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European Commission

2019

Annual Activity Report

Directorate-General for Agriculture and Rural Development

Foreword

Dear Reader,

This Annual Activity Report for 2019 explains how DG AGRI continued to deliver on the agenda of the Juncker Commission 2016-2019 and how the Common Agricultural Policy (CAP) contributed to those priorities (notably Jobs, Growth and Investment; Digital Single Market; Energy Union and Climate; and a balanced and progressive trade policy to harness globalisation). At the same time, the Commission prepared to deliver on the headline ambitions of the von der Leyen Commission, notably on the European Green Deal.

DG AGRI's contribution in 2019 to the achievement of the agenda of the Juncker Commission was very substantial. It continued to foster the long-term development of agriculture, rural areas and the food sector as a whole through the implementation of direct payment schemes and rural development programmes, through market stabilisation tools or market support measures to address problems in the various sectors, by playing an active role in international negotiations, and by contributing to the adoption of agricultural and broader policy measures.

2019 was the fifth year of full implementation of the current CAP and the fourth year of implementation of the rural development programmes 2014-2020. Important policy measures adopted during the year comprise notably the directive on Unfair Trading Practices. Other key agricultural measures adopted by the Commission in 2019 tackle areas such as market transparency and market observatories or modernising the administration of agricultural Tariff Rate Quotas.

In 2019, in parallel to negotiations on the 2021 – 2027 Multiannual Financial Framework for the Union, DG AGRI continued to participate in the discussions on the CAP reform proposals in the Council and the European Parliament. Moreover, to support Member States when preparing and drafting their CAP Strategic Plan, DG AGRI set up geographical hubs that consist of a small group of staff from different units for each Member State. To provide for smooth continuation of the CAP in 2021 while the negotiations of the reform are ongoing, the Commission adopted two proposals for transitional regulations allowing for the current (2014-2020) legal framework to cover the "2021 gap year".

DG AGRI has achieved the above successes with a robust assurance framework, which has ensured successfully in the past year the protection of the EU's financial interests.

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

This report gives a fair and comprehensive overview of DG AGRI's activities and achievements in 2019, and I am confident that it will provide valuable information about the performance of the CAP and its practical and administrative functioning.

By the time I am signing this report, the COVID-19 crisis is severely affecting the EU and the whole world. The Commission is ensuring urgent coordinated action at EU level in response to the outbreak of COVID-19 and has already taken a significant number of actions in that respect. In the agricultural sector, the key objective has been, and continues to be that the food supply chain continues to function effectively and that food security is guaranteed. Moreover, the Commission has adopted a number of measures with a view to simplifying the management of the CAP to the benefit of farmers and national administrations alike and to provide financial support to farmers and rural communities.

Let me close by expressing my respect and gratitude to all DG AGRI staff for their excellent work and commitment, in particular in these very challenging times.

Wolfgang Burtscher
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 and 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 at 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 apply:**

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

These are 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 contributed 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 contributes to the Commission actions to implement the UN 2030 Agenda for Sustainable Development which target 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 2016-2019 (http://ec.europa.eu/priorities/index_en)

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

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

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

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[5] (Juncker priority 6).

In addition, DG AGRI's international cooperation activities contribute to the Juncker general objective "A Stronger Global Actor" (Juncker priority 9). Some rural development programmes provide support to migration issues and therefore contribute also to the Juncker 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.
- The management of 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[6]:

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

    The EAGF finances market-support measures (for example when adverse weather conditions or trade disputes 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 conditional on farmers' compliance with sustainable agricultural practices, which are beneficial to soil quality, biodiversity and the environment generally (crop diversification, the maintenance of permanent grassland or the preservation of ecological areas on farms).

[5] The title of Priority 6 has been updated in 2017 to make it geographically neutral in view of the slowing down of trade talks with the United States, the new geopolitical context, and the new dynamism in trade talks with other important regions of the world. The Commission has reflected this reality by changing the previous General Objective ("A Reasonable and Balanced Free Trade Agreement with the U.S") and introducing a new impact indicator replacing the old one.
[6] For further information, see paragraph on "Budget implementation" hereafter or Programme Statements related to EAGF and EAFRD.

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

  The EAFRD is part of the Common Strategic Framework[7] (CSF) for European Structural and Investment (ESI) Funds 2014-2020, where Rural Development (RD) priorities translate and feed into the CSF thematic objectives. Rural Development measures assist farmers modernise their farms and become more competitive, and support agricultural practices beneficial for the environment and climate action. Rural development support also contributes to the diversification of farming and non-farming activities, to the promotion of social inclusion, poverty reduction and economic development in rural areas and to the strengthening of knowledge base and innovation in agriculture forestry and rural business. These payments are co-financed by the Member States and generally programmed 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** impacting on agricultural policy (trade in agricultural products, quality policy, food security etc.), contributes to the implementation of such international agreements and manages the relations with third countries related to agriculture.

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

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

Budget implementation[8]

In 2019, DG AGRI managed a budget of around EUR 56.6 billion in voted payment appropriations (which accounts for around 39% of the overall EU budget[9]), 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 three major activity areas ABB02, ABB03 and ABB04 (all executed under shared management mode) accounted in total for EUR 56.1 billion[10].

DG AGRI operates in three management modes:

- **Shared management** (99.1%) for interventions in agricultural markets and direct support (EAGF) as well as rural development (EAFRD): Implementation vis-à-vis final beneficiaries is delegated to the Member States, while the Commission is responsible for the implementation of the overall legal framework, budget implementation and for Member States' supervision;

- **Indirect management** (0.1%) for pre-accession measures (IPARD): Implementation vis-à-vis the final beneficiaries is delegated to the authorities of the beneficiary countries;

- **Direct management** (0.8%) 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, which is the largest part of the EAGF, expenditure compared to the net ceilings laid down in Annex III of Regulation 1307/2013 have reached 99% since 2017.

For EAFRD, execution has reached cruising speed. By end 2019, it stands at an average of 50% 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.

[8] See Section 2.1 for more details
[9] Execution 2018: 37.5% for CAP.
[10] More detailed figures see section 2 "Organisational management and internal control".

Organisation and human resources

In 2019, the Directorate-General for Agriculture and Rural Development (DG AGRI) had a staff of around 1000[11] and was made up of 10 directorates. Seven operational directorates were responsible for managing agricultural market measures, direct support, rural development and pre-accession assistance, research and innovation, international relations and audit. Three directorates were in charge of policy strategy and coordination (covering the design, implementation, enforcement and evaluation of the Common Agricultural Policy (CAP)), resources (including budget and financial management), and legal and procedural matters (including internal control).

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

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

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

CAP implementation

The CAP has almost **seven**[12] **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 legal framework for interruptions, reductions and suspension of CAP payments to Member States entered into force in 2014[13], which strengthens the Commission’s powers to protect the EU financial interests in cases where serious risks of irregular payments have been identified.

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

[11] DG AGRI staff (officials and external staff) on 01/01/19: 951; on 01/01/20: 959.

[12] There were approximately 6.4 million beneficiaries under direct support schemes, around 3.3 million beneficiaries under rural development measures and some 0.12 million beneficiaries of market measures in financial year 2018. As a majority of beneficiaries of payments under rural development measures are also beneficiaries of direct payments (but are only counted once when considering total beneficiary numbers), the total number of beneficiaries, up to 6.9 million for both Agricultural Funds, is lower than the sum of the individual figures. The small decrease in direct support beneficiaries compared to financial year 2017 (6.5 million) would be partly due to structural adjustments in the European agricultural sector, but also the result of stricter eligibility conditions such as the higher minimum requirements and the 'active farmer' clause.

[13] Regulation (EU) No 907/2014

EXECUTIVE SUMMARY

This Annual Activity Report is a management report of the Director-General of DG Agriculture and Rural Development (DG AGRI) to the College of Commissioners. Annual Activity Reports are the main instrument of management accountability within the Commission and constitute the basis on which the College takes political responsibility for the decisions it takes as well as for the coordinating, executive and management functions it exercises, as laid down in the Treaties[14].

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

The legislative proposals for the CAP post-2020 were presented in June 2018. In 2019, DG AGRI continued to explain and present the legislative proposals to Council, European Parliament, Member States and other stakeholders. As the discussions on the CAP reform proposals are still ongoing, the Transitional Regulation[15] ensures continuity of CAP support under both pillars to farmers and other beneficiaries in 2021 based on current rules and easing transition to the CAP strategic plans. In addition, the Flexibility Regulation[16] provides among others the flexibility to transfer funds between pillars for calendar year 2020 and extends the financial discipline provisions.

With regard to the general objective "**Jobs, growth and investment**", productivity continued its positive trend. This development constitutes a challenge with regard to agricultural jobs. Nevertheless, the employment rate in rural areas continued to increase despite the decline of the workforce in agriculture. The continuation of this trend remains a priority of the policy. The sector's agricultural factor income remained generally stable between 2017-2019 at a higher level as compared to 2013-2016 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 crises, e.g. dairy and fruit and vegetables. DG AGRI contributed to farm income and development, business start-ups, knowledge-building, innovation and general investment by assisting Member States in the implementation of direct payment schemes and of Rural Development Programmes (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 2019, DG AGRI continued its cooperation with DGs REGIO, CNECT and COMP to develop further and empower the Broadband Competence Offices in Member States together with a Support Facility helping businesses and individuals to access related EU funds more easily. DG AGRI also continued working on the implementation of an "Action Plan for Rural Broadband" and further developed the initiative "EU action for Smart Villages".

With regard to the general objective "**Energy Union and climate**", the long-term decrease in greenhouse gas emissions from agriculture has slowed down in recent years in the EU. Further reductions of those emissions remain a priority for DG AGRI. The area farmed organically steadily increases and now represents 7.5% of the EU's utilised agricultural area (UAA). Furthermore, a large portion of the agricultural area is being farmed according to specific eco-friendly practices: the "greening" layer of the direct

[14] Article 17(1) of the Treaty on European Union.
[15] COM(2019) 581 final
[16] COM(2019) 580 final

payments system now covers 79% of utilised agricultural area. The 2014-2020 RDPs also support other measures facilitating more demanding environmental practices.

With regard to the general objective "**A balanced and progressive trade policy to harness globalisation**", the EU further expanded its agri-food trade, thanks in part to the CAP's focus on building a market-oriented and competitive farm sector through fair and efficient policy tools, and Europe’s ever growing reputation for safe, high quality food. At the same time, the EU also assumes its responsibility for developing countries through policy cooperation, by providing preferential access to EU markets for their exports, and by encouraging investment in the agri-food sector in developing countries. In this context, the CAP is now in line with development objectives. The Task Force for Rural Africa, set up by the Commission in 2018 to explore ways to strengthen the EU-Africa partnership in food and farming and enhance the role of the EU in African job-creating economic development in agriculture, agri-business and agro-industries, presented its recommendations in March 2019.[17] These recommendations fed the policy debate at the 3rd AU-EU Agriculture Ministerial Conference held in Rome on 21 June 2019. Agriculture Ministers from the African Union (AU) and the EU endorsed a political declaration, including a joint Action Agenda for Rural Transformation, which brings dialogue on policy to the forefront of the partnership and will continue to serve as a guide for AU-EU cooperation on agriculture. DG AGRI also played an active role in trade negotiations, for instance by concluding the negotiations with Mercosur, Mexico and Singapore, the agreement on GIs with China, and following up on the implementation of the agreements with Japan, Canada, Korea and others.

[17] https://ec.europa.eu/info/food-farming-fisheries/farming/international-cooperation/africa/eu-africa-partnership_en#documents

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. 19)	(2012) **EUR 14 865 / AWU**[18] **Index: 107.6** (100 in 2010)	**To increase**	**Substantial increase** (2018) **EUR 17 000 / AWU Index: 123.1**
2. EU commodity prices compared to world prices (see p. 21)	**1.21**[19] (2013)	**Close to each other (ratio 1.00)**	**Closer to target 1.13** (2019)
3. Minimum share of land with specific environmental practices/commitments[20] (see p. 42) - Share of agricultural area under greening practices	**75%** (2015)	**To maintain**	**Increasing** **79%** (calendar year 2018)
4. Rural employment rate (see p. 18)	**63.4%** (2012)	**To increase**	**Increasing 68.1%** (2018)

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

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

[20] In addition to the share of agricultural area under greening practices, this KPI consists of the following indicators: Share of area under organic farming; % of agricultural land under management contracts supporting biodiversity and/or landscapes; % of forest area/other wooded land under management contracts supporting biodiversity; % of agricultural land under management contracts to improve water management; % of forestry land under management contracts to improve water management; % of agricultural land under management contracts to prevent soil erosion and to improve soil management; % of forestry land under management contracts to prevent soil erosion and to improve soil management; % of LU concerned by investments in livestock management in view of reducing greenhouse gas and/or ammonia emissions; % of agricultural land under management contracts targeting reduction of greenhouse gas and/or ammonia emissions.
On much of the farmland, "greening" requirements apply at the same time as other environmental practices/commitments. In those cases, the contracts funded by rural development policy build on the environmental benefits of the greening requirements. Likewise, the area figures concerned by rural development support overlap with each other. To avoid double counting, these figures have not been added up.

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

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

		Payments made[1]	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	0.36	0.00	0.00	0.36	1.00%	0.00	0.00	0.00	0.00%	0.00	0.00
Title 09 Communications networks, content and technology												
0903	Connecting Europe facility (CEF)	0.25	0.00	0.00	0.25	1.00%	0.00	0.00	0.00	0.00%	0.00	0.00
Title 13 Regional and urban policy												
1303	European regional development fund	0.18	0.00	0.00	0.18	1.00%	0.00	0.00	0.00	0.00%	0.00	0.00
1304	Operational technical assistance	0.08	0.00	0.00	0.08	1.00%	0.00	0.00	0.00	0.00%	0.00	0.00
Title 17 Health and food safety												
1704	Food and feed safety, animal health, animal welfare and plant health	0.21	0.00	0.00	0.21	1.00%	0.00	0.00	0.00	0.00	0.00	0.00
Title 18 Migration and home affairs												
1801	Administrative expenditure	0.28	0.00	0.00	0.28	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	2 371.91	0.00	0.00	2 371.91	2.75%	65.18	76.43	0.00	0.00%	0.00	0.00
0503	Direct payments	41 335.66	0.00	0.00	41 335.66	1.57%	647.89	524.11	0.00	0.00%	0.00	0.00
	EAGF total	43 707.56	0.00	0.00	43 707.56	1.63%	713.07	600.54	99.67	1.60%	700.21	12.86
0504	Rural development	14 169.34	2.71	0.00	14 166.63	2.70%	382.67	216.91	109.30	2.30%	326.14	56.53
0507	Audit	60.14	0.00	0.00	60.14	0.00%	0.00	0.00	0.00	0.00%	0.00	0.00
INDIRECT MANAGEMENT												
0505	Pre-accession Measures	73.96	23.18	0.00	50.78	0.00%	0.00	0.00	0.00	0.00%	0.00	0.00
DIRECT MANAGEMENT												
0501	Administrative expenditure	9.10	6.95	7.04	51.62	1.00%	0.52	0.00	0.00	0.00%	0.00	0.52
0502	Interventions in agricultural markets	0.00										
0504	Rural development	10.64										
0506	International aspects	4.23										
0508	Policy strategy and coordination	27.56										
0509	Horizon 2020 - Research and innovation	0.00										
Total CAP		58 062.53	32.84	7.05	58 036.73	1.89%	1 096.25	817.45	208.97	1.77%	1 026.35	69.90
Total DG AGRI		58 063.88	32.84	7.05	58 038.09	1.89%	1 096.27	817.45	208.97	1.77%	1 026.35	69.92
												0.12%
												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 2019

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

In accordance with the governance arrangements of the European Commission, 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.

To ensure the achievement of policy and management objectives, the Commission has adopted a set of internal control principles, based on international good practice. The financial regulation requires that the organisational structure and the internal control systems used to implement the budget be set up in accordance with these principles. DG AGRI has assessed its internal control systems during the reporting year and has concluded that it is effective and that the components and principles are present and functioning well overall, but some improvements are needed as minor deficiencies were identified. 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 for supervising entities to which it has entrusted budget implementation tasks, as well as the observations and recommendations issued by the internal auditor and the European Court of Auditors. These elements have been assessed to determine their impact on management's assurance about the achievement of the control objectives. Please refer to Section 2.1 for further details.

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

- ABB02 – Payments made on Market Measures: 4 aid schemes comprising 6 Member States (7 elements of reservation): Bulgaria, Greece, Italy (for 2 aid schemes), Spain, Portugal, United Kingdom;

- ABB03 – Payments made on Direct Payments: 17 Paying Agencies, comprising 9 Member States: Austria, Cyprus, Denmark, Spain (3 Paying Agencies), Greece, Italy (7 Paying Agencies), Portugal, Romania, Sweden;

- ABB04 – Payments made on Rural Development: 21 Paying Agencies, comprising 18 Member States: Austria, Cyprus, Germany (1 Paying Agency), Denmark, Estonia, Spain (2 Paying Agencies), Finland, France (2 Paying Agencies), United Kingdom (1 Paying Agency), Croatia, Hungary, Ireland, Italy (2 Paying Agencies), Lithuania, Portugal, Romania, Sweden, Slovakia.

d) Provision of information to the Commissioner(s)

In the context of the regular exchanges during the year between the DG and the Commissioner on management matters, the main elements of this report and assurance declaration, including the reservation(s) envisaged, have been brought to the attention of Commissioner Wojciechowski, responsible for Agriculture, through written consultation on 20 April 2020.

CAP post 2020

The 2018 legislative proposals for the CAP post-2020 suggest a shift from a compliance-based approach towards a performance-based model. This performance-based "new delivery model" allows for subsidiarity when it comes to the implementation and management of the policy, while providing several safeguards for the common nature of the policy through nine specific objectives. Member States would have the possibility to tailor the tools and measures available to reflect the reality of their own conditions and the particular challenges they face.

In 2019, DG AGRI continued to explain and present the legislative proposals to Council, European Parliament, Member States and other stakeholders through various outreach events in different Member States. Moreover, to support Member States when preparing and drafting their CAP Strategic Plan, DG AGRI set up geographical hubs that consist of a small group of staff from different units for each Member State. These geo-hubs are available to answer questions from the Member States in relation to the draft CAP Strategic Plan Regulation, and provided in 2019 - and continue to provide - valuable assistance to the Member States in the preliminary work linked to the SWOT analysis and the needs assessment. Furthermore, all the indicators of the Common Monitoring and Evaluation Framework (CMEF) were published in 2018 and updated in 2019. Selected indicators were presented visually and interactively in the dashboards by theme, including farming income support, climate change and air quality. In these dashboards and in specific country factsheets structured around the 9 specific objectives, Member States can find already a large part of the information they need to start working on their Strategic Plans for the period post-2020.

On 11 December 2019, the Commission presented the European Green Deal Communication[21]. The Green Deal is a new growth strategy that resets the Commission's commitment to tackling climate and environmental challenges aiming to transform the EU into a fair and prosperous society, with a modern, resource-efficient and competitive economy. The legislative proposals for the CAP reform contain many elements that can enable the sector to meet the ambitions of the Green Deal. They contain a significantly strengthened 'green architecture'. Member States are required to demonstrate a higher environmental and climate ambition than under the current CAP. This is anchored in the so-called no-backsliding principle in Article 92 of the CAP Strategic Plan proposal. CAP Strategic Plans are also expected to contribute with 40% of the overall financial envelope of the CAP to climate objectives. Furthermore, the proposal foresees: enhanced conditionality whereby support is conditioned to respecting the EU environmental and food safety legislation; ring fencing for agri-environment-climate measures under rural development; sector specific support for the fruit and vegetable scheme; and new, compulsory 'eco-schemes' for environment and climate under the first pillar of the CAP.

DG AGRI also started to work on the Farm to Fork strategy (led by DG SANTE), which is part of the Green Deal and aims to make the European food system more sustainable, among others, by reducing the use and risk of pesticides, fertilizers and antibiotics, and boosting organic production, ensuring a balanced growth of both supply and demand.

On 31 October 2019, the Commission published two draft regulations to ensure a legal basis for making payments to farmers in 2021. The Transitional Regulation[22] ensures continuity of CAP support under both pillars to farmers and other beneficiaries in 2021 based on current rules and easing transition to the CAP strategic plans. In addition, the Flexibility Regulation[23] provides among others the flexibility to transfer funds between pillars for calendar year 2020 and extends the financial discipline provisions.

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[21] COM(2019) 640 final

[22] COM(2019) 581 final

[23] Regulation (EU) 2020/127 of the European Parliament and of the Council of 29 January 2020 amending Regulation (EU) No 1306/2013 as regards financial discipline as from financial year 2021 and Regulation (EU) No 1307/2013 as regards flexibility between pillars in respect of calendar year 2020

1. KEY RESULTS AND PROGRESS TOWARDS THE ACHIEVEMENT OF THE COMMISSION'S GENERAL OBJECTIVES AND DG'S SPECIFIC OBJECTIVES[24]

This section presents key results and progress in terms of the general objectives of the Juncker Commission 2016-2019.

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 Juncker Commission general objectives[25]. One point deserves particular mention. The very substantial action of the CAP in the domain of the environment and the climate includes policy measures relevant to the explicit content of Commission general objective 3 – Energy Union and Climate– but at the same time also ranges more widely (e.g. to influence biodiversity, soil quality and water quality). So to make sure that this important policy activity is not lost from view, it has also been mentioned in connection with Commission general objective 3.

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

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

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

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

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

With regard to the various indicators presented, the most recent available values are used. In many cases, these predate 2017 or 2018; it nevertheless makes sense to present them in the AAR 2019 as they are more recent than the information presented in the AAR 2018, 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; 2019 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.

BREXIT preparedness

*In 2019, DG AGRI continued to make significant contributions to preparing for the **UK's withdrawal from the European Union.*** In the beginning of 2019, two BREXIT preparedness implementing acts were adopted by the Commission (one in relation to POSEI, the other act putting in practice the newly apportioned WTO TRQs, recently agreed by the co-legislators). In addition to legislative changes, preparations for BREXIT also concerned non-legislative activities such as actively reaching out to stakeholders by means of organising dedicated BREXIT preparedness meetings or the setting up of a web site on the matter. Moreover, they also concerned internal preparatory activities for the withdrawal of the UK, for instance in relation to statistics and market analyses or adaptations to certain modalities of various IT systems. Moreover, in 2019 DG AGRI led three negotiation rounds held in Geneva with WTO partners on the apportionment of WTO TRQs.

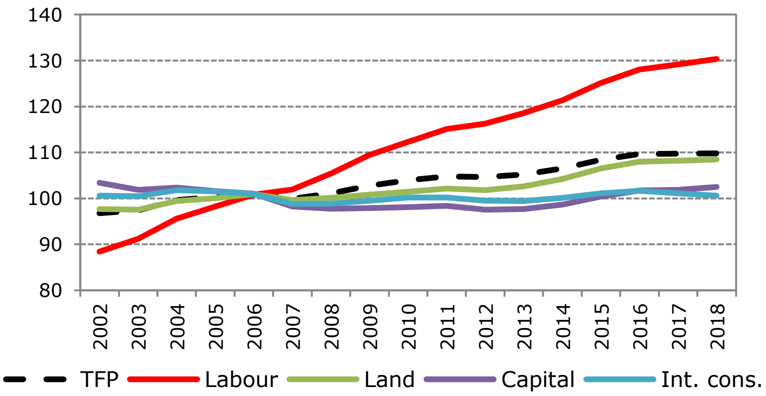
1.1 Commission General Objective 1: Jobs, Growth and Investment

What are the key outcomes to be reported?

1. The farm sector's productivity continues its positive trend but at a lower speed in the last years

Total factor productivity[26] compares total outputs relative to the total inputs used in production of the output. Measured with rolling three-year averages, the sector's total factor productivity has been climbing over time, reaching 110% of its 2005 value in 2016-2018 (3-year moving average).

Total Factor Productivity and partial productivity growth in the EU-28
(index 2005 = 100, 3-year moving average[27])



"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

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

The indicator "Employment rate in rural areas"[28] 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 Rural Development policy.

The employment rate in rural areas has increased and the gap with urban areas has almost disappeared in 2018 (the most recent year for which data are available), when 68.1% of the working-age population (aged 15 to 64) were employed in rural areas[29].

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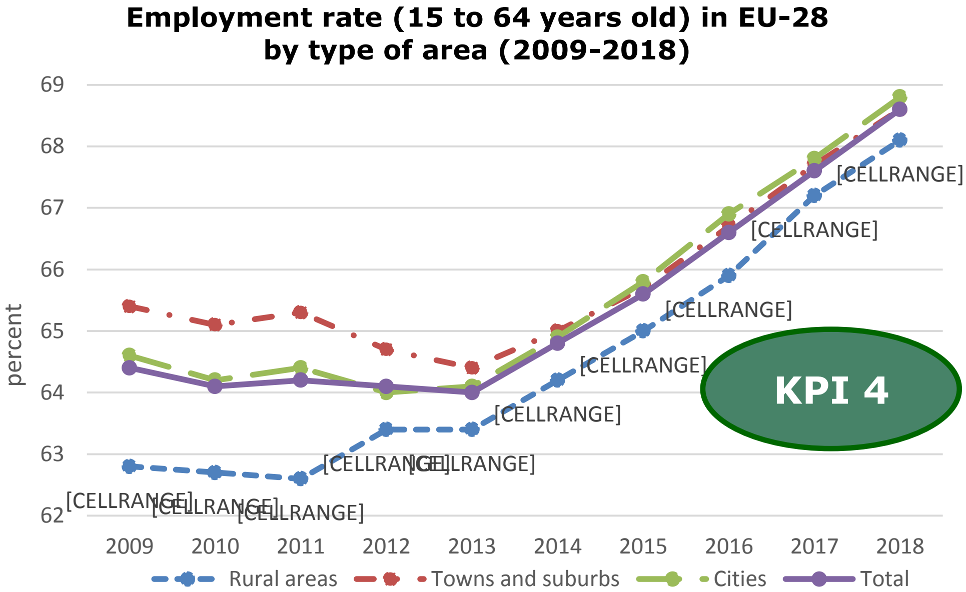
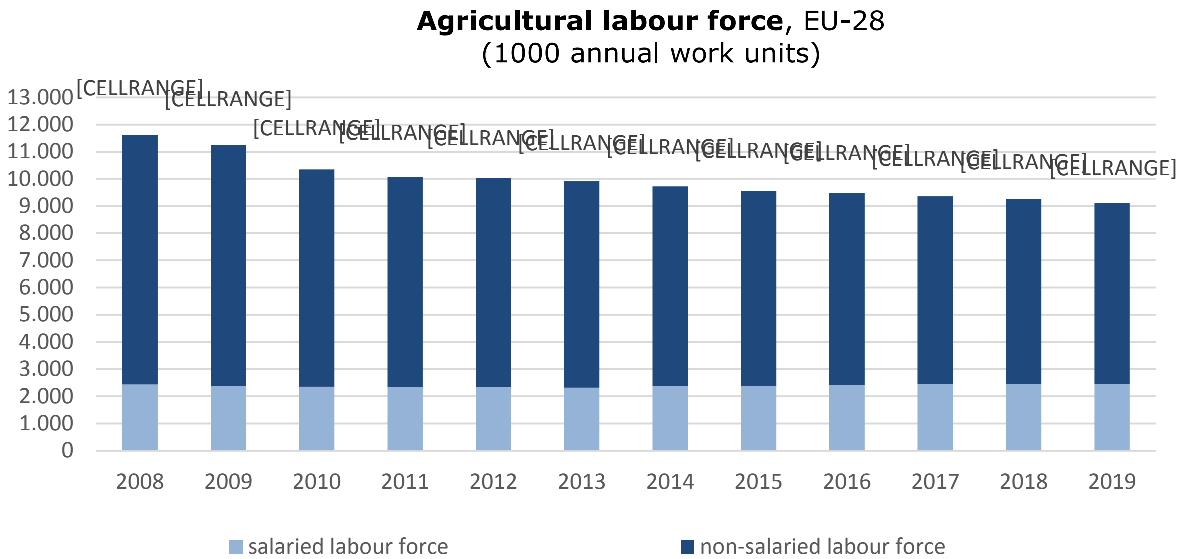
[26] Both output and inputs are expressed in term of volumes.
[27] The graph is based on a 3-year average, therefore the graph does not equal 100 for the year 2005.
[28] The indicator "Employment rate in rural areas" is established in the Commission Implementing Regulation (EU) No 808/2014 laying down 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).
[29] 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.



Source: Eurostat[30] [lfst_r_ergau]

The agricultural labour force has steadily declined as a consequence of the modernisation of agriculture (greater mechanisation with the substitution of labour by capital, Information and Communication Technology (ICT) and economies of scale). Between 2008 and 2019, the total agricultural labour force declined by 2.0% per year. In more recent years, the decline slowed down as the labour force declined by 1.3% annually between 2013 and 2019. The decline over the years takes place mostly in non-salaried labour (i.e. family labour).



Source: Eurostat [aact_ali01] *2019: estimate

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

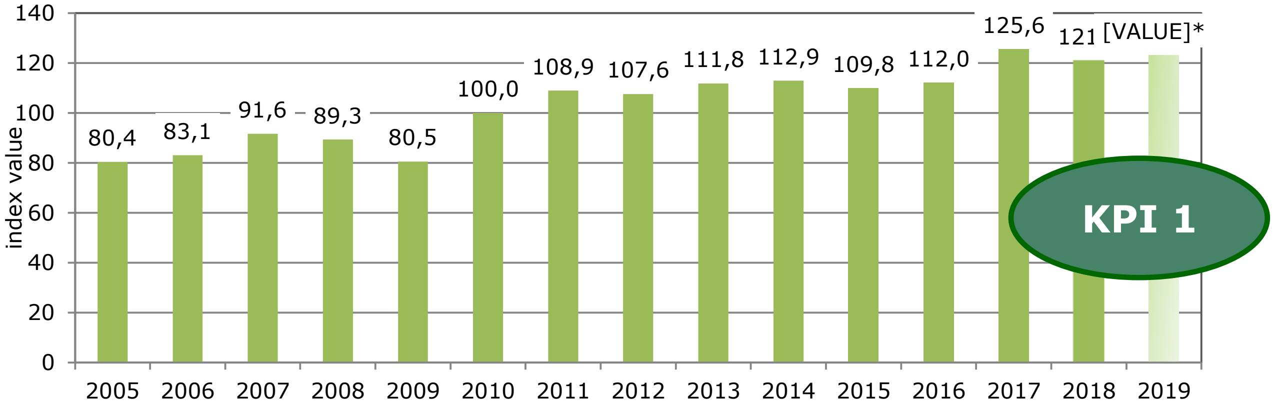
3. The farm sector's value added has recovered from the crisis, but remains lower than the rest of the economy

After the crisis year 2009, agricultural factor income per full-time work unit has recovered in real terms. 2017, 2018 and first estimates[31] for 2019 are positive with the highest values since 2005.

Based on first estimates for 2019, the main contribution for the increase in income is an overall increase in production value (2.2% compared to 2018) mainly due to higher prices for animal products (+2.4%) and crop output value (+1.9%). On the other side, intermediate costs (variable costs) increased by 1.3% compared to last year.

