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European Commission

2017

Annual Activity Report

Directorate-General for Agriculture and Rural Development

Foreword

Dear stakeholders,

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

My Annual Activity Report for 2017 explains how DG AGRI delivered on this Commission agenda and how the Common Agricultural Policy (CAP) contributes to the Commission priorities such as Jobs, Growth and Investment, Digital Single Market, Energy Union and Climate Change, and Globalisation.

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

2017, the year covered by this Annual Activity Report (AAR), was the third year of full implementation of the CAP reform of 2013, including the new "greening" payment, and the second year after the approval of the rural development programmes 2014-2020. This allowed deepening DG AGRI's fact gathering and the analysis of the lessons learned. 2017 was indeed a strategic year for the reflection on the future of agriculture in the EU. DG AGRI widely consulted on the simplification and modernisation of the Common Agricultural Policy in preparation of the Communication on the Future of Food and Farming, adopted by College in November 2017, which outlines ideas on the future CAP and focuses on making it simpler and ensuring the best value for money. Still in 2017, DG AGRI started the work on the impact assessment and on its legislative proposals for a modern and simpler CAP post-2020.

DG AGRI also consulted on the position of farmers in the food supply chain and in relation to Unfair Trading Practices and started to work on the impact assessment in view of the directive to be presented to the co-legislators to tackle identified concerns.

In 2017, agreement on the "Omnibus" regulation was reached, introducing several elements of simplification and other improvements in the basic acts applying to agricultural policy, as well as on the future framework for organic farming.

The market situation improved significantly in the sectors mostly affected by the previous years' crises, e.g. dairy, fruit and vegetables. In the field of international negotiations, DG AGRI played an active role notably in the EU-Japan Economic Partnership Agreement.

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

This report gives a fair and comprehensive overview of DG AGRI's activities and achievements in 2017, and I am confident that it will provide valuable information about the performance of the CAP and its practical and administrative functioning.

Let me close by expressing my respect and gratitude to all DG AGRI staff. I am grateful that they managed these challenges despite a reduction of human resources and an increase in the general workload.

Jerzy Plewa
Director-General

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THE DG IN BRIEF

Mission

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

Treaty obligations and competences of the EU

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

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

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

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

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

were set out in the Regulation on the financing, management and monitoring of the CAP[1]. The CAP sets out complementary measures designed to jointly achieve all three objectives. They contribute to the relevant **political priorities of the Juncker Commission**[2] as well as to headline targets (climate and energy, research and development, employment, social inclusion) and flagship initiatives (innovation, resource efficiency, youth, digital agenda, new skills and jobs) of the **EU 2020 Strategy**[3] and to the fundamental Treaty objectives. In addition, the CAP participates in the Commission actions to implement the UN 2030 Agenda for Sustainable Development and meet the **Sustainable Development Goals** (SDGs)[4].

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

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

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

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

The contribution of the CAP to the **political priorities of the Juncker Commission**[5] is particularly significant towards the delivery of the following four **Commission general objectives**:

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

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

Types of Commission intervention

DG AGRI acts through different types of interventions:

- The overall policy conception and formulation of the CAP is based on **policy and economic analysis**, evaluation and impact assessments.

- DG AGRI is managing an allocation amounting to EUR 408.3 billion in commitments (in current prices) or around 37.7% of the overall amounts for the programming period of the Multiannual Financial Framework (MFF) 2014-2020.

  The CAP is financed through two funds[7]:

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

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

[5] The ten priorities of the Juncker Commission (http://ec.europa.eu/priorities/index_en)
[6] The title of Priority 6 has been updated and made geographically neutral in view of the slowing down of trade talks with the United States, the new geopolitical context, and the new dynamism in trade talks with other important regions of the world. The Commission has reflected this reality by changing the previous General Objective ("A Reasonable and Balanced Free Trade Agreement with the U.S") and introducing a new impact indicator replacing the old one.
[7] For further information, see paragraph on "Budget implementation" hereafter or Programme Statements related to EAGF and EAFRD.

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

  The EAFRD is part of the Common Strategic Framework[8] (CSF) for ESI Funds 2014-2020, where Rural Development (RD) priorities translate and feed into the CSF thematic objectives. Rural Development measures are intended to help farmers modernise their farms and become more competitive, while protecting the environment, contributing to the diversification of farming and non-farming activities and the vitality of rural communities. These payments are part-financed by the member countries and generally extend over a number of years.

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

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

- By its assurance and **audit activities**, DG AGRI verifies that the conditions under which controls and payments have been carried out by the Member States give reasonable assurance that the CAP expenditure has been effected in conformity with EU rules and, where it is not the case, exclude the expenditure concerned from EU financing.

- DG AGRI contributes to the negotiation of **international agreements** touching upon areas of agricultural policy (trade in agricultural products, quality policy, food security etc.), contributes to the implementation of such international agreements and manages the relations with third countries related to agriculture.

- **By its regulatory and enforcement actions,** DG AGRI prepares legislative proposals, negotiates these with the other institutions and monitors their implementation to ensure a harmonised application. The DG manages various Commission regulations laying down detailed implementing rules as well as their adaptation over time. DG AGRI also deals with state aid/competition and infringements, control of implementation of the acquis, complaints and Ombudsman inquiries.

Budget implementation[9]

In 2017, DG AGRI managed a budget of around EUR 54,1 billion in voted payment appropriations (which accounts for around 41% of the overall EU budget[10]), split between nine activity areas: Administrative expenditure (ABB01), Interventions in agricultural markets (ABB02), Direct support (ABB03), Rural development (ABB04), Pre-accession measures (ABB05), International aspects (ABB06), Audit (ABB07), Horizon 2020 — Research and innovation (ABB09) and Policy strategy and coordination (ABB08). The

[8] The Common Strategic Framework (CSF) for 5 European Structural and Investment Funds (ESI Funds) was adopted to enhance the coordination and complementarity between the EU's main funding instruments (Regulation (EU) No 1303/2013 of the European Parliament and of the Council of 17 December 2013 laying down common provisions on the European Regional Development Fund, the European Social Fund, the Cohesion Fund, the European Agricultural Fund for Rural Development and the European Maritime and Fisheries Fund and laying down general provisions on the European Regional Development Fund, the European Social Fund, the Cohesion Fund and the European Maritime and Fisheries Fund and repealing Council Regulation (EC) No 1083/2006).
[9] See Section 2.1 for more details
[10] Execution 2016: 43,1% for CAP.

three major activity areas ABB02, ABB03 and ABB04 (all executed under shared management mode) accounted in total for EUR 53,6 billion[11].

DG AGRI operates in three management modes:

- **Shared management** (99,2%) for interventions in agricultural markets and direct support (EAGF) as well as rural development (EAFRD): Implementation vis-à-vis final beneficiaries is delegated to the Member States, while the Commission is responsible for the implementation of the overall legal framework, budget implementation and for Member States' supervision;

- **Indirect management** (0,2%) for pre-accession measures (IPARD): Implementation vis-à-vis the final beneficiaries is delegated to the authorities of the beneficiary country;

- **Direct management** (0,6%) for other activities: contracts are concluded directly with third parties to supply the DG with studies, promotion activities and information and communication activities. With the launch of Horizon 2020 – the Framework Programme for Research and Innovation (2014-2020) - in 2014, DG AGRI has delegated the entire operational management of its research activity to the Research Executive Agency (REA). DG AGRI has also delegated an important part of the operational management of the promotion of agricultural products to the Consumers, Health, Agriculture and Food Executive Agency (CHAFEA).

For direct payments, the major part of the EAGF budget execution in 2016 (first year of reform implementation) reached 98 %, and 99 % in 2017.

For EAFRD, execution has reached cruising speed. By the end of the 3rd quarter 2017, it stands at an average of more than 21 % of the total envelopes: a good performance of Rural development among the European Structural and Investment Funds (ESIF).

The reasons for the good execution are the following:

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

Organisation and human resources

In 2017, the Directorate-General for Agriculture and Rural Development (DG AGRI) had a staff of around 1000[12] and was made up of 10 directorates. Seven operational directorates were responsible for managing agricultural market measures, direct support, rural development and pre-accession assistance, research and innovation, international relations and audit. Three directorates were in charge of policy strategy and coordination (covering the design, implementation, enforcement and evaluation of the Common Agricultural Policy (CAP)), administrative support (including budget and financial management), and legal and procedural matters (including internal control).

The DG AGRI specific staff reduction agreement (concluded at political level in 2016 and covering the period 2016-2018) will ultimately lead to a reduction of up to 20% of

[11] More detailed figures see section 2 Organisational management and internal control.
[12] DG AGRI staff (officials and external staff) on 01/01/2017: 992 members of staff; on 01/01/2018: 996.

DG AGRI's workforce at the end of this period. As a consequence of these cuts, a new organisational structure was put in place as from January 2017.

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

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

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

The CAP has around seven[13] **million beneficiaries**, supported under a variety of **different schemes**.

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

The natural cycle of agricultural activities shapes the controls to be carried out (e.g. many on-the-spot checks to verify eligibility conditions can only take place in certain periods of the year) and the frequency of payments to beneficiaries. Paying Agencies account for payments to beneficiaries on an annual basis in their accounting and declaration to the Commission. Expenditure declarations from the Member States are cleared by the Commission via an **annual financial clearance of accounts** exercise, combined with **conformity clearance procedure** following up on errors, addressing weaknesses and leading to net financial corrections. In addition, a new legal framework for interruptions, reductions and suspension of CAP payments to Member States entered into force in 2014[14], which strengthens the Commission's powers to protect the EU financial interest in cases where serious risks of irregular payments have been identified.

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

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

[13] There were close to 6.8 million beneficiaries under direct support schemes, more than 3 million beneficiaries under rural development measures in financial year 2016, as well as 0.13 million beneficiaries of market measures. As a majority of beneficiaries of payments under rural development measures are also beneficiaries of direct payments (but are only counted once when considering beneficiary numbers), the total number of beneficiaries, up to 7 million, is lower than the addition of these figures. It represents a significant drop compared to financial year 2015. The decrease is particularly strong in BG, IT, RO and the UK. It can be partly explained by the implementation of the 2013 CAP reform and notably the increase in minimum requirements for receiving direct payments (e.g. in England and Wales, the threshold increased from 1 to 5 ha and in IT from 100 EUR to 250 EUR). However, other factors played a role such as e.g. changes in insurance obligations (BG) or taxation (IT), as well as structural change (consolidation process towards larger farms) in the sector. See also page 23 of this document.

[14] Regulation (EU) No 907/2014

EXECUTIVE SUMMARY

The Annual Activity Report is a management report of the Director-General of DG Agriculture and Rural Development (DG AGRI) to the College of Commissioners. Annual Activity Reports are the main instrument of management accountability within the Commission and 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[15].

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

2017 was a year of reflection on the future of agriculture in the EU. DG AGRI widely consulted on the simplification and modernisation of the Common Agricultural Policy and released a Communication on the Future of Food and Farming. Another consultation took place on the position of farmers in the food supply chain and the work began for the impact assessment. The co-legislators also agreed on the so-called "Omnibus" regulation, introducing several elements of simplification and other improvements in the basic acts applying to agricultural policy, as well as on the future framework for organic farming.

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

With regard to the general objective "**Jobs, growth and investment**", the productivity increased, and the sector's agricultural factor income remained stable. In spite of the decline of the workforce in agriculture, the employment rate in rural areas has climbed past its pre-crisis level, reducing the gap with urban areas, and the farm sector continues to operate at prices close to world market prices. The market situation improved significantly in the sectors mostly affected by the previous years' crises, e.g. dairy or fruit and vegetables. DG AGRI contributed to farm income and development, business start-ups, knowledge-building, innovation and general investment by assisting MS in the implementation of direct payment schemes and of RDPs.

With regard to the general objective "**Digital Single Market**", broadband access in rural areas continues to improve, but closing the connectivity gap between urban and rural areas remains a challenge, especially for high speed internet access. In 2017, DG AGRI worked with DGs REGIO, CNECT and COMP to set up Broadband Competence Offices in Member States together with a Support Facility, which will help businesses and individuals to access related EU funds more easily. DG AGRI also launched a toolkit for rural broadband and participated in the "EU action for Smart Villages".

With regard to the general objective "**Energy Union and climate change**", greenhouse gas emissions from EU agriculture appear currently to be stable after a long period of decrease. The area farmed organically steadily increases (+ 1.8 million ha between 2012 and 2016) and a large portion of the agricultural area is being farmed according to specific eco-friendly practices: the new "greening" layer of the direct payments system now covers 79 % of utilised agricultural area (UAA), and the 2014-2020 RDPs build on this by supporting more demanding practices. In 2017, DG AGRI supported these outcomes through ongoing assistance of implementation of direct payments and the RDPs, as well as through a review of the greening system. However, according to this

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

review[16] and an evaluation study, the system has not reached its full potential and should be simplified. This is feeding into the current reflection on the future CAP and its environmental instrument.

With regard to the general objective "**A balanced and progressive trade policy to harness globalisation**", the EU is expanding its agri-food trade, thanks in part to the CAP's focus on building a market-oriented and competitive farm sector through fair and efficient policy tools and stands up to its responsibility for developing countries through policy cooperation and by providing preferential access to EU markets for their imports. DG AGRI played an active role in trade negotiations, such as in the EU-Japan Economic Partnership Agreement.

[16] Review of greening after one year (SWD(2016)218 of 23/06/2016) and Report from the Commission to the European Parliament and the Council on the implementation of the ecological focus area obligation under the green direct payment scheme (COM(2017) 152 of 29.3.2017).

b) Key Performance Indicators (KPIs)

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

The CAP Key Performance Indicators	Baseline	Target	Impact/Result
1. Agricultural factor income (see p. 20)	(2012)[17] **EUR 14 938 / AWU** **Index: 107.1** (100 in 2010)	**To increase**	**Slight increase** (2016) **EUR 15 433 / AWU** **Index: 110.6**
2. EU commodity prices compared to world prices (see p. 22)	**1.19** (2013)	**Close to each other (ratio 1.00)**	**close** **1.13**[18] (2017)
3. Minimum share of land with specific environmental practices/commitments[19] (see p. 41) - Share of agricultural area under greening practices	**75 %** (2015)	**To maintain**	**Increasing** **79 %** (2017)
4. Rural employment rate (see p. 19)	**63.4 %** (2012)	**To increase**	**Increasing** **66.0 %** (2016)

[17] Values have changed compared to figures published in 2016 AAR because Eurostat has updated figures.
[18] The data has changed from the data in 2016 AAR because of adjustments in the US poultry price, so that it is more comparable with the EU price (see Annex 12 for more details).
[19] In addition to the share of agricultural area under greening practices, this KPI consists of the following indicators: Share of area under organic farming; % of agricultural land under management contracts supporting biodiversity and/or landscapes; % of forest area/other wooded land under management contracts supporting biodiversity; % of agricultural land under management contracts to improve water management; % of forestry land under management contracts to improve water management; % of agricultural land under management contracts to prevent soil erosion and to improve soil management; % of forestry land under management contracts to prevent soil erosion and to improve soil management; % of LU concerned by investments in livestock management in view of reducing greenhouse gas and/or ammonia emissions; % of agricultural land under management contracts targeting reduction of greenhouse gas and/or ammonia emissions.
On much of the farmland, "greening" requirements apply at the same time as other environmental practices/commitments. In those cases, the contracts funded by rural development policy build on the environmental benefits of the greening requirements. Likewise, the area figures concerned by rural development support overlap with each other. To avoid double counting, these figures have not been added up.

DG AGRI held a **public consultation on "modernising and simplifying the Common Agricultural Policy" (CAP)** between 2 February and 2 May 2017. The European Commission managed to gather the widest possible range of views and concerns about EU agriculture and to enlarge the debate on the CAP to the wider public.

The consultation confirms a **high public interest on agriculture, food and the CAP**: the 322 916 submissions received include large organised campaigns, 58 520 replies to the on-line questionnaire from individuals and organisations, as well as 1423 position papers. It shows a high interest in keeping a **strong common EU policy** on agriculture and rural development. A consensus emerged on the EU value added of the CAP.

The consultation highlights the most pressing **challenges** that EU agriculture and rural areas have to face: a fair standard of living for farmers, pressures on the environment, mitigation and adaptation to climate change. At the same time, it emphasises the need for a simpler and more effective policy.

It also shows different perceptions amongst the various stakeholders on the economy and environment (contributions of farmers to our society, objectives of the CAP, role of the CAP vis-à-vis the 10 Commission priorities for 2014-2020), and new societal demands on animal welfare, organic farming, quality products, consumer protection and health standards.

On 29 November 2017, the European Commission presented a Communication outlining ideas on the future of food and farming. It is based on the public consultation on the future of the common agricultural policy (CAP) assessing where the current policy can and needs to be simplified and modernised.

The future of food and farming
A roadmap for a simpler, more modern policy

The Communication proposes a number of changes to the CAP, focusing primarily on making it simpler and ensuring the best value for money. As well as outlining the priority areas that the future CAP must address, it also proposes a more flexible approach to implementing the policy in order to guarantee more effective results.

Support for farmers will continue through the system of direct payments, but the Communication acknowledges that the way in which these payments are currently distributed needs to be revisited. It sets out a number of possible options for ensuring that payments within and between Member States are more fairly distributed and better targeted at where they are needed most.

Tackling climate change and preserving the environment is the number one challenge the EU is confronted with, and the CAP must play an enhanced role in this effort – not only to protect farmers from the impact of climate change but also to foster more climate-friendly farming practices. Stringent new goals will be set at European level to ensure that farming contributes fully to helping meet the EU's international commitments on climate change and sustainability.

Other proposals include:

- encouraging the use of modern technologies to support farmers on the ground and provide greater market transparency and certainty;

- doing more to help encourage young people to take up farming, including a more coherent approach with each Member State;

- addressing citizens' concerns regarding sustainable agricultural production, including health, nutrition, food waste and animal welfare;

- making sure the CAP remains coherent with other EU policies on issues such as trade, migration and sustainable development;

- creating an EU-level platform on risk management on how best to help farmers cope with the uncertainty of climate, market volatility and other risks.

A toolkit of proven methods for ensuring that these targets are met will be developed at the European level. EU Member States will then be given the flexibility to choose which of these tools to use in order to achieve the desired results, taking into account their national context. Each EU Member State will develop its own strategic plan – which will have to be approved by the European Commission – setting out how they intend to meet the objectives. Rather than on compliance, attention will be paid more on monitoring progress and ensuring that funding is focused on concrete results. Moving from a one-size-fits-all to a tailor-made approach means that the policy and its real-life implications will be closer to those who implement it on the ground.

Legislative proposals on how concretely to meet the goals outlined in the Communication will be put forward by the Commission in the first half of 2018, once the proposal on the EU's seven-year budget post-2020 (the so-called Multi-Annual Financial Framework or MFF) has been published.

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

5. Error Rate and corrective capacity (see p. 55 ff)

		DG AGRI annual accounts (Annex 3)	Relevant expenditure[(1)]	Adjusted error rate	Estimated amount at risk at payment	Average financial corrections	Average recoveries	Average recoveries and corrections (in % of relevant expenditure)	Corrective capacity	Estimated final amount at risk
		million EUR	million EUR	%	million EUR			%	million EUR	million EUR
Title 04	**Employment, social affairs and inclusion**									
0401	Administrative expenditure	0.13	0.13	1.00%	0.00	0.00	0.00	0.00%	0.00	0.00
Title 18	**Migration and home affairs**									
1801	Administrative expenditure	0.09	0.09	1.00%	0.00	0.00	0.00	0.00%	0.00	0.00
Title 05	**Agriculture and rural development**									
SHARED MANAGEMENT										
0502	Interventions in Agricultural Markets	2 945.60	2 945.60	2.38%	70.08	88.00	0.00	0.00%	0.00	0.00
0503	Direct payments	41 551.16	41 551.16	1.92%	798.55	659.35	0.00	0.00%	0.00	0.00
	EAGF total	44 496.76	44 496.76	1.95%	868.63	747.35	101.01	1.91%	848.35	20.28
0504	Rural development	11 094.39	11 094.39	3.37%	374.33	212.83	112.74	2.93%	325.57	48.76
0507	Audit	140.91	140.91	0.00%	0.00	0.00	0.00	0.00%	0.00	0.00
INDIRECT MANAGEMENT										
0505	Pre-accession Measures	91.66	176.08	0.07%	0.12	0.00	0.00	0.00%	0.00	0.12
DIRECT MANAGEMENT										
0501	Administrative expenditure	7.75	48.65	1.00%	0.49	0.00	0.00	0.00%	0.00	0.49
0502	Interventions in agricultural markets	0.00								
0504	Rural development	11.11								
0506	International aspects	4.49								
0508	Policy strategy and coordination	24.73								
0509	Horizon 2020 - Research and innovation	0.00								
Total CAP		55 871.78	55 956.78	2.22%	1 243.57	960.18	213.74	2.10%	1 173.92	69.65
Total DG AGRI		55 872.00	55 957.01	2.22%	1 243.57	960.18	213.74	2.10%	1 173.92	69.65
										0.12%

Footnote (1): *relevant expenditure* includes the payments made, subtracts the new pre-financing paid out and adds the previous pre-financing actually cleared during financial year 2017

c) Key conclusions on Financial management and Internal control

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

The Commission has adopted a set of internal control 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 AGRI has assessed the internal control systems during the reporting year and has concluded that the internal control standards/principles are implemented and function as intended. Please refer to AAR **section 2.1.3** for further details.

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

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

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

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

- ABB04 – Rural Development: Austria, Belgium, Bulgaria, Czech Republic, Germany (2 Paying Agencies), Denmark, Spain (3 Paying Agencies), Finland, France (2 Paying Agencies), UK (3 Paying Agencies), Hungary, Italy (2 Paying Agencies), Portugal, Sweden and Slovakia.

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 reservations envisaged - remove in case no reservations are made in the declaration of assurance], have been brought to the attention of Commissioner Hogan, responsible for Agriculture and Rural Development, on 23 April 2018.

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

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

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

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

These objectives are clearly linked with the Commission general objectives[20]*. One point deserves particular mention. The very substantial action of the CAP in the domain of the environment and the climate certainly includes policy measures relevant to the explicit content of Commission general objective 3 – Energy Union and Climate Change – but at the same time also ranges more widely (e.g. to influence biodiversity, soil quality and water quality). So to make sure that this important policy activity is not lost from view, it has also been mentioned in connection with Commission general objective 3.*

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

Long-term trends in the key indicators for the CAP are the most useful means of assessing the policy's achievement of its objectives. This is because of the long lag effects of the policy's operation. With regard to the various indicators presented, the most recent available values are used. In many cases these predate 2017; it nevertheless makes sense to present them in AAR 2017 as they are more recent than the information presented in AAR 2016, and the relevant trends thus continue to unfold. The choice of a baseline year for any given indicator depends on how recent the latest data are and on the period over which observation is necessary in order to discern genuine trends. A full set of objectives and indicators is presented in Annex 12; 2017 evaluation information is presented in Annex 9. Observations stemming from the performance audits by the Court of Auditors are presented under point 2.1.2.

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

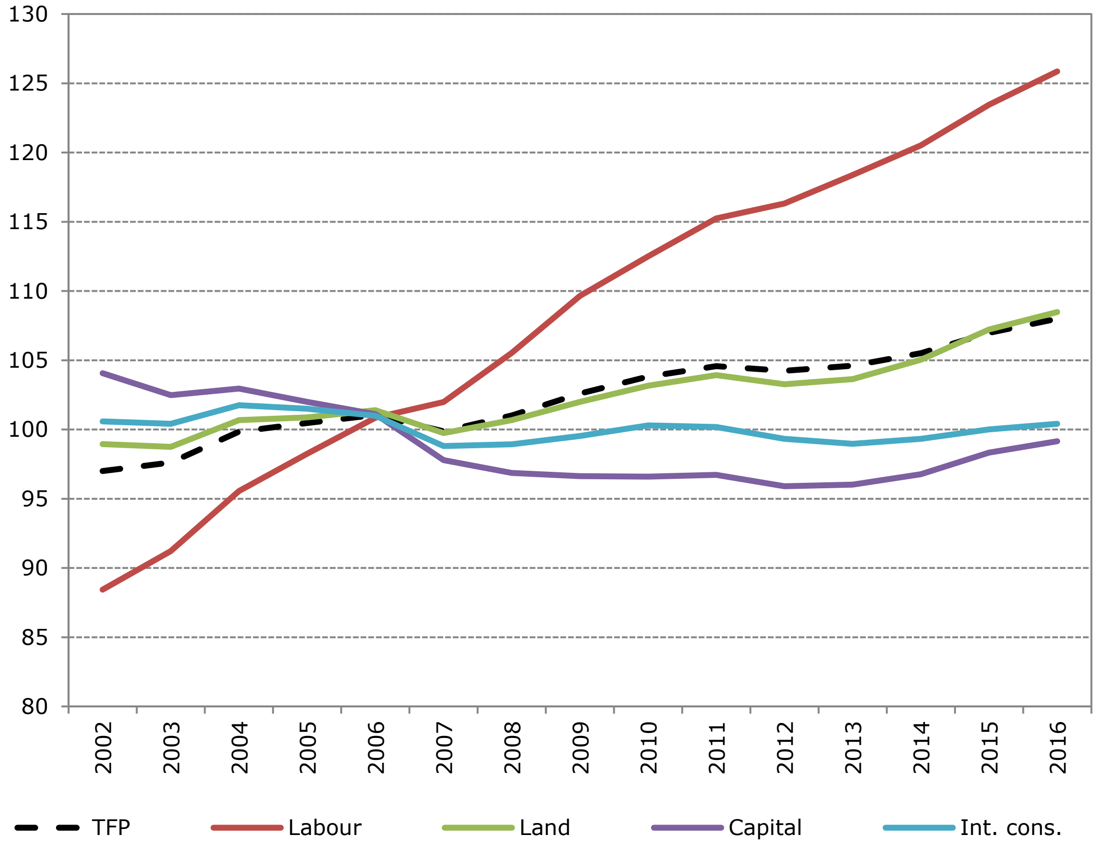
1.1 Commission General Objective 1: Jobs, Growth and Investment

What are the key outcomes to be reported?

1. The farm sector's productivity remains on a healthy long-term course

Measured with rolling three-year averages, the sector's total factor productivity[21] has been climbing (reaching 108 % of its 2005 value in 2014-2016, up from 107 % in 2013-2015).

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



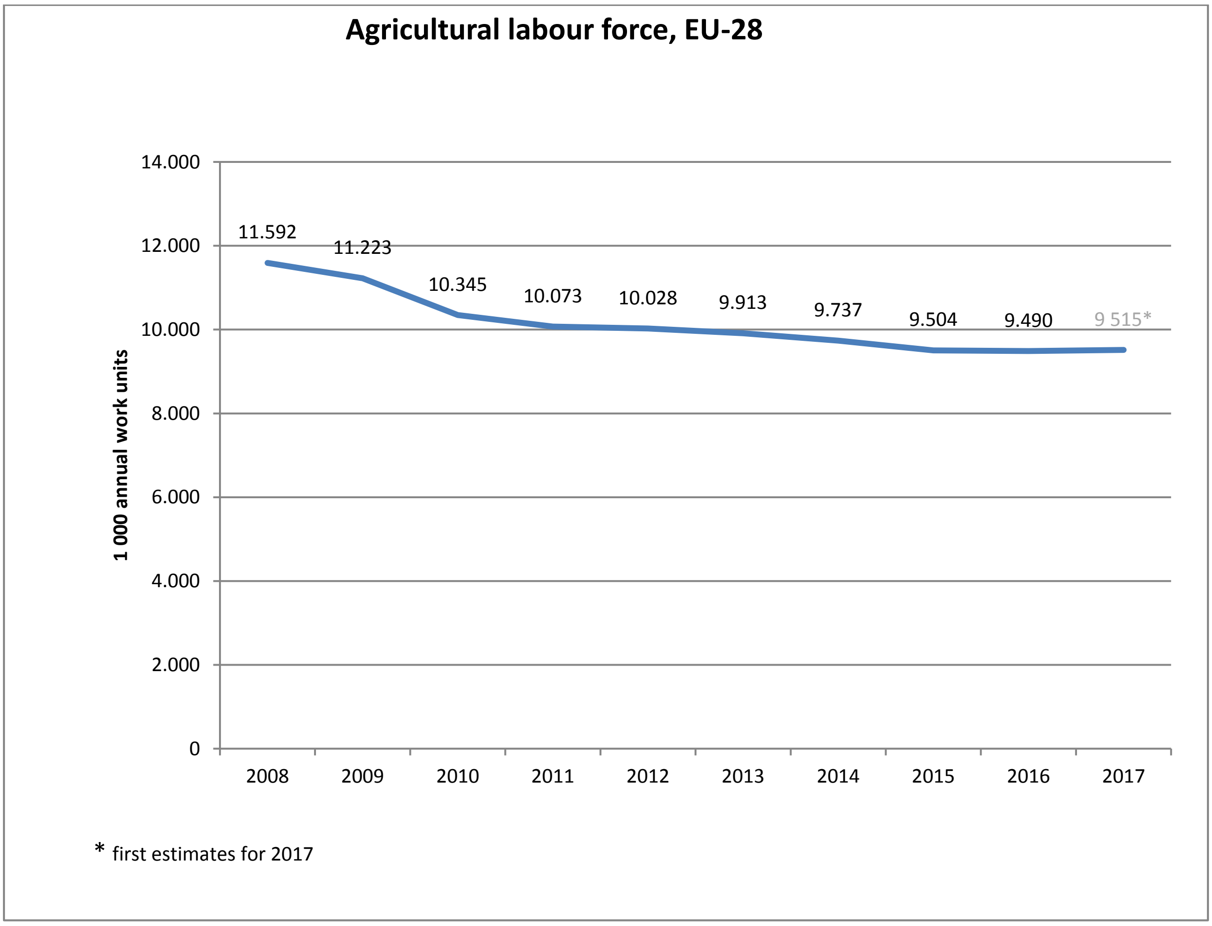
"TFP" means Total Factor Productivity
"Int. cons." means "Intermediate Consumption". It measures the value of the goods and services consumed as inputs by a process of production.

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

[21] Total factor productivity compares total outputs relative to the total inputs used in production of the output (both output and inputs are expressed in term of volumes).

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

The agricultural labour force has slowly declined as a consequence of the modernisation of agriculture (greater mechanisation, Information and Communication Technology (ICT), economies of scale). It appears to be stable in the last 3 years.

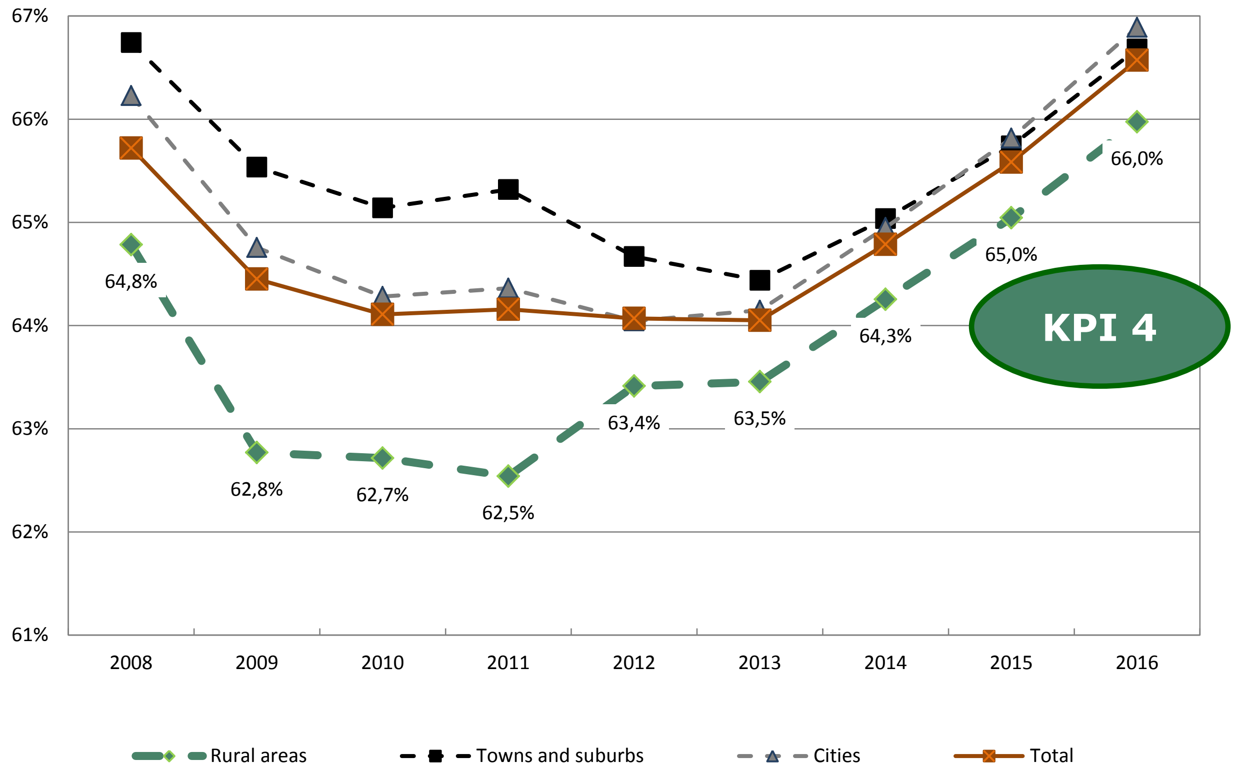


Source: Eurostat

However, the employment rate in rural areas[22] is increasing while the gap with urban areas is decreasing.

In 2016 (the most recent year for which data are available), 66.0 % of the working-age population (aged 15 to 64) in rural areas[23] were in jobs. The employment level has thus recovered strongly from the trough of 62.5 % reached in 2011 (as a result of the economic crisis), and has topped the level of 64.8 % recorded in 2008.

Employment rate (15 to 64 years old) in the EU-28 and by type of area 2008-2016



Source: Eurostat[24]

[22] The indicator "Employment rate in rural areas" is established in the Commission Implementing Regulation (EU) No 808/2014 laying down rules for the application of Regulation (EU) No 1305/2013 of the European Parliament and of the Council on support for rural development by the European Agricultural Fund for Rural Development (EAFRD). It has been selected as Key Performance indicator because it is related to the CAP common objective "Balanced territorial development" This indicator (like other KPIs) covers both pillars of the CAP: it does not only reflect the changes in the agricultural sector, but also the effects of the policy for Rural Development.

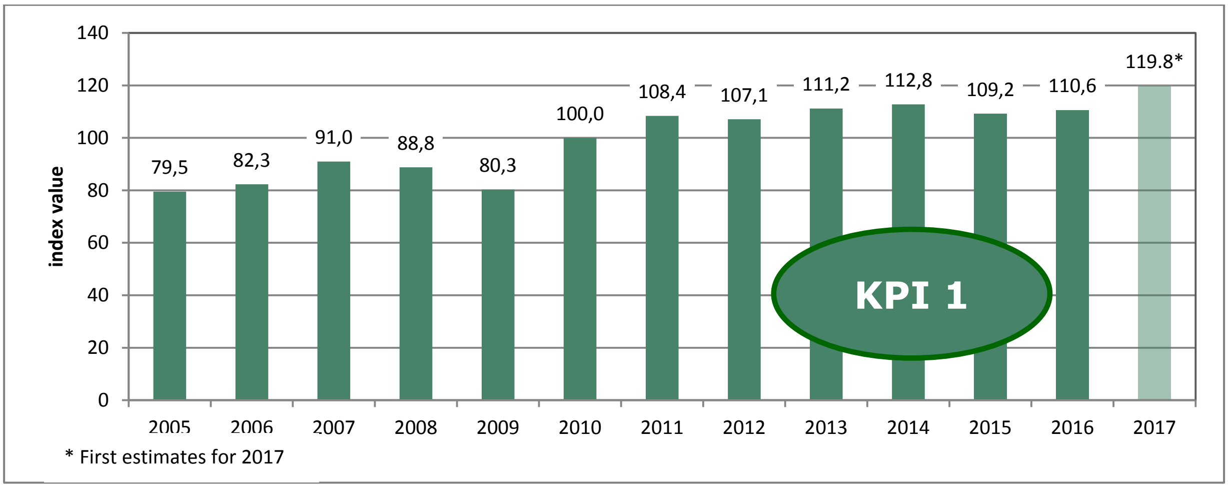
[23] This indicator uses the Degree of Urbanisation classification (DEGURBA), which creates a classification of all LAU2s (Local Administrative Units - Level 2/municipalities) into the following three categories:
(1) Cities (densely populated areas); (2) Towns and suburbs (intermediate density areas); (3) Rural areas (thinly populated areas).
This is done using a criterion of geographical contiguity in combination with a minimum population threshold based on population grid square cells of 1 km². For more details, please consult:
http://ec.europa.eu/eurostat/ramon/miscellaneous/index.cfm?TargetUrl=DSP_DEGURBA.

