



The **OLAF** report **2019**

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The **OLAF** report **2019**

**Twentieth report of the
European Anti-Fraud Office,
1 January to 31 December 2019**

DISCLAIMER

OLAF's report features case studies for illustrative purposes only. The fact that OLAF presents such case studies does not prejudice the outcome of any judicial proceedings, nor does it imply that any particular individuals are guilty of any wrongdoing.

The European Anti-Fraud Office is commonly known as OLAF, which is the acronym of its title in French, Office européen de lutte antifraude.

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http://ec.europa.eu/anti-fraud/olaf-and-you/report-fraud_en

Complaining about an OLAF investigation

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Executive summary

OLAF: DETECT, INVESTIGATE, PROTECT

In 2019, the investigations carried out by the European Anti-Fraud Office (OLAF) ranged from unravelling complex frauds involving machinery bought using EU funds and manipulated tender procedures, to major joint customs operations targeting consumer goods and cigarettes. An increasing number of cases involve environment-related projects, in line with the EU's increased focus on green and sustainable policies.

OLAF'S INVESTIGATIVE PERFORMANCE IN 2019

- ▶ OLAF concluded 181 investigations, issuing 254 recommendations to the relevant national and EU authorities
- ▶ OLAF recommended the recovery of €485 million to the EU budget
- ▶ OLAF opened 223 new investigations, following 1 174 preliminary analyses carried out by OLAF experts

TRENDS IN ANTI-FRAUD INVESTIGATIONS

The transnational dimension of its work allows OLAF to form a unique view of the picture of the changing nature of fraud across Europe. Some of the most striking trends revealed by OLAF investigations during the course of 2019 include:

- ▶ collusion and manipulation of procurement
- ▶ cross-border schemes that make detection more difficult
- ▶ frequent targeting of projects in third countries
- ▶ continued targeting of research funding
- ▶ smuggling and counterfeiting involving complex cross-border networks.

OLAF'S FIGHT AGAINST SMUGGLING

In addition to its investigation and coordination cases, in 2019 OLAF co-organised or provided support to 13 joint customs operations and has made significant progress in its efforts to fight the illicit trade in tobacco products by helping national authorities seize more than 251.4 million cigarettes.

CONTRIBUTION TO THE EU POLICIES TO FIGHT FRAUD

OLAF is regularly at the forefront of negotiating legislative texts concerning the protection of the EU's financial interests against fraud and corruption. In 2019, OLAF was instrumental in the adoption of the new Commission anti-fraud strategy.



Foreword

It is with great pleasure that I present the latest edition of the annual report of the European Anti-Fraud Office (OLAF). 2019 was my first full year in charge of OLAF and it also marked the 20th anniversary of its creation, the culmination of two decades of dedication and determination by OLAF staff to defend the interests of European citizens. For 20 years, OLAF has put its unique expertise and experience to the benefit of the EU, ensuring that taxpayers' money is properly spent and fighting fraud, corruption, smuggling and counterfeiting wherever we find it.

In our increasingly interconnected world fraudsters operate across borders, and their fraud schemes have become increasingly sophisticated and hard to detect for national authorities acting on their own. Our investigations and knowledge do not stop at national borders, and this is a tangible asset. OLAF makes a difference and the numbers speak for themselves: over the course of 2019, we concluded 181 investigations, we issued recommendations to the relevant national and EU authorities for the recovery of €485 million to the EU budget and we opened 223 new investigations.

Over the years, we have learned to adapt quickly to uncover the ever-changing and creative fraud patterns that seek to exploit the money made available to achieve the priorities of the EU. As these priorities evolve over time, so do fraud patterns. For example, one growing trend over the last few years has been an increase in fraud involving EU funds for environmental or sustainability projects. You will find more details of OLAF's work in this area in Chapter 3. Sustainable development, tackling climate change and protecting our environment are key priorities for the European Union, and OLAF plays its part in supporting this objective. Fraud affecting environment-related projects is doubly damaging: not only is precious taxpayers' money being stolen, but the environmental or sustainable benefits that the investments are supposed to bring are also being lost. The European Union has some of the most ambitious environmental targets and standards in the world: making sure EU funding is invested correctly in helping to meet and maintain them is a vital part of the battle against climate change.

2019 was a year of reflection on how OLAF could and should face the start of its third decade. We have discussed throughout OLAF and with our numerous stakeholders – European Commission services, the European Parliament, Member State authorities and international organisations – the ways in which we can work using a new, more agile and flexible model to prevent losses and damage to the EU budget and to focus on new priorities such as health, safety, and the environment. The new organisation chart that took effect on 16 June 2020 will make OLAF fit to face new challenges and new opportunities, such as the beginning of the operations of the European Public Prosecutor's Office, with which we are looking forward to working particularly closely.

Cooperation with other institutions and organisations has always been at the heart of what we do at OLAF, from coordinating with national authorities on cross-border cases to developing Europe-wide approaches to tackling fraud. Cooperation is vital for our work: we need fast and reliable access to the right data in order to analyse it and to exploit it for operational purposes as well as for strategic analysis. I am happy to see that our efforts to cultivate effective contacts with our stakeholders have continued to pay off. I want OLAF to work as a centre of knowledge against fraud. We will make greater use of the latest

technologies, including artificial intelligence, not only to assist investigations, but also to strengthen our fraud prevention and analysis work and to detect and share our knowledge of gaps in the law and in administrative practices.

By reinforcing our role as a centre of knowledge against fraud, we are contributing to identifying risk-management problems related to EU financial interests at an early stage. This could be a basis for issuing warnings when problematic patterns start to emerge.

The focus of this report is the work of 2019, but the world it reflects has subsequently changed almost beyond recognition. The annual report for 2020 will have a different focus, reflecting the unique circumstances in which OLAF and everyone else has worked as a result of the coronavirus pandemic. At the time of writing, the EU is slowly emerging from confinement, and the focus is on ensuring we all bounce back together – economically, socially and environmentally – as quickly as possible. The European Union's recovery plan will see EU funding put to work like never before, helping our societies to get back on their feet after the unprecedented events of the first half of 2020. We also need to rely on genuine facemasks, sanitisers, test kits, medicines and vaccines as a precondition to restarting the EU.

OLAF will continue to play its unique and vital role in helping to keep the EU safe, healthy and fit for the future. We stand ready to deploy our arsenal of tools to ensure that not a cent of the EU budget is lost to fraud, that EU businesses do not suffer unfair competition from cheap substandard imports that do not pay taxes and that EU citizens are safe from dangerous products, including those that they increasingly buy online.

Ville Itälä
Director-General of OLAF



Content

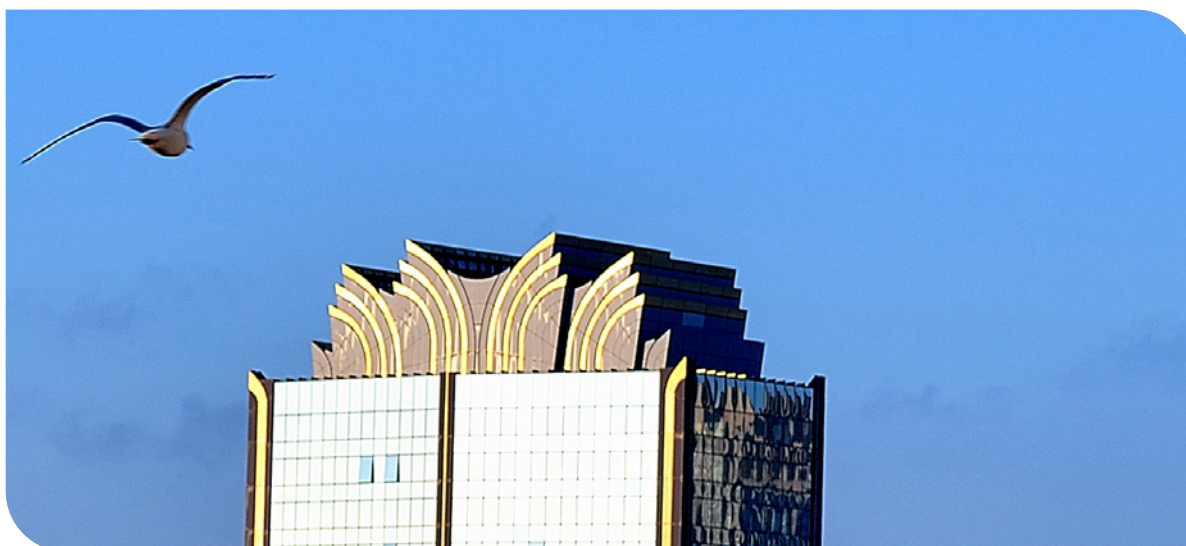
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The seat of the European Anti-Fraud Office, in Brussels



1. Mission and mandate



MISSION

Detect, investigate and work towards stopping fraud involving European Union funds.

MANDATE

The European Anti-Fraud Office's (OLAF's) mandate is:

- to conduct independent investigations into fraud and corruption involving EU funds so as to ensure that EU taxpayers' money reaches projects that can stimulate the creation of jobs and growth in Europe;
- to investigate serious misconduct by EU staff and members of the EU institutions, thus contributing to strengthening citizens' trust in the EU institutions;
- to develop EU policies to counter fraud.

COMPETENCES

OLAF can investigate matters relating to fraud, corruption and other offences affecting EU financial interests concerning:

- all EU expenditure – the main spending categories are European Structural and Investment Funds, agricultural policy and rural development funds, direct expenditure and external aid;

- some areas of EU revenue, such as money from customs duties or value added tax (VAT)

OLAF can also carry out investigations into suspicions of serious misconduct by EU staff and members of the EU institutions.

OLAF is part of the European Commission and, as such, under the responsibility of the Commissioner for Budget and Administration. In 2019, that position was occupied by Commissioners Günther H. Oettinger and Johannes Hahn.

However, in its investigative mandate, OLAF acts with full independence.

WHAT WE DO

OLAF's investigative work broadly involves:

- assessing incoming information of potential investigative interest to determine if there are sufficient grounds for OLAF to open an investigation;
- conducting administrative anti-fraud investigations, where appropriate in cooperation with national criminal or administrative investigative authorities and with EU and international bodies;

- ▶ supporting the anti-fraud investigations of national authorities;
- ▶ recommending actions that should be taken by the relevant EU or national authorities;
- ▶ monitoring the actions taken by these authorities, in order to assess the impact of OLAF's work in the fight against fraud and better tailor the support OLAF provides to national authorities.

Responsibilities for much of EU spending are shared between European, national, regional and local levels. Even where EU institutions manage funds directly, the money is often spent across national borders, and sometimes outside the EU. The same applies to the customs duties or VAT-related parts of EU revenue. The detection, investigation and prosecution of fraud against the EU budget and the recovery of unduly spent amounts or evaded customs duties can therefore only be conducted in cooperation with a wide range of partners, at national, European and international levels.

OLAF cases frequently concern:

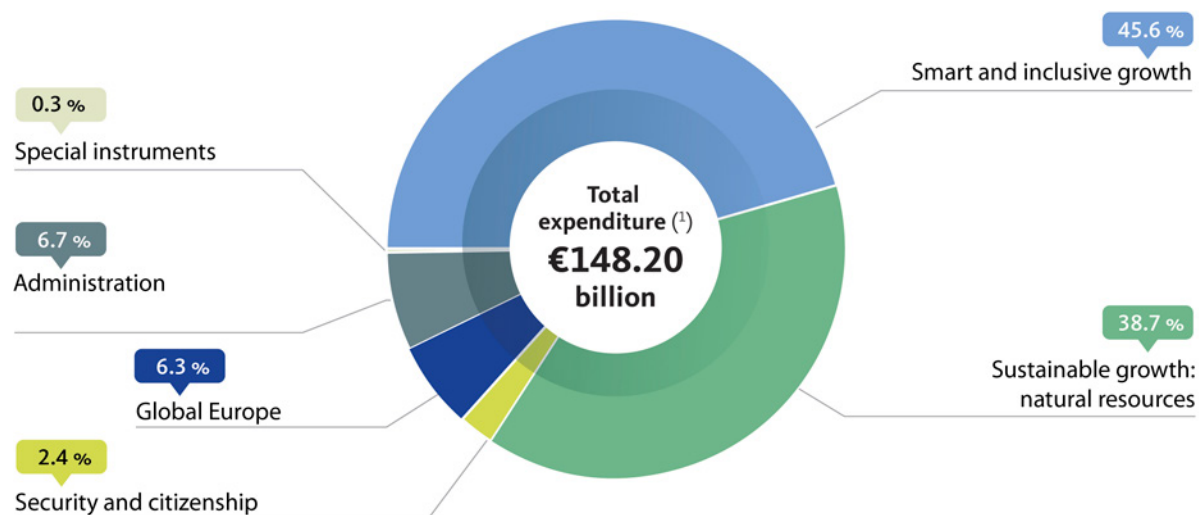
- ▶ cross-border procurement fraud or corruption in public procurement procedures involving EU financing;

- ▶ double funding, whereby, through deceit, a project is funded several times by different donors, who are unaware of the contributions the others made;
- ▶ subsidy fraud in various forms, as fraudsters take advantage of the difficulties of managing and controlling transnational expenditure programmes, including by delivering the same piece of research to several funding authorities within or beyond EU borders, plagiarism (the copying of research that has already been undertaken by others) or the deliberate gross disrespect of the conditions of financial assistance;
- ▶ customs fraud, in which fraudsters attempt to avoid paying customs duties (EU own resources), for instance by smuggling goods into the EU.

EU bodies are, like other employers, at risk of fraud from their members and staff in relation to remuneration, travel and relocation allowances, social security and health entitlements. They may also be at risk of corrupt activity by members and staff in procurement procedures, and of other forms of corruption such as attempts to illicitly influence decision-making and recruitment procedures. To some degree, these risks are increased by the transnational nature of EU business. OLAF has therefore a unique mandate to carry out what are known as internal investigations, into any allegations of misconduct involving staff and members of the EU institutions.



