

Executive Summary

Decommissioning in the UK context

1. The UK Government introduced a decommissioning scheme in 1993. This was part of an overall package of measures to reduce fishing capacity and, by implication, effort (Para.1).
2. The other measures, subsequently adopted, included the introduction of a restrictive licensing regime for vessels under 10 m and further restrictions on the transfer of vessel licences (Para. 8).
3. Fleet reduction targets are set by the European Commission every four years. These targets are laid out for each member state in Multi Annual Guidance Programmes. Until 1996 there had been three MAGPs; arrangements for the fourth were finalised in 1996 / 97. This evaluation relates primarily to the fleet decommissioning scheme introduced by the Government as part of its programme of compliance with the objectives of MAGP III. In addition to the 19 per cent overall reduction in GRT and engine power called for under MAGP III, a reduction of another 11 per cent carried over from MAGP II (Para. 2).
4. The MAGP objectives are set in terms of tonnage and engine power for pre-defined segments (Para. 4). The UK has defined 10 segments (Para. 5) based on its principal fishing methods. These are: pelagic, beam trawl, demersal trawl / seine, nephrops trawl, lines and nets, shellfish mobile, shellfish static, distant water, non-active and vessels under 10 m (Para. 5).
5. The UK decommissioning scheme operates on the basis of competitive tendering, in which vessel owners submit a value per Vessel Capacity Unit (VCU) for which they are prepared to decommission their vessels and surrender their fishing licences. Each vessel has a VCU which is calculated on the basis of $(\text{length}) \times (\text{breadth}) + (0.45 \times \text{engine power})$. Bids are ranked in ascending order in terms of £ / VCU. Successful applicants are paid the amount they bid (Para. 12)
6. There were 1,408 applications of which 578 were successful, 571 unsuccessful, 71 withdrawn and 187 ineligible. Of the successful applications, 314, 177, 69 and 18 were from England, Scotland, N.Ireland and Wales respectively (Para. 14).
7. A total number of 87,500 VCUs were removed from the fleet at a cost of £ 36 M . The average price paid per VCU withdrawn across the four years was £ 411(Para. 14).
8. Areas exhibiting the highest uptake of decommissioning grants were eastern England (mainly Humberside) and N.Ireland (Para. 46).
9. More than one third of vessels decommissioned were between 10 - 11.9 m. The bulk of these vessels were registered in England. More than half those vessels decommissioned in Scotland, 93 per cent of the vessels decommissioned from N. Ireland and 40 per cent from England were between 15 and 24m in length. Very few large vessels were decommissioned (Para. 38).
10. There were two principal beneficiaries of the scheme. Just under 40 per cent of the total decommissioned VCUs came from the demersal segment. A further 30 per cent came from the nephrops trawl segment. Half the total number of decommissioned vessels came from England; 31 per cent from Scotland; 17 per cent from N.Ireland; and 2 per cent from Wales, (Para. 19).
11. The highest tenders came from North East Scotland (Peterhead, Fraserburgh and Aberdeen), western Highlands (Stornoway and Mallaig) and N. Ireland. The highest tenders by segment (Table 1.18) came consistently from demersal and nephrops sectors. The lowest tenders came from North Shields and Ayr (Para. 46).

12. Three distinct groups of vessels emerge from the operation of the four schemes (Para. 26):

- segments that have exceeded their MAGP targets: the nephrops trawl and shellfish mobile sector
- the segments that are near compliance with their targets: the demersal trawl segment, nets and lines, and the distant water segment
- the segments that are under target: pelagic, beam trawl and shellfish potters (fixed)

13. With the exception of the distant water and pelagic sectors, decommissioning has had a strong impact in all groups, but especially in the demersal trawl and nephrops segment. The impact of decommissioning has been considerably reduced where fleet licensing policy has failed to curtail sector expansion. This is the case in the beam trawl and pelagic segments (Para. 29).

