



COMMISSION OF THE EUROPEAN COMMUNITIES

Brussels, 30.11.2006
COM(2006)734 final

REPORT FROM THE COMMISSION

on the implementation of the measures provided for in Council Regulation (EC) No 2328/2003 of 22 December 2003 introducing a scheme to compensate for the additional costs incurred in the marketing of certain fishery products from the Azores, Madeira, the Canary Islands, and the French departments of Guiana and Réunion, as a result of those regions' remoteness

{SEC(2006)1528}

INTRODUCTION

The present report is made in response to Article 12 of *Council Regulation (EC) No 2328/2003 of 22 December 2003 introducing a scheme to compensate for the additional costs incurred in the marketing of certain fishery products from the Azores, Madeira, the Canary Islands and the French departments of Guiana and Reunion, as a result of those regions' remoteness*¹. It requires of the Commission to *report to the European Parliament, the Council and the European Economic and Social Committee on the implementation of the measures provided for in this Regulation, accompanied, if necessary, by proposals for appropriate adjustments needed to achieve the objectives laid down in this Regulation by 1 June 2006 at the latest.*

The present report is based on the information available in the Commission and on the findings of a study on the "*Structural aspects of the Common Fisheries Policy in the outermost regions*" conducted by Ernst & Young and Associates (hereinafter referred to as 'the study') which became available by mid September 2006. The main objective of the study was to analyse the specific problems and needs of the fisheries sector in the outermost regions and to provide recommendations, on how to maximise the efficiency of Community support.

The report describes the nature and way of working of the aid scheme, provides information on its application, gives an assessment of the impact of the scheme on the fisheries sector in the outermost regions concerned and finally outlines the prospects for further Community action in that area. The report is accompanied by a Communication Staff Working Document (hereinafter referred to as "the Working Document") containing the annexes to this report.

1. THE COMPENSATION SCHEME FOR THE MARKETING OF CERTAIN FISHERY PRODUCTS – ITS NATURE AND WAY OF WORKING

1.1. Objective of the compensation scheme

Due to their remoteness, insularity and isolated situation, small size and difficult topography and climate, the Community's outermost regions² are lagging behind in socio-economic terms. Their economic dependence on a small number of products, their limited markets, their dual nature as both Community regions and territories situated in an environment of developing countries affect the economic and social fabric of these regions. This applies also to the fisheries sector which shows limited absorption capacity on the local markets and additional transport costs to the mainland of Europe entailing permanent constraints on the profitability of basic investments and on the sustainable exploitation of fisheries resources.

This is why the Community decided to assist producers of fishery products in the outermost regions in integrating better in the internal market. A scheme was introduced as from 1992 to offset the extra costs of transporting fisheries products to distant mainland European markets for the benefit of the outermost regions which was progressively extended from the Azores, Madeira, the Canary Islands to the French territories of Guiana (from 1994 on) and Reunion

¹ OJ L 345, 31.12.2003, p. 34.

² The regions identified by Article 299(2) of the Treaty are the French overseas departments, the Azores, Madeira and the Canary Islands.

(from 1998 on). This should allow for comparable conditions for their marketing activities to those prevailing for the economic operators in mainland Europe. The last renewal of the aid scheme occurred in 2003 by Regulation (EC) No 2328/2003. It expires on 31 December 2006.

1.2. The main features of the current scheme (2003-2006) as laid down by Council Regulation (EC) N° 2328/2003³

1.2.1. Beneficiaries and recipients:

The scheme applies to five out of the seven outermost regions, i.e. the Azores, Madeira, the Canary Islands and the French departments of Guiana and Réunion. The recipients of the compensation are the producers, the owners or operators of vessels registered in the ports of those regions and operating therein or associations of such operators, and the operators in the processing and marketing sector or associations of such operators, who incur the additional costs in marketing the products concerned as a result of the remoteness of those regions.

