

# Putting an end to environmentally harmful and capacity enhancing subsidies



## Opportunities for the European Maritime and Fisheries Fund

### **Executive Summary**

European marine ecosystems and fish stocks are currently in an alarming state, and as a consequence, fisheries in many European countries are unprofitable. The EU fishing industry is addicted to European taxpayer-funded subsidies, which has led to overfishing, fleet overcapitalization, reduced economic efficiency in the sector and failure to obtain the potential economic benefits from the resources. Until now, lack of political will, ambiguous legislative texts and incorrect implementation of subsidies policies have only worsened the European fleet's economic and social situation, as well as the state of the marine environment. The reform of the Common Fisheries Policy (CFP) and of the accompanying European and Maritime Fisheries Fund (EMFF) offers the Member States a once-in-a-decade opportunity to address the crisis of the European fisheries sector. Continuing with the untargeted, ineffective and wasteful spending of public funds is not an option. In this report, Oceana analyses the lack of efficiency and added value of the measures currently available under the European Fisheries Fund (EFF) and other financial mechanisms that will be included in the EMFF, and proposes a number of recommendations to ensure that the EMFF will have positive effects on Europe's seas and the fishermen whose livelihood depends on them.

To secure a long-term, economically viable fishing industry, priority should be given to ensuring stable, productive and healthy marine resources, by investing in public services and ecosystem restoration. Sustainable fishing can only be achieved by complying with effective fisheries management programs, preventing and stopping illegal fishing and eliminating subsidies that harm the environment, distort trade or undermine management efforts. The reforms of the CFP and the EMFF should eliminate the subsidies which contribute to overfishing and, instead, direct funding towards supporting a transition to truly sustainable fisheries and healthy marine ecosystems. Implementing fisheries management measures and control and enforcement systems is absolutely vital for the sustainable future of fish stocks. Subsidies should be allocated to the creation of more marine protected areas, to the proper enforcement of fisheries management, and to guaranteeing proper data collection and increasing the coverage of scientific assessments to include all commercially exploited species

**To ensure a future for our fishing sector, Oceana urges policy makers to stop feeding the vicious circle of overcapacity of the European Union fleet, by excluding environmentally harmful and capacity-enhancing measures from the EMFF.**

**Box 1: Oceana's recommendations for the EMFF**

- Make any financial aid conditional upon providing an annual assessment of the balance between fleet capacity and fishing opportunities. The EMFF must not contribute to overfishing or increase the capacity of the fleet. Any grant must be based on rigorous criteria to ensure overall positive impacts for ecological sustainability.
- Close the loopholes that exist under the EFF. Liberal interpretations of regulations that undermine the objectives of the CFP, control or IUU regulations should not be permitted.
- Direct sufficient funding towards scientific bodies for data collection and stock assessment, in order to set appropriate TACs and management measures.
- Ensure that the reintroduction of vessel decommissioning schemes or temporary cessation is only done with clear safeguards, long-term perspectives and a specific aim. To truly tackle overcapacity, the number of vessels needs to be effectively reduced. This should be done within the framework of a multi-annual plan, and the associated fishing licenses or quotas should be permanently eliminated and not reallocated. Moreover, decommissioning should only be funded when it is part of a capacity-reducing plan that has been scientifically assessed and approved by the European Commission, applies OECD guidelines, and is targeted at a particular fishery and avoids arbitrary allocation.
- Eliminate modernization aid that is not related to health and safety measures or selective gear.
- Exclude operators who are involved in IUU-fishing or have committed infringements under the CFP from funding. Moreover, any public funding allocated to operators sentenced for IUU activities should be paid back retroactively.
- Ensure that potentially harmful subsidies (e.g., marketing measures and port investments) do not negatively affect the state of the marine environment or encourage overfishing.
- Balance fishing possibilities with the fishing fleet by restricting access, fishery by fishery, on the basis of scientifically-assessed capacity ceilings. To this aim, additional support should be given to the International Council for the Exploration of the Sea (ICES) to incorporate this perspective in the stock assessments provided.
- Make financial aid for aquaculture investments conditional on respecting European rules on organic aquaculture<sup>1</sup>, in order to boost its implementation and ensure consistency with the Water<sup>2</sup> and Marine Strategy Framework Directives.<sup>3</sup>

## Background

In recent decades, direct subsidies such as aid for modernization, scrapping, or temporary cessation have failed to address the overcapacity problem of the European fleet or to turn the tide for European fish stocks. In fact, historically, subsidies have contributed to boosting the EU's fleet capacity, by massively funding the construction of new vessels.<sup>4</sup> As a consequence, the EU's fishing fleet is estimated to be two to three times larger than sustainable fisheries would allow, while 47% of the assessed fish stocks in the North East Atlantic and 80% in the Mediterranean remain overfished.<sup>5</sup> Since 1994, the EU has spent 1.7 billion EUR on trying to reduce the fleet capacity, but technological progress has offset any reduction, through a substantial increase in fishing efficiency.<sup>6</sup>

EU funding has not been spent effectively: scrapping subsidies were often awarded to fleets that were not targeting overfished stocks, and were instead used to replace boats or help fishermen in financial need.<sup>7</sup> These environmentally harmful subsidies have artificially maintained the overcapacity of the European fishing fleet.<sup>8</sup>

### ***Box 2: Economic analysis of the EU fleets***

The reforms of the CFP and the EMFF offer a critical opportunity to eliminate subsidies that contribute to overfishing and instead, to direct funding towards supporting the transition to truly sustainable fisheries and healthy marine ecosystems. The EMFF must have safeguards to prevent the funding from contributing to increasing or maintaining overcapacity or overfishing. Any investment in the fleet should be made conditional upon an assessment of the balance between fleet capacity and fishing opportunities. In order to ensure this, any grant must be based on rigorous criteria to ensure overall positive impacts on ecological sustainability, not only at the level of individual operators, but within fisheries as a whole, and along supply chains.

