational programmes, as amended)

Union Priority number	Union Priority name	Total in EUR	Percentage
1	Promoting environmentally sustainable, resource efficient, innovative, competitive and knowledge based fisheries	1 552 778 803	27,01%
2	Fostering environmentally sustainable, resource efficient, innovative, competitive and knowledge based aquaculture	1 198 667 887	20,85%
3	Fostering the implementation of the CFP	1 100 000 000	19,13%
4	Increasing employment and territorial cohesion	524 816 451	9,13%
5	Fostering marketing and processing	1 010 418 274	17,57%
6	Fostering the implementation of the Integrated Maritime Policy	71 055 600	1,24%
7	Technical assistance	291 594 585	5,07%
	TOTAL	**5 749 331 600**	**100,0%**

[101] REGULATION (EU) No 508/2014 OF THE EUROPEAN PARLIAMENT AND OF THE COUNCIL of 15 May 2014 on the European Maritime and Fisheries Fund

[102] Data gathered by DG MARE based on Member States' data. Official data for 2017 will be updated and available at the end of May 2018 with the submission of the Annual Implementation Reports (AIRs).



As of 31 May 2017[103], 7.117 operations had been selected for EMFF financing under shared management. More than half are designed to help SMEs in fisheries and aquaculture becoming more competitive. More than one third is also designed to preserve and protect the marine environment, and to promote resource efficiency.

In Denmark, for instance, the livelihood of Bornholm-based coastal fishers will be improved by optimising direct sale through subscriptions, sales events, cooking workshops and innovative fish products. It is expected that coastal fishers sell a larger share of their catch through direct sale or through local processing companies. This will improve fishermen’s livelihoods and their increased revenue will benefit local job creation and coastal fishing in general.

Another project, also in Denmark, aims to commercialise whelk fishing by ensuring sales of sea snails at a fixed price. There are large deposits of sea snails in Danish waters where salinity is sufficiently high. The snails are sold mainly in South Korea, China and Vietnam. The fishery started in 2016 and it is expected to generate EUR 1.4 to 2 million turnover in 2018.

[103] Updated official data will be available at the end of May 2018 based on Member States' data in the AIRs.

The INTEMARES[104] project in Spain was set up with the support of several EU funds such as LIFE, EMFF, ESF and national funds. It aims at an innovative and integrated management of Natura 2000 marine areas, with active participation of the sectors concerned. Knowledge will be improved to ensure good conservation, surveillance and capacity building. It will create opportunities for extra jobs in the Blue Economy and promote adaptation to climate change.

The uptake of EMFF funding is slower than expected. This is mainly due to the late approval of the EMFF Regulation, the overlap with the EFF[105] closure, and difficulties to adapt to new rules and administrative requirements. Also, as of mid April 2018, 2 Member States (PL and IT) are still to designate their Certifying and Managing Authorities.

Although until October 2017 the EMFF has helped to mobilise more than EUR 1 billion of public and private investment, efforts need to be stepped up to maximise achievements. To accelerate programme implementation, guidance was provided to Member States in two meetings of the EMFF Committee (28 February, 7 November) and four meetings of the EMFF Expert Group (28 February, 24 April, 26 September, 7 November). In the Member States, EMFF Monitoring Committees (MCs), EMFF Annual Review Meetings (ARMs) and joint ARMs for all ESIF OPs also took place contributing to support implementation efforts. The EMFF implementation was also discussed during two meetings of the Council of Ministers for Agriculture and Fisheries.

During the EMFF stakeholder conference "Beyond 2020: Supporting Europe's Coastal Communities" (Tallinn, 12-13 October), co-organised with the Estonian Presidency, it was concluded that future support will still be needed to support the full implementation of the CFP and the Integrated Maritime Policy.

Following the recommendations from the European Court of Auditors in its Special Report on Natura 2000[106], indicators were incorporated in the EMFF operational programmes to allow monitoring of spending on biodiversity protection and Natura 2000 sites. 10% of the maritime part of the EMFF is allocated for the objectives of the Marine Strategy Framework Directive, which also include biodiversity protection.

Member States have allocated over EUR 18 million in their programmes to:

- support the management, restoration and monitoring of Natura 2000 sites and other marine protected areas;
- promote more selective fishing gears avoiding accidental by-catch of species (marine mammals, seabirds);
- support aquaculture providing environmental services.

In 2017, the EMFF operational programmes of 7 Member States (AT, DE, FR, LV, MT, PT and SI) were amended. Further amendment proposals are expected in 2018.

In terms of the local development priority, our focus was twofold in 2017:

- to ensure that all the remaining strategies of the **Fisheries Local Action Groups** were selected by the end of the year. As a result, 338 strategies have been selected in 2017.
- the selection of projects, which has started in most but not all Member States. As a result, over 1300 projects were selected.

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[104] http://ec.europa.eu/environment/life/project/Projects/index.cfm?fuseaction=search.dspPage&n_proj_id=6101

[105] European Fisheries Fund (EFF) 2007-2013.

[106] Special Report No 1/2017: More efforts needed to implement the Natura 2000 network to its full potential.

In 2018, the FARNET Support Unit will help Managing Authorities to make the remaining Action Groups fully operational.

The Ex post evaluation of the **EFF** 2007-2013[107] shows that the EFF objectives were achieved to a large extent in several areas: EU fleet capacity reduction, EU fleet investments, investments in processing and marketing, investments in fishing ports, landing sites and shelters and Community-Led Local Development. This led to competitiveness and modernisation of the sector and maintaining and creating jobs.

The Member States' EFF operational programmes were implemented in a challenging context marked by the deep global economic and financial crisis, but also by the need to build the economy, infrastructure and administrative capacity of 13 new Member States joining from 2004 onwards and for whom this was the first full programming period. This explains why the results obtained by the EFF were more mitigated in other areas (contribution to broader conservation objectives, investments in inland fishing and small scale coastal fishing vessels, investments in aquaculture, tailoring support to local/regional needs and better synergies with other funds). This has to a large extent been addressed in the EMFF 2014-2020.

The closure of the EFF is ongoing. The operational programmes of three Member States (Austria, Malta and Cyprus) have been closed so far. DG MARE established a clear, comprehensive closure procedure and met all its legal deadlines in analysing the closure material that Member States submitted.

1.13 Market policy

Producer Organisations in fishery and aquaculture are important for the common organisation of the markets (CMO).[108] Producer organisations provide strategic input on how to ensure that Member States' **Production and Marketing Plans** support their own objectives and those of the Common Fisheries Policy.

The introduction of Production and Marketing Plans encountered a number of difficulties. However, support could only be provided after the approval of Member States' EMFF Operational Programmes. To remedy this situation, DG MARE undertook several initiatives to support the Producer Organisations and the national administrations. There are now clear indications from stakeholders that the Production and Marketing Plans work well.

Out of the 18 Member States where Producer Organisations are recognised, 6 have carried out checks to ensure that the organisations comply with the CMO rules and one is being further analysed by the Commission.

A study on **EU consumer habits** regarding fishery and aquaculture products was published in July.[109] The results were presented at 15 events, including the 2017 Seafood Fair. Both the sector and the Member States generally welcomed the study. An opinion poll to detect trends in the EU market for fishery and aquaculture products will therefore be repeated in 2018.

During 2017, several initiatives were undertaken to improve the performance of **EUMOFA**[110], in particular in view of more extensive data coverage. EUMOFA delivered

[107] COMMISSION STAFF WORKING DOCUMENT – Ex post evaluation of the European Fisheries Fund 2007-2013 (SWD(2017) 274 final).

[108] REGULATION (EU) No 1379/2013 OF THE EUROPEAN PARLIAMENT AND OF THE COUNCIL of 11 December 2013 on the common organisation of the markets in fishery and aquaculture products.

[109] https://publications.europa.eu/en/publication-detail/-/publication/408fddfb-6144-11e7-8dc1-01aa75ed71a1/language-en/format-PDF

[110] European Market Observatory for fisheries and aquaculture products: http://www/eumofa.eu/

several studies, market analyses and reports, including on EU consumer habits (above), the price structure and EU organic aquaculture. EUMOFA published 11 Monthly Highlights and its annual report "The EU Fish Market".

2. ORGANISATIONAL MANAGEMENT AND INTERNAL CONTROL

This section answers to the question *how* the achievements described in the previous section were delivered by the DG. This section is divided in 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 objectives. It includes any additional information necessary to establish that the available evidence is reliable, complete and comprehensive; appropriately covering all activities, programmes and management modes relevant for 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. The reports produced are:

- reports on budget implementation by AOSDs in accordance with the AOSD Charter, together with questionnaires for the preparation of the Annual Activity Report;
- the reports on control results from management/audit authorities in Member States in shared management as well as the result of the Commission supervisory controls on the activities of these bodies;
- the reports from Authorising Officers in other DGs managing budget appropriations in cross sub-delegation;
- the contribution of the Internal Control Coordinator, including the results of internal control monitoring at the DG level;
- the reports of the ex-post audit sector;
- monthly reports to MARE management on budget implementation;
- the observations and the recommendations reported by the Internal Audit Service (IAS);
- the observations and the recommendations reported by the European Court of Auditors (ECA).

These reports result from a systemic 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 MARE.

In addition, there are regular dedicated meetings between the Director-General and the Internal Control Coordinator on financial management, audit and internal control matters.

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 resulting in (2.1.4) Conclusions as regards assurance.

2.1.1 Control results

This section reports and assesses the elements identified by management that support the assurance on the achievement of the internal control objectives[111]. 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 control systems.

DG MARE 2017 PAYMENTS					
Budget Management Type	Expenditure Type	Paid Amount (€)	% of Total Payments	Average Paid Amount (€)	Number of Payments
Shared	FIFG/EFF	7 256 453	1,42%	2 418 818	3
	EMFF	312 865 535	61,26%	4 600 964	68
Total Shared Management		320.121.988	62,68%	4.508.760	71
Direct	Sustainable Fisheries Partnership Agreements	132 493 441	25,94%	4 014 953	33
	Surveillance and Control and Data Collection	6 946 014	1,36%	147 788	47
	Procurement	14 030 408	2,75%	51 020	275
	Grants	10 432 936	2,04%	133 756	78
	Other expenditure	8 986 782	1,76%	96 632	93
	Administrative expenditure	590 479	0,12%	3 761	157
Total Direct Management		173.480.059	33,97%	253.997	683
Indirect	EFCA agency	17 113 000	3,35%	5 704 333	3
Total Indirect Management		17 113 000	3,35%	5 704 333	3
Total Payments		510 715 047	100%	674 657	757

OVERVIEW – SHARED MANAGEMENT (63% of 2017 payments)

1. Introduction

The most significant budget activity for DG MARE relates to programmes under shared management, representing 63% of the DG's executed payments in 2017. Management relies on a number of complementary sources in its assessment of the effectiveness of the systems established by the Member States for the implementation of these programmes.

At the beginning of each programming period the Operational Units responsible for structural measures have negotiated the programmes. The establishment of a satisfactory system architecture was a condition of programme approval. These units are also responsible for monitoring their effective implementation. The Desk Officers and Heads of Unit are in regular contact with the Managing Authorities and participate in Monitoring Committee meetings organised by the Member States. In the course of programme implementation, these Units receive and process the payment claims and, where necessary, interrupt or suspend such claims and take other safeguard measures foreseen by the applicable legislation as appropriate.

[111] Effectiveness, efficiency and economy of operations; reliability of reporting; safeguarding of assets and information; prevention, detection, correction and follow-up of fraud and irregularities; and 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 (FR Art 32).

The Member States submit annual implementation reports throughout the programming period and a final implementation report at closure which are evaluated by the Operational Units. In the context of the preparation of the AAR, the responsible Heads of Unit provide an opinion on the functioning of the Management and Control Systems in the Member States for which they are responsible.

2. European Fisheries Fund (EFF)

Only one EFF interim payment was made in 2017, as Member States submitted their final payment applications by 31 March 2017. For many Member States the 95% payment ceiling had already been reached prior to this date. The closure declarations were also submitted by Member States by 31 March 2017. Only once DG MARE has concluded its analysis of the material submitted (and any further information and clarifications) does it calculate a closing balance to be paid to, or recovered from, the Member State. This analysis has been concluded for the closure declarations of 19 Member States and in 2017, two closing balances were paid out.

3. European Maritime and Fisheries Fund (EMFF)

As regards the 2014-2020 period, programmes were negotiated as before, but the control of programme implementation was passed to Member States, in that they were empowered to designate their Managing and Certifying Authorities on the basis of a review by an independent audit body. This exercise has taken longer to progress than foreseen, with the result that only €171 million of interim payments were paid in 2017 (the remainder is attributable to prefinancing).

OVERVIEW – DIRECT MANAGEMENT (34% of 2017 payments)

1. Sustainable Fisheries Partnership Agreements (26% of 2017 payments)

The level of a financial contribution under a Sustainable Fisheries Partnership Agreement (SFPA) is the result of a negotiation with the partner country and is based on several factors such as the value of the opportunities offered to the EU fleet to fish in the partner's exclusive economic zone as well as the level of support to the third country's efforts towards a more sustainable management of fisheries resources.

2. Surveillance and control and data collection (1% of 2017 payments)

During the 2007-2013 programming period, programmes were submitted to the Commission by the Member States annually in the case of control programmes, and for multi-annual periods (two or three years) in the case of data collection. Following their evaluation, the level of financial contribution was fixed by the Commission and notified to the Member States. In 2017, expenditure was incurred for control but no longer for data collection and for markets, as the programmes had finished (see section 2.1.1.1.4). Implementation of the programmes is monitored by the Operational Units concerned.

