

Analysis of the accounts of Scapêche Intermarché's fishing fleet

The fleet of French supermarket chain Intermarché, "Scapêche", is the largest French deep-sea fleet, with six bottom trawlers targeting deep-sea species, mainly in UK waters. In July 2012, the European Commission proposed to phase out deep-sea bottom trawling, a fishing method which has been described by researchers as « the most destructive fishing gear in history ». Scapêche is therefore subject to scrutiny as the reform of the EU's deep-sea fisheries management regime is underway. Scapêche has claimed to be transparent, profitable and a major employer, but since 2009 and despite legal requirements, has failed to publish its accounts. If EU citizens and decision-makers, including members of the European Parliament, are to formulate an informed opinion on the implications of the Commission proposal, they need to know what Scapêche's socio-economic contribution is. In an effort to discover this information, BLOOM initiated legal proceedings to obtain Scapêche's 2009–2011 accounts, which were finally published in Mid-January 2013.

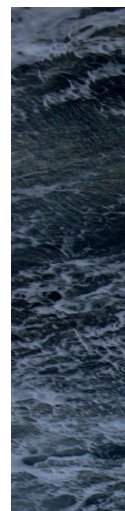
Analysis of the accounts clearly contradicts Scapêche's claims: Intermarché's fishing activity runs at a chronic loss and is not economically viable. Despite receiving nearly €10 million in public subsidies from France and the EU between 2002 and 2011 and just under €20 million in debt write-offs and capital increase from Intermarché, Scapêche has accumulated €19.5 million recurring losses (excluding exceptional profits and losses)¹. This confirms BLOOM's previous findings on the economic underperformance of the French industrial deep-sea fleets.

¹ - Source: accounts certified by KPMG (subject to errors and omissions from our end)

Despite benefiting from tax-free fuel, the fleet's fuel costs still amount to 25% of Scapêche's turnover. Without the tax exemption, fuel costs would be equivalent to 50% of turnover and would lead to an approximate operating loss equal to 33% of turnover. Because of the sustained increase in fuel costs, operators are pressured to modernize their fleet in an effort to improve energy efficiency. The increased productivity of boats is not infinite and the investment capacity of fishing companies is limited. Fleets are therefore faced with an impossible equation that they fail to solve despite the substantial public subsidies they receive.

This case study reveals that the fishing activity of Scapêche is unprofitable despite sunken millions of public funds. A company like Scapêche would not exist if it were not financially backed up by a group with access to markets and final consumers, such as Intermarché. Moreover, it is worth noting that Intermarché benefits from reduced fish prices and increased profit margins thanks to taxpayer's money.

Such economically inefficient fishing activities represent a net drain on society, while imposing very high and unnecessary stress on vulnerable marine environments and species. This case study highlights a thoroughly dysfunctional business model and questions why, at a time of acute economic crisis and ambitious goals to reform EU fisheries shown by members of the EU Parliament through the Common Fisheries Policy vote, the EU should subsidize ecologically problematic and economically underperforming fishing fleets.



Fleet restructure

After record losses of €3.6 million against turnover of €12.9 million in 2004, 2005 was a pivotal year for Scapêche. Thanks to subsidies from the EU, the French State, the region and the département totaling €5.35 million, Scapêche's fleet underwent a deep restructure to try and reverse the situation.

In 2005, the company built three new 46m trawlers (Mariette Le Roch II, Jean Claude Coulon II, Jack Abry II) and sold three of its 54m trawlers (Jean Rioton, Albert Granet, Claude Moinier), with a fourth one still for sale.

The restructure continued with the 2006 purchase from SNC SPARFEL of two 38m trawlers (Jean Leclerc & Mariette Le Roch I) although they stopped being used that same year, the new boats having proved more productive.

In 2008, Scapêche inherited five 33m trawlers following the "Transmission Universelle de Patrimoine" (Universal Transfer of Assets) from the AAPC (Armement Atlantique Pêche Concarneau) and bought a new 28m trawler. At the same time, the company completed the sale of its « Ronsard » and « Marie Joseph » vessels, and received a State subsidy for decommissioning the « Mariette Le Roch I » and « Simon Keghian II ».

"Scapêche's accounts reveal a cynical view of 'fishing' which is no longer an autonomous and viable activity but instead, a strategy to capture wild marine resources on the backs of taxpayers, for the sole benefit of a retail giant." - Claire Nouvian, Founder of BLOOM

In 2009, the company sold the « Eureka » and acquired a secondhand purse seiner (« Tximistarri II ») which Scapêche started operating jointly with the ship's owner in 2010.

In 2011, Scapêche acquired an 80% share in the « Mirentxu I », a purse seiner in shared operation, and sold a 30% share of the « Tximistarri II ». In conformity with the relevant agreements, it also purchased the « Jack Abry II » from the Fiscal and Economic Interest Group which financed it (GIE PETREL). The vessel became stranded a month later and Scapêche obtained compensation from its insurance company.

According to the audited accounts of the company, Scapêche owns, at the end of 2011, the following nine ships (Scapêche's website indicates a fleet of 17 ships but they are nowhere mentioned in the company's accounts):

- Two 46m trawlers purchased in 2005.
- Four 33m trawlers handed inherited from the AAPC.

- One 28m trawler purchased in 2008.
- Two shared operation purse seiners of which it owns respectively 80% and 60%.

Public subsidies

Between 2004 and 2011, the company benefited from four types of subsidies:

- **Investment subsidies from the European Union, the French State, the region and the département:** €3.1 million received between 2004 and 2005 which were used to fund the construction of three new 46m trawlers, and €0.24 million inherited from the AAPC (Armement Atlantique Pêche Concarneau) in 2008.
- **Buyback subsidies:** €1.29 million for decommissioning the « Mariette Le Roch I » and €0.96 million for decommissioning the « Simon Keghian II », totalling €2.25 million in 2008.
- **A direct fuel subsidy from the Fonds de Prévention des Aléas de la Pêche (FPAP – 'Fund for the prevention of fishing hazards')** handed out in 2004, 2005 and 2006 amounting to €2.8 million. The European Commission, having ruled that the FPAP was illegal, demanded that its subsidies be refunded by operators in 2008. Provision against this debt was only logged in the company's accounts in 2009, hence leading to an artificial inflation of the 2004/2005/2006 results and to an exceptional expense of €2.8 million in 2009.
- **Disguised subsidies in the form of "environmental services".** Since 2008, fishing companies who comply with certain rules encouraging « sustainable and responsible fisheries » (such as a reduction in the duration of fishing trips or conducting deep-sea fishing activities further away from the coast) are entitled to invoice « Blue Contracts » to a co-operative (called "Ar Mor Glaz") set up for this purpose in 2008 ².

1 - The Fonds de Prévention des Aléas de la Pêche (FPAP – 'Fund for the prevention of fishing hazards') was created in April 2004 to help fishing companies cope with the rise in fuel prices. This state aid was considered to be incompatible with the common market and was pulled out at the beginning of 2007 (the FPAP was dissolved on 27 February 2008). The companies concerned therefore benefited from those cash injections from 2004 to 2006. On 20 May 2008, the European Commission ruled that the recipient companies, not the State, should pay back the €87 million which had been paid out over the three years (Decision 2008/936/CE). The euro-compatibility of the subsequent "Plan Barrière" and the €310 million earmarked for the fishing industry depended on it.

2 - The Ar Mor Glaz co-operative, set up in 2008 to allocate public subsidies in the form of « State credits » (€37 million in 2008 and 2009, €18.75 million in 2010 and €12.5 million in 2011, 2012 and 2013) continues to hand out public funds in 2013. Currently 224 trawlers are members of the co-operative. Let's note that the subsidies received by Scapêche in 2010 through the so called « Blue Contracts » represent more than 4.5% of the total amount allocated nationally to the fisheries sector, and more than 5.4% in 2008/2009. It is also worth noting that the collection of discarded nets and waste is a prerequisite to receiving the subsidies (see measure 3 « collection of discarded nets and waste » in the requirements for all contracts). This compulsory practice has been highlighted by Scapêche in its « Responsible Fishing » label, implemented by the Bureau Veritas consultancy, as per a list of specifications which, still to this day, have not been made available to the public (see slide 11 of the following presentation made by Scapêche to the European Com-

Those measures (part of the « Plan Barnier ») were put in place as a result of protests by fishermen in the face of soaring fuel prices in 2007, and were supported by the Agriculture and Fisheries Minister of the time, Michel Barnier.

Those invoices by Scapêche in 2008, 2009 and 2010 amounted to, respectively, €0.4 million, €1.6 million and €0.85 million. Although the exact amount of the 2011 invoices is not mentioned in the audit report, those can be reasonably approximated to 4% of turnover, or €0.9 million, taking the total of such invoices by Scapêche to €3.75 million since the implementation of this mechanism of public funding.³

Financial Results

Scapêche's turnover may have practically doubled in ten years, but its financial results have been chronically loss-making since 2002.

- At the end of 2004, despite a €13 million debt write-off by Intermarché (ITME), the company shows a negative net worth of €4.6 million.
- In 2005, Scapêche's €3.54 million net profit after tax was only secured thanks to another €3.9 million debt write-off by Intermarché (ITME). Meanwhile, the company's net worth, increased by a €3 million injection of investment subsidies, neared zero.
- 2006 and 2007 were the only years bucking the trend, perhaps thanks to the fleet restructuring bearing fruit. In 2006, Scapêche managed a €1.06 million profit which, when taking into account the direct fuel subsidies (FPAP handouts later to be deducted) and the €0.49 million exceptional profit from the sale of the « Jean Leclerc » vessel, disguised in fact a net result nearing zero. In 2007, the company nearly broke even, achieving a €0.37 million profit.
- In 2008, the decommissioning of the « Mariette Le Roch I » and « Simon Keghian II » enabled the company to make an exceptional profit of €2.1 million, which mostly offset the €2.9 million exceptional loss generated by the acquisition of the Armement Atlantique Pêche Concarneau. In spite of this, the company still made a net loss of €3.13 million.
- In 2009, following the imposed refund of direct fuel subsidies (FPAP handouts), the company was obliged to account for €2.8 million worth of provisions for

contingencies. Despite the €1.8 million generated by « Blue Contracts », €0.2 million of investment subsidies reintegrated into profit and a €1.1 million exceptional profit from the sale of the « Eureka », the loss for that year came to €3.26 million.

