

3. The evaluation of the decommissioning scheme: Value for money considerations

3.1 *Measuring value for money*

117. An assessment of value for money for the 1993 to 1996 decommissioning scheme can be measured against a number of criteria. These include a further examination of what capacity would have been reduced in the absence of decommissioning (additionality - both in actual and net cost terms), contributions to decommissioning expenditure from the Government, the European Commission and from fishermen. What has it achieved for the money? Has it reduced capacity? Has it improved the efficiency for those remaining in the fleet? Has it reduced effort? This assessment concentrates first on the capital elements of fleet reduction by comparing the cost of decommissioning with the actual cost of capital deployed. In addition, comparisons are made between the potential utilisation of the EU scheme (what if?) and the tendering scheme adopted by the UK Government.

3.2 *Additionality*

118. It is possible to gauge the success of the scheme by examining the additionality factors, i.e. the extent to which decommissioning has actually achieved a reduction in capacity over and above the level that would have occurred even if there had been no decommissioning. The analysis includes both those who left (Table 2.2) as a result of the scheme ('those choosing to carry on fishing, 'refurbish vessel' or 'pay off debts') and those who would have sold up in any event ('sell vessel and licence', 'refurbish existing vessel', 'seek additional employment' or 'retire'). The crucial point is that the licences would have remained in circulation, irrespective of whether or not they had taken decommissioning. This means that unlike most additionality assessments, the bulk of the successful applicants will remain in the industry. The only differences are due to licence transfers and other exits from the sector.

119. Figure 3.1 shows that:

- in the absence of decommissioning, 9,955 VCUs might have gone out through licence aggregation. This estimate is based on assuming an average aggregation penalty of 20 per cent for those who would have left the industry anyway, and 5 per cent for those who left because of the scheme. These are best assumptions based on the data available.
- 76,945 VCUs would have remained in the industry in the absence of a decommissioning scheme. This is the additional amount of capacity taken out by decommissioning and includes owners both leaving the industry due to decommissioning and those who would have given up fishing
- on the basis of these figures, the level of additionality is 88 per cent.

120. It is usual to set public expenditure bench-marks in order to determine the relative success of the policy. No bench-marks were set by the Government. However, an additionality factor of 88 per cent is high and illustrates the fact that the scheme has been a success. Table 3.1 shows the distribution of costs per gross number of VCUs and cost per net additional VCU for each segment. However, some caution should be used when examining these figures as the segment by segment licence transfers and exits are unavailable. The table shows the relative costs per VCU to be highest for the non active / other segment, followed by the nephrops, shellfish fixed and demersal trawl sector. The low net costs per VCU for beam trawlers and pelagic vessels are encouraging as they suggest that these groups would have cost substantially more to remove from the fleet. Nevertheless, these costs are a reflection of vessels accepting the awards in the earlier phases of the scheme when the prices for licences were well below the 1997 costs (Table 3.6).

Figure 3.1: Estimate of additionality resulting from the application of the UK fleet decommissioning scheme:

