

FAMENET

CT5.2: Simplified cost options
methodology for compensation,
Article 26(2) of Regulation (EU)
2021/1060 (EMFAF)

Technical note

March, 2022

1 Introduction

1.1 Background

The military aggression of Russia against Ukraine since 24 February 2022 has impact on the fishery and aquaculture sector in the EU. The consequences are market disturbance caused by significant cost increases and trade disruptions. This is considered an exceptional event.

Therefore, the Commission has activated the “crisis mechanism” of Article 26(2) of Regulation (EU) 2021/1060 (the EMFAF Regulation) allowing for compensation in case of exceptional events causing a significant disruption of markets.

NB: Under the crisis mechanism, the European Maritime, Fisheries and Aquaculture Fund (EMFAF) may support compensation for certain costs which are not otherwise eligible for such compensation, for operators of the fishery and aquaculture sector for their income foregone or additional costs, and for recognised producer organisations and associations of producer organisations which store fishery products in accordance with Articles 30 and 31 of Regulation (EU) No 1379/2013.

Pursuant to Article 39 of Regulation (EU) 2021/1139, compensation for additional costs or income foregone and other compensations provided under that Regulation is to be granted under any of the forms referred to in points (b) to (e) of Article 53(1) of Regulation (EU) 2021/1060 (CPR)¹. These forms of support are known as “simplified cost options” (SCOs). The methodologies to be established by Member States for their calculation should ensure that support granted pursuant to Article 26(2) of the EMFAF Regulation compensates income foregone and additional costs stemming from the disruption of markets of fishery and aquaculture products caused by the military aggression of Russia against Ukraine.

As part of the crisis response, the Commission also adopted a temporary state aid framework on 23 March 2022² that covers the fishery and aquaculture sectors, allowing for businesses to be supported by up to €35,000 with state aid.

1.2 Purpose and target groups

The purpose of this technical note is to provide DG MARE and EMFAF programme Managing Authorities with technical information on how SCOs could be used to implement the compensation of Article 26(2) of the EMFAF Regulation in the specific case of the disruption of markets caused by the military aggression of Russia against Ukraine.

The methodologies in this technical note are intended to serve as assistance and inspiration for a quick implementation of compensation. The two cases presented are therefore to be considered examples which can be adjusted as necessary. They are not exclusive options.

¹ Article 53 of 2021/1060: (b) unit costs; (c) lump sums; (d) flat-rate financing; (e) a combination of the forms referred to in points (a) to (d), provided that each form covers different categories of costs or where they are used for different projects forming a part of an operation or for successive phases of an operation;

² https://ec.europa.eu/commission/presscorner/detail/en/statement_22_1949

2 Simplified cost options (SCOs)

In 2021, FAMENET's predecessor FAME developed a working paper on SCOs. There the legal framework and the different SCOs were explained in detail.

It can be found here:

https://ec.europa.eu/oceans-and-fisheries/funding/fisheries-and-aquaculture-monitoring-and-evaluation-fame_en

2.1 Proposal of programme-specific SCOs in the case of compensation

It is proposed to use two different SCOs for compensation in this current exceptional event:

- 1) Compensation to operators of the fishery and aquaculture sector (along the entire value chain) for the additional costs incurred as a consequence of the crisis.

The current suggestion builds on the experience of compensation introduced in the EMFF in 2020 to mitigate the effects of the COVID-19 crisis³. Although the COVID-19 compensations had a different purpose, they offer a useful comparison case.

The methodology for the calculation established in accordance with Article 53(3) of the CPR should not be included in the programme.

- 2) Compensation to fishers for their income foregone incurred because of the temporary disruption or interruption of their fishing activities due to the military aggression of Russia against Ukraine.

This only concerns vessels operating in the Black Sea that have to stop or reduce their activities because of Russian military operations. This compensation for income foregone is not a compensation for the temporary interruption of fishing activities in the framework of Article 21 of the EMFAF Regulation as military operations are not a case triggering temporary cessation under that Article. Concretely, the cessation subject to compensation does not stem from a decision from public authorities to stop activities (which is the case under Article 21) but from a factual impossibility to fish because of the Russian military aggression. In the same manner, the eligibility requirements for temporary cessation of fishing activities in the framework of Article 21 of the EMFAF Regulation do not apply in this case.

