

Consultation on a Scottish Government Proposal to Amend the Economic Link Licence Condition

August 2017

E: LandingsTargetConsultation@gov.scot

Over 10 metre Scottish fishing vessel licensees and entitlement holders

Copy:

Scottish Fishermen's Federation
Fish Producer Organisations
Members of the Fisheries Management and Conservation Group
UK Fisheries Administrations
Other interested parties

August 2017

OVER 10 METRE SCOTTISH SEA FISHERIES LICENCES

SCOTTISH GOVERNMENT PROPOSAL TO AMEND "ECONOMIC LINK" LICENCE CONDITION CONSULTATION LETTER

Purpose of letter

1. The purpose of this letter is to consult with sea fisheries licensees and other interested parties about Scottish Government proposals to amend the "economic link" licence condition that is included in sea fisheries licences for vessels over 10 metres.

This letter invites you to consider the Government proposals and to offer any views or comments, no later than 31 October 2017. Please submit your response using the Scottish Government's consultation platform, Citizen Space. You can view and respond to this consultation online at <https://consult.scotland.gov.uk/marine-scotland/amendment-of-the-economic-link-licence-condition/>.

Background

2. Sea fisheries licences include a condition that requires vessels over 10 metres landing more than 2 tonnes of quota species annually to demonstrate a real economic link to the United Kingdom. The text of the condition included in licences now is shown at **Annex A**. The purpose of this licence condition is to seek to ensure that the parts of the United Kingdom that are economically dependent on sea fisheries and its connected industries do in fact benefit from the harvesting of fish quotas available to the United Kingdom.

3. The condition provides licensees with a number of ways in which a real economic link to the United Kingdom may be established, including by:

- making 50% of quota landings into the UK;
- having 50% of crew normally resident into the UK; or,
- by incurring 50% of operating expenditure in the UK.

4. Vessels not establishing an economic link licence condition also have the option of coming to an agreement with their licensing Administration to make quota gifts in lieu of meeting the other criteria for establishing a real economic link.

5. Compliance with the economic link condition is managed and assessed annually by the Scottish Government in relation to Scottish vessels.

Proposals for change

6. The Scottish Government proposes to amend the economic link licence condition and that the new condition described in this letter (and, in particular, the wording shown in **Annex B**) come into effect from **1 January 2018**.

Economic Link Licence Condition to relate to Scotland

7. The Scottish Government proposes to amend the economic link licence condition for Scottish fishing vessels so that it relates to establishment of an economic link to Scotland. The Scottish Government considers that this amendment is appropriate in view of the devolution of sea fisheries and in light in general of the responsibility of the Scottish Government to the economy of Scotland and to the parts of Scotland dependent on sea fisheries.

Establishment of economic link through landings in Scotland

8. The Scottish Government wishes to strengthen the economic link licence condition so that it delivers more benefits to Scotland and its fisheries dependent areas. It is proposed therefore to amend the licence condition so that landings into Scotland form the main basis of the condition. Landings into Scotland, as opposed to crewing and vessels' operating expenditure, are considered to offer a stronger economic link as in general they will result in increased economic activity. They will create opportunities in sales and auctions, economic activity in harbours, primary and secondary processing, transport, retail and restaurants, as well as national and global trade in seafood from Scotland. This is important, particularly, for the pelagic sector, given that its relatively low levels of labour intensity limits the scope to spread economic benefits through crewing.

9. In Scotland, the seafood processing and catching sectors are highly localised and concentrated in areas such as the North East and Shetland. In particular, the North East is important to both the fish catching and processing sectors. Peterhead is the largest landing point for white fish landings in Europe and one of the most important centres for seafood processing in the UK with a high concentration of primary and secondary processors. Employment in seafood processing in the North East (Grampian)¹ is estimated to be 68% of the Scottish total and 22% of the UK total with 3,199 FTE jobs in the area. In 2016, there were 1394 people employed in catching seafish in Aberdeenshire and the City of Aberdeen².

Consultation question 1: Do you agree that landings into Scotland provide the best economic link to Scotland, and that they should form the main basis of the economic link licence condition, and that therefore the present options to demonstrate a link through crewing and / or operating expenditure should be removed?

Establishing a landings target

10. The Scottish Government proposes to amend the percentage of landings that can establish an economic link. It is proposed for the present to set this at **55 per cent**.

11. The vast majority of Scottish fishing vessels already make the considerable majority of their landings into Scotland, and meeting this new landing target will not require any change at all to their day to day operations. In 2016, 416 vessels over 10 metres landed more than 2 tonnes of quota species. Of these 359 made more than 75 per cent of their landings into Scotland, and in total 381 made more than 50 per cent of their landings into Scotland.