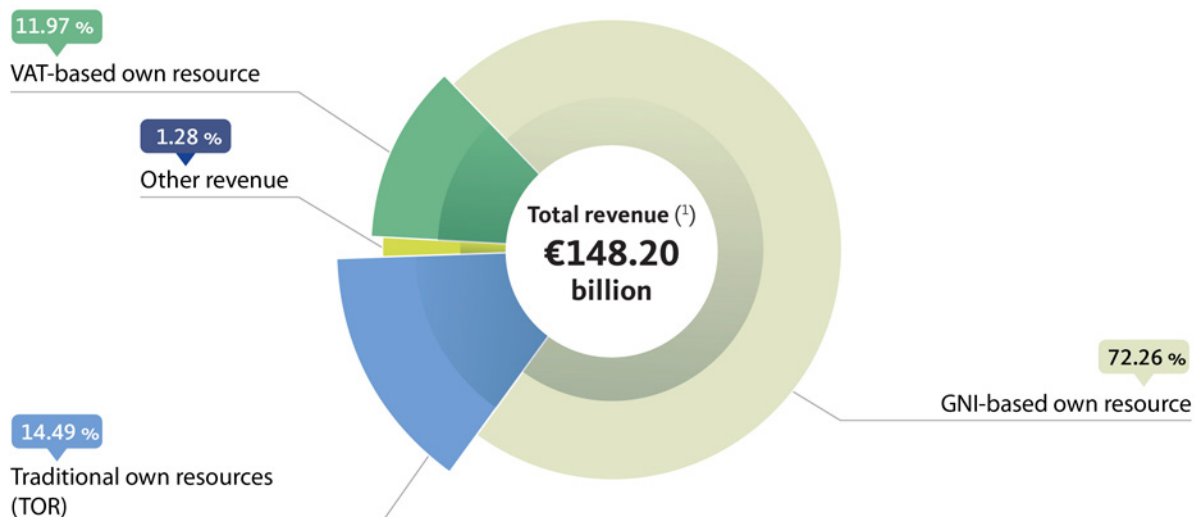
Figure 1: EU expenditure in 2019



⁽¹⁾ Source: OJ L67, 7.3.2019, p. 13

Disclaimer: these are based on final amounts but are still subject to reliability checks by the European Court of Auditors

Figure 2: EU revenue in 2019

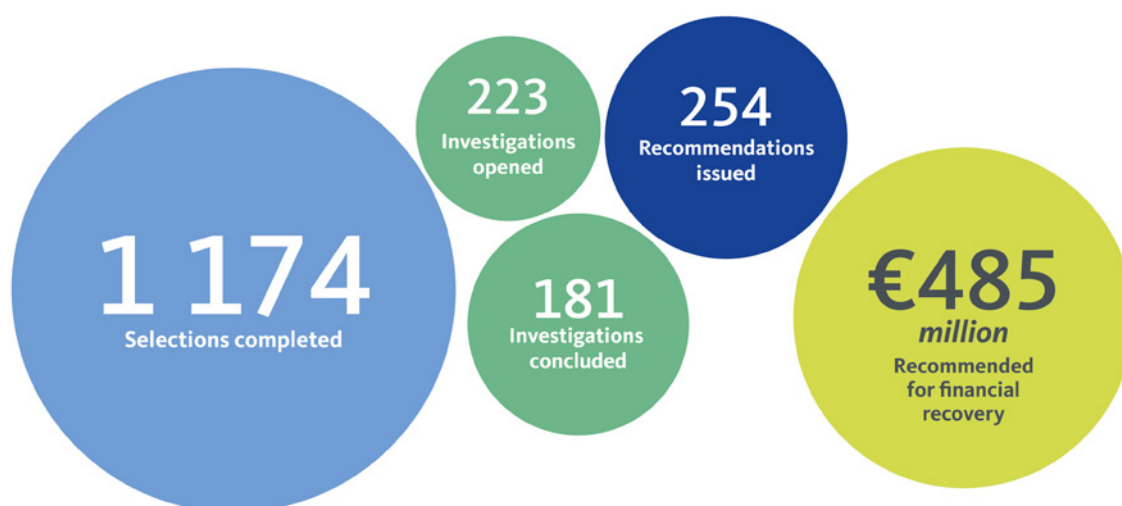


⁽¹⁾ Source: OJ L67, 7.3.2019, p. 14

Disclaimer: these are based on final amounts but are still subject to reliability checks by the European Court of Auditors

2. OLAF's investigative activity: trends in anti-fraud investigations

Figure 3: OLAF's investigative activity in 2019



2.1. Summary of OLAF's investigative performance in 2019

OLAF's investigative performance in 2019 (Figure 3) was broadly in line with previous years. On the basis of incoming information from both private and public sources, some 1 174 case selections were made during the year, leading to a total of 223 investigations being opened. Some 181 were concluded during the year, leading to OLAF issuing 254 recommendations to competent authorities at EU and national levels. The majority of these recommendations concern the recovery of EU funds – nearly €485 million in 2019 – by

the relevant authorities at EU and Member State levels. OLAF also issued a limited number of judicial, disciplinary and administrative recommendations in 2019. For a detailed presentation of these and other performance indicators, please refer to the annex to this report (Chapter 10).

Table 1 shows the breakdown of the investigations concluded by OLAF in 2019 concerning EU funds managed or spent in whole or in part at national or regional level. Table 2 shows that, as was the case in previous years, the European Structural and Investment Funds account for the majority of OLAF's investigative activity.



Table 1: Investigations into the use of EU funds managed or spent in whole or in part at national or regional level concluded in 2019

Country	Cases concluded	
	Total number per country	of which closed with recommendations
Romania	11	9
Italy	9	7
Greece	7	2
Poland	7	4
Bulgaria	7	5
Hungary	5	2
Czechia	3	3
North Macedonia	3	0
Spain	3	0
Croatia	3	1
Belgium	2	1
Portugal	2	2
Syria	2	1
Slovakia	2	2
Ukraine	2	0
Tunisia	2	1
Turkey	2	1
Jordan	2	1
United Kingdom	2	1
Kosovo	2	1
Albania, Algeria, Austria, Burundi, Cambodia, Denmark, Estonia, Ethiopia, France, Georgia, Kenya, Latvia, Lebanon, Mauritius, Nigeria, Palestinian Territories, Saint Lucia, Serbia, Slovenia, Sudan, Thailand, Zambia	22 (1 per country)	13
Total	100	57

Table 2: Ongoing investigations at the end of 2019, divided by sector

Reporting sector	2015	2016	2017	2018	2019
Structural Funds except European Social Fund	104	69	73	84	88
Centralised expenditure	58	59	71	82	82
EU staff	37	48	64	65	74
Customs and trade	50	60	44	43	57
External aid	66	52	58	44	47
Agricultural funds	36	21	22	33	42
New financial instruments	8	8	18	48	32
European Social Fund	21	19	5	11	13
Tobacco and counterfeit goods	18	8	7	3	10
European Maritime and Fisheries Fund	0	0	0	0	5
Cohesion Fund	0	0	0	0	3
Asylum, Migration and Integration Fund	0	0	0	1	1
Emergency Assistance Grant Scheme	0	0	0	0	1
Fund for European Aid to the Most Deprived	0	0	0	0	1
Total	398	344	362	414	456

2.2. Follow the money: OLAF solves complex cases, traces EU money pocketed by fraudsters

Fighting fraud, counterfeiting, smuggling and other illegal activities has been the core business of OLAF for more than 20 years. Working on its own initiative and in cooperation with organisations from across the EU and around the world, OLAF has a wealth of experience in identifying the trends in the constantly evolving area of fraud. As fraudsters become ever more sophisticated, and schemes ever more complex and international, OLAF's experienced investigators, forensic experts and analysts have to go to ever more complicated lengths to tackle them.

Below are some of the trends highlighted by OLAF staff in the course of their investigations in 2019. It is not a complete list of all the investigations completed by OLAF but rather an overview of the main types of fraudulent activity detected by the office during the year.

2.2.1. Collusion and manipulation of procurement

One of the main trends identified during the year was fraudsters using the procurement and tendering process to gain access to EU funds for illegal purposes.

SIPHONING OFF MONEY FROM SYRIA

Perhaps the most high-profile case in this regard concerned a well-known non-governmental organisation (NGO) involved in supporting EU humanitarian aid efforts in Syria. The EU is a leading donor to the global humanitarian aid efforts in Syria, where millions of people are in need of medical and food aid, water and shelter, with significant sums available to support projects working in this field managed by the European Commission's Directorate-General for European Civil Protection and Humanitarian Aid Operations.

OLAF began investigating the NGO in question in May 2016 on suspicion of corruption and manipulation in the public procurement procedures funded by the EU in order to provide emergency assistance to civilians affected by the conflict in Syria. The NGO had received nearly €19 million in EU funds from the European Commission through four separate grant agreements



In the search for hard evidence, OLAF performed an on-the-spot check, together with forensic data acquisition, at the NGO's headquarters. Investigators found evidence of corruption by two former staff members of the NGO, who had set up a sophisticated fraud that was used to siphon taxpayers' money away from the humanitarian crisis in Syria and into their own pockets and those of their collaborators. The investigation also found evidence of significant shortcomings in the way that the NGO had administered EU money.

OLAF's investigation was concluded at the end of 2019 with a recommendation to recover nearly €1.5 million. The two individuals identified by the investigation remain at large.

FOOD, FARMING AND RURAL DEVELOPMENT FUNDS DEFRAUDED

Each year significant sums of EU money are invested from the European Agricultural Guarantee Fund in promoting EU agricultural and food products in countries outside the European Union. Several investigations completed by OLAF in 2019 showed how manipulation of the tendering process and collusion

between individuals and organisations are also a recurring theme in this area of EU funding.

In one case, for example, OLAF uncovered a complex fraudulent scheme designed and executed by the owner and manager of just one EU-based company. The individual concerned first secured the collaboration of several other companies and individuals under her direct or indirect influence, with the goal of undermining the public procurement procedure. Two such procedures were successfully manipulated in her favour, giving her effective control over both the organisation responsible for implementing the promotional programme in that country and the one responsible for evaluating the correct implementation of the scheme.

The implementation of the scheme itself was also affected by irregularities, with inflated prices, kickback payments, money laundering and other serious irregularities, fraud and other criminal activities. In particular, the implementing body would pretend that the promotional activities had been carried out by certain companies for a certain amount and present bogus invoices and supporting documents to support these claims. Although the promotional activities did indeed take place – including



among others advertising campaigns and stands at food fairs – they were carried out by other companies and for considerably lower prices than those invoiced. Finally, OLAF also discovered that the implementing body designated by the public procurement procedure had not in fact coordinated any of these activities itself, but one of the companies with which it was colluding had done so, in clear breach of the law.

As a result of this investigation, OLAF recommended to the European Commission's Directorate-General for Agricultural and Rural Development that it should ensure that around €2 million in EU funding be recovered. OLAF also issued a judicial recommendation in this particular case.

A similar case of manipulation of tenders was discovered in an investigation carried out into no fewer than eight related projects in Poland. The projects were funded with around €5.2 million in co-financing from the European Regional Development Fund.

OLAF's investigation found that, over a period of six years, the three different companies involved in the project had used fake and inflated invoices, manipulated tendering procedures and falsified project documentation to obtain the EU funding. The owners of these three companies, or their relatives, owned several other companies that were directly or indirectly involved in the implementation of the projects.

In most of the projects, the tender procedures were highly irregular; in many cases, only one offer was provided. If the beneficiary received several offers, one was usually from a company owned by a relative or, if three offers were required, they stemmed from the same group of companies. Sometimes, the companies of the people concerned acted as suppliers to the companies that won the calls for tender. Sometimes the allegedly independent companies provided their offers from the same email address, or shared a postal address or office.

The investigation also showed that prices accepted by the beneficiaries were inflated and the entire procedure was based on fraud. For example, if a company owned by one of the people concerned bought an item, for instance a tool, for €4 000, it would then lease that tool to the intermediary company for €4 500 per month. This intermediary company would then win a call for tender to hire out tools on long-term contracts (i.e. for periods of over one year); one of these contracts concerned the same tool, which would be hired out at a cost of €4 800 per month. The inflated costs at each

stage benefited every company or intermediary, to the detriment of EU funds.

OLAF closed the case in December 2019 with a judicial recommendation to the national authorities and a financial recommendation to the European Commission's Directorate-General for Regional and Urban Policy to recover just over €1.1 million in EU financing.

MACHINERY PURCHASES IN THE SPOTLIGHT

A separate case concerned another EU fund – the European Regional Development Fund – but a similar attempt to undermine the procurement and tendering process, this time in the area of textile manufacturing (Figure 4).

OLAF carried out four interconnected investigations concerning the fraudulent commercial relationships between companies working in this field. The initial allegations centred around knitting machines that were being sold under EU co-funded projects at more than double their market price. The software to run these machines, which is always provided free of charge, was also being sold within the projects at an extremely high price.

