PARTIAL BUSINESS AND REGULATORY IMPACT ASSESSMENT

Introduction of a Scottish landings target
and
amendment of the economic link licence condition in sea fishing licences

Contents

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1. Title of proposal

Introduction of a Scottish fish landings target and amendment of the economic link licence condition in sea fishing licences

1.1 Purpose and intended effect

1.2 Objectives

- To support the long term, sustainable growth of the local economies where fishing is an important driver for business activity (e.g. Peterhead, Fraserburgh, and Shetland) by increasing the volume and improving the stability[1] of fish that is landed and available to process in Scotland.

- To attract greater investment and employment in Scotland's fishing industry by reducing the supply chain risks for Scottish fish processing and handling businesses.

1.3 Rationale for Government intervention

The Scottish Government believes that the economic contributions made by the Scottish fishing industry to the local economies of fishing dependent areas could be enhanced by introducing a Scottish landings target. Fishing and related industries provide jobs in many coastal areas of rural Scotland so increased supplies of fish has potential to stimulate economic growth, attract investment and increase employment.

Scotland's fish processing industry cites insufficient volume and irregularity of supply (supply chain risks) among the key constraints to its growth. By tackling these constraints, the Scottish Government's proposed changes to the economic link condition has the potential to strengthen Scotland's fish processing sector. In the long term this could more widely distribute the economic benefits from Scotland's fish resources, especially in coastal communities where fishing is a relatively important driver for economic activity.

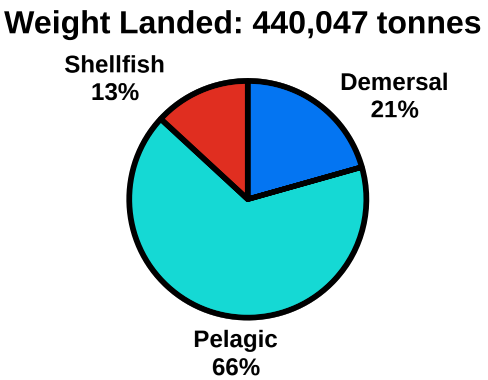
The current licensing arrangements have undoubtedly resulted in a proportion of economic benefits from fish quotas and fishing activities being retained in the UK. Currently a majority of Scottish vessels land their catch into Scotland bringing economic benefits. Despite this, a significant amount of fish continues to be landed abroad. These landings represent a missed economic opportunity, particularly since the fish landed is Scottish fish quota. This is in the context of a Total Allowable Catch (TAC) of 368,937 tonnes with a value of £358,594,611 in 2015.

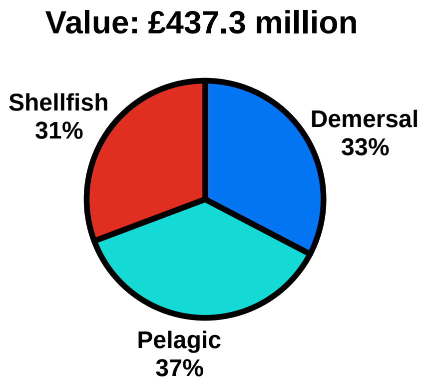
[1] North East Scotland Fish Processing Strategy Report: Creating Scotland's Seafood Centre of Excellence, May 2015.

2. Background

2.1 Landings by Scottish based vessels

In 2015, the total fish landed by Scottish vessels into the UK and abroad was 440 thousand tonnes with a value of £437 million.

