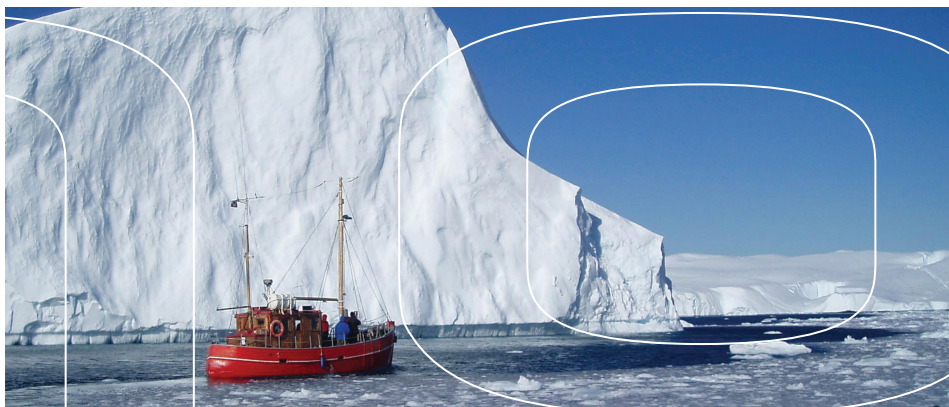




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Northern Fisheries

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Northern Europe wanting to avoid subsidies – but it could be costly

Throughout Northern Europe the general wish in the fisheries industry is to cope with the record-high oil prices unassisted by subsidies. There is overall agreement that oil is going to be a heavy financial burden, and that the most energy-consuming vessels will have a hard time surviving.

The oil prices *hike* into *outer space* is creating turmoil in Nordic fisheries. Initially, we are high-cost countries and the increase in the cost of oil is applying even more pressure on margins.

High bunkers price, tough competition for qualified labour and a rising level of costs is undermining profitability in the fishing fleet. The industry now considers the situation to be so serious that it is asking itself who will survive. There are real fears of a dramatic downscaling of the industry. Activity has already

been reduced across Europe due to higher bunkers prices. Fisheries with low profitability are the first to have felt the squeeze.

In the EU the choice has been to action with concrete initiatives, while discussions in Northern Europe indicate a distinct wish to avoid government authorities intervening with assistance to the sector. Nonetheless there are several in the industry hinting that if oil prices continue to climb this will necessitate implementing measures to prevent a landslide of bankruptcies in a sector that to some extent has an extreme level of energy consumption. The drop in prices late this summer has not been enough to help the industry out of this difficult situation.

Finding solutions without help

Northern Europe is split into three factions where opinions on extent of political intervention are concerned. Common for all however is a strong desire to avoid subsidies. In the western Nordic countries of Greenland, Iceland, the Faroe Islands and Norway, subsidies have been rejected as a solution. In Norway the Norwegian Fishing Boat Owners' Association (*Fiskebåtredernes Forbund*) has requested the

authorities keep abreast with measures/initiatives taken in the EU, in order to ensure a competitive imbalance does not occur in connection with the support package the EU set up this summer.

In the Nordic EU countries of Denmark, Sweden and Finland opposition to subsidies is also apparent, but they see the advantages offered by the commission's package.

Sveinn Hjörtur Hjartarson works as an economist for the Icelandic fishing fleet companies that are members of LÍÚ.

– Oil prices are record-high, Hjartarson said, – which could have consequences for parts of the fishing fleet, but we don't want to employ State subsidies. The first thing the fleet does is to use less oil by using less engine power. Those that can use cheaper oil, do so. We will also be looking at more use of catch methods such as line and other equipment that don't require as much energy.

Hjartarson says the industry hopes the high oil prices are a passing event.

– We believe oil prices will fall to a considerably lower level than is the case today, and that this will take place in the not too distant future. If not we will be in dire straits, he concluded.

Oil consumption down by 17 percent

– We've proposed the fishing fleet could be organized in an arrangement similar to that of the international ships' registers such as the Norwegian NIS, Danish DIS and Faroese FAS. With such a system the vessel companies would receive some of the tax paid by ▶

The European Commission views the high oil prices as a good opportunity to withdraw over-capacity in the union's fishing fleet – and to invest more in less energy-demanding boats. Photos: Jógvan H. Gardar.





