

Utilisation in 2014 of the Quota Exchange and Access Entitlement in the EU Faroe Bi-lateral Agreement

Report to Seafish Pelagic Industry Issues Group





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1. INTRODUCTION

Seafish was asked by the Seafish Pelagic Industry Issues Group to undertake an independent analysis of the utilisation in 2014 of the current EU Faroe Bi-lateral Agreement by the UK and EU and, if possible, the utilisation of the agreement by Faroe. An estimate of the sales value of landings under the agreement was also requested.

1.1. BI-LATERAL AGREEMENT

The bi-lateral agreement was agreed for 2014 and is negotiated annually by representatives of Faroe Islands and EU, with a mandate from Member States.

There were two main elements to the bi-lateral agreement:

- An exchange element – under which quota was exchanged between the EU and Faroe.
- An access element – under which EU vessels could fish in Faroese waters for EU quota and vice versa, Faroese vessels could fish for Faroese quota in EU waters.

1.1.1. EXCHANGE ELEMENT

The exchange element of the agreement transferred quota of specific stocks between the EU and Faroe. The EU provided Faroe with a total of 26,460 tonnes of quota in 2014, the majority of which was Faroese blue whiting (15,000 tonnes) and Norway pout (7,000 tonnes). The quota provided to Faroe by the EU also included Greenland stocks. Quota provided by the EU to Faroe under the exchange element had to be caught in EU or Greenland waters.

Under the exchange element of the agreement Faroe provided the EU with a total of 9,850 tonnes in 2014, over half of which was saithe (3,000 tonnes) and blue whiting (2,000 tonnes). Quota provided by Faroe to the EU had to be caught in Faroese waters.

Although the total volume of quota stocks involved in the exchange agreement was substantially different for EU and Faroe, the potential value of the exchanged quota to both the EU and Faroe is believed to be broadly similar.

1.1.2. ACCESS ELEMENT

The access element of the agreement did not involve an exchange of quota. The access part of the agreement allowed vessels from Faroe to catch some of their own quota in EU waters, rather than in Faroese waters, and allowed EU vessels to catch some of their quota in Faroese waters. The only stocks included in the access agreement were mackerel and blue whiting. The volume of mackerel and blue whiting that could have been caught under the access agreement in 2014 was the same for both the EU and Faroe.

1.2. STRUCTURE OF REPORT

The remainder of the report contains:

- Section 2: a quantitative analysis of the quota exchanged, the access element, the utilisation under both elements and the estimated sales value of quota stocks included in the bi-lateral agreement;
- Section 3: a report on consultations with a representative of the pelagic catching sector and representatives of pelagic primary processors in the UK on the impact of the agreement;
- Appendix A: analysis of the exchange agreement; and
- Appendix B: analysis of the access agreement.

2. QUANTITATIVE ANALYSIS

The purpose of the analysis is to better understand the utilisation of the EU Faroe Bi-lateral Agreement, with a focus on utilisation by the UK fleet. Where information is available on the utilisation of quota under the agreement by the rest of the EU and Faroe this is also included in the analysis.

2.1. ASSUMPTIONS IN THE ANALYSIS

A number of assumptions were required to analyse the utilisation and estimate the sales value of the utilisation of the access and exchange elements of the Bi-lateral Agreement. These assumptions are described in the sections below.

2.1.1. QUANTIFYING AND ALLOCATING CATCH

Total catch under the agreement is not publicly available. The analysis presented in Section 2 is dependent on a number of sources and does not represent complete data, for example, information on the total catch by Faroese vessels in Greenland waters has not been obtained. Furthermore landings records do not allocate landings to a specific element of the agreement, for example, blue whiting can be caught under both the exchange and the access elements of the agreement but only total catch of blue whiting is recorded in the information used for the analysis. The assumptions used to quantify the utilisation of both elements of the agreement are detailed below.

Analysis of total landings by UK, EU and Faroese vessels under the agreement is based on information from a number of sources and some gaps remain:

- Landings by UK vessels of catch from Faroese waters was provided by the *Fisheries quota management monitor of North Sea and West of Scotland for 2014* compiled by MMO from data provided by the fisheries administrations in the UK.
- Landings by EU vessels of catch from Faroese waters was provided by MMO (via SPFA);
- Total catch by Faroese vessels has not been obtained. The information used in the analysis is compiled from exit reports made by Faroese vessels to the Scottish Government. Therefore any catch by Faroese vessels in EU waters that has been reported to other EU countries is not included. Furthermore we do not have information on catch by Faroese vessels in Greenland waters. Therefore the volume of catch shown in the analysis is likely to be less than the total catch by Faroe under the agreement.