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

Index of real factor income in agriculture per full time work unit[32], EU-28



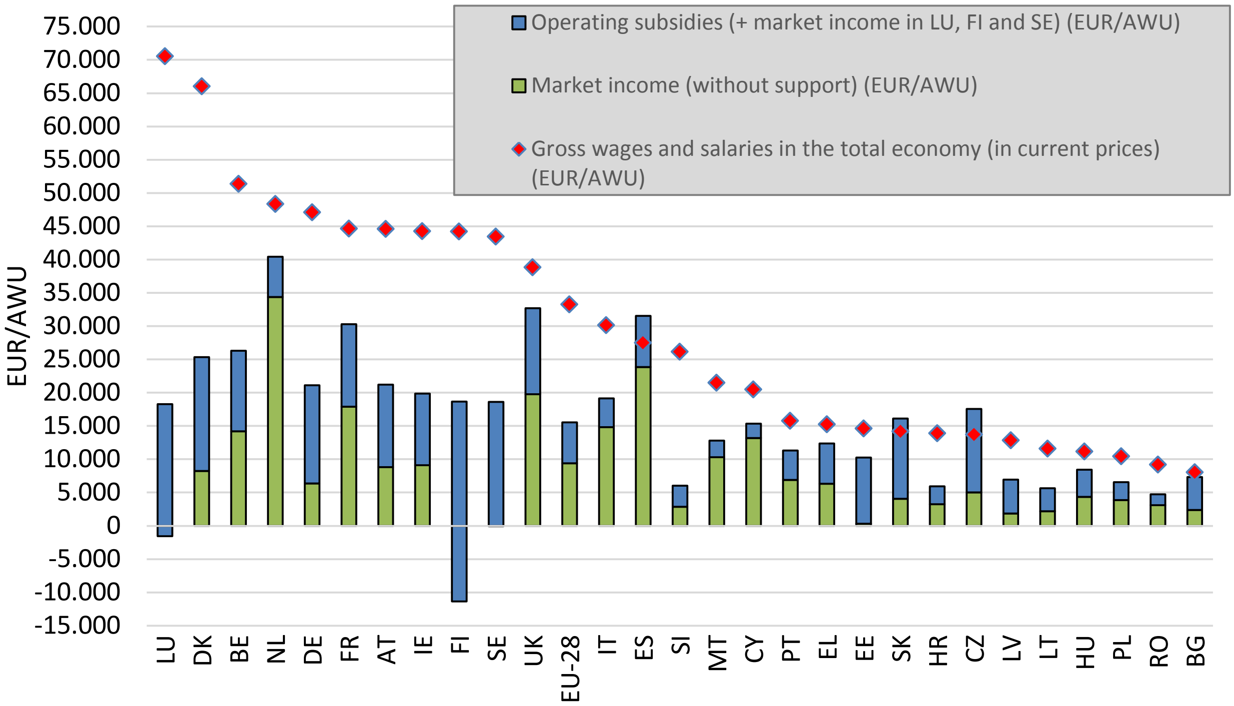
* 2019: first estimates

Source: Eurostat [aact_eaa06]

Farming income[33] is significantly below the average wage in the economy in most Member States. Between 2016 and 2018, farming income equals 47% of the average wage in the whole economy. Operating subsidies allow to compensate partially or totally the gap (and in some cases go beyond, such as for ES, SK and CZ). For some Member States, there would be a negative income without CAP support (LU, FI and SE) as shown in the graph below.

[31] The first estimates for 2019 give an indication of the main trends in income developments and are calculated by Member States on the basis of estimations and projections. They may become subject to corrections. An update will be available in spring 2020 and final figures later this year.
[32] Agricultural factor income is calculated according to the following equation:
Value of agricultural production
- variable input costs (fertilisers, pesticides, feed, etc.)
- depreciation
- total taxes (on products and production)
+ total subsidies (on products and production)
= factor income (net value added at factor costs)
An annual work unit is the work performed by one person who is occupied on an agricultural holding on a full-time basis.
[33] 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.

Agricultural income, operating subsidies and wages in the total economy (average 2016-2018) (In EUR/annual work units)



Source: DG AGRI based on Eurostat data [aact_eaa01], [nama_10_a10], [nama_10_a10_e], 2016-2018
Average CAP support=operating subsidies per worker.
Average farmer income (without CAP support) = entrepreneurial income per worker + wages – operating subsidies.
Note: CAP support does not include investment support; average farmer income without CAP support in LU, SE and FI was negative over the period considered; the operating subsidies received will have to compensate for this loss, the overall agricultural income is thus equal to the difference between operating subsidies and market income.

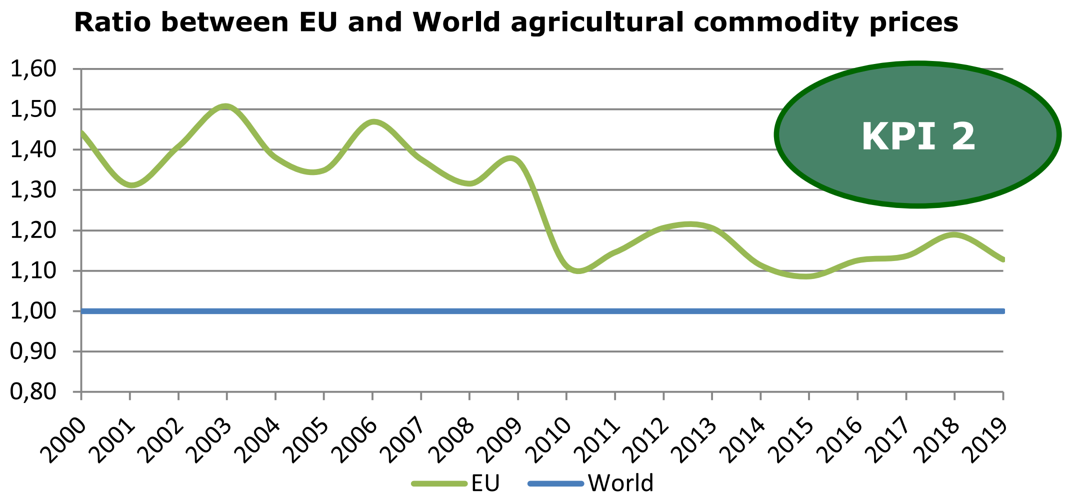
4. The farm sector continues to operate at prices close to world market prices

In 2019, a weighted average of the EU market prices of various commodities was at 113% of equivalent world market prices – compared to 121% in the baseline year of 2013[34]. Overall, this is in line with the target of getting generally closer to world market prices.

The EU/world price relationship improved in 2019, driven by improving competitiveness for most commodities. For example thanks to an increased availability of milk fat, butter supply increased. EU and Oceania prices converged, and as a result, EU exports have become more competitive compared to last years during which the EU butter price reached record heights. At the same time, the EU price for skimmed milk powder (SMP) started to recover from low levels in a context of public intervention stocks being sold out and EU exports being record high.

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

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



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

Why are these outcomes important?

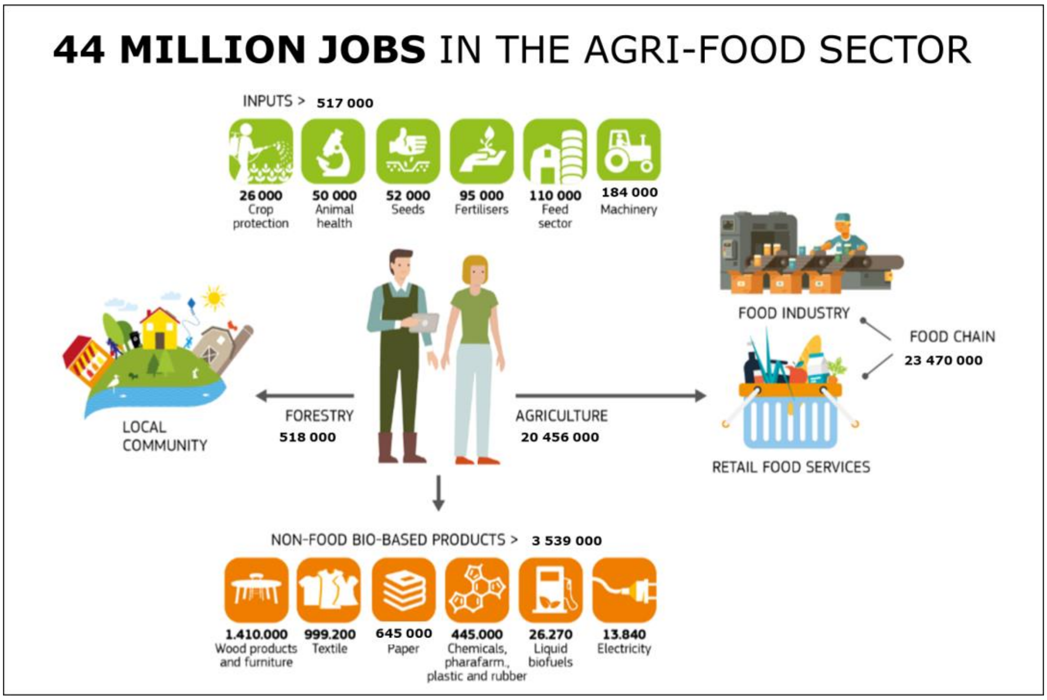
Boosting employment is one of the Commission's top priorities – not only for cities but also for the countryside, where large numbers of people live and work.

The above trends in productivity, income and prices of the farm sector are important not only for the agricultural sector, but also for the other economic activities connected to it. Even though agriculture is gradually taking a lower share of overall employment, around 10.5 million farms still provide work for roughly 20.5 million[35] people (full and part-time jobs) in the EU-28[36]. Together with food processing, food retail and food services, agriculture makes up a sector supporting about 44 million jobs[37] in the EU as shown in the figure below. It also has strong links to various other upstream (like seeds and fertilizer producers) and downstream sectors (such as paper, textile and electricity services in the bio-economy), as well as to forestry and other (local) rural businesses. However, ensuring a fair standard of living for the agricultural community continues to be a challenge.

As the farm sector has moved away from trade-distorting support, it must be in a position to operate successfully at prices close to those on the world market. Long-term productivity gains are also an important element 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 substituting labour, but it also tends to make the remaining jobs more economically sustainable (and therefore more likely to attract new entrants). Furthermore, if the right conditions are set for job creation in other related sectors, the net effect on employment can be positive (as the graph on rural employment indicates, see p. 18). Jobs in rural areas will increasingly be non-agricultural.

[35] Corresponding to 9.1 million annual work units
[36] Source of data: Eurostat Farm Structure Survey 2016.
[37] DG AGRI calculations based on Eurostat data for 2016 and 2017 (agriculture, food industry and retail food services).



Figures provided indicate the number of jobs in the corresponding sector.
Reference periods: 2018 (forestry), 2017 (food industry and retail food services), 2016 (agriculture), 2015 (bio-economy-paper (2018)) and 2009 (input sectors-machinery (2017)).
Source: DG AGRI elaboration based on Eurostat data, DataM – Bio economics, European Commission / Joint Research IPTS and nova Institut, industry sources.

How closely are the outcomes linked to the CAP?[38]

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

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

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

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

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

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

In claim year (CY) 2018, more than 6.2 million farms, covering 90% of farmed land, benefitted from direct payments. In CY 2018, this support constituted on average 40% of their farming income[39]. Under the current CAP 2014-2020, direct payments are better targeted thanks to different payment "layers" addressing the particular needs of young farmers, smaller farmers, specific sectors or regions in difficulties, and the environment. These changes to the structure of the direct payments system – along with provisions addressing redistribution more specifically – have contributed 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.

"More than 6.2 million farms, covering 90% of farmed land, benefitted from direct payments."

Trends in the distribution of direct payments

The CAP 2014-2020 provides much greater **flexibility** to Member States for the implementation of direct payments. They 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 2018 (claim year 2017), direct payments reached EUR 41.5 billion and represented 71% of the whole CAP; 88,5% of them were decoupled. Coupled direct payments primarily concern Voluntary Coupled Support (VCS) that Member States may grant subject to strict conditions (only potentially available for certain sectors; for which the Member States justify difficulties and environmental or socioeconomic importance) and limits (budgetary limit at Member State level). Besides, it also includes, though by my much smaller extent, the crop specific payment for cotton that is only available for 4 Member States (Bulgaria, Greece, Portugal and Spain).

Aside the effect of different EU enlargements, the **number of beneficiaries has been decreasing** constantly and amounted to 6.2 million holdings in CY2018. 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[40] 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 (see following figure).

The CAP is currently operating a very inclusive system of support where very small farms, having less than 5 ha, represent nearly half of the beneficiaries. The share of total farmland of these small farms is 4.6% while their share of total direct support is 5.5%.

[39] Estimated on the basis of agricultural entrepreneurial income.
[40] Although to a lesser extent than for the land.

Professional family farms managing between 5 and 250 ha represent 50.6% of farms, manage 67.3% of farmland and receive 71.5% of the total direct aid.

Big farms managing over 250 ha represent 1.3% of farms, manage 28.2% of the total farmland and receive 23.0% of total direct aid. Among these "big farms", the majority has between 250 and 500 ha[41].

Source: CATS control data (Claim year 2018)

A comparison of the distribution of direct support to farmers between 2016 and 2017 shows that the number of professional family farms (between 5 and 250 hectares) slightly increased as compared to the other farm sizes. The percentage of farmland managed and the relative amount of direct support remained stable across the three groups.

Redistribution of direct payments

The CAP 2014-2020 includes **several provisions for redistributing direct payments between beneficiaries**. Member States must reduce the differences between per-hectare payment levels to beneficiaries on their respective territories (this is referred to as "internal convergence"). There is also a provision to gradually adjust the envelopes per Member State in order to bring average levels of payments closer to one another between countries ("external convergence"). An active farmer clause has been put in place to exclude from support those who have only a marginal agricultural activity.

In addition, Member States must also reduce by at least 5% the receipts above EUR 150 000 which any beneficiary obtains from the basic payment scheme or the single area payment scheme. They may even cap these receipts from this threshold, or from a higher one (3 Member States, BG, IT, UK/Scotland and Wales, have decided to apply a capping as from 2015, to which PT joined from 2018, and LT in 2019).

Besides, Member States also have the option to redistribute up to 30% of their direct payments national envelope to the first hectares on every farm ("redistributive payment"). The 2019 report on the implementation of direct payments to agricultural producers (claim year 2017)[42] shows that in financial year 2018, 10 Member States[43] have implemented this scheme, using between 0.5% and 15% of their total expenditure for direct payments[44].

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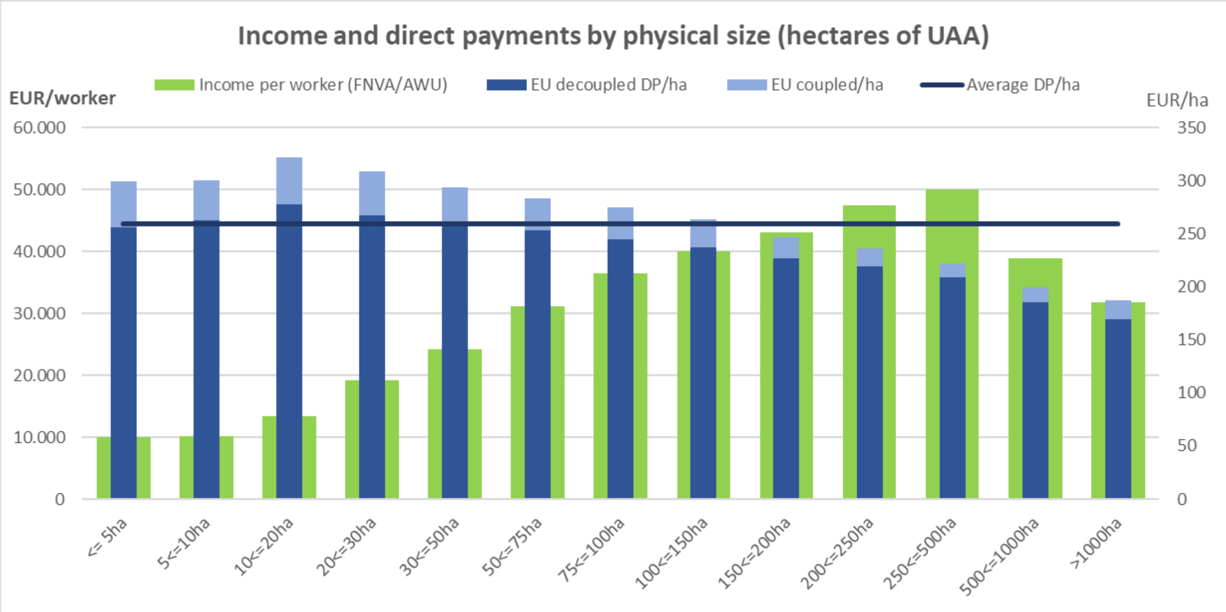
[41] Less than 0.4% had more than 500 ha in 2017.

[42] See: https://ec.europa.eu/info/sites/info/files/food-farming-fisheries/key_policies/documents/summary-report-implementation-direct-payements-claim-2017.pdf

[43] Belgium: only Wallonia; the UK: only Wales

[44] 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.



FNVA/AWU: Farm net value added per Annual work Unit
Source: FADN DG AGRI. AISA estimated 2019 based on 2015 FADN data[45]

The effect of the provisions of the current CAP to redistribute direct payments are visible in the graph 'income and DP/ha by physical size'[46] (see chart above). Small size farms, which have on average lower income per worker, receive on average a higher per-hectare payment. In general, direct payments per hectare decrease with increasing farm size, while the income per worker increases. Furthermore, direct payments per hectare are on average higher for types of farms with low average income.

The chart above shows that the picture of the distribution of direct payments is more nuanced than currently perceived by the public. Nevertheless, targeting should still be further improved with a view to better achieving the CAP objectives; this is foreseen in the CAP reform proposals.

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 (further details below).

The Rural development Pillar of the CAP 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[47] aggregated from the 2014-2020 rural development programmes (RDPs) include the following:

- 3.8 million training places to be funded (around 40% achieved by 2018);
- 14 000 co-operation projects to be supported (21% achieved by 2018);
- More than 344 000 holdings to invest in restructuring or modernisation (42% achieved by 2018);

[45] FADN database has been updated.
[46] For more information on the implementation of direct payments (figures for Claim Year 2017) see https://ec.europa.eu/info/sites/info/files/food-farming-fisheries/key_policies/documents/summary-report-implementation-direct-payements-claim-2017.pdf
[47] 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.

- More than 174 000 holdings with supported business development and investments for young farmers (60% achieved by 2018);
- 208 000 farms to become involved in quality schemes, short supply chains, local markets or producer groups/organisations (31% achieved by 2018);
- 593 000 farms to be covered by risk management schemes (28% achieved by 2018);
- 120 400 jobs to be created, of which:
  - 76 400 from the creation, diversification and other development of small businesses (14% achieved by 2018);
  - 44 000 through the LEADER approach to local development (30% achieved by 2018);
- 48 million rural citizens to benefit from improved services (83% achieved by 2018).

Latest data are collected from the Annual Implementation Reports 2018 (submitted in 2019). The data on the implementation in 2019 will become available in the second half of 2020.

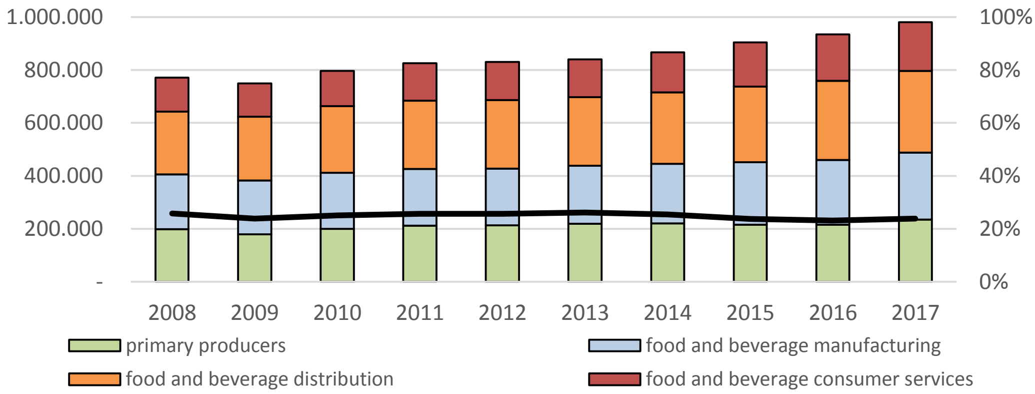
What supporting steps did the DG take in 2019?

Improving the farmer's position in the food supply chain

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

Actions to improve the farmers' position in the value chain also play a key role in safeguarding generational renewal; they are increasingly seen as an important component of a common agricultural policy, one complementary to Direct Payments, Rural Development and crisis measures. Within the 9 specific objectives of the CAP post-2020, this is reflected by the inclusion of one special objective in relation to improving the position of the farmer in the food chain.

Value added for primary producers in the food chain in million EUR



Source: DG AGRI (calculations based on Eurostat, EAA and Structural Business Statistics (SBS) data)

The graph above shows the distribution of the value added in the food chain in million euros. The share of value added that goes to primary producers remains more or less stable, fluctuating between 23% and 26% between 2008 and 2017 while the total value added in the food chain increases over time.

Having strengthened possibilities for **producer cooperation** through the omnibus package as well as having banned 16 **unfair trading practices** (UTPs) and provided for minimum common enforcement rules on UTPs[48], the Commission completed in 2019 the third element of its threefold regulatory initiative to improve the functioning of the food supply chain by adopting an Implementing Regulation on **market transparency.** The new rules (in force as of 2021) aim at tackling information asymmetries in the food supply chain. Greater transparency can support better business decisions and improve trust in fair dealing between the different stages in the food supply chain. Having access to timely and easily accessible information about market developments is also a key criterion to compete effectively in global markets.

With this initiative, data on certain key products covering several stages of the food supply chain (agricultural producer, food processor, retail sector) will be for the first time collected and published. This will allow a better understanding of how prices are formed as agri-food products move along the chain.

Moreover, in addition to the observatories for crops, sugar, meat and milk, the European Commission has launched two new market observatories, for fruit and vegetables and wine, in 2019. The two observatories are available online, providing a wide range of market data complemented by market analysis, short-term outlook reports and medium-term prospects. In parallel, a board of market experts for each sector will meet regularly to discuss the markets' state of play and data.

These observatories will bring greater transparency and analysis to two key sectors for European agriculture. Together they represent around 30% of the EU agricultural output value. The European Commission created the observatories to help the European agriculture sector to cope more effectively with market volatility.

The pilot project on **Crisis prevention** concluded that crisis prevention and management systems need to be flexible to cope with a wide variety of crises cases and have to be integrated across farm, national and European levels. Effective communication is a key dimension of crisis management as established communication channels and strategies can reduce the length of time required to bring full resolution of a crisis. In particular, market stabilisation requires timely and accurate production data notification from Member States (bottom up), as well as effective market observatories (top down). More details are available in Annex 9.

Furthermore, the pilot project on **Producer organisations** aimed at fulfilling specific data needs at EU level in terms of recognised Producer Organisations (POs) and Associations of Producer Organisations (APOs) as well as of other forms of cooperation that operate on the various EU agricultural markets. See Annex 9 for more details and findings from this pilot project.

Other market-related actions

DG AGRI took action through many of the main instruments of the CAP, through market stabilisation tools and market support measures or aid schemes. In 2019, the market situation was on average better than in the previous years. Market stabilisation tools were not mobilised as it was the case during 2014-16 when the Russian embargo in particular impacted on markets.

[48] Directive (EU) 2019/633

The exceptional temporary measure in the **fruit and vegetables sector** was discontinued in 2018 in view of the time that elapsed (over 4 years) since the Russian embargo. The measure had lost its emergency support character and became a parallel support system, competing with mainstream support for producer organisations.

In the **olive oil sector**, due to the excess in supply following the 2018/19 harvest, prices in the Spanish, Greek and Portuguese markets were particularly low in 2019. The exceptionally high ending stocks at EU level combined with an average production expected for 2019/20 threatened to keep the EU olive oil market under pressure. In order to reduce the supply-demand imbalance and to alleviate those difficult market conditions, private storage aid mechanism for virgin olive oils was activated in November 2019. Two first tenders took place in November and December 2019.

Annex 9 provides more information about the **study on the implementation of the conformity checks of the marketing standard in the olive oil sector throughout the EU,** which provides multiple suggestions in relation to conformity checks in the olive oil sector**.**

In the **dairy sector**, by June 2019 all public stocks of skimmed milk powder (SMP) bought in between 2015 and 2017 - over 380 000 tonnes - were successfully placed back on the market. Public intervention of SMP, used in a responsible manner, has proven to be an effective tool for mitigating the impact of the dairy crisis.

The **support study for the evaluation of marketing standards (contained in the CMO Regulation, the "breakfast directives" and CMO secondary legislation)** found that EU marketing standards have generally been effective in achieving their intended objectives, and have not caused significant unintended/unexpected effects. The assessment identified a number of clear success stories in terms of effectiveness, while it acknowledged a few limitations affecting specific sectors and related to specific aspects. More details can be found in Annex 9.

In the **beef sector,** exceptional measures were taken to support the Irish farmers, affected by market uncertainty and an unprecedented and sustained period of low prices. EUR 50 million of Union aid were made available in 2019, which may be doubled by national funds[49]. Payments must be made by 31 May 2020 at the latest.

The situation in the EU sugar market remained difficult during 2019 with low prices and a surplus at world level. Therefore, the **High-Level Group on Sugar** met three times in 2019 to discuss key challenges and opportunities as well as to explore possible solutions and policy measures. The final report was discussed in the AGRIFISH Council of 15 July 2019. As a follow-up, the Commission will launch in 2020 a comprehensive review on possible strategies for improving the long-term market resilience of the sugar sector. The Commission has also enhanced notifications for sugar prices and quantities in the context of the Marketing Transparency Initiative. Since the publication of the report the EU average price has experienced a slow recovery (data until December 2019).

After adoption of the Commission report on the development of **plant proteins** in the European Union[50] in 2018, DG AGRI started to implement a number of follow-up actions, including

- preparatory work with Member States on the integration of protein crops in national CAP strategic plans,
- definition of priorities linked to plant proteins in the Horizon Europe Research and Innovation Programme for 2021-2027;

[49] Commission Implementing Regulation (EU) 2019/1132 of 2 July 2019.
[50] COM(2018) 757 final

- improving market analysis and transparency through an updated Feed Protein Balance sheet;
- exchange with stakeholders (e.g. joint 2-day seminar with the Finnish Cereal Committee).

Animal health issues continued to influence market developments. Outbreaks of **Avian Influenza** justified specific exceptional market measures taken in 2019 in Italy[51].

As regards the **apiculture sector**, in 2019 the Commission approved apiculture programmes for 2020-2022 in all Member States[52]. The EU contribution, which is doubled by national funding, increased to EUR 40 million per year from EUR 36 million per year in the previous three-year period.

The Commission also reported on the implementation of the apiculture programmes in the previous three-year period[53]. The number of beehives, one indicator of the impact of EU support, continued its long-term increase and reached more than 17.5 million hives. Also, EU honey production has grown by 16% between 2014 and 2018.

"The number of beehives continued its long-term increase and reached more than 17.5 million hives"

For the future, the Commission's proposals for the simplification and modernisation of the Common Agricultural Policy ("CAP post-2020") include that the apiculture programmes will become part of the CAP strategic plans. This will increase the visibility of the apiculture sector while ensuring its contribution to the overall objectives of the CAP, e.g. through contributing to the protection of biodiversity or by facilitating business development in rural areas. In addition, the Commission proposes even further increase of the funding to the programmes, from EUR 40 million to EUR 60 million per year.

The **EU school fruit, vegetables and milk scheme,** bringing together the former schemes under a single legal framework for more effectiveness and efficiency, applied for the first time in the 2017/2018 school year. In 2019, the first results of implementation were available: more than 20 million children participated, which is 20% of the total number of children aged 0 to 18 in the EU[54]. They received more than 65 million kilos of fresh fruit and vegetables and 178 million litres of milk, and were involved in a wide range of educational activities to reconnect them with agriculture and learn about healthy eating habits.

In December 2019, the Commission adopted a Delegated and an Implementing Regulation, simplifying and modernising the administration of agricultural Tariff Rate Quotas (TRQ) managed through licences. Once these acts enter into application, they will replace 37 current Commission Regulations. Moreover, they will contribute to tackle circumvention of existing rules.

[51] Commission Implementing Regulation (EU) 2019/1323 of 2 August 2019 on exceptional market support measures for the eggs and poultrymeat sectors in Italy.
[52] Commission Implementing Decision (EU) 2019/974 of 12 June 2019.
[53] Report from the Commission to the European Parliament and the Council on the implementation of the apiculture programmes, COM(2019)635 final of 17.12.2019
[54] Source: Member States monitoring reports, available at: https://ec.europa.eu/info/food-farming-fisheries/key-policies/common-agricultural-policy/market-measures/school-fruit-vegetables-and-milk-scheme/country_en.

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

Direct payments

The proposal for the future CAP developed new concepts and methods for improving farming income support in the future, in particular concerning the targeting and distribution of direct payments. These concepts are: the Basic income support for sustainability (BISS), Complementary redistributive income support for sustainability (CRISS), Complementary income support for young farmers (CISYF), Voluntary schemes for the climate and the environment "eco-schemes" and Coupled income support. In addition, the reduction (including capping) of all direct payments aims to ensure a fairer distribution of income support.

Other activities carried out by DG AGRI in 2019 on direct payments included continuing to collect and analyse data on the implementation of direct payments, with a view to identify successes and failures and to share information with Member States.

On the other hand and with a view to reducing the burden of controls and to maximising the investment needed by the competent authorities to substitute the current on-the-spot checks method with checks by monitoring, a legal framework has been adopted to set out the conditions under which checks by monitoring can substitute on-the-spot checks in relation to cross-compliance.

The **support study for the evaluation of the impact of the CAP on generational renewal in the agricultural sector**[55] found that the CAP overall has a positive impact upon generational renewal in agriculture and employment. However, measures are often insufficient, on their own, to address two main barriers to generational renewal: access to land and capital. Facilitating this access may require improving the coherence of national legal, social and fiscal policies with CAP generational renewal goals. More details are available in Annex 9.

[55] https://ec.europa.eu/agriculture/sites/agriculture/files/evaluation/market-and-income-reports/2019/cap-gr-study-final-report_en.pdf

Attracting young farmers

The proportion of younger farmers continues to be low in most European countries. In 2017, only 5.1% of farmers were 35 years or younger. The current CAP addresses this issue by providing tools to attract young farmers and facilitate their business development.

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

In Claim Year (CY) 2018, approximately 466 000 newly set-up young farmers, which correspond to 7.5% of all area-based direct payment beneficiaries in the EU, benefited from this additional top-up payment. Further to this, more than 44 000 farmers under the Small Farmers Scheme (SFS) would have been eligible to the YFP if they had not opted for participating in the SFS.

In Claim Year 2018, the young farmer payment contributed to increase their income in addition to the basic payment by EUR 542 million: this is a 73% increase in the total amount of the young farmer top-up in comparison to CY2015. We observe a gradual increase in the period 2015-2018: the number of YFP beneficiaries increased by 64% whereas the support granted under YFP increased by almost 80% with a significant increase observed between CY 2017 and CY 2018 due to the amendments introduced by the Omnibus Regulation allowing Member States to increase the young farmer top-up up to 50% The share of direct payments beneficiaries benefiting from the YFP increased from 5 % in 2015 to 8.2% in 2018.

Further to the above, newly setting young farmers below the age of 40 benefit from priority access to the national reserve for payment entitlements so that they can access direct payments for the first time. This is important for young farmers who do not have payment entitlements under the Basic Payment Scheme, who have less payment entitlements than hectares of agricultural land or who have low value payment entitlements. In CY 2018, almost 33 000 young farmers benefitted from priority access to the national reserves.

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

For the programming period 2014-2020, it is foreseen to support more than 174 459 young farmers. By the end of 2018, more than 109 000 young farmers or some 60% of the above-mentioned target have already benefited from this support. 40% of supported young farmers are women. Compared to the results stemming from the previous Annual Implementation Reports (28% of the target achieved until 2017), significant progress in 2018 towards the achievement of the target can be noted.

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

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

DG AGRI also continued to support the exchanges of good practices in promoting generational renewal through the European Network for Rural Development.

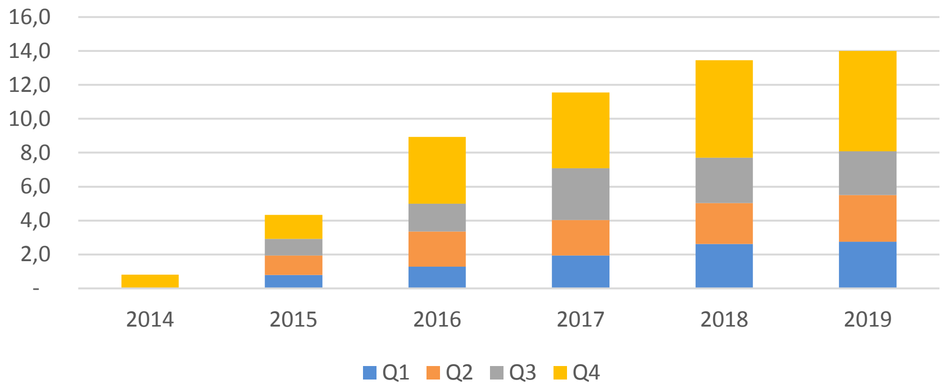
Rural Development

The implementation of area and animal-related support in 2014-2020 (e.g. related to environmental commitments and animal welfare) is well advanced. In this context, rules concerning the payment deadlines to the beneficiaries were introduced as from CY 2019. This is also expected to further facilitate the implementation of those commitments.

Some delays are still observed in relation to measures that can take several years to be completed (long-term investments such as broadband, other infrastructures) or that are conditional to the implementation of a business plan, which can take up to five years to be "completed" (business start-up). Significant progress in the implementation of those measures has been reached in 2019 and is expected to increase further in the final years.