Line boats use less oil than trawlers, and are less affected by oil prices.



Night has fallen, and a hush has settled over the port. Prospects are gloomy for today's fisherman due to the current high oil prices.

► the crew in return, and in that way receive some compensation for the high oil prices, Viberg Sørensen said. He is chairman of the Faroese vessel owners' association, *Føroya Reiðarafelag (FR)*. So far this proposal has been rejected by the authorities.

Most of the Faroese vessels have cut back on oil consumption by slowing down their speed. This has resulted in a clear dividend, and several have accomplished more than ten percent lower oil consumption. More are also seriously considering how far they should sail to get to the fishing banks. Fishing closer to shore also means lower oil consumption.

The segment of the Faroese fleet that have been hardest hit, are the trawlers which fish in deep water. A significant portion of this fleet have been tied up at quayside for months. It's more expensive to sail out to the fishing grounds, than to pay port fees.

- Oil prices are forcing fishing boat companies and crew to find new solutions. Oil consumption has declined substantially this year, and is 17 percent lower this year than for the same period in 2007, Sørensen said.

Hardest on the small players

In Greenland the small boats have been hit harder than the oil-powered fleet. The director of KNAPK, which represents the interests of fishermen and hunters, John Biilmann, pointed out that the high oil prices particularly affect the small dinghy fishermen and the seal hunters.

- They use small boats with petrol-powered outboard engines, and they need a lot of petrol, because they have a long way to go to the hunting grounds. For example it is impossible for the northern Greenland seal hunters to make ends meet financially. Taking off to shoot a seal is quickly a costly event, Biilmann said.

Jens K. Lyberth, is in charge of fisheries industry matters at the Greenland employers' association GA. He does not think Greenland politicians will subsidise the industry, but is not completely certain.

- To me, it doesn't seem as though there is room for more subsidies within the finance act for 2009. Nonetheless we should remember the Greenland Parliament is holding its

elections in 2009. If enough pressure is put on the political system, then I wouldn't rule out them finding the necessary funds to subsidise the industry, Lyberth said.

In Greenland the feeling is that oil prices could bring about restructuring of the coastal shrimp fishing sector – from smaller boats to larger and more efficient vessels.

- Restructuring is bound to happen – more or less voluntarily, Lyberth said, adding that the seafaring segment of the Greenland fleet has already undergone restructuring.

Hopes situation has peaked

In Norway the Managing Director of the Fishing Boat Owners' Association *FBOA*, Audun Maråk, is optimistic due to oil prices dropping late this summer and he hopes the peak has been reached, and that oil prices will gradually stabilise at a lower level.

- However, demand for oil is expected to remain high, at the same time as we see that the price of oil is very unstable, not least in relation to political conflicts. Therefore it's necessary for us to work on that basis of oil prices remaining at a high level, Maråk said.
- The problem for the Norwegian fisheries industry is meanwhile also that the high oil price and high interest rates make for a strong Norwegian krone, and the strengthening of the Norwegian krone rate has gobbled up most of the growth in fish market prices. At the same time there is a risk that higher food prices in general will reduce demand for fish. But in the long term we are confident prices will on the whole develop positively, Maråk said.

Energy efficiency in regard to diverse regulating and structural initiatives has previously been given emphasis in Norwegian fisheries policy. The industry has often prioritised other conditions rather than energy efficiency when working on fisheries regulation and structural arrangements.

- Both the industry and fisheries management must be willing to think innovation where regulating and structural arrangements are concerned, and a much higher priority given to raising energy efficiency levels of different systems. We are in the process of charting possibilities for improving energy rationalisation in the fishing fleet. The potential here is huge, and it's vital this work is now given top priority.

FBOA says that Norway should prioritise other measures rather than subsidising of the industry to meet cost challenges. Audun Maråk and his organisation are keeping a close watch on events in the EU in regard to the initiatives the union has implemented to help its own fisheries industry.

- If there is political determination to carry out the initiatives the association proposes for reducing costs and increasing profitability in the fleet, and if the EU's initiatives do not appear to be unreasonably imbalanced in relation to fair competition, we believe that subsidising of the industry can then be avoided, Mårak said.

Increased restructuring in the EU

Henrik Svenberg, head of the Swedish fishermen's organisation *Sveriges Fiskares Riksförbund (SFR)* hopes the initiatives the European Commission *EC* has implemented will help. He is nonetheless a little sceptical as to what might happen with parts of the approved rescue package.

