

REVIEW OF THE SEA FISH INDUSTRY AUTHORITY 2005

Proposed decisions by the four Fisheries Administrations in the UK

Summary

- 0.1. The role of the SFIA should address the needs of the whole of the seafood industry chain in the UK while continuing to have regard to the interests of consumers (para 8).
- 0.2. The Administrations would be prepared to consider bringing salmon and migratory trout within the scope of the SFIA, but only if that sector itself were to wish to be included (para 13)
- 0.3. There is not a strong case in practice for bringing canned and bottled fish within the scope of the levy (para 15).
- 0.4. SFIA's intentions for working with regional bodies, recognising particular regional requirements, are welcomed. In doing so there should be clarity regarding the respective roles of SFIA and Seafood Scotland and other regional bodies. The bodies should formalise their relationships appropriately and publicly through Memoranda of Understanding and Service Level Agreements (para 18).
- 0.5. The Fisheries Administrations endorse the conclusions of the review report that a compulsory levy continues to be justified as the primary funding mechanism for the SFIA (para 22).
- 0.6. The SFIA should not use levy funds to pursue activities other than those which are in the interests of the industry itself (para 28).
- 0.7. It would not be right to limit expenditure to those who directly pay levy to the SFIA (para 28).
- 0.8. It is for the SFIA to make regulations to introduce an ad valorem basis for the levy, should they and the industry consider that the benefits of a change in basis are sufficiently attractive (para 31).
- 0.9. The Administrations agree the recommendations about charges and grants (para 33)
- 0.10. There is little scope for changing the formal arrangements for making appointments to the Board of the SFIA. The Board should ensure that members are well known within the industry, that they are seen to be approachable by any sector of the industry and that they act corporately in representing the whole industry rather than a particular organisation (para 36).
- 0.11. The representation of the processing, importing and distributing sector on the Board will be increased by one seat in the current appointment round (para 37).

0.12. Fisheries Administrations seek stakeholder views on options for strengthening accountability of the SFIA to its stakeholders. They will consider the responses made by stakeholders, and undertake any further discussions with organisations, before taking decisions on the way forward (para 38).

Purpose of this paper

1. This joint paper by the four Fisheries Administrations in the UK sets out proposals for the future of the Sea Fish Industry Authority (SFIA), as a basis for consultation.

2. It builds on an independent analysis of the SFIA commissioned by the four Fisheries Ministers. All non Departmental public bodies such as the SFIA are regularly reviewed, to ensure that they remain relevant and continue to provide a valuable service. The Fisheries Administrations are grateful to Priscilla Russell and John Martin for their report and the thoughtful analytical approach which underlay it. Their terms of reference are attached to their report. The report is published with this paper, along with the results of a consultation exercise the reviewers carried out as part of their work. These documents, including the consultation responses received by the reviewers, are available on the websites of Defra and SEERAD.

Consultation

3. All stakeholders in the work of the SFIA are invited to consider the review report and this paper by the Fisheries Administrations. They are encouraged to discuss the future work of the SFIA with the Authority's management, and in the light of that consultation to provide written comments to Fisheries Administrations by Friday 5th May. Details about contacts, and about publication of comments, are given at the end of the paper.

4. In the light of comments received the four Fisheries Ministers will then finalise their decisions on action to be taken.

Structure of the paper

5. This paper follows the structure of the review report. It therefore begins by addressing issues raised in the report about the role and functions of the SFIA. It then considers issues raised about the statutory levy which is the primary funding mechanism for the body. Thirdly it deals with issues of accountability of the body to its stakeholders. It makes reference to the conclusions of the parallel review undertaken of the agricultural and horticultural levy bodies (the Radcliffe report). Italic print summarises the relevant element of the SFIA review report.

