

# COMMON MARKET ORGANISATION – FUEL CRISIS

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Proposal (final)

11 June 2008

**Active use of the Common Market Organisation for Fisheries Products as a contributing instrument in the recreation of the economic viability in the fishing industry following the exorbitant fuel price increases.**

***”IF THE FISHERIES MINISTERS TAKE THE COMMON MARKET FOR FISH PRODUCTS SERIOUSLY, AND IF THE MINISTERS SHARE THE VIEW THAT THE COMMON MARKET ORGANISATION MUST CONTRIBUTE TO UNDERPINNING THE INCOME OF THE PRODUCERS, THEN THE MINISTERS MUST ALSO FIND COMMON SOLUTIONS”***

## **1. Background.**

### **Oil prices.**

The oil prices have reached a level (10. June approx. 138 \$ per barrel) which makes fishing less and less economically viable. Many fishing vessels have sufficient catch quota at their disposal to be able to fish optimal quantities seen from a purely fishery point of view. This is a result of the drastic reduction in the number of vessels (and thus in tonnage and effort) which has taken place over the last couple of years. When economic viability/ economic sustainability can not be achieved for the single catching trip when there is optimal fishery the unavoidable consequence for the company (vessel) will be bankruptcy and closure with the crew losing their jobs.

It is of course part of the picture that oil price increases hit the fish catching sector extra hard because fuel is the single biggest cost item in the fishery, and because the fishing vessel, like all other commercial vessels and airplanes, buy fuel at net prices. ( When the price of petrol for the private car increases from 8 DKK/liter to 11 DKK/liter = 37.5% (1.1€ to 1.6€ approx) then the price of fuel for the fishing vessel increases also by 3 DKK/liter from 2 DKK/liter to 5 DKK/liter = **150% !**)

### **Reactions to the high Fuel Prices.**

Over the last 2 years a number of meetings have been held between the fishermen’s organisations and the European Commission (Commissioner Borg, the Commissioners Cabinet, DG Fish (Mare)).

These meetings have resulted in one concrete outcome, namely an increase in the possible state aid to enterprises in the fisheries sector – **the de minimis aid** – from 3.000€ over 3 years to 30.000€.

A further repeated reaction from the Commission has been, that **the fishing industry must restructure itself** to regain economic viability, a.o. by utilizing the aid measures which are available under the new fisheries fund, EFF.

As described above we have already restructured ourselves in Denmark (and that is also the case in other countries) but that has not enabled us to achieve viability and economic sustainability!

From fishermen and organisations in the various member states a number of proposals and demands have been put forward. In certain countries initiatives have also been taken by governments, particularly in France, but nowhere have aid schemes or other measures actually been put to work.

Proposals and demands have comprised:

- Direct aid towards payment for fuel
- Increase of the de minimis aid possibilities in the fisheries sector
- Increased quotas for fish

In order to underline proposals and demands various groups have held demonstrations of varying intensity, and the latest information is that the organisations in Spain have decided that all vessels are to sail home and all fishery will cease.

It must be expected that demonstrations will also take place in connection with the Council meeting in Luxemburg on the 23. June 2008.

### **The Common Market Organisation for Fishery Products (CMO).**

The Common Market Organisation for Fishery Products dates back to October 1970 (that is, long before the quota system based on the relative stability was arrived at in January 1983). The CMO is now governed by Council Regulation 104/2000, latest amended by Council Regulation 1759/2006.

It is a feature of the CMO that fishing vessels can chose to become members of Producer Organisations (PO's), and that the PO's are officially approved by the European Commission. It is one of the primary roles of the PO's to ensure their member fishermen reasonable prices for their products.

(For agriculture the similar role has primarily been undertaken by the public sector, with financial aid from the EU, in the form of intervention buying of beef, butter or skimmed milk powder etc.)