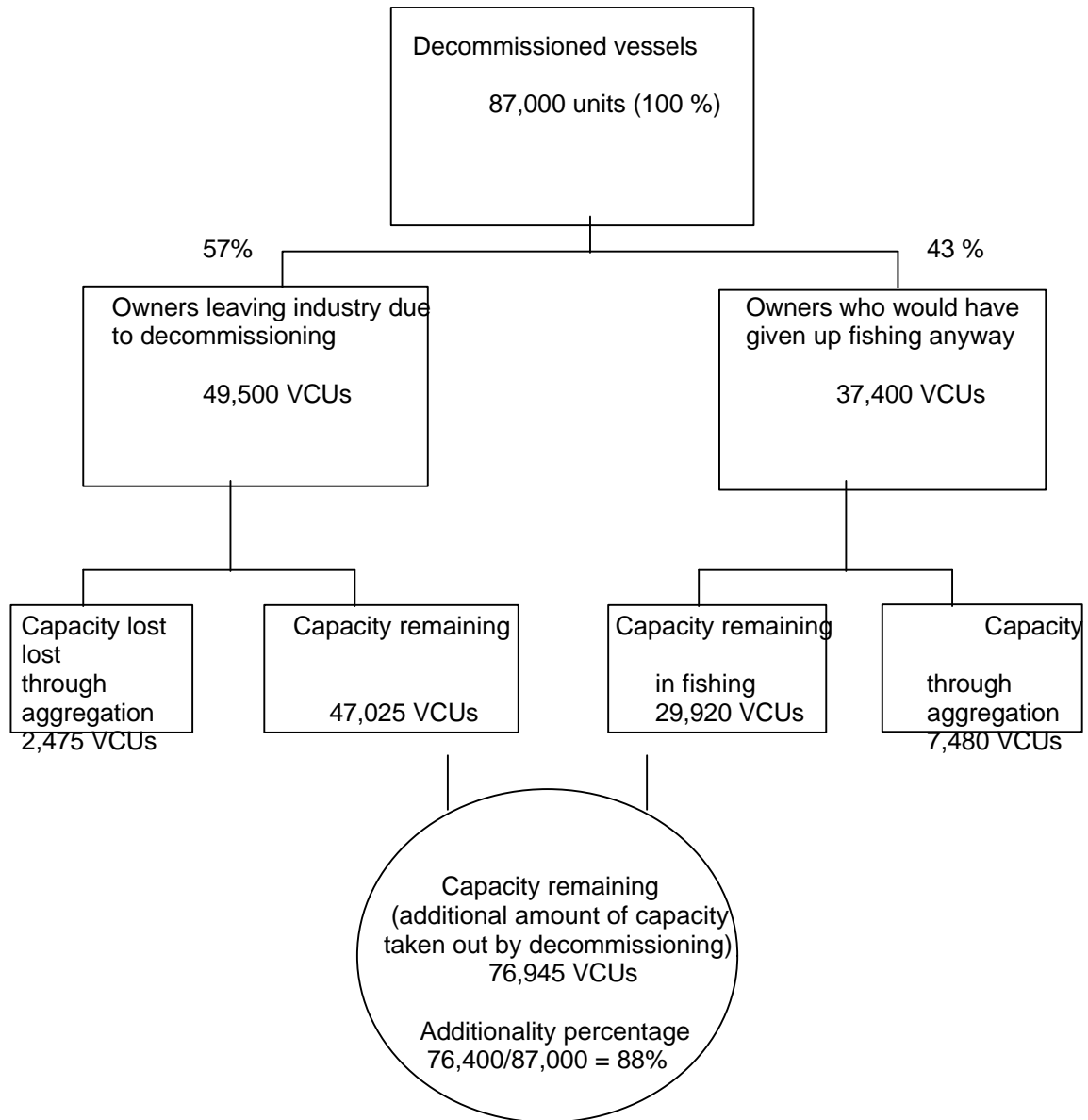


Table 3.1: Calculation of costs per net additional VCUs

Segment	Total expenditure per segment	Total Decommissioned VCUs	Net of exits VCUs	Gross cost per VCU = (a) / (b)	Net cost per VCU = (a) / (c)	% differential
	(a)	(b)	(c)			
<i>Pelagic</i>	657,800	1,864	1,640	353	401	13.6
<i>Beam trawl</i>	2,777,900	7,879	6,933	353	401	13.6
<i>Demersal trawl</i>	13,770,600	33,573	29,544	410	466	13.6
<i>Nephrops trawl</i>	11,117,074	25,311	22,274	439	499	13.6
<i>Nets & lines</i>	2,035,489	4,563	4,015	446	507	13.6
<i>Shell mob</i>	1,893,909	4,674	4,113	405	460	13.6
<i>Shell fixed</i>	1,918,786	4,462	3,926	430	488	13.6
<i>Distant water</i>	538,575	1,561	1,374	345	392	13.6
<i>Non active</i>	1,530,992	2,348	2,066	652	741	13.6
Total	36,241,125	87,532	77,028	414	471	13.6

Source: Extracted from Tables 1.2, 1.5, 1.16, 2.2.

3.3 An estimate of the capital employed in the industry

121. Given the age of the UK fleet and the relaxation of the amortisation time scales to more than 15 years, estimating the capital employed in the industry is a complex task. Traditionally, vessel insurance values are seen as the most acceptable and valid measure of the value of the vessel's corresponding capital¹. However, there is some doubt as to whether these values reflect the replacement value of the vessels or its market value. Interviews with the fish selling agents (companies which usually have minority shares in vessels) indicate that the former is more likely. In this case, the replacement value is likely to be higher than the true market value of the vessel. The reason for that is that vessel owners will usually replace their vessel with a more modern one. In contrast, the Seafish study, following an interview with Sunderland Marine (the largest fishing vessel insurance company) discovered that the starting point for insured values was always the price paid for the vessel by the owner. The figure is then retained until it is regarded as no longer realistic in comparison with the prices of sales/purchases of similar vessels which are continually monitored. This led Seafish to conclude that there was a reasonably close relationship between insured and capital values.

122. Nevertheless, based on discussions with the industry as well as with individual conversations with fishermen, insurance value is perceived by many as the most representative measure of capital. Other methods include the 'common method' based on the replacement values of vessels as measured by the 'current' (i.e. survey year) building costs of a similar new vessel, depreciated over 25 years. This method is perhaps appropriate in the sectors with amortisation contingencies of under 25 years. However, in the UK, fishing vessels remain operational for upwards of 30 to 35 years. Therefore, using the common method could result in relatively high estimates of capital values.

123. The conclusion is that insurance values, as a measure of capital, are very approximate, and using this measure of capital values as a comparison with the cost of decommissioning is only indicative. On the basis of the average insurance values gathered from the survey of fishing vessel owners, the following provides an estimate of the capital deployed by segment in 1992, and the perceived capital value of the decommissioned vessels. This excludes any estimate of current licence values that have grown significantly in value over the last four years.