The following assumptions have been made on the utilisation of the access and exchange elements of the agreement:

- Both the exchange and access elements of the agreement allow blue whiting to be caught by vessels from EU and Faroe in the other party's waters. For the purpose of analysing the two elements of the agreement it is assumed that blue whiting quota available under the exchange agreement is utilised first, with any remaining blue whiting catch allocated to the access agreement.
- There is one exception to the previous assumption. The quantitative analysis does not record 100% utilisation of the quota exchange agreement by the EU yet blue whiting catch is recorded against the access element of the agreement. This occurs because it is known that the UK did not land or fully trade its allocated blue whiting quota under the exchange agreement and therefore we know that the Faroese blue whiting quota provided to the EU under the exchange agreement has not been fully used.

- Where quota of Faroese stocks has been traded in to the UK by producer organisations and used by the vessels in the PO this is not considered to be utilisation of the agreement as the source of the quota is not known. This assumption affects 16 tonnes of cod/haddock.
- Where quota of Faroese stocks has been traded out of the UK by producer organisations this is considered to be utilisation of the agreement as the transaction is expected to have resulted in a benefit to the UK. Only one transaction for 309 tonnes of blue whiting is subject to this assumption. Note - if the 309 tonnes was subsequently caught by a vessel from another EU member state it is possible that the volume is counted twice in the analysis of EU utilisation.

2.1.2. ESTIMATING SALES VALUE

The utilisation of the bi-lateral agreement is valued using an estimated sales price for the landings made under the agreement. This value does not represent the net economic benefit of the agreement, it simply values the fish landed by one party from the other party's waters.

- The value of each quota stock is assumed to be the same across the EU and Faroe.
- Stocks are valued using the average price paid per tonne for landings in the UK by UK vessels over 10m in 2014 (source: MMO data). However, there are some further assumptions required to value each stock included in the agreement:
 - The value of blue ling is taken from Scottish Government statistics on landings in 2014.
 - The value of Norway pout is assumed to be the same as the value of 'other pelagic' landed into the UK in 2014 because Norway pout is understood to be commonly used for fishmeal.
 - The data received on landings of fish caught by UK vessels in Faroese waters combines cod and haddock into one stock category. For the purpose of valuing the catch it is assumed that cod and haddock are landed in the same proportion from Faroese waters as the stocks are landed on average in the UK.
 - The data provided on landings of ling and blue ling from Faroese waters are combined into one stock category. The average price paid per tonne in the UK for landings of ling is used to value the combined stock.
 - Flatfish caught by UK vessels in Faroese waters is assumed to be plaice and valued as such.
 - Redfish and Others caught by UK vessels in Faroese waters are valued using the 2014 price paid for 'other demersal' stocks.
- The value per tonne of quota stocks from Greenland waters included in the agreement has not been estimated.

The remainder of Section 2 reports on the findings of the analysis under two headings:

- Quota Exchange; and
- Access Entitlement.

The analysis which follows is a summary of the information contained in the tables in Appendix A and Appendix B.

2.2. QUOTA EXCHANGE

The quota exchange element of the agreement involved the EU and Faroe exchanging agreed volumes of specific quota stocks. The exchange agreement resulted in additional quota for specific species in Faroe and the EU, with a corresponding reduction in the quota of the species for the 'provider'. Under the exchange element of the agreement, the quota provided by the EU to Faroe would have to be fished in EU waters (or Greenland waters) and vice versa, the quota provided by Faroe to the EU would have to be fished in Faroese waters.

The stocks and volumes involved in the quota exchange agreement are detailed in Table 2-1. Both pelagic and demersal quota stocks were included in the exchange element of the agreement. The volume allocated to the EU from Faroe in 2014 is 9,850 tonnes. The volume of quota allocated to Faroe from the EU is 26,460 tonnes, 24,800 tonnes of which can be fished in EU waters (Table 2-1).

