

Summary: Intervention & Options

Department /Agency: Department for Environment, Food and Rural Affairs (Defra)	Title: Impact Assessment of the European Fisheries Fund (EFF) UK Operational Programme (2007-2013)	
Stage: Final	Version: 1	Date: August 2008
Related Publications: The United Kingdom Operational Programme for the European Fisheries Fund (2007-2013)		

Available to view or download at:

<http://www.defra.gov.uk/corporate/regulat/impact-assessment/ria-2008.htm>

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What is the problem under consideration? Why is government intervention necessary?

In the UK, a number of problems facing the fishing industry, such as those arising from the nature of fishing resources, capital constraints and information and co-operation problems, threaten the competitiveness and viability of the sector.

The European Fisheries Fund (EFF) aims to strengthen competitiveness and viability of the sector, to provide adequate support to those employed in the sector, and foster sustainable development of fisheries areas. It also supports the major objectives of the Common Fisheries Policy (CFP), in particular the sustainable exploitation of fisheries resources and achieving a stable balance between these resources and the capacity of the Community fishing fleet. In many cases, these objectives cannot be sufficiently achieved by Member States, given structural problems encountered in the development of the fisheries sector and limits on financial resources of Member States in an enlarged Union. Intervention is required to improve the structure, efficiency and additional value of the UK fishing industry.

What are the policy objectives and the intended effects?

A fisheries industry that is sustainable, profitable and supports strong local communities, managed effectively as an integral part of coherent policies for the marine environment. The intended effects are a fishing industry that is diverse and resilient to changes in the marine environment; improvements to the contribution made by the fishing industry to the economic health of local communities; and a well managed industry that is socially and environmentally responsible and fully involved in effective management and regulation of the sector.

What policy options have been considered? Please justify any preferred option.

The policy option being considered is Option 1: pay EFF grants, assessed against a baseline option of doing nothing. For purposes of consultation, option 1 was split into four sub-options relating to the prioritisation of funding for each of the EFF priority axes. Namely Option 1a: adjustment of the fleet, Option 1b: aquaculture, inland fishing, processing and marketing, Option 1c: measures of common interest, and Option 1d: sustainable development of fisheries areas. The chosen option is to pay EFF grants and to prioritise funds in a manner that provides the best framework to deliver a sustainable and competitive industry.

When will the policy be reviewed to establish the actual costs and benefits and the achievement of the desired effects? The Operational Programme shall be subject to interim and ex post evaluations in order to improve and evaluate the effectiveness and efficiency of the Operational Programme. The interim evaluation must be completed in order to allow the Commission to establish a strategic debate by 31 Dec 2011, and ex post evaluation shall be completed no later than 31 December 2015. Additional information will be drawn from the ex post evaluation of the FIGG scheme, which will shortly be undertaken under the instruction of the Commission. Allocation of funding under each axis can be reviewed and adapted to changing priorities over the programming period.

Ministerial Sign-off For Final Proposal/Implementation stage Impact Assessments:

I have read the 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 leading options.

Signed by the responsible Minister:

..... Date:

Summary: Analysis & Evidence

Policy Option: 2

Description: Pay Grants

COSTS	ANNUAL COSTS		Description and scale of key monetised costs by 'main affected groups' £3.1m costs to Defra and MFA for administering the EFF scheme over 6 years; £1.1m costs to industry for making applications over 6 years; £32.3m of national contributions over 6 years. (All figures are for the remaining 6 years of the EFF Programme, and are for England only).
	One-off (Transition)	Yrs	
	£ -		
	Average Annual Cost (excluding one-off)		
	£ 6.08m		Total Cost (PV) £ 33.45m
Other key non-monetised costs by 'main affected groups' Displacement of economic activity; increased economic inequalities within fishing communities; crowding out of private investment where projects would have gone ahead without grant aid.			

BENEFITS	ANNUAL BENEFITS		Description and scale of key monetised benefits by 'main affected groups'
	One-off	Yrs	
	£ -		
	Average Annual Benefit (excluding one-off)		
	£ -		Total Benefit (PV) £ -
Other key non-monetised benefits by 'main affected groups' Benefits from £38m of EU funding which can act to lever in more funding from industry itself; helps to meet Community and national objectives; helps tackle market failures. Projects lead to greater environmental protection; increased value of sales and market demand leading to increased profitability; improved working and safety conditions; improved competitiveness and efficiency, enhanced product quality.			

Key Assumptions/Sensitivities/Risks The costs and benefits of the EFF scheme (2007-2013) will be similar to those of the Financial Instrument for Fisheries Guidance (2000-2006); though with a potentially wider range of benefits as the new scheme will also offer new and innovative measures to take account of the changing needs of the sector. At present the risk is that it will cost £33.45m (PV) over 6 years and the benefits have not been quantified. See Annex 2 for assumptions and limitations of costs.

Price Base Year 2007	Time Period Years 6	Net Benefit Range (NPV) £ -	NET BENEFIT (NPV Best estimate) £ -
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What is the geographic coverage of the policy/option?		England	
On what date will the policy be implemented?		15 th September 2008	
Which organisation(s) will enforce the policy?		MFA	
What is the total annual cost of enforcement for these organisations?		£ -	
Does enforcement comply with Hampton principles?		Yes	
Will implementation go beyond minimum EU requirements?		No	
What is the value of the proposed offsetting measure per year?		£	
What is the value of changes in greenhouse gas emissions?		£	
Will the proposal have a significant impact on competition?		No	
Annual cost (£-£) per organisation (excluding one-off)	Micro	Small	Medium Large
Are any of these organisations exempt?	No	No	N/A N/A

Impact on Admin Burdens Baseline (2005 Prices)		(Increase - Decrease)	
Increase of £	Decrease of £	Net Impact	£ No change

Key: Annual costs and benefits: (Net) Present

Background

1. The EU fishing sector is today confronting a number of challenges common to fishing industries across the world. Overfishing, which leads to low stocks, smaller landings and lower incomes, as well as environmental damage, is the main threat to the future of fish stocks and to the fishing industry. Demand for fish products continues to grow and a competitive international market represents both a challenge and an opportunity for the UK industry. To safeguard the long term future of the industry, the fleet needs to adapt and focus on high value-added sectors whilst maintaining its character and ties to the local community.
2. The UK fishing industry is facing a number of market failures. Fish stocks represent a common resource which will be over-exploited in the absence of government intervention. Overfishing can lead to the collapse of fish populations, imposing severe resource, social and environmental costs in the longer term. This “open access” type market failure is well recognised, and most commercial fisheries around the world are subject to public management programmes. As a member of the EU, the UK operates within the Common Fisheries Policy which involves controls both on the output of fisheries (Total Allowable Catches and fishing quotas), and on the input of resources (such as days at sea).
3. Information deficiencies exist in the fishing industry and may constrain the efficiency of the sector. This market failure is often referred to as “asymmetric information” and occurs in a number of ways. Firstly, stock levels cannot be perfectly observed, potentially leading to overfishing as described above. Secondly, businesses and other groups may lack the information they need to make investments. For example, greater information sharing and collaboration may result in mutually beneficial investments being made and risk sharing between businesses. Information deficiencies may also affect consumers who are not always aware of the full range of products available to them, which in turn can affect demand.
4. Many small businesses in the fishing and aquaculture industry face capital constraints and as a result are unable to undertake investments that may be economically worthwhile. This may affect their ability to invest in on board health and safety facilities (although there are some statutory requirements) and result in more coastguard rescues than would otherwise be the case. A lack of financial capital may also limit the ability of fishermen to invest in projects that provide social or environmental benefits to the wider community, in terms of the ecosystems, goods and services they provide. This is particularly the case where such projects do not provide sufficient financial returns to the business in the short term. Examples of such projects could include new gears to improve selectivity and reduce by-catches.
5. The EFF seeks to address these market failures through the provision of subsidies to the industry. The UK also uses a combination of market based instruments and command and control regulation. The application of the EFF should be viewed as complementary to these measures. The EFF is the key tools from the European Union, used to support the fishing industry.

European Fisheries Fund (EFF)

6. The European Fisheries Fund¹ (EFF) is the new fund for European Union (EU) fisheries grants from 2007-2013, replacing the Financial Instrument for Fisheries Guidance (FIFG) grants for the period 2000-2006. The EFF supports the major objectives of the Common Fisheries Policy (CFP) by providing grants to address market failures, to improve the economic efficiency, competitiveness and profitability of the fishing and aquaculture industry, and to promote sustainable practices and strong and sustainable communities.
7. The CFP is the fisheries policy of the EU, created to manage fish stocks for the EU as a whole. The CFP shall ensure exploitation of living aquatic resources that provides sustainable economic, environmental and social conditions. To help the fishing sector adapt to today's needs, the EFF will grant financial support in order to:
 - ensure the long-term future of fishing activities and the sustainable use of fishery resources;
 - reduce pressure on stocks by matching EU fleet capacity to available fishery resources;
 - promote the sustainable development of inland fishing;
 - help boost economically viable enterprises in the fisheries sector and make operating structures more competitive;
 - foster the protection of the environment and marine resources;
 - encourage sustainable development and improve the quality of life in areas with an active fishing industry;
 - promote equality between women and men active in the fisheries sector.
8. The EFF targets five priority areas (axes), reflecting the task of facilitating the implementation of measures adopted under the CFP, to secure economic, environmental and social sustainability in fisheries. These five priorities are:
 1. Adaptation of the Community fishing fleet;
 2. Aquaculture, inland fishing, processing and marketing of fisheries and aquaculture products;
 3. Measures of collective benefit;
 4. Sustainable development of fisheries areas; and
 5. Technical assistance to facilitate the delivery of assistance.
9. The total EU EFF budget amounts to approximately £2.9 billion², and has been divided into two separate budgets for convergence areas³ and non-convergence areas. Of this, the UK will receive approximately £108.6m of funding for the EFF Programme, which has been divided amongst the four UK administrations as follows (all figures are over the remaining 6 years of the EFF Programme):

¹ Council Regulation (EC) No 1198/2006 on the European Fisheries Fund; Commission Regulation (EC) No 498/2007 laying down detailed rules for implementation

² In nominal prices

³ Convergence areas are where Gross Domestic Product is less than 75% of the EU average

Table 1: Allocation of EFF and National Funds in the UK⁴

	EU Funds		National Funds		Total
	Convergence	Non-Convergence	Convergence	Non-Convergence	
England	£8.2m	£29.6m	£2.7m	£29.6m	£70.1m
Scotland	£13.9m	£29.6m	£4.6m	£29.6m	£77.7m
Wales	£12m	£1.2m	£4m	£1.2m	£18.4m
Northern Ireland	n/a	£14.3m	n/a	£14.3m	£28.6m
Total UK	£34m	£74.6m	£11.3m	£74.6m	£195m

Note: Figures may not sum exactly due to rounding

10. All figures that appear in this and subsequent sections are nominal. The cost and benefits, including the average annual cost of £6.08m presented in the Summary: Analysis and Evidence table (page 2) are net present value figures, and have been discounted over the remaining 6 years of the EFF (with year 1 as the base year), at a rate of 3.5%.⁵
11. The impact on the admin burden baseline presented in the Summary: Analysis and Evidence table (page 2) has been left empty as there is likely to be no change to the baseline. That is, the EFF is unlikely to change the admin burden baseline relative to the scheme it is replacing (FIFG). This is because it is estimated that businesses will face similar costs of applying for the EFF relative to the FIFG.
12. Member States must prepare a National Strategic Plan, outlining the high level objectives for the fisheries industry, and an Operational Programme detailing specific funding priorities and implementation plans for the EFF scheme. The UK National Strategic Plan has now been finalised, and formally submitted to the Commission. The UK Operational Programme has been the subject of a full public consultation, and the Commission has now granted approval for the Programme.
13. In recent months, the fishing industry has been facing the difficulties posed by rising fuel prices. In response, the Commission has announced an emergency package of measures, including greater flexibilities for the use of EFF funds. These measures include:
 - fleet adaptation schemes to provide more flexibility and decommissioning aid for fleets that accept substantial restructuring;
 - aid to encourage switching to more energy-efficient and environmentally-friendly fishing methods;
 - emergency aid for temporary cessation of activities; and
 - market measures to increase the value of fish.

Further detail on these measures can be found at http://ec.europa.eu/fisheries/press_corner/press_releases/2008/com08_48_en.htm.

14. Since these measures have only recently been announced, the implications for the UK Programme are currently being considered. Any future amendments to the Programme will

⁴ These figures have been converted into pounds sterling from euros at a rate of 1 euro=0.79 pound sterling (15/08/08)

⁵ The government recommended discounting rate - The Green Book (HM Treasury)

result in an update of this Impact Assessment to consider the costs and benefits of introducing some/all of these measures into the plans for spending EFF funds in the UK.

15. This Final Impact Assessment has been prepared to assess the costs and benefits of the recommended option of paying EFF grants, and details the recommended distribution of funds between the axes. It also indicates why this option is being recommended rather than the others considered. This Impact Assessment follows a public consultation which took place in two stages between 7th March – 27th June 2008. A summary of the responses to this consultation can be found below and has also been published on the Defra website. The recommended distribution of funds reflects the consultation responses and gives greater weight to Axis 1 than was previously proposed.
16. Costs and benefits of the EFF scheme have been assessed against the baseline option of not paying grants⁶. Our evaluation of the costs and benefits of the EFF is largely based on the mid-term evaluation of the FIGG (Poseidon, August 2003) and the update of the mid-term evaluation of the FIGG (Poseidon, December 2005). The applicability of findings from these reports is limited. For example, the FIGG evaluations looked only at projects in non-objective 1 areas (i.e. non-convergence areas under the EFF), the net benefit to the UK was not calculated (nor were net benefits attributed to specific projects) and the uptake of funds was relatively low under FIGG (see Annex 1). Nevertheless, it is the best source of evidence available to evaluate the potential costs and benefits of the EFF, and many projects eligible under the EFF are similar to those under FIGG.
17. There is a need to further strengthen the evidence base in order to ensure robust evaluation of the costs and benefits of the scheme. As well as conducting the mandatory monitoring and evaluation requirements set out in the EFF Regulations, a work plan is currently being developed to further address evidence gaps, and will include evaluating and where possible, monetising the non-market benefits of the Programme.

Policy Options:

18. As part of the public consultation process, a number of options were considered. These were:
 - **Baseline: Do nothing (i.e. do not pay grants)** – this option was considered likely to attract much criticism from industry and stakeholders as well as the European Commission. Given the potential to use the EFF to address some of the market failures facing the UK industry, and the market disadvantage the UK would face if other Member States applied funding whilst they did not, this was not considered a feasible option.
 - **Option 1: Pay grants** - The UK will receive approximately £108.6m of EU funding over a 6 year period⁷. Of this the English fishing and aquaculture industry will receive approximately £38m of EU funding over a 6 year period. In addition, £32.3m of national funding will be provided to supplement funds for EFF projects.
 - **Option 1A – Prioritise funding under Axis 1 concerning measures for the adjustment of the fleet** – for example, supporting projects involving temporary/permanent cessation, investments on board fishing vessels and selectivity, improvements to professional skills and safety training, and diversification.

⁶ The baseline includes the impact of the FIGG grants paid before 2006

⁷ The EFF runs for 7 years (2007-2013) but as the scheme is yet to be implemented in the UK, funds will be available over a 6 year period. Commission Decision C(2008)4358 clarifies that those funds allocated to 2007 of the Programme will be permitted to be carried forward, meaning no change the total amount of EU funds available.

- **Option 1B – Prioritise funding under Axis 2 concerning measures for aquaculture, inland fishing, processing and marketing** – for example, supporting projects involving productive investments in aquaculture, aqua-environmental measures, public and animal health measures, and investments in processing and marketing of fisheries and aquaculture products.
- **Option 1C – Prioritise funding under Axis 3 concerning measures of common interest** – for example, investments in fishing ports, landing sites and shelters, development of new markets and promotional campaigns, pilot projects, promotion of selective fishing methods, reduction of by-catches, transparency of markets and improvements in quality and food safety.
- **Option 1D – Prioritise funding under Axis 4 concerning measures for sustainable development of fisheries areas** – in order to maintain the economic and social prosperity of areas and add value to fisheries and aquaculture products; maintain and develop jobs and social restructuring of areas facing socio-economic difficulties; promote the quality of the coastal environment; and promote national and trans-national cooperation.

Public Consultation

19. A two stage public consultation was launched between 7th March – 27th June 2008, seeking views on the analysis, objectives and funding priorities of the UK Programme. A wide range of stakeholders, representing key interests in the Programme, were invited to participate in the consultation. In addition, the consultation was made publicly available on the Defra website and publicised via Press Notice to attract further response.
20. A total of 36 responses were received to the first stage of the consultation. Some found the analysis and objectives of the Programme broadly acceptable. Other comments often conflicted, reflecting the differing stakeholder interests in the Programme. As such no key themes were identified to warrant major changes to the Programme.
21. A total of 72 responses were received to the second stage of the consultation regarding funding priorities in each administration. A number of these comments reflected a desire to re-work the EFF Regulation itself, something considered outside the scope of the consultation. All the responses supported the Government view that to not launch the EFF grant scheme in the UK was not a feasible option. This reflected both the perceived need to address market failures within the industry and the feeling that to provide EFF funding in other Member States and not in the UK would result in an unfair advantage over UK industry.
22. A key theme running through the consultation responses was the importance of funding measures that will help the industry adapt in a climate of rising fuel prices. This included the desire to see greater allocation of funds to Axis 1 to support measures such as re-engineing, decommissioning, temporary tie-up aid and vessel modernisation. The EFF is seen as one of the key tools available to Member States in order to provide such assistance. Support for this approach is also reflected in the recent adoption by the Commission of an emergency package of measures to tackle the fuel crisis in the fisheries sector, which includes amongst other measures greater flexibility for use of EFF funds. Further details are provided in paragraphs 13 and 14.
23. Others were anxious to ensure that funds were distributed across the Axes of the Programme in a balanced way, in order to avoid putting any one sector of the industry at a disadvantage.