3. Procurement and Grants (5% of 2017 payments)

The Directorate General ensures 100% ex ante verification of documents and procedures in relation to procurement and grants. The management of tendering and grants procedures is decentralised to the Operational Units of the Directorate General which are responsible for operational initiation and verification. An additional independent verification is carried out centrally by the Budget, Audit and Public Procurement Unit which performs checks during the entire lifecycle of the procedure, i.e. it reviews drafts of tendering/call for proposals specifications, invitations to tender/to submit a proposal, contract notices, evaluation and award reports, award decisions and contracts/agreements. DG MARE has also established an independent advisory committee (the Procurement Examination Group) which examines all procurement procedures above the publication threshold and which advises the Sub-Delegated Authorising Officers on the legality and regularity of the procedures.

BUDGET IMPLEMENTATION TASKS ENTRUSTED TO OTHER DGS AND ENTITIES

This section reports and assesses the elements that support the assurance on the achievement of the internal control objectives as regards the results of the DG's supervisory controls on the budget implementation tasks carried out by other Commission services and entrusted entities distinct from the Commission.

DG Maritime Affairs and Fisheries has entrusted parts of its 2017 budget for implementation by a decentralised agency (the European Fisheries Control Agency - EFCA) and by a number of cross-sub-delegations to other DGs.

1. Decentralised agencies - Indirect management

Although decentralised agencies have full responsibility for their own management, a number of reporting and supervising arrangements allow DG MARE to exercise its supervisory role.

The Commission and DG MARE in particular participate at different levels of governance within the agency, from the Administrative Board to the Joint Deployment Plans. The Commission supervises the EFCA annual and multi-annual work programme, the Staff establishment plan and Budget. The Commission follows-up the discharge process by participating and if necessary intervening in the relevant parliamentary debates.

The EU contribution to the decentralised agency EFCA amounted in 2017 to €17,11 million in commitments and payments (see annex 8).

2. Cross sub-delegations

Concerning the sub-delegated resources, reports were received from all Directors General concerned, providing reasonable assurance on the use of the resources, for the purposes envisaged, in accordance with the principles of sound financial management:

- A cross sub-delegation with DG EMPL to participate in the IT system for Member States to communicate documents relating to programmes under shared management (SFC – Front-office). In 2017, €0,2 million in payment appropriations were utilised by DG EMPL;

- Cross sub-delegations were concluded with REGIO to participate in the IT system for Member States to communicate documents relating to programmes under shared management (SFC – Back-office), to carry out an external validation assessment of the audit functions of ESIF DGs, for the implementation of fi-compass and to co-finance joint studies. In 2017, DG REGIO utilised an amount of €0.3 million in payment appropriations;

- A cross sub-delegation was concluded with DG GROW, to promote trans-European coastal and maritime tourism products in third countries. No payments were carried out by GROW in 2017;

- DG SANTE received a cross sub-delegation from DG MARE for the creation of an electronic database for catch certificates. An amount of €0,02 million in payment appropriations was consumed.

3. Executive Agency - EASME

On 11 July 2014, the Commission took the decision to delegate powers to EASME for the implementation of part of the EMFF direct management expenditure relating to IMP and Scientific Advice.

A memorandum of understanding (MoU) between EASME and DG MARE was signed on 23 September 2014. This MoU provides reporting and supervising arrangements with regard to the functioning of the Agendy such asa Steering Committee, chaired by DG GROW and composed of representatives of all 7 parent DGs, including DG MARE. Additionally, a dedicated member of staff is appointed in MARE, as in each of the parent DGs, to act as coordinator between MARE and the Agency.

A major share of the actions funded from the EMFF direct management budget has been delegated to EASME. They fall under three headings: Integrated Maritime Policy (IMP), scientific advice, and fisheries control and enforcement. A dedicated unit in EASME manages grant actions, procurement contracts, calls and evaluations in those policy areas.

In 2017, EASME handled 9 new procurement actions leading to 12 contracts and 7 new grant actions leading to 29 grants for IMP. For scientific advice and knowledge, 11 new procurements contracts were signed, and 2 additional procurement contracts and 2 new framework contracts (Arctic and studies in support of the CFP) were prepared.

2.1.1.1 Coverage of the Internal Control Objectives and their related main indicators

Control effectiveness as regards legality and regularity

DG MARE 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.

2.1.1.1.1 Shared Management – EMFF 2014-2020

Materiality criteria (control objective) and reservations

Regarding the legality and regularity of the underlying transactions, the objective is to ensure that the estimated residual risk of error does not exceed 2% for each accounting year.

The Directorate-General therefore assesses each operational programme in order to identify the need for reservations and corrective measures to be applied. Reservations or partial reservations are made at operational programme level in case of significant weaknesses in the Member States' management and control systems leading to a material risk to the EU budget in accordance with the criteria set out in Annex 4.

Source of information used to build up the assurance

For the 2014-2020 programming period, in addition to the information sources listed below, the main source of information is the assurance package that national authorities must provide each year by 15 February, from 2016 to 2025 included. This comprises:

- The Management Declaration and Annual Summary, prepared by the Managing Authority;
- The Certified Accounts, prepared by the Certifying Authority, which must include: a) the total amount of eligible expenditure for the accounting year concerned, the total amount of corresponding public expenditure incurred and the total amount of corresponding payments made to beneficiaries; b) the amounts withdrawn and recovered during the accounting year, the amounts to be recovered as at the end of the accounting year and the irrecoverable amounts; c) the amounts of programme contributions paid to financial instruments under Article 41(1) and the advances of State aid under Article 131(4); d) for each priority, a reconciliation between the expenditure, stated in the accounts and the expenditure declared in the same accounting year, with an explanation of any differences;
- The Annual Control Report and Audit Opinion, prepared by the Audit Authority, based on the main findings of the system audits carried out on the functioning of the management and control systems and on an appropriate sample of operations on the basis of the declared expenditure, as well as on the accounts prepared by the Certifying Authority.

DG MARE will also use the following sources of information:

- Audit work:
  - MARE's audit work on the review of the reliability of the Audit Authorities;
  - MARE's system and thematic audits;
  - Relevant audit information received from DG REGIO, DG EMPL and/or the ECA;
  - OLAF.

- Other sources of information, formal or informal, acquired by the geographical units in the context of their day-to-day management of the programmes:
  - Annual implementation reports from the Member States;
  - Monitoring committees and annual review meetings;
  - Contacts with regional and national programme managers.

A. The assurance base: solid and supervised management & control systems in Member States

A1. A system designed to foster sound financial management

Description of the management and control systems (MS level, EC level):

The main features of the Management and Control Systems of the 2014-2020 programming period are:

- Designation as a first layer of assurance aiming to ensure that the managing and certifying authorities in charge of each operational programme (OP) have the appropriate management and control systems set up from the start of the period, in line with assessment criteria set in the regulation. The notification of the designation is a condition for the submission of the first application for interim payment to the Commission. This is complemented by horizontal ex ante conditionalities to ensure that the appropriate legislative and regulatory environment is in place as from the start of the programmes.
- A twelve-month accounting period running from 1 July year n-1 to 30 June year n;
- Retention of 10% from each EU interim payment with reimbursement/recovery of annual balance due, following acceptance of accounts by the Commission;
- Submission of certified accounts for each programme, in respect of expenditure declared to the Commission in relation to the accounting period;
- Submission to the Commission of accompanying documents to provide assurance on the accuracy of the accounts, the effective functioning of the system and the legality and regularity of the underlying transactions, i.e. management declaration, annual summary of controls and audits, audit opinion and control report (assurance documents);
- Obligatory application of net financial corrections where irregularities demonstrating serious system deficiencies are detected by the Commission or the European Court of Auditors, unless already identified in the assurance documents / other national audit reports submitted to the Commission, or remedial corrective measures have been taken by the Member State by the time of detection by EU audits.

Therefore, the Management and Control Systems (MCS) will function as follows:

➢ ***During the accounting year (1 July N-1 to 30 June N)***

The **Managing Authority/Intermediate Body** carries out verifications during the accounting year. It verifies that the co-financed products have been delivered and the expenditure declared by the beneficiaries has been paid and that it complies with the applicable law, the operational programme and the conditions for support of the operation.

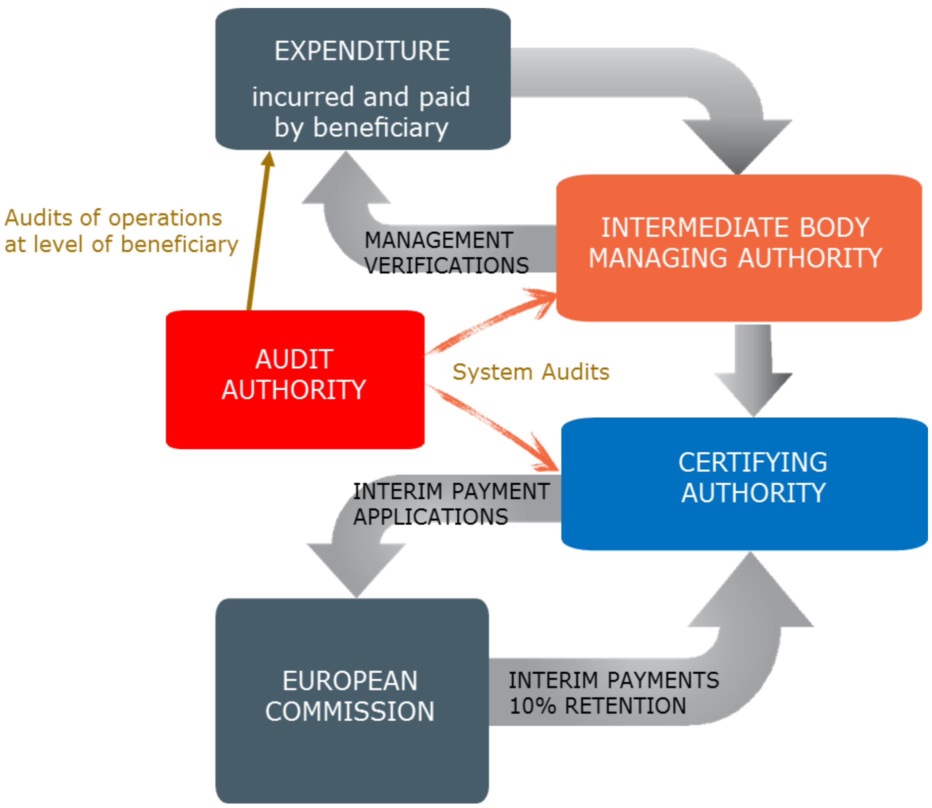
The verifications shall include:

a) administrative verifications in respect of each application for reimbursement from beneficiaries;

b) on the spot verifications of operations on a sample basis.

Before submitting interim payment applications, the **Certifying Authority** certifies that they result from reliable accounting systems, are based on verifiable supporting documents and have been subject to verifications by the Managing Authority. The final interim payment claim is submitted by the Certifying Authority to the Commission by 31 July following the end of the accounting year.

The **Audit Authority** carries out audits on the management and control systems (system audits), the accounts, and of a sample of operations on the basis of the declared expenditure to the Commission during the accounting year. It has to organise its system audits and audits of operations to deliver the audit opinion by 15 February following the end of the accounting year.



- ***Treatment of the assurance package (15 February N+1)***

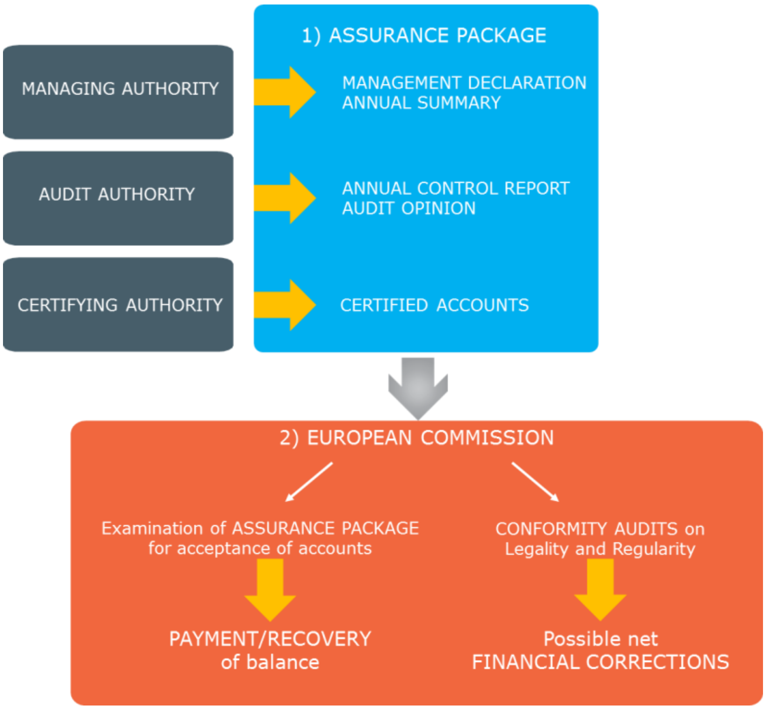
The assurance documents are to be provided by the various Member States authorities to the Commission. The Managing Authority finalises the verifications to ensure that the expenditure to be certified in the accounts is legal and regular. It takes account of the audit authority's findings and makes the necessary financial corrections (using flat rates if necessary). It draws up the management declaration and annual summary.