Allocation of Quota to EU from Faroe under the Exchange Agreement		Allocation of Quota to Faroe from the EU under the Exchange Agreement	
Stock	Allocation to the EU in 2014 (tonnes)	Stock	Allocation to Faroe in 2014 (tonnes)
Cod/haddock	950	Ling/tusk	200
Saithe	3,000	Blue ling	150
Redfish	1,300	Horse Mackerel	1,700
Ling/blue ling	1,500	Norway Pout	7,000
Flatfish	300	Blue whiting	15,000
Blue whiting	2,000	Herring	150
Others	800	Others	600
TOTAL from Faroe	9,850	TOTAL EU waters	24,800
		Greenland - Northern Prawn	1,300
		Greenland - Halibut	110
		Greenland - Redfish	250
		TOTAL Greenland waters	1,660
		TOTAL from EU	26,460

Table 2-1: Allocation of quota in 2014 under the exchange element of the EU Faroe Bi-lateral Agreement

2.2.1. ALLOCATION TO AND UTILISATION BY EU AND UK VESSELS UNDER THE EXCHANGE ELEMENT IN 2014

Under the exchange element of the agreement, the utilisation of the quota obtained by the UK (landings + trading) and rest of EU (landings only) has been calculated from MMO data. The sales value of the fish that could be caught under the agreement has been estimated. Appendix A contains the analysis summarised below.

- The quota exchange element allocated 9,850 tonnes of quota from Faroe to the EU for 2014. Of the total, the UK was allocated 2,886 tonnes (29% of the EU allocation by volume).
- Demersal quota stocks made up 70% (2,006 tonnes) of the UK's allocation in 2014.
- Across all stocks included in the exchange, UK vessels landed 37% of the UK allocation of Faroese quota in 2014 (1,078 tonnes). However, the utilisation of the demersal quota stocks by UK vessels was higher at 55%. None of the pelagic quota (blue whiting) allocated to the UK under the exchange element was caught by UK vessels but 309 tonnes of blue whiting quota was traded out of the UK. Of the demersal and pelagic quota utilised, 99.9% was caught and landed and 0.1% of the quota was traded out of the UK.
- The potential sales value of the fish that could be landed by UK vessels under the exchange elements is estimated to be £2.6 million (28% of the potential EU value).
- The sales value of UK landings plus the sales value of any fish caught against the quota traded out of the UK in 2014 is estimated to be £1.47 million, which equates to 57% of the potential value of the UK allocation. The majority of the revenue earned is earned by demersal vessels.
- Although UK vessels used only 37% of the volume of the UK share of exchanged quota, they achieved 57% of the potential sales value of the quota allocated to the UK. This is because cod and haddock stocks were the majority of the landed volume (78%) and these stocks had a relatively high value. The estimated sales value of the cod and haddock landings combined is £1,562 per tonne.
- EU vessels landed 2,579 tonnes of Faroese quota stocks, including landings by UK vessels. Deducting the landings by UK vessels means that 1,485 tonnes were landed by vessels from the rest of EU. The catch landed by vessels from the EU, including UK vessels, is estimated to have had a value of £1.7 million which equates to 19% of the potential sales value of the quota allocated to the EU under the exchange agreement (Table 2-2).

2.2.2. ALLOCATION TO AND UTILISATION BY FAROESE VESSELS UNDER THE EXCHANGE ELEMENT IN 2014

Under the exchange element of the agreement, the known utilisation of the quota obtained by Faroe is taken from information provided by Marine Scotland and reflects exit reports made to the Scottish Government by Faroese vessels. No information could be accessed on catch by Faroese vessels in Greenland waters and there is no information on catch from EU waters reported to another member state. The realised sales value is estimated from the known utilisation of the quota, as reported to Marine Scotland, and as discussed above, could be an underestimate. Furthermore, the realised sales value is informed by prices achieved in the UK which could also affect the accuracy of the estimate of sales value. Appendix A contains the analysis summarised below.

- The quota exchange element allocated 26,460 tonnes of quota from the EU to Faroe for 2014. This incorporated 24,800 tonnes of quota from EU waters and 1,660 tonnes from Greenland waters.
- Two stocks made up 83% of the quota allocated to Faroe. These were blue whiting (15,000 tonnes, 57% of Faroe allocation) and Norway pout (7,000 tonnes, 26% of Faroe allocation). The majority of quota from Greenland waters was Northern Prawn (1,300 tonnes).