Table 3.2: Estimates of the capital deployed by segment

	Capital employed in 1996	% total capital in 1996	Estimate of capital withdrawn from the industry by segment	% capital withdrawn
Segment	£'000	%	£'000	%
<i>Pelagic</i>	189,507	22.1	4,459	5.3
<i>Beam</i>	99,562	11.6	13,464	16.0
<i>Demersal</i>	286,008	33.3	34,983	41.6
<i>Nephrops</i>	44,802	5.2	12,486	14.8
<i>Gill Net</i>	43,593	5.1	4,420	5.3
<i>Shell mob</i>	17,456	2.0	3,367	4.0
<i>Shell fixed</i>	26,127	3.0	4,537	5.4
<i>Distant water</i>	22,814	2.7	2,409	2.9
<i>Other</i>	129,526	15.1	3,269	3.9
<i>Unknown</i>	-	0.0	658	0.8
Total	859,395	100.0	84,050	100.0

Source: Nautilus Survey

¹ Seafish Industry Authority and LEI-DLO, Return on capital in the European Fishery Industry, BIO-ECO/93/14

Table 3.3: Estimates of capital withdrawn from the industry as a result of decommissioning.

Segment	Decommissioning expenditure by segment	VCU	% total VCUs	£/VCU	Estimate of capital value withdrawn from the industry by segment	£/VCU	% total capital in 1996	% saving
	£'000				£'000		%	
<i>Pelagic</i>	658	1,864	2.4	353	3,804	2,041	4.7	478
<i>Beam trawl</i>	2,778	7,879	9.5	353	12,299	1,561	15.4	342
<i>Demersal trawl/seine</i>	13,771	33,573	39.3	410	32,834	978	41.1	138
<i>Nephrops</i>	11,117	25,311	27.3	439	12,706	502	15.9	14
<i>Lines & nets</i>	2,036	4,563	5.2	446	4,389	939	5.5	116
<i>Shellfish mobile</i>	1,894	4,674	5.5	405	3,169	678	4.0	67
<i>Shellfish fixed</i>	1,919	4,462	5.0	430	4,480	1,004	5.6	133
<i>Distant water</i>	539	1,561	1.7	345	2,409	1,543	3.0	347
<i>Non active/non TAC</i>	1,117	2,348	2.6	475	3,268	1,392	4.1	192
<i>Unknown</i>	413	1,297	1.6	318	576	444	0.7	40
Grand Total	36,241	87,532	100.0	417	79,934	913	100	120

Source: *Nautilus Survey*

124. Table 3.2 shows that the demersal trawl sector is the most significant in terms of capital deployed, representing a third of the value of the industry (39 per cent of the total VCUs). Whilst the pelagic segment only accounts for 2.4 per cent of the VCUs, its capital worth (excluding the value of licences) represents 22 per cent of the UK fleet. Equally, the capital invested in the distant water and beam trawl sector is high in relation to the VCUs, representing 15.1 and 11.6 per cent of the UK fleet, and corresponding to the 2.5 and 9.6 per cent share of the VCUs. The nephrops sector, on the other hand, whilst accounting for 27 per cent of the total VCUs, has a capital worth of only 5 per cent of the total. This is because the majority of vessels in this sector are relatively old.

125. Based on these results, the value of capital (as measured by insurance value) withdrawn from the industry represents £80 M or approximately £913 / VCU. This is more than double the actual cost of decommissioning to date. This demonstrates that by operating a tender scheme, the Government has historically been able to pay awards considerably below the perceived commercial value of the vessel. However, some caution needs to be applied to the estimates on capital removed, since decommissioning vessel owners gave an indication that the vessel value was the key determinant when preparing the bid for decommissioning. In some cases, their bids did not correspond with their insurance values. This may suggest, in contrast to the Seafish findings, that insurance values are closer to the replacement value of the vessel, or alternatively that the size of competing bids may have been considerably more influential than originally perceived.

126. Table 3.3 shows the costs of decommissioning for each segment against the costs of capital withdrawn. The table shows considerable savings based on perceived capital values for each sector.

3.4 Changes to the capital values of vessels in 1996/97

127. The estimates of capital values shown in the previous section do not include any estimate for the value of the licence. Similarly, they refer to the valuations given to vessels leaving the industry as opposed to those remaining (Table 3.6). The realisation of higher capital values through changes in the value of licences leading up to 1996/97 would suggest that the costs of decommissioning vessels in 1997 is likely to be considerably greater per VCU than in past schemes. There are a number of features which have led to the increase in capital values. These are:

- the effect of previous decommissioning schemes reducing excess capacity thereby increasing the level of competition for the remaining fishing entitlements;
- changes in the rules on licence aggregation increasing the demand for proportionately more VCUs for fleet aggregation purposes; and
- a realisation of track record values.

128. The overall conclusion is that meeting future MAGP targets is likely to cost the Government considerably more than £36 M, unless natural reductions in capacity occur through the aggregation of fishing vessel licences or the purchase of quota entitlement. Similarly, given the rise in asset values, the Government could conceivably fail to attract any applicants from the segments with large capital investments and substantial quotas. An example of the competitive element within the industry was reflected in the operation of the separate decommissioning scheme for nephrops vessels in Northern Ireland. Out of eight successful bids, only two vessels accepted the awards, with some of the remaining applicants selling their licences onto the open market at higher rates than the submitted tenders. This example comes from a segment where the value of vessels and their licences is considerably lower than in the other groups.