A recent economic analysis by the European Commission revealed that, despite subsidies, 30 to 40 % of the fishing segment it assessed suffered losses each year from 2002 to 2008.<sup>9</sup> Only a handful of EU fleets are profitable without public support, and most are either running losses or returning low profits. The fisheries sector is not living up to its economic potential, in part because governments focus on keeping unprofitable large-scale fishing fleets afloat with taxpayer money.

- The influence of direct subsidies on the economic performance of EU fishing fleets is such that in 2009, for countries such as Ireland, Spain and Belgium, these funds reduced the size of losses (by 135%, 25% and 11%, respectively), improving overall profitability and maintaining a positive cash flow.<sup>10</sup>
- Direct subsidies paid by the Polish government accounted for 38% of the total income of the Polish fleet in 2009.<sup>11</sup>

Similarly, investments that could have a negative effect on the marine environment, such as marketing measures, port improvements and modernization, should be subject to safeguard measures to avoid any unintended consequences that promote overfishing or enhance the fishing capacity. These subsidies have the potential to reduce the costs of fishing operations by artificially increasing profits, allowing

them to fish further away and for longer periods of time, thereby placing an added strain on already overfished stocks.

Some measures under market intervention schemes, like storage aid for fisheries products, have been found to perform poorly, because they tackle symptoms rather than the real problem. These investments in storage infrastructure allow fishers to store their products when prices are low, because of imports from third countries, until prices increase. Alternative strategies may be more appropriate for supporting the fishing sector, such as focusing on equality in trade and in production and marketing conditions.

## **Fisheries subsidies in the European Union**

Fishing subsidies are defined as direct or indirect fund transfers from public entities that help make the fishing sector more profitable than it would be otherwise. In Europe, subsidies are used to maintain fish market prices at artificially low levels, thus influencing European food security. Access to fish protein is granted to an increasing number of consumers, which puts unsustainable pressure on the resources. Fishing subsidies therefore create incentives to fish more, even when catches are declining. The results are overfishing, fleet overcapitalization, reduced economic efficiency and the failure to realize the potential economic benefits from resources.<sup>12</sup>

A World Bank report concluded that subsidies create enormous economic losses and have huge impacts on the global fishing industry; input subsidies tend to reinforce the sector's "poverty trap" by creating incentives for greater investment and fishing effort in overstressed fisheries.<sup>13</sup> The same report stressed that the economic losses in global fisheries resulting from inefficiencies (including subsidies) and overfishing amount to up to 50 billion USD per year (34.2 billion EUR<sup>14</sup>).

### ***Box 3: Beneficial, Capacity-Enhancing and Ambiguous Fishing Subsidies<sup>15</sup>***

Fishing subsidies can generally be divided into three categories: beneficial, capacity-enhancing and ambiguous.

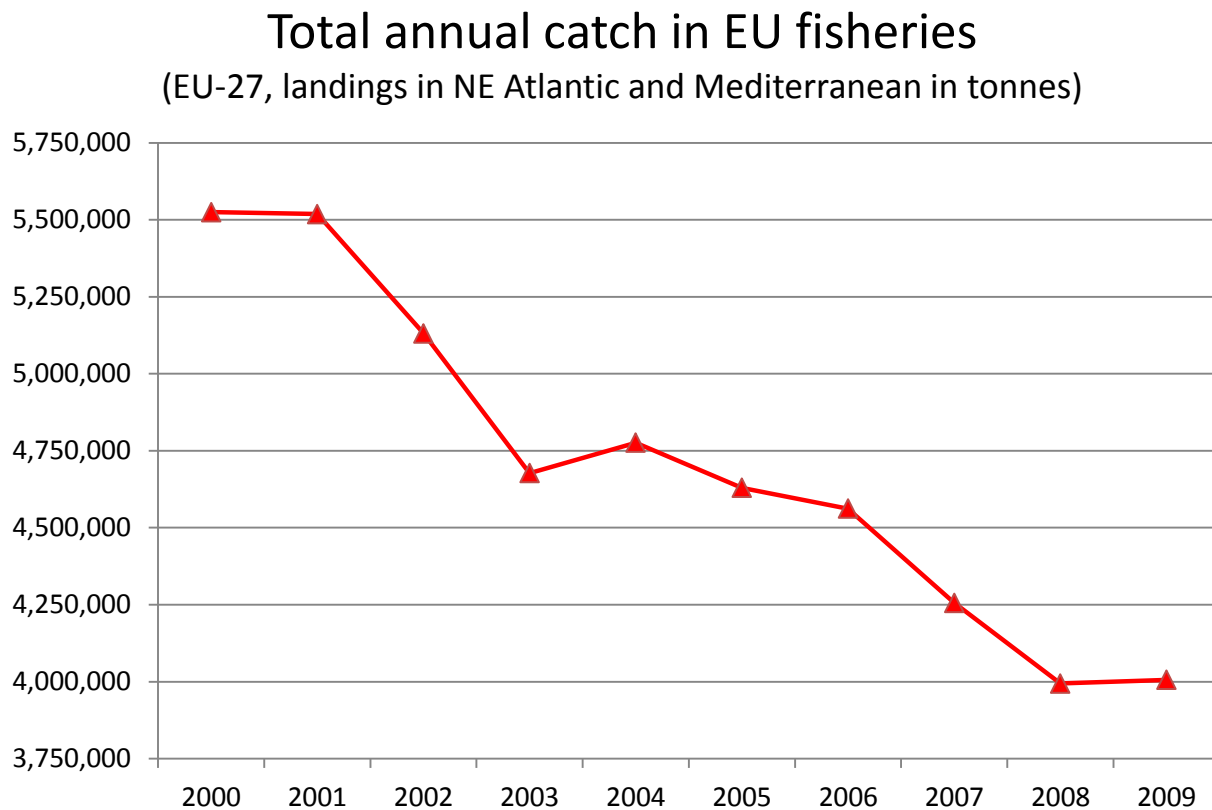
***Beneficial subsidies*** enhance the growth of fish stocks by supporting sustainable fisheries management, monitoring and control or data collection. Beneficial subsidies include programs such as gear selectivity improvements, research, and marine protected areas.