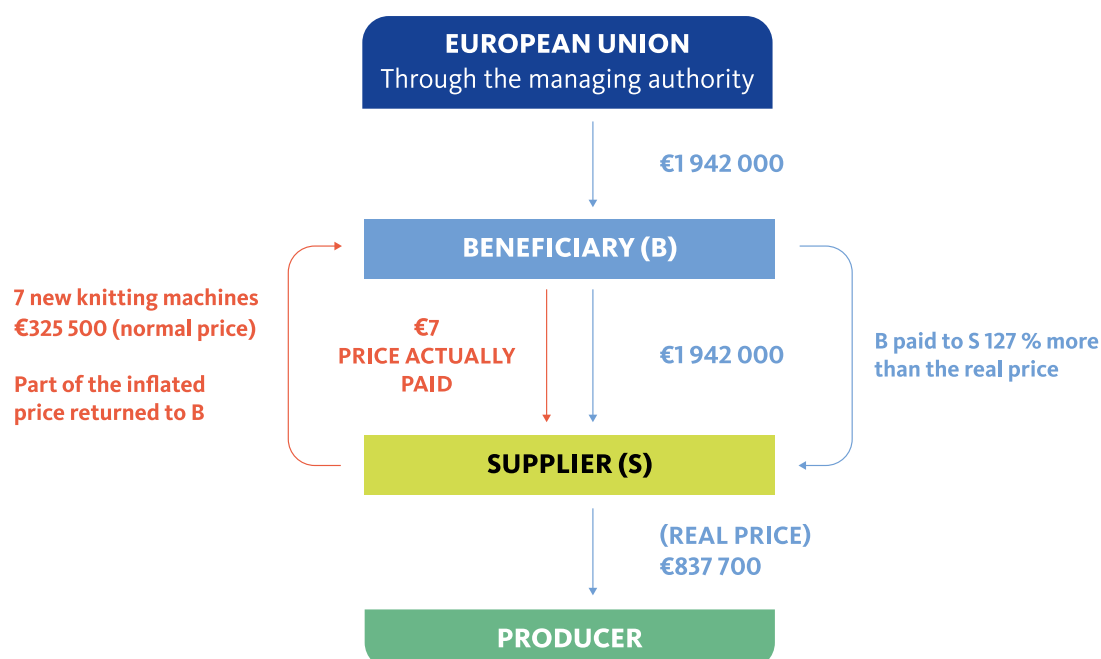
During its investigation, OLAF discovered that the supplier and the beneficiary of the EU funds had colluded to sell and buy the machines at an inflated price, effectively undermining the entire procurement process from the start by making false offers and fraudulent agreements and offering kickbacks. OLAF's investigations discovered that all four EU co-funded projects had been implemented in the same way, with each one using a different method for 'returning' the inflated amounts. In one case, for example, the supplier agreed to buy worthless second-hand machines at inflated prices and then either sold them for minimal prices or sent them straight for scrap. In another, the fraudulent scheme was even set out in perfect detail in a confidential agreement signed by the two parties.

OLAF completed all four investigations by making financial recommendations worth €3.3 million, and judicial recommendations to start proceedings against six individuals and five legal entities. In 2019, the Bucharest courts sentenced the people involved in the schemes, who had admitted their guilt, to 16 months in prison (suspended for two years).



Figure 4: The complex knitting machine fraud

A variety of frauds were used in the four cases to obtain the funds; shown here are two examples – massive discounting (left side) and over-inflated invoices (right side).



CROSS-BORDER SCHEMES MAKE DETECTION MORE DIFFICULT

A similar case from Latvia also involved fictitious machinery sales, inflated invoices and a cross-border scheme that made the fraud more difficult to detect. In 2018, OLAF received fraud allegations concerning a project to develop a wooden toy factory through the acquisition of seven woodworking machines via a contractor based in Lithuania. The project was supported by the European Agricultural Fund for Rural Development.

OLAF established that the entire project was tainted with irregularities and fraud, a tissue of lies and half-truths involving artificial transactions and fake invoices. OLAF discovered that not a single one of the project-related machines was supplied by the company to which the contract was awarded following a manipulated tendering process. In fact, the sister company of the beneficiary had imported and paid for five of the seven project-related machines from a company in Asia (rather than Lithuania, as stated on the documentation). This purchase was kept secret from the Latvian authorities.

At the same time, artificial invoices were used to substantially increase the alleged cost of the machines, allowing the beneficiary to avoid the obligation to contribute financially to the project.

These fraudulent actions were made possible only because of the involvement of the Lithuanian 'contractor' appointed as a result of the manipulated tendering procedure. The simple fact of dealing with a company based in a different EU Member State made detecting and uncovering the fraud far more difficult and time-consuming.

OLAF closed the case in December 2019 with a recommendation to the European Commission's Directorate-General for Agricultural and Rural Development to recover more than €87 500 of EU funding, which had been fraudulently spent. It also recommended that the national competent authorities take judicial proceedings against the individuals and companies concerned.



PROJECTS IN THIRD COUNTRIES ALSO TARGETED

The manipulation of procurement procedures was also used to defraud schemes funded by EU money outside the European Union. Working closely with the Jordanian Integrity and Anti-Corruption Commission in Amman for the first time, OLAF discovered that the organiser of an EU-funded electoral observation project in Jordan had a clear conflict of interest in the procurement process, and had embezzled project funds intended for the allowances of the election observers. OLAF recommended that €124 313 be recovered.

A separate case in Albania also highlighted the manipulation of the tendering process linked to one EU-funded project there. The company that won the tender had benefited from confidential information ahead of the procedure, giving it a competitive advantage. The information was found to have been leaked by a former contractor of the EU that had assisted the Albanian authorities in preparing the tender documentation. The OLAF investigation concluded with recommendations to exclude both companies from receiving EU funds, and to recover the full amount of the contract, roughly €900 000.

2.2.2. Research funding a continued target

As in previous years, fraud against research funding was a particular focus of OLAF's work in 2019.

One particular case concerns two companies, both beneficiaries of EU funds, which systematically defrauded the system to maximise their profits. OLAF's investigation established that the two companies, which were incorporated in two different EU Member States, were linked through their shareholders and directors. The companies were beneficiaries of a number of research grants managed by the European Commission, EU agencies (the Research Executive Agency, REA, the Innovation and Networks Executive Agency, INEA, and the Executive Agency for Small and Medium-Sized Entities, EASME) and joint undertakings, with money coming from both the EU's 7th Framework Programme and its successor research programme, Horizon 2020.

OLAF's investigation discovered that the two companies had maximised their profit by claiming the maximum possible funding for each of the various projects they were involved in, irrespective of the real work done. They also declared and obtained funding for the costs of non-existing contractors. OLAF established



that the two companies had also made undue payments to consultancies and other companies linked to the owners of the beneficiaries.

Furthermore, information and documents obtained by OLAF confirmed that one of the companies had transferred significant amount of the EU funds received under the research grants to its affiliated company in a Latin American country. This money was then invested in a real estate project entirely unrelated to the intended use of the money.

OLAF's investigation concluded with recommendations to the European Commission, EU agencies and joint undertakings to recover a total amount of around €2.5 million. OLAF also sent recommendations to the judicial authorities of the two Member States where the criminal acts were alleged to have occurred; these recommendations called for criminal investigations to be opened on the grounds that fraud and forgery were suspected during the implementation of the EU research projects.

2.2.3. Taking on the counterfeiters

Counterfeit goods can pose a significant risk to human health and safety, as well as to the environment. Each year OLAF investigates a number of cases of counterfeiting, many involving complex cross-border networks, and 2019 was no exception. Several major counterfeiting cases concluded during the year.

OLAF received information in January 2019 about the dismantling of an illegal factory in China producing counterfeit shampoo. However, a large cargo of shampoo had already left the factory by sea prior to its being dismantled, and OLAF feared it might be headed for Europe. OLAF monitored the shipment's journey

out of the Chinese ports from mid-January, tracing its complex route, which included passage and stops in different ports – in China, Korea, Mexico and Colombia – and loading and unloading on various vessels.

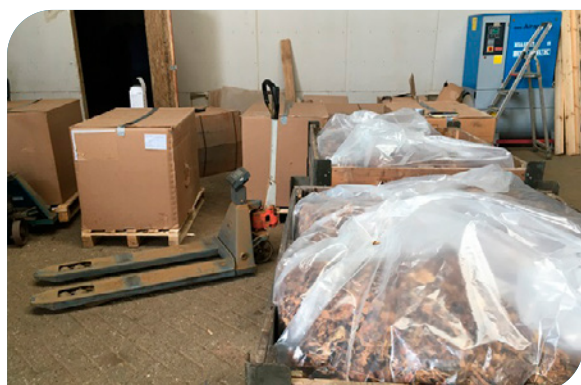
OLAF experts kept a close eye on the containers using specialised software, which gathers real-time data from vessels and ports around the world. When it became clear that there was a real risk of the shipment being diverted before it reached its stated final destination in Venezuela, OLAF alerted national authorities in Colombia and Mexico, and recommended the search and seizure of the goods. In close cooperation with OLAF and with particular support from Spanish customs, the Colombian and Mexican authorities found a staggering 400 tonnes of fake shampoo, enough to fill several swimming pools, with an estimated retail value of €5 million had it ever reached the European market.

Another high-level case from 2019 involved counterfeit mechanical parts that, had they been sold in Europe, could have posed a serious health and safety risk. Bearings such as the ones at the heart of this case are fundamental for the machine industry and are used in everything from cars and planes to electric generators and everyday household appliances such as refrigerators, vacuum cleaners or washing machines.

In this case, OLAF monitored movements of suspect exporters located in Asia, alerted the Member States about suspicious companies and transmitted the information to the European countries to which the bearings were sent. Based on OLAF's information, over six tonnes of counterfeit bearings were seized in 10 Member States.

2.2.4. Tackling cigarette smuggling remains a priority

Cigarette smuggling causes huge yearly losses to Member States and the EU in evaded customs duties and taxes. Smuggled tobacco respects no rules, and poses great risks to both consumers and businesses. It undermines anti-smoking and public health campaigns, and violates the strict rules that the EU and Member States have on manufacturing, distribution and sale. International information exchange and collaboration facilitated by OLAF led to seizures of more than 250 million cigarettes in 2019.



ILLEGAL TOBACCO FACTORIES

One feature of OLAF's work in 2019 was the continuing battle against cigarette counterfeiting – illicit production of cigarettes within the EU itself. In this specific area, OLAF brought significant added value to a number of criminal investigations taking place in a number of EU countries by helping coordinate operations by customs and law enforcement agencies across Europe and beyond.

Starting from the seizures of counterfeited cigarettes in the EU, OLAF carried out a number of investigations aimed at identifying illicit factories in the EU and dismantling the criminal organisations behind them. As a direct result of OLAF's investigations, authorities were able to dismantle two illegal cigarette factories in Slovakia and in Hungary, seize 2.4 million cigarettes and 52 tonnes of tobacco, and arrest 68 people. Machinery and other materials necessary for cigarette production were also seized.

NEW FOCUS ON WATER PIPE TOBACCO

Since 2018, OLAF has been monitoring more closely the smuggling of water pipe tobacco. Much of this tobacco is declared under the EU transit system, transported via the EU to other countries, but with a high risk of being smuggled illegally into the EU while en route.

In particular, in 2019 OLAF launched a number of investigations into suspicious water pipe tobacco consignments that had entered an EU Member State via a third country. OLAF's in-depth analysis uncovered that a remarkable number of consignments had entered the EU and been stored in a free zone warehouse and then apparently destroyed at the request of the consignment's owner. As this behaviour appeared unusual, to say the least, OLAF decided to examine one of the consignments in May 2019. Investigators discovered that 85 000 kg of counterfeit water pipe tobacco was being stored in the warehouse; the goods were duly seized. As a result of OLAF's investigations, two other Member States seized a combined total of 9 000 kg of fake water pipe tobacco, while a further 15 000 kg was seized in another country outside the EU. Further investigations revealed that all the tobacco originated from the same source. The tax loss related to this illegal business was estimated at almost €14 million.

During the course of 2019, OLAF received information on a number of other suspicious water pipe tobacco

consignments. In one case, for example, tobacco from the United Arab Emirates and destined for Kazakhstan was transported via both Germany and Latvia, a suspiciously circuitous route. The goods were intercepted in Latvia and a subsequent laboratory examination revealed that the packages did not contain nicotine at all but a red jelly-like glycerine substance, weighing over 5 000 kg.

In a separate case, Estonian customs seized a consignment of 748 kg of water pipe tobacco in November 2019 after the brand owner, supported by information from OLAF, signalled its concerns about possible counterfeiting.

COOPERATION WITH OTHER EU BODIES ON CIGARETTE SMUGGLING

As in previous years, OLAF cooperated closely with a number of international organisations also working on tobacco smuggling.

OLAF strengthened its cooperation with Europol, the European Union's law enforcement agency, and Eurojust, the EU agency for criminal justice cooperation, in 2019. In November, OLAF took part with both agencies in a major anti-smuggling operation, during which 18 people suspected of money laundering and the illegal trade in and storage of around 670 tonnes of tobacco were arrested. The operation saw 29 searches take place in Italy, Poland, Belgium, the United Kingdom and the Netherlands.

In 2019, OLAF also took part in the Task Force Tobacco meeting organised by the European Union Border Assistance Mission to Moldova and Ukraine (EUBAM), alongside all the EU Member States that have borders with those two countries. These countries are key routes for cigarette smuggling to the EU.

OLAF also supported EUBAM in the joint border control operation Scorpion, which targeted cigarettes originating from duty-free shops in the breakaway Transnistria region. The competent authorities of Moldova, Romania and Ukraine participated in this operation, which resulted in an improved intelligence picture and in 115 seizures of a total of more than 15 million cigarettes, 4.245 kg of raw tobacco and 233 kg of water pipe tobacco.

Taking the lead on joint customs operations

In addition to its investigations concerning cases of revenue fraud and counterfeiting, OLAF coordinates large-scale joint customs operations (JCOs) involving EU and international operational partners. JCOs are targeted actions of limited duration that aim to combat fraud and the smuggling of sensitive goods in specific areas at risk and/or on identified trade routes. In 2019, OLAF was involved in 13 JCOs: two major JCOs were led by OLAF itself, while the office co-organised or supported operations in 11 others. Among the JCOs carried out in 2019 were the following.

HYGIEA

This JCO coordinated by OLAF targeted the international trade in fast-moving consumer goods (personal hygiene products, detergents, cosmetics, etc.). All EU Member States, Norway, 11 Asian countries (Bangladesh, China, Indonesia, Japan, Malaysia, Mongolia, Pakistan, the Philippines, Singapore, Thailand and Vietnam) and Europol participated in the operation. Around 200 000 items of counterfeit perfume, toothpaste and cosmetics, 120 tonnes of counterfeit detergents, shampoos and nappies and more than 4.2 million other counterfeit goods (battery cells, footwear, toys, tennis balls, shavers, electronic devices, etc.), as well as 77 million cigarettes and 44 tons of counterfeit water pipe tobacco, were seized by the Asian and EU customs authorities.



findings reveal that Asian e-commerce platforms are still responsible for the majority of counterfeit sales. Drug trafficking takes place mainly through the dark web, where technology is used to keep buyers and sellers anonymous.