24. Other common themes included support for quality and certification schemes, measures that support training and recruitment (including encouraging young fishers), and improvements in safety and working conditions.

Recommended Option

25. The recommended option is to pay grants, with the allocation of funds between axes as detailed in table 2.

Table 2 : Showing the redistribution of funds across the Priority Axes of the UK Programme⁸

Priority Axis	Original proposals for allocation of funds (£)		FINAL proposals for allocation of funds (£)	
	Convergence	Non-Convergence	Convergence	Non-Convergence
1	£4.2m	£18.9m	£6.3m	£25m
2	£11.4m	£15.5m	£11.4m	£15.1m
3	£15.2m	£30.6m	£13.4m	£25.7m
4	£2.5m	£6.8m	£2.4m	£6.7m
5	£696k	£2.9m	£491k	£2.2m
TOTAL	£34m	£74.7m	£34m	£74.7m

Note: figures may not exactly sum due to rounding

26. In order to determine how the funds should be allocated across the priority axes of the Programme, an exercise was undertaken to analyse which of the measures eligible for funding could best help achieve the objectives of the UK Operational Programme and more widely the objectives of Fisheries 2027⁹. Those axes which had a greater number of such projects were identified as priority for allocation of funds. This exercise included consultation with the Marine Stakeholder Forum, whose Membership includes industry representatives and fisheries experts, to determine the actual amounts that should be allocated to each of the priority axes.
27. Proposals for the allocation of the funds across the priority axes were subject to full public consultation. The results of the public consultation and a changing climate in respect of fuel prices, lead to a further exercise to review the allocations to those shown in Table 2 (above). The allocations have been chosen in order to help address the need to assist adaptation of the industry, particularly in a climate of rising fuel prices. It is considered that this distribution will provide the best framework to improve the economic efficiency, competitiveness and profitability of the industry, to promote sustainable practices and to support strong communities.
28. In practice this means a shift of over £8m into Axis 1 of the UK Programme, compared to the pre-consultation distribution. Axis 3 projects (measures of common interest) continue to receive the largest share of funds in absolute terms. This reflects the desire to support common interest measures in the consultation responses, and because Axis 3 measures have been assessed to result in wider public benefits.

⁸ These figures have been converted into pounds sterling from euros at a rate of 1 euro=0.79 pound sterling (15/08/08). The exact value of funds available will be subject to exchange rate fluctuations, all figures have been rounded to the nearest £000.

⁹ Fisheries 2027 – a long term vision for sustainable fisheries. Defra, 2007.

29. This re-alignment of funds was felt to deliver a reasonable balance across the Axes of the Programme that continues to support the objectives of the UK Programme as a whole. The distribution between axes will be kept under review and can be adapted to changing priorities over the programming period.
30. A range of considerations will be used in allocating funding. For example, criteria may include that projects deliver high value for money, that they do not crowd out private investment, deliver large social benefits or would not be able to proceed in the absence of EFF funding. Work is underway to finalise the priority of specific measures. It is not the intention of the EFF to fund investment that would have taken place anyway, unless it can be demonstrated that such projects will result in substantial benefits.
31. The exact impact of the overall scheme will not be known until ex post evaluation is conducted. This is because it is not possible to know what applications for EFF funding will be made. However, mid-term evaluation of the scheme will be conducted to assess progress towards meeting the objectives for the UK Programme, and amendments to the scheme made as appropriate. The following sections set out an assessment of the likely impact based on the objectives of the EFF Programme and the applications made to the previous FIFG scheme.

Costs

32. The costs to Defra and the Marine and Fisheries Agency of administering the EFF are estimated to be £3.1m¹⁰, over 6 years of the EFF programme. This includes assessing and approving applications, undertaking inspections, the setting up and running of a Monitoring Committee, processing payments, reporting to the European Commission and auditing. In addition, England will provide £32.3m¹¹ of national funding which is required to match EU funds.
33. In calculating these costs, the time needed for input by economist, policy, Marine and Fisheries Agency staff and auditors has been estimated, using our experience of the previous scheme FIFG. In addition, we have excluded administrative inputs funded by the technical assistance budget (axis 5) since these come from EFF EU funds and do not therefore represent a cost to the member state itself. All costs are shown over a 6 year period, since there is a delay in implementing the scheme (the EFF Programme runs for a total of 7 years from 2007-2013 but will not be launched in the UK until late 2008). Further details can be found in Annex 2.1.
34. The costs to industry in England, estimated at £1.1m, associated with making applications for grants over 6 years of the EFF programme. The estimated cost (one-off) to small and medium sized businesses to apply for a project is approximately £1.4k-£1.8k. Grants facilitators will provide a free of charge service to all applicants¹² to assist them during the application process, which will go some way to help reduce these costs. The benefits of receiving grant funding, such as increased profitability and improved competitiveness and efficiency are anticipated to outweigh the costs of making an application. The benefits of applying for grants are discussed in the section below.

¹⁰ In nominal prices

¹¹ In nominal prices

¹² Half the costs of the facilitators is met by national funding and half by technical assistance (axis 5) of EU funding. The costs of funding grants facilitators are therefore taken into account in para 30 (costs to Defra and the MFA for administering the scheme).

35. These costs have been calculated using the Standard Cost Model (SCM) methodology¹³. Using our experience of the FIGG scheme, we have defined both an average small and large project based on their total cost. This is seen as a key factor in determining the time spent by an applicant in completing the application process, since the total cost is indicative of the complexity and level of information that needs to be provided. We have also estimated the likelihood of a business needing to create a new business plan specifically for the grant. Where business plans already exist, a reduction of 10% of the Business as Usual (BAU) costs has been applied for smaller projects and a 55% reduction for larger projects. In addition, it has been assumed that a similar proportion and type of applications will be received under EFF as for FIGG, and that 5-10% of applications will be unsuccessful. Further details can be found in Annex 2.2.

Benefits

36. The EFF is intended to address some of the market failures outlined in earlier sections, and to provide transitional support as the fishing and aquaculture industry adjusts to become environmentally sustainable and economically competitive whilst maintaining its cultural heritage. The exact benefits of the overall scheme will not be known until the ex post evaluation, however further information will be available at the time of mid-term evaluation. It may be anticipated that these benefits will be similar to those of the FIGG scheme, since the EFF supports many of the same types of projects¹⁴.
37. The design and implementation of the EFF incorporates the lessons learned from FIGG, for example in providing greater support to businesses in completing applications, which proved successful in addressing the low uptake of the FIGG scheme. The priorities of the EFF scheme are also different reflecting the changing needs of the sector, which the consultation process was particularly helpful in identifying. For these reasons, it may be anticipated that the benefits of the EFF will exceed those of FIGG, despite the total pot of money available under the EFF scheme being smaller.
38. The provision of grant aid can act to lever in substantial investment from within industry, with investors able to access capital that would otherwise not be available to them. It is recognised that the co-financing arrangements will influence the level of applications received for specific types of projects and therefore the associated benefits.
39. The implementation of the EFF scheme may act to redistribute income from higher income groups in prosperous areas of England to lower income groups in fishing communities.
40. Fishing communities may potentially enjoy some degree of regeneration and associated benefits including lower unemployment, a higher standard of living and reduced uncertainty about the economic future of the area.

Risks

41. There are a number of risks associated with funding projects under EFF. It is possible that the availability of funding will “crowd out” private investment that would otherwise have taken place. This would result in deadweight loss to society and a reduction in economic

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http://www.administrativeburdens.com/filesystem/2005/11/international_scm_manual_final_178.doc#_Toc114385631

¹⁴ For more information see the Financial Instrument for Fisheries Guidance (FIGG) Programme in Non-Objective 1 areas of the United Kingdom (2000-2006). Update of the Mid Term Evaluation. Poseidon Aquatic Resource Management Ltd (December 2005) - <http://www.defra.gov.uk/fish/sea/pdf/fifgmidtermeval-finalreport.pdf>

efficiency where government money simply replaces rather than supplements private investment.

42. Annex 1.2 shows the additionality of government expenditure under the FIFG scheme. To mitigate this risk, appraisal of EFF projects will include a scoring panel to assess the additionality of any funds released. Projects may also be subject to other assessments, including appraisal by a government economist where this is deemed appropriate.
43. There may be displacement of economic activity from one region, company or individual to another. For example, a project to re-develop a port may attract fishing vessels and companies from another port, thereby displacing economic activity and impacting on the character of local fishing communities. We aim to mitigate this cost by assessing whether there are displacement issues before approving a project for funding.
44. It is also possible that infrastructure projects may be funded and subsequently the facilities are not fully utilised in the future, as UK and European policy, the industry and its needs evolve over time. This would reduce the benefits of funding these projects and could potentially negate the benefits altogether. This level of risk is not easy to assess but will be given due consideration in the allocation of funding.
45. If larger business with more developed infrastructures are better able to secure financial aid than smaller companies, there could be an increase in economic inequalities within local fishing communities. However, the system has been designed to mitigate this risk, with grants facilitators available to assist all individuals and businesses in the application process.

Priority Axis 1 – Measures for adaptation of the fleet

46. Under priority axis 1, the final allocation of funds is approximately £6.3m for convergence regions and £25m for non-convergence regions. Projects which may be eligible for funding under this axis include:
 - Permanent/temporary cessation of fishing vessels affected by fishing effort adjustment plans;
 - Investments on board fishing vessels and selectivity including financing of equipment and modernisation of vessels over 5 years old. For example, improvements to safety, working conditions, hygiene, product quality, energy efficiency and selectivity, provided it does not increase the ability of the vessels to catch fish;
 - Public aid for small scale coastal fishing measures such as improvements to management and control of access to fishing areas, encouraging voluntary steps to reduce fishing effort for the conservation of resources, and improving professional skills and safety training;
 - Socio-economic compensation for the management of the Community fishing fleet including measures for diversification, skills upgrading and re-training for occupations outside sea fishing.
47. A key tool for the adaptation of the fishing fleet (axis 1) is decommissioning. A decommissioning scheme for the English under 10 metre fleet, funded under the EFF, is currently being consulted on. A full Impact Assessment for this scheme is attached to this document at annex 7. Broad costs and benefits of decommissioning, which do not relate specifically to this scheme, but which may apply to projects funded under axis 1 are discussed below.

Costs

Funding for permanent cessation of vessels (decommissioning)

48. Decommissioning may not remove the least efficient vessels from the fleet and therefore may not have the maximum impact on the profitability of the fleet. Vessels that are likely to apply for decommissioning schemes may be those with the highest level of debt and not necessarily the least efficient. If this were the case then the benefits for remaining vessels in terms of increased profitability would be reduced.
49. Under a regime where only the catch is controlled, a decommissioning scheme would have no effect, as in the absence of barriers to entry, the vessels being decommissioned would be replaced by new vessels. MFA statistics for 2007 show that as much as 35% of registered vessels in the UK fleet are inactive. This latent capacity in the fleet could provide an opportunity for quota released through decommissioning to be quickly absorbed by increasing capacity elsewhere. Evidence from an OECD report suggests that some vessel decommissioning schemes may increase overcapacity by injecting new capital into the fisheries sector, particularly when not introduced in conjunction with effective mechanisms to stop effort expanding following the buy-back¹⁵. Continual improvements in fishing efficiency of the fleet as a whole (often referred to as “technological creep”) can offset capacity reductions like decommissioning, by sustaining pressure on stocks. These costs can be mitigated by introducing any decommissioning scheme in conjunction with policies to cap increases in capacity.
50. Decommissioning schemes provide an incentive both for existing fishermen to remain in the industry and for people to enter the industry, given their expectations of decommissioning schemes in the future. There is a perverse incentive by reducing the cost to exit the fishing fleet of incentivising banks and fishers to finance riskier investment in fishing. These issues were noted in both Net Benefits¹⁶ and Turning the Tide¹⁷. To minimise this risk, if a decommissioning scheme is undertaken, and for it to have the maximum impact in terms of effort reduction, there would need to be clear signals to the industry that there would be no further decommissioning schemes.

Funding for investments on board fishing vessels

51. Unproven technology in the form of gears and techniques used for their environmental benefits may prove ineffective and costly. This cost is minimised through seeking expert advice on the appropriateness of such gears and techniques during the assessment of projects.

Benefits

52. Projects funded under Axis 1 can be used to address market failures which would not be rectified in the absence of Government intervention. Overfishing results in negative impacts on the environment in terms of potential degrading of the marine environment, depletion of stocks and discarding. Reducing capacity by using tools such as decommissioning can help reduced these negative externalities. Fishing effort that results in damage to the marine environment can be reduced through environmentally friendly gears and techniques. Projects that provide these environmental benefits may not be funded in the absence of the EFF as they may not necessarily provide a financial return for the fishers.

¹⁵ OECD observer, December 2005 *Subsidies: a Way Towards Sustainable Fisheries*

¹⁶ Net Benefits: A Sustainable and Profitable Future for UK Fishing. PM Strategy Unit. March 2004.

¹⁷ Turning the tide: Addressing the Impacts of Fisheries on the Marine Environment. 2004.

53. There are potential liquidity constraints for small firms wishing to borrow to invest in higher cost projects such as engine replacement, where lenders perceive them as too high risk. Where engine replacement includes a condition to reduce engine power, there can be positive benefits to the fleet as a whole, in terms of reduced capacity, which would not occur in the absence of Government intervention.
54. Improved hygiene on board vessels may not be fully reflected in the sale price of fish, however can result in benefits to wider society in terms of safer, healthier and better quality produce. Thus funding for such projects is unlikely to be optimal without Government intervention.

Benefits of funding for permanent cessation of vessels (decommissioning)

55. Decommissioning schemes can be effective in delivering economic, environmental and social benefits where they are introduced selectively as part of a package with other management tools, for example:
 - a) a previous decommissioning of beam trawlers in 2007 in the South West sole fishery, was carried out in conjunction with a long term management plan for the recovery of that stock to ensure that effectiveness of such a scheme and the long term viability of the fishery. Where money under this axis is used to fund decommissioning projects, they will only be considered where part of a package of measures. The selectivity criteria and the possible management tools to be adopted would be discussed in a separate consultation for the decommissioning scheme itself. Previous decommissioning schemes in Scotland and England, funded under FIG, are deemed to have demonstrated considerable savings against the benchmark system proposed by the European Commission (update of the mid-term evaluation of the FIG). The FIG mid-term evaluation demonstrates that such schemes can provide good value for money, but such schemes should be selective with some form of effective management controls to re-entry.
 - b) Management tools may include input controls on re-entry, or measures to cap capacity and effort in the fishing fleet.
56. If successful in reducing long term excess capacity, a selective decommissioning scheme could reduce pressure on selected stocks through fewer vessels, and improve catch sizes for the remaining fleet thereby reducing the incentive to “blackfish” (landing fish illegally). It is estimated that 80% of UK boats may have landed illegal fish.¹⁸ This may also reduce the costs associated with vessel effort (i.e. time, wages, fuel costs), as there would be more fish to catch per vessel. The European fishing fleet is more than 40% overcapacity, and this can lead to unsustainable pressure on fish stocks, making them more difficult to manage. This overcapacity reduces the profitability and stability of the industry by leaving it exposed to short term price fluctuations. This overcapacity also indicates that the current fleet is economically inefficient as fewer vessels could catch the same amount of fish at fuller capacity.
57. Selective decommissioning measures set with effective management tools can have positive environmental benefits to other marine fauna and flora, by reducing vessel activity that could have caused damage to the marine environment. Selective decommissioning schemes in the North Sea and West of Scotland were run through the previous FIG

¹⁶ Turning the tide: Addressing the Impacts of Fisheries on the Marine Environment. 2004

scheme. The update of the mid-term evaluation concluded that these schemes resulted in a more competitive position to harvest recovering and sustainable stock levels. In addition the report recommended that schemes should focus on fishing effort and species where stock recovery is a priority. There may be potential to use decommissioning schemes as an alternative option to the closure of areas to protect the local marine environment. It may be difficult for vessels to relocate to other areas as a result of a closure, due to higher costs, greater competition to catch fish, and feasibility if the fish stocks in the potential relocations are not the same. However, as indicated in the mid-term evaluation of the FIGG, the impact of decommissioning measures will be felt in the longer term, and at present it is too early to fully assess the success of funding such projects.

Benefits of funding investments on board fishing vessels

58. Vessel modernisation including gear replacement can lead to an increase in the value of sales through improved catch quality. Engine replacement can result in reduced running costs for the vessel, where more efficient and less fuel intensive engines are installed. These measures can act to safeguard jobs¹⁹ by creating more attractive and desirable working conditions, and offer improved safety. Such projects can also lead to improved diversification in fisheries by promoting alternative fisheries. The update of the mid-term evaluation of FIGG, anticipated that vessel sales turnover would increase by 4.5 per cent to 16 per cent, and 400 jobs were safeguarded as a result of approximately £951k of investment in 84 projects for quality enhancements, and approximately £87.2k in 11 projects promoting alternative fisheries in the UK²⁰.
59. Furthermore, Seafish²¹ showed improved sales of between 7.5% and 16% as a result of investments on board vessels in the UK which lead to above average prices on the day for the catch. The mid-term evaluation of FIGG concluded that vessel modernisation projects provide value for money when related to investments to improve catch quality, although high additionality issues need to be considered. The benefits of funding such projects can be seen to provide private benefits rather than to the wider society. A more rigorous application assessment process will be employed under EFF, thereby giving greater priority to projects that benefit the wider society.
60. Re-engining includes a requirement to have new engines with at least 20% less power than the old ones. This criteria helps contribute to reducing capacity in the fleet but can also result in environmental benefits where a reduction in emissions is achieved.
61. The use of more environmentally friendly gears and techniques can reduce environmental damage to the seabed and increase selectivity. The latter can also lead to reduced running costs to fisherman as a result of reduced time out at sea. The use of biodegradable natural fibres, for instance such as hemp and sisal, in the construction of fishing gear may potentially reduce the occurrence of 'ghost fishing' where a net continues to destroy sea life after being abandoned or lost. This is a more serious problem in deeper water where the nets persist longer than in shallow water²². In addition size selectivity of fishing gears by manipulating mesh size, have been used as a measure to protect young fish in overexploited stocks.
62. Improvements to working conditions, safety and hygiene on board vessels can help vessel owners recruit and retain staff, and increase productivity due to fewer work days absent. Fishing is the most dangerous occupation in the UK, demonstrated by figures that show over the last decade UK commercial fishing vessels have been lost on average every 12.5

¹⁹ Funding is not provided based on this criteria alone

²⁰ Figures converted at a rate of 1 euro = 0.79 pound sterling

²¹ Curtis H and Martin A., Quality at sea practices improve profitability and crew share, Sea Fish Industry Authority

²² Turning the tide: Addressing the Impacts of Fisheries on the Marine Environment. 2004.

days²³. During 2006, 346 accidents involving UK-registered fishing vessels were reported to the Marine Accident Investigation Branch; 19 vessels and 16 fatalities to crew were reported. The implications have major social and economic impacts on local fishing communities especially if there are multiple losses in one community.