³ Regulation (EU) 2020/560 of the European Parliament and of the Council of 23 April 2020 amending Regulations (EU) No 508/2014 and (EU) No 1379/2013 as regards specific measures to mitigate the impact of the COVID-19 outbreak in the fishery and aquaculture sector. PE/9/2020/REV/1. OJ L 130, 24.4.2020, p. 11–17

Table 1: Case 1, compensation to operators of the fishery and aquaculture sector

Compensation rationale	Compensation to operators of the fishery and aquaculture sector for the increased costs of production, processing and marketing caused by the effects of the military aggression of Russia against Ukraine.
Type of SCO	Unit cost for increased costs of production, processing and marketing, taking the form of a top-up for EUR of cost of production, processing and marketing per tonne of product made available on the market before the war.
Calculation method	<p>Pursuant to Article 53(3) of Regulation (EU) 2021/1060, the MS has to apply a fair, equitable and verifiable calculation method.</p> <p>The assumption here is that the operators had before the start of the military aggression of Russia against Ukraine certain operating expenses over their entire business cycle best expressed in EUR of total operating expenses for one tonne of product brought to the market (or sold to an intermediary).</p> <p>The requirement for compensation is an increased ratio EUR of total operating expenses/tonne of product caused by the effects of the military aggression of Russia against Ukraine. It is not necessary to define the business-cycle cost components most affected. Under the given circumstance and the snowball effect of increased costs at one stage of the production, the global ratio is sufficient.</p> <p>The MS needs to define the increased operating expenses for 2022 in comparison to the operating expenses 2021. Due to the urgency of the situation and the lack of historic and statistical data, this is best done using experts' and stakeholders' assessment broken down per type and size of the operators. The breakdown is required to better reflect the situation in the market, where smaller operators might be more affected due to their internal cost structure. In all cases the methodology should be properly documented and archived for future reviews.</p> <p>The unit cost in this case is the cost per tonne (EUR/tonne) of product made available on the market before the war. The unit cost will take into consideration the operating expenses in 2021 for the given month (taking into account the seasonality of some sectors and operators). To this baseline a top-up (for example 20%, 30% based on type and size) is added for the respective month in 2022.</p> <p>Pursuant to Article 53(3)(a) of Regulation (EU) 2021/1060, the calculation method must be based on:</p> <ul style="list-style-type: none"> (i) statistical data, other objective information or an expert judgement; (ii) the verified historical data of individual beneficiaries; (iii) the application of the usual cost accounting practices of individual beneficiaries. <p>All necessary data at the level of the beneficiary should be readily available in the profit & loss accounts for 2021 (or similar documentation) and the current sales records for 2022. In lack of such documentation the average monthly operating expenses (or turnover) by operators' size can be estimated ex-ante on the basis of</p>

	<p>national statistics.</p> <p>The number of potential beneficiaries should be estimated in advance (for example based on the fleet register in case of fishers, chambers and professional databases or other suitable registers such as the tax registry or an MA assessment) in order to define the change in the distribution of the financial allocation initially envisaged in the EMFAF-programme.</p> <p>The reference period for the grant cannot exceed the number of months in total for the period from 24 February to 31 December 2022, for each operator.</p> <p>It is advisable to consult a tax advisor, auditor or accountant for applying for compensation, since the unit cost is based on operating expenses that have been declared to the tax authorities. This should help to prevent retrospective recovery of the grant in the event of inaccurate information.</p>
<p>Involvement of the audit authority</p>	<p>The audit authority (AA) should be consulted on this SCO, but formal approval is not necessary.</p>
<p>Type of beneficiaries</p>	<p>Support shall only be granted to operators of the fishery and aquaculture sector. Applicants must comply with all relevant legal requirements under national and Union law, as well with Article 11 (on the admissibility of applications) and Article 12 (on eligibility of support) of the EMFAF Regulation.</p> <p>Applicants should be active in business for at least 1 year.</p>
<p>Rational for the introduction of the SCO</p>	<p>Compensation targets all increased costs of production, processing and marketing caused by the effects of the military aggression of Russia against Ukraine.</p> <p>Examples are operators that as a consequence have lost their previous markets or have limited access to them. It can also be operators who depend on buying raw material for their fish feed in Ukraine or Russia, or companies in the canning industry depending on sunflower oil, which is currently heavily affected. These operators are mainly micro-enterprises and SMEs and may need to find new markets, which takes time and requires sufficient resources, yet they lack the financial reserves to cover on-going costs. The operators may use the granted compensations to cover their temporary income foregone or additional costs. This ensures that they can continue their activities. Thus, the scheme will help mitigate shocks to the entire sector by avoiding downsizing measures such as staff reduction and business suspension.</p> <p>By using SCOs for EMFAF support, it is expected to speed up payments to beneficiaries substantially through a reduction of handling times for payment claims.</p> <p>Using the SCOs for this compensation should lead to a significant reduction of administrative burdens for both the beneficiary and the managing authority. There is no requirement to check invoices and receipts, and the remaining checks required are not as time-consuming.</p> <p>The applications should be processed electronically as far as possible.</p>

