

## Fuel price pushes down profitability for companies

### **Spanish Government and fishing organizations reach agreement to establish funding to counteract losses.**

When just a few months the economic and political world began to get an inkling that the crisis in hydrocarbon prices was going to be something more than just a passing phase and could continue, the most relevant ministers in the Spanish government announced that it was not going to put in place a policy of generalized aid to the most sectors affected, and that everybody had to get by off their own bat.

The persisting rising prices which for the moment, seem to have no holes barred, have shown that hopes such as those are anything but realistic.

Agriculture and fishing share difficulties as regards how to tackle the oil situation: both sectors are faced with extraordinary difficulties in including these increases in production costs for their products. As far as the fish is concerned, this determining factor has become nothing short of a nightmare since the producers hold no control over the price of the product on the market because of the Dutch auction system.

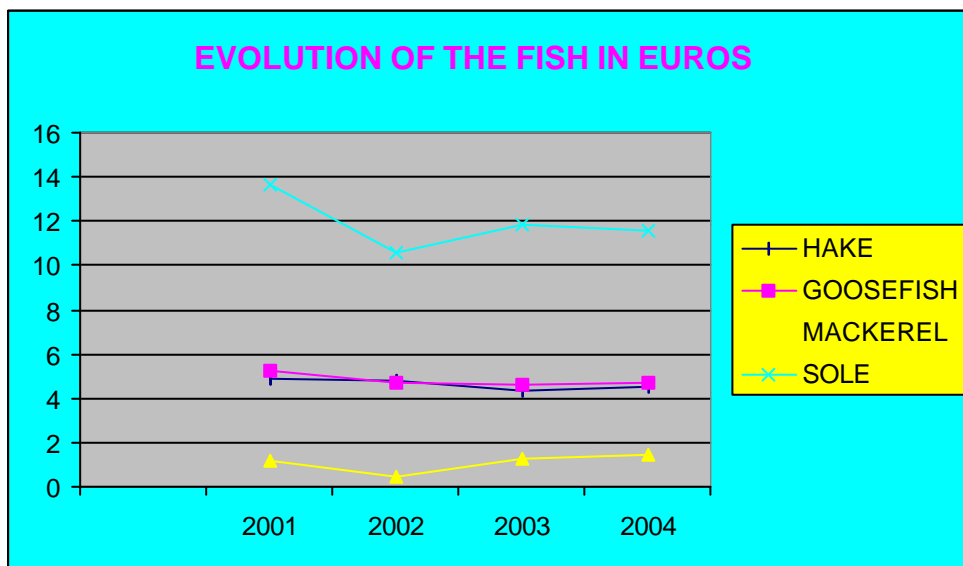
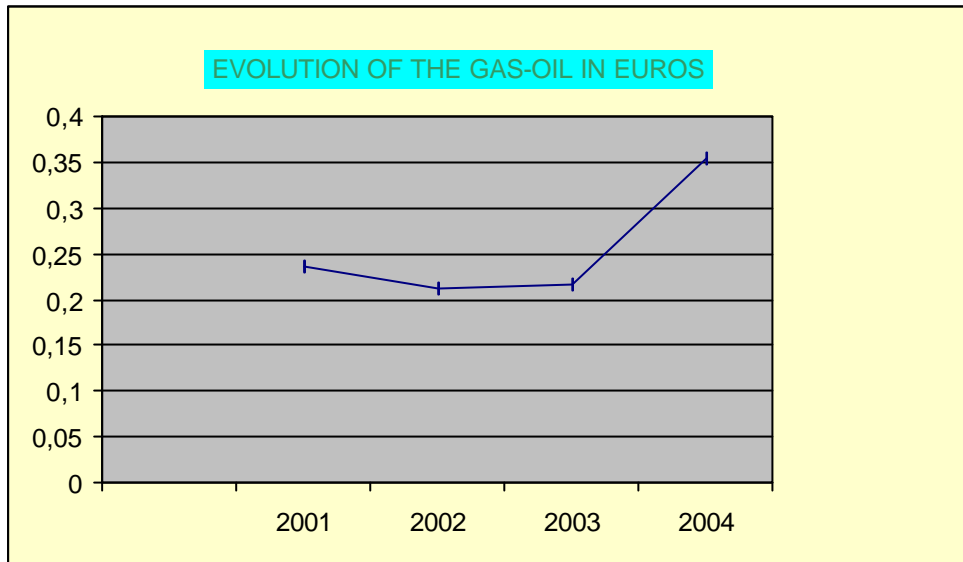
The extractive sector is crying out for bringing the sales system up to date. The drama is that nobody knows precisely what direction such a modernization should take, in other words, the problem has been identified but the solution is a great unknown.

For the time being, the data show, in all their crude reality, the poisonous situation facing the extractive branch of the fishing sector, which fresh hake being sold at around 8 euros/kg since 2000, frozen hake at around 2 euros/kg, small frozen hake at around 1 euro/kg, sardine also at around 2 euros/kg and anchovy at around 2 euros. These are just a few examples, among the more important species, showing a bombproof stability.

