
COMMUNITY HELD FISHING QUOTA IN THE HIGHLANDS AND ISLANDS

1. SUMMARY

- 1.1** Highland and Island Enterprise, Highland Council and Western Isles Council have formed a partnership to look into the potential for the purchasing of community fishing quota within the Highlands and Islands area for lease back to operators. The focus of the scheme would be Nephrops stocks within the North and South Minches which is where the main nephrops stocks are found. The south Minches fall within Argyll and Bute and as a consequence Argyll and Bute Council have been asked to also consider the proposal and to become part of the partnership. This paper presents the finding of a report undertaken for the partnership by Nautilus consultants.

2. RECOMMENDATIONS

- 2.1** Members agree to support further negotiations with the Scottish Executive and the European Commission on the proposed Community Quota Scheme to ensure that the scheme would not be in contravention of any UK and EU regulations and in particular would not be in contravention of State Aids rules.
- 2.2** Members agree to support the running of the proposed Community Quota workshop which will involve consultation with the industry and other stakeholders;
- 2.3** Members agree to support the preparation of a Community Quota Scheme Business Plan and the establishment of a company structure, and;
- 2.4** Members request a progress report on the proposed Scheme to a future Committee.

3. BACKGROUND

- 3.1** Over 75% of the worlds Nephrops stock is found within the waters around the British Isles and most of this is found within Scottish waters. The nephrops fishery is the backbone of the fisheries to the west coast of Scotland. In light of this Highland Council, Highlands and Islands Enterprise and Western Isles Council appointed Nautilus Consultants to undertake a report to look into the setting up of a quota purchase and lease back scheme focusing on the important Nephrops stocks in the North and South Minches.

3.2 Threats

The UK fleet operates within the European Commission quota system. Although not formally an Individual Transferable Quota (ITQ) system, quotas and licenses are traded and leased between vessels and Producer Organisations (POs). Such trading is becoming increasingly commonplace.

Many experts are of the view that fully tradable quotas are amongst the most effective mechanisms for managing a fishery. However, this is likely to present problems for part of the

fleet; it is generally considered that the profitable operation of the traditional core of the West coast nephrops fleet, particularly small locally owned vessels, may be at risk:

- a) There are few barriers to entry to the fishery and vessel owners look to exploit relatively healthy nephrops stocks as whitefish opportunities decline;
- b) There are disparities between what scientists and fishermen consider appropriate quota limits;
- c) Larger vessel owners are seeking to increase their quota entitlements. This typically means that whilst some vessels strengthen their position, the position of others weakens. This can apply to smaller vessels; and
- d) There is a risk that some fisheries dependent communities may lose out if quota is bought up uncontrollably. There is a particular concern that larger boats will buy up the quota thereby reducing local employment opportunities in the fishing industry.

3.3 The market for Quota

During the last year Nephrops quota could be purchased for between £500 and £1,100/ tonne. The scale of trade in Nephrops quota is not large and amounts to a few % of available quota. An owner not using quota held may choose to lease it to others wishing to use it. Leased quota commands a value of between £100 and £125/tonne. Leasing quota can be convenient and avoids the tying up of capital in purchase. Of course, sufficient unused quota needs to be available to support a market in leased quota.

Quota for sale/lease can come from a number of sources, including:

- Decommissioned vessels
- Retiring owners
- Swaps (arrangements between POs)
- Owners that have Nephrops quota but do not need it
- Owners that would sell on quota if the price was right
- Investors who speculate in quota.

The core of the west coast Nephrops fleet comprises “under 10m” vessels, which fish as part of the non-sector i.e. those vessels who are not part of a PO. In the non-sector, the Government sets monthly catch limits. Members of the non-sector are not allowed to purchase quota although many would benefit by being able to. These vessels may not be able to afford the purchase of sufficient quota to join a PO but may be able to afford to fund a combination of purchase and lease.

3.4 Why a Community Scheme?

Interest in community quota schemes is an extension of the general trend towards community based management and the transfer of decision making responsibility to the lowest appropriate level of administration.

Three community quota schemes are currently operating in the UK - Shetland, Orkney and Cornwall. All have fallen foul of State Aid regulations related to the use of public money and the establishment of specific advantage to communities, deemed illegal by the European Commission. It is these issues that a Highlands and Islands Scheme must avoid if it is to acceptable to the Commission.