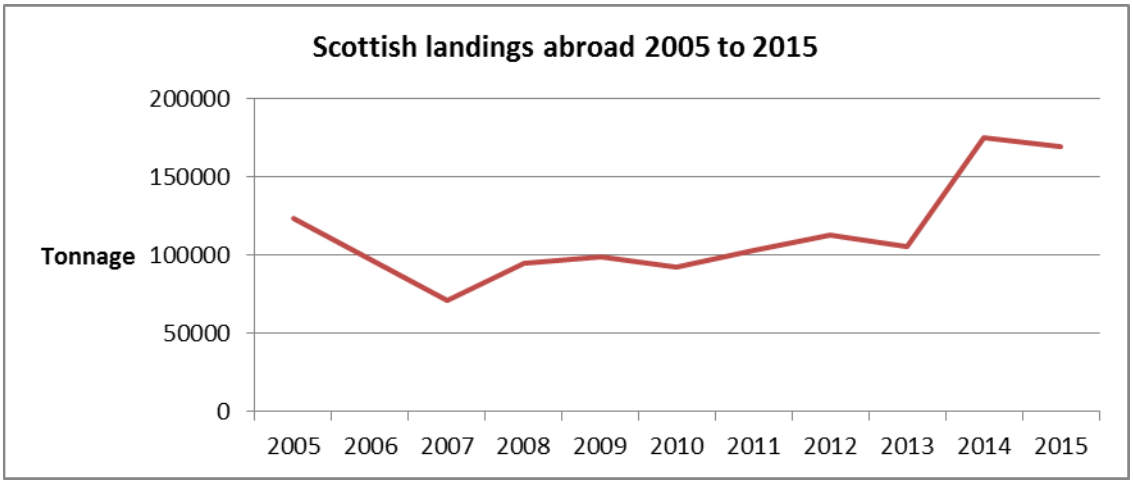




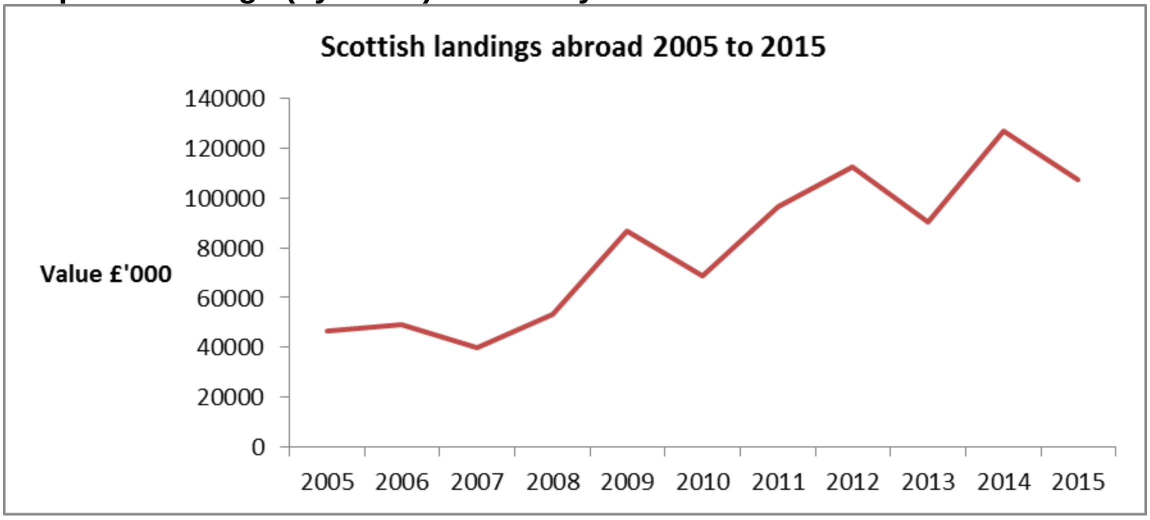
Landings abroad accounted for 38 per cent of all landings by Scottish vessels in terms of quantity and 25 per cent in terms of value in 2015. Of this, 94 per cent of the quantity of landings abroad were pelagic, six per cent were demersal and less than half of one per cent were shellfish.

In 2015, Scottish vessels landed 169 thousand tonnes of sea fish and shellfish aboard with a value of £107 million. Graphs 1 and 2 below show that Scottish vessels have increased the volume of their catch that is landed abroad in recent years.

Graph 1 Landings (by weight) abroad by Scottish vessels 2005 - 2015



Graph 2 Landings (by value) abroad by Scottish vessels 2005 - 2015



In 2015, the main species landed abroad was mackerel, 112.5 thousand tonnes with a value of £75 million. This was 56 per cent of the total volume of mackerel landed by Scottish vessels. The price of mackerel landed into the UK in 2015 was, on average, £635 per tonne, while mackerel landed abroad received an average of £667 per tonne.

The majority of landings abroad were made into Norway and nearly all of these were pelagic species. In 2015, 91 % of the value of landings into Norway was for mackerel, amounting to 101.6 thousand tonnes with a value of £68 million. Only 0.4 thousand tonnes of shellfish were landed abroad by Scottish vessels, mainly into Ireland and Spain. 10 thousand tonnes of demersal species were landed abroad with a value of £15.6 million[2], mainly landed into Netherlands and Spain.