Benefits of funding socio-economic compensation projects

63. Where there are barriers to exit the industry for fishermen who are not skilled for other employment, funding their retraining for non-fishing jobs can reduce this barrier. This provides benefits to the fishing industry through reduced effort, benefits to the fishermen through increased opportunities and wider social benefits through increasing worker skill sets.
64. The potential to fund retraining and early retirement, resulting in the ability to transfer people and skills to other industries within coastal communities, may provide those in fishing communities with greater opportunities to find work and help the industry to adapt to meet evolving needs.
65. Aid to help young fisherman become first time vessel owners, may only be provided where it can be demonstrated that applicants have worked at least five years as fishers or have equivalent professional training, and acquire for the first time part or total ownership of a fishing vessels of less than 24 metres in overall length which is equipped to go fishing at sea and is between 5 to 30 years old. In effect this measure will not increase capacity of the fleet. It will however promote long term interests in fishing, by ensuring the industry will continue to have access to the skilled labour force it requires, and securing a future for coastal communities.

Risks

66. There is a risk with decommissioning that vessels who benefit from such schemes would have exited the industry in any case. This risk can be minimised by careful targeting of any scheme.
67. If decommissioning only removes the least efficient vessels from the fleet, this measure is unlikely to have the maximum impact on the long term sustainability of fish stocks or profitability of the fleet, and would be costly for little benefit. The review of the 1993-96 decommissioning scheme in the UK (Nautilus Consultants 1997) found that the scheme attracted predominantly older boats that had expended fewer days at sea than those vessels that remained. As a result, the impact on the catching potential of the remaining fleet was less than the reduction in physical inputs removed by decommissioning²⁴. However, recent decommissioning schemes have included eligibility criteria based on effort and catch which goes some way to reduce this risk and improve the impact of a decommissioning scheme.
68. The additional benefits of decommissioning projects may be low as the owners may have exited the industry regardless of the available grant funding, possibly due to increased debt. During the evaluation of the 2001 scheme, 40% of grant recipients stated that decommissioning allowed them to rationalise their existing fleet, downsize or buy a new vessel; 47% of grant recipients stated that decommissioning allowed them to retire or retire earlier than they had intended; 37% said they would have left the industry anyway. It was concluded that general decommissioning schemes are not the most effective, nor the fairest

²³ Net Benefits (2004), Prime Minister's Strategy Unit.

²⁴ Appraisal of Alternative Policy Instruments To Regulate Fishing Capacity, CEMARE, 2002.

way of reducing fleet capacity, and specifically they do not encourage fishermen to make long-term assessments on whether to stay in the industry. However, a targeted scheme can help the sector to be in a more competitive position to harvest recovering and sustainable stock levels.

69. The update of the FIG mid-term evaluation found that out of 23 vessel modernisation projects, 9% of projects would have proceeded as normal in the absence of grants funding and 43% as planned but at a later date. Funding such projects can be seen as a loss of efficiency. Though as discussed in para 38, this risk would be reduced through the scoring system, and the reduced budget of the EFF relative to the FIG.

Priority Axis 2 – Measures for aquaculture, processing and marketing

70. Under priority axis 2, the final allocation of funds is approximately £11.4m for convergence regions and £15.1m for non-convergence regions. Projects which may be eligible for funding under this axis include:

- Productive investments in aquaculture such as investments in the construction, extension, equipment and modernisation of production installations, with a view to improving working conditions, hygiene, animal health and product quality and to reducing or enhancing environmental impacts;
- Aqua-environmental measures to compensate for the use of aquaculture production methods helping to protect and improve the environment and to conserve nature;
- Animal health measures for eradication and control of disease in aquaculture;
- Investments in processing and marketing of fisheries and aquaculture measures.

Costs

71. We have not identified any specific costs associated with funding axis 2 projects, nor were any identified in the mid-term evaluation of FIG. In relation to aquaculture, this was partly the result of low uptake at the time of the FIG evaluation. In relation to processing projects, risks have been identified but do not necessarily lead to a cost in relation to the baseline (i.e. do nothing). These data gaps will be addressed by improved monitoring of the EFF Programme and by further evaluation of the FIG scheme which will shortly be undertaken under the instruction of the Commission.

Benefits

72. Funds available under Axis 2 may address a number of market failures by easing pressure on marine fish stocks. An expansion of the aquaculture industry will provide a sustainable new source of raw material (fish and fish products) for processors and consumers. Processing projects that promote diversification of fish stocks may divert demand from less sustainable to more sustainable stocks. Together, these measures may increase the number and range of substitutes available for species such as cod that have traditionally been consumed.
73. Investments in the construction, extension, equipment and modernisation of inland fishing facilities, may lead to improvements in conditions relating to hygiene, human or animal health and/or product quality. Benefits may include higher profits, greater protection of jobs, improved working conditions, reduced negative impacts on the environment and increased benefits for public health.

74. Investments in processing and marketing of fisheries and aquaculture products, may also improve the quality of, and demand for fish products. The mid-term evaluation of FIG found that the effects of investments in processing and marketing increased UK market demand and domestic and export market penetration. It was estimated that through FIG funding, between June 2003 and June 2005, some £18 million extra sales were generated in England, and more than 1,500 jobs protected in the UK.
75. Support for aqua-environmental measures to improve the environmental impact of aquaculture production methods secures a long term future for the industry and may also translate to future profits. The sustainable breeding of fish can also help reduce pressure on quota and non-quota stocks. Support for environmentally-friendly aquaculture has a more prominent position in the EFF Regulations in comparison to FIG, for continued sustainable development of European aquaculture. The mid-term evaluation of the FIG concludes that the anticipated increase in turnover, additional benefits and profits from such investments provides value for money.

Risks

76. The processing and marketing sector is already profitable and as such may not be subject to the same credit constraints that limit investments elsewhere in the industry. As a result, there is a risk that projects supported by EFF may be expected to proceed anyway, resulting in the crowding out of private investment and low additionality. The update of the mid-term evaluation of the FIG found that in England only 17% of applicants interviewed stated that processing projects would not have gone ahead without FIG and national support, 9% would have gone ahead as planned and 28% as planned but later (see annex 1.2). Careful assessment of applications will be made to minimise this risk, as described in para. 38.

Priority Axis 3 – Measures of common interest

77. Under priority axis 3, the final allocation of funds is approximately £13.4m for convergence regions and £25.7m for non-convergence regions. Projects which may be eligible for funding under this axis cover a broader scope than measures normally undertaken by the private sector, and include:
- The protection and development of aquatic fauna and flora while enhancing the environment;
 - Investments in fishing ports, landing sites and shelters;
 - Development of new markets and promotional campaigns for fisheries and aquaculture products;
 - Pilot projects, including the experimental use of more selective fishing techniques, aimed at acquiring and disseminating new technical knowledge;
 - Projects involving collective actions, such as promotion of selective fishing methods and gears and reduction of by catches, promotion of equal opportunities, development of new training methods, transparency of markets and improvements in quality and food safety.

Costs

78. We have not identified any specific costs associated with funding axis 3 projects, nor were any identified in the mid-term evaluation of FIG. For certain projects, this is because the

measures were not eligible for funding under FIFG and as such there is no evidence base to draw on. This will be addressed by improved monitoring of projects under the EFF Programme, and by further evaluation of the FIFG scheme which will shortly be undertaken under the instruction of the Commission.

Benefits

79. Axis 3 funding may be channelled towards improving the aquatic environment and preventing damage to flora and fauna. This benefits society as a whole, in terms of safeguarding the ecosystems, good and services that this environment provides, and evidence suggests that there is support for this protection amongst the public.²⁵ Such benefits may not be realised in the absence of Government funding as they are a public good, proving a positive externality, the value of which is not reflected in the market and thus improvements and conservation of the aquatic environment is underfunded.
80. Measures of common interest such as the development of ports, landings sites and other fishing infrastructure may bolster the productivity of the fishing fleet. Additional benefits may include improved conditions for landing processing, storing and auctioning of fish products and the enhancement of product quality. Applicants under FIFG also reported that they expected the benefits of the port investment to include reduced environmental damage, prevention of accidents and improved access to services. Increased sales were not cited as a key consideration. Funding such projects through the EFF may display high levels of additionality since the positive externalities associated with these projects often act as a barrier to private investment. The update of the mid-term evaluation of FIFG found that more than half of the port developments in England funded by FIFG would not have proceeded in the absence of the scheme, and a further fifth of projects indicated that they would have proceeded anyway, but at a later date and on a less ambitious scale (see annex 1.2). It also concluded that these investments provided value for money and resulted in improved safety, increased access to services, quality improvements and an associated increase in the price for landed products.
81. Comprehensive management practices including operational and pilot research projects may increase understanding of sustainability and the protection of resources, for example by piloting research on experimental selective fishing techniques. Such projects may lead to greater partnerships between scientists and operators in the fishing and aquaculture industry, and may ensure industry buy-in to recommendations. The mid-term evaluation of the FIFG, found that investments in operations by members of the trade (including product promotion) have contributed to an increase in market demand for fish, economic and community development, traceability and accreditation of products and lobster stock conservation. Evaluation of a sample of projects suggested that benefits of promotional activities are considerable, although tend to be greater when attained through joint industry actions, for example those facilitated by the Sea Fish Industry Authority. Under FIFG, these projects generated high levels of additionality, as seen in see annex 1.2, and awareness of this will enable us to minimise such risks in future project assessments.
82. Projects to provide improved computerised management systems, will help overcome information deficiencies, lead to a better understanding of local stock levels and result in more efficient and accurate management of fishing activities. This will contribute to safeguarding stocks as well as reducing administrative costs and allowing more time to be spent on other activities.

²⁵Determining monetary values for use and non-use goods and services: marine biodiversity – primary evaluation
http://randd.defra.gov.uk/Document.aspx?Document=WC0605_7414_FRP.pdf

Priority Axis 4 – Measures for sustainable development of fisheries areas

83. Under priority axis 4, the final allocation of funds is approximately £2.4m for convergence regions and £6.7m for non-convergence regions. Projects that may be eligible for funding under this axis shall seek to maintain economic and social prosperity and add value to fisheries and aquaculture products; maintain and develop jobs by supporting diversification or economic and social restructuring; promote the quality of the coastal environment; or promotion national and transnational cooperation.
84. Further work has been undertaken during the consultation period to define our approach to Axis 4. Local EFF groups will be selected to take forward the implementation of this Axis and the selection process will be conducted on a competitive basis through open bidding rounds within each of the identified fisheries areas.
85. Each local EFF group will be allocated a budget for the whole programming period. Every group will be required to produce a local strategy and to get involved with local projects. The group will recommend projects for grant funding, based on its relevance to the local development strategy.

Costs

86. As potential projects funded under this axis include all those funded under axes 1-3, the costs of this option are the same as those for Axes 1-3, with the exception of those costs relating to the temporary and permanent cessation of vessel activity.
87. Running costs for the local groups will be met by the EFF budget, but will not exceed as a general rule, 10% of the total budget allocated to a fisheries area. However, in exceptional cases where the majority of fisheries operators are micro or very small enterprises, among which management skills and experience involved in partnerships, strategic development and planning would benefit from further development, extra resources may be granted to the group in order to ensure active participation. This will be considered on a case by case basis.

Benefits

88. This axis will enable the active participation of local groups, providing grassroots organisations with the skills they need to develop local solutions to the difficulties facing their fishing industry and wider community. Regeneration of coastal fisheries areas builds social capital and may help strengthen the socio-economic environment in local communities. This may in turn may lead to the area becoming more attractive to potential investors and tourists, providing further injections of income to the local fishing communities.
89. The benefits of this option are the same as those for Axes 1-3, with the exception of those relating to the temporary and permanent cessation of vessel activity which are not eligible for funding under axis 4. In addition, Axis 4 may support a diversification of activities, potentially creating jobs outside the fishing industry and by re-skilling fishermen will reduce a barrier to exit the fishing industry.

Priority Axis 5: Technical assistance

90. Under priority axis 5, the final allocation of funds is approximately £491k for convergence regions and £2.2m for non-convergence regions. Axis 5 funding is intended to reduce the direct costs to Member States associated with administering EFF funding and to improve the efficacy of the fund. Potential uses include the financing of preparatory, monitoring, administrative and technical support, evaluation and audit measures necessary for implementing the EFF Regulation. The technical assistance budget is subject to a ceiling of 0.8% of the European Commission's annual EFF allocation, and up to a limit of 5% of the Member States total allocation.
91. The allocation of funds under axis 5 is fixed and so has not been consulted upon. The costs and benefits of technical assistance are set out below, for information.

Costs

92. There may be some costs associated with the administration of the technical assistance budget. These are anticipated to be minimal and will be outweighed by the benefits of technical assistance funds to help administer the overall scheme.

Benefits

93. Axis 5 funding will reduce the costs of the scheme to Defra and the Marine and Fisheries Agency. Annex 2 details the anticipated costs to administer the EFF scheme and includes activities which we anticipate could be funded, in part or wholly by the technical assistance budget.
94. Technical assistance may also be used to fund measures to promote information sharing, cooperation and networking locally and throughout the Community. This will help overcome information deficiencies and aid the evolution and development of local fisheries.
95. In contributing to the cost of providing grants facilitators, axis 5 funding will provide support during the application process and increase awareness of the availability of the grants. This will benefit applicants thereby reducing the costs to industry associated with applying for funding.
96. The technical assistance fund, in contributing towards the costs of measures, monitoring and evaluating the fund, will reduce information deficiencies and improve the efficiency of future fund payments.

Overview of the recommended option

97. The EFF will support the continued evolution of the fishing and aquaculture industry to meet the challenges they face. It is anticipated that the benefits of EFF funding will outweigh the costs to government and industry of administering and applying to the scheme. The update of the mid-term evaluation of FIFG, outlines a number of the projects undertaken (see annex 1.3), and concludes that the use of EU funds provides an appropriate means for meeting Community and national objectives.
98. The evidence base for assessing costs and benefits will be developed by a much improved monitoring and evaluation of the EFF scheme. This will include work to evaluate and where possible to monetise the non-market benefits of the programme. In addition, further

evidence will be drawn from the post evaluation of the FIFG scheme which will shortly be undertaken at the instruction of the Commission, and for which we will work closely with the Commission to ensure a robust evaluation is conducted to help strengthen the evidence base. Further details on monitoring and evaluation are attached at annex 5.

99. Indicators and targets have also been developed in order to test whether the objectives of the programme are being met. These will be reviewed as part of the mid-term evaluation of the programme in 2010, and also at the end of programme in 2015. Further details are attached at annex 6.
100. It is important to note that there will be opportunities to revise the distribution of funds during the programming period, should it become apparent that the objectives of the Programme are not being achieved. We recognise the importance of strengthening the evidence base and are committed to doing so in order to ensure there is sufficient information to inform and justify any changes to the programme. A work plan is currently being drawn up to address the evidence gaps.

Setting Co-Financing Rates for EFF

101. In order to launch the EFF scheme, it is necessary to establish the co-financing rates for each of the measures that will be supported under the UK Programme. This will clarify how much EU funding will be provided for a particular project, and how much match funding will have to be found by both public and private sources in order for the project to proceed.
102. The EFF Regulation provides some rules which must be adhered to when setting co-financing rates. Namely, that the EFF contribution is limited to 50% of the total public finance in non-convergence areas, and 75% in convergence areas. The Regulation allocates measures to four groups with different maximum public finance levels²⁶. Within this, there is flexibility for Member States to define the co-financing rates in order to achieve the policy objectives of the Programme.
103. At the time of preparing this final impact assessment, work is underway to establish the co-financing rates for each of the measures supported by the UK Programme. The methodology being used is as follows:
 - Policy priorities – using the objectives of the Programme and responses to the consultation, each measure will be ranked as high, medium or low priority within each of the EFF priority axes;
 - FIFG Co-financing rates and Lessons Learned – an assessment will be made of the effectiveness of co-financing rates under the FIFG scheme, in order to take on board the lessons learned in attracting match funding;
 - Economist input – consideration will be paid to additionality, displacement of economic activity, loss of efficiency and equity.
104. We will apply the principle that projects which result in public, social and environmental benefits will be awarded a greater level of EU funding than projects which result in private benefits.

²⁶ Council Regulation (EC) No 1198/2006, Annex II

105. The co-financing rates will be regularly reviewed and, if necessary, refined throughout the programming period to ensure that public finance has maximum additional value and will therefore help maximise spending opportunities and avoid de-commitment of EU funds.