Table 3.4: Estimates of the transition in licence values applicable to each segment, 1993 - 1996

	1993	1994	1995	1996
SEGMENT	£/ VCU	£/ VCU	£/ VCU	£/ VCU
<i>Pelagic</i>	155		381	2,065
<i>Beam trawl</i>	228	316	266	1,254
<i>Demersal trawl/seine</i>	132	245	197	891
<i>Nephrops</i>	195	296	337	396
<i>Lines & nets</i>	57	230	145	781
<i>Shellfish mobile</i>	104	255	72	292
<i>Shellfish fixed</i>	267	119	125	762
<i>Distant water</i>		148		1,766
<i>Non active/non TAC</i>	1292			393
<i>Unknown</i>	180	283		
<i>Average across all segments</i>	178	260	182	944.00

Source: *Nautilus Survey*

129. The overall trend shows considerable upward movement for licence prices over the three year period associated with the following segments (Table 3.4):

- gill net / long line 1,270 per cent
- pelagic 1,230 per cent
- distant water 1,093 per cent
- demersal 575 per cent
- beam trawl 450 per cent
- shellfish mobile 180 per cent
- shellfish fixed 185 per cent
- nephrops 102 per cent

130. The values of these licences are very much linked to the track record attached to each licence. Current (first quarter of 1997) exchange values for quota entitlements in addition to the licence are as follows:

- cod £1,200 / t
- plaice £1,200 / t
- saithe £2,500 / t
- hake £2,000 / t
- monkfish £3,300 / t
- sole £6,000 - 10,000 / t
- herring £350 / t
- mackerel £700 / t

Source: UK licence brokers

131. Average prices for separate category licences are outlined in table 3.5. These include an allowance for track record entitlements. The key features show a 433 per cent increase in category A licences averaging £776 / unit in 1996, a 527 per cent increase in purse seine licences increasing to £2,000, and a 170-440 per cent increase in beam trawl licences, averaging around £1,200 / VCU. In addition, lower category licences (B and C) have also witnessed sharp increases, rising to between £135 to £200 / VCU.

Table 3.5 Estimates of the transition in licence values per licence type, 1993 - 1996

Licence type	1993	1994	1995	1996
	£/VCU	£/VCU	£/VCU	£/VCU
Category A	179	269	184	776
Category A - Purser		395		2,083
Category A - Beam Trawl	700	391	276	1,222
Category B	62	189	88	182
Category C	47			184
Total	178	260	182	944

Source: *Nautilus Survey*

132. On the basis of the above findings and recorded / perceived licence values (from the survey of existing vessel owners remaining in the industry) it is possible to calculate a total estimate of the value of the industry by sector (Table 3.6).

Table 3.6 Estimates of the combined value of assets (vessels and licence) by segment, 1996

Segment	Av. value per VCU	VCUs by sector	Total value	Per cent
	£/VCU		£'000	
<i>Pelagic</i>	5,597	63,796	357,066	28.7
<i>Beam trawl</i>	1,561	92,858	144,951	11.6
<i>Demersal trawl / seines</i>	1,352	293,236	396,455	31.9
<i>Nephrops</i>	978	90,079	88,097	7.1
<i>Lines and nets</i>	1,316	46,403	61,066	4.9
<i>Shellfish mobile</i>	951	25,759	24,497	2.0
<i>Shellfish fixed</i>	860	26,023	22,380	1.8
<i>Distant water</i>	6,120	14,777	90,435	7.3
<i>Non active / Non TAC</i>	642	93,042	59,733	4.8
Total		745,973	1,244,681	100.0

Source: *Nautilus* Survey

133. As a result of the changes in capital values, the incorporation of licence values, inflates the value of capital within the UK fishing industry to £1,245 M, with more than 70 per cent concentrated in the pelagic, demersal trawl and beam trawl segments. The highest values per VCU are attributed to the distant water sector, £6,120 / VCU and the pelagic segment, £5,597 / VCU. Beam trawlers, demersal trawlers and line fishing vessels have correspondingly higher values per VCU, whilst nephrops trawlers and shellfish vessels (mobile and static) remain at the bottom end of the scale. These values are indicative of the high values placed on the track record assigned to each vessel.

134. The value of licences as a proportion of the asset value is estimated at 43 per cent of the total. The highest licence values are attributed to the pelagic sector (73 per cent of the total asset value).

135. Whilst the above figures reflect the value of assets (licence and capital combined), vessel owners' expectations of potential tenders over and above the value of the vessel are considerably higher than previously envisaged (Table 3.7). This is largely due to inflation in the market value of licences and quotas. If the system is to remain as it has been in the past with only marginal yearly increases in average tender prices, then the only vessels likely to show interest will come from the nephrops segment. Table 2.8 shows that a proportion of the industry remain interested in the scheme. It is questionable how a future scheme will be able to compete with the open market.

Table 3.7: Fishermen's potential tenders for decommissioning over and above the estimates of the value of the vessel

Segment	Multiple factor (vessel value: licence) from the value of the perceived value of the vessel	Multiple over and above 1996 tenders
<i>Pelagic</i>	1.96	
<i>Beam trawl</i>	1.72	7.71
<i>Demersal trawl / seines</i>	1.47	2.5
<i>Nephrops</i>	1.17	1.03
<i>Lines and nets</i>	1.49	2.7
<i>Shellfish mobile</i>	1.31	1.7
<i>Shellfish fixed</i>	0.88	1.72
<i>Distant water</i>	1.78	
<i>Non active / Non TAC</i>	1.17	3.15

Source: *Nautilus* Survey

3.5 An assessment of the tender / VCU system.

3.5.1 The effectiveness of the tendering scheme

136. The decision to implement the current decommissioning scheme was taken after much debate and following criticism of the previous scheme running from 1983 to 1986. The Public

Accounts Committee of the House of Commons published a report in 1989 concluding that the then scheme “was grossly expensive for what it achieved”. This report does not seek to analyse the failings of the past scheme, but it is important to consider whether lessons were learnt from this scheme. These failings were apparent in two areas: firstly, the scheme’s design and administration whereby a number of vessels having previously left fishing were able to re-enter the fishing industry with the intention of applying for decommissioning awards; and secondly, the scheme’s methodology which was largely determined from the EU regulated payment schedules. The subject of administration will be discussed later in the report.

137. The system of tendering has received a mixed reception from the industry. It was supported by one of the two national fishing organisations, the National Federation of Fishermen’s Organisations (NFFO) and opposed by the other, the Scottish Fishermen’s Federation (SFF). The SFF preferred the adoption of a system of fixed rates. Depending on the aims of decommissioning, both views were valid. If the system would have to remove the most efficient vessels, then higher rates of decommissioning based on a fixed rate schedule would have been more successful. If, on the other hand, the aim was to reduce the overall capacity of the fleet at the cheapest possible cost, few could argue that tendering would be inappropriate. In order to test these hypotheses, two avenues were explored. Firstly, the system of repeat bids, based on submitting a competitive (but closed) bid according to an amount per VCU; secondly, a system of fixed rates linked to the method proposed by the European Commission and followed by most of the other EU countries.

3.5.2 The value of the tendering scheme compared with the EU scheme.

138. The system of tendering was introduced on the grounds of value for money. Table 3.8 shows how the average value of submitted tenders increased from 1993 to 1996. The table also compares the tenders and accepted bids against payment that would have been made in the event of the UK adopting the standard EU rates. Figure 3.2 shows the distribution of tenders for each region by year of application.

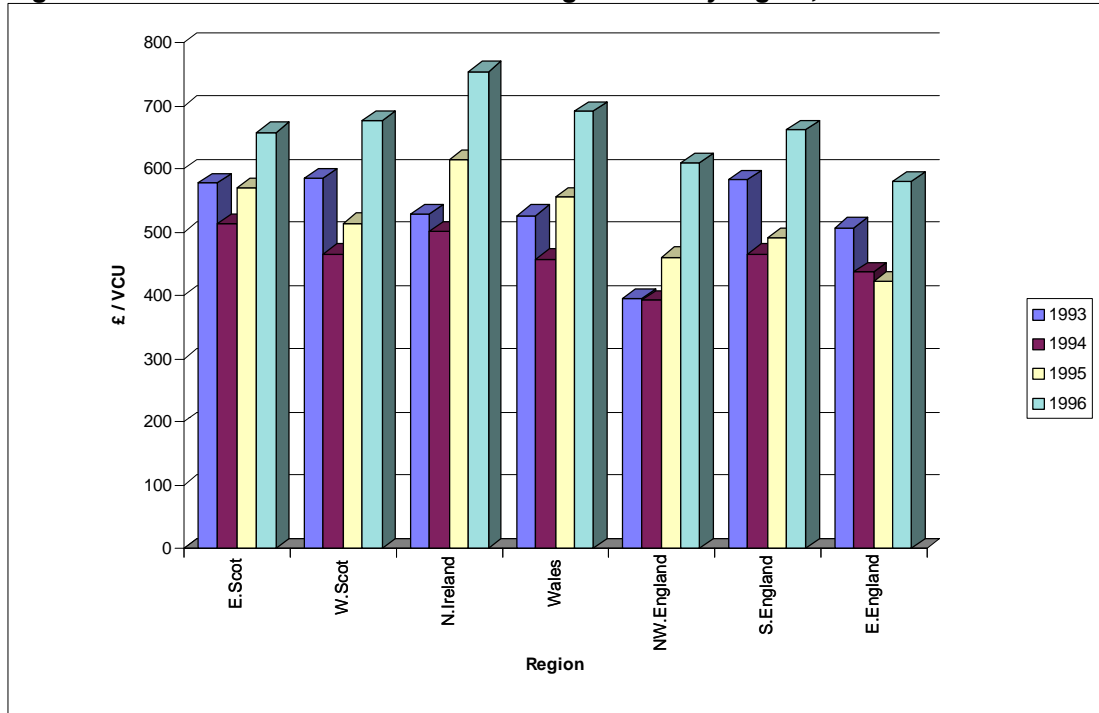
139. The results show that the average tenders were high when the scheme was first introduced and then started to decline but rose again in 1995 and 1996. This is also when the numbers of applicants were highest: 433 and 471 in 1993 and 1994 respectively. The regional variations show that in the first year of the scheme, the average bids were highest in Scotland and in southern England. In the first year, the largest number of applications came from eastern England (predominantly Yorkshire and Humberside), N. Ireland, and N.E. Scotland. The highest average tenders overall came from N.E. Scotland. This has been a consistent feature throughout the scheme’s operation. For the first two years, the lowest bids came from N.W. England and for the last two years from the east coast of England.

Table 3.8: Distribution of tenders, accepted bids and comparative EU payment schedules for vessels applying for decommissioning, 1993 to 1996

	1993		1994		1995		1996	
	Price/VCU	n	Price/VCU	n	Price/VCU	n	Price/VCU	n
All submitted bids for which data available	542.7	431	469.6	469	499.3	243	662.9	259
Calculated EU rates for vessels submitting bids	660.9	431	649.8	469	652.7	243	635.0	259
Actually decommissioned	332.3	135	346.0	162	436.1	157	538.4	143

Source: MAFF

Figure 3.2: Distribution of decommissioning tenders by region, 1993-1996



Source: MAFF

140. Table 3.3 illustrates that a comparison of the costs of capital derived from insurance value achieved savings of 120 per cent. Another means of examining value for money is to consider what the cost would have been had the UK Government sought to follow the EU methodology and guidelines. These measures differentiate according to GRT and discount awards according to the age of the vessel. Annex IV of EU Regulation 3699 / 93 outlines the following methodology:

Table 3.9: The EU award scheme

Class of vessel by gross registered tonnage	Maximum amount of premium for 15 year old vessel (in ECU)
0<25	6,215 / GRT
25<50	5,085 / GRT + 28,250
50<100	4,520 / GRT + 56,500
100<400	2,260 / GRT + 282,500
400 and over	1,130 / GRT + 734,500

* vessels less than 15 years old, increase by a scale of 1.5 per cent / annum less than 15 years, vessels more than 15 years old, decrease in scale by 1.5 per cent per year over 15 years.

Source: EU Regulation 3699 / 93

141. These measures are followed by most EU countries with the exception of the Netherlands and Denmark. As can be seen from the schedules, the payments discriminate against the age of the vessel. Table 3.10 shows the savings that have been made by the UK having opted for the VCU scheme. The conclusions are as follows:

142. For those vessels that accepted the decommissioning awards, a comparison with the EU schedules illustrates a saving to the Exchequer of £20 M (Table 3.10.2). Most decommissioned vessels indicated that they would have accepted the award based on the equivalent EU payment. The most notable feature is that particular savings were made in the beam trawl, demersal and nephrops segments.

Table 3.10.1: Comparison of Tenders to EU payments: For surveyed vessels accepting UK decommissioning payments

Segment	Number of vessels	Amount bid	Amount using EU rates	Difference	Number of vessels who would have accepted EU rates	Amount
Pelagic	4	356,500	613,955	257,455	3	515,681
Beam	14	2,282,900	4,999,721	2,716,821	13	4,977,043
Demersal trawl / seines	100	7,044,906	11,958,219	4,913,313	94	11,544,636
Nephrops	66	4,762,774	6,581,515	1,818,741	59	6,107,386
Lines and nets	16	991,295	1,184,188	192,893	14	1,072,929
Shellfish mobile	18	1,080,586	1,589,281	508,695	15	1,355,508
Shellfish fixed	15	551,230	625,754	74,524	12	565,196
Distant water	9	253,315	359,146	105,831	9	359,146
Non active / Non TAC	9	482,267	526,347	44,080	7	437,650
Other	3	103,200	111,814	8,614	3	111,814
TOTALS	254	17,908,973	28,549,940	10,640,967	229	27,046,989

Table 3.10.2: Comparison of cost of tenders with EU payments: Projections for all vessels accepting UK decommissioning payments

Segment	Vessels accepting decommissioning	Actual cost of decommissioning (£)	Total cost if all vessels decommissioned at EU rates (£)	Proportion of those surveyed that would accept the EU rates	Estimated total cost of decommissioning vessels willing to accept EU rates	Percentage savings by segment
Pelagic	7	657,800	1,480,888	0.75	1,110,666	125
Beam	24	2,777,900	5,602,005	0.93	5,201,862	101
Demersal trawl / seines	209	13,770,600	22,415,705	0.94	21,070,763	63
Nephrops	159	11,117,074	16,241,839	0.89	14,519,220	46
Lines and nets	40	2,035,489	2,584,072	0.88	2,261,063	11
Shellfish mobile	42	1,893,909	2,588,422	0.83	2,157,018	37
Shellfish fixed	42	1,918,786	2,689,559	0.80	2,151,647	40
Distant water	17	538,575	853,841	1.00	853,841	58
Non active / Non TAC	23	1,117,655	1,254,739	0.78	975,908	12
Other	15	413,337	422,441	1.00	422,441	2
Totals	578	36,241,125	56,133,511	0.90	50,724,429	56

143. For those vessels rejected from applying (Appendix 3.1), the costs of the EU schedule were broadly equivalent with those tenders that were rejected. However, this was not the case for the demersal trawl segment where the EU payments were 10 per cent higher and yet only 40 vessels out of the 54 applying under the UK scheme indicated that they would have accepted the EU rate. Of those vessels choosing to withdraw their applications, 24 of the 34 vessel owners interviewed stated that they would have left the industry. Had the equivalent EU rates been available, the Exchequer would have had to find an additional £2.8 M.

144. On the basis of these figures and the previous analysis of those rejected for decommissioning or choosing to withdraw, it is reasonable to assume that marginally higher annual budgets would have taken out some of the more efficient vessels in the demersal trawl segment. Otherwise, it would have had little impact on the other groups.