POSTBOX II

This ground-breaking European operation led by OLAF and Belgian customs led to the breaking up of a gang of online criminals trafficking drugs, counterfeit goods – including medicine – and endangered animal and plant species. Involving customs experts from 22 Member States and Europol, the operation focused on criminals working on both the open and the dark web, and led to 2 320 seizures, the opening of 50 case files and the identification of 30 suspects in Member States. In the initial phase of the operation, customs authorities checked mail and courier service packages for prohibited items. More than 500 packages were seized in Belgium alone, followed by Italy with 460 seizures and Ireland with 304. These initial seizures were followed by the creation of an expert cyber patrol, which raided both the open and the dark web, as well as social media sites, in search of the perpetrators of the crimes. The main

SILVER AXE IV

This JCO is a joint operation by OLAF and Europol targeting the smuggling of pesticides, which poses a threat to the environment, the agricultural sector and ultimately the health and safety of consumers. OLAF identified 120 suspicious shipments of pesticides coming from third countries, mainly China, that were either declared as being in transit through the EU, or declared for export from the EU to a third country – usually Russia, Ukraine, Moldova or Turkey. The fourth Silver Axe operation led to the seizure of 550 tonnes of illegal or counterfeit pesticides, large enough to cover a surface of 50 000 km² – the size of Estonia. Numerous police, customs and plant protection authorities from 29 countries participated in the operation.

2.3. OLAF's investigative mandate within the EU institutions

The risk to the reputation of the EU as a whole due to any perceived lack of integrity within the institutions is significant, potentially undermining not only the institutions themselves but the European project as a whole. This is why OLAF has a unique mandate to carry out internal investigations into the EU institutions, bodies, offices and agencies for the purpose of fighting fraud, corruption and any other illegal activity affecting the financial interests of the EU. OLAF investigates serious matters relating to the discharge of professional duties that would constitute a dereliction of the obligations of EU officials liable to result in disciplinary or, as the case may be, criminal proceedings, or an equivalent failure to discharge obligations on the part of members of institutions and bodies. OLAF also works with the EU institutions and bodies to help them detect, prevent and address any such possible cases.

A number of cases concluded in 2019 concern the EU institutions, notably the European Parliament but also the European Commission and the European Economic and Social Committee.

2.3.1. MEPs' declarations under the spotlight

Failure to correctly declare expenditure is one particular trend. For example, one member of the European Parliament (MEP) allegedly contracted his partner as his assistant, who also provided services to the MEP through a company she owned. OLAF's investigation established that the assistant had never moved to Brussels to work for the MEP, or provided any relevant services to him. Nor did she declare to the Parliament her ownership of the company that allegedly provided services to the MEP. OLAF was in fact unable to find any evidence that the company in question provided any services to the MEP. OLAF recommended to the Parliament that it recover more than €200 000 from the MEP and his partner, corresponding to the amount paid to the assistant and invoiced by the company. OLAF also recommended that disciplinary proceedings should be initiated.

Another case involving an MEP concerned irregularities in declarations of travel expenses made since 2009. A number of inconsistencies were discovered with regard to the MEP's claims regarding travel by plane and car, and to the payment of subsistence allowance.

After an on-the-spot check of the travel agency that had booked the plane tickets, OLAF discovered that the agency had modified the tickets after issuing them in





order to inflate the actual cost of the flights by €2 792. The investigation was unable to establish whether or not the MEP was aware of these modifications. As for the expenses claimed for car travel, OLAF identified irregularities concerning the mileage, itinerary and travel time declared, to the estimated amount of €10 342. OLAF also noted that the MEP had failed to declare as his place of residence the place where he actually lived, choosing instead another location in his country of origin in order to increase his subsistence allowance by €86 461.

OLAF issued a recommendation to the European Parliament to recover an estimated amount of €99 595 from the MEP, as well as an administrative recommendation regarding the rules on travel expenses relating to car trips and payment of the subsistence allowance. As OLAF could only verify a sample of the business trips concerned, it also recommended that the Parliament check all the trips of the MEP in question. Finally, since the behaviour of the MEP and the travel agency concerned could have constituted an infringement of the national criminal code, OLAF also recommended that the relevant judicial authorities initiate judicial proceedings. A criminal investigation into this matter is currently ongoing.

2.3.2. European political parties and foundations

Two unrelated but similar cases concern the activities of EU political parties and their affiliated political foundations. One case concerned the operations of the EU political party Movement for a Europe of Liberties and Democracy and its affiliated Foundation for a Europe of Liberties and Democracy. Both were supported by grants from the European Parliament, but OLAF's investigation discovered that both were used by their members to obtain unlawful gains for themselves or for others. OLAF also found that the rules linked to the awarding of the grants by the Parliament were frequently disregarded, resulting in unlawful, irregular and ineligible spending of the money. OLAF estimated the financial loss to the European Parliament at €583 047, of which €127 626 has already been recovered. OLAF considers that the persons who approved the expenditure within the party or foundation should be held personally responsible for the damage caused to the EU budget, and recommended to the Parliament that the money should be recovered from them, as the political party and foundation are in liquidation.

The second investigation concerned suspected breaches of rules on financing of EU political parties and

foundations, in this case established under Belgian law as non-profit organisations. OLAF discovered that the political party in question had used a substantial part of the grant awarded to it by the Parliament in 2015 to finance national political parties indirectly, which is explicitly prohibited under the rules of the Parliament. The party also made payments to a Belgian company in a situation of conflict of interest. Moreover the investigation showed that the foundation had presented expenditure items in 2015 that were considered indirect financing of a national political party and referendum campaign in a Member State. Grants awarded in 2016 were also affected: both entities and their representatives failed to submit their final reports to the European Parliament, leading to the issuing of debt notes for the total amount of the pre-paid financing. OLAF issued a recommendation to the Parliament to recover more than €1.9 million from both the 2015 and 2016 grants. Again the persons within the party approving the expenditure were considered to be personally responsible. A criminal investigation is still ongoing.

2.3.3. Other institutions

The European Parliament is not the only institution concerned by this trend. One case closed in 2019 concerned an international judge working in Kosovo, for an EU body. OLAF established that the judge had failed to declare a second full-time contract with the European Commission, where he was employed as a key expert in a technical assistance project. Instead, he had declared work for the Commission project when in fact working for the EU body, used information technology (IT) services provided by the EU body for his other activity, accepted double payment for the same working days and failed to declare his revenues to his national tax authorities. OLAF issued a recommendation to recover around €50 000.

Another case concluded in 2019, this time concerning a member of the European Economic and Social Committee (EESC), focused on inconsistent travel declarations. OLAF uncovered a number of frauds. The member had submitted forged supporting documents (in the form of e-tickets) for his travel, declaring air travel in business class when in fact the travel had been with low-cost airlines in economy class. The forged tickets also falsified the arrival and departure dates to give the impression of overnight stays, when in fact each trip had taken place in a single day. This allowed the member to claim an additional subsistence allowance.

The member also declared his place of residence as a village 250 km from the airport in the capital city of his home country, while in fact it was in the capital itself. This allowed him to claim a car allowance of €250 per return flight.

The total amount of unjustified payments was around €91 000. The member paid back the amount, but OLAF also sent a recommendation to the EESC to take

appropriate disciplinary measures against the member. The rules of the EESC at the time did not provide for a disciplinary procedure unless the member in question was convicted of fraud affecting the financial interests of the EU in his home country. OLAF also recommended that the case be sent to the judicial authorities in the member's home country.

Table 3: Investigations into EU staff and members of the institutions concluded in 2019

Institution, body, office or agency	Cases concluded	
	Total number	of which closed with recommendations
European Parliament	16	14
Europol	2	0
European Union Rule of Law Mission in Kosovo	2	2
European Commission	2	1
EESC	2	2
European External Action Service	1	0
Eurojust	1	1
Agencies and bodies	1	0
European Investment Bank	1	1
Total	28	21

3. Focus chapter: the growing threat of environmental fraud

With the EU's political agenda focused clearly on environmental issues and the creation of a sustainable future, increasing amounts of EU funding are being invested in environment-related policies and projects. However, as these investments in environmental and sustainability projects increase, so does the risk of potential fraud. At the same time, fraudulent and illegal activity risks seriously undermining Europe's efforts to cut emissions and improve air or water quality, as well as potentially increasing the impact of global warming and the danger to people's health.

Over the past few years, OLAF has investigated an increasing number of cases of fraud or other illegal activities with an environmental or sustainability element, underlining that, as sustainability has risen up the EU agenda, so it has sadly become a new avenue for fraudsters. From misspending of EU funds intended for green products to counterfeiting and smuggling of products with the potential to harm the environment and health, a selection of these cases can be found below.

3.1. Volkswagen, EIB and Dieselgate

Perhaps the most well-known case with an environmental impact in which OLAF has been involved was the so-called Dieselgate scandal. This centred around 'defeat devices' that the German automobile manufacturer Volkswagen AG (VW) was found to have installed in its cars to effectively bypass strict EU rules on emissions by making the vehicle respond differently in testing from actual driving conditions. This effectively meant that VW was undermining EU efforts to improve air quality by enabling its diesel cars to produce higher than permitted levels of emissions and deliberately rigging the engines to allow these emissions to go undetected.

OLAF got involved after allegations in the press in October 2015 about the possible misappropriation of European Investment Bank (EIB) funds by VW in the development of these defeat devices. A €400 million loan from the EIB had been awarded to a VW project called Antrieb RDI, which was designed to support

the car maker's research on how to reduce emissions. OLAF's investigation established that, rather than spending the EU funding on the vitally important task of improving vehicle technology to reduce emissions, it was instead partially spent on designing VW's EA 189 engine, on which the defeat device was deployed.

One of the primary conditions imposed by the EIB ahead of granting the loan in 2008 was the sharing of specific information on the environmental impact and on all important circumstances or important risks that could influence the operational results of the project. OLAF's investigation established that, at the time the loan was granted, some of the VW managers and staff involved in the project were fully aware of the difficulties faced by the new EA 189 engine in reaching the stringent emissions standards, and of the development and use of the defeat device to overcome the problems by cheating the tests.

However, this information was never shared with the EIB, either before the loan was approved or at any time during which EU money was being used in the development of the project. Had it been so, the EIB confirmed, it would never have granted the loan or would have requested full repayment in advance of the due date. By failing to share this vital information with the EIB, VW was found to be in breach of its contractual obligations towards the bank.

The bank reached a settlement with VW in November 2018, which closely followed OLAF's recommendations,



including among others the exclusion of VW from EIB funding for 18 months, and a contribution from the car maker of €10 million to environmental and/or sustainability projects across Europe.

3.2. Trade in endangered species

In recent years OLAF has also noted strong growth in environment-related issues in the conduct of many of its customs investigations and operations. These range from cases arising under the Convention on International Trade in Endangered Species of Wild Fauna and Flora (CITES), or involving the ban on the trade in certain types of protected wood, to cases involving the false description at import into the EU of products such as biodiesel in order to manipulate national targets for renewable energy creation or to obtain subsidies and tax breaks from national governments.

In one case related to CITES, OLAF is working very closely with Member States and Europol in the battle against the illegal trade in European glass eels. These are protected under the convention but in recent years organised crime groups have smuggled millions of young glass eels out of the EU to Asia, where they are farmed to maturity and then resold on the world market (including back to the EU), with huge profits to be made by the smugglers.

A second CITES case saw OLAF and Member States working together fighting the illegal logging and smuggling of precious wood and timber from Myanmar into the EU. In this case, a number of Member States collectively approached OLAF to assist them with enquiries regarding suspected imports into the EU. OLAF is very well placed, through its administrative powers, to conduct checks in Member States on both the nature of the imports and the end use of the products concerned.

As a precious resource, wood is often at the root of fraudulent or illegal activities. In another case, OLAF has worked with a number of Member States investigating allegations of the import and end use of wood from certain protected forests in Ukraine. Enquiries in this very important case are ongoing in three Member States in particular.

3.3. Biodiesel dumping

Other examples of OLAF investigating cases with environmental impact show the growing number of cases in recent years in which the Office has investigated the illegal dumping of biodiesel from the world market into the EU.

Apart from such cases being primarily concerned with breaches of the anti-dumping duty measures imposed and the financial consequences that stem from them, OLAF has found that many of them also include an important 'green' element in that the biodiesel concerned is often also falsely described as having been obtained from used cooking oil. This is done so companies can illegally claim various national subsidies and tax breaks that are available for the declared use of such products in order to meet national renewable energy creation targets in various Member States.



In other words, in addition to financial fraud being committed on two levels, this type of product misdescription and use also seriously undermines the EU's renewable energy and broader climate change targets.

One case offers a typical example of what can and does happen in this sector. OLAF was informed that a Norwegian company was exporting to the EU very large quantities of biodiesel purportedly produced from used cooking oil of Canadian origin. The source alleged to OLAF that in fact the biodiesel imported from Norway was not from Canada but had been made in the United States, and should therefore have been subject to



payment of anti-dumping and countervailing duties when imported into the EU.

The source also alleged that the biodiesel was not produced from used cooking oil and that, as a result, when it was traded in the EU it was being illegally counted against certain national renewable energy target levels and also probably benefiting from national subsidies and/or tax breaks.

As a result of its enquiries, conducted in close cooperation with the United States, Canada, Norway and EU Member States, OLAF found that the biodiesel in question had been produced from soya bean oil that had been exported from the United States to Canada, where it was mixed with small quantities of vegetable oils, and re-exported to Norway and then on into the EU. Over 150 000 tonnes of biodiesel was involved in this irregular trade.

OLAF also established that all the operations were managed and controlled by a single Swiss company, which also controlled the Canadian and Norwegian companies involved. The financial impact of the case was calculated to be €62 million in lost anti-dumping duties. Although OLAF also found that the product was then falsely declared in the EU as being produced from used cooking oil and irregularly used to claim benefit from renewable energy schemes, it was unable to assess the economic impact.

OLAF is also actively involved in a very large case in which the value of palm oil is being under-declared when it is imported into the EU. Apart from the obvious customs and associated VAT fraud being committed, another major concern is the likely source of the products, with the suggestion being that the massive increase in palm oil production and trading comes at the expense of forests, which are regularly cleared to make space for such production in the main exporting countries concerned.