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

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

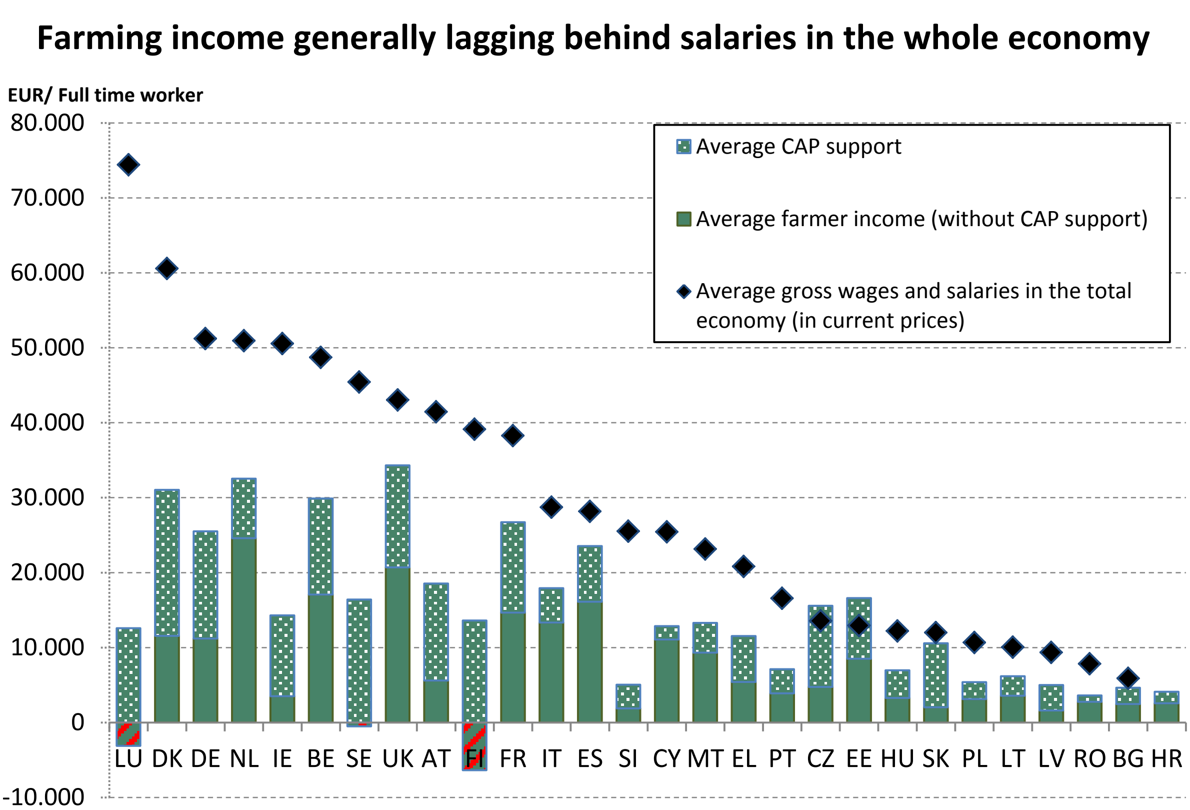
After the crisis year 2009, agricultural factor income per full-time work unit has recovered in real terms. The last 5 years showed no clear trend, but first estimates for 2017 are positive.

Index of real factor income in agriculture per full time work unit[25], EU-28



Source: DG AGRI calculations based on Eurostat data

[25] Agricultural factor income is defined as the net value added at factor costs, calculated according to the following equation:
Value of agricultural production
- variable input costs (fertilisers, pesticides, feed, etc.)
- depreciation
- total taxes (on products and production)
+ total subsidies (on products and production)
= factor income (net value added at factor costs)
An annual work unit is the work performed by one person who is occupied on an agricultural holding on a full-time basis.



Source: DG AGRI based on DG AGRI and Eurostat data, 2011-2013

Average CAP support *= operating subsidies per worker incl. support covering possible negative market income*

Average farmer income (without CAP support) *= entrepreneurial income per worker - operating subsidies*

Nota*: CAP support does not include investment support; average farmer income without CAP support in LU and FI was negative over the period considered - the negative income compensated by CAP support is hatched on the graph.*

Farming income[26] is significantly below the average wage in the economy in most Member States. Operating subsidies allow to compensate partially or totally this gap (and in some cases go beyond, such as CZ and EE). For some Member States, there would be a loss without CAP support (LU, SE, FI).

The subsidies (i.e. coupled support (subsidies on products) and direct support (other subsidies on production) plus some RD payments which are not investment support) appear crucial in LU, IE, LV, SK, SE, SI and FI. The share of subsidies in relation to total farming income is lower in NL, IT and RO[27].

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

[27] 2016 national accounting data will become available in 2018.

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

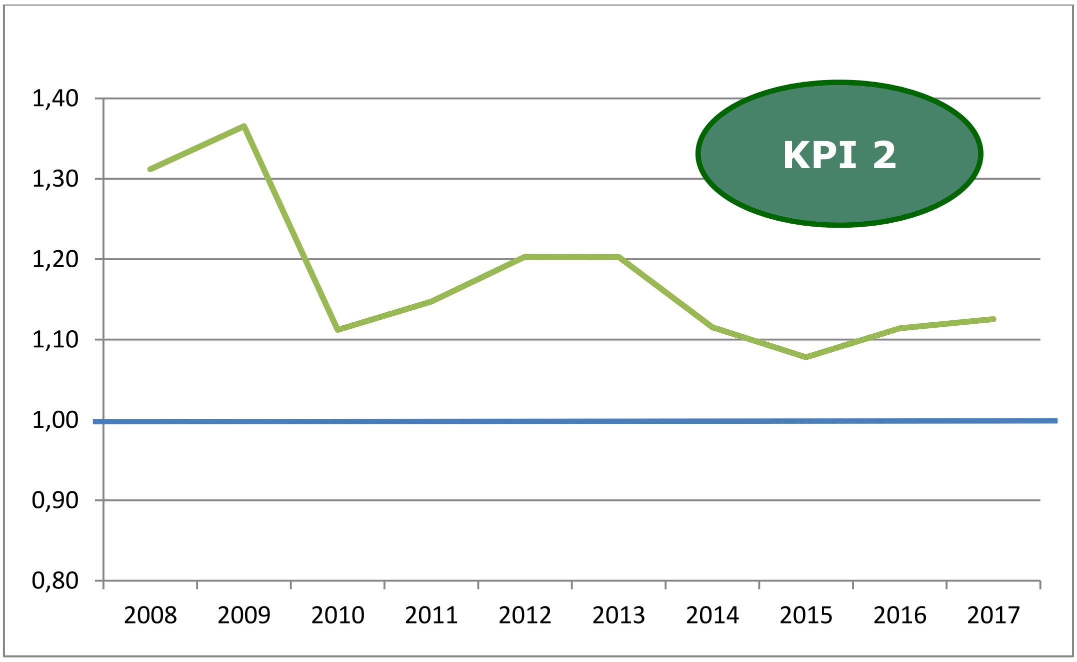
In 2017, a weighted average of the EU market prices of various commodities was at 113 % of equivalent world market prices – compared with 119 % in the baseline year of 2012. Overall, this is largely in line with the target of getting generally closer to world market prices.

The price relationship EU/world slightly deteriorated in 2017, driven by rising EU sugar prices (following with delay the high world prices in 2016) while increased world production pressed world prices downwards.

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

(For information on the EU's agri-food export performance in 2017, see section 1.4).

Ratio between EU and World agricultural commodity prices[28]



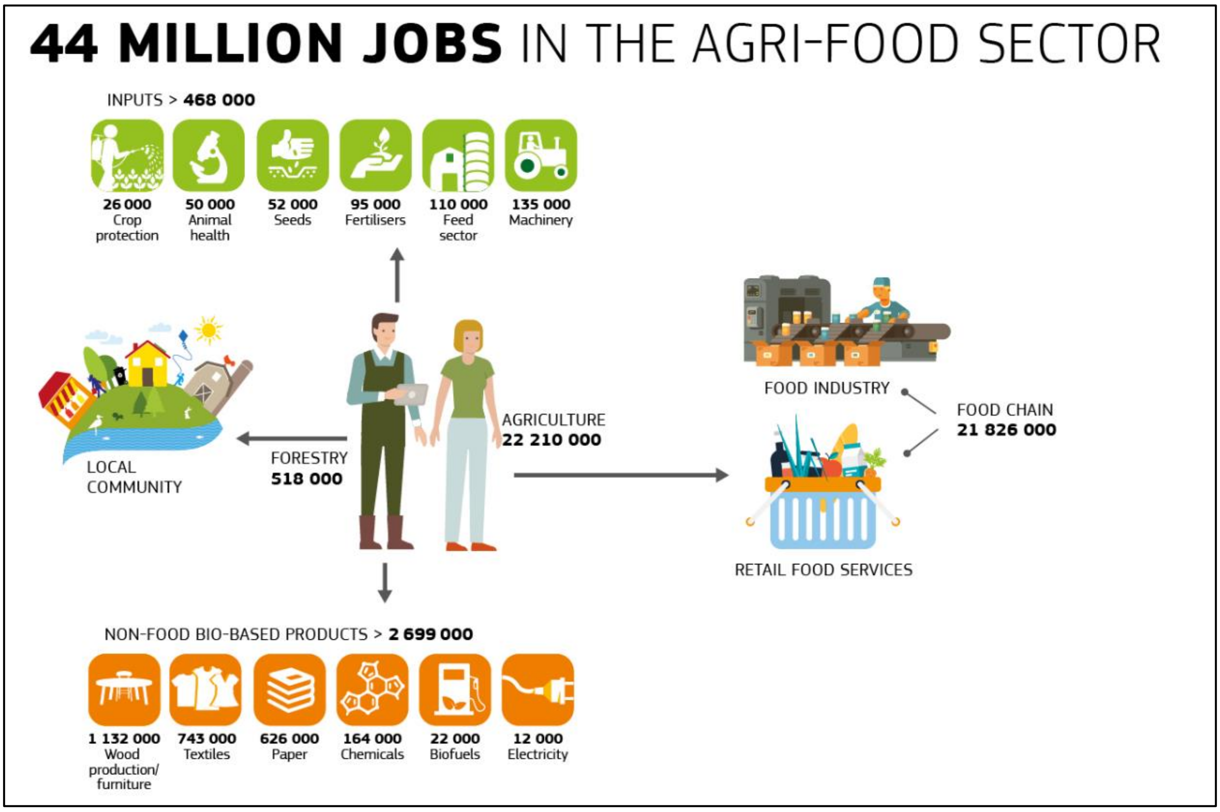
Source: DG Agriculture and Rural Development, based on European Commission, USDA, World Bank, IGC, London International Financial Futures and Options Exchange, National sources.

Why are these outcomes important?

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

[28] The data presented in this graph have changed from the data in 2016 AAR because of adjustments in the US poultry price, so that it is more comparable with the EU price.

The above trends in productivity, income and prices specifically concerning the farm sector are important for the agricultural sector, but also for the other economic activities connected to it. Even though agriculture is gradually taking a lower share of overall employment, almost 11 million farms still provide work for roughly 22 million people[29]. Together with food processing, food retail and food services, agriculture makes up a sector supporting about 44 million jobs[30] in the EU. It also has strong links to various other upstream and downstream sectors, as well as to other (local) rural businesses. However, ensuring a fair standard of living for the agricultural community continues to be a challenge.



Figures provided indicate the number of jobs in the corresponding sector
Source: Based on DataM – Bioeconomics, European Commission / Joint Research IPTS and nova Institut

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

Higher productivity gradually leads to job losses in the farm sector as capital is substituted for labour, but it also tends to make the remaining jobs more economically sustainable (and therefore more likely to attract new entrants). Furthermore, if the right conditions are set for job creation in other related sectors, the net effect on employment

[29] Full and part-time jobs. Source of data: Eurostat Farm Structure Survey 2013. Data from the 2016 Survey will become available later in 2018.
[30] Figures are for 2012-2013 (agriculture, food industry and retail food services) and 2009 (other sectors). *Sources:* Joint Research Centre, *'The bioeconomy in the EU in numbers'*, 2015; Eurostat, Structural Business Statistics, 2015; Eurostat, Farm Structure Survey, 2013. In the case of input figures: industry sources. See https://ec.europa.eu/agriculture/sites/agriculture/files/cap-overview/2016_en.pdf. Data from the 2016 Survey will become available later in 2018.

can be positive (as the graph on rural employment indicates, see p. 19). Jobs in rural areas will increasingly be non-agricultural.

How closely are the outcomes linked to the CAP?[31]

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

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

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

The CAP exerts a strong positive influence through the following instruments:

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

Direct payments currently shore up the resilience of 7 million farms, covering 90 % of farmed land, and make up a roughly stable share of farming income[32] (44 % in the EU-28 in 2016). They are now better targeted thanks to new payment "layers" addressing the particular needs of young farmers, smaller farmers, specific sectors or regions in difficulties, and the environment. These changes to the structure of the direct payments system – along with provisions addressing redistribution more specifically – contribute to a more equitable payment distribution. As direct payments are mostly decoupled from production, farmers base production decisions essentially on market signals rather than attempts to maximise support payments.

Initial results of the **Evaluation of the impact of CAP measures towards the general objective of "viable food production"** (forthcoming) confirm the impact of direct payments on enhancing and stabilising income. Current levels of coupled support appear overall to have limited effects on the level playing field between MS, with differences per sector and aid intensity. The effectiveness of market measures varied depending on sectors and conditions. The administrative and management costs of the current CAP are considered to be generally higher than in the previous one. The coherence with other objectives and policies is found to be good. More information will be made available in the staff working papers on the evaluation as well as the report of the external evaluator, expected in late 2018.

[31] These outcomes cannot be "attributed" solely to the CAP; nevertheless, the CAP makes a strong contribution to them.
[32] Estimated on the basis of agricultural entrepreneurial income.

Trends in the distribution of direct payments

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

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

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

The 2017 report on the distribution of direct payments to agricultural producers (financial year 2016)[i)] shows that, after the peaks of the enlargement, the **number of beneficiaries has been decreasing constantly** (with the exception of the financial year 2014, corresponding to the accession of Croatia in the EU) and amounts now to 6.7 million holdings. This reduction in the number of beneficiaries (linked to structural adjustments that both reduce the number of farms and increase their size, and possibly due to stricter eligibility conditions), together with the increasing amounts received by the EU-N13 countries, has resulted in a smaller share of beneficiaries receiving low amounts of direct payments and thus in a higher average amount per beneficiary.

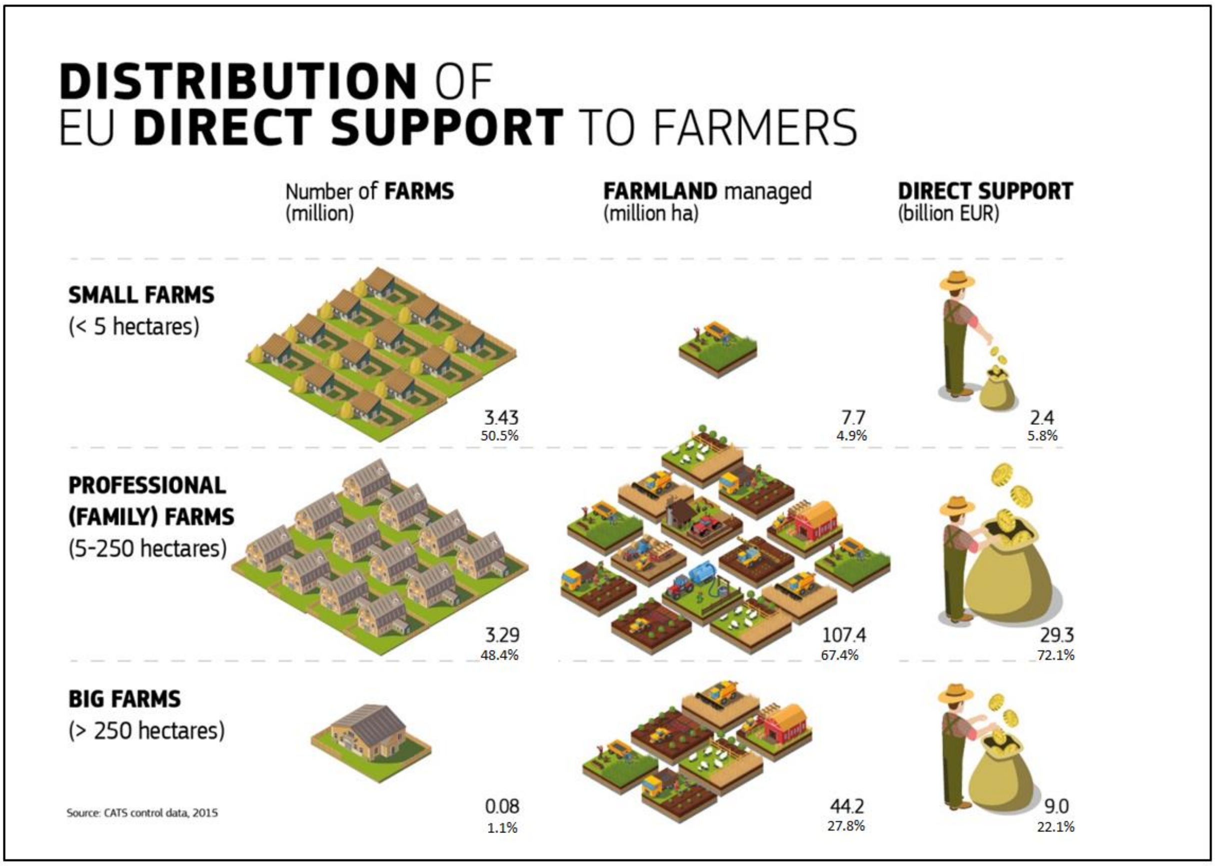
As direct payments are granted per hectare of eligible area, there is a strong correlation between the distribution of direct payments and the distribution of area between farmers. This results in larger farms concentrating the largest amounts of support[ii)] and in a high number of very small beneficiaries, reflecting the high fragmentation of the farm sector in the EU and the relative contribution of these farm groups to the economics of the sector. For financial year 2016, **more than 50 % of the beneficiaries of direct payments had less than 5 hectares and covered less than 5 % of the total area supported** (see the figure below showing the "Distribution of EU direct support to farmers").

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

In addition, Member States must also reduce by at least 5 % the receipts above EUR 150 000 which any beneficiary obtains from the basic payment scheme or the single area payment scheme. They may even cap these receipts (9 Member States have decided to apply a capping as from 2015). Besides, Member States have the option to redistribute up to 30 % of their direct payments national envelope to the first ha on every farm ("redistributive payment"). In 2016, 9 Member States have implemented this scheme, using between 1 % and 15 % of their total expenditure for direct payments[iii)].

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

[i)] See: https://ec.europa.eu/agriculture/sites/agriculture/files/cap-funding/beneficiaries/direct-aid/pdf/annex2-2016_en.pdf
[ii)] Although to a lesser extent than for the land.
[iii)] The options chosen by MS for the direct payments 2015-2020 are summarised in the information note available on Europa website: https://ec.europa.eu/agriculture/sites/agriculture/files/direct-support/direct-payments/docs/simplementation-decisions-ms-2016_en.pdf. On the share that the product of reduction and capping represents compared to the total basic payment, please see this document p. 19 (figures for Claim Year 2015): https://ec.europa.eu/agriculture/sites/agriculture/files/direct-support/direct-payments/docs/implementation-of-direct-payments-for-cy-2015_en.pdf.
[iv)] For more information on the implementation of direct payments (figures for Claim Year 2015) see https://ec.europa.eu/agriculture/sites/agriculture/files/statistics/facts-figures/direct-payments.pdf



The equity of the current distribution of the payments is subject to debate (20 / 80 debate).

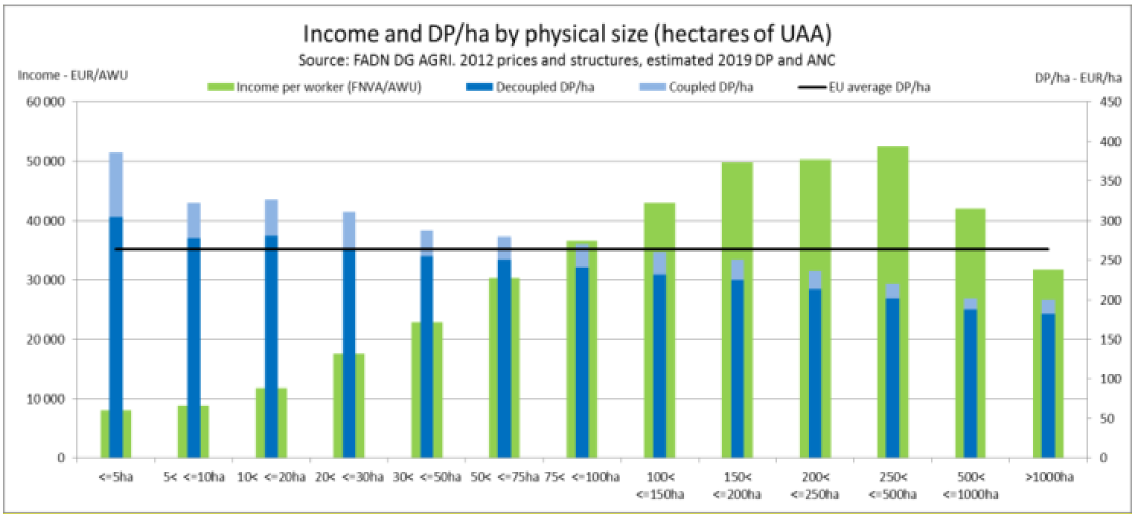
The above figures show that the CAP is currently operating a very inclusive system of support where very small farms, having less than 5 ha, represent over half of the beneficiaries. The share of total farmland of these small farms is 4.9% while their share of total direct support is 5.8%.

Professional family farms managing between 5 and 250 ha represent 48.4% of farms, manage 67.4% of the farmland and receive 72.1% of the total direct aid. (The majority of these farms have between 5 and 20 ha and receive roughly EUR 2 875 per farm.)

Big farms managing over 250 ha represent 1.1% of farms, manage 27.8% of the total farmland and receive 22.1% of total direct aid. Among these "big farms", the majority has between 250 and 500 ha[33].

Direct payments per hectare decrease with increasing farm size while the income per worker increases. Furthermore, direct payments per hectare are on average higher for types of farms with low average income. These graphs combined show that the picture of the distribution of direct payments is more nuanced than currently perceived in the public. Nevertheless, targeting could still be further improved with a view to better achieving the CAP objectives.

[33] Less than 0.4% have more than 500 ha.



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

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

Key targets[34] aggregated from the 2014-2020 rural development programmes (RDPs) include the following:

- 3.8 million training places to be funded;
- 15 000 co-operation projects to be supported;
- More than 331 000 holdings to invest in restructuring or modernisation;
- 178 000 holdings with supported business development and investments for young farmers;
- 255 000 farms to become involved in quality schemes, short supply chains, local markets or producer groups/organisations;
- 603 359 farms to be covered by risk management schemes;
- 113 900 non-agricultural jobs to be created, of which:
  - 79 900 from the creation, diversification and other development of small businesses;
  - 44 000 through the LEADER approach to local development;
- 50 million rural citizens to benefit from improved services.

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

The data on the implementation in 2017 will become available in the second half of 2018[35].

The Synthesis of ex-post evaluations of Rural Development Programmes 2007-2013 (forthcoming) covers effectiveness, causal analysis, efficiency, coherence and EU value added. Replies to evaluation questions are predominantly positive about the contribution of RDPs to environment and climate action as well as for growth and jobs. Outcomes for the quality of life and diversification are less straightforward, due to unclear interrelation and measuring standards. Lack of priority and budget seem to have had a limiting effect on innovative approaches, and improvement in broadband access was delayed due to processes (amongst other late implementation).

In 2017, The World Bank issued the report *Thinking CAP. Supporting Agricultural Jobs and Incomes in the EU*. This report argues that **the CAP was associated with the reduction of poverty and the creation of better jobs for farmers across the EU**. Structural transformation is well underway and relatively successful: the gap between agricultural incomes and incomes in other sectors is closing and, across the EU, agricultural incomes are converging with each other. As labour moved out of agriculture, the CAP supported the creation of reasonably remunerative jobs for the workers who remained in agriculture, while poverty in agricultural areas was reduced. It is in this sense that **agriculture and the CAP mattered for inclusive growth in the EU**.

What supporting steps did the DG take in 2017?

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

In 2017, the market situation improved significantly in the sectors mostly affected by the previous years' crises, e.g. dairy, fruit and vegetables. In such improved context, most of the measures previously adopted to face these crises ended, although DG AGRI continued to take action through market stabilisation tools of the CAP in some cases. In the fruit and vegetables sector, although EU support is generally being phased-out, exceptional temporary measures still had to be extended for producers of certain fruit and vegetables until June 2018 because of the Russian ban impact; peaches and nectarines received additional support in August 2017. In the dairy sector, the challenge was to ensure the smooth sale of skimmed milk powder (SMP), bought in 2015, 2016 and 2017, back onto the market. As SMP prices did not experience the same significant improvement as milk and other dairy products, only limited quantities were put back on the market in 2017 through monthly tenders. Given this particular market situation, DG AGRI proposed that SMP public intervention would not be automatic in 2018 but would be carried out through tendering procedure.

[35] Figures for support by 31/12/2016 are the following: Training places: 258 000; co-operation projects: 804; holdings to invest in restructuring or modernisation: 43 400; holdings with supported business development and investments for young farmers: 12 100; farms to become involved in quality schemes, short supply chains, local markets or producer groups/organisations: 5 600; farms to be covered by risk management schemes: 61 800; non-agricultural jobs from the creation, diversification and other development of small businesses: 1 000; non-agricultural jobs through the LEADER approach to local development: 424; rural citizens to benefit from improved services: 40 million.

Sugar quotas ended in 2017, in a context of a large harvest, which is likely to lead to a sugar production over 20 million tonnes in 2017/18 and already resulted in a certain price decrease at the end of 2017. The Commission will continue to closely monitor the sugar market developments, in particular thanks to the newly established sugar market observatory. Similarly, a crops market observatory was established in 2017. The Commission committed in 2017 to prepare a report on how EU plant protein production could be enhanced.

2017 has been a challenging year from an animal health perspective, leading DG AGRI to take action in several instances concerning the African Swine Fever (in Poland) and the Avian Influenza (in France). The latter issue also led DG AGRI to amend the rules for free range eggs productions to cover the specific cases where hens' access to open air runs is restricted for sanitary reasons.

Following the November 2016 recommendations of the Agricultural Markets Task Force on **how to improve the position of farmers in the food supply chain**, the Commission launched (inception impact assessment and open public consultation from July 2017) a specific initiative concerning:

- unfair trading practices occurring in business-to-business relationships in the food supply chain,
- market transparency,
- certain aspects of producer cooperation.

As far as unfair trading practices are concerned, an impact assessment has been drawn up and a legislative proposal was adopted on 12 April 2018 (COM(2018) 173 final).

With the adoption of the "Omnibus" agricultural package at the end of 2017, several recommendations of the Task Force were partly implemented, namely improving the EU's risk management toolkit, facilitating farmers' possibilities of cooperating so as to strengthen their standing in the food supply chain and granting farmers a right to request a written contract.

The agricultural provisions of the **"Omnibus"** proposal[36], which entered into force as a stand-alone regulation on 1 January 2018, have introduced amendments to all four basic acts of the CAP. These amendments introduce a number of simplifications or other improvements to the current rules, easing their implementation both for national authorities and, most importantly for farmers and other beneficiaries of the CAP:

- In rural development, several changes facilitate the implementation of the risk management tools and encourage the use of financial instruments by easing conditions;
- In direct payments, changes have been introduced to the definition of permanent grassland and on the active farmer provision to take account of implementation problems encountered in several Member States and in the greening provisions which ease their application without reducing the level of environmental ambition;
- In the Common Market Organisation (CMO), the thrust of changes relates to the operation of producer organisations ("POs"), which is streamlined, and to the fruit and vegetables sector where new eligible actions are added for POs operational programmes.
- Punctual changes have been introduced in the horizontal regulation such as the application of the proportionality principle in the case of non-compliance with public procurement rules or the increase of the amount for non-recovery to up to EUR 250, if also applied to national debts.

With regard to **direct payments**, the main supporting work carried out by DG AGRI in 2017 consisted in:

- adapting regulations in a way to simplify their implementation, notably in the context of the "Omnibus" regulation;
- continue collecting and analysing data on the implementation of direct payments, with a view to identify successes and failures and to share information with Member States;
- work on developing ideas for improvements of farming income support in the future.

In relation to Integrated Administration and Control System (IACS), significant work has been done to pave the road to simplifying and streamlining the administration and control systems by using new technologies such as Copernicus Sentinels data, unmanned aircraft systems, geo-tagged photographs etc. As of 2018, Member States will have more flexibility in using new technologies in IACS to achieve efficiencies and reduce costly inspections in the field.

[36] Adopted by the Commission in September 2016, the "Omnibus" proposal comprises a series of changes to the Financial Regulation and amendments to a number of other spending regulations, including the four CAP regulations. These amendments aimed to bring forward much needed simplification to the implementation of the policy following the experience acquired since the last reform of the CAP adopted in 2013. After intensive negotiations in four trilogues during the summer and autumn 2017, an agreement on the agricultural provisions was reached between the Commission, the European Parliament and the Council on 12 October 2017. Taking into account that negotiations on other parts of the Omnibus proposal are still to be finalised, and the desire of many Member States to implement the agreed proposals as soon as possible, the European Parliament and the Council agreed to separate the agricultural provisions of the Omnibus and adopt them as a stand-alone regulation that would enter into force at the latest on 1 January 2018. The regulation was adopted on 13 December (Regulation (EU) 2017/2393, OJ L 350, 29.12.2017, p. 15-49).

Not only the number of young farmers counts

The proportion of farmers younger than 35 years is low in most European countries. While this reflects to a certain extent the general ageing of rural societies, it is also linked to the intergenerational transfer of farms and the fact that the oldest farmers have the smallest farms – for every average-sized new farm, slightly more than 2.5 older farmers would have to stop farming. The proportion of young farmers thus cannot be expected to grow as quickly as the proportion of older farmers declines.

However, the small share of young farmers may constitute a challenge in view of the future competitiveness of European agriculture and guaranteed food production in the coming decades.

The fact that the utilised agricultural area has remained largely stable over the last decades (with losses due to urbanisation but no large-scale abandonment of agricultural land) shows that the production base is maintained, even if there are few young farmers because land may be difficult to find if it is not inherited. A new entrant into farming who does not inherit land will have to take over an existing farm, since most suitable land is already in use. The higher proportion of rented land among young farmers indicates a desire to increase the size of the farming operation, which is constrained by the lack of suitable land.

Clearly, starting an agricultural business requires substantial investments, which often become productive only after a number of years. This applies to all new entrants into farming, regardless of their age. The fact that young farmers have high levels of net investments shows that they see a future in farming and are willing to modernise their operations. However, given their low farm capital and land value, they have little to offer as collateral for loans, which may act as a limitation for even greater investments.

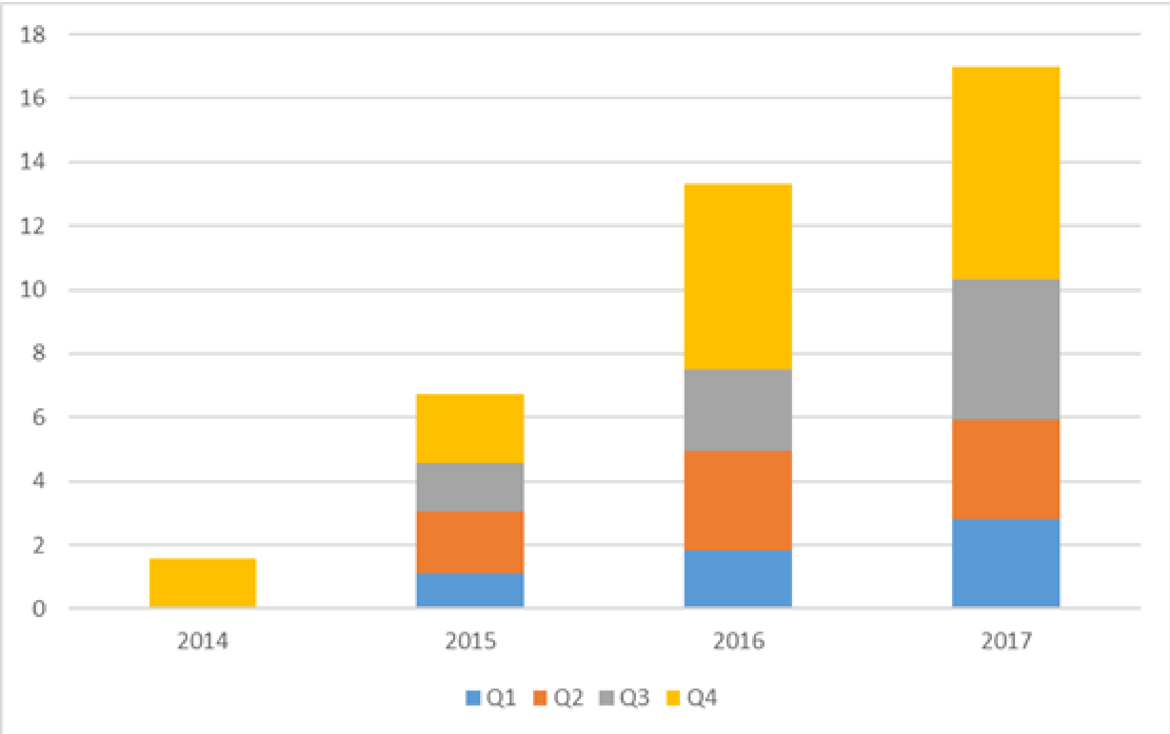
Access to land and credit are often cited as the two main constraints for young farmers – in fact, they are constraints for all new entrants into farming. While land is a finite resource and land ownership is a sensitive issue, there are various ways in which the availability of credit for farmers can be addressed, which would certainly benefit young farmers.

For more information, see https://ec.europa.eu/agriculture/sites/agriculture/files/rural-area-economics/briefs/pdf/015_en.pdf

For **Rural Development**, the implementation of area-related support in 2014-2020 (e.g. related to environmental commitments) is quite well advanced, while some delays are still observed in relation to those measures that can take several years to be completed, such as long-term investments (e.g. broadband, other infrastructures) or business start-up conditional to the implementation of a business plan (e.g. setting-up of young farmers, which can take up to five years to be "completed"). Significant progress in the implementation of those measures is expected in the very next years.

Overall, the screening of the Annual Implementation Reports confirms a steady acceleration in spending levels compared to the first years of implementation. This situation has permitted to catch up the initial delays linked to the relatively late starting of the 2014-2020 RDPs. In January 2018, spending levels reached 25.7 % of total EAFRD resources[37], matched by 42 % in terms of commitments over planned total public expenditure. With programme implementation having now reached their cruising speed, the situation is likely to further improve in the next years, as shown in the following graph.

Evolution of RD reimbursement claims by the Member States
(total Union contribution, billion EUR on 31/01/2018)



[37] Q4 2017 is paid from budget 2018

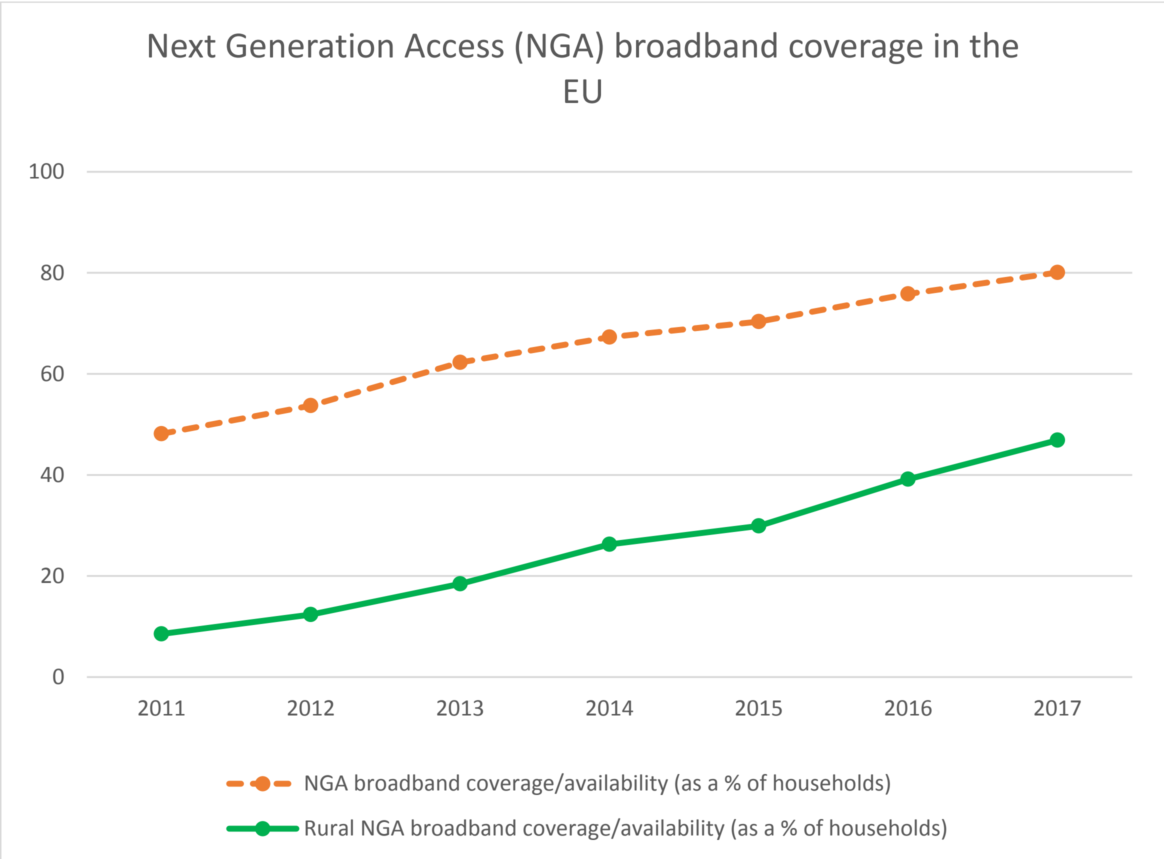
1.2 Commission General Objective 2: Digital Single Market

What are the key outcomes to be reported?

