



# 2017

# Annual Activity Report

**Directorate-General  
for Mobility and  
Transport**

*Foreword*

*Introductory message by the Director-General*

This Annual Activity Report covers the activities of the Commission's Directorate-General for Mobility and Transport (DG MOVE) for 2017. The purpose of this report is to give an outline of the operations of the DG, its activities and resources and to help in understanding the different challenges that are faced.

Part 1 presents the policy dimension, showing key results and progress towards the achievements of general and specific objectives set in the Strategic Plan 2016-2020 and against the outputs set in the 2017 Management Plan.

Part 2 captures the operating dimension, giving the state of play as regards achievements in financial management, internal control as well as other organisation management domains.

Henrik Hololei

Director-General of DG MOVE

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## THE DG IN BRIEF

Under the political guidance of the College of Commissioners, in particular Vice-Presidents Jyrki Katainen and Maroš Šefčovič and Commissioner Violeta Bulc, the Directorate-General for Mobility and Transport (DG MOVE) is in charge of developing transport policies for the European Union<sup>1</sup>. Its remit is to ensure efficient and sustainable mobility within a single European transport area, to serve Europe's citizens and economy.

The Commission priority areas set out in President Juncker's Political Guidelines which are of particular relevance for DG MOVE are notably jobs, growth and investment, a connected digital single market, energy union and climate change policy, a deeper and fairer internal market and a stronger global actor.

DG MOVE develops strategic policies for the transport sector; it monitors the implementation of existing EU law and makes new legislative proposals; it encourages the exchange of best practices. Its work is accompanied by financial support programmes, particularly for research and innovation projects under Horizon 2020 and for co-financing investments in transport infrastructure under the Connecting Europe Facility (CEF). The DG promotes policies internationally and provides information to the public as well as to stakeholders.

DG MOVE is assisted in its work by the expert input from several European Agencies and two Joint Undertakings, which it oversees: the European Aviation Safety Agency (EASA), the European Maritime Safety Agency (EMSA), the European Railway Agency (ERA), Innovation and Networks Executive Agency (INEA), and the SESAR (Single European Sky ATM Research) Joint Undertaking and the Shift2Rail Joint Undertaking. DG MOVE has also built a strong partnership with EUROCONTROL<sup>2</sup> and is represented in the Management Board of the Fuel Cells and Hydrogen Joint Undertaking.

At the end of December 2017, DG MOVE had 412 staff and shared in addition 111 administrative staff with DG Energy. The total payments made by DG MOVE represented EUR 414 million, while the committed amounts added up to EUR 410 million at year-end (see Annex 3 for more details).

Further information on all our policies and more is available on our website:

[http://ec.europa.eu/dgs/transport/index\\_en.htm](http://ec.europa.eu/dgs/transport/index_en.htm).

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<sup>1</sup> Transport is one of the European Union's common policies. It is governed by Title VI, Articles 90-100, of the Treaty on the Functioning of the European Union.

<sup>2</sup> EUROCONTROL, the European Organisation for the Safety of Air Navigation, is an intergovernmental organisation with 41 Member and 2 Comprehensive Agreement States.

## EXECUTIVE SUMMARY

The Annual Activity Report is a management report of the Director-General of DG MOVE to the College of Commissioners. Annual Activity Reports are the main instrument of management accountability within the Commission and constitutes 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<sup>3</sup>.

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

Transport is a strategic sector of the EU economy. All in all, it accounts for more than 9% of EU Gross Value Added (GVA) (services manufacturing, construction, maintenance) and employs more than 20 million people, more than 9% of total EU workforce. Efficient mobility services and global connectivity are the prerequisites for almost all other economic sectors to function, to enable social exchanges, tourism and the competitiveness of EU businesses. At the same time as ensuring these economic benefits, transport policy must address major challenges, such as decarbonisation, safety and security, fostering innovating and digitalisation, as well as the need for important investments in transport infrastructure to improve connectivity.

Transport policy directly advances several of the Commission General Objectives reflected in five of the priorities set out in President Juncker's Political Guidelines: a new boost for jobs, growth and investment, a connected digital single market, a resilient energy union with a forward-looking climate change policy, a deeper and fairer internal market and a stronger global actor.

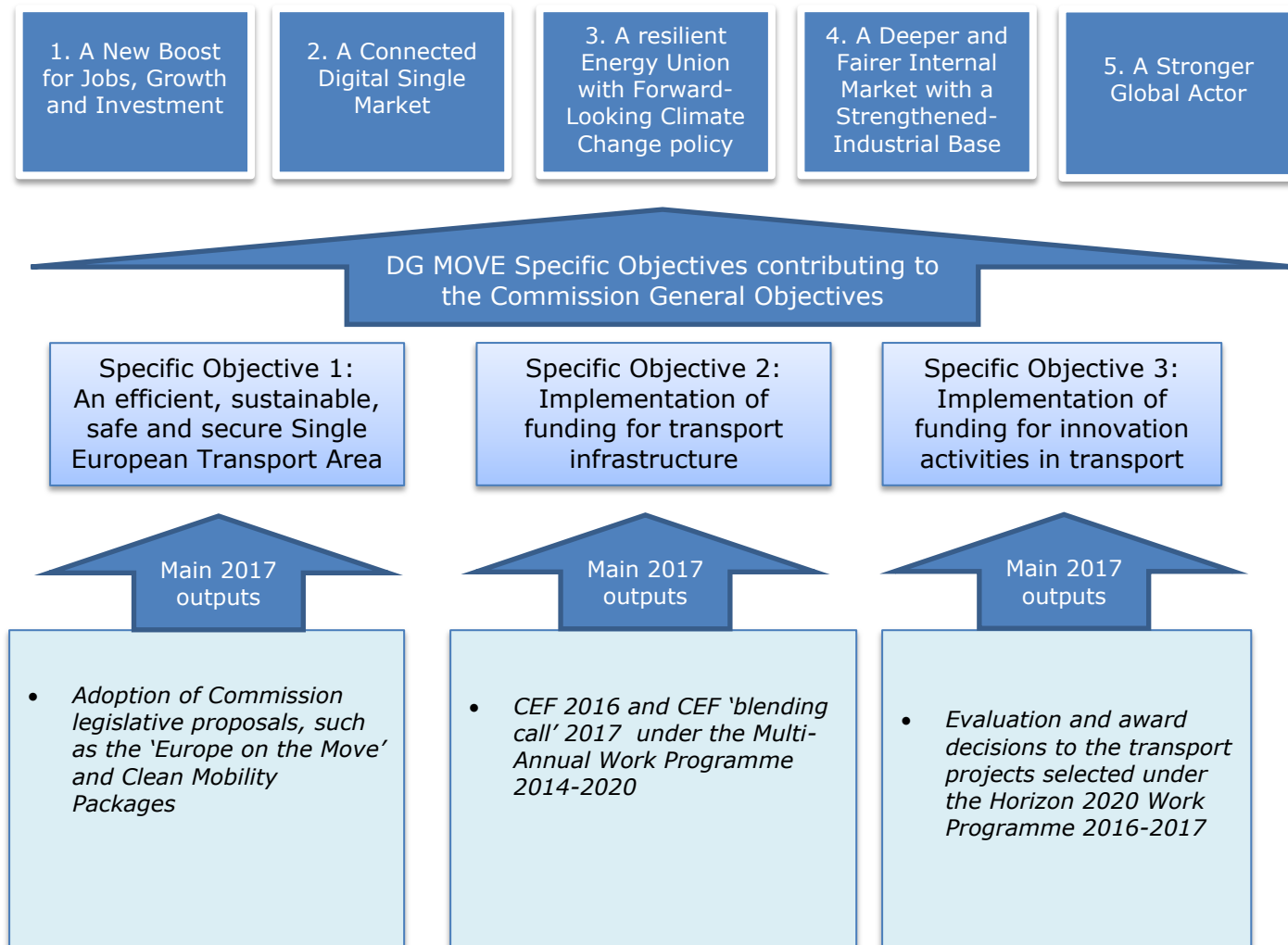
The specific objectives for DG MOVE include:

- **Implementing an efficient, sustainable, safe and secure Single European Transport Area** by improving regulation, ensuring a high degree of implementation of EU legislation, and promoting open and fair competition both in the EU and in relation with key partner countries;
- **Promoting a modern European transport infrastructure**, via the effective implementation of the Trans-European Transport Network with the help of the Connecting Europe Facility and the European Fund for Strategic Investments; as well as
- **Promoting an innovative transport sector**, through an effective implementation of funding for research and innovation activities in the transport area under the Horizon 2020 programme.

2017 has seen considerable progress in taking EU transport policy forward in support of the Commission's priorities.

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<sup>3</sup> Article 17(1) of the Treaty on European Union.



DG MOVE was in charge of a number of priority proposals in the **2017 Commission Work Programme**, focussing on a Europe that protects, empowers and defends. Further important initiatives also contributed to the achievement of the Commission priorities, set out by President Juncker. Key deliverables included:

***A deeper and fairer internal market with a strengthened industrial base:***

- As part of the **first Mobility package**, the Commission adopted on 31 May 2017 nine key legislative proposals on **road transport**. They clarify, simplify and establish common rules on access to the road haulage transport market and to the profession as well as strengthen the enforcement of applicable social legislation in road transport and on hired vehicles. The long-term benefits of these measures will extend far beyond the transport sector by promoting growth and job creation, strengthening social fairness, widening consumer choice and firmly putting Europe on the path towards zero emissions.
- On 1 February, the Commission adopted a proposal to review Directive 2003/59/EC on the **initial qualification and periodic training of professional drivers of trucks and buses**, which was followed by an agreement by the co-legislator in December 2017.
- Within the context of the '**EU Maritime Year**', DG MOVE intensified cooperation between all players in the maritime sector. The **Ports Services Regulation**, adopted on 15 February 2017 is an important milestone, which should encourage investment in ports, improve the quality of services provided to port users and ensure transparency of port charges.
- **The legislative process was concluded for the three REFIT** proposals on

passenger ship safety. They aim at improving the effectiveness, efficiency and enforceability of existing EU legislation and will enhance safety by clarifying the rules and by making the best use of recent technological developments.

- The **Directive on Professional Qualifications in inland navigation** was adopted on 12 December 2017. It will bring significant benefits in addressing the labour shortage by facilitating labour mobility in inland navigation.
- As part of the Circular Economy agenda, the follow-up to the REFIT evaluation of the Directive on **Port Reception Facilities for ship generated waste and cargo residues** led to work on an impact assessment and extensive stakeholders' consultations, including through the European Sustainable Shipping Forum's Subgroup on Port Reception Facilities, in view of a proposal amending the Directive (adopted in January 2018 as part of the circular economy package).
- The Commission continues implementing its **Aviation Strategy** from 2015. A major achievement in 2017 was the agreement between the co-legislators on a compromise text regarding the Commission's proposal for a Regulation of the European Parliament and of the Council on common rules in the field of civil aviation and establishing a **European Union Aviation Safety Agency (EASA)**.
- The Commission also adopted an **'Open and Connected Aviation package'** to further support open and connected aviation markets in the European Union and beyond, as well as a proposal for a **Regulation on safeguarding competition in air transport** on 8 June 2017.
- Preparatory work started on developing a new framework for an effective EU **road safety** policy 2020-2030. The framework should focus on monitoring performance, better linking policy with EU funding solutions and a strengthened global dimension. The Council conclusions adopted on the basis of the Valetta declaration prepared in March 2017 called for a new framework setting ambitious targets and actions in a number of areas.
- Improvement of the **EU passenger rights** legislation also continued in 2017, with the adoption of a Commission proposal to update and strengthen the existing Regulation on **passenger rights in rail transport**.
- Contributing to our **Security Union** agenda, worked continued with Member States and the industry to reflect on ways to improve passenger **railway security** across the EU.
- As far as **gender equality** is concerned, in November 2017 the 'Women in Transport - EU Platform for Change' was successfully launched, accompanied by a Declaration to ensure equal opportunities for women and men in the transport sector. A study was also launched in September 2017 to prepare a Business case to increase female employment in Transport.

#### ***A resilient energy union with a forward-looking climate policy:***

Also part of the **first Mobility Package** of 31 May 2017, the Commission adopted further measures implementing the low emission mobility strategy from 2016, namely the proposals for **Eurovignette** and **European Electronic Tolling Services (EETS) Directives**.

- Another deliverable contributing directly to reducing GHG emissions and reaching the goals set in the Paris Agreement was the Commission's **Clean Mobility Package (second Mobility Package)** of 8 November 2017. This included a proposed revision of the **Clean Vehicles Directive** to promote clean mobility solutions in public procurement tenders and thereby provide a solid boost to demand. An action plan was also put forward for the trans-European **deployment of alternative fuels infrastructure**, aiming at increasing the level of ambition of national plans, to increase investment, and improve consumer acceptance. A proposal for the revision of the **Combined Transport Directive** was also adopted as part of the same package, with the objective of encouraging logistics *companies to move more freight off the road in order to reduce related negative side-effects*. An initiative was also adopted on access to the market for **buses and coaches**.
- Continuous efforts were also dedicated to ensuring that global solutions for GHG emission reductions are agreed on swiftly in the **International Maritime**

**Organisation (IMO)** and implemented effectively through coordinated cooperation with non-EU countries. Likewise, implementation of the international agreement on emissions from aircraft agreed at the 2016 Assembly of the **International Civil Aviation Organisation (ICAO)** remained a key priority for DG MOVE in 2017.

#### ***A new boost for jobs, growth and investment:***

- On the **investment** side, progress was made in 2017 to further support innovation, jobs and growth creation, and the transition towards sustainability through projects under the Connecting Europe Facility. The implementation and completion of the 2016 TEN-T network calls evaluation led to the selection and signature of 156 grant agreements with a total EU support of EUR 2.54 billion in 2017. The selected projects support competitive, clean and connected mobility and will unlock EUR 4.64 billion of public and private co-financing. Important results included the successful conclusion of a selection decision for the first CEF transport blending call that led to the selection of 39 proposals with a total EU support of EUR 1 billion, mobilising a total of EUR 4.5 billion of public and private co-financing.
- Breaking new ground, a Joint Communication by the European Commission and the High Representative was also presented on improving **military mobility** in the European Union.
- With regard to the development of **research and innovation**, 2017 saw the adoption of the last Work Programme for the period 2018-2020. Very good progress was made in committing the foreseen budgets. Work also focused on the definition of the next generation of research programming, through the preparations for FP9, where the key focus will be on reinforcing the link between research and policy, ensuring that there is a strong continuity in deployment of results, with a continued important role for the Joint Undertakings.

#### ***A Connected Digital Single Market:***

- The **Intelligent Transport Systems (ITS)** Directive (2010/40) was amended, extending by five years the period for adopting delegated acts. In addition, the Commission started the evaluation of Directive 2010/40/EU in view of possible future revision of its scope and objectives.
- In the framework of the ITS Directive, the Commission adopted on 31 May 2017 the Delegated Regulation (EU) 2017/1926 supplementing Directive 2010/40/EU of the EP and of the Council with regard to the provision of **EU-wide multimodal travel information services**.
- In order to achieve such results, important **CEF Programme Support Actions (PSA) for Intelligent Transport Systems** were put in place in 2017.
- Public and private partners from all transport modes and ICT sectors issued a Declaration on digitalisation of transport as a conclusion of the successful **Digital Transport Days**, which took place in Tallinn from 8-10 November 2017.

#### ***A stronger global actor:***

- Negotiations with China on a **bilateral air safety agreement (BASA)** were successfully concluded on 29 September 2017 and the agreement was initialled on 8 December 2017. Negotiations on a BASA with Japan started on 8-9 November 2017. Negotiations with Armenia were concluded on a **common aviation agreement** and the EU-Tunisia air transport agreement was initialled. Steady progress was made in negotiations with ASEAN and Turkey, while negotiations with Azerbaijan were relaunched.
- With regard to **SESAR** and global interoperability, a new cooperation agreement between the US and EU on Air Traffic Management modernisation was negotiated and signed.
- The Commission also worked closely with the United States to address the particular challenge of the potential threat of **Personal Electronic Devices**

**(PEDs) on aircraft**, which allowed to avoid a ban of such devices in carry-on luggage in European countries.

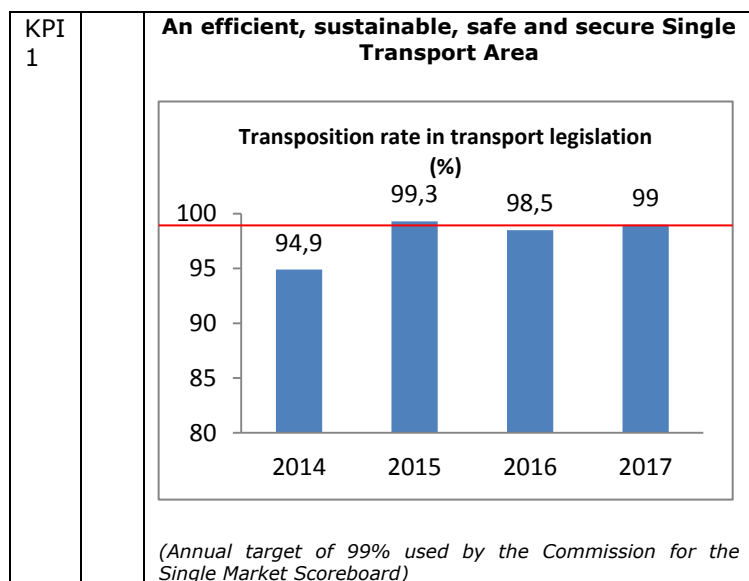
These key measures, together with other initiatives further detailed in the sections below, contributed to implementing and improving the transport regulatory framework in the EU and internationally as well as promoting investments in transport infrastructure and research and innovation to reach DG MOVE's objectives of interconnected, sustainable, safe and secure transport services.

## b) Key Performance Indicators (KPIs)

To illustrate the progress made towards achieving DG MOVE's specific objectives, the key performance indicators shown below were selected in the 2016-2020 Strategic Plan. The results indicate that good and sustained progress has been made in achieving the specific objectives. The overall progress towards achieving the general objectives are illustrated by higher level Commission impact indicators, presented in annex to the Annual Activity Report.

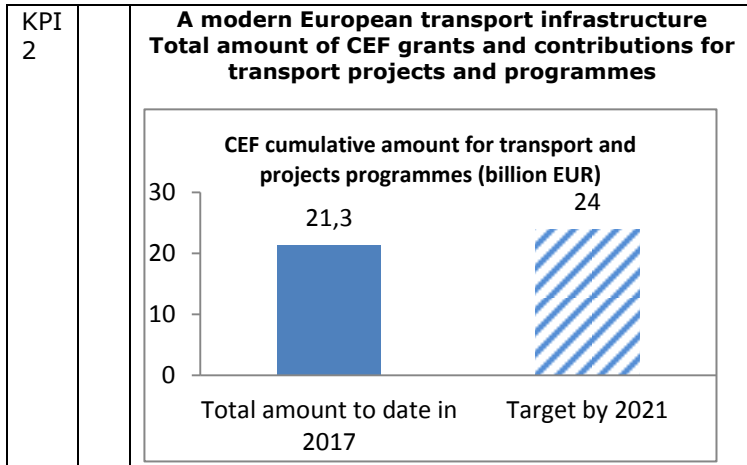
It is important to note that the implementation of the Strategic Plan and the annual Management Plans (and in particular achieving objectives and seeing improvements in the indicators) does not only depend on the Commission. It is for the European Parliament and Council to decide on the Commission's proposals and then primarily for the Member States to implement them. Finally, external factors, such as energy price fluctuations or the general economic situation, can have a significant influence.

The scope and number of DG MOVE's indicators were considerably reduced in the Strategic Plan 2016-2020 compared to the presentation in the Management Plans of previous years. This choice was made for the sake of simplification and in order to focus on the core activities for which DG MOVE is responsible. The more detailed monitoring and reporting on the policy objectives and indicators for the spending programmes is included each year in the Programme Statements in the Draft Budget.



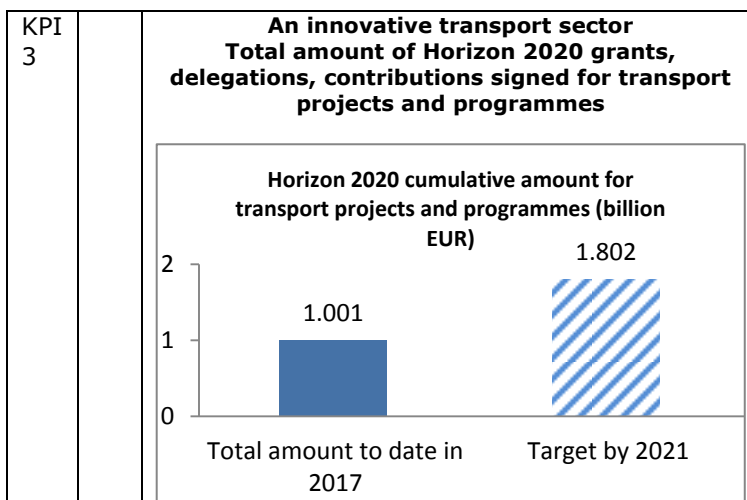
KPI 1 related to specific objective 1<sup>4</sup>, in order to ensure an efficient, sustainable, safe and secure Single European Transport Area, DG MOVE puts strong emphasis on promoting the implementation and enforcement of EU law and the transport acquis by Member States. The KPI selected therefore focuses on the implementation of EU transport legislation in Member States. It shows a consistently high level of transposition up to the 99% target of the Commission, despite a minor deviation in 2014.

<sup>4</sup> SO1: Improve legislation in the area of transport and ensure its implementation.



KPI 2: related to specific objective 2<sup>5</sup>, DG MOVE ensures the implementation of funding for the Trans-European Network under the Connecting Europe Facility in close cooperation with INEA (for the grants part of the CEF). The indicator shows that we are well on track to ensuring the implementation of the Connecting Europe Facility by the end of the programme period.

*Note: Target date set to 2021 as the grant agreements for the last calls can only be signed in 2021.*



KPI3: for specific objective 3<sup>6</sup>, DG MOVE also ensures the implementation of funding for research and innovation activities in the transport area under Horizon 2020 in close cooperation with INEA. The indicator shows that also for Horizon 2020 we are on track to ensuring the implementation by the end of the programming period.

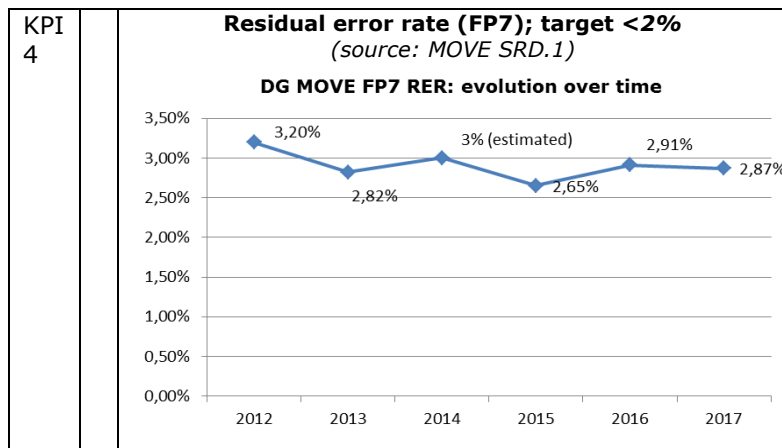
*Note: Target date set to 2021 as the grant agreements for the last H2020.*

*Note: The graphs show the three key performance indicators (KPIs) selected in DG MOVE'S Strategic Plan 2016-2020. These indicators are also shown among the indicators presented under each general and/or specific objective in the annex related to part 1 of the AAR, and illustrate the achievement of some of the most important policy objectives for DG MOVE.*

A fourth control related indicator (KPI 4) was added for 2017. DG MOVE retains only a limited exposure to directly managed FP7 projects. DG MOVE, sharing a common approach adopted by the Research and Innovation family of DGs, maintains a reservation as the error rate attached to this activity is above the 2% materiality threshold.

<sup>5</sup> SO2: Ensure the effective implementation of funding for transport infrastructure under the Connecting Europe Facility and under the innovative financial instruments (EFSI).

<sup>6</sup> SO3: An innovative transport sector.



The underlying exposure is estimated to represent 0.09% of the payments made by DG MOVE in 2017. This is the only reservation to DG MOVE's assurance.

The indicator confirms that the actions undertaken by the different DGs involved allowed for a stabilisation of the issue.

## 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 MOVE 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/principles, based on international good practice, aimed to ensure the achievement of policy and operational objectives. The financial regulation requires that the organisational structure and the internal control systems used for the implementation of the budget are set up in accordance with these standards/principles. DG MOVE has assessed the internal control systems during the reporting year and has concluded that the internal control principles are implemented and function as intended, with the exception of the Internal Control Component 3 'Control activities' that is deemed partially effective as improvements are needed in respect of two of its three principles. Please refer to AAR section 2.1.3 for further details.

In addition, DG MOVE 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 the Seventh Framework Programme (FP7).

## 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 Violeta Bulc, responsible for Transport.

# 1. KEY RESULTS AND PROGRESS TOWARDS THE ACHIEVEMENT OF GENERAL AND SPECIFIC OBJECTIVES OF THE DG<sup>7</sup>

DG MOVE policies aim to provide European citizens and businesses with competitive, sustainable, secure and safe transport services. The transport sector contributes to the EU's agenda for economic growth and jobs, global competitiveness and trade, enabling both people and goods to move across Europe and beyond. Adequate infrastructure, intelligent transport systems, measures to improve the environmental performance of the transport sector and the promotion of new technologies, inter alia through increased research, developments and demonstration, are important challenges to be addressed, in particular for reaching the EU's targets for greenhouse gas (GHG) emissions, renewable energy and energy efficiency and the targets of 3% of GDP in Research & Development.

Acknowledging the importance of reducing greenhouse gas emissions and of risks related to fossil fuel dependency in transport, the 2030 climate and energy policy framework reiterates the need for examining instruments and measures for a comprehensive and technology neutral approach for the promotion of emissions reduction and energy efficiency in transport, for electric transportation and for renewable energy sources in transport also after 2020.

Transport policy contributes to five of the Juncker Commission General Objectives, as indicated in DG MOVE's Strategic Plan for 2016-2020: a new boost for **jobs, growth and investment, a connected digital single market**, a resilient **energy union with a forward-looking climate change policy, a deeper and fairer internal market** and a **stronger global actor**.

As also outlined in DG MOVE's Strategic Plan and Management Plan 2017, the specific objectives for the DG to contribute to an efficient and effective EU transport policy, include:

- An efficient, sustainable, safe and secure Single European Transport Area: improve regulation, ensure a high degree of implementation of EU legislation in the transport area and open and fair competition both in the EU and in relations with key partner countries (see KPI 1 showing the transposition rate of transport legislation);
- A modern European transport infrastructure: ensure the effective implementation of the Trans-European Transport Network with the help of the Connecting Europe Facility (CEF) and the European Fund for Strategic Investments (EFSI) (see KPI 2 showing the total amount of CEF financing for transport infrastructure);
- An innovative transport sector: ensure the effective implementation of funding for research and innovation activities in the transport area under the Horizon 2020 programme (see KPI 3 showing Horizon 2020 financing for research and innovation in transport).

DG MOVE's achievement of its specific objectives has contributed in 2017 to the achievement of the general objectives pursued by the Commission and to several Commission impact indicators, as also reflected in Annex 12.

As an example, with the adoption by the Commission of two Mobility packages in 2017, DG MOVE has contributed to efforts to promote further competitive, socially fair, sustainable and connected mobility, which in turn will contribute to a resilient Energy Union with a forward-looking climate-change policy reducing greenhouse gas emissions, to a new boost for growth and jobs and a deeper and fairer internal market.

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<sup>7</sup> An Executive Agency uses as heading: 'Implementation of the Agency's Annual Work programme – Highlights of the year'.

Likewise, DG MOVE's continuous work to support additional investment in transport infrastructure in 2017 promotes a modern European transport infrastructure while boosting jobs and growth, therefore contributing directly to meeting the Commission-wide targets on GDP Growth. The International Monetary Fund (IMF) estimates that an increase in public investment in infrastructure of 1% of GDP leads to a 1.5 % increase in GDP over four years. A well-connected Europe therefore significantly contributes to economic, social and territorial cohesion across the EU by boosting economic growth, stimulating job creation and tackling climate change. The TEN-T offers a solid and coherent plan to complete the core network by 2030 and the comprehensive network by 2050. This multimodal infrastructure needs to be developed or upgraded to ensure seamless traffic flows across the EU, a high level of safety, sustainability and interoperability. This is also an essential enabler of the transition towards smart and low-emission mobility.

DG MOVE's research and innovation activities also contribute directly to increasing the percentage of EU GDP invested in R&D in the EU.

DG MOVE is also actively involved in the European Semester exercise and provides input to the country reports and country specific recommendations, as well as the thematic fiche on transport accompanying the Annual Growth Survey 2018.

During 2017 no critical risks materialised which could have endangered the achievement of objectives. However, it should be noted that the implementation of the Strategic Plan and the annual Management Plans (and in particular achieving objectives and seeing improvements in the indicators) does not only depend on the Commission. It is for the European Parliament and Council to decide on the Commission's proposals and then primarily for the Member States to implement them. External factors, such as energy price fluctuations or the general economic situation, can also have a significant influence.

In addition to the Strategic Plan 2016-2020 and the annual Management Plan the framework used by DG MOVE for performance monitoring and reporting also includes other elements which provide information on the achievement of transport policy objectives. Indeed, the monitoring and reporting on the policy objectives and indicators for the spending programmes is done each year in the Programme Statements in the Draft Budget. Performance indicators for transport in the European Union can also be found in the EU Transport Scoreboard: [http://ec.europa.eu/transport/facts-fundings/scoreboard/index\\_en.htm](http://ec.europa.eu/transport/facts-fundings/scoreboard/index_en.htm)

## **1.1 Specific objective 1: Efficient, sustainable, safe and secure Single European Transport Area**

### **A high degree of implementation of EU transport legislation**

Ensuring the implementation of transport legislation contributes directly to an efficient, sustainable, competitive, safe and secure transport system. In order to ensure transport systems which are fully integrated into efficient logistics chains and mobility services to passengers, the right regulatory framework conditions are required and a better regulatory environment for private investors contribute to jobs, growth and investments in transport infrastructures.

The preparation of proposals and close monitoring of implementation of legislative measures and non-legislative actions in the various transport areas such as road, rail, maritime, inland waterways, ports and aviation as well as combined and multimodal transport operations contribute to five of the Commission General Objectives: a new boost for jobs and growth, a connected digital single market, a resilient Energy Union and forward-looking climate change policy, a deeper and fairer internal market, as well promoting the EU as a global actor.

**99% transposition  
rate in transport  
legislation in 2017**

The effective application, implementation and enforcement of EU law constitute a high political priority for the Juncker Commission. In line with the Commission Communication of December 2016 'EU law: Better Results through Better Application' on the Commission's enforcement policy, specific focus was therefore put in 2017 on **improving regulation and ensuring a high degree of implementation of EU legislation in the transport area**. DG MOVE notably reviewed its infringement's Vade-mecum to align it to the new Commission infringement strategy, including on the use of EU-Pilots. The result indicators concerning the transposition rates, open non-communication cases and infringement cases open for more than three years allow to monitor transposition and implementation of existing EU law in the Member States and take the appropriate action to address incorrect transposition and practical implementation at national level (see annex 12). The following key results in 2017 contributed to the implementation of this objective.

