



EUROPEAN COMMISSION

Brussels, 13.7.2011
SEC(2011) 884 final

COMMISSION STAFF WORKING PAPER
SUMMARY OF THE IMPACT ASSESSMENT

Accompanying the document

Proposal for a

REGULATION OF THE EUROPEAN PARLIAMENT AND OF THE COUNCIL
on the common organisation of the markets in fishery and aquaculture products

{COM(2011) 416 final}
{SEC(2011) 883 final}

EXECUTIVE SUMMARY

The EU is the first market in the world for fisheries and aquaculture products - a market worth €5 billion euro (or 12 million tons). On average, EU citizens eat 22 kg of fisheries and aquaculture products per year, which accounts for 15% of their protein intake. Consumption patterns vary greatly between Member States, ranging from barely 10 kg in some countries (mainly Eastern ones) to over 30 kg in others. All EU countries, however, are registering an increase in consumption. Because EU production has declined over the last decade, the EU ratio of self-sufficiency has also decreased sharply: from 57% to 35%.

A Common Market Organisation (CMO) for fisheries and aquaculture products has been in place since 1970. It is one of the pillars of the Common Fisheries Policy (CFP). Its current legal basis is Regulation 104/2000, adopted in 1999. The reform of the Common Fisheries Policy, now ongoing, provides an excellent opportunity to review and possibly revise objectives and instruments of the Market Policy for fisheries and aquaculture products.

The problems

Since 2008 the Commission has been carrying out extensive evaluations and consultations, with the dual intent of assessing the performance of the current legal framework and the unfolding of EU market trends in the last decade on one hand, and of hearing the views of the parties concerned on the other. This report presents and analyses the five main problem areas found, which may be summarized as follows.

- our market policy did not sufficiently contribute to sustainable production;
- the market position of EU production has worsened;
- we have been unable to predict or manage market fluctuations;
- our market potential is largely untapped
- implementation of the market policy is being held down by a cumbersome, overly complex framework.

To this day, several EU fisheries are not exploited in a sustainable way. The market premiums for sustainable practices are negligible, while there are no market sanctions for unsustainable or potentially unsustainable practices. Our market policy has failed to get more value from stagnating or decreasing production volumes, nor has it encouraged good practices.

EU supply is both diverse and fragmented. In the face of dwindling production and of an increasingly globalised market, it lacks competitiveness and proved unable to predict and manage market fluctuations or to adapt to demand in terms of predictability of volumes or quality and presentation of goods.

Lying underneath the five main problems mentioned, there is also a sub-set of other problems.

Fisheries and aquaculture Producer Organisations (POs), which could play a vital role in day-to-day implementation of the CFP (as long as their mission, resources and rights and duties are properly tuned) generally lack the resources and the incentives that are necessary to organise production efficiently and manage fishing activities, place production on the market etc. Moreover, if most of the fishing industry is fragmented, processors and distributors tend to be concentrated, particularly at the retail end. By developing or

encouraging concentration on the supply end, the economic standing of EU fishermen is likely to be improved. Better organisation of production appears to be a prerequisite for a well functioning coordination of all elements along the marketing chain.

Information about market demand, customer preferences, trends, and price formation is not widely available to all actors. Yet, by better understanding the market dimension of their activity, EU producers would be better able to direct fishermen toward production that have a stronger chance of selling at a reasonable price (the golden rule being here that fish unlikely to be sold should remain in the water). This means better planning of supplies and sales – in other words actively deciding which kind of product to sell and when and where to sell it.

Policy makers also need background information – as well as early warning of possible market crises - for policy design.

In the current situation of overexploited stocks, spending public money to destroy fish is no longer justifiable; the so-called "withdrawing" of fishery products from the market should be abolished. The effect of intervention mechanisms on the stability of the market has been weak anyway, and only limited to a few ports and some small pelagic species.

This is due to the fact that market interventions may help the symptoms of sudden price drops, but never attack the cause of the problem. Undeniably, though, fishing remains an uncertain and risky economic activity; adjusting the timing and quantity of catches to the specific market needs of any given moment will always be challenging. Any sensible market policy must account for this intrinsic problem and at least contain the inherent risks for fishermen.