Meanwhile, gas-oil for the fishing industry averaged at 0,12 euros per litre in 1998, and 0,14 euros in 1999, just before it rocketed in the previous crisis as from the year 2000 when it stood at 0.25 euros, 0,24 euros in 2001, 0,21 euros in 2002 and 0,22 in 2003. So far this year, the price of gas-oil has increased by 66%, reaching an average of 0,355 euros per litre. This means that since 1998, there has been a 290% increase.

The constant increase in the price of fuel has meant that the profit margin of companies is just a step away from being a thing of the past. The margin between costs and income. The latter supposedly being the *raison d'être* of business concerns, is getting narrower each year. Fuel has always been one of the large items in the exploitation costs, ranking in second place after the social expenditure, albeit at some distance from the latter. Now this distance has been foreshortened. In average sized freezer ship, for example, the costs item for fuel

has risen from 17,66% to 23,19%. In a situation such as this, pessimism has made its mark in the sector.



When going to press, the sector and the Ministry were reaching an agreement which, although it does not come up to the expectations of the industry, is considered to be positive by the negotiators.

As informed by Europa Press, this agreement will mean a maximum of 255 million euros for the Administration.

All ships will benefit from the community Regulation allowing for a 0,06 euro per litre reduction on gas-oil consumption, up to 3,000 euros per beneficiary, for a period of three years, with no prior notification. The total amount involved in this measure is 15 million euros. The maximum per ship will be 500,000 euros, the result of multiplying the number of litres consumed in the period from October 2003 to 30 of September 2004, by 0,06 euros.

Also, zero interest five year loans will be put in place for a maximum of 240 million euros, and a monthly monitoring work group on prices will be set up to ensure follow-up.

As Reinaldo Iglesias, the Deputy Manager of the Cooperative of Shipowners in Vigo, explained to PESCA INTERNACIONAL, this work group will be responsible for following up the situation closely so that, if need be, it will be possible to react with correctional measures if new price changes occur. The Administration will be represented on this work group by the Secretary General himself, Juan Martín Fraguero.

The instrument will be repayable in a five year period, with two years of non-payback and the following rates for repayment: 25% in the third year, 25% in the fourth year and 50% in the fifth.

Despite this not being the agreement hoped for and it not having been signed as swiftly as the problem demands, sector representatives pointed out that the parties are more interested in reaching said agreement and leaving the door open to new measures from the follow up work group.

The measures proposed were signed by Miguel Ángel Fernández Ordóñez, Secretary General for Maritime Fisheries, backed by the Minister of Agriculture and Fisheries, Elena Espinosa. So far, the situation is as follows: the Government will fund 0,06 euros per litre up to 3,000 euros per annum, as accepted by the EU. Another channel accepted by the Government involves granting subsidized credits.

The European Union, for its part, is drastically opposed to any type of funding for the primary sectors beyond what is strictly established in the regulations. Thus, the Spanish Government is lobbying to avoid colliding with the EU.

The sector understands the difficulties involved in making this type of funding tally with the community norms. But it does view this as being possible by imaginative means. In any case, what is certain is that measures put into force in 2000 were not sanctioned in any way by the EU.

For the moment, France is the only country in the Union that has put in place measures to allow its primary sectors to lower their fuel bills. According to information in the regional newspaper "La Voz de Galicia", the French measures will save French fishermen some 0,08 euros, apart from help coming from other funding.

Certainly the situation has worsened to levels that nobody could have dreamt of . With the price of Brent crude oil- the reference price for Europe- at over 50 euros per barrel, meaning 0,30 euros per litre in the case of gas-oil for the fishing industry, what is at stake is the very survival of the Spanish extractive sector.

A further factor that makes the consequences of the amazing rise in the prices of hydrocarbons all the more serious is the high indebtedness of fishing companies following the intense fleet renewal process tackled in recent years. The profit margin could continue to get narrower or, in some cases, turn negative, but the credits still have to be paid in to the financing bodies. What many fishing companies has earmarked for paying back credits has been eaten away by fuel costs. The public administration have some responsibility here because, although fleet renewal is a normal, inevitable process in the life of a fishing company, there is no doubt about the fact that the EU has set out to meet its political objectives by pressurizing to make the plans drawn up in offices in reality. The European fleet is the result of a certain fisheries policy that cannot be understood by the sector which, after putting up with everything, has been left to its fate by various levels of the administration.

Apart from the economic situation caused by the increase in oil price, a serious doubt is at large: what happens if we are not facing a momentary increase? And if the high prices have come to stay and will no longer be front page news?

Many prestigious economists maintain this thesis based on the constant increase in world demand for oil, on the difficulties in putting more oil on the market and on the persistent dependence of nations and the world economy on this source of energy, despite the fact that 30 years have gone by since oil gave the world its first shock, causing an unprecedented crisis.

In the fishing world, there are data pointing in this direction. In 2000, an agreement was signed between the Madrid government and fishing organizations to arbitrate measures to alleviate the serious difficulties caused by the increase in oil price. That year started with gas-oil at 0,20 euros/litre, and the agreement was signed with the price at over 0,30 euros/litre. Since then, in only five months did the figure fall to 0,20 euros which caused so much alarm and led to negotiations between government and the sector.

Certainly the fishing sector, as we know it today, is not prepared for this eventuality. If this situation continues, marine food supply companies are heading for a serious restructuring. Some will leave the sector and those remaining will, for one reason or another, be those who manage to be in a better situation. That is for certain.

Source: Pesca Internacional