- The most important aspect of the EU plan, is that it doesn't set up for pure subsidy packages, but makes demands for restructuring across the entire (EU) union, Svenberg said.
- At one point the commission's plan is in danger of working against its own objective and which is tied up with the direct State funding that is contained in the package.

Energy consumption in the Norwegian fishing fleet

Kilo of oil per kilo of fish

Industrial trawl	0.063
Saithe net coast	0.174
Coastal line	0.205
Rotating seine net	0.259
Net fishing	0.302
Purse seiner	0.3132
Bank line	0.380
Fresh fish trawl	0.785
Factory trawl	0.810
Coast shrimp trawl	1.236
Sea shrimp trawl	1.842

Source: Fiskeribladet Fiskaren/Sintef



In this connection we risk ending up with different levels of adjustment for the member countries. This could upset the balance of competition among the fishermen, Svenberg maintained.

– The commission has clearly shown it is taking the challenges faced by the fisheries industry very seriously, but it also sets distinct criteria for what is necessary to effect changes that generate improved profitability and thus also better management of resources in the sea, he said.

Managing Director of the Danish Fishermen's Association *DFA*, Niels Wichmann, says the fleet must take the opportunity to obtain vessels that use less fuel than is the case today. – Improvements can be made to the vessels regardless of size, he said.

Nils Wichmann says there are two areas in particular in the EU's bunkers package that are of interest to the Danish fishermen.

– Our most crucial possibility for extracting ourselves from the current situation, is to see what we can do with the programme that has been prepared in order to receive support from the European Fisheries Fund *EFF*, so that we can initiate measures to reduce oil consumption. The second possibility we have, is to look at what alternatives there are to fetching better prices for the fish. The system with producer organisations *POs* would be appropriate here, Wichmann said.

No over-capacity

Finland's fisheries industry is a minor industry, and has not been particularly visible in the political and public debate. The Finnish fishermen have tackled increased bunkers prices by staying longer in port than normal.

Kim Jordas, Managing Director for the Finnish commercial fishermen's organisation *Finlands Yrkesfiskarförbund* said;

– We have no over-capacity in the fishing fleet. Therefore it's of no benefit to us if we take fishing boats out of service. We haven't discussed the possibility of subsidies. To the extent we can receive money from the EU package; I would imagine this would go towards cutting oil consumption back on the individual vessel.

As with the other Nordic EU countries the EU package has had a relatively relaxed reception in Finland. The package is intended to complement the structural programme already implemented by the EU for the period 2007–2013.

– We are in dialogue with the authorities to see what we can accomplish, and I anticipate the focus will certainly be on measures to enhance energy efficiency, Jordas concluded.



In Greenland the bigger trawlers are expected to survive reasonably well, while the small coastal boats and one-man dinghies will find it difficult to cope with the high oil prices.

Conclusion summary

Northern Europe and high oil prices

- A common denominator in Northern Europe is that discussions on how the high oil prices should be tackled are to a large extent taken in the fisheries industry. There have been dialogues between governments and the industry, but this has mostly taken place on a familiarisation level. The exception is the Nordic EU countries where the European Commission's rescue package is being examined to see how it can best benefit Danish, Swedish and Finnish fishermen.
- There is widespread Nordic opposition to government subsidies given to the fisheries industry. Instead the discussion is of restructuring and solutions where the focus is on types of equipment, raising the level of energy efficiency in these and initiatives to reduce oil consumption in general.
- Meanwhile, the higher oil price has not persuaded the fishing boat companies to act differently. What appears to be an effect though, is that the discussions and initiatives the industry has already worked on for many years, which are to be more energy-efficient, discharge less and so on, have gained far higher priority in the work programme.

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A golden opportunity

OECD (Organisation for Economic Cooperation and Development) recommends that fisheries nations to take the opportunity resulting from high oil prices to make changes in the fleet structure and to invest in less energy-consuming methods.

In July OECD countries met for a fisheries seminar, where they discussed the high oil prices and how these would affect the entire fisheries sector.

The Director of the fisheries department in OECD, Carl-Christian Schmidt, said they had not arrived at any conclusion as to what would or should take place with the global fisheries sector.