***Capacity-enhancing subsidies*** stimulate overcapacity and overfishing through artificially increased profits that further stimulate efforts and compound resource overexploitation problems. These include programs such as fuel subsidies, boat construction and modernization, fishing port construction and renovation, price and marketing support, processing and storage infrastructure, fishery development projects, tax exemptions, and foreign access agreements.

***Ambiguous subsidies*** can lead to positive or negative impacts on the fishery resource, depending on the design of the program. Some examples include fisher assistance programs, support of aquaculture development, decommissioning and buyback programs, and community development programs.

Capacity-enhancing subsidies not only increase overcapacity and the overexploitation of fish stocks, resulting in potential revenue loss and the poor state of fisheries sector, but they are essentially a waste of taxpayers' money. Recent studies suggest that eliminating harmful government subsidies and putting in place effective management systems would mean that in just 12 years, the returns of the fisheries sector would begin to outweigh the costs, and the total gains over 50 years would return the investment three- to seven-fold.<sup>16</sup> The existence of subsidies at EU and Member States levels has fueled excessive fishing efforts and extremely high exploitation rates, resulting in low stock sizes, low catches and severely disturbed ecosystems.<sup>17</sup> Catches have been declining since the early 1990s, at an average of 2% per year.<sup>18</sup> The decline of EU catches in the North East Atlantic and Mediterranean is shown below (Figure 1).

**Figure 1: Declining Trend in Catches in the North-East Atlantic and Mediterranean (Data: Eurostat online<sup>19</sup>).**



## European Fisheries Fund (EFF)

The main financial instrument for subsidizing fisheries in the EU is the European Fisheries Fund (EFF). It was established for the period 2007-2013, and its aim was to contribute to achieving the goals of the CFP, *inter alia* ensuring the conservation and sustainable use of marine resources, social, economic and environmental sustainability, and reaching and maintaining balance between stocks and fleet capacity.<sup>20</sup>

Following the last reform of the CFP in 2002, the EFF no longer allows subsidies that directly incentivize the expansion of the fishing fleet, such as funding for vessel construction, modernization, or the export of fishing vessels. However, there are a number of loopholes and exceptions under the EFF; capacity-enhancing subsidies that are permitted include funding for constructing fishing vessels in the outermost regions, replacing engines or modernizing boats, importing newly built fishing vessels, decommissioning vessels without eliminating associated fishing licences, and building fishing ports.<sup>21</sup>

There are five Axes under the EFF, with different types of measures financed under each Axis. Most of the measures discussed below concern direct investments in the fleet: measures such as engine renewal, modernization, scrapping and temporary cessation, that fall under Axis 1 (shown below). Axis 1 had an allocation of around 1.2 billion euro for the entire EFF period. It is important to note the difference between funds that have been committed by Member States (allocated to certain measures in the operational program that covers the six-year funding period) and actual payments made to beneficiaries under the EFF. Oceana is interested in the funding priorities of European Member States, and therefore focuses on committed funding rather than on the actual payment made to the beneficiaries.

To date, two interim evaluations have been released on the EFF: one general interim evaluation in February 2011<sup>22</sup> and an interim evaluation with the synthesis of the 26 national evaluation reports in December 2011.<sup>23</sup>