Summary table of costs and benefits

Option	Costs and Key Risks	Benefits
Baseline (not an option) (Do Nothing)	<ul style="list-style-type: none"> Lack of trust by industry towards government Loss of EU funds and associated benefits of funding projects Competitive disadvantage of UK industry with Member States who have provided grant support 	
Recommended option (Pay Grants)	<ul style="list-style-type: none"> Costs to Defra and MFA estimated at £3.1m for administering the scheme and £32.3m national contribution. Cost to industry to apply for grants, estimated at £1.1m. <u>Risk:</u> Displacement of economic activity. <u>Risk:</u> Increased economic inequalities within fishing communities <u>Risk:</u> Crowding out of private investment where projects would have gone ahead without grant aid. 	<ul style="list-style-type: none"> Addresses market failures and provides transitional support to industry as it becomes more environmentally sustainable and economically competitive. Grants act as a lever to draw in further investment from private sector Redistribution of income to lower income groups in fishing communities. Regeneration in fishing communities and associated economic benefits
Axis 1: Measures for adjustment of the fleet	<ul style="list-style-type: none"> Decommissioning may not remove the least efficient vessels from the fleet and therefore may not have maximum impact on profitability of the fleet. In the absence of barriers to entry, vessels being decommissioned would be replaced by new vessels. Repeated decommissioning: perverse incentive to re-enter or encourage new entry as cost to exit reduced. Unproven technology may prove ineffective and costly. <u>Risk:</u> Owners could have exited industry in any case without a decommissioning scheme 	<ul style="list-style-type: none"> Selective decommissioning with input controls to re-entry can provide improvements to the efficiency and productivity of the fleet Contribution to the recovery and future sustainability of stocks. Increased sales through improved catch quality, Reduced running costs associated with engine replacement meaning vessels are more efficient and less fuel intensive, Improved safety and working conditions Environmental benefits e.g. reduced pressure on stocks, reduced damage to the seabed and benthic environment, reduced emissions from engines Alternative career opportunities Improved recruitment and retention of staff through improved working conditions and increased sales. Promotes long term interests in fishing.

<p>Axis 2: Aquaculture, Inland fishing and Processing and Marketing</p>	<ul style="list-style-type: none"> • <u>Risk</u>: Crowding out of private investment where projects would have gone ahead without grant aid. 	<ul style="list-style-type: none"> • Improvements relating to hygiene, animal health and product quality leading to improved sales. • Contributes to long term sustainable fisheries • Increased sales and profits • Reduced environmental impacts • Increased domestic and export market penetration • Increased market demand
<p>Axis 3: Measures of common interest</p>	<p>None identified</p>	<ul style="list-style-type: none"> • Safeguards ecosystems, goods and services. • Improved efficiency and reduced administrative processes • Improved quality and value of fish. • Bolsters productivity • Greater understanding of the protection of resources
<p>Axis 4: Sustainable development of fisheries areas</p>	<ul style="list-style-type: none"> • Costs same as axes 1, 2 and 3 with exception of temporary cessation of vessel activity • Running costs for local groups, usually not exceeding 10% of the groups budget 	<ul style="list-style-type: none"> • Benefits same as axes 1, 2 and 3 with exception of temporary cessation of vessel activity • Regeneration of coastal areas resulting in improved socio-economic conditions, strengthened competitiveness and long term stability for the industry. • Promotes social cohesion • Supports diversification including additional jobs outside the fisheries sector • Greater active participation in developing local development strategies
<p>Axis 5: Technical Assistance</p>	<ul style="list-style-type: none"> • Administration costs associated with managing the technical assistance budget (minimal) 	<ul style="list-style-type: none"> • Reduction of administrative costs for the overall management of the scheme • Improves cooperation and exchange of experience throughout the Community. • Support for applicants via facilitators, thereby reducing industry costs associated with making applications • Reduced information deficiencies • Improved efficiency of future schemes

Implementation

106. The UK Managing Authority will be the Marine and Fisheries Agency which is an Executive Agency of Defra. Each of the four fisheries administrations will establish their own procedures for assessing and approving applications for funding.

107. The key milestones in the timetable for implementation are as follows:

Consultation on UK Operational Programme	March 2008
Decision to implement the EFF scheme	May 2008
UK Operational Programme submitted to European Commission for approval	April 2008
First payments made under the grants scheme	Late 2008

108. A UK Monitoring Committee, including the representation of key stakeholders, will be established and will, amongst other activities, be involved in approving the criteria for the selection of projects under the EFF scheme.

109. Details of the timetable and how to apply for grants will be announced by the Fisheries Administrations, following the consultation on priorities for the funds.

110. In line with the rules on Common Commencement Dates, legislation to implement the EFF Regulations in England will come into force on 6th April 2008.

Monitoring and Evaluation

111. The monitoring and evaluation arrangements for implementing the EFF scheme are described in detail in the UK Operational Programme document (Section 7.4). There will be one Monitoring Committee for the UK Programme comprising of the European Commission, Defra and the Devolved Administrations, as well as representatives from a number of key stakeholder organisations. The specific monitoring and evaluation systems will be a matter for each devolved fisheries administration. In addition, the Operational Programme also details result indicators and targets which will be used to measure success against programme objectives (Section 5). These arrangements comply with the requirements prescribed by the EFF Implementing Regulation (Commission Regulation 498/2007).

112. Monitoring and evaluation mechanisms which exist as a result of the FIG scheme will be utilised and where appropriate adapted in order to simplify processes and reflect on lessons learned. This will include the development of a simplified computerised system for administrative and reporting processes.

113. In accordance with the requirements of the EFF Regulation, independent evaluation of the Operational Programme will be conducted. Interim and ex post evaluations will seek to improve and evaluate the effectiveness and efficiency of the Operational Programme. The interim evaluation will be completed in order to allow the Commission to establish a strategic debate by 31 December 2011, and ex post evaluations will be completed no later than 31 December 2015. The Marine and Fisheries Agency (as UK managing authority)

shall prepare and submit annual reports to the Commission on the implementation of the Operational Programme, including a final report by 31 March 2017.

114. In addition to the monitoring requirements of the EFF Regulation, a further work plan is being developed to strengthen the evidence base, in order that more robust evidence can be provided about the costs and benefits of the EFF Programme. This will include work to evaluate and where possible monetise non-market benefits.

Compensatory simplification (offsetting)

115. Legislation to implement the EFF scheme will succeed the Fisheries and Aquaculture Structures (Grants) (England) Regulations 2001 (S.I. 2001/1117, as amended), which covered the 2000 to 2006 programming period, and which continue to apply to commitments entered into during that period. It is our intention that S.I. 2001/1117 will be removed from the statute book as soon as these commitments have been met.

116. Improved electronic application and management systems are being developed in order to simplify the administrative processes for both government and applicants of the grant scheme. Based on our experience of the FIG, we are exploring the potential to further simplify the application process, by reducing the amount of assessment panels and by simplifying application forms particularly for smaller projects. These actions are anticipated to reduce the administrative burdens of the scheme. In addition, a Lessons Learned day for the FIG has been arranged and we will follow up on any recommendations which may further simplify the administration and management of the new scheme. The impact of such simplification measures is not known and will be investigated further during the monitoring and evaluation of the EFF scheme.

Specific Impact Tests

Competition Assessment

117. An assessment of the implications on competition of the EFF will be informed by the Programme strategy and objectives, and by guidance on possible competition-distorting impacts of policies. HM Treasury and the Office of Fair Trading publish guidance which applies to subsidies that carry the highest risk of distorting competition²⁷. It is important to assess implications for competition where the total public funding in a policy, programme or project will benefit an individual recipient by more than £500,000 in a period of three fiscal years; or where there are subsidies of more than £500,000 to an individual firm which has a market share exceeding 5% to 10% of the affected market. Guidance also applies when the subsidy is awarded to one or more firms, but is not made available to its competitors or potential competitors who could also address the market failure in question.

118. Under the baseline option (do nothing), there would be no funding available for the fishing and aquaculture industry. This may impact on the ability of the UK industry to compete in international markets, particularly where other Member States do provide EFF funding. This is particularly relevant since the UK import more fish (£1686m) than export (£925m), leaving a trade deficit of £761m.²⁸

²⁷ http://www.offt.gov.uk/shared_offt/reports/comp_policy/oft829.pdf

²⁸ UK Sea Fish Statistics (2005), MFA

119. Under the recommended option (pay grants), it is thought that grant funding is unlikely to significantly distort competition. Subsidies of this sort can potentially distort competition between firms undertaking similar activities, particularly when subsidies are large and only available to a selection of the firms that compete with each other. However, the EFF is a voluntary scheme and meeting requirements to qualify for funding depends upon the ability to meet the objectives, which is to address market failure and to therefore benefit the public. Applications must meet certain criteria in order to be approved, and larger projects may be subjected to appraisal by a government economist where this is deemed appropriate. Furthermore, it is unlikely that recipients of funding under EFF will meet all three criteria laid out in the HM Treasury and Office of Fair Trading guidance, as described in Para 98. In particular it is unlikely that the majority of grants awarded will exceed £500,000.
120. The EFF budget is more than 40% smaller than the FIG scheme, due to enlargement, and as such there may be greater competition between businesses to obtain grant funding. Where projects are of equal merit and assessed at the same panel, this will not result in one project being rejected as a result of a smaller budget. Instead the panel may award a reduced amount so that a contribution can be made to both projects.
121. The EFF may lead to positive effects on competition, for example through measures to compensate for the temporary cessation of activity (Priority Axis 1). That is by compensating those who would otherwise be at a disadvantage whilst fishing activity is ceased.
122. Any impacts of the recommended option (pay grants) on competition are likely to be small compared to the scale of public benefits, so that a net negative result for the consumer would not result. For these reasons, there are no significant competition distorting effects anticipated as a result of implementing the EFF.

Small Firms Impact Test

123. For the purpose of Impact Assessments, all businesses having fewer than 250 full time equivalent (FTE) employees are considered small and medium sized enterprises (SME). Most, if not all, businesses receiving support from the EFF will be small and medium sized enterprises. For example, 100% of fishing, fish farming and related service activities and 96.9% of businesses which fall under the category of processing and preserving of fish and fish products have been classified as SME's.²⁹
124. Experience of the FIG scheme, highlighted that small businesses were not always aware of the availability of the grants and were deterred from applying where projects were of low cost, due to the complexity of the application process. This was mitigated by the appointment of grants facilitators in later stages of the FIG scheme³⁰.
125. When both small and large businesses apply for EFF funding, it is not thought that the application process would disproportionately disadvantage the small businesses. This is because of the continuing availability of grants facilitators to aid application processes and to promote the availability of the grants, combined with the voluntary nature of the schemes. The EFF will give priority to small and micro enterprises operating in the aquaculture, processing and marketing sectors, although it will also be possible to grant aid to medium and some large enterprises, and particular attention is also given to small-scale coastal

²⁹ Source: The Department for Business, Enterprise and Regulatory Reform, SME Statistics 2006.
<http://stats.berr.gov.uk/ed/sme/smestats2006.xls>

³⁰ <http://www.mfa.gov.uk/pdf/066-Poseidon-FIG-Final-Report-17-8-03.pdf>;
<http://www.defra.gov.uk/fish/sea/pdf/fifgmidtermeval-finalreport.pdf>

fisheries. We will also explore the potential to simplify the application process for smaller projects.

126. As such, the above analysis of options has set out the costs and benefits of the EFF to small businesses. Views were invited on the impact of implementing the EFF scheme on small businesses, as part of the consultation on the UK Operational Programme. No significant concerns were raised.

Carbon and Other Environment

127. The Strategic Environmental Assessment Directive (2001/42/EC) aims to provide for a high level of protection of the environment and to contribute to the integration of environmental considerations into the preparation and add option of plans and programmes, with a view to promoting sustainable development.

128. In this context, a Strategic Environmental Assessment has been conducted in order to identify potential environmental issues arising from implementation of UK Operational Programme. The assessment considers a number of environmental topics including biodiversity, flora and fauna; population; human health; water; air and climate; material assets; landscape; cultural heritage and soil.

129. The full Environmental Report has been the subject of consultation and can be found at Annex 6.

130. In response to the recommendations of the Strategic Environmental Assessment, and the consultation responses, it has been decided to incorporate a number of questions on environmental performance into the applications process. The grants facilitators and members of the in-house grants team will be suitably qualified to assist applicants with this process. Where relevant information already exists as part of other consents, approvals or assessments, this will be deemed sufficient thereby avoiding duplication of effort.

Sustainable Development

131. The recommended option, to implement the EFF scheme, has been assessed in the context of its contribution to the five principles of sustainable development, to which the Government is committed:

- **Living within environmental limits** - This principle concerns respecting the limits of the planet's environment, resources and biodiversity, in order to improve our environment and ensure that the natural resources needed for life are unimpaired and remain so for future generations. In this respect, positive impacts are anticipated as a result of the EFF scheme. For example, through the funding of projects which assist with the recovery and future sustainability of fish stocks, protect and enhance marine fauna and flora, and which result in reduced environmental damage and increased selectivity.
- **Ensuring a strong, healthy and just society** – This principle concerns meeting the diverse needs of all people in existing and future communities, promoting personal wellbeing, social cohesion and inclusion, and creating equal opportunity for all. In this respect, positive impacts are anticipated through the funding of projects which improve working conditions, safety and hygiene on board fishing vessels, improve professional skills, promote equal opportunities, and which assist with the regeneration of coastal areas.

- **Achieving a sustainable economy** – This principle relates to building a strong, stable and sustainable economy which provides prosperity and opportunities for all, and in which environmental and social costs fall on those who impose them (polluter pays), and efficient resource use is incentivised. In this respect, positive impacts are anticipated as a result of projects which increase the profitability of the fishing and aquaculture industry, protect jobs, improve professional skills, and provide incentives for young fishermen to enter into the industry, thereby promoting long term interests in fishing and securing a future for coastal communities.
- **Promoting good governance** – This principle concerns actively promoting effective, participative systems of governance in all levels of society – engaging people’s creativity, energy and diversity. Projects which encourage partnerships, networking and exchange of experience, and which result in local management plans to improve management and control of access conditions to fishing are anticipated to have a positive impact.
- **Using sound science responsibly** – This principle relates to ensuring policy is developed and implemented on the basis of strong scientific evidence, whilst taking into account scientific uncertainty as well as public attitudes and values. Projects to increase the understanding of the protection of resources and which lead to greater partnerships between scientists and operators in the fishing and aquaculture industry may have a positive impact on this principle.

Race/Disability/Gender Equality

132. The EFF is a voluntary scheme. There are no limitations on meeting the requirements of the scheme, in order to obtain EFF grant funding, on the grounds of race, disability or gender. Rather applicants must demonstrate that the project meets the scheme objectives, to address market failure and to therefore benefit the public.
133. Assistance under the EFF aims to promote equality between men and women in the development of the fisheries sector and fisheries areas. The fishing and aquaculture industry employs a low number of women relative to men. Women represent approximately 1% of those employed in the fishing industry, though this rises to 15% in aquaculture, 40% in management/administration and 46% in the processing sector³¹. This under-representation is a result of the nature of the fishing industry, rather than constraint on specific groups. We will ensure that equality between men and women and the integration of the gender perspective are promoted during the various stages of implementation of the programme, including the design, implementation, monitoring and evaluation. As part of the application process for the grants, some weighting is given to projects that provide opportunities for women in sectors or occupations in which they are traditionally under-represented.
134. Consultation on the UK Operational Programme was open to all interested parties via the four fisheries administrations websites. In the UK, both men and women are represented in the same unions and trade organisations and there are also some specialist women’s fisheries organisations, with whom we aimed to engage with during the consultation process on the UK Operational Programme.

³¹ The Role of Women in Fisheries – MacAlister, Elliot and Partners Ltd, 2002

Specific Impact Tests: Checklist

Use the table below to demonstrate how broadly you have considered the potential impacts of your policy options.

Ensure that the results of any tests that impact on the cost-benefit analysis are contained within the main evidence base; other results may be annexed.

Type of testing undertaken	<i>Results in Evidence Base?</i>	<i>Results annexed?</i>
Competition Assessment	Yes	
Small Firms Impact Test	Yes	
Legal Aid		Yes
Sustainable Development	Yes	
Carbon Assessment	Yes	
Other Environment	Yes	
Health Impact Assessment		Yes
Race Equality	Yes	
Disability Equality	Yes	
Gender Equality	Yes	
Human Rights		Yes
Rural Proofing		Yes

Annexes

Annex 1: Key statistics from the Update of the mid-term evaluation of the FIGG

1.1: Uptake of FIGG in England as of July 2005³²

Measure	FIGG (£)			National Funds (£)		
	Awarded	Target	Achieved (uptake)	Awarded	Target	Achieved (uptake)
Decommissioning	£6.1m	£18.7m	32%	£6.1m	£18.7m	32%
Vessel Modernisation	£106k	£2.5m	4%	£92k	£475k	19%
Protection and development of aquatic resources	£0	£0	0%	£0	£79k	0%
Aquaculture	£0	£1.6m	0%	£0	£871k	0%
Ports	£1.6m	£6.4m	24%	£0	£0	
Processing and marketing	£1.6m	£2.5m	64%	£380k	£792k	48%
Product promotion	£1.3m	£1.3m	96%	£0	£0	
Innovative measures	£555k	£1.1m	50%	£217k	£0	
Operations by members of the trade	£2.7m	£6.3m	43%	£957k	£1.7m	58%
Technical assistance	£46k	£1.5m	3%	£46k	£1.5m	3%
Total	£13.9m	£41.9m	33%	£7.8m	£24.1m	32%

Source: Extract of table taken from Update of mid term evaluation for FIGG, 2006

This table shows the low levels of uptake across most of the measures of the FIGG, which the evaluation of the update of the mid-term evaluation of the FIGG was based on.