145. The summary table (Table 3.11) below shows the numbers that would have applied for decommissioning if the EU rate had been offered:

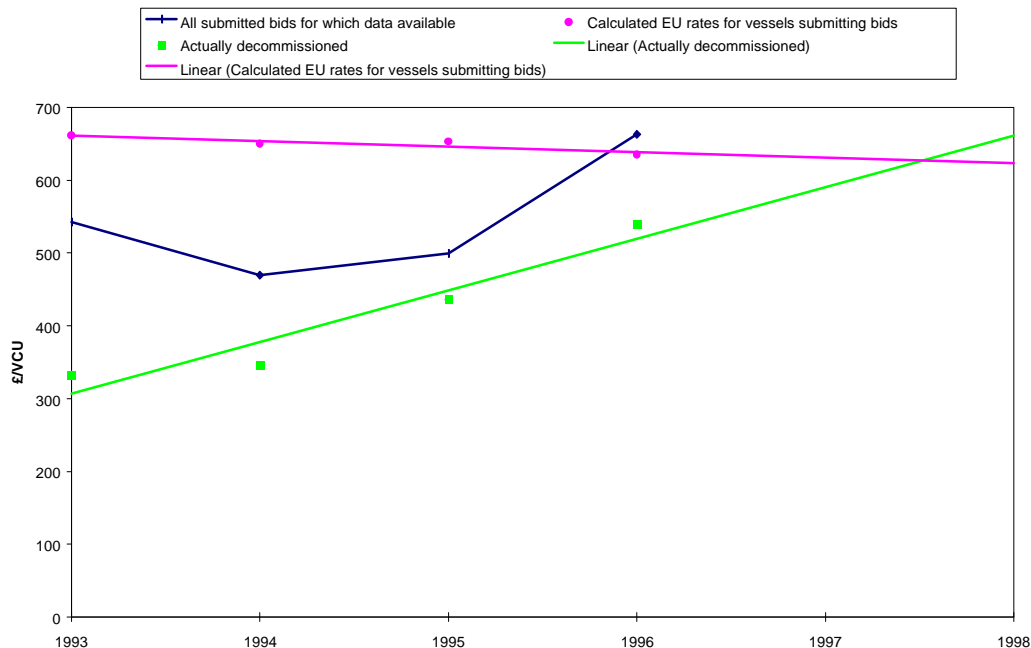
Table 3.11: Percentage of vessels not having applied but that would have applied if an EU scheme had been available

Segment	Sample response	Would apply at EU rates	Percentage
Pelagic	33	1	3
Beam	70	5	7
Demersal trawl / seines	133	41	31
Nephrops	47	21	45
Lines and nets	30	16	53
Shellfish mobile	20	10	50
Shellfish fixed	46	18	39
Distant water	9		0
Other	59	16	27
Total	447	128	29

Source: *Nautilus* Survey

146. The above response shows that for those sectors remaining outwith their targets, only the shellfish fixed gear segment would have applied.

147. Figure 3.3 illustrates the development of the tendering scheme in comparison to the equivalent EU scheme. Firstly, it shows that the system of tendering worked well in the early phases of the scheme with most bids below the EU rate. This has subsequently altered, with the average submitted tenders exceeding the EU rates. Furthermore, the regression shows that the UK tender mechanism, if continued, will meet with the EU scheme by mid 1997. However, given the sudden increase in the value of licences, if a further tranche were introduced, the UK system is likely to exceed the EU rates prior to the projected intersect.

Figure 3.3: The evolution of the tendering system

3.5.3 The effectiveness of the tendering scheme

148. Of those surveyed 174 applicants were successful in their first application. Thirteen of these subsequently chose to withdraw. Sixty five per cent of those subsequently rejected chose not to apply again. When repeating their bids, approximately 8 per cent bid the same as their initial bid, 24 per cent bid higher and 67 per cent bid lower. There were 698 repeat bids.

149. One way of testing the effectiveness of the tendering system is to analyse the process of repeat bids. The two main reasons for bidding above the previous rate were (a) 'realisation of increased asset value'; and (b) 'expectations of an increase in the average acceptable tenders'. Almost all those identifying the latter as the key reason for applying were successful, whilst those seeking to equate their real asset values with the decommissioning tenders were largely unsuccessful.

150. For those bidding lower, 58 per cent reduced their bid to a level which they presumed would guarantee success. This was generally influenced by a 'knowledge of previous bids' (75 per cent) and 'hearsay' (21 per cent). A further 18 per cent reduced their bids as a result of 'pressure from the bank' and 12 per cent due to 'the need to retire'.

151. Table 3.12 shows the evolution of repeat bids which have taken place during the operation of the scheme. As can be seen, the system of repeat bids from years 1 to 3 of the scheme was highly effective and enhanced the value for money of the scheme. In the later years, it appears that the tendering system was influenced by the increase in the commercial environment, or more probably, the knowledge of the level of bids that had previously been accepted. Appendix 3.2 illustrates the evolution of repeat bids by segment. It shows that substantial savings were made in the beam trawl (-42 per cent), demersal trawl (-24 per cent), lines and nets (-28 per cent) and nephrops trawl (-31 per cent) segments between year 1 and year 2.

