To interested bodies and individuals on the attached list

11 June 1998

**FIXED QUOTA ALLOCATIONS FOR DOMESTIC WATERS (AREAS IV, VI AND VII)**

I am writing to advise that Ministers have announced that fixed quota allocations (FQAs) will operate from 1 January 1999 for quota stocks caught in domestic waters.

The decision to introduce a system of fixed quota allocations has been taken following the consultative exercise undertaken towards the end of last year, and after careful consideration of the responses received from the fishing industry. A copy of the Press Release issued today, including details of the statement made to Parliament, is enclosed for your information.

**Quota management from 1 January 1999**

The UK's quotas will continue to be managed on an annual basis, with yearly allocations being made at the discretion of Ministers to:

- producer organisations
- the non-sector (vessels over 10 metres in length which are not in PO membership)
- the under 10 metre fleet
- certain individual vessels for pelagic stocks.

As now, it will be the responsibility of each producer organisation to decide how to manage quota allocations on behalf of its membership. The Fisheries Departments will continue to manage allocations on behalf of the non-sector (including the under 10 metre fleet) and to exercise overall control and monitoring of UK quotas.

**Quota allocations**

The principal difference from the present arrangements is that future quota allocations will be linked to the catches made by fishing vessels during a fixed reference period rather than the 3 years immediately preceding each quota year. The reference period will be 1994 to 1996 thus maintaining continuity with the allocations for 1997 and 1998, which have also been based on the track record for this reference period.

Other main features of the current management rules will continue, eg POs wishing to manage whitefish allocations on behalf of their members will have to do so for all stocks, but for pelagic species they will be able to opt for the stocks to manage. The Fisheries Departments will continue to adjust allocations to take account of overfishing (including EC deductions and compensation for groups adversely affected by the early closure of fisheries) and any additional fish gained through Hague Preference. The movements of vessels between groups will also have an impact on the level of allocations (see paragraph 12 and 13 below). Continuing provision will be made for the attribution of quota derived from licence entitlements. Underpinning of key quota allocations for the non-sector and under 10 metre fleet will also continue.
The main consequence is that the "track record" of a group will not be affected if it underfishes a quota allocation. The pressure on groups to take their allocations in full in order to maintain track record will, therefore, be removed. Other advantages include greater certainty in managing quota allocations; reducing the complexity of the present arrangements; the more rapid issue of annual quota allocations; and the facility to swap or gift fish without suffering a reduction in future quota allocations.

**Stocks to be covered**

These arrangements will apply to all quota stocks taken in domestic waters (essentially ICES Areas IV, VI and VII) with the exception of that for herring caught in the North Sea as a by catch to industrial fishing for other species. Fixed quota allocations will, therefore, apply to those stocks for which national quotas were first introduced in 1998. Apart from Western horse mackerel, these are North Sea stocks and include anglers, megrim, skates and rays, turbot and brill, dabs and flounders, lemon soles and witch, horse mackerel, sandeels, sprats and blue whiting.

**Conversion of fixed track records into quota units**

The process of assigning units to each vessel will commence this summer. Each PO will be sent details of its members' track records for the reference period 1994 to 1996 and an indication of the number of units which the PO could expect to receive for each quota stock. (Track records for 1994 to 1996 will be divided by 3 and converted into 100 kg units for each quota stock: thus a group catching 120 tonnes of North Sea cod between 1994 and 1996 would be credited with 400 units, ie track record ÷ 3 x 10). These will incorporate various adjustments in respect of overfishing, underfishing arising from early closures, cross-year quota swaps, "pay back arrangements" and additional fish obtained through the operation of Hague Preference. Details of individual vessel track records will also be sent to their respective licence holders (vessel owners). It will then be for the PO and its members to agree on any internal adjustments within the overall number of quota units available to the PO.

Owners of over 10 metre vessels fishing in the non sector will also be sent details of their track records and of their conversion into quota units for the non-sector.

In converting fixed track records to quota units, each PO and its members will have the opportunity of making internal self-balancing adjustments to those units to take account of any anomalies during the reference period. The part to be played by POs in assisting the smooth transition to FQAs has been emphasised by Ministers. In writing to POs, Ministers have made it clear that the Departments will expect POs to consider with their members whether any adjustments should be made in respect of:

- any overfishing by the PO of its quota in particular stocks, and the contribution made by individual vessels to that overfish;
- any compensation received by the PO in respect of early fishery closures caused by other groups overfishing, and the extent to which individual vessels may have been prejudiced by such closures;
- the inability of certain vessels to fish (eg because of rebuilding or repair) during part of the reference period, with the result that other PO members benefited from the quota which would otherwise have been made available to those vessels;
- any overfishing of internal PO quota limits by individual vessels;
- any agreements to transfer quota, either within or between POs and their members.
This list is not exhaustive. To facilitate internal adjustment each PO will be allocated a central "pool" of quota units equivalent to 2.5% of the total units held by its member vessels. POs will be able to reallocate this pool (in whole or in part) to individual members.