### **The exact functioning of the intervention system in the fisheries sector.**

- For each year the Council of Ministers decide on a set of **Guide Prices for the most important products**. These prices are based on the average prices in the wholesale markets for fish in representative fishing markets (ports) over a 3 year period, but the prices have to take into account: the development of catches, the demand, the necessity to have stable prices, **the assurance of underpinning the producers' (fishers') incomes**, without forgetting the interests of the consumers.
- Based on the EU's Guide Prices a set of **EU Withdrawal Prices** is calculated – based on freshness, size/weight and presentation -. These prices have to correspond to at least 70%, and may not exceed 90% of the Guide Prices.
- From the EU Withdrawal Prices the PO's can determine **a set of Withdrawal Prices (also known as Minimum Prices)**; these are the lowest prices the members' products are allowed to be sold at. If the price offered to the PO member in the open market – fish auction for example – is lower **the PO must withdraw the product from the market** and pay the member the Minimum Price.  
The product then has to be used for other purposes than human consumption, for example feed for animals.  
(If withdrawals result in a drain on the PO financial resources which the PO can not cope with, it is possible for the PO to lower the Minimum Price or to suspend the possibility of withdrawals).
- The EU fund for support in the agricultural and fisheries sectors, FEOGA, do provide a certain financial support for co-financing withdrawals but this support is being reduced so that the higher the withdrawal, the lower the financial support. If the withdrawal exceeds 8% of the landed quantity the EU support is suspended altogether.
- The members of the PO's pay a kind of insurance premium to the PO's for each kg fish landed, that is the **membership contribution**. It is the per kg membership contributions which form the main financing of the withdrawals from the markets.

**Over the last many years the Council of Ministers for Fisheries, following Commission proposals, has chosen not to follow the market development when deciding the Guide Prices. If for instance the market price (as reported from the representative markets) had increased by 4% the Guide Price was increased with 1.5% or 2%. The result is that there is a colossal gap between the PO's possible "maximal" Minimum Prices and the market prices. This widening gap has meant that we have had very few and far between withdrawals from the market. It has also meant that it has not been possible to support the fishers' incomes as foreseen in the basis for the PO's.**

### **The fish trade in the EU market.**

- The fish trade in fish is to a great extent conducted **via public fish auction**. This is a contributing factor to creating **total transparency** in the market, but it also means that **the fishers are price takers, not price makers. An increased cost can therefore not – in the short run - be passed on to the buyers**, and eventually to the consumers.

- Over the last many years **the trade in fish and fish products has been more and more liberalised** (GATT, WTO) so that fish today is the group of food which has the lowest number of trade restrictions.
- The liberalization of the world trade in fish has for the EU market meant **a veritable explosion in the imports of fish and fishery products from all corners of the world**, an import that includes a long list of species which directly compete with EU's own production with no assurance of the imported products being subject to similar hygiene and control requirements to those in place for the EU production. (This is acknowledged by the European Commission in connection with the work on combating IUU fishing)
- The enormous import has obviously, in conjunction with the open auction sales method in the internal market, led to a scenario where it has not been possible for the EU fishers to gradually adjust the prices sufficiently. Over the last few months we have even experienced weakening prices for a number of the main products.

**2. Proposal for an active use of the Common Market Organisation for Fisheries Products as a contributing instrument in the recreation of the economic viability in the fishing industry following the exorbitant fuel price increases.**

Based on the developments and factual conditions described above under point 1. it is proposed that:

**“The Council of Ministers for Fisheries, based on a proposal from the European Commission, decide upon a new set of Guide Prices at a level equal to a de facto doubling of the current prices”.**

Such a decision will make it possible for the producer organisations to adjust the withdrawal prices accordingly and thus ensure a price level which would significantly improve the economic sustainability of the European fisheries and the viability for the individual vessels.

It is evident that it is only relevant to increase the prices for the best quality classes as no one is interested in creating fisheries solely for withdrawals paid by the PO's.

It is the opinion in the fisheries sector, that **an increase of the Guide Prices will be such a strong decision and such a strong signal towards the whole fish and food sectors that it will immediately result in the fish prices moving to a higher level** – the level the prices have to be at when the costs have exploded as the case is.

Withdrawals will only take place sporadically, and only for a very short time (so it is a cheap solution also)

### **3. Alternative possibilities for price increases.**

If the EU fisheries ministers do not increase the prices then the European fisher are left on their own. This will lead to isolated price increases of an autonomous character, and it will lead to unrest both inside and outside the catching sector.

Only the fantasy sets the limit for possible actions.

As regards the isolated price increases, these may be initiated – as the case is in The Netherlands – if well consolidated PO's decide to run their own, autonomous set of withdrawal (or minimum) prices. This may be done but without financial support from the EU. The fish can be sold on for human consumption at a lower price than the withdrawal price, which the fishers receive.

The buyers will try to pay the withdrawal price and will then bid lower prices in other markets where there is no autonomous withdrawal price (so no level playing field).

### **4. Conclusion.**

It is obvious that the catching sector can be aided here and now through short terme aid measures if such measures can be established, but long term solutions must ensure that such market conditions are created to guarantee viable fisheries.

**If the fisheries ministers take the common market for fish products seriously, and if the ministers share the view that the Common Market Organisation must contribute to underpinning the income of the producers, then the ministers must also find common solutions.**