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

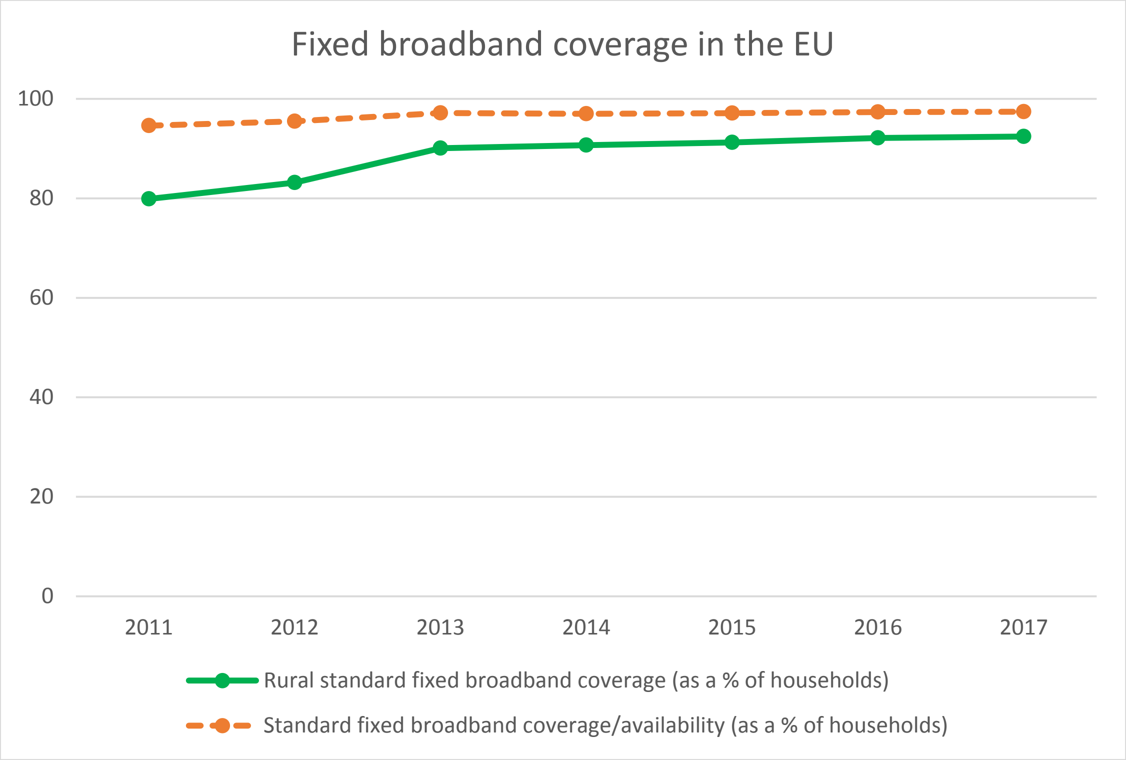
Only 47 % of rural[38] households have next generation access compared to 80 % of total EU households. Closing the connectivity gap of rural areas lagging behind in fast new generation access remains a challenge to be tackled.

Standard access reaches 92 % of homes in 2017, compared with 91 % at the end of 2014 and 80 % in 2011.



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

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



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

Why is this outcome important?

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

How closely is the outcome linked to the CAP?

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

What supporting steps did the DG take in 2017?

In 2017, DG AGRI worked closely with DGs REGIO, CNECT and COMP to set up a **network of Broadband Competence Offices** (BCOs) in Member States and their regions, as well as a Brussels-based Support Facility.

- The BCOs ("one stop shops" for technical support on ways to invest effectively in broadband projects and improve broadband access) will help businesses and individuals to access more easily the various support possibilities offered by EU funds under the umbrella of the Digital Single Market, and specifically to widen next-generation broadband access in rural areas. By the end of 2017, the BCO network was made of 27 National and 75 Regional BCOs (as follows: BE (1), FR (34), DE (14), SE (2), ES (11) and IT (13)). It will be further developed and completed in 2018.

- The BCO Network Support Facility (SF) connects European BCOs in a network in order to promote knowledge exchange, overcome broadband project hurdles and build capacity in the areas of funding, planning and policy. The Support Facility has gone live following the signature of the necessary contracts by the DGs concerned at the end of 2016. A number of deliverables such as training courses, thematic groups, publications and videos have been produced by the SF to support and animate the network and to promote the setting up of national and regional BCOs.

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

In April 2017, Commissioners Hogan, Cretu and Bulc launched the "EU Action for Smart Villages" initiative. Building on the "Smart Cities" concept, the initiative is a compilation of actions that the Commission intends to take in the short to medium term to promote the use of data and digital technologies in providing jobs and business opportunities in the rural economy as well as e-health, smart grids and networks in transport and energy and better services for rural citizens. A number of events and working groups related to digital hubs, digitisation of agriculture, smart rural services and innovation hubs were held in the course of 2017. These events were followed by a pilot project on "Smart Eco-Social Villages", launched towards the end of 2017, which will develop a model for communities wishing to develop their own Smart Village strategies. Further initiatives will be taken in 2018, in view of preparing for the post 2020 policy framework.

Example of EU added value: European Innovation Partnership on Agricultural Productivity and Sustainability

Digital technologies can support European farmers in providing safe, nutritious and quality food, while also contributing to a more sustainable management of natural resources and to fighting climate change. Although the digitisation of the farming sector comes with many benefits, and a number of actions and instruments have already been implemented, barriers to realise its full potential across Europe still exist.

Under the umbrella of the European Innovation Partnership on Agricultural productivity and sustainability (EIP-AGRI), a number of initiatives have been undertaken to boost digitisation of European agriculture, for example:

- In the Horizon 2020 project "Internet of Food and Farm 2020" (IoF2020), 19 use-cases organised around 5 sectors (arable, dairy, fruits, meat and vegetables) develop, test and demonstrate Internet of Things (IoT) technologies in an operational farm environment all over Europe. The aim of this project is to build a lasting innovation ecosystem that fosters the uptake of IoT technologies. Its budget is EUR 30 million.

- In 2017 the first steps were taken to build a network of agricultural Digital Innovation Hubs (DIH). These act as one-stop-shops enabling any business to access the latest knowledge, expertise and technology for testing and experimenting with digital innovations. They provide connections with investors, facilitate access to financing for digital transformations, and help connect users in agriculture with ICT suppliers of digital innovations across the value chain. To create synergies and to connect the agricultural innovation scene with other sectors, the agricultural DIHs will be part of a pan-European network of DIHs.

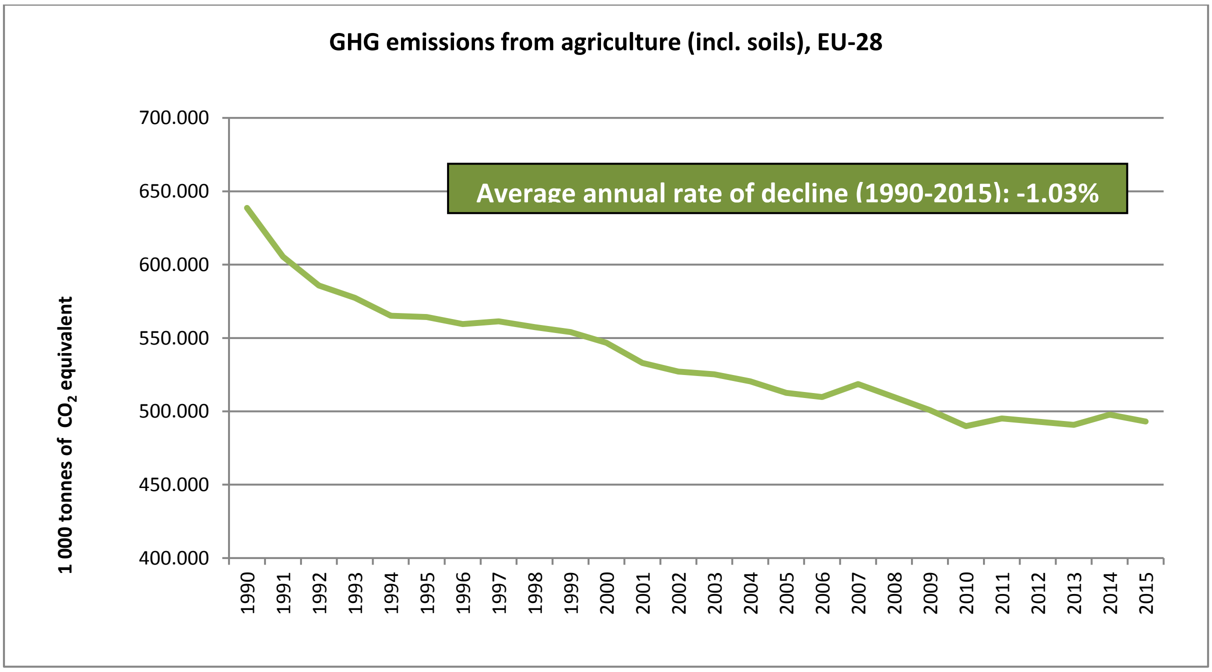
A complete overview of the 2017 EIP-AGRI activities on digitisation is provided in the EIP-AGRI Brochure *Shaping the digital (r)evolution in agriculture*.

1.3 Commission General Objective 3: Energy Union and Climate Change

What are the key outcomes to be reported?

1. Net greenhouse gas emissions from EU agriculture have fallen over 20 years but appear to be stabilising

Greenhouse gas emissions (GHG) from agriculture[39] have declined substantially between 1990 and 2010. Since then, emission levels appear to be stable.



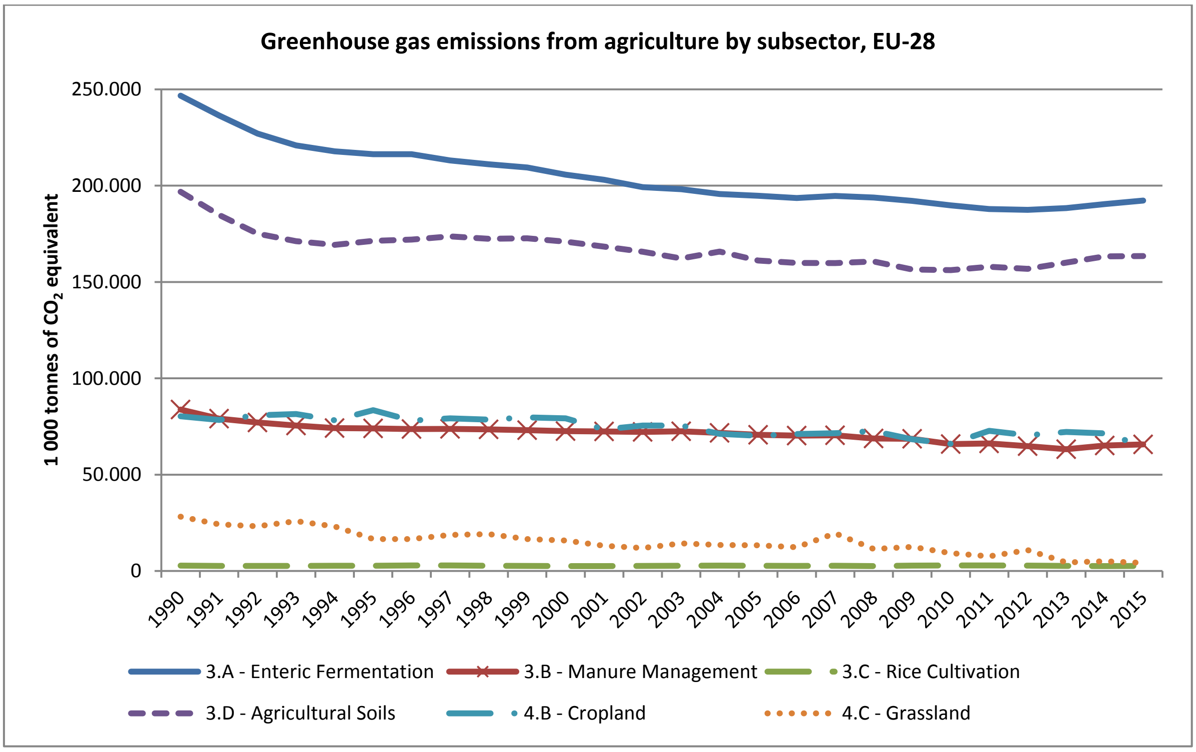
Source: Annual European Union GHG inventory. The inventory is based on national submissions to the UNFCCC and to the EU Monitoring Mechanism of CO2 and other GHG emissions. It is compiled and held by the European Environment Agency (EEA) and the European Topic Centre on Air and Climate Change (ETC/ACC).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

[39] The indicator measures **net GHG emissions from agriculture including agricultural soils**:
1. *Aggregated annual emissions of methane (CH4) and nitrous oxide (N2O) from agriculture* reported by Member States under the 'Agriculture' sector of the national greenhouse gas inventory submitted to the United Nations Framework Convention on Climate Change (UNFCCC).
That sector includes the following sources of GHG from agriculture
- enteric fermentation of ruminants (CH4) – UNFCC Sector 3.A;
- manure management (CH4, N2O) – UNFCC Sector 3.B;
- rice cultivation (CH4) – UNFCC Sector 3.C;
- agricultural soil management (mainly CH4, N2O) – UNFCC Sector 3.D.

2. *Aggregated annual emissions and removals of carbon dioxide (CO2), and (where these are not reported under the agriculture inventory) emissions of methane (CH4) and nitrous oxide (N2O) from agricultural land uses (grassland and cropland)*, are reported by Member States under the 'Land Use, Land Use Change and Forestry' (LULUCF) sector of the national GHG inventory to the UNFCCC:
- Grassland – UNFCC Sector 4.C;
- Cropland – UNFCC Sector 4.B.

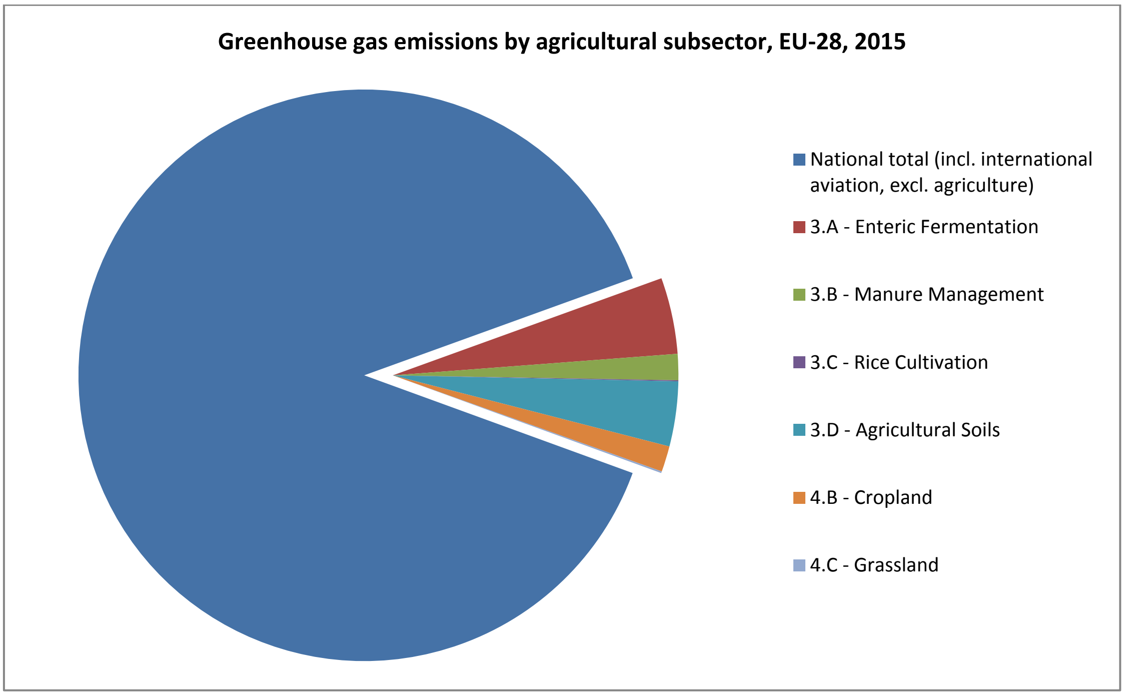
Emissions of CO2 from the energy use of agricultural machinery, buildings and farm operations, which are included in the 'energy' inventory under UNFCCC, are not included in this indicator.
Values have changed compared to figures published in 2016 AAR because the EEA has updated figures also for previous years.

Agriculture emissions (including croplands and grasslands) accounts for roughly 11.7 % of total EU GHG emissions. Enteric fermentation and agricultural soil management are the two main components of agricultural emissions. Total emissions from agriculture have declined by more than 20 % since 1990, mainly thanks to the combination of reduced nitrous oxide emissions from agricultural soil management that decreased by 17 % largely due to a decline in the use of nitrogenous fertilisers, and reduced methane enteric fermentation emissions that decreased by 22 %, due to an overall reduction in livestock numbers (cattle and sheep). However, a recent pick up in emissions from enteric fermentation, agricultural soils and manure management has been observed. This is mainly due to a recent increase in livestock numbers (cattle, sheep and pigs), while the change in emissions from agricultural soils is still subject to further analysis[40].



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

[40] The increase between 2013 and 2014 is mostly due to developments in France (+1.3 million tonnes), Germany (+0.9 million tonnes), Spain (+ 0.7 million tonnes) and the United Kingdom (+0.5 million tonnes). Between 2014 and 2015, the main contributors are Bulgaria (+0.8 million tonnes) and Germany (+0.4 million tonnes).

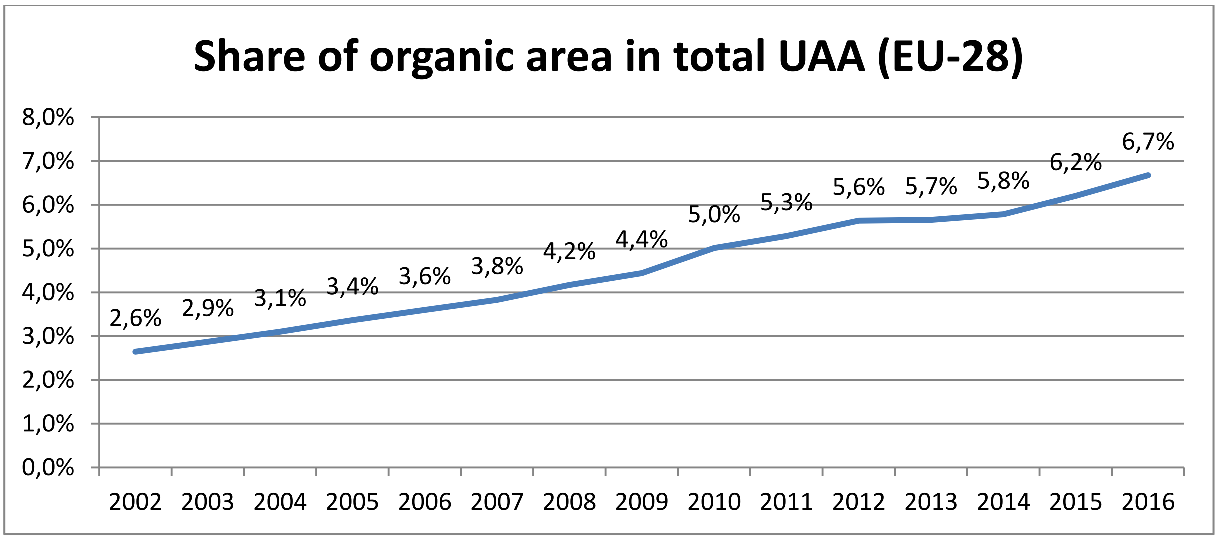


Source: Annual European Union GHG inventory. The inventory is based on national submissions to the UNFCCC and to the EU Monitoring Mechanism of CO2 and other GHG emissions. It is compiled and held by the European Environment Agency (EEA) and the European Topic Centre on Air and Climate Change (ETC/ACC).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

2. The area being farmed organically continues to rise[41]

In 2016, 6.7 % of the EU's utilised agricultural area (UAA) was being farmed organically, corresponding to 11.9 million ha – up from 10.1 million ha (5.6 %) in the baseline year of 2012.

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



Source: Eurostat, Farm Structure Survey (FSS), see https://ec.europa.eu/agriculture/cap-indicators/context/2017/c19_en.pdf. Data from the 2016 Survey will become available later in 2018.

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

The "greening" layer of the direct payments system[42], first implemented in 2015, is intended to ensure that a majority of EU agricultural area is farmed according to basic environment- and climate-friendly practices. In 2015, 75 % of UAA was subject to at least one of the greening obligations. The total for 2016 is 77 %[43], and the estimates for 2017[44] show a share of 79 %.

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

[41] The figures and graphs in this sub-section refer to the area devoted to organic farming, irrespective of whether the area in question is benefiting from CAP payments or not. By contrast, sub-section 3 concerns only areas subject to various kinds of environmentally related CAP support (for organic farming and various other farming systems or practices).
[42] In full: "Payment for agricultural practices beneficial for the climate and the environment", as provided for in Arts. 43-47 of Regulation (EU) No 1307/2013.
[43] Year 2015: including notifications from all MS. Year 2016: Including notifications from 27 MS (all excluding FR), so the indicated share is provisional. The share is calculated as total agricultural area for farms with at least one greening obligation on total agricultural area from Eurostat statistics revised by DG AGRI.
[44] Notifications from 24 Member States received.

CAP Key Performance Indicator	Baseline	Target	Achieved value
KPI 3 - Minimum share of land with specific environmental practices/commitments		**To increase**	**Increasing**
- Share of agricultural area under greening practices	75 % (2015)	To maintain	79 % (2017)
- Share of area under organic farming	5.6 % of total UAA (2012)	To increase	6.7 % of total UAA (2016)
- Biodiversity*: a) % of agricultural land under management contracts supporting biodiversity and/or landscapes b) % of forest area/other wooded land under management contracts supporting biodiversity	0 at the start of the programming period	a) 17.7 % b) 2.2 %**	a) 13.0 % b) 0.2 % (2016)
- Water management*: a) % of agricultural land under management contracts to improve water management b) % of forestry land under management contracts to improve water management	0 at the start of the programming period	a) 15.1 % b) 0.8 %**	a) 8.8 % b) 0.1 % (2016)
- Soil*: a) % of agricultural land under management contracts to prevent soil erosion and to improve soil management b) % of forestry land under management contracts to prevent soil erosion and to improve soil management	0 at the start of the programming period	a) 14.5 %** b) 1.3 %**	a) 9.0 % b) 0.1 % ((2016)
- Emissions from agriculture*: a) % of LU concerned by investments in livestock management in view of reducing greenhouse gas and/or ammonia emissions b) % of agricultural land under management contracts targeting reduction of greenhouse gas and/or ammonia emissions	0 at the start of the programming period	a) 0.8 %** b) 3.0 %**	a) 0.1 % b) 1.6 % ((2016)

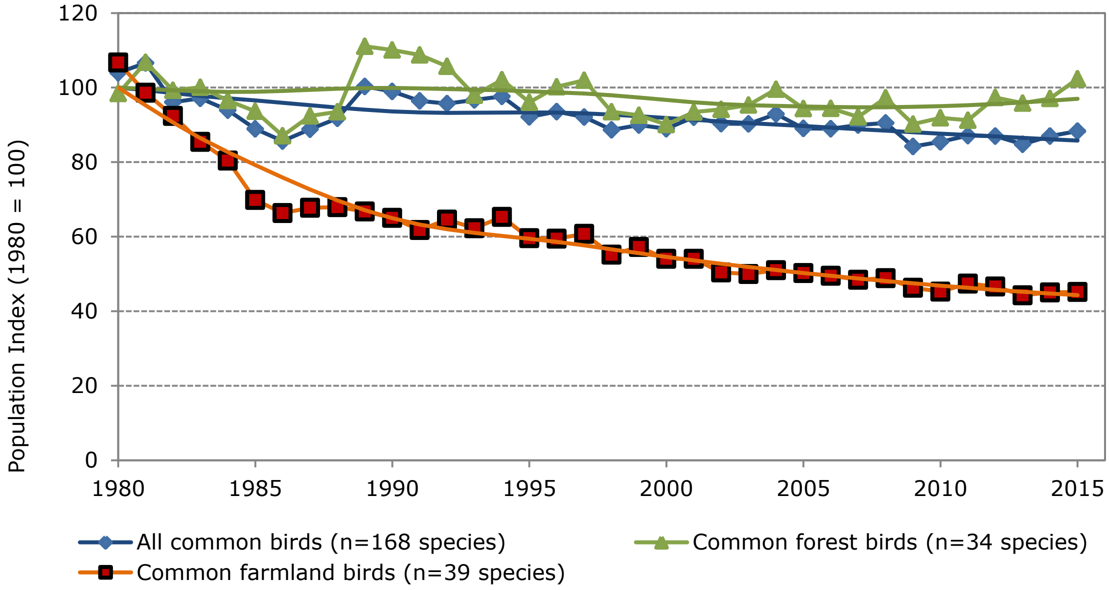
** Targets for the programming period 2014-2020. The target levels are expected to be achieved at the end of the programming period.*

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

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

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

According to the Farmland Bird Index[45], for those countries for which data are available, populations of common farmland birds have significantly declined since 1980. However, this decline is levelling off, with very small changes in the last 8-10 years. For common forest birds, the situation is more positive: populations are slightly above 1980 levels.



Source: EBCC/RSPB/BirdLife/Statistics Netherlands: the European Bird Census Council (EBCC) and its Pan-European Common Bird Monitoring Scheme (PECBMS); data are published on Eurostat database and this indicator is used as a CAP context indicator (n° 35). New data will become available in Q3/2018.

DG AGRI is aware of the limitations of the Farmland Bird Index as a proxy for biodiversity. Considering the importance of the issue, we use here the best available indicator at this point of time. The example highlights the challenges set for policy monitoring and shaping in the area of data availability and quality. Similar concerns arise in the monitoring of the development of soil and water quality.

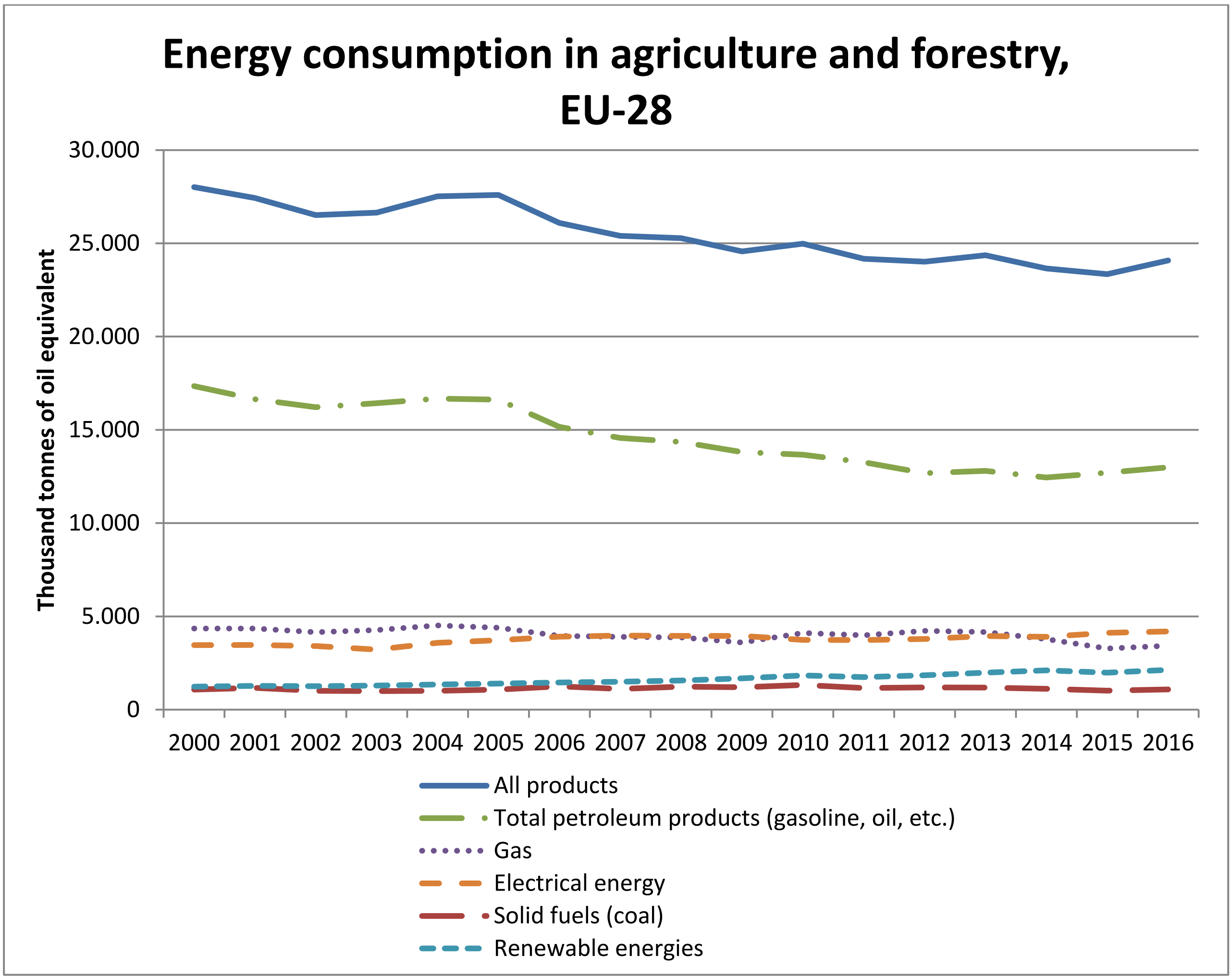
Other indicators requiring close attention regarding sustainability of agriculture include the evolution of the energy use in agriculture and forestry.

[45] This indicator is an index and integrates the population abundance and the diversity of a selection of common bird species associated with specific habitats. An agreed European list of bird species is used, from which each country chooses the species to be covered by the data collected in the field. Data are for the EU, an aggregate that changes according to countries joining the Pan-European Common Birds Monitoring Scheme (in 2013: Belgium, Czech Republic, Denmark, Estonia, France, Germany, Netherlands, Finland, Sweden, United Kingdom).

5. Energy use in agriculture and forestry

Energy use in agriculture and forestry shows a decreasing trend for the EU as a whole over the last 16 years, declining by close to 1 % per year on average. This is a positive signal indicating greater efficiency in agricultural energy use.

The use of renewable energy is going up (although it is still only a very low share of total energy consumption in agriculture/forestry), while overall energy consumption declines. This positive trend is also the result of promoting the deployment of renewable energy (on-farm and in rural areas overall) as part of the rural development policy under the CAP, translating this way the objectives set up in the Clean Energy package[46], proposed by the Commission end 2016.



Source: Eurostat, Energy Statistics (Simplified energy balances - annual data [nrg_100a])[47]

[46] Communication from the Commission to the European Parliament, the Council, the European Economic and Social Committee, the Committee of the Regions and the European Investment Bank "Clean Energy For All Europeans", COM(2016) 860 of 30/11/2016.
[47] The apparent recent rise in energy use remains to be confirmed in the coming years.

Why are these outcomes important?

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

A recent study on an economic assessment of GHG mitigation policy options for EU (EcAMPA2)[48] concluded that without further policy action, agricultural GHG emissions in the EU-28 are projected to decrease by 2.3 % by 2030 compared to 2005. Agriculture is acknowledged to have a limited mitigation potential. A scenario with only an obligation to reduce GHG emission by 20 % shows important effects on production: reductions in the herd size of beef meat (between 31 % and 54 %) and in beef production (between 18 % and 31 %), milk production decrease (between 4 % and 9 %), the cereal area and production are also negatively affected. The model shows that reducing GHG emissions with limited negative consequences on food security requires subsidies ranging from EUR 12.7 to 15.6 billion per year.

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

Farming and forestry have a profound influence on biodiversity conservation in Europe because they have shaped a varied mosaic of semi-natural habitats (meadows, pastures, agroforestry systems and traditional orchards, as well as forests of all kinds) which cover a large part of the EU. Trends in biodiversity are of concern, as shown by the continued decline in farmland bird populations. Biodiversity is in fact declining in the world as a whole and biodiversity in agriculture and forest systems does not diverge from the general pattern of decline. The reasons for biodiversity decline in the EU include the fragmentation of habitats that results from infrastructure-building and urban growth, invasion by alien species, land use change and climate change. Biodiversity loss attributed to farming is often linked to intensification and specialisation on the one hand, and abandonment of agricultural activity on the other hand. However, it is difficult to determine the respective weights of the various influences and how they interact.

[48] Pérez Domínguez, I., T. Fellmann, F. Weiss, P. Witzke, J. Barreiro-Hurlé, M. Himics, T. Jansson, G. Salputra, A. Leip (2016): An economic assessment of GHG mitigation policy options for EU agriculture (EcAMPA 2). JRC Science for Policy Report, EUR 27973 EN, 10.2791/843461

How closely are the outcomes linked to the CAP?

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

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

Rural development policy continues to offer for the period 2014-2020 – as it did in 2007-2013[49] – various types of area-related payments linked with requirements for management practices that have a proven positive impact on biodiversity, soil, water and air in both the farm and forest sectors. The total support planned for the programming period amounts to EUR 70.9 billion, in particular for the following measures:

- Support for Agro-Environment Climate measure = EUR 25.1 billion. The target area for coverage by this measure is 31.7 million ha[50];
- Support for Organic Farming measure = EUR 9.8 billion;
- Support for Area facing Natural Constraints = EUR 25.7 billion.

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

What supporting steps did the DG take in 2017?

DG AGRI carried out a review and analysis of how the "**greening**" system had been applied. The "greening review after one year" was delivered in June 2016[51] and the Commission Report on Ecological Focus Areas (EFA) was issued in March 2017[52].

The Commission showed the potential of greening for significant reinforcement in the environmental ambition of the CAP, mainly thanks to its wide area coverage including in most intensive areas (77 % of the EU agricultural area is subject to one or several greening requirements).

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

[50] The fact that this figure is lower than the total for the 2007-2013 period (= EUR 73.6 billion) should be understood in light of three developments. First, some of the practices covered by the Agri-environment measure in the period 2007-2013 are now covered by the "greening" requirements of the direct payments system or by the newly separate Organic farming measure. Secondly, the Agri-environment-climate measure of the new period is funding many contracts which deliver greater environmental benefit per hectare (with correspondingly higher cost).

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

[52] COM(2017) 152 of 29.3.2017

The share of EFA is twice as much as the 5 % required by legislation at farm level. Data for 2016 give similar results. The high percentage of EFA has, however, been achieved by relying mostly on productive and potentially productive EFA types: nitrogen-fixing crops, catch crops and land lying fallow. In contrast, other EFAs, including landscape features and buffer strips, contributed less to the overall declared EFAs (in total 2.5 %).

The Commission report showed that EFAs have the potential to address the impact of some farming practices on environment, by bringing potential positive effects for biodiversity as well as for soil, water and climate.

This review also identified weaknesses that held the greening system back from achieving its full potential, and considered possible remedies. It showed that more could be done by Member States and farmers to fully deliver on greening. And more could be done at EU level to simplify the scheme.