The Certifying Authority collates all interim claims in the accounts and excludes the irregular amounts (and those amounts under ongoing assessment) detected in relation to expenditure included in interim payment claims. It also takes account of the audit authority's findings, and satisfies itself that the necessary financial corrections (including flat rates) have been made. It provides explanations for the diﬀ erence between the sum of interim payment claims and the accounts. It draws up the accounts, certifying their completeness, accuracy and veracity and that the expenditure entered in the accounts complies with applicable law.

The Audit Authority finalises the system audits and audits of operations. It informs the Managing Authority/Certifying Authority, as applicable, of the final audit results, to enable those bodies to follow up the issues identified and to take the necessary corrective measures. It prepares the annual control report and annual audit opinion and calculates a projected error rate and residual risk of error in the accounts, taking into account the financial corrections implemented by the Managing Authority/Certifying Authority as a result of audits. It also carries out final audit work on the accounts and assesses the consistency of the management declaration.

The Commission carries out the examination of the assurance documents by 31 May of year N+1 to determine whether the accounts are true, complete and accurate and that the accounts can be accepted. Within 30 days of the acceptance of accounts the Commission will pay/recover the balance due. In justified cases, the Commission will not accept the accounts; this will trigger a contradictory procedure with the MS. By 30 June year N+1, a payment/recovery of the balance will be made for the majority of programmes.

At a later stage, the Commission will carry out conformity audits on the legality and regularity of the expenditure. If it detects irregularities demonstrating a serious deficiency in the eﬀ ective functioning of the management and control system, and that such irregularities were neither previously identified nor corrected by the national authorities, net financial corrections will ensue.



Designation

Articles 123 and 124 of Regulation (EU) No 1303/2013 provide the basis for the designation of authorities: the Member States shall notify to the Commission the date and form of the designation of the Managing Authority and the Certifying Authority, prior to the submission of the first claim for interim payment to the Commission. The aim is to ensure that these bodies have the necessary and appropriate Management and Control Systems set up from the beginning of the period.

The designation is based on a report and an opinion of an independent audit body that assesses the authorities' fulfilment of the criteria relating to the internal control environment, risk management, management and control activities and monitoring activities. For the operational programmes with an allocation exceeding €100 million, either DG MARE, on the basis of its risk assessment, can request the designation package on which it may make observations within two months, or the Member State, on a voluntary basis, may submit the designation package to the Commission on which the latter shall make observations within three months.

Based on the results of the desk review, the MARE/EMPL/REGIO single audit strategy foresees the possibility to conduct on the spot fact finding missions, where additional information or clarifications have to be obtained before a conclusion on the designation process can be drawn. If an interim payment claim has already been submitted, it may be decided to carry out an 'early preventive system audit' (EPSA) which will focus on the functioning of the management and control systems at this early stage of implementation.

23 notifications in respect of the EMFF were received by the end of 2017, covering programmes accounting for 78,8% of the total EMFF resource allocation. DG MARE has urged Member States to prioritise this exercise, and has also worked alongside DGs REGIO and EMPL in the provision of guidance to Member States. As at mid-April 2018, the designation notification has been received for another two operational programmes (HR and HU).

A2. Audit activity carried out on the EMFF

Designation desk review

Based on the results of the joint risk assessment established by DGs MARE, EMPL and REGIO, 8 EMFF operational programmes, (DE, ES, FR, HR, IT, NL, PL, and RO) were identified for a desk review of the designation packages. The main criteria were: large budgetary allocation; control weaknesses identified in the previous programming period; or programmes in Member States where the organisational structure has changed significantly. These 8 programmes account for 62% of the total EMFF resource allocation.

As at mid-February 2018, 6 out of the 8 designation packages for the programmes selected had been requested and received. All were analysed through desk review and are being complemented by Early Preventive Systems Audit missions (see below), with satisfactory results. For the remaining 2 Member States (IT and PL), the designation packages will be requested and analysed in the same way once the Member States concerned have notified the Commission of the designation.

EPSA missions

The EPSA missions focus on the effective functioning of the management and control systems at an early stage of implementation. They are primarily based on a review of the systems and procedures in place with regard to selected key requirements at the level of managing authorities, certifying authorities and intermediate bodies. Any significant deficiencies found may lead to interruptions of payment claims, with a requirement for corrective action (financial and/or systemic) before payments can resume. These audit assignments consist of two separate parts entailing two missions; the first focusses on the systems and procedures in place at the managing authority and intermediate body, while the second reviews the procedures in place at the Certifying Authority once a payment claim has been submitted to the Commission.

Because only 12 Member States have submitted full accounts in 2018, accompanied by the other assurance documents, DG MARE will obtain its assurance mainly via these EPSA audits (complemented by the protection to the EU budget afforded by the retention of 10% from each Commission interim payment) until it receives a full set of assurance packages in 2019.

DG MARE has selected 11 Member States for EPSA audits: the 8 originally selected for designation review and 3 others (BE, BG, CZ) for which direct assurance is considered necessary (due to high error rates in the past or the length of time since last audit). In 2017, EPSA audits were finalised in 2 Member States and the first part of the EPSA audits carried out in another 4 Member States. The remaining EPSA audit work is expected to be finalised in the course of 2018, complemented by two additional audits to DE and ES, taking into account the decentralised nature of the system setup in these two Member States.

Other missions

Bulgaria (Designation Fact Finding)

This mission aimed to review the progress in the implementation of the recommendations made by the Commission in the audits carried out for the EFF in 2014 and 2016 and which have an impact on the 2014-2020 programming period.

A3. Future audit activity

The single audit strategy for funds managed by DGs MARE, EMPL and REGIO for the 2014-2020 programming period is based on a control structure following the principles of the "single audit" and "reliance on the work of other auditors" as foreseen in Article 148 of the CPR. Following the assessment of the assurance packages, the Commission auditors will carry out compliance audits on the spot to mitigate/cover the main risks to the legality and regularity of the expenditure declared by Member States. The overall objective of the compliance audits is to seek, via review of the work of Audit Authority, reasonable assurance that no serious deficiency in the management and control systems remains undetected, unreported and therefore uncorrected once the accounts have been submitted to the Commission.

The single audit strategy also foresees thematic/targeted audits for programmes and risk areas not sufficiently covered by the Audit Authorities. For DG MARE, one thematic topic concerns the transfer of activities (surveillance and control, data collection, and markets) from a direct management to a shared management framework. The nature and extent of such audits will be determined by early indications of the system obtained from designation work, noting in particular each Member State's administrative arrangements. DG MARE will also further assess the reliability of systems for reporting performance data.

At a later stage, other audits might cover the recurrent issues of management verifications, withdrawals and recoveries, as well as the effectiveness of the anti-fraud measures established by the Member States.

B. Annual assurance – results

The annual assurance is mainly based on DG MARE's analysis of the assurance packages provided by the Member States' authorities by 15 February each year from 2016.

Once the assurance packages are analysed, DG MARE launches, on the basis of a risk assessment, compliance audits to review the work carried out by the Audit Authorities. The main objective of these audits will be to confirm that no serious system deficiency remained undetected or unreported by Audit Authorities and that the reported audit opinions and residual error rates are reliable.

B.1 Reliability of the accounts

During the third accounting year (from 1 July 2016 to 30 June 2017), expenditure was declared to the Commission by the Member States' Certifying Authorities for 12 programmes. The remaining accounts submitted were nil returns.

DG MARE reviews the Annual Control Reports and Opinions for each Member State, ensuring that they contain information on (as applicable): the methodology used, the results of any systems audits, the results of audits on operations, and work on withdrawals and recoveries. It also assesses the consistency of the audit opinion with the underlying information. A deeper analysis of these components occurs as part of the legality and regularity process (see B.2 below).

The audit authorities provided unqualified opinions on the accounts submitted for the 12 programmes (AT, BE, DK, EE, FI, FR, LV, LT, MT, PT, SE and UK), issuing disclaimers of opinion or unqualified opinion for the "zero" accounts" for the remaining 15 programmes (no payment applications submitted).

The accounts are acceptable in all 12 cases.

B.2 Assurance on Legality and Regularity

In addition to the opinion on the annual accounts, the annual control reports provide opinions on the MCS in place and on the legality and regularity of the underlying transactions. The audit authorities report a total error rate (TER), which is the rate prior to corrections, and a residual total error rate (RTER) which represents the error remaining in the accounts after corrections. If the RTER exceeds 2% of the expenditure declared, the operational programme concerned will be placed under reservation.

DG MARE has assessed whether the Member States have made the necessary deductions to eliminate material ineligible expenditure. Only one programme (PT) features a TER in excess of 2% (5,33% as validated by DG MARE), but the necessary corrective actions were taken and the RTER is below materiality (1,40%).

For the remaining 11 Member States that submitted accounts, the TER did not exceed 2%.

Accordingly, the opinions on legality and regularity were unqualified for all 12 programmes. Disclaimers or unqualified opinions were provided for the other 15 programmes.

Six Member States (DE, ES, GR, IE, RO and SI) submitted payment applications only in the second semester of 2017 (and thus did not submit accounts, or reported error rates, for the accounting period ended 30 June 2017). In such cases, a prudent approach is taken for the RTER with a flat rate of 2% being used: it is assumed that corrections will be made by Member States to eliminate material ineligible expenditure prior to submission of the accounts.

For Member States that submitted accounts for the accounting period ended 30 June 2017, the reported RTER is used for second semester payments.

The methodology for calculating the "relevant expenditure" and determining amounts at risk is set out in Annex 4.

The table overleaf shows the amounts at risk per Member State. The resulting average error rate is 1,09% and thus below materiality.

EMFF RELEVANT EXPENDITURE AND AMOUNTS AT RISK 2017						
MS	Interim 2017 payments linked to accounting period 01/07/2016 - 30/06/2017 in M€	Interim 2017 payments linked to accounting period 01/07/2017 - 30/06/2018 in M€	Relevant expenditure (for details see Annex 10 Table I) in M€	Total Error Rate (TER) as reported by the Member States' audit authorities	Residual Total Error Rate (RTER) as reported by the Member States' audit authorities	Amount at risk per Member State in M€
	a	b	c	d	e	f = c * e
AT	0,34	0,00	0,38	0,53%	0,38%	0,00
BE	2,41	0,00	0,49	0,19%	0,00%	0,00
DE	0,00	20,87	23,18	N/A	2,00%	0,46
DK	26,40	0,00	28,85	1,92%	0,43%	0,12
EE	4,40	2,41	7,57	0,27%	0,23%	0,02
ES	0,00	11,42	12,69	N/A	2,00%	0,25
FI	5,79	0,00	6,43	0,06%	0,00%	0,00
FR	12,81	6,39	19,32	0,75%	0,51%	0,10
GR	0,00	0,31	0,34	N/A	2,00%	0,01
IE	0,00	16,72	18,58	N/A	2,00%	0,37
LT	3,50	0,86	4,85	0,00%	0,00%	0,00
LV	5,10	2,13	8,04	0,00%	0,00%	0,00
MT	0,26	0,27	0,58	1,21%	0,00%	0,00
PT	6,30	8,25	15,68	5,33%	1,40%	0,22
RO	0,00	9,79	10,87	N/A	2,00%	0,22
SE	0,23	0,60	0,92	0,00%	0,00%	0,00
SI	0,00	0,52	0,58	N/A	2,00%	0,01
UK	5,60	17,30	25,26	1,71%	0,90%	0,23
Total	73,15	97,85	184,62			2,01
					AER (RTER):	1,09%

B.3 Types of payments

In 2017, €141,9 million was paid out in prefinancing; €171,0 million was paid out in interim payments.

EMFF PAYMENTS MADE IN 2017 (€)			
Type of payment	Relating the accounting year 2016/ 2017	Relating to the accounting year 2017/2018	2017 total payments made
Annual pre-financing	141 864 757		141 864 757
Interim payments	73 148 028	97 852 749	171 000 777
Total	215 012 785	97 852 749	312 865 534

The Commission's assurance varies in accordance with the different types of payments made during the reporting year.

Pre-financing payments made

The last initial pre-financing[112] for the programmes adopted in 2014 and in 2015 was foreseen in 2016.

Annual pre-financing payments for an amount of €141,9 million was paid in accordance with Regulation (EU) No 1303/2013.

Pre-financing payments can be considered as not being 'at risk' from the legality and regularity perspective, due to the nature of these amounts still being assets of the European Commission which will be only transferred to Member States when 'cleared' in the Commission accounts at closure of programmes.

Interim payments made in respect of the accounting year ended 30 June 2017

DG MARE made interim payments amounting to €73,1 million for 12 programmes (AT, BE, DK, EE, FI, FR, LV, LT, MT, PT, SE and UK) in respect of this period.

DG MARE has analysed the assurance packages received on 15 February 2018, namely the ACRs and audit opinions, management declarations and annual summaries for the purpose of the assurance.

The documents provide: information on final audit reports and of management verifications carried out, an analysis of the nature of errors and weaknesses identified in the management and control systems and corrective action/s (including financial corrections) taken or planned. As part of its assessment of the legality and regularity of expenditure, DG MARE analyses in depth, and provides its own opinion on, the information provided on the management and control system, the audit strategy, systems audits, audits of operations, the audit authority's audit of the accounts, and the overall opinion provided.

[112] Regulation (EU) No 1303/2013 foresees an initial pre-financing of 1% of the main allocation annually in 2014, 2015 and 2016 (and 1,5% for countries under financial assistance mechanisms). Programmes adopted in 2014 received 1% (or 1.5%) in 2015. For programmes adopted in 2015 (after the reprogramming exercise), a double pre-financing (2 to 3%) related to 2014 and 2015 was paid.

