

Impact of European Fisheries Fund support for aquaculture

Have the investments made in aquaculture been effective?

Summary of audit results

What did we audit?

The National Audit Office audited whether the aquaculture support of the European Fisheries Fund from 2007–2013 has achieved its goal to increase the volume of aquaculture production without damaging the environment. The National Audit Office also checked whether the goals that are to be achieved in the development of aquaculture during the 2014-2020 financing period are clear.

Why is this important to taxpayers?

The biggest problem in the area of fishery in the world and also in Estonia is the decrease in natural fish resources. Aquaculture – the farming of fish and other aquatic organisms – makes it possible to increase fish production and consumption whilst sparing the decreasing natural resources. The domestic market demand for aquaculture production in Estonia is *ca* 4000-4500 tons per year, the majority of which (e.g. salmon) is imported from abroad. However, domestic aquaculture production has the advantage of being fresh, and the field also gives work to people in rural areas.

17.3 million euros was allocated from the European Fisheries Fund for aquaculture investments in the 2007-2013 financing period in order to achieve the goals. 17.9 million euros is allocated for aquaculture in the new period from 2014-2020.

What did we find and conclude on the basis of the audit?

The National Audit Office is of the opinion that the support granted during the 2007–2013 financial period of the European Fisheries Fund has not helped achieve the goal of increasing aquaculture production. Irrespective of the increase in production capacity, the quantity of aquaculture production is poor and local fish does not reach consumers. The main reasons for this are the problems encountered by applicants in guaranteeing self-financing as well as the omissions in the selection and assessment of projects to be supported, which meant that preference was not given to the projects that had better economic prospects and had been properly thought through.

- **The volume and export of aquaculture production are small compared to production capacities.** The total capacity of Estonian aquaculture farms in 2015 was *ca* 4300 tons, but 795 tons of fish was sold in the same year. The quantity of products sold decreased by 8% in comparison to 2014. This means that consumers are not getting enough fresh local fish. Export has also decreased. The reason for production volumes being so much smaller than production capacities is that farms are not yet working to full capacity and the loss of fish is big.
- **One-third of aquaculture projects that were designated for support were not implemented.** This comprises almost a half (*ca* 8 million euros) of the money with which investments in aquaculture were to be supported. The main reason why projects were not implemented is that the applicants did not have enough money for self-financing, and the omissions in the regulation of the aquaculture investment measure did not favour the selection and support of the best projects. For example, the regulation of the measure did not allow the persons who assessed the projects to rely on expert opinions about the business plans and technological solutions of the projects.

Another reason why projects failed is that many companies who received support had not dealt with aquaculture before and had no experience in the field.

- **The support has not yet had an impact on the economic performance of aquaculture companies.** When the companies that received support were compared to those that did not apply for it, no statistically significant impact was found in the case of the five analysed economic indicators – sales revenue, net profit, return on sales, loan commitments and number of employees. Some exceptions excluded, the money invested in aquaculture has not yet managed to lead to better economic performance from companies. The impact of the support on how the companies cope economically may become evident in the coming years, when they manage to start producing in accordance with the established capacities and increase their sales revenue. Limited product development and the lack of cooperation that would help enter local and foreign markets has also prevented the companies from coping better.
- **The support has promoted the implementation of the recirculation aquaculture technologies where water is recycled in order to reduce the environmental impact,** which is expensive, but makes it possible to control and limit the environmental impact the most when implemented correctly. Managing the environmental impact created by aquaculture is necessary, as the state cannot afford the creation of additional environmental burden on Estonian rivers and coastal waters, as one-third of them are already in moderate status. This means that the environment sets significant restrictions on the development of aquaculture, and the state and companies must keep considering this in the development of aquaculture.
- **The system of environmental charges cannot be applied to fish farms that well and it does not motivate them to reduce the impact on the environment.** The actual pollution caused by fish farms may be bigger than declared due to the omissions in the calculation of the pollution load created by them. This is why their environmental impact may be underestimated, but its share in the total water pollution load in Estonia is small in any case. Exemption from payment of the charge for the use of water resource and the currently inadequate calculation of pollution charges have favoured companies economically, but they do not motivate fish farms to reduce pollution or use water (especially groundwater) sustainably.
- **It is unclear whether and how the development goals specified in the aquaculture strategy and action plan for 2014-2020 will be achieved.** Although the operational programme of the European Maritime and Fisheries Fund for 2014-2020 has been prepared for the development of aquaculture and Estonia has also developed various strategic documents, such as the aquaculture strategy and action plan, and mapped the areas with the best prospects to develop aquaculture, it is not clear in which direction aquaculture should be developed (e.g. marine aquaculture, organic aquaculture, using the advantages of the domestic market). Also, no attention has been given to some of the circumstances that obstructed the increase in fish production, the most important of which is the unjustifiably large loss of fish. The Ministry of Rural Affairs has not even made the final decision about the aquaculture measures that will be financed in the new period.

What did we recommend as a result of the audit?

Important recommendations of the National Audit Office to the Minister of Rural Affairs:

- analyse why some of the fish farms established with the support do not yield production;
- in order to identify the best investment projects, specify the tasks of experts better in the qualification and assessment criteria, and require that expert opinions must be taken into account;
- specify in the 2014-2020 Estonian operational programme of the European Maritime and Fisheries Fund how the new directions (marine aquaculture, organic aquaculture, etc.) should be developed and set additional impact indicators for characterising the success of these directions.

Response of the Minister of Rural Affairs: the follow-up assessment of the 2007-2013 financing period of the European Fisheries Fund will take place on the initiative and at the responsibility of the European Commission, and the Member State and the Management Authority are consulted in the course of it. The extent to which the money was used, the effectiveness of the operational programme and its impact on the aquaculture sector will be checked during the follow-up assessment.

The Ministry of Rural Affairs has promised to make every effort to ensure that expert opinions are relied on during the 2014-2020 implementation period of the European Maritime and Fisheries Fund.

In the context of developing aquaculture, the Ministry of Rural Affairs supports the simplification of the process of granting the licences required for aquaculture whilst understanding the need to protect the marine environment. Upon the implementation of the 2007-2013 aquaculture measures of the European Fisheries Fund, aquaculture was primarily developed via increasing the production volumes and promotion of recirculation aquaculture technologies. According to the regulation of the European Commission, organic products cannot be grown from start to finish in recirculation aquaculture systems. Until now, Estonian aquaculture companies have shown little interest in organic aquaculture and the focus during the 2014-2020 period is therefore on other directions important for the sector.

Major recommendations of the National Audit Office to the Minister of the Environment:

- analyse the impact of the use of water resources by aquaculture on the environment, the abolition of the exception on water resource charge and in the longer term, analyse the impact of setting a possible charge rate on companies and decide whether or not aquaculture companies should pay a charge for water resource use;
- develop a separate regulation for effectively restricting the pollution load from aquaculture farms which would consider the production specifics as well as the competitive situation of the farms .

Response of the Minister of the Environment: the Minister agrees with the proposal of the National Audit Office to analyse whether and to which extent the charge for the use of water resource should be implemented in aquaculture and in the case of different types of water extraction. The economic impact of the charges must be considered here, and the charges should motivate companies to preserve the environment.

The Minister promised to continue discussing the recommendation to develop a methodology for calculating the pollution load which would be suitable for all types of fish farms and would guarantee equal treatment and fair charge for them.