The numbers of vessels not meeting the current economic link requirement to land 50% by weight of quota stocks into the UK is normally small in number (See Table 1 below). In 2015, it was only 25 vessels out of a total of 2,015 vessels of all sizes. However, these 25 vessels, land considerable quantities of fish with a high economic value abroad. In 2015, thirteen of the 25 vessels met the economic link condition through their UK resident crew and twelve by providing quota gifts in lieu of landings.

Table 1 Compliance with the economic link landings threshold 2012 – 2015

Quota landed Abroad	Number of vessels failing to meet a 50% landings threshold	Tonnage landed abroad	Value landed abroad 000s
2012	34	107,377	£106,997
2013	27	103,478	£87,606
2014	23	173,952	£124,893
2015	25	142,971	£91,254

[2] Scottish Sea Fisheries Statistics 2015

2.2 Seafood processing in Scotland

Seafish processing is concentrated in Grampian with employment estimated to be 68% of the Scottish total jobs in processing.[3]

The number of fish processing units in the UK has seen a decline with numbers down by 25% between 1995 and 2000 alone, although total employment in the industry increased by 15% over the same period. Since 1995, Grampian has experienced a 10% decline in the number of units, principally in companies with 25 or fewer employees. In particular, there has been a shift away from primary processing towards secondary or mixed processing units. [4]

In recent years the level of whitefish processing carried out in Shetland[5] in particular has declined and the majority of the whitefish landed there is bought by fish merchants, who sell it whole, usually to a buyer on the UK mainland. Processors in the Grampian region are the primary buyers of Shetland's whitefish landings.

UK processing industry turnover increased by 16% between 2008 and 2012 while operating costs increased by 20%, resulting in a 24% drop in operating profit. The reduced profitability of the industry in 2012 appears to have been driven by higher raw materials costs which were not fully passed on to customers.

The key economic characteristics of Scotland's fish processing sector can be found in the Annex.

3. Consultation

3.1 Within UK and the Scottish Government

The Scottish Government will update this BRIA following the public consultation on the Scottish Government proposals.

To date, the Scottish Government has discussed its proposals for the introduction of a landings target with the following groups across UK and the Scottish Government during the development of the policy.

- Marine Scotland Sea Fisheries Division
- Marine Scotland Marine Analytical Unit
- Scottish Government Food and Drink Division
- Marine Scotland Compliance

[3] Seafish (2014) UK Seafood Processing Industry Report
[4] Planning Scotland's Seas 2013 - The Scottish Marine Protected Area Project – Developing the Evidence Base tor Impact Assessments and the Sustainability Appraisal Final Report
[5] Pelagic and Whitefish Processing Plant and Associated Market Assessment Final Report for HIE 2015

3.2 External stakeholders

Discussions were held in 2016 and 2017 with the following stake holders.

- Pelagic vessel skippers – North East Scotland and Shetland
- Peterhead Port Authority
- Lerwick Port Authority
- Fraserburgh Port Authority
- Scottish Fishermen's Organisation
- Shetland Fish Producer Organisation
- Klondyke Producer Organisation
- Lunar Producer Organisation
- Scottish Pelagic Fishermen's Association
- Scottish Pelagic Processors' Association
- Scottish Processing companies

The discussions to date have helped identify the concerns and pressures on the catching and processing sectors most affected by the proposals. In addition, port authorities and local authorities have provided views which have helped shape this assessment.

3.3 Public consultation

During the consultation period, the Scottish Government will welcome meetings with and seek views from the fishing and seafood industry and the wider stakeholders with an interest in the policy.

4. Options for amendment of the economic link

4.1 Description

The main consultation paper considers the Scottish Government's proposed options for the amendment of the economic link licence condition in relation to the introduction of a landings target. This section provides an initial assessment of the costs, benefits and impacts of the proposals.

The options

1: A licence condition that relates to Scotland and not the UK and which encourages industry led action to increase landings into Scotland.

2: A licence condition that relates to Scotland and not the UK and which requires compliance through either

(a) landing at least 55% (by weight) into Scotland

or

(b) a quota gift in lieu of not meeting the landings target of 55%.