Overall, the screening of the Annual Implementation Reports confirms a steady acceleration in spending levels compared to the first years of implementation of the programmes. This situation has permitted to catch up the initial delays linked to the relatively late starting of the 2014-2020 RDPs. In January 2020, reimbursement claims reached 53% of total EAFRD resources[56], matched by 69% in terms of commitments over planned total public expenditure[57].

Evolution of reimbursement claims by the Member States under Rural Development Programmes
(total Union contribution, billion EUR on 31/01/2020)



Source: Rural Development Quarterly declarations of expenditure

The latest figures indicate that, among the ESI Funds, the progress in EAFRD-related expenditure is advancing relatively well. With programme implementation having now reached its cruising speed, the situation is likely to further improve in the next years, as shown in the graph above.

Following the introduction of new provisions for the delimitation of areas with natural or other specific constraints in the European Union in 2018, the vast majority of Member States have revised their delimitations. JRC has technically supported DG AGRI in this politically very sensitive and technically complex procedure.

The legislative proposal on the CAP Strategic Plans take into account the main lessons learnt from the current Rural Development period, reducing the level of prescription of the interventions and improving the synergies with the other instruments of the CAP (i.e. direct payments and sectoral programmes). The new CAP Strategic Plans will have to pay a specific attention to attracting young farmers and will also promote employment,

[56] Q4 2019 is paid from budget 2020.
[57] Commitments towards beneficiaries are reported by Member States in AIR 2018

growth, social inclusion and local development in rural areas. The rural development support will also provide a decisive input into the new call for enhanced environmental and climate actions linked to the green deal initiative. The future CAP plans will include the following types of interventions, funded by the EAFRD: (i) environmental, climate and other management commitments; (ii) natural or other area-specific constraints; (iii) area-specific disadvantages resulting from certain mandatory requirements; (iv) investments; (v) installation of young farmers and rural business start-up; (vi) risk management tools; (vii) cooperation; (viii) knowledge exchange and information.

Despite the positive performance of the agricultural sector and its contribution to the Commission Objective on "jobs, growth and investments", there are still important challenges that need to be addressed in the following years: farmers' income is still lagging behind salaries in the whole economy and remains dependent on direct support. Around 40% of the agricultural entrepreneurial income of the EU-farming community depends on direct support. In addition, the EU Agricultural Outlook 2019-2030 points to an agricultural income decline in real terms up to 2030 at sectoral level (but income per agricultural working unit is expected to increase driven by the continuous labour outflow from agriculture). Furthermore, the sector continues to face low profitability - due inter alia to the EU's high production standards, high costs of production factors and the fragmented structure of the primary sector.

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

a) to support viable farm income and resilience across the Union to enhance food security;
b) to enhance market orientation and increase competitiveness, including greater focus on research, technology and digitalisation; and
c) to improve the farmers' position in the value chain[58].

Feeding a fast-growing world population remains a challenge with current production patterns. Food production still results in air, water and soil pollution, contributes to the loss of biodiversity and climate change, and consumes excessive amounts of natural resources, while an important part of food is wasted. There are new opportunities for all operators in the food value chain. New technologies and scientific discoveries, combined with increasing public awareness and demand for sustainable food, will benefit all stakeholders. The Commission will present the 'Farm to Fork' Strategy in spring 2020 and launch a broad stakeholder debate covering all the stages of the food chain, and paving the way to formulating a more sustainable food policy. The Farm to Fork Strategy will strengthen the efforts to tackle climate change, protect the environment and preserve biodiversity. The common agricultural policy will remain a key tool to support these efforts while ensuring a decent living for farmers and their families. The Farm to Fork Strategy will also contribute to achieving a circular economy and will contain proposals to improve the position of farmers in the value chain.

Furthermore, demographic change is one of the key factors driving a profound transformation of Europe, its societies and people's way of life. While many rural areas remain vibrant and continue to thrive, the impact of ageing and depopulation affects negatively some rural areas, notably those facing socio-economic decline. Demographic change presents a number of challenges for European society, not least for rural communities. Rural areas are a core part of our identity and our economic potential offering many opportunities that need support in order to be fully unleashed. These challenges and opportunities will be explored in the **Long-Term Vision for Rural Areas,** which Commissioner Wojciechowski has been asked to develop.

[58] Three briefs have been published in order to analyse and explain these specific objectives: Brief 1 "ensuring viable farm income"; Brief 2 "increasing competitiveness: the role of productivity"; Brief 3 "farmer position in value chains"

EU added value

Market transparency

While there is currently a large amount of market information about developments in agricultural production (prices, volumes of production, stocks, etc.) and at consumer level, there is much less market information about other key stages of the agri-food supply chain, namely the food processing and the retail level, often qualified as the 'black box' of the agri-food supply chain. This asymmetry and lack of transparency in information between farmers and their counterparts puts farmers at a disadvantage in the market and erodes trust. Small and medium enterprises downstream from farming also tend to lack access to the levels of market information that their larger competitors hold.

In this economic context, it is a priority for the EU to strengthen the resilience and adaptability of its agri-food sector. While farmers and operators downstream from farming compete on the basis of their ability to meet price and quality requirements, the income of these farmers and operators is also determined by the overall competitiveness of the food production system in which they operate. A key determinant of the ability to compete effectively is having access to timely and easily accessible information about market developments. The implementing regulation on market transparency (EU) 2019/1746 will address this very issue of asymmetry and lack of transparency in information by expanding as from 1 January 2021 the scope of economic data collected at all stages of the agri-food chain. This information will feed the Agri-Food Data Portal developed by DG AGRI since 2019, allowing for a timely dissemination of economic information on agri-food chains to all EU citizens.

The added value of EU action was also confirmed by the replies to a public consultation: 77% of the respondents think "that collecting and publishing information on agricultural markets at EU level brings added value, compared to what the national public or private systems of information collect and publish".

1.2 Commission General Objective 2: Digital Single Market

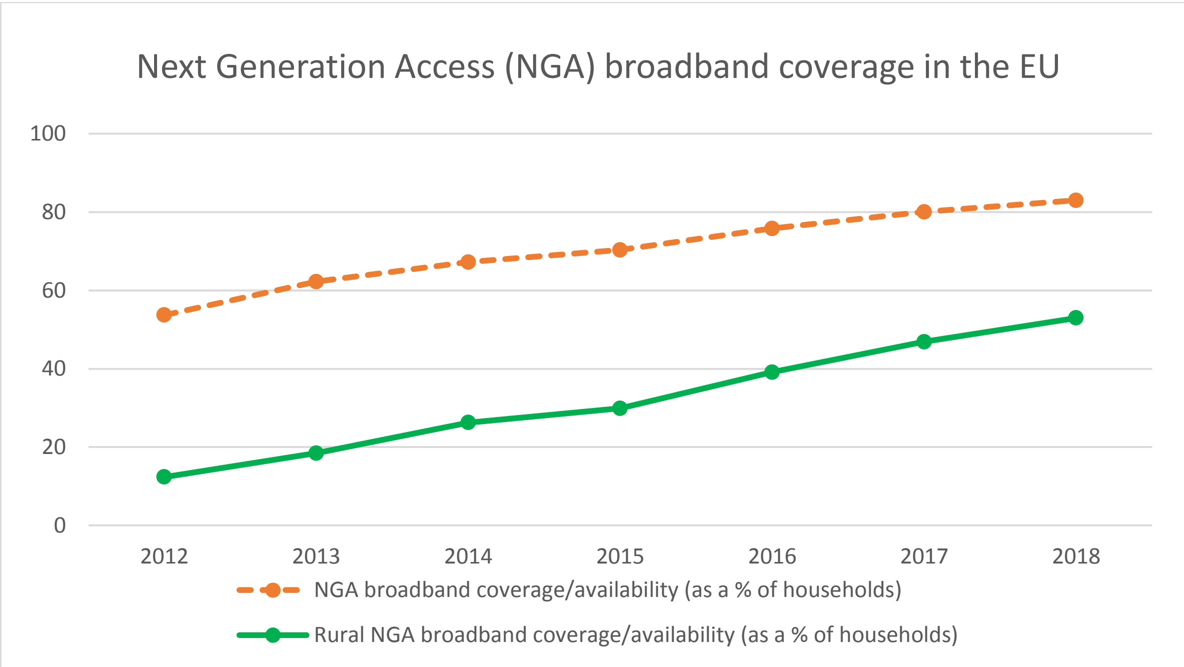
What are the key outcomes to be reported?

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

At the end of 2018, 53% of rural[59] households were served by a Next Generation Access[60] network compared to 83% of total EU households. There is a clear improvement on the 2017 situation (47% : 80%), in particular in rural areas, but is still clear that closing the connectivity gap of rural areas with regard to Next Generation Access remains a challenge.

The percentage of rural households that have fixed standard coverage[61] was 87% and is the same as in 2017 with an improvement from 80% in 2011.

2019 connectivity data will be made available later in the course of 2020.



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

[59] Rural areas are defined here as areas with less than 100 people per km². There is no reporting on urban coverage.
[60] Next Generation Access includes the following technologies: FTTH, FTTB, Cable Docsis 3.0, VDSL and other superfast broadband (at least 30 Mbps download speed).
[61] Rural standard fixed broadband coverage (as a % of households): Percentage of Households living in areas served by xDSL, cable (basic and NGA), FTTP or WiMax networks.

Why is this outcome important?

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

How closely is the outcome linked to the CAP?

The level of broadband access depends significantly on general developments in telecoms markets (and finance from other policy tools – including the European Regional Development Fund). The CAP plays its part by offering explicit support for setting up, expanding and improving broadband infrastructure, as well as for the provision of broadband internet access (i.e. improved connections to infrastructure), and access to e-government.

What supporting steps did the DG take in 2019?

In 2019, DG AGRI continued to work closely with DG REGIO, CNECT and COMP to further develop and empower the **network of Broadband Competence Offices** (BCOs) in Member States and their regions, as well as a Brussels-based Support Facility (SF), contracted and managed by DG AGRI. This initiative aims at assisting Member States' authorities in charge of the deployment of next generation broadband networks, especially in the rural and remote regions.

- The BCOs ("one stop shops" for technical support on ways to invest effectively in broadband projects and improve broadband access) help businesses and individuals to access more easily the various support possibilities offered by EU funds under the umbrella of the Digital Single Market, and specifically to widen next-generation broadband access in rural areas. By the end of 2019, the BCO network was made of 28 National and 88 Regional BCOs in the EU, plus 6 BCOs in the West Balkan countries and one BCO in Norway.
- The BCO Network Support Facility (SF), under contract with DG AGRI, 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. 2019 was the third year of the BCO SF contract.

In 2019, several BCOs took concrete initiatives aiming to bring broadband to the citizens in rural and remote areas. For example:

- The Bulgarian BCO set up a helpdesk in order to help municipalities with their WiFi4EU[62] applications. This made Bulgaria the country with the highest success rate in the WiFi4EU call.
- The Greek BCO launched in 2019 one of the first demand-side voucher schemes with state aid approval[63] in the EU with a budget of EUR 50 million.

In 2019, DG AGRI continued working on the "Action Plan for Rural Broadband"[64], launched in November 2017, with the presentation of the 'rural proofing checklist' and the finalisation of a "handbook" of best practices of rural broadband projects. See the example on EU added value.

[62] https://ec.europa.eu/digital-single-market/en/wifi4eu-free-wi-fi-europeans
[63] Approved on 7 January 2019: https://ec.europa.eu/commission/presscorner/detail/en/IP_19_162
[64] https://ec.europa.eu/digital-single-market/en/news/european-commission-joins-forces-help-bringing-more-broadband-rural-areas

In the course of 2019, DG AGRI started using a **rural proofing mechanism** aiming to guarantee that re-programming requests by the Member States of ERDF and EAFRD funds earmarked for broadband projects will not negatively affect the digital gap in the area in question. Member States are asked to explain how the alternative investments (via national funds, for example) will serve the purpose of bringing fast broadband in the area with the same (or better) results as were expected in the case of EU funds.

In April 2017, Commissioners Hogan, Creţu and Bulc launched the "**EU Action for Smart Villages**". Building on the "Smart Cities" concept, the initiative is a compilation of actions that the Commission is taking to promote the use of digital and innovative solutions in providing jobs and business opportunities in agriculture and other sectors in the rural economy as well as better services for rural citizens. A number of events and working groups related to digitalisation of agriculture and rural areas and smart rural services and innovation were held in the course of 2019. The pilot project on "Smart Eco-Social Villages", which was launched towards the end of 2017, was concluded in 2019. The project carried out a study elaborating the concept of smart villages and analysing best practice examples for communities wishing to develop their own Smart Village strategies. Furthermore, a preparatory action for smart villages in view of preparing for the post 2020 policy framework has started (contract signed in December 2019).

The results of the pilot project on **Smart eco-social villages, best practices to build future development strategies** are a contribution to the development of Smart Villages in the EU. The three main lessons from the study are that there is already a wide range of such initiatives in the EU rural areas, that many smart villages share common features and that there is room for improvement in the policy framework and financial support for their development.

Support to developing the concept and implementation of Smart Village approaches, including under the future CAP Strategic Plans, has been given throughout 2019 by the European Network for Rural Development (ENRD), through its highly popular Thematic Group on this topic, supported by DG AGRI.

EU added value

"Handbook on rural broadband projects"

2019 saw the completion of Action no 6 of the "Rural broadband Action Plan". This action, run in common by DG AGRI and DG REGIO, aims to present a simple framework with the main characteristics that a rural broadband project should have in order to be successful. It will present a series of good practice examples, in plain language, explaining the choices made by local communities or project promoters that led to success. The document that will be made available as a brochure during 2020, aims to fill an important gap in the material available to local project promoters that currently consists of technical manuals on available technologies, State Aid rules, financing models etc.

1.3 Commission General Objective 3: Energy Union and Climate

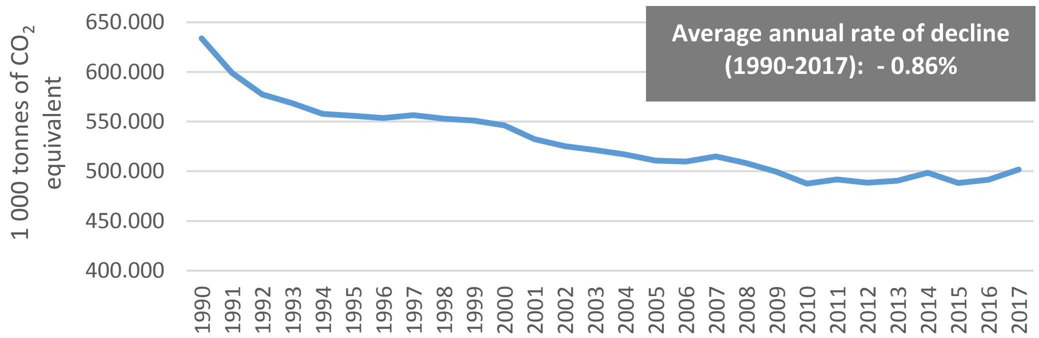
What are the key outcomes to be reported?

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

Greenhouse gas emissions (GHG) from agriculture[65] have declined substantially between 1990 and 2010. Since then, emission levels appear to be relatively stable.

Between 2016 and 2017, there was an increase in emissions from cropland and grassland and an increase from managed agricultural soils (details below).

GHG emissions from agriculture (incl. cropland and grassland), EU-28



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

"Emissions from agriculture (including croplands and grasslands) account for roughly 12.6% of total EU GHG emissions in 2017."

Emissions from agriculture (including croplands and grasslands) account for roughly 12.6% of total EU GHG emissions in 2017. 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

[65] 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.

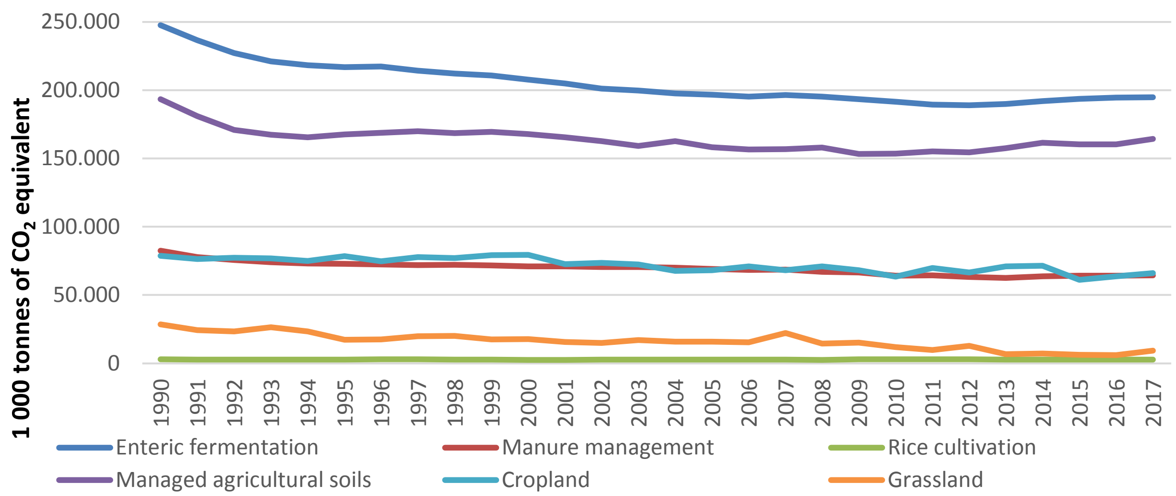
2. *Aggregated annual emissions and removals of carbon dioxide (CO2), and (where these are not reported under the agriculture inventory) emissions of methane (CH4) and nitrous oxide (N2O) from agricultural land uses (grassland and cropland)*, are reported by Member States under the 'Land Use, Land Use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

reduced methane enteric fermentation emissions that decreased by 22%, due to an overall reduction in livestock numbers (cattle and sheep). Between 2010 and 2017, an increase of GHG emissions (3.1%) was observed. An increase took place for the categories "enteric fermentation", "agricultural soils", "manure management" and "cropland". This is mainly due to an increase of the EU cattle herd, an augmented use of fertiliser as well as the farm management of cropland.

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

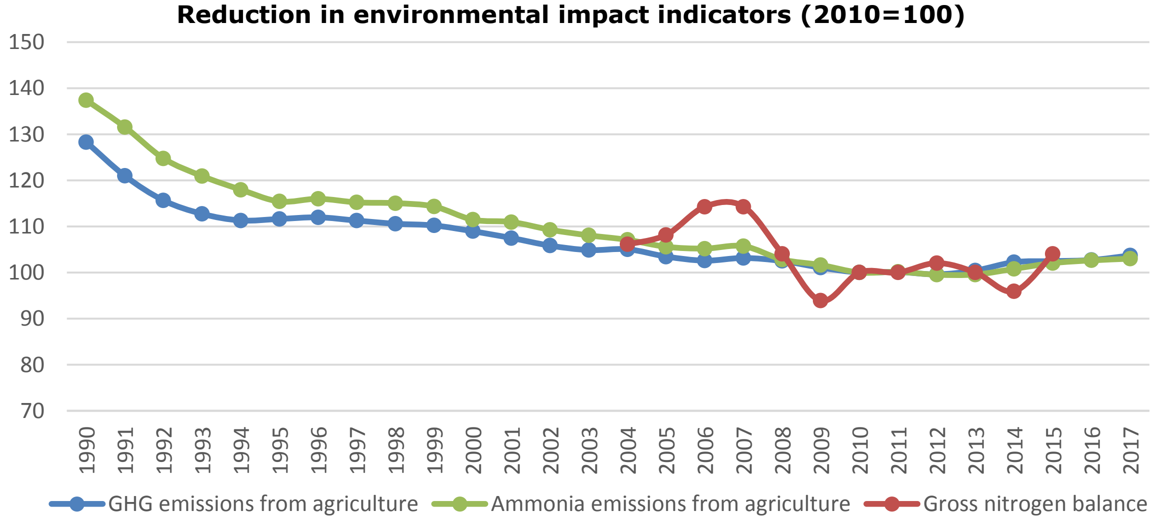
Greenhouse gas emissions from agriculture by subsector, EU-28



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

2. A similar trend in greenhouse gas emissions is visible for ammonia emissions and nitrogen balance

Reduction in environmental impact indicators (2010=100)



Source: GHG and ammonia emissions: EEA.
Gross Nutrient Balance (GNB): EUROSTAT [aei_pr_gnb]: Data for BE, BG, DK, EL, HR, IT, CY, LV, LT, LU, MT, AT, RO are Eurostat estimates.

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

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

The **Feasibility study for the technical design of a Nutrient Management tool**[66] concluded with the feasibility of such a system. The usefulness of nutrients management based on digital services has been demonstrated through existing initiatives, and the information generated by its services can serve a variety of stakeholders (farmers, Paying Agencies, advisors, data-driven users). More details on this feasibility study can be found in Annex 9.

3. Organic farming continues to be taken up by farmers[67]

In 2018, 7.5% of the EU's utilised agricultural area (UAA) was being farmed organically, corresponding to 13.44 million ha, going up from 10.05 million ha in the baseline year of 2012, when the share was 5.6%.

Evolution of the share of the organic area in the UAA in the EU-28

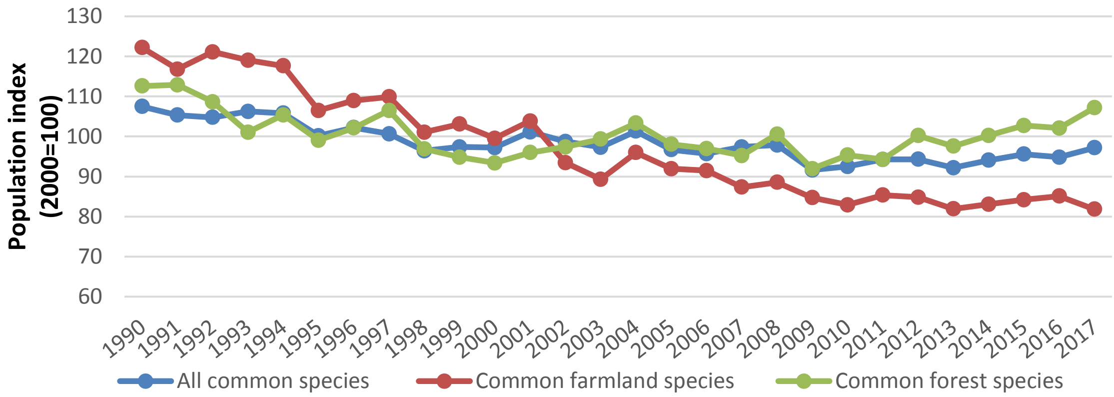
Source: Eurostat [org_cropar]

[66] https://ec.europa.eu/agriculture/sites/agriculture/files/external-studies/2019-feasibility-study-joint-space-agri-solutions-nutrient-management/final-report-fast.pdf
[67] 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).

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

According to the Farmland Bird Index[68], 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 show a positive trend as of 2009.

EU common bird indices



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).

The **support study of the evaluation of the impact of the CAP on habitats, landscapes and biodiversity** concluded that the presence of the CAP has raised Member States' ambition towards addressing biodiversity objectives as well as the level of funding. However, the CAP's contribution and benefits are highly dependent on Member States' implementation choices and priorities. For certain Member States, their biodiversity priorities are not well reflected in their CAP decisions. See Annex 9 for more details about this study.

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

The "greening" layer of the direct payments system[69], first implemented in 2015, is intended to ensure that a majority of EU agricultural area is farmed according to basic environment- and climate-friendly practices. In 2015, 75% of UAA was subject to at least one of the greening obligations. The total for 2016 was 77%, 79% in 2017, and 79%[70] in 2018.

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). The greening layer and RDPs together aim to address the environmental challenges that are highlighted above.

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

[69] 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.

[70] The share is calculated as total agricultural area for farms with at least one greening obligation on total agricultural area from Eurostat statistics revised by DG AGRI.

CAP Key Performance Indicator	Baseline	Target	Achieved value
KPI 3 - Minimum share of land with specific environmental practices/commitments		**To increase**	**Increasing**
- Share of agricultural area under greening practices	75% (2015)	To maintain	79% (2018)
- Share of area under organic farming	5.6% of total UAA (2012)	To increase	7.5% of total UAA (2018)
- 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) 17.01%** b) 1.96%**	a) 16.08% b) 0.40% (2018)
- 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) 14.0%** b) 0.9%	a) 12.0% b) 0.12% (2018)
- 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) 13.7%** b) 1.3%	a) 11.63% b) 0.21% (2018)
- 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) 0.74% b) 2.94%**	a) 0.45% b) 2.42% (2018)

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

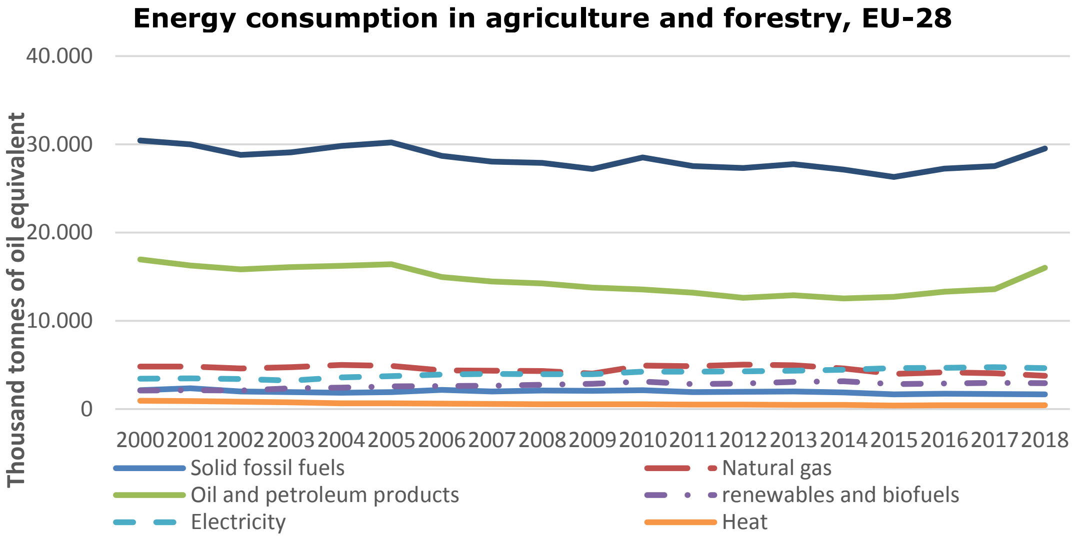
*** Certain targets have been updated from last AAR because of modifications in Rural Development programmes which were made in accordance with the legislation for rural development. For all targets expressed in relative terms, DG AGRI has changed the method of aggregation at EU level, in view of providing 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.

6. Energy use in agriculture and forestry

Energy use in agriculture and forestry showed a downward trend for the EU as a whole between 2000 and 2015. This is a positive signal indicating greater efficiency in agricultural and forestry energy use. However, as of 2015 an increase in total energy consumption was registered, mainly due to an increase in oil and petroleum products.

The use of renewable energy is going up (although it is still only a very low share of total energy consumption in agriculture/forestry). This positive trend is also the result of promoting the deployment of renewable energy (on-farm and in rural areas overall) as part of the rural development policy under the CAP, translating this way the objectives set up in the Clean Energy package[71].



Source: Eurostat, Energy Statistics (Simplified energy balances - annual data [nrg_100a])[72]

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

According to available studies, approximately 11.4% of the EU's territory is estimated to be affected by a moderate to severe *water erosion* (more than 5 tonnes per hectare per year)[73]. This estimate is lower compared to the previous estimations that 17% of EU's land area is affected by soil erosion[74], mainly due to the introduction of management practices against *soil erosion* (reduced tillage, cover crops, plant residues, grass margins, stone walls and contour farming), which have been applied in Member States during the last decade.

Yet more than 24% of the EU land and almost 1/3 of agricultural areas are subject to erosion at higher than the sustainable rates (2 tonnes per hectare per year), and this despite the fact that between 2000 and 2010, erosion has decreased by 20% on arable land in Western and Central Europe because of erosion control.[75] Between 2010 and 2016, the erosion by water decreased with more than 1 tonne per hectare in most southern regions in Europe.

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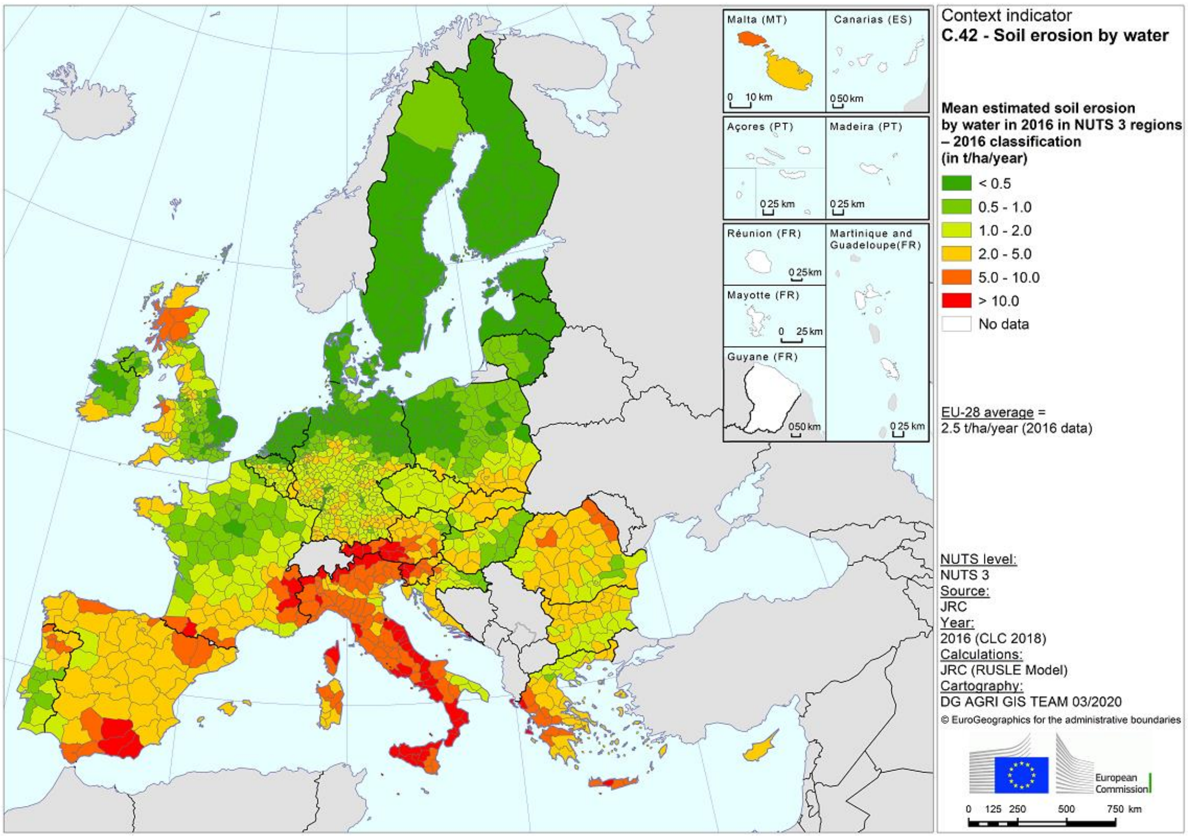
[71] https://ec.europa.eu/energy/en/topics/energy-strategy-and-energy-union/clean-energy-all-europeans
[72] The apparent recent rise in energy use remains to be confirmed in the coming years.
[73] Panagos, P., Borrelli, P., Poesen, J., Meusburger, K., Lugato, E., Montanarella, L., Alewell, C. (2015). *The new assessment of soil loss by water erosion in Europe*. Environmental Science & Policy. 54: 438-447.
[74] European Environmental Agency (2003). *Assessment and reporting on soil erosion*. Technical report No 94
[75] IPBES (2018). *Summary for Policymakers of the Regional Assessment Report on Biodiversity and Ecosystem Services for Europe and Central Asia.*
Panagos, P., Borrelli, P., Meusburger, K., Alewell, C., Lugato, E., Montanarella, L. (2015). *Estimating the soil erosion cover-management factor at the European scale*. Land Use policy 48C: 38-50

Soil erosion from water in 2016, EU-28



Soil erosion by water (tonnes per ha per year), 2016, EU-28, NUTS 3
Source: Joint Research Centre, European Commission

The **support study of the evaluation of the impact of the CAP on water** found that the CAP framework can be considered effective for maintaining minimum practices beneficial for water quality, but its effects on the quantitative aspects of water are rather contrasted. The analysis highlighted the importance of implementation choices by Member States, as only a few measures were actually supporting operations directly targeting water quality and quantity issues. Nevertheless, the CAP has been identified as the most important EU policy to provide funding for implementing the objectives of the Water Framework Directive. More findings can be found in Annex 9.

Why are these outcomes important?

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

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

One of the farming systems that can deliver broad environmental benefits (some related to climate change) is **organic farming**. For this reason, its continued uptake is encouraging. The European Green Deal also mentions that the area under organic farming will need to increase in Europe.