Role and Functions of SFIA

6. The SFIA was established by the Fisheries Act 1981 to serve the interests of the UK sea fish industry.

Definition of “sea fish industry”

7. *The review report emphasises the need for Ministers to define the scope of the “sea fish industry” which the SFIA is to serve (paras 36-42 and 66). It notes the decline in the proportion of domestic landings and the increase in the proportion of levy paid on imported fish since the formation of the SFIA. It asks the Administrations whether the SFIA should concentrate on serving that part of the industry which catches and handles UK caught fish, or whether it should provide a service to the UK seafood industry at large. It notes that the Authority must know what its core remit is if it is to have a sound basis for deciding its programme and priorities.*

8. The Fisheries Administrations agree with this. They are clear that the SFIA should address the needs of the whole of the seafood industry chain in the UK while continuing to have regard to the interests of consumers. The jointly agreed aim of the Administrations is “a fishing sector that is sustainable and profitable and supports strong local communities...” - and the “fishing sector” for this purpose means all aspects of catching, processing, retail and associated industries that rely on sea fish species caught in the wild or farmed, including shellfish (but see para 13 for salmon and migratory trout) This aim and definition appear in the document “Securing the Benefits”, the joint UK response to the Prime Minister’s Strategy Unit “Net Benefits” report on the future of the fishing industry in the UK. They also appear in the Sustainable Framework for Scottish Sea Fisheries. The Administrations look to the SFIA to take a lead in promoting achievement of a sustainable food chain for the sea food industry.

9. The Radcliffe Review of Agricultural and Horticultural Levy Bodies (published in October 2005 and available at www.defra.co.uk/corporate/consult/levy-bodies/index.htm) discussed criteria for assessing the case for support of an industry by a levy body. The Fisheries Administrations consider that the rationale for support for the on shore sea food industry is that much of it remains fragmented and in need of change to address future consumer needs, and so it meets an important criterion for support identified by the Radcliffe review. For example, of the 573 UK processing companies identified in a survey in 2004, 491 (86%) were of small or medium size employing 50 or fewer staff.

10. All but a very few local quayside on shore companies have protected themselves from the reduction of UK landings and now handle a mixture of domestically landed and imported fish. The wide range of companies that meet the criterion for support from levy funds rely therefore on imported as well as on domestically landed fish. This provides a justification for funding work in support of the seafood industry through a levy on both imported and domestic fish.

Extension of role to include salmon and migratory trout

11. *The review report argues that a compulsory levy on the sea fish industry may be justified, but to be defensible the burden of levy payments must fall equitably on all who benefit from the services provided. The levy does not apply to salmon and migratory trout or to canned and bottled fish. This, argues the report, gives the salmon industry a competitive advantage over other fish, in that it benefits from SFIA's work to support and promote the industry. The report recommends that the levy should be applied to all businesses in the sea food industry as defined as the SFIA's role (para 46-50 and 67-74).*

12. The Administrations have considered this argument. In principle there could be limited advantage to the salmon industry from some elements of the work of the SFIA, such as support for processing activities, and raising consumer awareness of the benefits of eating fish. However it can also be argued that sea caught fish have benefited from the role of salmon as a key driver in the continued growth and overall popularity of seafood based upon consistency of supply, quality and value for money. Further, salmon prices are determined by major factors such as world supply trends; it is unlikely therefore that the market price of salmon is affected by any benefit from the work of the SFIA. Finally, as the report argues elsewhere, the application of the levy should take account of the views of the industry sector concerned. The salmon and trout sector collect a separate, voluntary, levy in support of marketing, which also supports fish quality schemes. Unless their trade marketing infrastructure and the voluntary levy were abandoned, application of the SFIA levy to salmon and trout would represent a significant extra cost. The reviewers learned from their consultation exercise that the salmon industry, is content with its current arrangements for marketing and quality developments.

13. The Administrations conclude that they should retain their current policy, that they would be prepared to consider proposing the necessary primary legislation to bring salmon and migratory trout within the scope of the SFIA, but only if that industry itself were to seek to be included.