As part of the **Better Regulation agenda**, DG MOVE assessed the need to repeal two acts<sup>8</sup> and worked on three REFIT initiatives which were included in the Commission Work Programme for 2018. Ten impact assessments from DG MOVE were scrutinised by the Commission's Regulatory Scrutiny Board (RSB) in 2017, and five evaluations were completed in 2017, while DG MOVE pursued its work on 21 additional ongoing evaluations.

**Promoting the implementation and enforcement of the EU transport acquis** by Member States and in relations with third countries is also essential to allow European citizens and businesses to benefit from the Commission's transport policies. In 2017, DG MOVE notably strengthened its partnership with Member States on infringements and contributed substantially to numerous infringement proposals including in areas such as rail, port services and airport charges. Over 200 proposals for Commission decisions concerning infringements were treated. Numerous reasoned opinions in cases of non-communication of Member States' national instruments for transposition were also prepared.

#### Implementing EU transport acquis

DG MOVE engaged intensively in monitoring the implementation, transposition and correct application of EU rail law, by preparing for the implementation of the new provisions of the 4th railway package adopted in December 2016, liaising with Member States' rail regulatory bodies and National Competition Authorities to exchange information and best practice on rail cases, designing —together with DG COMP— a joint enforcement strategy to ensure that the most appropriate tools under EU law are used to achieve rail market opening and a competitive level playing field, as well as by launching infringements where necessary.

Other examples illustrate the role of diverse mechanisms in ensuring appropriate implementation of EU transport law: six new complaints from citizens were received in 2017 in the maritime sector, 1 EU Pilot was launched, 16 letters of formal notice of infringements were issued in 2017 for non-communication of transposition measures and 19 infringement cases were treated related to the transposition of Directive 2014/94/EU on the deployment of alternative fuels infrastructure and 18 infringement cases regarding the non-notification of National Policy Frameworks (two cases still being open regarding National Policy Frameworks).

Additionally, a new MOVE country profile was created to establish a sound evidence-based analysis of the national implementation of EU transport policies, to feed into a report on the state of play of transport policy implementation across the EU.

<sup>8</sup> The Commission Work Programme 2017 listed 'Council Regulation (EEC) No 3572/90 amending, as a result of German unification, certain Directives, Decisions and Regulations relating to transport by road, rail and inland waterway' as an act to be repealed in 2017 for being obsolete. However, further legal analysis concluded that such a repeal is without any object as the act amends a series of other acts, which are all no longer in force. Regarding the other act to be repealed (Council Directive 89/629/EEC on the limitation of noise emission from civil subsonic jet aeroplanes) DG MOVE will propose the repeal in the first half of 2018.

DG MOVE is assisted in its work by 3 decentralised agencies which it oversees: the European Aviation Safety Agency (EASA), the European Maritime Safety Agency (EMSA), the European Railway Agency (ERA). The agencies contribute to the achievement of specific objective 1, in particular its safety aspects. Further information on the relations with the agencies is also provided in part 2 of this report.

## **A resilient energy union with a forward-looking climate change policy**

Transport has great potential for contributing to reducing emissions. In 2017, DG MOVE pursued its work to accelerate the shift towards low-emission mobility, therefore contributing to the broader shift to a sustainable, low-carbon and circular economy and to a resilient energy union with a forward looking climate change policy.

### *Low emission mobility*

Following the adoption of a **European Strategy for Low-Emission Mobility** in 2016<sup>9</sup>, the European Commission adopted **two Mobility Packages** in 2017 comprising a wide-ranging set of initiatives. In particular, the second mobility package, adopted by the Commission on 8 November 2017, focused on measures that will directly contribute to the reduction of CO<sub>2</sub> emissions, through a combination of legislative proposals and financial support to alternative fuel infrastructure. Legislative measures included a proposal for the reduction of CO<sub>2</sub> tail-pipe emissions for personal cars and vans, an amendment to the combined transport directive, an amendment to the so-called Clean Vehicle Directive, and an Action Plan for Alternative Fuel Infrastructure.

The aim of proposed amendment to **Directive 92/106/EEC on combined transport** is to encourage logistics companies to move more freight off the road in order to reduce related negative side-effects.

The proposal for a Directive amending Directive 2009/33/EU on the **promotion of clean and energy-efficient road transport vehicles** foresees an expansion of the scope of the Directive to better cover the reality of public procurement of clean vehicles. It introduces a definition of clean vehicles and sets related minimum procurement targets at Member State level for both light- and heavy-duty transport.

Work continued towards the enhanced **deployment of alternative fuels infrastructure** through the implementation of Directive 2014/94/EU. With the Commission Communication on an 'Action Plan on alternative fuels infrastructure' (COM/2017/0652 final and the Staff Working Document SWD/2017/0365 final 'Detailed Assessment of the National Policy Frameworks'), DG MOVE aims to accelerate the roll-out of infrastructure, improve coordination with national policies, increase investment, and support interoperability for consumer buy-in. The standardisation process was also taken further in 2017, with the adoption of a Delegated Regulation on standards for alternative fuel infrastructure.

At the same time, efforts have been deployed to put into place a coherent policy and financing framework. In close cooperation with the European Investment Bank (EIB), a first blending call was launched at the beginning of 2017 to support the deployment of **innovation and alternative fuels along the TEN-T** (see also under specific objective 2). A specifically targeted second part of the blending call focuses further on alternative fuels, which will lead to a second selection of projects in 2018 to deploy alternative fuels in the oncoming years. The **Clean Bus Deployment Initiative** which was officially launched by Commissioner Bulc on 13 July 2017 also supports the development of a clean vehicle fleet. Building on a political declaration this initiative now brings together over 70 partners from cities, regions, industry and transport operators.

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<sup>9</sup> Communication from the Commission to the European Parliament (EP), the Council, the European Economic and Social Committee (EESC) and the Committee of the Regions (CoR) 'A European Strategy for Low-Emission Mobility' on 20 July 2016 (COM(2016) 501 final).

With regard to **urban mobility**, a wider range of actions took place all throughout 2017 in order to share and develop further best practices. In particular, the Sustainable Urban Mobility Plans (SUMP) concept was further developed, and a successful SUMP Conference was organised in Dubrovnik. Alongside, the CIVITAS network continued to grow: over 250 cities in CIVITAS Forum Network and around 400 in CIVINets, contributing to a successful CIVITAS Forum Conference organised in Torres Vedras. Additionally, 2500 towns and cities participated in the European Mobility Week in 2017. The number of cities organising a car-free day increased by 30%. Further work was pursued on active transport modes and notably cycling, with for instance analysis of recommendations included in a stakeholders' blueprint for the EU cycling strategy handed over to Commissioner Bulc in June 2017.

## **A deeper and fairer internal market**

### *Road transport*

The important **road sector legislative initiatives** as set out in the Commission Work Programme (CWP) 2016 and confirmed as priority in CWP 2017 were adopted on 31 May 2017 as part of Mobility Package I. All in all, the package included nine legislative proposals on road transport. As part of Mobility package II, on 8 November the Commission also adopted a legislative proposal on buses and coaches. These initiatives were prepared by a series of ex-post evaluations of the existing legislation. On this basis, six impact assessment reports were prepared and submitted to the Regulatory Scrutiny Board, which gave a positive assessment of all six. This set of initiatives aim to make traffic safer, encourage smart road charging, cut red-tape for businesses, fight illicit employment and ensure proper conditions and rest times for workers.

Ex-post evaluations of the extensive legislative framework of social and market rules in the road transport sector were also carried out and a Staff Working Document was presented (SWD (2017) 184 final) for the evaluation of Regulation 561/2006, Directive 2006/22/EC and Directive 2002/15/EC. Open Public Consultations, targeted consultations and accompanying Impact Assessment Studies were carried out in support of all initiatives.

### **Review of road transport social legislation**

During 2015-2017, DG MOVE carried out a REFIT ex post evaluation of Regulation (EC) No 561/2006 on driving times, breaks and rest periods of drivers, enforcement Directive 2006/22/EC and Directive 2002/15/EC on the organisation of the working time of road transport mobile workers. The Staff Working Document was presented in May 2017. This evaluation confirmed that the social legislation is only partially effective in achieving its objectives of undistorted competition and adequate working conditions. This is mainly due to diverging interpretations and implementation of the rules, inconsistent and ineffective enforcement as well as deficiencies of certain legal provisions, not well adapted to the changing needs or specificities of the sector.

The evaluation took place in the context of the broader ongoing review of road transport legislation. In particular, the social legislation for the road transport sector, which was the subject of this evaluation, is closely linked with the internal market legislation for the sector, which was also evaluated and reviewed. Ex-post evaluations of social and market rules clearly showed that challenges with inadequate social protection and working conditions cannot be effectively solved without addressing the problems of distortions of competition, and vice versa. As a result of the findings of these evaluations, the Commission took a package approach by adopting a set of legislative proposals under Mobility Package I, ensuring balance between fair and adequate working conditions for road transport workers and fair business conditions for operators.

In the Council, the Internal Market and Social files are most advanced and were subject to a Progress Report presented and debated at the TTE Council on 8 December 2017. The proposals related to charging were subject to a Policy Debate during the same Council meeting. Discussions started in the European Parliament, and rapporteurs prepared their first draft reports just before the end of the year. Multiple contacts with all stakeholders

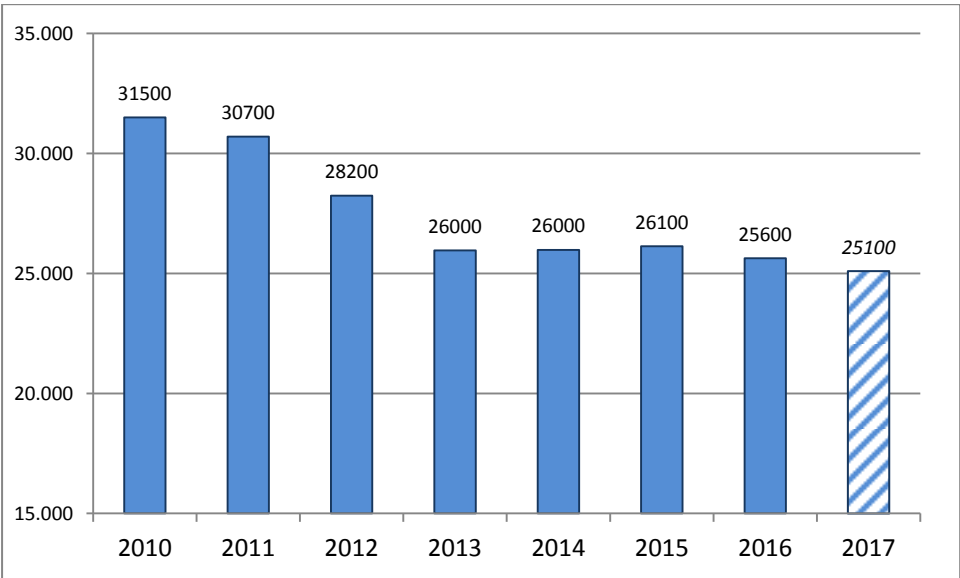
took place during the year to prepare the ground for swift discussions and pursue the Commission's objective to have a maximum of proposals adopted before the end of the current European Parliament's term.

*Road safety*

Road safety continues to be an important area of Commission activity and a major priority, with the goal set to halve road fatalities by 2020 and a long term objective to move close to zero fatalities by 2050 ('Vision Zero').

The main achievement in 2017 was the adoption of Council conclusions based on a declaration prepared in La Valetta in March that committed Member States to taking action in a number of areas and agreed to set a target for the reduction of serious road traffic injuries.

*Safe and secure transport: Fatalities in road transport accidents<sup>10</sup>*



(Target: Max. 15 750 by 2020 (EU28), i.e. 50% reduction from 2010)

After some stagnation, in 2016, fatality figures decreased slightly, and preliminary figures suggest that a small improvement can be expected for 2017. There is no single factor explaining the trend, and the development differs greatly between Member States. Possible contributing factors are a higher interaction between unprotected and motorised road users in cities; less resources applied to traffic enforcement, road maintenance and vehicles following the economic crisis and new trends in driver behaviour, such as distraction mainly by smartphones. This shows that a new approach is needed to reach the strategic target of halving the number of road deaths from 2010 to 2020.

Preparatory work started on developing a new framework for an **effective EU road safety policy 2020-2030** to enable dynamic policy adjustment. The framework should focus on monitoring performance (based on a number of key performance indicators), better linking policy with EU funding solutions and a strengthened global dimension. The Council conclusions adopted on the basis of the Valetta declaration prepared in March called for a new framework setting ambitious targets and actions in a number of areas.

The review of Directive 2003/59/EC on the **initial qualification and periodic training of professional drivers of trucks and buses** adopted on 1 February 2017 aims at

<sup>10</sup> Figures for 2017 are based on estimations and subject to revisions. Figures for fatalities in road transport accidents in 2015 (tentatively indicated as 25 500 at the beginning of 2015) were corrected to 26 100 at the end of 2016.

updating and clarifying the rules. An agreement was reached in trilogue on 12 December between the European Parliament and the Council, and the Directive will be formally adopted in the beginning of 2018.

## *Rail*

Following the adoption of the Fourth Railway Package in 2016, the focus in 2017 was on the preparation and adoption of certain implementing and delegated measures, on the **correct transposition and implementation of the EU rail legislation**, on enhancing the work on rail freight corridors (RFC) and on monitoring the performance of rail markets.

With the adoption of the Implementing Act on Service Facilities and Rail Related Services and the Delegated Decision on Timetabling, the process of adopting secondary legislation required under the Recast Directive 2012/34/EU establishing a **Single European Rail Area** (the Recast Directive) was completed.

DG MOVE co-chaired joint meetings between rail stakeholders affected by the important challenge of a one-off, but major rail disturbance in Rastatt in summer 2017. It is working with the sector to implement better cross-border contingency plans, pilot solutions for language issues and infrastructure availability.

In 2017 DG MOVE started monitoring Member States' preparations for **implementing the market pillar of the 4th Railway Package**, which includes the Governance Directive and the Public Service Obligation Regulation.

The transposition of the new safety and interoperability directives (Directives 2016/797 and 2016/798) is well underway in most Member States and a majority of them target a timely transposition of the technical pillar of the 4th railway package by 16 June 2019.

Throughout 2017, DG MOVE proceeded with the adoption of secondary legislation that is essential for the **implementation of the technical pillar of the 4th railway package**. The Implementing Regulations setting out the practical arrangements for both single safety certificate and vehicle authorisation received positive votes in the Railway Interoperability and safety Committee (RISC) in July and November 2017 respectively, in view of their adoption early 2018.

DG MOVE worked closely with Shift2Rail JU to ensure a more attractive, reliable and innovative railway for the future. DG MOVE continued to supervise railway research lighthouse projects, on signalling, ticketing, freight and infrastructure.

Following the adoption of the **European Railway Traffic Management System (ERTMS)** European Deployment Plan (Implementing Regulation (EU) 2017/6) the Staff Working Document 'Delivering an effective and interoperable ERTMS – the way ahead' was launched at the ERTMS conference held in November 2017. This sets out the necessary steps for rail stakeholders, the Commission and ERA to address issues with ERTMS implementation and is the framework to programme/manage progress by all stakeholders in the next critical implementation period.

## *Maritime*

Within the context of the '**EU Maritime Year**', the Commission intensified cooperation between all players in the maritime sector, raised awareness on the importance of shipping for Europe and reviewed and modernised the regulatory framework for maritime transport. The Maritime Year proved to be effective not only in promoting the Commission priorities but also in gaining support to most of the on-going initiatives by the EU shipping industry. While a number of legislative files were finalised in 2017, the Maritime Year also provided an opportunity to evaluate the EU framework for shipping and identify possible new actions. In addition, the exchange with stakeholders and Member States on possible future Commission policies led to important forward looking

documents such as the Council Conclusions on the Valletta Declaration.

The main legislative achievements of 2017 were:

- the **Ports Services Regulation**, adopted on 15 February 2017. The regulation is an important milestone, which should encourage investment in ports, improve the quality of services provided to port users and ensure transparency of port charges.
- The conclusion of the legislative process for the three **REFIT proposals on passenger ship safety**, which aim at improving the effectiveness, efficiency and enforceability of existing EU legislation. The adopted package will enhance safety by clarifying the rules and by making the best use of recent technological developments.
- The adoption of the **Directive on Professional Qualifications in inland navigation** on 12 December 2017, which will bring significant benefits in addressing the labour shortage by facilitating labour mobility in inland navigation, as the Union certificates of qualification will be recognised on all inland waterways throughout the Union.

In addition, the follow-up to the REFIT evaluation of the Directive on **Port Reception Facilities for ship generated waste and cargo residues** led to the preparation of an impact assessment with extensive stakeholders' consultations, including through the **European Sustainable Shipping Forum's** Subgroup on Port Reception Facilities, and the finalisation of a proposal amending the Directive which was adopted on 16 January 2018 as part of the circular economy package.

For the Reporting Formalities Directive an impact assessment process was launched for a review of the Directive and for exploring options to establish a truly harmonised **European Maritime Single Window environment** for ship reporting. Studies and consultations were undertaken in view of a proposal in spring 2018.

With regards to other important evaluations completed in 2017, the evaluation of the **Regulation on liability of carriers of passengers by sea** was finalised in September and concluded that there was no need to propose any changes to the Regulation at this stage. Regarding **training of seafarers** the REFIT evaluation of the two related Directives was finalised in December and concluded that several simplification steps were possible which will result in a Commission proposal in spring 2018.

In complement to the adoption of the passenger ship safety package, work continued with the European Maritime Safety Agency (EMSA) and an expert sub-group on developing the safety goals and functional requirements for **small passenger ships**.

Regarding **EU external representation** related to the International Maritime Organisation (IMO), four EU submissions including one information paper were prepared in 2017. One Council decision covering the Maritime Safety and Marine Environment Protection Committee was adopted to allow the adoption of positions on behalf of the EU. Progress continued in IMO regarding the reduction of greenhouse gas emissions of ships with the adoption of guidance for the verification of data by flag states for the Global data collection system for fuel consumption.

Regarding **EMSA**, the Commission continued the close steering of the inter-agency cooperation with the European Border and Coast Guard Agency (Frontex) and the European Fisheries Control Agency. There was particular attention given to EMSA's launching of the multipurpose Remotely Piloted Aircraft Systems (RPA) services which met significant technological and legal issues. The Agency was however able to continue developing its systems and integrated digital maritime services which serve maritime surveillance, contributing to the EU agenda on **security and migration**. EMSA systems and databases also serve EU policy on climate change and air emissions. The Commission took an active part in the broad evaluation exercise of the Agency's overall mandate which was finalised in June and resulted in the adoption of recommendations by the

Administrative Board for incremental changes and improvements.

### *Aviation*

The **follow-up of the Aviation Strategy for Europe** (COM(2015) 598 final) adopted on 7 December 2015 on the challenges and opportunities for improving the competitiveness of the EU Aviation sector continued in 2017.

In this context, a major achievement in 2017 was the agreement between the co-legislators on a compromise text regarding the Commission's proposal for a Regulation of the European Parliament and of the Council on **common rules in the field of civil aviation and establishing a European Union Aviation Safety Agency (EASA)**. The new Regulation will contribute to maintaining a high European safety record in conditions of growing traffic, while reducing administrative burden and increasing efficiency through the possibility of pooling and sharing of resources between Member States and EASA. Furthermore, it establishes the first **EU-wide legal framework for civil unmanned aircrafts**. This compromise opened the way for a first reading agreement in the first quarter of 2018.

The **EU Air Safety List**, which constitutes a list of air carriers banned from operating to the EU, was updated twice in 2017. Evaluations of Regulation (EU) N° 996/2010 on the **investigation and prevention of accidents and incidents in civil aviation** and of Regulation (EC) N° 2111/2005 on the **EU Air Safety List Regulation** were on-going in 2017 and are expected to be completed during the first half of 2018. A conference on 'The EU Air Safety List @10 and beyond' marked the 10 years of existence of the Air Safety List.

Another major achievement of the year was the adoption by the Commission of an 'Open and Connected Aviation package' to further support **open and connected aviation markets in the European Union and beyond**. In particular, on 8 June 2017, four initiatives were adopted i.e. a proposal for a Regulation on safeguarding competition in air transport, interpretative guidelines on ownership & control of EU airlines, interpretative guidelines on Public Service Obligations and practices facilitating continuity of air traffic management. A Commission Communication introduced these initiatives, putting them in their wider context. On the proposal for a Regulation on safeguarding competition in air transport, work started in the Council and European Parliament and a progress report was presented at the Transport Council on 5 December 2017.

The implementation of the international agreement on **emissions from aircraft** agreed at the 2016 Assembly of the International Civil Aviation Organisation (ICAO) remained a key priority for DG MOVE in 2017, as a contribution to a Resilient Energy Union with a forward-looking climate change policy as well as making the EU a stronger global actor. In particular, the year 2017 has seen the continuation of discussions aiming to agree on the technical details of a future Carbon Offsetting and Reduction Scheme for International Aviation (CORSIA). Intensive exchanges between its members and observers have allowed the Committee on Aviation Environmental Protection (CAEP) to propose to the ICAO Council and its Member States a draft Standard containing the necessary details to start the scheme.

Regarding the **Single European Sky (SES)**, positive developments took place in various areas. As to performance-related aspects, while work on the evaluation, approval and monitoring of performance plans and associated targets continued, a new Performance Review Body (PRB) was appointed and a new PRB support structure implemented.

With regard to **SESAR** and global interoperability, a new cooperation agreement between the US and the EU on Air Traffic Management (ATM) modernisation was negotiated and signed. Work on the phases of development and deployment of the SESAR project progressed by the start of projects under H2020, the launch of the campaign to update the ATM Master Plan, including on drones, and the conclusions of the grants related to the CEF 2016 call and the launch of the CEF 2017 call. In the area of network functions,

the governance and autonomy of the network manager were reinforced paving the way to its nomination starting from 2020. Finally as announced in its aviation strategy of 2015, the Commission examined the issue of the minimum service level in ATM, and produced a set of best practices under a document on service continuity in ATM.

In 2017, no progress was made towards the adoption of the Commission's Slot proposal because of issues related to Gibraltar. Likewise, the Single European Sky (SES) 2+ proposal has remained at an unfortunate standstill because of the same reason.

In 2017, **negotiations** with Armenia on a common aviation agreement were concluded and the agreement was initialled in the margins of the Eastern Partnership Summit held in Brussels on 24 November 2017. On 11 December 2017, the EU-Tunisia air transport agreement was initialled in Tunis. A result indicator monitors the number of signed comprehensive aviation agreements with neighbouring countries and key trading partners (see annex 12).

Steady progress was made also in the negotiations with ASEAN (four rounds) and in the negotiations with Turkey (three rounds) albeit with more difficulty. In addition, negotiations with Azerbaijan on an EU air transport agreement were relaunched and after two rounds in 2017, only few outstanding issues remain to be resolved.

Negotiations with **China** on a bilateral air safety agreement (BASA) were successfully concluded on 29 September 2017. The agreement was initialled on 8 December 2017 (planned signature June 2018). Negotiations with **Japan** on a BASA started on 8-9 November 2017.

The Commission continued to play an active role within International Civil Aviation Organisation (ICAO)'s Air Transport Regulation Panel towards a modernisation of the economic regulatory framework governing the global aviation market. At its meeting in July 2017, the Panel agreed to continue work on a standalone convention on the liberalisation of ownership and control criteria in air services agreement. Work also continues on a multilateral agreement on the liberalisation of market access.

Finally, the process of bringing national bilateral air services agreements into conformity with EU law continued throughout 2017. Progress was also made in promoting fair competition provisions in bilateral air services agreements.

## **A connected Digital Single Market**

Regarding the development of digitalisation and intelligent transport systems, the Commission undertook the necessary steps in 2017 to guarantee an amendment to the **Intelligent Transport Systems (ITS) Directive (2010/40)**, extending by five years the period for adopting delegated acts (until 2022 and thereafter tacitly for 5 year periods). In addition, the Commission started the evaluation of Directive 2010/40/EU in view of possible future revision of its scope and objectives.

In the framework of the ITS Directive, the Commission adopted on 31 May 2017 the Delegated Regulation (EU) 2017/1926 supplementing Directive 2010/40/EU of the EP and of the Council with regard to the provision of **EU-wide multimodal travel information services** (published on 21 October 2017 in the OJ).

In order to support the digitalisation of transport and ITS, the **C-ITS platform** achieved its second phase, with the publication of its final report. Following the C-ITS Platform Plenary first release of the European C-ITS Certificate Policy, the Commission issued guidance regarding the European C-ITS Security and Certificate policy in June 2017. Furthermore, the preparation of specifications for cooperative intelligent transport systems (C-ITS) under the ITS Directive 2010/40/EU continued in 2017.

In order to achieve such results, important CEF Programme Support Actions (PSA) for Intelligent Transport Systems were put in place. Initiated in 2017, they address issues

such as the European Framework Architecture for Intelligent Transport Services, the data exchange used for digital maps for Union-wide multimodal travel and real-time traffic information services on the TEN-T network, implementation of Union-wide multimodal travel information services and establishing a security architecture for connected infrastructure and vehicles in Europe. Finally, regarding the implementation of Urban ITS Standardisation Mandate to the European Committee for Standardisation, six CEN Projects have been submitted and selected supporting more harmonisation in the field.

A range of public and private partners from all transport modes and ICT sectors met in Tallinn to discuss the digitalisation of transport from 8-10 November 2017 and issued a Declaration as part of the Digital Transport Days.

In 2017, the **Digital Transport and Logistics Forum (DTLF)** focused on the conceptual development of a federative platform for data exchange to optimise cargo flows along transport corridors, and the digitalisation of transport documents and their acceptance. Following the recommendation of the Digital Transport and Logistics Forum (DTLF), the Commission took further the initiative to assess options for policy intervention to support the wider uptake of **electronic transport documents** for freight in all transport modes. The impact assessment process was launched in May 2017. A legislative proposal is expected to be adopted in the beginning of May 2018, as part of the third Mobility Package.

### **A stronger global actor**

In 2017, DG MOVE played an important role in international transport relations, contributing to the Commission policy priority of the 'EU as a global actor'.

At multilateral level, in February 2017 Commissioner Bulc attended the Ministerial session of the Inland Transport Committee of the UN Economic Commission for Europe (**UNECE**), a key global standard-setting and dialogue forum on key issues, including digitalisation of inland transport. The Ministerial Declaration adopted in 2017 launched an initiative aimed at defining the future strategy of UNECE-ITC until 2030.

Regarding **Western Balkans Partners**, at the Trieste Summit in July the Transport Community Treaty was signed by the EU and the States concerned. The Treaty is applicable on a provisional basis from 26 November 2017, following ratification and notification of provisional application by a majority of partners. The first meeting of the Ministerial Council under the Transport Community took place on 6 December. It was agreed that the seat of the secretariat will be in Belgrade.

Regarding **European Neighbourhood Policy (ENP) Eastern Partners**, two ministerial meetings took place in March and September, with the aim of identifying a limited number of mature infrastructure priorities in the region. In November, the Council authorised the Commission to present maps to all Eastern Partners with a view to the signature of high-level understandings on the indicative extension of the TEN-T core network. In addition, cross-modal Transport Dialogues allowed to agree on deepening relations with both Ukraine and Georgia.

Concerning **ENP Southern Partners**, negotiations to adopt the TEN-T maps of the EuroMed region are still on-going in the Union for the Mediterranean framework, with the aim of reaching agreement in 2018 on the extension of the TEN-T to the Mediterranean region.

With respect to **Turkey**, an EU-Turkey transport ministerial meeting took place in November, paving the way for the future High Level technical dialogue, foreseen to take place before summer 2018.

The first EU-**ASEAN** Transport Dialogue took place in Singapore on 11 October 2017. This comprehensive cross-modal dialogue meeting allowed strengthening of EU relations with ASEAN countries. Transport Dialogue meetings will be held on a yearly basis.

Europe's interest and presence in South East Asia was also demonstrated by Commissioner Bulc's visit to Indonesia in September 2017, when she attended the 4th **ASEM** Transport Minister's Meeting (ASEM TMM). The ASEM 'Bali Declaration' adopted at the end of the meeting reaffirmed the important role of the ASEM TMM in strengthening and enhancing ASEM partnership in the field of transport.

At the second Chairman's meeting of the **EU-China Connectivity Platform** in June 2017, the EU emphasised the need for a clear commitment on transparency and a level playing field based on market rules and international norms in view of promoting a stronger cooperation with China in the transport sector.

Following the EU-India Summit held on October 2017 in New Delhi, **Commissioner Bulc visited India in December 2017** to deepen transport cooperation in areas of mutual interest across all modes of transport, notably maritime, aviation, urban mobility and rail.

## **People**

### *Security*

In 2017, the Commission services worked closely with the United States to address the particular challenge of the potential threat of Personal Electronic Devices (PEDs) on aircraft and succeeded in **avoiding a ban of such devices in carry-on luggage**. The US contemplated extending a ban from 8 countries to the US carrying electronic devices larger than a cell phone / smart phone in carry-on luggage to other airports, including in European countries. Consultation and joint work between the EU and the US has been ongoing since and has also allowed to foster dialogue and commitment to cooperation between the EU and the US.

In relation to **railway security**, DG MOVE continued to work with Member States and the industry on how to improve passenger railway security across the EU. DG MOVE launched a consultation with all relevant and interested stakeholders both via a public consultation launched on 8 December, as well as through a targeted consultation reaching out to Member State authorities and to be pursued in 2018.

### *Passengers rights*

Regarding passenger rights, the main milestone in 2017 was the adoption by the Commission of a proposal for a **recast of the rail passenger rights Regulation**. The aim of the proposal is to improve the protection of rail passengers in the EU while striking the balance with regard to reducing railway undertakings' burden. As regards **air passenger rights**, the focus was put on the implementation and enforcement, in particular in the view of important challenges such as massive cancellations of flights and airlines insolvencies.

In the field of coordination of **social** issues, the topic of the social dimension of the transition to digitalisation and automation started to be addressed during the Digital Transport Days in November 2017 in a dedicated workshop. On the issue of the attractiveness of the transport sector, the study requested by the European Parliament on 'making the EU transport sector attractive to future generations' was published in July 2017. As far as gender equality is concerned, in November 2017 the **'Women in Transport – EU Platform for Change'** was successfully launched, accompanied by a Declaration to ensure equal opportunities for women and men in the transport sector. A study was also launched in September 2017 to prepare a Business case to increase female employment in Transport.

The Commission also presented on 27 March the Move2Learn, Learn2Move initiative under the Erasmus+ programme which further supports learning and mobility of young Europeans. The scheme is managed by DG MOVE in cooperation with DG EAC.