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

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

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.

Rural development policy continues to offer for the period 2014-2020 – as it did in 2007-2013[76] – various types of area-related payments for the implementation of management practices that have a proven positive impact on biodiversity, soil, water and air in both the farm and forest sectors, and which go beyond the level of mandatory requirements offering as such additional public goods and improvement to the state of natural resources. The total support planned for the programming period amounts to EUR 72 billion, in particular for the following measures:

- Support for Agro-Environment Climate measure = EUR 26.6 billion. At the end of 2018, 72% have been committed and 50% have been realised. The target area for coverage by this measure is 30.3 million ha. At the end of 2018, 94% of this target area was covered;
- Support for Organic Farming measure = EUR 11.2 billion. At the end of 2018, 71% have been committed and 47% have been realised;
- Support for Area facing Natural Constraints = EUR 26.9 billion. At the end of 2018, 72% have been committed and 66% have been realised;
- Support for Natura 2000 and Water Framework Directive payments = EUR 0.9 billion. At the end of 2018, 54% have been committed and 45% have been realised.

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 2.8 billion in energy efficiency (At the end of 2018, 40% have been committed and 18% have been realised) and EUR 2.4 billion in renewable energy production (at the end of 2018, 29% have been committed and 17% have been realised) in the farm and forestry sectors and in rural areas overall.

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

What supporting steps did the DG take in 2019?

The legal proposals for the future CAP put forward by the Commission on 1 June 2018 pay specific attention to the climate and environmental challenges faced by EU agriculture. Three[77] out of the nine specific objectives of the future CAP are linked to these challenges. A new green architecture is proposed in order to increase the effectiveness and environmental/climate ambition of the policy, based on three key elements under which the available tools can be regrouped:

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

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

These proposals take stock of the experience of the current policy and of the results of the evaluations and studies carried out. In 2019, DG AGRI continued to promote the legislative proposals to Member States, Council, European Parliament and other stakeholders.

In addition, the work on the Farm to Fork strategy, which is part of the Green Deal, started in December 2019 and aims to make the European Food System more sustainable, among others, by reducing the risk and use of pesticides, fertilizers and antibiotics.

The 2019 EU Agricultural Outlook Conference was focused on sustainability from farm to fork. More specifically, the interventions covered a number of initiatives undertaken by actors in the food chain to improve the sustainability of production, consumption and trade. While farmers have to deal with increasing extreme climatic events, agriculture has an important role to play in the fight against climate change. Beyond climate change, further sustainability aspects were explored, such as preserving the economic viability of farms, the vitality of our rural communities, biodiversity and natural resources. Rising societal demands and consumers' expectations, in particular for sustainable food, were also addressed while looking into the outlook for EU markets by 2030. The Conference gathered over 600 stakeholders, representing EU institutions, governments and international organisations, those involved in the food chain, the socio-professional sector, market experts, academics and think tanks, and the broader civil society.

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

The results of the review of the EU Forest Strategy were presented at the Conference "Our Forests, Our Future" organised by the Commission in Brussels on 25-26 April 2019. The conference confirmed the growing importance of forests and forestry in the context of the Paris Agreement and the 2030 UN Sustainable Development Goals. In addition, the implementation of the EU Forest Strategy, supported by the EU budget, has helped the EU to contribute effectively to territorial balance, growth and jobs in rural and urban areas, support the forest-based sector to stay competitive and the bio-economy to develop, while combating climate change, protecting biodiversity and ensuring the provision of ecosystem services. Communicating the value and importance of well-managed forests to the society, thus ensuring strong societal support for sustainable forest management, is essential to underpin these goals.

The Staff Working Document on the **evaluation of forestry measures under the rural development policy** (SWD(2019)389)[78] provides an overview of forestry measures for the programming period 2014-2020. The evaluation provides evidence that the forestry measures as currently implemented have contributed to the objectives attached to them, in particular also with a view to the EU Forest Strategy. The instrument Rural Development is a suitable place for these measures, as it allows a quite tailored design of measures, acknowledging the important role of sustainable forest management for the rural economic and social fabric and its essential contribution for the preservation of sustainable environmental resources (water, soil, biodiversity, etc.) and climate action.

The CAP-proposals of the European Commission for the period post-2020 duly took into account the findings and conclusions of the evaluation study, in particular as regards targeting towards environmental objectives, flexibility for Member States and simplification.

According to the Annual Implementation Reports of Rural Development Programmes, the financial execution of the 2014-2020 Rural Development measures for the environment resulted into 45.1% of by the end of 2018. See also the reporting on Rural Development in part 1.1 (p. 25).

UN Climate Change Conference - December 2019

The 25th session of the Conference of the Parties (COP 25) of the UNFCCC took place in Madrid (Spain) in December 2019. The specific programme on agriculture (Koronivia Joint Work on Agriculture) was further implemented during this session. The work programme addresses a broad range of issues encompassing the reduction of agricultural GHG emissions, adaptation to climate change, enhancing farm resilience and risk management. The overall aim of the work programme is to produce recommendations on how to help farmers worldwide to address climate change while safeguarding food security.

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

The citizens of the EU expect the CAP to make a stronger contribution to care for the environment and climate. Furthermore, there is a need to improve the effectiveness and targeting of the policy. Taking these challenges into account, the future CAP has an explicit commitment to "aim higher" with regard to the environment and climate. At the same time, taking into account the need for simplification, the current "greening

[78] https://ec.europa.eu/info/sites/info/files/food-farming-fisheries/forestry/documents/eval-cap-forestry-staff-working-document-rural-development_en.pdf

measures" are replaced by a new green architecture based on the following three objectives:

a) contribute to climate change mitigation and adaptation, as well as sustainable energy;
b) foster sustainable development and efficient management of natural resources such as water, soil and air[79]; and
c) contribute to the protection of biodiversity, enhance ecosystem services and preserve habitats and landscapes.

The Commission will work with the Member States and stakeholders to ensure that from the outset the CAP national strategic plans for agriculture fully reflect the ambition of the Green Deal and the Farm to Fork Strategy. The Commission will ensure that these strategic plans are assessed against robust climate and environmental criteria. These plans should lead to the use of sustainable practices, such as precision agriculture, organic farming, agro-ecology, agro-forestry and stricter animal welfare standards. By shifting the focus from compliance to performance, measures such as eco-schemes should reward farmers for improved environmental and climate performance, including managing and storing carbon in the soil, and improved nutrient management to improve water quality and reduce emissions.

EU added value

"Result-based payments under Agri-Environment-Climate Measure"

A result-based payment approach is one way of designing management commitments (agri-environment-climate payments) along with management prescriptions-based payment schemes. During 2019, the Commission has continued encouraging Member States to promote and support result-based payment schemes considered as a good tool to bring a significant enhancement of the quality of the environment in a measurable way.

In the result-based model, the focus is placed on results to deliver and there are no management requirements specified at the programme level. This implies that the choice of management farming practices is left entirely to the beneficiaries' discretion: they decide which farming methods to apply in order to achieve the expected results for which the payments are granted. Within this model of agri-environment-climate commitments, there are no requirements to be controlled – the control being limited to checking whether the results (e.g. improved status of a particular eco-system) are achieved or not. This should also lead to decreasing the administrative burden linked with the implementation of result-based schemes.

The experiences with result-based schemes have demonstrated that most of such schemes have been addressing the biodiversity and nature conservation objectives. However, they can also be programmed to successfully address other environmental and climate-related objectives.

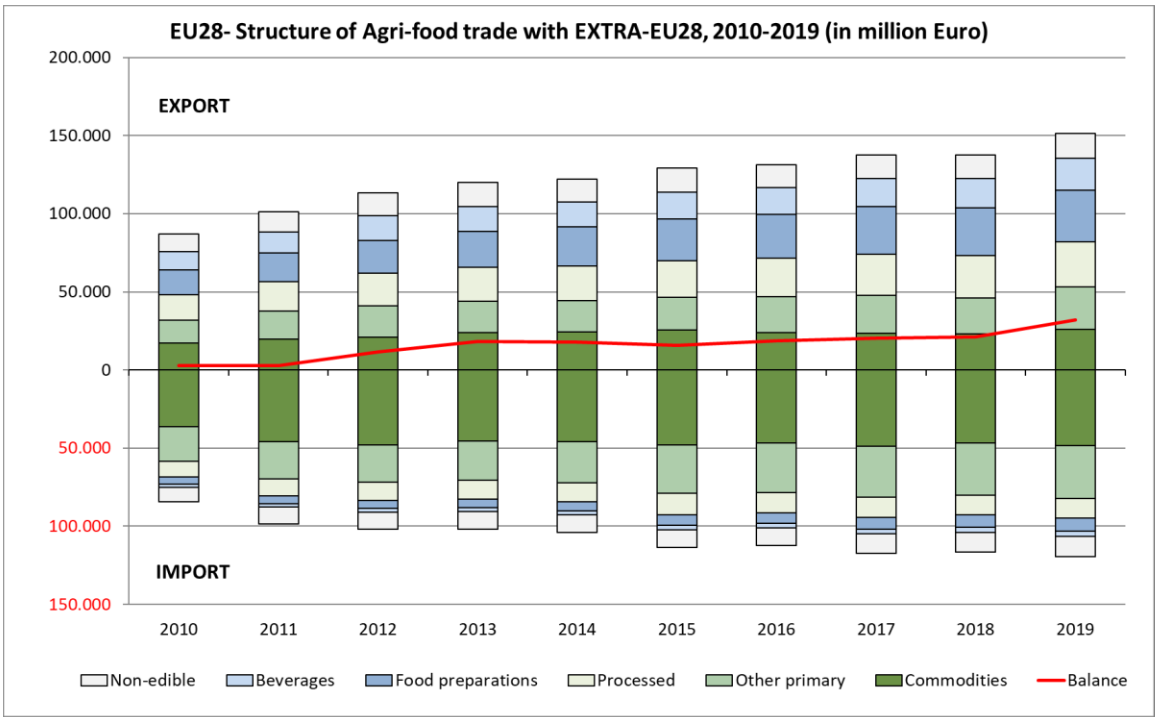
[79] A Brief has been published to develop the challenges and policy responses to promote soil protection: https://ec.europa.eu/info/sites/info/files/food-farming-fisheries/key_policies/documents/cap-specific-objectives-brief-5-soil_en.pdf

1.4 Commission General Objective 6: A balanced and progressive trade policy to harness globalisation[80]

What are the key outcomes to be reported?

Total EU agri-food exports continue to increase

- In 2019, the value of EU trade in agri-food products (exports and imports) reached EUR 270.5 billion, compared to EUR 253.1 million in 2018.



Source: COMEXT

Why are these outcomes important?

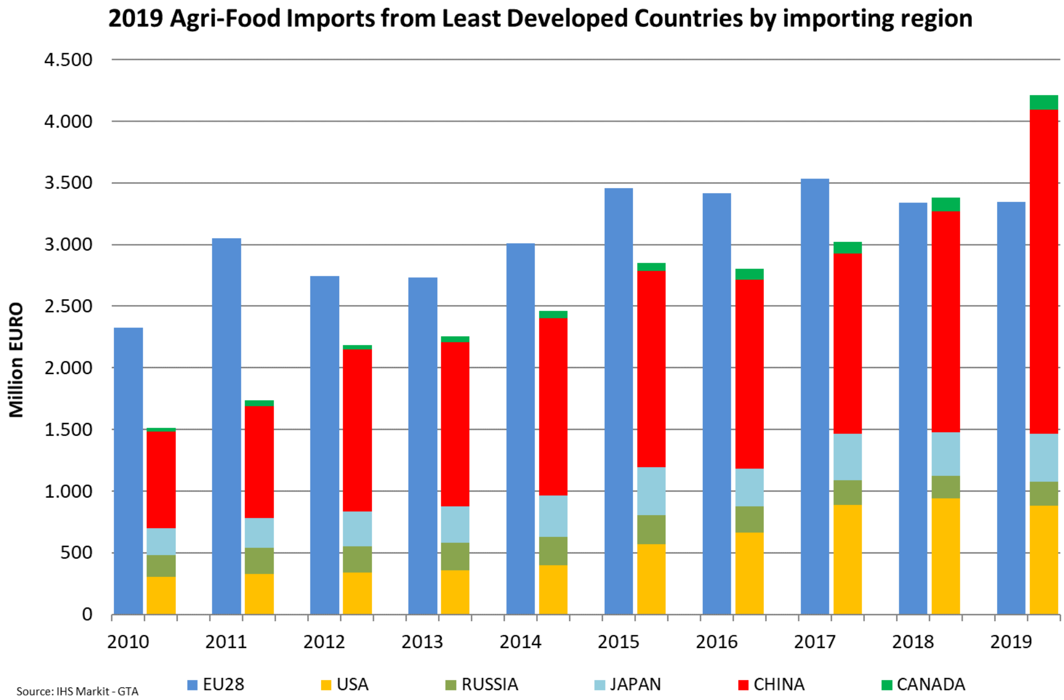
The agri-food sector plays a central role for a balanced and progressive trade policy.

Growing worldwide 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 must always 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 securing better protection of its geographical indications.

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

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.

Until 2017, the EU imported more agricultural products from the Least Developed Countries (LDCs) than the "big 5" (US, Canada, Japan, China and Russia) combined, as shown in the graph below, and remains the world's biggest importer of agri-food products from LDCs, continuing to provide preferential market access conditions for imports from developing countries. This, along with a CAP that is now fully in line with development objectives, better equips the EU to influence global agriculture policy and to take a leading role in global initiatives (for example in the context of the UN (FAO), the OECD and the G20) as well as to foster relationships with developing countries that assist them in advancing their agriculture and rural potential. This will help stimulating agricultural job creation, addressing the [Sustainable Development Goals] of Agenda 2030 as well as finding long-term solutions to counter irregular migration.



Source: Global Trade Atlas

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 taste – 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[81] help to cement recognition of EU products around the world.

What supporting steps did the DG take in 2019?

DG AGRI played an active role in trade negotiations, which reached various stages in 2019. A primary example is the political agreement with Mercosur on 28 June 2019.

This accomplishment put an end to negotiations that had spanned over twenty years. It is a strategic agreement because the EU is the first important partner to strike a trade pact with Mercosur in the current challenging times for global trade. This sends a powerful signal to the world that the Union stands for rule-based open trade. It is also major not only because of the size of the market at stake but also because the deal embraces new concepts, namely in relation to sustainable development. In order to ensure that all opportunities from trade agreements can be fully leveraged by producers and exporters in the EU, DG AGRI accompanied and monitored the correct implementation of existing agreements (such as CETA - mentioned earlier), and worked on resolving trade irritants that provide obstacles to real market access, for example in meats, wines and spirits or fruits and vegetables.

On 26 November 2019, the EU's instrument of accession to the Geneva Act of the Lisbon Agreement on Appellations of Origin and Geographical Indications, a multilateral treaty for the protection of GIs, was deposited at the World Intellectual Property Organisation (WIPO) in Geneva. EU accession created the critical mass needed to bring the Geneva Act into force on 26 February 2020.

On the bilateral front, following the EU-China Summit in April 2019, the negotiation of the EU-China Agreement on the protection of Geographical Indications accelerated and was officially concluded on 6 November 2019, opening the way for its signature and entry into force in 2020.

Moreover, in relation to geographical indications, the study on **EU quality schemes** provides a comparative analysis of the volume, value and trade of products registered as a protected designation of origin (PDO), protected geographical indication (PGI), geographical indication (GI) or traditional speciality guaranteed (TSG) as well as some recommendations on improving the quality of data collection regarding such products. More details can be found in Annex 9.

In 2019, DG AGRI launched the public database 'eAmbrosia – the EU Geographical Indicators register which by the end of 2019 includes Geographical Indications for agri-food products, wine and spirits drinks registered and protected in the European Union. By putting online data for all GIs registered and protected by the EU, eAmbrosia increases transparency by providing a single portal for stakeholders and enforcement authorities with a view to easier enforce and better protect GI-related rights.

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

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

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

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

In view of deepening the political dialogue and cooperation between the two continents, a 3rd AU-EU Agriculture Ministerial Conference was co-hosted on 21 June 2019 in Rome. The conference was a significant step forward for the AU-EU Alliance: it brought together more than 500 high-level representatives and stakeholders from both continents, at all levels (government, business and people).

Agriculture now leads the way in a process towards greater cooperation where other sectors are encouraged to follow. the AU and EU Commissioners, for the first time, signed a Political Declaration on 21 June 2019 that had been endorsed by all EU and AU Member States, along with an Action Agenda, designed to strengthen the intercontinental partnership at all levels of the food supply chain (incl. on food safety, research and innovation, as well as a multiannual cooperation programme with African continental, regional and national farmer organisations). It provides for actions from tackling climate challenges to a farmers' cooperation programme, building on the recommendations of the Task Force Rural Africa published in March 2019. These recommendations target four strategic areas:

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

Executive agencies

REA

The Research Executive Agency (REA) has been implementing its mandate since 2014. In 2019, REA managed 280 projects of Societal Challenge 2 funded by DG AGRI and it performed its tasks in an effective, efficient and cost-effective way.

For the **operational budget 2019**, the execution of commitment and payment appropriations progressed according to schedule.

Evaluations and grant preparations progressed according to plan as well. In total, 71 new grants were signed. The Time-To-Grant (TTG) performance was fully satisfactory for all calls. The **Time-To-Pay** (TTP) performance for all types of payments was also very high, including time-to-pay for experts.

Following an intensive exercise, REA has further reinforced the policy feedback (PF) mechanism and has developed a tailor-made PF plan to structure and effectively monitor PF activities.

CHAFEA

In 2019, the fourth year of the implementation of the reformed promotion policy[82], the Consumers, Health, Agriculture and Food Executive Agency (Chafea) continues its work on 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. With the assistance of external experts, 56 simple programmes with total EU co-financing of EUR 98 715 631 (with participants from 14 Member States) and 25 multi proposals with total EU co-financing of EUR 74 375 475 (with participants from 16 Member States) were selected for financing.

Additionally, Chafea actively contributed to the communication of the reform: notably it participated in the Infoday in Brussels (for which a web portal on promotion policy had been created). The portal, launched in the beginning of 2017, has been updated throughout 2018 and 2019 with information useful to potential applicants, such as webinars and market reports.

As part of the measures on the initiative of the Commission, Chafea organized numerous events, such as two high-level missions, three EU pavilions, four promotion seminars, four communication campaigns).

Chafea also produced or updated six Market Entry Handbooks (UAE, Mexico, Japan, South Korea, Egypt and India) and started preparations for seven more.

[82] Regulation (EU) No 1144/2014

2. ORGANISATIONAL MANAGEMENT AND INTERNAL CONTROL

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

The first subsection reports the control results and other relevant information that supports management's assurance on the achievement of the financial management and internal control objectives[83]. It includes any additional information necessary to establish that the available evidence is reliable, complete and comprehensive. It covers all activities, programmes and management modes relevant to the DG.

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

2.1 Financial management and internal control

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

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

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

2.1.1 Control results

This sub-section reports and assesses the elements identified by management, which 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 to mitigate them and the indicators used to measure the performance of the relevant control systems.

In line with the 2018 Financial Regulation, DG AGRI's assessment for the new reporting requirement is as follows:

- Cases of "confirmation of instructions" (new FR art 92.3) - no such cases for the DG;

- Cases of financing not linked to costs (new FR art 125.3) - no such cases for the DG;

- Financial Framework Partnerships >4 years (new FR art 130.4) - no such cases for the DG;

- Cases of flat-rates >7% for indirect costs (new FR art 181.6) - no such cases for the DG;

- Cases of "Derogations from the principle of non-retroactivity [of grants] pursuant to Article 193 FR" (new Financial Regulation Article 193.2) - no such cases for the DG.

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

EFFECTIVENESS (The control results and benefits)

A) *Legality and regularity*

DG AGRI is using internal control processes to ensure the adequate management of the risks relating to the legality and regularity of the underlying transactions it is responsible for, taking into account the multiannual character of programmes and the nature of the payments concerned.

2.1.1.1 Payments executed in 2019 for the CAP

In 2019, total EU outturn on payment appropriations[84] in respect of Title 05 'Agriculture and Rural Development', under DG AGRI responsibility was EUR 58 062.53 million. Of this, EUR 57 937.04 million (99.78% of CAP budget[85]) was under shared management. Payments executed under the EAGF (shared management) amounted to EUR 43 707.56 million. Payments executed under the EAFRD (shared management) amounted to EUR 14 169.34 million. Direct management and indirect management accounted altogether for only around 0.22% of total EU expenditure under DG AGRI responsibility.

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

Title 05	Agriculture and rural development	Shared management (EUR)	Direct management (EUR)	Indirect management (EUR)	Total (EUR)	% of CAP budget
0501	Administrative expenditure		9 104 975		**9 104 975**	0.02%
0502	Interventions in agricultural markets	2 371 906 493	-		**2 371 906 493**	4.09%
0503	Direct aids	41 335 655 479			**41 335 655 479**	71.19%
0504	Rural development	14 169 342 972	10 635 228		**14 179 978 201**	24.42%
0505	Instrument for Pre-accession Assistance			73 956 989	**73 956 989**	0.13%
0506	International aspects		4 230 824		**4 230 824**	0.01%
0507	Audit	60 138 487			**60 138 487**	0.10%
0508	Policy strategy and coordination		27 555 546		**27 555 546**	0.05%
0509	Horizon 2020 - Research and innovation		-		-	0.00%
Total		**57 937 043 431**	**51 526 573**	**73 956 989**	**58 062 526 993**	100.00%
% of Title 5		99.78%	0.09%	0.13%	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 systems 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 99.7%[86] of the CAP spending in 2019.

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

[84] Including assigned revenue.
[85] This percentage is calculated on the total payments executed in financial year 2019 (actual payments. Title 05), also including audit budget (0507).
[86] This percentage is calculated on the total payments executed in financial year 2019.

2.1.1.2 Control effectiveness as regards legality and regularity

The control systems set up under shared management in DG AGRI and in the Member States are explained in more details in Part 2 (on the functioning of the Paying Agencies and the role of the Certification Bodies) and Part 3 (which deals separately with each of the ABBs) of Annex 10.

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

2.1.1.2.1 Control framework as regards legality and regularity

With almost seven million beneficiaries of the CAP, EAGF and EAFRD expenditure is implemented under **shared management** through a comprehensive management and control system (described in detail in Annex 10 of the report) which is designed to ensure the legality and regularity of the underlying transactions at the level of the final beneficiaries. Where the Commission implements the budget under shared management, implementation tasks are shared with the Member States. The latter are required to take all the necessary measures to ensure that actions financed from the EU budget are implemented correctly and effectively and in accordance with EU rules. They are obliged to have systems in place which prevent, detect and correct irregularities and fraud. The CAP legislation provides that they shall accredit **Paying Agencies** which are dedicated bodies responsible for the management and control of Union funds, notably payments to beneficiaries and financial reporting to the Commission. There were 76 such Paying Agencies at the end of 2019. **Certification Bodies** designated by Member States shall provide every year an opinion covering the completeness, accuracy and veracity of the annual accounts of the Paying Agency concerned, the proper functioning of its internal control system and since 2015 the **legality and regularity** of the expenditure declared to the Commission.

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

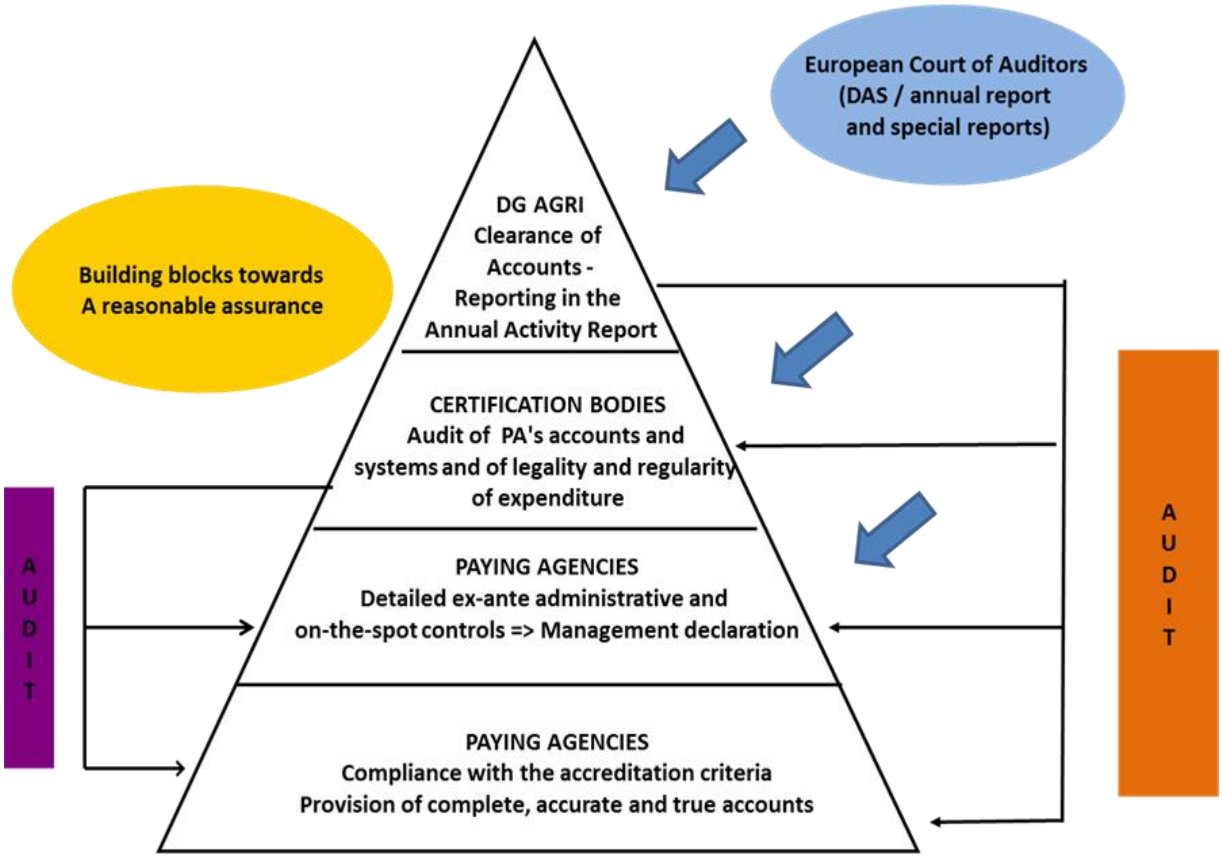
The **EAFRD** (2nd pillar) programmes are co-funded by the EU and national budgets. They are managed on the basis of national or regional **multiannual programmes** where measures can be tailored at national and regional level in order to meet specific objectives. The appropriations are differentiated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

However, a single set of specific financial management, control rules and assurance on legality and regularity apply to both pillars of the CAP[87]. 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 2019 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 serves as a

[87] 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).

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, where the audit work of the Certification Bodies is done in accordance with the applicable regulations and guidelines, the key element of the assurance model of the CAP expenditure. In parallel, annual accounts are declared by the Paying Agencies, certified by the Certification Bodies and are cleared (financial clearance procedure) by the Commission, without prejudice to future net financial corrections to be decided by the Commission resulting from DG AGRI own audit activities pursuant to the conformity procedure.

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



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

The Commission is of the view that the corrective capacity in the years after the year of expenditure of its net financial corrections imposed on Member States and of the amounts recovered from beneficiaries by the Member States and reimbursed to the EU budget must also be considered. It is not until this corrective capacity has been taken into account that the picture of the risk to the EU budget is complete and it is possible to assess the remaining financial risk to the EU budget (estimated final amount at 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 117 audit missions and opened 37 conformity procedures after desk audits in 2019 for the Member States in order to check that EU rules, and in case of the EAFRD also national rules, are complied with by the Paying Agencies when making payments to beneficiaries or recovering undue payments. As a result of the conformity clearance procedures, the Commission imposes net financial corrections on the Member States by which they reimburse to the EU budget the amounts corresponding to those corrections.

Under the single audit approach, the conformity audit missions take as a starting point the work of the respective Certification Body when assessing compliance of the CAP management and control systems at national level. In 2019, in parallel with the single audit missions, DG AGRI also carried out 16[88] missions to different Certification Bodies to check their audit strategy and sampling. Overall, the quality of the Certification Bodies' audit work and consequently the level of reliance on their opinion on legality and regularity of the expenditure is a key element in the overall CAP assurance building.

It is recalled that Article 36(5) of the Financial Regulation 2018/1046[89] 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 following sections, and Annex 10 of this report, present in detail the weaknesses found in the control systems, remedial actions being taken and describe how the multiannual control system of the CAP protects the EU financial interests.

DG AGRI together with the other DGs managing EU funds under shared management and DG Budget is also involved in the implementation of the **new European legal framework on prevention and avoidance of conflict of interests in shared management**. The new provisions of the Financial Regulation (Article 61), in force since 2 August 2018, include in their scope financial actors in national authorities at any level, involved in EU-budget implementation and acts preparatory thereto and specifically refers to shared management. This encompassing European concept of conflict of interests has triggered further Commission initiatives to monitor and audit its correct implementation by Member States authorities. DG AGRI has supported the initiatives for a comprehensive implementation of relevant obligations in the management and control systems of the Member States under the CAP together with DG Budget. Member States' authorities responsible for managing and auditing EU funds have received guidance during meetings held in November and December 2018. On the basis of feedback received from the conference of 10 April 2019 that brought together Member States authorities and the European Commission to discuss measures taken to deal with conflict of interests, and to exchange best practices, further guidance is being prepared by DG Budget and discussed with services at the time of drawing up this report, including

[88] Two missions carried out in January-February 2019, included in the audit plan for 2019 were already reported in the AAR 2018.
[89] Regulation (EU, Euratom) 2018/1046 of the European Parliament and of the Council on the financial rules applicable to the general budget of the Union.

DG AGRI. Member States have been asked about the measures they have taken to ensure respect of the revised rules.

DG AGRI has presented the provisions of Article 61 of the Financial Regulation to all Member States' Paying Agencies, Competent Authorities and Certification Bodies to ensure that the new provisions are well understood and recommended them to check their control and/or audit procedures to cover situations of conflict of interests.

In addition, DG AGRI has also jointly audited with DG REGIO and DG EMPL specific allegations of conflict of interests in the Czech Republic for EAFRD investment projects. While the conformity procedure is ongoing, DG AGRI is not reimbursing to the Czech authorities the amounts related to EAFRD projects that could be potentially affected by the alleged conflict of interests.

To conclude, at this stage DG AGRI considers that it has taken the necessary measures to address the issue of conflict of interest, including in relation to the Czech Republic, and will continue to do so (see also Annex 10, section 3.3.3.5.2).

During 2019, in particular towards the end of the year, allegations of misuse of CAP funds have been brought to the attention of DG AGRI. Whenever there are allegations of particular malpractices in individual Member States, DG AGRI works closely together with DG Budget, OLAF, and other Commission services to look into these cases very carefully. If the allegations relate to fraud, OLAF is the responsible body to investigate them. If the allegations relate to issues outside the CAP rules, for example land that is taken by force, then this is a rule of law issue and the judicial system of the Member State should act, while the Commission services can assist the Member State, if necessary. In case of fraud risks related to deficiencies in the CAP management and control systems of the Member State concerned, DG AGRI can and will (e.g. in the case of Slovakia see Annex 10, section 3.2.3) audit the systems and/or can request and monitor the implementation of a corrective Action Plan to remedy the situation and to protect the EU budget.