Canned and bottled fish

14. *The review report argues that imported canned and bottled fish should also be brought within the scope of the SFIA levy, on the ground that the present exemption creates a perverse incentive to invest in processing overseas, since fish canned or bottled in the UK does attract a levy (para 47 and 73).*

15. The Administrations consider that again there is a balance to be struck here. Under the predecessor bodies of the SFIA, a levy on imported bottled and canned fish was provided for, but it appears that it was not implemented, in part because of the administrative complexity and potential cost to the SFIA of doing so. The Administrations conclude that given these costs there is not

a strong case in practice for bringing canned and bottled fish within the scope of the levy.

National/regional structures

16. *The review report considered the relationship and demarcation of responsibilities between SFIA and certain other bodies, such as Seafood Scotland (SFS) and Seafood Cornwall (para 75-87). The reviewers found some uncertainty among their consultees as to the different roles and responsibilities of SFIA and SFS. They recommend that to clarify these roles and responsibilities the two bodies should formalise their relationship in a published memorandum of understanding. Insofar as SFIA seeks to pursue its levy programme through SFS, there should be a formal contract between the two bodies for the provision of services (paras 77-83).*

17. *The reviewers make the same points in respect of three other regional bodies, arguing that where such bodies exist SFIA should aim to work through them to deliver services in which they have a common interest (paras 84-87).*

18. The Fisheries Administrations welcome SFIA's continued intention of working with SFS and other bodies to deliver clear services, recognising that different regions will have particular priorities and requirements. The Administrations agree that the SFIA should clearly communicate this dimension of its activities, and that there should be clarity of the respective roles of SFIA, SFS and regional bodies. The bodies should formalise their relationships appropriately and publicly through Memoranda of Understanding and Service Level Agreements.

Relations with Government

19. *The reviewers respond to the request in their terms of reference to consider how best SFIA can work with Government to deliver Administrations' fisheries strategies. They note no enthusiasm from their industry consultees that SFIA should be working closely with Government to pursue policies in Government strategies. They conclude that levy monies should be used primarily to benefit the levy paying community rather than to pursue a wider public agenda. While accepting that there will often be no difference between Government proposals for the industry and the industry's own best interests, SFIA management should look to the industry rather than Government in deciding its priorities (paras 88-91).*

20. The request by Fisheries Administrations has caused some misunderstanding within the industry. We do not seek to divert SFIA from its role of working for the industry, and indeed it is for the SFIA Board, itself made up of a majority of industry representatives, to determine SFIA budgets and work programmes in consultation with industry (subject to Ministerial approval of the body's Corporate Plan). However the Administrations worked closely with industry representatives and the SFIA to create the objectives for industry development in Securing the Benefits and the Sustainable Framework for Scottish Sea Fisheries, and there is thus widespread common

ground between Ministerial and SFIA objectives. We will continue to work with SFIA and support it in pursuing the best interests of the industry as identified by the Authority in full consultation with the industry.

Levy funding

Criteria for a compulsory levy

21. *In considering the case for maintaining the SFIA's compulsory levy the reviewers use as a test three principles used in Australia and in the review of the UK agricultural levy bodies, namely the existence of market failure; the use of the levy funds for promotion of the interests of businesses who pay the levy; and consent to the levy. They conclude in the light of responses to their consultation exercise that a compulsory levy continues to be justified at least at present (paras 95-96).*

22. The Fisheries Administrations endorse the conclusions of the review that a compulsory levy continues to be justified as the primary funding mechanism for the SFIA. The Administrations note the principles identified by the reviewers as a rationale for levies. These principles are being considered separately by the Departments in response to the Radcliffe report on Agricultural Levy Bodies, but the argument of the rest of this paper acknowledges their relevance.

23. As noted in para 9 above, the Administrations conclude that the existence of the SFIA is justified by the need to address the constraints caused by the fragmentation of much of the sea food industry. The SFIA, with its levy mechanism, provides a practical means for promoting the sustainable development of the sea food chain.

24. The Administrations consider that care is needed in applying a principle that identifies as the beneficiaries of levy funding only those businesses which pay the levy directly to the SFIA. The levy is raised at the point of first hand sale within the UK, for practical reasons, and this identifies the businesses which pass the levy to the SFIA. However it is to be expected that these businesses will treat the levy as any other business expense. Thus they will seek to pass this cost, along with others, on to the purchaser of their product, or may take account of the cost when settling the price at which to purchase the product. In many cases it is to be expected that the cost of the levy, along with other costs of production, is ultimately paid by a stage in the food chain other than the first hand purchaser of the fish, though this is a long standing area of uncertainty which cannot be completely resolved.