Option 1

- This is the do minimum option. It retains the current economic link licence condition but proposes that it should apply to Scotland and not the UK. It is not known what impact this will have, if any, as there is no incentive for vessels to change their landings pattern.
- This may be popular with the sections of the fishing fleet that otherwise may be directly affected by regulatory changes.
- This option does not directly address the missed economic opportunities resulting from large quantities of fish being landed abroad.
- With the exception of being applied to Scotland only, licensees retain a wide choice in the way that they demonstrate an economic link to Scotland.
- Includes a revised quota gifting formula which increases the value of quota gifts.
- It may impact on a small number of demersal vessels who currently land the majority of their landings in the rest of the UK and outside Scotland.

Option 2

- A potential moderate increase in landings into Scotland is anticipated as this option will encourage a change in landings pattern by vessels that currently land a high proportion abroad.

- Includes a revised quota gifting formula which increases the value of quota gifts.

- Additional quota gifts may result from this option if vessels choose to gift quota rather than land into Scotland. This will provide a boost to the under 10m fleet and/or the wider Scottish fleet allowing them to increase their catches or fish for longer.

- Directly addresses the raw material supply issues affecting some Scottish processors though it is difficult to quantify how much benefit this option might have as it depends on the individual business choices that processors make.

4.2 Costs

The costs associated with managing vessel compliance with the economic link condition are not anticipated to increase significantly under any of the Scottish Government's proposed options.

Option 1

- No significant costs are associated with this option.

Option 2

- The processing sector may need to invest in their businesses in order to adapt to increased quantities of fish.

- There may be a cost to some elements of the catching sector due to a price difference between processors in Scotland and abroad.

4.3 Benefits

The net benefits from the proposed policy changes and their distribution are difficult to quantify. They will vary depending on the choices fishing vessels make between meeting landing targets or gifting quota. Regardless of the choices that fishing vessels make, the benefit of Options 2 is anticipated to be an increase in the amount of fish handled and processed in Scotland. This may provide a catalyst for increased investment and employment in the sector as well as wider benefits to coastal communities and Scottish businesses further down the supply chain. This will contribute to supporting the sustainability and resilience of these communities. The realisation of these benefits depends on the whether processing businesses can overcome other barriers to growth that are not linked to volume or regularity of supplies.

The amount of quota gifted is likely to increase as a result of the Scottish Government's revisions to the quota gifting formula. In addition, it is possible that option 2 could potentially increase the amount of quota gifts though this is difficult to predict at this stage. If this is the case, it is likely to benefit the under 10 metre fleet.

Option 1

- The benefits of this option, if any, are difficult to predict. There is no evidence to suggest that landings patterns will change significantly. Nevertheless, if the fishing industry does take action to land more fish into Scotland and improve integration with the processing sector then benefits will be realised.

- There will be benefits to the under 10m fleet as a result of the revised quota gifting formula. They will gain increased amounts of quota.

Option 2

- Options 2 is likely to bring detectable economic benefits.

- Increased landings might have an impact on wages if demand for labour in the fish processing and handling sector increases.

- There may be benefits to the under 10m fleet as a result of the revised quota gifting formula. They may gain increased amounts of quota.

4.4 Sectors and groups affected

The Scottish Government proposals are anticipated to directly affect fishing vessels and fish processing businesses. The potential impact on these businesses is discussed below.

Groups affected

- Fish processors – pelagic
- Fish catchers – pelagic
- Fish catchers – demersal
- Fish processors – demersal

To a lesser extent:

- Port and market operators
- Onshore services

4.5 Impacts

The majority of Scottish vessels routinely land into Scotland, so the proposed changes to the licence condition will have no impact on them. The proposals are most likely to affect the pelagic fish catching and processing sectors, both of which are economically important for Scotland. The annex presents information about the size and contribution of Scotland's pelagic fish processing sector to the Scottish economy. A landings target could involve a substantial increase in supply to fish processors, who may have to create additional capacity to process and market it.

The economic impact will depend on whether the processing sector has or can build the capacity and competitiveness[6] to add value to an increased supply of fish. If Scottish pelagic fish processors cannot handle increased fish supplies or if they are not competitive, an increase in landings into Scotland may lead to a fall in the prices they pay for fish or displace existing activity. This would result in a transfer of income from fishing vessel operators to processors and lead to a smaller overall benefit to the Scottish economy. The net income of operators of pelagic fishing vessels is most likely to be affected by a higher landing target.