<u>Interim payments made in 2017 in respect of the accounting year ending 30 June 2018</u>

DG MARE made interim payments amounting to €97,9 million for 14 programmes (DE, EE, ES, FR, GR, IE, LT, LV, MT, PT, RO, SE, SI and UK) in respect of this period.

Reasonable assurance on these payments at this stage of implementation is provided by:

- The retention of 10% for 2014-2020 interim payments;
- Validation of the designation process by reliable and experienced audit authorities;
- Unqualified opinions submitted as part of the assurance packages;
- Management and control systems that were shown to be generally effective during the previous programming period.

C. Overall assessment of the MCS

The set-up of the assurance model for the 2014-2020 programming period strengthens the Member States' accountability and reduces the risk of a material level of error in the accounts. Moreover, the timely identification of deficiencies and the reporting of reliable error rates are in the Member States' best interests, because the European Commission is now legally empowered to impose net financial corrections in cases where Member States did not address errors appropriately before submitting annual accounts.

The designation process continues. At this stage of implementation, designation and the retention of 10% from each interim payment made by the Commission ensures the protection of the EU budget during the year, before receipt of the assurance packages from the Member States.

The audit authorities of each Member State submitting accounts gave unqualified opinions on the accounts and the expenditure in the accounts.

DG MARE considers that the audit authorities' work, and opinions, are reliable.

D. Conclusion

DG MARE has reasonable assurance on EU payments made for the 2014-2020 programming period in 2017 since they bear practically no risk (pre-financing) or, for the interim payments made, adequate mechanisms are in place to ensure that only legal and regular expenditure is included and certified in the annual accounts.

In addition, the retention of 10% from each of the interim payments made by the Commission will protect the EU budget year on year.

There is no need for a reservation in respect of the EMFF, as the individual RTERs and the average RTER of all operational programmes do not exceed 2%.

2.1.1.1.2 Shared Management – EFF 2007-2013

Materiality criteria (control objective) and reservations

Regarding the legality and regularity of the underlying transactions, the objective is to ensure that the estimated residual risk of error does not exceed 2%, at the end of the implementation of each programme.

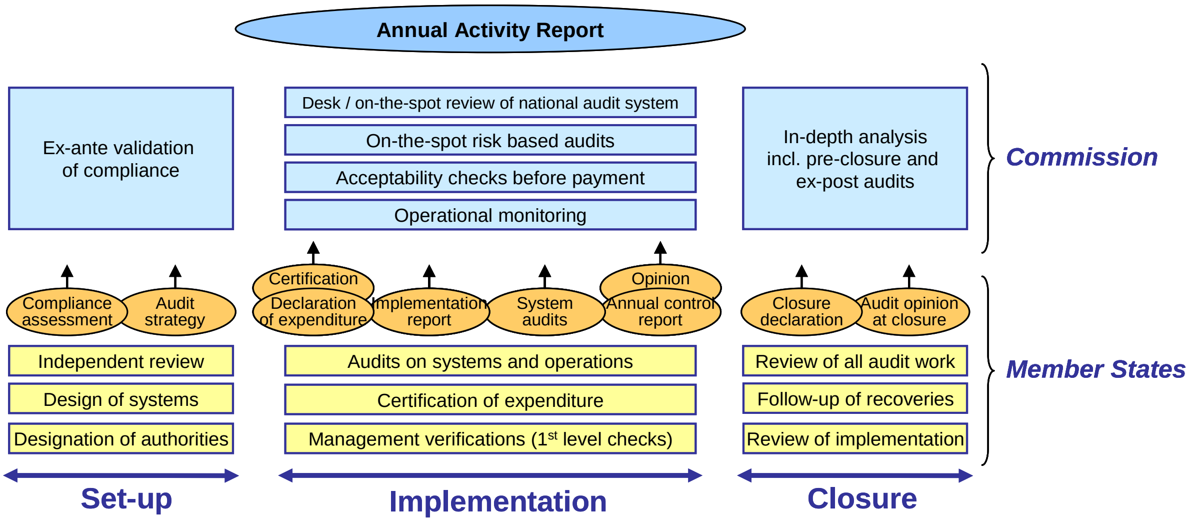
Following the in-depth assessment of the closure documents received from Member States by 31 March 2017, reservations are made, where necessary, in accordance with the criteria as specified in Annex 4. Programmes are taken out of the reservation issued in the AAR 2016 when the financial corrections necessary to cover the financial risks to the EU budget, have been identified, following the conclusions of the analysis of the closure declaration.

Key control indicators and results reported

Different sources of information were used throughout the programming periods to build up the Director-General's annual declaration of assurance that the resources assigned to the activities have been used for the intended purpose and in accordance with the principle 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. The assurance was built on a comprehensive assessment by all parties involved in the management and control of every programme and encompassed the following main activities elements

- A multiannual and multilevel control strategy for building assurance with DGs REGIO and EMPL, whereby one level of control may rely on the work of previous controls performed by other bodies (single audit concept);
- A management and control framework at national/regional level encompassing three levels of controls by the Managing Authority (management verifications, desk checks on all payment claims and on-the-spot checks on sampled operations), the Certifying Authority (checks before certifying the legality and regularity of expenditure declared to the Commission) and Audit Authority (system audits on the management and control systems and audits on representative samples of operations);
- Supervisory role of the Commission through regular meetings of DG MARE with Member States' authorities to ensure the correct monitoring of implementation of all programmes and audit activities

During the programming period, DG MARE had an audit strategy in place covering all areas of expenditure, which was updated annually. For the 2007-2013 programming period, the control strategy contributing to the assurance building was implemented through the following various strands of controls foreseen in the regulatory framework, as described hereafter:



During programme Implementation, the audit work contributed to DG MARE's assurance, through a combination of desk review and on-the-spot audit missions.

At the end of the programming period, i.e. by 31 March 2017, the Audit Authority gave its opinion on the legality and regularity of expenditure declared for each programme, based on the examination of the audit results, the expenditure and irregularities declared and withdrawals and recoveries made by the Certifying Authority.

DG MARE has scrutinised all closure declaration documents (desk review) and has performed a number of ex-post closure audits to obtain additional assurance that the submitted closure documents, including the closure declarations and final control reports, are reliable.

A. Assurance derived from controls by Member States

By 31 March 2017 Member States submitted their closure packages, consisting of the final payment claim, the final implementation report and the closure declaration, supported by a final control report. The closure declarations were based, in particular, on all audit work carried out since the start of the programming period (i.e. systems audits and audits of operations) and a calculation of the residual risk rate (RRR) at closure.

All Member States reported total projected error rates (TPERs) for the 2015-2016 period covered by the final control report and a RRR covering the entire programming period. The final date for eligibility of expenditure paid by the beneficiaries was 31 December 2015.

Based on declared expenditure data, all audit authorities (with the exception of Italy and Portugal) had initially reported residual error rates not exceeding 2%. Of the opinions provided by the audit authorities, 20 were unqualified and 7 qualified.

DG MARE has carried out an in depth assessment for each programme of the information provided (in particular the audit opinion, the projected error rate covering the 2015 and 2016 expenditure and the RRR). This assessment has been concluded for 19 Member States.

For the remaining 8 Member States no payment will be made unless the assessment is finalised and the closure documents accepted. The assessment which is being carried out in close cooperation with the Member States concerned is still ongoing as a result of the complexity of subject matters such as statistical sampling methods and the correct treatment of financial corrections, requiring consultation of the other Strutural Funds DGs and / or sampling experts. In addition, where the national authorities are required to carry out additional audit work, progress heavily depends on the quality and completeness of the information submitted by the Member States concerned.

For these programmes still under assessment, 5 (BG, CZ, IT, NL, RO) remain under reservation until the closure declarations can be accepted. They had been placed in reservation in the AAR 2016 due to the high total projected error rates (TPER) reported (>5%). For the other three programmes (ES, GR, FR) the TPERs are below 5% and the RRRs are below 2% and therefore, no reservation has proved necessary, in accordance with Annex 4. The in-depth assessment of closure documents for these three programmes carried out so far, has not given any indication that any additional financial correction will apply upon closure.

B. National systems audit reports

Throughout the programming period, audit authorities were requested to provide their system audit reports. These reports were assessed and written feedback has been provided. Where significant deficiencies were reported by audit authorities, or where DG MARE considered that reported audit findings indicate significant deficiencies in the programme, this constituted a basis to launch pre-suspension or warning procedures. In such cases payments were interrupted for the programme concerned during the year to prevent reimbursement of irregular expenditure[113].

C. Audit Activity of the DG

During the 2007-2013 programming period, DG MARE has built up significant knowledge of the effective functioning of the systems at national level from both monitoring and analysing the work carried out by the audit authorities and from its own work under the Enquiry Planning Memoranda (EPMs) listed below.

- Reliance on the work of audit authorities (DG MARE has audited all 27 of them);
- Bridging the assurance gap for the quality of management verifications;
- Withdrawals and recoveries;
- Financial instruments.

The validated error rates reported annually by the audit authorities reflect the effective functioning of the management and controls systems and together with the cumulative residual risk (taking account of the financial corrections implemented by Member States) constitute the cornerstone of the assurance process and of the methodology to estimate the residual amount at risk.

Where serious deficiencies have been detected, either through the work of the audit authorities or from the work of DG MARE, timely corrective action has been taken to improve the functioning of the management and control systems and to implement appropriate financial corrections when needed. In particular, through the interruption and suspension procedures, DG MARE has systematically requested the national authorities to implement appropriate action plans to ensure the effective functioning of the management and control systems for newly declared expenditure and to make proportionate financial corrections for expenditure already declared to the Commission. DG MARE has closely monitored and assessed the system improvements and the corrective action taken by the national authorities (e.g. through the follow up under the Bridging the assurance gap EPM of warnings, interruptions, suspensions and AAR reservations).

This audit work and the related corrective actions taken by the national authorities have paved the way to closure and have contributed significantly to limiting the risks remaining at closure.

[113] In line with Article 88 of Council Regulation (EC) No 1198/2006.

Audits carried out in 2017

In 2017, DG MARE carried out recoveries audits in IT (follow-up of 2016 audit), NL (follow-up of 2016 audit) and UK. All Certifying Authorities demonstrated satisfactory arrangements for keeping an account of amounts recoverable and for recovery of undue payments.

DG MARE also carried out 9 closure fact finding missions. The main objective was to validate the work of the Audit Authorities as regards the OPs' closure and, where applicable, to follow-up on outstanding issues from previous audits of the Commission and other bodies. Based on these fact finding missions, additional work and / or information was required from the national authorities, where applicable. As a result, for 4 Member States (HR, PL, PT and SK) the closure declarations could be accepted, while for 5 Member States (BG, CZ, ES, NL, RO) the assessment is on-going.

No other audits covering the work of the Audit Authorities were carried out in 2017, as all 27 operational programmes had been covered by the end of 2015.

D. Annual audit opinion of the DG

In previous years, the validated error rate, reflecting the effective functioning of management and control systems, together with the cumulative residual risk, has constituted the cornerstone of the assurance process of the methodology to estimate the amount at risk.

For 2017, the amount at risk is estimated by applying the residual error rate communicated by the audit authorities at closure and validated by DG MARE to the "relevant expenditure", as set out in Annex 4. The estimated overall amount at risk at closure is negligible, given that only three payments were made, two of which were payments of the final balance after acceptance of the closure documents by the Commission.

Other sources of information to build up the annual declaration of assurance have also been used, which are: (i) the results of DG MARE's own audit work in 2017; (ii) other EU audit results; (iii) final control reports as part of the closure documents (iv) additional information received from national authorities in regard of the closure documents; (v) the opinions of the Authorising Officers by Sub-Delegation for the programmes; and (vi) experience from previous years.

Based on the above blocks of information, an audit opinion is given on the effective functioning of each programme so as to ensure the legality and regularity of expenditure paid by the Directorate General in 2017.

E. Interruptions/suspensions of payments

Since closure was reached at 31 March 2017, no interim payments were made during the reporting year, with the exception of one interim payment to Greece. For each OP, the payment of the balance at programme closure will only be made once the final implementation report and the closure declaration are accepted, in accordance with Article 86 (4) of the EFF Regulation.

As per 01/01/2017, there were 18 open cases of interruptions (1 for ES and 17 for IT) for a total amount of € 0,49 million and € 90,1 million respectively. As these two EFF operational programmes are being closed, the interruptions will be dealt with in the course of the closure procedure[114].

114 An interruption or suspension decision in relation to applications for interim payment or the lifting of an existing suspension decision has become redundant since the underlying deficiencies or

In addition, €1,6 million in interim payments have been claimed by Member States from 1 January to 30 March 2017 but not paid by DG MARE due to the ceilings having been reached for the programmes in question (Articles 77a(1) and 79(1) of the EFF Regulation.

F. Financial corrections

The amount of financial corrections for EFF made by Member States at the Commission's request is reported twice a year to the European Parliament. These corrections are made by the Member States following the audit activity by an EU body (DG MARE, OLAF or ECA).

For the programming period 2007-2013, no additional financial corrections for the EFF programmes closed in 2017 (Austria and Malta) were applied. The cumulative implemented financial corrections remain at €26 million at the end of 2017. The confirmed financial correction of €1,6 million for Romania will be implemented at the closure of the operational programme.