DG AGRI subsequently proposed various **improvements to the relevant regulation**[53] which are intended to apply as of direct payments claim year 2018 (2017 for those Member States which so wish). This includes:

- the streamlining/simplification of the requirements relating to the most environmentally beneficial features such as landscape features to incite farmers to create/protect these,

- and the introduction of a ban on the use of plant protection products (e.g. pesticides) for productive and potentially productive EFAs.

The **"Omnibus" regulation** introduced certain changes which make the scheme simpler for farmers while maintaining the existing framework and the main principles of the greening scheme[54].

The Commission is currently finalising a full-fledged **evaluation of greening for the first two years of implementation** for which the results of the work of the contractor[55] were issued at the end of 2017. While acknowledging that the impacts for the environment can only be measured in the mid- and long-term, the external study found that, overall, the greening measures have led to only small changes in farmers' management practices, except in a few specific areas. For both Member States and farmers, instead of environmental priorities, the main concern tended to consist in minimising the administrative burden of implementation, and avoiding any errors as controls and enforcement may lead to the reduction of CAP payments. The study concludes with a series of recommendations that could improve the "greening measures" living up to their environmental potential and purposes in the framework of the wider context of CAP measures. The conclusions of this evaluation will be summarised into a Commission Staff Working Document planned for adoption in the course of 2018.

The reflection on the future CAP and in particular its environmental instrument has started and will address environmental and climate objectives taking into account all relevant instruments.

[53] Commission Delegated Regulation (EU) No 639/2014 amended by Commission Delegated Regulation (EU) 2017/1155 of 15 February 2017.
[54] Regulation (EU) 2017/2393 of European Parliament and Council of 13 December 2017. See the reporting on the "Omnibus" regulation in part 1.1 (p. 30).
[55] See https://ec.europa.eu/agriculture/evaluation/market-and-income-reports/greening-of-direct-payments_en and Annex 9.

The Evaluation study of the forestry measures under Rural Development found that the forest measures available to Managing Authorities under Pillar 2 of the CAP provide a coherent set of measures capable of covering the needs of the forest sector and fostering sustainable forest management in rural areas. The flexibility of the Rural Development Programmes enables the Managing Authorities to adapt the measures to local needs and particularities, and to provide highly targeted support. However, the effectiveness of the forest measures remains highly dependent on the detail of the measure design at RDP level, and where, when and for how long measures are implemented by the beneficiaries.

From the analysis it can be concluded that the effect of the forest measures is generally positive, even if often difficult to separate from other factors such as state aids and the operations funded by foresters on their own. If implemented coherently, effectively and over a sufficiently long time, the forestry measures can contribute significantly to delivering economic, environmental and social benefits in areas where these opportunities can be rare.

According to the Annual Implementation Reports of Rural Development Programmes, 22.1 % of 2014-2020 Rural Development measures for the environment have been implemented at the end of 2016. See also the reporting on Rural Development in part 1.1 (p. 27).

The finalisation of the political compromise on the new **Organic Regulation** at the end of 2017 provides operators with a modern tool that will help the organic sector to further expand. With a market growth of 10 % yearly, organic production is the most dynamic of all agricultural sectors. Organic surfaces have more than doubled in the last decade and with EUR 27 billion of market value, organics cannot be considered as a niche market anymore. On the contrary, it represents a solid and growing industry, which deserves a solid legal framework.

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

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

Example or EU added value: Timely response of CAP to natural disasters and catastrophic events

In 2017, a number of natural disasters such as forest fires, earthquakes, floods and drought affected several EU Member States causing disastrous effects and important economic losses. The CAP proved its readiness not only to contribute in the prevention of these events but also to provide the necessary immediate support for farmers and rural citizens affected.

In the forest fire in Huelva (Spain) in June 2017, 8 500 hectares of forest burned. The flames reached the Doñana Nature Reserve, the most important wetland in Europe and a UNESCO World Heritage site since 1994. Thanks to the support provided by the EAFRD, restoration actions for a value of EUR 600 000 were immediately undertaken.

Actions like the example above were of crucial importance to repair the negative effects on a biodiversity that is beneficial to the whole of the EU.

In addition to the existing provisions, several *ad hoc* decisions and initiatives were undertaken in 2017:

- Introduction of more flexible rules for the implementation of the EAFRD risk management and restoration measures ("Omnibus" regulation);

- Amendment of the Rural Development Programmes to introduce the relevant preventive and restoration actions as well as the reallocation of funding when necessary;

- Increased advances for direct payments and area- and animal-related payments to alleviate financial difficulties of farmers affected by climatic events;

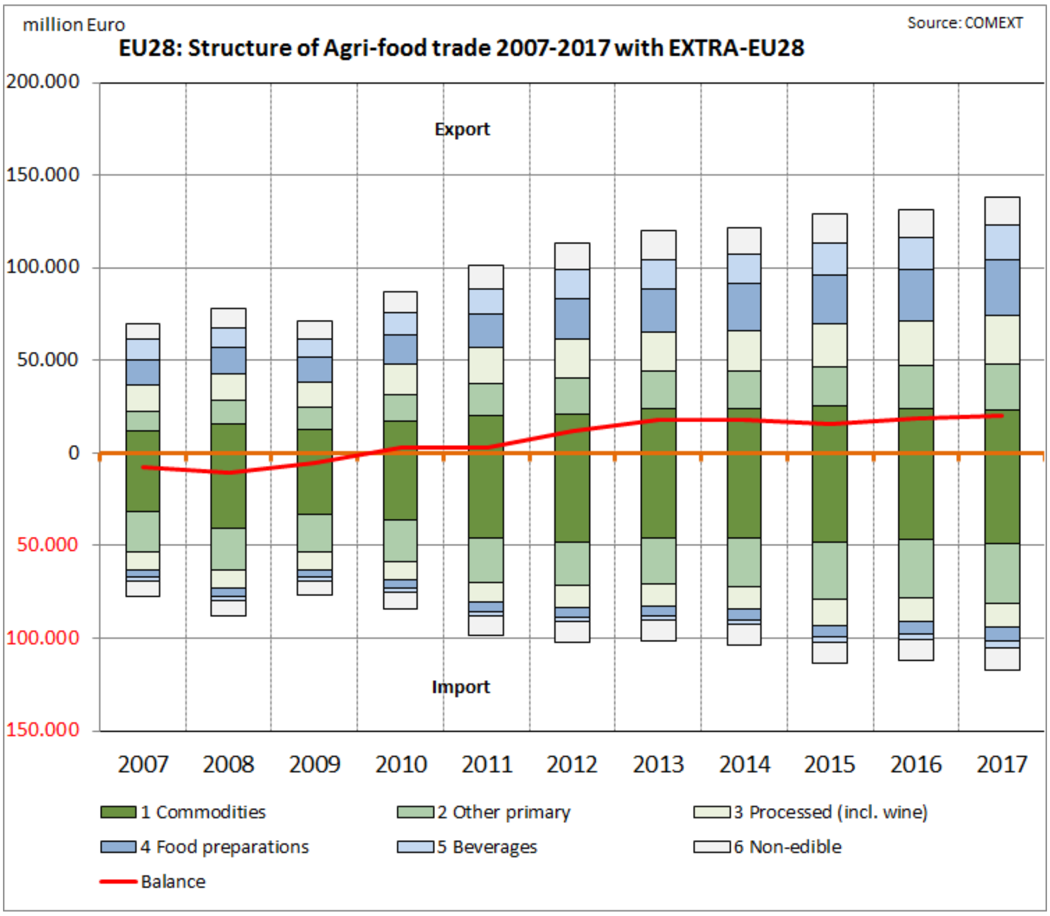
- Derogation for some Member States on the timing of payments to be carried out before the finalisation of the on-the-spot controls.

1.4 Commission General Objective 6: A balanced and progressive trade policy to harness globalisation[56]

What are the key outcomes to be reported?

Total EU agri-food exports continue to increase

- In 2017, the value of EU trade in agri-food products (exports and imports) reached EUR 255.3 billion. This corresponds to EUR 199 billion in the reference year 2011.



Source: COMEXT and EUROSTAT

- The annual value of EU agri-food exports in 2017 reached a new record level of EUR 137.9 billion, which is 5.1 % higher in value terms than in 2016. Driven by this strong export performance, the export surplus now stands at EUR 20.5 billion, which represents a growth of 9 % compared to last year and the 8th consecutive year of agricultural trade surplus.

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

- Compared to 2016, major gains have been achieved in agri-food exports to the USA (EUR +1.22 billion; +6%), Russia (EUR +892 million; +16%) and several Asian markets: Japan (EUR +645 million; +11%), China (EUR +591 million; +5%), Hong Kong (EUR +366 million; +10%) and Korea (EUR +341 million; +13%). Further annual increases were recorded in agri-food exports to Turkey (EUR +456 million; +14%) and Switzerland (EUR +333 million; +4%), while increases of more than EUR 200 million also took place in exports to Philippines, Ukraine and Australia. 2017 export values remain down for North African and Middle East destinations (mainly due to less exports in cereals), in particular Saudi Arabia (EUR -532 million; -12%), Egypt (EUR 0.448 million; -25%), Morocco (EUR -176 million; -10%), Libya (EUR -163 million; -14%) and Algeria (EUR -154 million; -6%). Agri-food exports to Vietnam and the United Arab Emirates also went down appreciably in 2017.

- Agri-food imports from third countries in 2017 accounted for EUR 117.4 billion, which represents an increase by 4.5% compared to 2016. The value of imports from Indonesia and Ukraine increased most significantly (EUR +1.4 billion; +34% and EUR 1.2 billion; +27%, respectively). EU imports of agri-food products also went up for India, Australia, China, Morocco, Colombia and Vietnam by between EUR 240 million and EUR 640 million.

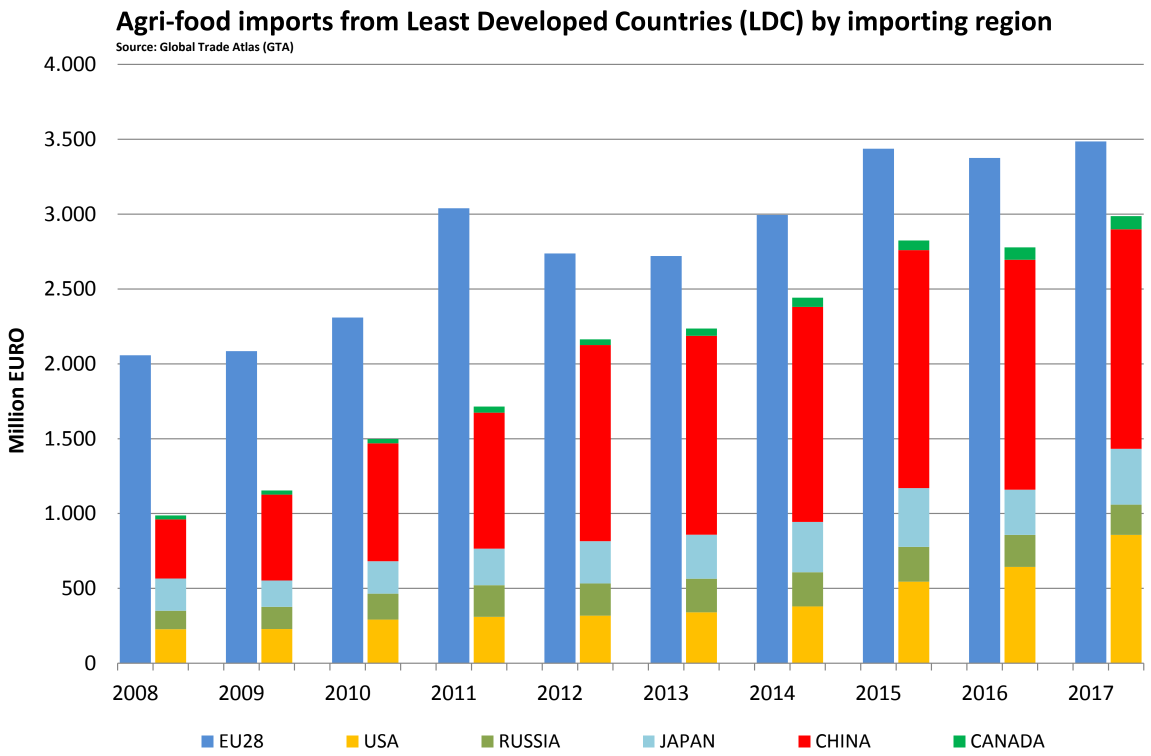
Why are these outcomes important?

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

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

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

As the world's biggest importer of agricultural products, the EU imports more from the least developed countries than the "big 5" importers (US, Canada, Japan, China and Russia) combined, as shown in the graph below, and provides preferential market access conditions for developing country imports. This, along with a CAP that is now fully in line with development objectives, better equips the EU to influence global agriculture policy and take a leading role in global initiatives - for example in the context of the UN, the G20 and the G7 – as well as to foster relationships with developing countries that assist them in advancing their agriculture and rural potential. This will help stimulating agricultural job creation, addressing the Sustainable Development Goals of Agenda 2030 as well as finding long-term solutions to counter irregular migration and tackling its root causes.



How closely are the outcomes linked to the CAP?

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

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

In addition, a reinforced promotion policy and certain EU quality schemes[57] help to cement recognition of EU products around the world.

[57] e.g. Protected Designation of Origin (PDO) and Protected Geographical Indication (PGI)

What supporting steps did the DG take in 2017?

DG AGRI played an active role in trade negotiations which reached various stages in 2017, including:

- The finalisation of negotiations on the EU-Japan Economic Partnership Agreement (EPA). This agreement with the 4th biggest market for EU agri-food exports in the world will provide better opportunities and greater access for EU agricultural exporters to a market of 127 million consumers worth EUR 5.7 billion per year of EU agri-food exports. It is in fact the most successful agreement ever achieved for EU agriculture and the biggest concession Japan ever granted to a trade partner.

- The provisional entry into force of the Comprehensive Economic and Trade Agreement (CETA) with Canada. CETA will create new opportunities for European farmers and food producers, while fully protecting the EU's sensitive sectors. The EU has further opened its market for certain competing Canadian products in a limited and calibrated way, while securing improved access to the Canadian market for important European export products. Those include cheese, wine and spirits, fruit and vegetables, and processed products. CETA will also protect 143 EU geographical indications in Canada.

- The preparation of the EU-Vietnam FTA for its entry into force in 2018.

- Ongoing talks (e.g. with Mercosur and Mexico).

- Preparatory work for potential future trade negotiations (e.g. with Australia and New Zealand).

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

The DG also organised high-level visits of Commissioner Hogan to non-EU countries with strong potential for EU agricultural exports (Canada, Saudi Arabia, Iran), in which he was accompanied by business delegations representing key sectors in the EU agri-food business. The visits helped to identify export opportunities and secure business deals.

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

Contribution to Juncker Priority 10 "A Union of democratic change"

In 2017, DG AGRI contributed to the initiative on the **European Solidarity Corps**, working together with DG EAC and all other Commission services involved, in particular DG ENV. The Initiative will finance the engagement of 100 000 young people across Europe until 2020 in solidarity activities. EAFRD contributed to the pilot phase of the initiative with EUR 1.8 million in 2016 and 2017 used to support several LIFE projects where 1 700 young people across Europe will work on nature and environment protection.

DG AGRI also participated in the preparation of the Commission proposal[58] for the 2nd phase of the initiative. The proposal ensures that young people can be engaged in solidarity activities in rural areas, including provision of food, rural development, environment and nature protection, climate change, disaster prevention and recovery (e.g. forests fires), integration of third country nationals (migrants and refugees). DG AGRI actively participates to the 2nd phase of the initiative with an additional EUR 1.8 million that will be managed by DG EAC with the involvement of EU main agricultural and forestry organisations, national authorities, networks and LEADER groups. High involvement of young people in related activities in rural areas is expected in the coming years.

[58] Proposal for a Regulation of the European Parliament and of the Council laying down the legal framework of the European Solidarity Corps and amending Regulations (EU) No 1288/2013, (EU) No 1293/2013, (EU) No 1303/2013, (EU) No 1305/2013, (EU) No 1306/2013 and Decision No 1313/2013/EU, COM(2017) 262 of 30/05/2017.

Executive agencies

REA

The Research Executive Agency (REA) has been implementing its mandate since 2014 and, compared to last year, REA is now managing more H2020 projects than FP7 ones. In 2017, REA performed its tasks in an effective, efficient and cost-effective way.

For the **operational budget 2017**, the execution of commitment and payment appropriations progressed according to schedule.

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

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

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

CHAFEA

In 2017 – the second year of the implementation of the reformed promotion policy (Regulation (EU) No 1144/2014), the Consumers, Health, Agriculture and Food Executive Agency (hereafter Chafea) has been entrusted by the Commission with the management of certain parts of the information provision and promotion measures concerning agricultural products implemented in the internal market and in third countries, notably the evaluation of the proposals submitted for simple and multi programmes following the publications the calls for proposals. With the assistance of 50 external experts from 19 MS, 52 simple programmes and 10 multi programmes have been selected from 189 and 35 proposals submitted respectively. In this regard, Chafea produced Call evaluation reports for both calls as well as the necessary documentation for the ISC for the adoption of Commission Implementing Decision on selecting proposals for simple programmes.

Additionally, Chafea actively contributed to the communication of the reform: notably it participated in the Infoday in Brussels and, for the technical support, a service contractor has been hired to create a web portal on promotion policy. The portal was launched in the beginning of 2017 and updated throughout the year with information useful to potential applicants, such as webinars and market reports.

Chafea also organized two High Level Missions with business delegations to Canada(60 participants) in May, Iran (42 participants) and Saudi Arabia(44 participants) in November 2017, produced 3 market reports for the countries visited and organised EU pavilions at two agri-food fairs: SIAL Canada in Toronto and SIAL Middle East in Abu Dhabi.

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.

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 system, 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. The DG's assurance building and materiality criteria are outlined in 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 Payments executed in 2017 for the CAP

In 2017, total EU outturn on payment appropriations[59] in respect of Title 05 'Agriculture and Rural Development', under DG AGRI responsibility was EUR 55 871.78 million. Of this, EUR 55 732.06 million (99.75% of CAP budget) was under shared management. Payments executed under the EAGF amounted to EUR 44 637 million. Payments executed under the EAFRD amounted to EUR 11 094 million. Direct management and indirect management accounted altogether for only around 0.3% of total EU expenditure under DG AGRI responsibility.

[59] Including assigned revenue.

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

Title 05	Agriculture and rural development	Shared management (EUR)	Direct management (EUR)	Indirect management (EUR)	Total (EUR)	% of CAP budget
0501	Administrative expenditure		7 745 771		**7 745 771**	0.01%
0502	Interventions in agricultural markets	2 945 604 663	-		**2 945 604 663**	5.27%
0503	Direct aids	41 551 155 987			**41 551 155 987**	74.37%
0504	Rural development	11 094 386 297	11 107 050		**11 105 493 347**	19.88%
0505	Instrument for Pre-accession Assistance			91 658 650	**91 658 650**	0.16%
0506	International aspects		4 486 178		**4 486 178**	0.01%
0507	Audit	140 909 812			**140 909 812**	0.25%
0508	Policy strategy and coordination		24 726 187		**24 726 187**	0.04%
0509	Horizon 2020 - Research and innovation		-		-	0.00%
Total		**55 732 056 758**	**48 065 186**	**91 658 650**	**55 871 780 594**	100.00%
% of Title 5		99.75%	0.09%	0.16%	100.00%	

Table: 2.1.1.1-1

The detailed financial data and the draft annual accounts are presented in Annex 3. Annex 10 to this report sets out in detail the management and control system in place for shared management funds and demonstrates how assurance is obtained with regard to legality and regularity in respect of each of the three principal ABB activities for which the Directorate-General is responsible, ABB02, ABB03 and ABB04, which together account for 99.5 % of the CAP spending in 2017.

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

2.1.1.2 Control effectiveness as regards legality and regularity

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

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

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

2.1.1.2.1 Control framework as regards legality and regularity

With around seven million beneficiaries of the CAP, EAGF and EAFRD expenditure is implemented under **shared management** through a comprehensive management and control system (described in detail in Annex 10 of the report) which is designed to ensure the legality and regularity of the underlying transactions at the level of the final beneficiaries. Where the Commission implements the budget under shared management, implementation tasks are shared with the Member States. The latter are required to take all the necessary measures to ensure that actions financed from the EU budget are implemented correctly and effectively and in accordance with EU rules. They are obliged to have systems in place which prevent, detect and correct irregularities and fraud. The CAP legislation provides that they shall accredit **Paying Agencies** which are dedicated bodies responsible for the management and control of Union funds, notably payments to beneficiaries and financial reporting to the Commission. There were 78 such Paying Agencies at the end of 2017. **Certification Bodies** designated by Member States shall provide every year an opinion covering the completeness, accuracy and veracity of the annual accounts of the Paying Agency concerned, the proper functioning of its internal control system and since 2015 the **legality and regularity** of the expenditure declared to the Commission.

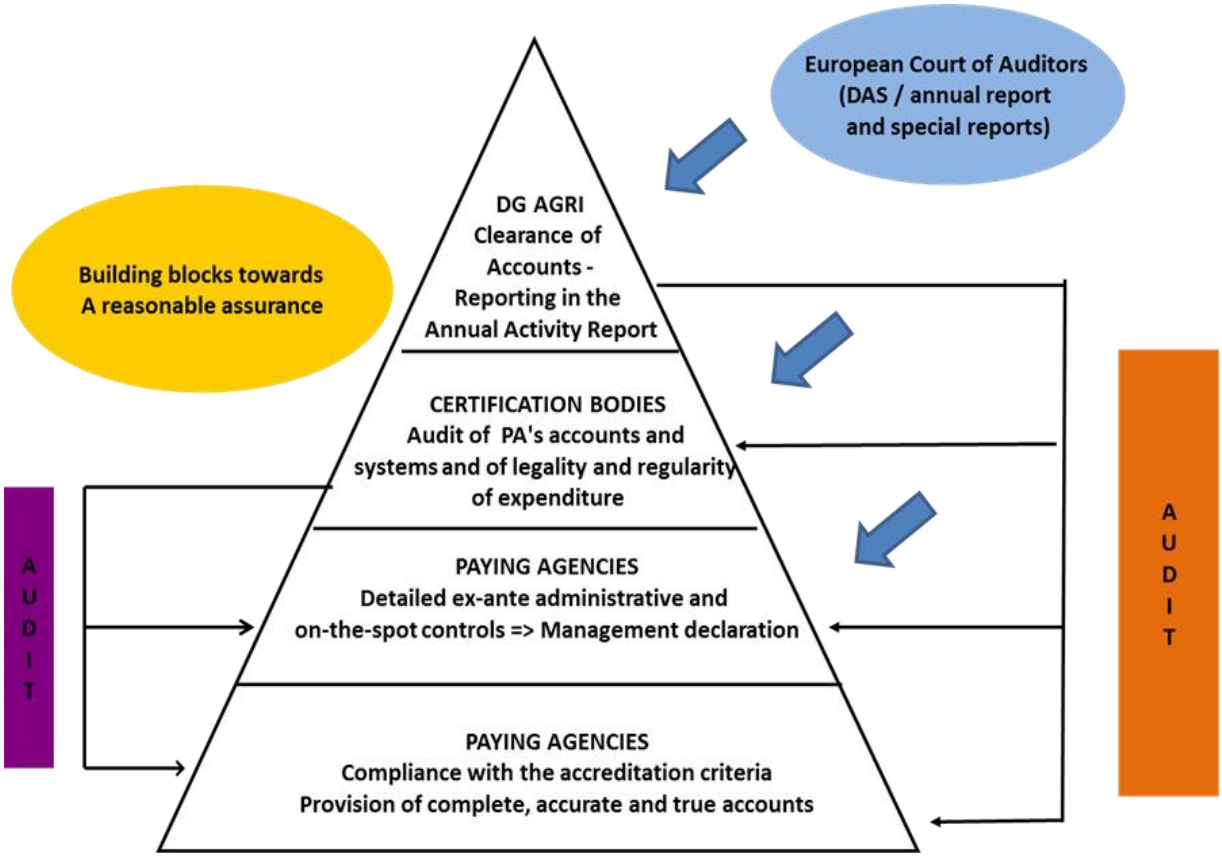
The **EAGF** (1st pillar) is funded almost completely by the EU budget. It is managed on an annual basis and commitment and payment appropriations match (almost entirely non-differentiated appropriations). Aid measures and schemes are legislated at EU level and specify EU-wide rules.

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

However, a single set of specific financial management, control rules and assurance on legality and regularity apply to both pillars of the CAP[60]. The results of controls under the responsibility of the Paying Agencies (control data and statistics) are provided to the Commission in respect of the financial year which is being reported upon. An adjusted error rate (which extrapolates Member States' reported error rates, as validated and adjusted by DG AGRI on the basis of all available information, to the non-controlled population – see Annex 4) is calculated in respect of the 2017 expenditure. Since 2015, in the framework of the annual financial clearance exercise the Certification Bodies have been auditing, at the level of each Paying Agency, the legality and regularity of the expenditure and expressed an opinion thereon. This audit evidence also serves as a basis for DG AGRI's adjustments of the error rates reported by the Paying Agencies. The opinion of the Certification Bodies on legality and regularity is progressively becoming, where the audit work of the Certification Bodies is done in accordance with the applicable regulations and guidelines, the key element of the assurance model of the CAP expenditure. In parallel, annual accounts are declared by the Paying Agencies, certified by the Certification Bodies and are cleared (financial clearance procedure) by the Commission, without prejudice to future net financial corrections to be decided by the Commission resulting from DG AGRI own audit activities pursuant to the conformity procedure.

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

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



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

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

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

DG AGRI carried out 128 audit missions and opened 31 desk audits in 2017 to the Member States in order to check that EU rules, and in case of the EAFRD also national rules, are complied with by the Paying Agencies when making payments to beneficiaries or recovering undue payments. As a result of the conformity clearance procedure, the Commission imposes net financial corrections on the Member States by which they reimburse to the EU budget the amounts corresponding to those corrections.

In 2017 DG AGRI also audited 15 Certification Bodies, to check the quality of their audit work and consequently consolidate assurance on the reliability of their opinion on legality and regularity of the expenditure. Furthermore, many of the conformity audits carried out also reperformed and reviewed the work of the Certification Bodies.

It is recalled that Article 32(5) of the Financial Regulation No 966/2012 states:

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

The Commission published, at the beginning of 2017, a Communication to the Council and the European Parliament analysing the root causes of errors and actions taken[61] for several policy areas, including the CAP. The following sections, and Annex 10 of this report, present in detail the weaknesses found in the control systems, remedial actions being taken and how the multiannual control system of the CAP protects the EU financial interests.

2.1.1.2.2 Assessment of the amount at risk for Shared management

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

ABB02 – Market Measures

Market measures, at EUR 2 945.60 million, accounted for 5.27% of the CAP budget in 2017. There are some 50 very diverse measures split over 10 sectors, the most important of which are fruit & vegetables and wine:

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

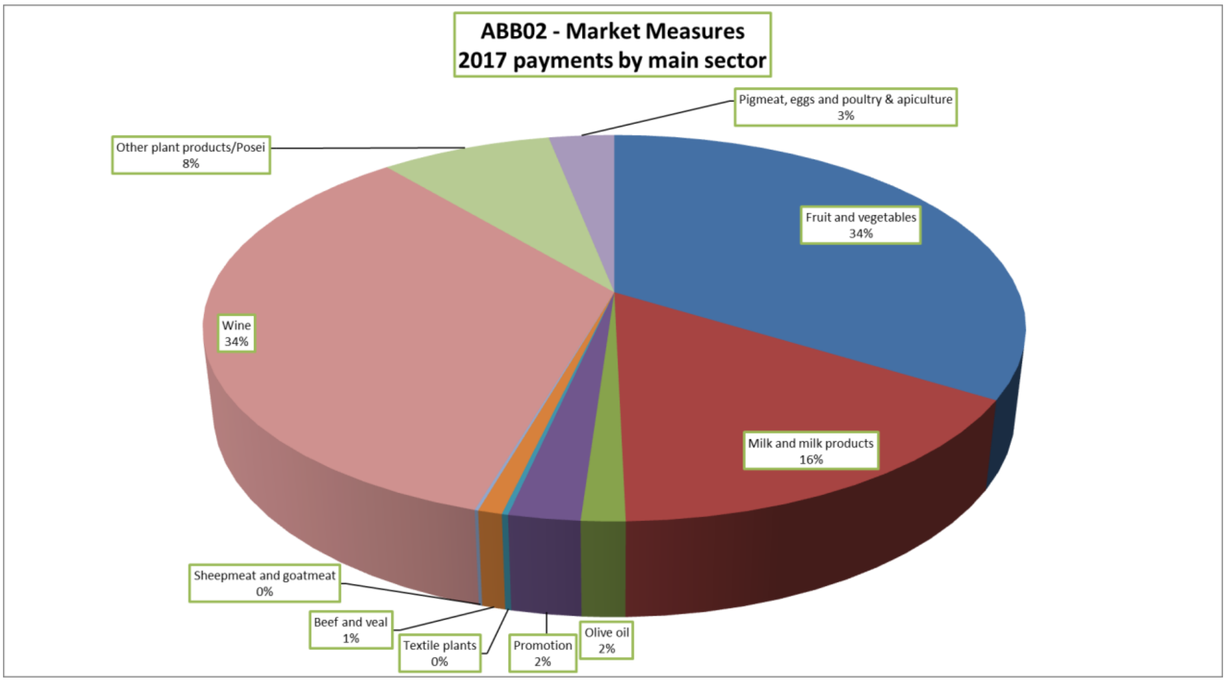


Chart 2.1.1.2.2-1

The following table sets out the expenditure in 2017 for ABB02 by budget article (sector). A measure by measure approach has been taken for assurance purposes in order to estimate, as precisely as possible, the adjusted error rates and amounts at risk.

Overall assessment of risk for ABB02 - Market Measures

Budget article	Sector	Expenditure [1] EUR	Expenditure covered by statistics		Expenditure for which no control statistics are available				
			Expenditure[1] EUR	Risk EUR	No statistics available EUR	Measure risk assessed by auditors		ABB02 error rate applied* 2.38%	
						Expenditure[1]	Risk	Expenditure[1]	Risk
050204	Food Aid	-			-			-	-
050205	Sugar	-			-			-	-
050206	Olive Oil	42 769 942			42 769 942	484 047	69 744	42 285 895	1 004 899
050207	Textile Plants	6 134 399			6 134 399			6 134 399	145 780
050208	Fruit and Vegetables	995 420 706	912 890 892	21 523 988	82 529 815	82 529 815	455 775	-	-
050209	Wine [2]	1 011 750 116	1 012 014 164	29 277 391	-264 048			-264 048	1 676
050210	Promotion (shared management only)	69 762 033			69 762 033	69 762 033	5 413 496	-	-
050211	Other plant products and POSEI	236 857 065	234 580 065	7 175 049	2 277 000			2 277 000	54 112
050212	Milk and Milk Products	468 018 983	64 199 654	1 758 849	403 819 329	403 819 329	166 737	-	-
050213	Beef and Veal	23 649 431			23 649 431			23 649 431	562 014
050214	Sheepmeat and goatmeat	3 505 102			3 505 102			3 505 102	83 297
050215	Pigmeat, eggs, poultry & apiculture	90 744 077			90 744 077	90 744 077	2 387 120	-	-
	Total	**2 948 611 854**	**2 223 684 775**	**59 735 277**	**724 927 079**	**647 339 301**	**8 492 872**	**77 587 779**	**1 851 777**
						Expenditure	Amount at risk	% coverage	Error rate
Expenditure covered by control statistics						2 223 684 775	59 735 277	75.41%	
Expenditure for which there are no statistics but for which risk assessment carried out						647 339 301	8 492 872	21.95%	
Risk for expenditure covered by statistics and by risk assessment						2 871 024 075	68 228 149	97.37%	
*Error rate used on expenditure covered by statisitcs and risk assessed									2.38%
Extrapolated risk for non-risk assessed expenditure						77 587 779	1 851 777		
ABB02 - shared management - monthly declaration						2 948 611 854	70 079 926		
Suspension of payments [2]						-3 007 191	-		
ABB02 - shared management - payments made						**2 945 604 663**	**70 079 926**		**2.38%**
ABB02 - direct management - payments made on *Promotion measures - direct payments by the Union*							-		
Total ABB 02 - payments made						**2 945 604 663**	**70 079 926**		**2.38%**

Footnote: [1] Monthly declaration of expenditure affected by Paying Agencies.

[2] There are still payments and reimbursements made in respect of certain measures from previous claim years/marketing years. The net expenditure is negative (i.e. reimbursement to the Commission). Since no control statistics are available on these measures, the average error rate is applied only on payments made but not on reimbursements.

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

Table: 2.1.1.2.2-1

Control statistics are available in respect of 75.4% of the expenditure covering EUR 2 223.7 million. For a further EUR 725 million, DG AGRI's auditors consider that they have assurance on the basis of an examination of all available information on the schemes concerned and have used their judgement to estimate the maximum amount at risk in that expenditure.

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

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

As a result, in 27 cases the adjusted error rate is above 2%. In line with its materiality criteria in Annex 4, **2 cases – where the error rate is above 5 %** – were automatically **subject to a reservation**.

Each case where the adjusted error rate was between 2% and 5% was examined in order to determine if risk mitigation conditions existed and if a reservation should be made. In **2 cases** a reservation was made (1 measure in Spain and Italy).

Given the widespread nature of the Certification Body findings for the Paying Agency France AGRIMER, a general reservation is entered in respect of all market expenditure managed by that agency. This reservation covers 4 specific reservations that would otherwise have been necessary for the School Fruit and Milk Schemes, for Wine and Temporary Exceptional Measures (livestock).

Finally, for 18 cases, the amount at risk is below DG AGRI's *de minimis* threshold of EUR 1 million as established in Annex 4, therefore no reservation was necessary.

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

The overall outcome of this exercise is that 4 reservations are necessary at measure level and **one general reservation** is entered at Paying Agency level:

- Fruit and Vegetables: Operational programmes for producer organisations (Spain and Italy);
- Posei (France);
- Promotion measures (Italy);
- Market Measures (France).

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

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

Member State	N° of Aid schemes subject to reservation	Relevant Expenditure[1] in 2017	Reservations (by aid schemes) - shared management	Adjusted error rate	Amount at risk under reservation EUR	Total amount at risk EUR	2017 Expenditure managed by Paying Agencies with reservation
AT		29 166 494		3.27%		952 695	
BE		80 800 931		0.55%		444 761	
BG		37 500 320		2.89%		1 085 378	
CY		7 264 907		-			
CZ		27 727 879		2.96%		819 422	
DE		201 533 713		0.79%		1 595 030	
DK		21 194 565		0.03%		6 960	
EE		10 360 112		0.02%		2 233	
ES	1	555 848 094	Fruit and Vegetable producer organisations	1.77%	7 112 472	9 862 574	216 115 641
FI		14 410 098		0.16%		23 743	
FR		640 057 949		6.32%	37 848 336	40 447 422	640 057 949
	1		For ODEADOM (FR20) - overall reservation on market measures	*6.51%*	31 004 049	33 603 135	515 978 232
	1		For AGRIMER (FR05) - POSEI - market measures (also reservation on direct payments but not included here)	*5.52%*	6 844 287	6 844 287	124 079 717
GB		90 434 604		0.06%		56 636	
GR		65 785 972		2.93%		1 928 297	
HR		10 383 640		0.01%		1 546	
HU		54 857 009		0.00%		2 239	
IE		22 897 423		0.00%		122	
IT		649 301 496		1.75%	10 227 024	11 350 905	238 608 250
	1		Fruit and Vegetable producer organisations	*3.12%*	7 042 803		225 871 369
	1		Promotion measures	*25.00%*	3 184 220		12 736 881
LT		8 006 425		7.82%		626 350	
LU		1 200 490		-			
LV		14 496 335		-			
MT		490 016		3.65%		17 867	
NL		87 111 562		0.09%		74 477	
PL		118 943 198		0.24%		282 992	
PT		114 207 612		0.18%		204 997	
RO		42 904 130		0.00%		919	
SE		21 408 893		1.35%		289 445	
SI		8 581 199		0.03%		2 879	
SK		11 736 786		0.00%		38	
Total	**5**	**2 948 611 854**					
Suspension of payments [2]		-3 007 191					
Total ABB02 - paymens made		**2 945 604 663**		**2.38%**	**55 187 832**	**70 079 926**	**1 094 781 840**

Footnote: [1] Monthly declaration of expenditure affected by Paying Agencies.
[2] Suspension of payments made in respect of financial year 2017 for Poland. The amounts corresponding to payments suspended have been declared by the Paying Agency to the Commission in its monthly declarations (i.e. no recovery order issued for the amounts concerned) but the the amounts are suspended and not reimbursed to the Member State by the Commission.