³² Values have been adjusted from euros to pounds at a rate of 1 euro = 0.79 pound sterling

1.2: Additionality* of FIGG funded projects

	Would project have proceeded in the absence of FIGG funding?				Total
	Yes would have proceeded in current form	Yes, but at a later date	Yes, but at a later date and on a less ambitious scale	No	
<i>Figures</i>					
Decommissioning	-	-	-	-	-
Vessel modernisation	2	10	7	4	23
Processing	4	13	21	8	46
Port improvements ~	1	4	4	10	19
Aquaculture ~	0	1	4	2	7
Operations by members of the trade	1	2	14	16	33
Innovative measures	0	2	4	6	12
Total	8	32	54	46	140
<i>Percentages</i>					
Decommissioning	-	-	-	-	-
Vessel modernisation	9%	43%	30%	17%	100%
Processing	9%	28%	46%	17%	100%
Port improvements*	5%	21%	21%	53%	100%
Aquaculture ~	0%	14%	57%	29%	100%
Operations by members of the trade	3%	6%	42%	48%	100%
Innovative measures	0%	17%	33%	50%	100%
Total	6%	23%	39%	33%	100%

Source: FIGG Evaluation Final Report, November 2005, tables 12, 16, 23, 27, 30 and 33

Notes: * A response of "Yes would have proceeded in current form" implies no additionality, "No" implies full additionality and intermediate response imply some degree of additionality. - data not available. ~ data for June 2001-June 2005. ~ figures are for Scotland, no projects were funded in England

1.3: Summary of FIFG and national spend and outputs achieved up to June 2005³³

Decommissioning:

- £24.6 million spent (50 per cent FIFG / 50 per cent national).
- 150 decommissioned, 18.2 kW and 52,000 GT removed from the UK fishing fleet (excluding a separate national scheme).
- 615 fishers removed from the fishery sector.
- Significant contribution to stock conservation.

Processing and Marketing:

- £13.4 million spent (15 per cent FIFG / 5 per cent national).
- 154 companies assisted.

Operations by Members of the Trade (including Promotion):

- £6 million spent.
- 71 projects launched including 15 promotional, 11 market research, 6 environmental, 5 strategic studies, 5 traceability schemes, 4 accreditation schemes, 3 lobster V notching schemes.
- Contributed to increase in market demand for fish, economic development, traceability and accreditation and enhanced community development / lobster stock conservation.

Ports and Harbours

- £2.2 million spent (28 per cent FIFG).
- 40 harbour projects relating to upgrading harbours, improving market facilities and storage, gear supplies, access to port servicing (ice, fuel and winches).
- Contributed to the preservation of fishing communities and safety.

Innovative Measures:

- £1 million (FIFG) spent.
- 25 projects.
- Contributed to selectivity trials, vessel operational efficiencies, product development and setting environmental standards / guidelines.

Vessel Modernisation:

- £951,000 spent on quality enhancement, £87,200 on promoting alternative fisheries.
- 84 projects for quality improvement, 11 projects towards promoting alternative fisheries.
- Increase in vessel sales turnover of 4.5 per cent to 16 per cent.

Aquaculture:

- £123,680 spent.
- 11 trout farms assisted.
- Operational cost efficiencies generated.
- 10 extra jobs generated.

³³ Source: Financial Instrument for Fisheries Guidance (FIFG) programme in non-objective 1 areas of the UK (2000-2006) Update of the mid-term evaluation (December 2005), Poseidon. Figures converted at a rate of 1 euro = 0.79 pound sterling

Annex 2: Calculations and assumptions made on administrative costs of EFF

This annex estimates the costs of administering the EFF scheme to UK Administrations (Annex 2.1) and to industry for applying for grants (Annex 2.2). Assumptions and limitations of the calculations are also provided in their respective sections. The data is based primarily on the experience of the FIG programme (2000-2006).

Annex 2.1 Costs to UK Administrations

2.1a Assumptions

- For England, the cost of economist, policy and Marine and Fisheries Agency (MFA) coastal staff have been included. These costs are calculated on the basis of opportunity cost ie. that work undertaken on the EFF diverts staff resources away from other activities.
- For England, a Grade 7 economist will assess the viability of approximately 105 applications, spending half a day on each application. The time spent on an application and the number of applications is based on experience of the FIG scheme.
- For England, 1 full time HEO post and half of a G7 post for policy input is assumed. This is based on experience of the FIG scheme.
- 1446³⁴ hours are spent by staff in England on grants related work in a given year.
- For England, auditors will carry out system audits to verify the effectiveness of the management and control systems in place. The audit resource spends 30 days on monitoring, advice and EU reporting and 30 days on auditing per annum. Checkers will complete audits on individual projects, using an appropriate sampling (risk based) methodology, costing 0.5 of an audit post. The exact level of time depends on the results of the systems audits.
- For England, half the cost of the grants facilitators, who provide advice and help to industry to complete applications, is funded by the MFA and half by Technical Assistance. Technical assistance is excluded from the calculations as it comes from the EFF EU funds.
- At present we do not have similar cost breakdowns for Scotland, Wales and Northern Ireland. However, all have indicated they have used similar methodologies.
- Costs of administering the EFF are shown over a 6 year period, since there is a delay in implementing the scheme (the EFF runs for a total of 7 years from 2007-2013).

³⁴ This based on calculation: (((Working hours a day*no days in week)*no weeks in month)*no months in a year)-(annual holidays-working hours a day)). That is: (((7.25*5)*4)*12)-(40.5*7.25)).

Annex 2.1b Costs of administering the EFF to UK Administrations

	Annual		³⁵ EFF (6 year period)	
	Min	Max	Min	Max
England				
MFA grants team	£353,000		£2,118,000	
Grants facilitators (annual cost)	£103,500		£621,000	
MFA Coastal staff			£30,034	
Policy staff			£51,485	£61,358
Economist			£11,886	£14,406
Checkers	£22,500		£135,000	
Audit resource	£30,000		£90,000	
England Total			£3,057,405	£3,069,798
Scotland				
Total Admin cost	£30,850		£1,841,100	
Northern Ireland				
Total Admin cost	£340,000	£400,000	£2,040,000	£2,400,000
Wales				
Total Admin cost	£278,150		£1,668,900	
UK total over 6 years	-		£8,607,405	£8,979,798

Source: Defra (2008)

³⁵ The EFF is intended to provide funding from 2007-2013. However the scheme will not be launched in the UK until 2008. As a result the administrative costs in this column are a more realistic estimate of the likely administrative costs.

Annex 2.1c Administrative costs for England³⁶

England calculations

	Hours spent	Wage	Hourly pay	Annual cost	Costs	EFF 6 year cost
MFA grants team				£353,000		£2,118,000
Grants facilitators				£103,500		£621,000
MFA Coastal staff	379	£35,277	£24		£9,244	£30,034
Fisheries Officer	578	£36,139	£25		£14,442	
Senior Fisheries Officers	201	£45,683	£32		£6,348	
Admin/DI/not attributed						
Economist (min cost)						£11,886
Economist (max cost)						£14,406
Min G7 pay band	380.625	£45,167	£31			
Max G7 pay band	380.625	£54,744	£38			
Policy (min cost)						£51,485
Policy (max cost)						£61,358
1 F/T HEO Min pay band					£28,901	
1 F/T HEO Max pay band					£33,986	
½ G7 Min pay band					£22,584	
½ G7 Max pay band					£27,372	
Checkers				£22,500		£135,000
Audit resource				£30,000		£90,000
England Total (min cost)						£3,057,405
England Total (max cost)						£3,069,798

Source: Defra (2008)

³⁶ Where necessary, a standard cost model formula has been used for calculations. That is the number of hours spent*hourly pay. The calculations are based on the assumptions made in annex 2.1a

Annex 2.1d Limitations of the calculation and assumptions

- The estimated costs provided by England and the devolved administrations of Scotland, Wales and Northern Ireland are based on experience of administering the FIG scheme. The extent to which applications under the EFF are similar to those under FIG is not yet known and will affect these costs, although it is not thought that the changes are likely to be significant.
- It is assumed that a Grade 7 Economist assesses all applications, as was the case for the FIG programme. If instead some of the applications are assessed by an assistant economist the costs will be lower.

Annex 2.2 Costs to English businesses and industry of applying for grant using Standard Cost Model approach

Annex 2.2a Assumptions

- The Standard Cost Model (SCM) methodology³⁷ has been used to calculate the industry costs.
- Based on experience of the FIG scheme, the grants facilitators define a small project as one with a total cost of no more than £100k³⁸ and assume that the application stage takes at most 10 days to complete, including 2 days of consultancy working with the grants facilitators. Large projects are classified as greater than £100k and taking no more than 25 days to complete the application stage, including 5 days of consultancy working with the grants facilitators. Most projects over £100k will require more detail from businesses, reflecting the complexities involved in a bigger project.
- Fisheries managers are identified as 'other managers' and their time spent on an application is charged at £16.23 per hour³⁹.
- 7.5 hours have been assumed for a working day, excluding breaks.
- Overheads are 30% of the cost of the individuals involved (as per SCM).
- Grants facilitators have estimated that many of the smaller projects would require business to create new business plans specifically for the grant. However, there are a number of businesses who will have an existing business plan, so costs would be lower. For such firms, a reduction of 10% of Business As Usual (BAU) costs has been applied as indicated by the SCM.
- Grants facilitators have estimated that many of the larger projects are from firms who already have existing business plans, and as such their costs are likely to be lower. For these firms, a reduction of 55% of BAU costs has been applied in accordance with SCM approach.
- It has been assumed that a similar proportion and type of applications will be received under EFF as for FIG.
- Data for non-convergence areas has been used for these calculations. It is assumed that applications for convergence areas will be similar in terms of application costs.
- Grants facilitators have estimated that 5-10% of applications are unsuccessful.
- Small and medium sized firms are likely to face similar costs per application. As the businesses applying for the grant are likely to be small or medium sized and the cost per project (annex 2.2b) does not differentiate between the two.

Limitations of these assumptions are discussed in annex 2.2c.

³⁷http://www.administrativeburdens.com/filesystem/2005/11/international_scm_manual_final_178.doc#_Toc114385631

³⁸ This includes the EFF, NA and the private investment contributions.

³⁹ Figures are standardised costs in 2005 prices, and are taken from Defra guidance.

Annex 2.2b Costs per project

	Small project			Large project		
	No of days	Hours spent	Cost	No Days	Hours spent	Cost
Other managers: Fisheries	10	75	£1,217	25	187.5	£3,043
Overheads adjustment			£1,582			£3,956
BAU adjustment and total cost per application.			£1,424			£1,780

Costs to industry (England) of applying for EFF funding⁴⁰

	Small Projects		Large Projects		Total cost to industry £'000s
	No applications <=£100k of Total Cost	Cost of applying £'000s	No of applications >£100K of Total Cost	Cost of applying £'000s	
Aquaculture	8	£11	6	£11	
Decommissioning	6	£9	39	£69	
Innovative Measures	14	£20	13	£23	
Operations by members of the trade	35	£50	26	£46	
Processing and marketing	22	£31	59	£105	
Ports	28	£40	26	£46	
Promotion	18	£26	14	£25	
Vessel modernisation	79	£113	12	£21	
Total applications	210	£299	480	£855	
<u>Total Application adjusted by 7.94% on both sides⁴¹</u>	193	£275	442	£787	£1,062
Total applications adjusted for no. of unsuccessful applications (5-10%)					£1,115-£1,168m

⁴⁰ The table is based on applications made under the FIG scheme, using data held by the MFA grants team.

⁴¹ The dataset provided by the MFA showed funding from both FIG and national amount for England being 15.88% more than the EFF and national allocation for England. This amount has been subtracted from the total, the reduction has been split between both small and large projects evenly (7.94%+7.94%=15.88%)

Annex 2.2c Limitations of the calculations and assumptions

- The estimated costs of £1.4k per application for smaller projects and £1.8k for larger projects are based on an average for all projects. These costs may in fact be smaller or larger in individual cases, since each application is unique and the number of days spent on an application will vary. This is particularly the case with the consultancy stage (i.e. working with grants facilitators) as consultancy can be an ongoing process and it is therefore difficult to estimate.
- The classification of small projects as lower than or equal £100k, and large projects as those greater than £100k, is based on experience and simplification. In England, projects with a total cost of more than £100k, for measures relating to processing and marketing aquaculture, ports and occasionally vessel modernisation and innovative measures require an economic assessment. This involves the business providing further information on discounted cash flow statements and three years of accounts. In addition, larger projects usually involve greater complexities and would also require a more detailed application. However some projects that are almost or exactly £100k are likely to involve similar complexities, though details are not required for economic assessment.
- Grants facilitators have estimated that the number of applications under the EFF is likely to be lower than that of the FIGG. England has a handful of projects that may absorb almost half the budget. The cost to industry is therefore likely to be lower.
- Assistance by grants facilitators to businesses applying for a grant is also likely to reduce the estimated costs to industry. The actual scale of impact is not known.
- The costs of private accountants and specialists have not been included in the calculations. It was not possible to estimate the time spent by these specialists due to the uniqueness of each individual application. It is thought that much of these costs would fall under BAU costs.

Annex 3: Outcome of Impact Tests not referred to in the Evidence Base

Legal Aid

1. Powers to inspect and enforce the EFF Regulation and applying sanctions for non-compliance are provided in UK legislation⁴². These are broadly similar to those for the previous grant scheme, FIGG.
2. This proposal does not create new criminal sanctions or civil penalties.

Health Impact Assessment

3. The Health Impact Assessment considers the effects policies, plans, programmes and projects have on health and well-being, and in particular, how they can reduce health inequalities.
4. There is potential for some positive impact on human health, by virtue of the effects of projects on the wider determinants of health, although impacts are not considered to be significant⁴³. For example, **income** may be boosted by projects which result in improved quality of fish products, which may in turn lead to increased sales and profits. The regeneration of coastal areas may lead to some reduction in **crime** and improvements in living conditions in these areas. The impact of **education and employment** on health will be positively influenced by projects which focus on improving skills and knowledge and creating improved working conditions and safety. There may also be indirect benefits where projects lead to improvements in the quality of fish products and the continued availability of fresh fish, and associated dietary benefits.

Human Rights

5. The Proposal is consistent with the Human Rights Act 1998.

Rural Proofing

6. Rural proofing is a commitment by Government to ensure domestic policies take account of rural circumstances and needs. The majority of those employed in the fishing and aquaculture industry are based in coastal communities in rural areas. The EFF grant scheme is designed to facilitate and support their activities and hence is anticipated to have a positive impact.

⁴² The Grants for Fishing and Aquaculture Industries Regulations 2007 (S.I. 2007 No. 3284) for England; The European Fisheries Fund (Grants) (Scotland) Regulations 2007 (S.S.I. 2007 No. 307); Wales and Northern Ireland legislation yet to be issued.

⁴³ For purposes of the Health Impact Assessment, significant impact refers to the whole population, a major sub group of the population or the degree of severity of the impact.

Annex 4: Consultation plan

Date	Description	Consultees
wc 11 th February	SEA Environmental Report - written consultation with UK OP attached for info	<ul style="list-style-type: none"> • Statutory SEA consultation bodies – Natural England, EA, English Heritage (plus those in DA's) • Other Member States • Key stakeholders – e.g. NFFO, Seafish, WWF, British Trout Assoc, JNCC, RSPB (plus those in DA's)
wc 3 rd March	Informal consultation meeting on UK OP	<ul style="list-style-type: none"> • Regional Development Agencies (RDA's)
30 th April – 25 th June	Public consultation on UK OP (4 weeks)	<ul style="list-style-type: none"> • All stakeholders and interested parties (list to be confirmed) – published on Defra/DA's websites
6 th March	<i>Ex ante</i> evaluation Steering Group meeting	<ul style="list-style-type: none"> • Key stakeholders – Seafish, NFFO, JNCC, Scottish Fishermen's Federation, Food & Drink Federation, Shellfish Association, Fed of Scottish Aquaculture Producers • National Regional Development Agency Representative • National FIGG grants facilitator
7 th March	Informal Consultation meeting	<ul style="list-style-type: none"> • Lead (National) RDA Coordinator to consider written input from RDAs and National Facilitator.
wc 10 th March	Meeting with UK FIGG Monitoring Committee	<ul style="list-style-type: none"> • European Commission • Devolved Administrations • Key stakeholders – Seafish, WWF, JNCC, NFFO, Shellfish Assoc., FDF, British Ports Assoc (plus similar from DA's) • RDA Rep
wc 21 st April	Meeting to discuss UK OP consultation	<ul style="list-style-type: none"> • RDA / MFA Grants Team / Facilitators forum to discuss OP, consultation and stakeholder meetings
March – April	<i>Ex ante</i> stakeholder consultations (by contractors)	<ul style="list-style-type: none"> • Key stakeholders - list to be agreed (including further engagement with Steering Group)
30 th April – 25 th June	Public consultation on final draft of UK OP (8 weeks)	<ul style="list-style-type: none"> • All stakeholders and interested parties (list to be confirmed) – published on Defra/DA's websites
30 th April (ongoing throughout consultation)	Regional stakeholder events (advised by Government Offices, Regional Development Agencies, Port Offices and Facilitators)	<ul style="list-style-type: none"> • Relevant Regional Stakeholders (estimated at up to two per coastal region).