1.2.2. The compensation:

The Regulation defines the list of eligible species and fishery products per region. Across all five outermost regions the scheme covers 17 segments. It fixes for each region a specific amount of compensation per tonne of fishery product and the maximum total quantity of the eligible species or fishery product per year for which the compensation can be paid. The table in Annex I of the Working Document provides an overview of the amounts and quantities for compensation per region.

Overall, as a result of the fixed compensation amounts and quantities, the total annual funding per region can reach:

Total funding in €/year	% of overall envelope for the compensation scheme	Outermost region
2.909.992	19,4	Azores
1.374.000	9,1	Madeira
5.884.076	39,2	Canary Islands
4.003.500	26,7	Guiana
865.200	5,6	Réunion
14.996.768	100,0	Total

1.2.3. Adjustment of amounts and quantities – Modulation

The regulation foresees two possibilities for adjustments in order to take into account the varying catch levels and the actual marketing conditions in the Member States.

³ Although Article 9 of Regulation (EC) No 2328/2003 foresees the adoption of implementing rules such rules have never been established.

- A Member State may adjust *the quantities* set for the various species or fish products within a region and between its regions provided the Commission does not raise any objection within four weeks of the notification of such a request. Such modification must neither increase the overall annual funding per Member State nor the amounts of compensation per tonne of species or fishery product.
- The Commission may adjust *the quantities and amounts* set for the different species or fish products. Such a modulation may be carried out within a region, between the regions of a Member State or between different Member States and within the overall funding available for the scheme.

Both types of adjustment have to be duly justified and take account of all the relevant factors, in particular the biological characteristics of the species, changes in additional costs and qualitative and quantitative aspects of production and marketing.

The modulation rules apply also to requests relating to the previous compensation scheme under Regulation (EC) No 1587/98 on which no decision has been taken before 1 January 2003⁴.

1.2.4. The financial management of the compensation scheme

The compensation scheme is classified as an intervention intended to stabilise the markets within the meaning of Article 2 of Council Regulation (EC) No 1258/1999 on the financing of the common agricultural policy⁵. Consequently, the source of Community funding is the Guarantee section of the European Agricultural Guidance and Guarantee Fund (EAGGF). Under this fund, around 60 million € were earmarked for the compensation scheme for the period 2003 to 2006, i.e. more exactly 14,997 million € appropriations per year.

The financial implementation of the scheme follows the shared management model applied for the Guarantee section of the EAGGF with the delegation of tasks to the Member States. The Commission reimburses the expenditure incurred (pre-financed) by the Member States upon their declaration.

2. THE COMPENSATION SCHEME FOR THE MARKETING OF CERTAIN FISHERY PRODUCTS—ITS APPLICATION SINCE 2003⁶

2.1. Application of modulation

The Member States have used the possibility to adjust eligible quantities (= modulation) foreseen under the current aid scheme to a varying degree up to now. Whilst Spain did so far not use this possibility, France used it several times in respect of Guiana and Réunion. Also

⁴ On a request submitted by the Azores in May 2002 to double the compensation for demersal species the Commission did not take a decision as the request was uniquely motivated by absorbing funds and not by the relevant factors.

⁵ OJ L 160, 26.6.1999, p. 103.

⁶ Due to the lack of reporting requirements for Member States on the application of the compensation scheme the information available at the Commission results mainly from the financial execution and the requests for modulation. The other information presented under this chapter is taken from the above mentioned study on the "Structural aspects of the Common Fisheries Policy in the outermost regions".

Portugal applied this possibility several times for each of its outermost regions, Azores and Madeira. All the requests received at the time of issuing the present report were accepted by the Commission. The below table summarises the requests made for the years 2003 to 2005. Up to now no modulation request has been received for the year 2006.