Similar arrangements will operate in respect of unattached licence entitlements. Fisheries Departments will permit self balancing adjustments of quota units to be made between unattached licence entitlements or between licensed vessels and unattached licence entitlements held by members of the same PO.

Provision will continue to be made for the movement of vessels between groups and for the transfer and aggregation of fishing vessel licences. If a vessel decides to leave one group to join another, the "units" associated with its licence will follow it. The same will apply if a licence is transferred or aggregated onto another vessel or if a licensed vessel is bought up by a PO.

Separate arrangements will operate for vessel movements into and out of the non-sector: these are described at Annex A to this letter. The under 10 metre fleet will continue to receive block allocations of quota.

**FQA register**

The Fisheries Departments will establish and maintain a central register of quota units for all vessels, including those in the non-sector. Each PO will also need to maintain a register of the units held by the vessels in its membership. The aim is to complete the process by the end of 1998.

Annual quota allocations will be based on the total number of units held by the vessels in membership of each group (POs, the non-sector and the under 10 metre fleet) on 1 January each year, together with any additional quota derived from the licence entitlements attributed to POs and the non-sector for the year in question.

**Trade in quota units**

Under the new arrangements it will not be possible for an individual vessel owner to dispose separately of all or part of the quota units associated with the licence of his vessel, since quota units will only transfer with a licence. But POs may continue to buy up vessels and their licences in order to retain the quota units for the benefit of their members: as now, the VCU$s would be surrendered and the licences extinguished by Fisheries Departments.

**Monitoring the new arrangements**

The implementation and operation of FQAs will be carefully monitored by the Fisheries Departments. It is also proposed that the new arrangements should be reviewed by Ministers during 2001 to see whether any changes need to be made in the light of the experience gained.

Finally various concerns regarding the introduction of FQAs were raised during the consultation exercise. The main points have been addressed at Annex B. Should you require further clarification about any aspect regarding the future operation of FQAs, John Winterton (0171 238 5917) or Guy Kerry (0171 238 6304) will be pleased to assist you.
ANNEX A

Fixed Quota Allocations: Adjustments to Quota Units and Quota Allocations to Reflect Vessel Movements

1. In setting out the arrangements for the movement of vessels between groups it is necessary to distinguish between (a) the transfer of quota units and (b) the in year transfer of part of a group's quota allocation.

(A) VESSEL MOVEMENTS BETWEEN POs

(i) Transfer of quota units

2. Where a vessel moves from one PO to another in the course of the year, the central register of quota units will require amendment to reflect the transfer. The quota units which will accompany the vessel into its new PO will be those currently recorded in the central register. Any such movements of units will be reflected in the calculation of each group's quota allocations for the following year.

(ii) In year quota transfer

3. The level of any in-year transfer of quota between POs to reflect vessel movements will, as now, be a matter for negotiation between the vessel owner and the groups concerned. Fisheries Departments will need to be notified and to agree any swap between POs of quota stocks. In-year transfers of quota will have no impact on quota units.

(B) VESSEL MOVEMENTS FROM THE NON-SECTOR INTO POs

(i) Transfer of quota units

4. A vessel moving from the non-sector into a PO will have the choice of two options. It may take either:

   (i) its "registered" quota units; or
   (ii) units based on the following formula:

\[
\text{total non-sector units} \times \frac{\text{the vessel's non-sector landings for last 3 years}}{\text{non-sector landings for last 3 years}}
\]

This arrangement allows non-sector vessels to offset the impact of any anomalies that may have arisen during the reference period 1994 to 1996. In applying the above formula, the Fisheries Departments will discount any overfish (landings) above the monthly catch limits for the non-sector.

(ii) In year quota transfer

5. No in year quota transfer will be made in respect of a non sector vessel joining a PO. This arrangement will apply to any vessel which has been in the non-sector at 1 January of the year in question.
(C) VESSEL MOVEMENTS FROM POs INTO THE NON SECTOR

(i) Transfer of quota units

6. The Fisheries Departments will normally admit any vessel wishing to join the non sector. However, it is necessary to prevent a vessel off-loading its quota units whilst in PO membership and then joining the non-sector so that it could build up a new "track record". To counter this vessels joining the non-sector will be required to bring with them an allocation of quota units which is acceptable to Fisheries Departments (either their initial allocation or an alternative mix of quota units reflecting a change in fishing patterns).

