Open Europe publishes list of top 100 examples of EU fraud and waste

Published at: 10-11-2008
Source: Portal Europe

On Monday 10 November, the EU's accountants - the European Court of Auditors (ECA) - are expected to refuse to sign off the EU's accounts for the 14th year in a row. This is due to irregularities in the budget owing to fraud and mismanagement.

In September, the EU Commissioner for Audit, Siim Kallas, admitted there were "real and unquestioned" weaknesses in the EU's budget, and said that the ECA had announced that it would not sign off the EU's accounts for 2007.

The EU budget is now worth on average around 123bn euros (J100bn) a year, into which the UK pays more than J10bn a year. This means that UK taxpayers contribute around 10% of the total EU budget.

The budget is dominated by two failing policies which even the current UK Government is essentially opposed to: the Common Agricultural Policy, and the so-called Structural Funds. The sheer size and complexity of these two top-down spending programmes means the EU's budget is wide open to fraud.

But even aside from the fraud - as serious as that is - the EU budget is hugely wasteful and irrational in terms of what the money is actually spent on, and where the money is spent. The CAP and the Structural Funds are particularly bad for this.

To illustrate this, Open Europe has produced a 'Top 100' list of some of the more remarkable examples of EU fraud and waste. It is not comprehensive, but designed to show the types of projects on which EU money has been wasted in the past.

A sample is given below. They give a snapshot of how off-target the EU budget is, and how in need of fundamental reform.

Open Europe Research Director Mats Persson said:

"The inability of the EU to have its accounts signed off is becoming a familiar story. But that makes it no less unacceptable. The responsibility for this spectacular failure lies partly at the door of member states, but overwhelmingly with the Commission. Until byzantine spending schemes such as the CAP and

Structural Funds are fundamentally reformed, or scrapped altogether, fraud will continue."

"But even if the auditors had finally signed off the EU accounts, the budget still represents extremely bad value for taxpayers' money. The budget is simply irrational. It recycles money between some of the richest countries in Europe, while paying farmers not to farm. Such policies just don’t belong in a modern world."

"The EU funds are supposed to help create jobs and boost Europe's competitiveness, but far too often money is being wasted on projects ranging from the inefficient to the downright bizarre. Surely, while facing recession, we can think of better ways to spend J100 billon a year."

Top 100 examples of EU fraud and waste:

Please click here to see the full list: www.openeurope.org.uk/research/top100waste.pdf

Shortlist of EU fraud and waste examples:

FRAUD

The greedy dentistA dentist in Cosenza used EU funds to buy a yellow Ferrari Testarossa, which sells at around 200,000 euros and a Formula One car, along with 55 other luxury cars, which he stored in warehouses. He received EU money by inventing a solar-panel business that never saw the light of day. The dentist was part of a larger fraud scheme involving a staggering 80 million euros, in which four business organisations siphoned off funds during a four year period to buy luxury items such as cars, motorbikes and yachts. (IlGiornale 19 August 2006, Republica 23 February 2006)

Bibbidi-Bobbidi-Bubbico and the story of the bogus silk wormsFilippo Bubbico, President of the Basilicata region of Italy, and Senator of the Social Democrat party, received 10,329 euros in EU funds for a silk worm breeding business which never existed. The politician, Bubbico, operated under the false name Bibbibo when he acted as president of the consortium "Seta Italia" (Silk Italy), and Bobbidi when he acted on behalf of "Seta Basilicata". Both consortiums managed EU funds for the programme "Silkworm breeding development" but not one strand of silk was produced. As President of the region, Bubbico Basilicata was also distributing EU funds to various relatives. 300,000 euros ended up in the pockets of Rocco Luigi Bubbico, the Undersecretary's father, and Antonio Clemente, his father-in-law. (Corriere della sera 27 April 2007)

EU bureaucrat siphons off money intended for Chernobyl victimsIn 2006, it was revealed that a Belgian EU bureaucrat had been siphoning off EU subsidies intended for Chernobyl victims, using all the money for himself. (Europa NU, 7 November 2007)