## 1.2 Specific Objective 2: implementation of the TEN-T Network with the help of CEF and EFSI

The TEN-T corridor approach is an innovative multi-level governance system for bringing Europe closer to all stakeholders, primarily its citizens and has proven to be effective on delivering EU added value. In close cooperation with INEA and the EIB, DG MOVE ensures the **implementation of the TEN-T Network and financing modern European transport infrastructure**, thereby contributing to several of the overall Commission priorities. Investment in transport infrastructure contributes directly to the creation of jobs and growth, intelligent infrastructure and integrated transport management and information systems (such as Sesar and ERTMS) contribute to the Digital Single Market, the deployment of sustainable alternative fuels contribute to the reduction of greenhouse gas emissions, and the removal of bottlenecks and the improvement of cross-border sections contribute to a deeper and fairer single market. Furthermore, the extension of the TEN-T core network and Corridors to neighbouring countries enhances connectivity and contributes to make the EU as stronger global actor. On the basis of the on-going analysis for the third version of the Core Network Corridor work plans, the investment necessary to develop the nine Core Network Corridors until 2030 could generate some EUR 4,500 billion of cumulated GDP over that period. This would mean 1.8% additional GDP in 2030 compared to 2015. The number of job-years created by the implementation of the 9 Core Network Corridors could reach around 13,000,000 job-years<sup>11</sup>.

Investment and, especially infrastructure investment, is a major driver to strengthen the prosperity and cohesion in the Union, and to fight climate change and negative externalities from transport activities. Adequate infrastructure, innovative intelligent transport systems (ITS), measures to improve the safety, security and environmental performance of the transport sector are essential. The Connecting Europe Facility is delivering impressive results by concluding a first selection decision for the first blending call. The mid-term review of the CEF has demonstrated very evident strengths and singled out few areas where improvements are to be made for the next MFF.

Result indicators<sup>12</sup> measuring the total amount of signed CEF grants, delegations and contributions, the total amount of investments in EFSI transport projects, the number of bottlenecks removed along the TEN-T corridors and the number of supply points for alternative fuels financed by CEF notably allow DG MOVE to monitor the progress made for the completion of the TEN-T core network by 2030. In addition, for the spending programmes such as CEF, it should be noted that more detailed reporting on objectives and indicators for these programmes is included in the relevant Programme Statements which accompany the Draft Budget for a given year.

- **CEF grants total** amount by the end of 2017: EUR 21.3 billion (representing almost 89% of the total budget)
- Number of **bottlenecks** along the TEN-T corridors addressed through CEF: 10 in 2017
- **Supply points for alternative fuels** addressed through CEF: 361 in 2017

Concentrated efforts on the

<sup>11</sup> These are preliminary results based on a methodology developed by the consultancies M-Five, KombiConsult and HACON11. To ensure the robustness of the analysis, DG MOVE has launched a more detailed study on 14 June 2017 that running until 2018.

<sup>12</sup> As recommended by the Internal Audit Service, the formulation of the specific objective related to the implementation of financing for transport infrastructure (under CEF and EFSI) has in DG MOVE's amended Strategic Plan for 2016-2020 been broadened with an explicit reference to the effective implementation of the Trans-European Transport Network (TEN-T) and two additional indicators on the completion of bottlenecks on the TEN-T corridors and the number of alternative fuel stations financed have been added, to illustrate the results of the spending.

implementation of cross-border projects and priority given to certain policy areas have shown significant results in 2017 and significant progress has been achieved for the implementation of the TEN-T network. Major sections were completed in 2017, such as the rail links between Berlin and Munich, or between Paris and Bordeaux, that were both opened for public use. Both projects took many years to be completed and are essential sections on the Core Network Corridors. It demonstrates that progress is real and contributes to the policy goals of modal shift and sustainable transport alternatives being available. The European Coordinators are guaranteeing the inclusion both top-down and bottom-up of a relevant project pipeline and tirelessly work on the cross-border projects that aim at creating a true European network. Their third Work Plans are in the final adoption process end of 2017, beginning of 2018 and give full reassurance that the 2030 deadline for completion of the core network is a challenge but also a realistic goal if the necessary means and tools are in place for the oncoming years.

## **Trans-European Transport Networks**

The implementation of the TEN-T is based on clear coordination instruments alongside the Connecting Europe Facility for financial support. With regard to the coordination implemented along the TEN-T, the European Coordinators had a very intensive year in supporting the implementation of the TEN-T network and thereby promoting investment and economic growth. In addition to their **regular work** related to the implementation of the nine core network corridors and the two horizontal priorities for which they were all heard by the European Parliament, each of them **chaired two corridor fora** and drafted a third updated version of the **Work Plan**. These Work Plans foresee to pay specific attention to investments in alternative fuels infrastructure, intelligent transport systems, urban multi-modality and rail noise. The European Coordinators also contributed more broadly to policy development by drafting a Joint Declaration related to the future of TEN-T and CEF which was discussed at the Tallinn informal Council in September 2017. Two coordinators updated the Christophersen-Bodewig-Secchi report on 'Making the best use of new financial schemes for European infrastructure projects'.

In order to pave the way for the **revision of the CEF Regulation** three high-level conferences were organized on regional transport investment, on Connecting Europe in and on TEN-T and CEF. Council Conclusions on the future of the TEN-T and CEF were agreed in the Tallinn Informal Council.

One major step was achieved as regards **ERTMS** following the adoption of an Implementing Regulation establishing an ERTMS European deployment plan according to Article 47(2) of the TEN-T Regulation and of the Staff Working Document 'Delivering an effective and interoperable European Rail Traffic Management System (ERTMS) – the way ahead'.

The **external dimension of the TEN-T** network was also strengthened. Following adoption and withdrawal of a delegated regulation proposing new TEN-T maps for the Eastern Partnership countries according to Article 49(6) of the TEN-T regulation in view of objections expressed by the Council, high-level agreements with most of the third countries concerned have been signed in 2017.

The work on a **new Regulation related to the streamlining** of transport infrastructure projects started with a public consultation, the launch of the impact assessment and five workshops (three on environmental, public procurement and State aid constraints related to transport infrastructure investments, one at the occasion of the launch of a study on the contribution of TEN-T and CEF to economic growth and jobs, and one on the deployment of alternative fuels infrastructure).

Finally, the **progress report on the implementation of the TEN-T network** in 2014 and 2015 established according to Article 49(3) of the TEN-T Regulation was adopted and presented to the TRAN Committee.

## Key results in the implementation of the Trans-European Network for Transport (TEN-T)<sup>13</sup>

The following status of TEN-T completion was reached by 2015:

### **Railways**

- Standard track gauge of 1435 mm is present on 77% of the rail core network and 76% of the comprehensive rail network;
- Around 81% of the TEN-T (81.3% for the core and 80.6% for the comprehensive network) are electrified;
- ERTMS is in operation only on 9.5% of core network corridors sections.

### **Roads**

- 74.5% of the core network is compliant with the standards required in the TEN-T guidelines (i.e. motorway or expressway standard), whereas only 58.1% of roads of the comprehensive network fulfil this requirement.

### **Inland Waterways and Ports**

- 95% of the inland waterway core network is compliant with the standards, corresponding to the CEMT requirements for class IV;
- On 79.6% of the inland waterway core network, River Information System has been implemented in accordance with EU standards;
- All seaports of the TEN-T (both core and comprehensive networks) are connected to the TEN-T railway network.

### **Airports**

- Out of 38 core airports falling under the obligation regarding a connection to the TEN-T rail network, 23 (i.e. 60.5%) are already compliant with this requirement.

In line with the EU Global Strategy of June 2016 recognising the growing demand for the EU as a security provider in Europe and globally, and in view of addressing identified barriers hampering the swift movement of military personnel and assets along the TEN-T network, a **Joint Communication** by the European Commission and the High Representative on **improving military mobility** in the European Union was also presented on 10 November 2017 (JOIN (2017) 41 final). Work has started on an Action Plan in this respect to be adopted in March 2018. This initiative contributes to ensuring Europe's citizens' security as well as to making the EU a stronger global actor.

## **Implementation of the Connecting Europe Facility (CEF)**

The Commission had launched calls in 2016 for proposals under the Connecting Europe Facility addressing the priorities of the Multi-Annual and the Annual Work Programmes that have been evaluated in 2017 leading to the selection and signature of 156 Grant Agreements with beneficiaries with a total EU grant support of EUR 2.54 billion. The selected projects support competitive, clean and connected mobility in Europe and will unlock EUR 4.64 billion of public and private co-financing.

For instance, the following projects selected from this call for proposals demonstrate the great added value of the CEF funding: the upgrade of the over 100 km-long Białystok-Ełk rail section in North-East of Poland as part of the Rail-Baltica project; modernisation of Air Traffic Management systems in all EU Member States; full expansion of the Karawanken road tunnel linking Slovenia and Austria; development of a high-speed electric vehicle charging network across Sweden, Denmark, Germany, France, the United Kingdom and Italy.

With regard to budget distribution between the General and Cohesion envelopes, the CEF grant funding from 2016 calls for proposals was allocated in the following way:

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<sup>13</sup> European Commission, Directorate General for Mobility and Transport, 'Delivering TEN-T – Facts and Figures September 2017', September 2017.

- EUR 1,770 billion from the Cohesion envelope for projects implementing the priorities of the Multi Annual Work Programme;
- EUR 27,7 million from the Cohesion envelope for projects of the Annual Work Programme;
- EUR 642 million from the General envelope implementing the priorities of the Multi Annual Work Programme;
- EUR 246 million from the General envelope for projects addressing the priorities of the Annual Work Programme.

The Commission has launched a **Blending Call** for proposals in February 2017 with an initial budget of EUR 1 billion. It has been the first innovative call for proposals combining EU grants with other European, national or private funding.

The budget of the Blending Call was increased in November 2017 by additional EUR 350 million to support the 'Innovation and new technologies' priority, in particular for the Alternative Fuels, as part of the Alternative Fuels Action Plan adopted by the Commission on 8 November 2017. The second deadline for the submission of proposals was extended until 12 April 2018.

39 key transport projects were selected from the Blending Call (first cut-off date) with CEF grant support of EUR 1.02 billion. These projects will develop sustainable and innovative transport infrastructure in Europe across all modes, in particular they will improve the railway network, develop the infrastructure for electric cars, modernise Europe's air traffic management, as well as pave the way towards zero emission waterway transport. The investment is made via the CEF programme, the EU's financial mechanism supporting infrastructure networks, and will unlock a total of EUR 4.5 billion of public and private co-financing.

Selected projects concentrate on the strategic sections of Europe's transport network (the core network) to ensure the **highest EU added-value and impact**. The largest part of the funding will be devoted to developing the European rail network (EUR 719.5 million), decarbonising and upgrading road transport (EUR 99.6 million), as well as developing maritime ports (EUR 78.9 million) and inland waterways (EUR 44.7 million).

The projects include such flagship initiatives as increasing the cross-border speed of the railway access line to the Fehmarnbelt tunnel between Denmark and Germany; enlarging and modernizing the Divača-Koper railway line in Slovenia to improve its capacity, safety and reliability; adapting the most important Belgian inland waterway, the Albert canal, for larger freight transport; as well as improving the capacity of the Port of Gdansk in Poland.

In the area of **Innovation and Alternative Fuels**, several projects encompassing several Member States and Corridors have been selected with an objective of deploying Ultra Fast Charging for Electric Vehicles (see project examples and fiches in the following sections).

In addition to the above Calls for proposals implemented in 2017, a call for proposals related to the SESAR/ Single European Sky priority with a budget of EUR 290 million was launched on 6 October 2017 with a closing date for the submission of proposals on 12 April 2018.

An amendment to the **Multi-Annual Work Programme** was also presented to the CEF Transport Committee in December 2017, which aims at implementing certain Programme Support Actions providing technical assistance to the Member States and specific beneficiaries. The respective evaluation and selection process will be completed in 2018 and the Grant Agreements will be put in place in 2018.

A **mid-term review of the CEF Programme** was concluded end 2017, as required by Article 22 of the CEF Regulation. Follow-up activities, related to the take-up of the lessons learned from that evaluation will feed into the preparation of post-2020 successor

programme.

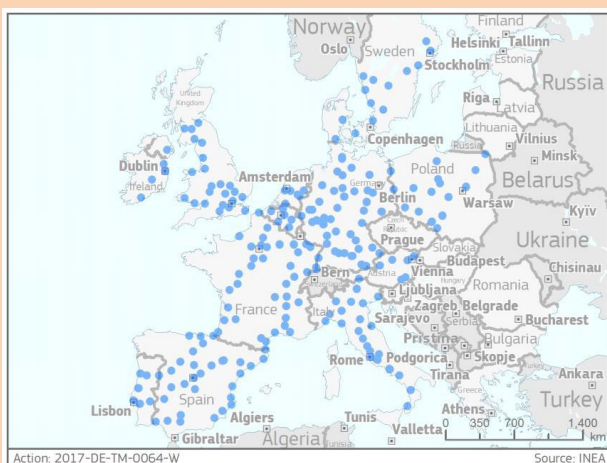
Taking into account the results of all relevant previous evaluations/reviews and in accordance with the Better Regulation guidelines, the preparation for the CEF Impact Assessment has started in order to feed into the Commission's proposal on the next Multi-Annual Financial Framework expected to be put forward in May 2018. A new legal act for the establishment of a possible 'CEF 2.0' instrument will be prepared with a view to defining the optimal funding and financial framework for the TENs for the period post-2020.

DG MOVE ensures the implementation of funding for the Trans-European Transport Network under the Connecting Europe Facility in close cooperation with INEA (for the grants part of the CEF). MOVE is responsible for setting out the CEF funding policy, notably the preparation and adoption of the CEF Work Programmes (funding decisions) establishing inter alia the indicative budget, funding priorities, and eligibility, selection and award criteria. INEA ensures the technical and financial management of the CEF grants, notably the preparation and launching of the calls for proposals, in close consultation with DG MOVE, as well as the negotiation, signing and management of the grant agreements with beneficiaries. With regard to the evaluation and selection of proposals, this is organised in two phases: an assessment by external experts organised by INEA in coordination and with participation of DG MOVE, followed by an internal phase, led by DG MOVE in association with concerned DGs. The list of selected proposals is adopted by the Commission following consultation of the CEF coordination committee. Both the CEF Work Programme decisions and selection decisions are submitted to the European Parliament under its right of scrutiny. INEA also ensures the effective financial and technical management of the legacies of the TEN-T and Marco Polo programmes.

DG MOVE considers that INEA executed the tasks under its responsibility in 2017 efficiently and effectively. In this respect, on 23 March 2018, DG MOVE and overall the INEA Steering Committee approved the INEA 2017 Annual Activity Report including the related Declaration of Assurance.

#### Examples of EU added value: CEF projects

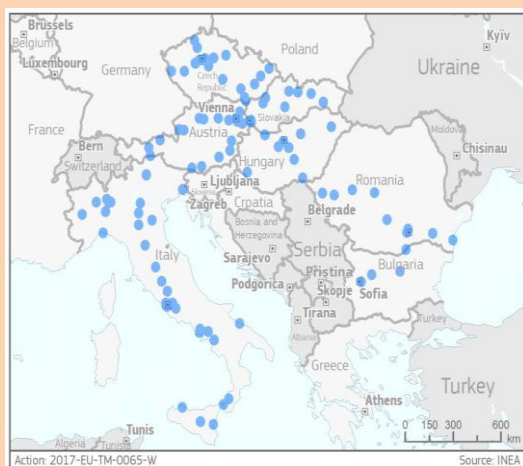
1) Blending Call for proposal (first cut-off date June 2017) - Innovation and Alternative Fuels: *EUROP-E: European Ultra-Charge Roll Out Project*



The Action concerns the deployment of a pan-EU network of 340 Ultra-Charging (UC) stations for electric vehicles in 13 EU countries, namely Austria, Belgium, Denmark, France, Germany, Ireland, Italy, the Netherlands, Poland, Portugal, Spain, Sweden and the UK, between 2017 and 2021. It addresses all the 9 Core Network Corridors and it is part of global project aimed at deploying a wider network of 485 UC stations in 23 EU countries during the 2017-2026 time frame.

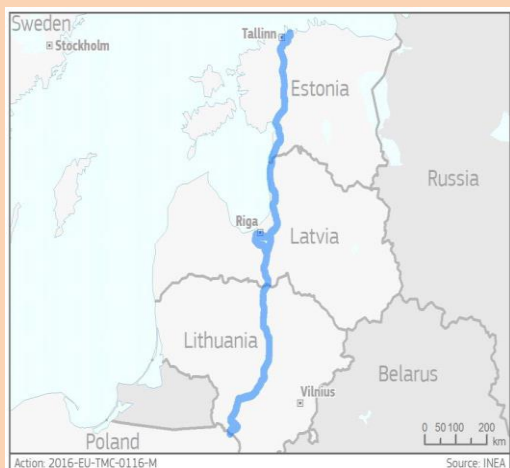
2) Blending Call for proposals (first cut-off date June 2017) – Innovation and Alternative Fuels:

### Central European Ultra Charging project



The Action will deploy and operate a network of 118 ultra-fast charging stations for electric vehicles (EVs) in Austria, the Czech Republic, Hungary, Italy and Slovakia along the Core Network. It will enable long-distance travel with EVs and the connection of urban nodes. It will ensure the interoperability of fast charging infrastructure within the EU and will bridge the technology adoption gap between EU Member States. The Action builds on the results of previous TEN-T/CEF funded Actions (studies with real-life trials): Central European Green Corridor (concluded), EVA+, Ultra-E and NCE-FasrEvNet (ongoing).

3) Follow-up to 2016 Call for proposals- *Rail project- Rail Baltica* (Rail Baltic/Rail Baltica – 1,435 mm standard gauge railway line- development in Estonia, Latvia and Lithuania (third stage of the Global Project)



The Action is the third stage of the Rail Baltica Global Project, an important project along the North-Sea Baltic Corridor, involving the three Baltic States and increasing the accessibility and connectivity between Northern and Central Europe and in particular improve the North-South rail transport between the Baltic States and Poland. The project will allow to bridge a missing, cross-border, EU gauge rail link between the Baltic States This particular action aims to ensure the continuation of the Global Project encompassing: studies, technical design, construction works, supervision, project implementation support measures and publicity measures.

**Eligible Costs:** €540.4 million

**CEF Funding:** €442.2 million

**Beneficiaries:** Estonia, Lithuania, Latvia.

4) Projects that became operational in 2017 and that received funding from the previous programmes

As an example of completed projects, which were previously funded from the TEN-T Funds 2007-2013), the Global Project high speed line Munich-Nurnberg-Berlin became operational in 2017. Several stretches of that Global Project were financed from the TEN-T funds: Erfurt and

Halle/Gröbers and Ebensfeld-Erfurt. This Global Project allows for connecting Berlin to Munich in 4 hours.

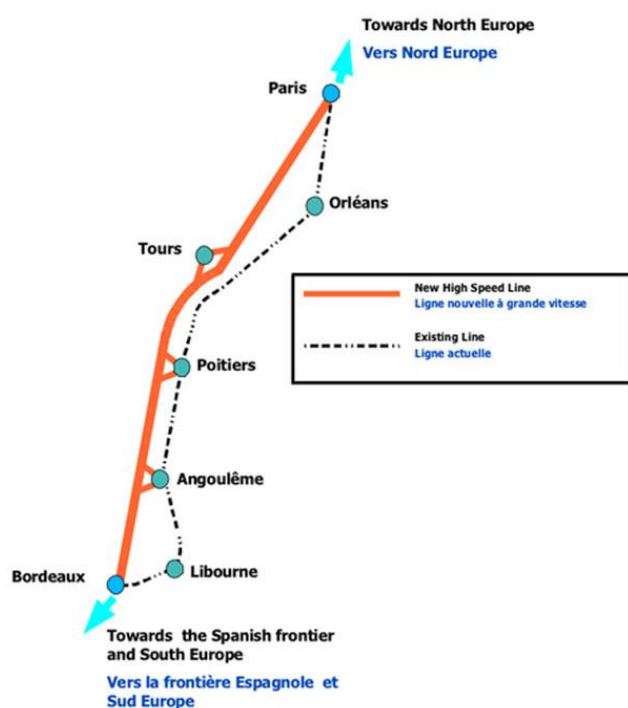
### CEF Debt Instrument implemented by the European Investment Bank

The CEF Debt Instrument (CEF DI) Steering Committee approved in 2017 a clean transport project pipeline of up to EUR 2.4 billion of investment, which should be implemented in 2018-2019.

The CEF DI Delegation Agreement is being amended so as to allow, starting in 2018, for implementing funds stemming from the NER300 Programme of up to EUR 440 million to roll out renewable transport technologies.

The Loan Guarantee Instrument (part of the CEF Debt financing) supported the Tours-Bordeaux also known as South Europe Atlantic High Speed (320 km/h), a high speed-rail-link with total project costs of around EUR 7 billion. The project became operational in 2017.

- **Tours-Bordeaux - financed with the Loan Guarantee (CEF Debt) Instrument of the European Commission and the European Investment Bank**



### EFSI projects: the Green Shipping Guarantee Programme

The Green Shipping Guarantee Programme was created in 2016 by the EIB to provide financial guarantee through the Connecting Europe Facility (CEF) Debt Instrument and the European Fund for Strategic Investments (EFIS) for green solutions based on the concept defined by the European Sustainable Shipping Forum (ESSF). The Programme has a capacity of EUR 750 million of guarantees and is designed both for general fleet renewal and the retrofitting of ships with sustainable technologies (such as LNG, ballast water, energy efficiency, etc.).

In 2017, the first green shipping guarantee transaction was signed between the

European Investment Bank and a French Bank Société Générale. Also Port of Cork received financing from the CEF Debt instrument in combination with a CEF grant.

### 1.3 Specific Objective 3: Implementation of funding for research and innovation activities in transport

Supporting research and innovation in transport contributes to a European transport system that is resource-efficient, climate- and environmentally-friendly, safe and seamless for the benefit of all citizens, the economy and society.

DG MOVE ensures **the implementation of funding for research and innovation activities in the transport area under Horizon 2020 in close cooperation with INEA**. DG MOVE is responsible for setting the scope and expected impact of Horizon 2020 projects as parts of the Horizon 2020 transport work programmes. The work programmes are adopted after having achieved positive opinions by Member States. INEA organises the evaluations of project proposals via independent external evaluators according to the general rules of Horizon 2020. The external evaluators are required to check the general quality of the proposals as well as the extent to which the proposals meet the scope and expected impact of the particular call topics. A ranking list based on evaluation scores is then established by INEA and matched with the available budget to ensure that the best projects can be funded.

The management of research and innovation programmes and projects touching upon a wide range of transport policies contributed in 2017 to the implementation of the Juncker Priority on A Resilient Energy Union with a Forward-Looking Climate Change Policy and to DG MOVE's Specific Objective 3 established in the Strategic Plan 2016-2020.

A result indicator on the total amount of signed transport-related Horizon 2020 grants, delegations and contributions enable to track the progress made in the promotion of innovation and research in transport. In addition, for the spending programmes such as Horizon 2020, it should be noted that more detailed reporting on objectives and indicators is performed in the relevant Programme Statements which accompany the Draft Budget for a given year

2017 saw the adoption of the last Work Programme for the period 2018-2020. It is equally successful as CEF, ensuring the very good progress of commitment of the budgets foreseen. Work is focusing on the definition of the next generation of research programming, through the preparations for FP9, where the key focus will be to reinforce the link between research and policy, ensuring that there is a strong continuity in deployment of results. The SESAR and Shift2Rail Joint Undertakings are playing an important role in this.

Horizon 2020 grants by the end of 2017:

EUR 1.001 million for all calls up to WP 2016/2017

#### Horizon 2020

The Horizon 2020 Transport Work Programmes continued to be implemented successfully in 2017. In particular, 2017 saw the kick-off of new projects worth some EUR 110m from the 2016 Call. New projects address in particular the areas of **urban mobility, efficient and green logistics, mobility as a service and the demonstration of cooperative ITS** as well as new business models for ITS. Furthermore, the 2017 Call, launched in Q4 2016, was closed and, by end 2017, the evaluation process was on track to completion. In 2017, the H2020 Interim Evaluation was also successfully completed, while the H2020 Transport Work Programme 2018-2020 and the 2018 Calls were published in Q4 2017. The H2020 Research & Innovation Calls continue to make a significant contribution to a number of Commission priorities, in particular to the Energy Union, the Digital Single

Market, as well as to Jobs, Growth and Investment. Finally, the Mobility Package was adopted in May 2017, presenting a new Strategic Transport Research & Innovation Agenda (STRIA) to enable a better understanding of long-term research and innovation needs, based on policy requirements.

To help monitoring and updating the strategy, a new Transport Research & Innovation Monitoring and Information System (TRIMIS) was announced. TRIMIS was subsequently implemented and made accessible online<sup>14</sup> in September 2017. TRIMIS contains information on all recent EU transport R&I projects (and increasing also on national projects) as well as a first set of policy-relevant analyses.

## Research and Innovation – 7<sup>th</sup> Framework Programme (FP7)

In 2017, DG MOVE ensured the management of projects in the areas of electromobility (electric buses and vehicles for freight delivery in cities), liquefied natural gas trucks, and projects in the framework of the CIVITAS Initiative:

- Under the R&I FREVUE project, demonstration of 80 electric vehicles for freight delivery in eight major urban areas. The project was acknowledged as the 'Low Carbon Road Transport Initiative of the Year' by the UK Low Carbon Vehicle Partnership.
- Under the R&I ZEEUS project, demonstration of 70 electric buses in 10 cities
- Under the R&I LNG Blue Corridors project, demonstration of 147 LNG trucks and 13 filling stations in 11 Member States
- CIVITAS DYN@MO
- FP7 grant agreement MOVE/296036/2MOVE2 involving cities of Stuttgart, Malaga, Brno, Tel Aviv (demonstration projects) completed and final report published.

Together with DG RTD, DG MOVE prepared the Staff Working Document 'Towards clean, competitive and connected mobility: the contribution of Transport Research and Innovation to the Mobility package' (COM(2017)223). This document takes stock of more than one year of consultations and expert work in seven innovation areas on a long-term strategy for transport research & innovation.

### EU added value: Horizon 2020 projects

#### 1) H2020 project on large-scale C-ITS demonstration: *C-MobILE*

The Horizon 2020 Transport Work Programme 2016/2017 is funding with approximately EUR 13 million a landmark new project called C-MobILE (Accelerating C-ITS Mobility Innovation and deployment in Europe). This project is setting the basis for large scale deployment of Cooperative-Intelligent Transport Systems in Europe, elevating research pilot sites to deployment locations of sustainable services, supported by local authorities. In particular, C-MobILE will deliver open, secure, large-scale C-ITS deployment of new and existing applications, demonstrated in complex urban environments, interoperable across countries and involving large groups of end users. C-MobILE is a key example of research and innovation proceeding to implementation and deployment, delivering digitally inter-connected mobility and contributing to the de-carbonisation of transport. The project started in 2017 and will conclude in 2020.

#### 2) Horizon 2020 project on the electrification of public transport in cities: *ELIPTIC*

ELIPTIC is another EU value-added project funded by Horizon 2020, and contributing to climate action with EUR 6 million total cost. The project is focusing on the electrification of public transport in cities, developing new concepts and business cases to optimise existing electric infrastructure and rolling stock, saving cost and energy. For instance, the project is introducing e-buses with en-route (re)charging capability, upgrading trolleybus networks with battery buses/trolley-hybrids and automatic wiring/de-wiring technology. It is also expanding electric intermodal options, such as linking electric car charging to tram infrastructure for long-distance commuters. As a result, the

<sup>14</sup> <https://trimis.ec.europa.eu/>

ELIPTIC project (which will end in 2018) is strengthening the role of electric public transport, leading to reduced fossil fuel consumption and to an improvement in air quality through lower local emissions.

3) SESAR Deployment projects – improving air traffic management in the EU to the benefit of EU citizens and businesses

- *Time Based Separation, at Heathrow Airport, London, UK)*

Objective: Deployment of Time-based separation (TBS) at Heathrow Airport in order to address the biggest single cause of delay to Heathrow arrivals – strong headwinds on final approach.

Results: Time Based Separation is expected to reduce this delay by as much as 50% of all strong wind regulations applied at Heathrow (equating to about 20% reduction in overall Heathrow Air Traffic Flow Management delay) with a projected benefit to the airlines in the range £6m to £7.5m per annum. Any reduction in spacing during strong wind conditions will not result in aircraft being closer than minimum radar separation of 2.5nm.

- *Free Route Airspace – Nordic countries (Borealis Alliance)*

A Free Route Airspace is an area in the sky in which airspace users can plan and fly their preferred route to reach their destinations. This means more direct routes, shorter flights, fewer delays, less fuel consumption, a considerable decrease in costs and no compromise on safety.

Objective: The Borealis project aims to create a Free Route Airspace across 9 European countries and 3 Functional Airspace Blocks (FABs).

Results: This is a huge area which would cover 38% of all flights in Europe, saving 70.000 tons of CO2 emissions and 22.000 tons of fuel every year thanks to shorter routes, and saving EUR 15 million in management costs annually.

## 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:

- the reports by AOSDs;
- the reports from Authorising Officers in other Directorates-General managing budget appropriations in cross-delegation;
- the reports on control results from entrusted entities in indirect management as well as the result of the Commission supervisory controls on the activities of these bodies;
- the contribution of the Internal Control Coordinator, including the results of internal control monitoring at the Directorate-General level;
- the reports of the ex-post audit;
- the limited conclusion of the internal auditor on the state of control and the observations and 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 systematic analysis of the evidence available. This approach provides sufficient guarantees as to the completeness and reliability of the information reported and results in a complete coverage of the budget delegated to the Director-General of DG MOVE.

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) Effectiveness of the internal control systems, and resulting in (2.1.4) Conclusions as regards assurance.

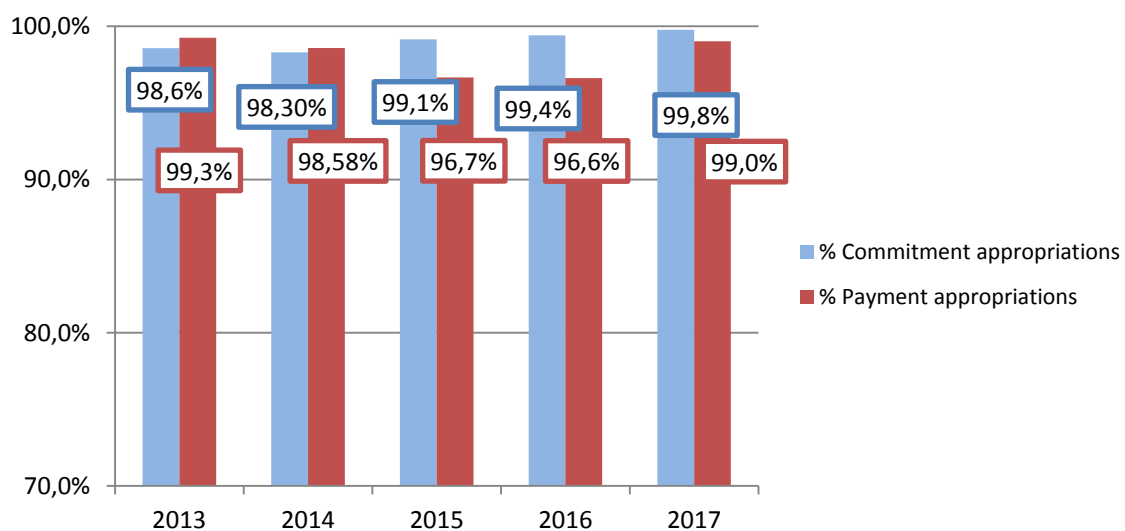
## 2.1.1 Control results

This section reports and assesses the elements identified by management that support the assurance on the achievement of the internal control objectives<sup>15</sup>. 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.