¹ 2014 Seafish

² 2015 Scottish Sea Fisheries Statistics

12. While numbers inevitably vary from year to year, there are normally 3 groups of Scottish vessels that do not routinely make more than half of their landings into Scotland:

- A small number of vessels owned by non-Scottish companies targeting demersal fisheries that prefer to make landings into Spain or to other parts of Europe;
- A small number of generally Scottish owned demersal vessels that sometimes split their landings between Scottish ports and ports in Northern Ireland and / or England; and,
- Pelagic vessels that land a high proportion of their catch abroad.

13. Together these groups each year total about 25-35 vessels, or less than 10 per cent of the 400 or so Scottish vessels whose landings of quota species each year normally exceed 2 tonnes.

14. The Government assumes that vessels owned by non-Scottish companies that often land into other EU countries will likely wish to continue to make use of arrangements for “quota gifting”, which it is proposed will continue to be available. The Government further considers that the small number of generally Scottish owned demersal vessels that sometimes split their landings between Scottish ports and ports in Northern Ireland and England will readily be able to find appropriate alternative landing opportunities in Scotland, if that is the method by which they choose to comply with the licence condition.

15. Pelagic vessels that land a high proportion of their catch abroad will also be affected.

16. Pelagic processing factories in Scotland are of course experienced and adept at adjusting to very significant fluctuations in supply, in part because quotas for pelagic fisheries often move up and down sharply, sometimes over just one year. For example, between 2013 and 2014, there was an 39.6% year on year increase in the amount of pelagic fish landed into Scotland by all vessels.³

17. Notwithstanding evidence that pelagic processing factories in Scotland would be able to cope with increases in supply from some Scottish vessels, the Government has considered whether, in the circumstances of these fisheries, with the large scale of landings involved, it would be appropriate to allow for transitional arrangements.

18. Further to this consideration, the Government proposes that there should be such transitional arrangements. The Government proposes that, for pelagic fish, the landings target included in the licence will be:

- **From 1 January 2018, 30 per cent of total landings of quota species into Scotland;**
- **From 1 January 2019, 40 per cent; and,**
- **From 1 January 2020, 55 per cent.**

19. The Government considers that this staged approach will allow time for appropriate adjustments to be made in the particular circumstances of this fishery.

Consultation question 2: Do you agree that the landings target included in the economic link licence condition should in general be 55 per cent?

Consultation question 3: Do you agree that there should be transitional arrangements in relation to landings of pelagic fish?

Arrangements for quota gifting as an alternative to meeting the landing target

20. The Government proposes to maintain the present arrangements whereby vessels that do not conform to the economic link licence condition by means of meeting the relevant landings target will instead be able to come to an arrangement to gift quota to the Scottish Government. The

³ 2015 Scottish Sea Fisheries Statistics

Government has reviewed the operation of present arrangements for the calculation of quota gifts and proposes to make certain adjustments. These are explained in **Annex C**.

Consultation question 4: Do you agree that there should continue to be arrangements whereby fishing vessels that do not meet the landings target should instead be able to meet the economic link licence condition by making quota gifts to the Scottish Government?

Conclusion

21. The Scottish Government welcomes views on the proposals in this letter from all fishing vessel licensees and all other persons with an interest. As noted above, the Government would be grateful to receive views and comments no later than **31 October 2017**. **Annex D** contains details of how to respond to this consultation.

22. The Scottish Government notes that mackerel quota retained centrally further to the Cabinet Secretary's letter of 27 January 2017 will now be allocated according to the standard FQA method.

23. The Scottish Government further notes that it remains content to consider proposals for industry led action that has the result of increasing landings of fish, and particularly pelagic fish, into Scotland, so as to achieve benefits broadly equivalent to those envisaged in paragraph 8 and 9. The Government would be content for any such proposals to be made having regard to the aggregate landings of vessels in Producer Organisations. The Government invites those with an interest that wish to offer such alternative proposals to do so no later than 31 October 2017. The Government will consider any proposals offered, and **leaves open the option of not proceeding with amendment to the licence condition** if it considers that alternative proposals are likely to achieve broadly equivalent benefits.

Yours sincerely,

Greig Chalmers

GREIG CHALMERS

Head of Access to Sea Fisheries
Sea Fisheries Policy Division

Annex A

Existing economic link licence condition

This condition applies to any vessel whose total landings of stocks subject to EC quotas, and which the vessel is licensed to retain on board during the period for which this licence is issued, amount to 2 tonnes or more in each of the periods [relevant annual periods].

The licence holder must ensure that there is a real economic link between the vessel to which this licence relates and the United Kingdom, Channel Islands or Isle of Man, in so far as this link concerns only the connections between the fishing activities of the vessel and those communities which are dependent on fisheries and related industries.

The real economic link condition shall be deemed to have been complied with where any one of the following options is satisfied, during each of the periods specified above:

- (a) at least 50 per cent by weight of the total landings of all stocks subject to EC quotas landed by the vessel, and which the vessel is licensed to retain on board, has been landed in the United Kingdom, Channel Islands or Isle of Man; or,
- (b) at least 50 per cent of the vessel's crew (measured by reference to the total number of crew-days at sea) is made up of persons who normally reside in UK coastal areas or the Channel Islands or Isle of Man; or,
- (c) operating expenditure (excluding crews' wages) incurred in the UK, Channel Islands or Isle of Man for goods and services supplied in UK coastal areas or the Channel Islands or Isle of Man is equal to **either** at least 50 per cent of the vessel's operating expenditure (net of crews' wages) **or** at least 50 per cent of the value of landings of quota stocks by the vessel (net of crews' wages); or,
- (d) the vessel owner achieves another arrangement which consists of:
 - (i) a combination of two or three of the above options (the minimum percentage chosen for any one option may be less than 50 per cent but the percentages chosen individually and in combination must genuinely provide a real economic link); or
 - (ii) criteria other than the above options which genuinely provide a real economic link; or
 - (iii) a combination of (i) and (ii) which genuinely provides a real economic link.

It is the responsibility of the licence holder to demonstrate compliance with whatever option has been chosen to the satisfaction of Fisheries Administrations. If the licence holder fails to comply with whatever option has been chosen by no more than 10 percentage points, Fisheries Administrations may, at their discretion, allow such shortfall to be met by adding the same number of percentage points to the option which the licence holder chooses to comply with in the following licence period. In such case, an Economic Link Notice of Variation will be issued to the licence holder in the following licence period to increase the percentage threshold requirements of the economic link condition by such percentage shortfall.

Annex B

Proposed economic link licence condition

Below is shown the wording of the economic link licence condition that it is proposed have effect from 1 January 2018.

9.1 This condition applies to any vessel whose total landings in a calendar year of stocks subject to EU quotas, and which the vessel is licensed to retain on board, amount to 2 or more tonnes. In these circumstances the licence holder must ensure that there is a real economic link between the fishing activities of the vessel and the communities in Scotland which are dependent on fisheries and related industries.

9.2 The real economic link will be deemed to have been complied with where any one of the following options is satisfied during the calendar year in which the relevant landings have been made:

9.2.1 at least 55 per cent by weight of the total landings of all stocks (other than pelagic stocks, within the meaning of 9.2.2 below) subject to EU quotas landed by the vessel, and which the vessel is licensed to retain on board, has been landed in Scotland; and,

9.2.2 at least 30 per cent by weight of pelagic stocks subject to EU quotas landed by the vessel, and which the vessel is licensed to retain on board, has been landed in Scotland. Pelagic stocks will mean, for the purposes of this condition, mackerel, herring, horse mackerel, blue whiting, boarfish, and sprat; or,

9.2.3 criteria other than the above options which provide a real economic link.

9.3 The licence holder is responsible for demonstrating compliance with whatever option has been chosen to the satisfaction of the Scottish Ministers.

Annex C

Arrangements for the calculation of quota gifts in fulfilment of economic link licence condition

UK Fisheries Administrations have operated quota gifting arrangements in lieu of landings since the introduction of the economic link condition in 1999 and this arrangement is provided for under (d) in the table above.

The purpose of the quota gifting arrangement is to replace a proportion of the economic benefits lost to downstream industries (such as processing) as a result of fish being landed abroad. The quota is tonnes of fish for fishing, not FQA units.

Current quota gifting formula

Value of catch in £ ÷ 2 (50%) = UK link arrangement (a)

÷ (a) 10 (assume 10% profit) = b

(b) ÷ 65 x 100 (65%) = sum due to FA for economic link in £.

Take value in £ of sum due and divide by average price of species per tonne required.

The quota gifting formula above is equivalent in value to just over 15% of the gap between the fish landed in the UK and the level of landings that would have been necessary to meet the present 50% landings threshold. It, therefore, does not replace all the economic benefits lost. For example, a vessel landing fish to the value of £1 million, of which only £400,000 is landed in the UK will be expected to provide quota gifts with an estimated landed (not leased, if relevant) value of £15,400.

The quota that is gifted under the economic link condition has been traditionally distributed by the Scottish Government to the under 10 metre fleet who make use of it to increase their catches or fish for longer.

The Scottish Government has reviewed the current quota gifting formula and proposes to adjust it so that it is based on current estimates of Gross Value Added (GVA)⁴ from fishing. GVA lost by downstream sectors (such as fish processing) can be estimated by applying standard downstream economic multipliers on direct GVA from fishing, to reflect the economic activity that would have been generated by downstream sectors. The revised formula represents the missed economic value resulting from landings outside Scotland.