- The only information available to analyse the utilisation of the quota allocated to Faroe is the catch reported to Marine Scotland by vessels as they exit from EU waters. The catch reported to Marine Scotland was 15,173 tonnes, which represents 61% of the total quota allocated to Faroe from EU waters under the exchange element of the agreement. The pelagic stock blue whiting was the main catch (15,000 tonnes). It is assumed that the majority, if not all, of the reported catch is taken from UK waters.
- Under the exchange element of the agreement, the potential sales value of the fish that could have been landed by Faroe from EU waters, i.e. excluding quota from Greenland waters, is estimated to be £5.8 million.
- The catch reported to Marine Scotland in 2014 is estimated to have a sales value of £2 million. This equates to 35% of the potential sales value of the quota allocated to Faroe from EU waters under the exchange element of the agreement (Table 2-2).

Beneficiary	Element of Agreement	Allocated in 2014 (tonnes)	Landings in 2014 (tonnes)	Landings as % of Allocation	Potential Sales Value of Allocation (£'000s)	Estimated Sales Value of Landings (£'000s)	Landings value as % of Value of Allocation
EU (including UK figures)	Exchange	9,850	2,580	26%	£9,223	£1,711	19%
UK ^x (included in EU figures)	Exchange	2,886	1,078	37%	£2,585	£1,469	57%
Faroe	Exchange EU waters	24,800	15,173 ^y	61%	£5,770	£2,012	35%
Faroe	Exchange Greenland waters ^z	1,660	Not available	Not available	Not available	Not available	Not available

Table 2-2: Allocation, utilisation and sales value in 2014 of quota provided under the exchange element of the EU Faroe Bi-lateral Agreement

^xThe UK fleet had no official allocation under the access element of the agreement and made no landings under the access element of the agreement.

^y 15,173 tonnes of catch was reported by Faroese vessels to Scottish Government in 2014, additional catch may have been reported to other Member States.

^z The analysis did not access information on catching activity in Greenland waters.

2.3. ACCESS ENTITLEMENT

The access element of the agreement allows fishing fleets to catch an agreed volume of their existing quota outside of their own territorial waters. Therefore EU vessels could catch EU quota in Faroese waters, and Faroese vessels could catch Faroese quota in EU waters. The access agreement does not give either party additional quota. Only two pelagic stocks, mackerel and blue whiting, are included. The volumes included in the access entitlement are detailed in Table 2-2.

Access for EU vessels to fish in Faroese waters		Access for Faroese vessels to fish in EU waters	
Stock	Allocation to EU in 2014 (tonnes)	Stock	Allocation to Faroe in 2014 (tonnes)
Mackerel	46,850	Mackerel	46,850
Blue whiting	25,000	Blue whiting	25,000
TOTAL	71,850	TOTAL	71,850

Table 2-3: Volume of quota that could be caught in 2014 in the other party's territorial waters under the Access element of the Bi-lateral Agreement

The sales values estimated in the quantitative analysis under the access entitlement do not equate to additional earnings for pelagic vessels as the access entitlement does not provide additional quota. The entitlement enables each fleet to catch their existing quota in the other party's waters.

However, the vessels could achieve an economic benefit if:

- 100% of the quota held could not be economically caught from the pelagic vessels' own territorial waters; and/or
- the fish is in better condition and the price per tonne is higher when caught from the other party's territorial waters and if profitability is enhanced as a result.

2.3.1. UTILISATION OF ACCESS ENTITLEMENT BY EU AND UK VESSELS IN 2014

The key findings on the UK and EU utilisation of the access element of the agreement are summarised below. Appendix B contains more detail on the analysis.

- Pelagic vessels from the UK did not utilise the access element of the agreement in 2014.
- Vessels from the rest of the EU landed a total of 6,903 tonnes of blue whiting from Faroese waters in 2014, for the purpose of this analysis 5,474 tonnes of the total catch has been allocated to the access element of the agreement¹. This equates to 8% utilisation of the access element of the agreement by the EU.
- The estimated sales value of the 5,474 tonnes of landings by EU vessels is £717,094. This equates to 2% of the potential sales value of the access element of the agreement to the EU (Table 2-4).

With the exception of the 5,474 tonnes of blue whiting, EU vessel operators chose not to use the opportunity to fish for EU quota in Faroese waters.

¹ In total 6,903 tonnes of blue whiting was caught by EU vessels in Faroese waters (source: MMO). In the analysis, 1,429 tonnes has been allocated to the exchange agreement and 5,474 tonnes to the access agreement. The allocation of 1,429 is a calculation of the total quota available to EU vessels under the exchange agreement minus the 571 tonnes not used by UK vessels. The remainder of the 6,903 tonnes has been allocated to the access agreement.