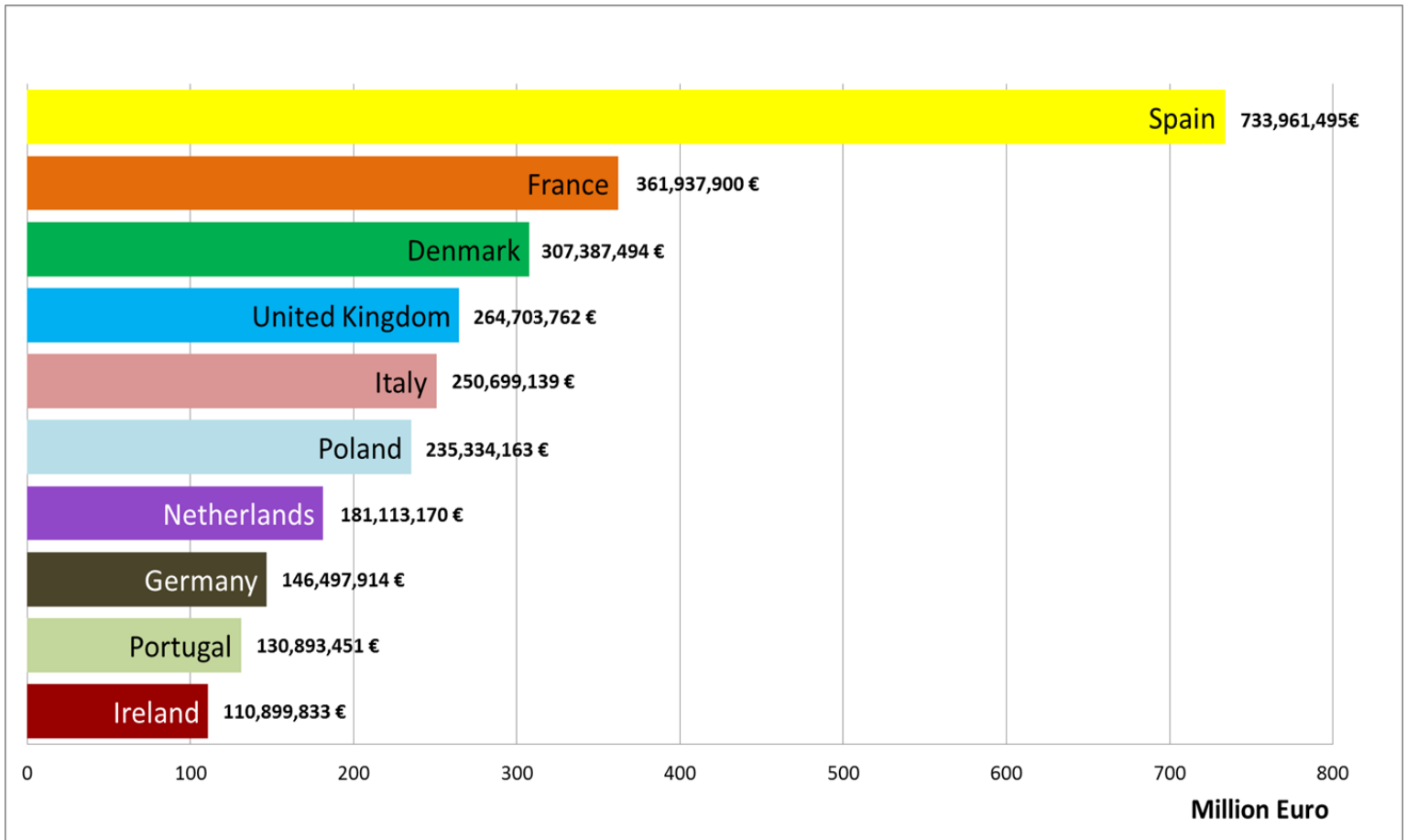
### **Box 4: Measures available under Axis 1 of the EFF<sup>24</sup>**

#### **Axis 1. Adjustment of Community fishing fleet**

- 1.1 Decommissioning of fishing vessels
- 1.2 Temporary cessation of vessel activity
- 1.3 Upgrades for safety, working conditions, hygiene, energy efficiency and/or gear selectivity
- 1.4 Small-scale coastal fishing
- 1.5 Early retirement and retraining
- 1.6 Replacement of engines

Seventy-five percent of the total committed funding directed to measures that target the fleet (Axis 1) is spent in France, Italy, Poland, Portugal and Spain.<sup>25</sup> These countries are also represented in the top ten biggest recipients of subsidies in the EU, as recently identified by Oceana, meaning that their fisheries sectors have the largest allocation of subsidies at their disposal (not actual payments).<sup>26</sup>

**Figure 2: Top ten recipients of EU fishing subsidies (2009)<sup>27</sup>**



## 1. Modernization and engine replacement

### Modernization aid:

Throughout the entire European Union, modernization funding under previous mechanisms – such as the Financial Instrument for Fisheries Guidance (FIFG) and the EFF – has not only substantially increased the efficiency of fishing activities, but has also been used to increase fishing capacity, through liberal interpretations of the law. The report by the European Court of Auditors (ECA) concluded that investments on board fishing vessels funded by the EFF (under Measure 1.3) could increase individual vessels' ability to catch fish.<sup>28</sup> Moreover, the ECA report found that some Member States failed to adequately check whether or not certain investments increased fishing capacity.<sup>29</sup>

The European Commission acknowledges that the data on nominal fleet reduction tells us very little about the real issue of overcapacity: “the inability of fixed parameters (such as gross tonnage and engine power) to capture technical progress, together with the difficulties related to the measurement of engine power in practice, makes the formal compliance with capacity limits almost meaningless”.<sup>30</sup>

The definition of fishing capacity, currently assessed in gross tonnage (GT) and engine power (kW), is unclear and ineffective in measuring vessels' potential for catching fish. Also, Member States use two different measurements of capacity, namely gross tonnage (GT) and gross registered tonnage (GRT), which are calculated using completely different formulas. The historical transition from measuring tonnage in GRT to GT took place at different speeds within MS, creating the situation of non-comparability of data over time and among countries.<sup>31, 32</sup> This discrepancy implies that, for example, a vessel with similar power could be registered in Spain as having a tonnage of 4 GT, whereas in Italy this vessel could be registered as having a tonnage of 8 GRT. These inaccuracies also hamper effective spending of EU funding, as decommissioning funding amounts have often been allocated proportionally to registered GT.