Annex 5: Monitoring and evaluation arrangements

1. There will be one Monitoring Committee for the single UK programme. The membership of the UK Monitoring Committee will be strategically based and will cover key sectoral and regional interests as appropriate.
2. The Chair will be provided by the Fishing Industry Management Division of the Marine and Fisheries Directorate in the Department for Environment, Food and Rural Affairs. Local administrative support for meetings of the Monitoring Committee will be provided by the country which hosts the meeting (the grants team of the Marine and Fisheries Agency will be responsible for ongoing secretarial support).
3. The Monitoring Committee will adopt rules of operating (timings of meetings, deadlines for submission of papers) It will be responsible, inter alia and in accordance with Article 65 of Council Regulation (EC) No 1198/2006, for:
 - agreeing the overall programme strategy;
 - approving the selection criteria for operations;
 - checking the implementation of the programme with particular regard to quality and impact/benefits of the programme to the fishing industry;
 - approving the documentation (annual and final reports) required by the Commission; and
 - proposing any revisions to the Operational Programme.
4. The country specific monitoring and evaluation systems will be a matter for each devolved fisheries administration. The managing authority and the monitoring committee shall out carry out monitoring by reference to financial indicators and the indicators referred to in Article 20 (1)(c) of Regulation 1198/2006.
5. Each project will be judged by objective selection criteria which will assess its contribution to the overall performance targets. Projects will be monitored to ensure their objectives have been met and priorities may be changed in the light of information obtained during the monitoring process.
6. The four Fisheries Administrations will carry out the monitoring by reference to physical and financial indicators specified in the operational programme.
7. Article 20 (1) (c) of Regulation 1198/2006 states that specific targets are set for each axis. Those targets shall be quantified, where they lend themselves to quantification using a limited number of indicators taking into account the principle of proportionality. The indicators must make it possible to measure progress in relation to the baseline situation and the effectiveness of the specific targets set for each priority axis.
8. In the fisheries sector the meeting of targets such as increases in turnover, profitability, jobs, catch, production, etc. will depend on a variety of factors including the weather, the state of the fish stocks, quotas, etc., and it would be unfair to penalise applicants if such factors prevented their meeting such targets. Applicants will be asked to complete a progress report whenever a claim is submitted. In the case of projects lasting more than a year before the final claim is submitted, applicants will normally be asked to submit progress reports after each year, and this will be the opportunity to review the indicators and targets and if necessary amend them. In some cases more frequent progress reports will be requested, as necessary.
9. The Marine and Fisheries Agency will be responsible for collating data on each scheme for the annual and final implementation reports, and for the meetings reporting to the Monitoring Committee. The Marine and Fisheries Agency will provide appropriate information to

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external evaluators for the mid-term and final evaluations. The Marine and Fisheries Agency, using the Commission's published list of indicators, will determine appropriate indicators for each scheme, communicate these to beneficiaries and require beneficiaries to report on progress against indicators once projects have been completed and are in operation.

Annex 6: Indicators and Targets of the UK Programme

The following indicators and targets have been developed for the UK Programme. Each of the UK administrations will contribute to their achievement, in line with the structure of their fleet and the amount of EFF funding they have been allocated.

Overall objective: to contribute to the overarching aim of UK fisheries management – a fisheries industry that is sustainable, profitable, well managed, internationally competitive and helps support thriving, diverse, and sustainable local communities, managed effectively as an integral part of coherent policies for the marine and freshwater environment.

Impact indicator	Baseline (2006)	Mid-term objective (2010)	End Target (2015)
Gross Value Added	£988m	£1,030m	£1,070m
	€1,449m ⁴⁴	€1,510m	€1,550m
Gross Exports from UK	£944m	£1,022m	£1,128m
	€1,385m ⁴⁵	€1,500m	€1,660m

Sustainability objective: to improve the balance between fishing effort and opportunity

Impact Indicator	Source of data	Baseline (2007)	Control level (2010)	Target (2015)
Total UK fleet capacity (tonnage of vessels (tonnes))	Marine and Fisheries Agency	212,844		Current expectation (not a targets) of 10-15% reduction

Profitability objective: maximise returns

Impact Indicator	Source of data	Baseline (2006)	Control level (2010)	Target (2015)
GVA per capita employed	Office for National Statistics	£36,593	£43,017	£52,655
		€53,681	€58,744	€65,749

Competitiveness objective: to increase profitability compared to other EU Member States

Impact Indicator	Source of data	Baseline (2006)	Control level (2010)	Target (2015)
GVA per capita employed as a percentage of the overall GVA per capita for manufacturing industries as a whole	Office for National Statistics	110%	110%	110%

⁴⁴ Office for National Statistics

⁴⁵ Office for National Statistics and HM Revenue and Customs

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Trends in GVA per capita employed for the fisheries sector compared to the GDP per capita figures for other Member States	Office for National Statistics/Eurostat/Other Member States Statistical offices	To be determined ⁴⁶	To be determined	To be determined
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Axis 1: Measures for adjustment of the fishing fleet

Impact Indicator	Source of data	Baseline (2007)	Control level (2010)	Target (2015)
Total UK fleet capacity (tonnage of vessels (tonnes))	Marine and Fisheries Agency	212,844	-	Current expectation (not a target of 10-15% decrease)
Value of fish landed per vessel (tonnes)	Marine and Fisheries Agency	£95,000 €140,000	£100,000 €146,000	£111,000 €164,000
Training uptake (numbers attending training courses)	Seafish Industry Authority	6,130	6,300	6,550

Axis 2: Aquaculture, processing and marketing

Impact Indicator	Source of data	Baseline (2006)	Control level (2010)	Target (2015)
Turnover of UK aquaculture sector	Office for National Statistics	£507m €720.4m	£550m €781.5m	£600m €852.5m ⁴⁷
Turnover of UK processing sector	Office for National Statistics	£2,247m €3,192.8m	£2,410m €3,42.2m	£2,640m €3,751.2m

⁴⁶ The initial target will be to have information prepared for November 2008 – at this time the GVA results at industry level for 2007 and the more detailed breakdowns for data for 2006 (i.e. at administration level and below) should be available. This will also allow time for the sources of corresponding data from other Member States to be identified, for historic data to be received and an initial assessment made of the relevant trends in this indicator to allow a control level for 2010 and a target for 2015 to be determined.

⁴⁷ Increases in the production of farmed fish and shellfish are being fuelled in part by the increased interest in niche markets giving rise to higher prices and a need for increased production. The Scottish Salmon Producers Organisation has set a target of an increase in production of 4% annually, with 2008 alone predicted to achieve a 6-7% increase. The Association for Scottish Shellfish Growers believe that this sector has a huge potential for growth, between 2003 and 2007 the production of mussels achieved a 13.2% increase. There has also been significant increase in the production in alternative species, especially cod, although this forms a relatively small percentage of overall production but it is expected that there will be a continued increase.

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Axis 3: Measures of common interest

Impact Indicator	Source of data	Baseline (2006)	Control level (2010)	Target (2015)
Training uptake (numbers attending training courses)	Seafish Industry Authority	6,130	6,300	6,550
Gross Value Added	Office for National Statistics	£988m €1,449m	£1,030m €1,510m	£1,070m €1,550m

Axis 4: Sustainable development of fisheries areas

Impact Indicator	Source of data	Baseline (2007)	Control level (2010)	Target (2015)
More than 30% of the local EFF groups can demonstrate improved management skills amongst fisheries operators	Responsible public authorities	n/a	40% (action plans will be developed for improving skills if required)	100%
That, as a result of activity by local EFF groups, the number of jobs safeguarded in sectors other than fishing/catching, i.e. related to on shore activities such as aquaculture, processing, distribution etc will not be less than 50 full time equivalents	Responsible public authorities	n/a	20 (action plans will be developed to strengthen local EFF group activities in support of work to safeguard jobs)	50 full time equivalents

ANNEX 7: Impact Assessment of a decommissioning scheme for the English Under 10 metre fleet

Summary: Intervention & Options

Department /Agency: Defra	Title: Impact Assessment for Decommissioning Scheme for the English under 10 metre fleet	
Stage: Final	Version: 1	Date: 8 August 2008
Related Publications: The United Kingdom Operational Programme for the European Fisheries Fund; The consultation on 'The English inshore fleet - looking to the future'		

Available to view or download at: [http://www.\[TO BE COMPLETED\]](http://www.[TO BE COMPLETED])

Contact for enquiries: Isabella Murfin

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What is the problem under consideration? Why is government intervention necessary?

There is an imbalance in the English under 10 metre fleet between the capacity of the fleet and the scale of the available quota. This has become apparent now that quota uptake is more accurately monitored using data from the Registration of Buyers and Sellers Regulation.

The imbalance makes it difficult to manage the quota within the pool, and can lead to early closure of fisheries making some fishing business economically unviable. This has a consequential negative impact on coastal communities, and increases risk of illegal fishing, thus placing additional burden on enforcement resources, and damaging the marine environment.

Decommissioning is proposed as part of a package of measures, to help redress the balance of capacity and available quota in the pool. This will aim to maintain the overall structure of the under 10m fleet in the medium term, to ensure that the social and environmental benefits of inshore fishing can be properly assessed to allow development of an evidence based long term strategy to reform access to fisheries.

What are the policy objectives and the intended effects?

As set out in Fisheries 2027, our long term goal is to facilitate the optimisation of economic returns from commercial fisheries within environmental limits, whilst maintaining access to small inshore vessels that will deliver the social benefits that a market driven system is unlikely to deliver⁴⁸. The primary objectives of current interventions are to achieve an appropriate balance between the capacity in the under 10m fleet and the available quota, and to enable as many active fishermen within the under 10m pool as possible to operate in an economically viable and legal way.

The intended effect of the decommissioning scheme is to prevent potential unsustainable pressure on the pool quota, whilst maintaining as many fishing businesses as possible. It is a short term measure designed to stabilise the pool to allow additional work to expand our evidence base on the social and environmental benefits of the pool. It is part of a package of measures designed to help maintain the viability of small ports that play an important role in the fabric of our coastal communities. It will also help to secure a sustainable future for the under 10m fleet by preventing future uncontrolled expansion of fishing effort.

What policy options have been considered? Please justify any preferred option.

Decommissioning Scheme – A scheme would be implemented that would allow fishermen, who operate high capacity vessels landing amounts of quota stocks that cannot reasonably be provided by the pool, to access financial support to decommission their vessels, permanently removing them from the under 10 metre pool. This gives them a further option when considering their future. The scheme will target vessels catching stocks where there is the greatest imbalance between available quota and the capacity of the fleet to catch it, thus achieving maximum impact for the available budget. This quota will then be freed up for the rest of the fleet. The scheme will be supported by the proposed licence capping scheme which will limit re-entry and thus increase capacity. This policy option is presented in comparison to the baseline case (continuation of the under 10m pool in its current structure with unrestricted access to quota for all under 10m vessels).

Decommissioning was first presented in principle in a consultation in February 2008.

When will the policy be reviewed to establish the actual costs and benefits and the achievement of the desired effects?

The effects of the policy will be reviewed by Defra and the Marine & Fisheries Agency (MFA) approximately 1 year after introduction. It is therefore currently anticipated that a review will take place in 2010.

⁴⁸ Fisheries 2027 vision statements 1, 2 and 4 apply. <http://www.defra.gov.uk/marine/pdf/fisheries2027vision.pdf>

Ministerial Sign-off For Consultation Stage Impact Assessments:

I have read the 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 leading options.

Signed by the responsible Minister:

..... Date:

Summary: Analysis & Evidence

Policy Option:	Description: Introduce a licence capping scheme
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COSTS	ANNUAL COSTS		<p>Description and scale of key monetised costs by ‘main affected groups’</p> <p>One-off cost of paying for decommissioning of an estimated 60 vessels of £5m (funded under the EFF)</p> <p>Administrative costs to the MFA & costs of the appeals process of £115,000</p> <p>Administrative & appeals costs to fishermen are considered minimal or negligible.</p>
	One-off (Transition)	Yrs	
	£ 5,115,000	1	
	Average Annual Cost (excluding one-off)		
	£ 0	10yrs	<p>Total Cost (PV) £ 5.15m</p>
<p>Other key non-monetised costs by ‘main affected groups’</p> <p>General costs and risks of decommissioning including additionality, effects on incentives of vessel owners & latent capacity, minimised through targeting of the scheme & implementation in conjunction with licence capping.</p>			

BENEFITS	ANNUAL BENEFITS		<p>Description and scale of key monetised benefits by ‘main affected groups’</p> <p>Administrative & enforcement savings of £16,662 in the 1st year after decommissioning for the MFA from having an estimated 60 fewer vessels in the fleet to monitor. This is assumed to only be an additional benefit in the 1st year as there is likely to have been a natural decrease in capacity in the absence of the policy in the medium term as vessels become unviable to operate under the economic conditions.</p>
	One-off	Yrs	
	£ 0		
	Average Annual Benefit		
	£ 16,662		<p>Total Benefit (PV) £ 16,662</p>
<p>Other key non-monetised benefits by ‘main affected groups’</p> <p>Approximately 60 vessels will be decommissioned. Benefit to fishermen remaining in the pool from freeing up of an expected [£1.8m] of quota which will increase fishing availability and hence productivity per vessel.</p> <p>Reduction in negative impact on marine environment & reduced risk of illegal fishing.</p> <p>Continuity of social and environmental benefits from the inshore fleet.</p> <p>The removal of high catching vessels also reduces the risk of early closure of fisheries, particularly for stocks where the current imbalance between available quota and fleet capacity is most acute.</p>			

Key Assumptions/Sensitivities/Risks

Assume an average of 85 VCUs per vessel and an average bid of £950 per VCU.

Price Base Year	Time Period Years	Net Benefit Range (NPV) £	NET BENEFIT (NPV Best estimate) £		
			NA		
What is the geographic coverage of the policy/option?			England		
On what date will the policy be implemented?			[October] 2008		
Which organisation(s) will enforce the policy?			MFA		
What is the total annual cost of enforcement for these organisations?			£ N/A		
Does enforcement comply with Hampton principles?			Yes		
Will implementation go beyond minimum EU requirements?			Yes		
What is the value of the proposed offsetting measure per year?			£ N/A		
What is the value of changes in greenhouse gas emissions?			£ NA ⁴⁹		
Will the proposal have a significant impact on competition?			No		
Annual cost (£-£) per organisation (excluding one-off)		Micro	Small	Medium	Large
Are any of these organisations exempt?		No	No	N/A	N/A

⁴⁹ Zero, or small positive change, as decommissioning will reduce the number of vessels in the under 10 metre fleet

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Impact on Admin Burdens Baseline (2005 Prices)		(Increase - Decrease)	
Increase of £	Decrease of £	Net Impact	£ N/A
Key:		Annual costs and benefits:	(Net) Present Value

Evidence Base (for summary sheets)

Introduction

1. Defra recently published Fisheries 2027⁵⁰, its long-term vision to achieve sustainable fisheries. One element of this vision is the future of inshore fishing, where the under 10m fleet operates, and the importance of the sustainability of small scale fishing vessels;

*Access to fisheries [should continue] to be available to small-scale fishing vessels, even if in some cases that is not the most economically efficient way of harvesting the resource. This is because small-scale fishing makes a significant economic and social contribution to the lives of individuals and coastal communities by providing jobs, attracting tourists, providing high-quality fresh fish and maintaining the character and cultural identity of small ports throughout England.*⁵¹

2. It envisages that fishing activity will continue to contribute to the local economies and culture of coastal communities and that fishing communities will be resilient and diverse enough to withstand fluctuations in the availability of fishing opportunities.⁵²
3. For the under 10 metre fleet there is currently insufficient quota available to match the capacity of that fleet. The equal access to that quota to all vessels means that larger boats are catching a disproportionate quantity of the available quota.
4. The fleet is under pressure due to rising costs in the industry. For example, less profit was generated by the UK fishing fleet in 2006 compared to 2005, and total expenditure on UK crew wages fell by 13% between 2005 and 2006. Rising fuel prices have also impacted operating costs. Seafish 2006 Economic Survey shows that due to significant global increases in the price of crude oil since 2004 expenditure on marine fuel was significantly higher in 2006 than in previous years. In some cases, expenditure per vessel was double that spent on fuel by UK vessels in 2004.
5. In the context of these difficulties, a sustainable future for the small-scale coastal fishing fleet will be sought through a package of work that will encompass broader quota management reform across the UK.
6. The proposal discussed in this Impact Assessment forms part of that work, and describes a system to remove the highest catching vessels from the fleet, reducing the overall capacity of the fleet and ensuring better distribution of the available quota across the remaining vessels. This is being considered along with the proposed licence capping scheme to prevent a future increase in the fishing capacity of the under 10m fleet, an essential partner in ensuring the long term effectiveness of a decommissioning scheme.
7. Both of these proposals are designed to secure a stable short term future for England's inshore fleet. By taking these short term actions, we will provide security whilst the Government works on its proposals for the longer term reform of the industry. To put it simply, without short term measures to support the fleet, we may lose it in the medium term. At this stage we have not fully established what social, economic and environmental impact this could have on our coastal communities, and indeed the wider country, but wish to have the time to complete appropriate research and analysis so that we can make informed choices about the future.
8. The main parties affected by this proposal include fishermen fishing quota from the under 10m pool, the communities those fisherman belong to, and the Marine and Fisheries Agency (MFA). The UK scrapping industry will also be impacted due to the increased demand during the decommissioning period.

⁵⁰ Fisheries 2027 <http://www.defra.gov.uk/marine/pdf/fisheries2027vision.pdf>

⁵¹ In 2006, the industry employed 12,934 people and was responsible for landing £610million of fish. [MFA Sea Fisheries Statistics 2006](#)

⁵² Fisheries 2027 vision statement 4 <http://www.defra.gov.uk/marine/pdf/fisheries2027vision.pdf>

Background information

Fishing opportunity

9. When Fixed Quota Allocation (FQA) units were introduced in 1999, there was no individual requirements for under 10m vessels were not required to report their landings, so there was no catch data on which to base an allocation of units to individual vessels. Rather activity was recorded as grouped data. As such, units were allocated to the under 10m fleet as a whole, based on an assessment of the group's overall landings. These units are held centrally by Fisheries Administrations and generate the annual "pool" quota allocations for the under 10m fleet.
10. This arrangement has three important features relevant to this analysis:
 - access to quota is equally shared among all under 10m licence holders, i.e. all vessels are able to fish up to the monthly catch limits set by Fisheries Administrations, or freely for those stocks where there is no catch limit;
 - the allocation of under 10m 'pool' quota is a relatively fixed proportion of UK quota; and
 - under 10m fishermen cannot ordinarily increase their quota fishing opportunities by trading quota⁵³ as can those fishermen in Producer Organisation membership (although they can increase fishing opportunity generally by diversifying into non-quota stocks, though their ability to do so is restricted by the type of gear they use).
11. Mechanisms such as Hague Preference⁵⁴ and the Economic Link Condition⁵⁵ can create some flexibility in the total amount of under 10m pool quota. In addition, the amount of quota for particular stocks can be increased (albeit at the expense of others) through using other stocks as swap 'currency'. However, the initial total amount of quota is a proportion of the UK quota, which is set at EU level. There has been a general decline in the amount of UK quota and therefore fishing opportunity over the past ten years.
12. As well as the level of UK quota, fishing opportunity is driven by the MFA's management of quota. Decisions on setting catch limits are made in consultation with the industry, but can have a considerable impact on fishing opportunity. For example, earlier this year, after consultation, it was decided to set a relatively high catch limit for Channel cod. This stock was quickly exhausted leaving nothing for those fishing later in the year, landing cod as a bycatch or seasonal fishers. The alternative approach of maintaining a lower catch limit throughout the year would have impacted those that target cod at the start of the year.
13. The pool includes both low catching and high catching vessels (this is influenced by vessel size, design, and business and working decisions made by fishermen). When the total allocation of quota is reached the fishery has to be closed. Therefore, whilst in theory all u10m vessels have equal access to the quota in the pool, in reality, because the monthly catch limit can be set above the amount that all vessels could catch without exhausting the stock, some vessels may fish the majority of the quota before the end of the month.