2.3.2. UTILISATION OF ACCESS ENTITLEMENT BY FAROESE VESSELS IN 2014

Faroese vessel operators utilised almost all of the access element of the agreement in 2014. Catch reported to Marine Scotland by Faroese vessels represented 103% of the access agreement for mackerel and 73% of the agreed access for blue whiting. The estimated sales value of this catch is £42.1 million (based on UK prices) and 101% of the estimated sales value of the access element of the agreement to Faroe (Table 2-4). As previously stated this does not directly equate to additional earnings as the quota was already held by Faroese vessels.

Beneficiary	Element of Agreement	Access entitlement in 2014 (tonnes)	Landings in 2014 (tonnes)	Landings as % of Entitlement	Potential Sales Value of Entitlement (£'000s)	Estimated Sales Value of Landings (£'000s)	Landings value as % of Value of Entitlement
EU	Access	71,850	5,474 ^x	8%	£41,551	£717	2%
Faroe	Access	71,850	66,627	93%	£41,551	£41,837	101%

Table 2-4: Allocation, Utilisation and Sales Value of Bi-lateral Agreement to EU, UK and Faroe in 2014

The differences in uptake of the access entitlement between vessels from EU and Faroe indicate that there is additional value to the Faroese pelagic operators from fishing for their quota in EU waters, and no incentive for UK pelagic operators to fish in Faroese waters. The reasons for this have been proposed by pelagic industry representatives and are presented in Section 3 of the report.

2.4. OVERVIEW

The main findings from the analysis of the quota exchange element of the bi-lateral agreement are:

- UK vessels landed 1,078 tonnes of demersal fish under the exchange element of the agreement. The estimated sales value of the landings by UK vessels plus an estimated sales value of any fish caught against the quota traded out of the UK in 2014 was £1.47 million;
- It is estimated that vessels from other EU countries landed 1,485 tonnes of fish under the exchange agreement. The majority of volume landed (1,429 tonnes) was the pelagic stock blue whiting. The estimated sales value of landings from rest of EU (i.e. excluding UK) is £242,241.
- The catch by Faroese vessels that was reported to Marine Scotland in 2014, and allocated to the exchange agreement, is estimated to have had a sales value of £2 million. The majority of the catch was the pelagic stock blue whiting.

The main findings from the analysis of the access element of the agreement are:

- UK vessels did not catch any blue whiting or mackerel in Faroese waters in 2014 and therefore did not use the access element of the agreement.
- It is estimated that other EU countries landed 5,474 tonnes of blue whiting from Faroese waters under the access element of the agreement. The estimated sales value of these landings is £717,094.
- Faroese vessels are believed to have landed 93% of their own quota from EU waters under the access element. The estimated sales value of the landings is £42.1 million.

As described previously, the access element of the bi-lateral agreement does not provide additional quota to either party and therefore it has no effect on the total tonnes of fishing opportunity to either fleet.

However, benefit can be achieved by each party if a proportion, or all, of the quota can only be caught in the other party's territorial waters or profitability is improved by fishing in the other party's waters.

Across both elements of the agreement:

- EU vessels utilised 10% of the total potential catch (their own quota plus quota obtained under the exchange element) that could have been taken from Faroese waters in 2014.
- Faroese vessels utilised at least 83% of the potential catch (their own quota plus quota obtained under the exchange element) that could have been taken from EU and Greenland waters in 2014. The volume of quota caught in Greenland waters or from EU waters and not reported to the Scottish Government was not obtained for the analysis.

3. VIEWS OF UK PELAGIC CATCHING SECTOR AND PRIMARY PROCESSORS

Seafish was also asked by the Seafish Pelagic Industry Issues Group- to consult with pelagic industry representatives on the impact of the agreement. SPFA was consulted as a representative of the catching sector and four representatives of the pelagic processing sector in Scotland were consulted.

The estimated potential value of fish that could have been caught under the agreement presented in Section 2 assumed that the values of the stocks are the same if caught in EU and Faroese waters i.e. that a tonne of mackerel from EU waters will have the same value as a tonne of mackerel from Faroese waters. However, all consultees stated that mackerel is more valuable if caught in EU waters. The value difference appears to have been sufficient to encourage the Faroese fleet to catch the maximum volume of mackerel under the access element of the agreement and to discourage the EU fleet from catching any of its mackerel quota in Faroese waters.

