

FISHERIES MANAGEMENT COSTS: HOW THE EXPENSE OF SCOTTISH FISHERIES MANAGEMENT CAN BE SUSTAINABLY FUNDED

Despite marine fisheries constituting a relatively small economic sector in Scotland (0.2% GVA), the costs of managing Scottish fisheries are substantial. From enforcement to port infrastructure, fisheries science to tax exemptions, the costs of fisheries management are highly diverse and challenging for governments in Holyrood, Westminster, and Brussels.

These fisheries management costs are paid for by general taxation but the financial benefits are limited to those within the fishing industry and to a lesser extent ancillary industries and consumers in the UK and abroad. The 'resource rent' generated from the commercial harvest of fish stocks in Scotland is further limited by the fact that commercial licensing in Scottish fisheries is limited. A cap on commercial fishing licenses prevents new entry into the fishing industry and generates economic benefits for those fishers already holding licences. Despite acknowledgement that fish stocks are a public resource, this limiting licensing is deemed a crucial protection for the sustainability of the resource.

Both these aspects of fisheries management – significant public costs and limited private benefits – have led to calls for 'cost recovery' in fisheries management. Iceland, the Faroe Islands, Australia, New Zealand and regions of the US have all responded to this call by implementing auctions, levies, and other mechanisms to raise revenue from the fishing industry to pay for management costs. While these mechanisms for cost recovery are relatively new in fisheries management, they have a long, established history in other natural resource industries where private users derive economic benefits from a public resource. This approach includes natural resource sectors operating in Scotland such as oil and gas extraction, aggregate extraction, and water abstraction.

There is growing appreciation in the fishing industry that high quality fisheries management can yield economic benefits and that high quality has a price tag attached. One clear example of the benefits of funding management would be a greater number of – and more detailed – stock assessments that may indicate a greater biomass of fish populations and thus larger allowable fish catches in the Scottish fishing industry. Under these conditions, sharing the costs of fisheries management could be in the economic interest of the fishing industry as well as society.

Furthermore, whereas for decades the Scottish fishing industry suffered from low profitability, it is now the case that profit margins in the industry are extremely healthy (30% gross, 25% net) and higher than in fish processing, retail, or indeed most other sectors of the economy. This profitability is not uniform across fishing fleets, however cost recovery can be differentiated to reflect these differences. Improved economic performance in Scottish fisheries stems from both the sustainable recovery of fish stocks (which increases fishing opportunities and improves catch per unit effort) and vessel decommissioning (where a downsizing of the industry translates into a larger share of the resource and higher profits for the smaller number of vessels that remain active). In other industries, the existence of profits would induce new entry, but for the fishing industry limited licensing sustains these profits for the current fishing fleet.

Brexit, despite delays in implementation, remains on the horizon and is likely to increase fisheries management costs for the Scottish Government if fisheries management functions formerly taking place at the EU level are devolved to Scotland (the exact functions are still being decided). Total fisheries management costs may also increase as control and enforcement, exporting requirements, and other aspects of fisheries management are likely to increase in scale and complexity. Post-Brexit fisheries management will also bring new fisheries legislation in the UK and devolved administrations. The challenge of increased management costs for Marine Scotland is therefore accompanied by the necessity for new legislation on cost recovery.

Whether looking to other countries, other industries, or changes with Scottish fisheries management itself, the unavoidable conclusion is that cost recovery for Scottish fisheries management is an idea whose time has come. With several different cost recovery mechanisms available and an even greater number of design features, it is now time to work with fisheries stakeholders to determine the best way forward to implement a cost recovery programme. From this, three principles emerge:

- Raising revenue from the fishing industry is justified on grounds of cost recovery (polluter/beneficiary pays principle), resource rent (profits are being made from a public resource), and environmental externalities (damage paid by the public and future generations);
- Resources users, who are the beneficiaries of management, should pay for management costs in proportion to their use;
- Resource charges should provide incentives for users that align with management objectives.

Starting from these principles, we recommend the following policy proposals as a model of sustainable cost recovery for Scottish fisheries:

1. The **fuel tax exemption for fishing vessels should be phased out.**
2. A **landings tax should be phased in** at a low but increasing rate across all fisheries. Reaching a level of 2% (as an average for the fleet) would, as an example, raise £11 million in Scotland.
3. If a landings tax is employed:
 - a. It should have a **differentiated rate based on fishing type** and based on their estimated contribution to environmental externalities. How fishing types are defined should be subject to consultation.
 - b. It should have a **differentiated rate based on foreign and domestic landings**, which can serve as an alternative to the existing economic link policy.

4. In the longer term, **an additional charge for resource rent should be added to supplement cost recovery** – following the lead of Iceland.

5. **If a quota auction is employed:**
 - a. The **auctioned quota should be a time-limited (e.g. a 10 year lease)** rather than a single sell-off. This would require periodic auctions.
 - b. **Revenues should be raised on the sale of quota itself rather than quota usage** so as not to discourage quota utilisation.
 - c. This approach would be most applicable to any new pelagic quota gained post-Brexit.

6. If, as seems likely, environmental externalities are not accounted for in the cost recovery plan (i.e. if not 3a), then much more progress is needed to internalize these damages in other areas of policy (e.g. internalising climate damages through a carbon tax).

7. If, as seems likely, foreign vessels continue to access Scottish waters post-Brexit **there should be a fisheries charge on catches by foreign vessels from Scottish waters equivalent to charges on Scottish vessels for the same activity.**

8. **Inshore fisheries management bodies in Scotland should be empowered to generate their own parallel cost recovery programmes** in the model of inshore management bodies in England.