Table 1: Modulation requests submitted and accepted for the years 2003 to 2005

	Guiana	Reunion	Azores	Madeira
Year 2003	<p>Industrial shrimp: Increase from 3.300 t to 3.424 t</p> <p>White fish marketed fresh: Decrease from 100 to 3 t</p> <p>White fish marketed frozen: Decrease from 500 t to 38 t</p>	<p>Tuna, swordfish, marlin, sailfish, dolphin fish, shark</p> <p>Increase from 618 t to 770 t</p>	<p>Species for marketing fresh: Increase from 2.000 t to 2.489 t</p> <p>Small pelagic and deep-sea species for freezing or processing: Decrease from 1.554 to 48 t</p>	
Year 2004	<p>Industrial shrimp: Decrease from 3.300 t to 3.215 t</p> <p>White fish marketed fresh: Decrease from 100 t to 2 t</p> <p>White fish marketed frozen: Decrease from 500 t to 56.5 t</p>	<p>Tuna, swordfish, marlin, sailfish, dolphin fish, shark:</p> <p>Increase from 618 t to 928.5 t</p>	<p>Species for marketing fresh: Increase from 2.000 t to 2.501 t</p> <p>Small pelagic and deep-sea species for freezing or processing: Decrease from 1.554 to 12 t</p>	<p>Black scabbard fish: Increase from 1.600 t to 1.817 t</p> <p>Tuna: Decrease from 4.000 t to 3.998 t</p> <p>Aquaculture products: Decrease from 50 t to 0 t</p>
Year 2005	<p>Industrial shrimp: Decrease from 3.300 t to 2.854 t</p> <p>White fish marketed fresh: Decrease from 100 t to 6 t</p> <p>White fish marketed frozen: Decrease from 500 t to 55 t</p>	<p>Tuna, swordfish, marlin, sailfish, dolphin fish, shark:</p> <p>Increase from 618 t to 1.209 t</p>	<p>Species for marketing fresh: Increase from 2,000 t to 2,401 t</p> <p>Small pelagic and deep-sea species for freezing or processing: Decrease from 1,554 to 322 t</p>	<p>Black scabbard fish: Increase from 1.600 t to 1.686 t</p> <p>Tuna: Increase from 4.000 t to 4.072 t</p> <p>Aquaculture products: Decrease from 50 t to 11,73 t</p>

Whereas the requests of France entailed modulation of quantities between the two outermost regions Guiana and Réunion, the modulation requests made by Portugal were made for each region separately within the envelopes for the Azores and Madeira.

The second possibility for modulation, i.e. the adjustment of quantities and amounts for compensation by the Commission upon information by Member States has however never needed to be applied since the entry into force of the current scheme [see footnote 4].

2.2. Financial and physical execution

The following table shows the payments in € made by the Commission for the calendar years 2003, 2004 and 2005 upon declarations received by the Member States concerned including May 2006 expenditure.

Table 2: Financial execution 2003 – 2005

	2003	% of available funding*	2004	% of available funding*	2005	% of available funding*
Spain – Canary Islands	5.449.043	93,2	5.453.490	93,3	-	0,0
<i>Guiana</i>	<i>3.651.301</i>	<i>96,3</i>	<i>3.568.709</i>	<i>100,0</i>	<i>3.139.615</i>	<i>86,5</i>
<i>Reunion</i>	<i>865.200</i>	<i>80,3</i>	<i>1.299.991</i>	<i>100,0</i>	<i>865.200</i>	<i>100,0</i>
France Total:	4.516.501	92,8	4.868.700	100,0	4.004.815	82,3
Portugal Total:	2.980.959	69,6	2.455.808	57,3	93.911	2,2
Total:	12.946.139	86,3	12.777.999	85,2	4.098726	27,3

* after modulation

As Member States are still submitting expenditure declarations concerning the past years, including for 2003 the table does not present the final state of execution of the compensation scheme. Taking into consideration the past rhythm of expenditure declarations by Member States it is expected that the payments for the calendar years 2005 and 2006 will achieve more or less the same level as in the years 2003 and 2004, i.e. more than 85 % of the total eligible funding. For the year 2006, only Portugal has declared expenditure of 2.019.442 €, i.e. almost half of the annual envelope for Portugal.