3.4. EU funding for environmental projects a particular target

Structural and research funding is increasingly being used to support environmental projects across Europe. But it is also frequently the target of fraudulent activity as well, effectively resulting in a double loss for European citizens: the loss of EU funding to the

fraudsters is coupled with the loss of investment in real projects aimed at tackling the climate crisis.

AQUACULTURE FARMS WITH NO WATER

This is not a new problem; in fact OLAF has seen cases of environmental projects being defrauded for several years. One case from 2013, for example, concerned a beneficiary of five EU-funded aquaculture projects in Romania who received subsidies for surfaces that were never covered by water. The five projects were two aquaculture farms situated in a Natura 2000 natural reserve and three projects under which EU funding was to be used to support the transformation of traditional aquaculture farms into certified organic farms.

OLAF's investigation confirmed the initial allegations about the false projects, which were fabricated with the sole purpose of obtaining the EU funds through fraudulent means. The case was closed in 2017 with a recommendation to recover 100 % of the EU funding, nearly €1.3 million, which was successfully done by the European Commission's Directorate-General for Maritime Affairs and Fisheries.

FOREST FIRE DETECTION FUNDS DEFRAUDED

In a similar vein, a more recent case involving research funding shows to just what extent money intended to support environmental projects for the benefit of everyone can be put to altogether less altruistic purposes. OLAF's investigation concerned an environmental research project, funded by the Research Executive Agency (REA) and designed to develop a system that would facilitate forest fire detection – a real benefit for both citizens and the environment. A consortium of five small and medium-sized enterprises based in Ireland, France, Spain and Romania was supposed to carry out the project.

However, REA became concerned that some claims for personnel costs submitted by the consortium might be false. OLAF established that the consortium had never in fact had the operational capacity to carry out the project; in reality the initial funding application and the subsequent progress reports were based on lies and false documents.

Digging further, the investigators established that the vast majority of the EU funding had simply been



siphoned off by the consortium members. Most of the stolen money was spent on an entirely different project – a casino/hotel project in another EU country that never went beyond the initial ideas stage but could not have been further removed from the initial purpose of the EU funding. OLAF recommended that the REA recover €410 000 from the consortium; in addition, the competent judicial authorities were asked to initiate judicial proceedings against the persons involved..

WATER AND WASTEWATER MANAGEMENT FREQUENTLY TARGETED

Several cases investigated by OLAF and completed in 2019 focus on water and waste management infrastructure projects intended to benefit local communities across the EU.

One particularly complex cross-border case focused on a project based in Romania. Working alongside the Romanian National Anticorruption Directorate, OLAF uncovered a network of fraud and money-laundering activities linked to an EU-funded project for water supply and wastewater infrastructure. The project,

which was valued at €102 million, had as its beneficiary a local public water supply company.

OLAF's investigation took it first to Germany, where it carried out a number of on-the-spot checks and interviews with persons concerned and witnesses, and analysed banking transactions with a view to identifying the real destination of the EU funds allocated to the project.

It was found that, following the tender procedures that took place within the project, the beneficiary awarded two work contracts to a joint venture between a Romanian company and a German construction firm. The Romanian firm was the leader of the venture, controlling 70 % of the business, and was the sole recipient of all the EU money from the beneficiary.

During the course of its investigation, OLAF found the German company was in fact not aware of its supposed role in this joint venture, the tender procedure, the EU-funded project or the work allegedly taking place in Romania. In fact, in order to prove that it had the capacity to carry out the contracted work, the Romanian company had created a fictitious joint venture, using the name, reputation, experience and financial situation of



the German company to help it win the tenders without the German company ever being aware of its name being used in this way. Not surprisingly, therefore, the German company never received any payments from its Romanian 'partner' in the fictitious joint venture, or indeed from any other sources in relation to this project.

The Romanian company did more than rely on the reputation of its alleged partner, however. OLAF's investigation also discovered that the Romanian company had falsely claimed to have carried out a number of similar projects in the past, to prove that it had the capacity to manage the project and met the minimum qualification requirements in the award procedure. In fact, the Romanian company had never completed any projects related to works in water supply and wastewater infrastructure.

Having successfully convinced the beneficiary of the EU funding that it had the capacity and experience to manage the contract, and notably after receiving large amounts of money from the EU funding, the Romanian company simply abandoned the works. The

contracts for both the water and wastewater plants were cancelled, delaying as a result the much-needed environmental improvements that they would bring.

OLAF also analysed the financial flows related to the EU money invested in this project and given to the Romanian company, allowing it to trace the real destination of the money. OLAF was able to provide the Romanian prosecutors with additional information to support their criminal case against the perpetrators of the fraud and the money laundering. OLAF also made a recommendation to the European Commission's Directorate-General for Regional and Urban Policy to recover more than €6 million.

Water and wastewater treatment also featured at the centre of two separate cases in Croatia that OLAF completed in 2019.

The first investigation concerned two separate contracts, one a service contract related to a new sewage and wastewater treatment plant in a coastal town and the other a construction contract for four wastewater



treatment plants and plants for the solar drying and composting of sludge. The value of the contracts was about €40 million. Following a series of on-the-spot checks, OLAF discovered that in the first case there was a conflict of interest between the company performing the works and the one supervising them. In fact, the two companies were related, as they were held by the same entity as owner and majority shareholder. In the second case, OLAF detected an infringement of public procurement rules. Both irregularities led to a financial recommendation to the Directorate-General for Regional and Urban Policy to recover €7.25 million.

The second OLAF investigation concluded in 2019 concerned a project worth €60 million to improve a water management system by modernising and extending the water supply and sewage network and to construct a wastewater treatment plant in a different Croatian town. OLAF launched an investigation after initial allegations that the funds allocated for the project had in fact been used for a different project altogether, that payments had been made for equipment that was never delivered and that payments made to the contractor were in fact due to subcontractors.

The investigators carried out on-the-spot checks and one witness interview. The investigation disproved these allegations, but did uncover irregularities in the paperwork that had allowed the project to be considered exempt from municipal taxes. In effect, the public tender documentation concerning the works contract for the design and construction of the wastewater treatment plant was not compliant with the national legal framework. This effectively meant that some bidders may have been misled, making higher (and therefore less competitive) offers for the work, as they included estimates for the municipal tax.

Since several similar projects may be affected by the same irregularity in Croatia, OLAF issued an administrative recommendation to ensure the compliance of the procurement notices with the current legal framework and, where appropriate, to ensure the recovery of any EU funds spent irregularly.

INFLATED PRICES FOR WASTE MANAGEMENT PROJECT

Meanwhile, a case in Slovakia focused on a project designed to enhance the separation of biodegradable waste. In 2017, OLAF opened an investigation concerning allegations of possible irregularities in the

contract awarded for the purchase of equipment and machinery for the project. Specifically, the project aimed to purchase containers to ensure the separation of biodegradable waste from general municipal waste, and was supported by outreach and promotion activities to increase citizens' ecological awareness and their participation in responsible waste management.

OLAF conducted several on-the-spot checks at the premises of the beneficiary, the supplier and the public procurement consultant company. The investigation identified several irregularities in the project, mostly due to mismanagement and low involvement of the project beneficiary in the project life cycle.

The analysis of the project documentation revealed inflated prices, sometimes two, three or four times higher than the market prices for which the project supplier actually purchased certain items. OLAF detected profit margins on the supply ranging from 23 % to 471 %, which indicated overpricing and the breach of the principle of sound financial management.

Based on its findings, OLAF issued a financial recommendation to recover more than €1.14 million in EU financing.

3.5. Fake green credentials

While many cases focus on fraud committed against genuine green projects, one case concluded in 2019 also highlights that fraud can also involve faking green credentials in order to obtain EU funding.

The case dates back to 2017, when OLAF was first informed that a Belgian city allegedly put forward false arguments to have the construction of a road financed under the European Regional Development Fund because it could help reduce CO₂ emissions. The construction of the road was part of a project considered to be of great economic importance for the region and a unique occasion to obtain EU funding.

The OLAF investigation showed that, despite systematically negative evaluations by the officials involved in the project selection process, which underlined that there were no green credentials to justify using EU funding to build a new road, the project was still accepted and granted the funding. The managing authority responsible for distributing the funds used, in effect, the views of a 'friendly' member



of an ad hoc committee of experts, appointed to make recommendations on the allocation of funding to such projects, to overturn all the previous negative recommendations. The effect was to let economic concerns prevail over the ecological objectives of the measure.

As a precautionary measure, OLAF alerted the Directorate-General for Regional and Urban Policy to the indications of irregularity and, when the investigation was concluded in 2019, recommended that no payment be made to the city concerned for this project, where the environmental benefits of investing EU money were far from clear.

3.6. Manipulation of tenders at work again

Flawed public procurement was at the centre of another fraud related to the European Agricultural Fund for Rural Development, and in particular to the supply of machinery. In this case, the beneficiary of the EU funds launched a procurement procedure for a very specific piece of machinery used to produce pellets used as an environmentally friendly heating material.

OLAF discovered that the tender was eventually granted to a company with direct links to the firm benefiting from the EU funding: in fact, a representative of the winning bidder was found to work for a company of which the beneficiary was a legal representative.

Further irregularities were found in the supply chain of the machine itself. The company that won the tender to supply the machine pretended that a component was missing and needed to be procured elsewhere. This was a subterfuge to inflate the price of the machine: the manufacturer in fact sold the machine with all its parts intact to another company, owned by the beneficiary of the EU funds, which then sold it to the winner of the tender, which then in turn sold it back to the beneficiary. In other words, the machine never in fact changed ownership – the ‘sale’ was effectively an exchange of invoices, each more expensive than the last.

OLAF concluded that none of the costs declared by the beneficiary were in fact eligible for EU funding, and recommended that the European Commission’s Directorate-General for Agriculture and Rural Development ensure the recovery of the entire amount of the EU contribution: €110 000.

4. OLAF on the European and international scene

4.1. OLAF's relations with its partners

Efficient cooperation with its partners is essential for OLAF's investigative and policy work. With this in mind, OLAF works hard to foster good relations and cooperation with the widest possible range of current and future partners on the European and international scenes.

Examples of successful and expanded cooperation with many of these partners can also be found elsewhere in this report.

4.1.1. Working closely with the Member States and European Commission services

OLAF works closely with national authorities in Member States, on both investigative and policy matters. In 2019, the Director-General of OLAF visited seven Member States (Bulgaria, Finland, France, Germany, Italy, Spain and Sweden) and met with high-level officials (ministers, secretaries of state, directors-general) from national authorities and investigative services, including customs agencies, police, tax administrations, judicial authorities and anti-fraud coordination services. The visits to Member States contributed to enhancing investigative cooperation, including assistance to OLAF's investigations, improving reporting of irregularities to OLAF and following up OLAF's recommendations, and preparing for the establishment of the European Public Prosecutor's Office (EPPO).

In its mission to protect the EU's financial interests against fraud and corruption and to stop fraudsters from pocketing EU money, OLAF collaborates with other European Commission services, as well as with other institutions, bodies and agencies. In 2019, in addition to the frauds involving EU funds and joint customs operations targeting consumer goods and cigarettes, OLAF intensified its activities in environment-related projects. As a result, OLAF actively collaborated with its European partners to increase OLAF's involvement in the delivery of the European Green Deal objectives,



OLAF hosted a visit from the Italian Carabinieri in April as part of its ongoing cooperation with national authorities

particularly as regards environmental fraud and food fraud.

The Director-General of OLAF met bilaterally with 21 Directors-General of the Commission as well as with other international organisations (the EIB, Eurojust, Europol, the European External Action Service and the European Union Intellectual Property Office). Those meetings set the basis for new areas of cooperation and better synergies between OLAF and its partners. They focused mainly on enhancing operational cooperation (e.g. through joint operations, exchange of information and data analysis) and improving the development and coordination of anti-fraud measures (e.g. assisting other Directorates-General in adapting their anti-fraud strategies to the new Commission anti-fraud strategy (CAFS), providing training).

4.1.2. Administrative cooperation arrangements with international partners

Administrative cooperation arrangements (ACAs) are a key tool in helping OLAF foster close relationships with investigative bodies and other non-investigative partners engaged in the fight against fraud. In 2019, OLAF signed an ACA with the European Court of Auditors (ECA) and worked on a number of new



arrangements with international bodies and authorities from within the EU Member States and third countries.

At the international level, OLAF took part in a number of events:

- the Organisation for Economic Co-operation and Development Global Anti-Corruption and Integrity Forum in Paris (March 2019), which focused on data analytics as a tool in the fight against corruption;
 - the Conference of International Investigators hosted by the United Nations High Commissioner for Refugees in Geneva (November 2019) on the upcoming challenges for investigative arms of international organisations;
 - and the annual conference of the European Partners against Corruption/European Anti-Corruption Contact-point Network in Stockholm (December 2019), where OLAF notably stressed the need for strengthened cooperation.
- a conference with representatives from all Member States on new provisions on protecting the EU's financial interests (June 2019);
 - an Anti-Fraud Coordination Service (AFCOS) seminar in Skopje (September 2019) with EU Member States and candidate countries to discuss the role of and tools for national agencies in fraud prevention and links with investigations;
 - an AFCOS meeting in Brussels (October 2019) with the partner authorities from the EU Member States, notably to discuss the future of AFCOS in the EU Member States;
 - a pilot group meeting in Brussels with African partner authorities (October 2019) on strengthening cooperation in the fight against fraud and corruption; and study visits for relevant authorities from Albania and North Macedonia.

Within Europe, in 2019, OLAF stepped up its coordination and cooperation efforts with partner authorities from the EU Member States, candidate countries and future candidates. These included:

4.1.3. **Advisory Committee for Coordination of Fraud Prevention**

OLAF steers and chairs the Advisory Committee for Coordination of Fraud Prevention (Cocolaf), composed of representatives of Member States' authorities. The 2019 annual Cocolaf meeting provided an opportunity



OLAF Director-General Ville Itälä at the anti-fraud coordination services seminar in October

to exchange views on the main developments in the fight against fraud and the preparation of the report on the Protection of the European Union's financial interests – Fight against fraud 2018 under Article 325 of the Treaty on the Functioning of the EU (the PIF Report).