3.1. PELAGIC CATCHING SECTOR

The views expressed on behalf of the catching sector are summarised below.

The pelagic catching sector considers that, in 2014, the access element of the bi-lateral agreement was a cost to the UK and EU rather than a benefit. Their rationale is that:

- When the mackerel stock is present in Faroese waters the fish are poorer quality due to the presence of stomach feed which makes the fish soft and oily. Therefore mackerel from Faroese waters is lower value than mackerel caught in EU waters.
- When blue whiting is present in Faroese waters the shoals are dispersed making the fishing operation less efficient due to lower stock density. Thus, there is higher fuel consumption and other costs are higher per tonne of fish caught, and fishing for blue whiting in Faroese waters is therefore less profitable than fishing for blue whiting in EU waters.
- For both of these reasons the catching sector has no incentive to seek or to use an access agreement for mackerel or blue whiting in Faroese waters.
- Despite the lack of benefit to the UK pelagic catching sector, the cost of monitoring and enforcement of the Faroese access to EU waters was being met by the UK, specifically the Scottish Government.

The pelagic catching sector believes there is a lack of balance in the agreement for the following reasons:

- In 2014 the access agreement resulted in a net cost to the UK (their rationale is described above).
- The value of the agreed Faroese access rights in EU waters under the access element of the agreement was greatly enhanced because of the stock characteristics listed above.
- There is a risk that monitoring of the access agreement may not be sufficient to effectively enforce the agreement in EU waters.

The pelagic catching sector in the UK also gained no benefit from the quota exchange element of the agreement in 2014.

3.2. PELAGIC PRIMARY PROCESSING SECTOR

The consultees from the processing sector represented three major pelagic processing businesses in Scotland and an industry association. The consultations are summarised in the narrative below.

The consultees highlighted the following current supply and demand conditions for the UK pelagic primary processing sector:

- The TAC for mackerel is relatively high compared to recent years;
- The price paid for mackerel landings in the UK is strongly influenced by competition for raw material with the Norwegian processing sector;
- The markets for UK processed mackerel are price sensitive and alternative protein products can be substitutes in some markets;
- The markets for UK processors are currently constrained. Markets that have historically been very important such as Russia, Ukraine and Nigeria are currently either closed to European processors or highly restricted due to national economic and/or political conditions.
- The Norwegian processing industry dominates in premium markets in the Far East. Consultees believe this is due to significant investment by Norway in market development.

Four further conditions were identified which consultees consider directly influence the impact of the bi-lateral agreement on the UK processing sector. These are:

- 46,850 tonnes of the Faroese quota for mackerel can be caught by Faroese vessels in EU waters under the access element of the agreement. Due to current mackerel migration patterns the quality of fish in EU waters is higher than when the stock is present in Faroese waters.
- The consultees stated that tax rules imposed by the Faroese Government on Faroese vessels means that if Faroese vessels land their catch outside of Faroe a tax has to be paid. Consultees believe the tax equates to approximately £200 per tonne. Seafish has not sought to verify the existence of the tax for this narrative.
- No vessels from the Faroese fleet landed mackerel or blue whiting to the UK in 2014, and consultees believe all catch was landed to Faroe.
- The Faroese government is not subject to the same state aid rules that exist in the EU.

The consultees believe the combined impact of these conditions is:

- that no benefit is derived in the UK from access to Faroese waters;
- that no benefit has been derived in the UK or rest of EU from the Faroese catch of mackerel and blue whiting in EU waters, yet costs of monitoring the activity of Faroese vessels are incurred;
- the 46,850 tonnes of mackerel that can be caught by the Faroese catching sector in EU waters, when the fish are premium quality, can be purchased by the Faroese processing sector at below the EU and Norwegian market rate as a result of the tax; and as a consequence
- the 46,850 tonnes of mackerel, when processed and offered by Faroese processors, is the same quality that is processed and offered by UK processors but Faroese processors can sell into price sensitive markets at a lower price; and at a price UK processors cannot compete with.

However, consultees also highlighted that the potential impact of the bi-lateral agreement on primary processors is currently mitigated because Faroese processors can sell into Russia and because a recent trade deal with Turkey means that Faroese processors can sell mackerel to Turkey more easily than EU processors.

