

Seafish response to Defra consultation on the English inshore fleet – looking to the future

3rd October 2008

General Comments

1. Available evidence suggests that there is a considerable imbalance between the capacity of the English under 10 metre (from this point referred to as u10m) fleet and the amount of u10m pool quota available. One source of evidence showing the extent of the imbalance is the MFA (post RBS) fleet earnings data for u10m vessels which give a good indication of how much catching capacity is unfulfilled. It is clear that, if the imbalance is not addressed, some of the less efficient vessel businesses will become financially unviable, even if there is no further decrease in total allowable catches (TACs).
2. The use of subsidies in fisheries management can contribute to unsustainable exploitation of stocks. Theory and empirical evidence suggest that subsidies create perverse incentives which in the long-term can contribute further to the imbalance between fleet capacity and resources. It is inevitable that taking steps to achieve the correct balance between u10m fleet capacity and the u10m quota pool will not be a pain free process. In the short-term there will be winners and losers, however we agree that change is necessary for the long-term benefit of the remaining u10m sector and the resource.
3. As long as the pool system remains in existence, there will always be a race to fish and this system of management is always sub-optimal from both fisheries economics and stock sustainability points of view. Switching to an Individual Quota (IQ) or Territorial Use Rights in Fisheries (TURF) system for the U10m fleet may be too great a change for the sector to handle in one single move however we recommend that Defra should work towards this outcome in the longer-term. Allowing vessel owners to have ownership rights to the resource would ensure that they have better incentives to harvest the resource responsibly and sustainably, although of course effective enforcement is also an essential part of any fisheries management regime.
4. Finding a way to overcome the negative effects of the arbitrary 10m threshold that determines how vessels and quota allocations are managed should be given high priority.
5. It would be interesting to compare the ratio between the costs of administration of the u10m fleet with the value of declared landings of the sector. We would suggest that Defra should try to reduce the cost of u10m administration over a period of time.

Proposal 1 - Decommissioning – tackling the issue of high catching vessels

1. In theory, one of the main characteristics of good fisheries management from an economic perspective is the absence of subsidies (whether they are operating subsidies or periodic publicly funded buyouts). Decommissioning schemes generally send out an unhelpful message because fishermen will know from past experience that, in the event of resource depletion, there is likely to be a government bailout, tantamount to a publicly funded escape route for owners of private investments that don't pay off. Fishermen are likely to build this into their decision making process when considering whether and to what extent they should invest in the same or another fishery in the future, and so on the whole, more investment in capacity would be made than if they had no expectation of decommissioning in the future.
2. In practice, if the decision is made to reduce the size of the imbalance between u10m fleet capacity and the available quota pool, then decommissioning can be a practical step towards achieving those aims. It is important that the correct safeguards (or disincentives) are put in place to discourage risky investments and future expansion of the fleet through appropriate management measures.
3. Given that one of Defra's main aims is to 'enable as many fishermen as possible to operate viably and legally', the objective of any decommissioning scheme should be to aim for maximum capacity removal. This would involve taking out the bigger u10m boats that catch the largest volumes of the pressure stocks outlined in the consultation document, so that a higher number of smaller vessels is left in the fleet. Vessels chosen to be scrapped should be spread around the English coastline to avoid concentrated negative economic impacts on those communities that are particularly dependent on the fisheries resource. The age of the vessel should also be taken into account as it makes sense to decommission older vessels with old engines, rather than newer vessels with more efficient engines.
4. The £1,000 VCU cap on bids may be insufficient to attract the owners of the vessels that the scheme is trying to remove and even if Defra was successful in removing these vessels it is unlikely that a £5 million decommissioning scheme would achieve the correct balance of capacity and opportunity. Data collected for the 2007 economic survey of the UK fishing fleet (forthcoming) on estimated values of English U10m vessels and licences has been combined with official MFA fleet register data to calculate how fishermen perceive the value of their vessels and licences per VCU (see table 1). These figures suggest that, the larger the u10m vessel, the less likely it is that the vessel owner will be attracted to the decommissioning offer at £1,000 per VCU. Of the 69 u9m vessel owners that provided vessel and licence value data, the average perceived value per VCU is £1,130, and the average perceived value per VCU of the 29 vessels between 9.7 and 9.9 metres in

length is £1,654. If vessel owners feel the decommissioning offer is inadequate, they are likely to continue operating in the u10m pool and take their chances in the race to fish.