Table 2: Case 2, compensation for temporary disruption or interruption of fishing activities

Compensation rationale	Compensation of income foregone incurred because of the temporary disruption or interruption of fishing activities caused by the effects of the military aggression of Russia against Ukraine.
Type of SCO	Lump sum for income foregone based on vessel' income (EUR / day), which may take into account the size of the vessel (for example based on length).
Calculation method	<p>Pursuant to Article 53(3) of Regulation (EU) 2021/1060, the MS has to apply a fair, equitable and verifiable calculation method.</p> <p>The compensation for the number of days of temporary disruption or interruption of the vessels (EUR / day) is calculated by an assessment of the average turnover across the fleet in the previous years (e.g. the last three years). The amount of the compensation may be differentiated according to the size of the vessel to cater for deviations related to the impact of the size (for example for SSCF).</p> <p>Typically, the compensation may be estimated pro rata on the annual turnover (annual turnover x days cessation / reference annual period⁴), with a deduction for costs not incurred due to the temporary disruption or interruption of fishing trips (e.g. consumables, crew wages if applicable). However, Member States may choose alternative adequate and plausible methods for assessing the loss of income as a result of temporary interruptions.</p> <p>The average annual turnover by vessel length class can be estimated ex-ante on the basis of the information collected nationally or at EU level such DCF data, value of landings data, first sales data etc. or published by the Joint Research Centre (JRC) in the STECF Annual Economic Reports⁵.</p> <p>The lump sum is paid out for each non-active day reported and justified by the applicants. The duration of the eligible temporary disruption/interruption period should exclude the periods during which fishing activities are limited by conservation and management measures (e.g. fishing bans, effort limits).</p> <p>The number of potential beneficiaries should be estimated in advance (for example based on the fleet register or other suitable registers such as the tax registry or an MA assessment) in order to define the change in the distribution of the financial allocation initially envisaged in the EMFAF programme.</p> <p>The reference period of the grant cannot exceed the number of days in total for the period from 24 February to 31 December 2022, for each vessel.</p>
Involvement of the audit authority	The audit authority (AA) should be consulted on this SCO, but formal approval is not necessary.
Type of beneficiaries	Beneficiaries of the financial support can be owners or operators ⁶ of fishing vessels which have been effectively engaged in fishing activity at sea for a certain period of time (e.g. to receive compensation for March 2022, the vessels should have been active in March 2021). The national authorities should ensure that support is granted only to active vessels and not dormant vessels. Specific adjustments should be considered for owners of fishing vessels that entered the fleet very recently as they do not have a sufficiently long history of activity on

⁴ In general 365 days. However, in some cases the reference period may be shorter if fishing bans apply (for example, some trawlers in the Mediterranean Sea are limited to a maximum of 250 day fishing per year)

⁵ Publicly available at <https://stecf.jrc.ec.europa.eu/reports/economic>

⁶ Ensure it is in line with article 11 “Admissibility of applications” of the EMFAF Regulation 2021/1139

	<p>which to base the calculation.</p> <p>Applicants must comply with all relevant legal requirements under national and Union law, as well with Article 11 (on the admissibility of applications) and Article 12 (on eligibility of support) of the EMFAF Regulation.</p>
Rational for the introduction of the SCO	<p>The aim of the funding is to mitigate the significant socio-economic effects on operators and the need for liquidity caused by the temporary disruption of activity due to the military aggression of Russia against Ukraine.</p> <p>EU fishing vessels operating in the Black Sea are facing the threat of possible military activities. Consequently, they are forced to stay in port with socio-economic consequences in certain communities where fishing plays a key role and the owners and operators may need financial support to cover the temporary financial losses due to the temporary interruption of their fishing activities.</p> <p>The support will ensure that they can continue their activities in the longer term, once the crisis is over and thus help mitigate temporary and immediate shocks that can lead to business suspension. The support should cover both smaller and bigger operators, making it possible to keep family businesses running and saving jobs.</p> <p>By using SCOs for EMFAF support, it is expected to speed up payments to beneficiaries substantially through a reduction of handling times for payment claims.</p> <p>Using the SCOs for this compensation should lead to a significant reduction of administrative burden for both the beneficiary and the managing authority. There is no requirement to check invoices and receipts, and the remaining checks required are not as time-consuming.</p> <p>The applications should be processed electronically to the extent possible.</p>