In 2019, the specific Cocolaf subgroups worked on:

- ▶ exchanging best practices and developing a common framework for fraud prevention and detection;
- ▶ developing a methodology for country profiles in the anti-fraud area;
- ▶ sharing the results of analyses about the main trends and patterns in fraud and irregularity;
- ▶ discussing OLAF's cooperation with AFCOS, from both an investigative and a policy perspective;
- ▶ sharing media strategies and organising communication activities on fraud prevention and deterrence.

4.1.4. Mutual assistance and anti-fraud clauses in international agreements

Cooperation with third countries with a view to preventing, detecting and combating breaches of customs legislation is based on agreements on mutual administrative assistance in customs matters. OLAF currently has agreements with more than 80 third countries, including with major EU trade partners, such as the United States, China or Japan. In 2019, negotiations were finalised with Andorra, Azerbaijan and Kyrgyzstan, and were ongoing with Australia, Indonesia and Uzbekistan. The negotiating directives for an agreement with Belarus on customs cooperation and mutual administrative assistance were also prepared during the year, with the European Council authorising the opening of negotiations in December.

In 2019, OLAF also made sure that the guarantee agreements that the Commission had concluded with various Member State and international development banks under the European Fund for Sustainable Development included all required anti-fraud provisions and mechanisms. More specifically, OLAF systematically took part in the negotiation of these instruments and introduced a new set of provisions aimed at catering for both the anti-fraud requirements of the 2018 Financial Regulation and OLAF investigators' practical concerns when conducting investigations.

OLAF also made progress in 2019 on negotiations linked to anti-fraud clauses in free trade agreements. Most free

trade agreements contain an anti-fraud clause that allows a temporary withdrawal of tariff preference for a product in cases of serious customs fraud and a persistent lack of adequate cooperation to combat it. OLAF represents the EU in any negotiations related to this clause, and in 2019 took part in fruitful discussions with Australia, Chile, Indonesia, New Zealand and Tunisia.

Since February 2017, the World Trade Organization Trade Facilitation Agreement (Bali Agreement) has also provided for an additional possibility to exchange information with third countries with the purpose of verifying an import or export declaration where there are reasonable grounds to doubt the truth or accuracy of the declaration. At the end of 2019, 148 members were signatories to the agreement, and OLAF continues to monitor progress in implementing this article.

4.2. The Hercule III programme: a key tool in supporting the fight against fraud across the EU

OLAF is responsible for the management of the Hercule III programme, which finances projects designed to protect the EU's financial interests. More than €100 million is available to fund the programme for the period 2014–2020. The programme is implemented on the basis of annual work programmes setting out the budget and the funding priorities, and in 2019 some €15.89 million was set aside, mainly to support the work of national and regional authorities in the Member States, such as customs or law enforcement agencies. This financial support was used for the purchase of a wide range of technical equipment, such as scanners used in harbours or airports, digital forensic tools, investigation tools or automated number plate recognition systems.

The law enforcement authorities were also assisted in their operations and investigations by the procurement of access to commercial databases. The programme also financed conferences, seminars and training events attended by staff of national administrations, law enforcement agencies and NGOs in order to strengthen mutual cooperation and the exchange of best practices in the protection of the EU's financial interests. The programme also funded two sessions of digital forensic and analyst training aimed at improving the participants' skills in collecting, securing and analysing evidence from digital devices in a rapidly evolving technological environment.



OLAF Director-General Ville Itälä and European Parliament President David Sassoli, September

5. Monitoring the actions taken by the recipients of OLAF recommendations

5.1. Financial monitoring

The EU's ability to ensure that funding is spent correctly and for the benefit of all – and to effectively recover money put to fraudulent use – is key to improve support for and trust in the EU and its institutions. OLAF's work in tackling fraud, and in particular its recommendations to recover the considerable sums of money defrauded from the EU budget, can play a major role in effectively communicating the successes of the European project.

Yet there is often a significant gap between the amounts OLAF recommends should be recovered and the actual sums returned to the EU budget. The European Parliament has repeatedly asked the European Commission to provide information on amounts actually recovered following financial recommendations resulting from OLAF investigations. In its 2019 special report *Fighting Fraud in EU Spending: Action needed*, the ECA also recommended that a robust fraud-reporting system be put in place, flagging the important gap that currently exists between recommended and recovered amounts.

The Commission is committed to meeting these various demands to improve the level of follow-up given to OLAF recommendations by the Commission and its executive agencies, in order to obtain a comprehensive picture of the situation and to identify the systemic reasons for under-implementation of recommendations.

The Commission's Corporate Management Board has taken responsibility for this process. At its meeting of 27 November 2019 the Board asked Commission services to strengthen their follow-up and provide relevant information to both OLAF and the Directorate-General for Budget to improve corporate oversight. The

objective is first to obtain a clear picture on the state of play of past recommendations, and then to establish a robust control system for the future. OLAF's aim is to be able to report on the amounts actually recovered following financial recommendations resulting from OLAF investigations as of the OLAF report for 2020.

5.2. Financial impact of OLAF investigations in the overall detection of irregularities across Europe

Member States are responsible for most EU spending and they also manage the collection of EU customs revenue. Their activities represent the first line of defence against any attempt to defraud the EU budget. OLAF counts on national authorities to perform their work efficiently and diligently, and supports them through active exchange of information and targeted training.

Under sectoral regulations, Member States have to report to the European Commission any irregularity or suspicion of fraud ⁽¹⁾ they detect exceeding €10 000. An analysis of this data is compiled in the Commission's Annual Report on the protection of the EU's financial interests (the 'PIF Report').

⁽¹⁾ A case can be defined as fraud only after a definitive sentence is issued by a competent judicial authority. This can take a few years following the detection and reporting of the case to the Commission.

Table 4: Amounts recommended by OLAF for financial recovery 2015-2019 (€ million)

	2015	2016	2017	2018	2019
Amount recommended	888	631	3095	371	485



In parallel with data concerning Member States' detections, OLAF also gathers data on the number of investigations it has concluded and that have led to financial recommendations.

In recent annual reports, OLAF has presented a comparative analysis in the areas of traditional own resources (TOR) and shared management, providing an overview of the number of fraudulent and non-fraudulent irregularities detected by national authorities, compared with the financial recommendations issued by OLAF in the same areas. In this year's report, the analysis covers a period of 5 years, including 2019. The impact of investigations is shown as a percentage of the total TOR that authorities have collected for 2015–2019 and as a percentage of the total payments made under the two main areas of shared management, namely European Structural and Investment Funds and agriculture, by each Member State. The results obtained by OLAF during the same period are presented next to those of national authorities ⁽²⁾.

For the purpose of our analysis, it is assumed that financial recommendations issued by OLAF following investigations are comparable to the financial impact of irregularities detected and reported by Member States.

Table 5 shows the number of irregularities or fraud cases detected in the area of TOR between 2015 and 2019 and their financial impact as a percentage of the gross TOR collected by Member States and made available to the EU budget. OLAF's results are shown alongside those of national authorities.

Table 6 shows the number of fraudulent and non-fraudulent irregularities detected in the two main areas

of shared management between 2015 and 2019 and their financial impact expressed as a percentage of each Member State's total payments. OLAF's results are shown alongside those of national authorities.

Our analysis highlights once again the important contribution that OLAF investigations are making in helping the relevant authorities recover EU revenue and funds that have been defrauded or irregularly spent. In terms of TOR, OLAF's financial recommendations would represent 2.72 % of the gross TOR collected, compared with 1.59 % for all Member States together. This means that, for this period, OLAF's financial recommendations exceed the entire financial impact of the investigative and control activities of the Member States. The OLAF results are significantly influenced by the conclusion of a string of investigations linked to the undervaluation of imported goods. These results also highlight OLAF's commitment to utilising resources effectively and concentrating on cases where its input would bring most added value.

OLAF's results are also significant in the shared management areas, where the financial impact of the activities of all Member States together accounts for 1.84 % of payments, while OLAF alone recommended the recovery of 0.34 % of payments. In this area, OLAF's financial recommendations would represent 16 % to 18 % (18 % to 21 % for the EU-27) ⁽³⁾ of the entire impact of investigative and control activities. There are particular countries where the financial impact of OLAF cases is particularly significant and, at times, even higher than that of national investigations.

⁽²⁾ Results of the Member States and OLAF may partially overlap. OLAF results are extracted from OLAF's case management system, and represent the total sum of financial recommendations issued at the end of the investigations. Data concerning Member States is extracted from the irregularity management system for the expenditure areas and from the OWNRES system for TOR.

⁽³⁾ The range has been calculated assuming, for the lower limit, that OLAF results are not included in those reported by the Member States, while for the highest limit the assumption is the opposite: that OLAF results are fully included in those reported by the Member States.

Table 5: Member State and OLAF detection of irregularities and their financial impact in the area of TOR, 2015–2019

Traditional own resources 2015–2019				
Member State	Member States		OLAF	
	Number of detected fraudulent and non-fraudulent irregularities	Financial impact as % of TOR collected	Number of investigations closed with recommendations	Financial recommendations as % of TOR collected
Austria	246	1.50 %	6	0.54 %
Belgium	1 055	0.33 %	25	0.52 %
Bulgaria	8	0.02 %	10	0.70 %
Croatia	38	0.37 %	7	0.15 %
Cyprus	7	0.03 %	6	0.38 %
Czechia	384	1.64 %	13	0.96 %
Denmark	332	0.93 %	15	0.59 %
Estonia	17	0.76 %	4	0.03 %
Finland	174	1.86 %	7	0.06 %
France	1 208	0.80 %	20	0.31 %
Germany	7 434	1.95 %	29	0.22 %
Greece	85	0.59 %	16	19.35 %
Hungary	121	1.38 %	9	24.47 %
Ireland	129	0.79 %	7	0.00 %
Italy	521	0.41 %	26	0.19 %
Latvia	53	1.71 %	5	0.43 %
Lithuania	100	1.13 %	9	0.13 %
Luxembourg	11	0.36 %	0	0.00 %
Malta	4	0.74 %	3	1.16 %
Netherlands	2 298	3.45 %	45	1.74 %
Poland	419	0.54 %	20	0.19 %
Portugal	101	1.47 %	16	0.71 %
Romania	210	1.73 %	22	0.44 %
Slovakia	45	0.41 %	5	51.87 %
Slovenia	34	0.42 %	11	0.36 %
Spain	1 286	1.73 %	31	0.70 %
Sweden	670	0.98 %	11	0.11 %
EU-27	16 990	0.98 %	378	1.25 %
United Kingdom	4 108	2.24 %	35	10.73 %
EU-28	21 098	1.59 %	413	2.72 %



Table 6: Member State and OLAF detection of irregularities and their financial impact in the areas of European Structural and Investment Funds and agriculture, 2015–2019

Member State	Member States		OLAF	
	Number of detected fraudulent and non-fraudulent irregularities	Financial impact as % of payments	Number of investigations closed with recommendations	Financial recommendations as % of payments
Austria	315	0.34 %	3	0.09 %
Belgium	293	0.33 %	5	0.18 %
Bulgaria	1 126	1.70 %	20	0.33 %
Croatia	309	1.07 %	2	0.21 %
Cyprus	55	0.72 %	0	0.00 %
Czechia	2 159	2.22 %	7	0.06 %
Denmark	122	0.29 %	0	0.00 %
Estonia	389	1.11 %	1	0.00 %
Finland	151	0.08 %	0	0.00 %
France	1 233	0.21 %	10	0.02 %
Germany	1 376	0.27 %	3	0.38 %
Greece	2 144	2.24 %	18	0.33 %
Hungary	2 697	1.41 %	43	3.93 %
Ireland	867	1.10 %	0	0.00 %
Italy	4 415	1.22 %	22	0.21 %
Latvia	438	2.12 %	2	0.01 %
Lithuania	990	1.58 %	2	0.07 %
Luxembourg	2	0.02 %	0	0.00 %
Malta	75	2.57 %	0	0.00 %
Netherlands	477	0.55 %	3	0.05 %
Poland	5 017	1.83 %	22	0.12 %
Portugal	2 773	1.92 %	9	0.44 %
Romania	4 968	2.92 %	40	0.35 %
Slovakia	1 947	21.03 %	13	0.53 %
Slovenia	245	0.88 %	1	0.15 %
Spain	11 029	2.70 %	4	0.01 %
Sweden	125	0.18 %	0	0.00 %
EU-27	45 737	1.91 %	230	0.36 %
United Kingdom	2 666	0.41 %	6	0.05 %
EU-28	48 403	1.84 %	235	0.34 %

5.3. Judicial monitoring

Judicial monitoring allows OLAF to see the final outcomes of its cases on the ground: indictments, dismissals or other judicial measures.

Under EU law, when requested by OLAF, national judicial authorities must send the Office information on any action taken on the basis of its judicial recommendations. An analysis of the figures shows that around 39 % of the cases submitted by OLAF to national judicial authorities have led to indictments (Table 7).

In a bid to improve cooperation and increase the indictment rate, OLAF has been working closely with national judicial authorities in a number of Member States. After a general cooperation mechanism was agreed in June 2019, contact points were established between OLAF and the Bulgarian Prosecutor General's Office, and an operational cooperation mechanism was agreed between the Hungarian Prosecutor General and OLAF's Director-General in late 2019.

Member States' judicial authorities are independent, and are under no obligation to follow OLAF's recommendations. Nonetheless, OLAF continues to work to better understand the reasons why national judiciaries sometimes dismiss a number of the cases submitted by the Office.

OLAF does not question the validity of national prosecutors' decisions to dismiss individual cases on particular grounds. OLAF's analysis suggests that the legal basis on which Member States may use OLAF's final reports as evidence in trials ⁽⁴⁾ may not be sufficient in every EU country. Nonetheless, the evidence collected by OLAF's investigators during the course of their investigations (for example documents collected) should in many cases be usable. It is not necessarily the case, therefore, that national prosecutors should be obliged to investigate cases from scratch in order to acquire admissible evidence.

In addition, despite OLAF's considerable investigative efforts, its limited investigation powers and practical possibilities mean that conclusive evidence of a criminal offence cannot always be collected. In cases involving EU staff, OLAF has also noted a difference in priorities between its own way of working – treating such cases as extremely serious – and those of national judiciaries, which may take a different view of their relative seriousness.