Over the years, improvements in fishing technology have increased the fleets' ability to catch fish, even if other aspects of capacity (i.e. GT, engine power) were decreasing. The ECA report indicates that while fleet capacity was reduced by 29% in terms of GT and kW between 1992 and 2008, technological improvements are estimated to have increased capacity by 14% during the same period.<sup>33</sup>

### Aid for engine replacement:

While engine renewal is currently allowed under the EFF, the Commission's proposal for the new European Maritime and Fisheries Fund, released in December 2011, places it under ineligible operations. However, the European Parliament and the European Council of Ministers have asked for a reintroduction of engine renewal, for environmental reasons.



The argument that replacing engines with more fuel-efficient or less powerful engines will reduce the environmental impacts is faulty. Even if, legally, engine replacements should not increase a fishing vessel's capacity, they actually increase fishing efficiency, through technological improvement. Vessels equipped with engines that consume less fuel and reduce operating costs will be able to spend more hours at sea for the same operating cost, and catch more fish.<sup>34</sup> There are no safeguards with enough legal weight behind them to ensure that these investments in engines will not increase a vessel's ability to catch fish. Moreover, experience shows that engine power has been extremely difficult to control in practice, given its rampant under-declaration in the EU.<sup>35</sup> Denmark flagged the same problem in its report on balancing the fishing fleet with available resources in 2009 and stated that "the difficulty of verifying whether engine power is stated correctly represents a clear weakness in the management system".<sup>36</sup>

Even though Measure 1.3 (Upgrades for safety, working conditions, hygiene, energy efficiency and/or gear selectivity) allows investments in more selective gears, most countries have chosen to spend EFF funding on improving on-board safety (Denmark and Spain), engine replacement (Portugal), or both (France). Under the EFF regulation, Member States are required to report on the following indicators for engine and gear replacement: power of engine after modernization (kW), reduction of capacity as a result of engine replacement (kW) and number of fishing gears replaced. However, recent EFF impact assessments concluded that these indicators only provide limited information, and that not all Member States provide data for them.<sup>37</sup> The synthesis of the National Evaluation Reports of the EFF provided by Member States concluded that, "regarding the power of engine after modernization, it is not clear whether the indicator is for all the vessels modernized or only for vessels where the engine has been replaced, and the figures provided are not consistent. Furthermore, the indicator does not really provide information on the impact of the measure".<sup>38</sup>

**Introducing engine renewal and modernization for any measure other than health, safety and selective gear in the EMFF will unequivocally increase fishing capacity, which will undermine management plans and be detrimental to the stocks' ability to recover.**

## 2. Fleet-adjustment subsidies

The permanent and temporary cessation of fishing activities is the measure most heavily used by Member States under the EFF. These measures are said to have achieved a higher level of implementation than other measures, due to their simple implementation procedures, the short-term nature of projects, and their similarity to measures under the FIG. <sup>39</sup>

### Fishing Effort Adjustment Plans (FEAP):

According to the EFF regulation<sup>40</sup>, Fishing Effort Adjustment Plans (FEAP) are aimed at adjusting the Community's fishing fleet to the adoption of multi-annual recovery plans and management plans for fish stocks. The EFF regulation stipulates that each Member State shall create a FEAP that can cover all of the measures under Axis 1. However, based on the national evaluation reports submitted for the interim evaluation of the EFF, it was concluded that "it was difficult to judge"<sup>41</sup> whether the obligation for Member States to create a FEAP before using decommissioning (Measure 1.1) and temporary cessation (Measure 1.2) actually allowed for practical and implementable strategies that are in line with the environmental objectives of the CFP and that aim to adjust the fishing effort. The European Court of Auditor's (ECA) analysis of the effectiveness of EU fleet management confirmed the systematic failure of fleet capacity reduction policies.<sup>42</sup> The ECA report commented that the implementation of FEAPs was insufficient and flawed in a number of Member States.<sup>43</sup>

### Fuel package:

When fuel prices increased significantly in 2007, the European fisheries sector called for financial aid to deal with the problem. In response to this request, a legislation was drawn up which relaxed the obligations under Axis 1 for decommissioning, temporary cessation or engine replacement.<sup>44</sup>

In other words, this measure allowed for EFF funds to be used to facilitate economic restructuring, whereas the EFF regulation originally intended to focus on consistency with conservation measures.<sup>45</sup> This "Fuel Package" thus reintroduced the possibility of receiving financial aid for strictly economic restructuring, whereas the original intention of the EFF was to tighten the link between decommissioning schemes and conservation measures.<sup>46</sup> Feedback from Member States on this measure revealed that some Member States even claimed that the regulation was mainly used to circumvent the original EFF regulation.<sup>47</sup>

## Decommissioning

Notwithstanding almost 30 years of EU financial support for scrapping vessels, overcapacity remains significant in many fleet segments. Over time, funding for scrapping has actually increased: 374 million EUR for the period 1994-1999, 559 million EUR for 2000-2006, and 720 million EUR forecasted for the current programming period, 2007-2013.<sup>48</sup> Yet, nominal fishing capacity is being removed at the constant rate of about 2% per year (1.8% for 2007-2013), which barely corresponds to the increase in actual fishing capacity from technological progress (2-3%).<sup>49</sup>

