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NOTE

from: Commission
to: Council
Subject: EU package to tackle the fuel crisis in the fisheries sector

Delegations will find attached a Commission Non-Paper on the above mentioned subject.

Commission Non-Paper**EU package to tackle the fuel crisis in the fisheries sector****1. Introduction**

The European Union has a critical interest in maintaining a sustainable fishing industry. Fisheries is key to the economic life of several coastal regions. European fisheries bring a distinct contribution to food security and national health by providing a range of high-quality local products to EU consumers and limiting the EU's dependency on fish imports. The strength of its fishing industry greatly contributes to making the EU a world player in maritime affairs, with a say in all multilateral and regional arrangements related to the oceans.

The EU fisheries sector has long suffered from a vicious circle of poor economic profitability and over-exploitation of stocks due to a significant overcapacity.

Several steps have been taken since the 2002 reform of the Common Fisheries Policy (CFP) to counter this vicious circle. Many of the initiatives taken since then by the Commission also go in the direction of reducing pressure on fish stocks. However, overcapacity remains an issue for many segments of the EU fleet and continues to jeopardise the economic viability of the sector.

The combination of constantly declining revenues (-25% since the early nineties) and an excessive capital invested (estimated at around 40%), leads to a high leverage effect of changes in operating costs. This has squeezed the industry margins for several years. The absence of a sufficient return on capital has delayed modernisation and further weakened competitiveness. Within the context of this structural fragility, the drastic increase in oil prices has hit the fisheries sector particularly hard, especially as this is happening in a market situation where first sale fish prices have continue to stagnate for the last decade and fishermen have not been able to pass their cost increases down the chain. The peculiarity of the fisheries sector lies in this double constraint - from the resource and from the market - which makes it less resilient to economic pressure. It also lies in the fact that almost the entirety of the sector is made of SMEs and is heavily concentrated in peripheral areas featuring high fisheries dependency both in terms of income and employment.

There is therefore an impending need to act in order to avert a severe crisis for the EU fishing industry. The response must be EU-wide and co-ordinated in order to avoid distorting competition between Member States or fleets. The Commission intends to propose an emergency package that will address both the immediate situation of economic and social hardship and will contribute meaningfully to tackling systemic overcapacity. The package will consist mainly of measures based on temporary derogations from rules under the European Fisheries Fund (EFF) to support a faster adaptation of the EC fleet to the present situation and to provide temporary relief in order to cushion economic and social consequences in the transitional phase. It will give Member States the possibility to develop Fleet Adaptation Schemes (FASs) for the fleets that are most dependent on fuel and most significantly affected by the situation of overcapacity.

This infonote will serve as a basis for discussions in the Agriculture and Fisheries Council of 24 June. The College would then present proposals in the first half of July.

2. The fuel crisis

The international Brent oil price has more than quintupled from \$20 per barrel in 2002 to over \$130 per barrel by mid-May 2008 and shows no signs of stopping. Since January 2008, crude oil has risen by 35% (in \$) and by 22% (in €). Marine fuel prices in the EU since 2002 have actually increased by some 240% (increase partly cushioned by the Euro strength vis-à-vis the US Dollar) and are now in many cases even above 0.7€/l.

It is not likely that fuel prices will go down significantly, and on a lasting basis, in the future.

At current price levels, fuel costs of the EU fleet are around €2 billion/year, or about 30% of the value of EU landings. A further 1% increase in fuel prices from the current level could cost the industry up to €20 million. The segments most affected are the towed gears (e.g. trawlers) which tend to have engines with large engine power; fuel costs in some cases (e.g. UK and Dutch beam trawlers) represent up to 60% of the landing value. The impact on vessels using passive gears (e.g. traps, gillnets, long-lines) is significantly less given the nature of their fishing operations, but can still account for between 5-20%. Many artisanal fleets will be in this category, where especially their closer proximity to shore will reduce their needs to steam to fishing grounds and consume additional fuel.

3. The sector's structural situation

Over the past few years the economic situation of many fishing industries has deteriorated primarily because of decreasing income. Some fisheries have managed better than others, but the overall picture shows falling revenues and low margins. Some improvements in profitability were recorded in 2005-2006 but these have been quickly offset by the recent increase in fuel prices.

The main challenge for the EU fishing industries has been and still is the structural imbalance between fleet capacity and resources in many fisheries. Decades of overfishing have eroded the resource base and increased in many fleets the overcapacity situation. EU catches have steadily declined since 1993, at an average of 2% per year. Almost all demersal stocks have declined in recent years and are currently not sustainable. Pelagic stocks, which have more pronounced cyclical developments, are in general in a healthier condition.