Both markets are effectively closed to the UK processing sector. Consultees stated that Faroese product sold into Russia and Turkey could be currently limiting the potential negative impact of the bi-lateral agreement on the remaining markets for the UK processors.

It was clear from the consultations that the UK processing industry understands the need for an agreement between the EU and coastal states, as autonomous quota setting on a shared stock is recognised as high risk. The processing industry also understands that, if a sustainably harvested stock is present in Faroese waters, it is reasonable for Faroese vessels to have quota to catch the stock in Faroese waters.

However representatives of the processing sector believe that the combined effect of the access element of the Bi-lateral Agreement and current Faroese fiscal policy towards the Faroese pelagic sector creates an unfair disadvantage for the UK pelagic primary processing sector.

APPENDIX A: ANALYSIS OF EXCHANGE ELEMENT OF BI-LATERAL AGREEMENT

Stock	Allocation of Faroese Quota to EU and UK			UK Trading of Faroese Quota ²		Utilisation of Faroese Quota by EU and UK				
	Allocation to EU from Faroe in 2014 (tonnes)	Initial allocation to UK in 2014 (tonnes)	Initial UK allocation as % of EU allocation	UK trading IN Faroese quota in 2014 (tonnes)	UK trading OUT Faroese quota in 2014 (tonnes)	EU landings in 2014 (tonnes) ³	EU landings as % of allocation	UK landings in 2014 (tonnes) ⁴	UK landings from initial allocation in 2014 (tonnes) ⁵	UK landings from initial allocation as % of Initial UK allocation
Cod/haddock	950	817	86%	19	-	655.8	69%	655.8	639.4	78%
Saithe	3,000	696	23%	100	-	338.7	11%	338.2	338.2	49%
Redfish	1,300	14	1%	-	-	13.9	1%	1.0	1.0	7%
Ling/blue ling	1,500	86	6%	100	-	39.5	3%	39.8	39.8	46%
Flatfish	300	204	68%	-	-	7.7	3%	5.8	5.8	3%
Blue whiting	2,000	880	44%	-	309	1,429.0	71%	0	0	0%
Others	800	189	24%	30	-	95.2	12%	54.0	54.0	29%
Total	9,850	2,886	29%	249	309	2,579.8	26%	1,094.6	1,078.2	37%
Stock	Price per tonne landed in UK in 2014 (£)	Value to EU and UK of Exchange Element of Agreement							Sales value of quota utilised by UK as % of potential sales value to UK	
		Potential sales value of allocation to EU (£) ⁶	Estimated value of EU landings (£)	Value of EU landings as % of allocation	Potential sales value of allocation to UK (£)	Potential sales value of UK allocation as % of potential sales value of EU allocation	Estimated sales value of UK landings + value of traded out quota (£)			
Cod/haddock	£1,562	£ 1,483,900	£ 1,024,436	69%	£1,276,154	86%	£998,743	78%		
Saithe	£907	£ 2,721,000	£ 307,196	11%	£631,272	23%	£306,747	49%		
Redfish	£1,255	£ 1,631,500	£ 17,457	1%	£17,570	1%	£1,255	7%		
Ling/blue ling	£1,210	£ 1,815,000	£ 47,852	3%	£104,060	6%	£48,158	46%		
Flatfish	£994	£ 298,200	£ 7,604	3%	£202,776	68%	£5,765	3%		
Blue whiting	£131	£ 262,000	£ 187,199	71%	£115,280	44%	£40,479	35%		
Others	£1,255	£ 1,004,000	£ 119,413	12%	£237,195	24%	£67,770	29%		
Total		£9,215,600	£1,711,158	19%	£2,584,307	28%	£1,468,917	57%		

Table A1: Allocation, Trading, Utilisation and Estimated Sales Value to the EU and UK under the Exchange element of the Agreement

^{2,3 and 4} Source: Analysis of MMO data (MMO data provided to Seafish by SPFA).

⁵ The estimated value to the UK excludes 16.4 tonnes of landings by UK vessels from quota traded in to UK POs during 2014, as the source of the quota is not known.

⁶ All estimates of value assume that landings of stocks have the same value regardless of where they are caught i.e. in the analysis a tonne of mackerel from EU waters has the same value as a tonne of mackerel from Faroese waters.