Fisheries economists at the University of British Columbia classify decommissioning schemes as ambiguous subsidies, because their effect depends on the way they are implemented.<sup>50</sup> Too often, they are used to phase out or reassign old, unprofitable vessels for economic reasons, rather than to address the state of the fish stocks. The Member States' preference for such measures shows the lack of overarching environmental objectives and a focus on short-term economic solutions.<sup>51</sup> In addition, some Member States do not withdraw the fishing licenses or fishing authorizations when a vessel receives scrapping aid, even though by law, fishing licenses and authorizations should be withdrawn when public aid is granted for decommissioning.<sup>52</sup> Moreover, decisions under the EFF to remove a license or authority are the responsibility of Member States, and no common system exists that can be imposed at the EU level.<sup>53</sup>

According to data provided in the Interim evaluation of the EFF, the top three Member States in terms of commitment for decommissioning (Measure 1.1) are Spain, France and Ireland, which together represent 57% of the total commitments (money allocated by the Member States, not actual payments) under Axis 1. Together with Denmark and Poland, these countries represent 74% of the committed funding under Axis 1.<sup>54</sup> The Member States with the highest rates of Axis 1 commitments have generally focused on Measure 1.1: 100% in Ireland, 97% in the Netherlands, 79% in France, 78% in both Denmark and Belgium.<sup>55</sup>

### **Box 5: Decommissioning problems in the EU**

Poorly targeted decommissioning measures have failed to restore the fish stocks in European waters. Below are examples of ineffective spending from the Member States that allocated significant amounts to decommissioning:

In June, 2008, the French authorities accepted an application for public aid to decommission a fishing vessel whose navigation license expired in July, 2006. The vessel was inactive throughout 2007, because it would have required major refitting in order to be able to obtain the navigation license. Aid amounting to 1 284 534 EUR was paid, of which 513 813 EUR was funded by the EFF.<sup>56</sup>

In addition, owners of vessels representing 84% of the fishing capacity of the French metropolitan 2007 fishing fleet were eligible to apply for public aid for decommissioning. To be eligible for the decommissioning scheme, vessels were required to have a special fishing permit for the targeted fishery. However, no data on the amount of catches of the species targeted were required, meaning that fishing vessels that landed minimal amounts of the targeted species could therefore be decommissioned with public aid.<sup>57</sup>

In Spain, neither the Operational Program for the EFF nor the national decommissioning schemes (Spain did not formally publish a FEAP) succeeded in properly addressing and justifying fishing vessel decommissioning schemes. These national schemes failed to link the fishing capacities with the available fishing resources, or to identify the required levels of fishing effort, while the Operational Program did not allow an evaluation of whether decommissioning schemes contributed to reducing overcapacity.<sup>58</sup>

In one Spanish case in 2008, a fishing vessel was decommissioned although it had been destroyed in a fire in 2007. However, it did prove that it had fished for 120 days in the year before the application. The vessel was scrapped in Uruguay. Decommissioning aid in the amount of 1 611 641 EUR was paid, of which 983 101 EUR was funded by the EFF<sup>59</sup>. Similarly, in 2008, a fishing vessel was approved for decommissioning, even though it had been inactive since May 2007. Decommissioning aid in the amount of 780 794 EUR was paid, of which 468 477 EUR was funded by the EFF.<sup>60</sup>

### Temporary cessation

The European Commission has spoken out in favor of discontinuing the temporary cessation fund in the EMFF. In the impact assessment of the CFP reform, it presented the argument that “in particular temporary cessation of fishing activities could incentivize poor performing vessels to stay in business even if economically it would not make sense to do so”.<sup>61</sup>

Temporary cessation premiums can have the perverse effect of encouraging fishers to continue fishing, even though fishing cannot provide them with viable income.<sup>62</sup> Fisheries economists at the University of British Columbia consider ‘fisher assistance programs’ to be ambiguous subsidies that can lead to positive or negative impacts on the fishery resource, depending on the design of the program.<sup>63</sup>

Measure 1.2 “Temporary cessation of vessel activity” (see Box 4) of the EFF represented 11% of the committed amounts under the EFF until October, 2010.<sup>64</sup> In Poland, Measure 1.2 represents 60% of EFF commitments for Axis 1 until October, 2010. In other Member States, the percentage allocated to

Measure 1.2 ranges from 8% in Sweden to 39% in Spain.<sup>65</sup> In Italy, it represents 31-59 % of Axis 1 commitments, and 12-22% in Portugal and France.<sup>66</sup>

Based on national evaluation reports submitted for the interim evaluation of the EFF, it was concluded that on temporary cessation, “in terms of physical achievement, limited data is available. In most cases, only the number of boats concerned is provided... It is not possible to assess the impact in terms of reduction of the fishing capacity”.<sup>67</sup> The same report notes that some Member States deemed temporary cessation ineffective at reducing fishing capacity, due to its temporary nature. In Sweden, where it was implemented to a limited extent, it has now been removed because it is seen merely as a means of “artificial respiration” by administrators at the Swedish Board of Fisheries.<sup>68</sup>