Use of levy

25. *The report expresses concern about the potential for the levy to create market distortions, in terms of the relative benefits derived by different sectors when compared to the amount of levy they pay. The reviewers note a widespread perception among levy payers, especially among those paying levy on imported fish, that the benefits which SFIA delivers to them fall short*

of the amounts of levy they pay (para 48). They suggest that supporting one part of the industry at the expense of another could reinforce inefficient practices at the expense of more efficient ones.

26. *The report recommends that the SFIA programme should meet two key principles:*

a) activity supported by levy must be justifiable as contributing to the benefit of the levy paying community, having regard to the interests of consumers, as opposed to the wider public interest (para 51 and 68);

b) levy payers should benefit broadly in proportion to their contribution, taking one year with another. In the view of the reviewers this should not simply be to give money back to the different sectors crudely in proportion to their contribution, but by financing activities which bring benefits to the levy community as a whole. This would include central services supporting the entire industry or sectoral and local activities in which all levy payers have a common interest. The reviewers explain that this can include working with individual parts of the industry or particular geographical areas where there is a wider industry benefit. They give the example that encouraging sustainable practices in the catching sector is likely to bring reputational advantage to the seafood industry as a whole (para 52-3 and 68).

27. *They add that expenditure should add more value than would have been achieved across the board had it been spent by individual levy payers (para 54).*

28. Fisheries Administrations agree that the SFIA should not seek to use levy funds to pursue activities other than those which are in the interests of the industry itself across the sea food chain. Drawing on the argument at para 24 above it would not be right to limit expenditure to those who pay levy to the SFIA, excluding others who may bear the actual cost; and indeed by their references to benefit to the fishing fleet it seems clear that the reviewers did not wish to propose that course.

29. Administrations note that at para 48 of their report the reviewers compare the proportion of levy raised on home landings (26%) with the proportion they estimate is spent on the UK fishing fleet (40%). There may have been some misunderstanding here. Administrations are advised by SFIA that proportion of levy spend, implied by the 2005-6 budget, which can be attributed to work for the UK fishing fleet is 30% rather than 40%, and comparable therefore with levy on UK landings.

Rationalising levy collection

30. *The review report recommends that the basis of the levy should be changed from a weight basis to an ad valorem basis, on the grounds that this would be fairer and significantly easier and cheaper to administer (para 100). There should be no assumption that the overall SFIA budget would continue to rise in line with price inflation (para 101).*

31. As the report notes the statutory process for determining the basis of the levy is for the SFIA to make regulations, after consultation with stakeholders. These regulations are then subject to confirmation by an order by Ministers, itself subject to Parliamentary process. The Fisheries Administrations consider that it is therefore for the SFIA to make regulations to introduce an ad valorem basis for the levy, should they and the industry consider that the benefits of a change in basis are sufficiently attractive.

Charges and grants

32. *The report recommends that SFIA should continue to judge how far it should seek to impose charges on the industry for the services it provides (para 105). It should be free to engage in activities not funded by levy if they complement core activities and it should aim fully to recover the costs through charging (para 69 and 105). The Authority should aim to take full advantage of government grants, but be careful to avoid using levy income as match funding to attract grant where the activities to be financed are not central to levy payers' interests (para 106).*

33. The Fisheries Administrations agree these recommendations.

Accountability to the industry

34. *The reviewers express concern that the SFIA is not sufficiently accountable to the industry. As a result the overall level of expenditure is relatively free from regular scrutiny; there is no rigorous external scrutiny of the programme against industry objectives; and there is a danger government priorities may be given precedence over industry ones. The reviewers argue that arrangements are needed to ensure that the SFIA is much more responsive to its levy payers while reserving the ultimate authority of Ministers (paras 55-8). They identify options and recommend that Administrations explore them further with the industry with a view to deciding what arrangements should be put in place (para 115).*

