

The Impact of Organised Crime on the EU's Financial Interests

Available evidence suggests that the scale of fraud against the EU finances is vast. On the revenue side in particular, estimates from the Commission suggest that the VAT gap amounted to EUR 150 billion in 2016, EUR 50 billion of which were defrauded by criminal groups. Other estimates indicate potentially higher levels of fraud. With expenditure totalling EUR 1.8 trillion envisaged under the post-COVID-19 recovery plan, improving effort to tackle organised crime's involvement in defrauding the EU's finances becomes even more urgent.

Against this background, the objectives of the study to be published in late July 2021 were twofold:

- Analyse the impact of organised crime and corruption on the EU's budget and financial interests, particularly losses to the EU budget through criminal activities.
- Examine the differences and common approaches used by Member States to investigate organised crime and quantifying how much costs could be reduced if Member States implemented best practice.

The research, which focused on a sample of 14 EU Member States (BG, CZ, ES, FR, FI, DE, GR, HU, IT, LU, LV, MT, SE and SK), involved a combination of desk-research, interviews and quantitative modelling. The study considered the impact of organised crime on EU expenditure (e.g. Cohesion Funds) as well EU revenues (e.g. VAT own resources).

Key findings

Estimates of fraud



There are differing estimates of the extent of fraud affecting the EU's financial interests. The Commission's 2019 annual PiF report notes that Member States reported fraudulent irregularities totalling EUR 461.4 million for the then EU-28. However, these are likely to be underestimates. Definitional issues aside, it is important to note that not all fraud is committed by organised crime. This is especially so on the **expenditure side** of EU finances where individuals can be more easily involved in fraudulently claiming EU funds. The PiF Report suggests that some EUR 366.6 million of expenditure is lost each year to fraud. Our research has found that this is generally regarded as an underestimate but that there is an absence of alternative estimates, either at the EU or the Member State level, as well as on the extent to which organised crime is involved in EU expenditure fraud. Bearing this in mind, the study included an element of quantitative modelling to help improve the estimate of organised crime's involvement in EU public procurement. This suggested that **expenditure fraud by**

organised crime could lie on the range from EUR 1.9 billion to EUR 2.6 billion p.a.

On the revenue side of EU finances, the PiF report estimates that fraud amounts to EUR 79.7 million. The PiF report further notes that cross-border VAT fraud cases on the revenue side of EU finances amounted to at least EUR 10 million in 2019. Other estimates from the Commission suggest that the VAT gap amounted to as much as EUR 150 billion (in 2016), EUR 50 billion of which was estimated to be criminal fraud. Our own research has indicated that these figures for fraud are likely to be underestimations.



With EU revenues, the proportion of fraud committed by organised crime is thought to be very high (90%) as the complexity of the fraudulent schemes (e.g. Missing Trader Intra-Community "MTIC" fraud) makes it highly unlikely that they are devised and implemented by individuals. In total, **between EUR 40 billion and EUR 60 billion p.a.** is thought to be lost to organised crime groups through MTIC fraud, and 2% of organised crime groups are involved in 80% of the MTIC fraud.¹ Another estimate indicates that MTIC fraud could have amounted to EUR 94 billion in 2014.² Estimates of excise fraud suggest that around EUR 15 billion is lost each year with most of the losses arising on taxes on tobacco products, alcohol and oil.³ ⁴ Losses in the case of cross-border e-commerce fraud committed through the exemption of low-value consignments could amount to EUR 5 billion per annum.⁵

Improving EU and Member State measures to combat the problem

When it comes to the tools to combat fraud and organised crime, our research has found that there are shortcomings in measures to combat fraud at both the EU and Member State levels.

At the **EU level**, developing a harmonised anti-fraud approach is complicated by differing definitions of organised crime which makes it difficult to coordinate measures and could complicate the EPPO's efforts to investigate and prosecute cases. Furthermore, while the Commission has encouraged Member States to develop National Anti-Fraud Strategy (NAFS), so far progress is limited.

With regard to Commission's anti-fraud tools such as EDES and Arachne, the research has found that they are not being used by all Member States and are only being used to a limited extent by others. National authorities give several reasons for this situation. Some have more confidence in their own tools and argue that the Commission's tools do not provide particularly useful information, while others suggest that the tools are missing key information, are incompatible with national data protection laws, and/or are administratively burdensome. Others who only use these tools for certain programmes argue they need to be integrated more comprehensively across EU programmes.

The study suggests that there are also shortcomings at the **Member State level**. Considering the role of the Anti-Fraud Coordination Offices', our research suggests that EU legislation does not define their mandate precisely enough, leading to a situation where their roles vary considerably from one country to another. Furthermore, the capacity of national authorities to address the challenge of organised crime in relation to the EU finances varies considerably, affecting early detection, reporting and prosecution. Another problem is that efforts to combat fraud involving EU funds tend not to be prioritized to the same extent as fraud involving national expenditures. This is highlighted by the fact that more than half of OLAF investigations are not followed up by Member States and even less reach the prosecution stage.

More generally, the research suggests that more needs to be done by national authorities to increase the confiscation rate of funds associated with fraud with more emphasis on preventative measures to deter organised crime from defrauding the EU's finances in the first place.

¹ https://www.europol.europa.eu/sites/default/files/documents/mtic_fraud_investigation_and_leas_cooperation_improving_report_.pdf

² FRUNZA, Marius-Cristian, 2016. Online: http://schwarzthal.com/VATEU_CE_2016.pdf

³ TRACIT. (2019) Mapping the impact of illicit trade on the sustainable development goals.

⁴ <https://public.tableau.com/app/profile/project.sun/viz/ExecutiveSummary2017/ProjectSun-ExecutiveSummary2017>

⁵ European Commission, "Proposal for a Council Directive amending Directive 2006/112/EC and Directive 2009/132/EC as regards certain value added tax obligations for supplies of services and distance sales of goods", COM (2016) 757 final, 1.12.2016.

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