It is expected that the Scottish Government's revised quota gifting formula may provide increases in the amount of quota gifted if current landings patterns continue and additional vessels make this choice.

4.6 Impact on fishing vessels

A number of vessels will be affected by the proposals. Firstly, the biggest impact is likely to be on pelagic vessels that normally land a high proportion of their catch abroad and comply with the economic link on the basis of their UK resident crew. These vessels are likely to have concerns about the possible effects on their business of the landings target. The impacts - positive or negative – on these vessels are difficult to quantify and will depend on the capacity and competitiveness of Scottish processors.

Secondly, a small number of Scottish registered vessels, owned by non-Scottish companies that routinely comply with the economic link by gifting quota will be affected. The revised quota gifting formula would require them to provide larger quota gifts. Thirdly, a small number of Scottish demersal catchers who routinely land into the rest of the UK may have to change landing patterns.

Options 2 may benefit the under 10m fleet due to larger quota gifts as a result of the revision of the quota gifting formula and/or more vessels choosing to provide quota gifts.

4.7 Impact on fish processors

Pelagic processors, who will be most affected by the proposals, are likely to welcome the increased supplies of fish. They may have some concerns about capacity to deal with an increased tonnage of fish and having to find markets for this in the future. Increased landings of demersal species may not have the same impact as the overall percentage increase is likely to be small in relation to the amounts supplied now . The degree to which specific processors will be affected will depend on whether vessels choose to comply with the landing target or gift back some quota and which stocks are involved.

[6] Competitiveness refers to ability of Scottish processors to pay the best price for fish and to deliver to the market high quality products at lower prices relative to competitors. This is one of the reasons pelagic fishing vessels may prefer to land outside of Scotland.

4.8 Impact on ports, market operators and onshore services

The proposals are anticipated to have a positive impact on ports, market operators and onshore services particularly in areas such as Peterhead, Fraserburgh and Lerwick where fishing and seafood processing are important industries. For example, ports and harbours need to make regular infrastructure investments as well as maintain facilities so increased landings resulting from the proposals will help provide economic stability and confidence.

4.9 Summary costs and benefits table

Option	Total benefit per annum: - economic, environmental, social	Total cost per annum: - economic, environmental, social - policy and administrative
1	• Very limited benefits. The increase in landings is anticipated to be slight, if at all. • In the longer term, if landings increase voluntarily and integration between catching and processing interests is improved then benefits are possible but difficult to quantify.	• Minimal administrative costs. • Lack of supply may result in a decline in the processing sector in Scotland.
2	• May result in a detectable increase in landings which will benefit the processing sector and related businesses.	• Minimal administrative costs. • Pelagic processors may have to invest in their business to develop capacity to handle the additional fish supplies. • The pelagic catching sector could lose out financially if there is a fish price difference between Scottish and foreign processors.

5. Timetable, enforcement, monitoring. implementation and review

The introduction of any amendments to the licence condition is expected to be **1 January 2018.** The Scottish Government will monitor the impact of the amended licence condition as part of its annual administration of the economic link licence condition.

A final Business and Regulatory Assessment will be produced following the consultation which will take into account the views expressed during the public consultation.

6. Declaration and publication

I have read this Partial Business and Regulatory Impact Assessment and I am satisfied that, given the available evidence, it represents a reasonable view of the likely costs, benefits and impact of the options. I am satisfied that business impact has been assessed with the support of businesses in Scotland.

Signed:

Fergus Ewing Cabinet Secretary for Rural Economy and Connectivity

Date: 30 August 2017

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Annex Key Economic Characteristics of Scotland's Processing Sector

Table 1 Scottish processing sites handling mixed fish (including pelagic fish - 2008-2014)

	2008	**2010**	**2012**	**2014**
Number of sites	55	60	52	52
FTE jobs	2,978	3,885	3,053	3,741
Turnover (£million)	578.3	956.4	716.6	no data
GVA (£million)	118.6	194.1	116.8	no data

Table 2 Scottish processing sites handling pelagic fish only - 2008-2014.

	2008	**2010**	**2012**	**2014**
Number of sites	8	6	5	9
FTE jobs	653	535	682	1,106
Turnover (£million)	133.8	125.8	144.2	no data
GVA (£million)	42.5	21.6	20.9	no data