Board appointments

35. *The reviewers found a wish within the industry for more influence over appointments to the Board and greater transparency, and concern that the catching sector is over-represented. They concluded that there was no fully satisfactory way to meet all concerns for representation and that the current system for Board appointments should continue unchanged. However they considered that the representation on the Board of five members with a base in the catching sector was undesirable, because it called into question the balance of membership of the Board.*

36. The Fisheries Administrations agree with the reviewers that there is little scope for changing the arrangements for appointments. The Board membership must be limited to a reasonable number. All appointments are advertised, and the processes are managed under the Government rules for

public appointments which are designed to ensure fairness and transparency. However the Administrations consider that more could be done to explain the process at the time of advertising vacancies. Further the SFIA Board should make additional efforts to ensure that members are well known within the industry, that they are seen to be approachable by any sector of the industry and that they act corporately in representing the whole industry rather than a particular organisation or sector.

37. The Administrations appreciate the concern that the representation on the Board of the fishing sector needs to be balanced. In the round of appointments which is now beginning, action will be taken to increase by one seat the representation of the processing, importing and distribution sector on the Board.

Options for increased accountability

38. Listed below are options for strengthening accountability of the SFIA to its stakeholders. The reviewers' report discusses these, and below are additional comments by Fisheries Administrations. Stakeholders are invited to comment on them in their responses to the Administrations and may have further options which they wish to propose. Following the 12 week consultation period on this paper, Fisheries Administrations will carefully consider the responses made by stakeholders, and undertake any further discussions with organisations before taking decisions on the way forward. Final conclusions will also be informed by decisions to be taken by Ministers on the parallel questions of accountability which have been raised in the review of the agriculture levy bodies.

A. Levy payers' ballots

38. This option involves a formal vote by those who pay the levy. There are different formats, for example:

- a) a vote could be held at regular intervals. Or a vote could be taken on an ad hoc basis if sufficient levy payers called for one;
- b) the vote could be as to whether the levy should continue. Or it could be on whether a particular budget proposal was acceptable.

39. This approach of using ballots is discussed in paras 116-118 of the reviewers' report. Fisheries Administrations share the concerns described by the reviewers. For example it appears to be a serious disadvantage of the system that only levy payers would vote, given that the SFIA exists to serve all in the sea food chain, and that levy can effectively be passed up or down the chain. For the same reason that levy can be passed on, the concept of weighting votes by amounts paid also risks unfairness.

B. Formal consultation on draft SFIA Budget/Corporate Plan

40. The reviewers discuss this approach in their paras 119-120. Fisheries Administrations would find this a helpful process in that it would identify and record the reasoning for the views of stakeholders. It would also provide the opportunity for stakeholders to offer proposals for changes to the draft plan to make it acceptable, rather than just giving a simple yes/no vote. Transparency would be ensured by publication of the responses to the consultation process.

C. Combination of A and B above

41. This is discussed by the reviewers in paras 121-2. Fisheries Administrations remain doubtful about the potential benefits of a ballot mechanism.

D. Other options for governance

42. The Administrations will be ready to consider other approaches suggested in responses to this consultation.

Radcliffe report

43. Defra and the devolved administrations will take decisions in the next few months on the implementation of recommendations of the Radcliffe report, in the light of responses to the consultation started in October 2005. The Fisheries Administrations will wish to take account of the way forward determined for the agricultural and horticultural levy bodies in reaching decisions for the Sea Fish Industry Authority.

Contacts for consultation

44. Written comments on the future of the SFIA should be sent by 5th May to:

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45. In line with our policy of openness, at the end of the consultation period copies of the responses we receive may be made publicly available through:

Defra Information Resource Centre
Lower Ground Floor
Ergon House
17 Smith Square
London SW1P 3JR

The information they contain may also be published in a summary of responses.

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or email consultation.coordinator@defra.gsi.gov.uk

46. To discuss any of these issues with SFIA, please contact:

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