Belgian city spends 12 million euros on junkets and dinnersA secret account containing non-declared funds of the Belgian city of Charleroi was discovered in 2007. The account had been used to illegally put away EU funds that the town had received - amounting to some 12 million euros. The account was apparently used to fund a whole range of junkets and dinners. For instance, a delegation of members of the ruling Socialist Party (PS) used the money to go to Belarus on a hunting trip. The city's Secretary, and current President of the Walloon Parliament, Bernard Bermils Josй Happart, was among the travelers. Happart defended himself saying, "If I'm invited, I don't ask where the money has come from". Bizarrely, the party was also handed an illegal 3,000 dollar cash donation from the Belarusian Embassy. On another occasion, the account paid for a dinner for Socialist Party members to celebrate an election victory in 2000. (Standaard and Standaard, 24 March 2007)

Italian unions steal money from disabled, unemployed and teachers to finance luxury cars and holidaysItalian trade unions in Abruzzo, Ial-Cisl of Abruzzo and Molise, systematically siphoned off EU money intended for work training between 2000 and 2006. The unions announced that they would carry out around 300 different training programmes, but in reality the programmes were aborted at conception or never paid for. Each bogus training course cost between 60-70,000 euros, which ended up with a few individuals in the unions. The fraudsters even stole the money that was intended as bursaries for the disabled students enrolled in the courses.

The Guardia di Finanza, the Italian financial protection body investigating the case, suspects that the money was not only used to fund personal purchases of cars and holidays, but also used to finance political campaigns on a local and national level, and even sporting associations. The ex-Cisl secretary's favourite football team, Palermo, is one of the suspected recipients of the money. (Il Giornale, 2 June 2008)

Far-right politician's wife faking horse-riding lessons for disabled peopleLaura Ferrari Giorgetti, wife of Lega Nord politician Giancarlo Giorgetti, was the owner of a charitable horse-riding school. Giorgetti obtained some 400,000 euros in EU funds via the Lombard region. However, in order to fulfill the criteria for the funds, she "inflated" the number of pupils who attended training courses to teach riding to the disabled. Together with two colleagues, Giorgetti systematically forged participants' signatures to reach a sufficient number to secure funding. (Corriere 15 May 2008)

'Organic' olive oil grown on a waste dumpCertified ‘organic’ olive oil and fruit was found to be growing in a 10 metre high dump of waste in the southern region of Puglia, Italy. Four people were reported to the police for serious and continued fraud. The farmers secured funding by sending false certificates to the funding body, claiming that the olive oil was "produce from organic farming." As well as fraud, local authorities investigated possible health risks. (Mara Chiarelli 9 September 2008, Repubblica 9 September 2008)

MEPs claim 820,000 euros for... nothing A leaked note from European Parliament Vice-President Diana Wallis shows that more than 60 MEPs regularly sign in to be present for the monthly EP session in Strasbourg on Fridays, even though the EP does not convene on Fridays - allowing MEPs to make 200 euros each time. The so-called "Friday reimbursement" has come under fire previously and has cost the European Parliament 820,000 euros since 2004. (Volkskrant 3 November 2008)

50 million euros to 'ghost farmers'The EU paid out approximately 50 million euros during the

period 2001-2004 to farmers in southern Italy, for buying and selling surpluses of citrus fruits under the EU's Common Agricultural Policy. However it was later revealed that the farmers, buyers and even the fruit did not actually exist. (Svenska Dagbladet 23 April 2007)

An EU-funded brothelRamyn Romera, the former Mayor of the town of the Spanish town of Chirivel, used EU funds to pay for a roadside brothel, named "Seventh Heaven". Romera claimed 54,000 euros for a site apparently intended to be a riding school, but which was ultimately converted into a hostess bar. He said that he had filled in all the correct paperwork for the riding school, and had even bought horses for the farm. However, when the authorities rejected his license to run the riding school, he decided to rent out the site. "I had no idea that the person who I was to rent it to would use it as a hostess club for young ladies" he said. (El Mundo 29 June 2000)

WASTE

The 1,280,000 euros school for TV glamour modelsThe EU has been giving 1,280,000 euros for a programme to train aspiring TV showgirls in Naples, Calabria. To qualify, the girls need to show singing, dancing and reciting skills. Pietro Vittorelli, the Director of the project, said: "Up to a certain point... The essential and I would say only, entry criteria is beauty... I have to be able to see them before my eyes in a miniskirt and bra, ready to sweeten the dreams of Italians..." The 97 selected pupils were to go on to star in a specially created TV show, "Quizlotto". (IlGiornale 8 September 2008, Corriere della sera 2 July 2003)