Low catch opportunities means that the sector operates at low productivity rates. Consequently, unit costs increase and margins are depressed.

The industry has been under further pressure on the market side, as fish prices have mostly stagnated in recent years, in spite of declining landing volumes for most stocks. This means that the harvest sector has not been able to benefit economically from the steady growth of fish demand in the EU (+1% per year) over the past decade. This is due in part to constraints by the strong buying power of processors and marketing chains which have access to fish products at low import prices from the global market, including large volumes of IUU fish. Currently, imports account for 65% of EU consumption of fishery products. It is also due to competition from certain aquaculture products that are less sensitive to fuel prices.

The structural difficulties imply that the industry has low resilience to external economic pressures, such as those arising from the increasing fuel prices. Today's situation in view of the recent sharp increase in fuel cost is one where basically all fuel intensive fleet segments are loss-making or only marginally profitable. Passive gears and artisanal fleets in general are less affected, yet their viability in the long term might also be in question if the current situation persists.

Structural interventions are therefore essential in relation to addressing the overcapacity issue thus helping improvements in the resource base, reducing the dependency on fuel and increasing the value of fish on the market. Economic analysis shows that even for some heavily fuel dependent fleets (e.g. demersal and pelagic trawlers), a combination of lower capacity, recovered fish stocks and higher fish prices could return profitability even at current fuel prices.

4. Principles underlying the package

Providing immediate support to the sector to alleviate social and economic hardship

The current situation is not sustainable for large parts of the sector. An increasing number of fishing vessels are tied up at port since it is simply uneconomical for them in the present circumstances to go to sea. Support is needed primarily for crew members who have seen their income curtailed in the recent months. Support is also needed for vessel owners who need to be given some breathing space while long term remedies can be elaborated. The package thus provides for some urgent measures of limited duration, mainly of social nature, to be available horizontally to the whole sector while the necessary restructuring actions are identified and implemented.

Ensuring an in-depth adaptation of the EC fleet towards economic and environmental sustainability.

The deep crisis triggered by high fuel prices makes it imperative, more than ever, to attack the root of the structural problems of the sector. The package will therefore focus primarily on reducing overcapacity and ensure that vessels can operate more efficiently and at higher productivity; no measures will be allowed that would increase fleet capacity or fishing effort. It will also address the problem of the high dependence on fuel, which should be reduced through modernisation and reconversion towards fuel efficient fishing techniques and equipment. This will promote energy efficiency, reduced emissions as well the moving away from fishing techniques which are also particularly damaging for the environment (e.g. bottom trawlers). Finally, it will focus on increasing the first sale value of fish.

Focusing the bulk of the effort on the worst-hit segments of the fleet through Fleet Adaptation Schemes (FASs)

It is essential that the EU and Member States focus their efforts and resources where they are mostly needed. While the problem of high fuel prices affects the whole fishing industry, it is those sectors that are worst-hit that need to be targeted for assistance. The package is therefore primarily addressed to fleet segments which have a high level of incidence of fuel costs (min. 30% of total production costs). Support will be granted to these fleet segments in various forms, provided they define a comprehensive Fleet Adaptation Scheme which shall include, among other, a substantial permanent reduction (min. -30%) of the fleet capacity.

Ensuring a level-playing field among Member State fleets by avoiding a multiplication of unrelated national support schemes as well as conformity with WTO rules

This is an EU emergency which requires that solutions are coordinated at EU level. Given the EU common fish resources and common fish market, we should avoid uncoordinated national initiatives which could end up displacing the problems elsewhere. For this reason, the package relies basically on an enhanced use of the EFF, which is "the" CFP instrument designed to assist the sector. The package will provide for the adjustment of existing EFF rules and procedures on an exceptional and temporary basis to make them better fit the current situation. Funds will thereby be unlocked for an immediate use in structural interventions and transitional accompanying measures as required by the current economic crisis.

State aid to accompany the process should also be facilitated, which will require some adaptation to existing rules, without however jeopardizing basic legal principles in this area.

The package will be carefully designed to ensure compliance with WTO rules and coherence with the ongoing negotiations on fisheries subsidies.

5. Package of measures

The proposed package of measures is outlined below. It will take primarily the form of a proposal for a Council regulation instituting an *ad hoc* special, temporary regime which will derogate from some provisions of the EFF regulation for a period of two years.