14. As a result of decommissioning and other policies, the trend is an increase in the average size of vessels over 10 m. In 1992, the number of vessels in excess of 24 m represented 13 per cent of the fleet. It now represents 26 per cent. Similarly the overall composition of vessels between 10-11.9m has fallen from 40 to 32 per cent over the same period (Para. 39).

15. Decommissioned vessels had an average year of build of 1962 (Para. 35), fewer days at sea than non-decommissioned vessels (Para. 40), and low annual earnings (Para. 52). This implies that the scheme has only managed to take out vessels exhibiting lower effort characteristics. This is true for most segments affected by decommissioning. The exceptions are beam and some nephrops trawlers where catch records from decommissioned vessels were judged to be fairly high (Para. 44). Catches recorded in the demersal segment were comparatively small.

16. Vessels withdrawing from the scheme in 1996 had high catch records. This allowed the vessel owners to gain significantly higher compensation by trading their vessels and licences onto the open market (Para. 44).

The survey

17. Skippers who applied for decommissioning fell into two main age groups; 34-45 years, and 45-55 years. These two groups accounted for 60 per cent of all applications. Applications from skippers aged over 55 years accounted for 22 per cent of all applications (Para. 56).

18. The key reasons for owners applying for decommissioning were: (a) 'vessels reaching the end of their economic life'; and (b) 'a means of financing a new vessel' (Para. 57).

19. Twenty eight per cent of owners moved into the under 10 m sector. This trend was particularly strong in the south west of England where two thirds of successful applicants purchased under 10 m vessels (Para. 60). It is estimated that as much as £ 14 M may have been re-invested into the sector, £ 10 M into vessels over 10 m and £ 4 M into the under 10 m industry (Para. 57).

20. As a result of rising licence values many of those taking decommissioning to re-finance new purchases of over 10 m vessels, had difficulties in re-entering the industry. This was also identified as one of the reasons why some of the applicants withdrew from the scheme at the last minute (Para. 61).

21. The majority of the successful applicants would have remained in the industry had decommissioning not been available. 40 per cent stated that they would have left the industry in any case (Para. 63). The majority (52 per cent overall) said that they would have carried on fishing. Thirty three per cent stated that they would have sold their vessel and licence. The

strongest desire to continue fishing was found in the distant water, pelagic and beam trawl sectors (Para. 64).

22. Whilst some vessel owners may have left the industry had there been no decommissioning scheme, their vessels and licences would have remained active (Para. 66). This capacity would have:

- been retained by existing vessel owners, presumably by those operating in profit and not seeking retirement; or
- been sold on at reduced capital valuation commensurate with age and earning capacity. For example, vessels close to the end of their economic life might have attracted lower levels of investment and might have been more likely to continue making marginal profits.

23. Forty seven per cent of those who were refused the award and 56 per cent of those choosing to withdraw subsequently sold their vessels. The average price fetched for vessels and their licences was higher in most segments than the average bid from these applicants. This indicates that the vessel owners realised the increased values in both licences and track records (Para. 67).

24. The principal reason for withdrawing from the scheme was identified as 'higher price offered for licence / track record on the open market' and 'higher prices offered for the vessel on the open market' (Para. 71).

25. When the vessels were sold onto the open market, higher prices, relative to the average accepted VCU bid, were accepted when licences were sold separate to the vessel. This indicates that these vessel owners probably took account of the vessel, licence and track record values when determining the initial tender price (Para. 68).

26. The significance of this development is that the removal of a significant number of vessels from the fleet has led to an increase in demand for second hand vessels (or more importantly their licences) providing ample reward for many of those who failed to achieve the award. In effect, the decommissioning scheme has contributed to the creation of a more dynamic market for second hand vessels, with a premium being paid for vessel licences containing significant track records (Para. 70).

27. The most significant levels of vessel and licence sales took place on the east coast of England where more than 63 per cent of those remaining in the industry subsequently sold their licences. Sales from North East Scotland (mainly the Moray Firth) and the Highlands and Islands were also significant (Para. 72).

28. The principal reasons for the high demand for vessels and licence (Para. 72) were attributed to:

- the demand for high track records, in particular those for cod and plaice
- the increasing awareness amongst those remaining in the industry of the need to legitimise their black fish activities
- demand for capacity units to cater for new vessel constructions (in some cases irrespective of track records). These new constructions were specifically aimed at targeting deep water species.

29. The first determining factor in establishing a bid price evolved from 'the value of the vessel' in the years 1993 and 1994 to 'knowledge of the previous decommissioning bids' in 1995 and 1996 (Para. 76). The next most important factor over the four-year period was 'expected size of competing bids' followed by 'required capital for future investment' (Para. 77).

30. Most of the tenders were based on decisions made by the applicant himself despite the fact that hearsay may have influenced his decision-making (Para. 78). Some applicants also took advice from fishermen's organisations and from fish-selling agencies.

31. Thirty three per cent of those who have not yet applied, said they would consider applying in the future, (Para. 83). The strongest concentration of interest came from the nephrops segment where around 69 per cent stated that they would consider applying. Interest also remained high in the other shellfish sectors (fixed and mobile). In the beam trawl sector only some of the smaller vessel owners expressed interest in decommissioning. None of the distant water sector expressed interest in decommissioning. The only interest forthcoming in the pelagic segment came from the smaller class of traditional pelagic trawlers.

32. The largest geographic concentration of interest was amongst the N.Ireland nephrops sector where more than half said they would consider applying. Interest was voiced in north east England (North Shields, 20 per cent), north east Scotland (14 per cent) and the Highlands and Islands. Continued interest in decommissioning was also evident in the south west gill net fleet, the small scale east coast of England gill net fleet, and the demersal segments in south west Scotland, eastern England and south east England. Very few of the vessels who indicated an interest had turnovers in excess of £ 200,000 (Para. 84).

33. The main reasons for not applying were: that 'the fishery is profitable'; and 'family in the industry' (Para. 85).

34. Seventy one per cent of those in the industry believed decommissioning to be a good policy (Para. 88). A high proportion of beam trawl operators considered the scheme to be bad. Some were of the view that more could be accommodated through allowing for the retention of licenses and track records. In the pelagic sector most believed that while decommissioning had its merits, it was irrelevant to them (Para. 90).

35. The fishermen's comments suggest that decommissioning's biggest weakness is that 'it has not been directed towards the most efficient vessels', and that there were 'insufficient funds available for an adequate decommissioning scheme' (Para. 94). The two major strengths identified were: 'that the scheme has worked well' and it has 'facilitated new investment'. The major threat identified was that without it, 'the stocks would be irreparably damaged'. The two key opportunities are: 'to allow for the selling of track records', and 'to target the most efficient vessels doing most damage to stocks'.

36. Sixteen per cent of successful applicants and 24 per cent of all applicants said that their bid was highly speculative (Para. 97).

37. The overall opinion from the industry was that VCUs were the most appropriate tool for decommissioning (Para. 100).

38. When asked whether the scheme should be amended, 46 per cent of the total number of respondents suggested that it should be altered to include other features (Para. 101).

39. The survey showed strong support for proposals to allow for the vessel to be sold separately. Equally, separate selling track records has some attraction, as does the possibility of establishing a fixed system of payments (Para. 105).

40. The study indicates that around 2,250 fishermen had to find alternative work as a result of the decommissioning scheme (Para. 111).

41. A significant proportion of skippers interviewed (27 per cent) returned to sea as skipper, crew or mate (Para. 112) on other vessels. 35 per cent did not continue in fishing but chose to remain in the marine field of work, for example, sea angling, sea going pleasure trips and the operation of oil rig support vessels (Para. 113).

42. Twelve per cent of those who became unemployed were skippers. Most came from the port of Grimsby (21 per cent) and Northern Ireland (14 per cent) (Para. 114).

43. The more skilled fishermen had little difficulty in seeking employment, with most skippers (or engineers) gaining work within 6-12 weeks (Para. 115). Unskilled crew workers found

difficulties in obtaining jobs, particularly in rural areas where they could be out of work for up to 9 months. Many of these individuals returned to sea.