The Shetland Fund is now owned and run by the Shetland Islands Council Charitable Trust and is operated by a wholly owned subsidiary, which aims to maximise commercial return. Plans to purchase additional quota were published in 2003.

The Orkney Scheme ceased to operate after unfavourable EC rulings although talks are advanced and it is expected that the scheme will be back in service this year.

In Cornwall, “The Duchy Fish Quota Company” ran into trouble with DEFRA over the use of public funds. Private funding now supports the scheme, which is modest at around £100,000. The company still hopes to utilise public funds in the future.

The existing schemes have been forced to moderate or remove the element of specific regional advantage by selling or leasing quota at market rates, and by avoiding any preferential treatment for local vessels. This to some extent removes part of the rationale for these schemes.

Despite difficulties experienced elsewhere it is suggested that there remain a number of potential benefits arising from community quota schemes:

- Long-term community benefits – helping sustain industry activity in fisheries dependent areas
- Security of supply of quota – ensuring there will be quota available to lease each year
- Flexibility of access to owners
- Pooling of risk – by investing in community quota rather than personal entitlement
- Reducing transaction costs for skippers – time and effort in negotiating with banks etc
- Assisting new entrants to the fishery – providing the ability to lease quota and so reducing capital requirements
- Providing increased negotiating power and financial strength relative to individual vessels
- Linking a scheme to government support could reinforce its benefits e.g. providing development support

The report of the Prime Minister’s Strategy Unit supports the concept of community quota.

3.5 Anticipated trends

The consultants report anticipates that the volume of quota traded will increase as this is an appropriate means of securing vessel owner’s fishing opportunities. In line with this, demand for, and the price of quota is likely to increase.

It is also anticipated that over time quota will find its way into the hands of those most likely to use it rather than it becoming available for the leasing market. It could therefore become more difficult to obtain quota in the Highlands and Islands as it is bought up elsewhere.

As improved enforcement mechanisms come into play quota is likely to become an increasingly important commodity for vessel owners and so investment in quota is likely to appreciate in the longer-term.

There is a need to align Total Allowable Catches (TACs) with catches and so it is expected that an increase in quota over the next 10 years will result, on the basis of healthy Nephrops stocks. If the TAC increases then each unit of quota will convert to a larger number of tonnes and so the value of quota should increase in the short to medium term.

The under 10m fleet is growing and there is now pressure to reduce the under 10m quota to 750Kgs per vessel/month. Reduced quota will increase the need to source extra quota and in the under 10m and non-sector (the core of the west coast Nephrops fleet), leasing may be the only method of obtaining additional fishing opportunities.

POs are likely to release less quota for lease by other POs as enforcement is tightened. They will actively seek to buy up nephrops quota on the open market. This will make it increasingly difficult for non-sector vessels to move beyond their Government set catch limits by purchasing/leasing the quota they need.

Interest in community quota schemes will increase as a means of building up quota ownership for the long term interests of fishing communities.

Quota Scheme Proposals

3.6 Recommended structure

In order to take account of the legal requirements of the European Commission, a Charitable Trust that operates a profit making Community Quota Company has been proposed (Appendix 1).

The Community Quota Company would be managed by a Board, to which a strategic investment sub-group would report. A suggested company objective is “to protect and enhance the long-term future of local fishing communities”. The “community” interest would be reflected in the membership of the Charitable Trust from which company directors would be drawn.

3.7 Public sector involvement

It is suggested that the public sector could provide business support and advice, provide or guarantee loans in support of development that is in the public interest and provide start up funding on a match funding basis, which could be withdrawn after an initial period. Public sector match funds (declining annually) are expected to encourage private investors. The company would plan to operate independently using private funds after an initial period of public sector support.

As a result of state aid legislation, the use of public funds restricts how the scheme would operate. It would have to pass the “private investor test” - would a private investor make an investment on purely commercial grounds? In addition the scheme must not distort or threaten competition by benefiting particular groups. It may however be possible to give priority to certain types of people, such as under 35’s, new entrants or to under 10metre vessels.

A risk that must be recognised (should anticipated trends fail to materialise) is that all public/private sector investment could be lost.