### ***Box 6: Usage of Temporary cessation and Decommissioning in Poland***

Under the EFF, Poland had the second highest level of committed funding of the Member States for temporary cessation until 2010<sup>69</sup>. In its 2009 economic analysis of the EU fishing fleet, the Scientific, Technical, and Economic Committee for Fisheries (STECF) concluded that about 15% of the Polish fleet’s total income in 2008 constituted of direct subsidies (6.2 million EUR), mostly compensation paid for temporary cessation of fishing activity.<sup>70</sup> In the same analysis, the STECF identified 38% of the fleet’s total income as coming from direct subsidies paid by the Polish government.<sup>71</sup>

Until 2007, Poland had a serious problem with IUU-fishing of cod, when national and European controls were increased and fisheries rules became better enforced. Polish scientists estimated illegal catches to be more than 100% higher than the actual quota.<sup>72</sup> Between 2009 and 2011, new rules were introduced in Polish cod fisheries<sup>73</sup>. Poland’s national cod quota was reduced between 2008 and 2011 by the overfished quota.<sup>74</sup> Furthermore, in order to address the issues facing cod fisheries, Poland implemented a system commonly known as ‘Trójpólówka’ (fisheries/catch rotation system). The key objective of this scheme was a reduction in the number of special cod fishing permits. As a result, two-thirds of the fleet had to stop fishing cod in 2009. Only one-third went to sea to fish for cod, while the remainder of vessels stayed in port and received compensation, namely subsidies for the temporary cessation of fishing activities.

The Polish vessel decommissioning scheme aimed at the cod fishery was criticized by the ECA, because it was open to Baltic Sea fishing vessels that targeted any fish species, and not only cod<sup>75</sup>. There were no selection criteria in the FEAP to target specific segments of the fleet for decommissioning or temporary cessation. As a consequence, vessels targeting mainly cod (12-24 m length with fixed gears, and 12-24 meters or 24-40 m with bottom trawl) represented nearly 60% of vessels scrapped, but only 46% of the capacity withdrawn both in GT and kW. Meanwhile, pelagic trawlers of 24-40 m length, which mainly targeted herring and sprat, represented 26% of the vessels scrapped, and 53% in GT and 51% in kW of the capacity withdrawn.<sup>76</sup> The scrapping of pelagic vessels was not an objective of the FEAP, and was, according to the interim evaluation of the EFF, “purely related to economic difficulties as sprat quotas have been under-used over the past few years, for example, catches represented 55% of the quotas in 2010”.<sup>77</sup> The Polish government argued that the Polish fleet that targets cod is a multi-purpose one, which therefore catches several species and not only cod.<sup>78</sup>

### 3. Storage aid

Since 2000, around 14.9 million EUR have been spent annually on market intervention in the EU, from the European Agriculture Guarantee Fund (EAGF) (or European Agricultural Guidance and Guarantee Fund (EAGGF), as it was called between 2000 and 2006).<sup>79</sup> The intervention mechanisms are triggered when market prices for certain fisheries products fall below a given threshold, e.g. withdrawal price or selling price. These subsidies were created to serve as a market intervention tool to ensure price stability. For example, they were intended to ensure high enough prices for fishery products, in the event that prices fell enough that fishers would otherwise incur losses.<sup>80</sup> Fisheries economists at the University of British Columbia classify storage infrastructure programs as capacity enhancing, because they reduce the costs of the storage of fishery products.<sup>81</sup>

***Box 7: The market intervention scheme currently in place under the EAGF has four mechanisms:***

In the proposal made by the European Commission on 2 December 2011, market intervention mechanisms will be included in the EMFF. Following attempts to combine all of the funding mechanisms available to the fisheries sector, storage aid (carry-over aid) and private storage will be part of the overarching EMFF, instead of funded by the EAGF, with the aim to phase these subsidies out by 2019.

- Withdrawals: Products taken permanently off the market for human consumption, and instead destroyed or used for animal feed (e.g., fish meal), bait or charity;
- Carry-over: Storage and/or processing of products to be reintroduced into the market for human consumption at a later stage;
- Private storage: Storage of products frozen on board vessels intended for reintroduction into the market for human consumption;
- Compensatory allowance for tuna intended for processing: Compensation to tuna producers for the absence of tariff protection on imports for the tuna processing industry.

In the EMFF, 45 million EUR have been provisionally allocated to storage aid, which includes mechanisms similar to the carry-over mechanism and private storage. At the same time, withdrawal mechanisms (destruction of fish products) will be eliminated, because they cannot be “politically and economically justified in the context of scarcity and fragility of the EU resources and growing demand on the EU market”<sup>82</sup>. The tuna compensation mechanism has also been removed from the EMFF, due to the reduction of EU supplies to the processing industry, the relocation of EU tuna canneries to third countries, and the administrative complexity associated with it.<sup>83</sup>

The Impact Assessment of the Common Market Organization for fishery and aquaculture products stated that market intervention schemes have had limited impact and have performed poorly, tackling the symptoms rather than the underlying real problems.<sup>84</sup> For example, the effects of withdrawals and carry-over aid on the stability of the market are weak and limited to a few ports and fisheries of small pelagic species, in particular sardines in Portugal and France, herring in Denmark and Ireland, and mackerel in

Spain, France and Ireland.<sup>85</sup> On average, the quantities withdrawn accounted for less than 2% of the production of pelagic species and around 1% of the production of whitefish.<sup>86</sup> Private storage aid has only had a limited uptake.<sup>87</sup> For example, a 2008 study found that up until 2007, private storage aid was only used in Spain.<sup>88</sup>

Market interventions are unfit for the challenges of the EU market, and in their current form send the wrong political signals. Such measures will prove to be even more ineffective under the new, reformed CFP, and possibly contradictory to its basic objective of bringing fish stocks back to sustainable levels.<sup>89</sup> In a situation where healthy fish stocks are able to provide enough fish supplies to the market, which is the main aim of rebuilding the stocks to levels that can support MSY, market interventions would be unnecessary and meaningless.