G. Follow-up of 2016 reservation

In the 2016 AAR, 8 OPs of the 2007-2013 programming period were placed under reservation: Bulgaria, Czech Republic, Italy, The Netherlands, Poland, Portugal, Romania and Slovakia. One case was lifted during the course of 2017 (PT) and two other cases (PL and SK) were taken out of reservation in early 2018, following the conclusion of the analysis of the closure declaration.

Further details of the status of these cases appear in Annex 10.

H. Overall assessment of the functioning of the management and control systems (including best estimate of the error)

The final stage of the evaluation process was to check the quality and consistency of the management assurance declarations (AOSD), to resolve any cases of discrepancy between the audit opinions and management assurance declarations, to agree on any modifications required as a result of subsequent developments during the first quarter of the current year, and to identify the operational programmes for which a reservation should be made.

During 2017, a single interim payment was made to Greece and two final balance payments were made to Austria and Malta, following the finalisation of the closure procedure.

For Greece the OP is classified as falling into category 2 "*Reasonable assurance with low risk*", as per Annex 4 (some deficiencies in key elements of the system). The total projected error rate (TPER) reported by Greece in the final control report for the last reporting period (2015/2016) is 0,41% for which the assessment is ongoing. If the assessment results in a validated TPER above 2%, DG MARE will apply the necessary financial corrections to bring the residual error rate down to materiality.

For Austria and Malta, a residual risk rate at closure has been established (0,00% for Austria and 0,18% for Malta).

The weighted average error rate for the EFF of 1,53% in the table below is based on relevant expenditure during the reporting year and taking into consideration the above mentioned validated residual risk rates for Austria and Malta. For Greece, the validation of the error rates reported by the audit authority is ongoing. Therefore, the estimated

irregulatrities will be dealt with in the course of the closure procedure.

amount at risk below represents the maximum tolerable risk of 2% (materiality). Any risk above materiality, if applicable following the conclusion of the analysis, will be addressed by a financial correction at closure.

EFF RELEVANT EXPENDITURE 2017					
Member State	Payments 2017 (€)	Cleared prefinancing	Relevant expenditure	Residual risk rate	Estimated amount at risk (€)
Austria	234 538	368.152	602.691	0,00%	0
Greece	6 603 299	0	6.603.299	2,00%	132.066
Malta	418 615	1.172.126	1.590.741	0,18%	2.827
Total	7 256 453	1.540.278	8.796.731		134.893
Weighted average error rate (RRR)				1,53%	

For the remaining operational programmes, including those remaining in reservation, no payments have been made during 2017; therefore there is no amount at risk for these programmes for the reporting year.

For the Programmes for which the closure declaration is considered to be acceptable, it can be concluded that the management and control systems have functioned effectively, since the residual risk rates at closure are below materiality.

5 operational programmes remain in reservation (original reservation issued in the AAR 2016). Since no payments were made to the Member States concerned during the reporting year, the reservation does not have any financial impact.

I. Conclusion

DG MARE has reasonable assurance on the functioning of the management and control systems during the 2007-2013 programming period.

For the 19 programmes for which the closure declaration is considered acceptable, residual amounts at risk at closure are below materiality following, where necessary, identification of appropriate financial corrections to be applied at closure.

For the 8 programmes for which the analysis of the closure documents is ongoing, including the 5 programmes in reservation, the final payment claims have been interrupted until the acceptance of the closure declaration and final implementation report. The calculation of the final balance will only be made once DG MARE has identified, where applicable, the financial corrections necessary to reduce the residual amounts at risk to a non-material level.

Therefore, DG MARE has reasonable assurance on EU payments made for the 2007-2013 programming period in 2017 since the estimated residual risk rate is below materiality.

2.1.1.1.3 Shared Management – FIFG 2000-2006

Progress on FIFG closure

The last open FIFG programme (Objective 1 Spain) was closed in 2017. Therefore, as of 31 December 2017, all 60 operational programmes have been closed.

With the closure of the Spanish FIFG operational programme in 2017 (programming period 2000-2006), the implemented cumulative financial corrections amount to €139,9 million.

2.1.1.1.4 Direct management – Surveillance and Control and Data Collection (2007-2013 period)

1. Materiality criteria (control objective) and reservations

Errors are considered to be material if the financial impact of the errors exceeds 2% of the payments audited in the year for the programme in question **and** the multiannual error rate is more than 2% of the sampled payments.

2. Overview

It should be noted that the programmes for surveillance and control and data collection have been completed and the last payments for data collection were made in 2016. For surveillance and control Member States can submit payment claims until the end of 2018. The bulk of such expenditure falls under the shared management framework in the 2014-2020 period.

Programmes were submitted to the Commission by the Member States annually in the case of control programmes, and for multi-annual periods (two or three years) in the case of data collection. Following their evaluation, the level of financial contribution was fixed by the Commission and notified to the Member States.

In the reporting year, only payments for expenditure on Fisheries Surveillance and Control were made, accounting for approximately 1,36% of operational expenditure-related payments made in 2017. In total, 47 payments were made for an amount of €6,9 million.

3. Ex-ante controls

Expenditure incurred by Member States is eligible for a contribution from the EU budget where covered by the relevant annual fisheries control programme accepted by the Commission and requires national counterpart funding. All expenditure declarations are checked by the operational service against the Commission financing decision as well as against the relevant control programme.

4. Ex-post audit

A multiannual rolling audit programme covered all Member States which benefitted significantly from the programmes. For Data Collection and Surveillance and Control, the amounts audited since 2010 represent 38% and 41% respectively of the total payments made for all the Member States' programmes under these two activities.

The audited sampled payments in relation to the total value of payments made for the audited programmes (sample size/population) since 2010 represents 88% for Data Collection and 81% for Surveillance and Control which constitutes a high rate of coverage at the level of the audited programmes.

For Surveillance and Control, one audit was carried out in France in the reporting year.

The audit covered projects included by the annual control programmes from 2010 to 2013 for which payments were made by the Commission from 2014 to 2016. The amount of payments actually controlled ex-post was €3,6 million, providing coverage of 51% of total 2017 payments.

No errors were found in the ex-post control. The multiannual (cumulative) error rate equals 0,14% of the sampled payments, thus below materiality.

For data collection, one audit was carried out in 2017 in Spain (deferred from December 2016). The audit covered cost statements for 2012 and 2013. The total value of payments for the audited programmes amounts to €1,61 million; the amount of expenditure verified ex-post was €1,56 million (coverage 97%).

The ineligible costs identified by ex-post controls totals €0,02 million; when this is compared with the amount of financial transactions actually controlled ex-post, the error rate on the sample is 0,97%, thus below materiality. The multiannual (cumulative) error rate equals 1,34% of the sampled payments, thus below materiality.

5. Overall conclusion on assurance

The overall control system established within DG MARE provides reasonable assurance as to the sound financial management in respect of the transactions carried out under the headings of Fisheries Surveillance and Control, and Data Collection. This assurance is underpinned by the financial circuits established within the DG, as well as the ex-ante controls carried out. All cost claims are checked in an effective ex-ante control system.

The ex post audits were risk-based for audit-efficient reasons (a very high level of audit coverage can be obtained). The operational unit issues recovery orders for all ineligible expenditure identified. The overall audit coverage is 38% of all payments made for data collection and 41% of all payments made for surveillance and control from 2010 to 2017.

The level of the error rate found during 2017 ex-post controls for Surveillance and Control is nil and for data collection is 0,97% and thus below materiality. Furthermore, there was no expenditure for Data Collection. The multiannual (cumulative) error rates of the sample payments for Data Collection and Surveillance and Control programmes are 1,34% and 0,14% respectively, thus below materiality.

The estimated overall amount at risk at payment reported in table X is zero in line with the fact that payments made in 2017 only relate to Surveillance and Control, activity for which the error rate in 2017 was nil.

The tables overleaf show the details about the audit activities and their results.

SURVEILLANCE AND CONTROL								
Year	Ineligible amount (M€)	Total value of payments for audited programmes (M€)	Amount of audited sampled payments (M€)	Error rate	Payments made under ABB activity (M€)	Cum. error rate	Impact of errors to annual payments	Estimated amount at risk (M€) in 2017
	a	b	c	d = a/c	e	f = cum a/cum c	g = a/e	h = e*g
2010	0,09	6,06	6,06	1,41%	20,40	1,41%	0,42%	
2011	0,00	17,87	17,35	0,00%	28,02	0,37%	0,00%	
2012	0,00	11,12	9,55	0,00%	23,86	0,26%	0,00%	
2013	0,00	15,48	11,78	0,00%	23,20	0,19%	0,00%	
2014	0,00	9,21	6,84	0,00%	21,40	0,17%	0,00%	
2015	0,00	4,69	4,50	0,00%	15,18	0,15%	0,00%	
2016	0,00	7,50	2,40	0,00%	11,10	0,15%	0,00%	
2017	0,00	5,11	3,55	0,00%	6,90	0,14%	0,00%	0,00
TOTAL	0,09	77,04	62,03	0,14%	150,06	0,14%	0,06%	
Coverage			80,52%		41,34%			

DATA COLLECTION								
Year*	Ineligible amount (M€)	Total value of payments for audited programmes (M€)	Amount of audited sampled payments (M€)	Error rate	Payments made under ABB activity (M€)	Cum. error rate	Impact of errors to annual payments	Estimated amount at risk (M€) in 2017
	a	b	c	d = a/c	e	f = cum a/cum c	g = a/e	h = e*g
2010	0,14	21,90	20,90	0,69%	24,77	0,69%	0,58%	
2011	0,32	12,02	12,62	2,50%	33,17	1,37%	0,95%	
2012	0,14	6,67	4,86	2,92%	32,30	1,57%	0,44%	
2013	0,03	8,42	5,14	0,51%	34,63	1,44%	0,08%	
2014	0,14	8,13	7,51	1,85%	16,10	1,50%	0,87%	
2015	0,01	8,58	6,76	0,18%	16,76	1,35%	0,07%	
2017	0,02	1,61	1,56	0,97%	0,00	1,34%	N/A	0,00
TOTAL	0,79	67,33	59,35	1,34%	157,73	1,34%	0,50%	
Coverage			88,14%		37,63%			

* No audits were carried out in 2016

2.1.1.1.5 Direct management - Sustainable Fisheries Partnership Agreements

Materiality criteria (control objective) and reservations

Given that the financial contributions provided under **Sustainable Fisheries Partnership Agreements (SFPA)** are principally used to gain access to fishing possibilities in third countries, qualitative factors such as weaknesses detected in the functioning of the internal control system at the level of the Commission, or factors which affect or are likely to affect in a significant manner the reputation of the Commission, are considered as materiality criteria.

Overview

Payments relating to Sustainable Fisheries Partnership Agreements made during the year totalled €132,5 million, equivalent to 25,94% of all amounts paid by the DG.

The level of a financial contribution under a SFPA is the result of a negotiation with the partner country and is based on several factors such as the value of the opportunities offered to the EU fleet to fish in the partner's Exclusive Economic Zone as well as the support for third country's policy efforts towards a more sustainable management of fisheries resources.

The main risks are:

- in terms of sound financial management (the financial contribution is set at a level that does not reflect real fishing possibilities or fishing possibilities that are or will be fully utilised by EU ship owners); or

- in terms of political coherence (the agreements are negotiated, concluded and implemented without taking sufficiently into account the other external policies of the EU or are not fully consistent with the principles guiding the management of the Common Fisheries Policy within EU waters).

To address the first risk, i.e. that the financial contribution under a SFPA does not provide sufficient added value in economic terms to the Union, the Commission implements a strict policy before and during the negotiations. These are conducted on the basis of an ex-ante evaluation and an analysis of the impact of the future protocol on sustainability. The results of these evaluations are shared with the stakeholders within the Union and the partner country.

During the negotiations with the third country, there are continuous consultations with Member States with fleets interested in fishing in the Exclusive Economic Zone (EEZ) concerned and the Presidency of the Council. These help to fine tune the establishment of the fishing possibilities in line with future use for the duration of the protocol.

Furthermore, the agreements provide mechanisms for renegotiation which may be triggered in the event that the EU fleet does not avail itself of the fishing opportunities offered under the agreement. This provides an effective means of control to address the principal risk associated with the agreements. The actual take-up of fishing opportunities is monitored by the Commission on a regular basis. In order to evaluate whether the take-up is in line with what is foreseen under the agreement, the evaluation examines the situation over a number of years.

During the lifetime of a SFPA and its protocols, a number of key requirements are monitored on an ongoing basis. For the most important agreements, dedicated staff has been allocated to the EU Delegations responsible for the countries concerned. The monitoring covers both the assessment of the implementation of the agreement and protocol, including the fishing activity of the EU vessels, as well as the implementation of agreed national sectoral programmes.

At the end of 2017, a total of 12 protocols to Sustainable Fisheries Partnership Agreements were in force: 3 multi-species (mixed) agreements: Mauritania, Morocco, Greenland and a total of 9 tuna agreements: Cape Verde, Ivory Coast, Sao Tomé and Principe, Madagascar, Senegal, Seychelles, Mauritius, Liberia and Cook Islands.

In 2017, a new SFPA has been signed with Mauritius which started to be provisionally applied from December onwards.

In addition, recommendations for negotiation mandates for new protocols with Guinea-Bissau, Sao Tome e Principe and Ivory Coast have been adopted by the Commission, and preliminary steps taken in view of obtaining a negotiation mandate with Morocco. Negotiations have been started with Guinea Bissau and continued with Mozambique and Kiribati.