3.8 Potential investors

Investment funds would be drawn from a range of private sector funding sources who would be offered a commercial return for their investment. Investment opportunities should be offered widely on a for profit basis.

Funds would be placed with the Company for a minimum period and reasonable notice be given before withdrawing funds.

Securing sufficient investor commitment would be an important goal of the company and being high risk, investors will require high returns. It is thought that sufficient investor funding can be secured. If this proves un-achievable, then the scheme would be closed down and trade left in the hands of the private market.

Potential investors include:

- Vessel owners – active participation would signal faith in the scheme
- Members of the community – individuals and businesses
- Processors, banks and insurers – add credibility to the scheme
- Speculators – investors not linked to the fishing industry or community
- Philanthropists and “ethical investors” – those attracted by the scheme’s ethical and community benefits.

3.9 Other features of the proposal

- A Producer Organisation will be required to organise trade in quota and a trading agent

to ensure that trade is carried out at the market price.

- Quota held would be valued periodically, which should establish and track the value of investor holdings and may encourage additional investment.
- Leasing will be undertaken transparently on a market basis.
- Unless otherwise justified quota will be made available to all on a non-discriminatory basis.
- One scheme would be established to cover the interests of the Highlands, Western Isles and Argyll and Bute. A sub-regional focus could be expressed through regional funds operated as part of the same scheme. However it would not be possible to discriminate on a regional basis.
- Initial focus would be in the Nephrops quota (discrete, area based and not subject to large TAC fluctuations) but the company could also acquire other quota (higher risk in the short- medium term). It should also be flexible enough to accommodate any future changes in the management structure of the industry.

3.10 Aspirations for the Scheme

It is considered realistic that the Community Quota Company should aim to purchase 10% of the west coast nephrops quota over the next three or four years. Such a purchase might require a fund of some £1.2M - £1.5M built from a number of sources as described on section 2.2 and 2.3 above.

The Community Quota Company should aim to be operational during 2006.

3.11 The next steps

The mechanics and legality of the proposed Community Quota Scheme now need to be considered in consultation with the Scottish Executive and the European Commission.

A workshop has been suggested in order to consult on the proposed Scheme and to define the management protocols governing trade in quota.

Depending on the outcomes of the above steps a Business Plan should be prepared for potential investors.

3.12 Resource Implications

There are no short –term resource implications for the Argyll and Bute Council as a result of this paper. The work relating to the business plan and community quota workshop will be undertaken by consultants. The Council will only have an overseeing role.

The cost of the preparation of a Business Plan and the establishment of a company structure will be borne by Highland Council, Highland and Islands Enterprise and Western Isles Council.

Assuming that good progress can be made, that the business case can be proven and that private sector commitment can be secured it is likely that Argyll and Bute Council will be asked to provide match funding in support of community quota purchase. It is unknown at what level match funding may be required but with the support of the Business Plan, up to £100,000 may be requested. In due course (perhaps during 2006) the Council may require considering commitment to the purchase of community quota.

At the time of writing, Western Isles Council and Highlands and Islands Enterprise have committed to match funding community quota purchase subject to the outcome of the business plan and the community consultation. The business plan will determine the level of funding required from each partner.

Future public sector financial contributions would be on a refundable basis.

4. CONCLUSION

- 4.1** Over 75% of the worlds Nephrops stock is found within the waters around the British Isles and most of this is found within Scottish waters. The Nephrops fishery is the backbone of the fisheries to the west coast of Scotland and there is therefore a case for investigating, with other partners within the Highlands and Islands, the feasibility of and business case for the setting up of a community quota purchase and lease back scheme focusing on the important Nephrops stocks in the North and South Minches.

5. IMPLICATIONS

Policy: The Argyll and Bute Structure Plan seeks to fully harness the productive capacity of Argyll and Bute's economic coasts allied to safeguarding its unique qualities and working on a sustainable basis within its environmental and recreational quality

Financial: At this pint in time there is no financial implication for the Council however if is determined that there is a case for pursuing the setting up of the quota scheme there may well be a financial implication in the future.

Personnel: None

Equal Opportunity: None

For further information contact: Audrey Martin

Telephone 01546 604180
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LIST OF BACKGROUND PAPERS: