

6 Prospects for the evolution of the scheme

6.1 *The aims of the decommissioning scheme.*

197. The removal of fishing capacity or effort in any over-exploited fishery is often traditionally achieved through a decommissioning scheme. The EU's scheme has been a central element of structural policy since the Common Fisheries Policy (CFP) was first agreed. The problem with Community policy is that one element often contradicts another. An example of this is that prior to MAGP II, most member states were still receiving EU grants for fleet modernisation and construction, without a corresponding reduction in overall fleet capacity. The original CFP's aim was to preserve the stocks and the socio-economic balance in fishing communities. These goals were contradictory. MAGP III was the first real attempt to integrate the two elements of EU Policy, i.e. the conservation and the fleet structures regulation.

198. Its direction evolved from the 1990 / 91 Gulland report which based fleet reduction targets on the required reductions in effort on particular target species, differentiated according to the demersal, benthic and pelagic fishing methods. However, whilst for the first time identifying a series of fleet segments, the policy still retained the definitions of capacity as employed in the previous programmes, i.e. fleet tonnage (GRT) and engine size (kW), with variations in award made according to differentials in fleet size and age (Annex IV EC Reg 3699/93). It did not attempt to link its capacity definitions to those vessels which necessarily caught more fish or which fished at sea for longer periods. In effect, its methodology was to set targets for the reduction in the size of the fleet rather than the individual vessel effort on particular stocks.

199. The UK, having failed to comply with the targets set for MAGP II, was faced with the prospect of having to achieve very ambitious targets, with the primary objective of reducing tonnage rather than effort (or by implication fishing by the most efficient vessels). Countries such as Denmark, having complied with the original targets set in MAGP III, were able to address other priorities and were in a position to set priorities based on alternative criteria. These included giving priority to vessels expending fishing time on stocks under the greatest degree of pressure, those vessels of higher average age (with the perceived goal of reducing the average age of the fleet) and giving most assistance to those fishermen nearing the age of retirement.

200. Any evaluation of the UK scheme should note that while the EU's methodology (as defined in EC Regulation 3699 / 93) achieved some reduction in effort, it might be more productive if targeted at the payment of higher awards to those vessels placing greater pressure on the stocks and fishing more efficiently. Many of the fishermen interviewed in the survey have expressed this view as did the UK Government (House of Commons Agriculture Committee Report) and the European Community's Court of Auditors (Special Report 3 / 93). The existing scheme merely implies that by reducing capacity this will in turn reduce effort. This is only partially correct.

201. On the basis of separate interviews, the UK Fisheries Departments have identified four key goals of decommissioning and additional structural accompanying measures, notably fleet licensing policy.

202. Both MAFF and SOAEFD have stressed the importance of reducing first capacity and then, effort. If possible, this should be achieved through market forces. The other structural goals identified include, a reduction in the average age of the fleet and the maintenance of fishing dependent areas (or a community orientated fleet). This last objective was identified by the Northern Ireland Office as being particularly important. The difficulty is that the latter is likely to be in sharp contrast with the movement towards market forces, which is beginning to yield considerable dividends in terms of structural adjustment. These contradictions are mirrored by the views of all elements of the industry.

203. A majority in the industry appears to accept the fact that there is an imbalance in the availability of stocks and the existing capacity of the fleet. Historically, it has sought to

advance the case for fleet decommissioning. However, our survey has identified a number of evolving features, which include:

- Whilst there is a recognition of the need to reduce capacity through decommissioning, there is a growing view that fleet licensing policy, either through the aggregation of licenses or a growing exchange in quota entitlements, is now achieving the same end. This appears to be more apparent following the introduction of additional licensing restrictions (February 1996) and the previous decision to attach track records to licences (as from January, 1995)
- Decommissioning has, to date, failed to attract those vessels expending the highest degrees of effort on the stocks and has been limited to those vessels on the margins of the fishery, i.e. those vessels consistently making a loss, vessels nearing the end of their economic life or those vessels whose skippers are nearing retirement and have no family to replace them when they retire
- Within the confines of both past and current budgetary limits, decommissioning will never have any impact on the most profitable fisheries. The survey shows that vessel owners who did not consider decommissioning would only be attracted, if at all, by tenders well in excess of the existing marginal rates.

204. However, the industry identified several concerns regarding the consequences of a decommissioning scheme. These included:

- the restructuring of the fleet through either:
 - a) greater capitalisation of the industry and a gradual movement in most sectors towards larger vessels;
 - b) the increase in the level of capitalisation in the under 10m sector due to decommissioned owners purchasing vessels in this sector
- the impact on the local infrastructure in some communities
- a reduction in jobs dependent on the industry in particular communities
- the increase in the value of licences linked directly to the marginal prices offered to vessel owners accepting decommissioning
- an increase in the price of second hand vessels
- the reluctance of many owners to apply for decommissioning, irrespective of financial attraction, because of the prospect of having to destroy their vessels

6.2 Value for money

205. In view of the conditions set by MAGP III, the UK decommissioning scheme has been successful. The success can be judged on four main counts:

1. Through the operation of the tendering scheme, it has managed to secure payments in the scheme at a value considerably lower than the estimated capital worth of those vessels leaving the fleet.
2. The cost of the UK scheme has been considerably cheaper than the scheme proposed by the EU (£20 M) and subsequently adopted by most of the other EU member states;
3. When the additionality element is taken into account, the difference between the gross and net costs per VCU is only 14 per cent.
4. It has provided funds for re-investment into the sector strengthening competition for licences and facilitating further licence aggregation. In many respects the re-allocation of funds into the purchase of newer vessels has all the hallmarks of a scrap and build policy

206. The industry itself has also benefited in that the scheme has significantly reduced the potential fishing capacity in the fleet and led to a rapid increase in the demand for licences and track records for those remaining. This has considerably enhanced the capital worth of individual assets. It is doubtful though, that major inroads have been made towards reducing the effective fishing capacity in the fleet as a whole. The vessels leaving the industry have tended to be on the margins of fishing activity, with low earnings, fewer than average days at sea and generally (except for the nephrops and beam trawl sector) low catch levels. The removal of effective fishing capacity would only have been achieved if the scheme had involved an effort component. Without substantially larger funds, this would have resulted in fewer vessels applying and the maintenance of potential capacity at a higher levels than exists today.

207. There are question marks over value for money. The first concerns the re-distribution of quota to the industry on a pro rata basis without exacting a rental for the enhanced quota benefits. In view of the relatively low levels of quota redistribution, it is doubtful that the Government would have achieved significant earnings from the sale of quota. However, if the scheme is to continue, it will attract vessels with more substantial track records. Similarly, the number of fishing vessel licences in circulation will reduce, thus increasing competition for those licences remaining, and further increasing the value of individual assets. If the scheme is to continue on this basis, the Government should seek either to extract rentals from the industry to cover the costs of the scheme or, decommission vessels and retain the quota for subsequent auctioning onto the open market.

208. The second question mark hangs over criticism of the tendering process itself. There is a danger that as the scheme progresses there will be an increase in collusion when applicants seek to determine their bid. The tendering scheme has become too predictable. 'Knowledge of previous decommissioning bids', 'expected size of competing bid' (Table 2.6) and 'expectations of an increase in the average acceptable tenders' (Section 3.4.3) have rapidly evolved into the most influential factors when determining the bid price. The low levels of award relative to the capital values of each vessel would suggest that the competitive process of tendering is still effective and has demonstrated considerable value for money. However, as the regressions show (Figure 3.2), it is likely that future awards will be well above those from the preceding tranches, and that applicants having previously submitted a tender and been refused will be more likely to submit higher tenders than before (Appendix 3.2).

6.3 Gauging demand from the industry

209. The problem now is that the extension of the existing scheme into another tranche will only meet with interest from members of those groups that have already complied with the MAGP III targets. However, new targets for MAGP IV have been set which may warrant the extension of decommissioning as part of a package of measures to meet these.

210. The concern, however is that the level of capital employed in the industry is significantly increasing. This increase is likely to continue with changes to the quota management regime when track records are permanently attached to licences. The only vessels that could remain attracted to decommissioning are essentially those in sectors where there is little pressure to acquire additional track records (for example the shellfish and nephrops sector). There is still considerable interest in a decommissioning scheme from these sectors.

211. Demersal trawlers may still be attracted to the scheme against the expectations of higher acceptable bids. However, as the analysis of capital values showed, the average value per VCU in this sector is now £1,352 (including the allowance for the licence) compared with the average tender submission of £413 / VCU from the previous rounds. This suggests that fishermen in this sector will not apply. It also suggests that the scheme will only receive applications in excess of, say, £1,000 / VCU. There is a strong likelihood that the class of vessel applying will exhibit similar characteristics to those that have been withdrawn to date, namely, that they will have lower track records and fewer days at sea than other vessels in these groups.

212. Nevertheless, this increased capital worth of vessels will encourage most vessel owners in possession of high track records to retire by selling their licences on the open market. In addition, the fact that income from licence transfers are not taxed gives greater incentive to dispose of the licence on the open market than through decommissioning.

213. Those vessels exhibiting high rates of profit, i.e. the pelagic sector, beam trawl segment, distant water segment and the profitable elements of the demersal trawl segment, remain unlikely to apply. These vessels are viable going concerns and will seek to capitalise on future investment opportunities such as the purchasing of additional licences and track records.

6.4 Discussion on the methodology of the scheme

214. Failure to achieve specific fleet reduction targets for specific segments suggests that retaining the scheme in its current form will compound the imbalance in the UK's MAGP targets. Similarly, retaining the tender system in its present form will attract the criticism that the scheme is increasingly subject to collusion. Any future scheme, should try to specifically attract the withdrawal from the fleet of those vessels that fall outside MAGP targets in terms of capacity or effort, outwith current objectives. This will require either a significantly larger budget to cater for the high financial expectations of some of these groups, a degree of segregation in the decision-making process to allow for specific groups to obtain priority, and the introduction of a degree of unpredictability into the scheme, possibly a system of awards linked to higher payments for vessels with more days at sea or higher track records.

215. Another approach is to consider establishing fixed rates for vessels. However, this study has shown, that tendering remains highly efficient. Fixed rates could only be applicable if there is any hope of attracting the more profitable elements of the UK fleet. This would, however, require the rates on offer to be in excess of £1,500 / VCU in order to attract beam trawlers and £5,000 / VCU in order to attract pelagic vessels.

216. To encourage lower bids another option, is to allow for the selling of quota separate to decommissioning. This option should reduce the prospective tenders and encourage some of the more profitable groups to apply. For example, those vessels under company ownership may be attracted by the prospect of rationalising their fleet activities by transferring quotas from decommissioned vessels to the remaining part of the fleet. This would prove attractive to those sectors which have not to date applied on mass (namely, the beam trawl, distant water and pelagic segments). However, the facility for pelagic vessels to purchase Category A white fish licences must be withdrawn, since it is imperative that rationalisation based on track record exchanges is confined to specific segments.

217. Allowing for the sale of track records and decommissioning the vessel may however, disrupt the existing market for track records. In this case it could be considered as a temporary measure, or even applied to a few segments where significant capacity reduction is required.

218. A similar scheme combined with payments for decommissioning from a source outside central Government may be attractive. Challenge funding has been increasingly used when funds become scarce. Municipal authorities could assist local fish producer organisations in the acquisition of quotas and at the same time take responsibility for the decommissioning of the vessel. If the claim for decommissioning monies falls below a certain rate, then central Government could rebate a proportion to the financing organisation. However, seeking finance for such a scheme would not be easy. There are very few municipal authorities that would show interest in financing separate decommissioning / quotas acquisition programmes. Nevertheless, this possibility was explored with Shetland Islands Council who showed interest in such an initiative.

219. Alternatively the Government could decommission vessels (inclusive of quota entitlement) and retain the quota for subsequent auctioning on the open market. To redistribute the quota on a pro rata basis without realising the market value could be considered a misuse of public funds. However, the retention of the existing system could be considered justifiable if the industry itself was a substantial contributor to the costs of the decommissioning scheme.

220. Finally, as a result of structural adjustments now taking place within the industry the Government should examine the prospect of changing the system of vessel / licence measurement from VCUs to GTs.

6.5 Suggested minor changes to the scheme

221. The operation and administration of the scheme has been highly successful. There were few criticisms of the qualification conditions except the of discrimination against particular segments. The solution to this problem is to include a facility for the application of any fishing vessel in excess of 10 m, while setting the priority criteria. This does not reduce the need for segmentation it merely allows for some flexibility.

222. There are two other significant barriers to would-be applicants. These are taxation and the requirement to scrap the vessel. Exemption from taxes would encourage more applications from fishermen under 55 years. However, there may also be a strong argument in favour of encouraging the Treasury to levy taxes on licence transfers.

223. Widening the provisions for vessels to be sold outside fishing is also worth considering. Whilst the costs of scrapping are not prohibitive, many fishermen who would consider applying, particularly those over 55 years, do not currently wish to see their vessels scrapped. The system adopted in New England may be worth reviewing. The FCRP allows for fishermen to donate their vessels to non profit-making organisations which thereafter use it only for research, education or training purposes; or to use for non fishing purposes, 'provided the Secretary determines that adequate measures are in place to ensure that the vessel cannot enter the fishery'. Recent amendments to the IFA state that any vessel prohibited from fishing under this programme will be permanently ineligible to hold a fishery licence.

6.6 Is there a future for a decommissioning scheme ?

224. The UK's fleet decommissioning scheme has been successful until now as it has reduced overall and potential capacity at a considerably lower cost to the Exchequer than the value of the assets themselves or the payment of those costs associated with the equivalent EU scheme. However, the most significant feature of the scheme is that the reduction in capacity has been the prime cause of increased competition for the ownership of access rights to the sector. This has considerably enhanced the value of the vessel owner's asset making future decommissioning an expensive prospect.

225. In addition to the decommissioning scheme, the Government has advanced a restrictive licensing regime culminating in an average aggregation penalty of 17 per cent over a five year period. Latterly the average has increased to 29 per cent. This has increasingly contributed to the reduction in fishing capacity. However, in overall terms, the net contribution to date is unlikely to be more than 5 per cent of total capacity removed.

226. As international experience has shown, decommissioning schemes can often be displaced more effectively by a system of transferable fishing rights. This may either apply to quotas, or to days combined with the overall fishing entitlement, such as the licence. In countries such as Australia, where the two schemes have been operating in tandem, it is the system of transferable quotas that has achieved the greatest levels of capacity reduction. This has meant that the annual budgets for decommissioning have not been taken up.

227. Irrespective of a demand for VCUs, the market for licences and track records in the UK has increased tremendously. The competition for enhanced fishing rights allied to a greater awareness of the need to comply with quota management regulations is the reason for this sudden change. In addition, the UK Government is currently exploring the prospects of fixing catch records to licences (in previous arrangements catch records would vary according to a three year rolling track record). If introduced, and if the link to the licence is retained, (requiring the purchase of a catch record to be synonymous with the purchase of the licence itself), then there is reason to suggest that the market would be capable of achieving substantial reductions in fishing capacity without the use of public funds. However, there may be some doubt that this will achieve commensurate reductions in fishing effort.

228. MAGP IV has introduced an effort component into the fleet capacity management regime. This allows for the new capacity reduction targets to be met through the use of days at sea restrictions. Whilst MAGP IV and the use of effort limitation falls outwith the remit of this evaluation, it would also be prudent to suggest that if the Government is intent on achieving an effective reduction in both effort and capacity, combining the transferability of individual quotas and days along with licences could achieve a rapid fleet adjustment process. A concern is that such a scheme will lead to a considerable change in the structure of the industry, with the

likelihood that the UK's capacity will veer increasingly towards the larger class of vessel and lead to the concentration of the fleet in only a few locations. This may have undesirable social costs (such as the diminution of fleets in certain regions, for example, the West coast of Scotland or Northern Ireland). More effective use of market forces as a means of reducing capacity, must be seen by the policy-makers as a long term goal.

229. In the short term however, as ambitious targets are set by the European Commission for large scale reductions in fleet capacity, it is unlikely that capacity reductions through licence aggregation and the purchase of effort or quota will be able to meet the levels of reduction required by the policy-makers. This may mean that decommissioning will still have some part to play. Nevertheless, if decommissioning is to form part of the UK's fleet structural policy, then it is unreasonable to expect that the full cost of this scheme should be met by Central Government. The evidence from the survey shows conclusively that the industry has benefited substantially from the scheme. Therefore, any future scheme should include a component of industry funding.

230. If a future scheme is to be effective, the required levels of budget may have to be reviewed irrespective of the source of finance,. However, this may be avoided if measures are introduced to facilitate the transferability of fishing rights embracing both quotas and days at sea.