Ex-post and ex-ante evaluations were finalised for each protocol renewal, and in addition, related Staff Working Documents have been adopted. Finally, a proposal to denounce the Partnership Agreement between the European Community and the Union of the Comoros was adopted by the Council in December following a proposal made by the Commission in September. This follows a Council Decision to add the Union of the Comoros to the list of non-cooperating third countries in fighting illegal, unreported and unregulated fishing.

In all these negotiations the fishing possibilities agreed were in line with recent trends in utilisation by the EU fleet, and took into account the best available scientific advice. In addition, the amounts earmarked for sectoral support were negotiated on the basis of, on the one hand, the needs of the third countries concerned in terms of fisheries governance, and, on the other hand, their absorption capacity as it could be evaluated in the light of the levels of implementation achieved under the previous protocol.

With regard to the second risk, a specific effort has been made to enhance policy coherence between the CFP and development policy in order to address potential criticisms of lack of coherence between the various aspects of the external policies of the EU. This was reflected in particular by the inclusion of a specific Human rights clause in every new protocol negotiated since 2010, as well as in the proposal to denounce the SFPA with the Comoros.

In 2017, the Commission continued to follow closely the efficiency of the EU partnership with the third countries in strengthening their fishery sector, in particular with reference to the effective utilisation of the resources targeted for the sectoral support in each SFPA. Most agreements and protocols establish a formal monitoring instrument in the form of a Joint Committee which brings together the Commission and the third country authorities. This mechanism allows the multiannual programming of the fishery policy of the partner country to be evaluated and adapted in light of the effective implementation of identified actions. This is done on the basis of a series of targets and indicators, including, where relevant, financial indicators. Joint Committee meetings are normally held at least once per year, which indeed was the case for all the SFPAs in force in 2017. The implementation of the sectoral support was globally satisfactory although some delays were experienced with some of the partner countries.

In the absence of any significant weakness detected which could have a material impact as regards the legality and regularity of the financial operations, it is concluded that the relevant control objective has been achieved.

2.1.1.1.6 Direct management - Procurement and Grants

In 2017, procurement and grants amounted to €24,5 Million accounting for 4,79% of payments made during the year by DG MARE.

A combination of preventive, detective and corrective controls are embedded into the programming and planning, verification, execution and monitoring, management and reporting processes so as to ensure effective mitigation of the financial and management risks. The procurement and grant procedures are, to a large extent, a regulatory requirement which cannot be curtailed.

All open procurement procedures were subject to a review by the DG MARE Procurement Examination Group prior to the signature of the contract. None of these controls revealed errors with an impact on compliance.

An additional ex ante verification is carried out on each procurement procedure, at various stages of the call for tender. In 2017, there were neither legal cases nor complaints about any of the procurement procedures carried out by MARE.

In accordance with the financial circuits established in MARE, transactions are subject to an independent ex-ante financial verification. All invoices and cost claims are verified by the Operational Unit against the contract and agreement. In addition, for all the contributions to international organisations, the disbursement of funds takes place after the conclusion of a Pillar Assessed Grant and Delegation Agreement (PAGODA agreement) with the beneficiary.

A qualitative analysis of the results of controls on payments revealed that 23 invoices were cancelled / reduced by credit notes in 2017. No liquidated damages were applied in 2017.

In 2017, one exception was recorded with regard to Procurement and Grants. It related to an amendment of a grant agreement which was not timely requested by the beneficiary. Examination of the exception did not reveal any weakness in the control system. In addition, it was considered not to impact the legality and regularity of the underlying transaction.

In conclusion, the analysis of the available control results, the assessment of the weaknesses identified and that of their relative impact on legality and regularity has not unveiled any significant weakness which could have a material impact as regards the legality and regularity of the financial operations. It is possible to conclude that the control objective as regards legality and regularity has been achieved.

2.1.1.1.7 Conclusion on the control effectiveness as regards legality and regularity

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 MARE, the estimated overall amount at risk *at payment*[115] and at closure for the 2017 expenditure is 2,3 M€. This is the AOD's best, conservative estimation of the amount of *relevant expenditure*[116] during the year (437,5 M€) not in conformity with the applicable contractual and regulatory provisions at the time the payment is made.

This expenditure will be subsequently subject to ex-post controls and a sizeable proportion of the underlying error will be detected and corrected in successive years. The conservatively estimated future corrections[117] for the 2017 expenditure are 0 M€. This is the amount of errors that the DG conservatively estimates to identify and correct from controls that it will implement in successive years.

The difference between those two amounts leads to the estimated overall amount at risk at closure[118] of 2,3 M€.

[115] In order to calculate the weighted average error rate (AER) for the total *relevant expenditure* in the reporting year, the *detected*, estimated or other equivalent error rates have been used.

[116] "*relevant expenditure*" during the year = payments made, minus new pre-financing paid out [plus retentions made by the Cohesion family DGs], plus previously paid pre-financing which was cleared in the reporting year [minus retentions released or (partially) withheld by the Cohesion family DGs)].

[117] Even though to some extent based on the 7 years historic average of recoveries and financial corrections (ARC), which is the best available indication of the corrective capacity of the ex-post control systems implemented by the DG over the past years, the AOD has adjusted this historic average. Any coding errors, ex-ante elements, one-off events, (partially) cancelled or waived ROs, and other factors from the past years that would no longer be relevant for current programmes (e.g. higher ex-post corrections of previously higher errors in earlier generations of grant programmes) have been adjusted in order to come to the best but conservative estimate of the expected corrective capacity average to be applied to the reporting year's relevant expenditure for the current programmes in order to get the related estimated future corrections.

[118] All corrections that remain possible are considered for this estimate.

TABLE X - ESTIMATED OVERALL AMOUNT AT RISK AT CLOSURE									
DG MARE	"payments made" (FY; m€)	minus new prefinancing	plus cleared prefinancing [minus retentions (partially) released and deductions of expenditure made by MS][2]	= "relevant expenditure"	Average Error Rate (weighted AER; %)	estimated overall amount at risk at payment (FY; €)	Average Recoveries and Corrections (adjusted ARC; %)	estimated future corrections	estimated overall amount at risk at closure (€)
		[plus retentions made] (in FY; m€)	(in FY; m€)	(for the FY; m€)				[and deductions] (for FY; €)	
1	2	3	4	5	6	7	8	9	10
Programme, Budget Line(s), or other relevant level	as per AAR annex 3, table 2	as per ABAC DWH BO report on prefinancing[1]	as per ABAC DWH BO report on prefinancing	= (2) – (3) + (4)	Detected error rates, or equivalent estimates	= (5) x (6)	based on 7Y-avg historic ARC (as per ABAC DWH BO report on corrective capacity): (X,X%), but [to be] adjusted to be the best but conservative estimate for the current MFF[3]	= (5) x (8)	= (7) – (9)
FIFG	-	-	65,5	65,5	0,00%	-	0,00%	-	-
EFF	7,3	-	1,5	8,8	1,53%	0,1	0,00%	-	0,1
EMFF	312,9	122,9	(5,4)	184,6	1,09%	2,0	0,00%	-	2,0
Sustainable Fisheries Partnership Agreements	132,5	-	-	132,5	0,00%	-	0,00%	-	-
Markets, Control and Data Collection	6,9	-	0,6	7,5	0,00%	-	0,00%	-	-
Procurement and grants	24,5	9,2	7,3	22,6	0,50%	0,1	0,20%	0,0	0,1
Administrative and other expenditure	9,6	2,7	-	6,9	0,50%	0,0	0,00%	-	0,0
EFCA	17,1	17,1	9,1	9,1	0,50%	0,0	0,00%	-	0,0
Overall, total	510,7	151,8	78,6	437,5		2,3		0,0	2,3
						0,53%		0,01%	0,52%
						= X mEUR; and a% of (5)		= Y mEUR; and b% of (5)	= Z mEUR; and c% of (5)

[1] The amount does not include de retention of 19 m€. The total pre-financing amount of 141.9 m€ can be found in Annex 10.
[3] The total cleared prefinancing amounts to 84,8 m€. The calculation of the retentions made, released and deductions is detailed in Annex 10.
[3] Average recoveries and corrections for EFF, EMFF and Markets, Control and Data Collection are set at 0% since no future financial corrections are expected on the relevant expenditure 2017 (Error rates do not exceed 2%).

2.1.1.2 Cost-effectiveness and efficiency

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

The principle of efficiency concerns the best relationship between resources employed and results achieved. The principle of economy requires that the resources used by the institution in the pursuit of its activities shall be made available in due time, in appropriate quantity and quality and at the best price. This section outlines the indicators used to monitor the efficiency of the control systems, including an overall assessment of the costs and benefits of controls.

2.1.1.2.1 Shared Management

The table below shows the indicators used to assess the efficiency of the controls carried out during the reporting year.

- Cost of control/financial management of the Commission checks and assessment (as a % of total appropriations) = 2,07%
- Financial corrections resulting from the Commission's supervisory role implemented by the Member States during 2017 - €94,8 million

DG MARE quantifies the costs of the resources and inputs required for carrying out the controls described in annex 5 and estimates, in so far as possible, their benefits in terms of the amount of errors and irregularities prevented, detected and corrected by these controls.

The costs relate to the annual overall Commission costs. They include:

- the assessment by the Commission of management and control systems in Member States (including the Commission ex-post audits);
- costs relating to Commission staff who carry out controls throughout the different design, implementation and monitoring phases; and the Commission ex-ante checks of the periodic expenditure declarations (financial circuits). For the 2014-2020 period, this includes the Commission checks in the designation process (sampling of national designations).

In relation to the cost of controls in Member States, a study "New assessment of ESIF administrative costs and burden" was launched in 2017 for which the first interim report was issued in September 2017. This interim report contains estimated values that are still expected to change following more complementary data work and quality control. The final Report is expected for July 2018 and the results will be considered in the AAR for 2018.

The benefits relate partially to the corrections made by the Member States at the Commission's request following its audit work. In this context, it must be pointed out that financial corrections are not an objective as such. A decreasing level of corrections over the years would not solely result from the quality and/or quantity of controls but could also reflect an improvement in sound financial management of the programme by the Member States.

In addition, there are a number of non-quantifiable benefits resulting from the controls operated throughout the various control stages (notably the negotiation procedures of the programmes, which aim to ensure that the financed programmes contributed to the achievement of the policy objectives, the management of the programmes by the operational units of the DG, and the deterrent effect of ex-post controls). At the selection, implementation and monitoring stages, by ensuring compliance with the applicable rules and procedures, it is ensured that the underlying operations are legal and regular.

The entire control system ultimately "costs" 2,07% (2016 – 2,1%) of the payments of the year (2017 payments amounted to €320,1 million, whereas 2016 payments were €347,8 million).

OVERALL CONCLUSION – SHARED MANAGEMENT

For shared management, the total cost of controls is estimated at €6,6 million (2016 – €7,3 million). Set against this are the benefits in the form of confirmed and implemented financial corrections of €94,8 million.

In addition, the benefits of the controls in place are demonstrated by an increased level of assurance through improvements in the management and control systems and interruption of payment requests for unreliable systems. DG MARE therefore considers that the necessity of these controls is undeniable, as the totality of the appropriations would be at risk were they not in place.

In light of the above, the controls carried out by DG MARE during the reporting year for the management of the budget appropriations for shared management were cost effective and efficient.

2.1.1.2.2 Direct management

Similar considerations apply to direct management as those set out for shared management when assessing the costs and benefits of controls under this management mode.

Surveillance and Control and Data Collection

For Data Collection and Surveillance and Control taken together, the costs of control are estimated at €0,32 million (2016 – €1,085 million). The payments made in 2017 for these programmes were €6,9 million (2016 - €17,6 million), so the annual cost of control would be in the region of 4,5% (2016 – 6,2%) of associated payments.

In terms of quantifiable benefits, corrections to costs claims for an amount of €.05 million were made. There are also a number of non-quantifiable benefits, such as the deterrent effect of ex-post controls. DG MARE considers that the necessity of these controls is undeniable, as the totality of the appropriations would be at risk were they not in place.

Sustainable Fisheries Partnership Agreements

For SFPAs, most payments relate to access to third country waters. Controls ensure that the payments are in compliance with international agreements. For sectoral support, the related controls monitor the implementation of that support. The monitoring is carried out by Commission staff in the delegations, as well as during Monitoring Committee and Scientific Committee meetings. If progress is insufficient, the next sectorial support payment is suspended or reduced.

The following table provides an estimate of the costs of controls relating to Sustainable Fisheries Partnership Agreements:

Stage	Annual indicator	Indicator
Overall indicator	overall cost of control/amounts paid	1,2%
Programming, evaluation and selection	related cost of control/value contracted	0,7%
Contracting, monitoring of execution, payments	related cost of control/amount paid	0,5%

At 1,17%, the overall indicator is lower than that of 2016 (1,4%).

As regards the benefits of the controls carried out, these are obviously very difficult to quantify in monetary terms, but ultimately the intention is to ensure that the financial contribution paid from the EU budget represents a fair balance between the access to third country waters and the positive returns for the EU.

Procurement and Grants

DG MARE has, to the extent possible, produced an estimation of the costs of the main control processes relating to procurement and grants. The following table provides an estimate of these costs:

Stage	Annual indicator	Indicator
Overall indicator	overall cost of control/amounts paid	11,6%
Programming, evaluation and selection	related cost of control/value contracted	1,7%
Contracting, monitoring of execution, payments	related cost of control/amount paid	5,8%
Supervisory measures including audits	related cost of control/amount paid	0,1%

Since a quantitative estimation of the value of errors prevented and detected is not available, it is not possible to quantify the related benefits, other than the amounts recovered as a result of these controls. In consequence, it is not possible to quantify the overall cost-effectiveness of controls by comparing costs with quantifiable benefits.