Table 3.12: Comparison of average difference between repeat bids for individual vessels between the years 1994 to 1996

<i>Bid2\Bid1</i>	1994	1995	1996
1994	-25%		
1995	-24%	-8%	
1996	5%	28%	27%

Source: MAFF

152. Appendix 3.3 illustrates the change in the success rate of the repeat bid structure. Once again, this demonstrates the inability of maintaining repeat tenders below the previous levels of application.

3.6 Realising the value of the assets

3.6.1 Scrapping considerations

153. Most fishermen expressed the view that it was unnecessary to scrap the vessel, since the ability to work a vessel was determined by the licence and not the vessel. In some cases fishermen did not apply because of sentimental attachment to their vessels.

154. Of those interviewed 86 per cent had the vessel cut up, 7 per cent burnt (in the first tranche only) and the remainder were given to museums or schools.

155. The requirement to scrap the vessel by burning, cutting up or otherwise, derives from the previous criticism voiced by the Public Accounts Committee and others, that vessels that had been fishing could re-enter the fleet register. Much of the past criticism has been overcome by the introduction of more restrictive fleet licensing rules. However, it could also be argued that by having a surplus of vessels in circulation there is the potential for their re-entry in the fishery. In some cases, this could discourage fleet aggregations with some fishermen choosing to purchase previously decommissioned vessels rather than new ones.

156. Almost all the interviewees believed they could have found alternative means of disposal other than placing the vessel in a museum or school playground. This would usually mean the sale of the vessel for recreation (taking out angling parties), or as houseboats. Others (23 per cent) felt that they should be allowed to sell the vessel to a developing country.

157. When asked whether the sale of a vessel outside fishing would have reduced the price of the tender, only 8 per cent said 'yes'.

158. The costs associated with bidding for, winning and receiving decommissioning monies, net of the ability to realise some of the assets (for example through the sale of the engine and wheel house equipment) were not considered to be prohibitive. Table 3.13 compares the costs of decommissioning with the revenue from the sale of equipment. The average costs of scrapping ranged from £500 to almost £4,000 per vessel. Sometimes the sale of equipment covered the cost of scrapping. In other cases vessels were scrapped without cost but the scrap merchant kept the proceeds from the sale of equipment.

Table 3.13: The costs of scrapping the vessel (1993-1996)

<i>Segment</i>	<i>sample</i>	<i>Costs of scrapping</i>	<i>Sale of equipment</i>	<i>Balance</i>
<i>Pelagic</i>	2	2,000	16,250	14,250
<i>Beam trawl</i>	12	2,392	5,803	3,412
<i>Demersal trawl / seines</i>	79	2,971	2,679	-292
<i>Nephrops trawl</i>	50	2,243	2,685	442
<i>Nets and lines</i>	14	1,657	715	-942
<i>Shell mobile</i>	12	2,763	638	-2,125
<i>Shell fixed</i>	11	477	3,236	2,759
<i>Distant water</i>	6	717	619	-98
<i>Non active</i>	7	2,017	1,221	-796
<i>Other</i>	3	3,833	2,933	-900

159. The costs of scrapping averaged at around £90 / GRT (Appendix 3.4) The costs of scrapping were highest in south and east Scotland (£110-180 / GRT) and lowest in Northern Ireland (£50 / GRT).

3.6.2 Tax

160. Taxation of the award was considered to be a major disincentive when applying for decommissioning. Most fishermen were unaware of the tax implications involved when applying. The only area where there appears to be a slight advantage is for those vessel owners over 55 years who are not liable to pay capital gains tax. Of those interviewed, approximately 38 per cent were subject to income or capital gains tax (Appendix 3.5). The level of taxation averaged at 18 per cent of the cost of award given to the applicants. However, on a few occasions applicants were subject to the full 40 per cent. Most fishermen, and in particular company owners, indicated they would seek to re-invest their capital into the business.

161. The tax burden has now become an influencing factor for those seeking to leave the industry altogether. Most would-be applicants face the prospect of a heavy tax burden against the alternative of selling the vessel and its licence. In such a case, only the capital gain on the vessel is subject to tax. The result is that the sale of the vessel may be discounted with a larger proportion of the overall sale price attributed to the licence.

3.6.3 Reinvesting in the fleet

162. Many fishermen initially applying for the scheme, saw decommissioning as a means of reinvesting the monies into a new vessel. This could be considered to be misuse of public funds. However, since owners of vessels over 10 m were required to withdraw their licence, it could be argued that this stimulated demand for additional licences and promoted capacity reduction by other means. Furthermore, because of the rapid increase in the price of licences, those who had decommissioned also had great difficulty in re-entering the fishery. However, the real problem lies in the movement from over 10 to under 10 m, where reinvestment has actually led to an increase in investment in the 'uncontrolled' fishery.

3.6.4 Quota / track record

163. The realisation of licence values added to the track record applicable to each licence has considerably enhanced the capital ownership of all fishermen. This questions the procedure adopted when vessels were decommissioned, in particular that no attempt was made by the Government to realise the quota value gained from the decommissioned vessels. The quota was instead re-distributed pro rata into the common pool. This will have benefited those fishermen remaining in the industry by providing enhanced quota entitlements for the future. Given the increased value of the quotas, if the Government were to continue with the scheme, it should in turn find some means of realising the value of these quotas. This could probably be achieved by auction, the revenues from which can be re-allocated in turn to the decommissioning scheme.