### 2.1.1.1. Overview of the 2017 budget execution

The total payments of DG MOVE in 2017 amount to EUR 414.04 million, the vast majority being operational as the administrative part only accounts for 0.91%.

The following chart shows the execution of DG MOVE's appropriations<sup>16</sup> over time. In 2017 DG MOVE absorbed 99.77% of the commitment appropriations and 99.02% of the payment appropriations.

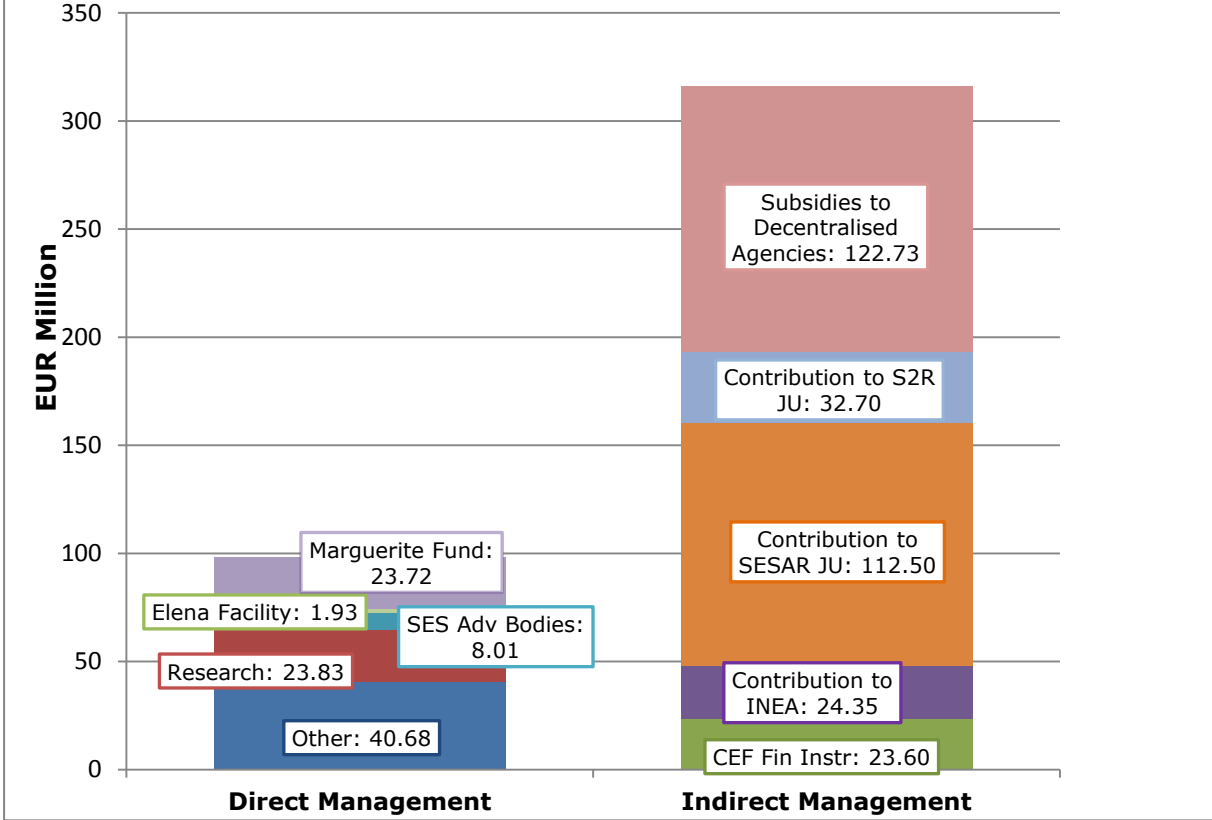


The two charts below provide an overview of DG MOVE implementation of its programmes and activities under direct management (23.7%) and indirect management (76.3%).

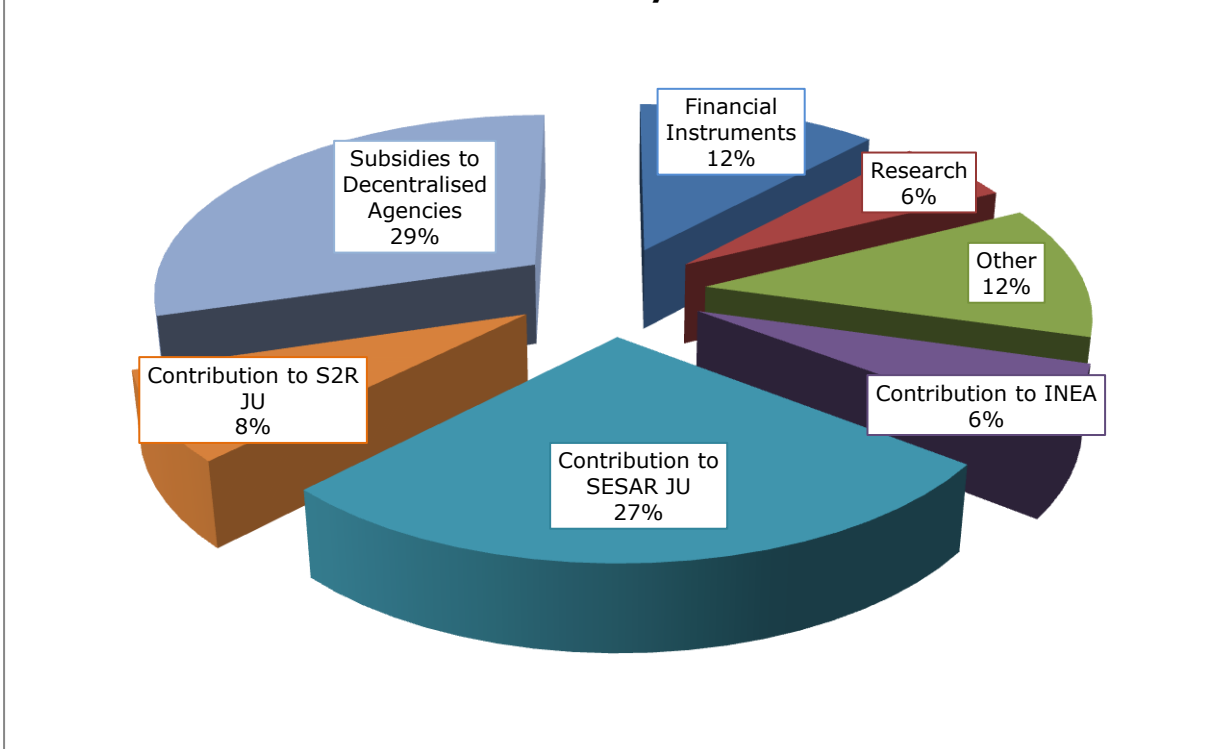
<sup>15</sup> Effectiveness, efficiency and economy of operations; reliability of reporting; safeguarding of assets and information; prevention, detection, correction and follow-up of fraud and irregularities; and adequate management of the risks relating to the legality and regularity of the underlying transactions, taking into account the multiannual character of programmes as well as the nature of the payments (FR Art 32).

<sup>16</sup> This chart is based on C1 credits only (commitment appropriations voted in the current budget (C1), budget modifications and other current year commitment appropriations, modifications due to amending budgets and transfers (C1) while tables 1 and 2 of Annex 3 include all authorised appropriations.

### Allocation of the 2017 payments between direct and indirect management



### Allocation of the payments made in 2017 per type of activity



**Table 2.1: Overview table: types of activities and main indicators (figures in EUR)**

Risk-types / Activities	Grants / Procurements	Cross-sub-delegations to other DGs	Subsidies / funds to EE (EU Agency, EA, JU) Delegation Agreements with EE	Available ICO indicators	Independent info from IAS /ECA on assurance or on new/overdue critical recommendations available	Reservation	AAR Section
H2020	16.606.250			RER: 1.60%	N	N	2.1.1.2.1
FP7	2.092.870			RER: 2.87%	N	Y	2.1.1.2.1
SES Advisory Bodies	8.007.117			Estimated RER < 2%	N	N	2.1.1.2.1
Contribution to SESAR JU			112.497.252	Audit / supervision activities RER (FP7) < 2%	N	N	2.1.1.2.2
Contribution to S2R JU			32.704.924	Audit / supervision activities	N	N	2.1.1.2.2
Contribution to INEA			24.346.600	Audit / supervision activities / Mgnt decl.	N	N	2.1.1.2.2
Subsidies to Decentralised Agencies			122.728.703	Audit / supervision activities	N	N	2.1.1.2.2
Financial instruments		25.651.084	23.600.000	Audit / supervision activities / Mgnt decl.	N	N	2.1.1.2.2
Other operational expenditure	43.795.817			Estimated RER < 2%	N	N	(Partly under 2.1.2.2.1 and 2.1.1.2.2)
Administrative expenditure	1.755.315	257.905		Estimated RER < 2%	N	N	(Partly under 2.1.2.2.1 and 2.1.1.2.2)
<b>Totals (coverage)</b>	<b>72.257.369</b>	<b>25.908.989</b>	<b>315.877.479</b>				
AAR Annex 3	<b>414.043.837</b>						

The overview table shows that:

- Based on the main indicator results available, overall suitable controls are in place and work as intended;
- The reservation on the Seventh Framework Programme (FP7) overpayments is maintained as the residual error rate remains persistently above the 2% materiality threshold defined in Annex 4 'Materiality Criteria'.

Section 2.1.5 addresses the FP7 reservation.

### **2.1.1.2. Control effectiveness as regards legality and regularity**

DG MOVE 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.

#### Overall amount at risk

As highlighted in table 2.2, for DG MOVE, the estimated overall amount at risk at payment<sup>17</sup> for the 2017 expenditure is EUR 4.59 million. This is the AOD's best, conservative estimation of the amount of *relevant expenditure*<sup>18</sup> during the year (EUR 382.22 million) 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<sup>19</sup> for the 2017 expenditure are EUR 3.21 million. 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 of EUR 1.39 million.

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<sup>17</sup> 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.

<sup>18</sup> '*relevant expenditure*' during the year = payments made, minus new pre-financing paid out, plus previously paid pre-financing which was cleared in the reporting year.

<sup>19</sup> Based on the 7 years historic adjusted average of recovery orders, which is the best available indication of the corrective capacity of the ex-post control systems implemented by the DG over the past years. This % is not applicable to pre-financing, administrative expenditure and funds paid to Agencies.

Table 2.2 - Estimated overall amount at risk at closure (in EUR; full year)

Activities	Payments made	Minus new prefinancing	Plus cleared prefinancing	Relevant expenditure	Average error rate (%)		Estimated overall amount at risk at payment	Average recoveries and corrections (adjusted ARC; %)	Estimated future corrections	Estimated overall amount at risk at closure
	As per AAR Annex 3, table 2	As per ABAC DWH BO report on prefinancing	As per ABAC DWH BO report on prefinancing	= (1) - (2) + (3)	Detected	Estimated	= (4) x (5)	Based on 7Y-avg adjusted historic recovery orders (as per ABAC DWH BO report on corrective capacity) Not applicable to pre-financing, administrative expenditure and disbursements to Entrusted Entities	= (4) x (7)	= (6) - (8)
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	
H2020	16.606.250	2.398.870	1.516.186	15.723.566	1,60%		251.577	0,35%	55.032	196.545
FP7	2.092.870	0	10.817.744	12.910.614	4,95%		639.075	2,08%	268.541	370.535
SES Advisory Bodies	8.007.117	1.988.067	4.712.126	10.731.176		0,50%	53.656	0,35%	37.559	16.097
Contribution to SESAR JU (FP7)	37.000.000	0	0	37.000.000	5,14%		1.901.800	4,00%	1.480.000	421.800
Contribution to SESAR JU (H2020)	72.176.652	0	0	72.176.652		0,42%	303.142	0,35%	252.618	50.524
Contribution to SESAR JU (admin)	3.320.600	0	0	3.320.600		0,00%	0	0,00%	0	0
Contribution to S2R JU	32.704.924	0	0	32.704.924		0,50%	163.525	0,00%	0	163.525
Contribution to INEA	24.346.600	24.346.600	21.354.152	21.354.152		0,00%	0	0,00%	0	0
Subsidies to Decentralised Agencies	122.728.703	122.728.703	81.916.215	81.916.215		0,00%	0	0,00%	0	0
Financial instruments	49.251.084		0	49.251.084		0,50%	246.255	0,35%	172.379	73.877
Other operational expenditure	37.584.529	4.983.738	4.567.349	37.168.140		0,50%	185.841	0,35%	130.088	55.752
SESAR Deployment Manager	6.211.288	3.597.662	3.597.661	6.211.287	13,60%		844.735	0,00%	810.453	34.282
Administrative expenditure	2.013.220	464.017	203.977	1.753.180		0,20%	3.506	0,00%	0	3.506
<b>Total</b>	<b>414.043.837</b>	<b>160.507.657</b>	<b>128.685.410</b>	<b>382.221.590</b>			<b>4.593.112</b>		<b>3.206.671</b>	<b>1.386.442</b>

Notes:

- Column (1): the amount of payments totalling EUR 49.25 million for Financial Instruments includes a EUR 23.6 million contribution to the CEF Debt Instrument (Indirect Management, section 2.1.1.2.2 (C)), and the amounts under cross-subdelegation (Direct Management, section 2.1.1.2.1 (D)) for the Marguerite Fund (EUR 23.72 million) and the Elena Facility (EUR 1.93 Million);
- Column (2) 'Minus new pre-financing': New PF actually paid out by the DG itself during the FY (i.e. excluding any PF received as transfer from another DG); Column (2) is excluding EUR 1.93 million of new prefinancing which has been cross-subdelegated to DG ENER. This amount has been fully reflected under DG ENER;
- Column (3) 'Plus cleared pre-financing': PF actually having been cleared during the FY, based on accepted invoices (i.e. their 'delta' in FY actuals, not their 'cut-off' based estimated 'consumption');
- Column (4) 'Relevant expenditure': this is a concept that intentionally combines elements from the budgetary accounting and from the general ledger accounting for the purpose of equivalence with the ECA's scope of the EC funds with potential exposure to L&R errors (see the ECA's AR methodological Annex 1.1 point 7);
- Column (5): **The calculated weighted average error rate is 1.2%**
  - o For the contribution paid by the DG to the Joint Undertakings signing grant agreements, the guidance provided by DG BUDG was to report their detected error rates. As regards the contribution paid to SESAR JU for its FP7 payments, the error rate of 5.14% corresponds thus to the multi-annual detected error rate reported in the JU's draft 2017 AAR. For H2020, there is no multi-annual error rate yet, whether for SESAR JU or S2R JU, due to the early stage of the program lifecycle. However, for the H2020 segment of SESAR's activity, an annual error rate (0.42%) was available and used as the best available estimate.
  - o The estimated error rate for administrative expenditure decreased from 0.6% to 0.2% between the 2016 AAR and the 2017 AAR to reflect the error rate identified by the Court of Auditors in their 2016 Annual Report (Source: 2017/C 322/02 - page 278; § 10.17): 'The overall audit evidence indicates that the level of error in spending on 'Administration' was not material. ... The estimated level of error present in the population is 0.2%.');
- Column (7): 'Average recoveries and corrections %': **The average, adjusted and weighted average of corrections is 0.84%**

The seven-year historic average of recovery orders corresponded to 1.9% (as per the standard ABAC DWH BO report on corrective capacity) for DG MOVE. However, the % has been adjusted conservatively to only take into account recoveries from the last seven years with a recovery context type 'irregularity' and 'error'. This % has been further adjusted by deducting certain recoveries of pre-financing, which under today's rules should be considered as being of recovery context type 'none' (instead of 'irregularity'). Also note that this % is not applied to pre-financing, administrative expenditure and to payments made to Agencies, in general not subject to ex-post recoveries. Eventually, this % is the best available indication of the expected corrective capacity of the ex-post control systems implemented by the DG over the past years. It is important to highlight that this overall estimation is not to be confused with the actual corrections, integrated in the DG's calculation of the residual error rate. However, for FP7 payments and for the contribution paid by DG MOVE to SESAR JU in respect of FP7, the correction rate used in this column corresponds to the difference between the **respective representative error rates** (4.95% for FP7 and 5.14% for SESAR FP 7 payments) and the **residual error rates** (2.87% for FP7 payments and 1.14% for SESAR JU FP7 payments (as reported in the JU's draft 2017 AAR)).

Columns (7) and (8): Regarding the SESAR Deployment Manager, no recovery history exists. The estimate provided corresponds to the recoveries that are being processed (see section 2.1.1.3.1).

Control effectiveness is discussed hereunder, making due consideration for the management mode.

Section 2.1.1.2.1 treats of control exerted over the two main programmes directly managed by DG MOVE (FP7 and H2020), as well as for the payments to Single European Sky (SES) Advisory Bodies and the SESAR Deployment Manager, as well as for the cross-subdelegations given to other Commission's services;

Section 2.1.1.2.2 covers control exerted over the budget entrusted to other entities.

### **2.1.1.2.1 Direct Management**

This section provides details on the control effectiveness for some of the expenditures made under direct management (the research programmes FP7 and H2020, contracts with SES Advisory Bodies and SESAR Deployment Manager) as well as for the cross-subdelegations given to other Commission's services.

#### **A) The Research Framework Programmes**

The general control objective for the Seventh Research Framework Programme (FP7) is to ensure that the residual error rate, i.e. the level of errors which remain undetected and uncorrected, does not exceed 2% by the end of the management cycle. Indeed, because of its multi-annual nature, the effectiveness of the control strategy can only be fully measured and assessed in the final stages of the Programme, once the ex-post control strategy has been fully implemented and systematic errors have been detected and corrected.

As for Horizon 2020, the final control objective is to get a residual error rate as close as possible to 2%, without necessarily expecting it to get under 2%.

The question of being on track towards these control objectives is to be (re)assessed annually, in view of the results of the implementation of the ex-post audit strategies and taking into account both the frequency and importance of the errors found as well as a cost-benefit analysis of the effort needed to detect and correct them.

#### **(i) FP7**

The objective of transport research under FP7 is to develop safer, greener and smarter pan-European transport systems that will benefit all citizens, respect the environment, and increase the competitiveness of European industries in the global market.

In total, EUR 40.05 million were paid from the FP7 budget lines, which represents 9.7% of the total payments made in 2017 by DG MOVE, as follows:

- Disbursements to directly managed FP7 projects amounted to EUR 2.09 million;
- The most significant part of the payments concerned the contribution to SESAR JU (EUR 37 million);
- The operational expenditure related to FP7 accounted for EUR 0.96 million<sup>20</sup> (e.g. reviewers, IT, studies).

The control systems are divided into four distinct stages, each with specific control objectives. Key indicators have been defined for each stage.

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<sup>20</sup> Included as part of the 37.58 EUR Million reported as 'Other operational expenditure' in Table 2.2.

However, this AAR will only focus on stages 3 and 4, as the first two stages of the control system (call for proposals, their evaluation and the contracting phase) were completed prior to 2015 for this programme.

- **Stage three: Monitoring the execution of projects**

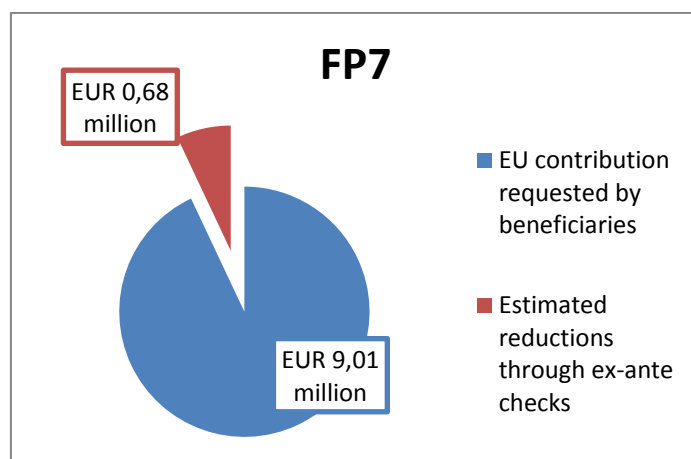
The third stage concerns the management of the project and the grant agreement. This stage comprises the technical monitoring and the ex-ante checks of participants' cost claims. The purpose of these ex-ante checks is to ensure that the transactions authorised are in compliance with the applicable rules.

In addition, every cost claim over EUR 375 000 is accompanied by a certificate on the financial statement (CFS), given by a qualified auditor or a Certified Public Official. The Research family, as well as ECA, have identified that these certificates do not always identify all ineligible expenditure in the cost claim. To assess the impact of this weakness the Research Directorates-General (DG RTD) carried out a study that showed that cost claims with a CFS had an average error rate 50% lower than those without. This shows that, while not perfect, these CFSs do have a significant positive effect.

**Control effectiveness:**

The chart below shows the reductions made to the EU contribution claimed by grant beneficiaries as a result of ex-ante checks. These checks have prevented the payment of around EUR 0.68 million, representing 7.5% of the requested EU contribution. The main errors detected in cost claims concern inconsistencies between the information supplied by grant beneficiaries (amount of costs, methods of calculation, periods, etc.) and that included in the audit certificate; audit certificates that are incomplete or missing, or not provided by a qualified auditor; arithmetical errors; and costs incurred outside the eligibility period or costs not covered by the legal basis.

**Effectiveness of ex-ante checks: reductions to the requested EU contribution<sup>21</sup>**



- **Stage four: Ex-post controls and recoveries**

The fourth stage includes the ex-post audits as well as the recovery of any amounts found to have been paid in excess of the amount due.

<sup>21</sup> Audit results implementation and budget capping not included.

## ↪ **Common ex-post audit strategy of the Research DGs (for FP7 and H2020)**

Since 2007, DG RTD has adopted a common audit strategy intended to ensure the legality and regularity of expenditure on a multi-annual basis including detecting and correcting systematic errors. The audits examine only interim and final claims by beneficiaries. Transactions relating to pre-financing are not included in the population subject to audit.

Since 2012, a Common Representative audit Sample (CRS) has been introduced across the research family to reduce the audit burden on beneficiaries by reducing the number of repeat audits whilst continuing to provide a representative view of the implementation of the Research Framework Programmes (FP). The CRS is thus intended to estimate, via a representative sample of cost claims across the Research Family, the overall level of error in the Research FP, across all services involved in their management.

The CRS is complemented by risk-based audits, selected according to one or more risk criteria, aiming at detecting and correcting as many errors as possible, for instance by targeting the larger beneficiaries and identifying possibly fraudulent operators. These audits are also referred to as 'corrective' audits.

Since 2014, the Common Audit Service (CAS) in DG RTD has undertaken all audits for the DGs that fund research grants (amongst which DG MOVE).

Different indicators are calculated to provide a comprehensive view of legality and regularity:

- **Representative Error Rate:** This is the error rate derived solely from the results of CRS, extrapolated to the overall populations and calculated for each FP as a whole. This error rate provides an estimate of the level of error in a given framework programme at the time of the audits, but it does not factor in the follow-up and corrections/recoveries undertaken by the Commission services after the audit, nor does it provide information on the net final financial impact of errors.
- **Residual Error Rate:** The residual error rate, on a multi-annual basis, is the extrapolated level of error remaining after corrections/recoveries undertaken by Commission services following the audits that have been made. The calculation of the residual error rate, as shown in **Annex 4**, is based on the following assumptions:
  - (1) all errors detected will be corrected;
  - (2) all non-audited expenditure subject to extension of audit findings is clean from systematic material errors so that the residual error rate can be estimated to be equal to the non-systematic error rate.

The residual error rate develops over time and depends on the assumptions set out above.

To derive assurance, DG MOVE is using the residual error rate, which is considered by the Research DGs as a reliable and acceptable indicator for the purposes for which it was intended, i.e. as legality and regularity indicator on the progress made, through its ex-post strategy, in dealing with errors over a multi-annual basis. However, it remains an estimate as long as not all cost claims have been received and not all cases of extension of audit findings have been fully implemented yet.

## ↪ **Results of FP7 ex-post audits**

In the case of FP7, the year 2017 was the ninth year of implementation of the audit strategy.

**The Research family as a whole** had a target of 4,056 audit results for FP7. With FP7 4,324 audits results covering 64.2% of FP7 expenditure completed by the end of 2017, this original target was exceeded by 6%. The percentage of FP7 expenditure covered by the audits (64.2%) refers to the value of the participations of the audited beneficiaries. It includes both the fully audited participations (8.4%), also referred to as the 'direct' coverage, and the non-audited participations which nevertheless, after the full treatment of audit results, are clean from systematic errors (55.8%), also referred to as the 'indirect' coverage.

Detailed data on DG MOVE FP7 audit coverage are shown in table 2.3:

**Table 2.3 – FP7 audit coverage**

	Planned cumulative period	Achieved cumulative period	Planned in 2017	Achieved in 2017 <sup>22</sup>
Number of closed audits	164	163	0	5
Total amount audited (EC share EUR)	n.a.	53 542 011	n.a.	3 407 385

The error rates resulting from the audit work on DG MOVE's FP7 projects are:

- **Common<sup>23</sup> Representative Error Rate (RepER):** Based on 461 cost statements for which the audit is completed (95% out of a sample of 486), this error rate is **4.95%**. The remaining cases are still subject to contradictory procedures with the beneficiaries; consequently, the Common Representative Error Rate may still develop.
- **Residual Error Rate (RER):** At this point in time, this error rate amounts to **2.87%**. As it is above the materiality threshold of 2%, **DG MOVE maintains the reservation for FP7<sup>24</sup>**. It also has to be noted that the RER may still vary following the development of the Common Representative Error rate.

**Table 2.4 – Calculation of the FP7 residual error rate**

R&I Family level Representative Error Rate: RepER%:	-4.95%
R&I Family level systemic share of the RER: RepERsys%:	-2.62%
Total EU contribution (P)	EUR 208 360 510
Costs accepted by Financial officers (A)	EUR 52 883 132
Total non-audited participations of audited beneficiaries (E) <sup>25</sup>	EUR 65 478 936
<b>Residual error rate<sup>26</sup>:</b>	<b>-2.87%</b>

<sup>22</sup> An audit is considered finalised when the final audit report is sent to the Financial Management Unit for implementation.

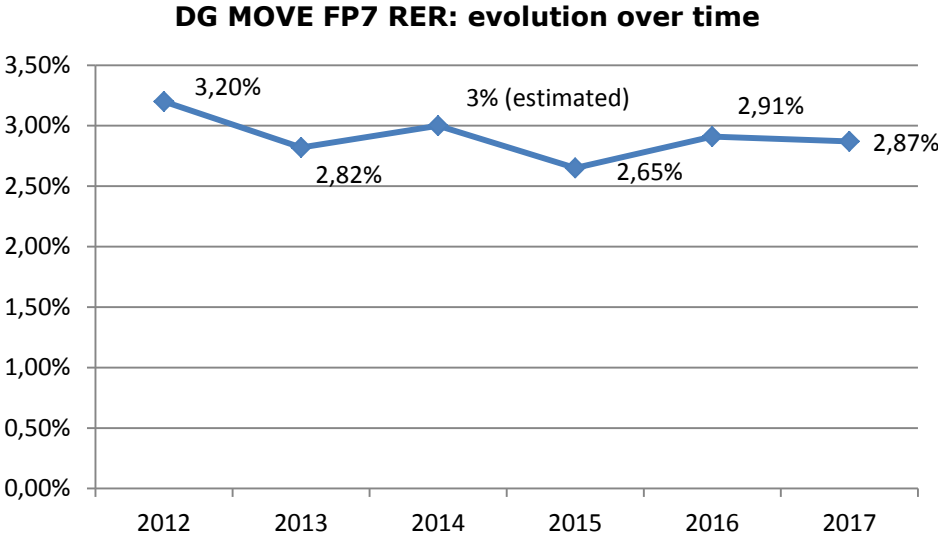
<sup>23</sup> i.e. for the Research family.

<sup>24</sup> Developed in section 2.1.5.

<sup>25</sup> This amount excludes EU contribution of beneficiaries with ongoing extrapolation cases.

<sup>26</sup> Residual Error rate:  $ResER\% = \frac{(RepER\% \times (P-A)) - (RepERsys\% \times E)}{P}$

These results already include the partial results of the third and last Common Representative Audit Sample (launched in 2016). They are concordant with the general expectation that the Common Representative Error Rate resulting from audits of FP7 will be around 5% at the end of the programme.



**Conclusions on the ex-post audits and the error rates of FP7**

This programme is now in its final stage of implementation, with a decreasing number of open projects and decreasing amounts of payment. After the closure of the last CRS, no new information is expected relating to the Error Rates, and their financial impact on the yearly expenditure will be limited.

As a result of the audit results still to be completed, DG MOVE's RER may still change in 2018. However since the RER remained stable over the last years, and considering the small number of outstanding audits, it can be assumed that the current value is representative of the final RER.

These results are in line with the conclusions expressed in the AARs over the years: that the Common Representative Error rate resulting from audits of FP7 will be around 5% at the end of the programme and the RER for DG MOVE at around 3%.

These amounts do not necessarily mean that there is a loss to the Community Budget. Many of the projects spend more than the capped budget, and so the real loss to the Community budget will be lower than when estimating the financial impact by using the error rates above.

DG MOVE participated, throughout the course of the programme, to the common continuous effort to mitigate the risk of error in FP7 expenditure. This effort included actions regarding simplification, communication, improvement of ex-ante controls, ex-post audit coverage together with the recovery of overpayments and the extrapolation of systemic errors to unaudited cost claims of the same beneficiaries in terms.

At this stage, it is clear that the 2% residual error target for FP7 will not be attained. Nevertheless, the lessons learned from FP7 audits have been used in the development of Horizon 2020 programme's general framework.

## ↩ Implementation of audit results

In total over the period 2010-2017, the results of the FP7 audits relate to 201 participations, out of which two were still in the contradictory procedure with the beneficiaries. From the remaining 199 participations for which the results have been implemented, 96 are in favour of the EC (48.2%), 68 in favour of the beneficiary (34.2%) and 35 resulting in 'zero' adjustments (17.6%).

The table 2.5 below provides an overview of the adjustments in favour of the Commission. By the end of 2017, the adjustments concern 97 participations, corresponding to EUR 3.38 million in favour of the Commission. Out of the 97 participations with an audit adjustment in favour of the EC, 96 adjustments (99%) for EUR 3.33 million have already been implemented and one was in the contradictory procedure with the beneficiary (as indicated above). About 65% of the adjustments implemented were recovered through offsetting from subsequent payments (EUR 1.2 million) and 35% through recovery orders (EUR 2.1 million). It has to be noted that it is not unexpected to have open cases at this stage as there might be 18 months before new declarations are received from beneficiaries.