APPENDIX A (CONTINUED): ANALYSIS OF EXCHANGE ELEMENT OF BI-LATERAL AGREEMENT

Stock	Allocation	Utilisation of EU quota by Faroe		Price per tonne in 2014 (£)	Value to Faroe of Exchange Element of Agreement		
	Allocation to Faroe from EU in 2014 (tonnes)	Catch by Faroese vessels reported to Marine Scotland in 2014 (tonnes)	Known catch as % of allocation		Potential sales value to Faroe (£)	Estimated sales value of known catch by Faroe (£)	Sales value of known catch as % of potential value
Ling/tusk	200	-	0%	£1,215	£243,000	£0	0%
Blue ling	150	-	0%	£1,072	£160,800	£0	0%
Horse Mackerel	1,700	53	3%	£273	£464,100	£14,469	3%
Norway Pout	7,000	-	0%	£381	£2,667,000	£0	0%
Blue whiting	15,000	15,000	100%	£131	£1,965,000	£1,965,000	100%
Herring	150	118	79%	£273	£40,950	£32,214	79%
Others	600	2	0%	£381	£228,600	£762	0%
Total EU (may not capture all landings)	24,800	15,173	61%		£5,769,540	£2,012,445	35%
Greenland - Northern Prawn	1,300	-	Not known	Not known	-	-	-
Greenland - Halibut	110	-	Not known	Not known	-	-	-
Greenland - Redfish	250	-	Not known	Not known	-	-	-
Total Greenland	1,660	-	Not known		-	-	-
Total (does not capture all landings)	26,460	15,173	57%		£5,769,540	£2,012,415	35%

Table A2: Allocation, Utilisation and Estimated Sales Value to Faroe under the Exchange element of the Agreement

APPENDIX B: ANALYSIS OF ACCESS ELEMENT OF BI-LATERAL AGREEMENT

Stock	Price per tonne landed in Scotland in 2014 (£)	Access and Utilisation 2014					Value of Access Element of Agreement in 2014			
		EU access to Faroese waters (tonnes)	EU landings from Faroese waters (tonnes) ⁷	UK landings from Faroese waters (tonnes)	EU landings as % of EU access	UK landings as % of EU access	Potential sales value to EU of catch from Faroese waters under access entitlement (£) ⁸	Estimated sales value of EU landings under access entitlement (£)	Estimated sales value of EU landings as % of potential sales value to EU	Estimated sales value of UK landings under access element (£)
Mackerel	823	46,850	0	0	0%	0%	£38,557,550	£0	0%	£ 0
Blue whiting	131	25,000	5,474	0	22%	0%	£3,275,000	£717,094	22%	£ 0
Total		71,850	5,474	0	8%	0%	£41,832,550	£717,094	2%	£ 0

Table B1: Access, Utilisation and Estimated Sales Value of Access element of the Agreement to the UK and EU in 2014

Stock	Price per tonne landed in Scotland in 2014 (£)	Access and Utilisation 2014			Value of Access Element of Agreement in 2014		
		Faroe access to EU waters (tonnes)	Known Faroe catch from EU waters (tonnes) ⁹	Faroe catch as % of Faroe access	Potential sales value of catch from EU waters under access entitlement (£)	Estimated sales value of known Faroe catch under access entitlement (£)	Estimated sales value of Faroe catch as % of potential sales value of Faroe access
Mackerel	823	46,850	48,264	103%	£38,557,550	£39,721,054	103%
Blue whiting	131	25,000	18,363	73%	£3,275,000	£2,405,553	73.5%
Total		71,850	66,627	93%	£41,832,550	£42,126,607	101%

Table B2: Access, Utilisation and Estimated Sales Value of Access element of the Agreement to Faroe in 2014

⁷ Source: MMO data on EU catch of blue whiting in Faroese waters in 2014 received from SPFA. In total 6,903 tonnes of blue whiting was caught. For this analysis, 700 tonnes of this has been allocated to the exchange agreement (see Appendix A) to calculate 6,203 tonnes utilised under the access agreement.

⁸ All estimates of value assume that landings of stocks have the same value regardless of where they are caught i.e. in the analysis a tonne of mackerel from EU waters has the same value as a tonne of mackerel from Faroese waters.

⁹ Source: Marine Scotland. Information was collated from reports made to Marine Scotland by Faroese vessels on exit from EU waters. In total 33,363 tonnes of blue whiting were reported in 2014, 15,000 tonnes of this has been allocated to the exchange agreement (see Appendix A) to calculate 18,363 tonnes utilised under the access agreement.