The table in Annex II of the Working Document provides a slightly more detailed picture. It shows the quantities supported and their share in maximum eligible quantities and funding after modulation, if applied. However, this picture is not complete as the Member States' declarations do not always provide the necessary breakdown in fish product and species. That is the case in particular for Portugal where only the declarations for 2006 provide such a breakdown. For the other regions the declarations for 2005 and 2006 are only partly available.

3. THE COMPENSATION SCHEME FOR THE MARKETING OF CERTAIN FISHERY PRODUCTS – ASSESSMENT OF ITS APPLICATION AND ITS IMPACT ON THE FISHERIES SECTOR IN THE OUTERMOST REGIONS

3.1. Financial and physical execution – pertinence of eligible quantities and compensation amounts

3.1.1. Pertinence of eligible species and fishery products and of maximum eligible quantities

The lists and amounts of eligible species and fishery products is a result of historical developments since the inception of the compensation scheme in 1992. Consequently, the list of eligible species and fishery products established by Regulation (EC) No 2328/2003 does not always reflect the marketing reality of the outermost regions which depends on the fluctuation in captures and stocks and of market demands. Some products like skipjack marketed by sea in the Canary Islands or white fish in Guiana have not at all or hardly been used for the marketing on the European mainland under this scheme by now. For other products, the marketing activity has been underestimated.

However, the possibility to adjust quantities has certainly facilitated the application and uptake of the compensation scheme. This is in particular the case for France which could maximise the utilisation of the scheme by modulating not only eligible quantities but also shifting funding between Réunion and Guiana within the total annual funding for France. For Portugal, such a statement is somehow more difficult to make as the necessary data per product are not available. According to the study, also for Portugal the modulation was conducive to a better utilisation of the compensation scheme. However, also the Canary Islands/Spain shows an execution beyond 90% without ever adjusting quantities.

As a consequence, compared to the execution under previous schemes with a high fluctuation in the use of quantities and the absorption of funds between years and regions, the application of the current scheme has stabilised and become more regular in terms of use of eligible quantities and available funds, a trend which is expected to continue for the remaining period. However, despite the possibility to modulate still a certain amount of quantities and funds remain unused.

The pertinence of eligible fishery products needs to be looked at also from two other angles:

Under current rules the Commission has no assurance that the assisted fishery products have been caught, landed and marketed in accordance with the rules of the Common Fisheries Policy. There is no requirement that conservation and management rules or grading standards and traceability provisions have to be respected for the purpose of the scheme nor would products originating from illegal and unreported fisheries be excluded from support. Nor is there a provision to ensure that the compensation does not result in an increased pressure on biologically sensitive stocks. Such a situation is difficult to defend.

The present regime does not limit support to fishery products originating from products caught locally but allows compensation for fishery products made out of imported fish. In the latter case the compensation is entirely granted to the processing enterprise whereas in the first case the compensation is usually shared between the processor (20%) and the fishermen/shipowner (80%). It is clear that for some industries imports are necessary for economies of scale and to use the full capacity of the enterprise. However, in such cases the

value added for the local fishing sector appears to be more limited than in the case of locally caught products.

3.1.2. Pertinence of compensation amounts

It is recalled that the main objective of the aid scheme is to compensate for the additional costs arising from the need to transport products from the outermost regions to the European mainland.

The development of the compensation amounts since 1992 as laid down in different consecutive regulations shows that the amounts have remained quite stable with slight adjustments up or down (e.g. decrease from 185 €/t in 1992-1993 to 177 €/t in 2003-2006 for tuna delivered to the local canning industry in the Azores, increase from 898 €/t in 1994 to 1.100 €/t in 2003-2006 for shrimp in Guiana) for most products and regions. However, the case is different for the Canary Islands where compensation amounts under the current scheme are up to nine times higher than compared to previous schemes. The determination of amounts seemed to follow more a logic to absorb available funds in view of reduced eligible quantities following the end of the Marocco agreement.