Four types of measures are envisaged:

- emergency measures
- measures for the benefit of those fleets which will engage into a major restructuring effort.
- market measures to increase the value of fish
- measures facilitating the use the EFF,

5.1 Emergency measures

Exceptional emergency aid for temporary cessation of fishing activities

In order to allow Member States and fishing enterprises to elaborate the necessary restructuring and adaptation initiatives, it is proposed to allow Member States to grant emergency aid under the form of financing the temporary cessation of fishing vessels for max. 3 months (to be started before 31.12.2008). Such a measure may finance crew costs and fixed costs of vessels. This measure will only apply in cases where there is an explicit commitment that the enterprises benefitting from it will be included in a restructuring plan within 6 months (failing which the aid must be repaid).

The total public financial contribution to this measure shall be capped, and will be shared between Member States in accordance with EFF national financial allocations. However, the Commission is ready to examine mechanisms to increase the amount (through national funds) for those individual Member States where the amount appears to be disproportionately low in relation to aid needed. This temporary cessation shall not be taken into consideration against the limits (duration and budget) set by the EFF Regulation.

This temporary cessation should be tailored with a view to enhancing economic benefits by supporting stock recovery and/or by promoting more favourable marketing conditions. To that effect, MS are encouraged to link the period of temporary cessation with considerations of biological dynamics, seasonality and market dynamics.

Increase the EFF aid intensity for fuel-saving equipment

It is proposed to apply a lower rate for mandatory private financial participation (40%) for investment on board concerning equipment which helps to significantly reduce fuel consumption.

Expertise in relation to energy audits and the development of restructuring plans

It is proposed to adjust EFF rules on collective actions to make sure MS can provide financial assistance to vessel owners for seeking expertise in relation to energy audits and expert advice on the development of restructuring/modernisation plans.

Expand the rank of eligible beneficiaries of EFF Socio-economic measures

Currently EFF early retirement aid is granted only to fishermen. It is proposed to allow such aid also for workers in fisheries-related activities (auction halls, port services etc.), in order to tackle the difficulties arising from situations where ports are scattered along the coasts and closures and consolidations are expected as a consequence of reduced fishing activities.

Promote research on technical improvements for vessels/engines/equipment/gear to reduce fuel consumption and extend the eligibility of pilot projects

Research activities concerning energy efficiency in fishing remain vital in the longer term. More funds should be made available for technical developments for fuel savings. It is proposed to amend EFF eligibility rules to enable MS to promote pilot projects concerning technical improvements aiming at reducing fuel consumption.

De minimis aid

Currently de minimis rules limit of 30,000 € are applicable on a company basis, which creates large disparities in relation to the benefit fishermen can obtain from Member States regimes financed under the de minimis threshold. Based on further economic analysis, it could be considered to modify the *de minimis* regime for the fisheries sector by allowing the concession of the €30,000 *de minimis* aid per vessel instead of per firm, but with an overall cap of 100,000 € per enterprise.

5.2 New options accessible only to fleets involved in restructuring (Fleet Adaptation Schemes, FAS)¹

Facilitate access to EFF premiums for permanent cessation of fleets in restructuring

It is proposed to derogate EFF rules in order to lift any limitation to the access of permanent cessation premiums for the fleets involved in the Fleet Adaptation Schemes.

Additional aid for temporary cessation

It is proposed to allow vessels involved in Fleet Adaptation Schemes to receive aid for additional months of temporary cessation to be carried out before 31.12.2009. This temporary cessation shall not be taken into consideration against the limits (duration and budget) set by EFF Regulation. It will be consented within the following thresholds:

- 3 months to vessels which are going to be scrapped or to change engine; a maximum of 3 additional months may be allocated after 1.1.2010 in case restructuring is still ongoing
- 1.5 months to any other vessel involved in the FAS.

Such measure will finance crew costs and vessel fixed costs.

Increase the aid intensity for modernisation schemes

Currently the mandatory private financial participation in relation to financing investments on board is 60% and 80% for gear and engine replacement, respectively. In order to provide a substantial additional incentive for fishing companies to use more efficient vessels and gears, it is proposed to reduce the mandatory private financial participation. The actual percentage will be defined by Member States on the basis of objective criteria such as the age of the vessel and the degree of capacity reduction included in the restructuring plan. The minimum mandatory private financial participation should not be less than 40% of the costs.

Allow the granting of partial decommissioning aid in case of replacement of an old vessel with a new smaller and more energy efficient vessel

It is proposed that a vessel owner scrapping one or more vessels and replacing it by a new one, which is smaller and less fuel consuming, may be allowed to receive the scrapping premium (i.e. "partial decommissioning") in relation to the capacity withdrawn. Member States shall be allowed to finance partial decommissioning only within the limit of the GT re-allocation possibilities as defined in Article 11(6) of Regulation 2371/02. It is proposed that this limit, which is currently fixed at 4% of the total capacity per Member State withdrawn with public aid, is increased to 16%.