Table: 2.1.1.2.2-2

The amount at risk for the expenditure under reservation is EUR 55.19 million. This corresponds to 5.04% of the relevant expenditure managed by the 3 Member States for which a reservation is entered for the aid schemes concerned. For expenditure not subject to reservations, the amount at risk corresponds to 0.8%. Thus, the error rate for ABB02, Market Measures, is 2.38% as a whole.

ABB03 – Direct Payments

Direct payments constitute the largest area of expenditure in the CAP (74.37%) and amounted to EUR 41 551.16 million in 2017. The basic payment scheme, greening and the single area payment scheme account for 80% of this amount.

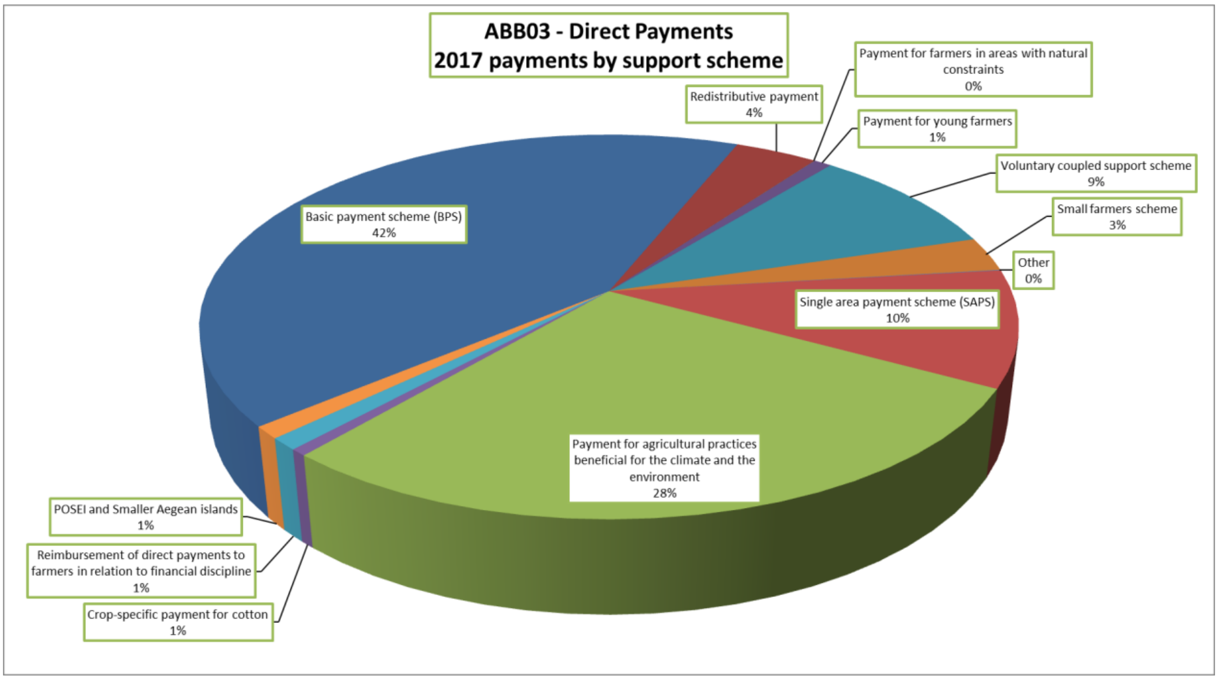


Chart 2.1.1.2.2-2

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

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

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

As a result, **an adjusted error rate of 1.92 % has been calculated with 23 Paying Agencies out of 69 having an error above 2% (out of which 11 Paying Agencies above 5%).**

For the 12 Paying Agencies with an error rate between 2 and 5%, an examination was carried out of any risk mitigating factors which indicated that the EU budget was protected for the past (conformity clearance procedure, culminating in a financial correction, underway) and that it is protected for the future (the deficiencies have been addressed by the Paying Agency). In 4 out of the 12 cases (Cyprus and Spain (3 Paying Agencies)), it was considered that, given the mitigating factors present (see summary under point 3.2.3), it would not be necessary to make reservations.

In 4 cases (Italy, Malta and Spain (2 Paying Agencies)) as the amount at risk is below DG AGRI *de minimis*, no reservation is required. Annex 10 – Part 3.2 (ABB03) sets out the reasoning in respect of each case.

The overall outcome of this exercise is that 15 reservations are necessary at Paying Agency level:

- Croatia
- Hungary
- Italy (8 Paying Agencies)
- Romania
- Slovakia
- Sweden
- United Kingdom
- France (POSEI)

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

Member States	Relevant Expenditure(1) 2017	N° of Paying Agencies	N° of Paying Agencies under Reservation	Adjusted Error Rate	Amount at Risk	Amount at Risk Covered by Reservation	2017 Expenditure managed by Paying Agencies with a Reservation
AT	692 625 803	1	0	1.09%	7 536 728	0	0
BE	508 563 982	2	0	0.60%	3 051 356	0	0
BG	774 080 205	1	0	1.42%	11 005 441	0	0
CY	49 759 915	1	0	2.46%	1 223 422	0	0
CZ	837 551 104	1	0	0.91%	7 596 842	0	0
DE	4 846 574 058	13	0	0.49%	23 598 701	0	0
DK	844 288 387	1	0	0.86%	7 239 529	0	0
EE	113 911 721	1	0	1.90%	2 166 947	0	0
ES	5 063 913 275	17	0	1.53%	77 624 046	0	0
FI	523 378 209	1	0	0.51%	2 678 700	0	0
FR	7 367 683 355	2	1	1.72%	126 743 516	4 236 767	138 983 078
GB	3 081 954 114	4	1	1.66%	51 223 190	26 738 915	503 962 326
GR	2 021 457 680	1	0	1.90%	38 352 471	0	0
HR	198 931 754	1	1	4.50%	8 947 554	8 947 554	198 784 627
HU	1 257 870 115	1	1	2.07%	26 095 655	26 095 655	1 257 585 994
IE	1 208 265 278	1	0	0.73%	8 828 937	0	0
IT	3 794 981 101	9	8	5.76%	218 405 665	217 531 336	3 780 753 897
LT	437 174 065	1	0	1.09%	4 745 641	0	0
LU	33 311 178	1	0	0.33%	108 591	0	0
LV	203 771 342	1	0	0.97%	1 968 689	0	0
MT	5 042 676	1	0	4.36%	219 893	0	0
NL	734 734 015	1	0	1.14%	8 408 758	0	0
PL	3 354 843 170	1	0	1.17%	39 165 572	0	0
PT	655 059 841	1	0	1.35%	8 842 545	0	0
RO	1 690 659 153	1	1	3.66%	61 910 838	61 910 838	1 690 146 337
SE	687 983 137	1	1	3.52%	24 234 643	24 234 643	687 982 737
SI	135 788 090	1	0	1.68%	2 284 461	0	0
SK	432 061 694	1	1	5.63%	24 343 665	24 343 665	432 061 694
Total	**41 556 218 420**	**69**					
	-5 062 434	Amounts reimbursed to DG AGRI by Coordinating Bodies					
Total ABB 03 - Payments made	**41 551 155 987**	**69**	**15**	**1.92%**	**798 551 996**	**394 039 374**	**8 690 260 688**
Footnote:	(1) Monthly declaration of expenditure affected by Paying Agencies.						

Table: 2.1.1.2.2-3

27 Member States have decided to apply **voluntary coupled support (VCS)**, and farmers could apply for this aid for the first time in claim year 2015 (financial year 2016). The MS decisions on VCS measures were not subject to prior approval by the Commission. However, DG AGRI ensured an extensive review of the notifications.

Following assessments of the Member States' notifications and further correspondence with Member States concerned, DG AGRI opened conformity audits, in 2016, on the risk of non-compliance in 8 Member States. In the 2016Annual Activity Report, an unquantified reservation covering the 8 Member States concerned (FR, GR, IE, IT, LT, MT, PL and RO) was introduced.

For three Member States, i.e. Malta, Ireland and Lithuania, the conformity procedure was finalised during 2017. For the other five Member states, France, Greece, Italy, Poland and Romania, the conformity procedures have reached the final stages. As appropriate justification of the policy decisions made by these Member States was provided for a significant number of Voluntary coupled support measures, DG AGRI considers that it is not necessary to maintain the unquantified reservation. Where a risk continued to exist for 2017 financial year, this risk has been quantified and taken into account in the adjustments to the error rate made by DG AGRI.

The amount at risk for the expenditure under reservation is EUR 394.04 million. This corresponds to 4.53% of the relevant expenditure managed by the 15 Paying Agencies for which a reservation is entered. For expenditure not subject to reservations, the amount at risk corresponds to 1.23%. Thus, the error rate for ABB03, direct payments, is 1.92% as a whole.

ABB04 – Rural Development

In 2017, EUR 11 105.49 million was paid to Member States in respect of rural development which represents 19.88% of the CAP spending.

Expenditure paid and financed under the 2014-2020 programming period, amounted to EUR 11 051 784 091, and all of that amount was paid as intermediate payments. No pre-financing has been paid in respect of financial year 2017. In addition, a reimbursement of EUR 519 525 has been made by Member States to the Commission in respect of previous programming period (budget item 05040114). A further amount of EUR 11 107 050 has been paid by the Commission in respect of technical assistance for the 2014-2020 programming period.

Payments reimbursed by DG AGRI to the Member States in 2017

Management type	Chapter	Budget item	Description	Payments (EUR)
Shared Management	0504	05040114	Completion of rural development financed by the EAGGF Guarantee Section - Programming period 2000 to 2006	-519 525
		05040201	Completion of the European Agricultural Guidance and Guarantee Fund, Guidance Section - Objective 1 regions (2000 to 2006)	-
		05040501	**Rural development programmes 2007-2013**	**43 121 731**
			Interim payments 2007-2013	43 121 731
		05046001	**Promoting sustainable rural development, a more territorially and environmentally balanced, climate-friendly and innovative Union agricultural sector**	**11 051 784 091**
			Interim payments for promoting sustainable rural development, a more territorially and environmentally balanced, climate-friendly and innovative Union agricultural sector 2014-2020	11 051 784 091
			Pre-financing for promoting sustainable rural development, a more territorially and environmentally balanced, climate-friendly and innovative Union agricultural sector 2014-2020	-
		Sub-Total Shared Management		11 094 386 297
Direct Management		05040206	Completion of Leader (2000 to 2006)	-
		05040502	Operational technical assistance 2007-2013	-
		05046002	Operational technical assistance 2014-2020	11 107 050
		Sub-Total Direct Management		11 107 050
Grant Total 0504				**11 105 493 347**

Table: 2.1.1.2.2-4

Control statistics have been provided by each Paying Agency in respect of 100% of the expenditure financed under 2007-2013 and 2014-2020 Rural Development Programmes amounting to EUR 11 095 million.

The following chart sets out 2017 expenditure declared by Member States for the Rural Development Programmes divided among the IACS and non-IACS measures (see Annex 10-3.3.2 for more information).

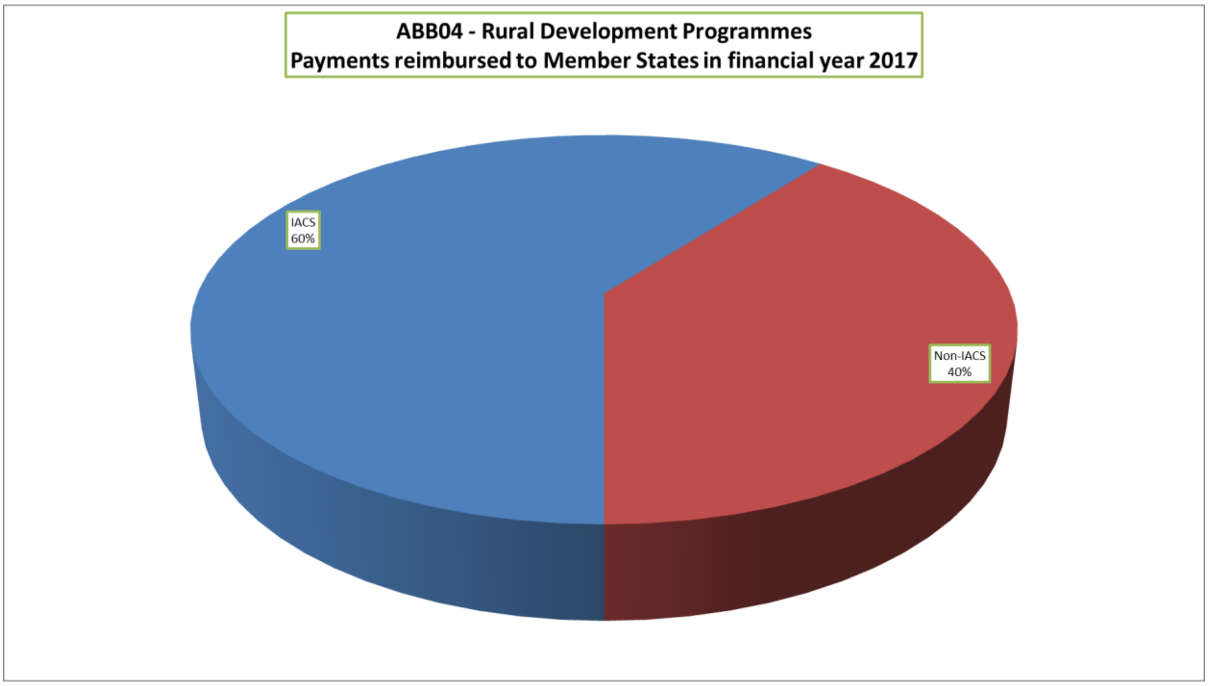


Chart 2.1.1.2.2-3

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

As a result of the adjustments made, 29 out of 72 Paying Agencies have an adjusted error rate above 2% (of which 12 were above 5%: Belgium (Wallonia), Bulgaria, Czech Republic, Denmark, France (ODARC and ASP), Italy (ARCEA), Malta, Portugal, Slovakia, Spain (Extremadura) and Sweden).

In line with its materiality criteria in Annex 4, **11 cases where the error rate is above 5%** (Belgium (Wallonia), Bulgaria, Czech Republic, Denmark, France (ODARC and ASP), Italy (ARCEA), Portugal, Slovakia, Spain (Extremadura) and Sweden) were automatically **subject to a reservation**. In all of these cases, the high adjusted error rate was determined further to assessment and adjustment of the error rate by DG AGRI, based on its own audits and on the assessment of the Certification Bodies. In one case (Malta), the amount at risk is below DG AGRI's *de minimis* threshold of EUR 1 million as established in Annex 4 (materiality criteria), therefore no reservation was necessary.

For 17 Paying Agencies with an error rate between 2% and 5%, DG AGRI examined the situation for each Paying Agency concerned to determine if risk mitigation conditions existed rendering it unnecessary to make a reservation. In 2 cases (Spain (Andalucía) and Italy (IT05)) it was considered that, given the mitigating factors present it would not be necessary to make reservations. For 4 Paying Agencies (Belgium (Flanders), Cyprus, United Kingdom (GB05) and Spain (Canary Islands)) the amount at risk is below DG AGRI's *de minimis* threshold of EUR 1 million as established in Annex 4 (materiality criteria), therefore no reservation was necessary. For the remaining 11 Paying Agencies a reservation was deemed necessary.

As regards reservations from 2016, in 7 cases (Spain (Andalucía) Greece, Ireland, Latvia, The Netherlands, Poland and Romania) it was not considered necessary to carry over reservations from the 2016 AAR with regard to 2017 expenditure. The reasons for each decision are detailed in Annex 10 – part 3.3.

In total 12 reservations from 2016 are repeated in 2017 as the deficiencies persist while 10 new reservations are introduced (Austria, Germany (Sachsen and Thüringen), Spain (Castilla y León, Extremadura and Galicia), Finland, France (Corsica), United Kingdom (Wales and England)).

The overall outcome of this exercise is that 22 reservations are necessary at Paying Agency level.

- Austria
- Belgium
- Bulgaria
- Czech Republic
- Denmark
- Finland
- France (2 Paying Agencies)
- Germany (2 Paying Agencies)
- Hungary
- Italy (2 Paying Agencies)
- United Kingdom (3 Paying Agencies)
- Slovakia
- Spain (3 Paying Agencies)
- Sweden
- Portugal

The following table presents the situation at Member State level for ABB04 for the relevant expenditure in financial year 2017. Annex 10 – part 3.3 (ABB04) provides the picture per Paying Agency.

Member States	Relevant Expenditure FY2017	N° of Paying Agencies	N° of Paying Agencies under reservation	Adjusted error rate	Amount at risk	Amount at risk covered by reservation	Payments managed by Paying Agencies in 2017 with a reservation
AT	478 470 408	1	1	3.06%	14 652 523	14 652 523	478 397 732
BE	37 131 717	2	1	5.55%	2 057 260	1 750 843	23 185 996
BG	196 158 182	1	1	5.41%	10 615 989	10 615 989	194 155 360
CY	14 573 450	1	0	3.92%	570 899	0	0
CZ	259 351 803	1	1	7.65%	19 845 719	19 845 719	260 439 729
DE	950 955 312	15	2	1.22%	11 598 974	5 143 687	172 420 705
DK	99 878 000	1	1	5.52%	5 508 688	5 508 688	97 795 377
EE	99 413 291	1	0	1.71%	1 700 099	0	0
ES	702 633 093	18	3	0.00%	15 557 244	10 008 319	255 130 955
FI	319 207 655	1	1	2.40%	7 653 087	7 653 087	319 208 423
FR	1 753 707 994	2	2	7.02%	123 111 299	123 111 299	1 752 329 895
GB	537 774 629	4	3	3.36%	18 066 494	17 677 012	525 639 241
GR	712 889 562	1	0	0.77%	5 522 483	0	0
HR	150 173 479	1	0	1.32%	1 980 862	0	0
HU	196 592 509	1	1	3.58%	7 033 122	7 033 122	196 592 489
IE	254 572 032	1	0	1.68%	4 272 464	0	0
IT	790 272 508	9	2	3.52%	27 850 639	23 833 583	516 375 292
LT	254 682 143	1	0	0.96%	2 455 851	0	0
LU	8 863 575	1	0	1.21%	107 162	0	0
LV	162 496 969	1	0	0.55%	899 128	0	0
MT	2 170 973	1	0	8.63%	187 440	0	0
NL	57 613 814	1	0	0.61%	353 337	0	0
PL	573 629 366	1	0	1.53%	8 761 764	0	0
PT	524 233 177	1	1	9.56%	50 115 975	50 115 975	524 821 301
RO	1 605 065 964	1	0	0.57%	9 122 875	0	0
SE	104 276 200	1	1	5.78%	6 022 970	6 022 970	104 275 242
SI	80 254 822	1	0	1.47%	1 178 396	0	0
SK	167 863 196	1	1	10.44%	17 526 642	17 526 642	167 863 129
Grand Total	**11 094 905 822**	**72**	**22**	**3.37%**	**374 329 385**	**320 499 459**	**5 588 630 867**

Table: 2.1.1.2.2-5

The amount at risk for the expenditure under reservation is EUR 320.50 million. This corresponds to 5.73% of the relevant expenditure managed by the 22 Paying Agencies for which a reservation is entered. For expenditure not subject to reservations, the amount at risk corresponds to 0.98%. Thus, the error rate for ABB04, Rural Development, is 3.37% as a whole.

As regards the relevant expenditure, in 2017, the adjustments made by DG AGRI led to an adjusted error rate of 3.37%, as presented in the table above, corresponding to an **amount at risk of EUR 374.3 million**. No pre-financing has been paid and / or cleared in respect of financial year 2017 (see table 2.1.1.2.2-15 for the details).

When taking into account all payments made by DG AGRI in 2017, the overall situation for the ABB04 is as follows:

Payments reimbursed by DG AGRI to the Member States in 2017

Management type	Chapter	Budget item	Description	Payments (EUR)	Error rate (%)	Amount at risk (EUR)
Shared Management	0504	05040114	Completion of rural development financed by the EAGGF Guarantee Section - Programming period 2000 to 2006	-519 525	0.00%	-
		05040201	Completion of the European Agricultural Guidance and Guarantee Fund, Guidance Section - Objective 1 regions (2000 to 2006)	-	-	-
		05040501	**Rural development programmes 2007-2013**	**43 121 731**	**3.37%**	**1 454 878**
			Interim payments 2007-2013	43 121 731	3.37%	1 454 878
		05046001	**Promoting sustainable rural development, a more territorially and environmentally balanced, climate-friendly and innovative Union agricultural sector**	**11 051 784 091**	**3.37%**	**372 874 507**
			Interim payments for promoting sustainable rural development, a more territorially and environmentally balanced, climate-friendly and innovative Union agricultural sector 2014-2020	11 051 784 091	3.37%	372 874 507
			Pre-financing for promoting sustainable rural development, a more territorially and environmentally balanced, climate-friendly and innovative Union agricultural sector 2014-2020	-	-	-
		Sub-Total Shared Management		11 094 386 297	3.37%	374 329 385
Direct Management		05040206	Completion of Leader (2000 to 2006)	-	-	-
		05040502	Operational technical assistance 2007-2013	-	-	-
		05046002	Operational technical assistance 2014-2020	11 107 050	1.00%	111 071
		Sub-Total Direct Management		11 107 050	1.00%	111 071
Grant Total 0504				**11 105 493 347**	**3.37%**	**374 440 455**

Table: 2.1.1.2.2-6

Overall assessment on the functioning of the management and control systems

Article 66 of the Financial Regulation requires the Director-General to report in his Annual Activity Report on whether, except as otherwise specified in any reservations, he has reasonable assurance that, inter alia, the control procedures put in place give the necessary guarantees concerning the legality and regularity of the underlying transactions.

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

In delivering the conclusions in each case, DG AGRI has based itself on the four level structure of management and control which is described in Annex 10, part 1 and on the reports and indicators which emanate from those levels. **For the FY2017, DG AGRI shared the management of the CAP expenditure with 80 Paying Agencies[62] in the 28 Member States and reports extensively in Annex 10, part 2 on the annual management declarations which are delivered by those Paying Agencies as well as on the opinion delivered by the Certification Bodies.** DG AGRI also, via its various forms of follow-up including on-the-spot audits, checks that the Paying Agencies respect the strict accreditation criteria which regulates them as well as the quality of the work carried out by the Certification Bodies.

[62] During the FY2017, the number of Paying Agencies was reduced to 78 (paragraph 2.1.1).

KEY INDICATORS FOR LEGALITY AND REGULARITY – EAGF AND EAFRD FINANCIAL YEAR 2017		
ASSURANCE DERIVING FROM THE FUNCTIONING OF THE PAYING AGENCIES		
Accreditation of Paying Agencies (as of 16/10/2017)	Fully accredited Limited accreditation Provisional accreditation On probation Total	78 1[63] 1[64] 0 80
Certificates and reports of Certification Bodies on functioning of Paying Agencies' internal control systems	Received Not received Effective[65] Not effective	148 2 148 0
Management Declarations signed by the directors of Paying Agencies	Received Not received Unqualified Qualified with reservation	79 1 78 1
Opinions of Certification Bodies on the Management Declarations	Received Not received Unqualified Qualified[66]	79 1[67] 69 10

Table: 2.1.1.2.2-7

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

Conformity audit missions carried out in EAGF and EAFRD in financial years 2015-2017 (from 16/10/2015 until 15/10/2017)

	ABB-specific audit missions[1]				Non-ABB specific audit missions	Total number of audit missions
	ABB 02	ABB 03[2]	ABB 04[3]	Sub-total		
Number of conformity audit missions carried out	64	99	138	285	135	420
Member States covered	All Member States, except CY, EE, HR, LU, LV, SI, SK (21 Member States)	All Member States, except EE, SI (26 Member States)	All Member States, except CY, LU, SI (25 Member States)	All Member States, except CY, LU, SI (25 Member States)	All Member States	All Member States

[1] If an audit covers more than one ABB, it is allocated to all ABBs covered by the audit scope. However, each audit is counted only once in the sub-total.
[2] Excluding audits on cross-compliance.
[3] Concerns only EAFRD, thus excluding the EAGGF Guidance section.

Table: 2.1.1.2.2-8

[63] OPEKEPE (Greece)
[64] HU02 - Hungarian State Treasury
[65] Effective means very good, good or adequate.
[66] The qualifications vary and may be for one population or all populations.
[67] The Certification Body's opinion for DE09 was not received by 31 March 2017.

DG AGRI has carried out **420** conformity audit missions to Member States, of which **285** audits targeted the 3 main ABBs (audits targeting more than one ABBs are counted only once) in the past 3-year period. Audits carried out in respect of ABB03 included **8** audits specifically on entitlements. The other **135** audits carried out in this period were not specific to a particular ABB area, including:

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

Conformity audit missions carried out in EAGF and EAFRD financial year 2017 (from 16/10/2016 until 15/10/2018)

<table>
<tr><th rowspan="2"></th><th colspan="4">ABB-specific audit missions[1]</th><th rowspan="2">Non-ABB specific audit missions</th><th rowspan="2">Total number of audit missions</th></tr>
<tr><th>ABB 02</th><th>ABB 03[2]</th><th>ABB 04[3]</th><th>Sub-total</th></tr>
<tr><td>Number of conformity audit missions carried out</td><td>28</td><td>27</td><td>38</td><td>89</td><td>37</td><td>126</td></tr>
<tr><td rowspan="2">Member States covered</td><td>All Member States, except CY, DK EE, GB, HR, IE, LV, LU, SI, SK</td><td>All Member States, except AT, BG, DK, EE, FI, HU, LT, LV, SI</td><td>All Member States, except CY, LU, SI</td><td>All Member States, except CY, GR, HU, LV, LU, NL, PT, SI</td><td rowspan="2">All Member States, except LV, MT</td><td rowspan="2">All Member States, except LV, MT</td></tr>
<tr><td>(18 Member States)</td><td>(19 Member States)</td><td>(25 Member States)</td><td>(18 Member States)</td></tr>
<tr><td>Expenditure 2017,
- total, m EUR[4]
- covered[5], m EUR</td><td>2 945.6
279.4</td><td>41 551.2
18 290.1</td><td>11 094.4
3 273.9</td><td>55 591.1
21 843.4</td><td colspan="2"></td></tr>
</table>

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

[2] Excluding audits on cross-compliance.

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

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

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

Table: 2.1.1.2.2-9

DG AGRI carried out **126** audit missions, which includes **89 conformity audits** targeting the 3 ABBs areas (audits covering more than one ABB area are counted only once) in the period under financial year 2017. Apart from that, **37** other audit missions were carried out covering areas not specific to a particular ABB. They included:

- 5 audits on information system security;
- 12 audits on cross-compliance;
- 2 audits on debt management;
- 1 audit on accreditation;
- 2 pre-accession related audits, and
- 17 audits on the Certification Bodies as regards legality and regularity.

Those audits also result, through the ensuing conformity clearance procedures, where deficiencies in the management and control systems are detected, in net financial corrections. It is noted that audits carried out in 2017 and 2018 will also cover the 2016 expenditure ("24 month rule"[68]).

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

Expenditure under shared management (EUR)		Expenditure covered by control statistics (EUR)	% ABB covered by control statistics	% Fund covered by control statistics	% CAP covered by control statistics
ABB02	2 945 604 663	2 223 684 775	75%		
ABB03	41 551 155 987	41 119 663 761	99%	97%	
ABB04	11 094 386 297	11 094 905 822	100%	100%	
CAP	**55 591 146 946**	**54 438 254 358**			**98%**

Table: 2.1.1.2.2-10

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

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

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

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

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

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

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

Impact on the Declaration of Assurance (based on the functioning of systems, materiality and legality and regularity criteria	Coverage											
	N° of aid schemes/Paying Agencies				as % of aid schemes/Paying Agencies				Payments to aid schemes/Paying Agencies in question as % of expenditure 2017			
	ABB02	ABB03	ABB04	Total	ABB02	ABB03	ABB04	Total	ABB02	ABB03	ABB04	Total
Reasonable assurance (= adjusted error rate below 2% or under 'de minimis')	172	50	47	269	77.1%	72.5%	66.2%	74.1%	59.0%	75.2%	47.7%	68.9%
Reasonable assurance with low risk (= adjusted error rate between 2% and 5%, with mitigating factors, no reservation)	46	4	2	52	20.6%	5.8%	2.8%	14.3%	10.8%	3.8%	2.0%	3.8%
Limited assurance with medium risk (= adjusted error rate between 2% and 5%, no mitigating factors, with reservation)	2	5	11	18	0.9%	7.2%	15.5%	5.0%	15.0%	9.6%	21.0%	12.1%
Limited assurance with high risk (= adjusted error rate above 5%, with reservation)	3	10	11	24	1.3%	14.5%	15.5%	6.6%	15.3%	11.3%	29.4%	15.2%
Grand Total	223	69	71	363	100%	100%	100%	100%	100%	100%	100%	100%

Table: 2.1.1.2.2-11

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

- ABB02: 5 elements comprising 3 aid schemes in 3 Member States and 1 general reservation for 1 Paying Agency.
- ABB03: 15 Paying Agencies in 8 Member States.
- ABB04: 22 Paying Agencies in 15 Member States.

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

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

ABB02:	Total payments in 2017 per level of assurance (shared management only)												2017
Member State	Reasonable assurance		Reasonable assurance with low risk		Limited assurance with medium risk		Limited assurance with high risk		Total relevant expenditure (1)	N° of Aid schemes/Paying Agencies	Amount at risk	Adjusted error rate	AAR 2017 reservations
	Expenditure (1)	N° of Aid schemes/Paying Agencies	Expenditure (1)	N° of Aid schemes/Paying Agencies	Expenditure (1)	N° of Aid schemes/Paying Agencies	Expenditure (1)	N° of Aid schemes/Paying Agencies					N° of Paying Agencies
AT	12 074 474	5	17 092 020	3					29 166 494	8	952 695	3.27%	0
BE	73 264 477	5	7 536 454	3					80 800 931	8	444 761	0.55%	0
BG	11 707 865	6	25 792 454	3					37 500 320	9	1 085 378	2.89%	0
CY	7 264 907	8		1					7 264 907	9		0.00%	0
CZ	20 347 023	7	7 380 857	3					27 727 879	10	819 422	2.96%	0
DE	157 935 592	6	43 598 121	2					201 533 713	8	1 595 030	0.79%	0
DK	21 194 565	6		1					21 194 565	7	6 960	0.03%	0
EE	10 360 112	6		1					10 360 112	7	2 233	0.02%	0
ES	329 493 499	7	10 238 954	2	216 115 641	1			555 848 094	10	9 862 574	1.77%	1
FI	14 410 098	5		1					14 410 098	6	23 743	0.16%	0
FR	82 738 148	3	110 351 990	3			446 967 811	2	640 057 949	8	40 447 422	6.32%	2
GB	90 434 604	5		1					90 434 604	6	56 636	0.06%	0
GR	23 660 758	6	42 125 214	4					65 785 972	10	1 928 297	2.93%	0
HR	10 383 640	6		1					10 383 640	7	1 546	0.01%	0
HU	54 856 457	8	552	1					54 857 009	9	2 239	0.00%	0
IE	22 897 423	6		1					22 897 423	7	122	0.00%	0
IT	367 070 405	6	43 622 842	1	225 871 369	1	12 736 881	1	649 301 496	9	11 350 905	1.75%	2
LT	5 501 027	6	2 505 398	2					8 006 425	8	626 350	7.82%	0
LU	1 200 490	4		1					1 200 490	5		0.00%	0
LV	14 496 335	8		1					14 496 335	9		0.00%	0
MT	132 674	3	357 342	2					490 016	5	17 867	3.65%	0
NL	87 111 562	7		1					87 111 562	8	74 477	0.09%	0
PL	107 312 849	8	11 630 349	1					118 943 198	9	282 992	0.24%	0
PT	114 207 612	9	0	1					114 207 612	10	204 997	0.18%	0
RO	42 904 130	9	0	1					42 904 130	10	919	0.00%	0
SE	17 865 748	3	3 543 145	2					21 408 893	5	289 445	1.35%	0
SI	8 581 199	7		1					8 581 199	8	2 879	0.03%	0
SK	11 736 786	7		1					11 736 786	8	38	0.00%	0
Total - monthly declaration	**1 721 144 459**	**172**	**325 775 693**	**46**	**441 987 010**	**2**	**459 704 691**	**3**	**2 948 611 854**				
Suspension of payments (2)									**-3 007 191**				
ABB02 - shared management - payments made									**2 945 604 663**	**223**	**70 079 926**	**2.38%**	**5**

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

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

Table: 2.1.1.2.2-12

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

ABB03:	Total payments in 2017 per level of assurance												2017
Member State	Reasonable Assurance		Reasonable Assurance with Low Risk		Limited Assurance with Medium Risk		Limited Assurance with High Risk		Total Relevant Expenditure (1)	Total N° of Paying Agencies	Amount at Risk	Adjusted Error Rate	AAR 2017 reservations
	Expenditure (1)	N° of Paying Agencies	Expenditure (1)	N° of Paying Agencies	Expenditure (1)	N° of Paying Agencies	Expenditure (1)	N° of Paying Agencies					N° of Paying Agencies
AT	692 625 803	1							692 625 803	1	7 536 728	1.09%	0
BE	508 563 982	2							508 563 982	2	3 051 356	0.60%	0
BG	774 080 205	1							774 080 205	1	11 005 441	1.42%	0
CY			49 759 915	1					49 759 915	1	1 223 422	2.46%	0
CZ	837 551 104	1							837 551 104	1	7 596 842	0.91%	0
DE	4 846 574 058	13							4 846 574 058	13	23 598 701	0.49%	0
DK	844 288 387	1							844 288 387	1	7 239 529	0.86%	0
EE	113 911 721	1							113 911 721	1	2 166 947	1.90%	0
ES	3 514 235 245	14	1 549 678 030	3					5 063 913 275	17	77 624 046	1.53%	0
FI	523 378 209	1							523 378 209	1	2 678 700	0.51%	0
FR	7 228 700 277	1			138 983 078	1			7 367 683 355	2	126 743 516	1.72%	1
GB	2 577 701 511	3					504 252 602	1	3 081 954 114	4	51 223 190	1.66%	1
GR	2 021 457 680	1							2 021 457 680	1	38 352 471	1.90%	0
HR					198 931 754	1			198 931 754	1	8 947 554	4.50%	1
HU					1 257 870 115	1			1 257 870 115	1	26 095 655	2.07%	1
IE	1 208 265 278	1							1 208 265 278	1	8 828 937	0.73%	0
IT	15 899 535	1					3 779 081 567	8	3 794 981 101	9	218 405 665	5.76%	8
LT	437 174 065	1							437 174 065	1	4 745 641	1.09%	0
LU	33 311 178	1							33 311 178	1	108 591	0.33%	0
LV	203 771 342	1							203 771 342	1	1 968 689	0.97%	0
MT	5 042 676	1							5 042 676	1	219 893	4.36%	0
NL	734 734 015	1							734 734 015	1	8 408 758	1.14%	0
PL	3 354 843 170	1							3 354 843 170	1	39 165 572	1.17%	0
PT	655 059 841	1							655 059 841	1	8 842 545	1.35%	0
RO					1 690 659 153	1			1 690 659 153	1	61 910 838	3.66%	1
SE					687 983 137	1			687 983 137	1	24 234 643	3.52%	1
SI	135 788 090	1							135 788 090	1	2 284 461	1.68%	0
SK							432 061 694	1	432 061 694	1	24 343 665	5.63%	1
Subtotal	**31 266 957 376**	**50**	**1 599 437 945**	**4**	**3 974 427 237**	**5**	**4 715 395 862**	**10**	**41 556 218 420**				
Amounts reimbursed to DG AGRI by Coordinating Bodies									**-5 062 434**				
TOTAL									**41 551 155 987**	**69**	**798 551 996**	**1.92%**	**15**

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

Table: 2.1.1.2.2-13

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

ABB04: Total payments in 2017 per level of assurance 2017

Member State	Reasonable assurance		Reasonable assurance with low risk		Limited assurance with medium risk		Limited assurance with high risk		Total payments (1)	Total N° of Paying Agencies	Amount at risk	Adjusted error rate	AAR 2017 reservations
	Payments (1)	N° of Paying Agencies	Payments (1)	N° of Paying Agencies	Payments (1)	N° of Paying Agencies	Payments (1)	N° of Paying Agencies					N° of Paying Agencies
AT					478 470 408	1			478 470 408	1	14 652 523	3.06%	1
BE	14 116 044	1					23 015 673	1	37 131 717	2	2 057 260	5.55%	1
BG							196 158 182	1	196 158 182	1	10 615 989	5.41%	1
CY	14 573 450	1							14 573 450	1	570 899	3.92%	0
CZ							259 351 803	1	259 351 803	1	19 845 719	7.65%	1
DE	778 535 694	12			172 419 618	2			950 955 312	14	11 598 974	1.22%	2
DK							99 878 000	1	99 878 000	1	5 508 688	5.52%	1
EE	99 413 291	1							99 413 291	1	1 700 099	1.71%	0
ES	314 145 663	14	133 362 897	1	193 107 074	2	62 017 459	1	702 633 093	18	15 557 244	0.00%	3
FI					319 207 655	1			319 207 655	1	7 653 087	2.40%	1
FR							1 753 707 994	2	1 753 707 994	2	123 111 299	7.02%	2
GB	16 439 627	1			521 335 002	3			537 774 629	4	18 066 494	3.36%	3
GR	712 889 562	1							712 889 562	1	5 522 483	0.77%	0
HR	150 173 479	1							150 173 479	1	1 980 862	1.32%	0
HU					196 592 509	1			196 592 509	1	7 033 122	3.58%	1
IE	254 572 032	1							254 572 032	1	4 272 464	1.68%	0
IT	190 799 080	6	83 036 895	1	445 664 991	1	70 771 541	1	790 272 508	9	27 850 639	3.52%	2
LT	254 682 143	1							254 682 143	1	2 455 851	0.96%	0
LU	8 863 575	1							8 863 575	1	107 162	1.21%	0
LV	162 496 969	1							162 496 969	1	899 128	0.55%	0
MT	2 170 973	1							2 170 973	1	187 440	8.63%	0
NL	57 613 814	1							57 613 814	1	353 337	0.61%	0
PL	573 629 366	1							573 629 366	1	8 761 764	1.53%	0
PT							524 233 177	1	524 233 177	1	50 115 975	9.56%	1
RO	1 605 065 964	1							1 605 065 964	1	9 122 875	0.57%	0
SE							104 276 200	1	104 276 200	1	6 022 970	5.78%	1
SI	80 254 822	1							80 254 822	1	1 178 396	1.47%	0
SK							167 863 196	1	167 863 196	1	17 526 642	10.44%	1
Total	**5 290 435 548**	**47**	**216 399 791**	**2**	**2 326 797 257**	**11**	**3 261 273 225**	**11**	**11 094 905 822**	**71**	**374 329 385**	**3.37%**	**22**

Table: 2.1.1.2.2-14

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

For the CAP, the estimated overall amount at risk *at payment*[69] for the 2017 payments made is EUR 1 243.57 million. This is the AOD's best, conservative estimation of the amount of *relevant expenditure*[70] during the year (EUR 55 957.01 million) not in conformity with the applicable contractual and regulatory provisions at the time the payment is made.