2.1.1.2.2 Assessment of the amount at risk for Shared management

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

ABB02 – Market Measures

Market measures, at EUR 2 371.91 million, accounted for 4.09% of the CAP budget in 2019. The market measures split over 10 sectors, the most important of which are wine and fruit and vegetables:

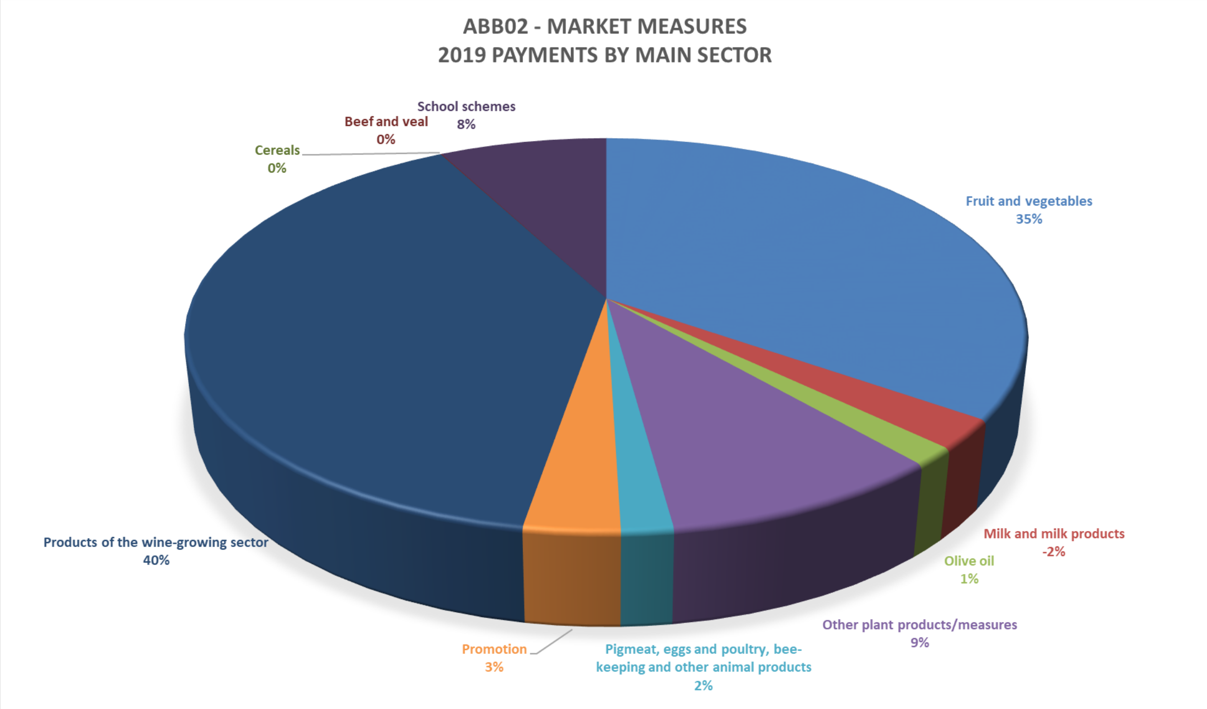


Chart 2.1.1.2.2-1

The following table sets out the expenditure in 2019 for ABB02 by budget article (sector). A measure-by-measure approach has been taken for assurance purposes in order to estimate, as precisely as possible, the adjusted error rates and amounts at risk.

Overall assessment of risk for ABB02 - Market Measures

Budget item	Sector	Expenditure [1] EUR	Expenditure covered by statistics		Expenditure for which no control statistics are available				
			Expenditure[1] EUR	Risk EUR	No statistics available EUR	Measures risk assessed by auditors		ABB02 error rate applied* 2.75%	
						Expenditure[1]	Risk	Expenditure[1]	Risk
050201	Cereals	- 1 292			- 1 292	- 1 292	-	-	-
050202	Rice	-			-		-	-	-
050203	Non-annex I products	-			-		-	-	-
050204	Food Aid	-			-			-	-
050205	Sugar	-			-			-	-
050206	Olive Oil	36 659 051	36 659 051	1 082 534	-			-	-
050207	Textile Plants	-			-			-	-
050208	Fruit and Vegetables	865 442 925	865 118 044	16 593 232	324 881			324 881	8 927
050209	Wine [2]	987 503 626	986 189 944	39 490 688	1 313 682			1 313 682	36 097
050210	Promotion (shared management only)	77 638 036	60 702 502	647 137	16 935 534	16 935 534	952 457	-	-
050211	Other plant products and POSEI	230 284 512	227 744 243	372 726	2 540 269			2 540 269	69 802
050212	Milk and Milk Products	- 60 963 007			-60 963 007	-60 963 007		-	-
050213	Beef and Veal	1 055 764			1 055 764	1 055 764	551 284	-	-
050214	Sheepmeat and goatmeat	-			0			-	-
050215	Pigmeat, eggs, poultry & apiculture	41 881 301			41 881 301	41 881 301	287 097	-	-
050218	School scheme	192 405 579	192 405 579	5 083 356	-			-	-
	Total	**2 371 906 493**	**2 368 819 362**	**63 269 673**	**3 087 130**	**-1 091 701**	**1 790 837**	**4 178 831**	**114 826**
						Expenditure	Amount at risk	% coverage	Error rate
Expenditure covered by control statistics [3]						2 368 819 362	63 269 673	97.37%	
Expenditure for which there are no statistics but for which risk assessment carried out [3]						59 872 599	1 790 837	2.46%	
Risk for expenditure covered by statistics and by risk assessment [3]						2 428 691 961	65 060 509	99.83%	
*Error rate used on expenditure covered by statisitcs and risk assessed									2.75%
Extrapolated risk for non-risk assessed expenditure						4 178 831	114 826		
ABB02 - shared management - monthly declaration						2 371 906 493	65 175 335		
Suspension of payments						0	-		
ABB02 - shared management - payments made						**2 371 906 493**	**65 175 335**		**2.75%**
ABB02 - direct management - payments made on *Promotion measures - direct payments by the Union*							-		
Total ABB 02 - payments made						**2 371 906 493**	**65 175 335**		**2.75%**

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

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

[3] Share of the gross expenditure, not taking into consideration the negative amounts of EUR 60.963 million reimbursed under the exceptional temporary measure in the milk and milk products and EUR 0.001 million under the measure "Cereals".

Table: 2.1.1.2.2-1

Control statistics are available in respect of 97.37%[90] of the expenditure covering EUR 2 369.8 million. For a further EUR 59.873 million for which no statistics were available, DG AGRI's auditors have considered that they have assurance on the basis of an examination of all available information on the schemes concerned and have used their judgement to estimate the maximum amount at risk in that expenditure.

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

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

As a result, in 30 cases the adjusted error rate is above 2%. In line with its materiality criteria in Annex 4, **6 cases – where the error rate is above 5%** and the amount at risk is above DG AGRI *de minimis* threshold of EUR 1 million – 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 otherwise if a reservation should be made. In **1 case**, a reservation was made (Italy for the fruit and vegetables sector).

Finally, for 23 cases, the amount at risk is below DG AGRI *de minimis* threshold of EUR 1 million as established in Annex 4, therefore no reservation was necessary.

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

The overall outcome of this exercise is that 7 reservations are necessary at measure level:

- Fruit and Vegetables: Operational programmes for producer organisations (the United Kingdom, Italy and Portugal),
- Olive oil (Greece),
- Wine sector (Bulgaria, Italy),
- EU School Scheme (Spain).

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

[90] Share of gross expenditure, this figure does not take into consideration the amount of EUR 60.963 million reimbursed under the exceptional temporary measure in the milk and milk products and EUR 0.001 for the market measure "cereals".

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 2019	Reservations (by aid schemes) - shared management	Adjusted error rate	Amount under reservation EUR	Amount at Risk EUR	2019 Expenditure managed by Paying Agencies with reservation
AT	0	24 467 268		5.13%		1 255 878	
BE	0	60 686 944		0.96%		581 078	
BG	1	20 080 794	Wine measures	11.52%	2 255 554	2 313 917	14 336 343
CY	0	6 493 795		3.59%		232 872	
CZ	0	16 318 913		0.83%		134 851	
DE	0	115 577 239		1.15%		1 331 006	
DK	0	10 988 296		0.00%		474	
EE	0	1 191 362		0.13%		1 539	
ES	1	588 486 074	School scheme	1.42%	2 789 533	8 362 275	19 162 304
FI	0	5 317 945		0.06%		3 346	
FR	0	519 787 560		0.62%		3 197 192	
GB	1	39 537 301	F&V Producer organisations	4.87%	1 896 981	1 924 143	37 327 584
GR	1	56 525 497	Olive Oil	2.38%	1 082 534	1 345 315	10 825 341
HR	0	9 349 392		0.29%		26 749	
HU	0	37 289 945		1.27%		475 041	
IE	0	-3 163 933		1.63%		151 623	
IT	2	631 086 287		6.12%		38 644 373	
	Breakdown of reservation in IT by measure		F&V Producer organisations		7 804 459		239 934 017
			Wine measures		30 230 109		312 174 978
LT	0	412 590		0.05%		191	
LU	0	524 590		0.00%		(0)	
LV	0	1 440 570		0.00%		0	
MT	0	611 353		4.41%		26 973	
NL	0	24 290 954		0.46%		112 160	
PL	0	28 285 992		7.15%		2 021 336	
PT	1	102 579 054	F&V Producer organisations	1.84%	1 565 182	1 890 020	9 309 494
RO	0	42 382 176		2.46%		1 041 668	
SE	0	12 809 077		0.76%		97 918	
SI	0	7 362 360		0.04%		2 693	
SK	0	11 187 099		0.01%		704	
Total	**7**	**2 371 906 493**					
Suspension of payments		0					
Total ABB02 - paymens made		**2 371 906 493**		**2.75%**	**47 624 352**	**65 175 335**	**643 070 061**

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

Table: 2.1.1.2.2-2

The total amount at risk for ABB02 – Market measures is estimated at EUR 65.175 million corresponding to an error rate of 2.75%.

Table 2.1.1.2.2-2 indicates the expenditure managed by the Member States for which a reservation is issued. It is emphasised that of this amount, **the amount at risk for the expenditure under reservation is EUR 47.624 million.**

ABB03 – Direct Payments

Direct payments constitute the largest area of expenditure in the CAP (71.19%) and amounted to EUR 41 335.66 million in 2019. The Basic payment scheme, greening and the Single area payment scheme account for 80% of this amount.

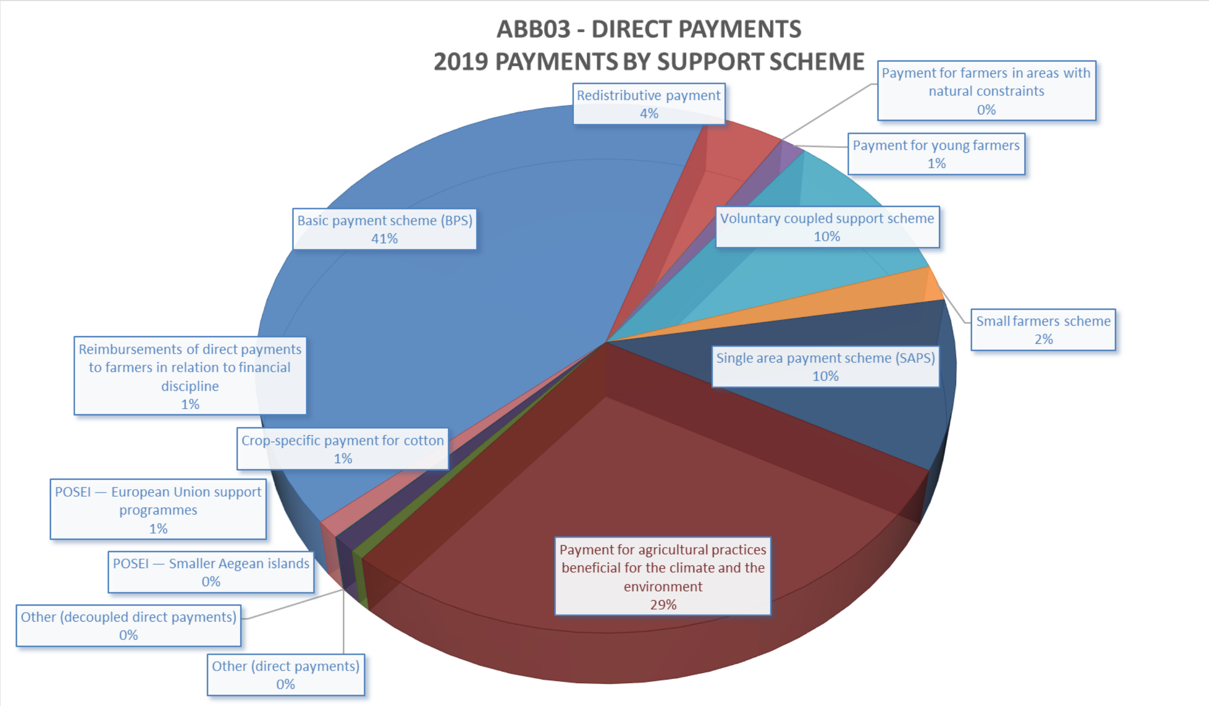


Chart 2.1.1.2.2-2

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

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

As a result, an adjusted error rate of 1.57% has been calculated with 19 Paying Agencies having an error above 2% (out of which 1 Paying Agency above 5%).

For the 18 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 1 case (Czech Republic), it was considered that, given the mitigating factors present (see Part 3.2.5 of Annex 10), it would not be necessary to make a reservation.

In 1 case (IT25 - APPAG), as the amount at risk is below DG AGRI *de minimis* threshold, no reservation is required. Annex 10 – Part 3.2.5 (ABB03) sets out the reasoning for these cases.

As regards reservations from 2018, in 4 cases (France ODEADOM, United Kingdom (one Paying Agency), Poland and Slovakia), it was not considered necessary to carry over reservations from the 2018 AAR with regard to 2019 expenditure. The reasons for each decision are detailed in Annex 10 – Part 3.2.

The overall outcome of this exercise is that 17 reservations are necessary at Paying Agency level: Austria, Cyprus, Denmark, Spain (3 Paying Agencies), Greece, Italy (7 Paying Agencies), Portugal, Romania and Sweden.

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] 2019	N° of Paying Agencies	N° of Paying Agencies under Reservation	Adjusted Error Rate	Amount at Risk	Amount at Risk Covered by Reservation	2019 Expenditure managed by Paying Agencies with a Reservation
AT	691 113 307	1	1	5.20%	35 957 413	35 957 413	691 113 307
BE	488 415 321	2	0	0.66%	3 237 509	0	0
BG	785 323 742	1	0	1.40%	10 975 750	0	0
CY	48 549 901	1	1	3.65%	1 772 844	1 772 844	48 547 754
CZ	854 325 870	1	0	2.08%	17 808 356	0	0
DE	4 794 347 836	13	0	0.49%	23 323 370	0	0
DK	822 261 577	1	1	3.76%	30 940 355	30 940 355	822 261 577
EE	133 043 733	1	0	0.91%	1 206 581	0	0
ES	5 104 476 826	17	3	1.06%	54 146 515	9 722 121	356 022 986
FI	523 063 094	1	0	0.82%	4 267 119	0	0
FR	6 934 972 034	2	0	1.82%	125 926 933	0	0
GB	3 186 208 909	4	0	0.70%	22 390 168	0	0
GR	1 982 270 702	1	1	2.28%	45 260 216	45 260 216	1 982 270 702
HR	278 861 082	1	0	1.24%	3 471 058	0	0
HU	1 266 509 801	1	0	1.63%	20 627 554	0	0
IE	1 200 388 737	1	0	0.57%	6 848 495	0	0
IT	3 641 927 664	9	7	2.38%	86 738 609	85 594 780	3 581 871 453
LT	468 921 252	1	0	1.04%	4 887 705	0	0
LU	32 867 735	1	0	0.96%	315 857	0	0
LV	252 595 964	1	0	1.44%	3 634 166	0	0
MT	5 123 538	1	0	0.72%	36 851	0	0
NL	679 511 638	1	0	0.78%	5 302 557	0	0
PL	3 387 285 922	1	0	1.03%	34 938 102	0	0
PT	671 458 196	1	1	4.01%	26 924 718	26 924 718	671 472 899
RO	1 847 700 958	1	1	2.87%	52 938 504	52 938 504	1 846 464 987
SE	687 650 826	1	1	2.69%	18 469 727	18 469 727	687 650 826
SI	134 688 867	1	0	1.69%	2 276 095	0	0
SK	445 097 479	1	0	0.73%	3 270 908	0	0
Total	**41 348 962 512**	**69**					
	-13 307 033	Amounts reimbursed to DG AGRI by Coordinating Bodies					
Total ABB 03 - Payments made	**41 335 655 479**	**69**	**17**	**1.57%**	**647 894 036**	**307 580 678**	**10 687 676 491**
Footnote:	[1] Monthly declaration of expenditure affected by Paying Agencies.						

Table: 2.1.1.2.2-3

The total amount at risk for ABB03 - Direct payments is estimated at EUR 647.894 million corresponding to an error rate of 1.57%.

Table 2.1.1.2.2-3 indicates the expenditure managed by the Paying Agencies for which a reservation is issued. It is emphasised that of this amount, **the amount at risk for the expenditure under reservation is EUR 307.581 million.**

ABB04 – Rural Development

In 2019, EUR 14 179.98 million was paid to Member States in respect of rural development which represents 24.42% of the CAP spending. Expenditure paid in 2019 under the 2007-2013 programming period amounted to EUR 257.69 million as balance payments. Expenditure paid and financed under the 2014-2020 programming period, amounted to EUR 13 840 million. Of this, EUR 2.71 million was paid as pre-financing, EUR 13 837.28 million was paid as interim payments and an amount of EUR 10.64 million was paid in respect of technical assistance. Payments have also been made in relation to the programming period 2000-2006 (budget items 05040114 and 050452 see table below).

Payments reimbursed by DG AGRI to the Member States in 2019

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	-452 428
		050452	Completion of rural development financed by the EAGGF Guidance section and the transitional instrument for rural development for the new Member States financed by the EAGGF Guarantee Section - Programming period 2000 to 2006 [1]	72 105 592
		05040501	**Rural development programmes 2007-2013**	**257 692 857**
			Reimbursements following Court cases	
			Final balance 2007-2013	257 692 857
		05046001	**Promoting sustainable rural development, a more territorially and environmentally balanced, climate-friendly and innovative Union agricultural sector**	**13 839 996 951**
			Interim payments for promoting sustainable rural development, a more territorially and environmentally balanced, climate-friendly and innovative Union agricultural sector 2014-2020	13 837 282 157
			Pre-financing for promoting sustainable rural development, a more territorially and environmentally balanced, climate-friendly and innovative Union agricultural sector 2014-2020	2 714 793
		Sub-Total Shared Management		14 169 342 972
Direct Management		05040206	Completion of Leader (2000 to 2006)	-
		05040502	Operational technical assistance 2007-2013	-
		05046002	Operational technical assistance 2014-2020	10 635 228
		Sub-Total Direct Management		10 635 228
Grand Total 0504				**14 179 978 201**

[1] Reimbursement following a judgement in a court case

Table: 2.1.1.2.2-4

Control statistics have been provided by each Paying Agency in respect of 98% of the expenditure financed under the Rural Development Programmes, amounting to EUR 13 836.39 million.

The following chart sets out 2019 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).

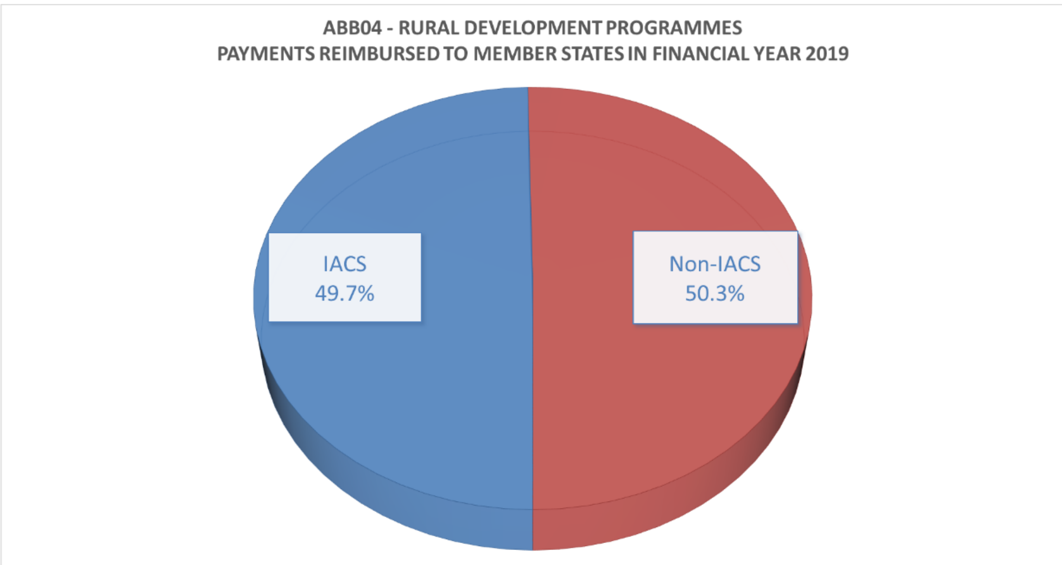


Chart 2.1.1.2.2-3

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 the assessment of the Certification Bodies and its own audits. Thus, account has been taken of the opinions of the Certification Bodies and the DG AGRI auditors in respect of the audits carried out in the past three years. Annex 10 – Part 3.3 (ABB04) explains in detail the assessment process and how the adjustments proposed were determined.

As a result of the adjustments made, 30 out of 71 Paying Agencies have an adjusted error rate above 2% (of which 8 were above 5%: Cyprus, Germany (one Paying Agency), Estonia, Spain (one Paying Agency), France (one Paying Agency), United Kingdom (one Paying Agency), Portugal, Slovakia.

In line with its materiality criteria in Annex 4, all the **8 cases where the error rate is above 5%** were automatically **subject to a reservation**.

For the remaining 22 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 3 cases, it was considered that, given the mitigating factors present, it would not be necessary to make reservations: Germany (one Paying Agency), Spain (one Paying Agency) and Greece. For 6 Paying Agencies (Luxembourg, Germany (one Paying Agency), Malta, Spain (three Paying Agencies)), 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 13 Paying Agencies, a reservation was deemed necessary.

As regards reservations from 2018, in 9 cases (Belgium (two Paying Agencies), Germany (one Paying Agency), Spain (three Paying Agencies), United Kingdom (two Paying Agencies), The Netherlands), it was not considered necessary to carry over reservations from the 2018 AAR with regard to 2019 expenditure. The reasons for each decision are detailed in Annex 10 – Part 3.3.

In total, 9 reservations from 2018 are repeated in 2019 as the deficiencies persist, while 12 new reservations are introduced (Denmark, Estonia, Finland, Lithuania, Austria, Germany (one Paying Agency), Romania, Cyprus, Ireland, Italy (one Paying Agency), Spain (two Paying Agencies)).

The overall outcome of this exercise is that 21 reservations are necessary at Paying Agency level: Austria, Cyprus, Germany (one Paying Agency), Denmark, Estonia, Spain (two Paying Agencies), Finland, France (two Paying Agencies), United Kingdom (one Paying Agency), Croatia, Hungary, Ireland, Italy (two Paying Agencies), Lithuania, Portugal, Romania, Sweden and Slovakia.

The following table presents the situation at Member State level for ABB04 for the interim payments in financial year 2019. Annex 10 – Part 3.3 (ABB04) provides the picture per Paying Agency:

Member States	Interim Payments FY2019	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 2019 with a reservation
AT	538 171 764.97	1	1	2.65%	14 283 428	14 283 428	530 792 507
BE	78 872 427.88	2	0	1.58%	1 245 687	0	0
BG	308 634 762.96	1	0	1.30%	3 997 861	0	0
CY	20 952 823.78	1	1	7.63%	1 598 773	1 598 773	20 952 617
CZ	393 828 049.93	1	0	1.71%	6 743 514	0	0
DE	1 273 596 302.89	14	1	1.64%	20 918 073	7 027 753	122 306 493
DK	101 066 663.87	1	1	4.27%	4 312 386	4 312 386	102 515 909
EE	124 908 745.14	1	1	5.08%	6 342 092	6 342 092	124 908 707
ES	1 165 619 770.01	18	2	1.80%	20 939 412	6 259 170	123 523 667
FI	351 173 513.34	1	1	2.33%	8 180 271	8 180 271	351 175 272
FR	2 060 819 581.94	2	2	4.62%	95 167 674	95 167 674	2 060 815 057
GB	773 925 471.67	4	1	1.58%	12 230 445	6 613 597	92 557 110
GR	411 413 601.73	1	0	2.16%	8 879 262	0	0
HR	299 635 531.37	1	1	3.29%	9 862 264	9 862 264	299 671 237
HU	511 369 532.82	1	1	3.36%	17 190 677	17 190 677	511 369 561
IE	324 022 438.78	1	1	3.60%	11 671 361	11 671 361	324 050 714
IT	1 449 081 120.81	9	2	1.29%	18 639 157	5 691 941	199 761 570
LT	181 240 364.11	1	1	2.94%	5 323 986	5 323 986	181 392 757
LU	14 481 594.50	1	0	3.03%	438 573	438 573	0
LV	206 475 667.04	1	0	0.70%	1 449 240	0	0
MT	19 429 947.05	1	0	3.16%	614 173	614 173	0
NL	90 398 503.90	1	0	1.87%	1 686 899	0	0
PL	1 092 284 984.59	1	0	1.98%	21 628 026	0	0
PT	523 049 232.89	1	1	5.94%	31 086 570	31 086 570	523 103 635
RO	967 073 048.26	1	1	2.83%	27 341 728	27 341 728	968 522 496
SE	226 298 189.49	1	1	3.43%	7 750 949	7 750 949	226 275 604
SI	120 096 846.81	1	0	1.29%	1 550 748	0	0
SK	209 361 674.91	1	1	10.31%	21 595 539	21 595 539	209 359 906
Grand Total	**13 837 282 157.44**	**71**	**21**	**2.77%**	**382 668 767**	**288 352 905**	**6 973 054 818**

Table: 2.1.1.2.2-5

As regards the interim payments for the **2014-2020 Rural Development Programmes** paid in 2019, the adjustments made by DG AGRI led to an adjusted error rate of 2.77%, as presented in the table above, corresponding to an **amount at risk of EUR 382.67 million**.

Table 2.1.1.2.2-5 indicates the total expenditure managed by the Paying Agencies for which a reservation is issued. It is emphasised that of this amount, **the amount at risk for the expenditure under reservation is EUR 288.35 million.**

In addition, an amount of EUR 2.7 million has been paid as **pre-financing** for the 2014-2020 rural development programmes. This expenditure is considered to be risk free and therefore has an **associated error rate of 0%**.

As regards the **2007-2013 rural development programmes**, following the **closure of two programmes and the payment of the balance in 2019**, the risk associated with the payments of the closure balance has been assessed and considered risk free in view of the extensive audit work (see Annex 10- Part 3.3.4) and the corresponding amount at risk is zero. As these programmes have been closed, no remedial actions by Member States are needed.

When taking into account all payments made by DG AGRI in 2019 for ABB04, the overall situation is as follows:

Payments reimbursed by DG AGRI to the Member States in 2019						
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	-452 428	0.00%	-
		050452	Completion of rural development financed by the EAGGF Guidance section and the transitional instrument for rural development for the new Member States financed by the EAGGF Guarantee Section - Programming period 200 to 2006	72 105 592	-	-
		05040501	**Rural development programmes 2007-2013**	**257 692 857**	**0.00%**	**-**
			Reimbursements following Court cases			
			Final balance 2007-2013	257 692 857	0.00%	-
		05046001	**Promoting sustainable rural development, a more territorially and environmentally balanced, climate-friendly and innovative Union agricultural sector**	**13 839 996 951**	**2.76%**	**382 668 767**
			Interim payments for promoting sustainable rural development, a more territorially and environmentally balanced, climate-friendly and innovative Union agricultural sector 2014-2020	13 837 282 157	2.77%	382 668 767
			Pre-financing for promoting sustainable rural development, a more territorially and environmentally balanced, climate-friendly and innovative Union agricultural sector 2014-2020	2 714 793	0.00%	-
		Sub-Total Shared Management		14 169 342 972.33	2.70%	382 668 767
Direct Management		05040206	Completion of Leader (2000 to 2006)	-	-	-
		05040502	Operational technical assistance 2007-2013	-	-	-
		05046002	Operational technical assistance 2014-2020	10 635 228	1.00%	106 352
		Sub-Total Direct Management		10 635 228	1.00%	106 352
Grand Total 0504				**14 179 978 201**	**2.70%**	**382 775 119**

Table: 2.1.1.2.2-6

The adjusted error rate for payments made for ABB04 is 2.70% and the amount at risk is estimated at EUR 382.78 million.

Finally, for the purpose of estimating the **risk at payment** for ABB04 (expenditure in shared management), account has to be taken of all amounts reimbursed by the Commission, excluding the pre-financing, including the cleared pre-financing amounts and the closure balances paid in 2019 i.e. **the relevant expenditure**. **This results in an overall estimated amount at risk at payment of EUR 382.67 million corresponding to an adjusted error rate of 2.70%** (see table 2.1.1.2.2-15 for the details).

Overall assessment on the functioning of the management and control systems

Article 74 of the Financial Regulation[91] 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 financial year 2019, DG AGRI shared the management of the CAP expenditure with 76 Paying Agencies in 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.** Furthermore, there are 3-yearly reports by the Competent Authorities on the Paying Agencies' continued compliance with the accreditation criteria[92]. DG AGRI also, via its various forms of follow-up including on-the-spot audits, checks that the Paying Agencies respect the strict accreditation criteria which regulates them as well as the quality of the work carried out by the Certification Bodies.

KEY INDICATORS FOR LEGALITY AND REGULARITY – EAGF AND EAFRD FINANCIAL YEAR 2019		
ASSURANCE DERIVING FROM THE FUNCTIONING OF THE PAYING AGENCIES		
Accreditation of Paying Agencies (as of 16/10/2019)	Fully accredited Provisional accreditation On probation Total	74 0 2 76
Certificates and reports of Certification Bodies on functioning of Paying Agencies' internal control systems	Received Not received Effective[93] Not effective	76 0 76 0
Management Declarations signed by the directors of Paying Agencies	Received Not received Unqualified Qualified with reservation	76 0 75[94] 1
Opinions of Certification Bodies on the Management Declarations	Received Not received Unqualified Qualified[95]	76 0 61 15

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.

[91] Regulation (EU, Euratom) 2018/1046 of the European Parliament and of the Council on the financial rules applicable to the general budget of the Union.
[92] Such reports were due in June 2019.
[93] Effective means very good, good or adequate.
[94] 1 out of the 7 included an emphasis of matter note on specific issues.
[95] The qualifications vary and may be for one population or all populations.

Conformity audit missions carried out in EAGF and EAFRD in financial years 2017-2019 (from 16/10/2016 until 15/10/2019)

	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 audit missions	73	99	111	256	97	353
Member States covered	All Member States, except SK	All Member States	All Member States	All Member States	All Member States except AT, CZ, HR, LT, LV, MT	All Member States
	(27 Member States)	(28 Member States)	(28 Member States)	(28 Member States)		

Table: 2.1.1.2.2-8

[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.

In the past 3-year period, DG AGRI has carried out **353** conformity audit missions to Member States, of which **256** audits targeted the 3 main ABBs (audits targeting more than one ABBs are counted only once). Audits carried out in respect of ABB03 included 13 audits specifically on entitlements. The other **97** audits carried out in this period were not specific to a particular ABB area, including:

- 27 audits on cross-compliance;
- 18 audits in relation to information system security;
- 1 audit on direct expenditure;
- 4 audits on debt management;
- 2 audits on IPARD;
- 3 pre-accession related audits; and
- 42 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 2019 (from 16/10/2018 until 15/10/2019)

	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 audit missions	22	34	32	79	32	111
Member States covered	All Member States, except BE, CZ, DK, FI, FR, HR, IE, LU, LT, MT, NL, RO, SI, SK	All Member States, except CY, CZ, FR, HR, IE, IT, LU, LT, NL, SI	All Member States, except BE, FI, EE, HR, LU, MT, PL, SE, SI	All Member States, except HR, LU, SI	14 Member States: AT, CY, DE, EE, ES, FR, GB, GR, IE, IT, LT, LV, MT, PT	All Member States, except HR, LU, SI
	(14 Member States)	(18 Member States)	(19 Member States)	(25 Member States)		
Expenditure 2019 million EUR						
- total[4]	2 371.9	41 335.7	14 169.3	57 876.9		
- covered[5]	866.4	16 575.5	5 692.4	23 134.3		

Table: 2.1.1.2.2-9

[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.

DG AGRI carried out **111** audit missions, which includes **79 conformity audits** targeting the three ABBs areas (audits covering more than one ABB area are counted only once) in the period under financial year 2019. Apart from that, **32** other audit missions were carried out covering areas not specific to a particular ABB. They included:

- 7 audits on information system security;
- 7 audits on cross-compliance;
- 1 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 2018 and 2019 will also cover the 2017 expenditure ("24 month rule"[96]).

[96] 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).

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 (1)	2 371 906 493	2 368 819 362	97%		
ABB03	41 335 655 479	40 898 749 257	99%	99%	
ABB04	14 169 342 972	13 836 393 225	98%	98%	
CAP	**57 876 904 944**	**57 103 961 844**			**99%**

(1) For ABB02: The percentage of covered control statistics is calculated excluding the negative amounts of EUR 60.963 million reimbursed under the exceptional temporary measure in the milk and milk products and EUR 0.001 million under the measure "Cereals".