¹ Fleets willing to benefit from these measures must develop a Fleet Adaptation Scheme (FAS) to be adopted by the Member State's administration. Mandatory requirements for the Fleet Adaptation Schemes will be

- fuel represents in average at least 30% of the production costs of the fleet involved in the FAS
- the FAS must foresee a permanent reduction of at least 30% of the capacity of the concerned fleet.

This proposal introduces more flexibility into scrapping policies. It must however be carefully designed to support fleet restructuring but also the overarching policy objectives of conservation. The capacity of the new vessel shall be smaller than the withdrawn capacity; the maximum replacement ratio allowed per vessel should not be higher than 1:2. The rate could be raised to 66 % for vessels < 8 years old and for which fuel represents on average at least 50% of the production cost.

Where a partial decommissioning involves a reduction of GT capacity of at least 66% of the original GT capacity the purchase of the new engine on board a new vessel using the remaining GT capacity of 34% can be financed with a minimum mandatory private financial participation of not less than 40% of the costs.

Social aid in the form of decreased social security contributions

Currently the Community guidelines on state aid to maritime transport allow the possibility for Member States to reduce the rates for social security contributions for seafarers employed on board ships registered in a Member State. A number of Member States make use of this possibility for the maritime transport sector.

In view of the importance of safeguarding high quality employment it is proposed to mirror this possibility in the guidelines for the examination of state aid to fisheries and aquaculture while limiting it only to the contributions payable by fishermen (and not the contribution payable by the enterprises employing them), and provided that there is no associated reduction in the habitual remuneration of the employees in question by the employer. This will bring about a direct benefit to employed fishermen, as these are able to continue receiving the benefits of social security while they may be allowed to pay a decreased social security contribution. The measure would be possible for a maximum period of two years.

5.3 Market measures to increase the value of fish

Enhance EFF use in the area

Member States should be encouraged to promote actions aiming at improving the value of fish by using the largely unexploited possibilities offered by the EFF. It is proposed that the Commission engages actively in promoting initiatives on:

- increasing fishermen's bargaining position vis-à-vis the processing industry and distributors, by joining forces within larger POs or local marketing associations
- a price monitoring system will be established to better understand the factors determining market prices
- improving predictability of sourcing for EU origin products for the industry
- promoting quality initiatives e.g. labelling and better handling and processing

- promoting information to consumers (health, nutrition, responsible fishing, etc.)
- market audit/assessment, developing tools to analyse value chain and prices
- verify the correct implementation of monitoring/labelling measures and fighting against IUU

New projects to be coordinated and financed by the Commission

In addition, it is proposed that the Commission launches ad hoc projects in cooperation with the sector in the area of market monitoring, labelling etc. These projects will be financed by €20-25 million redirected from the CFP (2nd instrument) budget.

5.4. Measures facilitating the use of the EFF instrument

Reprogramming

Member States are strongly encouraged to use the EFF to the greatest extent possible, where necessary by adjusting operational programmes, with a view to maximising the financial support to initiatives aiming at tackling the fuel crisis.

Strengthening EFF support to these initiatives may in some cases only require a re-distribution of funds between measures within Axis 1 (adjustment of the Community fishing fleet), which can be decided autonomously by the Member States. In other cases, it will require a programme modification. The Commission will commit to examine and approve all such modifications in the shortest timeframe possible to allow for their rapid implementation.

Easing the use of EFF funds

In order to make it easier for those Member States that may have difficulties in quickly making available the national financial counterpart to co-finance Axis 1 measures, it is proposed to increase the permitted EFF co-financing rates for actions taken in the context of the proposed *ad hoc* measure to up to 95% of the total public expenditure.

In addition, it is proposed to double the EFF pre-financing amount paid by the Commission after the adoption of the operational programmes, from the current 7 % to 14% of the total EFF contribution to the operational programme, i.e. a total amount of 600 million €. This will considerably increase the funds immediately available for Member States to quickly pay for emergency measures.

6. Timing and review

This infonote will serve as a basis for discussions in the Agriculture and Fisheries Council of 24 June. The College would then present proposals in the first half of July.

The implementation of the package will be reviewed regularly with Member States and the sector. If necessary, it will be proposed to consider options to increase the EFF appropriations in the incoming years, for example by using unutilised funds from the Second Fisheries Instrument.

Efforts will be made to ensure compliance with WTO rules and to address possible areas of concern in relation to ongoing negotiations which could arise during the implementation phase of the package.