The 2017 expenditure will subsequently be subject to ex-post controls and audits, following which financial corrections and recoveries will be made. When applied to the 2017 *relevant expenditure*, the conservatively estimated corrective capacity[71] of 2.10 % results in an amount of EUR 1 173.92 million. This is the best estimate of irregular amounts paid in 2017 which will be reimbursed to the EU budget in subsequent years.

The difference between the overall amount at risk at payment and the corrective capacity leads to the estimated final amount at risk of EUR 69.65 million when all corrections will have been applied. The estimated final amount at risk used by DG AGRI corresponds to the estimated overall amount at risk at closure used by other DGs for expenditure where the Commission cannot apply corrections after the closure of the multiannual programmes.

[69] In order to calculate the weighted average error rate (AER) for the total *relevant expenditure* in the reporting year, the *adjusted* error rates have been used.
[70] For the purpose of calculating the final amount at risk, "*relevant expenditure*" during the year = payments made (including balance payments at closure of programmes 2007-2013), minus new pre-financing paid out, plus previous pre-financing cleared. "Expenditure" in the text of the report and its annexes corresponds to payments reimbursed by the Commission.
[71] The corrective capacity is calculated as the 5 years historic average of recoveries and financial corrections, which is the best available indication of the corrective capacity of the ex-post control systems implemented DG AGRI and the Member States. See section 2.1.1.3. for further detailed explanation.

Table 2.1.1.2.2-15 - Estimated final amount at risk

		Payments made[1]	Prefinancing paid	Cleared prefinancing	Relevant expenditure	Adjusted error rate	Estimated amount at risk at payment	Average financial corrections	Average recoveries	Average recoveries and corrections (in % of relevant expenditure)	Corrective capacity	Estimated final amount at risk
		million EUR	million EUR	million EUR	million EUR	%	million EUR			%	million EUR	million EUR
	1	2	3	4	5	6	7	8a	8b	8	9	10
					= 2 - 3 + 4		=5 x 6				=5 x 8	=7 - 9
Title 04	**Employment, social affairs and inclusion**											
0401	Administrative expenditure	0.13	0.00	0.00	0.13	1.00%	0.00	0.00	0.00	0.00%	0.00	0.00
Title 18	**Migration and home affairs**											
1801	Administrative expenditure	0.09	0.00	0.00	0.09	1.00%	0.00	0.00	0.00	0.00%	0.00	0.00
Title 05	**Agriculture and rural development**											
SHARED MANAGEMENT												
0502	Interventions in Agricultural Markets	2 945.60	0.00	0.00	2 945.60	2.38%	70.08	88.00	0.00	0.00%	0.00	0.00
0503	Direct payments	41 551.16	0.00	0.00	41 551.16	1.92%	798.55	659.35	0.00	0.00%	0.00	0.00
	EAGF total	44 496.76	0.00	0.00	44 496.76	1.95%	868.63	747.35	101.01	1.91%	848.35	20.28
0504	Rural development	11 094.39	0.00	0.00	11 094.39	3.37%	374.33	212.83	112.74	2.93%	325.57	48.76
0507	Audit	140.91	0.00	0.00	140.91	0.00%	0.00	0.00	0.00	0.00%	0.00	0.00
INDIRECT MANAGEMENT												
0505	Pre-accession Measures	91.66	91.66	176.08	176.08	0.07%	0.12	0.00	0.00	0.00%	0.00	0.12
DIRECT MANAGEMENT												
0501	Administrative expenditure	7.75	7.24	7.82	48.65	1.00%	0.49	0.00	0.00	0.00%	0.00	0.49
0502	Interventions in agricultural markets	0.00										
0504	Rural development	11.11										
0506	International aspects	4.49										
0508	Policy strategy and coordination	24.73										
0509	Horizon 2020 - Research and innovation	0.00										
Total CAP		55 871.78	98.89	183.90	55 956.78	2.22%	1 243.57	960.18	213.74	2.10%	1 173.92	69.65
Total DG AGRI		55 872.00	98.89	183.90	55 957.01	2.22%	1 243.57	960.18	213.74	2.10%	1 173.92	69.65
												0.12%

1) DG AGRI Annual Accounts (Annex 3)

2.1.1.2.3 Assessment of the amount at risk for Indirect management

SAPARD (Special Accession Programme for Agriculture and Rural Development) and IPARD (Instrument for Pre-Accession Assistance in Rural Development) expenditure are managed by DG AGRI under the decentralised[72] or indirect[73] management mode.

Description of the management and control system

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

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

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

Audit work by DG AGRI

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

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

As regards IPARD, the audit work is about assessing the procedures and structures of the entities in charge of the implementation of the IPARD component prior to entrustment/conferral of management (entrustment audits)[74], ex-post audits (conformity audits) and the audit work conducted by independent Audit Authorities[75] at national level (whose results are used in the financial clearance) as well as audit work to verify the proper functioning of the said Audit Authorities (Verifications audits).

Explanatory box 2.1.1.2.3-1

[72] Council Regulation (EC, Euratom) No 1605/2002 of 25 June 2002 on the Financial Regulation applicable to the general budget of the European Communities
[73] Regulation (EU, Euratom) No 966/2012 of the European Parliament and of the Council of 25 October 2012 on the financial rules applicable to the general budget of the Union and repealing Council Regulation (EC, Euratom) No 1605/2002
[74] The "conferral of management powers" in IPARD 2007-2013 corresponds to the "Entrustment of budget implementation tasks" in IPARD 2014-2020.
[75] The Audit Authorities in IPARD correspond to the Certification Bodies in EAGF/EAFRD.

SAPARD

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

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

By the end of 2017, the SAPARD accounts, for all countries and all years, were cleared. Further work was carried out to clear the debts. This will allow for the calculation of the final balance and the closure of the last three programmes (Bulgaria, Croatia and Romania) in 2018.

IPARD I (2007-2013)

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

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

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

In 2017, there were no reimbursements by the Commission to the beneficiary countries (Croatia, the former Yugoslav Republic of Macedonia and Turkey), as shown in the table below. This was due to the following reasons: i) Turkey has reached 95% of the total EU contribution; ii) for Croatia the invoices had been cleared with the pre-financing; and iii) the former Yugoslav Republic of Macedonia was asked to continue using the pre-financing. The outstanding invoices of the latter will be cleared in 2018.

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

IPARD I expenditure in 2017 in EUR				
Measures	**HR**	**MK**	**TR**	**Total**
Pre-financing paid in 2017	-	-	-	
Pre-financing paid in previous years and cleared in 2017	18 987 486	-	157 094 354	
Total	**18 987 486**	**-**	**157 094 354**	**176 081 840**

Table: 2.1.1.2.3-1

In 2017, a conformity enquiry was carried out in the former Yugoslav Republic of Macedonia, which resulted in findings regarding a weakness in the key control "Appropriate checks to ensure that the applicant fulfils all eligibility criteria of the aid scheme and/or support measure" and especially the verification of whether the beneficiary is a Small or Medium Enterprise. Furthermore weaknesses in a key control as regards the reference price list and the three offer system were detected. For these weaknesses, at this point in the procedure, a financial correction could be proposed of 5% on the expenditure for measures 101, 103 and 302.

Audit work as regards financial clearance

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

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

In 2017, DG AGRI cleared the 2016 accounts for **Croatia** and the **former Yugoslav Republic of Macedonia**. The 2016 accounts of **Turkey** were disjoined, due to the presence of material error. For the same reason, the 2013 and 2014 accounts were disjoined in previous years and will be cleared in 2018, with the ineligible expenditure having been excluded through a financial correction decision adopted in December 2017. The 2015 accounts had also been disjoined due to the presence of material errors and the relevant conformity enquiry was concluded at the beginning of 2018; both the financial correction decision and the financial clearance decision will be adopted in 2018.

Conclusion for IPARD I (2007-2013)

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

Concerning the deficiencies found in the former Yugoslav Republic of Macedonia, at this stage of the procedure it appears that the financial impact for 2017 is not material for IPARD as a whole. In addition in 2017 there were no payments or cleared pre-financing by the Commission concerning this country.

The table below shows the amount at risk for IPARD I. For Croatia, the adjusted error rate is carried over from 2016 as there were no further interim payments in 2017.

Since the overall adjusted error rate is equal to 0.07%, it is not necessary to issue a reservation for IPARD I expenditure (ABB05) for financial year 2017.

Overall adjusted error rate as regards IPARD I expenditure and cleared pre-financing (ABB 05) in 2017

Country	Payments made (EUR)	Pre-financing paid (EUR)	Cleared pre-financing (EUR)	TOTAL relevant expenditure (EUR) (payments made _ prefinancing + cleared amounts)	Adjusted error rate	Amount at risk (EUR)
HR	-	-	18 987 486	18 987 486	0.63%	119 621
MK	-	-	-	-	-	-
TR	-	-	157 094 354	157 094 354	0.00%	-
Total ABB 05	-	-		**176 081 840**	**0.07%**	**119 621**

Table: 2.1.1.2.3-2

IPARD II (2014-2020)

In the first half of 2017, entrustment under IPARD II was granted to two countries which had already operated under IPARD I: the former Yugoslav Republic of Macedonia and Turkey. The countries received pre-financing in 2017 equal to EUR 3.1 million and EUR 86.1 million, respectively.

Turkey effected expenditure in 2017, of around EUR 6.7 million. This amount will be reimbursed by DG AGRI to Turkey in 2018.

The former Yugoslav Republic of Macedonia effected no IPARD II expenditure in 2017, because it had been granted the possibility to use IPARD I funds until the end of 2017.

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

No risk is estimated for IPARD II as payments in 2017 only relate to pre-financing.

2.1.1.2.4 Assessment of the amount at risk for direct management

For the EUR 48.06 million managed directly by DG AGRI, the maximum amount at risk is estimated at EUR 0.48 million with an error rate of 1%. Table 2.1.1.2.4-1 shows the expenditure spent for each budget item under direct management, as well as the estimated amount at risk.

Title 05	Agriculture and rural development	Direct management (EUR)	Error rate	Amount at risk (EUR)
0501	Administrative expenditure	7 745 771	1.00%	77 458
0502	Interventions in agricultural markets	-	1.00%	-
0504	Rural development	11 107 050	1.00%	111 071
0506	International aspects	4 486 178	1.00%	44 862
0508	Policy strategy and coordination	24 726 187	1.00%	247 262
0509	Horizon 2020 - Research and innovation	-	1.00%	-
Total		**48 065 186**	**1.00%**	**480 652**

Table: 2.1.1.2.4-1

2.1.1.2.5 Budget implementation tasks entrusted to other DGs and Agencies

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

Research activities (REA)

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

REA's Steering Committee of which DG AGRI is a member constitutes the main supervision mechanism allowing for the appropriate monitoring of the Agency's activities. DG AGRI participated in the four Steering Committees chaired by DG RTD held in 2017. The analysis of meeting documents and outcome did not raise major concerns or particular comments, nor called for further specific actions.

At the last Steering Committee meeting of 2017, REA presented its **risk assessment** in the framework of the AWP 2018. The assessment identified no critical risks but three significant risks: SEDIA project (considered a critical risk in 2017, now significant); SFS ceiling for REA's administrative budget; expected additional workload caused by the Brexit. REA is drawing up an action plan and the status of the risks will be regularly monitored.

In 2017 DG AGRI received three requests for review of legality under **Article 22 of Council Regulation (EC) 58/2003** against decisions of REA. After analysis these requests were rejected by the Commission as unfounded and REA's decisions were upheld in the three cases.

On 15/11/2017, the **European Court of Auditors (ECA)** published the *2016 audit of EU agencies in brief* summarising the results of its annual audits of the European Agencies and other bodies for the financial year 2016. The ECA issued an unqualified (clean) audit opinion on the accounts and on the underlying transactions for REA.

A number of SC2 **operational coordination meetings** both at Director and Unit level were held in 2017 between REA and its parent DGs AGRI and RTD to ensure the monitoring and follow-up of delegated activities. In addition three **budgetary coordination meetings** were organised which follow the yearly budgetary cycle. DG AGRI also participated in the two **Research Budget Network** (RBN) meetings held in 2017 and chaired by DG RTD.

DG AGRI further attended the **CLAR meetings (Client in Audit Research) chaired by the Common Audit Service (CAS),** which aim at defining and discussing common approaches, guidance and implementation of audit principles, and the **coordination meetings of the H2020 Executive Agencies and Parent DGs** chaired by DG RTD as lead parent DG.

In the framework of the **annual planning and reporting cycle**, the programming documents such as the AWP and the AAR - including the 2017 Interim report covering the first six months - were scrutinised, summarised and commented upon. There are no major difficulties to be reported and some elements worth following-up have been fed into the supervision cycle.

Through close collaboration with REA full execution of the relevant part of the 2017 operational budget under its responsibility was ensured both in commitments and payments [CA: € 227 434 611 (100%) – PA: € 129 731 298 (100%)].

The flash report of REA's Steering Committee meeting of 27/02/2018 indicates that "The Committee endorsed the Draft Annual Activity Report 2017. In line with the research and innovation family, the REA will make reservations for FP7 Space and Security Research and for FP7 SME actions". In the slides presented during the above mentioned meeting Marc Tachelet, the Director, recaps the main KPIs (such as 100% budget execution in commitment and payments; TTG: 99% with an average of 193. More specifically, as regards the legality and regularity of transactions REA maintains its reservation for FP7 while for H2020 there is no reservation. With respect to internal control it is mentioned that there is no major issue to be reported. The Director concludes in its slides that the REA assurance remains positive even with reservation for FP7 Space and Security schemes and SME actions.

Agricultural Promotion (CHAFEA)

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

DG AGRI participates in **CHAFEA's Steering Committee** as parent DG which constitutes the main supervision mechanism allowing for the appropriate monitoring of the Agency's activities. Four Steering Committees chaired by DG SANTE were held in 2017. CHAFEA did not report any critical **risks** in the framework of the preparation for the AWP 2018.

In 2017 DG AGRI received one request for review of legality under **Article 22 of Council Regulation (EC) 58/2003** against a decision of CHAFEA. The analysis of the request is ongoing.

On 15/11/2017 the **European Court of Auditors (ECA)** published the *2016 audit of EU agencies in brief* summarising the results of its annual audits of the European Agencies and other bodies for the financial year 2016. The ECA issued an unqualified (clean) audit opinion on the accounts and on the underlying transactions for CHAFEA.

The findings of the **IAS audit** on the implementation of the Agricultural Promotion activities by CHAFEA were presented at the third Steering Committee meeting in October together with a proposed Action Plan to be implemented by the end of 2018.

The programming documents such as the AWP and the AAR as well as the 2017 quarterly reports were scrutinised, summarised and commented upon from a supervision point of view in the framework of the **annual planning and reporting cycle**. There are no major difficulties to be reported and some elements worth following-up have been fed into the supervision cycle.

In the second half of the year, the parent DGs discussed with CHAFEA to simplify and improve the Executive Agency's **quarterly reporting** which should be effective as from 2018.

The process for the **three-year evaluation of CHAFEA** for the period 2014-2016 was launched in 2017, with the contract for the study signed at the end of the year.

At CHAFEA's Steering Committee meeting of 23 March 2018 the Director, Véronique Wasbauer, presented the Agency's draft AAR 2017. She mentioned that there were no reservations, that CHAFEA took into account the comments from DG BUDG and IAS (including those from the previous year) and that there were good results for the call for proposals with a smooth process. As indicated in the draft AAR 2017 tabled, the IAS audit acknowledged the sustained efforts made by CHAFEA to manage promotion measures of agricultural products and concluded that the control system and management processes for implementing promotion measures for agricultural products developed by CHAFEA ensured its effective implementation and the legality and regularity of the financial transactions. The audit did not identify any critical nor very important issues, however it considered that there was room for further improvement in certain areas. The Director further stressed that there are no critical observations as regards the control environment nor critical weaknesses in the main KPIs. The assessment of the internal control system has been conducted in December 2017 and the conclusion was that the internal control standards are generally implemented and functioning as intended.

Based on the draft AARs presented by both Executive Agencies REA and CHAFEA at their respective Steering Committee meetings it would therefore appear that there are no reservations or critical risks which would have been identified, except for the FP7 actions under REA's remit but which do not concern the H2020 programme hosting the activity 'Societal Challenge 2' delegated by DG AGRI.

Cross-delegations

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

In order to implement its 2017 budget, DG AGRI sub-delegated the management of several actions to other Directorates-General. The Directorates-General concerned are: ESTAT, EMPL, SANTE, REGIO, ENV and NEAR. As regards the subdelegation to DG NEAR, the subdelegated powers cover only recoveries to be implemented.

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

Regarding the report sent by DG ENV, under-implementation of payments appropriations on budget line 05.046002 is to be noted in their annex.

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

The cross-subdelegations are summarised in the table below:

Cross delegations

In 2017, DG AGRI has cross-delegated activities to five other DGs (ESTAT, EMPL, SANTE, REGIO and ENV). In addition, a sub delegation was given to DG NEAR only to allow recoveries in a specific file (no credits involved so not included in the table).

B2017 credits transferred by DG AGRI (receiver Abac appropriations BGUE-B2017-05.XXXXXX-C1-AGRI/XXX):

Crossed Subdeleg. To:	ESTAT		EMPL	SANTE	REGIO	ENV
Budget Line (Differentiated Credits):	05.080200	05.080300	05.046002		05.046002	05.046002
Transferred Comm. Credit	250.000,00	4.614.834,00	0,00			500.000,00
Transferred Pay. Credit	1.781.930,94	0,00	231.782,77		320.000,00	390.000,00
Consumed Comm. Credit	249.285,26	4.614.834,00	0,00			500.000,00
Consumed Pay. Credit	1.781.930,94	0,00	231.782,77		320.000,00	296.040,60
Budget Line (Non-Differentiated Credit):				05.010401	05.010404.11	
Transferred Non-Diff. Credit				11.000,00	150.000,00	
Consumed Non-Diff. Credit				9.224,51	149.887,50	

Remark: If no credit transferred, cross subdelegations remain open for RAL (C8) consumptions.

2.1.1.2.6 Financial instruments

Financial instruments (FI) are the key tool for leveraging and revolving the rural development financing. In 2017 already four FI were operational (Estonia, Germany 1 region, France 1 region, Italy 1 region). The signed funding agreements in 2017 between EAFRD managing authorities and fund managers, including the EIF, were 9. By end 2017, FI are fully programmed in 27 RDPs in 8 MS with a total public budget of € 669 million (EAFRD € 465 million), with EUR 31 million of public expenditure (EAFRD € 23 million) already declared to the Commission. Additional programme modifications introducing financial instruments are ongoing (e.g. Italy, French regions, Slovenia, Croatia, Spain, Romania).

The Commission together with the European Investment Bank's Group identified and developed the FI schemes that can be used by farmers, foresters and related rural businesses. It has also launched a specific EAFRD – EFSI Initiative, based on the Omnibus proposal with 3 pilot cases already launched in 2017. The Commission services also initiated a specific advisory activity 'targeted coaching on financial instruments for EAFRD managing authorities'. This advisory activity, only in 2017, was taken up by 16 managing authorities, of which 12 coaching cases were already completed in that same year.

Work on EFSI has also advanced, in particular with the preparation of the new legal basis under EFSI 2.0 where agriculture is now given a greater visibility and combination with EAFRD will be possible, as described above.

2.1.1.3 How DG AGRI protects the EU budget

2.1.1.3.1 Corrective capacity

Protection of the EU budget via net financial corrections

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

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

Every year the Commission adopts around 3 conformity ad-hoc decisions on a package of individual financial corrections. **In 2017 the Commission adopted 3 such decisions published in the Official Journal**[76], covering 118 individual net financial corrections for a total amount of **EUR 905.114 million**.

Net financial corrections decided in 2017

million EUR

Commission Conformity Decisions		**EAGF**	**EAFRD**	**Total**
ad-hoc 53	2017/264/EU	95.285	35.062	130.348
ad-hoc 54	2017/1144/EU	322.229	54.562	376.791
ad-hoc 55	2017/2014/EU	282.646	115.331	397.976
Total		**700.160**	**204.955**	**905.115**

Table 2.1.1.3-1

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

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

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

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

[76] Decision 2017/264/EU of 14/02/2017, OJ L39 (ad hoc decision no. 53)
Decision 2017/1144/EU of 28/06/2017, OJ L165 (ad hoc decision no. 54)
Decision 2017/2014/EU of 10/11/2017, OJ L292 (ad hoc decision no. 55)

than a one-off payment): if the amount to be reimbursed by the Member State is more than 0.01% of its GDP, it may request that the deductions are made in annual instalments (maximum 3) instead of all at once. **In 2017, instalment decisions have been adopted in respect of EUR 286.5 million of financial corrections** (see Annex 10 – 4.8 for details).

In 2017 the deferral decision under Commission Implementing Regulation 908/2014, Article 34(8a), adopted in 2015 for Greece, was extented by one year. This decision allows the deferral of the execution date for financial corrections for a further period of 12 months from the date of adoption. After the expiry of the deferral period the corrections are required to be executed in five annual instalments. The deferral granted to Greece will expire on 22 June 2018. So far, and including the ad hoc decisions adopted in 2017, EUR 531.0 million were deferred (see Annex 10 –4.11 for details).

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

Tables giving details of the various instalments and their repayment schedules as well as the deferral decisions (see Annex 10 – 4.9 and 4.10 for details) can be found in Annex 10 – part 4 which gives more information on net financial corrections and explains the clearance of accounts system.

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

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

Protection of the EU budget via Recoveries

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

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

Corrective Capacity

What is corrective capacity?

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

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

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

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

As in previous years, DG AGRI uses a historical average of the net financial corrections executed for calculating its corrective capacity. However, to take into account that 2015, 2016 and 2017 amounts of financial corrections included significant amounts related to backlog cases[77] and to avoid overestimating the corrective capacity, it is considered that the average of the five previous years used since 2016, instead of 3 previous years used in 2014 and 2015, gives a better assessment of what financial corrections can be expected to be made in respect of the reporting year of the AAR (i.e. 2017 expenditure). The corresponding figures for each of the years 2013 to 2016 were already published in previous DG AGRI AARs.

Using **the executed amounts**, i.e. the amounts actually reimbursed to the EU budget in the years concerned, instead of the decided amounts, takes into account payments in annual instalments and deferrals and is the best way to reflect how these net corrections are actually protecting the EU budget. This approach of using the executed amounts is used also for 2017 as it best reflects the actual impact on the EU budget and allows comparability with figures from previous years.

DG AGRI excludes corrections in respect of cross-compliance infringements from its calculation of corrective capacity for net financial corrections. Cross-compliance infringements are not "errors" as regards eligibility and are therefore not included neither in the estimates of the error rates nor in the corrective capacity. As the amounts of financial corrections for deficiencies in the cross-compliance controls and sanctions are, however significant, they are disclosed separately (see Annex 10 - 4.7).

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

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

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

The table below shows the corrective capacity with the abovementioned deductions.

DG AGRI corrective capacity from financial corrections executed 2013-2017

million EUR

	ABB02	ABB03	ABB04	Total
2013	51.217	297.861	227.639	576.717
2014	58.117	533.356	62.342	653.815
2015	17.856	756.932	243.985	1 018.773
2016	183.487	1 191.485	226.396	1 601.368
2017	129.323	517.097	303.807	950.227
Total	440.000	3 296.731	1 064.169	4 800.900
5-year average	**88.000**	**659.346**	**212.834**	**960.180**

Table: 2.1.1.3.1-2

How is corrective capacity calculated in respect of recoveries?

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

DG AGRI corrective capacity from recoveries 2013 - 2017

million EUR

	EAGF	EAFRD	Total
2013	113.134	98.824	211.959
2014	112.359	121.899	234.258
2015	96.732	124.140	220.872
2016	82.604	135.613	218.217
2017	100.202	83.204	183.407
Total	505.032	563.681	1 068.713
5-year average	**101.006**	**112.736**	**213.743**

Table 2.1.1.3-4

Conclusion

The total corrective capacity in respect of the EAGF and EAFRD funds in shared management is calculated to be EUR 1 173.92 million. This amount is DG AGRI's best estimate of what will be recovered to the EU budget via net financial corrections and recoveries in respect of 2017 expenditure.

DG AGRI corrective capacity 2017

million EUR

	EAGF	EAFRD	Total
2017	848.35	325.57	1 173.92

2.1.1.3.2 Interruptions, reductions and suspensions

In 2017, DG AGRI continued to apply the interruptions for EAFRD and the reductions/suspensions of monthly payments (EAGF) and interim payments (EAFRD) in order to safeguard the EU financial interest. This preventive mechanism existed before; however, the Commission powers have been significantly reinforced with the entry into force of the CAP Financing Regulation 1306/2013 (and the Common Provisions Regulation 1303/2013) in 2013.

The EAFRD payments deadline may be interrupted under Article 22 of Commission Implementing Regulation 908/2014 for verifications due to inconsistent, incomplete or unclear information. If there is a clear indication of a deficiency in management and control system or that the expenditure is linked to an irregularity having serious financial consequences, the expenditure may be interrupted - as for other ESI funds - based on Article 83 of the Common Provisions Regulation.

The payments for both pillars may be reduced or suspended based on Article 41 of Regulation 1306/2013 when the payments were not effected in accordance with EU rules, or there is an evidence of a deficiency in the national management and control or recovery systems.

In particular, according to Article 41 (1) of Regulation 1306/2013, if the declarations of expenditure or the annual accounts enable the Commission to establish that expenditure has been effected by bodies which are not accredited Paying Agencies, that payment periods or financial ceilings set by Union law have not been respected or that expenditure has otherwise not been effected in accordance with Union rules, the Commission may reduce or suspend the monthly or interim payments to the Member State, after giving the Member State an opportunity to submit its comments.

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

Article 41 (2) of Regulation 1306/2013 refers to deficiencies of the national control system. The Commission may reduce or suspend the monthly or interim payments to a Member State if one or more of the key components of such control system do not exist or are not effective due to the gravity or persistence of the deficiencies found, or if there are similar serious deficiencies in the system for the recovery of irregular payments and either these deficiencies are of a continuous nature or the Commission concludes that the Member State is not in a position to implement in the immediate future the necessary remedial measures in accordance with an action plan. Before acting, the Commission informs the Member State concerned of its intention and asks it to react within 30 days.

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

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

The interruptions and reductions/suspensions are provisional. If the deficiency is confirmed, the relevant expenditure is definitely excluded from EU financing by application of a financial correction.

An overview of interruptions and reductions/suspension applied in 2017 for each of the funds (EAGF and EAFRD) is provided below.

EAGF

Reductions/Suspensions of payments in respect of EAGF declarations of expenditure reimbursed in 2017

The **reductions** made in 2017 concerned 21 Member States and a total amount of **EUR 279 694 779.40**. There were no reductions in the monthly payments due to deficiencies in the control system in 2017. The reductions concern overruns of ceilings, deadlines and other eligibility issues. There were 86 operations in total related to the reductions.

Suspensions of payments for deficiencies in the control system were made for Poland (for a total amount of EUR 3 007 191.14) and for France (for the latter, as expenditure declared was not eligible for reimbursement in financial year 2017 due to late payment, the net effect of the suspensions is 0).

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

Summary of reductions and payment suspensions executed during the financial year 2017

M.S.	**Reductions** (See Annex I in Annex 13)	**Number of cases**	**Payment suspension** (see Annex II in Annex 13)	**Number of cases**
BG	17 389.41	1		
DE	6 977,89	2		
IE	86 439.86	3		
EL	20 843.71	1		
ES	1 065 124.55	2		
FR	180 827 461.90	3		
HR	80 690.51	11		
IT	59 893 498.31	1		
CY	34 829.86	8		
LV	181.15	1		
LT	53 250.59	1		
HU	3 889 146.24	13		
NL	410 882.48	1		
AT	186 429.52	1		
PL			3 007 191.14	10
PT	596 640.64	21		
RO	3 092 059.42	1		
SL	17 123.79	4		
SK	4 578.15	3		
FI	2 999.21	4		
SE	4 048 595.35	2		
UK	25 359 636.86	2		
Total MS	**279 694 779.40**	**86**	**3 007 191.14**	**10**

The detailed list of reductions/suspensions applied on EAGF payments in 2017, including reductions for overrun of ceilings, deadlines and eligibility issues, is attached as Annex 13 to the present report.

EAFRD

Interruptions and reductions/suspensions of payments in respect to EAFRD declarations of expenditure for financial year 2017

The interruptions and reductions/suspensions of EAFRD payments concerned 1 out of 92 Rural Development Programmes (RDPs) from the 2007-2013 programming period and 2 out of 115 RDPs from the 2014-2020 programming period.

The following table shows the cases of interruptions and reductions/suspensions by Member State, programming period and quarter with the amounts and measures involved. For the programming period 2014-2020, it covers the quarterly declarations of expenditure received and processed during the budget year 2017. The Q4/2016 data correspond to payments made as from 01/02/2017 based on declarations received by 31/01/2017. The Q3/2017 data correspond to declarations received by 10/11/2017 and executed by 31/12/2017.

PROGRAMMING PERIOD 2007-2013

MS	Quarter	Type	Amount interrupted	Amount reduced /suspended	Measure
Romania	2016Q4	Reduction		8 584 818.55	215
Romania	2016Q4	Reduction		2 740 099.09	215
Total				**11 324 917.64**	

PROGRAMMING PERIOD 2014-2020

MS	Quarter	Type	Amount interrupted	Amount reduced / suspended	Measure
Greece[78]	2016Q4	Interruption	7 770 332.04		113
Greece[79]	2017Q1	Interruption	7 411 742.23		113
Romania	2016Q4	Suspension		53 008.37	14
Romania	2017Q1	Interruption	7 402 993.68		14
Romania	2017Q2	Interruption	100 322.11		14
Romania	2017Q3	Interruption	118 551.09		14
Total			**22 803 941.15**	**53 008.37**	

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

MS	Number of interruption	Number of reductions / suspensions
Greece	2	
Romania	3	3

[78] This interruption was lifted in 2017.
[79] This interruption was lifted in 2017.

2.1.1.4 Cost-effectiveness and efficiency

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

Cost-effectiveness of controls

For the EAGF and the EAFRD, the two main funds managed by DG AGRI representing 99.5% of the CAP budget, the following indicators can be reported:

Indicator	2017
Cost of management and control of the Commission (as a % of 2017 payment appropriations executed by the Commission for shared management)	0.1%
Cost of management and control of the Member States –i.e. the 'delivery cost' (as a % of 2017 total public expenditure)	3.9%

Table: 2.1.1.4-1

The annual overall **Commission** cost for managing the management and control systems in place for shared management was estimated at around **EUR 54 million** or 0.1% of total payments in 2017. A comparison of the results indicates that the results are in line with the results obtained for earlier reporting exercises (FY 2016 and FY 2015). DG AGRI considers this overall cost to be very reasonable and very cost effective.

The costs have been calculated using the common methodology developed by the Commission to measure the cost of controls. The data used result from a survey performed in the services and updated for 2017 (entry into force of the new organisation chart). They relate, for nearly one third, to the staff involved in audit activities. The remaining costs relate to staff in the operational directorates and to staff involved in the financial management of the funds. In addition, staff responsible for evaluation, legal affairs, IT systems and general management overheads are also included in the calculation, following an apportionment estimated by the concerned units.

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

DG AGRI carries out a survey on the delivery cost in the Paying Agencies every two years. For the preparation of the 2017 Annual Activity Report, DG AGRI requested an update of information from Member States in order to provide a more recent estimation of the delivery cost. This update of information also led to the revision of the management and control costs reported in 2016[80]. On the basis of this latest survey, the overall delivery cost of managing and controlling CAP expenditure for the Member States is estimated at around **EUR 2 180.8 million** (compared to EUR 2 109.8 million in 2016), corresponding to 3.9% of the CAP expenditure for financial year 2017 (3.8% for the reporting year 2016). The delivery costs are borne by the Member States.

[80] Comparing updated information with that used for the 2015 and 2016 AARs revealed that a Paying Agency had erroneously reported certain amounts of control costs as being in EUR while they were in fact in national currency. This led to an overestimation of the delivery cost reported in both the 2015 and 2016 AARs.

Activity	AAR 2016 revised		AAR 2017	
	Member States Management and Control Costs[1] (EUR million)	in % of 2016 expenditure	Member States Management and Control Costs[2] (EUR million)	in % of 2017 expenditure
Agricultural markets (ABB02)	340.9	10.0%	225.7	7.7%
Direct support (ABB03)	775.9	1.9%	869.2	2.1%
Rural development (ABB04)	993.0	5.9%[3]	1 085.9	6.7%[5]
Total	**2 109.8**	**3.8%[4]**	**2 180.8**	**3.9%[6]**

Table: 2.1.1.4-2

[1] As provided by Member States for the 2015 and 2016 AARs, after revision.
[2] As provided by Member States for AAR 2017
3 in % of 2016 expenditure including total public expenditure
4 in % of 2016 CAP expenditure (payments made)
[5] In % of 2017 expenditure including total public expenditure
[6] In % of 2017 CAP expenditure (payments made)

The quantifiable benefits of the delivery costs in the Member States mainly relate to the detection and correction by Member States of undue amounts claimed and the recoveries by Member States from beneficiaries after payment. When assessing the effectiveness of detecting and correcting undue claimed amounts, Member States have reported, in their control statistics, an amount of EUR 584.5 million of undue claimed amounts detected and corrected prior to payments (see table 2.1.1.4-3). Furthermore, Member States recovered (annual average for the period 2013-2017) an amount of EUR 213.7 million from beneficiaries.

In order to protect the EU financial interests, the Commission applies net financial corrections to Member States following DG AGRI's audit work. Taking into account the corrective capacity of DG AGRI estimated at EUR 960.2 million, the total quantifiable benefits consequently amount to EUR 1 758.5 million. This represents 3.2% of the expenditure paid in respect of the 3 ABBs.

	Net Financial Corrections[1] (EUR million)	Undue claimed amounts detected and corrected by Member States prior to payment[2] (EUR million)	Member States' recoveries from beneficiaries after payment[3] (EUR million)	Total (EUR million)	Total in % of 2017 expenditure
ABB02	88.0	157.5			
ABB03	659.3	303.6			
EAGF	**747.3**	**461.1**	**101.0**	**1 309.4**	**2.9%**
ABB04	212.8	123.5	112.7	449.0	3.8%
Total	**960.2**	**584.5**	**213.7**	**1 758.5**	**3.2%**

Table: 2.1.1.4-3

[1] See corrective capacity
[2] As reported in the 2017 control statistics
[3] See corrective capacity

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

Conclusion on the cost effectiveness of the Member States' controls

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

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

Control efficiency

Indicator	2017	2016
% of Paying Agencies accredited	100%	100%
% of Commission payments within target (EAGF) Time-to-payment (EAFRD): Period 2007/2013 Period 2014/2020	100% No payments[81] 34 days	100% 36 days 24 days

Table 2.1.1.4-4

For the reporting year, all Paying Agencies have been accredited. However, one Paying Agency (OEPKEPE in Greece) continues to be under limited accreditation.

Conclusion on the control efficiency

In view of the result indicators mentioned above, DG AGRI considers that the relative level of cost-effectiveness as well as efficiency of the controls operated is adequate.

[81] Latest regular payments for the period 2007-2013 were made in 2016.

2.1.1.5 Fraud prevention and detection

Indicator	2016	2017
Number of cases (allegations of fraud) detected and transferred to OLAF.	10	9

Throughout 2017, DG AGRI has referred 9 allegations of fraud and other irregularities to OLAF, 7 of which related to the EAFRD. At the end of 2017, 28 OLAF investigations and coordination cases dealing with possible fraud against the CAP budget and pre-accession funds were on-going. This confirms the steady decrease of OLAF cases in relation to the CAP (end 2015: 47 cases on-going; end 2016: 32). 18 of the 28 on-going cases concern allegations of fraud in the EAFRD. This confirms past observations again that RD investment projects in particular are exposed to a risk of fraud or serious irregularities which is higher than in all other areas of CAP spending.

Anti-fraud strategy (AFS)

DG AGRI has developed and implemented its own Anti-Fraud Strategy since September 2012, elaborated inter alia on the basis of the methodology provided by OLAF. It has been updated on three occasions. Its last modification dates from December 2015. In 2017, the ASF did not need further update, in particular in view of the imminent modification of the Commission's Anti-Fraud Strategy.

Anti-fraud seminars and awareness raising actions

Throughout the year 2017, 10 seminars on the prevention, detection and correction of fraud and irregularities have been held for Paying Agencies (Austria, Cyprus, Serbia, France, Croatia and Italy).

Three lunch-time seminars on various aspects of food fraud have been delivered to staff of DG AGRI in 2017.

2.1.1.6 Other control objectives: safeguarding of assets and information

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

- All Information Systems are protected from unauthorized access through advanced access rights mechanisms and a thorough review of the access rights is performed once a year. The local infrastructure where Information Systems are hosted is segregated from the rest of EC internal network by a firewall. Security plans have been defined for the key DG AGRI Information Systems, for the implementation of specific security measures: for instance, DG AGRI implemented some specific security features to ensure full confidentiality of data during the sensitive phases of communication (embargo period) for Member States notifications.

- The databases are also duplicated with immediate synchronisation on a backup site to prevent from data loss.

- The Business Continuity Plan is kept up to date, with a Disaster Recovery exercise being tested on a yearly basis to ensure continuity of operations in case of incident.

- End-user IT equipment is managed centrally by DG DIGIT: all workstations are safeguarded with technical means that protect them from security threats; laptop computers are encrypted and secure e-mail is made available for the exchange of sensitive information.

- The DG AGRI LISO intervenes each time a security threat is detected. Quarterly reports are provided to the DG AGRI Director R and to the DG AGRI Security Committee. In 2017, no significant security threat had to be reported.

Based on an audit carried out by DG BUDG in 2017 on the Local Systems, DG AGRI has addressed the findings and recommendations of that audit through an action plan compiling the envisaged actions with an indicative timetable.

2.1.2 Audit observations and recommendations

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

The section is subdivided in three subsections: the Internal Audit Service (IAS), the 2016 Annual Report of the European Court of Auditors (ECA), and the ECA's Special Reports issued for 2017.[82]

2.1.2.1 Internal Audit Service (IAS)

In 2017, the IAS finalised three audit reports involving DG AGRI and issued a total of 2 very important (VI) audit recommendations. All recommendations have been accepted by DG AGRI. Action Plans, which were assessed favourably by the IAS, have been submitted and are being implemented as expected. The audits concerned are the following:

Audit field	***Title***	***Final report***	***# VI Recs***
Market crises	DG AGRI's management of agricultural market crises	01/06/2017	1
Rural Development	Implementation of Rural Development Programmes	21/12/2017	0
Control Strategy	Control Strategy for the CAP 2014-2020	29/01/2018	1

The following very important issues were identified in these audits:

- **Management of agricultural market crises:** The IAS found that DG AGRI had made only a limited analysis of the management implications of various crisis packages implemented. In addition, DG AGRI's risk management process had not adequately taken into account the operational risks arising from wide-ranging, complex and sometimes long-lasting "exceptional" crisis measures and mitigating actions had not been explicitly identified. Finally, the follow-up of crisis measures did not include an analysis of their potentially broader impact on other sectors and policies.

  In response to the IAS recommendations, DG AGRI has undertaken several actions to enhance the coordination inside DG AGRI to better react to future crises including preparing a guide of procedures and setting up of a task force.

- **Control strategy for the CAP 2014-2020:** The IAS identified one very important issue regarding the calculation of financial corrections (including offsetting). The processes in place at the time of the audit had not prevented errors from arising, risking that certain errors resulting from deficiencies in Member States' control systems were not fully corrected in practice. Nonetheless, the IAS recognised DG AGRI's efforts and commitments to design and implement a robust system.

[82] For the internal audit reports, the period to be considered according to the AAR standing instructions is 01/02/2017 – 31/01/2018.

By the time the audit report was finalised, DG AGRI had made significant efforts to address these issues. With one exception that was not material, all errors detected had been either corrected or were under correction. In addition, DG AGRI had set up internal working groups to further analyse the issue and DG AGRI's audit Directorate is looking at how to strengthen its procedures to address such matters.

The audit on the **implementation of RDPs** was carried out in 2017 following the IAS audit on the approval process of RDPs conducted in 2015. The IAS concluded that overall and at this stage of the implementation of the EU RD policy, DG AGRI's processes for following up the implementation of RDPs are effectively managed. The IAS noted that DG AGRI had identified the significant risks of decommitment, double funding and delays in the new area delimitation for ANCs and had implemented appropriated mitigating measures.

The audit did not reveal any critical or very important findings but identified certain weaknesses and/or room for improvement in processing amendments, dealing with annual implementation reports and managing key risks associated with the implementation of RDPs.

In 2017, the IAS also started an **audit of the evaluation process** in DG AGRI and a limited review on the **adjustment of the reported error rates**. The DG was also concerned by the limited review on the Commission corrective capacity and the audit on Commission governance arrangements concerning risk management, financial reporting and the audit function.

Follow-up of open recommendations

DG AGRI management closely monitors the implementation of the audit recommendations. All action plans are being implemented, with no significant delays reported so far. From 8 IAS audits, a total of 17 recommendations were open at the end of the year and 6 recommendations were considered by DG AGRI as implemented, but had not yet been reviewed by the IAS[83].

End of 2017, no critical or very important IAS recommendations were delayed for more than six months based on their original target dates. Nevertheless, DG AGRI is closely following up their implementation. This includes - in addition to the two emanating from 2017 audits - the following open very important recommendations from past audits:

- 2015 Audit on DG AGRI performance measurement system: Rec 2 - Consistency and completeness of the CMEF (the other 2 VI recommendations are ready for review);
    - During 2017 additional indicators were identified and included in the indicator fiches accompanying the handbook on monitoring and evaluation. The CMEF handbook was updated.
- 2015 Audit on payment suspensions and interruptions: Rec 3 – application of guidance and procedures;
    - A new interpretation note regarding suspension was adopted in 2017 and a new template of the model letters of the Vademecum for the 2nd pillar was approved. A new version of the Vademecum 1st pillar was also approved.

[83] Status: IAS final implementation tracking report 06/02/2018.

- 2016 Audit on managing & sharing agri-environmental data: Rec 1 – Mapping information needs, Rec 2 – Coordinating MS reporting requirements.
  - In 2017, the coordination was reinforced through several working groups and workshops on agri-envi-climate statistics. AGRI was consulted on the EEA work programme and AGRI then highlighted the need for further issues to be included in the EEA work programme. The three DGs have together appointed an EEA contact point and a statistics correspondent for Eurostat. ESTAT has developed the Inventory of other statistics which allows having a complete picture of all data of interest to AGRI-CLIMA-ENV beyond what ESTAT publishes. AGRI has clarified with the legal services what can be legally required from MS regarding the sharing of LPIS data. Registration, storage and sharing of agri-environmental-climate data have been finalised, clarified and improved.

Four IAS follow-up audits were performed in 2017 on the audits:

1) "Approval process of AGRI RDPs", which resulted in 4 recommendations considered as closed by the IAS, and 1 remaining open, but downgraded to important (revised target date in 2020).

2) "Management and control systems for voluntary coupled support": One action of one recommendation was reopened, but downgraded to important.

3) "Design and monitoring of the management and control system for greening", which resulted in all recommendations considered closed.

4) "Management of local IT", which resulted in all recommendations considered closed.

IAS limited conclusion

On the basis of the audit work of previous years covering all open recommendations issued by the IAS and IACs (insofar as the IAS has taken them over), and taking into account the fact that for the accepted recommendations made by internal auditors in 2015-2017, management has adopted plans to be implemented which the IAS considers adequate to address the residual risks, that the implementation of these plans is monitored by management and the IAS and that management has not rejected any critical and/or very important recommendations, the Internal Auditor issued his conclusion on the state of internal control in DG AGRI in February 2018.

The IAS concluded that the internal control systems audited are partially effective since a number of 'very important' recommendations remain to be addressed, in line with the agreed action plans. The internal auditor noted that residual risks related to these recommendations may affect one or several internal control principles and/or components. Particular attention should be given to the combined effect of a number of open 'very important' recommendations related to performance monitoring so that AGRI can effectively ensure regular and systematic assessments of the outcome and impact of the policy it manages.

Conclusion

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

The Communication on the Future of Food and Farming envisages that the post 2020 CAP will have a greater emphasis on performance and, thus, address the recommendations related to **performance monitoring**.

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

2.1.2.2 European Court of Auditors: 2016 Annual Report

The ECA's "Annual Report on the implementation of the budget concerning the financial year 2016" was presented to the CONT Committee on 28 September 2017. For the Commission as a whole, the most likely error for payments estimated by the Court decreased to 3.1%. In financial year 2015, the error rate was estimated to be at 3.8% (4.4 % in 2014).

In the 2016 Report, Chapter 7 on "Natural resources" (of which the CAP represents 98%) has a most likely error rate of 2.5%. This level of error is also comparable to the overall error rate DG AGRI presented in its 2016 AAR (2.467%).

Annual report chapter	2016 level of error (%)	2015 level of error (%)
Chapter 5 – Competitiveness	4.1	4.4
Chapter 6 – Cohesion	4.8	5.2
Chapter 7 – Natural resources	**2.5**	2.9
Global Europe and EDF	2.1	2.8
Chapter 9 – Administration	0.2	0.6

The 2016 results confirm that the overall error rate for the CAP is low and with a downward trend. The error rate for Chapter 7 comprises both EAGF (Market and direct support) and EAFRD along with environment, fisheries and climate action.

For EAGF, which accounts for more than three-quarters of the CAP expenditure, the estimated error rate is below materiality, at the level of 1.7%. This excellent result allowed the Court to express, for the first time since 1994, a qualified opinion on the overall EU budget (as opposed to adverse opinion). For financial year 2015 ECA established the error rate for EAGF at 2.2%, only slightly above materiality.

In 2016 EAFRD along with environment, fisheries and climate action have an estimated error rate of 4.9%. The error rate in financial year 2015 was established by ECA at 5.3%.

Thus, for both pillars ECA confirmed that the error rate decreased.

According to ECA, overstated claims of agricultural areas were the highest contributor to the estimated level of error, as regards EAGF, and the second highest contributor for EAFRD. Concerning the latter, the most frequent errors related to ineligible beneficiaries, activities, projects or expenditure. Breaches of public procurement rules decreased compared to the level reported for financial year 2015.

Recommendations

The Court made 2 recommendations:

1) Review the approach taken by Paying Agencies to classify and update land categories in their LPISs and to perform the required cross-checks, in order to reduce the risk of error in the greening payment.

2) Provide guidance and disseminate best practices (e.g. the use of new IT technology) among national authorities to ensure that their checks identify links between applicants and other stakeholders involved in the supported projects.

There is no disagreement on these recommendations. DG AGRI has already implemented the necessary actions or is doing it now. In relation to the first recommendation, the applicable legislation and Commission guidelines set out the rules for a good quality LPIS system. On the second recommendation, DG AGRI organises on a regular basis seminars or conferences where the best practices are disseminated. IT solutions are also being explored.

Performance

The Court also reports on the performance assessment of rural development projects and the new greening payments.

The examination of the performance of rural development investment projects showed that 95 % of the investments had been carried out as planned, although there was insufficient evidence that costs were reasonable in 34 % of cases. Using simplified cost options effectively limits the risks of excessive prices - as long as they are set at the right level. A special report on the topic will be prepared by the Court in 2018. The assessment of reasonableness of costs is the responsibility of the Member States. The related risk is covered by the Commission through conformity procedures, when weaknesses are identified. The appropriate checks on reasonableness of costs, including the use of simplified cost options, are promoted through Commission guidance, trainings and sharing of good practices via the European Network of Rural Development.

The ECA's work on greening performance identified some positive changes in farming practices following the introduction of the scheme, although the Court notes that both crop diversification and ecological focus areas requirements led to changes in land use on a limited proportion of the arable land. A special report on greening was issued by the Court in December 2017. The Commission considers that after one or two years, it is too early to conclude on precise environmental outcomes and that the measure of the changes in crops and land use entailed by the greening is not sufficient to evaluate the environmental performance of the greening.

2.1.2.3 European Court of Auditors: Special Reports

In 2017, the ECA published 7 special reports concerning DG AGRI's activities:

1. Special Report 34/2016[84]: Combating Food Waste: an opportunity for the EU to improve the resource-efficiency of the food supply chain.

   The ECA criticised the lack of a common definition of "food waste", the lack of an agreed baseline from which to target food waste reductions as well as the lack of assessment of the impact of EU policies on the fight against food waste. Major policy areas such as agriculture, fisheries and food safety all have, according to the ECA, a role to play and could be used to combat food waste better.

2. Special Report 36/2016[85]: An assessment of the arrangements for closure of the 2007-2013 cohesion and rural development programmes

   The ECA criticized the lack of link between the payment of the final balance with the actual achievement of outputs and results. Further on, the ECA identified that checks by Member States and the Commission are not sufficient to ensure the legality and regularity at closure of expenditure concerning financial instruments, contractual advances and some state aid-relevant major projects. The ECA also finds that the Commission should provide the European Parliament and the Council with a consolidated closure report containing key information on the most relevant performance and compliance aspects of programme implementation.

3. Special Report 1/2017: More efforts needed to implement the Natura 2000 network to its full potential

   The ECA concluded that the Natura 2000 network had not been implemented to its full potential. The ECA criticized that EU funding schemes, including under the CAP, were insufficiently tailored to the objectives of the Natura 2000 sites. The ECA also criticized that no specific performance indicator system to monitor the expected outputs, results and impacts for the Natura 2000 network was put in place.

4. Special Report 7/2017: The certification bodies’ new role on CAP expenditure: a positive step towards a single audit model but with significant weaknesses to be addressed

   The ECA acknowledged that the new role of the Certification Bodies (CB) on checking the legality and regularity of CAP expenditure is a positive step and is a key element in the CAP assurance model, once the CBs' work is considered reliable. However, it criticised that the current framework has significant design weaknesses. It has identified a number of issues to be better addressed and reinforced in the guidelines relating to the assurance derived from the internal controls, the representativeness of samples, the type of testing allowed, the calculation of two different error rates and their use in formulating the opinion.

[84] The audit process was carried out in 2016, however the report was only published early 2017.
[85] The audit process was carried out in 2016, however the report was only published early 2017.

5. Special Report 10/2017: EU support to young farmers should be better targeted to foster effective generational renewal

   The ECA criticized that this aid is often poorly defined, with no expected result and impact specified. The ECA recommended to better define the objectives and target the EU support in order to foster effective generational renewal.

6. Special Report 16/2017: Rural Development Programming: Less complexity and more focus on results needed

   The ECA considered that the design of the 2014 – 2020 programming framework was more ambitious, but the implementation was affected by significant shortcomings, such as a lack of evident link between the RD thematic objectives and the Europe 2020 Strategy, no ensured consistency between RDPs and the partnership agreements, no real results from the application of the reinforced intervention logic. The ECA finds that the new performance framework has limited potential to enhance the focus on performance and results and that the performance reserve is a "misnomer" because the indicators used for the performance review do not measure policy results but explicitly seek to measure expenditure and direct output.

7. Special Report 21/2017: Greening – A more complex income support scheme, not yet environmentally effective

   The ECA considered that the intervention logic of greening is uncomplete and that, as currently implemented by Member States and farmers, greening is unlikely to provide the expected environmental and climate delivery. In addition the ECA finds complexity and a risk of deadweight and double funding entailed by overlaps with other instruments.

Further information on these Special Reports is presented in **Annex 14**.

The ECA also launched the following audits which are still on-going or pending publication:

1. Basic Payment Scheme for Farmers – Has it been successfully introduced?;
2. Renewable energy projects for rural development supported through EAFRD (multi DG audit);
3. Broadband in the EU Member States: despite progress, not all the Europe 2020 targets will be met (multi DG audit);
4. From cost reimbursement to entitlement – Simplified cost options – SCO in RDPs;
5. Combat fraud affecting EU expenditure (multi DG audit);
6. Animal welfare (multi DG audit);
7. Desertification (multi DG audit);
8. Flood prevention, protection and preparedness in the EU (multi DG audit).

In addition, DG AGRI is involved in several other reviews the ECA has launched in 2017 and that are still ongoing:

1) Integration of third-country nationals (briefing paper);
2) Monitoring of the application of EU Law (landscape review).
3) The Future of CAP (briefing paper).

Follow-up of open recommendations

DG AGRI management closely monitors the implementation of the audit recommendations. In 2017, ECA has started to set target implementation dates for its recommendations in Special Reports. The Audit Progress Committee (APC) has broadened its mandate and is following up on some ECA recommendations that are substantially overdue (more than 12 months). By the end of 2017, two recommendations stemming from to ECA Special Reports (SR) were substantially overdue:

SR 20/2015 – Cost-effectiveness of rural development support for non-productive investments. The first recommendation of this report requests the Commission to maximise the complementary role of NPIs with other rural development measures and/or environmental schemes. The recommendation is considered partially implemented, the Commission promoted the topic with the help of the European Network for Rural Development and will continue to do so as only few Member States reported about integrated projects in their annual implementation reports 2017.

SR 4/2014 – Integration of EU water policy objectives into the CAP. In November 2017, DG AGRI was invited to a meeting of the APC Preparatory Group to explain the delay in implementation of the first recommendation of this report. The recommendation encourages the Commission to propose modifications to the current instruments (cross-compliance and rural development), or new instruments to achieve a better integration of water policy objectives into the CAP. Whereas the recommendation is considered as implemented with respect to rural development policy, it is only partially implemented as regards cross-compliance. In 2014, the Commission committed to integrate the Water Framework Directive and the Sustainable Use of pesticides Directive into cross-compliance. However, these directives will first have to be implemented in all Member States and in a second step, obligations directly applicable to farmers need to be identified. As the Commission has analysed, at present both Directives (WFD and SUD) are not yet fully implemented by the Member States.

Conclusion

DG AGRI is taking action to implement the recommendations that were addressed to the Directorate-General and which have been accepted. Some recommendations were addressed to the Member States and DG AGRI accepts recommendations within the limits of its competencies provided by the legal framework under shared management. The follow-up of ECA audit recommendations is a well-established element of internal control in DG AGRI which includes regular requests for updates for all open recommendations throughout the year, regardless of their qualification or implementation deadlines.

DG AGRI is in constant contact with Member States to ensure correct interpretation and application of EU legislation and robust management and control systems. DG AGRI requires remedial action where this is not the case and has established reporting mechanisms to monitor efficient and effective implementation and to detect issues at an early stage.

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

2.1.3 Assessment of the effectiveness of the internal control systems

The Commission has adopted an Internal Control 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 AGRI has put in place the organisational structure and the internal control systems suited to the achievement of the policy and control objectives, in accordance with the new principles and having due regard to the risks associated with the environment in which it operates.

2.1.3.1 DG AGRI implementation of the new Internal Control Framework

During 2017, DG AGRI has undertaken the necessary steps to align its internal control system to the new Internal Control Framework based on **principles**. The four main areas of work were the following:

1. Determine what has changed and what has not changed compared to the previous internal control standards. The move from standards to principles gives more flexibility to the Director-General and goes along with corresponding responsibilities. The nomination of a 'Director' for Risk Management and Internal Control (RMIC) required a change in the definition of the role of the ex Internal Control Coordinator.

2. Ownership of the Director-General and of the DDG RMIC on the ongoing changes*.* The Director-General as final responsible for the functioning of the internal control and the DDG RMIC have endorsed the future implementation of the new framework in the DG.

3. Put in place the necessary internal adjustments for the alignment with the new framework. Starting from the existent internal control structure, DG AGRI reassessed the existing tools, fixed the internal control monitoring criteria for 2017 and 2018 together with the relevant services, redesigned its internal IT tool (ICM) for the monitoring of the internal control principles and formally appointed the **Deputy Director-General RMIC**.

4. Awareness and communication activities*.* As internal control is an important tool for the management and for the staff, actions have been undertaken in 2017 to raise awareness on the move from standards to principles. In particular, several meetings took place with the AGRI services contributing to internal control in the DG, the new framework was discussed with the Senior Management and an article was published for all staff in the internal magazine "Inside AGRI". These actions will continue in 2018 and beyond.

Considering that 2017 was a **transitiona**l year, with the time, the implementation of the new framework will be fine-tuned through learning by doing, following the guidance of the central services and sharing the best practices among the other DGs/services.

2.1.3.2 DG AGRI assessment of the effectiveness of the internal control system

The assessment was carried out following the methodology established in the *"Implementation Guide of the Internal Control Framework of the Commission".* In DG AGRI, the internal control system is based on the clear definition of roles and responsibilities inside the DG and the internal control monitoring criteria have been selected together with the AGRI services contributing to internal control.

The assessment was carried out based on several tools: 1) a **desk review** of the internal control monitoring criteria for 2017 and the specific actions implemented by the services contributing to each principle/actions; 2) the assessment of the **management supervision reports**; 3) the **risk assessment** exercises; 4) the follow-up of **audit recommendations**; 5) the reported instances of **exceptions and non-compliance events**; 6) the lessons learned and follow-up of the **result of Staff Survey 2016**.

DG AGRI's **reorganisation**, entered into force on 1.1.2017, together with the staff cuts and the high workload had a strong impact in the DG requiring several adaptations from all staff and services. Management supervision reports highlight areas that require further attention as well as achievements of the reorganisation. In October 2017, the Director-General launched the **DG AGRI's Staff Engagement Plan**' which aims at creating a balanced, positive work environment and improving communication in DG AGRI.

After the reorganisation a substantial effort has been deployed to update DG AGRI internal procedures and processes. The Director-General sent a note to the services requesting to review them to ensure that they were correctly describing the reality of DG AGRI work. In 2017, a total of 55 requests (many of them involving several procedures manuals or Vademecum) to review existing or create new procedures were introduced by AGRI services.

The Director-General also requested the services to register any exceptions to procedures and non-compliance events which may occur as part of the proper functioning of the organisation, contributing to identifying areas and actions for improvement in existing processes/procedures. In DG AGRI, **exceptions to procedures and non-compliance events** remained limited and non-systemic during 2017.

There were no major operational risks/issues having an effect on the achievement of objectives and managers did not report any significant concerns regarding the **operational performance**: activities were handled timely; procedures were respected; the implementation of the different actions was well monitored. Operations were duly documented and registered. A robust control system and segregation of duty contributed to the high quality of the deliverables produced.

DG AGRI takes measures to implement the IAS and ECA recommendations that are addressed to the Directorate-General. The follow-up of IAS and ECA **audit recommendations** is also a well-established element of internal control in DG AGRI. 100 % of audit recommendations are followed-up via the collaborative work space ICM (for IAS audits) and the RAD tool (for ECA and discharge recommendations) and the responsible units receive regular reminders when deadlines are approaching. Open overdue recommendations are periodically presented to senior management in view of assessing impact on assurance case by case.

In 2018 DG AGRI will continue with awareness actions to better integrate the internal control in the daily work of managers and staff.

2.1.3.3 Conclusions on the internal control system

Based on all the methodology and information sources described above, DG AGRI has assessed its internal control system during the reporting year and has concluded that **it is effective and that the components and principles are present and functioning** as intended, with only minor deficiencies identified. These deficiencies are mainly related to the introduction of the **new delivery model for HR processes** with a division of roles and responsibilities between Business Correspondent (BC) and Account Management Centre (AMC). While the new HR delivery model is still in pilot phase, prolonged until mid-2018, an assessment at corporate level involving all Business Correspondents should clarify whether the split of responsibilities is clear and works as intended. In particular, in the field of ethics responsibilities, it might be required to reinstate the function of ethics correspondent in DG AGRI which is not feasible without additional human resources.

Finally, the question of **sufficient and quality data from Member States,** especially in key areas such as agri-environment, will also deserve in 2018 a closer attention from all AGRI services and from management, especially in view of the preparation of the CAP post 2020.

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.

2.1.4.1 Review of the elements supporting assurance

The information reported in Part 2 stems from the results of management and auditor monitoring contained in the reports listed. These reports result from a systematic analysis of the evidence available. This approach provides sufficient guarantees as to the completeness and reliability of the information reported and results in a complete coverage of the budget delegated to the Director-General of DG AGRI.

The Commission gives the highest priority to the exercise of its responsibilities for implementing the budget under Article 317 of the EC Treaty.

DG AGRI has assessed the effectiveness of its key internal control systems during the reporting year (part 2.1.3) and identified areas for improvements, although in no case the weaknesses identified were of a nature to call into question the reasonable assurance.

In addition, DG AGRI has systematically examined the available control results and indicators, including the results of the assessment of the Certification Bodies and its own audits, those aimed to supervise entities to which it has entrusted budget implementation tasks, as well as the observations and recommendations issued by internal auditors and the European Court of Auditors. These elements have been assessed to determine their impact on the management's assurance as regards the achievement of control objectives (Part 2).

Follow-up of 2016 reservations

In the 2016 AAR, DG AGRI issued reservations at the level of Paying Agency or measure. This led to a total of 53 reservations.

Member States were requested to submit action plans to remedy the weaknesses underlying the reservations where necessary. Those action plans were then assessed to check whether they would, if properly implemented, actually remedy the identified deficiencies in due time.

Member States are responsible for the actual implementation of an action plan. DG AGRI monitors the implementation on the basis of the reporting done by Member States, i.e. verifies that the Member State is providing its progress report in a complete manner and on time. The Certification Bodies are also supposed to report on progress on action plans. The audit directorate of the DG offers its opinion and checks on-the-spot at appropriate times the implementation of an action plan in accordance with its audit work programme.

In the framework of the establishment of the Annual Activity Report, DG AGRI assessed the effectiveness of the remedial actions that have already been taken by the Member States. The detailed conclusions are available in Annex 10 for reservations issued under shared management for ABB02, ABB03 and ABB04.

The risk for the EU budget is systematically covered by the conformity clearance procedure and net financial corrections.

Sound Financial Management

With 99.5% of the CAP expenditure being implemented in shared management, its sound management is based on Member States' compliance with the rules set down in the legislation, which is then audited by DG AGRI. The CAP legislation imposes compulsory administrative structures (Paying Agencies) in the Member States with strict accreditation criteria applying in particular to control and payment functions. Annual accounts are required to be sent to the Commission and the Certification Body is required to certify them. The Certification Body is required to certify whether it has gained reasonable assurance that the accounts transmitted to the Commission are true, complete and accurate and, for the third time in financial year 2017, gives an opinion on the legality and regularity of the expenditure.

The Paying Agencies carry out ex-ante administrative checks on each payment as well as on-the-spot checks for at least 5 % of beneficiaries of Direct payments and Rural Development expenditure. For Market Measures the level of checks is higher with up to 100 % control rates required for certain schemes. The CAP legislation also imposes strict payment deadlines on the Paying Agencies. Those which do not respect these deadlines are subject to penalties where a significant part of payments are made late.

Weaknesses detected by DG AGRI via its own audits are systematically subject to net financial corrections through the clearance of accounts procedures in order to protect the EU financial interests.

Resources used for the intended purposes

While deficiencies are found in the management and control systems of some Paying Agencies, no evidence has come to light that significant resources have been diverted from the intended purpose. In particular, while DG AGRI identified a number of deficiencies and errors, in most cases these errors concerned formal and procedural mistakes while the funds were still effectively used for the stated objectives.

Legality and regularity

Part 2 sets out in detail the processes in place to ensure the management of the risk relating to legality and regularity of the funds managed under the Common Agricultural Policy. It demonstrates that when taking into account the corrective capacity, i.e. the estimated amount related to the CAP expenditure 2017 that will be reimbursed by Member States to the EU budget by net financial corrections as well as by the recoveries effected by the Member States and reimbursed to the EU budget, there is sufficient assurance that the remaining risk to the EU budget is significantly below 2%.

In the framework of shared management, the detection and correction of errors is the direct responsibility of the Member States. Each time deficiencies are found in the management and control system, conformity procedures are opened and, at the same time, Member States are requested to take remedial action. The latter are closely monitored, failures to implement them may lead to interruption, reduction or suspension of the EU payments for the measure concerned.

DG AGRI has thoroughly examined all relevant available information, including the Certification Bodies' opinions on legality and regularity of the expenditure, and used its professional judgement to identify as precisely as possible the amounts at risk for the EU budget. Three reservations are made on each of the ABB activities in shared management, covering 42 reservations at Paying Agency level or Member States. This careful examination enables the Director-General to consider that he has reasonable assurance as to the legality and regularity of the expenditure effected in 2017 with a qualification in respect of the 3 reservations made for ABB activities as detailed in the following section.

2.1.4.2 Conclusion on assurance and reservations

The Director-General for Agriculture and Rural Development considers it necessary to enter three reservations in respect of 2017 expenditure in shared management with the Member States.

No	Title	Type	2017 amount at risk under reservation (in million EUR)	ABB amount covered (in million EUR)
1	**ABB02 – Payments made on Market Measures:** **3 aid schemes, comprising 3 Member States (5 elements of reservation): France (for 1 aid scheme -POSEI managed by France Odeadom, and 1 general reservation for expenditure managed by France AGRIMER), Italy (for 2 aid schemes) and Spain.**	Financial	EUR 55.19 million	Expenditure in 2017 was EUR 2 945.6 million.
2	**ABB03 – Payments made on Direct Payments:** **15 Paying Agencies, comprising 8 Member States: Croatia, France, Hungary, Italy (8 Paying Agencies), Romania, Slovakia, Sweden and the United Kingdom**	Financial	EUR 394.04 million	Expenditure in 2017 was EUR 41 551.16 million.
3	**ABB04 – Payments made on Rural development:** **22 Paying Agencies, comprising 15 Member States: Austria, Belgium, Bulgaria, Czech Republic, Denmark, Finland, France (2 Paying Agencies), Germany (2 Paying Agencies) , Hungary, Italy (2 Paying Agencies), United Kingdom (3 Paying Agencies), Slovakia, Spain (3 Paying Agencies), Sweden and Portugal**	Financial	EUR 320.50 million	Expenditure in 2017 was EUR 11 094.39 million.

Table: 2.1.4.2-1

2.1.4.3 Overall Conclusion

In order to assess the overall risk relating to the legality and regularity of transactions, DG AGRI has calculated an adjusted error rate for the annual expenditure and the resulting amount at risk.

Direct management

Title 05	Agriculture and rural development	Direct management (EUR)	Error rate	Amount at risk (EUR)
0501	Administrative expenditure	7 745 771	1.00%	77 458
0502	Interventions in agricultural markets	-	1.00%	-
0504	Rural development	11 107 050	1.00%	111 071
0506	International aspects	4 486 178	1.00%	44 862
0508	Policy strategy and coordination	24 726 187	1.00%	247 262
0509	Horizon 2020 - Research and innovation	-	1.00%	-
Total		**48 065 186**	**1.00%**	**480 652**

Table 2.1.4.2-2

For the EUR 48.065 million managed directly by DG AGRI, the maximum amount at risk is estimated at EUR 0.481 million indicating an adjusted error rate of 1%.

Indirect management

Title 05	Agriculture and rural development	Payments made (EUR)	Prefinancing paid (EUR)	Cleared prefinancing (EUR)	Relevant expenditure (EUR)	Adjusted error rate	Amount at risk (EUR)
0505	Instrument for Pre-accession Assistance	91 658 650	91 658 650	176 081 840	176 081 840	0.07%	123 257
Total		**91 658 650**				**0.07%**	**123 257**

Table: 2.1.4.2-3

For the EUR 91.659 million in indirect management under the pre-accession programmes, the maximum amount at risk is estimated at EUR 0.123 million and the adjusted error rate is estimated at 0.07%.

Shared management

Title 05	Agriculture and rural development	Shared management (EUR)	Adjusted error rate	Amount at risk (EUR)
0502	Interventions in agricultural markets	2 945 604 663	2.38%	70 079 926
0503	Direct aids	41 551 155 987	1.92%	798 551 996
0504	Rural development	11 094 386 297	3.37%	374 329 385
0507	Audit	140 909 812	0.00%	-
Total		**55 732 056 758**	**2.23%**	**1 242 961 307**

Table: 2.1.4.2-4

The amount at risk for the funds under shared management is estimated at EUR 1 243.0 million, corresponding to an adjusted error rate of 2.23%. This amount at risk is the Director-General's best, conservative estimate of the amount of expenditure authorised in 2017 which may relate to underlying transactions made by the Member States which are not in conformity with the applicable regulatory provisions.

Reservations are targeted at the Paying Agencies or aid schemes where the specific deficiencies have been identified. In total there are 42 targeted reservations (5 for Market Measures, 15 for Direct Payments and 22 for Rural Development) in respect of 2017 expenditure. In all cases, there is a follow-up: conformity clearance procedures to ultimately protect the EU budget, monitoring of the implementation of remedial actions to be taken by Member States and, where necessary, interruption or reduction/suspension of payments to the Member States. This systematic and precisely targeted approach enables the Director-General to state that he has sufficient assurance that the situation is under control: there are some problems in the payments to the beneficiaries, but they have been identified, are being tackled and ultimately the EU budget is protected.

CAP

The overall situation for the CAP is as follows:

		DG AGRI annual accounts (Annex 3)	Relevant expenditure(1)	Adjusted error rate	Estimated amount at risk at payment	Average financial corrections	Average recoveries	Average recoveries and corrections (in % of relevant expenditure)	Corrective capacity	Estimated final amount at risk
		million EUR	million EUR	%	million EUR			%	million EUR	million EUR
Title 04	**Employment, social affairs and inclusion**									
0401	Administrative expenditure	0.13	0.13	1.00%	0.00	0.00	0.00	0.00%	0.00	0.00
Title 18	**Migration and home affairs**									
1801	Administrative expenditure	0.09	0.09	1.00%	0.00	0.00	0.00	0.00%	0.00	0.00
Title 05	**Agriculture and rural development**									
SHARED MANAGEMENT										
0502	Interventions in Agricultural Markets	2 945.60	2 945.60	2.38%	70.08	88.00	0.00	0.00%	0.00	0.00
0503	Direct payments	41 551.16	41 551.16	1.92%	798.55	659.35	0.00	0.00%	0.00	0.00
	EAGF total	44 496.76	44 496.76	1.95%	868.63	747.35	101.01	1.91%	848.35	20.28
0504	Rural development	11 094.39	11 094.39	3.37%	374.33	212.83	112.74	2.93%	325.57	48.76
0507	Audit	140.91	140.91	0.00%	0.00	0.00	0.00	0.00%	0.00	0.00
INDIRECT MANAGEMENT										
0505	Pre-accession Measures	91.66	176.08	0.07%	0.12	0.00	0.00	0.00%	0.00	0.12
DIRECT MANAGEMENT										
0501	Administrative expenditure	7.75	48.65	1.00%	0.49	0.00	0.00	0.00%	0.00	0.49
0502	Interventions in agricultural markets	0.00								
0504	Rural development	11.11								
0506	International aspects	4.49								
0508	Policy strategy and coordination	24.73								
0509	Horizon 2020 - Research and innovation	0.00								
Total CAP		55 871.78	55 956.78	2.22%	1 243.57	960.18	213.74	2.10%	1 173.92	69.65
Total DG AGRI		55 872.00	55 957.01	2.22%	1 243.57	960.18	213.74	2.10%	1 173.92	69.65
										0.12%

Footnote (1): *relevant expenditure* includes the payments made, subtracts the new pre-financing paid out and adds the previous pre-financing actually cleared during financial year 2017

Extract from Table: 2.1.1.2.2-15

For both EAGF and EAFRD, action plans by Member States have proven to be an effective tool to remedy the weaknesses identified in management and control systems. The Commission will continue to encourage and support Member States in their implementation in all areas of the CAP, and to reduce or suspend payments in cases where Member States fail in implementing them.

For direct payments, the adjusted error rate decreased slightly compared to last year (from 1.996 % to 1.92%), as well as the number of Paying Agencies under reservation (from 18 to 15). The overall result confirms that, even in continued challenging circumstances with higher inherent risks, the Integrated Administration and Control System (IACS), when implemented in accordance with applicable rules and guidelines, limits effectively the risk of irregular expenditure.

Rural Development remains an area which merits very close scrutiny with an error rate of 3.37%. Although the error rate has declined over recent years, taking into account the need to balance legality and regularity with the achievements of policy objectives while bearing in mind the delivery costs, it cannot be expected with any real certainty that an error rate for payments to beneficiaries below 2% would be attainable with reasonable efforts for Rural Development. However, when taking into account the corrective capacity, there is assurance that the residual risk to the EU budget is below materiality.

For the overall CAP expenditure, the corrective capacity from net financial corrections by the Commission and recoveries by the Member States is estimated at EUR 1 173.92 million or 2.1% of 2017 expenditure. It allows the Director-General to conclude with sufficient assurance that, with the adjusted error rate for the CAP being at 2.22%, the remaining overall financial risk to the EU budget, after all corrective action will have taken place, is significantly below materiality.

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 reservations.

2.1.5 Declaration of Assurance and reservations

DECLARATION OF ASSURANCE

*I, the undersigned, **Jerzy Plewa,***

Director-General of the Directorate-General for Agriculture and Rural Development

In my capacity as authorising officer by delegation

Declare that the information contained in this report gives a true and fair view[86].

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 - delete this if not applicable] [and the lessons learnt from the reports of the Court of Auditors - delete this if not applicable] 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 reservations should be noted:

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

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

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

Brussels, 24 April 2018

Signed

Jerzy PLEWA

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

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

DG	Agriculture and Rural Development
Title of the reservation, including its scope	Expenditure on Market Measures for fruit and vegetables operational programmes for producer organisations in Spain and Italy, promotion measures in Italy and POSEI measures in France as well as a general reservation on expenditure on Market Measures managed by the French Paying Agency Agrimer.
Domain	Shared Management – European Agricultural Guarantee Fund
Programme in which the reservation is made and total (annual) amount of this programme	**ABB02: Market Measures** Payments made for this ABB in 2017 amount to EUR 2 945.6 million. Reservations have been made concerning 3 Member States and the respective error rates can be seen in the tables in Annex 10 – part 3.1.
Reason for the reservation	The reservation is made due to the significant occurrence of weaknesses in the underlying transactions (legality and regularity). In the case of the 2 reservations for <u>fruit and vegetable operational programmes</u>, problems have been identified by the DG AGRI audit services in the checks on the eligibility of the operational programmes carried out by the Member States concerned (**Italy and Spain**) resulting in ineligible expenditure. Errors were also identified by the Certification Body in respect of one Spanish Paying Agency. In the case of <u>promotion measures</u>, DG AGRI identified deficiencies pertaining to the selection procedures of implementing bodies under procurement procedures (**Italy**). For <u>POSEI measures</u>, the Certification Body identified errors in respect of local support measures in **France (FR05 Odeadom).** The Certification Body for the Paying Agency **France** AGRIMER has detected a high level of error across several market measures which results in a material error rate in respect of the expenditure managed by that Paying Agency and therefore a <u>general reservation</u> is entered for that expenditure.
Materiality criterion/criteria	DG AGRI's materiality criteria related to the legality and regularity of the transactions was breached in the above cases. In the cases where the error rate is above 5% (16) they were automatically subject to reservation (2) except where (in 10 out of the 16 cases) the amount at risk was below DG AGRI's *de minimis* threshold of EUR 1 million established in its materiality criteria (Annex 4). In most of these cases, the high adjusted error rate was determined further to assessment and adjustment of the error rate by DG AGRI. The remaining 4 cases concern the French Paying Agency AGRIMER and are therefore integrated in the general reservation which is entered in respect of that Paying Agency. In 8 out of 11 cases where the adjusted error rate was between 2 and 5%, it was considered not necessary to make a reservation as the amount at risk was below the *de minimis* threshold. In one further case the error rate was close to the materiality threshold and the deficiencies had been largely addressed by the MS and it was therefore decided that there was no need to enter a reservation. Further details may be found at Annex 10 – part 3.1 ABB02.
Quantification of the impact (= actual	The amount at risk for the expenditure under reservation is EUR 55.19 million. This corresponds to 5.04% of the relevant expenditure managed by the 3 Member States for which a reservation is entered

"exposure")	for the aid schemes concerned. For expenditure not subject to reservations, the amount at risk corresponds to 0.8%. Thus, the error rate for ABB02, Market Measures, is 2.38% as a whole.
Impact on the assurance	The estimated level of error impacts on the assurance regarding the legality and regularity of the underlying transactions financed by the EAGF for Market Measures. However, the average annual amount of net corrections executed over the past five years for Market Measures and considered for the corrective capacity is around EUR 88.00 million. While these amounts refer to expenditure incurred in years prior to 2017, there are conformity procedures underway in respect of the deficient management and control systems which are subject to reservation. Thus the Director-General can be confident that the EU budget is ultimately sufficiently protected by the corrective capacity of Commission's net financial corrections.
Responsibility for the weakness	The concerned Member States are responsible for the proper implementation of the Market Measures concerned in their territory. The Commission supervises them in this respect, notably through audits carried out on-the-spot and, through strict monitoring, a follow-up of the implementation of milestones where action plans are required.
Responsibility for the corrective action	<u>At Commission Level</u> • For 2 of the reservations [IT OPPO, IT promo], high error rates resulting in reservations derive from deficiencies which have been identified by the DG AGRI audit services during their audits on-the-spot. Therefore the corrective actions necessary have already been identified and notified to the Member States concerned. • For 2 of the reservations [ES OPPO and FR Posei], the high error rates resulted from a combination of DG AGRI and Certification Bodies findings. DG AGRI has already notified the necessary remedial actions to the MS resulting from its own findings. • The general reservation for France AGRIMER is motivated by diverse findings spread across several measures identified by the Certification Body. The Paying Agency will be requested to establish an action plan to identify and remedy the causes of error. For one of the wine measures implemented in France deficiencies have also been identified by DG AGRI and already notified to the Member State. • DG AGRI monitors action plan implementation closely and follows them up with the Member State, including on-the-spot where necessary. • DG AGRI provides further guidance and support to the national authorities where necessary. • DG AGRI will impose net financial corrections to recover to the EU budget the ineligible expenditure until remedial actions have been implemented. • Failure by the Member State to implement an action plan will be addressed where appropriate by DG AGRI via suspension/reduction of payments in line with Article 41(2) of Regulation (EU) No 1306/2013. <u>At Member State Level</u> • The Member State should implement the necessary corrective remedial actions within an appropriate time schedule, including addressing the findings from the Certification Body.

Reservation 2: ABB03 – Direct Payments: 15 Paying Agencies, comprising 8 Member States: Croatia, France, Hungary, Italy (8 Paying Agencies), Romania, Sweden, Slovakia and the United Kingdom

DG/service	Agriculture and Rural Development
Title of the reservation, including its scope	Expenditure on Direct Payments for 15 Paying Agencies, comprising 8 Member States: Croatia, France, Hungary, Italy (8 Paying Agencies), Romania, Sweden, Slovakia and the United Kingdom.
Domain	Shared Management – European Agricultural Guarantee Fund
Programme in which the reservation is made and total (annual) amount of this programme	**ABB03: Direct Payments** Payments made for this ABB in 2017 amount to EUR 41 551.16 million. ABB03 is free from material error while reservations have been made for 15 Paying Agencies with material error rates which can be seen in the tables in Annex 10 – Part 3.2.
Reason for the reservation	The reservation is made due to the significant occurrence of weaknesses in the underlying transactions (legality and regularity). In the case of **Croatia**, the weaknesses concern quality of on-the-spot checks, the fixing of entitlements and young farmers' status. In **Hungary**, a DG AGRI audit identified weaknesses in the control of the greening payment (incorrect definition of the fallow land/temporary and permanent grassland, deficiencies in the definition of the Ecological Focus Area). Under the POSEI measures in **France**, (FR05 Odeadom) a DG AGRI audit in 2014 found deficiencies in the control system in respect of banana shipments while a 2017 audit found weaknesses in the checks in respect of transport of sugar cane. In **Italy**, DG AGRI has identified weaknesses affecting all the Italian Paying Agencies (8 are under reservation) in particular with regard to the correct recording of permanent grassland in the LPIS as well as the fixing of entitlements and the verification of the active farmer status. In **Romania,** a 2016 DG AGRI audit found insufficient justification for one voluntary coupled support measure as well as deficiencies in the on-the spot checks. The latter deficiency was also identified by the Certification Body. In **Sweden**, DG AGRI audits in 2016 identified weaknesses in the checks for animal based voluntary coupled support measures, checks on active farmer status, as well as in the correct update of the LPIS. In **Slovakia**, as well as a material error rate reported by the Member State, a 2017 DG AGRI audit found weaknesses in the performance of on-the-spot checks. In the **United Kingdom (Scotland)**, a 2016 audit by DG AGRI found weaknesses in the checks concerning the active farmer status. The ECA has also found weaknesses with regard to the fixing of the value of payment entitlements.
Materiality criterion/criteria	DG AGRI's materiality criteria related to the legality and regularity of the transactions was breached in the above cases.

	11 Paying Agencies (of which 9 Italian as well as GB-Scotland and Slovakia) had an adjusted error rate above 5%. For one of these Paying Agencies, the amount at risk was below the *de minimis* threshold (Italy 25 - APPAG) and it was considered that it was not necessary to make a reservation. For the 12 Paying Agencies with an error rate between 2 and 5%, (CY, 5 Spanish, HR, HU, MT, RO, SE and FR Odeadom) an examination was carried out of any risk mitigating factors. In 7 out of the 12 cases it was considered that it would not be necessary to make reservations, because remedial actions had been taken by the Member State in due time (**Cyprus**), the amount at risk is below *de minimis* threshold (**Malta)** and because, while the error rate for certain individual Paying Agencies (5) was material the error rate at national level (**Spain**) was below materiality while the reason for the top up concerns findings covering all ES Paying Agencies. Further details may be found at Annex 10 – part 3.2 ABB03.
Quantification of the impact (= actual "exposure")	The amount at risk for the expenditure under reservation is EUR 394.04 million. This corresponds to 4.53% of the relevant expenditure managed by the 15 Paying Agencies for which a reservation is entered. For expenditure not subject to reservations, the amount at risk corresponds to 1.23%. Thus, the error rate for ABB03, direct payments, is 1.92% as a whole.
Impact on the assurance	The estimated level of error impacts on the assurance regarding the legality and regularity of the underlying transactions financed by the EAGF for Direct Payments. However, the average annual amount of net corrections executed over the past five years for direct aid was EUR 659.3 million. While these amounts refer to expenditure incurred in years prior to 2017, there are conformity procedures underway in respect of the deficient management and control systems which are subject to reservation. Thus the Director-General can be confident that the EU budget is ultimately sufficiently protected by the corrective capacity of Commission's net financial corrections.
Responsibility for the weakness	The concerned Member States and Paying Agencies are responsible for the proper implementation of the Direct Payments schemes concerned in their territory. The Commission supervises them in this respect, notably through audits carried out on-the-spot and through strict monitoring a follow-up of the implementation of milestones where action plans are required.
Responsibility for the corrective action	<u>At Commission level</u> • For all of the Paying Agencies concerned by the reservations, the deficiencies concerned had already been identified by the DG AGRI audit services during their audits on-the-spot. Therefore the corrective actions necessary have already been identified and notified to the Member States concerned. • DG AGRI monitors action plan implementation closely and follows them up with the Member State, including on-the-spot where necessary. • DG AGRI provides further guidance and support to the national authorities where necessary. • DG AGRI will impose net financial corrections to recover to the EU budget the ineligible expenditure until remedial actions have been implemented.

	• Failure by the Member State to implement an action plan will be addressed where appropriate by DG AGRI via suspension/reduction of payments in line with Article 41(2) of Regulation 1306/2013. <u>At Member State level</u> • The Member State is responsible for implementing the necessary corrective actions within an appropriate time schedule, including addressing the findings from the Certification Body. • The Member State is required to report regularly on progress milestones in line with the agreed schedule.

Reservation 3: ABB04 – Rural Development: Austria, Belgium, Bulgaria, Czech Republic, Germany (2 Paying Agencies), Denmark, Spain (3 Paying Agencies), Finland, France (2 Paying Agencies), UK (3 Paying Agencies), Hungary, Italy (2 Paying Agencies), Portugal, Sweden and Slovakia

DG/service	Agriculture and Rural Development
Title of the reservation, including its scope	Expenditure on Rural Development for 22 Paying Agencies, comprising 15 Member States: Austria, Belgium, Bulgaria, Czech Republic, Germany (2 Paying Agencies), Denmark, Spain (3 Paying Agencies), Finland, France (2 Paying Agencies), UK (3 Paying Agencies), Hungary, Italy (2 Paying Agencies), Portugal, Sweden and Slovakia
Domain	Shared Management – European Agricultural Fund for Rural Development
Programme in which the reservation is made and total (annual) amount of this programme	**ABB04: Rural Development** Payments made for this ABB in 2017 amount to EUR 11 094.39 million. Reservations have been made concerning 22 Paying Agencies and the respective error rates can be seen in the tables in Annex 10 – part 3.3.
Reason for the reservation	The reservation is made due to the significant occurrence of weaknesses in the underlying transactions (legality and regularity). For **Austria**, deficiencies concern the checks on reasonableness of costs, public procurement and active farmer status. For **Belgium (Wallonie)**, deficiencies concern the management and control system for investments, start-up support and area-related measures. In **Bulgaria**, deficiencies concern organic farming and Leader while there were also findings by the Certification Body. The Member State reported high error rates for IACS measures In the case of the **Czech Republic**, the deficiencies concern agro-environment-climate, animal welfare, investment measures and checks on active farmer status. The Member State reported a high error rate under IACS while the control rate for non-IACS was not achieved. For **Germany (Sachsen),** the deficiencies concern investment measures. The Member State reported high error rates under agri-environment-climate and organic farming measures. For **Germany (Thüringen)**, the Member State reported high error rates under IACS measures In **Denmark**, the deficiencies relate to the control system under Leader for transitional expenditure paid in the financial year concerned as well to findings by the Certification Body. In **Spain (Castilla y León),** the Member State reported high error rates under non-IACS measures. For **Spain (Extremadura)**, deficiencies concern agro-environment-climate, organic farming, areas with natural constraints and non-IACS measures as well to findings by the Certification Body. For **Spain (Galicia),** deficiencies concern forestry measures. In **Finland**, deficiencies were detected by the Certification Body.

	For **France (Corsica),** deficiencies concern forestry measures as well as findings by the Certification Body. For **France (ASP)**, deficiencies concern area-related measures, investments, business start-up, public procurement and checks of active farmer status. The Member State reported high error rates for non-IACS measures. For **the United Kingdom (Scotland),** deficiencies concern forestry measures, checks of active farmer status and findings of the Certification Body For the **United Kingdom (Wales),** deficiencies concern agro-environment-climate and organic farming measures. The Certification Body has also identified deficiencies. For the **United Kingdom (England),** deficiencies concern public procurement and checks of active farmer status. In **Hungary**, there are deficiencies in the management and control system for producers groups and in the animal welfare measure. The Member State reported high error rates under IACS. For **Italy (AGEA)**, there are deficiencies as regards public procurement, IACS measures and checks on active farmer status In **Italy (Calabria)**, DG AGRI audits and/or the Certification Body found deficiencies in agro-environment-climate, organic farming, areas under natural constraints, investments, infrastructure, business start-up, afforestation and technical assistance support as well as in checks on active farmer status. The Member State has reported high error rate under IACS measures. In **Portugal**, deficiencies concern the afforestation, processing and marketing investments and checks on active farmer status. The Member State has reported high error rates. In **Sweden**, deficiencies concern the management and control system under IACS measures, investment and infrastructure support and checks on active farmer status. In **Slovakia**, deficiencies concern forestry measures, private investments, public procurement and business development support. The Member State has reported high error rate under IACS.
Materiality criterion/criteria	DG AGRI's materiality criteria related to the legality and regularity of the transactions was breached in the above cases. 29 out of 72 Paying Agencies have an adjusted error rate above 2% (of which 12 were above 5%: Belgium (Wallonie), Bulgaria, Czech Republic, Denmark, Spain (Extremadura). France (Corsica and ASP), Italy (Calabria), Malta, Portugal, Slovakia and Sweden). In line with its materiality criteria in Annex 4, <u>11 cases where the error rate is above 5%</u> (Belgium (Wallonie), Bulgaria, Czech Republic, Denmark, Spain (Extremadura), France (Corsica and ASP), Italy (Calabria), Malta, Portugal, Slovakia and Sweden) were automatically <u>subject to a reservation</u>. In all of these cases, the high adjusted error rate was determined further to assessment and adjustment of the error rate by DG AGRI. In one case (Malta), the amount at risk is below DG AGRI's *de minimis* threshold of EUR 1 million as established in Annex 4 (materiality criteria), therefore no reservation was necessary.

	For 17 Paying Agencies with an error rate between 2% and 5%, DG AGRI examined the situation for each Paying Agency concerned to determine if risk mitigation conditions existed rendering it unnecessary to make a reservation. In 8 cases (Germany (Niedersachsen), Spain (Andalucía), Greece, Ireland, Lithuania, the Netherlands, Poland and Romania) it was considered that it was not necessary to carry over reservations from the 2016 AAR with regard to 2017 expenditure. The reasons for each decision are detailed in Annex 10 – part 3.3. In total 12 reservations from 2016 are repeated in 2017 as deficiencies persist while 10 new reservations are introduced (Austria, Germany (Sachsen and Thüringen), Spain (Castilla y León, Extremadura and Galicia), Finland, France (Corsica), United Kingdom (Wales and England)). **The overall outcome of this exercise is that 22 reservations are necessary at Paying Agency level.** Further details may be found in Annex 10 – part 3.3 ABB04.
Quantification of the impact (= actual "exposure")	The amount at risk for the expenditure under reservation is EUR 320.50 million. This corresponds to 5.73% of the relevant expenditure managed by the 22 Paying Agencies for which a reservation is entered. For expenditure not subject to reservations, the amount at risk corresponds to 0.98%. Thus, the error rate for ABB04, Rural Development, is 3.37% as a whole.
Impact on the assurance	The estimated level of error impacts on the assurance regarding the legality and regularity of the underlying transactions financed by the EAFRD. However, DG AGRI considers that consideration shall also be given to the corrective capacity of the net financial corrections applied to claw back undue expenditure to the EU budget. The average annual amount of net corrections executed over the past five years for Rural Development is around EUR 212.8 million. While these amounts refer to expenditure incurred in years prior to 2017, there are conformity procedures underway in respect of the deficient management and control systems which are subject to reservation. Thus the Director-General can be confident that the EU budget is ultimately sufficiently protected by the corrective capacity of Commission's net financial corrections.
Responsibility for the weakness	The concerned Paying Agencies are responsible for the proper implementation of the rural development programmes in their territory. The Commission supervises them in this respect, notably through audits carried out on-the-spot and through strict monitoring a follow-up of the implementation of milestones where action plans are required.
Responsibility for the corrective action	<u>Commission level</u> • DG AGRI monitors action plan implementation closely and follows them up with the Member State, including on-the-spot where necessary. • DG AGRI provides further guidance and support to the national authorities where necessary. • DG AGRI will impose net financial corrections to recover to the EU budget the ineligible expenditure until remedial actions have been implemented. • Where necessary DG AGRI will interrupt payments as provided by Article 36(7) of Regulation 1306/2013.

	• Failure by the Member State to implement an action plan will be addressed where appropriate by DG AGRI via suspension/reduction of payments in line with Article 41(2) of Regulation 1306/2013. At Member State level • The Member State is responsible for implementing the necessary corrective actions within an appropriate time schedule, including addressing the findings from the Certification Body. • The Member State is required to report regularly on progress milestones in line with the agreed schedule.

2.2 Other organisational management dimensions

2.2.1 Human resource management

2017 achievements and performance in the area of human resource management should be looked at in the context of the 2016 Communication on Synergies and Efficiencies in the Commission and, more concretely, in the light of the HR modernisation project launched in September 2016. DG AGRI joined its "second wave pilot" mid-February 2017. Since then, the delivery of HR services to DG AGRI staff is shared between two main actors: DG HR Account Management Centre 2 (AMC2) and DG AGRI HR Business Correspondent team (HR BC).

AMC2, serving DG AGRI and also DGs EAC, ENER, MARE, MOVE, RTD and SANTE, is responsible for the provision of HR services to staff and management in areas such as learning and development, leave and absence management, recruitment of officials and external staff, career guidance or the organisation of the yearly appraisal exercise, to name just a few. On the other hand, the local HR BC is responsible for defining the DG's HR strategy and for taking key HR decisions, in consultation with the management of the DG, as well as ensuring that its staff gets the HR services they need, in cooperation with the AMC.

In practice, the division of roles and responsibilities between the AMC and the HR BC has not strictly followed this pattern. The border lines between the AMC/BC spheres of action have been blurred and, as it could be expected in such a substantial organisational change, there have been some "teething problems" during the initial stages of the project that have put the delivery of HR services to staff under some strain. The expertise, professionalism and commitment of HR professionals at both central and local level have prevented any risk to the continuity of operations but the overall satisfaction of staff and management with the HR community has slightly decreased. Building on the experience and feedback gathered during the first months of the second wave pilot, DG HR has extended the pilot phase until mid-2018 and will introduce several adaptations to the model aimed at further streamlining some HR processes, enhancing the support provided to managers and better defining the function of the local HR BC.

DG AGRI's new organisation chart entered into force in January 2017. It reflects the above changes in the HR service delivery model with the creation of the HR BC team within the new unit AGRI.R.5. The reorganisation streamlined DG AGRI’s structure by eliminating 1 DDG function, 1 directorate and 6 units. It also targeted the rationalisation of key administrative support activities, notably the financial management circuits and the organisation of committee and expert group meetings. In spite of its significant scope and the far-reaching changes it introduced, the practical implementation of the reorganisation went very smoothly. Staff moves, office moves, administrative adjustments took place without any significant disruption. The same applies to the new working modalities in the financial and meeting logistics domains. Overall, the new organisation chart works well. This is the main conclusion of a stocktaking exercise launched in the last quarter of 2017 to assess the success of the reorganisation and identify potential areas requiring further adjustment. The evaluation will be concluded in March 2018.

Beyond the operational considerations, the new organisation chart was key to ensure DG AGRI’s compliance with the specific staff reduction targets imposed by the central services until the end of 2018. DG AGRI could return the Full Time Equivalents (FTE) due in 2017 and with the largest share of its 'debts' paid, the pressure on AGRI's internal job market could be released to a certain extent. Under the close supervision of DG HR, DG AGRI has again been able to publish vacant posts and recruit new staff.

Nevertheless, the staffing situation of DG AGRI remains challenging. Continuous pressure on resources intensifies the negative impact of workload on staff morale. Although latest staff engagement figures were slightly above the Commission average, they reflected a clear downward trend (65.5% in 2016 versus 68% in 2014). DG AGRI Staff Engagement Plan 2017-2018 adopted beginning of October 2017 includes a wide range of initiatives to help redressing the situation. Some of these initiatives took place or started in 2017, e.g. the 2nd edition of the DG AGRI-MARE Health Days in November 2017, preparatory work on a management pledge, establishing DG AGRI's own charter of best management practices, and leap-level meetings with the Director-General.

In relation to DG AGRI middle managers, 2017 was the second year of implementation of the compulsory inter-DG mobility for heads of unit. The scope of this exercise was limited compared to the previous year, with only two heads of unit leaving DG AGRI and two new heads of unit joining the DG in September 2017. Earlier on, in July 2017, the Commission adopted a new approach to diversity and inclusion and renewed its commitment to reach at least 40% representation of women in management by end of 2019. A target for first female appointments to middle management positions was fixed for each DG. For DG AGRI, central services have estimated that there will be seven head of unit vacancies from mid-2017 until end 2019. Four out of these seven vacancies will need to be filled in with first-time women heads of unit.

DG AGRI is fully committed to attaining this objective. There is a large, high quality pool of women and men in pre-management positions. The publication in December 2017 of two heads of unit positions – the first ones since July 2015 - have reopened management career prospects in DG AGRI and provide the first opportunity to advance in reaching our target.

2.2.2 Better regulation

During 2017, in view of the preparation of the 2018 report on the implementation and first results of the Common Monitoring and Evaluation Framework foreseen in Art. 110 of Regulation 1306/2013, an update and review of the indicator data has been launched.

In 2017, two more framework contracts for studies and evaluations on the CAP were signed, thus currently four framework contracts are operational: one framework contract for each general objective of the CAP and one horizontal for synthesis. This latter was used to analyse the massive feedback received in the public consultation in preparation of the Communication on the future of food and farming.

Moreover, the DG AGRI multi-annual studies and evaluation plan has been updated. The scope and planned content for all studies and evaluations in the plan were screened and, where necessary, adjustments were made to ensure a better fit with the political priorities of the Commission, the work of DG AGRI and the better regulation guidelines. This work led to the replacement and/or rescheduling of some studies and evaluations foreseen for 2018 and following years.

No evaluations were finalised in 2017, yet, for the evaluation study of the payment for agricultural practices beneficial for the climate and the environment ("greening" of direct payments), the supporting report of the evaluator has already been published at https://ec.europa.eu/agriculture/evaluation/market-and-income-reports_en.

Two studies were finalised:

- Study on storage capacities and logistical infrastructure for EU agricultural commodities trade
- Study on risk management in EU agriculture.

The summary of these studies is available in **Annex 9**.

Simplification

In 2017, the Commission pursued amendments of certain greening rules set in Delegated Regulation (EU) No 639/2014 to better specify what is required from farmers, eliminate certain technical requirements, provide more flexibility for farmers or alternative solutions where this would increase the environmental and climate benefit of greening and harmonise selected requirements and conditions.

In the area of the Common Market Organisation, several sector specific-rules have been simplified. These simplifications have been carried out in the framework of the alignment of the Commission-level regulations to the Lisbon Treaty. The alignment exercise will reduce significantly the number of regulations. Specifically the common legal framework[87] for the school fruit, vegetables and milk scheme approved in 2016 and applying as from 1 August 2017 has reduced the administrative and organisational burden and simplified obligations: Member States will draw up only one strategy, covering a period of 6 years, and submit only one annual request for aid; synergies are possible as regards the required monitoring and evaluation reports and, in general, as regards implementation of the scheme (distribution of products, educational measures etc.).

At the level of basic acts, the co-legislators agreed to adopt the agri-related provisions of the "Omnibus" proposal[88] as a stand-alone regulation so that these provisions can enter into force on 01/01/2018. The Commission proposals directly followed from the comprehensive screening of the CAP legislation in 2015 and covered simplification in a broad sense, including flexibility and subsidiarity. The regulation[89] in the finally adopted form includes most of the Commission's most important simplification proposals (for example on the use of financial instruments under rural development and the provisions on active farmer under direct payments), but also a number of additional changes proposed by the European Parliament and/or the Council: for example on the use of risk

[87] This includes the basic acts (Regulation (EU) 2016/791 of the European Parliament and of the Council of 11 May 2016 amending Regulations (EU) No 1308/2013 and (EU) No 1306/2013 as regards the aid scheme for the supply of fruit and vegetables, bananas and milk in educational establishments, and Council Regulation (EU) 2016/795 of 11 April 2016 amending Regulation (EU) No 1370/2013 determining measures on fixing certain aids and refunds related to the common organisation of the markets in agricultural products) and the Commission delegated and implementing acts adopted still in 2016 and published in 2017 (Commission Implementing Regulation (EU) 2017/39 of 3 November 2016 on rules for the application of Regulation (EU) No 1308/2013 of the European Parliament and of the Council with regard to Union aid for the supply of fruit and vegetables, bananas and milk in educational establishments, and Commission Delegated Regulation (EU) 2017/40 of 3 November 2016 supplementing Regulation (EU) No 1308/2013 of the European Parliament and of the Council with regard to Union aid for the supply of fruit and vegetables, bananas and milk in educational establishments and amending Commission Delegated Regulation (EU) No 907/2014).

[88] COM(2016)605

[89] Regulation (EU) 2017/2393 of the European Parliament and of the Council of 13 December 2017 amending Regulations (EU) No 1305/2013 on support for rural development by the European Agricultural Fund for Rural Development (EAFRD), (EU) No 1306/2013 on the financing, management and monitoring of the common agricultural policy, (EU) No 1307/2013 establishing rules for direct payments to farmers under support schemes within the framework of the common agricultural policy, (EU) No 1308/2013 establishing a common organisation of the markets in agricultural products and (EU) No 652/2014 laying down provisions for the management of expenditure relating to the food chain, animal health and animal welfare, and relating to plant health and plant reproductive material, OJ L 350, 29.12.2017, p. 15–49.

management tools under rural development, on permanent grassland, greening and voluntary coupled support under direct payments and provisions on fruit and vegetables, wine, producer cooperation and competition under the Common Market Organisation.

The work of the REFIT-Platform which adopted 10 Opinions in the area of Agriculture in 2016 and 2017 was also closely followed up.

2.2.3 Information management aspects

In the area of **information sharing**, in view of its recent reorganisation, DG AGRI revisited the visibility of all HAN files and encouraged Units to open read-access levels to the whole DG and, where feasible, to the entire Commission. Significant progress was made on the share of files visible within the DG whereas the number of Commission-wide open files improved only marginally. Renewed efforts will be necessary in the future to further promote full visibility of AGRI HAN files. They should be combined with additional awareness-raising actions on the correct use of markings to protect sensitive information and improve security.

Knowledge Management is also one of the key axes of the 'DG AGRI 2016-2020 IT strategy', to foster efficient usage of expertise and hence decreasing the effect of staff reduction and turnover.

The single documentation tool to manage knowledge on all relevant EAFRD Regulations, guidance fiches, Q&A and interpretation within the RDIS2 system has been opened to other DG AGRI services. Collaborative working methods are now facilitated by this instrument for the elaboration of EAFRD guidance documents, interpretations and clarifications..

The implementation of the **Data Management** action plan – defined in 2016 - has significantly progressed, particularly with the harmonisation of the IT communication channels with the Member States, the sharing of data amongst information systems and the publication of data for public consumption.

2.2.4 External communication activities

All external communications actions included in DG AGRI's 2017 External Communication Plan (Ares(2017)301303) have been implemented as foreseen.

In particular:

- 16 grants have been awarded following the annual call for proposals for information measures on the CAP conducted by third parties which act as multipliers in reaching in particular the general public;

- Communication activities, including a social media campaign and an important "outreach team exercise" have been organised to accompany the major policy initiative of the year i.e. the adoption by the Commission on the 29 November of the Communication on the Future of Food and Farming;

- Two major Conferences have been organised, one to "Take stock of the public consultation on the future of the CAP" and a second one on the "EU agricultural outlook";

- DG AGRI participated in 4 major agricultural fairs with a modular stand;

  - the Ag-press networking activities, the digital and web based communication and in particular the use of social media tools have been further enhanced;

  - AGRI's "edutainment pack" on agriculture and the CAP for school children has been further promoted and distributed and other relevant communication material has been produced;

- DG AGRI participated in the development and implementation of the DG COMM 2017 corporate communication campaigns ("EU invest", "EU empowers" and "EU protects");

  - A Eurobarometer survey on "Europeans, Agriculture and the CAP" has been conducted in December 2017 (results to be published in 1 February 2018);

  - DG AGRI also participated in the work on the digital transformation of the European Commission web presence.

For an extensive reporting on all components of this part 2.2, please refer to **Annex 2**.

2.2.5 Examples of economy and efficiency

Automated centralised monitoring tool for overview of programme amendments

Following the IAS Audit recommendations, RDIS2 offers since December 2015 a new tool for the operational monitoring of the progress of RDP amendments. The functionality is twofold i.e. it provides an overview of the ongoing amendment process, and it gives a forecast for the reception of the amendments and consequent planning. Based on amendments submitted, RDIS2 is capable of producing an estimate of the future workload/timing for the various actors involved in the amendment process which allows for better planning and subsequently a more efficient management of human resources. Instead of manual updates, the monitoring and forecast report is now generated from RDIS2 on a weekly basis and contributes to an effective planning of the workload for both desk officers and hierarchy.

Agriculture dashboards and market observatories

Access to accurate information, transparency and prompt publication are key elements to make informed decisions and deal better with agricultural markets' volatility. The agriculture dashboards[90] continued to be developed to offer access in one screenshot to all the useful available data important to farmers, producers, stakeholders and interested citizens in order to make informed choices. These dashboards are made and updated on an almost daily basis by experts from DG AGRI using the latest national, European and international data. They are part of the information facilitated to 4 agricultural markets observatories, two of which were launched in 2017 (arable crops and sugar). Stakeholders and concerned parties can exchange regularly on the markets drivers and trends on the base of a large quantity of detailed market information which is made available to the public on the market observatories webpages, this contribution to a better knowledge of markets functioning.

[90] http://ec.europa.eu/agriculture/dashboards/index_en.htm

Shared database of standards for good agricultural and environmental condition (GAEC)

Access to information on the implementation by MS of the GAEC standards is crucial to check compliance of national definitions with the EU framework and to assess properly the baseline on the basis of which Rural Development measures are to be set as well as the environmental ambition of MS. For these purposes, The GAEC database developed by the JRC has been amended in order to ensure that it contains the appropriate level of detail and to ease the search for information. This updated GAEC database, shared with colleagues and experts, saves them time, reduces the number of solicitations to MS and enhances the level of Information between interested parties.

Shared database of Farm Advisory System (FAS)

The FAS database is a powerful tool to share information on the implementation of FAS as this database is open to Member States' experts and will be open to the other European institutions. With the objective to provide an EU common platform to collect and share information on the implementation of FAS, in October 2017, DG AGRI launched a questionnaire to Member States, which replies fed the FAS database. This FAS database was created in close cooperation with JRC-ISPRA and it follows the same principles as the existing GAEC database.

Centralised management of meetings

In the framework of the reorganisation of DG AGRI Unit I.4 became as of 1/1/2017 the central administrative manager of all comitology, expert group and Civil Dialogue Group meetings, including the management of related registers. The unit assist the policy units in the organisation of meetings (planning, document handling, reimbursements, relation with delegates etc.) By pooling staff and expertise previously dispersed in several policy units, and with the migration as from January 2018 to the AGM (Advanced Gateway to EU Meetings) platform, efficiency gains are expected. Thanks to this online single tool, which will be used for all types of meetings, the reimbursement process for experts will be streamlined and faster and the organisation of meetings will tend towards fully paperless workflows.

Information system for communication between the Member States and the Commission about applications to register geographical indications

E-ambrosia is developed taking into account the rationalisation of IT systems and data management policy of the DG to foster efficiency. It avoids redundant tasks and shortens delays in transmitting the information. One concrete example in 2017 is Wine Grape varieties encoded in another IT system (ISAMM) are made directly available in E-Ambrosia. Another example is the automatic registration of all incoming and outgoing correspondence in compliance with e-Domec; the automation of sending acknowledgement of receipt also eliminates redundant tasks.

Framework contracts for evaluating the CAP performance

During 2017, DG AGRI finalised the contracting of a set of framework contracts to evaluate the CAP against the common objectives of viable food production, sustainable management of natural resources and climate action and balanced territorial growth. A fourth covers synthesis and cross-cutting issues. These reduce the administrative resources and time needed to launch an evaluation or study and allow for a better financial management, since the price of each individual assignment covered under the contract can be known ex ante. The value of this types of contracts was proven during the analysis of the public consultation accompanying the Communication on the CAP modernisation, as it allowed to analyse the replies received in an extremely short time.

Mechanisms to improve coherence across FTA negotiations

The FTA Steering Group to exchange ideas and propose solutions to recurrent issues in negotiations, often also with participation of other DGs such as DG TRADE and TF50, met regularly throughout 2017. The group allows exploring synergies between different ongoing trade negotiations and building a shared knowledge base.

2017 also saw the publication of an ex-post study on the impact on agri-food trade of the agreements concluded by the EU with three countries: Mexico, South Korea and Switzerland. The study, together with the cumulative study on tariff concessions in recent and forthcoming FTAs that was finalized in late 2016, will continue to inform the further assessment of impacts of agricultural trade and its communication to public and stakeholders.

Automation of the Commission information system for notifications required by the WTO (ISAMM)

In 2017 Member States' notification obligations to the Commission in relation to WTO Domestic Support and Export Competition were included in the ISAMM reporting legislation and IT tool. This should increase efficiency for DG AGRI by reducing the time required for collecting these data, and also make its processing simpler and less prone to error.