**Table 2.5 – Implementation of FP7 ex-post audit results in favour of the EC (2010-2017)**

Results from external audits		Adjustments in contradictory procedure		Adjustments implemented	
Number	Funding adjustment (€)	Number	Funding adjustment (€)	Number	Funding adjustment (€)
97	- 3 382 841	1	- 57 421	96	-3 325 420

## ↩ Implementation of extrapolated audit results

The extrapolation process allows correcting systemic errors of a beneficiary detected by an audit in all his ongoing participations. These corrections stem from audits made by DG MOVE or other DGs in the research family where systematic errors were found.

As can be seen from the table 2.6, by the end of 2017, 105 such participations were found and the beneficiaries were asked to rectify the errors in DG MOVE projects and submit revised costs statements. On this basis, 45 participations were judged to be concerned by the systematic errors identified by DG MOVE or any of the other DG. Systematic errors have been corrected for 33 participations, of which two in favour of the beneficiaries.

The Commission closely monitors the implementation of extrapolation cases. The implementation rate of FP7 recommendations was 88.6% at the end of 2017 compared to 79.2% in 2016. It has to be noted that it is not unexpected to have open cases at this stage as there might be 18 months before new declarations are received from beneficiaries.

**Table 2.6 – Implementation of extrapolation of FP7 audit results (2010-2017)**

Number of participations with expected systematic errors	Number of participations without systematic errors	Implemented cases				Number of participations to be implemented <sup>27</sup>
		In favour of EC		In favour beneficiary		
		Number	Value (EUR)	Number	Value (EUR)	
105	60	31	-387 269	2	1 327	12

Taking tables 2.5 and 2.6 together shows that, by the end of 2017, EUR 3.71 million were recovered following ex-post audits of FP7 projects.

#### ↪ **Liquidated damages**

Liquidated damages are due where a beneficiary has overstated expenses and has in consequence received unjustified EU contribution. Liquidated damages will only be applied where the unjustified contribution exceeds 2% of the total contribution claimed and accepted for the given period(s) ('de minimis' rule corresponding to the materiality level of the Court of Auditors).

By the end of 2017 DG MOVE identified liquidated damages for 61 cases under FP7:

- Debit notes were already issued for 51 cases for a total amount of EUR 468 972;
- One more recovery order will be issued in 2018;
- In nine other cases, the amounts due were below the threshold of EUR 200, so they did not have to be recovered.

#### **(ii) H2020**

In 2017, two H2020 grant agreements were signed by DG MOVE for a total value of EUR 3 million (call: H2020-MG-2017-Single-Stage-RTD-MOVE).

The amounts paid totalled EUR 16.61 million, representing 4.01% of the total payments made by DG MOVE, of which EUR 2.4 million were pre-financing payments concerning these two new grants (still un-cleared) and EUR 14.21 million for three interim payments of previous years' grants.

The grant agreements managed by DG MOVE are part of the Transport Challenge 'Smart, green and integrated transport', aimed at achieving a European transport system that is resilient, resource-efficient, climate and environmentally-friendly, safe and seamless for the benefit of all citizens, the economy and society.

- **Stage one: Programming, evaluation and selection of proposals**
  - **A - Preparation, adoption and publication of the Annual Work Programme and Calls for proposals**

The overall control objective is to evaluate the project proposals in order to ensure scientific excellence (selection of the best projects) and the achievement of the operational objectives set out in the specific work programmes, as adopted by the

<sup>27</sup> Cases to be implemented are those for which the Commission has written to the beneficiaries requesting them to submit revised cost statements to correct the systematic issues detected.

Council and the Parliament.

The planning of the work programmes and of the calls is organized in common way for the Research Family. Key controls, including the screening of proposals for eligibility, the choice of independent expert evaluators, the evaluation by a minimum of three evaluators, and a panel review for the ranking of proposals, ensure legality and regularity of operation. These checks also contribute to the achievement of Horizon2020 objective, i.e. excellence of the science.

Eight proposals had been received for the 2017 call<sup>28</sup> with a total EU contribution requested of EUR 11.10 million, while the available budget was EUR 3 million.

- **B – Selecting and awarding: Evaluation, ranking and selection of proposals**

The main control objective is to ensure that the most promising projects for meeting the policy objectives are among (a good balance of) the proposals selected. The two proposals selected cover two different topics: Urban and Logistics for a total EU financial contribution of EUR 3 million.

DG MOVE met for both grant agreements (100%) the objective of a maximum of five months spent between the call's deadline and the moment the applicants are informed of the results of the evaluation.

- **Stage two: Contracting**

The second stage concerns the preparation and award of grant agreements (GA). The overall objective of this stage is the translation of the retained scientific research proposals into a legally binding contract allowing for the management of both the scientific and financial aspects of the project.

In addition to the basic checks of the participants, risk based checks may be undertaken in order to prevent or mitigate fraud and other risks (operational capacity, financial capacity).

IT tools, business processes and some verification are organized at Research Family level. The new legal entities undergo the validation process in REA, no matter which is the implementing body finalizing the GA.

Two GAs were signed in 2017 by DG MOVE, with an average time-to-grant of 274 days.

- **Stage three: Monitoring the execution of projects**

The third stage covers the monitoring of the operational, financial and reporting aspects related to the projects and grant agreements. At the end of 2017, five intermediate payments had been made by DG MOVE. These were based on technical monitoring and ex-ante checks of participants' cost claims. The purpose of these ex-ante checks is to ensure that the transactions authorised are in compliance with the applicable rules.

In addition, every cost claim over EUR 325 000 is accompanied by a certificate on the financial statement (CFS), given by a qualified auditor or a Certified Public Official. The Commission services assess the findings reported by the auditor, any other relevant information and the beneficiary's representations and statements to draw conclusions as to the eligibility of costs claimed or the adequacy of the methodology used to calculate average personnel costs.

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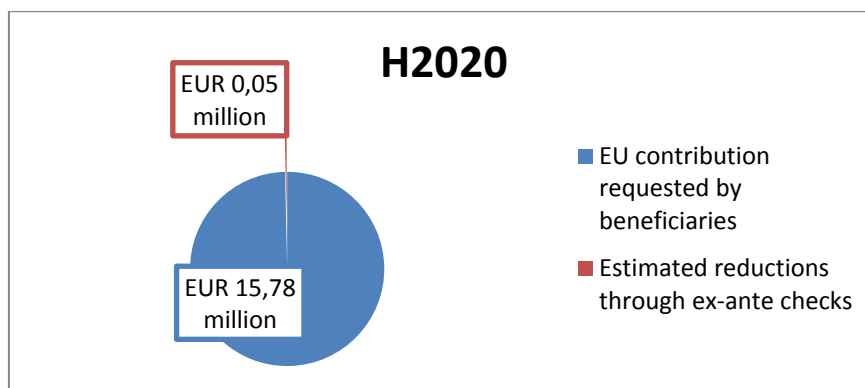
<sup>28</sup> H2020-MG-2017-Single-Stage-RTD-MOVE

The common ex-ante control guidance for H2020, adopted in December 2016 by the Common Support Centre, streamlines the control practices related to the treatment of the cost-claims. It makes use of dedicated features in the corporate grant management IT systems (Compass and Sygma), where a particular attention is paid to the differentiation of the controls following the risks.

### Control effectiveness:

The chart below shows the reductions made to the EU contribution claimed by grant beneficiaries as a result of ex-ante checks..

### Effectiveness of ex-ante checks: reductions to the requested EU contribution<sup>29</sup>



- **Stage four: Ex-post controls and expectations for H2020**

The fourth stage includes the ex-post audits as well as the recovery of any amounts found to have been paid in excess of the amount due.

The ex-post audit methodology is similar as for FP7 (see above under (i) FP7)).

Given the stage of the programme lifecycle, a limited number of cost claims totalling EUR 14.21 million of requested funding had been received by DG MOVE by the end of 2017. The first Horizon 2020 audits were launched in the middle of 2016 and further audits were launched in 2017. The first Common Representative audit Sample (CRS), a Common Risk Sample and an Additional Sample<sup>30</sup> have been selected. In total, by December 2017, 625 participations had been selected for audit by the Common Audit Service, covering all the services signing grants in Horizon 2020.

In total for the Research and Innovation Family, the audit of 392 participations has been finalised (385 on 2017 selection of 625 participations and seven on the 2018 selection). This includes 110 out of 142 selected in the first CRS. The error rate on 31/12/2017 is:

**Detected error rate:** Based on 110 out of 142 participations selected in the first CRS, the detected error rate is 1.6%. However, taking into account the draft audit reports, the expected representative error rate for the full sample is estimated to be around 2.82%.

**Residual Error Rate:** In the particular case of DG MOVE the **residual error rate** is the same as the detected error rate of 1.6% (not taking into account draft audit reports) as no audits on DG MOVE beneficiaries have been included in the CRS so far.

<sup>29</sup> Audit results implementation and budget capping not included.

<sup>30</sup> This last sampling accommodates special needs of certain stakeholders with regard to audit coverage and selection method. In addition, top ups, which are participations of selected beneficiaries which are added to the selected participations, are included in the total participations selected.

The error rates set out above **is however only a preliminary estimation and has to be treated as such**. The CRS is not yet complete, and so is not yet fully representative of the expenditure that it covered. In addition, the first CRS was taken at an early stage of the programme in order to provide an early indication of the error rate and, also, whether the simplifications introduced in Horizon 2020 had been effective. The nature of expenditure in the first years of the programme may not be totally representative of the expenditure across the whole period of expenditure. And the programme is in any case multi-annual, so the error rates, and especially the residual error rate, must be considered over time. In particular, the cleaning effect of audits over time will tend to increase the difference between the representative/detected error rate and residual error rate, with the residual error rate finishing at a lower rate.

There is nevertheless evidence that the simplifications introduced in Horizon 2020, as well as the increased experience of major beneficiaries, are reducing the number and level of errors made by beneficiaries. However, beneficiaries still make a number of errors, sometimes because of a lack of understanding of the rules, sometimes because of a non-respect of the rules.

The Model Grant Agreement, and its accompanying annotations, has already been adjusted to introduce simplifications or clarifications on different points. A working group bringing together auditors from the Commission and the Court has considered, based on the results of the first audits, the opportunity of additional simplifications and clarifications<sup>31</sup>.

Considerable efforts have been made to ensure clear communication of the rules and guidance to participants and their auditors. By the end of 2017, a total of 75 communication events had been organised in 26 different countries with a total of 6,600 participants.

Trials of lump sum funding will be undertaken in the 2018 work programme to evaluate if this form of entitlement funding, which would avoid errors of legality and regularity, is appropriate to achieving all the objectives of research policy.

The Financial statement accompanying the Commission's proposal to the legislative authority for the Horizon 2020 regulation states: *The Commission considers therefore that, for research spending under Horizon 2020, a risk of error, on an annual basis, within **a range between 2-5 % is a realistic objective** taking into account the costs of controls, the simplification measures proposed to reduce the complexity of rules and the related inherent risk associated to the reimbursement of costs of the research project. The ultimate aim for the **residual level of error** at the closure of the programmes after the financial impact of all audits, correction and recovery measures will have been taken into account is to **achieve a level as close as possible to 2 %**.*

The first audit results suggest that the detected (and in the future representative) error rate will remain within the established range. Together with the experience in FP7, they also suggest that the objective for the residual error rate will be respected.

In conclusion, DG MOVE still considers that the error rate will fall within the range established in the Financial Statement, so it does not consider that a reserve is needed for Horizon 2020 expenditure.

#### ↪ **Implementation of extrapolated audit results**

The extrapolation process allows correcting systemic errors of a beneficiary detected by an audit in all his ongoing participations. These corrections stem from audits made by DG MOVE or other DGs in the research family where systematic errors were found.

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<sup>31</sup> The meeting took place on 14 March, 2018.

In total three participations were found in 2017 and the beneficiaries were asked to rectify the errors in DG MOVE projects and submit revised costs statements. The replies from the beneficiaries are expected to be received in the first quarter of 2018.

## **B) Single European Sky (SES) Advisory Bodies**

The SES initiative establishes a regulatory framework that includes common binding rules on Air Traffic Management (ATM) safety, on ATM services, on airspace management and on interoperability. That framework includes a technological pillar, 'SESAR project' (Single European Sky ATM Research), that is managed through the eponymous Joint Undertaking<sup>32</sup>. The 2009 revision of the regulations introduced a performance scheme, a revised charging scheme and the requirements for functional airspace blocks. It also created support bodies to the SES: the Network Manager<sup>33</sup> (NM) that performs the design of the European Route Network and the coordination of air traffic resources and the Performance Review Body (PRB)<sup>34</sup> that assists the Commission in the implementation of the SES performance and charging schemes.

Before 2017, both bodies were operated by Eurocontrol, an intergovernmental organisation with which the Commission cooperates since 2003 under the Cooperation Agreement related to support the implementation of the SES.

Eurocontrol was nominated<sup>35</sup> as the Network Manager for the Single European Sky until end 2019. It addresses performance issues strategically, operationally and technically. Its overarching mission is to contribute to the delivery of air traffic management's (ATM) performance in the pan-European network in the areas of safety, capacity, environment/flight efficiency and cost-effectiveness. The European ATM network includes all the European Union's 28 and Eurocontrol's 41 Member States, as well as other states that have concluded bilateral agreements with the NM.

Regarding the PRB, the Commission had concluded a Framework Agreement on the basis of Article 126.1(b) of the IR to the EU Financial Regulation (negotiated procedure with one single operator) on 19 December 2012. Regarding the PRB transition, the Commission entered into a negotiated procedure to ensure continuity of operations until the effective setup of the revised PRB structure. This specific contract covered the period January to October 2017.

In 2017, a new PRB was appointed and a new PRB support structure implemented.

The PRB is now made-up of nominated members. The members of the PRB were selected through an open call for applications and signed expert contracts for a maximum of EUR 72,000, aiming at providing assistance to the Commission for the implementation of the SES performance and charging schemes. Together with the appointment of the PRB members, the support to the PRB was restructured under a new set-up. To this end, the Commission signed in 2017 a framework and a first specific contract with a private consortium as well as a service contract with Eurocontrol. The consortium provides the analytical and secretarial support to the PRB. Eurocontrol collects, validates, disseminates and pre-analyses performance-related data for the Commission. The European Aviation Safety Agency (EASA) deals with the safety data.

In 2017, DG MOVE contracted Eurocontrol for providing support over 52 months.

The selection and appointment of the PRB members occurred pursuant to Implementing Decision (EU) 2016/2296. The selection was made through an open call for applications, under expert contracts, aiming at providing assistance to the Commission to the

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<sup>32</sup> See section 2.1.1.2.2.D

<sup>33</sup> Commission Regulation (EU) No 677/2011

<sup>34</sup> Commission Implementing Regulation (EU) No 390/2013

<sup>35</sup> Commission Decision on 7 July 2011 (C(2011) 4130 final)

implementation of Single European Sky (SES) performance and charging schemes. The decision underwent a consultation of Member States. The appointment was published in the Official Journal of the EU.

The selection of the consortium occurred through an open call for tender for a framework contract. A specific contract, signed on 16 October 2017, was concluded for a period of 15 months.

Given the significance of the performance scheme in the context of ATM, DG MOVE identified a significant continuity risk related to the transition towards a new structure. The combination of the new service contract with Eurocontrol, with a swift progress made towards the revised PRB structure allowed for a successful mitigation of this risk.

In 2017, payments made in this respect totalled EUR 8 million.

The control activities performed with respect to the PRB and the Network Manager in 2017 included the following:

- Bi-monthly Coordination Group meeting;
- Steering Group meeting three times a year;
- Financial checks in accordance with the established financial circuits;
- Ensuring that operational results from this project are of good value and meet the objectives and that the related financial operations comply with regulatory and contractual provisions;
- Operational authorisation by AOSD.

In addition, performance monitoring results undergo a validation with the Member States.

No ex-post controls were performed as this support actions are implemented through service contracts and are thus considered as low risk regarding legality and regularity.

Assurance is drawn in this respect from a positive assessment of the performance of the support bodies and from the effective delivery of the services and their compliance with the regulatory framework and with the contractual provisions.

### **C) The SESAR Deployment Manager**

The SESAR project is part of an innovation cycle that brings innovative ATM concepts from their definition, through their development and validation to their deployment into the operational environment. In this cycle, the essential SESAR solutions developed and validated by the SESAR Joint Undertaking are then deployed as 'common projects' through the SESAR deployment framework.

The Commission is assisted by the SESAR Deployment Manager (SDM)<sup>36</sup>, a body that pursues the synchronised and timely deployment of common projects.

The SESAR Deployment Alliance consortium (SDA), which comprises 16 partners, including major European air navigation service providers, airlines and airports, was selected to fulfil the tasks<sup>37</sup> of Deployment Manager.

The setup and the action plan of SDA consortium were defined in a framework partnership agreement signed with the Commission in December 2014. SDA performs two types of tasks: as deployment manager, mainly translating common projects into a detailed deployment programme and ensuring its implementation and monitoring; and as

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<sup>36</sup> Commission Implementing Regulation (EU) N°409/2013

<sup>37</sup> Article 9 of Regulation (EU) 409/2013

a coordinator of the projects.

These 'implementation projects' are funded under the CEF programme and are selected through calls for proposals launched by INEA, who also manages the related specific grant agreements.

The Commission finances the work of SDA as deployment manager through specific grant agreements as Programme Support Actions under the 2014-2020 CEF multi-annual work programme. Each specific agreement defines the detailed work programme, cost estimation, deliverables and reporting requirements for the period covered by the agreement.

In 2017, payments made to the SDA amounted to EUR 6.21 million.

DG MOVE supervises and monitors the work of SDA through these deliverables and reporting mechanisms, through periodic management meetings with the SDA management team, bilateral meetings with its managing director and through on-the-spot visits to projects coordinated by SDA. Financial checks are carried out in accordance with the established financial circuits.

DG MOVE also carried out financial audits on SDA, that revealing eligibility issues arising from the submitted cost claims. Corrections amounted to EUR 0.81 million, mainly resulting from the difficulties in setting up the consortium and from its complex structure<sup>38</sup>.

As a consequence, an audit campaign was initiated through which payments made to major<sup>39</sup> partners against the SDM specific grant agreements were systematically audited. As of 31 December 2017, 53% (EUR 6.03 million) of the expenditure related to the first two specific agreements had been covered by these audits. The implementation of the seven audits finalised in 2017 is ongoing. This approach will be maintained for the coming years. The ongoing and planned audits for 2018 are expected to bring the coverage rate to about 75% of the first three specific agreements by end 2018 and to ensure an appropriate mitigation of the observed errors. On a longer perspective, the coverage of major partners should approach 100%.

A close monitoring of SDA's activities and cooperation with its management team have led to the implementation of the necessary remedies and the constant improvement in the transparency of its financial management and ultimately of its performance. To further improve its functioning and simplify SDA's setup and based on the lessons learnt, as of January 2018, the consortium transformed itself into a single legal entity. The financial aspects of SDA's work and the reporting requirements are also better defined in the current specific grant agreements.

The assurance drawn in this respect stems from the implementation reports received from SDA and from the comprehensive ex-post coverage that is being ensured. The amount of corrections is significant in respect of payments made but only concerns a single grant agreement. All significant cost statements will be audited, so as to ensure an as comprehensive as possible level of correction of the issues. Corrective actions were undertaken to solve the underlying issues at consortium level. This allows DG MOVE to consider that there should not be any significant undetected errors and to build the necessary degree of assurance. The evolution of the issue will be closely monitored through the extensive audit coverage.

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<sup>38</sup> The corrections correspond to 13.6% of the audited amount. Approximately 60% of these corrections refer to a procedural issue with one of the partners.

<sup>39</sup> The consortium includes some minority partners for which cost claimed are too limited to justify a specific audit.

## D) Cross-sub delegations

As in previous years, DG MOVE has cross-subdelegated a number of activities to different services within the Commission, in order to arrange the provision of certain operations more efficiently. Being a Commission service itself, the AOD of the cross-subdelegated service is bound to implement the appropriations subject to the same rules, responsibilities and accountability arrangements as DG MOVE.

Besides, the cross-subdelegation agreement requires the AOD of the concerned DGs to report on the use of these appropriations. In their reports, the AODs did not communicate any events, control results or issues which could have a material impact on assurance.

In 2017, DG MOVE gave cross-subdelegations to DGs ECFIN, ENER, ESTAT, PMO and DIGIT<sup>40</sup> for the following amounts and purposes:

- **To DG ECFIN: EUR 36.28 million of commitment appropriations for the Marguerite Fund were outstanding by end 2016, of which EUR 23.72 million were paid in 2017.**

The Marguerite Fund's<sup>41</sup> mission was to provide equity to finance new infrastructure projects. This concerns both new assets (greenfield investments) as well as expansion and renovation of existing assets (brownfield investments).

The Marguerite Fund was managed by an external Management Board, which makes drawdown requests for credits as required. DG ECFIN is responsible for the commitments and authorisation of payments and is also in charge of monitoring the management of the fund as well as the regular reporting to DG MOVE. In 2017, a single payment of EUR 23.72 million was made to the Marguerite Fund. The Marguerite Fund is coordinating efforts with DG MOVE, DG ECFIN and INEA to accelerate its investment in TEN-T projects. As of 30 November 2017<sup>42</sup>, five TEN-T deals have been concluded for a total amount of EUR 220 million, representing 31% of the value of the proposition. Two of these five deals (Pedemontana Veneta - EUR 40 million and the Greek Regional Airports - EUR 113 million) have been concluded towards the end of the investment period.

### Sales of the assets and creation of Marguerite Fund II:

Part of the Marguerite operational assets were sold, in line with the agreement of the Supervisory Board, to support the funding of a successor Fund (Marguerite II). The selection of the purchaser occurred in June 2017.

Marguerite II was established at the end of 2017. It will continue the important work of its predecessor and will fund similar investments, with a continued focus on greenfield investments, enabling the launch of new infrastructure projects in line with the objectives of the Investment Plan for Europe and EFSI. The EU did not invest directly in the Fund. However, the EIB invested under EFSI and therefore the EU budget partly guarantees this investment.

### Governance and supervision arrangements

The Commission, via DG ECFIN, was represented in the Supervisory Board of the Fund, which monitored the activities of the Management Board. The material terms and conditions for EU investment in the Marguerite Fund were established by a Commission's Decision<sup>43</sup>. The regular reporting from the Fund to the Commission was timely, precise and well prepared.

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<sup>40</sup> Cross-subdelegations to PMO and DIGIT only saw minimal financial transactions in 2017.

<sup>41</sup> The 2020 European Fund for Energy, Climate Change & Infrastructure.

<sup>42</sup> Before proceeding to the transfer of the seed assets to Marguerite Fund II and the sales to Pantheon.

<sup>43</sup> C (2010)941

DG ECFIN was responsible for appropriate co-ordination between the Fund and other Commission services on specific questions arising in relation to Community policies and legislation. In this respect DG ECFIN analysed:

- regular reporting (EVCA quarterly reports) prepared by Marguerite Fund Adviser S.A. for the purpose of Marguerite Fund's Management Board (the Board) and the Supervisory Board;
- financial statements audited on an annual basis by an external audit company.

As a result of the regular reporting and contacts with the Marguerite Fund and DG ECFIN, DG MOVE was in a position to have a detailed overview of projects pipelines as well as of the financial accounts of the Fund.

The financial statements of Marguerite were audited on an annual basis. The audit report for the year 2016 issued in June 2017 showed no financial errors.

- **To DG ENER: the following actions were committed, with the following payments made in 2017:**
  - EUR 257,905 committed in 2016 and paid to cover the CEF mid-term review in 2017;
  - EUR 5 million committed in 2016 and additional EUR 10 million committed in 2017 for the ELENA Facility instrument, managed by the EIB. In 2017, the payment contributions by DG MOVE to ELENA amounted to EUR 1.93 million.
  - EUR 237,499 for the coordination of the renewable fuel stakeholders strategy in the field of aviation committed in 2016, with no payments made in 2017.
- **To ESTAT: EUR 349,591 were committed in 2016 for support activities to the European transport policy and passenger rights, with no payments in 2017.**

In 2017 DG MOVE did not identify any events, issues or problems in relation to cross-subdelegations that could have a material impact on assurance.

### 2.1.1.2.2 Indirect management

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 DGs and entrusted entities distinct from the Commission, i.e.:

- Co-delegations;
- The INEA Executive Agency;
- The European Investment Bank (for financial instruments);
- Joint Undertakings (SESAR JU and S2R JU) – also see Annex 6;
- Decentralised Agencies (EASA, EMSA, ERA) – also see Annex 8.

For all these cases, DG MOVE's supervision arrangements are based on the principle of controlling 'with' the relevant entity. For details, please refer to Annex 5, section on indirect management.

## A) Co-delegations

The Commission may delegate powers concerning a given budget line to one or more authorising officers by delegation, i.e. various AODs are responsible for the same item of expenditure, but each one for a specific type of transaction. For MOVE, this is the case with PMO, HR and OP. Being Commission services themselves, these DGs are required to implement the appropriations subject to the same rules, responsibilities and accountability arrangements as DG MOVE. In 2017, payments amounting to EUR 10.05 million were made through co-delegations.

## B) INEA

The Innovation and Networks Executive Agency (INEA) has four parent DGs (DG ENER, DG CNECT, DG RTD and DG MOVE, which is the leading DG).

The current mandate of INEA covers the former TEN-T Executive Agency which was responsible for implementing the TEN-T Programme and the TEN-T projects from the 2000-2006 and 2007-2013 financial perspectives. Thanks to a mandate, approved on 23 December 2013, the Agency became the Innovation and Networks Executive Agency as from 1 January 2014 and its lifetime has been extended to 31 December 2024.

The Commission has delegated to INEA the task of executing the operational budget and performing tasks linked to the implementation of its delegated Union programmes in the field of transport, energy and telecommunications infrastructure – CEF (Connecting Europe Facility programme), and in the field of transport and energy research and innovation - H2020. The Agency implements, in the framework of CEF, the SESAR related trans-European air traffic management (ATM) network projects. In addition, the Agency is also managing the legacies of the TEN-T and Marco Polo programmes.

In 2017, DG MOVE contributed EUR 24.35 million to the Agency's running costs. INEA has justified the use of the subsidy and any unused appropriations will be recovered by the parent DGs.

### Supervision arrangements

The Commission Decision establishing INEA and the Commission Decision delegating powers to INEA set out the governance and supervision arrangements. These are complemented by a specific Memorandum of Understanding signed between the Parent DGs and INEA that contains reporting and supervision provisions and consists of a two-layer document:

- A top layer aiming to harmonise the modalities and procedures of the interaction between the parent DGs and INEA and that includes amongst other:
  - the membership to the Steering Committee, chaired by the Director General of DG MOVE and meeting at least four times a year to ensure that the work of the Agency is in line with the its Annual Work Programme;
  - the preparation of the Agency's annual budget;
  - the definition of objectives and priorities in the Annual Work Programme of INEA (approved by the Commission);
  - the requirement for INEA to report regularly on the performance of tasks (using the main Key Performance Indicators from INEA's Annual Work Programme), through;
    - Interim reporting (usually the first six months of the year);
    - The Annual Activity Reports;
  - the establishment of security related procedures and processes, including Business Continuity Planning;

- A middle layer, with specific provisions for the implementation of H2020 (updated on 15 February 2016) and CEF (dating from 1 October 2014).

Within this context, meetings and exchanges of information between the parent DGs with INEA on Horizon 2020 and CEF as well as coordination meetings between INEA and the relevant units in DG MOVE on H2020 and CEF take place regularly. DG MOVE also attends the Management meetings of INEA and vice-versa. The regular meetings and contacts between DG MOVE and INEA allow for close supervision of the Agency.

Implementation information is provided regularly by INEA.

#### Additional sources of assurance

According to the draft Annual Activity Report of the Agency, all the KPIs have met their target and, in particular, the residual error rates are below 2% for the TEN-T and Marco Polo programmes managed by INEA. Besides, the Agency Director, in his capacity as AOD, has signed the declaration of assurance without reservations.

The Agency is also subject to audits by the Internal Audit Service of the Commission and by the European Court of Auditors and DG MOVE uses their reports as an element of the supervision.

- The Internal Audit Service (IAS):
  - Following their audit on 'Grant management – Phase 2: Project management and payments for CEF in INEA', the IAS concluded in its final audit report received on 6 October 2017 that the internal control system in place for project management and payment processes provides reasonable assurance regarding the effectiveness of the CEF programme and the legality and regularity of the underlying transactions. However, one recommendation to further improve the area of on-site visits was issued as were the following strengths noted by the IAS: detailed guidance on both amending CEF Grant Agreements and Action Status Reports; robust risk-based ex-ante control strategy building on good practices gained under TEN-T.
  - In 2017, INEA was subject to an audit on 'HR Management Strategy in INEA'. The final audit report was issued on 23 January 2018. It contains three identified strengths (strong control environment, a comprehensive and coherent multi-annual HR resources strategy and a service oriented approach by the HR team) and two important recommendations (one related to HR monitoring and reporting and one on workload indicators) of which the latter will only be partially accepted by INEA as it is considered that DG HR should take a crucial role in providing coherent guidance on workload indicators for horizontal functions.
  - Following the audit on open recommendations in INEA regarding the Audit on 'The preparedness of the Management and Control System for CEF and H2020 in INEA', the Agency developed an action plan in 2016 and the fieldwork for this audit engagement took place over the summer 2017. In its follow-up audit, the IAS concluded on 26 January 2018 that all outstanding recommendations have been adequately and effectively implemented.

As to the state of play of outstanding open audit recommendations, INEA has currently no outstanding pending issues.

- The Court of Auditors (ECA):
  - ECA found the 2016 annual accounts presented fairly, in all material

respects, the financial position of the Agency, the results of its operations, its cash flows, and the changes in net assets. The Court made one observation related to a technical budgetary issue (high level of carry-overs for committed appropriations for title III), to which the Agency provided reply and justification.

As to the state of play of open audit recommendations, INEA has currently no outstanding pending issues.

### Conclusion

The regular supervision of INEA did not identify any particular events, issues or problems that could have a material impact on assurance or that would need to be included in this report. Overall DG MOVE considers that its supervision of INEA is effective and appropriate.

### **C) EIB for CEF Debt instruments**

DG MOVE uses innovative financial instruments for leveraging<sup>44</sup> EU investment and attracting new sources of funding for TEN-T infrastructure projects. The European Investment Bank (EIB) has been entrusted with the implementing tasks concerning the financial instruments (debt) under the Connecting Europe Facility Regulation (EU) 1316/2013.

In 2015 the Delegation Agreement<sup>45</sup> for the Connecting Europe Facility Debt Instrument (CEF DI) was signed by the Commission and the EIB. This new agreement defined that as of January 2016 the projects in the portfolios of LGTT<sup>46</sup> and PBI<sup>47</sup> pilot phase are merged with the CEF DI.

The Green Shipping Guarantee (GSG) is furthermore deployed on a pilot basis as part of new products under the CEF DI. The product will be further supported from the EFSI<sup>48</sup>. The expected investments to be mobilised amount at EUR 3 billion in equipping vessels with clean technologies.

### Governance and supervision arrangements

The governance and supervision requirements are defined in the Delegation Agreement for the CEF DI, which establishes the working arrangements with the EIB as well as the requirements in terms of financial and technical reporting.