Finally, there are sometimes differences of interpretation of EU and national law between OLAF and national authorities. OLAF started to address these differences in 2016, through bilateral meetings with the relevant judicial authorities, and this work continued throughout 2019. OLAF also continues to liaise with Member States on an ongoing basis in order to improve follow-up at national level.

⁽⁴⁾ Article 11 (2) of Regulation (EU, Euratom) No 883/2013 of the European Parliament and of the Council of 11 September 2013 concerning investigations conducted by the European Anti-Fraud Office (OLAF) and repealing Regulation (EC) No 1073/1999 of the European Parliament and of the Council and Council Regulation (Euratom) No 1074/1999, OJ L 248, 18.9.2013, p. 1–22.



Table 7: Actions taken by national judicial authorities following OLAF's recommendations issued between 1 January 2015 and 31 December 2019

Member State	No decision taken by JA	Decision taken by JA			Indictment rate (%)
		Total	Dismissed	Indictment	
Austria	1	4	3	1	25 %
Belgium	11	9	6	3	33 %
Bulgaria	10	8	7	1	13 %
Croatia	0	5	2	3	60 %
Cyprus	3	0	0	0	0 %
Czechia	6	3	2	1	33 %
Denmark	3	0	0	0	n/a
Estonia	0	1	1	0	0 %
Finland	1	1	1		0 %
France	10	4	2	2	50 %
Germany	13	15	13	2	13 %
Greece	13	9	3	6	67 %
Hungary	18	15	8	7	47 %
Ireland	3	0			
Italy	22	13	5	8	62 %
Latvia	2	4	3	1	25 %
Lithuania	1	4	1	3	75 %
Luxembourg	3	1	1	0	0 %
Malta	1	2	0	2	100 %
Netherlands	7	10	7	3	30 %
Poland	11	9	5	4	44 %
Portugal	7	5	3	2	40 %
Romania	22	24	13	11	46 %
Slovakia	5	7	6	1	14 %
Slovenia	5	0	0	0	n/a
Spain	8	8	4	4	50 %
Sweden	0	1	1	0	0 %
United Kingdom	13	16	12	4	25 %
Grand total	199	178	109	69	39 %

JA, judicial authority; n/a, not applicable.

5.4. Disciplinary monitoring: EU institutions take action to follow up on OLAF's internal investigations

The disciplinary recommendations issued by OLAF concern serious misconduct by EU staff or members of the EU institutions and are directed to the authority that has disciplinary powers in the institution concerned. When making such recommendations, OLAF does not specify the type of action that should be taken. The appointing authorities sometimes take several actions following a single recommendation from OLAF. At the same time, the appointing authority may join several recommendations resulting from different investigations and, subsequently, impose one single sanction.

Table 8: Actions taken by the appointing authorities following OLAF's disciplinary recommendations issued between 1 January 2015 and 31 December 2019

Recipient of recommendation	Total	No decision taken	Decision taken	
			No case is made	Action taken
Agencies	10	2	5	3
Council of the European Union	1	0	0	1
ECA	2	1	1	0
EESC	3	2	1	0
Eurojust	1	0	0	1
European Commission	27	4	10	13
European Committee of the Regions	1	1	0	0
European Court of Justice	3	0	2	1
European External Action Service	9	5	0	4
EIB	2	1	0	1
European Parliament	23	14	1	8
European Union Rule of Law Mission in Kosovo	1	0	1	0
Total	83	30	21	32



6. Policies to fight fraud

The best way to fight fraud is to make sure it cannot take place in the first place, or at least to detect it rapidly so that corrective action can be taken swiftly. Identifying and promoting best practice in this respect is a key element of OLAF's mission, in addition to its investigative work. The upcoming multiannual financial framework for 2021–2027 will provide the opportunity to develop an enhanced approach to preventing, detecting and investigating fraud at the EU level. With this in mind, OLAF proposed a new Commission Anti-Fraud Strategy (CAFS), which was adopted in 2019 ⁽⁵⁾. Its implementation over the coming years will help to strengthen cooperation among Commission services, OLAF and other stakeholders, improving the development and coordination of anti-fraud measures and thereby improving the protection of the EU budget.

6.1. Improving fraud prevention and detection at the EU level: the new Commission anti-fraud strategy

The two priorities of the 2019 CAFS are to strengthen the Commission's capabilities in the strategic analysis of fraud data and to strengthen the corporate oversight of fraud risk management by Commission services and executive agencies. OLAF will act as the lynchpin for both priorities.

To get the most out of cooperation across the Commission, the Fraud Prevention and Detection Network, a forum of anti-fraud experts from all Commission services and executive agencies, has been restructured: services that share a common interest will work together on specific issues to improve the effectiveness of cooperation. The various anti-fraud strategies developed by the different Commission services will be assessed by OLAF to ensure coherence and effectiveness.

Work has already begun on strengthening corporate oversight, focusing in particular on monitoring the follow-up given to OLAF recommendations by the Commission

and its executive agencies; the conclusions of this exercise will be presented to the Corporate Management Board, which brings together the Commission's Secretary-General and the other heads of its central services.

Analysis of fraud-related data, based on the PIF Report, is also being improved. The 2019 edition of the PIF Report, which covers 2018, saw improved statistical analysis, for example by comparing the reporting of irregularities in the 2007–2013 and 2014–2020 programming periods. Again using the PIF Report as a base, OLAF also prepared 28 tailored comparative analyses (shared separately with each Member State).

Also in 2019, and in close cooperation with the European Commission spending services and central services, OLAF agreed with the co-legislators on the standard PIF provisions that will be part of all legislation on post-2020 spending programmes, harmonised by area (direct, indirect and shared management). These provisions reflect the requirements that the financial interests of the EU should be protected, including through the prevention, detection, correction and investigation of fraud and other irregularities. Any person or entity receiving EU funds is obliged to fully cooperate in protecting the EU's financial interests, to grant the necessary access rights to the Commission, OLAF, the EPPO and the ECA, and to ensure that any third parties involved in the implementation of Union funds grant equivalent rights.

Other operating improvements that took place in 2019 include the enhancement of the Irregularity Management System (IMS), which benefited from improved information exchange and data analysis, helping Member States, candidate countries and potential candidate countries to report to the Commission detected fraud and irregularities in the implementation of EU funds. OLAF's project to develop a methodology for country profiles in the anti-fraud area, launched in 2018 with the aim of reaching a common understanding of the cornerstones of an effective anti-fraud system, was also updated during 2019 with the development of a data collection tool for a pilot to run during 2020.

⁽⁵⁾ Commission communication – Commission Anti-Fraud Strategy: enhanced action to protect the EU budget (COM(2019) 196).

6.2. Revision of the OLAF Regulation

The Regulation concerning investigations conducted by the European Anti-Fraud Office (the OLAF Regulation) ⁽⁶⁾ is the main legal instrument governing OLAF's investigative activities. In May 2018, the Commission adopted a proposal to amend it ⁽⁷⁾. Against the backdrop of the creation of the EPPO, the proposal seeks to ensure that OLAF is equipped to work closely with the EPPO to detect and investigate fraud across the EU and to ensure strong complementarity between criminal and administrative action at the EU level.

The proposed changes are also intended to clarify OLAF's tools for the conduct of administrative investigations with a view to ensuring their effectiveness, responding to the findings of an evaluation of the OLAF Regulation, which was concluded in October 2017.

On 16 April 2019, the European Parliament adopted its report on the revision of the OLAF Regulation at the first reading ⁽⁸⁾; trilogue negotiations on the revision involving the Parliament, the Council of the EU and the Commission started in November 2019. They will continue in 2020 with a view to completing the negotiations in the course of the year, to ensure that a fit-for-purpose framework is in place for effective cooperation between OLAF and the EPPO, once the latter becomes operational.

6.3. The European Public Prosecutor's Office

The process to establish the EPPO ⁽⁹⁾ passed a number of important milestones in 2019, as the date when the EPPO is expected to become operational – at the end of 2020 – came ever closer. A strong, effective and independent EPPO is a priority for the European Commission, and OLAF has continued to work hard to keep the process on track throughout 2019.

The main milestone reached in 2019 was the appointment of the European Chief Prosecutor and the subsequent launch of the procedure for the appointment of the various European prosecutors, which is now at an advanced stage. The Commission worked closely with the Member States in the EPPO expert group to discuss a wide array of issues, including national preparations to integrate European delegated prosecutors in their national systems. The first members of staff for the central office were recruited, and substantial progress was made to prepare the building and other infrastructure for the EPPO.

A key element in the creation of the EPPO is the Member States' incorporation into national law of Directive (EU) 2017/1371 ⁽¹⁰⁾, as this defines the material scope of the EPPO's competence. The deadline for incorporation was 6 July 2019. By the end of 2019, 18 Member States had notified the Commission that they had completely incorporated it into national law.

6.4. A new anti-fraud financial programme

The European Commission's proposal for the establishment of an EU anti-fraud programme, adopted in May 2018 ⁽¹¹⁾, is intended to support the protection of the EU's financial interests as well as mutual administrative assistance between customs authorities. It combines the

⁽⁶⁾ Regulation (EU, Euratom) No 883/2013 of the European Parliament and of the Council of 11 September 2013 concerning investigations conducted by the European Anti-Fraud Office (OLAF) and repealing Regulation (EC) No 1073/1999 of the European Parliament and of the Council and Council Regulation (Euratom) No 1074/1999, OJ L 248, 18.9.2013, p. 1–22.

⁽⁷⁾ COM (2018) 338 final – 2018/0170/COD, available at <https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX%3A52018PC0338>

⁽⁸⁾ European Parliament legislative resolution of 16 April 2019 on the proposal for a regulation of the European Parliament and of the Council amending Regulation (EU, Euratom) No 883/2013 concerning investigations conducted by the European Anti-Fraud Office (OLAF) as regards cooperation with the European Public Prosecutor's Office and the effectiveness of OLAF investigations (COM(2018)0338 – C8-0214/2018 – 2018/0170(COD)), available at https://www.europarl.europa.eu/doceo/document/TA-8-2019-0383_EN.html

⁽⁹⁾ Council Regulation (EU) 2017/1939 of 12 October 2017 implementing enhanced cooperation on the establishment of the European Public Prosecutor's Office ('the EPPO'), OJ L 283, 31.10.2017, p. 1–71.

⁽¹⁰⁾ Directive (EU) 2017/1371 of the European Parliament and of the Council of 5 July 2017 on the fight against fraud to the Union's financial interests by means of criminal law, OJ L 198, 28.7.2017, p. 29–41.

⁽¹¹⁾ Proposal for a regulation of the European Parliament and of the Council establishing the EU Anti-Fraud Programme (COM (2018) 386 final), 30.05.2018.



OLAF Director-General Ville Itälä and European Chief Prosecutor Laura Kövesi, June

long-standing Hercule spending programme, which has supported the fight against fraud since 2004, with two of OLAF's operational activities: the Anti-Fraud Information System, which supports Member States' customs authorities in their mutual administrative assistance to prevent and detect customs fraud, and the IMS, which provides an IT platform for the Member States to report detected irregularities that could have an impact on the EU budget.

The Council position on the Commission's proposal was endorsed on 19 December 2018, and the European Parliament adopted its legislative resolution on the proposal on 12 February 2019. However, trilogue discussions did not start in 2019, because of the ongoing negotiations over the multiannual financial framework.

6.5. Strengthening the EU's policy on fighting illicit tobacco trade

OLAF has a unique administrative investigative mandate to counter tobacco smuggling into the EU, which causes huge revenue losses of around €10 billion to the budgets

of the EU and of the Member States. In complex cross-border cases in particular, OLAF can bring significant added value by helping coordinate anti-smuggling operations carried out by law enforcement agencies across Europe. OLAF works to ensure that evaded duties are recovered, criminal smuggling networks dismantled and perpetrators brought to justice.

In addition to the various operations related to cigarette smuggling and counterfeiting detailed in Chapter 2, OLAF undertook a number of other tobacco-related issues in 2019. Chief among these was the start of the implementation period of the second action plan to fight the illicit tobacco trade, addressing the supply of and demand for illicit tobacco. In practical terms, this concerned an agreement in Council to open negotiations with Belarus on an agreement on customs cooperation and mutual administrative assistance – a key element of the plan given Belarus' important role as a source and transit country in the illicit tobacco trade.

The EU is also committed to the success of the Framework Convention on Tobacco Control Protocol to Eliminate Illicit Trade in Tobacco Products, and OLAF, as Commission lead service, continued its international

engagement in 2019. OLAF actively contributes to the ongoing work, including by acting as a key facilitator together with the Commission's Directorate-General for Health and Food Safety on the tracking and tracing of tobacco products. The number of parties to the protocol has swelled to 59 and OLAF continues to promote further participation, especially in relevant source and transit countries on major smuggling routes.

One of the actions taken by OLAF to address the demand side of the illicit tobacco trade was the publication of a new EU-wide public poll on attitudes to and perceptions of the illicit tobacco trade, on 19 July 2019. The special Eurobarometer survey, based on 27 643 interviews with people from different social and demographic groups in the 28 EU Member States, reveals that cigarette smuggling continues to be a major concern for EU citizens. The findings show that most consider the loss of taxes for the state and the revenue it generates for organised crime to be the main problems with the black market in cigarettes, and that people buy because of the price. The survey shows that only a few (15 %) believe black market cigarettes to be one of the most important sources of revenue for organised crime gangs.

The special Eurobarometer survey should also help Member States better target their awareness-raising

campaigns to lower demand for illegal tobacco, by providing a detailed picture of the demand side of the illicit tobacco trade, based on a significant sociodemographic data set for each Member State.

6.6. Data analysis to tackle fraud

In 2018, OLAF started a project funded by the Hercule III programme and working in association with the Commission's Joint Research Centre to support and facilitate the work of customs officials in Member States for the effective and efficient use of data and analytical approaches in the customs anti-fraud area. Based on feedback and interest from Member States, five pilot projects related to priority fraud issues were launched during 2019.

Further activities were also undertaken in 2019 to strengthen and develop the community of practice, including study visits to Member States and a workshop with Member States to hear about progress on the five pilot projects undertaken during 2019 and exchange views and experiences related to a wide range of analytical activities currently being used to tackle customs fraud.