EU marketing standards, which establish standardised commercial features, are important for the smooth functioning of the EU internal market for fish. Both the evaluation carried out and this report analyse to what extent the current common marketing standards should be revised.

Consumer information is a key component of the market organisation, firstly because of the wide range of fish and seafood now on the shelves and secondly because people are becoming more and more aware of environmental issues and demand to make informed purchasing choices. Is this fish fresh or defrosted? Where exactly was it caught? Was it fished or produced sustainably or traded fairly? Consumers have the right to get reliable information about what they buy from the label on the product.

Finally, increasing consumption throughout the EU offers tangible economic opportunities for both EU and third-countries producers.

The right for the EU to act

According to Article 3 (1d) of the Treaty of the Functioning of the European Union (TFEU), the European Union has exclusive competence for the conservation of marine biological resources under the CFP. Article 4 (2d) TFEU stipulates that the EU has shared competences for the other components of the CFP. These provisions determine the scope of action as regards what needs to be addressed at the level of the EU and what room remains for MS to act. They also affect the form of EU action in terms of choice of instrument. Market measures under the CMO fall within the scope of Article 4(2d) TFEU, and justifying the measures with regard to the subsidiarity principle is therefore necessary.

The establishment of a Market Policy at EU level is essential to achieve an internal market in fisheries and aquaculture products and to ensure fair competition. Under the subsidiarity principle, MS and economic operators should enjoy a high degree of autonomy in the application of different mechanisms pertaining to Market Policy.

Interaction with the reform of the CFP

The main objective of the reform of the Common Fishery Policy is promoting the sustainable management of fishery resources through an economically viable sector, which in turn is to be increasingly empowered with its own management. To achieve this goal, we must start by helping the sector organise itself more efficiently.

The CFP impact assessment concluded that, considering the new objectives and instruments of the CFP, a far-reaching reform of the market policy was necessary: market-oriented instruments should contribute, directly or indirectly, to meeting the main CFP objectives.

To address overfishing and unsustainable practices and move away from production strategies based solely on volume, the new market policy will support:

- the empowerment of producers organisations and their co-management of access rights as well as production and marketing activities;
- market measures that increase the bargaining power of producers (in fisheries and aquaculture) improve prediction, prevention and management of market crisis and foster market transparency and efficiency;
- market incentives and premiums for sustainable practices; partnerships for sustainable production, sourcing and consumption; certification (ecolabels), promotion, information to consumers;
- additional market measures on discards.

Objectives

For each of the five main problems areas listed above, the impact assessment defines specific objectives of new market policy for fisheries and aquaculture products:

- Upgrading market incentives to support sustainable production practices
- Improving the market position of EU production
- Improving the connection between EU production and EU market
- Enhancing the market potential of EU products
- Supporting better governance and simplification of the legal framework

Options

On the basis of evaluations conducted, stakeholders views, specific objectives defined and policy tools identified, four options have been analysed:

- Option 1: continuing the current Common Market Organisation for fisheries and aquaculture products
- Option 2: revising the current Common Market Organisation for fisheries and aquaculture products
- Option 3: enhancing the Market Policy for fisheries and aquaculture products
- Option 4: deregulating the current Common Market Organisation for fisheries and aquaculture products

Option 1 means that the current CMO remains the same, focusing mainly on market interventions to support price stability (withdrawal, carry over, private storage, tuna compensatory allowance), autonomous tariff arrangement (suspensions and quotas), marketing standards (freshness and size) and mandatory information to consumers (commercial designation; production method: caught at sea, caught in freshwater or farmed; origin (catch area or country of origin for freshwater or farmed products).

Option 2 reduces intervention mechanisms to a single storage aid for fishery products destined for human consumption. It deals with inconsistencies between minimum landing and marketing sizes. It makes revision of tariff quotas and autonomous suspension more flexible (every 3 years).