The Danish crocodile zooA 37 year old Dane - known locally as the Crocodile Man - received a grant from the EU's Structural Funds to build a Crocodile Zoo in the Danish town of Norre Alslev. The town is home to only 10,000 people. Recently, the zoo sought to expand, as it felt that the crocodiles were lacking adequate space. However, following an unfortunate bankruptcy of one of the main investors, the 5.2 million euros (940,000 euros from the EU) expansion plan had to be put on ice. "It's hard to find money to preserve the crocodiles, because people hold prejudices against them. They're not exactly cute like tiger colts or panda bears", the founder of the zoo said. (Danish Enterprise and Construction Authority, Danish Radio, 2 May 2007, Berlingske 29 April 2007)

Taxpayers' money goes up in smoke An EU-funded workshop of ceramic artists in southern Sweden worked for two weeks in August 2008 to create a four-metre high sculpture. Once done, they wrapped it in ceramic fibre, allowed it to dry for one day - and then made it self-combust. One of the artists described the experience: "When it stood there, completely exposed and glowing, a sigh of admiration went through the crowd. As we then gathered around in a circle and began to throw a mix of sawdust and salt along the sides of the sculpture, so that it began to glow even more intensely, the crowd cheered: 'oh, that's so beautiful. A completely amazing experience!'". The sculpture was named 'Beneath the Blue'. (Swedish School of Design and Crafts, Pictures)

The award-winning toiletA public toilet in Hull was co-financed by the European Regional Development Fund. The European Commission's website described it as, "award-winning", and the aim of the subsidy was purportedly to promote "regional competitiveness". (European Commission 2007)

Danish ski slope on flat, snow-free island A Danish businessman received 100,000 euros in EU subsidies to build a ski-slope on Bornholm - an island without high hills or regular snowfall. The businessman, Ole Harild, said that "I never thought they (the EU experts) were going to back something so crazy". Mr Harild used the money to mark out a run and buy a snow blower and skis to hire out. Unfortunately, the run was only open for one day last winter. (Svenska Dagbladet 16 November 2008)

750,000 euros per student on "docufiction" cinematography courseA group of people in Italy was given EU grants to create a cinematography course, aimed at training people to carry out what is described as "docufiction". The course received grants worth 9 million euros. However, the course will only be taking on 12 students, meaning that the training programme costs 750,000 euros per student. (IlGiornale 8 September 2008)

Intertango: "Internationalisation of Finnish tango" 'Intertango' is described by the EU Commission as a project which, amongst other things, will allow for an exchange of young tango musicians and the 'internationalisation of Finnish tango.' It has received 100,000 euros from EU funds to foster tango talent in Finland. The Helsinki-based project is run by a member of the Buenos Aires Tango Academy. (DG Culture p. 25)

The Estonian puppet showThe Estonian State Puppet Theatre received 105,996 euros from the EU "to develop the use of puppet theatre among the young people, disadvantaged groups and refugees within the community; to create new and innovative means of using puppet theatre." (DG Culture, p. 37)

Laser Clay Pigeon ShootingGreenleisure.co.uk was awarded an EU grant of J8,964 for a project to set up an alternative to the traditional sport of pigeon shooting. It "will allow people of all ages to enjoy the thrill of a favourite country pursuit", only with lasers and without pigeons. (Objective One Partnership for Cornwall and the Isles of Scilly)

The pilgrimage centre without pilgrimsA 'pilgrimage centre' was built at the Santuario de la Armada, Celanova, with 120,000 euros from the EU. A modern building was placed next to the smaller, old chapel. However, a local residents' association said that there was "no point" in the project, given that "pilgrims don't usually pass through this location." (El Pais, 18 July 2008)

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A full list can be found at http://www.openeurope.org.uk/

BACKGROUND INFORMATION ON THE EU BUDGET

Ultimate responsibility lies with the Commission

The refusal by the ECA to sign off the EU's accounts means that the European Commission will miss one of the declared objectives of Commission President Josй Manuel Barroso - to receive a so-called a declaration of assurance (DAS) before the end of the current mandate period, which ends in 2009.

Jan Mulder, a Dutch Liberal MEP and a member of the Budgetary Control Committee has described the improvements made under the Barroso Commission as "extremely slow", adding that "At this rate we'll achieve a positive DAS in 20 years' time." (European Voice 11 September 2008)

The EU Commission has consistently argued that the responsibility for the fraud lies at the national level, not with itself, as 78 per cent of EU funds are distributed by member states in agricultural payments and structural funds. However, as the ECA made clear in its report last year, "Regardless of the method of implementation applied, the Commission bears the ultimate responsibility for the legality and regularity of the transactions underlying the accounts of the European Communities (Article 274 of the Treaty)." (ECA 2007)

UK is the biggest net contributor

The UK is the biggest net contributor to the EU's budget. For the 2007-2013 financial period, the UK will pay the EU an average J10.2 billon a year (even after the reduced rebate), get back J4.6 bn year in EU spending, and pay an average net contribution of approximately J5.5 bn a year over the 2007-2013 period. The UK's total gross contribution to the EU will be around J71 bn for that period.