The CEF Coordination Committee (Transport, Energy and ICT sectors) under the comitology procedure approves the annual allocation amount to the projects presented by the EIB as potentially suitable for the financial instruments.

Two joint Steering Committee meetings between the CEF DGs (DG MOVE, DG ENER, DG

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<sup>44</sup> The EC contribution contributes to cover present or future first losses on a portfolio of operations. The amount of the contribution is invested in an asset portfolio and serves as a collateral for the loans supporting the investments.

<sup>45</sup> According to the latest Delegation Agreement for CEF DI, the EIB shall be responsible for managing the financial instruments in accordance with the Legal Basis, the Financial and Administrative Framework Agreement (FAFA) and the Delegation Agreement, in particular supporting projects aligned with the TEN-T policy eligible under the CEF regulation.

<sup>46</sup> The Loan Guarantee for TEN-T projects (LGTT) was a financial instrument set up jointly by the Commission and the EIB to facilitate a greater private sector participation in the financing of TEN-T projects. This instrument was managed by the EIB by making annual drawdown requests.

<sup>47</sup> The Project Bond Initiative (PBI) was a joint initiative by the Commission and the EIB to stimulate capital market, including institutional investors, financing for large-scale infrastructure projects in transport (TEN-T), energy (TEN-E) and information and communication technology. The EIB has acted as appraisal agency for credit and issuing the debt enhancement facility to projects eligible under the Union guidelines.

<sup>48</sup> European Fund for Strategic Investments.

CNECT and DG ECFIN) and the EIB took place on 12 July and 30 November 2017 where the pipeline of projects, policy development updates, for example on the CEF Blending call, potential revision to the CEF DI delegation agreement, review of the annual CEF DI risk and financial reports were discussed. Regular contacts take place with EIB on the state of advancement of specific projects through the CEF DI steering committees as well. Such discussion cover inter alia projects to support the development of alternative fuel infrastructure and fleet.

General supervision of the implementation of the financial instruments is also performed through the Financial Instruments Interservice Expert Group (FIIEG), chaired by DG ECFIN. DG ECFIN carries out the horizontal task of asset management supervision of the EIB by overseeing the investments made by EIB on the CEF portfolio with regard to investment standards and guidelines set out in the CEF DI Delegation Agreement. DG ECFIN also organises an annual review of the asset management with the operational DGs.

As part of the supervision and monitoring activities, DG MOVE is involved in regular contacts at working level, coordination meetings and additional exchange of information on the pipeline and the implementation of projects and management of assets entrusted to the EIB.

### Operations in 2017

Contributions made in 2017 amounted to EUR 23.6 million<sup>49</sup>. As of 31 December 2017, the total EC contribution amounted to EUR 490 million, accruing a total of net assets to EUR 520.9 million at market value. The share of DG MOVE in these assets amounts to EUR 490.87 million. The loans ('CEF debt portfolio') backed by these assets support 12 projects with the total value of investments of EUR 13.5 billion.

The CEF DI Steering Committee has approved in 2017 a clean transport project pipeline of up to EUR 2.4 billion of investment, which should be implemented in 2018-2019.

As regard the GSG, the EC contribution amounts to EUR 37.5 million. This operation does not fall under the Portfolio First Lost Piece that is otherwise applicable to the CEF financial instruments. As a result, the EIB had to restate the 2016 accounts to reflect the state of play of the FLP remuneration. This operation had a positive effect on the facility's balance sheet. To date, under the GSG Programme, two framework agreements with commercial banks have been signed and the first transaction for clean ferries was signed on 22 October 2017.

The CEF DI Delegation Agreement is being amended so as to allow, starting in 2018, for implementing funds stemming from the NER300 Programme to roll out renewable transport technologies.

### Managing risk exposure

The facility's treasury portfolio is exposed to credit, liquidity and market risks. The mandate of the EIB includes the management of these risks. Asset management guidelines define the eligibility criteria, the maximum maturity, the interest rate risk and credit risk exposure rules. A quarterly reporting on performance provides the necessary information to the Commission.

The Asset portfolio generated a positive economic result, that is accrued to the portfolio.

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<sup>49</sup> Aside from this contribution the exposure to Financial Instruments also includes the amounts managed under co-delegation as referred in section 2.1.1.2.1 (D), for the Marguerite Fund (EUR 23.72 million) and the Elena Facility (EUR 1.93 Million). Payments for 2017 in respect of Financial Instruments totalled EUR 49.25 million.

DG MOVE's share in this economic result amounted to EUR 5.45 million.

**Table 2.7: Economic result of the CEF Debt Instrument**

<b>DG MOVE share of results in portfolio</b>	<b>2017 (in EUR thousand)</b>
Remuneration received for guarantee given	5342
Other operational revenue	32
Fees paid to EIB	-2341
Net portfolio income	2460
Realised losses	-48
<b>Economic result</b>	<b>5445</b>

The underlying debt portfolio is, by nature, exposed to creditor risk, that is covered by the FLP mechanism. No significant loss was recorded in 2017.

The EIB deploys specific fraud prevention and detection processes and reports directly to OLAF. In 2017, the EIB's Inspectorate General reported no fraud case related to CEF operations.

#### Assurance received

The EIB provided its management declaration on 15 February 2018. The declaration covers the EU funds engaged in the current financial instruments and the audited statements for 2017. The EIB gave reasonable assurance that:

- the information set out in the Financial Statements was in accordance with the accounting principles and is complete and accurate;
- the funds contributed by or on behalf of the Commission had been used for the intended purposes;
- the EIB had applied a professional degree of care and diligence to the management of the Financial Instruments;
- the control systems and procedures put in place provided reasonable assurance as to the legality and regularity of the related financial operations.

The statutory audit performed on the financial statements concluded that these were prepared in all material aspects in accordance with the applicable rules.

In its final report on the validation of local systems 'Reflows from financial instruments' in which the CEF DI was included, DG BUDG issued one very important recommendation which relates to the necessity for DG MOVE to monitor the completeness of the registration reflows<sup>50</sup>. Horizontal implementation issues are currently discussed in the framework of the Financial Instruments Inter-Service Experts Group (FIEG) chaired by DG ECFIN.

As a result of the regular reporting provided by the EIB, the management declaration and

<sup>50</sup> Revenues generated by the instrument.

audited financial statements and the regular contacts with the EIB, DG ECFIN and DG BUDG, DG MOVE is in a position to have an appropriate overview of the state of implementation of TEN-T projects by means of the financial instruments.

### Conclusion

DG MOVE's supervision of the financial instruments did not identify particular issues that would need to be included in this report. Consequently, DG MOVE considers that their supervision is effective and appropriate.

### **D) Joint Undertakings (JU)<sup>51</sup>: SESAR JU and S2R JU**

DG MOVE is responsible for the SESAR Joint Undertaking, a public-private partnership developing operational and technical improvements for the modernisation of the European and global air traffic management system. The current mandate of the SESAR JU is extended for the period up to 31 December 2024.

DG MOVE is also responsible for the Shift2Rail Joint Undertaking (S2R JU), established under Horizon 2020, whose objective is to provide a platform for pooling together and better coordinating research and innovation efforts in the rail sector. The overall duration of the delegation is foreseen until 31 December 2024. DG MOVE plays a key role in the monitoring of the JUs and relies on the JUs to achieve their policy objectives. DG MOVE is a member of the Administrative Board (SESAR JU)/Governing Board (S2R JU).

Arrangements are in place to ensure that all key proposals to these Boards are properly assessed and the Commission position agreed. Each JU is required to produce an Annual Activity Report and the JU Director signs a declaration of assurance in line with the one used in the Commission. In addition, regular reporting and extensive informal and formal contacts are also part of the interaction. The JUs are also required to inform the Commission without delay of any significant developments in the area of risk management, internal control and audit.

On 4 December 2017, DG MOVE adopted a strategy on the DG's relations with decentralised agencies and JU's which encompasses governance, core businesses as well as management and financial issues. The overarching objective is to ensure that the necessary processes are put in place. It will help to clarify roles and responsibilities, coordinate internally (risks, responsible actors, business continuity and avoid duplication of work), EU added value, aligning JUs with key EU political priorities as well.

- ***The Single European Sky Air traffic management Research Joint Undertaking (SESAR JU)***

After concluding in 2016 a second delegation agreement, the Commission and the SESAR JU have concluded two more delegation agreements in 2017. One concerned another EP Pilot Project related to the redesign of the EU airspace architecture. The second one concerned demonstrations of U-space (drones traffic management system) services.

In 2017, DG MOVE made contributions of EUR 112.49 million to the SESAR JU.

### Supervision

The governance and supervision requirements are defined in the SESAR JU Founding Regulation<sup>52</sup> and in the General Agreement, which establishes detailed requirements in terms of financial and technical reporting and working arrangements.

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<sup>51</sup> Ex-Art 185 initiatives art. 208 & 209 TFEU

<sup>52</sup> Reg. (EC)219/2007

The Commission, represented by DG MOVE, supervises the SESAR JU through its participation in the Administrative Board, the main governance body, and through a General Agreement (a delegation agreement). The Commission is a member of and chairs the SESAR JU Administrative Board. It therefore participates directly (in many cases with an effective veto right) in all the decisions affecting the budget, accounts, staff and progress of the JU. All documents related to these issues are evaluated by DG MOVE's Single European Sky Unit, in cooperation with several other Commission services, in order to establish the Union's position in the Board.

Furthermore, the Single European Sky Unit and the SESAR JU meet regularly to discuss the progress of the technical programme. A representative of the Single European Sky Unit also participates in the Programme Committee chaired by the JU's Executive Director. Staff from the Single European Sky Unit regularly participates in working groups and evaluations (calls for tender, calls for proposals and staff selection) organised by the JU.

According to two evaluations conducted on its activities, the SESAR JU is on track to deliver its objectives. One evaluation concerned the closure of the SESAR 1 Programme (2008-2016)<sup>53</sup>, while the second focused on ongoing research activities under the SESAR 2020 Programme (2014-2020)<sup>54</sup>. To date, the SESAR JU has managed to complete over 300 projects and 350 validation exercises, delivering 63 SESAR Solutions that are currently being deployed across Europe.

The evaluations show that SESAR JU is delivering on its goal of boosting the performance of Europe's ATM in terms of safety, efficiency, capacity and the environment. The SESAR JU has also demonstrated its ability to forge a strong collaboration between the full aviation community, as well as the research community and public partners. It is confirmed that the socio-economic conditions that justified the establishment of public-private partnerships in 2013 are still present and valid. The report highlights the importance of the JU as a key enabler of the wider Single European Sky policy, already delivering solutions for the modernisation of the ATM in Europe and strengthening cooperation among ATM stakeholders, who have never before worked together, including national authorities. The reports conclude with some recommendations on how the JU can go on to deliver further on its mandate in the future.

Being an EU body, the SESAR JU is audited by the IAS and by ECA. Moreover, audit issues are further coordinated through the Permanent Audit Panel assembling all the auditing bodies of the SESAR JU, to which DG MOVE participates.

SESAR is subject to a standard ECA audit to ensure the adequacy of its control arrangements. ECA found the 2016 annual accounts present fairly, in all material respects, the financial position of the JU, the results of its operations, its cash flows, and the changes in net assets.

The report made several observations (a low implementation rate for payment appropriations (63.2%); a low level of payments (EUR 49.9 million) compared to the commitments (EUR 61.6 million); a lack of specific guidance for the declaration and certification of member's in kind contributions; weaknesses in the assessment of the financial viability and regarding the use of cost estimates and market price reference in procurement).

DG MOVE monitors the situation. The issues<sup>55</sup> observed with regard to the implementation rate are acknowledged and are being addressed. However, the fact that SESAR is not allowed to use multi-annual commitments limits the possible actions with

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<sup>53</sup> <https://ec.europa.eu/research/evaluations/pdf/sesar1.pdf>

<sup>54</sup> [http://ec.europa.eu/research/evaluations/pdf/20171009\\_a187\\_swd.pdf](http://ec.europa.eu/research/evaluations/pdf/20171009_a187_swd.pdf)

<sup>55</sup> See also section 2.1.2.2 (C)

regard to the multi-annual perspective. The guidance for the declaration and certification of Member's in kind contribution was adopted and will be used as of 2018. The SESAR Joint Undertaking furthermore applies the Commission's ex-ante control strategy by analogy. A procedure was set up for the reassessment of a weak financial viability of coordinators. A methodology was introduced to systematically assess during the procurement planning phase the needs and costs for contracts.

### Conclusion

DG MOVE's involvement in the governance of the entrusted entity through the Commission participation did not identify any events, issues or problems which could have a material impact on assurance.

- ***The Shift2Rail Joint Undertaking (S2R JU)***

The core objective of the Shift2Rail Joint Undertaking is to enable a faster and cheaper transition to a more attractive, competitive, efficient, integrated and sustainable European rail system, thereby supporting the achievement of the Single European Railway Area and the competitiveness of the rail sector as a whole.

By bringing together the coordination, programming and execution of rail-related research and innovation activities under the responsibility of a single, dedicated structure, the Joint Undertaking aims to ensure continuity and avoid fragmentation of research and innovation efforts, helping to avoid costly overlaps and duplication.

S2R JU aims at ensuring a significantly higher leverage effect of EU funds by making EU funding (of up to EUR 450 million between 2014-2020) conditional to firm financial commitments from the rail industry (of at least EUR 470 million between 2014-2020).

S2R JU achieved its operational and financial autonomy in 2016 and the subsequent delegation agreement was signed between the Commission and the JU in May 2016.

In 2017, DG MOVE made contributions of EUR 32.71 million to the S2R JU.

In order to provide a meaningful start to the S2R JU activities and in response to the requests of the S2R bodies (Governing Board, States Representatives Group and Scientific Committee), as well as following the completion of the selection of associated members, the first calls for proposals were successfully launched on 17 December 2015.

### Supervision

As an EU body under Article 209 FR, S2R JU functions under strict monitoring rules. The main bodies of the JU are the Governing Board, in charge of strategic decision-making, and the Executive Director, responsible for day-to-day management. Monitoring is performed through the supervision of the Governing Board (in which the Commission holds 50% of voting rights).

The position of the Commission in the S2R Governing Board is jointly established with other services (including DG RTD, DG BUDG, etc.). The supervision of the S2R JU is ensured through a regular involvement of the Commission in the usual planning of the entity (budget request, calls' definition, financial planning, Annual Work Plans) and the reporting organised through the S2R Governing Board, which is chaired by the Commission. Any decision taken by the Governing Board (incl. on budget, staff, etc.) is subject to the consultation of an inter-service group within the Commission.

Coordination between DG MOVE and the JU's Executive Directors is organised on a bi-weekly basis. Moreover, quarterly coordination meetings between DG MOVE, European Railway Agency and S2R JU have been organised. Bi-annual meetings on administrative issues between DG MOVE Shared Resource Directorate and S2R JU took place in 2017. In

addition, there has been a daily contact with S2R JU and the desk officers in DG MOVE in the case of specific needs (preparation of key documents, meetings, etc.). Updates on administrative issues (incl. staff and budget) and the progress on the pipeline of projects are regularly presented to the Governing Board. All S2R JU reports and decisions are scrutinised by the Parent DGs and by DG MOVE in particular as a lead-service. A set of key performance indicators has been identified and used in the JU's Annual Report.

Following an IAS audit on DG MOVE's monitoring arrangements and supervisory activities for S2R JU (see section 2.2.2.1), it was recommended to put in place a supervision strategy, which formalises the allocation of supervision tasks within DG MOVE. DG MOVE took action to strengthen the supervision strategy and formalise the allocation of supervision tasks as well as their division between DG MOVE and DG RTD. The recommendations of the IAS will be implemented in 2018.

In addition, S2R JU is subject to a standard ECA audit to ensure the adequacy of its control arrangements. ECA found the 2016 annual accounts present fairly, in all material respects, the financial position of the JU, the results of its operations, its cash flows, and the changes in net assets. The report notes that the Internal Control framework was not yet fully in place but that remedial actions were taken. It also mentioned the lack of a systematic cost estimation process and a reasonable market price reference system for procurement of services. Corrective actions will be put in place by June 2018. The Court also observed that S2R JU, as of 31 December 2016, had not yet performed a specific anti-fraud risk assessment, or formalised fraud prevention action plan. The adoption of an Anti-fraud Strategy in November 2017 addressed the issue. DG MOVE monitors the situation. However the observations made do not impair the assurance received from the JU.

The Annual Activity Report for 2017 has been prepared by the S2R JU and made available to the Commission and the entire S2R Governing Board in March 2018 with a view to adopting it in June 2018.

### Conclusion

DG MOVE's involvement in the governance of the entrusted entity through the Commission participation did not identify any events, issues or problems which could have a material impact on assurance.

### **E) Decentralised Agencies: EASA, EMSA, ERA**

#### DG MOVE is a parent DG for three decentralised agencies

- **EASA** - the European Aviation Safety Agency based in Cologne (DG MOVE subsidy in 2017: EUR 35.71 million). The main objective of EASA is to maintain a high uniform level of civil aviation safety in Europe and to ensure the proper functioning and development of civil aviation safety. This is achieved through opinions and recommendations to the Commission; certification specifications and guidance material; decisions regarding airworthiness and certifications of aviation products and the oversight of approved organisations and EU Member States.
- **EMSA** - the European Maritime Safety Agency based in Lisbon (DG MOVE 2017 subsidy in 2017: EUR 56.28 million). EMSA provides technical assistance and support to the European Commission and Member States to ensure maritime safety, maritime security, efficiency of maritime traffic and transport, prevention and response to pollution from ships, response to marine pollution from oil and gas installations as well as to cooperate with Frontex and European Fisheries Control Agency on coast guard functions. It has also been given operational tasks in the field of oil pollution response, vessel monitoring and in long range identification and tracking of vessels.

- **ERA** – the European Railway Agency, based in Valenciennes (DG MOVE subsidy in 2017: EUR 30.73 million), provides technical assistance to the Commission and Member States in the area of railway safety and interoperability. This involves the development and implementation of Technical Specifications for Interoperability and a common approach to questions concerning railway safety. The new Regulation (EU) 2016/796 of the European parliament and of the Council, which entered into force as of 16 June 2016, provides ERA with new, additional tasks – issuing vehicle authorisations and safety certificated. It is expected that ERA will start issuing certificated and authorisations as from 2019 onwards.

ERA was subject in 2017 to an IAS audit on human resources and competency management that resulted in a critical recommendation on the feedback to the jobholders, on the specification of their objectives and on the appraisal exercise. ERA prepared an action plan covering all the recommendations from the audit, including the critical one. The target date for implementing the critical recommendation is 31 March 2018. The IAS accepted the action plan and will assess the effective implementation of the action plan during a follow-up engagement, once ERA has reported the actions as implemented, and report on the follow-up results to the Executive Director and the Management Board. The Agency is a fully autonomous body and has full responsibility regarding the management of its resources and of its assurance processes. No event is known to have occurred that would impact DG MOVE. The situation will be monitored through the DG's participation to the Agency's administrative board.

### Supervision

EASA, EMSA and ERA are fully fledged, regulatory agencies with a clearly established governance set-up, documentation and procedures as required by the 'Common approach to the decentralised agencies'. DG MOVE is a member of the Administrative Board (ERA, EMSA) / Management Board (EASA) and relies on the Decentralised Agencies to achieve their policy objectives entrusted to them. Arrangements are in place to ensure that all key proposals to these Boards are properly assessed and the Commission position agreed through formal opinions and formal consultations. In addition, regular reporting and extensive informal and formal contacts at all levels are also part of the interaction.

On 4 December 2017, DG MOVE adopted a strategy on the DG's relations with decentralised agencies and JU's which encompasses governance, core businesses as well as management and financial issues. It describes the processes that are necessary within the DG to ensure that the entrusted entities perform better in terms of achieving their strategic objectives and that the delegated EU budget is implemented according to the principles of sound financial management. It is expected, through this supervision strategy, to achieve a similar or better level of assurance as to the delivery of financial and non-financial inputs from the entrusted entities, while offering the potential to reduce the cost and/or improve the effectiveness of its supervisory processes.

As part of the supervision and monitoring activities, DG MOVE is involved in numerous contacts at working level, coordination meetings, providing opinions on annual/multiannual work programmes, draft budget, staff policy plan and reporting. Whenever necessary, bilateral meetings between DG MOVE and the Agencies are organised. In addition, DG MOVE gets involved in the audit and discharge procedures of the three agencies.

The agencies have full responsibility for the implementation of their budget, while DG MOVE is responsible for the regular payment of the contributions established by the Budgetary Authority. The working arrangements with the agencies have been clarified either by Memoranda of Understanding or working methods of the budgetary committee which were set up for each agency with the objective to advise the Administrative /Management Boards on all issues related to drafting and implementation of the budget

as well as staff-related issues within the agencies. DG MOVE is also represented in the sub-committee meetings which take place before the Administrative/Management Board meeting.

Performance indicators have been set up for the monitoring and follow up of the implementation of the budget, the audit recommendations and administrative matters. A report (which includes information on budget implementation, vacancy rate and audit recommendations) is provided by the agencies on a quarterly basis to DG MOVE, which helps detect any weaknesses. Additionally, after the closure of the financial year, the parent DG claims any surplus paid to the Agency on the basis of the budget outturn calculations provided to the Commission.

Finally, the Commission provides assistance to the agencies with regard to the application of the financial regulations, but also through the use of different Commission tools and services (ABAC, Medical Service, recruitment via EPSO, training, PMO).

#### Audit by the Court of Auditors

In the Declaration of Assurance 2016, ECA found the annual accounts of EASA, EMSA, and ERA legal and regular in all material aspects and that they present fairly in all material respects the financial position of the Agencies.

The Court made an observation to EASA concerning its budgetary surplus. In this context, the Agency will amend both its Financial and Fees and charges regulations to formalise this treatment of an accumulated surplus.

Overall, the Decentralised Agencies are taking ECA's observations into account in their continuous development of systems and procedures for controls and governance processes to achieve their objectives.

#### Conclusion

In conclusion, the regular supervision of the decentralised agencies did not identify particular issues that would need to be included in this report or that could have a material impact on the assurance. Overall DG MOVE considers that its supervision of the Decentralised Agencies is effective and appropriate.

### **2.1.1.2.3 Conclusion as regard legality and regularity**

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

The AOD's conservative estimation of the amount of *relevant expenditure* during the year not in conformity with the applicable contractual and regulatory provisions at the time the payment concludes to an amount at risk at payment of EUR 4.59 million. This amount is not considered material as regard assurance building.

The assessment on legality and regularity for the directly managed FP7 programme returns a level of detected error which appears to be 'persistently high' over the years in terms of potential financial impact (exposure). The impact of this amount at risk on the overall materiality at DG level remains limited.

Regarding directly managed H2020 funds the estimate of the error rate is at this stage only a preliminary estimation. There is nevertheless evidence of a reduction in the number and level of errors made by beneficiaries. The time to grant for the two grants signed in 2017 could not be met. This has no significant impact at DG level. Considered

the limited exposure of DG MOVE to this programme, the situation does not impair the assurance.

Assurance regarding the SES Advisory Bodies is drawn from satisfactory performance and their compliance with the regulatory framework and with the contractual provisions.

Regarding the SESAR Deployment Manager, the issues reported are not material and represent a limited share of DG MOVE's expenditure. Corrective actions are undertaken, including an extensive audit coverage.

Regarding Indirectly Managed Expenditure, there are no indications of any element that would impair the assurance.

### 2.1.1.3. Cost-effectiveness and efficiency

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

#### 2.1.1.3.1 Direct Management

For the year 2017, the following indicators have been estimated related to stages 1 and 2 for H2020, to stage 3 for FP7, H2020 and SES Advisory Bodies and to stage 4 for FP7 and SESAR Deployment Manager.

The cost of control associated to the reported upon directly managed expenditure can be summarized as follows :

**Table 2.8: Cost of Control – Direct Management**

In EUR, estimates based on the cost of FTEs.	Directly Managed grants (FP7)	Directly Managed grants (H2020)	SES Advisory Bodies	Sesar Deployment Manager
Cost of ex-ante controls	63 888	958 900	498 042	309 566
Cost of ex-post controls	83 054	Mutualised through DG RTD (*)	N/A (service contracts)	302 016
<b>Total cost of control</b>	146 942	958 900 (*)	498 042	611 582

The section below details the effectiveness and efficiency per control stage.

- **Stage 1 - Programming, evaluation and selection of proposals**

<b>Effectiveness indicators</b>	
Value of proposals received Budget available	$\frac{\text{EUR 11 100 819}}{\text{EUR 3 000 000}} = 3.7$
% of proposals (successfully) challenged under the redress procedure	0

Nr of litigation cases	0
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<b>Efficiency indicator</b>	
Time-to-inform	142 days

- **Stage 2 – Contracting**

The Regulations for Horizon 2020 (and the Financial Regulation, article 128.2) give a total of eight months for the full process of signing a grant: the so-called Time-to-Grant (TTG). In 2017 this TTG target could not be met for any of the two grant agreements signed during the year. This situation is due to difficulties in obtaining certain pieces of information from the beneficiaries, in particular regarding the validation of the legal entities and the perimeter of subcontracting provisions.

<b>Efficiency indicators</b>	
Time-to-grant (average nr of days)	274.5 days
Time-to-grant (average % of grants signed on time)	0% (on 2 grants)

- **Stage 3 - Monitoring**

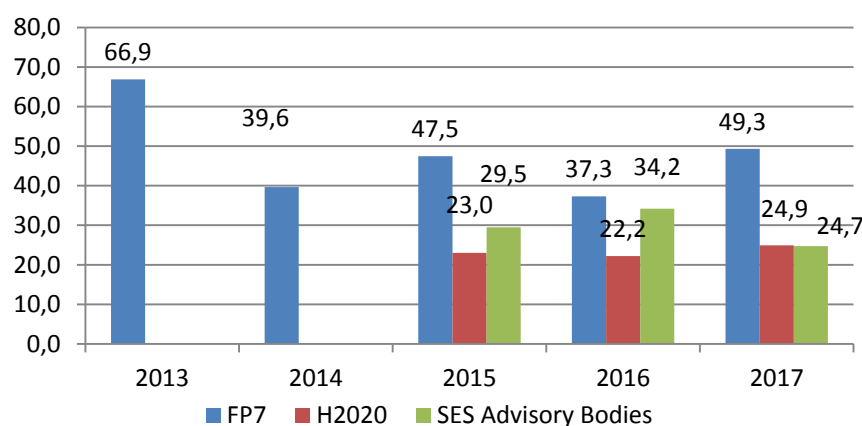
- **Efficiency indicator: Time-to-Pay**

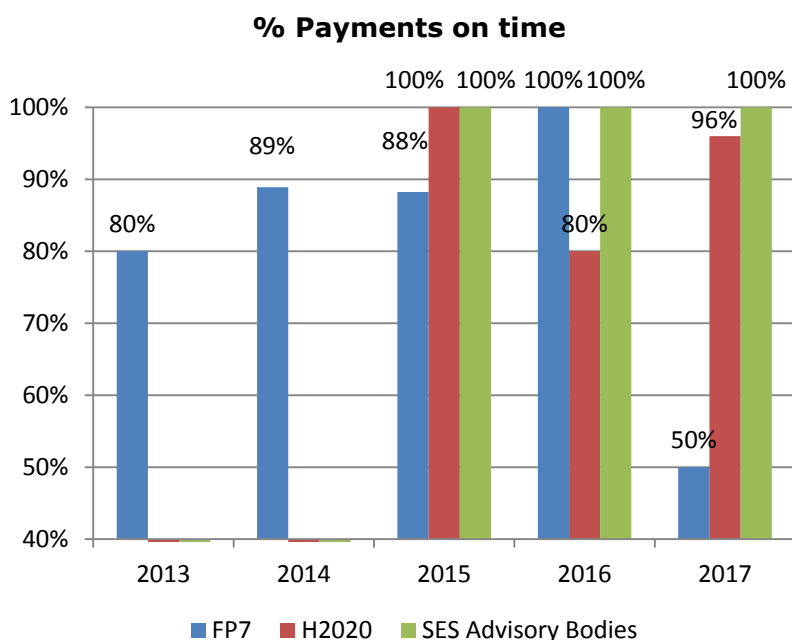
The evolution over time of the efficiency indicators for the categories of payments detailed under section 2.1.1.2.1 'Direct Management' (i.e. for FP7 and H2020 and SES Advisory Bodies) is outlined in the two charts below.

For 2017, 96% of the payments for H2020 and 100% of the payments to SES Advisory Bodies were made on time, thus in line with the Commission's average (97%) and with the average for Research DGs (96%), with a net average time-to-pay of 24.9 days for H2020 and 24.7 days for SES Advisory Bodies, which is below the respective payment time limits of 30 days and 75 days.

As to FP7, the average time to pay is also well below the payment time limit of 90 days, while the share of payments on time has deteriorated in 2017 from 100% to 50% due to three payments for which the deadline was exceeded by a single day.

**Net average time to pay (days)**





The table hereunder provides cost-effectiveness indicators for the last four years concerning the stage 3 for FP7:

**Table 2.9: Cost-effectiveness – FP7**

<b>Cost-effectiveness indicators FP7</b>	<b>2014</b>	<b>2015</b>	<b>2016</b>	<b>2017</b>
Number of FP7 running projects	27	27	5	5
Cost for monitoring the execution <sup>56</sup> (EUR)	586 120	536 168	112 332	63 888
Average project management costs <sup>57</sup> (EUR)	21 708	19 858	22 466	12 778
Average number of FP7 running projects by FTE	6.6	7.2	6.5	11.8
Cost of controls <sup>58</sup> / total amount paid (EUR)	5.3%	10.8%	5.3%	3.1%

Overall, the indicators have improved during 2017.

The average project management costs per number of running projects has decreased despite the fact that the ongoing projects can be quite complex, sometimes with a high number of beneficiaries and in need of a close supervision as most of them are in the final stages of implementation.

The ratio 'cost of controls / amount paid' is dependent on the amount of payments in a given year; in 2017, it has gone down by 40% as compared to the 2016 level.

In addition to the indicators in the table above, the cost-effectiveness of stage 3 for FP7 is outlined in the following chart below, comparing the quantifiable benefits stemming from this stage to the costs incurred to perform the ex-ante controls. It is important to note that the amount of unduly claimed EU contribution may vary from one year to the

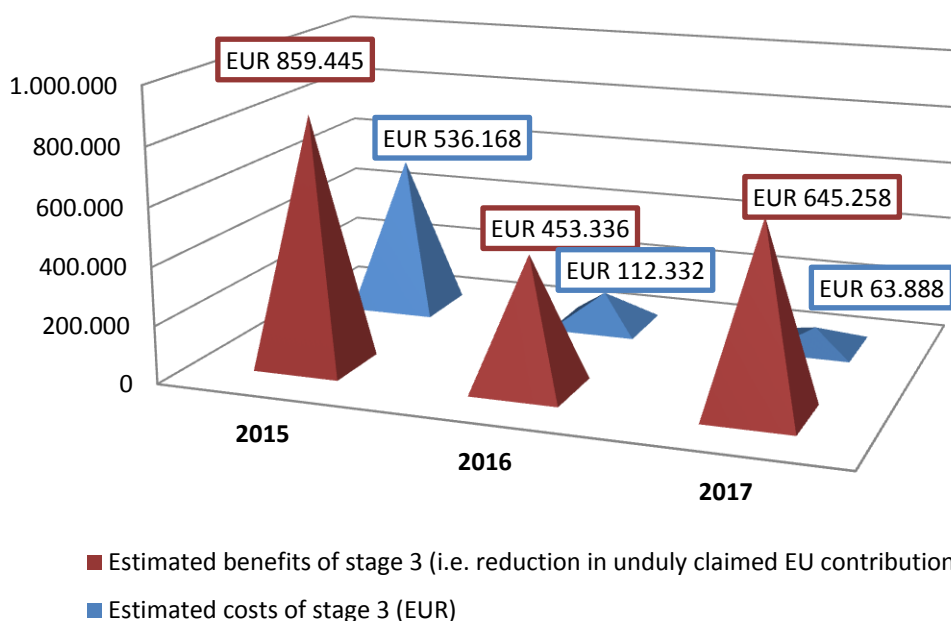
<sup>56</sup> Including overheads

<sup>57</sup> Including overheads

<sup>58</sup> Including overheads

other, depending notably on the quality of the required supporting documents provided by the beneficiary, which ensure the conformity of the expenditure with the legal basis.

### Stage 3 - FP7: costs versus benefits

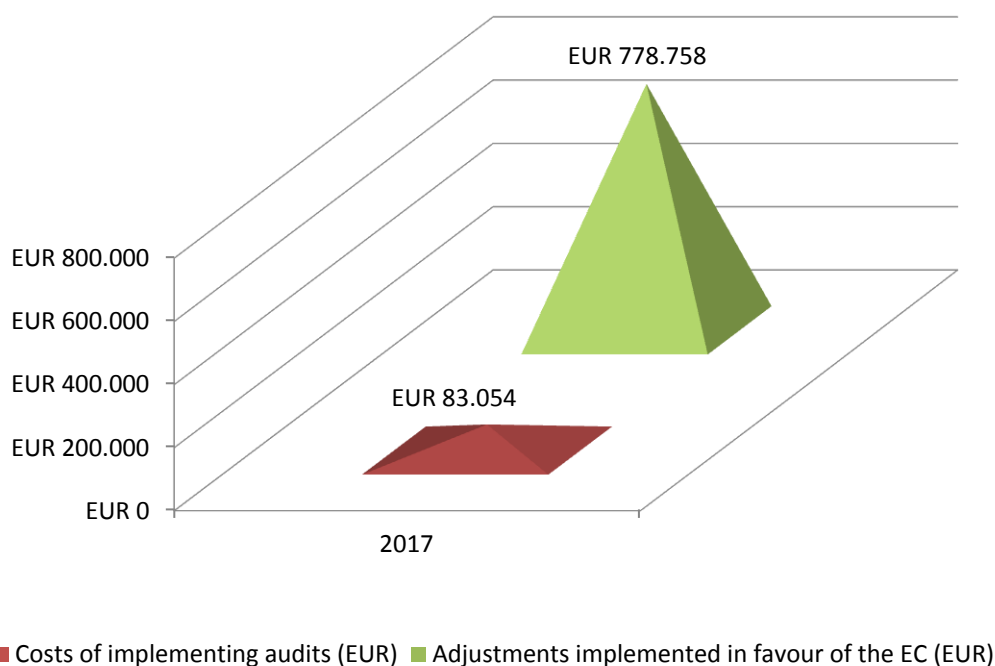


Regarding the SES Advisory Bodies and Sesar Deployment Manager, the cost of control for stage 3 is relatively high at respectively 6.22% and 4.98%. This is due to the limited amounts at stake, and to the deployment of comprehensive control procedures that correspond to the complexity of these support mechanism. Significant events in 2017 included the change of structure of the performance review body, and to the change of legal entity of the Sesar Deployment Manager.

- **Stage 4 – Ex-post Audits**
  - **Implementation of ex-post audits: cost-effectiveness indicator**

In addition, the implementation of the audit adjustments for FP7 is comparing the cost of implementing audits with the adjustments implemented in favour of the EC.

## Implementation of FP7 ex-post audits (in EUR)



### ▪ Cost of carrying out ex-post audits

The Common Audit Service in DG RTD is responsible since January 2014 to carry out the ex-post audits for the Research Framework Programmes FP7 and H2020.

The cost of control indicator is established for all DGs and services involved in these programmes, as the cost are mutualised<sup>59</sup>, comparing the cost of the audits carried out by RTD against the total amount of expenditure under the programme.

Effectiveness indicator in direct grant management	Costs (M€)			Overall rate (total costs/total amount paid)
	Internal costs	External costs	Total	%
<i>Ex post audits performed by the CSC for the R&amp;I Family of DGs</i>	10,4	4,3	<b>14,6</b>	<b>0,15%</b>

Source: DG RTD

The contracts with the SES Advisory Bodies have, due to their nature, not been the subject of ex-post audits by DG MOVE.

Regarding the audits performed on the SESAR Deployment Manager grant agreement, corrections resulting from the audit reports amount to EUR 0.81 million. As of 31 December 2017, recoveries are being processed for EUR 15.62 thousand and pre-information letters have been sent corresponding to EUR 0.58 million. The remaining corrections (EUR 0.22 million), resulting from the most recent audits, are planned to be

<sup>59</sup> It is therefore not possible to derive a 'DG MOVE' specific cost of CAS services.

implemented in 2018.

The decision to ensure a systematic audit of all significant cost claims from this grant leads, taking into account the limited value of the grant, to a relatively high control cost. This cost is however deemed necessary given the complex setup of the consortium.

<b>Effectiveness indicator</b>	
Cost of audits performed by DG MOVE in percentage of payments made	4,86%

### **2.1.1.3.2 Indirect Management**

This section discusses the cost-effectiveness of the supervisory controls carried out in 2017 by DG MOVE services over the entrusted entities.

Except for the EIB, this ratio is measured as the cost of controls against amounts paid or delegated to the entity. For the EIB, that manages a debt instrument, the ratio retained was changed in order to better reflect the nature of the activity, consistent with a portfolio management logic, and its multi-annual nature.

### **2.1.1.3.3 Cost of control at DG and entrusted entities level**

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

- ***Cost-effectiveness of controls***

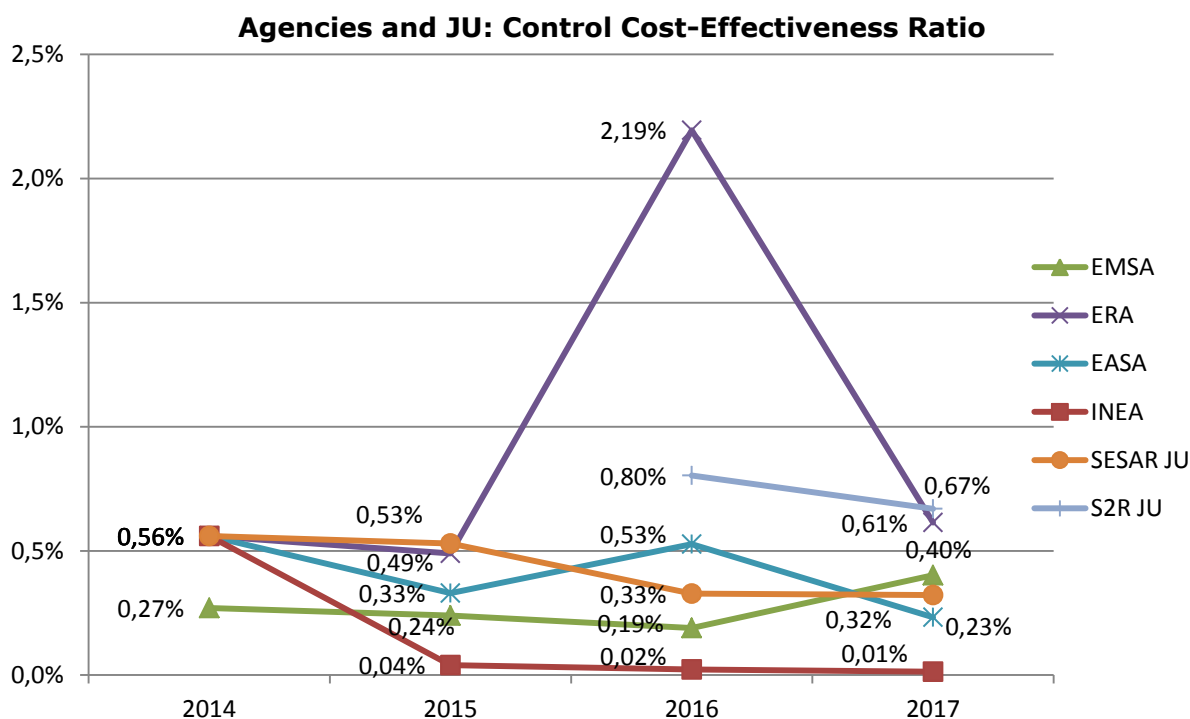
As shown in the chart below, the indicators related to supervisory controls carried out in 2017 by DG MOVE services over the entrusted entities remains low, at below 1%, showing that the supervisory controls were cost effective.

These ratios do not include the costs incurred by the entities themselves, as these are EU bodies or Executive agencies<sup>60</sup> that have full responsibility for the operation of the control systems and report separately on their activities. An overview of the costs calculated at entity level is however included.

For ERA, the ratio returned to the levels observed in 2014-2015, after a peak in 2016 that mirrored the additional workload linked to the 4th railway package.

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<sup>60</sup> For executive agencies, the cost of control at Commission level is measured as the cost at Commission level divided by the total amount of funds managed by the agency in respect of the related ABB activities (thus the administrative budget under indirect management and the operational budget directly managed at entity level).



The following tables summarize the cost of control respectively at DG MOVE (2.10) and at entities (2.11) level.

**Table 2.10: Indirect Management – Cost of control at Commission level**

Entity	Cost of Control at Commission level in EUR	Comment (amounts in EUR)
EMSA	0.23 million	Controlled amount: subsidy of 56.28 million
ERA	0.19 million	Controlled amount: subsidy of 30.73 million
EASA	0.09 million	Controlled amount: subsidy of 35.71 million
INEA	0.21 million	Controlled amount: The Mobility and Transport expenditure managed by INEA under Direct Management in 2017 amounted to 1.6 billion. The administrative contribution to the Agency amounted to 24.35 million.
SESAR JU	0.36 million	Controlled amount: Administrative budget of 3.32 million, and operational budget of 109.18 Million
S2R JU	0.22 million	Controlled amount: Administrative budget of 1.62 million, and operational budget of 31.08 million.

Source: estimate of staff cost associated with the different control stages, including overheads.

**Table 2.11: Indirect Management – Cost of control at entity level**

Entity	Cost of control in EUR	Comment
INEA	21.67 million	DG MOVE's share <sup>61</sup> in the cost of control of the Executive Agency
SESAR JU	The Joint Undertaking received in 2017 an amount of EUR 3.32 million in support expenditure. The JU is responsible for the design and deployment of its controls within this envelope and the issuance of its own annual report. The cost of controls performed is estimated at EUR 1.7 million of which EUR 1.5 million for ex-ante controls.	
S2R	The Joint Undertaking received in 2017 an amount of EUR 1.62 million in support expenditure. The JU is responsible for the design and deployment of its controls within this envelope and the issuance of its own annual report. The cost of controls performed is estimated at EUR 0.48 million, of which 0.45 million for ex-ante controls.	
EIB	EUR 2.34 million	Aggregated amount of the fees paid for the management of the CEF debt instruments

Sources: Draft AARs for EU entities, Financial Statements for non EU entities.

As to the EIB, the ratio used until 2016 to measure the cost effectiveness of the CEF Transport debt instruments (cost of supervision plus fees against contribution of the year) has been replaced by a more robust indicator, i.e. representative of the substance of the delegation, that is in effect related to a portfolio management activity over a multi-annual framework (cost of supervision plus fees against total assets under management as of 31 December of the reporting year). The cost of supervisory controls in DG MOVE is estimated at EUR 0.31 million, representing 1% of the payments made to the instrument. The total cost (by DG MOVE and charged by the EIB) represent 0.54% of the funds managed.

The indicator increased slightly year on year, reflecting the impact of the performance and treasury management fees paid to the bank as a result of the portfolio's increased return.

**Table 2.12: Control Cost indicator – CEF Debt Instrument**

Control cost indicator – supervision of the CEF Debt Instruments (EIB) (in EUR million)	2016	2017
Sum of all fees paid to the bank (treasury, administrative and performance fees) (*)	1.90	2.34
Cost of control by DG MOVE services	0.33	0.31
Total Supervision costs by DG MOVE	2.23	2.65
Amount delegated in the course of the year	37.50	23.60
Amount under management (*)	463.50	493.54
Cost effectiveness Ratio	<b>0.48%</b>	<b>0.54%</b>

Source: (\*) Audited Financial Statements for the CEF Debt Instrument, EIB.

<sup>61</sup> This estimate is based on INEA's calculated cost of control per programme and reflects the 93.49% share of Transport projects in the CEF programme and Legacy programmes, and the 54.05% share of Transport projects (including DG MOVE, DG RTD and Third party funds) in the part of H2020 managed by INEA.

### 2.1.1.3.4 Conclusion

Overall, during the reporting year, it can be concluded that the controls carried out by DG MOVE were cost-effective and efficient. The overall cost effectiveness ratio weighted by the amounts paid or delegated is estimated<sup>62</sup> to remain below 1%.

DG MOVE faces higher cost effectiveness ratios for its directly managed activities. However, it should be noted that FP7 is in its final stages, whereas the SES Advisory Bodies and SESAR Deployment Manager are very specific and inherently complex entities. All these three activities represent a very limited amount of expenditure.

<b>Table 2.13</b>	<b>Directly Managed grants (FP7)</b>	<b>Directly Managed grants (H2020)</b>	<b>SES Advisory Bodies</b>	<b>Sesar Deployment Manager</b>
<b>Payments Made in 2017 in EUR</b>	2.09 million	16.61 million	8.01 million	6.21 million
<b>Cost effectiveness ratio for ex-ante controls</b>	3.1%	5.77%	6.22%	4.98%
<b>Cost Effectiveness ratio for ex-post controls</b>	3.97%	0.15% <sup>63</sup>	N/A (service contracts)	4.86%
<b>Total Cost effectiveness ratio</b>	7.1%	5.9%	6.22%	9.84%

In addition to the quantifiable benefits indicated above, there are also qualitative benefits stemming from the different stages. As regards stages 1 and 2, they ensure the selection of the best proposals and thus the achievement of the operational objectives set out in the specific work programmes. For stage 3, they provide an assurance that the project is running adequately and so will produce the research and innovation desired. The analysis of scientific deliverables can be valuable to ensure excellent science, and its appropriate feedback into policy considerations, even if it does not lead to a financial saving. As for the non-quantitative benefits of stage 4, the audits have a positive deterrent effect within the programme, which will ensure system improvements and a better compliance with regulatory provisions.

The relatively high level returned by the indicators also translated that the DG allocated an appropriate quantity and quality of resources to ensure a fluent and effective operation of the controls, although these activities are marginal in terms of payment expenditure.

As regards the expenditure under indirect management, the costs of the control system compared to the level of expenditure remain low.

<sup>62</sup> The weighted average for the nine activities representing >90% of the budget under management is estimated at EUR 3.82 million or 0.9% of the payments made. For the Executive Agencies, only the cost of control over the administrative budget was taken into account as the Agencies report on the Cost of Control on their operational budget

<sup>63</sup> Based on the mutualised cost of the Common Audit Service.

<b>Table 2.14</b>	<b>Decentralised Agencies (ERA, EASA &amp; EMSA)</b>	<b>Joint Undertakings (S2R &amp; SESAR)</b>	<b>INEA</b>	<b>CEF Debt Instrument</b>
<b>Amounts delegated in 2017 or under management (in EUR)</b>	122.73 million	145.2 million	24.35 million (administrative subsidy) 1.6 billion (Transport payment appropriations managed directly by the Agency)	493.5 million <sup>64</sup>
<b>Cost effectiveness ratio for ex-ante controls</b>	0.41%	0.4%	0.01% <sup>65</sup>	0.54%
<b>Cost effectiveness ratio of ex-post controls</b>	N/A	Ex-post controls fall under the remit of the entrusted entity	Ex-post controls fall under the remit of the entrusted entity	Debt Instrument: Contributions are invested in an asset portfolio.
<b>Total cost effectiveness ratio</b>	0.41%	0.4%	0.01%	0.54%

To summarise, the efficiency and the effectiveness of the controls are, as a whole, sustained as a result of the quantitative and qualitative benefits, identified for the relevant stages of the process and providing a positive impact on the assurance<sup>66</sup>. The cost-effectiveness of the overall controls is also positive since the benefits for the Commission exceed the costs.

At the end of 2016 DG MOVE had performed, in accordance with Art. 66.2 FR, an assessment that aimed at determining whether an adaptation of the financial circuits and of the control systems should be considered. In the absence of any significant change to DG MOVE environment, this assessment remains valid.

#### **2.1.1.4. Fraud prevention and detection**

DG MOVE has developed and implemented its own Anti-Fraud strategy since November 2013, in accordance with the guidance laid out in the OLAF methodology. Subsequent updates occurred in October 2015 (covering 2016-2017) and November 2017 (covering 2018-2019). DG MOVE is committed to update its Anti-Fraud Strategy every two years.

The current strategy is built upon a specific risk assessment that concluded that DG MOVE was subject to moderate and low level risks in that domain. It recognizes the importance of staff awareness and the growing importance of relations with decentralized bodies as well as the evolution of the cooperation framework between OLAF and the Commission, and between DG MOVE and the Research family DGs. The controls intended to ensure the legality and regularity of the transactions are complemented by an action plan that is attached to the strategy. In addition, the implementation of the strategy is monitored and reported at least twice a year to DG MOVE's management.

<sup>64</sup> Assets under Management by the EIB on behalf of DG MOVE.

<sup>65</sup> 0.87% if counted against the sole administrative subsidy.

<sup>66</sup> Despite the reservation on FP7.

The indicators, related to the maintenance and update of the strategy, to regularity of reporting to management and to the improvement of staff awareness, show that the strategy is an effective tool, but that further efforts regarding staff awareness should be pursued. In 2016-2017, a program of awareness-raising actions was developed with tailor-made initiatives related to DG MOVE's core activities. In 2017 the initiatives focussed on targeted meetings and vulnerability assessment workshops. Fraud prevention was also regularly discussed in the internal control newsletter. An information package was available on a dedicated intranet.

In principle, the controls aimed at preventing and detecting fraud are comparable to those intended to ensure the legality and regularity of the transactions.

DG MOVE ensures notably:

- That internal rules for fraud suspicion handling and reporting are in place;
- That potential fraud risks are considered within the annual risk assessment exercise for the Management Plan. The 2017 risk assessment did not identify any critical or significant fraud risks;
- A regular attendance to the Fraud Prevention and Detection network and to the Fraud and Irregularity Committee meetings as well as contacts with other DGs and services;
- That the Local Anti-Fraud Correspondent function is operated, in line with the common action plan for the Research family;
- That an appropriate level of cooperation is ensured with OLAF.

In the course of 2017, DG MOVE sent one new case to OLAF for investigation. As of 31 December 2017 there was one open case.

**Table 2.15: State of implementation of the Anti-fraud indicators mentioned in the Strategic Plan 2016-2020**

<b>Objective: Minimisation of the risk of fraud through application of effective anti-fraud measures, integrated in all activities of the DG, based on the DG's anti-fraud strategy (AFS) aimed at the prevention, detection and reparation of fraud.</b>				
<b>Indicator 1: Updated anti-fraud strategy of DG MOVE, elaborated on the basis of the methodology provided by OLAF</b>				
<b>Source of data:</b> OLAF guidelines – DG AFS				
Baseline	Interim 2017	Milestone	Target	Latest known results (2017)
Date of the last update: October 2015	AFS Updated by December 2017 and December 2019		Update every two years, or if there are major changes.	The updated strategy was adopted on 20 November 2017.
<b>Indicator 2: Regular monitoring of the implementation of the anti-fraud strategy and reporting on its result to management</b>				
<b>Source of data:</b> Bi annual Report to the Commissioner				
Last update of the anti-fraud strategy – October 2015	Interim reviews twice a year, starting in the first half of 2016.		Review of the state of implementation twice a year and report of the result in the bi-annual report to the Commissioner	The state of implementation was reviewed three times in 2017 and communicated to Senior Management. This information was summarised in the reports to Commissioner Violeta Bulc.

**Table 2.16: State of implementation of the Anti-fraud outputs mentioned in the Management Plan 2017**

<b>Objective 3: Minimisation of the risk of fraud through application of effective anti-fraud measures, integrated in all activities of the DG, based on the DG's anti-fraud strategy (AFS) aimed at the prevention, detection and reparation of fraud.</b>			
<b>Main outputs in 2017:</b>			
Output	Indicator	Target	Latest known situation
Implementation of the anti-fraud strategy as planned for 2017	% of implementation of actions planned for 2017 in the anti-fraud strategy	100%	~100%: all actions were implemented.
Adoption of a revised anti-fraud strategy for 2018-2019	Date of adoption of the revised anti-fraud strategy	Before 31.12.2017	DG MOVE adopted a revised Anti-fraud Strategy on 20 November 2017. The Strategy was based on OLAF methodology , and based on a specific risk assessment process
Reporting to Management	Number of reports on the implementation of the anti-fraud strategy	At least twice a year, in the bi-annual report to the Commissioner.	Two times a year in the report to the Commissioner, 3 times to the DG MOVE Control board.

### **2.1.1.5. Other control objectives:**

#### **2.1.1.5.1. Safeguarding of assets**

DG MOVE is a delegated service for the Management of the CEF Debt Instrument. The management of these financial instruments was, as discussed above, delegated to the EIB. The Off balance sheet postings include contingent liabilities that correspond to the guarantees given under the 'First loss piece mechanism' for the CEF financial instruments. The CEF facility receives an operational revenue to remunerate the underlying risks<sup>67</sup>. These guarantees amounted, as of 31 December 2017, to EUR 461.6 million against EUR 436.92 million as of 31 December 2016. This evolution mirrors the increase of the asset portfolio. No significant loss was reported.

In addition, the off balance sheet postings also include an amount of EUR 531.68 million, corresponding to the commitments made against appropriations not yet consumed. This amount is broadly stable compared to 2016.

#### **2.1.1.5.2. Reliability of reporting**

DG MOVE implements a significant part of its budget through indirect management. It therefore relies on the reports and accounts provided by the relevant implementing bodies (as indicated in Section 2.1.1.2.2) and considers that overall the reporting received was considered reliable and adequate for drawing assurance conclusions.

<sup>67</sup> See section 2.1.1.2.2.(C)

**a) The SESAR Joint Undertaking for the implementation of the Single European Sky initiative.**

The statutory information received in 2017 from SESAR JU included its AAR, the annual work programme and budget for 2017 as well as the single programming document for 2017 (including the multi-annual work programme, the budget, staff allocation and annual work programme).

This information was deemed adequate for drawing assurance conclusions and was also considered reliable. Assurance in this respect is drawn from an analysis of these reports as well as from ECA report on the 2016 accounts of SESAR JU, from the 2014 and 2015 Discharge Resolutions and from the relevant IAS reports.

Besides, DG MOVE attends every meeting of SESAR Permanent Audit Panel and attaches, as chair of the SESAR Board, a particular attention to a strict follow-up of the IAS and ECA recommendations.

**b) The SHIFT2RAIL Joint Undertaking for the implementation of the Horizon 2020 Research & Innovation activities in the rail sector.**

S2R JU became autonomous in May 2016 and started to launch its project activity in September. Until that time the JU was under the direct management control of the Commission. Nonetheless, statutory information received from the implementing body included its AAR, the annual work programme and budget for 2017 and 2018, in addition to the multi-annual work programme.

All S2R JU reports and decisions are scrutinised by the Parent DGs and by DG MOVE in particular as lead-service. Updates on administrative issues and the progress on the pipeline of projects are regularly presented to the Governing Board. Moreover, a set of key performance indicators have been identified and used in the JU's Annual Activity Report.

S2R JU is subject to standard ECA audits on its operations and accounts

In conclusion, the statutory information was considered adequate for drawing assurance conclusions and was considered reliable.

**c) The European Investment Bank for the CEF DI instruments.**

Statutory information received during the reporting period includes the annual reports and the financial statements for the financial year 2017. The management information received from this body is considered as sufficient and reliable. Assurance in this respect is drawn from the declaration of assurance that accompanies these documents and from the independent audit report that covers them.

DG MOVE received the EIB annual reports, declaration of assurance and the financial statements in February 2018 for the financial year 2017 as defined in the CEF Debt Delegation Agreement. The audit report did not include any significant observation.

**d) INEA**

Statutory information received during the reporting period includes the work plan, budget planning, regular reporting and the AAR. INEA has a close working relation with DG MOVE, as detailed under section 2.1.1.5.2 (B). The management information received from this body is considered as sufficient and reliable. Assurance in this respect is drawn from the declaration of assurance that accompanies the AAR and from audit results. The statutory and management information received is compliant with applicable guidance, reliable and allows for drawing adequate assurance conclusions.

## **e) Decentralised Agencies**

EASA, EMSA and ERA have, as detailed under section 2.1.1.5.2.(E) above, a clearly established governance set-up, and are fully autonomous from the Commission. DG MOVE is a member of the Administrative Board (ERA, EMSA) / Management Board (EASA) Regular reporting and extensive informal and formal contacts are in place.

The agencies have full responsibility for the implementation of their budget and are subject to a separate Discharge process, while DG MOVE is responsible for the settlement of the contributions established by the Budgetary Authority.

Assurance in this respect is drawn from the declaration of assurance that accompanies the AAR of the Agencies, from the Discharge process and from the consideration, through the participation of DG MOVE representatives to the governance bodies, of audit results. The statutory and management information received is compliant with applicable guidance, reliable and allows for drawing adequate assurance conclusions.

## **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.

### **2.1.2.1 Internal Audit Service (IAS)**

During the reporting period, the IAS carried out the following engagements related to DG MOVE:

- **Audit Report on the effectiveness of the set-up and supervision of Shift2Rail**

In its final report issued in December 2017, the IAS recognised the efforts made by DG MOVE to ensure the effective set-up of S2R JU and the supervision of its activities. However, a significant weakness in DG MOVE's current supervision system due to the lack of a formalised comprehensive supervision strategy for S2R JU was identified. One very important<sup>68</sup> and one important recommendation were formulated. DG MOVE prepared an action plan to mitigate the identified risks by end of November 2018.

DG MOVE Strategy on its relations with Decentralised Agencies and Joint Undertakings was adopted by DG MOVE Control Board on 4 December 2017<sup>69</sup> and was followed by immediate implementation and monitoring. Further actions to be implemented aim at formal clarification of allocation of the supervision activities within DG MOVE and between DG MOVE and DG RTD; development of formal guidelines for the participation of DG MOVE in the different governing bodies; and identification and assessment of risks that could impair the achievement of main objectives.

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<sup>68</sup> DG MOVE should establish a comprehensive, risk based supervision strategy, describing how the available supervision tools and control mechanisms will be used and including a formal allocation of tasks. The DG should also carry out a mapping exercise of the tasks related to the supervision of S2R and estimate the resources necessary for performing them.

<sup>69</sup> Ares(2017)6088173

- **Follow-up of recommendations stemming from the Audit on DG MOVE's monitoring of the Aviation and Maritime Security policies, including related working arrangements with the EMSA Regulatory Agency**

In its final report issued in January 2017, the IAS found that DG MOVE's aviation and maritime security inspections were adequately performed by experienced and competent staff. Nevertheless, significant weaknesses were identified in the current monitoring system due to the lack of a formalised comprehensive monitoring strategy. All three very important recommendations<sup>70</sup> formulated in the final audit report (as well as four important recommendations) were implemented by end February 2018 and reported by DG MOVE as ready for the IAS review.

The main actions aimed at formalising the comprehensive overall strategies for the EC monitoring of the implementation of the EU aviation and maritime security standards by the Member States, and developing monitoring tools to ensure that the Member States provide all information necessary to conclude on the effectiveness of the implementation of the national quality control programmes related to the aviation security policy.

#### **Follow-up of recommendations resulting from previous IAS audit reports:**

- **Audit on setting of objectives and the measurement of performance**

In its final report issued in October 2016, the IAS concluded that significant weaknesses existed and that the performance management framework had to be further improved to demonstrate how the DG's short-term actions effectively contributed to the achievement of its strategic objectives and consequently to the high-level Commission priorities.

All three very important recommendations<sup>71</sup> formulated were implemented by the end of July 2017. The actions designed to mitigate risks aimed at accomplishment of DG MOVE performance framework, improvement of objectives and indicators in the 2016 SP/MP, and formalisation of procedures for preparation of CEF Programme Statement.

In January 2018, based on the results of its follow-up audit, the IAS concluded that all recommendations were adequately and effectively implemented and closed them.

- **Follow-up of recommendations stemming from the Audit on the Supervision of the Implementation of Connecting Europe Facility:**

In its final report issued in January 2016, the IAS acknowledged the efforts made by DG MOVE to monitor and steer the implementation of CEF in the complex governance and regulatory framework in which it operates. Nevertheless, it concluded that further improvements were necessary to ensure effective supervision arrangements on the implementation of the CEF programme and on the achievement of the CEF and TEN-E objectives.

All recommendations formulated were implemented by October 2017 and are currently reviewed by the IAS. The main actions aimed at formalising a comprehensive overall strategy for the supervision of the corridor development, setting out the supervision needs, the tools to be used and the degree of assurance to be provided.

There are no outstanding recommendations resulting from the audit reports issued prior to 2016.

#### **Internal Audit Service – conclusion on the state of internal control:**

<sup>70</sup> Recommendation 1: *Monitoring strategy for aviation security policy*; Recommendation 2: *Monitoring tools – aviation security policy*; Recommendation 5: *Monitoring strategy for maritime security policy*.

<sup>71</sup> Recommendation 1: *DG MOVE performance framework*; Recommendation 2: *Quality of objectives and indicators in the 2016 SP/MP*; Recommendation 3: *CEF Programme Statement*.

The IAS is entrusted with the responsibility to provide a conclusion on the state of internal control in DG MOVE, which covers the audit work of previous years<sup>72</sup> and all open recommendations issued by the IAS<sup>73</sup>.

It concluded that the audited internal control systems were partially effective since a 'very important' recommendation on the effectiveness of the set-up and supervision of Shift2Rail JU by DG MOVE remains to be addressed by end of September 2018, in line with the agreed action plan.

The impact of the residual risks related to this recommendation on the internal control principles and on the related component is reflected in the Internal Control self-assessment discussed below.

## **2.1.2.2 European Court of Auditors (ECA)**

### **a. Audit work 2017 - Declaration of assurance (DAS) 2016**

In the context of DAS 2016, ECA assessed *Mobility and Transport* as part of the *Competitiveness for Growth and Jobs* chapter<sup>74</sup>. ECA concluded for the whole chapter that the testing of transactions indicates that the most likely error present in the population is 4.1% (compared to 4.4% in 2015) and that the overall audit evidence indicates that accepted expenditure is affected by a material level of error. The *Mobility and Transport* payments represent around 3% of the total of the whole chapter.