The shape of the under 10 metre fleet⁵⁶

14. There are 3042 boats currently in the English under 10m fleet. The under 10m fleet vessels vary widely in length and engine power, but the distribution of this is not even. The majority of the vessels are low power (between 0 and 50kW) - about half of the active fleet falls into this group. A second distinct group is made up of vessels over 9m in length and with engines of 50 to 150kW (often referred to as "super under 10s") - about one quarter of the fleet is in this group. There are very few vessels with higher powered engines than this. (The remainder of the fleet consists of vessels outside of these two groups.)
15. Analysis of the fleet identified 565 under 10m vessels with greater than 50 VCUs registered in England catching at least one of the 10 key quota stocks.

⁵³ Although not normally permitted, a temporary facility allowing trade (leasing quota from the sector) has been introduced and will run until the end of 2009.

⁵⁴ A mechanism that allows the UK to receive additional quota above that provided from the 'normal' share.

⁵⁵ A vessel licence condition that requires holders to demonstrate an economic link with the UK, e.g. an accepted link mechanism has been donating a proportion of quota which has been used to augment the pool allocation.

⁵⁶ Figures in this section are provided by the MFA.

16. Although the general decline in the amount of UK quota has been in broadly the same proportion for both the under and over 10m fleets, the former has seen a proportionately smaller decrease in the size of the fleet. There has been a reduction of around 2000 vessels (or 40% of the fleet) in the English under 10m fleet since 1995. The over 10m fleet has seen a decrease of 905 vessels, or 60% of the fleet in the same period. This is for a number of reasons: there has been some diversification into non-quota stocks; the amount of under 10m quota has been increased to some extent through the introduction of underpinning some stocks.⁵⁷ The effects of decreasing quotas may also have been masked to some extent by the previous system of measuring quota uptake which we now know was not providing a complete record of landings. The trading mechanism for quota in the over 10m fleet means that the balance between quota and capacity is managed through the market. The Marine and Fisheries Agency has done much through active quota management to maintain fishing opportunities for under 10m vessels. However, capacity does not naturally align in the pool system because there is always an incentive to fish up to the monthly catch limits before the stock is exhausted.

Distribution of landings

17. Landings of non-quota stocks are concentrated among the higher capacity group of vessels, which lands about 40% of the total landings of non-quota stocks by the under 10m fleet. The bulk of the remaining under 10m non-quota landings are more evenly distributed among the remainder of the fleet.
18. Landings of quota stocks are even more concentrated among the higher capacity group of vessels. This group lands about 65% of the total landings of quota stocks by the under 10m fleet. This means that about 25% of the under 10m fleet is landing about 65% of the available under 10m pool quota.
19. In addition to fishing a disproportionate amount of the quota available for the under 10m fleet, the amount of quota landed by the higher capacity group of vessels in the under 10m pool is actually comparable with the landings of smaller *over* 10m vessels. For example, parts of the under 10m fleet last year were landing North Sea sole in the same magnitude as many of the over 10m fleet - only the top 25 over 10m vessels landed more - this is typical of nearly all the quota stocks. This is not unexpected, as the under 10m limit is an artificial division created by EU legislation; it has little relevance to the activity or capacity of these vessels.
20. There is evidence of some entry into the fleet of larger capacity vessels from 1999 to 2003. These are often referred to as “Super Under 10s” or “Rule Beaters”. However, this entry was limited and these vessels do not account for all of the disproportionate amount of quota taken by the group of large capacity vessels.

Benefits of the inshore fleet

21. Nationally, the fish catching sector provides about 12,000 direct jobs, with additional jobs dependent on catches of UK stocks and non-UK stocks (Net Benefits 2004). The under-10m fleet supports a disproportionate amount, i.e. approximately 45%, of fishing employment (Vivid Economics 2008). Brixham in Devon, employs over 10% of its workforce in fishing (Net Benefits 2004). Other communities where fishing is a significant employer are found in the South West, North East, East Anglia and the Western extremities of Wales (Vivid Economics 2008).
22. It has long been perceived that along with providing employment and supporting local economies, the inshore fishing industry provides a range of social and environmental benefits – these are discussed in detail in section 69. Work is underway to establish the value of these benefits. Without short term intervention the structure of the fleet may change, and benefits lost, before there has been an opportunity to properly assess them and inform future policies on reforming the fleet.

⁵⁷ For some stocks, the under 10 m pool receives a minimum fixed amount of the total UK quota, either as a percentage or tonnage.

Conclusions

23. The amount of quota available to the under 10m fleet has decreased, and the associated decrease in size of the under 10m fleet has not been enough to compensate in the same way as it has been in the over 10m fleet.
24. The under 10m fleet can be broadly divided into two distinct groups. The first, more populous group, is characterised by having lower engine power and being less than 9m in length. It lands a relatively small proportion of the available quota. There are several reasons for this: the capacity to catch fish is more limited, and many fish non-quota species or are seasonal fishers.
25. The second group is made up of larger higher capacity vessels. Many of these are indistinguishable from smaller over 10m vessels in terms of catching capacity and quota landings.
26. At present, higher catching vessels sometimes take all the available quota resulting in early closure of fisheries. In 2007, a total of ten fisheries, i.e. different quota stocks, were closed before the end of the year.
27. To provide fishing opportunities for as many under 10m vessels as possible, catch limits have to be set higher than is required for the majority of the fleet. This creates “headroom” for an increase in effort. While every vessel continues to catch the same amount of quota, this is not a problem. However, the amount of quota fished can change in the short and long-term. In the short term, a particularly strong fishery or a period of good weather can lead to more fish being caught by the same number of vessels. Hence there can be (and has been in many fisheries this year) a short-term increase in effort. In the longer-term, these higher catch limits can attract new vessels into the fleet, leading to an increase in capacity as well as in effort. New entrants have to obtain a vessel licence and which can be purchased from the pool of latent licence capacity.
28. The inability to set catch limits that better match individual fishing effort (as explained in paragraph 22 above) has created a number of difficulties. These have recently been exacerbated by the introduction of the use of Registration of Buyers and Sellers Regulation⁵⁸ (RBS) sales notes to record landings. The outcome is that some fisheries have been closed earlier than they would have been previously, denying opportunity to smaller capacity vessels.
29. Intervention is required to redress the balance of capacity and available quota in the pool and so to ensure in the medium term the overall structure of the under 10m fleet is maintained to ensure that the social benefits of inshore fishing continue whilst the evidence base on social, environmental and economic benefits of the inshore fleet are determined and a long term strategy to reform access to fisheries is formed.

Policy Option

30. Before considering the identified policy option, the costs and benefits of not intervening to reduce capacity are set out below as a baseline case for comparison purposes.

Baseline case

31. The baseline case of not intervening would mean continuing with the current situation and not reducing capacity through implementing a decommissioning scheme. The implementation of a licence capping scheme has not been assumed for the baseline case.
32. Because of the imbalance of fishing opportunity and capacity, it is likely that some under 10m vessels will be forced to leave the industry by virtue of not being able to make sufficient profit. Hence, market forces should lead to a reduction in capacity.

⁵⁸ The Registration of Fish Buyers and Sellers and Designation of Fish Auction Sites Regulations 2005 (SI 2005 No 1605)

Costs

33. By not intervening to reduce capacity, the vessels which become financially unviable would leave the industry. However, which vessels leave would be unpredictable and may have unintended consequences in terms of delivering the long term vision for English fisheries. Vessels operating within the pool may generate positive environmental and social externalities⁵⁹ from which we derive a benefit but which are not reflected in the economic performance of those vessels. For example inshore vessels may be less fuel intensive or generate a greater community spirit to support enforcement and good environmental practice. This is particularly relevant to the pool, which is intended to support small scale fishing in order to contribute to the lives of individuals and coastal communities for example by maintaining the character and cultural identity of small ports throughout the UK. As these benefits are not valued in the market it is likely that allowing market forces alone to decide which vessels go out of business will not be those which are most beneficial overall.
34. Higher capacity vessels take a disproportionate share of the under 10m quota. It is likely that such vessels are also most economically efficient but potentially not contributing as greatly to some of the possible social and environmental benefits. The absence of a decommissioning scheme could result in those higher capacity vessels continuing to fish that disproportionate share of the quota, slowly squeezing out the smaller vessels who would be competing with a stronger section of the fleet for the same stocks.
35. Moreover, some fisheries will continue to be closed or will operate at lower catch limits. Early closure imposes a considerable cost to fishermen. There would be limited financial loss to fishermen that normally land the closed stock as a by-catch or even as part of a mixed fishery; however, for those fishermen who target the closed stock as part of their normal seasonal activity, the financial loss to their business would be critical.
36. There is a risk that by not intervening the fishing industry and communities will feel further disenfranchised with greater incentives to attempt to remain viable by illegally fishing or operating dangerously to try to keep operating costs to a minimum. This would increase enforcement costs, put further pressure on quota stocks and may ultimately lead to infraction proceedings against Defra to the extent that UK quota limits are breached. In order to remain viable vessels may switch to, or increase fishing effort for, non-quota stocks or quota stocks not currently under pressure. This could lead to longer term problems in terms of quota availability and potential for environmental damage, e.g. though increased discarding or damage to the seabed.

Benefits

37. It is likely that by not intervening some vessels currently operating in the pool will become unviable and will be forced to cease operations. By not intervening and enabling market forces to operate there will be a benefit for those remaining in the pool as there will be less pressure on stocks from the remaining capacity. Those vessels which leave are likely to be the most economically inefficient vessels thereby moving the pool towards a structure in which it is economically optimal. If economic incentives within the pool are complete and correct then this should lead to the equilibrium number of vessels operating within the pool given the quota available without the need for the MFA to estimate what this level might be.
38. However, the nature of fish as a commonly-available public resource open to exploitation means that whilst monthly catch limits are equal for all vessels operating in the pool there will always be an incentive to fish to the catch limit before it is exhausted by others (this phenomenon where there is unconstrainable competition for a common good/object resulting in over exploitation is known as the Tragedy of the Commons). Also, social and environmental values will not necessarily be optimised.

⁵⁹ A positive externality is a benefit arising from an activity which does not accrue to the person or organisation carrying on the activity.

Conclusion

39. The fundamental problem is that the total amount of quota available to the English under 10 metre fleet is insufficient for the current capacity of that fleet. Doing nothing would result in the continuation of the current situation - the risk of economic hardship amongst some fishing communities, especially later in the year when quota is used up and fisheries are closed. The situation may increasingly worsen because catchers may anticipate the situation and “race to fish” early in the year, this could encourage some fishermen to fish in unsafe conditions. The smallest vessels are more constrained by where they can fish and the weather, and therefore are likely to be worst affected. Although doing nothing might lead to a fleet reduction through natural causes, this would either be through boats joining the over 10m sector or by vessels (in particular those that are smallest and most vulnerable to bad weather) going out of business in areas where fishing is an important part of the local economy and social fabric, neither of which is a desirable resolution to the situation. The costs of doing nothing are considered to outweigh the benefits and therefore this is not the preferred option.

Policy option: Introduce a decommissioning scheme

40. A limited decommissioning scheme is proposed in order to reduce capacity within the pool in a planned way which ensure that the maximum quantity of quota is released in those stocks and areas under most pressure whilst maintaining the social benefits from the inshore fleet. The scheme would give fishermen who operate high capacity vessels landing targeted quota stocks, that cannot be reasonably provided by the pool, an extra option when deciding about their future. They would also have other options including continuing to live within the existing limits of the pool, joining a Producer Organisation, diversifying into less pressured stocks or moving out of fishing.
41. To maximise the benefits, the scheme would target the highest catching vessels of those stocks where there is the greatest imbalance between the available quota in the pool and the capacity of the fleet to catch it. These stocks are listed below and have been selected based on MFA data and experience which show that these are the ones for which the initial allocation of stocks to the pool is such that effort and capacity outweigh the availability of quota:
 - North Sea: sole, nephrops, whiting, cod, and skates and rays;
 - ICES area VII: cod (VIIb-k), sole (VIIe), plaice (VIIa, f-g) and pollack.
42. Targeting vessels that rely on these stocks will have the greatest impact in helping high catching fishermen with insufficient quota as well as the remaining fishermen. This is because decommissioning some of these vessels will free up the quota which they would have caught if they had remained in the fleet.
43. The scheme will only be open to English under 10 metre vessels fishing from the pool for the stocks listed above. Key criteria would include:
 - the vessel must be English. For these purposes, this is defined as a vessel registered at an English port; holding a Defra licence issued by the Marine and Fisheries Agency (MFA); and normally fishing out of and landing into an English port. These vessels will normally be administered from an English port.
 - the vessel must have landed some quantity of at least one of the stocks listed above between January 2007 and June 2008 (inclusive).
 - the vessel must have a capacity of 50 or more VCUs⁶⁰. This is because higher capacity vessels generally land larger amounts of quota stocks.
44. Fishermen will be invited to submit bids reflecting the amount of money they need to compensate for the loss of their vessel and their licence (as well as the scrapping costs). Where a bid is accepted and an offer made, the vessel must be scrapped and its licence returned to the MFA.
45. We would take evidence of fishing for any of the quota stocks listed from landings data from January 2007 to June 2008 (inclusive). Catches against leased quota would not be included because we would only count quota taken from the pool.

⁶⁰ Vessel Capacity Units (VCU) = (overall length x breadth) + (kW x 0.45)

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46. We would weight bids from vessels meeting the above eligibility criteria to reflect our overall aim of removing those vessels catching the most quota. To calculate the weighting, each vessel's landings for each key quota stock would be multiplied by a factor equal to the total landings of the under 10 metre fleet for the key quota stock with highest landings. This would then be divided by the total landings of the under 10 metre fleet for the relevant key quota stock. This weighting should make sure that vessels that catch a key stock for which there is a relatively small opening quota have an equal chance of qualifying for decommissioning.
47. Although we would judge bids against the above eligibility criteria, if it appears that a disproportionate amount of the decommissioning budget is going to one or more MFA districts, we would consider taking action to achieve a fairer distribution of funding.

Costs

Costs of the decommissioning scheme

48. The scheme will be run under the European Fisheries Fund. The total budget for decommissioning is £5million. Bids are expected to take account of scrapping costs of the vessels, therefore these costs are not considered to be additional to the £5m. The amount bid by a vessel owner will take account of their perceived value of their vessel, licence (which may be equal the value of their business) and scrapping costs. Other factors may also be taken into account including the level of debt of the vessel owner, number of years until retirement, value of their fishing business etc.
49. The maximum value of a VCU will be capped at £1000. Vessels listed on the website Find a Fishing Boat (www.findafishingboat.com) at the beginning of August 2008 are for sale at prices on average between approximately £400 - £700 per VCU. However, the range of prices is wider than this average with some vessels for sale up to £1,000 per VCU. Assuming that vessel owners bid for decommissioning based on the re-sale value of their vessel and licence, plus the cost of scrapping their vessel, this maximum value per VCU of £1,000 represents a reasonable upper bound.
50. To illustrate the likely impact of spending £5m on decommissioning the following calculation has been made:

Assume an average of 85 VCUs per vessel (This is based on the average VCUs of all boats over 50 VCUs in the under 10 metre fleet)

Assume an average bid of £950 per VCU, (as discussed above this can be considered at the upper end based on the average listed sale price of vessels with licences and the cost of scrapping)

Approximate number of boats to be decommissioned = Total decommissioning funds / (Average VCUs per vessel * Average bid per VCU)

= £5m / (85 VCU * £950)

= 60 vessels

Costs to MFA

51. Introducing a decommissioning scheme would incur one-off administration costs to the MFA. These costs would consist of staff time to consider applications and correspond with applicants on outcomes. This has been estimated at £115,000 based on the precedent set by administering a smaller, 2007, decommissioning scheme. This breaks down into £50,000 for coastal MFA and £65,000 for London MFA and Defra. The costs are based on how much staff time was spent on the recent Sole 7e decommissioning scheme. Some of these costs will be one off costs which do not vary with the size of the scheme while other costs will depend on the size of the scheme. The costs have been scaled to reflect the expected increase in work involved. Appeals work was included in the Sole 7e decommissioning staff costs and so is also included in the £115,000.
52. An appeals process would be a necessary element of the scheme, and we can forecast levels of appeals based on the precedent set by a previous decommissioning scheme in 2007. This scheme provides useful administrative data, but it should be noted that its focus on a smaller

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number of vessels in the over 10 sector means and cannot be used as a comparator to assess effectiveness of the scheme.