There is a high variation in compensation amounts according to products and regions. The lowest compensation occurs for small pelagics in the Azores at 148€/t up to 1.400 €/t for big pelagics in Réunion. Even between similar segments compensation varies between regions with 177€/t in the Azores, 230 €/t in Madeira for tuna delivered to the local canning industry and 950€/t for tuna marketed by air and 500 €/t tuna marketed by the sea in the raw state in the Canary Islands.

The data available at the Community level do not permit to verify whether the compensation is at an appropriate level and which type of additional costs it is covering. Whereas the additional costs arising from the transport to the European mainland (transport by air or sea, storage and transit costs linked to the transport) are the most pertinent in view of the objective of the aid scheme and are also the easiest costs to verify, there are other types of additional costs arising from the remoteness of the outermost regions, such as higher costs of investments or higher operational costs for production and processing. They are also more difficult to appraise. On the other hand certain costs could be lower than on the European mainland.

The study does not make a new assessment of additional costs of each product and product chain but compiles information from different sources, such as a study in 2000 (Megapesca) up-dated by using an inflation rate, public administration or private enterprises. This compilation shows that the assessment of additional costs and consequently of the need for compensation varies strongly according to the source of information and which type of additional costs has been considered. Across all information sources used by the study, on an average, the compensation is at around 60% of the additional costs. However compensation varies widely between 40% (small pelagics and deep-sea species in the Azores) and 169 % (for skipjack marketed by sea in the Canary Islands). If broken down to the individual species within the segments the variation is even more pronounced. In relation to the market value (= sales price) the compensation level varies between 3% (tuna in the Azores) and 30% (some aquaculture products in the Canary Islands).

Despite that variation, some general conclusions can be deducted: First, compensation for products marketed frozen and by sea is higher than for products marketed fresh and by air. Second, the compensation level varies also according to the origin of the raw material/fish caught. Thus, for tuna in Madeira and the Azores, the compensation is higher for tuna caught by the regional fleet than for imported tuna.

The study also points to some cases where the aid scheme is not used for its purpose to compensate handicaps linked to the remote situation but as a global subsidy to keep enterprises afloat. Thus, it can have a perverse effect on the commercial dynamism and competitiveness of an enterprise. This appears particularly to be the case, when the compensation level is exceeding 20% of the market value of the product.

Moreover, it seems that there are types of public intervention in some outermost regions like fiscal deductions or national or Community aid schemes (FIFG) which intervene directly or indirectly in the compensation of additional costs. Thus, there is the risk of overcompensation resulting from cumulating the compensation with other types of public intervention.

3.2. Socio-economic impact of the compensation on the fisheries sector in the outermost regions

Whilst no quantitative impact indicators are available across all the outermost regions concerned, e.g. on the maintenance and creation of activities and employment, it appears to be justified to say that the scheme fosters the conditions, under which economic operators in the sector can continue trading resulting in socio-economic benefits for the local communities. The continued existence of a fisheries sector guarantees jobs in regions where alternative employment is limited. The fishery products covered by the scheme do account for a significant share of the exports from the outermost regions. This stimulates local production, processing and marketing activities.

The results of the study show, that, overall, the compensation scheme has allowed the fisheries sector to face increasing competition on the common market which is being opened more and more to third countries and to the ACP countries in particular. The compensation policy results in economies of scale and in a considerable financial income for the respective beneficiaries and allows them to compete at equal cost with companies in mainland Europe. The scheme has allowed the recipients to maintain a market share that competition would otherwise have seized.

The compensation scheme has also facilitated the development and the consolidation of certain activities. The aquaculture sector in the Canary Islands for instance produces mainly for the mainland market and has largely benefited from the scheme. The same is the case for the tuna canning industry in the Azores, tuna loins and black scabbardfish in Madeira and the shrimp industry in Guiana. As a consequence, employment has been stabilised or even increased.