The ECA selected nine transactions from transport budget lines: one payment concerning the CEF Programme and one from H2020; five payments from the TEN-T programme and two subsidy payments to decentralised agencies (EASA and ERA).

The Court did not issue any observations for four of the selected transactions. For two of the sampled payments, ECA detected non-quantifiable errors – an ineligible cost included in the cost claim for one of the TEN-T samples and an incorrect personnel cost methodology for the H2020 transaction. For three cases (two from the TEN-T programme and one from CEF) quantifiable errors were detected at the level of the beneficiary –ineligible cost included in the cost claims and absence of support documents/lack of audit trail.

### **b. Audit work 2017 – Declaration of assurance (DAS) 2017**

As regards to the audit work for the DAS 2017, ECA has selected 10 transactions so far for review in the field of Mobility and Transport: six from the TEN-T programme managed by INEA; one from the FP7 programme and three payments related to the CEF programme.

DG MOVE has already received one Statement of Preliminary Findings from the Court on one of the TEN-T payments with no observations. The audit work is still on-going for the other transactions.

### **c. Special Reports published in 2017**

In its **Special Report 13/2017** on **ERTMS**, the Court stressed the lack of cost planning, the low level of deployment, the cost of investments and the existence of barriers (compatibility, certification procedures). Recommendations made to the EC, the Member States and ERA relate to the assessment of deployment costs; decommissioning of national signalling systems; individual business cases for infrastructure managers and

<sup>72</sup> Final audit reports issued in the period 01/02/2015 – 31/01/2018.

<sup>73</sup> And by the former Shared Internal Audit Capability

<sup>74</sup> Chapter 5 of the ECA's annual report 2016 (OJ C 322, vol. 60, 28.09.2017)

railway undertakings; compatibility and stability of the system; the role and resources of the ERA; alignment of national deployment plans, monitoring and enforcement; improved take-up of EU funds for rail signalling projects; and better targeting of EU funding.

The Commission acknowledged the longer than anticipated time of implementation and the magnitude of the costs. However, it stressed that ERTMS was a strategic political choice based on a technological development initiated by European railways and complemented with industrially-led research and development work. The years 2016 and 2017 provided a new momentum for the implementation of the system: the adoption of the 4th Railway package, that includes a more important role for ERA, the achievement of stable and complete specifications, the adoption of a Deployment Action Plan clear milestones till 2023, covering 40% of the network and a commitment to a single on board unit, allowing trains to run across the entire EU.

Out of 12 recommendations, four are reported as implemented in 2017.

In its **Special Report 18/2017 on Single European Sky**, the Court concluded that the initiative addressed a clear need and improved the efficiency in ATM. They found however that the European airspace management remained fragmented, and SES, unachieved. SESAR project, while leading to improvements, has fallen behind schedule and is more costly than anticipated. Recommendations made to the EC include reviewing SES goals, analysing solutions regarding defragmentation, improving the capacity of NSA, streamlining performance, reviewing the structure supporting R&D funding after 2024, in particular in view of the temporary nature of a Joint Undertaking, and improve priority settings.

The Commission accepted the recommendations and DG MOVE started to act on them in the context of its activities concerning the study on the new airspace architecture and the update of the ATM Master Plan, the revision of the Performance and Charging Regulations and the preparation of the new governance for ATM R&D in the context of the next MFF.

#### **d. Summary of results from the Court's 2016 annual audit of the European Research Joint Undertakings**

In this summary providing an overview of the results of the annual audits on the European Research JU, ECA reported unqualified opinions on both the reliability of the accounts and the legality and regularity of transactions for the SESAR and S2R JUs, considering that the transactions underlying the annual accounts of the two JUs for the year ending 31 December 2016 are, in all material respects, legal and regular.

For SESAR JU, the Court observed a low implementation rate for payment appropriations in 2016 together with beneficiaries' delays in implementing the projects and/or presenting their cost statements. The main reasons for the delay in implementation of payments for member studies and developments was due to difficulties in adapting the Horizon 2020 tools to the special needs of SESAR JU. However, this process started in 2016, is ongoing and should be in place well before the cost declarations for SESAR Horizon 2020 projects are submitted. Moreover, despite the multi-annual nature of the work in the SESAR 2020 programme, the SESAR JU is not allowed to use multi-annual commitments. Therefore the implementation of the Programme is limited by the annual Financial implementation agreements with the Commission.

For S2R JU, the Court underlined a potential weakness regarding the checks ensuring financial viability of the coordinators. The issue was acknowledged, assessed and is being addressed. The projects on which that observation was made have since demonstrated positive operational achievements.

Concerning the procurement of services, the Court observed that both SESAR JU and S2R JU set maximum contract budgets which were not based on a systematic cost estimation process or a reasonable market price reference system. The approach followed by the

S2R JU is in line with the provisions of the Commission Procurement Vademecum and the principles of the Financial Regulation. Nevertheless, S2R JU will implement additional controls. As regards SESAR JU, the JU introduced, in April 2017, a methodology to systematically assess during the procurement planning phases the needs and costs for the contracts.

#### **e. Follow-up of recommendations issued by the Court of Auditors and by the Discharge Authority**

As of 31 December 2017, DG MOVE was assigned as a lead DG for 60 recommendations stemming from Special Reports issued in 2015, 2016 and 2017, or from the successive Discharge Resolutions.

No recommendation stemming from the Special Reports was significantly overdue. The recommendations were implemented as explained below :

##### SR 1/2015 Inland Waterways Transport:

Out of four audit and eight discharge recommendations, six were due by end 2017. Two recommendations were closed in 2017, through the development of the Inland Waterways observatory analysis and the revision of the Trans-European corridors work plans. Four recommendations were delayed. Although all four are partially implemented, they cannot be closed yet to account for the effective publication of the Good Navigation Status study and for the approval of the revised corridors work plans that are planned during the first quarter of 2018 , and for an evaluation planned by end 2018.

##### SR 8/2016 Rail Freight:

None of the 11 Audit and four discharge recommendations were due in 2017. Six recommendations are partially implemented.

##### SR 23/2016 Maritime Freight:

Out of 15 audit recommendations, two have been fully implemented and three partially implemented. Two recommendations due in 2017 have been delayed: one as the study on the macro-economic impact of the TEN-T network is itself delayed to end 2018, and the other as to implement it requires a legislative proposal on authorisation procedures that is still in the making.

### **2.1.2.3 Overall conclusion**

Overall, internal and external audit work contributes significantly to the continuous improvement in DG MOVE systems and operations. The IAS and ECA findings and recommendations are subject to a systematic follow up by the Directorate-General.

Although these audits resulted in key findings, it is noted that all very important recommendations issued by the IAS were accepted and have led to specific action plans being drafted to address the underlying issues.

Recommendations issued by the ECA and by the Discharge Authority were also systematically addressed.

The current residual risk from the audit recommendations remaining open in DG MOVE does not impair the declaration of assurance.

## 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 MOVE 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.

### 2.1.3.1 Source and methodology for the internal control assessment

The internal control self-assessment exercise was performed between November 2017 and January 2018 in compliance with the methodology proposed by DG BUDG. The self assessment was based on three main pillars: (1) a series of interviews with representatives of middle management and specialized functions (among others Business Continuity Plan, HR, Financial Management); (2) desk review of information from various sources and (3) evaluation of monitoring indicators. The objective of such an approach was to have a more reliable basis for the final assessment. The approach also took into account:

- the AOSD reports submitted by each Directorate, particularly information on supervision and monitoring arrangements for delegated programmes;
- the results of audits and follow-up engagements performed by the IAS and ECA during 2017;
- the status of implementation of action plans results from previous IAS/ECA audit work;
- the results from the 2016 Staff Survey (organized by DG HR)<sup>75</sup>;
- the results of the risk assessment exercise and
- the analysis of the register of exceptions and non-compliance events.

### 2.1.3.2 Internal Control Self-assessment results for 2017

The assessment was carried out based on the revised Internal Control Framework. All five control components and 17 principles were evaluated. The results show that all 17 principles are present, and 14 of them are noted as fully functional.

Two principles were found to be present but with improvements needed, as follows:

- Principle 10<sup>76</sup>: An IAS audit noted weaknesses in the current system of supervising entrusted entities in DG MOVE. As a first response, the Control Board of DG MOVE adopted a formal supervision strategy that defines its approach for effective and efficient supervision.
- Principle 11<sup>77</sup>: The inventory of IT investments in DG MOVE was not complete for 2017. Five subcontracted IT investment were not fully registered in the GovIS2 IT governance tool. Appropriate action is undertaken to correct the issue.

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<sup>75</sup> The Staff Opinion Survey is conducted by DG HR every two years. The next survey will be carried out in 2018.

<sup>76</sup> The Commission selects and develops control activities.

<sup>77</sup> The Commission selects and develops general control activities over technology.

One principle was noted as present but minor improvements were needed:

- Principle 4<sup>78</sup>: Mobility in DG MOVE is currently impacted by the overall situation in that respect at corporate level. Efforts were made in 2017 to identify internal opportunities for mobility for interested staff but continuing reductions in staff allocations limit the effectiveness of these initiatives.

As a result, four of the five components are assessed as present and functioning. However, due to the need for improvements identified with regard to principles 10 and 11, component 3 'Control Activities' is assessed as partially present and functioning

The exercise did not result in the identification of any further weaknesses, errors or actions that could jeopardise the overall effectiveness of DG MOVE's internal control system.

Weaknesses identified in the 2016 self-assessment (and also partly identified through IAS audit recommendations) regarding principles 3 and 6 (formerly standards 5 and 9) were monitored. As of 31 December 2017 DG MOVE has reasonable assurance that both have been successfully addressed through corrective actions and are no longer assessed as 'Partially effective'.

### **2.1.3.3 Risk management**

DG MOVE has put in place a risk assessment process ensuring an appropriate coverage of all its activities. One key risk had been identified for 2017, related to the change that had occurred regarding the SES Advisory Bodies<sup>79</sup>. An action plan was adopted and implemented and the risk was successfully mitigated.

### **2.1.3.4 Exception and non compliance**

The functioning of the internal control systems was closely monitored throughout the year by the systematic registration of non-compliance events and exceptions. A total of 21 non-compliance events and one exception were registered and analysed in the course of 2017.

The exception request was related to the expiry of a framework contract under which DG MOVE concluded a specific contract to deliver an assessment. The specific contract in question needed to be extended until March 2018 due to no fault of the contractor or the Commission. The extension didn't result in an additional financial commitment from DG MOVE and after due consideration, the exception was approved by the Director-General.

The analysis of the non-compliance events revealed that the most common sources of errors relate to:

- organisation of meetings (7 cases);
- missions procedures<sup>80</sup> (6 cases);
- delegations (4 cases);
- contractual and financial procedures (3 cases).

The potential risk resulting from these non-compliance events was, in all cases, evaluated as non-existent or low due to the presence of other compensating controls. None of these non compliance events had any material or event significant impact. Compared to the number of comparable transactions (number of meetings organised, number of missions performed), the number of non compliance cases remains relatively low. In a certain number of cases, the issues are related to IT causes independent from

<sup>78</sup> The Commission demonstrates a commitment to attract, develop, and retain competent individuals

<sup>79</sup> See section 2.1.1.2.1 (C)

<sup>80</sup> e.g. wrong encoding of mission data

the users. The number, nature and typology of the incidents are not considered as revelative of systematic control issues.

Furthermore, the fact these events were appropriately recorded support the assessment of the effectiveness of the detective controls.

The awareness raising campaign on internal control, risk and fraud prevention matters, which started in 2017 and continues in 2018, will give due attention to the common mistakes and thus assist staff members to avoid them.

### **2.1.3.5 Conclusion on the internal control system**

Based on the methodology and information sources described above, DG MOVE has assessed the internal control systems during the reporting year and has concluded that improvements or minor improvements are needed for three principles.

All the components are implemented and functioning well, except for component 3 'Control Activities', that is, in line with DG BUDG guidance, deemed to be partially present as moderate deficiencies were observed regarding two of its three principles. The observed situation does not however have any impact on the assurance by the Authorising Officer.

Concerning the weaknesses noted in 2016, principles 3 and 6 (formerly internal control standards 9 and 12) were reviewed and in both cases, the weaknesses are now considered as mitigated.

Based on the result of the current assessment, as described above, DG MOVE concluded that there was no need to apply changes to the internal control architecture and to the financial circuits, aside from the mitigating actions identified.

### **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 2.1 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 an adequate coverage of the budget delegated to the Director-General of DG MOVE.

DG MOVE has set up internal control processes ensure the adequate management of the risks relating to the legality and regularity of the underlying transactions,

The AOD's conservative estimation of the amount of *relevant expenditure* during the year not in conformity with the applicable contractual and regulatory provisions at the time the payment concludes to an amount at risk at payment EUR 4.59 million. This amount is not considered material as regard assurance building.

The assessment on legality and regularity for the directly managed FP7 programme returns a level of detected error which appears to be 'persistently high'.

Regarding directly managed H2020 the estimate of the error rate is at this stage only a preliminary estimation but points towards a lower error level compared to FP7.

Regarding Indirectly Managed Expenditure, there are no indication of any element that would impair the assurance. The information received from INEA, from the Joint Undertakings and from the decentralised agencies is considered as adequate and reliable.

Overall, during the reporting year, it can be concluded that the controls carried out by DG MOVE were cost-effective and efficient. The overall cost effectiveness ratio weighted by the amounts paid or delegated is estimated to remain below 1%.

DG MOVE faced higher cost effectiveness ratios for its directly managed activities. However, it should be noted that these activities represent a very limited amount of expenditure and, at the same time, are complex enough to justify the deployment of comprehensive controls.

DG MOVE updated its anti-fraud strategy in November 2017, in accordance with OLAF guidance and based on a specific assessment of its vulnerabilities. The action plan for 2017 was fully implemented.

DG MOVE had identified one key risk for 2017, not related to a specific fraud risk. The risk was successfully mitigated.

DG MOVE assessed its internal control systems and concluded that the internal control framework (ICF) is implemented and effective, except for component 3 (Control Activities), noted as partially effective. Further improvement is needed with respect of two of its principles and corrective measures have been taken. This assessment is aligned with the 'Conclusion of the Internal Auditor on the state of internal control in DG MOVE'.

In relation to the recommendations issued in 2017 by ECA and the IAS, none are considered to have a material impact on the declaration of assurance of DG MOVE. The recommendations stemming from the audit on the effectiveness of the set-up and supervision of S2R JU are already taken into account in the above mentioned internal control assessment.

All accepted very important recommendations issued by the IAS have led to specific action plans addressing the underlying issues.

Moreover recommendations issued by ECA and by the Discharge Authority were also systematically addressed.

The current residual risk from the audit recommendations remaining open for DG MOVE does not impair the declaration of assurance.

The reservation on FP7, common to the Research Family, is maintained. Indeed, DG ENER's assessment on legality and regularity for FP7 returns a level of detected error which appears to be 'persistently high' over the years in terms of potential financial impact (exposure). Given the inherent risk related to a key modality of the programme (notably grants system's reimbursement mechanism based on eligible actual costs and the related risk of errors in the costs reimbursement claims submitted by the beneficiaries), the residual error is expected to remain above 2%, as well as the programme's estimated overall amount at risk *at closure* by the end of its lifecycle. However, the impact of this amount at risk on the overall materiality at DG level remains limited.

Appropriate ex-ante and ex-post controls are implemented, to the extent that they remain cost-effective and do not affect the other programme objectives nor abandon the financial scheme. Besides, the legal framework for FP7 can no longer be modified as all grant agreements have been signed. Radical simplifications to reduce errors (and to help achieve other policy objectives) were however introduced in Horizon 2020.

Therefore, under the prevailing risk environment and from a managerial point of view, DG MOVE's AOD can sign the Declaration – even with a reservation for the FP7 Research Programme (see section 2.1.5).

Overall the controls carried out by DG MOVE for the management of the budget, whether implemented directly or indirectly were effective for the reporting year. DG MOVE also judges that the resources assigned in 2017 to the activities described in this report were 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.

### **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 Seventh Framework Programme (FP7).

**2.1.5 Declaration of Assurance and reservation**

## DECLARATION OF ASSURANCE

I, the undersigned, Director-General for DG MOVE

In my capacity as authorising officer by delegation

Declare that the information contained in this report gives a true and fair view<sup>81</sup>.

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:

FP7: the residual error rate observed by ex-post controls on grant agreements signed under the Seven Research Framework Programme is higher than the control objective of 2%.

Brussels, date

Henrik HOLOLEI

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<sup>81</sup> True and fair in this context means a reliable, complete and correct view on the state of affairs in the DG/Executive Agency.

DG MOVE                      Reservation on FP7	
<b>Title of the reservation, including its scope</b>	Reservation concerning the rate of residual errors with regard to the accuracy of cost claims in Seventh Framework Programme (FP7) grant agreements.
<b>Domain</b>	Direct management of FP7 grants
<b>Programme in which the reservation is made and total (annual) amount of this programme</b>	06.03 Horizon 2020 – Research & innovation related to transport  Payments made in 2017 for FP7 grants amount to EUR 2.09 <sup>82</sup> Million
<b>Reason for the reservation</b>	At the end of 2017, the residual error rate is not below the materiality threshold foreseen for the multi-annual period (2%).
<b>Materiality criterion/criteria</b>	The materiality criterion is the residual error rate, i.e. the level of errors that remain undetected and uncorrected, by the end of the management cycle. The control objective is to ensure that the residual error rate on the overall population is below 2% at the end of the management cycle. As long as the residual error rate is not below 2% at the end of a reporting year within the FP's management lifecycle, a reservation would be made.
<b>Quantification of the impact (= actual 'exposure')</b>	Based on the results of audits, it is estimated that the Residual Error Rate is <b>2.87% for FP7 projects</b> . The maximum impact is calculated by multiplying the residual error rate in favour of the Commission by the amount of FP7 payments and clearings of previous pre-financing in 2017 (in total: EUR 12.91 million). The estimated amount at risk in 2017 is EUR 0.37 million.
<b>Impact on the assurance</b>	Legality and regularity of the affected transactions, i.e. only payments made against cost claims (interim payments and payments of balance). The impact on assurance is limited by the reduced net financial impact that will occur in some cases where eligible expenditure is limited by budget ceilings.  The amount at risk of EUR 0.37 million represents 0.09% of DG MOVE payments in 2017 (EUR 414.04 million). Consequently reasonable assurance can be provided.
<b>Responsibility for the weakness</b>	The main reasons for errors are: <ul style="list-style-type: none"> <li>- the complexity of the eligibility rules as laid down in the basic acts decided by the Legislative Authorities, based on the reimbursement of actual eligible costs declared by the beneficiaries;</li> <li>- the fact that there are many thousands of beneficiaries making claims, and not all can be fully controlled.</li> </ul> The different control provisions set out by the Commission services, along with the audit certificates on financial statements and ex-post

<sup>82</sup> The amount for the 06.03 ABB activity reported in Annex 3, table 2, column 2 'payments made' shows a total of EUR 168.91 million as it also includes other payments (e.g. H2020, contributions to SESAR JU and S2R JU as well as payments to the ELENA facility and INEA, other operational expenditure for FP7 and H2020.

FP7 payments for SESAR JU are not concerned by this reservation as the residual error rate calculated by the JU is below 2%. Based on the SESAR JU's ex-post audit strategy and results, DG MOVE has received reasonable assurance about the legality and regularity of the SESAR JU's underlying expenditure.

The payments made under the ABB 0802 Horizon 2020 – Research for FP7 (amounting to EUR 4.67 million) cross-subdelegated by DG RTD are not taken into account in the amount affected by the reservation for DG MOVE.

	audits, can mitigate these risks to a certain extent, but can never be carried out on 100% of the cost claims received.
<b>Responsibility for the corrective action</b>	The possibilities to simplify the FP7 rules have been exhausted. The programme is now in its final stage of implementation: the total amount paid per year will be decreasing, and therefore the financial impact too. Audits may continue at a low level in case of the identification of potential irregularities in projects. However, no further actions are programmed.

## 2.2 Other organisational management dimensions

This section covers the work of the back office, horizontal services within the DG: human resources management, better regulation, informatics and logistics, and information management. The aim of these services is to provide high quality administrative support, advice, assistance, control and monitoring of resource use.

### 2.2.1 Human resource management

With the reorganisations of October 2016 and April 2017 and subsequent actions, DG MOVE has arrived to a structure that is deemed fit for purpose. However, although DG MOVE is now structurally fit for purpose, the possibilities to continue delivering on DG MOVE political priorities through internal redeployment in a context of reduced resources have reached their limits. Already in 2017 and even more so in 2018, ongoing and new legislative files will considerably increase the workload in DG MOVE during the remaining time of the Commission's mandate.

The HR Modernisation project, implemented according to the Communication on Synergies and Efficiencies of April 2016, continued with the second pilot phase as of 16 February 2017 and entered an extended pilot period until July 2018. It has to be acknowledged that the launch of the second pilot phase, when BC and AMC structures and teams were set up across all Commission DGs and services, required that time and energy be dedicated by both BCs and AMCs to adjust all HR processes, practices and daily technicalities to the new system. As a result, HR projections made in the 2017 Management Plan in the previous HR system had also to be adapted and implemented with the resources and tools available in the new HR context and, on very few occasions, rescheduled for 2018.

While adjusting its HR function to the new HR model, in 2017 DG MOVE did continue the efforts and made substantial progress towards achieving the 2020 targets and indicators identified in the Strategic Plan by defining a set of priorities and by implementing specific actions. DG MOVE readily participated in all corporate exercises (such as FTDP – Female Talent Development Programme, VeloMai – BikeToWork challenge, Volunteering week, European mobility week, Brussels 20km – ‘Running for Europe’) and also put in place many important local actions (such as developing an Action Plan based on Commission 2016 staff survey results, recruiting female ADs on Deputy Head of Unit functions, launching well-being staff survey, organising successful MOVE Away Day).

The actions pursued under the three indicators in 2017 and the new 2018 specific outputs are expected to bring DG MOVE closer to the 2020 targets, while they are also setting the good ground for the Commission's 2018 new Staff Survey.

### 2.2.2 Better regulation

As part of the Better Regulation agenda, several activities were further implemented to ensure better quality legislative output, streamlining procedures, enriching databases and setting more realistic timelines when planning initiatives.

Eleven DG MOVE Impact Assessments were scrutinized by the RSB (six of which were successful on first submission). Five Evaluations were completed in 2017 and made available to the public.

Likewise, enhanced coordination and quality checks in the preparation and adoption process of secondary legislation have allowed to ensure timeliness in liaising with the co-legislator, and appropriate implementation of procedures under the Better Regulation agenda.

Legal proposals to repeal two Regulations were assessed<sup>83</sup>.

With regards to implementation support and monitoring, to strengthen the cooperation with Member States, DG MOVE organised package meetings presenting most EU-Pilot/infringement files. For instance, significant work was carried out to ensure the implementation of the new provisions of the 4<sup>th</sup> railway package adopted end 2016, which involved advising Member States currently in the process of introducing competitive award procedures for rail public service contracts (PSC).

### 2.2.3 Information management aspects

In October 2016 the College adopted a Communication<sup>84</sup> that sets out a corporate strategy on data, information and knowledge management. In line with this strategy, most of the actions foreseen for 2017 have been fully accomplished in DG MOVE, especially in terms of paperless workflows and systematization of document management procedures.

Awareness actions launched in 2016 have been consolidated with new communication channels, such as collaborative spaces, highly appreciated and widely used in the DG. This has improved communication within units and the Information Management Team, allowing the CAD to become the reference contact for units in terms of files management. The good results of filing indicator, approaching Strategic Plan 2016-2020 targets (Indicator 1), is the reflection of this collaboration.

The former section on information management included twice a year in the resource management reports has not been carried out during this year. This was due to a change in the resource management reporting, which does not allow to include this information. Following the good results of the collaborative spaces created this year, a dashboard on Information Management indicators is foreseen to be included in a collaborative space during 2018.

A specific Task Force on paperless has been established this year to foster the use of the e-signatory, with good results. The participants in the task Force have reviewed the existing workflows and defined new ones to promote paperless in DG MOVE. Paperless workflows are effectively used since April 2017.

Important actions have been also carried out in terms of assessment and systematic closure of electronic and paper files, as detailed in annex 2. This will improve the quality and security of closed files, physically kept and centrally managed in the new intermediate archives of DG MOVE as from 1 January 2018.

Files accessibility within DG MOVE fully accomplish the target of the Strategic Plan 2016-2020 (Indicator 2).

Regarding the indicator on sharing files with other DGs (Indicator 3), DG MOVE has started an in-depth analysis on files accessibility, based on the 'need to know' principle, which will lead to a policy on files accessibility. In 2018, DG MOVE will define implementing rules and will start to provide access to files to other DGs according to new established rules. In 2017 DG MOVE focussed on files security, quality and preservation,

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<sup>83</sup> The Commission Work Programme 2017 listed Council Regulation (EEC) No 3572/90 amending, as a result of German unification, certain Directives, Decisions and Regulations relating to transport by road, rail and inland waterway as an act to be repealed in 2017 for being obsolete. However, further legal analysis concluded that such a repeal is without any object as we would be repealing an act amending a series of other acts, which are all no longer in force. This has caused some delay, as the original approach was to repeal both acts listed in the Work Programme 2017 together. Regarding the other act to be repealed (Council Directive 89/629/EEC on the limitation of noise emission from civil subsonic jet aeroplanes) DG MOVE will propose the repeal in the first half of 2018.

<sup>84</sup> Communication on Data, Information and Knowledge Management at the EC.

which is a prerequisite before providing access to other DG. This is the reason why the results for indicator 3 are not in line with the target established in the Strategic Plan 2016-2020. This target was set before the Communication on Data, Information and Knowledge Management at the EC had been issued and might change after the analysis on files accessibility is completed.

## 2.2.4 External communication activities

All major communication activities directly linked to the political priorities of the Juncker Commission and to the key deliverables of DG MOVE in 2017 were carried out in a timely and comprehensive manner. This included the organisation of the European Mobility Week, raising awareness of sustainable urban mobility by presenting sustainable mobility alternatives as well as the continuation of the digital passenger rights campaign. Where appropriate, different Corporate Communication campaigns were supported, namely #investEU. More generally, investment and decarbonisation were the key themes throughout the main communication activities.

- Twitter remains our main channel to reach our target audiences (mainly stakeholders, but in certain cases also the general public) directly with information on all key deliverables. Twitter was also the main tool to support different Corporate Communication campaigns, such as #investEU.
- As usual, the EU Transport Scoreboard was updated online and is available for consultation. However this year, certain data was not available in a timely manner, and therefore it was not presented proactively to the press. This meant that the target number press hits was not met.
- The two Mobility Packages were presented and communicated in 2017 and DG MOVE was in lead for both of them. The web portal for the Mobility Packages remained as the single access point to all information about the initiatives.
- The European Mobility Week, which takes place every September, had a strong focus on decarbonisation and investment. Although the aim was to maintain the level of participation of cities, more than one hundred extra cities joined the campaign (compared to 2016).
- A 'digital' passenger rights campaign continued in 2017, focusing on on-line communication tools (Facebook, Twitter, Youtube, etc.). The general aim of the campaign is to inform passengers about their rights. As the main call to action of the campaign is to download the app, we expected a further increase in downloads and we saw an increase of 9.5%.

- **Example of planned initiatives to improve economy and efficiency**

According to the financial regulation, the principle of economy required 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 the best price. The principle of efficiency concerns the best relationship between resources employed and results achieved.

The respect of these principles is continuously pursued through the implementation of internal procedures and predefined practices. These procedures ensure that activities are executed in an efficient manner (e.g. the different workflows contribute to the efficient cooperation between staff, units, etc...) and according to the principle of economy (e.g. the procurement rules ensure procurement in optimal conditions).

DG MOVE is continuously working to improve the efficiency and economy of its

operations. The following three initiatives highlighted in the Management Plan 2017 show how these principles are implemented by DG MOVE:

- In 2017, DG MOVE implemented **TRIMIS**, a new tool presenting and analysing the results of all transport research and innovation projects in Europe and beyond. TRIMIS is providing real value added for policy making, feeding useful information for the delivery of EU's energy, climate and transport goals, as well as facilitating the roll-out of innovation on the TEN-T network and across Europe. TRIMIS is also supporting the design and implementation of EU's Strategic Transport Research and Innovation Agenda (STRIA) and its 7 Roadmaps, published in the Mobility Package in May 2017<sup>85</sup>. As a result of TRIMIS, there is an increase in the efficiency of DG MOVE and the Commission as a whole. In particular, efficiency gains are realised from transparent reporting of research activities, less resources are needed to understand research results and the risk of double-funding future research in the same area is minimised. TRIMIS is also creating valuable links between energy and transport, improving not only the efficiency of Commission services, but also cross-sectoral research in the future. Furthermore, TRIMIS is helping to bridge the 'valley of death' between research and deployment, promoting and therefore accelerating the implementation of innovative solutions onto the TEN-T network. In this case, TRIMIS is also facilitating better informed, more timely and targeted policy design, aimed to remove implementation bottlenecks in the take-up of transport innovation. Finally, TRIMIS is a high leverage tool with low cost-benefit ratio, due to its small funding cost (c. EUR 1m per year), yet very large benefit potential of saving billions of euros in unnecessary research and deployment double funding over the next decades.
- The Commission launched in June 2016 the **Transport Monitoring System (TRAMOS)**, a reporting tool allowing Member States to supply to the Commission on an annual basis the necessary information for the purposes of EU Rail market monitoring. All 26 Member States having railways (i.e. except CY and MT) and Norway use the database to submit and verify their data as foreseen in Commission Implementing Regulation (EU) 2015/1100 on the reporting obligations of the Member States in the framework of rail market monitoring. 2017 was the first year for reporting under this arrangement and the system received a very positive feedback from the Member States which can now have access to current and past market data provided by other Member States on a constant basis.
- **The simplification and streamlining of notification procedures** for cooperation between the Commission and EU Member States in the implementation of Regulation 847/2004 on the negotiation and implementation of air services agreements between Member States and third countries has already led to a qualitative improvement of the notifications and a more efficient processing. A new approach has been applied whereby new forms for notifying opening of negotiations as well as outcome of negotiations were introduced and Member States started to implement it. These new forms aim to facilitate their preparations by Member States as well as the assessment of cases for the case handlers, making the whole process swifter. In addition the way the notifications are being handled has been also changed, in particular ready-made templates for replies have been established; the amount of necessary replies has been adjusted and the list of active negotiations has been updated and shared with Members States on a regular basis. Also the preparatory phase of decisions stemming from Regulation 847/2004 has been significantly simplified; in particular a generic



<sup>85</sup> <https://ec.europa.eu/transport/sites/transport/files/swd20170223-transportresearchandinnovationtomobilitypackage.pdf>

template covering all potential cases has been drafted and a series of Annexes is attached for the easy-use by case handlers to collect the cases as they come along. This is expected to simplify and render the consultation and adoption processes more automatic. Also in aviation, the number of regulatory committee meetings in the field of aviation safety was reduced, and further tasks were delegated to EASA to prepare Commission's decisions.