- 2010 shows a net loss of €2.08 million and a negative net worth of €6.3 million.
- In 2011, the company's €1.1 million net profit after tax was entirely artificial. It included €2.98 million worth of exceptional profit due to the stranding of the « Jack Abry II » in late January. The ship, repurchased from the Fiscal and Economic Interest Group (GIE PETREL) for €5.7 million in early January, was the subject of a €8.5 million settlement by the insurance company.
- It is worth noting that in 2011, a €2.75 million increase in capital was made by Intermarché to rebuild Scapêche's equity, which had dipped to under 50% of the company's capital (statutory requirement).

Between 2002 and 2011, with an accumulated net loss after tax of €0.1 million, the company barely breaks even despite €9.3 million subsidies and €16.9 million debt write-offs from Intermarché. Over this period, Scapêche has amassed €19.5 million recurring losses.

“Scapêche's core activity – fishing – is unprofitable, in spite of substantial public funding. The company would not be viable if it were not backed up by the Intermarché group.” - Denis Berger, treasurer of BLOOM

Debts

Between 2005 and 2011, Scapêche's debts with banks never stopped decreasing, going from €9.8 million to €3.8 million. Over that same period, debts with the group (ITME, COMASUD, COMATA, COFIPAR) evolved in the opposite direction, increasing from €6.4 million in 2005 to €16.7 million in 2011.

Given the company's results over that period, it is no wonder that the banks sought to reduce their lending commitments to the business and that Scapêche had to increasingly rely on the help of its parent companies.

Reminder: Scapêche benefited from two debt write-offs with « better-fortune » clauses, worth €13 million in 2002 and €3.9 million in 2005, granted by ITME (Intermarché). In other words, a 'gift' worth nearly €17 million over the last nine years. As things currently stand, it is likely that Intermarché's €16.7 million current account with Scapêche will be subject to a further debt write-off in the short to medium term.

mission on 16/11/2011: http://ec.europa.eu/fisheries/news_and_events/events/161110/project04_fr.pdf.

3-The amount gained in the form of Blue Contracts for 2011 is not indicated, but the audit report nevertheless points out: « The principle of « Ar Mor Glaz » Blue Contracts which are invoiced to a cooperative for environmental services carried out by fishing companies is reminded. »

Future prospects

The company's prospects are not encouraging. The restructuring of the fleet has failed to improve the company's situation, as Scapêche's activity itself is inherently loss-making.

Over the last four years, with the exception of 2009, the company's operating result (turnover minus operating costs) has always been negative. Cumulative operating losses over the period have reached €2.7 million. Without investment subsidies (€0.9 million) and « Blue Contracts » invoicing (€3.75 million including our estimation for 2011), the period's cumulative operating losses would reach €7.35 million.

Below is a summary of Scapêche's average operating costs, as a percentage of turnover, over the last four years.

Turnover	100 %
Write-backs of depreciation/transfers of expenses	1 %
Blue contract invoicing (included in turnover)	-4 %
Total operating revenues (subsidies excluded)	97 %
Raw materials and other supplies	-32 %
Other purchases and expenses	-41 %
Taxes	-2 %
Wages and salaries	-22 %
Social security contributions	-2 %
Depreciations	-6 %
Provisions for contingencies	-0 %
Total operating costs	-105 %
Operating result (subsidies excluded)	-8 %

With the exclusion of investment subsidies and « Blue Contracts » from the operating income, the company loses, through its core activity, 8% of its turnover.

Despite a tax exemption which reduces fuel costs by half, fuel charges on their own represent more than 25% of the fleet's turnover (without the exemption,

it would account for more than 50% of turnover and would lead to an average operating loss equal to 33% of turnover).

Fuel costs, which have increased steadily over the years and which operators have no means of controlling other than the modernization of their fleet, make it an almost impossible, even absurd, equation to solve: the increased productivity of boats is not infinite and the investment capacity of fishing companies is necessarily limited.

In light of those figures, Scapêche's core activity is clearly not sustainable without the support of Intermarché and the various public subsidies it receives.

Conclusion

Since 2002, in spite of some €10 million received in various subsidies and an injection of €20 million by the Intermarché group, Scapêche has accumulated more than €19 million in recurring losses.

In the last four years, despite the company having received nearly €5 million in « operating subsidies » (5% of turnover), its operating losses came up to €2.7 million (3% of turnover). Is that due to fish stocks trading too low or to advantageous transfer prices being granted to parent companies? In any case, Scapêche is selling the fish it catches below cost prices.

This analysis opens to public scrutiny a fundamental question: are public funds intended to shore up a non-viable fishing business, which provides few jobs, has a devastating effect on the environment and belongs to a major French retailer?

Despite receiving nearly €10 million in public subsidies from France and the EU between 2002 and 2011 and €20 million in debt write-offs and capital increase from Intermarché, Scapêche has accumulated €19 million recurring losses.



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