Table: 2.1.1.2.2-10

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

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

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

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

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

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

Impact on the Declaration of Assurance (based on the functioning of systems, materiality and legality and regularity criteria	Coverage: Number of aid schemes/Paying Agencies				Coverage: as % of aid schemes/Paying Agencies				Coverage: Payments to aid schemes/Paying Agencies in question as % of expenditure 2018			
	ABB02	ABB03	ABB04	Total	ABB02	ABB03	ABB04	Total	ABB02	ABB03	ABB04	Total
Reasonable assurance (= adjusted error rate below 2% or under 'de minimis')	129	51	47	227	81.1%	73.9%	66.2%	75.9%	68.4%	72.1%	44.8%	65.4%
Reasonable assurance with low risk (= adjusted error rate between 2% and 5%, with mitigating factors, no reservation)	23	1	3	27	14.5%	1.4%	4.2%	9.0%	4.4%	2.1%	4.8%	2.8%
Limited assurance with medium risk (= adjusted error rate between 2% and 5%, no mitigating factors, with reservation)	1	16	13	30	0.6%	23.2%	18.3%	10.0%	10.1%	24.2%	42.0%	27.9%
Limited assurance with high risk (= adjusted error rate above 5%, with reservation)	6	1	8	15	3.8%	1.4%	11.3%	5.0%	17.0%	1.7%	8.4%	3.9%
Grand Total	**159**	**69**	**71**	**299**	**100%**	**100%**	**100%**	**100%**	**100%**	**100%**	**100%**	**100%**

Table: 2.1.1.2.2-11

All market measures/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: 7 elements comprising 4 market measures in 6 Member States.
- ABB03: 17 Paying Agencies in 9 Member States.
- ABB04: 21 Paying Agencies in 18 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.

DG AGRI acknowledges that the follow-up of the reservations as presented in the 2019 Annual Activity Report is subject to consequences of the COVID-19 pandemic, and that the concrete actions (see tables in Annex 10 - Part 3) to be taken by Member States under reservations will be finally agreed at a later stage.

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 2019 per level of assurance (shared management only)** **2019**

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 2019 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	4 166 967	3	20 300 301	3					24 467 268	6	1 255 878	5.13%	0
BE	58 305 592	6	2 381 353	1					60 686 944	7	581 078	0.96%	0
BG	4 590 725	5	1 153 726	1			14 336 343	1	20 080 794	7	2 313 917	11.52%	1
CY	1 185 241	4	5 308 554	2					6 493 795	6	232 872	3.59%	0
CZ	16 121 634	6	197 279	1					16 318 913	7	134 851	0.83%	0
DE	114 344 938	6	1 232 301	2					115 577 239	8	1 331 006	1.15%	0
DK	10 988 296	6							10 988 296	6	474	0.00%	0
EE	1 191 362	5							1 191 362	5	1 539	0.13%	0
ES	569 323 770	8					19 162 304	1	588 486 074	9	8 362 275	1.42%	1
FI	5 317 945	5							5 317 945	5	3 346	0.06%	0
FR	508 466 393	9	11 321 167	1					519 787 560	10	3 197 192	0.62%	0
GB	2 209 717	6					37 327 584	1	39 537 301	7	1 924 143	4.87%	1
GR	39 612 788	7	6 087 369	1			10 825 341	1	56 525 497	9	1 345 315	2.38%	1
HR	9 349 392	4							9 349 392	4	26 749	0.29%	0
HU	31 934 636	5	5 355 310	1					37 289 945	6	475 041	1.27%	0
IE	-5 235 492	5	2 071 559	2					-3 163 933	7	151 623	1.63%	0
IT	76 744 682	7	2 232 610	1	239 934 017	1	312 174 978	1	631 086 287	10	38 644 373	6.12%	2
LT	412 590	7							412 590	7	191	0.05%	0
LU	524 590	3							524 590	3	0	0.00%	0
LV	1 440 570	6							1 440 570	6		0.00%	0
MT	8 333	2	603 020	1					611 353	3	26 973	4.41%	0
NL	24 290 954	8							24 290 954	8	112 160	0.46%	0
PL	1 169 726	6	27 116 266	4					28 285 992	10	2 021 336	7.15%	0
PT	93 269 560	7					9 309 494	1	102 579 054	8	1 890 020	1.84%	1
RO	26 566 575	6	15 815 601	1					42 382 176	7	1 041 668	2.46%	0
SE	9 946 504	3	2 862 572	1					12 809 077	4	97 918	0.76%	0
SI	7 362 360	6							7 362 360	6	2 693	0.04%	0
SK	11 187 099	6							11 187 099	6	704	0.01%	0
Total - monthly declaration	**1 624 797 445**	**157**	**104 038 987**	**23**	**239 934 017**	**1**	**403 136 044**	**6**	**2 371 906 493**				
Suspension of payments									**0**				
ABB02 - shared management - payments made									**2 371 906 493**	**187**	**65 175 335**	**2.75%**	**7**

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

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 2019 per level of assurance												2019
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 2019 reservations
	Expenditure (1)	N° of Paying Agencies	Expenditure (1)	N° of Paying Agencies	Expenditure (1)	N° of Paying Agencies	Expenditure (1)	N° of Paying Agencies					N° of Paying Agencies
AT							691 113 307	1	691 113 307	1	35 957 413	5.20%	1
BE	488 415 321	2							488 415 321	2	3 237 509	0.66%	0
BG	785 323 742	1							785 323 742	1	10 975 750	1.40%	0
CY					48 549 901	1			48 549 901	1	1 772 844	3.65%	1
CZ			854 325 870	1					854 325 870	1	17 808 356	2.08%	0
DE	4 794 347 836	13							4 794 347 836	13	23 323 370	0.49%	0
DK					822 261 577	1			822 261 577	1	30 940 355	3.76%	1
EE	133 043 733	1							133 043 733	1	1 206 581	0.91%	0
ES	4 748 451 985	14			356 024 841	3			5 104 476 826	17	54 146 515	1.06%	3
FI	523 063 094	1							523 063 094	1	4 267 119	0.82%	0
FR	6 934 972 034	2							6 934 972 034	2	125 926 933	1.82%	0
GB	3 186 208 909	4							3 186 208 909	4	22 390 168	0.70%	0
GR					1 982 270 702	1			1 982 270 702	1	45 260 216	2.28%	1
HR	278 861 082	1							278 861 082	1	3 471 058	1.24%	0
HU	1 266 509 801	1							1 266 509 801	1	20 627 554	1.63%	0
IE	1 200 388 737	1							1 200 388 737	1	6 848 495	0.57%	0
IT	60 056 684	2			3 581 870 979	7			3 641 927 664	9	86 738 609	2.38%	7
LT	468 921 252	1							468 921 252	1	4 887 705	1.04%	0
LU	32 867 735	1							32 867 735	1	315 857	0.96%	0
LV	252 595 964	1							252 595 964	1	3 634 166	1.44%	0
MT	5 123 538	1							5 123 538	1	36 851	0.72%	0
NL	679 511 638	1							679 511 638	1	5 302 557	0.78%	0
PL	3 387 285 922	1							3 387 285 922	1	34 938 102	1.03%	0
PT					671 458 196	1			671 458 196	1	26 924 718	4.01%	1
RO					1 847 700 958	1			1 847 700 958	1	52 938 504	2.87%	1
SE					687 650 826	1			687 650 826	1	18 469 727	2.69%	1
SI	134 688 867	1							134 688 867	1	2 276 095	1.69%	0
SK	445 097 479	1							445 097 479	1	3 270 908	0.73%	0
Subtotal	**29 805 735 356**	**51**	**854 325 870**	**1**	**9 997 787 979**	**16**	**691 113 307**	**1**	**41 348 962 512**				
Amounts reimbursed to DG AGRI by Coordinating Bodies									**-13 307 033**				
TOTAL									**41 335 655 479**	**69**	**647 894 036**	**1.57%**	**17**

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

Table: 2.1.1.2.2-13

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

ABB04:	Total payments in 2019 per level of assurance												2019
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 2019 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					538 171 765	1			538 171 765	1	14 283 428	2.65%	1
BE	78 872 428	2							78 872 428	2	1 245 687	1.58%	0
BG	308 634 763	1							308 634 763	1	3 997 861	1.30%	0
CY							20 952 824	1	20 952 824	1	1 598 773	7.63%	1
CZ	393 828 050	1							393 828 050	1	6 743 514	1.71%	0
DE	1 059 022 875	12	92 445 380	1			122 128 048	1	1 273 596 303	14	20 918 073	1.64%	1
DK					101 066 664	1			101 066 664	1	4 312 386	4.27%	1
EE							124 908 745	1	124 908 745	1	6 342 092	5.08%	1
ES	883 786 744	15	158 306 735	1	71 114 018	1	52 412 273	1	1 165 619 770	18	20 939 412	1.80%	2
FI					351 173 513	1			351 173 513	1	8 180 271	2.33%	1
FR					2 042 150 538	1	18 669 044	1	2 060 819 582	2	95 167 674	4.62%	2
GB	681 368 361	3					92 557 111	1	773 925 472	4	12 230 445	1.58%	1
GR			411 413 602	1					411 413 602	1	8 879 262	2.16%	0
HR					299 635 531	1			299 635 531	1	9 862 264	3.29%	1
HU					511 369 533	1			511 369 533	1	17 190 677	3.36%	1
IE					324 022 439	1			324 022 439	1	11 671 361	3.60%	1
IT	1 249 295 626	7			199 785 495	2			1 449 081 121	9	18 639 157	1.29%	2
LT					181 240 364	1			181 240 364	1	5 323 986	2.94%	1
LU	14 481 595	1							14 481 595	1	438 573	3.03%	0
LV	206 475 667	1							206 475 667	1	1 449 240	0.70%	0
MT	19 429 947	1							19 429 947	1	614 173	3.16%	0
NL	90 398 504	1							90 398 504	1	1 686 899	1.87%	0
PL	1 092 284 985	1							1 092 284 985	1	21 628 026	1.98%	0
PT							523 049 233	1	523 049 233	1	31 086 570	5.94%	1
RO					967 073 048	1			967 073 048	1	27 341 728	2.83%	1
SE					226 298 189	1			226 298 189	1	7 750 949	3.43%	1
SI	120 096 847	1							120 096 847	1	1 550 748	1.29%	0
SK							209 361 675	1	209 361 675	1	21 595 539	10.31%	1
Total	**6 197 976 391**	**47**	**662 165 717**	**3**	**5 813 101 098**	**13**	**1 164 038 952**	**8**	**13 837 282 157**	**71**	**382 668 767**	**2.77%**	**21**

Other payments							
Shared management	05040114	Completion of rural development financed by the EAGGF Guarantee Section - Programming period 2000 to 2006	- 452 428.07		0	0.00%	
	05046001	Pre-financing for promoting sustainable rural development, a more territorially and environmentally balanced, climate-friendly and innovative Union agricultural sector 2014-2020	2 714 793		0	0.00%	
	05040501	Final balance 2007-2013	257 692 857		0	0.00%	
	05040114	Completion of the European Agricultural Guidance and Guarantee Fund, Guidance Section - Objective 1 regions (2000 to 2006)	72 105 592		0	0.00%	
	05040502	Operational technical assistance 2007-2014					
Total shared management			14 169 342 972		382 668 767	2.70%	
Direct management	05046002	Operational technical assistance 2014-2020	10 635 228		106 352	1.00%	
Total direct management			**10 635 228**		**106 352**	**1.00%**	
Total ABB 04			**14 179 978 201**		**382 775 119**	**2.70%**	
Footnote:	**(1) Interim payments for programming period 2014-2020.**						

Table: 2.1.1.2.2-14

In the context of the protection of the EU budget, the DGs' estimated overall risk at payment, estimated future corrections and risk at closure are consolidated at Commission level.

For DG AGRI, the estimated overall risk *at payment*[97] for the 2019 expenditure is EUR 1 096.27 million. This is the AOD's best, conservative estimation of the amount of *relevant expenditure*[98] during the year (EUR 58 038.09 million) not in conformity with the applicable contractual and regulatory provisions at the time the payment is made.

This expenditure will be subsequently subject to ex-post controls and a proportion of the underlying errors will be detected and corrected in successive years. When applied to the 2019 *relevant expenditure*, the conservatively estimated corrective capacity[99] of 1.77% results in an amount of EUR 1 026.35 million. This is the amount of errors that the DG conservatively estimates will be identified and corrected by controls planned to be carried out in succeeding years. The difference between the overall risk at payment and the corrective capacity leads to the estimated final amount at risk of EUR 69.92 million when all corrections will have been applied. The estimated final amount at risk used by DG AGRI corresponds to the estimated overall risk at closure used by other DGs for expenditure where the Commission cannot apply corrections after the closure of the multiannual programmes.

In 2019, the estimated overall risk at payment has decreased compared to 2018 (2.15%), and for the first time, the adjusted error rate for the CAP as a whole is below the materiality level, at 1.89%. This positive evolution comes as a result of the constant downward trend of the level of errors for the two CAP pillars, EAGF 1.63% and EAFRD 2.70% (in 2018, EAGF: 1.87% and EAFRD: 3.20%) and is underpinned by the continuous improvements to the management and control systems in the Member States, in which IACS plays a significant role both for direct payments and the EAFRD area and animal related measures. In fact, the overall figure of 1.89% covers different error rates for the two CAP funds and the low error rate for Direct Payments (more than 71% of the expenditure) of 1.57% is the main reason for the overall error rate of 1.89%.

The level of conservatively estimated future corrections decreased also slightly compared to the previous year (1.90% in 2018), in line with the improvements in the management and control system in the Member States and the future financial corrections the Commission still expects to apply.

The estimated final risk for the CAP is EUR 69.92 million or 0.12% of the relevant expenditure (down from 0.25% in 2018), which confirms the positive trend described above.

[97] In order to calculate the weighted average error rate (AER), the *adjusted* error rates have been used.
[98] For the purpose of calculating the final 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.
[99] The corrective capacity is calculated as the 3/5 years historic average of recoveries and financial corrections, which is the best available indication of corrective capacity of the ex-post controls systems implemented by DG AGRI and the Member States. See sub-section 2.1.1.3 for further detailed explanation.

Table 2.1.1.2.2-15 - Estimated final amount at risk

		Payments made[1]	Prefinancing paid	Cleared prefinancing	Relevant expenditure	Adjusted error rate	Estimated amount at risk at payment	Average financial corrections	Average recoveries	Average recoveries and corrections (in % of relevant expenditure)	Corrective capacity	Estimated final amount at risk
		million EUR	million EUR	million EUR	million EUR	%	million EUR			%	million EUR	million EUR
	1	2	3	4	5	6	7	8a	8b	8	9	10
					= 2 - 3 + 4		=5 x 6				=5 x 8	=7 - 9
Title 04 Employment, social affairs and inclusion												
0401	Administrative expenditure	0.36	0.00	0.00	0.36	1.00%	0.00	0.00	0.00	0.00%	0.00	0.00
Title 09 Communications networks, content and technology												
0903	Connecting Europe facility (CEF)	0.25	0.00	0.00	0.25	1.00%	0.00	0.00	0.00	0.00%	0.00	0.00
Title 13 Regional and urban policy												
1303	European regional development fund	0.18	0.00	0.00	0.18	1.00%	0.00	0.00	0.00	0.00%	0.00	0.00
1304	Operational technical assistance	0.08	0.00	0.00	0.08	1.00%	0.00	0.00	0.00	0.00%	0.00	0.00
Title 17 Health and food safety												
1704	Food and feed safety, animal health, animal welfare and plant health	0.21	0.00	0.00	0.21	1.00%	0.00	0.00	0.00	0.00	0.00	0.00
Title 18 Migration and home affairs												
1801	Administrative expenditure	0.28	0.00	0.00	0.28	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	2 371.91	0.00	0.00	2 371.91	2.75%	65.18	76.43	0.00	0.00%	0.00	0.00
0503	Direct payments	41 335.66	0.00	0.00	41 335.66	1.57%	647.89	524.11	0.00	0.00%	0.00	0.00
	EAGF total	43 707.56	0.00	0.00	43 707.56	1.63%	713.07	600.54	99.67	1.60%	700.21	12.86
0504	Rural development	14 169.34	2.71	0.00	14 166.63	2.70%	382.67	216.91	109.30	2.30%	326.14	56.53
0507	Audit	60.14	0.00	0.00	60.14	0.00%	0.00	0.00	0.00	0.00%	0.00	0.00
INDIRECT MANAGEMENT												
0505	Pre-accession Measures	73.96	23.18	0.00	50.78	0.00%	0.00	0.00	0.00	0.00%	0.00	0.00
DIRECT MANAGEMENT												
0501	Administrative expenditure	9.10	6.95	7.04	51.62	1.00%	0.52	0.00	0.00	0.00%	0.00	0.52
0502	Interventions in agricultural markets	0.00										
0504	Rural development	10.64										
0506	International aspects	4.23										
0508	Policy strategy and coordination	27.56										
0509	Horizon 2020 - Research and innovation	0.00										
Total CAP		58 062.53	32.84	7.05	58 036.73	1.89%	1 096.25	817.45	208.97	1.77%	1 026.35	69.90
Total DG AGRI		58 063.88	32.84	7.05	58 038.09	1.89%	1 096.27	817.45	208.97	1.77%	1 026.35	69.92
												0.12%
												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 2019

Table: 2.1.1.2.2-15

2.1.1.2.3 Assessment of the amount at risk for Indirect management

Taking IPARD I and IPARD II together, for the EUR 73.96 million in indirect management under the pre-accession programmes, the maximum amount at risk is estimated at EUR 0 indicating an estimated adjusted error rate for relevant expenditure of 0.00%.

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	73 956 989	23 181 350	-	50 775 639	0.00%	-
Total		73 956 989				0.00%	-

Table: 2.1.1.2.3-1

Details regarding indirect management can be found in Annex 10 – Part 8.

2.1.1.2.4 Assessment of the amount at risk for direct management

For the EUR 51.53 million managed directly by DG AGRI, the maximum amount at risk is estimated at EUR 0.52 million with an error rate of 1%. Table 2.1.1.2.4-1 shows the expenditure spent for each budget item under direct management, as well as the estimated amount at risk.

Title 05	Agriculture and rural development	Direct management payments made (EUR)	Error rate	Amount at risk at payment (EUR)
0501	Administrative expenditure	9 104 975	1.00%	91 050
0502	Interventions in agricultural markets	-	-	-
0504	Rural development	10 635 228	1.00%	106 352
0506	International aspects	4 230 824	1.00%	42 308
0508	Policy strategy and coordination	27 555 546	1.00%	275 555
0509	Horizon 2020 - Research and innovation	-	-	-
Total		**51 526 573**	**1.00%**	**515 266**

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 EU programmes entrusted to other DGs and Executive Agencies in line with the requirements of Council Regulation (EC) No 58/2003. The framework of such supervision is defined in the Act of Delegation and further detailed in the Memorandum of understanding and in the supervision strategies agreed upon at Director level.

Based on the AARs presented by both Executive Agencies REA and CHAFEA, it would appear that there are no identified reservations or critical risks. DG AGRI therefore concludes that the implementation of the EU programmes entrusted to these agencies has been carried out in a satisfactory manner.

Details regarding the budget implementation tasks entrusted to other DGs and Agencies can be found in Annex 10 – Part 9.

2.1.1.2.6 Financial instruments

Financial instruments (FIs) are the key tool for providing access to finance for the farming sector and the rural economy. They also allow by leveraging with private capital and by their revolving nature to complement the rural development budget. EAFRD already met the target of doubling the use of FIs as compared to the 2007-2013 programming period.

By end of 2019:

- 25 FIs were operational (Croatia, Estonia, France, Germany, Italy, Romania, Spain). The signed funding agreements between EAFRD managing authorities and fund managers, including the EIF, totalled 28 in 2019.
- FIs were programmed in 30 RDPs in 10 Member States with a total EAFRD allocation of EUR 596 million. The amount declared to the Commission until the end of 2019 equals EUR 130.7 million.

The Commission, together with the EIB, identified and developed the FI schemes that can be used by farmers, foresters and related rural businesses. It has furthermore launched a specific EAFRD – EIB Initiative on Young Farmers, based also on the Omnibus proposal, combining EIB own resources and EAFRD financial instruments. Another DG AGRI – EIB Initiative focused on rural infrastructure and technical support for developing FIs in this field alongside with an Initiative for addressing price volatility in EAFRD FIs.

Under the technical assistance programme *fi-compass*, in total 30 cases of targeted coaching on financial instruments for EAFRD managing authorities' were carried out in the period 2016-2019, of which 4 new were done in 2019. In 2019, three specific EAFRD FIs studies were published and an EU wide survey of agro-food processors was undertaken. A study assessing the gaps in financing agriculture and agro-food sectors in 24 Member States was launched and is underway. The activities related to dissemination of information through conferences, specific brochures, websites, communication newsletters etc. continued.

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

2.1.1.3 How DG AGRI protects the EU budget

2.1.1.3.1 Corrective capacity

Protection of the EU budget via net financial corrections

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

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

Every year the Commission adopts around 3 conformity ad-hoc decisions on a package of individual financial corrections. **In 2019, the Commission adopted 3 such decisions**

published in the Official Journal[100], covering 96 individual net financial corrections for a total amount of **EUR 534.667 million**, with a total financial impact of **EUR 250.240 million**.

Net financial corrections decided in 2019 and (net financial impact)				
				million EUR
Commission Conformity Decisions		**EAGF**	**EAFRD**	**Total**
ad-hoc 59	(EU)2019/265	82.687 (71.333)	103.404 (103.404)	186.092 (174.738)
ad-hoc 60	(EU)2019/949	61.533 (37.181)	65.871 (-6.235)	127.404 (30.946)
ad-hoc 61	(EU)2019/1835	209.429 (32.814)	11.743 (11.743)	221.171 (44.557)
Total		**353.649 (141.328)**	**181.018 (108.912)**	**534.667 (250.240)**

Table 2.1.1.3.1-1

The amount of financial corrections adopted in a given year does not necessarily correspond to the amount executed in the same year. For further details, see Annex 10 - Part 4.

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

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

Protection of the EU budget via Recoveries

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

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

Corrective Capacity

What is the corrective capacity?

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

However, these mechanisms apply ex-post and imply contradictory procedures that might take time to complete. Therefore, **the full picture of the actual financial risk 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.

[100] Decision (EU)2019/265 of 12 February 2019, OJ L 44, 15.2.2019, p.14, Decision (EU)2019/949 of 5 June 2019, OJ L 152, 11.6.2019, p.74, Decision (EU)2019/1835 of 30 October 2019, OJ L 279, 31.10.2019, p.98.

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

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

As in previous years, DG AGRI uses a historical average of the net financial corrections executed for calculating its corrective capacity. To take into account that 2015, 2016 and 2017 amounts of financial corrections included significant amounts related to backlog cases[101] and to avoid overestimating the corrective capacity, DG AGRI since 2016 used an average of the five previous years instead of the three previous years used in 2014 and 2015, as it was considered to give a better assessment of what financial corrections can be expected to be made in respect of the reporting year of the AAR (i.e. 2019 expenditure). The corresponding figures for each of the years 2014 to 2018 were already published in previous DG AGRI AARs. In this 2019 AAR, DG AGRI goes back to the method established in 2014 for EAGF, i.e using a three year average since the complete exclusion of the years with backlog cases (i.e. 2015 and 2016) will give a better and more prudent estimate of future financial corrections. For EAFRD a 5 year average continues to be used in view of the multi-annual programming for EAFRD and since the amount of financial corrections is more stable over time and in any event better reflects the evolution over a programming period.

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 2019 as it best reflects the actual impact on the EU budget and allows comparability with figures from previous years.

DG AGRI continues to exclude corrections in respect of cross-compliance infringements from its calculation of the corrective capacity for net financial corrections as these infringements are not "errors" as regards eligibility and are therefore not included in the estimates of the error rate. However, as the amounts of financial corrections for deficiencies in the cross-compliance controls and sanctions are significant, they are disclosed separately (see Annex 10 - 4.2.2-2).

Similar to the AAR 2017 and 2018 calculation of the corrective capacity, for this year's calculation DG AGRI carefully reviewed the individual corrections for market measures ABB02 and has excluded factors from the past years that would no longer be relevant for current measures, in order to come to the best, but conservative, estimate of the expected corrective capacity average to be applied to the reporting year's relevant expenditure, so as to get the related estimated future corrections[102]. For EAFRD financial corrections applied to 2 programmes relating to EAFRD 2007-2013 prior to their closure in 2019 have been deducted as the corrections were made as a condition for clearing the accounts and subsequent closure of the programmes[103].

[101] 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.

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

[103] At the time of payment of the closure balance to these programmes no amount was considered at risk and

The table below shows the 3-year average for EAGF (ABB 02 with the above-mentioned deductions and ABB 03) and the 5-year average for EAFRD (ABB 04 with the above-mentioned deduction).

DG AGRI 3/5-year average from financial corrections executed – 2015/2017-2019

million EUR

	ABB02	ABB03	ABB04	Total
2015			243.985	
2016			226.396	
2017	129.323	517.097	303.807	950.227
2018	48.139	548.407	139.456	736.002
2019	51.822	506.832	170.883	729.537
Total	229.284	1 572.336	1 084.527	2 415.766
3/5-year average	**76.428**	**524.112**	**216.905**	

Table: 2.1.1.3.1-2

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

DG AGRI corrective capacity from financial corrections executed – 2015/2017-2019

million EUR

	ABB02	ABB03	ABB04	Total
Historical average	76.428	524.112	216.905	817.445

Table: 2.1.1.3.1-3

How is the corrective capacity calculated in respect of recoveries?

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

DG AGRI corrective capacity from recoveries 2015 - 2019

million EUR

	EAGF	EAFRD	Total
2015	96.732	124.140	220.872
2016	82.604	135.613	218.217
2017	100.202	83.204	183.406
2018	97.683	97.032	194.7146
2019	121.132	106.495	227.627
Total	498.353	546.484	1 044.837
5-year average	**99.671**	**109.297**	**208.967**

Table 2.1.1.3.1-4

therefore the corrections are not to be included in the corrective capacity.

Conclusion

The total corrective capacity in respect of the EAGF and EAFRD funds in shared management is calculated to be EUR 1 026.413 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 2019 expenditure.

DG AGRI corrective capacity 2019			
			million EUR
	EAGF	**EAFRD**	**Total**
2019	700.211	326.202	1 026.413

Table 2.1.1.3.1-5

2.1.1.3.2 Interruptions, reductions and suspensions

In 2019, DG AGRI continued to apply the interruptions and reductions/suspensions of monthly payments (EAGF) and interim payments (EAFRD) in order to safeguard the EU financial interest. The Commission powers for this preventive mechanism were significantly reinforced with the entry into force of the CAP Horizontal Regulation (EU) No 1306/2013 (and the Common Provisions Regulation (EU) No 1303/2013) in December 2013.

Under EAGF, the **reductions** made in 2019 concerned 17 Member States and a total amount of **EUR 67 764 269.48**. There were no reductions in the monthly payments due to deficiencies in the control system in 2019. The reductions concern overruns of ceilings, deadlines and other eligibility issues. There were 82 operations in total related to the reductions.

There were no suspensions of payments for deficiencies in the control system.

Under EAFRD, the interruptions and reductions/suspensions of EAFRD payments concerned 4 out of 115 RDPs from the 2014-2020 programming period.

Further details concerning interruptions and reductions/suspensions applied on EAGF and EAFRD payments in 2019 are presented in Annex 13 to the present report.

B) Fraud prevention, detection and correction

DG AGRI has developed and implemented its own anti-fraud strategy (AGRI AFS) in September 2012, on the basis of the methodology provided by OLAF. It has been updated three times, last in January 2016. At present, the AGRI AFS is under revision in order to align it to the new Commission's Anti-Fraud Strategy, which was adopted in April 2019.

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

Almost the entirety of the funds of the CAP in both Pillars are under shared management between the Commission and the relevant authorities of the Members States, the latter being in charge of legality and regularity of payments to beneficiaries. Therefore, the AGRI AFS since its inception has heavily relied on capacity building in the relevant authorities of the Member States to prevent, detect and correct fraud and other serious irregularities. To this end, all Member States (and candidate countries) have received specific training in this area in the past as well as written guidance. The effectiveness of this approach appears to be reflected in the relatively low number of cases of (suspected) fraud detected and reported by Member States. That fraud against the CAP budget is not widespread, is also underlined by the circumstance that – at 31 December 2019 – there were merely 32 on-going OLAF investigations into allegations of fraud against the CAP budget (26 in relation to the EAFRD, 6 in relation to the EAGF)[104].

A central aspect of the AGRI AFS is a robust implementation of OLAF's financial recommendations, which almost all recommend recovery of funds from final beneficiaries, enacted by the CAP Paying Agencies in the Member States. DG AGRI has implemented a new procedure for the transmission of OLAF final reports and the monitoring of their implementation, which allows for a more reliable follow-up.

Throughout 2019, DG AGRI referred 5 allegations of fraud and other irregularities to OLAF (compared to 4 in 2018).

Details regarding the Objective on minimisation of the risk of fraud through application of effective anti-fraud measures can be found in Annex 10 – Part 10 (see Table 10.1).

C) Other control objectives

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

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

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

- The Business Continuity Plan is kept up to date, with a Disaster Recovery exercise being tested on a yearly basis – except in case of major constraints - 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 2019, 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.

[104] As reported by OLAF by 31 January 2020.

In 2018, DG AGRI has already finalised some of the actions; in 2019, DG AGRI has finalised others and is progressing on the last ones. In particular, DG BUDG has confirmed that the following recommendations can be considered as closed in 2019:

- Recommendations on the "timely establishment of recovery orders in ABAC",
- Recommendations on the "proper encoding of the Recovery Context qualification",
- Recommendations on "completeness and clarity related to the framework for interruptions, suspensions and reductions under the EAFRD",
- Recommendations on "completeness of the checklists for EAFRD (RDIS2) and EAGF".

The recommendation on "the introduction of EAGF in the accrual accounting workflow" remains open; the matter is currently addressed by a dedicated BUDG – AGRI working group; material progress has been made on recommendation for "improving the compiling methodology and the tools for the reporting on financial corrections".

EFFICIENCY

Shared management

99.1%[105] of DG AGRI's total expenditure is executed under shared management mode. The table below shows DG AGRI's performance for EAFRD and EAGF:

	2017	2018	2019
EAFRD average time to pay*	34 days	31 days	24 days
EAGF average time to pay**	NA	NA	NA
EAFRD % of payments made on time	100	100	100
EAGF % of payments made on time	100	100	100
* deadline is 45 days			
** According to the legislation in force, the payments are executed on the 3rd working day of each month.			

As regards Member States, for financial year 2019 all Paying Agencies were accredited[106].

Indicator	2016	2017	2018	2019
% of Paying Agencies accredited	100%	100%	100%	100%

Direct management

DG AGRI also manages a small budget under direct management mode. This section describes DG AGRI's performance with regard to those commitments. No new initiatives were taken during the reporting period; the indicators described below demonstrate efficiency in controls.

Time to inform and Time to grant

In accordance with Article 194(2)(a) of the Financial Regulation[107], applicants shall be informed of the outcome of the evaluation of their application within a maximum of six months from the final date for submission of complete proposals. In accordance with

[105] This percentage is calculated on the total payments executed in financial year 2019 (actual payments).
[106] The accreditation for Paying Agencies IT 26 and DE17 was under probation during the FY.
[107] Regulation (EU, Euratom) 2018/1046 of the European Parliament and of the Council on the financial rules applicable to the general budget of the Union.

Article 194(2)(b) of the Financial Regulation, grant agreements shall be signed with applicants within a maximum of three months from the date of informing applicants that they have been successful.

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

Time to pay

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

For direct management, the **performance** regarding payments remained excellent with 99.2% processed within the binding deadlines imposed by the Financial Regulation. The percentage of transactions not paid in time has been reduced by 12.5% compared to 2018 and 56% compared to 2017; this confirms the positive trend since 2016. Moreover, the introduction of a simplified financial circuit for payments based on a risk-based analysis, allowed to reduce the number of days for handling transactions in the payment validation process.

Financial year	2016	%	2017	%	2018	%	2019	%
Number of payments	1020	100%	914	100%	928	100%	881	100%
Payment on time	975	95.6%	898	98.2%	920	99.1%	874	99.2%
Payment delayed	45	4.4%	16	1.8%	8	0.9%	7	0.8%

Monitoring of timing indicators in days	2016	2017	2018	2019
N° of days between receipt of invoice and "pass for payment"	9	10	8	7
N° of days between receipt of invoice and "bank date"	14	14	13	12

Conclusion on the control efficiency

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

ECONOMY (Cost of controls)

For the EAGF and the EAFRD, the two main funds managed by DG AGRI representing 99.7%[108] of the CAP budget (Title 05), the following indicators can be reported:

Indicator	2019
Cost of management and control of the Commission (as a % of 2019 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 2019 total public expenditure)	3.5%

Table: 2.1.1.4-1

The annual overall **Commission** cost for managing the management and control systems in place for shared management is estimated at around **EUR 56.6 million** or 0.1% of total payments in 2019. A comparison of the results indicates that the results are in line with the results obtained for earlier reporting exercises (financial years 2016-2018).