– But we can ascertain that the price of oil is considerably higher now than it was a short while ago, and we must also learn to live with the fact this price will continue to be high in the short, medium-long and long term. The reason being not enough is invested in new oil fields and in finding more oil. Besides there is now limited capacity in regard to refineries, Schmidt said.

But how will the price of oil affect the global fishing fleet and fisheries industry?

– The actual fishing activity will be dearer. For the time being we have not seen seafood prices have increased, but this is bound to come. Food prices in general the world over are increasing, among others through increased demand from so-called new markets such as China and India. These markets are out after more food, and that is pushing prices up.

What solutions does the OECD see for the fisheries sector?

– There are many initiatives that can be started. These include the opportunity to get started on technical changes. We can employ simple methods such as installing gauges on board boats that constantly monitor how much oil is used by the boat. This could in a very basic way influence and teach fishermen how they can save on energy by changing the way they fish. By using these gauges they can become more energy-efficient.

But what are the high oil prices useful for?

– An excellent proposal is to review the restructuring programmes and consider how capacity can be cut. It costs more to be engaged in fishing these days. The authorities and the industry now have a golden opportunity to examine thoroughly the entire management policy, and veer the fisheries sector in a direction that generates more effective and more economically profitable management.

– The authorities can use the opportunity to persuade the sector to be innovative and to spread knowledge on how the fisherman can become more efficient – and less energy-consuming, Carl-Christian Schmidt concluded.



The pelagic fleet requires large quantities of oil, and is harder hit than other segments of the fishing fleet, when oil prices rocket sky-high.

Opportunity for further restructuring

The European Commission (EC) views the high oil prices as a good opportunity to withdraw over-capacity in the union's fishing fleet – and to invest more in less energy-demanding methods.

– International oil prices have multiplied many times over from around USD 20 in 2002 to around USD 150 dollars per barrel of oil in May 2008, and even though the price approached USD 100–110 at the beginning of September, there's no indication it will continue to fall in the next few months. On the contrary it would appear prices will rise again, said Joe Borg, EU Commissioner with responsibility for fisheries and marine issues.

For the European fisheries industry this increase in oil prices has been partially reduced through a lower rate of exchange for the dollar, but the exchange rate only compensates for some of the increase. According to the EC's estimates the exchange rate benefit amounts to – at best – 50 percent.

The price of fuel for the fishing fleet has from 2002 to September in 2008 increased by more than 200 percent. The price per litre this summer was around €0.7, but by September had declined to €0.6.

– This is still an extremely high level of prices, but unfortunately I think this is the level we will just have to get used to in the years to come, Borg said.

Higher oil prices impact the energy-consuming segment of the fleet the hardest. Oil costs for these will amount to more than 50 percent of the value of what they catch.

– This segment of the fleet is not financially sustainable now. Other fleet segments, for instance the line boats are not hit as hard by higher oil prices but nonetheless we are seeing they are also hit badly by the high oil prices.

The EU countries have struggled for many years with a clear over-capacity in the union's fishing fleet, and a number of measures have been implemented to reduce capacity to a level that is more in line with the quotas the union has at its disposal.

– The high price of oil is in addition to the fact the fishing fleet is much too big, even though it has been reduced the last few years. Profitability won't improve, when oil prices rise. Most likely the high cost of oil will be instrumental in reducing capacity in the fleet even further. What we are hoping for is that we will see increased investment in less energy-demanding boats and catch methods, while capacity will decline in the segment of the fleet that consumes more energy.

– This summer we presented a number of pro-

posals for solutions, and have set up for a number of initiatives – both short term and long term – for the fisheries industry, Borg said.

In its package the commission has proposed a number of measures such as reduction of capacity, raising the level of energy efficiency, and various marketing initiatives with the purpose of enhancing the first-hand value of the fish.

– In the long term this will create the basis for a healthy, sustainable fisheries industry. The commission expects the member countries in cooperation with the industry will seize the opportunity to withdraw over-capacity, and to adjust the fleet.

The EU's rescue action

The EU has initiated diverse measures to provide support for the fisheries due to high costs, over-capacity and marketing problems. In total NOK 16 billion is invested in the crisis package, which among other things will be allocated to:

- Funding support towards provisional or permanent halt in fishing
- Structural measures to reduce over-capacity
- Marketing initiatives
- Funding support for fuel-reducing initiatives
- Funding support for early retirement



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