Consideration should however be given to the following efficiency measures for the controls associated with the core processes:

- The procurement and grant procedures are, to a large extent, a regulatory requirement which cannot be curtailed. In addition, DG MARE considers that the necessity of these controls is undeniable; as shown by the risks outlined in annex 5, as a significant proportion of the appropriations would be at risk were they not in place.

- Late interest paid in 2017 totalled €1.660 (2016 totalled €904).

- The average time for informing applicants of the outcome of the evaluation of their grant applications was 138 days (125 days in 2016). All applicants were informed within 6 months.

- The average time between informing successful applicants and signing grant agreements was 23 days (83 days in 2016). All grant agreements were signed within 3 months after the successful applicants were informed.

- The average time to pay in 2017 was 20 days (23 days in 2016).

The benefits of control in non-financial terms cover: better value for money, deterrents efficiency gains, system improvements and, as mentioned above, compliance with regulatory provisions.

To reach an overall conclusion as to the relative efficiency of the controls for procurement and grants, it is necessary to analyse the evolution of these efficiency indicators over time and/or to compare them with relevant benchmarks.

For 2017 the cost of controls for procurement and grants has been estimated at 11.6% of the payments made during the year, which is slightly above the cost of controls identified in 2016 (10.7%) In absolute terms, the cost of controls decreased by 11% compared to 2016.

OVERALL CONCLUSION – DIRECT MANAGEMENT

For direct management expenditure, the benefits are largely non-quantifiable, and thus cannot be directly reflected in our conclusion on cost-effectiveness. However, the bulk of expenditure currently paid under the Control and Data Collection headings is transferred to the shared management heading for the 2014-2020 programming period and beyond - a regulatory simplification that should increase cost effectiveness in the years to come.

For SPFAs, and procurement and grants, the control procedures stem to a large degree from regulatory requirements, which cannot be curtailed.

DG MARE has defined efficiency indicators relating to payments: in 2017 the average payment delay was 24.14 days (2016: 24.7 days) with 91,44% (2016: 94%) of payments being made within the legal time limits.

Provisions of Article 66(2) of the Financial Regulation

DG MARE has taken account of the possibility under Article 66(2) of the Financial Regulation and reviewed and optimised its financial circuits in 2017. A number of measures were introduced to further streamline the functioning of the financial circuits and, as a result, bring about further efficiencies.

These measures mainly related to the further centralisation of financial initiation and authorisation for those transactions where no specific decentralised expertise is required. Furthermore, a new simplified circuit for low risk payments was introduced. Moreover, the use of electronic workflows was rolled out throughout MARE. In addition, work has continued with a view to implementing the corporate e-procurement and Advance Getaway for Meetings (AGM) systems early 2018.

These measures are part of a continuous process in MARE to increase the efficiency and effectiveness of its controls.

2.1.1.3 Fraud prevention and detection

DG MARE has developed and implemented a joint anti-fraud strategy (JAFS) together with DG REGIO and DG EMPL. It was elaborated on the basis of the methodology provided by OLAF and adopted in 2015 for the 2015 - 2020 period. The strategy foresees a possibility to be updated annually, if necessary. It is foreseen to update the strategy once the designation exercise is completed and the results of a study that was launched on anti-fraud measures are available. It was premature to carry out a meaningful update of the JAFS in 2017. The implementation of JAFS is being monitored twice a year with reporting to management.

The JAFS covers the whole anti-fraud cycle: prevention, detection, investigation and corrective measures. It seeks to reinforce existing measures which are in place for the purpose of protection of the financial interests of the Union, by providing support to Member States in their anti-fraud efforts and strengthening the capacity of DGs to deal with fraud, as well as intensifying cooperation with OLAF. The controls aimed at preventing and detecting fraud are not essentially unlike those intended to ensure the legality and regularity of the transactions.

The JAFS foresees one priority action for DG MARE –assessment of the implementation by Member States of the provisions of Art. 125.4.c of the CPR on anti-fraud measures. The assessment will be initially carried out during the review of the designation packages. This, however, is still delayed due to slow progress in the designation by the Member States.

DG REGIO has outsourced a stock-taking study on anti-fraud measures put in place by Member States which covers ESI funds managed by REGIO, EMPL and MARE. The main purpose of the study is to collect the measures in place in Member States and analyse their compliance with article 125.4c CPR. The results should be available during the course of 2018 in the form of a practical handbook of best practices and will feed into the foreseen update of the JAFS.

OLAF informs DG MARE regularly on their investigations. Once a year the monitoring tables of OLAF and DG MARE are reconciled to ensure that no cases are omitted and all cases are properly followed up. In 2017 OLAF opened one new investigation concerning EFF. As of December 2017 there were in total 2 on-going OLAF investigations concerning fisheries with one of them reported to OLAF by DG MARE.

Accordingly, DG MARE concludes that its anti-fraud controls are effective.

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.

Conclusion of the Internal Auditor on the state of internal control in DG MARE

Based on all work undertaken by the IAS in the period 2015-2017[119], namely,

- Audit on gap analysis of new legislation/ design of 2014-2020 programming period of European Structural and Investment Funds Phase II (2015)
- Audit on the objective setting process in the context of preparation of the management plans (2015)
- Audit on the early implementation of the ESIF control strategy 2014-2020 (2016)
- Audit on the effectiveness of simplification measures under 2014-2020 ESI Funds (2016)
- Audit on amendments of 2014-2020 OPs in DGs REGIO, EMPL, and MARE (2017)

and taking into account that:

- management has adopted action plans to implement recommendations made by the IAS in 2015-2017 and accepted by management and which the IAS considers adequate to address the residual risks identified by the auditors,
- the implementation of these plans is monitored through reports by management and follow-up audits by the IAS,
- management has assessed a number of action plans as implemented which have not yet been followed up by the IAS, and
- management has not rejected any 'critical' and/or 'very important' recommendations.

The IAS concludes that the internal control systems audited are partially effective since a number of 'very important' recommendations remain to be addressed, in line with the agreed action plans, as listed in the appendix. The residual risks related to these recommendations may affect one or several internal control principles and/or components[120].

119 Final audit reports issued in the period 01/02/2015 – 31/01/2018.

120 As the Commission's newly adopted Internal Control Framework will become fully applicable only as from 01/01/2018, 2017 is a transitional year for which the DGs can opt to report on the previous Internal Control Standards or on the new Internal Control Principles.

<u>Accepted recommendations rated 'very important' and not reported as implemented by management and/or closed by the IAS:</u>

Reported as not yet implemented by management

1. Audit on early implementation of the ESIF control strategy 2014-2020 in DGs REGIO, EMPL and MARE (2016)

1. a) The following recommendations concern the **<u>'Implementation'</u>** of the ESIF control strategy 2014-2020 in the early stages:

- Recommendation 5: Designation process and review (Original due date: 30/06/2018).

The Commission's progress in reviewing MS designations depends very much on progress made by the MSs on the designation process itself, which is under their responsibility and has been subject to persistent delays. The DGs have provided guidance to help facilitate the designation process and some Audit Authorities found this to be useful. However, others raised concerns about the feasibility to implement the so-called 'Light designation' whereby the authorities concerned have essentially the same systems which existed in the previous period. Delays in the designation process may lead to delays in programme implementation, which could in turn lead to an under-execution of the Commission's budget and have reputational consequences for the Commission. The IAS recommended the three DGs to better facilitate the designation process through, for example, bilateral contacts with the MS, giving priority to the risky OPs selected for designation.

DG MARE comment: the process of designation continues to be monitored and support provided to the MS for which notification of designation is outstanding, including through bilateral contacts. As at mid-April 2018, all but two Member States have notified designation and DG MARE considers that this has a limited impact on the internal control system.

- Recommendation 10: Audits on Financial Instruments (FI) (***Original due date: 30/06/2018)***.

Whereas priority is also attached in the audit strategy to audits on financial instruments (FI), no audit methodology to carry out these audits is in place yet and consequently no audits have been performed so far. Unless FI are audited by the MS and/or the Commission, there is a risk that these will be poorly developed and managed in practice. The IAS recommended the three DGs to develop the necessary methodology and launch audits on FI as soon as possible, after taking due consideration of any audit work by the Audit Authority on FI to respect the "single audit principle" and based on the first substantial data on FI reported by the MS.

DG MARE comment: An Enquiry Planning Memorandum (EPM) on FI will be developed together with the other DGs concerned and presented to the audit authorities. Audits will follow. However, taking into account that the data reported by the MS in May 2016 and May 2017 was very limited, the first results from any national audit work will have been reported in the 2017 Annual Control Report sent to the Commission by 15/02/2018 and still to be analysed. The moderate uptake so far of FI under the EMFF limits the impact on MARE's internal control system.

2. Audit on effectiveness of simplification measures under 2014-2020 ESI Funds in DG EMPL, REGIO and MARE (2016)

- Recommendation 1: Uptake and impact of simplification measures and the DGs' processes to promote and monitor these measures (***Original due date: 31/12/2018)***

Provisional estimates suggest that the take up of a number of simplification measures is low in practice and the resulting administrative savings will probably not meet the targets that were set at the outset of the 2014-2020 programming period. If the remaining obstacles to implementing simplification measures are not addressed, the uptake of the simplification measures may remain lower than expected. In addition, gold-plating may not be sufficiently addressed, so national rules and processes will not be significantly simplified. The IAS recommended to the three DGs to further remove the obstacles hindering the implementation of simplification measures, monitor the uptake and effectiveness of those measures further along the programming period and take corrective actions where necessary.

DG MARE comment: for the 2014-2020 period efforts are continuing to further remove obstacles hindering the implementation of simplification measures for the issues pertaining to its remit. Guidance on Simplified Cost Options (SCOs) will follow the formal adoption of the Omnibus Regulation. Furthermore, a survey first carried out in June 2015 to monitor the uptake and effectiveness of the simplification measures was repeated in 2017 and results obtained before year-end. A report is in preparation to summarise the findings and will help in identifying corrective measures where necessary. After the adoption of the Omnibus regulation, seminars, workshops and training sessions will be carried out to further explain the advantages of SCO to the MS. DG MARE supports the objective of enhancing the uptake and impact of simplification measures in MS, but is of the opinion that the limited uptake of SCOs, under the EMFF, has a reduced impact on its internal control systems.

3. Audit on Amendments of 2014-2020 OPs in DGs REGIO, EMPL, and MARE (2017)

- Recommendation 1: Consistency effectiveness and timeliness of the OP amendment process (Original due date : 31/07/2018)

Although the audited process is working well overall and considerable efforts have been made to ensure a coordinated approach in each DG and across the DGs concerned, the IAS concludes that there is a significant weakness on the consistency, effectiveness and timeliness of the OP amendment process. In particular, the deadlines prescribed by the regulation for issuing observations and adopting OP amendments (OPAs) lead to very time pressured processes. This time pressure has been further compounded by the Legal Service's opinion that observations on OPAs need to be adopted by Commission Decision, which was not envisaged by the DGs when proposing the 2014-2020 CPR. DG MARE has faced some delays in adopting OPAs within the regulatory deadline. To gain time, the DG has made use of "technical observations", even though these often concerned substantive aspects of the OPs. More recently, the DG has put in place a new procedure of issuing observations by "service letter" signed by the Director-General. The IAS identified the need to strengthen the process of issuing observations, including their timing and monitoring by management, and the need to put in place a framework to guide Desk Officers' decision making on the level at which observations are sent to MS.

DG MARE comment: DG MARE considers that the issues relating to 2014-2020 and pertaining to its remit have been implemented. Internal guidance has been updated and endorsed within MARE and training organised thereafter for desk officers. DG MARE considers that there is no impact on its internal control systems.

Audit work of the European Court of Auditors in 2017

Annual Report 2016

The European Court of Auditors (ECA) presented the 2016 annual report on 28 September 2017. No specific elements, pertaining to maritime and fisheries policy, were identified by the Court.

DG MARE is principally concerned by chapter 7 of the Annual Report 2016.

Chapter 7 – Natural Resources

The level of error regarding "Rural development, environment, climate action and fisheries" estimated by ECA in 2016 is 4.9% (5.3% in 2015).

The audit sample concerning "Environment, climate action and fisheries" involved 10 transactions, 5 contained errors (50% of the transations), of which 3 were quantifiable. One quantifiable error amounting to € 2,298.00 (3,54% error rate of this transaction) relates to DG MARE.

The following findings of the Court, stemming from previous reports, are being closely follow-up by DG MARE:

The recommendation from the ECA's Annual report 2014 identified three areas in which the Commission was called upon to ensure that the Italian audit authority carries out tasks more thoroughly; namely performing the required on-the-spot controls, applying quality control procedures and improving audit documentation. This recommendation will be closed once the Commission has sufficient assurance that for the EFF (under closure) all necessary financial corrections have been made and that for the EMFF adequate procedures are in place with respect to the shortcomings reported by the ECA.

The recommendations highlighted by the ECA in its 2015 Annual Report on additional financial corrections for Romania, are being followed up in the context of the EFF closure.

Special Report on Overcapacity of the EU fishing fleet (No 12/2011)

Both outstanding recommendations[121] are now fully implemented.