Britain will receive only 770 euros per person in EU spending (the lowest of any member state). This is half as much as France (1480 euros) and a quarter as much as Ireland (3090 euros).

Crucially, the link between spending and need is far from clear in the EU's budget. Per head, the top three recipients of EU funds continue to be old member states - Luxembourg, Belgium and Greece. France will continue to be the largest recipient of EU funds of any member state in absolute terms. France will receive 89 bn euros from the EU between 2007-2013, compared to 46 bn euros for the UK.

The CAP is particularly bad in this respect. The CAP currently transfers money from the poorest member states to countries like France and Spain. For example, in 2004, the new 10 member states paid nearly one bn euros more into the CAP than they got out of it (835 million euros). (Open Europe 2007)

KEY AREAS OF FRAUD AND WASTE

Agriculture

The EU spends some 54 bn euros a year on various types of farm subsidies (compared to 42 bn euros in 2001). In farm spending, the ECA report will find that primarily rural development expenditure which amounted to 12.4 bn euros in 2007, are "particularly prone to errors" because of the complexity involved in complying with EU rules. (European Voice 11 September 2008)

Even without the fraud and mismanagement, the CAP is a wasteful and distorting policy:

• According to an OECD estimate for 2006, the "real" cost of the CAP is 125 bn euros a year, paid through higher prices and added taxes. The report also estimated that food in the EU is on average 20% above the world price, due to EU subsidies and tariffs. (OECD 2007)

• This hits the poor hardest because the bottom fifth of households in the UK spend 16% of their income on food - double the proportion spent by the richest fifth (7.5%)

• According to a 2005 report by Oxford Economic Forecasting, scrapping the CAP and reforming tariffs could make the bottom 10% of earners J437 a year per person better off.

• Since the introduction of the so-called Single Farm Payment a large part of CAP subsidies are now based on "area" and have nothing to do with actual farming and production. As a consequence, a large number of non-farmers are now receiving subsidies. Over the last year there has been a rash of stories about payments to golf clubs, various royalties, pony clubs and a number of large multinationals such as Coca-Cola.

• The real winners from the system are landowners, as subsidies allow owners of land and suppliers of inputs to put their prices up by an equivalent amount and so "capture" the money spent on subsidies.

Structural Funds

For the Structural and Cohesion Funds, worth 45.5bn euros in 2007, the auditors will say that 54% of the funded projects still contain "errors". In terms of "financial impact" the Court will conclude that the situation remains virtually unchanged. Around 11%, or 4bn euros, of the total amount reimbursed to member states in 2007 should not have been reimbursed. (European Voice 11 September 2008)

Like the CAP, even without the notorious problems with fraud, the Structural Funds remain largely wasteful:

• The Structural Funds are aimed at creating jobs and boosting Europe's competitiveness. In particular, the objective is to help poorer regions catch up with richer ones. However, there is no conclusive evidence that the Funds have had any positive economic impact. In fact, as the OECD has argued, the rate of "convergence" in the EU is very slow - at the current rate of convergence it would take 170 years to halve divergence across the regions in the EU. (OECD 2007)

• The EU will spend close to 310 bn euros in 2007-2013 on the Structural Funds. Of this, only slightly more than 50% will go the new member states - the rest will be spent in the EU-15. (DG Regio 2006)

• Bizarrely, each region, no matter how rich, receives some sort of EU funding. For example, one of the richest regions in Germany, Lьneburg, was granted a staggering 900 million euros from the EU for the 2000-2006 financial period. (Daily Telegraph, 21 June, 2007).

• Even within the regions, the funds are poorly targeted. Research by Open Europe found that as little as 10-30% of funds given to South East England were spent in the poorest one-fifth of areas. (Open Europe 2007)

• As the ECA has pointed out separately, the EU's so-called N+2 rule (allocated funds must be paid out within two years or the money will be cancelled), encourages fast rather than wise spending. This has exacerbated problems with poor project selection. (ECA 2007)