It should however, not be denied that the recurrent use of compensatory measures bears the risk to create an economic dependence which hampers the managerial capacity or the innovative potential. This seems to be the case for shrimps from Guyana which could be marketed better and consequently attract higher prices. It could even be the case that certain export activities are artificially maintained or even developed whilst profitable foreign

markets (e.g. in Japan and the United States) are not sufficiently explored and local markets neglected.

4. CONCLUSIONS AND OUTLOOK

Throughout its operation, the compensation scheme has brought lasting stability which has allowed the economic players concerned to operate under conditions similar to those enjoyed by their counterparts on the European mainland. The scheme has made a contribution to maintaining employment in regions where there are few other opportunities. The benefits these operators have derived from the scheme have enabled the various sectors concerned to maintain an adequate level of output and development.

The conditions giving rise to the additional costs will hardly change in the short term, since they derive from the very nature of the outermost regions and the particular situation of their fishery sector. Therefore consideration should be given to continue the scheme, thus ensuring that the goals for which it was established continue to be properly attained. This would also be in line with the Commission's commitment given in its Communication on a stronger partnership for the outermost regions of 26.5.2004 (COM(2004) 343 final) which identifies the reduction of the additional costs in the outermost regions as one of the main priorities of the Union's activities to help these regions to overcome the problems resulting of their remote situation.

In view of the need for strategic vision for the sector, it is suggested to continue the scheme at the same funding level for the period 2007-2013. This would also be in line with the duration of measures under article 11 of the European Regional Development Fund⁷. A review will be made, inter alia in the light of the reform of the Common Market Organisation for fishery products.

However, the assessment in the present report and the study findings call for a number of adjustments. They should allow for:

- More pertinence but also flexibility in view of the specific marketing needs and realities in the outermost regions by
 - allowing Member states to determine and adjust for their regions eligible fishery products and their quantities and to fix the respective compensation amounts within an annual allocation of funds for the regions concerned of the Member State, based on allocations in the current scheme;
 - basing compensation amounts mainly on the additional costs arising from transport to the European mainland. This would also allow to refocus the scheme on its main objective;

⁷ Regulation (EC) n° 1080/2006 of the European Parliament and the Council on the European Regional Development Fund (OJ L 210 of 31.7.2006, p. 1)

- Better justification and harmonisation of support by
 - introducing safeguards to avoid unjustified levels of compensation, in particular by limiting the compensation to a share of transportation and other related costs, and taking into consideration other types of public intervention having an effect on the level of additional costs;
- The achievement of the objective of the scheme in compliance with the Common Fisheries Policy by
 - defining clearer eligibility conditions for recipients and products, in particular by excluding support for products incompatible with the rules of the Common Fisheries Policy or derived from imported products,
 - ensuring that the compensation does not result in an increased pressure on biologically sensitive stocks;
 - concentrating support on economically viable recipients;
- Simple administration by proportional requirements with regard to the necessary procedures;
- Better accountability by introducing regular reporting by Member States.

These adjustments would address the main shortcomings that emerged in the implementation of the scheme and improve the efficiency, transparency and effectiveness of its functioning. They would also meet most of the recommendations of the study (Annex III of the Working Document refers). The study further recommended the possible establishment of a positive list of additional costs and an evaluation of their level, with a view to ensure full transparency in the application of the principles of compensation for additional costs. Such an approach would however not only need further analysis and thus time before a concrete proposal could be made, but it would also make the scheme more rigid and complicated with the risk that not all the specificities of the outermost regions are reflected from the beginning or that they would change over time. It does also not appear justified to envisage the national or regional co-financing of the scheme. This recommendation is mainly motivated by increasing the overall budget. However, the foreseen adjustments, including the condition to concentrate support on economically viable recipients, are supposed to allow anyhow for a more efficient and focused application of the scheme and a higher accountability by the Member States.

However, the scheme will need to be adjusted in order to implement the new financial management system adopted for market expenditure for the fishery sector under the European Agricultural Guarantee Fund (EAGF), i.e. direct centralised management.

The proposal for a regulation continuing the compensation scheme for the outermost regions accompanying this report sets out the details for the suggested amendments.