(ii) In year quota transfer

7. A PO vessel joining the non sector during the year will bring with it a share of quota allocation proportional to the number of units it held, adjusted for time and established pattern of uptake. However, in those instances when a vessel is expelled from a PO for the persistent breach of PO limits, and that vessel had exceeded its PO allocation for a stock, no quota for that stock will be transferred in year to the non sector, and consideration will be given to prohibiting the vessel from fishing for that stock for the remainder of the year.

Fisheries Departments
June 1998
Did fishermen favour the introduction of FQAs?
The consultative proposals were sent to the owners of more than 2300 fishing vessels over 10 metres, producer organisations and other interested parties. Some 276 replies were received as follows:

<table>
<thead>
<tr>
<th></th>
<th>For FQAs</th>
<th>Undecided</th>
<th>Against</th>
</tr>
</thead>
<tbody>
<tr>
<td>Producer Organisations</td>
<td>13</td>
<td>1</td>
<td>5</td>
</tr>
<tr>
<td>Fishermen's Associations</td>
<td>2</td>
<td>2</td>
<td>20</td>
</tr>
<tr>
<td>Companies</td>
<td>16</td>
<td>0</td>
<td>2</td>
</tr>
<tr>
<td>Individual Fishermen</td>
<td>16</td>
<td>2</td>
<td>197</td>
</tr>
<tr>
<td>Total</td>
<td>47</td>
<td>5</td>
<td>224</td>
</tr>
</tbody>
</table>

The majority of producer organisations representing the 74 per cent of the vessels in PO membership and some 50 per cent of the over 10 metre fleet, supported the move to FQAs.

Copies of the responses to the consultation exercise are available for consultation in Fisheries Departments' libraries, which will supply copies on request to personal callers or telephone enquirers. An administrative charge will be made to cover the costs of photocopying and postage.

Might FQAs pave the way to the introduction of ITQs?
Some are concerned that the introduction of FQAs will lead to the eventual introduction of ITQs (individual transferable quotas) and to quota being concentrated in fewer hands.

Under the current management arrangements the number of over 10 metre vessels has fallen from over 3500 to under 2300 during the 1990s. This has already concentrated quota holding within the industry.

Ministers have made it clear that they have no plans to introduce ITQs and that such action would not be taken without consultation with the industry. Moreover in moving to FQAs Ministers have decided that there will not be a free trade in quota units.

Will FQAs place increased pressure on non TAC stocks?
Some have suggested that FQAs will allow fishermen to intensify effort on non-TAC stocks since they will no longer be penalised for failing to take their quota allocations.

The opportunities for diversification are already limited in domestic waters given the range of stocks already subject to quota in Area VII and the recent extension of quotas to some 14 additional stocks in the North Sea. Nonetheless the Fisheries Departments will be
monitoring the impact of FQAs and, if necessary, action to safeguard the position of non-TAC stocks will be considered.

Particular concern has been raised in regard to the UK’s scallop fisheries. The Fisheries Departments will be consulting the fishing industry about proposals to introduce a restrictive licensing scheme.

**Will FQAs benefit only fishermen with good track records?**
There is concern that FQAs will reward only fishermen with good track records and will disadvantage those who have a poor track record, eg because their vessel was under repair, or had sunk, during the reference period and that it will no longer be possible to improve track record as may happen with the present rolling three year reference period.

Even with the present system of a rolling reference period, there is no certainty that a fisherman would be able to recoup the track record that had been lost as a result of inactivity. Indeed one of the advantages of FQAs is that a period of inactivity will no longer disadvantage an individual owner. FQAs will be linked to fishing activity spread over 3 years which is intended to address the anomalies that arise from vessels being unable to fish for part of that time. Moreover producer organisations and their members will be given the opportunity to make internal adjustments to the units assigned to individual vessels to take account of inactivity or to counter any overfishing of PO catch limits. And special arrangements are being made to safeguard the position of vessels in the non sector which may wish to join producers organisations at some future date. Their owners will have the choice of basing their quota units on their track record for 1994 to 1996 or for the three years immediately prior to joining a producer organisation, whichever is the more favourable.

**Will FQAs encourage producer organisations to introduce individual vessel or company quotas?**
The arrangements for managing quota allocations are a matter for internal decision by POs. Some producer organisations already operate on the basis of individual vessel or company quotas although the majority operate monthly catch limits against which all vessels fish (mirroring the similar arrangements that operate in the non sector). There is no reason why producer organisations should not continue to operate along current lines.

**Why not adjust the reference period from 3 to 4 years?**
A longer reference period has been suggested, for example 1993 to 1996 on the basis that this would diminish the impact of vessels being unable to fish for part of the reference period. But it would not remove all the problem cases which POs will in any case have to deal with and it would create new complications.