The evaluation of the decommissioning scheme: Value for money

44. The consultants estimate that 76,945 of the 87,000 VCUs removed from the fleet through decommissioning would have been retained in the industry in the absence of a decommissioning scheme. 9,955 VCUs may have been removed from the fleet as a direct result of licence aggregation (Para. 119).

45. The value of capital (as measured by insurance value) withdrawn from the industry represents £ 80 M or approximately £ 913 / VCU. This is more than twice the actual cost of decommissioning to date. This demonstrates, by virtue of the operation of the tender scheme, that the Government has historically been able to pay awards considerably below the perceived commercial value of the vessel (Para. 125).

46. According to the survey, licence values have risen substantially over the four years, with licences in the pelagic, beam trawl, demersal and nephrops segments worth £ 2,000, £ 1,250, £ 900 and £ 400 / VCU respectively (Para. 131).

47. The value of capital (vessels and licences) within the UK fishing fleet is estimated to be £ 1,245 M, with more than 70 per cent of the fleet 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 net 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 (Para. 133).

48. Current licences are estimated to be valued at around 43 per cent of the total asset value of the industry. For the pelagic industry, however, asset values are estimated to amount to around 73 per cent of the total asset value (Para. 134).

49. A comparison between the UK tendering scheme and the EU schedules for the same vessels illustrates a saving to the UK Exchequer of £ 20 M (Para. 142).

50. 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 (Para. 147).

51. Repeat applications from unsuccessful tenderers during years 1 to 3 of the scheme saw individual bids being reduced over time which enhanced value for money. 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 been previously accepted (Para. 151).

52. Most fishermen expressed the view that it was unnecessary to scrap the vessel, since the ability to work a vessel was determined by licence, and not the vessel. In some cases fishermen were actually dissuaded from applying because of the sentimental attachment to their vessels (Para. 153).

53. The costs associated with bidding for, winning and receiving decommissioning moneys, 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 (Para. 158). Few vessels realised any capital gain from the sale of equipment.

54. Some of the applicants were unaware that the awards were subject to capital gains or income tax. The tax burden could be a major disincentive to owners seeking to decommission their vessel. Many owners opted to sell their vessel onto the open market where the tax burden

was significantly reduced, by transferring the bulk of the asset value from the vessel to the non-taxable licence value (Para. 160).

The operation and administration of the scheme

55. The administration of the decommissioning scheme has been co-ordinated by MAFF in collaboration with the other UK Fishery Departments. The fisheries officers in the ports facilitate the applications, and the scheme is administered via the national offices in Edinburgh, Belfast, and Cardiff to MAFF in London (Para. 164).

56. When setting up the scheme, Fisheries Departments set a number of criteria for qualification. These have generally met with widespread support in the industry. The two areas that received more criticism than others were the exclusion of specific segments and the exclusion of newer vessels (Para. 105).

57. The survey found the UK application form to be extremely well designed. 90 per cent of those interviewed indicated that the form was easy to follow (Para. 168)

58. Ninety per cent of those interviewed were complimentary about the role of the Fishery Departments in administering the scheme, both in terms of facilitating the applications at port level and in terms of the assistance given to fishermen if seeking advice on the completion of the form (Para. 170).

Different approaches to decommissioning

59. Most countries choosing to adopt a decommissioning scheme have set their objectives primarily towards the reduction of fishing capacity rather than effort (Para. 175).

60. All EU countries, with the exception of the UK, adopt a system based on fixed rates. In the main these follow directly EU guidelines (Para. 176).

61. Most countries outwith the EU have evolved from traditional fixed systems to either a bidding system linked primarily to revenue and by implication effort (USA and Canada), or an individual quota system (Australia). In Australia, evidence has shown that when the two schemes operate in tandem, the interest in decommissioning reduces (Para. 177).

