THE FUTURE OF THE MARKET BASED APPROACH TO UK QUOTA MANAGEMENT: THE CASE OF THE SHETLAND ISLES

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Aims

• Problems with the current market-based approach to Quota Management (QM) in the UK

• Alternative approach – Community Quota Schemes (CQS) - The Shetland CQS

• Can CQS play a lasting role within the UK QM system?
The UK QM system

- UK operates within European Union (EU) Common Fisheries Policy (CFP)
- Main CFP output control: Total Allowable Catches (TACs)
- UK quota managed by Producer Organisations (POs)
- Current allocation method = Fixed Quota Allocation (FQAs) = ‘Informal’ ITQ system
Problems with the UK QM system

- Uncertainty surrounding property rights of FQAs – restricts planning and investment
- ‘Slipper Skippers’ – non active quota holders
- High costs of quota leasing
- FQA system criticised by fishermen and government
UK Fisheries Administrations response: ‘Securing the Benefits’ (2005)

- “Address the role of quota management in relation to vulnerable fishing communities”
- “Promote transparency, and individual accountability, in the arrangements for the allocation and holding of quota”
- “Provide greater clarity and certainty with regard to the ownership of quota”
- “Address the holding and use of quota by the active UK fleet”
- “Potential for reform will also include the scope for Community Quota Schemes (CQS)”
Community Quota Schemes (CQS)

- CQS - designed to safeguard fishing opportunities in vulnerable fishing communities

- CQS involve purchase and distribution of quota to benefit local fishermen

- Currently 4 CQS operating in the UK

- **Shetland** – largest and most controversial CQS
History of the Shetland CQS

• In 1993 Shetland Fish PO (SFPO) became 1st UK PO to purchase quota

• Quota was ‘ring-fenced’ within the SFPO

• In 2000, Shetland purchased more quota worth a reported £17m (SLAP quota)

• New system devised to allocate both ‘ring-fenced’ and ‘SLAP’ quota pools
Shetland CQS Allocation Mechanism

- **FQAs**
- **VCUs**
- **SLAP quota pool**
- **Ring fenced SFPO pool**
- **SFPO pool**
- **FQAs from other boats**
Main Features the Shetland CQS

• SFPO members had access to 3 sources of quota

• Before, fishermen had 2 choices:
  1. Dump catches at sea
  2. Attempt illegal landings

• SLAP quota: safety net – allowed fishermen to catch higher volumes

• Access to both quota pools was exclusive to Shetland fishermen at a preferential rate
Enforced changes to the Shetland CQS

- European Commission (EC) received complaints about the Shetland CQS
  - Unfair competitive advantage over other UK fishing vessels
  - Distorted competition within the EU market

- Preferential terms for Shetland fishermen were removed

- Significant changes made to Shetland CQS
  - All quota pooled together
  - Removal of price and allocation preferences
  - Implementation of monitoring system
## Shetland CQS: Before and After

<table>
<thead>
<tr>
<th>Before the EU ruling</th>
<th>After the EU ruling</th>
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<tbody>
<tr>
<td>Fishermen leased CQ at a preferential rate</td>
<td>Quota from the CQ pool can now only be leased at current market rates</td>
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<tr>
<td>Quota was made available only to Shetland fishermen</td>
<td>Quota <em>now equally accessible</em> to fishermen out-with Shetland</td>
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<tr>
<td>Provided opportunity for young/new fishermen to join the SFPO without FQA units by leasing from CQ pool</td>
<td>Still provides this opportunity albeit at the current market price. Increased barrier to entry</td>
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<td>Removed the need for illegal landings or dumping at sea through realistic quotas</td>
<td>Appears to still be the case, providing the CQ pool is not fully used</td>
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<td>SLAP earned a nominal rate of return</td>
<td>SLAP now earn higher rate of return <em>(market rate)</em></td>
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Shetland Whitefish boat
LK 371 ‘Defiant’
Impact of the Shetland CQS

- Failed to encourage more vessels and increase employment
- Illegal landings or 'blackfish' no longer a problem
- Higher volumes and improved prices at auction
- Gave fresh impetus to unviable vessels – ensured survival of approx 25% of Shetland’s whitefish fleet
- Negative employment impact on community avoided
Conclusions from the Shetland Experience

- Shetland CQS publicly funded → incompatible with EU law

- Enforced changes meant all UK fishermen given equal access – is it still a CQS?

- Net Result: Shetland now holds a disproportionately high level of quota
Can CQS operate within the UK QM system?

- CQS - limited success within poor financial climate and restrictive management regime

- Problem - cannot provide state aid in the form of an operating expense

- Question - Can a system be devised that enables vulnerable fishing communities to benefit from a CQS?

- Need to improve the current UK QM system to balance both economic and social objectives
Can CQS operate within the UK QM system?

UK fisheries managers need to decide on the best approach:

– Switch to formal ITQ system with individual ownership and tradable rights for quota

or

– Reform to current system to ensure quota remains a state resource with emphasis placed on protecting fishery-dependent areas?
Can CQS operate within the UK QM system?

Formal ITQ style system:

• **Pros**
  – Fixes problems with FQA approach
  – Regulate system to restrict ownership of FQAs

• **Cons**
  – Insufficient safeguards to keep quota within vulnerable fishing communities
  – Increase cost of quota - bigger barrier to entry
Can CQS operate within the UK QM system?

Community based approach:

• Pooled quotas financed privately

• Community decide rules of access

• Who could/would finance private CQS? e.g. vessel agents, fishermen’s co-op’s fish processors

• Onshore sector could play a major role in securing future fishing opportunities for vulnerable fishing communities
Summary

• Problems associated with current market based approach to QM in the UK

• CQS setup in vulnerable communities to safeguard against the market based approach

• After initial success Shetland CQS fell foul of state aid rules

• How can the UK balance both social and economic objectives successfully within its QM system?
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