The use of a reference period other than 1994 to 1996 would significantly complicate the process of moving to FQAs. Incorporating track record data for 1993 with that for 1994, 1995 and 1996 (which has already been assembled for the purposes of allocating 1997 and 1998 quotas) would increase by one third the data needed to be taken into account. The additional time needed to handle the extra data and questions arising from its incorporation could delay the introduction of FQAs, and make the 1 January 1999 start date impossible to achieve. Moreover, POs are able to agree with their members on internal adjustments which would address any problems caused by the choice of reference
period in an equitable and proportionate way and Fisheries Departments have allocated to POs an additional pool of units (amounting to 2.5% of each PO's total allocation) in order to assist this process.

Could vessel shares should be expressed as percentages rather than as units? Under FQAs each vessel will be assigned a number of 100kg units related to the amount of quota species caught in the reference period. It has been suggested that this is unnecessarily complicated and that each vessel should be assigned a percentage share of the UK quota for each quota stock.

Percentage quota shares would not be appropriate. Firstly there is provision for the overall number of units held by fishermen to vary from year to year. For example extra units may be created where non sector vessels are joining producer organisations. And under future decommissioning schemes, the Fisheries Departments might decide that both licences and track records will be extinguished. This would mean that the percentage shares held by fishermen would not sum to 100. Secondly the amounts of fish taken by individual vessels for many stocks will be small and would have to be expressed to several decimal points.

*Why not allow producer organisations to manage quota allocations on behalf of under 10 metre vessels?*

Some POs have suggested that they should be allowed to manage quota allocations on behalf of under 10 metre vessels in their membership.

Under the arrangements that are being made for the introduction of FQAs, vessels under 10 metres will continue to fish against a single national allocation for each quota stock. In order to pass management responsibility to individual POs, Departments would have to collect and maintain at individual vessel level comprehensive data on the catches made by under 10 metre PO members. Departments have concluded that it would be neither feasible nor desirable to take such a step at present.

*Will FQAs consolidate overfishing and ghost fishing?*

In issuing track records for the reference period 1994 to 1996, the Fisheries Departments will be taking action to deduct any overfishing which occurred at either PO or non sector level. Those deductions will also be carried through on a proportional basis to the track records to be issued to individual vessel owners and be converted into "quota units". As part of the arrangements for FQAs, POs will also have the opportunity to make internal adjustments to the quota units to take account of any overfishing of PO limits that occurred during the reference period 1994 to 1996.

The scope for ghost fishing has been significantly reduced since 1995 when producer organisations were required to take sectoral allocations for all whitefish stocks. Moreover, with the move to FQAs fishermen will no longer be under pressure to maximise their landings in order to maintain track records. Were Fisheries Departments to revert to rolling reference periods at some future date it is likely that they would wish to discount any years in which fixed quota allocations had been operating.

Fisheries Departments
June 1998
**Distribution**
All owners in England and Wales of licensed fishing vessels over 10 metres in length

All holders in England and Wales of licence entitlements from vessels over 10 metres in length

The NFFO

Amble Seine Net & Keel Boat Association
Bridlington and Flamborough Fishermen’s Society
East Anglian Fishing Forum
Emsworth Harbour Fishermen’s Federation
Fleetwood Fishing Forum
Folkestone Fishermen’s Association
Harwich Fishermen’s Association
Hoylake Fishermen’s Association
Kent and Essex Sea Fisheries Committee
Lowestoft Fishing Vessel Owners Association Ltd
Lowestoft Inshore Fishing Vessel Owners Association
Leigh & Southend Fishermen's Association
National Federation of Sea Anglers
North East Static Trawl Society
Plymouth Non-Sector Vessels
Plymouth Trawler Owner's Association
Portland Fishermen’s Association
Rame Peninsula Fishermen's Association
Rye Fishermen's Association
Seahouses Fishermen's Association
South East Fishermen's Federation
South West Fish Merchants and Processors Federation
South West Handline Fishermen's Association
Swale Fisherman's Association

Anglo-Scottish FPO Ltd
Cornish FPO Ltd
Fleetwood FPO Ltd
The FPO
Grimsby FPO Ltd
Lowestoft FPO Ltd
North Sea FO
Northern PO
South Western FPO Ltd
UKAFPO
Wales & West Coast FPO Ltd
Yorkshire & Anglia FPO Ltd

Associated British Ports Fleetwood
Brixham Trawler Agents
The Cold Storage and Distribution Federation Ltd
Hooktone Shipping
Andrew M Jackson (Solicitors)
JBA (Fish Sales) Ltd
North Atlantic Fishing Co.
Ross Young Ltd