5. Seafish favours the continuation of the quota leasing scheme in 2009 and beyond and we are unsure why Defra propose to end this facility. Ideally all u10m vessels (of both proposed licence types) should be allowed to operate in the quota leasing market a) to ensure optimal uptake of whatever quota may be available, b) to minimise the level of discards and high-grading and c) to avoid an increase in illegal landings. This would allow the businesses which are most efficient to exploit the resource and allows the market to function efficiently.

Table 1 Analysis of English under 10m vessels estimated vessel and licence values

Vessel length	Average LOA**	Average VCU**	Average estimated^a replacement vessel value	Average estimated^a licence value	Average estimated^a vessel and licence value	Average estimated^a vessel and licence value per VCU	No. of cases
under 9m vessels	6.9	38.2	£35,317	£9,261	£44,579	£1,130	69
9-9.99m vessels	9.6	79.6	£100,598	£23,663	£124,261	£1,519	50
9.5-9.99m vessels	9.8	82.7	£110,765	£26,219	£136,984	£1,653	34
9.7-9.99m vessels	9.9	84.0	£111,069	£27,464	£138,533	£1,654	29
All u10m vessels	8.1	55.6	£62,746	£15,313	£78,059	£1,293	119
Source: 2007 Economic survey of the UK fishing fleet (forthcoming)							
* Estimates provided by the fishermen themselves							
** Official data provided by MFA							

Proposal 2 – Preventing latent capacity from becoming active

1. Given the imbalance between capacity and opportunity, Defra's proposals to tackle latent capacity in the u10m sector make sense. There are just over 3,000 registered u10m vessels in England, of which around 1,900 were active (had recorded landings) in 2007, so catching capacity could in theory double if safeguards are not put in place, causing a much greater imbalance.
2. Regarding the proposals to introduce full-quota and limited quota licences, it makes sense to segment and regulate the u10m fleet into those vessels that target predominantly quota species from those that do not. By doing this Defra would effectively be formalising a division in the u10m fleet that already exists in practice. This will not be a painless process and there will be winners and losers, as is always likely to be the case when new management measures are introduced. However, in order to make the split work, it is imperative that quota leasing remains an option for holders of both licence categories. Without this facility, recipients of limited quota licences would have a much greater incentive to misreport, high-grade and discard valuable fish (see earlier comments). The proposal to classify licences that have been

aggregated (using one full quota licence and one limited quota licence) as a limited quota licence is necessary to prevent any future expansion in the size of the fleet.

3. Defra could also consider withdrawing unused licences from the system altogether if they have remained unused for a certain period of time.
4. Evidence suggests that voluntary licence buyback schemes (as proposed by certain members of industry) often fail to meet their objectives because they are likely to attract the owners of only the most economically inefficient vessels, who are unlikely to target those stocks that are under the greatest pressure.
5. Those who receive limited quota licences would see the value of their licences reduce, which would impact on the balance sheets of those businesses. Defra's proposals to separately maintain fishing opportunities for these vessels (keeping fisheries open for limited-quota licence holders even if full-quota licence holders have caught their full allowance) are necessary as a means of ensuring some stability for those affected.

Proposal 3 – Maximising returns

1. Because fishermen are generally price takers, there is often a ceiling to the price fishermen can expect for their product. Seafish agrees that support should be given to vessel owners who want to improve their sales price through, for example, establishing new routes to market.

Proposal 4 – Environmentally responsible fishing project

1. Seafish supports the environmentally responsible fishing project. The Seafish economics department has offered to analyse the economic data that is generated from the project and Seafish has agreed to generally assist in whatever way it can.

Proposal 5 – Working with producer organisations

1. Seafish is encouraged to hear that Defra is investigating the possibility of securing additional fishing opportunities for the u10m pool with the sector and producer organisations.
2. We urge Defra to consider how to make the 10m cut-off point redundant in the longer-term. This would allow u10m vessel owners who wish to leave the pool and join a PO to do so.
3. Quota uptake is rarely 100% in most POs for some species. We would urge Defra to investigate the potential for inshore vessels to access these unused

opportunities to ensure that uptakes are improved across the sector. If the UK continually under-fishes a certain stock then it increases the risk that a decrease in TAC will be required by the European Commission.

Seafish Economics
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