Option 3 is the same as option 2, but empowering POs and Inter-Branch Organisations (IBOs) with additional tasks and granting them financial support to draw and implement sustainable production and marketing plans. This option also simplifies and adapts the scope of marketing standards; it inserts the respect of international conventions for fisheries governance in preferential autonomous tariff arrangement; it sets up a European Market Observatory; it extends mandatory consumer information and its scope to all products (fresh, frozen, canned, processed). It provides a framework to ensure accuracy and control of voluntary labelling.

Option 4: no CMO. This option suppresses all financial support (intervention and support to collective actions) and any specific legal instrument for fisheries and aquaculture products. No pre-condition for imported fisheries and aquaculture products.

Assessing the options

Environmental sustainability

Option 1 remains focused on managing intervention mechanisms; it neither empowers POs to manage their fishing activities in a sustainable way nor does it ensure that aquaculture activities are carried out in a sustainable manner.

Suppressing aid for withdrawal in Option 2 will have a rather limited direct impact, considering the small volumes concerned by withdrawals in recent years. It still however sends a strong political message that greater anticipation of market demand and outlets is necessary.

Option 3: empowering POs with collective management, monitoring and control of the fishing opportunities allocated by the Member States (including the individual fishing rights and fishing efforts of their own members) would significantly improve the sustainability of the EU fishing sector. Access for consumers to more precise information on all products, whatever their presentation will considerably extend knowledge on fisheries and aquaculture products. This will help consumers to make better, informed choices and ultimately support responsible consumption.

Lack of support for POs in Option 4 would negatively affect their coordination in implementing sustainable fishing practices. It would also limit the management efforts currently undertaken by POs. Although private initiatives toward sustainable sourcing and consumption are increasing in the EU, this new market development still needs to grow and to build up its credibility and confidence.

Economic sustainability

Under Option 1, the added value of POs is bound to remain limited to the possibility of benefiting from intervention mechanisms. POs are unlikely to provide additional services to their members, especially to better connect their production to market requirements and add value to their products.

In terms of impact of Option 2 on first-sale prices, producers are likely to remain price takers until they learn to group their supply efficiently and better promote their produce.

Regarding Option 3, benchmarking with the fruit and vegetable sector shows a clear correlation between level of production structuring, price stability and added value. Planning and concentration of supply should therefore lead to greater first-sale price stability. Adequate market expertise should reinforce market position and ability to predict market trends or crises. The increased bargaining power of producers should lead to more balanced added-value distribution. More accurate consumer information on origin (for instance on stock, FAO sub-area, defined maritime spaces such as Bay of Biscay, English Channel etc) will support local purchase and focus on sustainable consumption. Small-scale fleets would be able to market their production better; and consumer confidence would be restored or upheld. Extending the information requirements to processed products would also satisfy consumer expectations and help prevent fraud.

The elimination of Market Policy instruments as per Option 4 would take away any incentive to structure the sector. It would weaken the negotiating power of producers and limit their ability to adapt supply to demand (atomised supply, lack of coordination between producers). Information to consumers on a voluntary basis is a workable option, considering operators' commitments to sustainable production. It will not, however, meet the objective of informing EU consumers better and enhance their knowledge on fisheries and aquaculture products. Cases were observed in which false allegations of environmental friendliness have misled or confused consumers, and this undermines any attempts at restoring the image of the sector.

Social sustainability

In Option 1 and 2, the effects on income will remain very limited, on one hand because they only concern cases where price drops need to be prevented, and on the other because the aid intensity is very low (0.2% of EU production value).

In Option 3, the improved structuring of the production side is expected to improve crisis anticipation and increase added value by diversifying marketing strategies. This should uphold employment and income levels.

In Option 4, the removal of market instruments is likely to impact some sectors (small pelagic canneries) that could relocate outside the EU. In these cases, impact on jobs and income could be substantial on a local scale.

Comparing the options

Based on the impacts assessed and the risks identified, options are compared vis-à-vis the baseline scenario (status quo) in terms of effectiveness and efficiency in relation to the objectives and in terms of coherence with overarching EU objectives (namely the CFP objectives but also other cross-cutting issues). This can be summarised as follows:

Option 1, or the status quo, was evaluated in detail and was judged partly inefficient and too complex to fulfil its current objectives. So far the main focus of the CMO has been price stability through market intervention. This proved to have small impact and low performance; it tackled the symptoms rather than the real causes, sent the wrong political signals and left operators with little or no responsibility. Today, 12 years after its adoption, the current CMO appears unfit for the challenges of the EU market. It will result even more ineffective in the reformed CFP, and possibly inconsistent with its underlying objectives.