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

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

The detailed figures (only at Commission level) are reported in Annex 10 (see Table 7.1 on Overview of the estimated cost of controls at European Commission (EC) level).

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

DG AGRI carries out a survey on the delivery cost in the Paying Agencies every two years. For the 2019 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. On the basis of the 2019 survey, the overall delivery cost of managing and controlling CAP expenditure for the Member States is estimated at around **EUR 2 268.1 million**, corresponding to 3.5% of the CAP expenditure for financial year 2019 (3.5% for financial year 2018 and 3.9% for financial year 2017). As indicated in the table 2.1.1.4-2, the % of delivery costs in 2019 expenditure is at the same level as in 2018 (3.5%). The delivery costs are borne by the Member States.

Activity	**2018**		**2019**	
	Member States Management and Control Costs[1] (EUR million)	**in % of 2018 expenditure**	**Member States Management and Control Costs[2] (EUR million)**	**in % of 2019 expenditure**
Market measures ABB02	225.7	8.6%	257.1	10.8%
Direct payment ABB03	869.2	2.1%	872.8	2.1%
Rural development ABB04 (3)	1 085.9	5.9%	1 138.2	5.4%
Total (4)	**2 180.8**	3.5%	**2 268.1**	3.5%

(1) As provided by Member States in 2017 and reported in AAR2017 and AAR2018.

(2) As provided by Member States in 2019

(3) In % of 2019 expenditure including total public expenditure

(4) In % of 2019 CAP expenditure (payments made)

Table 2.1.1.4-2

The quantifiable benefits of the delivery costs in the Member States mainly relate to the detection and correction by Member States of undue amounts claimed and the recoveries by Member States from beneficiaries after payment. When assessing the effectiveness of detecting and correcting undue claimed amounts, Member States have reported, in their control statistics, an amount of EUR 541.75 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 2015-2019) an amount of EUR 208.97 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 817.45 million, the total quantifiable benefits consequently amount to EUR 1 568.16 million. This represents 2.71% of the expenditure paid in respect of the three ABBs.

<table>
<tr><th></th><th>Average Financial Corrections[1]
(EUR million)</th><th>Undue claimed amounts detected and corrected by Member States prior to payment[2]
(EUR million)</th><th>Member States' recoveries from beneficiaries after payment[1]
(EUR million)</th><th>Total
(EUR million)</th><th>Total in % of 2019 expenditure</th></tr>
<tr><td>ABB02</td><td>76.43</td><td>105.79</td><td rowspan="3">99.67</td><td rowspan="3">1 074.61</td><td rowspan="3">2.46%</td></tr>
<tr><td>ABB03</td><td>524.11</td><td>268.61</td></tr>
<tr><td>EAGF</td><td>600.54</td><td>374.40</td></tr>
<tr><td>ABB04</td><td>216.91</td><td>167.35</td><td>109.30</td><td>493.55</td><td>3.48%</td></tr>
<tr><td>Total</td><td>817.45</td><td>541.75</td><td>208.97</td><td>1 568.16</td><td>2.71%</td></tr>
</table>

[1] See corrective capacity.
[2] As reported in the 2019 control statistics.

Table: 2.1.1.4-3

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

In 2018, two separate studies were carried out in order to have more details on delivery costs by Member States relating to specific parts of the CAP[109] or to other funds[110]. The results of these studies were presented in DG AGRI's AAR 2018 and are similar to the results presented above. In conclusion, the results of the 2019 survey of DG AGRI on delivery costs at the level of 28 Member States, covering the CAP as a whole, show that these costs are in the same range (3.5%) as the estimation of the delivery costs based on the DG AGRI 2017 survey and, therefore, remain cost-effective at very reasonable level at very reasonable level.

[109] "Analysis of administrative burden arising from the CAP". Please consult: https://ec.europa.eu/regional_policy/en/information/publications/studies/2018/new-assessment-of-esif-administrative-costs-and-burden
[110] The Commission study on "New assessment of ESIF administrative costs and burden". ESIF = European Structural and Investment Funds.

Conclusion on the cost effectiveness of the Member States' controls

DG AGRI considers that this delivery cost represents a reasonable amount, especially when taking into account the high number of CAP beneficiaries (almost 7 million of beneficiaries in 2019)[111], the relatively small size of most payments to individual beneficiaries, the necessity of protecting the EU financial interests and the overall performance of the policy. Still, DG AGRI considers there is possibly some scope for improving the cost-effectiveness at the level of the Member States, for certain ABB activities e.g. by use of simplified cost options and new technologies.

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

CONCLUSIONS ON THE COST-EFFECTIVENESS OF CONTROLS

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

Compared to 2018, the DG AGRI control environment and control strategy have remained stable. In view of the result indicators mentioned above, DG AGRI considers that the relative level of cost-effectiveness, economy and efficiency of the controls operated is adequate.

[111] See "The DG in Brief" of this report.

2.1.2 Audit observations and recommendations

This section sets out the observations, opinions and conclusions reported by auditors – including the limited conclusion of the Internal Auditor on the state of internal control. Summaries of the management measures taken in response to the audit recommendations are also included, together with an assessment of the likely material impact of the findings on the achievement of the internal control objectives, and therefore on management's assurance.

The section is subdivided in three subsections: the Internal Audit Service (IAS), the 2018 Annual Report of the European Court of Auditors (ECA), and the ECA Special Reports issued for 2019.

2.1.2.1 Internal Audit Service (IAS)

In 2019, the IAS finalised one audit and seven follow up audits involving DG AGRI.

Title	***Final report / Closure note***
Audit on the management of the fruit and vegetables regime in DG AGRI	3/9/2019
Follow-up audit on payments suspensions and interruptions in the 2014-20 CAP Framework	8/3/2019
Follow-up audit on DG AGRI's control strategy for the CAP 2014-2020	25/4/2019
Follow-up audit on the adjustment of the reported error rate by DG AGRI and the calculation of the amounts at risk at payment	2/4/2019
Follow-up audit on Implementation of rural development programmes in DG AGRI	21/8/2019
Follow-up audit on the processes for managing and sharing data on agri-environmental-climate issues in DG AGRI, DG CLIMA and DG ENV	20/5/2019
Follow-up audit on DG AGRI management of agricultural market crisis	25/9/2019
Follow-up audit on the design of DG AGRI's performance measurement system (CMEF) for the CAP 2014-2020	8/10/2019

There were no critical recommendations. Two very important (VI) recommendations were issued, stemming from the Audit on the management of the fruit and vegetables regime in DG AGRI. They pointed out a gap in the support and guidance provided to Member States to implement the regime on the ground, and the lack of a detailed analysis of the root-causes of recurrent weaknesses/errors detected by ex-post audit units. DG AGRI has properly addressed this issue in the corresponding Action plan and has been implementing all planned measures according to the agreed timeline. IAS verified recommendation 3 "Monitoring and evaluation of the fruit and vegetables regime" and subsequently concluded that recommendation 3 had been adequately and effectively implemented by DG AGRI in accordance with the Action plan by 31 December 2019.

As regards the follow-up audits, IAS closed them as the recommendations were either adequately and effectively implemented or, although partially implemented or not implemented in accordance with the actions initially envisaged, IAS had assessed that the remaining risk had decreased and that DG AGRI accepted the remaining risk.

Regarding the follow-up audit on the processes for managing and sharing data on agri-environmental-climate issues, recommendation N° 1 (Mapping of information needs and available data related to agri-environmental-climate issues) was not closed but downgraded from "Very Important" to "Important", and subsequently reported as implemented.

DG AGRI management closely monitors the implementation of the audit recommendations and the respect of the action plans agreed with the IAS for all audits. DG AGRI has not rejected any recommendations during the year and has no critical recommendations. By 31 January 2020, in relation to all past IAS audits from 2019 and before, 1 very important and 4 important recommendations were pending.

IAS conclusion on the state of the internal control

Apart from its participation in the peer review process and in line with its mission charter, the contribution of the IAS to the 2019 AAR process consists of providing a limited conclusion on the state of internal control for each DG.

The limited conclusion on the state of internal control draws on the audit work of previous years and lists all 'critical' and 'very important' IAS recommendations which have not been implemented.

Thus, the Internal Auditor concluded in February 2020 that the internal control systems in place for the audited processes in DG AGRI are effective, except for the observations giving rise to the 'very important' recommendation listed as pending below. This recommendation needs to be addressed, in line with the agreed action plan.

Pending Very Important recommendation on 31/01/2020

- ***Audit on the management of the fruit and vegetables regime in DG AGRI***

- **Rec 1 – Instructions to Member States**

  The IAS found gaps in the guidance provided to Member States for implementing and controlling the fruit and vegetables regime, notably in relation to recurring weaknesses in the control systems, and a missing analysis of root causes of the main weaknesses. That may increase the risk of ineligible expenditure and financial corrections. The IAS also found delays in providing replies to MS and updating the Europa website concerning the current fruit and vegetables regime.

  The IAS recommended that DG AGRI replies promptly to written questions, sharing them with other Member States; updates the Europa webpage and analyses the root causes of the main weaknesses, and develops appropriate targeted actions with Member States (such as interpretative notes, dedicated workshops, exchange of best practices).

  Summary of work done*:* DG AGRI has already implemented the first two elements of the recommendation, namely DG AGRI replied to all written questions in 2019 and shared them with the Member States; it also updated the Europa webpage. The analysis of the root causes of the main weaknesses is an ongoing process to be concluded by the end of 2020.

Conclusion on IAS audits and recommendations

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

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

2.1.2.2 European Court of Auditors: 2018 Annual Report

In the Court's 2018 Annual Report, the activities relevant for DG AGRI are considered together with other policy areas relevant to "Natural Resources" (MFF heading 2) under one single chapter, Chapter 7. The level of error estimated by the Court for "Natural Resources" was 2.4%, which is the same as for the previous financial year 2017. However, for financial year 2018 it includes significant errors found in relation to other areas than the CAP.

As in 2017, the Court does not disclose the error rates for the separate assessments included in the Chapter, and the Court makes a distinction between the different schemes financed under EAGF.

The audit conclusion of the Court was consistent with the error rates reported by DG AGRI. The low error rate in CAP spending contributed to keeping the overall level of error relatively low, despite a higher error rate in other areas under MFF heading 2. Market measures are considered together with rural development, environment, climate and fisheries as higher risk spending areas. Most spending in these areas is reimbursement-based and subject to complex eligibility conditions which the Court found increases the risk of errors.

The 2018 Annual Report confirms that the error rate for the CAP as a whole is very close to materiality. Moreover, the major part of the CAP expenditure, direct payments, is **free of material error** and thus below the threshold of 2%. This result over the recent years proves that CAP maintains a solid governance structure.

As in the previous year's Annual Report, the Court underlines the positive contribution from the Integrated Adminstration and Control Systems (IACS), including the Land Parcel Identification System (LPIS), to limit the level of error in direct payments.

Recommendations

The Court did not make any recommendation for improvement regarding assurance. The Court did refer to the continued relevance of the recommendations from 2017, related to Member States' actions to address the causes of errors, and the quality of the work of Certification Bodies continue to be relevant and will be followed up in due time. DG AGRI continues to request Member States to prepare remedial action plans when serious deficiencies and weaknesses are identified and to monitor the effectiveness of their implementation. The work of Certification Bodies is also continuously monitored by DG AGRI.

On the performance part and related to result indicators, one recommendation was addressed to the Commission in view of the CAP post-2020:

- For the post-2020 period, the Commission should take into account the weaknesses we identified in the current framework, in order to ensure that result indicators properly measure the effects of actions and that they have a clear link to the related interventions and policy objectives.

The Commission accepted the recommendation and is taking action to implement it. In its proposal for a regulation on the new CAP Strategic Plans to be drawn up by Member States, the Commission defined the common Impact, Output and Result indicators of CAP post-2020. The proposed result indicators will serve to establish operational targets for the implementation of relevant interventions included in the CAP Strategic Plans and to monitor progress towards achieving those targets. The result indicators play a fundamental role in policy planning and monitoring of implementation. The Commission proposal is currently being negotiated with the Council and the European Parliament, and the Commission will endeavour to ensure that the result indicators reflect the intended effects of interventions.

Performance

Chapter 7 contains a separate part dealing with performance of the CAP expenditure. The Court is focusing on two aspects: rural development actions and the Common Monitoring and Evaluation Framework (CMEF).

The Court found that most of the completed rural development actions examined had produced the expected output. In the Court's opinion, more could however be done by Member States to make use of simplified cost options. In connection with this point, the Commission recalled that Member States are free to decide whether to adopt simplified cost options.

The Court identified weaknesses in the way the Commission and Member States applied the Common Monitoring and Evaluation Framework (CMEF) result indicators to measure and report on the performance of agricultural and rural development spending for the current programming period. To this, the Commission replied that each measure is monitored by the respective output indicators and reported accordingly, but the assessment of its effects is subject to an evaluation, for which the CMEF indicators are only one tool, to be complemented by other information.

2.1.2.3 European Court of Auditors: Special Reports

In 2019, the ECA published 7 special reports concerning DG AGRI's activities. Annex 14 provides further information regarding ECA findings, conclusions and recommendations that concern DG AGRI activities.

Special reports for which DG AGRI was chef de file:

1) **Special report 04/2019: The control system for organic products has improved, but some challenges remain**

   ECA concluded that the EU organic sector has developed rapidly over recent years. Following up on their Special Report 9/2012 published in June 2012, ECA found that the control system had improved. ECA's recommendations had generally been implemented, but some challenges remained. ECA recommended to address the remaining weaknesses they had identified in the Member States for EU products, to improve the supervision of imported organic products through better cooperation as well as to carry out more complete traceability checks.

   The Commission welcomed the positive conclusion of the Court that the control system for organic products in the internal market has improved substantially. The Commission also shared the view that some challenges remain, in particular in the supervision of imports of organic products from third countries. The Commission is aware of the increasing risks and challenges caused by the rapid growth of the organic market and the development of imports; it has already started to implement measures to face this problem, for instance, by developing the Electronic Certificate of Inspection in the frame of the TRACES system that substantially improved the traceability of the organic products imported from third countries. It is, however, of utmost importance that not only the Commission, but also the Member States put in place actions to better coordinate and enhance controls both in Member States and at the border.

2) **Special report 23/2019: Farmers' income stabilisation: comprehensive set of tools, but low uptake of instruments and overcompensation need to be tackled**

   ECA found that the CAP offers a comprehensive range of preventive instruments to increase farmers' resilience, but that the impact of these on farmers' behaviour is limited. The use of EU support for insurance remains low and has benefitted only a fraction of farmers. No specific criteria were used to consider the use of exceptional measures following the Russian ban. ECA also found that the EU support for withdrawing products for free distribution was costly, leading to some overcompensation cases.

   The Commission recognises the importance of having the right tools to prevent and manage risks and crises, in particular for the agricultural sector, a more vulnerable sector in relation to adverse weather and global price volatility. In this sense, the current CAP helps farmers through income support, market measures, support for risk management tools, and training and investments under rural development. In addition, the Commission has proposed to go further in its proposals for the future CAP. Risk management tools under rural development will become mandatory for all Member States, including financial contributions to premiums for insurance schemes and mutual funds, and investments and training to help farmers prevent risks or deal with their consequences. An EU-level platform on risk management will also be set up to help all the actors involved share knowledge, exchange experience and best practice.

Special reports where DG AGRI was associated:

3) **Special report 01/2019: Fighting fraud in EU spending: action needed** (multi DG audit; OLAF chef de file, DG AGRI associated)

4) **Special report 13/2019: The ethical frameworks of the audited EU institutions: scope for improvement** (multi DG audit, SG/HR chef de file, DG AGRI associated)

5) **Special report 14/2019: 'Have your say!': Commission's public consultations engage citizens, but fall short of outreach activities** (multi DG audit, SG chef de file, DG AGRI associated)

6) **Special report 18/2019: EU greenhouse gas emissions: well reported, but better insight needed into future reductions** (multi DG audit, DG CLIMA chef de file, DG AGRI associated)

7) **Special report 21/2019: Addressing antimicrobial resistance: progress in the animal sector, but this health threat remains a challenge for the EU** (multi DG audit, DG SANTE chef de file, DG AGRI associated)

Follow-up of open recommendations

DG AGRI management closely monitors the implementation of the audit recommendations stemming from ECA annual and special reports or those from Council and the European Parliament issued in the course of the discharge procedure. By the end of 2019, there remained 21 open recommendations for which DG AGRI is chef de file. One of these recommendations, stemming from the ECA Special report 11/2018 "New options for financing rural development projects", is substantially overdue (> 12 months) in 2019. In line with the intended follow-up actions, DG EMPL has taken the lead of this overdue recommendation and DG AGRI remains associated service.

Conclusion on ECA audits and recommendations

In 2019, DG AGRI was engaged in ECA's third peer review. The main objective of this peer review was to assess the implementation of the ECA Strategy for 2018-2020. ECA's suggestions and recommendations on agriculture are welcome and contribute to important improvements in the CAP. However, the **workload** related, on one hand, to the large number of ECA's special reports and other products and, on the other hand, to the follow-up activities, becomes a key concern for the affected services as it is often at the expense of operational activities such as policy-making or policy implementation.

DG AGRI estimated the resources used to prepare and follow up on ECA products in 2019. These estimates indicate a major investment on the side of DG AGRI, amounting to approximately 13,77 FTEs[112], or 1,5% of total FTE of DG AGRI, on ECA activities in 2019, from the preparatory stages of an audit up to follow-up and monitoring activities.

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 yearly requests for updates for all open recommendations, regardless of their qualification or implementation deadlines.

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

[112] FTE or full-time equivalent is the hours worked by one employee on a full-time basis.

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, to ensure the achievement of its policy and management objectives. Compliance with the internal control framework is a compulsory requirement.

DG AGRI uses the organisational structure and the internal control systems suited to achieving its policy and internal control objectives in accordance with the internal control principles and has due regard to the risks associated with the environment in which it operates.

2.1.3.1 Source and Methodology for the Internal Control assessment

In DG AGRI, the internal control system is based on the clear definition of **roles** and **responsibilities** within the DG. The internal control monitoring criteria have been selected together with the **AGRI services** contributing to internal control. The **Director-General** signs the most important notes related to internal control. **Senior management** is consulted and kept informed of most important activities under internal control, i.e. risk management, the annual report to the Commissioner, the follow-up of audit recommendations, the management supervision reports. The **Deputy Director-General Risk Management and Internal Control (RMIC)** addresses to the Director-General an annual note on the functioning of the internal control system in the DG, thereby supporting the conclusions in the Annual Activity Report.

The internal control **self-assessment** for 2019 was carried out following the methodology established in the *"Implementation Guide of the Internal Control Framework of the Commission"* and is based on the following main sources of information:

- Assessment of the internal control **monitoring indicators** criteria and the specific actions implemented by the services contributing to each principle;
- Evaluation of **audit findings and follow-up of recommendations** (see Part 2.1.2), especially recommendations that may highlight systemic problems with internal controls;
- Review of the **management supervision reports** submitted by Directors and Heads of Unit on the operational performance of the services and supervision of their activities;
- Results of the **risk assessment exercises** and the well-functioning of the bottom-up/top down process;
- Analysis of registered **non-compliances and exception cases** that may reveal underlying deficiencies;
- Scrutiny ex-ante of the new and modified **internal procedures**.

The assessment also considered the **IAS limited conclusion** on the state of internal control and audit recommendations in DG AGRI for the year 2019.

2.1.3.2 Internal Control self-assessment results for 2019

Based on the approach described above and the self-assessment performed at the level of the principles, of the components and at the level of the internal control system as a whole, DG AGRI concluded that **internal control in DG AGRI is present and functioning well, but some improvements are needed for the following principles**:

Under Principle 3 "*Establishes structure, authority and responsibility*", the assessment noted a minor deficiency as the list of sensitive functions has not yet been updated. This deficiency is mitigated by the regular exchange between the Director-General and the Business Correspondent (BC) on appointments and mobility issues and the close follow-up of the Director-General of staff issues.

Under Principle 8 "Assess Fraud risks", the assessment noted a minor deficiency as the last update of the AGRI anti-fraud strategy (AGRI AFS) dates from 07/12/2015. Following the adoption of a new Commission's Anti-Fraud Strategy on 29/04/2019, the AGRI AFS is currently under revision. The revised version is expected to be adopted by DG AGRI by end of June 2020.

These minor deficiencies **do not affect** negatively the functioning of the internal control system in DG AGRI.

DG AGRI **managers** formally reported on the supervision carried out on the activities under their responsibilities in the course of 2019. In this context, managers did not report any major operational risk/issue having an effect on the achievement of objectives in addition to what was reported under other internal control exercises (e.g. risk management, audits, exception reporting).

As regards recommendations issued by the **Internal Audit Service (IAS)** (see section 2.1.2.1), there is only one 'very important' IAS audit recommendation pending which needs to be addressed by 31.12.2020 in line with the agreed action plan. DG AGRI considers that this pending recommendation has no impact on the assurance. As regards recommendations issued by the **European Court of Auditors (ECA)** in their special reports (see section 2.1.2.3) or in their annual report (see section 2.1.2.2), DG AGRI is taking action to implement the recommendations that were addressed to the Directorate-General and which have been accepted. DG AGRI considers that most of the ECA observations are related to considerations which are not directly linked to identified weaknesses in the DG's internal control systems and that have no impact on the assurance.

2.1.3.3 Risk Management

DG AGRI has put in place a **solid risk management process** ensuring an appropriate coverage of its objectives/activities. In 2019, DG AGRI performed a comprehensive risk identification and assessment by requesting contributions from all services. The process is organised as a bottom-up exercise with top-down steering when launching and concluding. Senior management was involved at all stages of the process. The assessment covered in particular the substance of the risks, their rating (likelihood and impact), mitigating controls in place and related action plans. One risk was considered critical and was further discussed during the peer review meetings organised by the Secretariat-General. The risk identified and assessed in that context did not reveal internal control weaknesses, but required an active preparation in the framework of the possible impact on agricultural markets because of the Brexit.

2.1.3.4 Procedures, exceptions and non-compliance events

DG AGRI's main processes and procedures are adequately documented by **internal procedures** to provide a clear reference framework to staff on how work has to be carried out. Guidance, templates and assistance are provided to AGRI services in setting up/updating the internal procedures and an ex-ante check is conducted to verify the presence of the key elements (context/legal basis, scope, actors, steps, timeline).

The functioning of the internal control systems is monitored throughout the year by the registration of exceptions and non-compliance events. Accordingly, a register of **exceptions to process/procedures and non-compliance events** was finalised and the content analysed in parallel with the assessment on the functioning of internal control for the year 2019. The purpose of this register is to make sure that the exceptions to the procedures and the non-compliance events are not caused by systemic faults in the processes, and, if necessary, to correct the processes and the relevant procedures.

For the year 2019, the register included five exceptions and three non-compliance events. The analysis of the events shows that the most common sources of errors relate to contractual and financial provisions (e.g. legal commitment signed before budgetary commitment). These exceptions to procedures and non-compliance events remained limited and non-systemic in DG AGRI and therefore they have no impact on the assurance given by the Authorising Officer.

2.1.3.5 Conclusions on the internal control system

Based on the methodology and information sources described above, DG AGRI has assessed its internal control system during the reporting year and has concluded that it is effective and that **the components and principles are present and functioning well overall,** but **some improvements are needed** as minor deficiencies were identified related to:

- Principle.3 "Establishes structure, authority and responsibility" and
- Principle 8 "Assess Fraud risks".

These deficiencies have a modest impact on the presence and functioning of the principles, considering the extent of the problem and the presence of compensating controls. Therefore, it is possible to conclude that the deficiencies found **do not affect** negatively the functioning of the internal control system in DG AGRI.

No critical weaknesses were found in any of the components that could jeopardise the achievement of operational, financial or control objectives and prevent the Director-General from signing his declaration of assurance.

2.1.4 Conclusions on the impact as regards assurance

This section reviews the assessment of the elements already reported above (in Sections 2.1.1, 2.1.2 and 2.1.3), and the sub-conclusions already reached. It draws an overall conclusion to support the declaration of assurance and whether it should be qualified with reservations.

2.1.4.1 Review of the elements supporting assurance

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

The Commission gives the highest priority to the exercise of its responsibilities for implementing the budget under Article 317 of the Treaty for the Functioning of the European Union (TFEU).

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

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

Follow-up of 2018 reservations

In the 2018 AAR, DG AGRI issued reservations at the level of Paying Agency or measure. This led to a total of 46 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 requested to report on progress on action plans. The Assurance and Audit Directorate of DG AGRI offers its opinion and checks on-the-spot at appropriate times the implementation of an action plan in accordance with its audit work programme.

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

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

Sound Financial Management

With 99.78% of the CAP budget[113] 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 to give an opinion on the legality and regularity of the expenditure.

[113] This percentage is calculated on the total payments executed in financial year 2019.

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 audit observations have come to light that significant resources have been diverted from the intended purpose. In particular, while DG AGRI identified a number of deficiencies and errors, in most cases these errors concerned formal and procedural mistakes while the funds were still effectively used for the stated objectives.

Legality and regularity

Part 2 sets out in detail the processes in place to ensure the management of the risk relating to legality and regularity of the funds managed under the CAP. It demonstrates that overall the risk at payment is below 2% and that when taking into account the corrective capacity, i.e. the estimated amount related to the CAP expenditure in 2019 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, 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, notably 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. The COVID-19 pandemic started during the finalisation of the 2019 Annual Activity Report. This had an impact on the follow-up of the Certification Body reports since some Certification Bodies faced difficulties in submitting clarifications or in carrying out part of the additional audit work requested by DG AGRI. The adjusted error rates presented therefore take into account the Certification Body audit results as reported subject to the professional judgement of the DG AGRI auditors.

Three reservations are made on each of the ABB activities in shared management, covering 45 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 2019 with a qualification in respect of the three reservations made for ABB activities as detailed in the following section.

2.1.4.2 Conclusion on assurance and reservations

The Director-General for Agriculture and Rural Development considers it necessary to enter three reservations[114] in respect of 2019 expenditure in shared management with the Member States.

.No	Title	Type	2019 amount at risk under reservation (million EUR)	ABB amount covered (million EUR)
1	**ABB02 – Payments made on Market Measures:** **4 aid schemes comprising 6 Member States (7 elements of reservation): Bulgaria, Greece, Italy (for 2 aid schemes), Spain, Portugal and the United Kingdom**	Financial	EUR 47.62 million	Expenditure in 2019 was EUR 2 371.91
2	**ABB03 – Payments made on Direct Payments:** **17 Paying Agencies, comprising 9 Member States: Austria, Cyprus, Denmark, Spain (3 Paying Agencies), Greece, Italy (7 Paying Agencies), Portugal, Romania, Sweden**	Financial	EUR 307.58 million	Expenditure in 2019 was EUR 41 335.66 million
3	**ABB04 – Payments made on Rural Development:** **21 Paying Agencies, comprising 18 Member States: Austria, Cyprus, Germany (1 Paying Agency), Denmark, Estonia, Spain (2 Paying Agencies), Finland, France (2 Paying Agencies), United Kingdom (1 Paying Agency), Croatia, Hungary, Ireland, Italy (2 Paying Agencies), Lithuania, Portugal, Romania, Sweden, Slovakia**	Financial	EUR 288.35 million	Expenditure in 2019 was EUR 13 837.28 million

Table: 2.1.4.2-1

[114] As from 2019, a *'de minimis'* threshold for financial reservations is introduced. Quantified AAR reservations, related to residual error rates above the 2% materiality threshold, are deemed not substantial for segments representing less than 5% of a DG's total payments and with a financial impact below EUR 5 million. In such cases, quantified reservations are no longer needed. The implementation of this *'de minimis'* threshold applies at the level of the AAR reservations, i.e. not at all affecting the detailed reservations at the level of the Paying Agency/aid scheme. Considering the conditions described above, for the 2019 financial year this "*de minimis*" threshold has **no impact** on AAR reservations of DG AGRI.

2.1.4.3 Overall Conclusion

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

Direct management

Title 05	Agriculture and rural development	Direct management payments made (EUR)	Error rate	Amount at risk at payment (EUR)
0501	Administrative expenditure	9 104 975	1.00%	91 050
0502	Interventions in agricultural markets	-	-	-
0504	Rural development	10 635 228	1.00%	106 352
0506	International aspects	4 230 824	1.00%	42 308
0508	Policy strategy and coordination	27 555 546	1.00%	275 555
0509	Horizon 2020 - Research and innovation	-	-	-
Total		**51 526 573**	**1.00%**	**515 266**

Table 2.1.4.3-1

For the EUR 51.53 million managed directly by DG AGRI, the maximum amount at risk is estimated at EUR 0.515 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	73 956 989	23 181 350	-	50 775 639	0.00%	-
Total		73 956 989				0.00%	-

Table: 2.1.4.3-2

For the EUR 73.96 million in indirect management under the pre-accession programmes, the maximum amount at risk is estimated at EUR 0 indicating an estimated adjusted error rate for relevant expenditure of 0.00%.

Shared management

Title 05	Agriculture and rural development	Shared management (EUR)	Adjusted error rate	Amount at risk (EUR)
0502	Interventions in agricultural markets	2 371 906 493	2.75%	65 175 335
0503	Direct aids	41 335 655 479	1.57%	647 894 036
0504	Rural development	14 169 342 972	2.70%	382 669 158
0507	Audit	60 138 487	0.00%	-
Total		**57 937 043 431**	**1.89%**	**1 095 738 529**

Table: 2.1.4.3-3

The amount at risk for the funds under shared management is estimated at EUR 1 095.74 million, corresponding to an adjusted error rate of 1.89%. This amount at risk is the Director-General's best, conservative estimate of the amount of expenditure authorised in 2019, which may relate to underlying transactions made by the Member States which are not in conformity with the applicable regulatory provisions. This overall adjusted error rate is below materiality, however the Director-General in order to ensure that there is sufficient assurance for all ABBs and to identify the areas where improvements should still be done is also making reservations.

Reservations are targeted at the Paying Agencies or aid schemes where the specific deficiencies have been identified. In total, there are 45 targeted reservations (7 for Market Measures, 17 for Direct Payments and 21 for Rural Development) in respect of 2019 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 for all Member States and Paying Agencies: there are some problems in the payments to the beneficiaries, but they have been identified, are being tackled and ultimately the EU budget is protected.

CAP

The overall situation for the CAP is as follows:

		Payments made[1]	Prefinancing paid	Cleared prefinancing	Relevant expenditure	Adjusted error rate	Estimated amount at risk at payment	Average financial corrections	Average recoveries	Average recoveries and corrections (in % of relevant expenditure)	Corrective capacity	Estimated final amount at risk
		million EUR	million EUR	million EUR	million EUR	%	million EUR			%	million EUR	million EUR
	1	2	3	4	5	6	7	8a	8b	8	9	10
					= 2 - 3 + 4		=5 x 6				=5 x 8	=7 - 9
Title 04 Employment, social affairs and inclusion												
0401	Administrative expenditure	0.36	0.00	0.00	0.36	1.00%	0.00	0.00	0.00	0.00%	0.00	0.00
Title 09 Communications networks, content and technology												
0903	Connecting Europe facility (CEF)	0.25	0.00	0.00	0.25	1.00%	0.00	0.00	0.00	0.00%	0.00	0.00
Title 13 Regional and urban policy												
1303	European regional development fund	0.18	0.00	0.00	0.18	1.00%	0.00	0.00	0.00	0.00%	0.00	0.00
1304	Operational technical assistance	0.08	0.00	0.00	0.08	1.00%	0.00	0.00	0.00	0.00%	0.00	0.00
Title 17 Health and food safety												
1704	Food and feed safety, animal health, animal welfare and plant health	0.21	0.00	0.00	0.21	1.00%	0.00	0.00	0.00	0.00	0.00	0.00
Title 18 Migration and home affairs												
1801	Administrative expenditure	0.28	0.00	0.00	0.28	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	2 371.91	0.00	0.00	2 371.91	2.75%	65.18	76.43	0.00	0.00%	0.00	0.00
0503	Direct payments	41 335.66	0.00	0.00	41 335.66	1.57%	647.89	524.11	0.00	0.00%	0.00	0.00
	EAGF total	43 707.56	0.00	0.00	43 707.56	1.63%	713.07	600.54	99.67	1.60%	700.21	12.86
0504	Rural development	14 169.34	2.71	0.00	14 166.63	2.70%	382.67	216.91	109.30	2.30%	326.14	56.53
0507	Audit	60.14	0.00	0.00	60.14	0.00%	0.00	0.00	0.00	0.00%	0.00	0.00
INDIRECT MANAGEMENT												
0505	Pre-accession Measures	73.96	23.18	0.00	50.78	0.00%	0.00	0.00	0.00	0.00%	0.00	0.00
DIRECT MANAGEMENT												
0501	Administrative expenditure	9.10	6.95	7.04	51.62	1.00%	0.52	0.00	0.00	0.00%	0.00	0.52
0502	Interventions in agricultural markets	0.00										
0504	Rural development	10.64										
0506	International aspects	4.23										
0508	Policy strategy and coordination	27.56										
0509	Horizon 2020 - Research and innovation	0.00										
Total CAP		58 062.53	32.84	7.05	58 036.73	1.89%	1 096.25	817.45	208.97	1.77%	1 026.35	69.90
Total DG AGRI		58 063.88	32.84	7.05	58 038.09	1.89%	1 096.27	817.45	208.97	1.77%	1 026.35	69.92
												0.12%
												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 2019

Copy of Table: 2.1.1.2.2-15

For both EAGF and EAFRD, action plans by Member States have proven to be an effective tool to remedy the weaknesses identified in management and control systems. The Commission will continue to encourage and support Member States in their implementation in all areas of the CAP, and to reduce or suspend payments in cases where Member States fail in implementing them. The overall CAP adjusted error rate is for the first time below materiality at 1.89%.