53. Annex 2 provides a detailed breakdown of the estimates of administrative costs to Defra and the MFA.
54. We propose two measures to ensure best value for money. First, we would pay decommissioning grants to those vessels that bid the lowest amount per tonne of quota landed by that vessel. This introduces an element of competition because those fishermen who bid lower amounts are more likely to be successful. Second, to avoid some excessively high bids increasing the total amount spent, evidence of the proposed VCU value will be required, if a bid for the maximum is received. The maximum will not be applied in all cases. We believe that this figure represents a reasonable upper value for a vessel and licence.

Costs to Fishermen

55. There are no direct financial costs for vessel owners. Part of the underlying rationale behind a scheme is that vessel owners will be able to make an informed business decision on whether a long term management plan will affect their business' viability, and give them an opportunity to leave the industry. However, there are certain indirect effects on vessel owners, such as time needed to assess whether applying for decommissioning is the right business decision for them, and if it is, making an application for grant. Applying for the decommissioning grant is likely to incur low to negligible costs for fishermen as this is a simple form based process.
56. Some fishermen may dispute the decision on whether to provide them with decommissioning support.
57. The cost to fishermen in disputing the decision should be minimal. They will need to gather documentary evidence to support their dispute, for example, evidence of landings, vessels in build or repair etc. They will then need to submit this evidence with their written case to the MFA. We envisage that disputes will be dealt with by correspondence. The cost of this should be negligible.
58. Fishermen whose boats are decommissioned will be required to scrap their vessels. Although an equal number of fishing operations may have become unviable without intervention, due to the requirement that decommissioned vessels never be used for fishing activity at any point in the future they must be scrapped and thus are not available for other non-fishing activities such as tourism, diving or diversifying into non-quota stocks. There may be a cost associated with this although it is difficult to estimate what this might be given the uncertainties which exist.

General costs/risks of decommissioning

59. There are several risks associated with the decommissioning scheme:

Risk	Consequence	Mitigation
Additionality – vessels benefiting from the scheme would have left the industry without policy intervention.	We would not achieved value for money	A targeted scheme, focused on those boats that will leave behind the greatest benefit for the wider pool.
The prospect of future decommissioning schemes entices new fishermen into the industry and other to remain.	Capacity and effort in the fleet would expand, negating any benefit from decommissioning	Clarify that future schemes will not be made available. Associated licence capping scheme will close off latent capacity.
Insufficient fisherman apply for the scheme	The scheme fails to remove the anticipated capacity from the fleet	Working with coastal offices to ensure scheme design targets preferred vessels.
Scheme over-subscribed	Difficult to administer high volumes of applications. Disenchantment of unsuccessful vessel owners.	Targeted invitations to apply based on eligibility criteria. Competitive approach to assessing bids to ensure straightforward decision making process and reduce admin burden
Preferred vessels do not apply for the scheme	Insufficient capacity removed from the fleet and insufficient quota released to stabilise the pool. £5m spend fails to achieve value for money.	Using detailed analysis to target preferred vessels. Ensure final scheme design provides appropriate incentive to attract preferred vessels whilst achieving value for money.

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Vessels not decommissioned despite success in bidding under the scheme	No reduction in the fleet is secured	Funds not released until photographic evidence of scrapped vessel is produced and inspected by an appropriate authority.
Fisherman will take funding for decommissioning vessels and buy new boats to fish back in the pool	No reduction in fishing effort	Fishermen to relinquish licence, and therefore right the fish, when decommissioning vessels. The number of licences in the pool is finite and so capacity cannot expand

Benefits

60. The pool as a whole will benefit from a decommissioning scheme because it will increase the profitability of the remaining fleet, providing greater fishing opportunity to a smaller fleet.
61. Although it is possible that decommissioning may not remove the least economically efficient vessels from the fleet and therefore ensure the maximum impact on the profitability of the fleet, the scheme is designed to target those stocks and areas which are under most pressure. By targeting vessels greater than 50VCUs it is also ensuring that it is the larger vessels which are less likely to generate the positive social and environmental benefits intended from the pool which are removed.
62. It is estimated that approximately 60 boats will be decommissioned. Decommissioning the top 60 highest ranked vessels⁶¹ of the 565 under 10m vessels with greater than 50 VCUs would 'free up' approximately 12,000 tonnes of key stocks. This can be considered a maximum. Decommissioning the next group of 60 ranked vessels would free-up 600 tonnes. A range of 600 – 1,200 tonnes therefore provides a reasonable estimate of the likely available quota following the scheme. It is calculated that this will free up quota across quota stocks. The value of quota of the targeted species for 2007 for the 60 most active vessels (by total value of landed quota stocks) was approximately £1.8m⁶². This can be assumed to be an upper bound of the value of stocks which will be 'freed up' for the remaining vessels in the pool. In liberating this potential, the quota will arguably be returning its focus to the population which it was originally designed to benefit – the smaller capacity under 10m vessel community. Although this does not represent additional quota beyond the existing quota limit for the pool, it will benefit remaining fishermen in the pool by increasing fishing availability and hence productivity per vessel. There will be fewer vessels fishing the same level of stocks which represents an effort saving across the fleet and a potential earnings increase per vessel.
63. At present, once the pool quota has been exhausted by the higher capacity vessels, the fishery has to be closed to all under 10m vessels. There were 10 direct fishery closures to the under 10m fleet during the 2007 calendar year; seven of these were caused by exhaustion of the under 10m allocation and no opportunity to acquire extra quota to maintain the fishery. The remaining 3 were driven by the exhaustion of the UK quota for the fleet as a whole⁶³. If a decommissioning scheme is implemented it would aim to reduce capacity through reducing the number of high catching vessels. If partnered with a licence-capping scheme, this will decrease the pressure on quota for other vessels and enable fisheries to stay open for longer.
64. For those fishermen who choose to decommission their vessels, the scheme will provide the security needed for them to make sensible choices about their future. Fishermen with high levels of debt who may have been operating to recoup fixed costs will now have an option to leave the industry using a method which will provide incentives to reduce or eliminate existing loans.
65. There will be an administrative saving associated with the reduction in the size of the fleet. This can be quantified as the enforcement saving of a reduction of 60 vessels which is £16,200 (staff time, based on saving 20 hours per vessel but assume 10 hours of this spent on new enforcement issues with remaining fleet) and of issuing and varying 60 licences annually, saving £462 (staff time, based on saving 1 minute to produce licence and 20 minutes to make all variations in the year on one licence). These savings are assumed in the first year only since

⁶¹ Vessels are ranked assuming a maximum bid of £1,000 per VCU divided by the factored value (weight) of landings depending on stock. The lowest bid per tonne ranking as a '1' and so on.

⁶² This is based on 60 vessels being decommissioned with an estimated average of £30,000 of quota stocks being freed for other vessels to catch.

⁶³ Analysis carried out by MFA Fisheries Statistics Unit, 2008

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without intervention it is likely that there will be a reduction in capacity in the medium term in any case as vessels become economically unviable.

66. Fishing activity has a direct impact on the marine environment⁶⁴. Apart from the direct impacts to targeted stocks, i.e. removal of fish, each trip can entail:

- Bycatch of non target species (both fish and other species);
- Damage to the marine environment e.g. disturbance and displacement of seabed;
- Use of fuels by vessels; and
- Marine debris and pollution from e.g. discarded gear, antifouling.

Reducing the number of vessels in the under 10m fleet is not likely to decrease the number of fish landed overall, but will reduce the associated impacts through the reduction of the fleet. This is because with limited competition from higher capacity vessels, the remaining vessels may feel able stagger catch patterns over a prolonged period, putting to sea less frequently and covering less distance overall when doing so in order to optimise their catch. This could also assist efforts to encourage synchronisation of effort with seasonal stock availability and management.

67. Some benefits of our inshore fleet are yet to be valued in monetary terms. However, there is anecdotal evidence of social and environmental benefits of a thriving inshore fleet, particularly associated with smaller vessels. These are discussed below. It is intended that our evidence base on these benefits be expanded as part of the ongoing work to establish a long term reform strategy for the UK fishing industry. In the short term, this includes an inshore fleet focussed research project building on the 2007 Vivid Economics report “[Economics of fisheries management: regulatory design for stock recovery, equity and an efficient fleet](#)”.

⁶⁴ [Sustainable Production and Consumption of fish and shellfish: Environmental Impact Analysis](#), Royal Haskoning, 2007

a. Stewardship and conservation

- Smaller vessels may have a less significant impact on the environment; both the marine environment due to less aggressive fishing practices, and air quality, due to smaller engines and/or generally fishing inshore they are likely to be more fuel efficient;
- The balance of economic incentives, and the motivation to act as a steward of the seas, may be greater in the inshore fleet;
- Inshore fisheries may suffer if they are not managed through some form of fishing activity influencing numbers;

b. Coastal communities and tourism

- There are some contingent industries which may rely on the under 10 metre fleet, including boat makers, and equipment makers/suppliers;
- The inshore fleet provides important employment in coastal areas using more traditional methods, and are often family run businesses with long histories. Securing the future of a larger number of businesses will help to sustain employment;
- There is an aesthetic value attached to ports with a plethora of small boats, which can help to attract tourism and contribute to the quality of life in that community;
- As mentioned above, the existence of the inshore fleet is a contributor to the tourist attraction of the English coast. Smaller, more traditional, boats have long been associated with these areas and their loss could damage the beauty and attraction they hold for tourists.
- A common local focus helps to bring communities together, this supports community cohesion. Safeguarding the future of the inshore fleet will support this in the longer term.

c. Heritage

- Smaller boats are more likely to use traditional fishing techniques. These may be lost if the fleet moves towards larger, more modern vessels;
- Traditional contingent industries, such as hand crafted nets and cages are more likely to supply smaller vessels. These may be lost if the pool becomes dominated by larger vessels, and smaller vessels go out of business.

Conclusion

68. If a decommissioning scheme is introduced, it should remove high capacity vessels from the pool and release a significant amount of quota for the remainder of the fleet. (A more level playing field in terms of vessel capacity will help to make it possible to manage of the quota across the fleet more effectively, and it should reduce the likelihood of the need for early closure of fisheries.
69. The decommissioning scheme will also secure the stability of the under 10 metre fleet in the short to medium term. This is essential if we are to properly value the social, environmental and economic benefits of this fleet before it disappears, so that we can make informed choices about the future direction of England's fleet. An evaluation of the scheme itself will contribute to the assessment of these benefits, scheduled for 2010. The benefits are considered to outweigh the costs of decommissioning these vessels at £5m and the associated administrative costs. As such this is our preferred option.
70. This Impact Assessment should be considered alongside the consultation document *The English Inshore Fleet: Looking To The Future*.

Specific Impact Tests: Checklist

Use the table below to demonstrate how broadly you have considered the potential impacts of your policy options.

Ensure that the results of any tests that impact on the cost-benefit analysis are contained within the main evidence base; other results may be annexed.

Type of testing undertaken	<i>Results in Evidence Base?</i>	<i>Results annexed?</i>
Competition Assessment	No	Yes
Small Firms Impact Test	No	Yes
Legal Aid	No	Yes
Sustainable Development	No	Yes
Carbon Assessment	No	Yes
Other Environment	No	Yes
Health Impact Assessment	No	Yes
Race Equality	No	Yes
Disability Equality	No	Yes
Gender Equality	No	Yes
Human Rights	No	Yes
Rural Proofing	No	Yes

Impact Tests**Competition Assessment**

71. The decommissioning scheme will reduce the number of vessels in the fleet and thus the level of competition. However, by decommissioning the larger vessels which are less likely to meet the purpose of the pool, should provide a more level playing field for the rest of the fleet.

Small Firms Impact Test

72. For the purpose of Impact Assessments, all businesses having fewer than 250 full time equivalent (FTE) employees are considered small and medium sized enterprises (SME). All of the fishing businesses affected by the options have been classified as SME's. The impact on these firms is discussed in greater detail within the IA.⁶⁵
73. It is not thought that the decommissioning scheme would disproportionately disadvantage the small businesses.

Carbon and other environment

74. There will be two main environmental impacts of the decommissioning scheme:
- a. **Waste from scrapping of up to 60 vessels.** These will be scrapped and disposed of through UK breakers yards, and therefore managed as waste in accordance with the rules and regulations applicable in this country. Salvageable scrap will be recovered and re-used/recycled as appropriate. The environmental impact is therefore expected to be minimal.
 - b. **Reduced emissions.** The vessels removed from the pool will no longer operate and emit carbon through use of fuel in their activities. As it is not known exactly which vessels will be removed from the pool, this cannot be quantified at present, but the intention is to quantify the impact as part of the evaluation of the scheme.

Sustainable Development

75. The proposal to decommission vessels conforms to the five principles of sustainable development to which the Government is committed.

Race/Disability/Gender Equality

76. Decommissioning will be available to all under 10m vessels meeting the qualification criteria. There are no limitations on the grounds of race, disability or gender.

Legal Aid

77. This proposal does not create new criminal sanctions or civil penalties.

Carbon Impact test

78. The options will have no significant effect on carbon emissions, although it may have an effect in reducing carbon emissions, through reducing the fishing capacity of the under 10 metre fleet.

⁶⁵ Source: The Department for Business, Enterprise and Regulatory Reform, SME Statistics 2006. <http://stats.berr.gov.uk/ed/sme/smestats2006.xls>

Health Impact Assessment

79. The Health Impact Assessment considers the effects policies, plans, programmes and projects have on health and well-being, and in particular, how they can reduce health inequalities.
80. There is potential for some positive impact on human health, by virtue of the effects of projects on the wider determinants of health, although impacts are not considered to be significant⁶⁶. For example, **income** may be boosted by projects which result in improved quality of fish products, which may in turn lead to increased sales and profits. The regeneration of coastal areas may lead to some reduction in **crime** and improvements in living conditions in these areas. The impact of **education and employment** on health will be positively influenced by projects which focus on improving skills and knowledge and creating improved working conditions and safety. There may also be indirect benefits where projects lead to improvements in the quality of fish products and the continued availability of fresh fish, and associated dietary benefits.

Human Rights

81. The Proposal is consistent with the Human Rights Act 1998.

Rural Proofing

82. Rural proofing is a commitment by Government to ensure domestic policies take account of rural circumstances and needs. The majority of those employed in the fishing and aquaculture industry are based in coastal communities in rural areas. The licence capping scheme is designed to ensure greater long term certainty about access to quota, which is a positive effect for the fishing community.

⁶⁶ For purposes of the Health Impact Assessment, significant impact refers to the whole population, a major sub group of the population or the degree of severity of the impact.

Staff ready reckoner

Grade	2007/08				2008/09 (+2.5%) Total	Central Service Overhead	Accommodation overhead 25% L, 15% N	2008/09 Total	Hourly rate divide by 215 x 7.2
	Salary	ERNIC	ASLC	Total					
AA (L)	18,223	1,276	3,116	22,615	23,180	7,000	5,795	35,975	23
AA (N)	15,223	913	2,603	18,739	19,207	7,000	2,881	29,089	19
AO (L)	21,324	1,493	4,158	26,975	27,649	7,000	6,912	41,562	27
AO (N)	18,369	1,286	3,141	22,796	23,366	7,000	3,505	33,871	22
EO (L)	25,967	1,818	5,064	32,849	33,670	7,000	8,418	49,088	32
EO (N)	23,472	1,643	4,577	29,692	30,434	7,000	4,565	41,999	27
HEO (L)	30,832	2,775	6,012	39,619	40,609	7,000	10,152	57,762	37
HEO (N)	28,124	2,531	5,484	36,139	37,042	7,000	5,556	49,599	32
SEO (L)	35,940	3,594	7,008	46,542	47,706	7,000	11,926	66,632	43
SEO (N)	35,277	3,528	6,879	45,684	46,826	7,000	7,024	60,850	39
7 (L)	49,258	3,941	11,428	64,627	66,243	7,000	16,561	89,803	58
7 (N)	46,741	3,739	10,844	61,324	62,857	7,000	9,429	79,286	51
6 (L)	61,448	4,301	14,256	80,005	82,005	7,000	20,501	109,506	71
6 (N)	57,276	4,009	13,288	74,573	76,437	7,000	11,466	94,903	61
5	72,741	7,274	18,549	98,564	101,028	7,000	25,257	133,285	86

**Hours on 2007 decommissioning exercise
by member of staff**

8 claims out of 26 applicants out of 55 contacted

**Estimated hours on 2008 decommissioning
exercise by member of staff**

Assume, 60 claims out of 200 applicants out of 550 contacted

Assume (allowing for economies of scale) 7 times as big

Name	Grade	Hours	% one off cost	% linked to size	One off cost	Linked to size	Total	Hourly £	Cost £	
[Redacted]	SEO (N)	44	0	100	0	308	308	39	12,107	
	HEO (N)	45	0	100	0	312	312	32	9,981	
	EO (N)	35	0	100	0	242	242	27	6,552	
	HEO (N)	26	0	100	0	182	182	32	5,831	
	HEO (N)	22	0	100	0	151	151	32	4,822	
	SEO (N)	17	0	100	0	117	117	39	4,609	
	HEO (N)	18	0	100	0	126	126	32	4,037	
	EO (N)	18	0	100	0	128	128	27	3,466	
	SEO (N)	3	0	100	0	18	18	39	688	
	EO (N)	1	0	100	0	7	7	27	190	
	AA (N)	1	0	100	0	7	7	19	132	
	Not London		228			0	1596	1596		52415
	[Redacted]	SEO (L)	600	100	0	600	0	600	43	25,826
SEO (L)		115	50	50	58	403	460	43	19,800	
EO (L)		31	0	100	0	216	216	32	6,841	
EO (L)		24	0	100	0	168	168	32	5,327	
7 (L)		50	100	0	50	0	50	58	2,901	
SEO (L)		50	100	0	50	0	50	43	2,152	
AO (L)		8	0	100	0	56	56	27	1,504	
7 (L)		15	100	0	15	0	15	58	870	
London		893			773	842	1615		65222	
Grand Total		1,121			773	2,438	3,211		117,637	

1. Printing, lawyers, data protection, other staff etc etc.