Option 2 aims at correcting the main shortcomings of the existing CMO by proposing adjustments and simplifications that would improve its functioning. The relevance to the main objectives of the CFP reform would however remain questionable.

Option 4 would remove the EU Market Policy altogether. It is true that market-driven developments and incentives toward sustainability have increased; the commitments by processors and retailers, combined with the increased pressure from NGOs and civil society to obtain sustainable products, should bring us closer to our environmental objectives. Still, the main problems identified, namely the complex and fragmented EU supply sector and the risks of misleading or confused consumer information, would only be partially addressed. In fact, the industry will be given more responsibility to manage their activities, but the lack of support to structure their production and of accompanying market measures would contradict the reform's goal to support market-based instruments (rather than costly structural measures) and help producer organisations improve the marketing of their products.

Option 3 proposes to enhance the Market Policy so as to accompany the fisheries and aquaculture sector while it shifts toward sustainable production practices. Much can be done in terms of organisation and marketing to increase predictability of supply and reduce transactions costs. This option emphasises the role of each main stakeholder in favouring sustainable practices.

Under this option, the structure and objective of the new Market Policy would be much broader and bolder:

- Several tools, particularly market interventions mechanisms, are abandoned. This implies a strong political message and tremendous simplification.
- Some elements, such as marketing standards and autonomous tariff policy, remain but with more flexibility; additional objectives are introduced (to support the development of distant selling or e-commerce, a level playing field etc).
- Other elements are emphasised: the sector is reorganised with stronger focus on the producers' ability to manage their production and market their products; a simplified single storage aid is foreseen (produce to be stored, processed and reintroduced onto the market), information to consumers is considerably extended in scope and content.
- One new element is the EU market observatory.

The impact assessment of the reform of the CFP concluded that a far-reaching reform of the Market Policy is necessary, one that should reinforce the role of producer and inter-branch organisations and marketing measures in general. This will contribute to the reform's objectives of economic sustainability while also helping environmental sustainability. The Market Policy should orient production activities to areas where market conditions are good and where there is a market for the fisheries and aquaculture products.

The Market Policy should help increase the added value of fisheries and aquaculture products in a context where financial support is moved away from the fleet (especially scrapping and temporary cessation), in favour of smart, green, innovative and market-oriented solutions for the fisheries and aquaculture sector. More specifically, some aspects of the market reform should accompany and support the implementation of the new CFP:

- Empower POs to ensure management, enforcement and control of fishing activities of their members.
- Market-based transferable fishing shares (TFSs) allow the fishing industry to adjust fleet capacity to the available marine resources without need for public intervention; POs could be responsible of collectively managing TFSs.
- Market measures accompanying an active policy for mandatory landing of all catches for stocks subject to catch limits should be carefully defined and could be implemented by POs.
- Give value to more selective and sustainable production activities and move away from strategy based on volume with improved production and marketing planning by POs and with EU consumers playing a more active role when they are in a position to make informed choice.

Variations in distributional impacts between areas or regions are very limited due to a fully uniform access of POs to financial instruments and the all rules.

A broad range of stakeholders will largely benefit from Option 3. POs' increased responsibilities and resources will provide new business opportunities to producers of fishery and aquaculture products, who will find membership more attractive. The new tariff policy will improve the predictability of supply of raw materials and this will enable processors to better predict their activities. The whole sector will be better coordinated and

encouraged to launch initiatives of common interest in particular to promote sustainable fishing. Consumers will be able to make better informed choices through improved and more accurate labelling of fishery and aquaculture products. Finally, the simplification and reduction in administrative burden will have a positive impact on the Commission, Member States' Administrations and economic operators.

In view of the impact analysis DG MARE supports Option 3 to set up an enhanced Market Policy for fisheries and aquaculture products.