Based on the available evidence, it is estimated that for each £1 in additional fish landings into Scotland, around £0.65 is created downstream in additional value. On average, GVA from fish landings is equivalent to 40% of the total value of the landings.

The Scottish Government considers it is reasonable therefore to seek quota gifts from licensees that are equivalent in value to 65% of the direct GVA missed when fish is landed abroad, which is 26% of the value of the gap between fish landed into Scotland and the level of landings that would have been necessary to meet the landings target. This represents an increase in the value of the quota gift sought from vessels that choose this option from 15% of the value of the gap now to 26%.

In the example given above, and assuming that a 55% landing target applied to the whole catch, the value of the gifts sought would therefore be £39,000. Any quota that the licensee has itself received via quota gifting will be discounted.

⁴ The value of goods and services produced in an area, industry or sector of an economy, minus value of intermediate goods used up in the production process.

Annex D

Responding to this Consultation

We are inviting responses to this consultation by **31 October 2017**.

Please respond to this consultation using the Scottish Government's consultation platform, Citizen Space. You can view and respond to this consultation online at <https://consult.scotland.gov.uk/marine-scotland/amendment-of-the-economic-link-licence-condition/>. You can save and return to your responses while the consultation is still open. Please ensure that your consultation response is submitted before the closing date of **31 October 2017**.

If you are unable to respond online, please complete the Respondent Information Form (see below) and send with your response to: LandingsTargetConsultation@gov.scot or

Head of Quota Management
Access to Sea Fisheries Team,
Marine Scotland,
1B – South Victoria Quay,
Edinburgh,
EH6 6QQ

Handling your response

If you respond using Citizen Space <https://consult.scotland.gov.uk/marine-scotland/amendment-of-the-economic-link-licence-condition/> you will be directed to the Respondent Information Form. Please indicate how you wish your response to be handled and, in particular, whether you are happy for your response to be published.

If you are unable to respond via Citizen Space, please complete and return the Respondent Information Form on page 13 of this document. If you ask for your response not to be published, we will regard it as confidential, and we will treat it accordingly.

All respondents should be aware that the Scottish Government is subject to the provisions of the Freedom of Information (Scotland) Act 2002 and would therefore have to consider any request made to it under the Act for information relating to responses made to this consultation exercise.

Next steps in the process

Where respondents have given permission for their response to be made public, and after we have checked that they contain no potentially defamatory material, responses will be made available to the public at <https://consult.scotland.gov.uk/>. If you use Citizen Space to respond, you will receive a copy of your response via email.

Following the closing date, all responses will be analysed and considered along with any other available evidence to help us. Responses will be published where we have been given permission to do so.

Comments and complaints

If you have any comments about how this consultation exercise has been conducted, please send them to LandingsTargetConsultation@gov.scot.

Scottish Government consultation process

Consultation is an essential part of the policy-making process. It gives us the opportunity to consider your opinion and expertise on a proposed area of work. You can find all our consultations online:

<https://consult.scotland.gov.uk/>. Each consultation details the issues under consideration, as well as a way for you to give us your views, either online, by email or by post.

Consultations may involve seeking views in a number of different ways, such as public meetings, focus groups, or other online methods such as Dialogue. (<https://www.ideas.gov.scot>)

Responses will be analysed and used as part of the decision making process, along with a range of other available information and evidence. We will publish a report of this analysis for every consultation. Depending on the nature of the consultation exercise the responses received may:

- indicate the need for policy development or review
- inform the development of a particular policy
- help decisions to be made between alternative policy proposals
- be used to finalise legislation before it is implemented

While details of particular circumstances described in a response to a consultation exercise may usefully inform the policy process, consultation exercises cannot address individual concerns and comments, which should be directed to the relevant public body.



RESPONDENT INFORMATION FORM

Please Note this form **must** be completed and returned with your response.

Are you responding as an individual or an organisation?

- Individual
 Organisation

Full name or organisation's name

Phone number

Address

Postcode

Email

The Scottish Government would like your permission to publish your consultation response. Please indicate your publishing preference:

- Publish response with name
 Publish response only (without name)
 Do not publish response

Information for organisations:

The option 'Publish response only (without name)' is available for individual respondents only. If this option is selected, the organisation name will still be published.

If you choose the option 'Do not publish response', your organisation name may still be listed as having responded to the consultation in, for example, the analysis report.

We will share your response internally with other Scottish Government policy teams who may be addressing the issues you discuss. They may wish to contact you again in the future, but we require your permission to do so. Are you content for the Scottish Government to contact you again in relation to this consultation exercise?

- Yes
 No



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