7. The OLAF Supervisory Committee

The Supervisory Committee of OLAF is a body of five independent outside experts, established to reinforce and guarantee OLAF's independence by regularly monitoring the implementation of OLAF's investigative function. Its members are appointed by common agreement of the European Parliament, the Council and the Commission.

The current members are Jan Mulder (Chairman), Petr Klement, Grażyna Stronikowska, Helena Fazenda and Rafael Muñoz. The members are supported by a secretariat provided by the European Commission. The current head of the Supervisory Committee Secretariat, appointed in October 2019, is Lambros Papadias.

The Director-General of OLAF keeps the Supervisory Committee regularly informed about the activities of the Office, the implementation of OLAF's investigative function and the follow-up to investigations.

In 2019, OLAF made available to the committee 587 documents with information on investigations lasting more than 12 months. OLAF also informed the committee about judicial recommendations transmitted

to the national judicial authorities, and about OLAF cases in which information was sent to national judicial authorities at the dismissal of the case. The committee and its secretariat had full access to 107 case files in OLAF's case management system in 2019.

On the basis of the information provided by OLAF, the committee delivers opinions to the Director-General of OLAF and reports to the EU institutions. In 2019, the Supervisory Committee delivered its Opinion 1/2019, concerning OLAF's preliminary draft budget for 2020.

In its opinions, the Supervisory Committee issues recommendations to the Director-General. OLAF reports annually to the committee on the state of implementation of these recommendations. In its 2019 reporting, OLAF assessed four recommendations out of seven as implemented, one as partially implemented, one as ongoing and one as not applicable.

Details of the Committee's work can be found in its annual activity report. This report as well as other information is publicly available on the OLAF website ⁽¹²⁾.

¹² https://ec.europa.eu/anti-fraud/about-us/supervisory-committee/exchanges-between-olaf-and-its-supervisory-committee_en

8. Data protection



The protection of personal data has always been a high priority for OLAF, which has worked hard since its creation to meet the requirements set out in EU law, including recommendations of the European Data Protection Supervisor (EDPS). The decisions and recommendations of the EDPS have a significant impact on how OLAF carries out its investigative activities, such as on-the-spot checks or the forensic examination of digital media. OLAF appoints its own data protection officer (DPO), who provides advice and assists OLAF in applying high data protection standards. Since the entry into force of the new Data Protection Regulation for EU institutions ⁽¹³⁾, in December 2018, OLAF has committed to lead by example.

The Commission Decision laying down internal rules concerning the processing of personal data by OLAF ⁽¹⁴⁾ ensures compliance with the fundamental right

to protection of personal data as set out in Article 8 of the Charter, while enabling OLAF to secure the confidentiality of its investigations as well as ensuring the protection of the rights and freedoms of persons concerned, witnesses and informants.

The decision lays out the conditions under which OLAF informs data subjects of any activity involving processing of their personal data and handles their rights of access, rectification, erasure, restriction of processing and communication of a personal data breach. The involvement of OLAF's DPO (or, where applicable, the Commission DPO or the agency DPO) throughout the whole procedure ensures an independent review of the applied restrictions. In addition, the codification of OLAF's established practices and procedures in the decision ensures a high degree of legal certainty for all data subjects, thus also complying with the quality of law requirements developed by the case law.

The procedures and IT tools needed to ensure the implementation of the Commission's decision were successfully implemented in 2019. OLAF also adopted rules on reporting possible data breaches and provided training to staff to increase awareness.

In 2019, OLAF received and handled six requests for access to personal data as well as two requests for erasure, concerning 17 investigations and reported cases under the IMS. OLAF handled four requests within one month each; searches and verifications for two further replies required more time, but remained within the time frame required in the regulation. Two further replies required just over three months.

⁽¹³⁾ Regulation (EU) 2018/1725 of the European Parliament and of the Council of 23 October 2018 on the protection of natural persons with regard to the processing of personal data by the Union institutions, bodies, offices and agencies and on the free movement of such data, and repealing Regulation (EC) No 45/2001 and Decision No 1247/2002/EC, OJ L 295, 21.11.2018, p. 39–98.

⁽¹⁴⁾ Commission Decision (EU) 2018/1962 of 11 December 2018 laying down internal rules concerning the processing of personal data by the European Anti-Fraud Office (OLAF) in relation to the provision of information to data subjects and the restriction of certain of their rights in accordance with Article 25 of Regulation (EU) 2018/1725 of the European Parliament and of the Council, OJ L 315, 12.12.2018, p. 41.



9. Staff and Budget

At the end of 2019, the total number of staff members and available vacancies at OLAF stood at 393. The number of OLAF staff members remained stable from 2018 (389) to 2019, despite the general reductions in staff and budget in the EU civil service as well as the redeployment of staff with the Commission. The situation is expected to remain uncertain in the years to come, owing to the establishment of the EPPO and the agreed transfer of 45 posts from OLAF to the EPPO over the period 2019–2023.

The key challenge for OLAF has been to maintain its strong investigative performance and to continue to play its significant and active role in the development of EU anti-fraud policy despite the staff cuts. In addition to the reductions in staff numbers, OLAF staff members have had to cope with a structural increase in workload. Nevertheless, despite the staff cuts, OLAF managed to maintain quality and efficiency in its investigations and in its anti-fraud policy work by aligning resources with priorities and by improving efficiency.

INVESTMENT IN DIVERSITY

OLAF is committed to improving the diversity of its workforce and to promoting an inclusive working environment. In 2019 OLAF exceeded the Commission's target to have at least 40 % women in management by 2019 and intends to continue its efforts to reach a fair balance in gender representation at all staff levels in 2020. At the end of 2019, 47 % of middle management jobs were occupied by women, compared with 28.8 % in 2014. OLAF's internal target of three first appointments of women to middle management positions set for 2017–2019 has also been exceeded, as four female first-time heads of unit were recruited during that period.

OLAF fully endorses programmes aiming to promote diversity and inclusion, among them the female talent development programme. The programme was launched by the Commission in 2018 and is a mix of competency building, mentoring by senior managers, networking and individual coaching. By the end of 2019, three female colleagues from OLAF had benefited from the programme.



OLAF Directors and Director-General

OLAF's ability to fulfil its mandate relies on its staff members' wide range of skills, diversity in professional backgrounds, expertise and commitment. OLAF also requires staff members with linguistic skills, as it needs to be able to function and investigate in all EU languages. OLAF's staff profiles in 2019 met the necessary standards. However, in the years to come, OLAF will have to recruit qualified staff in view of the retirement of a significant number of experienced staff. In anticipation of this challenge, in 2019 OLAF requested specialised competitions for investigators, digital forensics experts and operational analysts. These competitions are scheduled for 2021.

OLAF continues to invest in the professional and personal development of its staff through a wide range of in-house and external training specifically tailored to its needs. In 2019, emphasis was placed on specialised training with regard to the upcoming changes in the role and responsibilities of OLAF (linked to the creation of the EPPO and OLAF's own internal reorganisation) and the rapidly changing nature of fraud patterns in a more digital world.

Team-building events are regularly organised, and knowledge sharing and communication within the organisation are enhanced through debates and

workshops. In order to strengthen management skills, OLAF invests in the training of its managers by offering the opportunity to attend specialised management courses and to receive individual coaching by external contractors. Finally, in order to communicate on its activities and to raise awareness about fraud issues, OLAF gives presentations to its stakeholders on specific topics relating directly to its competences, expertise or methods of work.

OLAF recruitments in 2019:

- 41 officials
- 11 temporary agents
- 6 contract agents
- 6 seconded national experts

OLAF departures in 2019:

- 34 officials
- 8 temporary agents
- 9 contract agents
- 4 seconded national experts

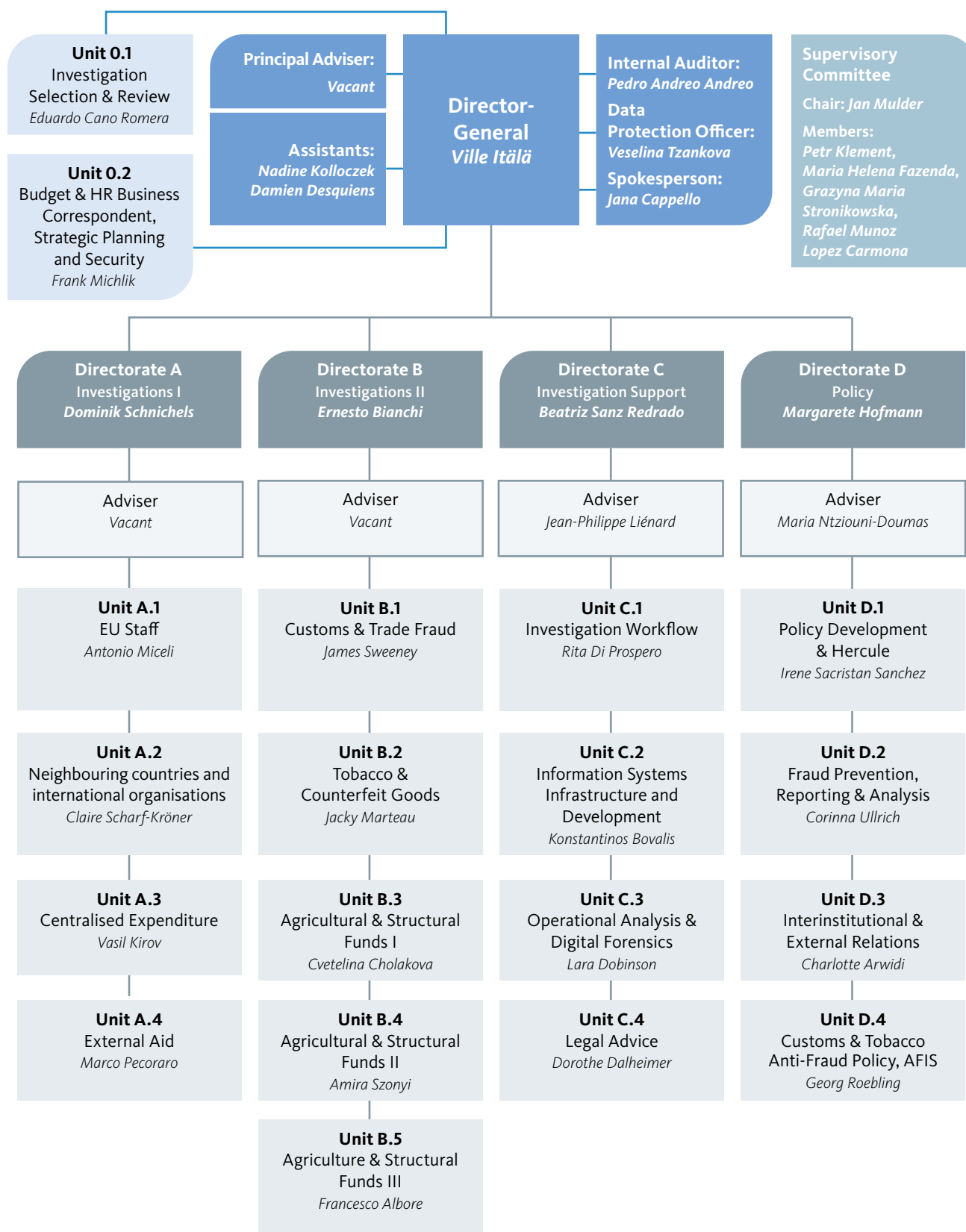
Table 9: Number and breakdown of OLAF staff from 2015 to 2019

	2015	2016	2017	2018	2019
Establishment posts occupied	356	336	318	318	329
Establishment posts vacant	11	24	32	27	17
External staff	55	55	55	44	47
Total	422	415	405	389	393

Table 10: OLAF's administrative budget in 2019 (€ million)

	2019
EU staff	41.2
Infrastructure	7.1
IT	4.9
External agents (contract staff, seconded national experts and interims)	2.6
Missions	1.4
Anti-fraud measures	1.9
Training, meetings and committees	0.5
Total	59.5

Figure 5: Organisational chart (situation as at 31 December 2019)



A reorganisation of OLAF entered into force on 16 June 2020.

10. Statistical annex: additional data on OLAF investigative activity

This annex presents additional detailed data relating to OLAF's investigative activity in 2019, as a complement to the key indicators already mentioned in chapters 2 and 5.

Table 11: OLAF's investigative performance in 2019

	2015	2016	2017	2018	2019
Items of incoming information	1 372	1 136	1 295	1 211	1 095
Investigations opened (or reclassified or split)	219	219	215	219	223
Investigations concluded	304	272	197	167	181
Recommendations issued	364	346	309	256	254

Table 12: Selections completed and their duration

	2015	2016	2017	2018	2019
Selections completed	1 442	1 157	1 111	1 259	1 174
Average duration (in months) of selection phase	1.7	1.7	2.4	2.6	2.3

Table 13: Average duration of closed and ongoing investigations (months)

	2015	2016	2017	2018	2019
Average duration of investigation	18.7	17.2	15.8	16.4	17.3
Average duration of selection corresponding to these cases	2.3	1.7	1.8	2.2	2.2
Total average duration of cases	21.0	18.9	17.6	18.6	19.5

**Table 14: Average duration of closed investigations only (months)**

	2015	2016	2017	2018	2019
Average duration of investigation	25.1	23.2	21.9	23.1	24.3
Average duration of selection corresponding to these cases	2.8	1.8	1.7	1.9	2.0
Total average duration of cases	27.9	25.0	23.6	25.0	26.3

Table 15: Percentages of ongoing investigations lasting more than 20 months

2015	2016	2017	2018	2019
22 %	20 %	22 %	22 %	29 %

Table 16: Recommendations issued

	2015	2016	2017	2018	2019
Financial	220	209	195	168	157
Judicial	98	87	80	48	64
Disciplinary	16	18	10	18	18
Administrative	30	32	24	22	15
Total	364	346	309	256	254

Table 17: Incoming information by source

	2015	2016	2017	2018	2019
Private	933	756	889	807	663
Public	439	380	404	404	432
Total	1 372	1 136	1 293	1 211	1 095

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