Special Report on the effectiveness of EFF support for aquaculture (No 10/2014)

In a Clearing Letter of 19 December 2017[122], further to its follow-up audit, the Court concluded that four recommendations addressed to the Commission[123] have been fully implemented. In its Closure Letter of 23 March 2018[124] the Court confirmed that also the fifth recommendation to the Commission[125] has been completed.

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[121] FEAPs target reductions in fishing effort; Fishing rights when decommissioning fishing vessels.

[122] PF-8838, ECA ref. CH1096480EN01-17PP-PF-8838.

[123] 1.a. Consider realistic and appropriate objectives for the sustainable development of aquaculture;

1.b. Establish guidelines for the consideration of relevant environmental factors;

1.c. Approve OPs only if appropriate national strategies for the development of the aquaculture sector are prepared;

1.d. Encourage MSs to implement relevant spatial planning and to simplify licensing and administrative procedures.

[124] CH1100811EN01-18PP-ARPF-8838.

[125] 1.e. Improve comparability of statistical data on aquaculture compiled from its different sources.

Special Report on the Fisheries Partnership Agreements (FPAs) (No 11/2015)

Four recommendations are fully implemented. It is expected that the recommendation relating to the obligation of the Member States to use the catch database for data reporting will be completed by 31 July 2018. Currently, all but one Member State use the data base. An infringement procedure has been initiated to ensure that this last Member State also uses it.

Special Report "EU fisheries controls: more efforts needed" (N° 8/2017)

The implementation of the Court's recommendations is ongoing, mainly due to the revision of the Control Regulation (adoption foreseen in May 2018). In addition, the Commission continues to work closely with the Member States to ensure the full implementation of existing rules.

Overall conclusion

As a result of the assessment of the risks underlying the auditors' observations, together with the management measures taken in response, the management of DG MARE believes that the recommendations issued do not raise any assurance implications and are being implemented as part of the on-going continuous efforts in terms of further improvements.

2.1.3 Assessment of the effectiveness of the internal control systems

The Commission has adopted an Internal Control Framework 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 MARE 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 standards and having due regard to the risks associated with the environment in which it operates.

It annually assesses the effectiveness of its key internal control systems, including the processes carried out by implementing bodies in accordance with the applicable Commission guidance and updated requirements. The assessment relies on a number of monitoring measures and sources of information including a survey-based management self-assessment; interviews with staff, AAR questionnaires, reported instances of exceptions, non-compliance events and internal control weaknesses; relevant audit findings; and the risk assessment process.

Based on the end-of-the-year assessment carried out, no weaknesses were identified which could seriously affect DG MARE compliance in 2017 with any of the requirements associated with the internal control standards.

Through a wide range of management actions DG MARE has reinforced the internal control system and enhanced the effectiveness of numerous Internal Control Standards (ICS), notably by putting in place the organisational structure and the internal control systems suited to the achievement of the policy and control objectives, in accordance with the corporate standards and having due regard to the risks associated with the environment in which it operates.

In particular, the following ICSs have been enhanced: Ethics and organisational values (ICS 2), staff allocation and mobility (ICS 3), Objectives and Performance Indicators (ICS 5), IT risk management (ICS 6), operational structure (ICS 7), processes and procedures (ICS 8), Business Continuity (ICS 10) and Information and Communication (ICS 12).

The IAS concludes on the state of internal control in DG MARE in 2017 that the internal control systems audited are partially effective since a number of very important findings remain to be addressed, in line with the agreed action plans. None of these very important recommendations is overdue.

In line with the action plans, MARE has already addressed those very important recommendations which are most significant for the Directorate General[126] (see also section 2.1.2). In this respect, MARE's assessment is that the very limited residual risk related to the open recommendations does not affect any of the internal control principles or components and therefore does not have an impact on assurance.

Only a limited number of standards require some adaptations in 2018, notably as a result of a changing context (e.g. new EC Internal Control Framework) or IAS recommendations.

DG MARE has assessed the internal control system during the reporting year and has concluded that the internal control standards are implemented and functioning as intended.

The Commission's revised internal control framework, taking effect as of 1 January 2018, has been implemented in DG MARE and will be assessed in the framework of the 2018 Annual Activity Report: the Internal Control Monitoring Criteria have been set and the Director responsible for Risk Management and Internal Control has been appointed.

[126] The audits in question are multi-DG audits with recommendations common to DGs other than DG MARE

2.1.4 Conclusions as regards assurance

This section reviews the assessment of the elements reported above (in Sections 2.1.1, 2.1.2 and 2.1.3) and draws conclusions supporting the declaration of assurance and whether it should be qualified with reservations.

The information reported in Section 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 comprehensive coverage of the budget delegated to the Director-General of DG MARE. The report has been prepared with the objective of providing the reader with the fullest possible reliable information and does not knowingly contain any material inaccuracy or omission.

European Fisheries Fund and European Maritime and Fisheries Funds expenditure[127] is implemented under **shared management** through comprehensive management and control systems which are designed to ensure the legality and regularity of transactions at the level of the beneficiaries. The multi-layered approach taken by DG MARE shows that evidence can be drawn from different sources in order to provide the basis for an assessment. As a general rule, these various sources of evidence corroborate and complement each other and enable conclusions to be drawn.

For the 2007-2013 programming period, the majority of closure declarations received by 31 March 2017, could be accepted with or without the need for additional financial corrections at closure. The analysis is ongoing for 8 programmes, for which the final payment claims remain interrupted until the closure documents can finally be accepted. The estimated risk linked to the 2017 relevant expenditure is 1,53%, i.e. below materiality. DG MARE maintains 5 programmes under reservation (without financial impact), in accordance with Annex 4.

For the 2014-2020 programming period, €141.9 million was paid in prefinancing, which is risk-free. €171 million was paid in interim payments to 12 Member States. The reported and validated residual total error rates did not exceed 2% and the overall amount at risk for the 2017 payments is 1,09% and thus below materiality.

For the activities under **direct management**, the information (covering internal control, internal audit opinion, ex-ante and ex-post controls) is considered as complete and reliable for the purposes of the declaration of assurance. No material deficiencies were identified affecting the expenditure paid in 2017.

Looking at **efficiency and effectiveness of controls**, the main benefits are largely non-quantifiable, in particular as regards shared management where they are demonstrated by an increased level of assurance through improvements in the Member States management and control systems. Similarly, the benefits under direct management are mainly related to improved value for money and system improvements. Overall, the costs of controls decreased compared to 2016.

As regards **indirect manageme**nt, a number of reporting and supervising arrangements allow DG MARE to exercise its supervisory role including through its participation at different levels of governance within the agency, from the Administrative Board to the Joint Deployment Plans.

DG MARE has in place a **joint anti-fraud strategy**, together with DG REGIO and DG EMPL, and is regularly following up on OLAF investigations.

[127] The same system applies to European Maritime and Fisheries Fund expenditure.

The assessment of the risks underlying the recommendations issued by **auditors' observations**, together with the management measures taken in response, do not raise any assurance implications. DG MARE can conclude that the **internal control framework** in place functions effectively and **reporting** is reliable.

Overall, the resources for which DG MARE was responsible in 2017 have been managed in accordance with the applicable legislation and the Financial Regulation and in particular in accordance with the principles of sound financial management.

The maintaining of a reservation (without financial impact) for EFF expenditure does not prevent the Director General from giving reasonable assurance on the use of the resources assigned to the Policy Area as a whole in 2017.

Overall Conclusion

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 a reservation concerning the EFF).

2.1.5 Declaration of Assurance and reservation

DECLARATION OF ASSURANCE

I, the undersigned, João Aguiar Machado

Director-General of DG Maritime Affairs and Fisheries

In my capacity as authorising officer by delegation

Declare that the information contained in this report gives a true and fair view[128].

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 limited conclusion of the Internal Auditor on the state of control, the observations of the Internal Audit Service and the lessons learnt from the reports of the 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 Commission.

However the following reservation should be noted:

- ***A reservation with no financial impact concerning the European Fisheries Fund management and control systems in 5 Member States.***

Brussels, 23 April 2018

[signed]

João Aguiar Machado

[128] True and fair in this context means a reliable, complete and correct view on the state of affairs in the DG/Executive Agency.

Reservation

DG	**Maritime Affairs and Fisheries**
Title of the reservation, including its scope	**<u>Reservation concerning the EFF management and control systems (2007-2013 programming period)</u>** Reservation concerning the management and control systems for EFF programmes maintained from AAR 2016 for the following Member States: Bulgaria, Czech Republic, Italy, Netherlands, and Romania
Domain	Shared management – EFF
Programme in which the reservation is made and total (annual) amount of this programme	11 06 12; 11 06 13 – European Fisheries Fund: relevant expenditure amount in 2017: N/A, see under "quantification" below.
Reason for the reservation	High (>5%) total projected error rates reported for these OPs for expenditure 2015/2016, due to systems weaknesses and unfinished audit work. The related assessment of DG MARE is ongoing.
Materiality criterion/criteria	Estimated financial correction exceeds retention (to be released at closure) of the overall allocation made at programme level.
Quantification of the impact (= actual exposure")	N/A: There is no actual exposure for the reporting year, since no interim payments were made in 2017 relating these OPs. Payments of final balance will only be made once the assessment of the closure documents is finalised and the closure declaration and the final implementation report are accepted, in accordance with Article 86(4) of the EFF Regulation.
Impact on the assurance	The weakness affects the legality and regularity of the relevant expenditure concerned and the management systems in place for the measures concerned. The financial impact is managed through the safeguard measures taken by the Commission. Corrective measures will take the form of financial corrections at closure, as necessary.
Responsibility for the weakness	The expenditure concerned is under shared management, for which the Member State is primarily responsible for implementing the corrective actions. The Commission supervises the national authorities in this respect. If adequate actions are not implemented the Commission will then launch the financial correction procedures foreseen under Articles 97 and 98 of Council Regulation No 1198/2006.
Responsibility for the corrective action	**<u>At Commission and Member States' level:</u>** Application of financial corrections at closure, as necessary.

2.2 Other organisational management dimensions

DG MARE is fully committed to achieving the mandatory objectives set at corporate level in the area of organisational management, i.e. Human resource management, Better regulation, Information management and External communication.

In 2017, DG MARE continued to aim at the effective and efficient delivery of the political priorities. The reorganisation of DG MARE to better align the DG's resources with the Commission's political priorities entered into force on 1 January 2017. In its Human resources policies and in the reorganisation in particular, DG MARE pays particular attention to the efficient use of resources and to the wellbeing and the engagement of staff.

Several initiatives were undertaken in order to improve economy and efficiency of financial and non-financial activities of DG MARE:

A. <u>Redesign of DG MARE</u>[129]

With the aim of enhancing delivery on the political priorities as set out in President Juncker's Priorities, DG MARE introduced a **new organisation chart** from 1 January 2017. The new organisation chart will be accompanied by new governance arrangements designed to improve working methods, achieve efficiency gains in particular regarding financial circuits and secretarial tasks, and improve collaboration between units and directorates.

<u>Further streamlining of the financial circuits and workflows</u>

DG MARE has already obtained efficiency gains for the current programming period through the inclusion under shared management of control and data collection expenditure that was previously directly managed by the DG, as well as the externalisation of the implementation of the majority of the directly managed expenditure to EASME.

Within the context of the redesign of DG MARE and optimising the financial circuits, DG MARE introduced electronic workflows for approving payments and commitments. This contributes to further simplification of the approval workflow and elimination of redundant tasks. In addition, a new procedure for de-committing was implemented to seek additional efficiency gains to financial management in DG MARE. DG MARE is now managing all financial transactions under direct management electronically.

In addition, strengthening the budget correspondent's network, through a collaborative workspace and dedicated meetings, has started to bear its fruit.

<u>New Coordination groups</u>

The previous five Thematic Groups have been revised and replaced by two Coordination groups. Collaboration within the DG has been continuously promoted since the reorganisation, including through specific actions (cross-DG projects and teams e.g. on Our Ocean Conference, on Greening DG MARE, on Staff Engagement, Diversity & Inclusion), initiatives to meet colleagues informally from other Directorates (Coffee Roulette) and a new section on the Intranet on collaboration. The new DG MARE consists of fewer Directorates (5 instead of 6) which will allow a

[129] In January 2016 DG MARE launched a Workload Assessment to assess and rebalance MARE's workload in line with the political priorities. This workload assessment entailed the DG wide mapping of the current processes and resources, identification of imbalances and plotting corrective actions. Based on the results of the Workload Assessment and the subsequent consultation of DG MARE staff, a redesign of DG MARE was decided which came into force as of 1 January 2017.

better alignment of resources with priorities.

B. Synergies and Efficiencies - HR Modernisation Project

This is a corporate project for which DG HR is in the lead. DG MARE attaches great importance to the HR function and therefore maintaining and even improving the quality of service provided to staff remains a key requirement. DG MARE is taking part in the second-wave pilot (launched in mid-February 2017) and its adjustments with the clear objective of making a substantial contribution. DG MARE helps clarifying the division of tasks between the Account Management Centre (AMC), HR corporate and the HR Business Correspondent (HR BC) before the full roll-out scheduled by the end of 2018.

C. Roll-out of AGM and e-Procurement

In 2017, DG MARE started rolling out the two corporate IT systems: e-Procurement and AGM (Expert groups and committee meetings management). The full implementation of both new tools is expected for 2018. The roll-out should make the related procedures more efficient and reduce financial risks. In addition, AGM will shorten delays linked to the current process for reimbursements of experts.

This section covers also the Better regulation components. For an extensive reporting on all components, please refer to Annex 2.