62. When the UK scheme was first introduced it incorporated the system of VCUs. In view of recent changes to the performance and construction of new vessels, there is now some concern as to whether this system is still appropriate or whether the Gross Tonnes (GTs) system is more appropriate (Para. 188)

63. The current UK scheme is transparent in design. As a result, fishermen are over-familiar with the system. While this is welcomed from an administrative point of view, it has allowed a significant amount of learning and owners find it increasingly easy to project the likelihood of being successful at increasingly higher rates (Para. 189). It might therefore improve VFM to introduce some changes into any future selection mechanism.

Prospects for the evolution of the scheme

64. The UK was faced with the need to achieve very ambitious targets with the objective of reducing tonnage (as opposed to effort, or, by implication, fishing by the most efficient vessels) (Para. 191)

65. Reduction in effort 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 (Para. 200).

66. 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 payment of

the full value of the assets themselves or the payment of those costs associated with the equivalent EU scheme. However, the most significant feature 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 (Para. 224) making decommissioning extremely expensive.

67. In addition to the decommissioning scheme, the Government has operated a restrictive licensing regime which has resulted in an average aggregation penalty of 17 per cent over a five year period. Latterly there has been a penalty of 29 per cent. This has contributed increasingly to the reduction in fishing capacity. However, in overall terms, the net contribution to date is unlikely to have been more than 5 per cent of total capacity (Para. 225) .

68. The problem now is that the extension of the existing scheme into another tranche will only meet with interest from some of the groups who have already complied with the MAGP III targets. However, new targets for MAGP IV have been set and further decommissioning schemes might be warranted as part of a package of measures to meet these (Para. 209).

69. The groups of vessels that would be likely to remain attracted to decommissioning are essentially those sectors where there is little pressure to acquire additional track records, for example the shellfish and nephrops sectors (Para. 210).

70. There is a strong likelihood that the class of vessel applying will still 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 (Para. 211).

71. The increase in 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 as opposed to through decommissioning (Para. 212).

72. 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 highly unlikely to apply (Para. 213).

73. 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 accusation that the scheme could become increasingly subject to collusion (Para. 214).

74. The next scheme, if one is to be introduced, should centre on specifically attracting the withdrawal from the fleet, those vessels that fall outside MAGP objectives in terms of capacity and effort. 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, or the introduction of a degree of unpredictability into the scheme, notably a system of awards linked to higher payments for vessels with more days at sea or higher track records (Para. 214).

75. One means of encouraging lower bids is to allow for the selling of track record separate to decommissioning. This option should lower the prospective pricing of tenders and encourage some of the more profitable groups to apply (Para. 216).

76. 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 (Para. 216).

77. An additional alternative would be for the Government to decommission vessels (inclusive of quota entitlements) 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 certainly be considered a misuse of public funds. However, retaining the existing system could be considered justifiable if the industry itself contributed substantially to the costs of the decommissioning scheme (Para. 219).

78. Two features stand out as being significant barriers to would-be applicants. These are taxation and the requirement to scrap the vessel (Para. 222).

79. International experience has tended to show that decommissioning schemes can often be displaced more effectively by a system of transferable fishing rights. This may apply either 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 led to a failure to take up annual budgets for decommissioning (Para. 226).

80. 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, it is likely that the market would be capable of achieving substantial reductions in fishing capacity via transfer of aggregation penalties) without the use of public funds. However, there may be some doubt that this will achieve reductions in fishing effort (Para. 227).

81. If the Government is intent on achieving an effective reduction in both effort and capacity, the combining of the transferability of individual quotas and days along with licences could achieve a rapid fleet adjustment process (Para. 228).

82. A potential concern is that such a scheme would lead to a considerable change in the structure of the industry. The likelihood would be that the UK's capacity would veer increasingly towards the larger class of vessel, thus leading to the concentration of the fleet in only a few locations . This may have undesirable social costs (Para. 228).

83. As ambitious targets are set by the European Commission for large scale reductions in fleet capacity, it is unlikely that the levels of reduction required by the policy makers will be met through licence aggregation and the purchase of effort or quota. This may mean that decommissioning still has some part to play. Nevertheless, if decommissioning is to form a part of the UK's fleet structural policy, then it is unreasonable to expect that the cost of this scheme should be met solely 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 (Para. 229).