For Direct Payments, the adjusted error rate, already below the materiality threshold in the past three years, continued to decrease (from 1.83% in 2018 to 1.57% in 2019). Even if the number of Paying Agencies under reservation remains stable in comparison to last year (17), the estimated amount at risk is lower. The overall result confirms that, even in continued challenging circumstances with higher inherent risks, the Integrated Administration and Control System (IACS), when implemented in accordance with applicable rules and guidelines, limits effectively the risk of irregular expenditure.

Rural Development remains an area which merits closer scrutiny with an error rate of 2.70% albeit decreasing (for comparison, it was 3.20% in 2018 and 3.37% in 2017). Although the error rate has constantly 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 remaining final risk to the EU budget is below materiality.

With the adjusted error rate for the CAP being below materiality at 1.89%, it allows the Director-General to conclude with sufficient assurance that the risk at payment is below materiality. Furthermore, 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 1 026.35 million or 1.77% of 2019 expenditure. This allows the Director-General to conclude with sufficient assurance that, the remaining overall financial risk to the EU budget, after all corrective action will have taken place, is well below materiality at 0.12%.

Overall conclusion

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

2.1.5 Declaration of Assurance and reservations

DECLARATION OF ASSURANCE

*I, the undersigned, **Wolfgang Burtscher**,*

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[115].

State that I have reasonable assurance that the resources assigned to the activities described in this report have been used for their intended purpose and in accordance with the principles of sound financial management, and that the control procedures put in place give the necessary guarantees concerning the legality and regularity of the underlying transactions.

This reasonable assurance is based on my own judgement and on the information at my disposal, such as the results of the self-assessment, ex-post controls, the work of the Internal Audit Service and the lessons learnt from the reports of the Court of Auditors for years prior to the year of this declaration.

Confirm that I am not aware of anything not reported here which could harm the interests of the institution.

However the following reservations should be noted:

- ***ABB02 – Payments made on Market Measures**: 4 aid schemes comprising 6 Member States (7 elements of reservation): Bulgaria, Greece, Italy (for 2 aid schemes), Spain, Portugal, United Kingdom;*
- ***ABB03 – Payments made on Direct Payments**: 17 Paying Agencies, comprising 9 Member States: Austria, Cyprus, Denmark, Spain (3 Paying Agencies), Greece, Italy (7 Paying Agencies), Portugal, Romania, Sweden;*
- ***ABB04 – Payments made on Rural Development:** 21 Paying Agencies, comprising 18 Member States: Austria, Cyprus, Germany (1 Paying Agency), Denmark, Estonia, Spain (2 Paying Agencies), Finland, France (2 Paying Agencies), United Kingdom (1 Paying Agency), Croatia, Hungary, Ireland, Italy (2 Paying Agencies), Lithuania, Portugal, Romania, Sweden, Slovakia.*

Brussels, 24 April 2020

(e-signed)
Wolfgang Burtscher

[115] 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: 4 aid schemes comprising 6 Member States (7 elements of reservation): Bulgaria, Greece, Italy (for 2 aid schemes), Spain, Portugal, United Kingdom

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 Italy, United Kingdom, Portugal, for wine sector in Bulgaria, Italy, for olive oil in Greece and for EU School Scheme in Spain.
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 2019 amount to EUR 2 371.9 million. Reservations have been made concerning 6 Member States and the respective error rates can be seen in the tables in Annex 10 – Part 3.1.
Reason for the reservation	The reservation is made due to the significant occurrence of weaknesses in the underlying transactions (legality and regularity). In the case of the 3 reservations for fruit and vegetables operational programmes, 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, United Kingdom, Portugal)** resulting in ineligible expenditure. Furthermore, deficiencies were found in the quality in the on-the-spot checks **(United Kingdom, Portugal)**, in the approval of operational programmes in 2 Paying Agencies (IT-23 Lombardia and IT05-AVEPA Veneto), calculation of specific costs and maximum costs affecting the operational programmes for all Italy **(Italy)**. In the wine sector, a high error rate was reported for wine restructuring **(Bulgaria, Italy)** and for wine investment **(Italy)**. Under the EU school scheme, DG AGRI identified deficiencies in eligibility checks **(Spain)**. For olive oil, deficiencies were found in the approval and eligibility checks of work programmes for 2015-2018 **(Greece)**.
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% (21) they were automatically subject to reservation (6) except where (in 15 out of the 21 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 all cases, the high adjusted error rate was determined further to assessment and adjustment of the error rate by DG AGRI also based on Certification Body audits. In 1 case where the adjusted error rate was between 2% and 5%, it was considered necessary to make a reservation as the amount at risk was above the *de minimis* threshold (Italy). Further details may be found at Annex 10 – Part 3.1 (ABB02).
Quantification of the impact (= actual "exposure")	The amount at risk for the expenditure under reservation is EUR 47.62 million.
Impact on the assurance	The estimated level of error impacts on the assurance regarding the legality and regularity of the underlying transactions financed by the EAGF for Market Measures.

	However, the average annual amount of net corrections executed over the past three years for Market Measures and considered for the corrective capacity is EUR 76.43 million. While these amounts refer to expenditure incurred in years prior to 2019, 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 3 of the reservations (IT, PT-operational programmes for producer organisations, ES-school scheme), 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 operational programme of producer organisations in the United Kingdom, following the withdrawal of United Kingdom from the Union, future corrective action will not be requested since the UK is not expected to have expenditure for EU market measures as of financial year 2021. • For olive oil, the Member State has already informed DG AGRI on the corrective actions planned. • DG AGRI monitors action plan implementation closely and follows them up with the Member State, including on-the-spot where necessary. • DG AGRI provides further guidance and support to the national authorities where necessary. • DG AGRI will impose net financial corrections to recover to the EU budget the ineligible expenditure until remedial actions have been implemented. • Failure by the Member State to implement an action plan will be addressed where appropriate by DG AGRI via suspension/reduction of payments in line with Article 41(2) of Regulation (EU) No 1306/2013. <u>At Member State level</u> • The Member State is responsible for implementing the necessary corrective actions within an appropriate time schedule, including addressing the findings from the Certification Body.

Reservation 2 ABB03 – Direct Payments: 17 Paying Agencies, comprising 9 Member States: Austria, Cyprus, Denmark, Spain (3 Paying Agencies), Greece, Italy (7 Paying Agencies), Portugal, Romania, Sweden

DG	Agriculture and Rural Development
Title of the reservation, including its scope	Expenditure on Direct Payments for 17 Paying Agencies, comprising 9 Member States: Austria, Cyprus, Denmark, Spain (3 Paying Agencies), Greece, Italy (7 Paying Agencies), Portugal, Romania, Sweden
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 2019 amount to EUR 41 335.66 million. Reservations have been made for 17 Paying Agencies with material error rates which can be seen in the tables in Annex 10 – Part 3.2.
Reason for the reservation	The reservation is made due to the significant occurrence of weaknesses in the underlying transactions (legality and regularity). For **Austria,** DG AGRI identified weaknesses in allocation of payment entitlements and in the administrative checks for animal-based voluntary coupled support measures. The Certification Body also reported findings. For Cyprus, the Certification Body identified deficiencies and the Member State itself also has reported high error rates. In **Denmark,** a DG AGRI audit found weaknesses in the administrative checks concerning the fixing of payment entitlements, in the management of the national reserve and recovery of payment entitlements. The Certification Body also reported findings. For **Spain (Cantabria)**, a further adjustment was made to the error rate reported by the Member State based on the Certification Body assessment. In **Spain (Cataluña)**, DG AGRI identified weaknesses in performance of on-the-spot checks of sufficient quality. For **Spain (País Vasco),** DG AGRI identified weaknesses in the quality of the performance of the on-the spot-checks. The Certification Body also reported findings. In **Greece**, DG AGRI identified weaknesses in the quality of the performance of the on-the spot-checks for pasture land and in relation to the checks for animal-based voluntary coupled support measures. In **Italy**, DG AGRI has identified weaknesses affecting all the Italian Paying Agencies (7 are under reservation) in particular with regard to the correct recording of permanent grassland in the LPIS and the fixing of payment entitlements. For **Portugal**, DG AGRI audits identified weaknesses in the performance of on-the-spot checks of sufficient quality, fixing payment entitlements and establishment and management of the national reserve. The Certification Body also reported findings. In **Romania**, DG AGRI found weaknesses in the definition of land laying fallow and in relation to checks for animal-based voluntary coupled support measures. The Certification Body also reported findings. In **Sweden**, DG AGRI audits identified weaknesses in the administrative checks concerning the allocation of payment

	entitlements, in the definition of land laying fallow versus grassland and in the performance of on-the-spot checks (follow-up) of sufficient quality. The Certification Body also reported findings.
Materiality criterion/criteria	DG AGRI's materiality criteria related to the legality and regularity of the transactions was breached in the above cases. One Paying Agency (Austria) had an adjusted error rate above 5%. For the 18 Paying Agencies with an error rate between 2% and 5%, (Cyprus, Denmark, Spain (3 Paying Agencies), Italy (8 Paying Agencies), Portugal, Romania, Sweden) an examination was carried out of any risk mitigating factors. In 2 out of the 18 cases it was considered that it would not be necessary to make reservations, because the remedial actions have been requested in the framework of the ongoing conformity clearance procedure **(Czech Republic)**, or because the amount at risk is below *de minimis* threshold **(Italy, 1 Paying Agency)**. 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 307.58 million.
Impact on the assurance	Whereas the estimated level of error for ABB03 Direct Payments is below materiality level for some Paying Agencies 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. In addition, the average annual amount of net corrections executed over the past three years for direct aid was EUR 524.112 million. While these amounts refer to expenditure incurred in years prior to 2018, there are conformity procedures underway in respect of the deficient management and control systems which are subject to reservation. Thus the Director-General can be confident that the EU budget is ultimately sufficiently protected by the corrective capacity of Commission's net financial corrections.
Responsibility for the weakness	The concerned Member States and Paying Agencies are responsible for the proper implementation of the Direct Payments schemes concerned in their territory. The Commission supervises them in this respect, notably through audits carried out on-the-spot and through strict monitoring a follow-up of the implementation of milestones where action plans are required.
Responsibility for the corrective action	<u>At Commission level</u> • For all of the Paying Agencies concerned by the reservations, the deficiencies had already been identified by the DG AGRI audit services during their audits on-the-spot. Therefore the corrective actions necessary have already been identified and notified to the Member States concerned. • DG AGRI monitors action plan implementation closely and follows them up with the Member State, including on-the-spot where necessary. • DG AGRI provides further guidance and support to the national authorities where necessary. • DG AGRI will impose net financial corrections to recover to the EU budget the ineligible expenditure until remedial actions have been implemented.

	• Failure by the Member State to implement an action plan will be addressed where appropriate by DG AGRI via suspension/reduction of payments in line with Article 41(2) of Regulation (EU) No 1306/2013. <u>At Member State level</u> • The Member State is responsible for implementing the necessary corrective actions within an appropriate time schedule, including addressing the findings from the Certification Body. • The Member State is required to report regularly on progress milestones in line with the agreed schedule.

Reservation 3 ABB04 – Rural Development: 21 Paying Agencies comprising 18 Member States: Austria, Cyprus, Germany (1 Paying Agency), Denmark, Estonia, Spain (2 Paying Agencies), Finland, France (2 Paying Agencies), United Kingdom (1 Paying Agency), Croatia, Hungary, Ireland, Italy (2 Paying Agencies), Lithuania, Portugal, Romania, Sweden, Slovakia

DG	Agriculture and Rural Development
Title of the reservation, including its scope	Expenditure on Rural Development for 21 Paying Agencies, comprising 18 Member States: (Austria, Cyprus, Germany (1 Paying Agency), Denmark, Estonia, Spain (2 Paying Agencies), Finland, France (2 Paying Agencies), United Kingdom (1 Paying Agency), Croatia, Hungary, Ireland, Italy (2 Paying Agencies), Lithuania, Portugal, Romania, Sweden, Slovakia
Domain	Shared Management – European Agricultural Fund for Rural Development
Programme in which the reservation is made and total (annual) amount of this programme	**ABB04: Rural Development** Payments made for this ABB in 2019 amount to EUR 14 179.98 million. Reservations have been made concerning 21 Paying Agencies and their 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 were found by DG AGRI in organic farming measure and by the Certification Body both for IACS and non-IACS measures. For **Cyprus**, the Certification Body identified deficiencies for the IACS measures and the Member State itself also has reported material error rate for IACS measures. For several non-IACS measures, DG AGRI found deficiencies in the eligibility of costs, verification of payment claims and quality of on the spot checks. For **Germany (Sachsen)**, deficiencies were found by DG AGRI for Leader and Private Investment non-IACS measures. The Certification Body identified deficiencies in the IACS measures. For **Denmark**, DG AGRI identified deficiencies in the on-the-spot checks for an IACS sub-measure. The Certification Body also detected deficiencies in IACS measures. The Member State has reported a high error rate for non IACS measures. For **Estonia**, The Member State has reported high error rates for IACS measures. For **Spain (Aragon)**, deficiencies were found by DG AGRI under afforestation (double financing). The Member State has reported a higher error rate for IACS measures. The Certification Body and DG AGRI identified deficiencies for several non-IACS measures. For **Spain (Cataluña)**, for the IACS measures, deficiencies were detected by DG AGRI concerning the LPIS crosschecks. Further deficiencies in IACS measures were identified by the Certification Body and the Member State itself has reported a high error rate. For several non-IACS measures, deficiencies were detected by DG AGRI in the checks on the reasonableness of costs and eligibility of the applicant. For **Finland**, the Certification Body has found deficiencies for the IACS

	and non-IACS measures. For **France (ODARC)**, deficiencies were found in the IACS measures both by DG AGRI and the Certification Body. The Member State has reported high error rates for IACS measures. The Certification Body detected deficiencies in the non-IACS measures. For **France (ASP)**, deficiencies were identified by DG AGRI, including late on-the-spot checks, in IACS measures. In the non-IACS measures, deficiencies were identified both by DG AGRI and the Certification Body. The deficiencies concern public procurement, the checks on reasonableness of costs affecting the investment measures of private beneficiaries, the checks on the eligibility of the project and verification of payment claims, quality of on the spot controls and in situ visits. The Member State has reported a high error rate for non IACS measures. For **United Kingdom (Wales)**, deficiencies were detected by the Certification Body in the IACS measures. For the non-IACS measures, deficiencies were detected by DG AGRI and the Certification Body. The deficiencies concern the administrative checks on active farmer, the selection of projects, verification of payment claims and checks on the cost eligibility. For **Croatia**, deficiencies were found in the IACS measures by the Certification Body. The Member State has reported a high error rates for IACS measures. DG AGRI identified deficiencies for the non-IACS investment measure 4. For **Hungary**, deficiencies were detected by the Certification Body and DG AGRI in forestry measures, agri-environmental commitments and organic farming, for the setting up of producer groups, risk management and public procurement. For **Ireland**, the Certification Body identified deficiencies for the IACS measures and DG AGRI identified deficiencies in the functioning of controls in several non-IACS measures. The Member State has reported a high error rate in non-IACS measures. For **Italy (ARPEA)**, deficiencies were found in IACS measures by DG AGRI concerning the quality of the on-the-spot controls and the supervision procedures. Further deficiencies concern the correct recording of MEA in LPIS for IACS measures. For several non-IACS measures, deficiencies were found by DG AGRI on the quality of the on the spot controls. For **Italy (ARCEA)**, deficiencies concerning the correct recording of MEA in LPIS for IACS measures were found by DG AGRI. For the non-IACS measures, the Certification Body found further deficiencies. For **Lithuania**, deficiencies were found by DG AGRI in non-IACS measures for private investments. The Member State has reported a high error rate for IACS measures. For **Portugal**, deficiencies were found by DG AGRI and the Certification Body in the functioning of controls under IACS and non-IACS measures and under afforestation (double financing). The Member State has reported high error rates for IACS and non-IACS measures. For **Romania**, deficiencies were found by DG AGRI in cross-checks with areas covered by support measure, to avoid unjustified payments in relation to the definition of maximum eligible area. The Certification Body identified further deficiencies in the IACS measures. For the non-IACS measures, the Certification Body and DG AGRI detected deficiencies in public procurement and eligibility checks. For Sweden,

	deficiencies for IACS measures were identified both by the Certification Body and DG AGRI. For **Slovakia**, deficiencies were detected by the Certification Body and DG AGRI in cross-checks and on-the-spot checks for several IACS measures. In the non-IACS measures, deficiencies in the eligibility checks and public procurement procedures were found by DG AGRI.
Materiality criterion/criteria	DG AGRI's materiality criteria related to the legality and regularity of the transactions was breached in the above cases. 30 out of the 71 Paying Agencies have an adjusted error rate above 2% (of which 8 were above 5%: Cyprus, Germany (one Paying Agency), Estonia, Spain (one Paying Agency), France (one Paying Agency), United Kingdom (one Paying Agency), Portugal, Slovakia). In line with its materiality criteria in Annex 4, all 8 cases where the error rate is above 5% were automatically subject to a reservation. For 22 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 3 cases Germany (one Paying Agency), Spain (one Paying Agency) and Greece, it was considered that, given the mitigating factors present it would not be necessary to make reservations. For 6 Paying Agencies (Luxembourg, Germany (one Paying Agency), Malta, Spain (three Paying Agencies) , 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 13 Paying Agencies, a reservation was deemed necessary. In 9 cases (Belgium (two Paying Agencies), Germany (one Paying Agency), Spain (three Paying Agencies), United Kingdom (two Paying Agencies), The Netherlands). It was considered that it was not necessary to carry over reservations from the 2018 AAR with regard to 2019 expenditure. The reasons for each decision are detailed in Annex 10 – Part 3.3. In total, 9 reservations from 2018 are repeated in 2019 as deficiencies persist while 12 new reservations are introduced (Denmark, Estonia, Finland, Lithuania, Austria, Germany (one Paying Agency), Romania, Cyprus, Ireland, Italy (one Paying Agency), Spain (two Paying Agencies). **The overall outcome of this exercise is that 21 reservations are necessary at Paying Agency level.** Further details may be found in Annex 10 – Part 3.3 ABB04.
Quantification of the impact (= actual "exposure")	The amount at risk for the expenditure under reservation is EUR 288.35 million.
Impact on the assurance	The estimated level of error impacts on the assurance regarding the legality and regularity of the underlying transactions financed by the EAFRD. However, DG AGRI considers that consideration shall also be given to the corrective capacity of the net financial corrections applied to claw back undue expenditure to the EU budget. The average annual amount of net corrections executed over the past five years for Rural Development is around EUR 216.91 million. While these amounts refer to expenditure incurred in years prior to 2019, there are conformity procedures underway in respect of the deficient management and

	control systems which are subject to reservation. Thus the Director-General can be confident that the EU budget is ultimately sufficiently protected by the corrective capacity of Commission's net financial corrections.
Responsibility for the weakness	The concerned Paying Agencies are responsible for the proper implementation of the rural development programmes in their territory. The Commission supervises them in this respect, notably through audits carried out on-the-spot and through strict monitoring a follow-up of the implementation of milestones where action plans are required.
Responsibility for the corrective action	<u>At Commission level</u> • DG AGRI monitors action plan implementation closely and follows them up with the Member State, including on-the-spot where necessary. • DG AGRI provides further guidance and support to the national authorities where necessary. • DG AGRI will impose net financial corrections to recover to the EU budget the ineligible expenditure until remedial actions have been implemented. • Where necessary DG AGRI will interrupt payments as provided by Article 36(7) of Regulation (EU) No 1306/2013. • Failure by the Member State to implement an action plan will be addressed where appropriate by DG AGRI via suspension/reduction of payments in line with Article 41(2) of Regulation (EU) No 1306/2013. <u>At Member State level</u> • The Member State is responsible for implementing the necessary corrective actions within an appropriate time schedule, including addressing the findings from the Certification Body. • The Member State is required to report regularly on progress milestones in line with the agreed schedule.

2.2 Other organisational management dimensions

2.2.1 Human resource management

As part of its core tasks, the HR BC team continued to carefully monitor DG AGRI's job quota and staff allocation decisions. It advised on options for the most efficient use in relation to the DG's policy and operational priorities and oversaw all staff allocation decisions, including the follow up of temporary allocations.

DG AGRI's target to appoint 4 first female middle managers by 1 November 2019 was already met in September 2018. In 2019 another five female middle managers were appointed; again, these were all first appointments. In this context, the third edition of DG AGRI's middle management training programme, which started in October 2018, continued in 2019. Ten high potential female and male administrators take part in the training. They will continue to nurture the pool of potential future managers.

Staff engagement remained a key priority in 2019. The results of the 2018 staff survey were published in March 2019. The HR BC team analysed the results and organised sessions with staff to discuss follow-up actions. On this basis and considering wider input from units/directorates, a development plan was drawn up and endorsed by senior management in December. In June 2019 the first ever AGRI Away Day took place. The very positive feedback from all parts of the DG confirmed that the day reinforced the sense of belonging to DG AGRI and contributed to engaging colleagues.

Apart from contributing to the implementation of various staff engagement actions, the internal communication team continued its efforts to make relevant and interesting information available to AGRI colleagues via AGRINet and Inside AGRI. Colleagues produced several short videos and an online version of Inside AGRI.

2.2.2 Better regulation

Better regulation

On 31 October 2019, the Commission published two draft regulations to ensure a legal basis for making payments to farmers in 2021. More details on these transitional regulations are available in section 1.

Based on its experience in planning, consultation, REFIT (see below), evaluation and impact assessment, DG AGRI actively participated in the Better Regulation network in 2019, undertaken under the lead of the Secretariat-General.

In the context of the Common Monitoring and Evaluation Framework foreseen in Art. 110 of Regulation 1306/2013, an update of the published indicator data took place in 2019. The data also serves for the CAP post-2020.

Studies and evaluations

The **DG AGRI multi-annual studies and evaluation** plan has been updated. One Staff Working Document and four evaluation support studies were finalised in 2019. Furthermore, seven studies were finalised in 2019.

Details on the various studies and evaluations can be found in Annex 9.

Simplification

As from 2018, the Commission adopted legal provisions[116] and provided the technical guidance to enable Member States to take advantage of freely available satellite data (the Copernicus programme) to monitor areas claimed for aid as an alternative to carry out often costly on-the-spot checks. Several Member States have decided to introduce 'checks by monitoring' for part of the aid schemes and/or areas as from 2019. This choice of the monitoring approach will equally deliver on the assurance. The monitoring approach is expected to offer great potential for simplification of administrative and control-related tasks, but also for monitoring of the CAP's performance in a much wider sense.

In April 2019, DG AGRI launched the public database 'eAmbrosia – the EU Geographical Indicators registers'[117] which by the end of 2019 includes Geographical Indications for agri-food products, wine and spirits drinks registered and protected in the European Union. By putting online data for all GIs registered and protected by the EU, eAmbrosia increases transparency by providing a single portal for stakeholders and enforcement authorities with a view to easier enforce and better protect GI-related rights.

Regulation (EU) 653/2014 simplified the provisions on voluntary beef labelling to reduce the administrative burden for both operators and competent authorities. In 2019, the Commission reported on the implementation and impact of these provisions[118]. Overall, most Member States and stakeholders consulted for the preparation of the report considered the provisions positively with regard to simplification and effectiveness and reliability of the new system.

The work of the **REFIT-Platform** which adopted 11 opinions (covering 32 submissions) in the area of agriculture between 2015 and 2019 was also closely followed up.

2.2.3 Information management aspects

Document management

DG AGRI has continued its efforts linked to the visibility of files in Hermes-Ares-NomCom (HAN) and in December 2019 it went through a very important change regarding how it handles its data with a view to improving transparency and increasing the visibility of DG AGRI files in HAN. This change followed the deployment of the Ares-NomCom release in September 2019 and the implementation of new security markings in the system. Following a note by the Director-General[119], units were asked to open the read access levels of their files to the entire Commission whenever possible.

DG AGRI Document Management Officers (DMOs) organised several communication and awareness-raising activities, notably an information session for DG AGRI managers on increasing the visibility of DG AGRI files in HAN and on the correct use of the system's security markings (17/12/19). Furthermore, targeted training sessions were held with different units and in the course of regular meetings with the network of DG AGRI Document Management Correspondents.

[116] Commission Implementing Regulation (EU) 2018/746 of 18 May 2018 amending Implementing Regulation (EU) No 809/2014 as regards modification of single applications and payment claims and checks, OJ L 125, 22.5.2018, p. 1–7

[117] eAmbrosia – the EU geographical indications register

[118] Report from the Commission to the European Parliament and the Council on the implementation and impact of voluntary labelling provisions under Regulation (EC) No 1760/2000 as amended by Regulation (EU) No 653/2014, COM(2019)625 final of 13.12.2019.

[119] (Ares(2019)7559403).

Regarding the archiving activities, following the assessment of both its paper and electronic files whose administrative retention period (ARP) has expired, DG AGRI continued with the relevant post-ARP actions – transfer to the historical archives, elimination or sampling/selection. In the course of the year, several series of old paper files (part of "Collect History" project) were transferred to the Historical Archives.

Data protection

In the framework of the data protection action plan of 7 November 2018 (C(2018)7432) for the implementation of Regulation (EU) 2018/1725 that entered into force on 11 December 2018, the following actions have been undertaken in 2019 to ensure compliance with the new rules:

- DG AGRI’s Data Protection Coordinators (DPCs) organised several communication and awareness-raising activities, notably a presentation to all DG AGRI managers in the presence of the Data Protection Officer (DPO) (11/01/19), more targeted interventions in several unit meetings, a seminar on data protection during DG AGRI Learning Weeks and a presentation with Q&A during the seminar of Directorate H - Audit;
- the DPCs have worked on the establishment of a data breach procedure for DG AGRI;
- the inventory of data processing operations has been updated; most of the notifications imported from DPO-2 into the Data Protection Records Management System (DPMS) have been validated and published; several data processing operations that had not been notified so far were signalled and new records have been created;
- the DPCs followed up on the requests from the European Data Protection Supervisor and DG COMM concerning the compliance of our websites with data protection rules;
- privacy statements have been checked and, where necessary, reviewed, to ensure that appropriate information is provided to the data subjects concerned.

Data management

DG AGRI is actively participating in the EC Data Strategy action plan, with the first definition of the Data Inventory in the course of 2019 and the preparation of the next actions. As a tangible action, the Agri-Food data portal has now reached cruise speed with the automatic publication of a relevant number of open data on agricultural markets, CAP indicators and farm economics, made available through interactive visualisations.

2.2.4 External communication activities

All external communications actions included in DG AGRI's 2019 External Communication Plan have been implemented as foreseen, in particular:

- Award of 18 grants 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;
- Contribution to the ongoing development and implementation of the DG COMM 2019 - 2020 corporate communication campaigns and in particular the pilot campaign targeting rural areas across 7 Member States;
- Contribution to the Commission’s communication actions (using mainly digital tools) and campaigns to raise awareness on the relevance of the EU’s policies, including in the framework of the European elections;
- Finalisation of the digital transformation of the DG AGRI website to comply with the new European Commission web presence;

- Organisation of major conferences, in particular:
  - the Forestry Conference in May 2019,
  - the African Union – EU- Agricultural Ministers Conference back to back to the FAO Conference in July,
  - the "EU Agricultural Outlook Conference" in December 2019.
- In addition to the Internationale Grüne Woche (IGW) in Berlin and the Salon International de l'Agriculture (SIA) 2019 in Paris, DG AGRI participated in seven agricultural fairs/events including the EU Open Days in Brussels, with a modular stand in cooperation in particular with DG SANTE;
- The Ag-Press networking activities have been further enhanced with the organisation of two press trips to Romania and Finland and one seminar on the task force for rural Africa.
- The web communication and in particular the use of social media tools as well as the production of video messages have been further enhanced;
- DG AGRI presented a report on the implementation of the CAP information measures to the European Parliament and the Council covering 2017 and 2018, according to Article 45 (5) of Regulation (EU) No 1306/2013.

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

Example(s) of initiatives to improve economy and efficiency of financial and non-financial activities of the DG

Agriculture dashboards

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[120] offer full access to all available market data through a single page. In one screenshot, the dashboards gather 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. It saves interested parties time. By standardizing and automating the output, it also saves time for experts who were previously manually updating and disseminating the information. Dashboards have started in 2018 to be complemented by an interactive portal (Agri-Food Data Portal) where extensive market information on production, trade and prices of agricultural commodities is made publically available. In 2019, the portal has been improved and the sector coverage expanded to most agricultural products. In the second half of 2019, beef, rice, fruit and vegetables and wine portals have been placed online. The portal now also includes a direct connection to the Taxud database (allowing automated weekly figures of imports and exports) and data on Tariff Rate Quota allocation. All the data on the Agri-Food Data Portal is made available automatically and this reduces time allocated to preparing and disseminating reports.

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.

Centralised management of meetings and migration to the AGM tool

Efficiency gains achieved by pooling staff and expertise have been further extended in 2019 by handling more meeting categories in AGM (Advanced Gateway to EU Meetings) and thanks to continuous developments of this application, such as ongoing integration with Webdor (the application used to book meeting rooms and interpretation services). Given that the electronic workflow in AGM has replaced all paper reimbursements since 1 December 2019, AGM will now be used across DG AGRI.

AGRI sharepoint tool ICM for follow-up of Internal Control and IAS audits

The AGRI workspace 'ICM' (Internal Control Monitoring) is a tool for the follow-up of internal control principles as well as of IAS audit recommendations and constitutes an important instrument to improve resource efficiency. It improves communication and cooperation amongst DG AGRI services. It saves time for all units responsible for different parts of internal control actions and indicators. Furthermore, it facilitates the follow-up of IAS recommendations and gives visibility to recommendations due. It also provides proof that the audited units take responsibility of their recommendations through the respective action plans.

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120 https://ec.europa.eu/agriculture/dashboards_en

Single portal for stakeholders and enforcement authorities to access information on GIs

An Administrative Agreement between EUIPO and DG AGRI was concluded on 17 December 2019. In this agreement the parties agree to cooperate on the development and implementation of a new web tool, the so-called 'GI View'. The web application aims to substantially improve protection of GIs and will facilitate a simplified access to enforcement tools by representative GI right holders through its link with the IP Enforcement Portal, managed by EUIPO's Observatory. The officially registered data and other practical information on all GIs protected in the EU will be available by the end of 2020 and should provide authorities, including trademark examiners, other stakeholders and the wider public in general with easily accessible data on GIs.

Mechanisms to improve coherence across FTA negotiations

The FTA Steering Group was set up in 2017 to exchange ideas and propose solutions to recurrent issues in negotiations, often also with participation of other invited DGs such as DG TRADE and TF50. The Group continued to meet regularly also in 2019.

CAPReform Wiki to facilitate overview and follow up of the CAP reform process

The CAPReform Wiki has been developed to ensure the tracking of the questions and answers (Q&A) submitted by Member States in relation to the different legislative proposals that constitute the CAP reform package. It allows to keep track in a structured way of all Q&A, to have all relevant information in one place (accessible to all DG AGRI staff), to search for different criteria, and it sets out the business workflow for the DG AGRI approval process. It will set the basis for an internal comprehensive legal interpretation tool for the CAP 2021-2027. Furthermore, it supports the work of the "geographical hubs". The tool has been further developed to also manage changes made to the articles of the various legislative texts, and to give access to various documents, notably per Member State. Finally, it provides thematic guidance and collaborative tools.