A more radical phase-out is therefore needed, and storage aid should be eliminated with the adoption of the EMFF in 2014, especially given that this measure, as an exception, is 100% financed by the EU (unlike other measures, for which the maximum financing from the EU is 75%). Instead, other strategies may be considered to support the fishing sector in facing the low prices caused by third-country imports, particularly by tackling trade and equality in production and marketing conditions.

Currently, the EAGF also provides funding to the outermost regions Spain (Canary Islands), Portugal (Azores and Madeira) and France (French Guiana and Reunion). Around 15 million EUR were spent annually on the outermost regions from 2007 to 2013; they were allocated to cover the additional costs incurred in the marketing of certain fishery products in the regions, as a result of their remoteness.

#### **4. Port and marketing subsidies under Axis 3 of the EFF**

The measures that are allowed under Axis 3 are wide ranging, from investments in ports to investment in Natura 2000 areas. Most Member States have prioritized port investments, and only a symbolic 3% of the total funding has been committed for projects aimed at protecting marine ecosystems, under Measure 3.2.<sup>90</sup>

##### ***Box 8: Measures available under Axis 3 if the EFF<sup>91</sup>***

<b>Axis 3. Measures of Common Interest</b>
3.1 Common measures
3.2 Protection of aquatic flora and fauna
3.3 Port infrastructure
3.4 New markets and promotion campaigns
3.5 Pilot projects
3.6 Modification for reassignment of fishing vessels

Fisheries economists at the University of British Columbia classify port investment programs as capacity enhancing, because it reduces the costs of the fishing operations.<sup>92</sup>

Under the EFF, port infrastructure projects funded in Member States mainly relate to investments in fishing ports, landing sites and small fishing shelters, as well as electronic reporting systems for fish auctions. In Greece, Measure 3.3 projects had the highest commitment of the whole EFF, representing 83% of Greece's total EFF commitments up to October 2010.<sup>93</sup>

Two interesting cases of spending under Measure 3.3 relate to the Spanish ports of Almeria and Barbate, where 99 and 77 vessels are registered respectively, according to the European fleet register.<sup>94</sup> Between 1994 and 2006, nearly three million EUR were spent on improving the port of Almeria under the FIGF and EFF. An additional 27 million EUR in direct subsidies were spent on the fleet registered in Almeria during this time period, of which 12 million EUR were spent on the construction of new boats, and 3 million EUR on modernizing vessels.<sup>95</sup> For Barbate, almost one million EUR has been spent on improving the port area, and an additional 12 million EUR have been provided to the fleet registered there. These direct subsidies to the fleet included 7.2 million EUR for modernizing and building new vessels. However, in terms of landings, the landings in Barbate and Almeria together in 2007 accounted only for around 1% of the total landings in Spain.<sup>96</sup>

Other Member States have shown the weak legitimacy of the investments funded under this Measure. In Bulgaria, for example, project selection undertaken according to the "first applied, first approved" principle, is considered ineffective as it does not guarantee implementation of the highest priority projects. Similarly, in Poland, the absence of expert technical evaluations led to a situation where investments were financed in ports that had not served the Polish fishing sector for several years.<sup>97</sup>

## **5. Marketing**

Fisheries economists at the University of British Columbia classify port investment programs as capacity enhancing, because it reduces the costs of the fishing operations.<sup>98</sup> Spain has been the greatest beneficiary of subsidies for marketing campaigns (Measure 2.3 of the EFF: Fish processing and marketing), with 50% of overall EFF payments made under Measure 2.3. Significant commitments have been achieved in Spain, Italy, Portugal, Poland, Estonia and Germany, which represent 90% of overall EFF commitments for Measure 2.3.<sup>99</sup> Spain spent considerable sums of money on this measure; in 2009, the government transferred 78 554 600 EUR to the fisheries sector for marketing and processing.<sup>100</sup>

While not directly capacity-enhancing, promotional campaigns are a key example of misspending of public funds which could have been much better allocated. For example, marketing measures that were implemented in Poland for the promotion of fish and fish products were carried out in a random manner, and in many cases there was no clear connection to the fish market, particularly to the domestic one. In addition, the selection criteria do not take environmental protection considerations into account. For example, activities were started to promote eel consumption, even though Poland had just



implemented an Eel Management Plan and the European Commission had introduced restrictions on trade in European eel, aimed at ensuring its conservation.

In many Member States, marketing measures and promotional campaign are also provided through state aid. For example, in Spain, additional aid from the Spanish government was allocated through regional governments in 2010 and 2011, for the “development of a policy of quality and value enhancement, development of new markets or promotional campaigns for fresh fishery products”. This national-level funding, given through the block exemption regulation<sup>101</sup>, amounted to 952 000 EUR.<sup>102</sup> Similarly, in 2007, Italy awarded state aid to projects in Salerno to “implement promotional and commercial measures to improve information on and awareness of bluefin tuna”.<sup>103</sup> This type of aid seems to be in contradiction of the objectives of the CFP.

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