Department for Environment, Food and Rural Affairs

Informal consultation on proposals for allocating Fixed Quota Allocation units to 10m-and-under licences in the English Fleet.

Methodology

August 2014

Contents

Methodology for allocating FQA units to U10m licences in the English 10m-and-under pool

When FQAs were first introduced in 1999, they were allocated to a licence based on the track record of catches attributed to that licence between 1996 and 1998. The 2012-13 Ramsgate pilot was based on the 2009-2011 period. Both of these track records relied on a 3 year period in order to average out catches., with the Ramsgate Pilot capped using the monthly catch limit as a maximum monthly catch limit, as some vessels had exceeded this level by leasing quota from the over 10m fleet. FQA units, or quota, were then allocated based on the proportion of the fleet's total catch landed by each licence holder.

There are a range of methodologies for allocating FQAs to licences which are leaving the U10m fleet pool. Any recommendation should consider fairness, simplicity, historic methods of allocation, robustness and the strength of evidence.

In each of the six decisions that follow, Option 1 is our preferred option; this is occasionally referenced in following options.

Decision A. Define the time period for collecting data:

Option 1: Take a three year average from 2010-2012.

Explanation: There is full data for the period and, except for the Ramsgate Pilot, no schemes or projects skew the data for or against particular licences. By ending the period in 2012, it will not be affected by licence holders increasing their normal working pattern in order to build a stronger track record ahead of moving to FQAs.

Option 2: Take a three year average from 2011-2013.

Explanation: This is the most up to date data available to use. However, ending the period in 2012 may be most suitable to ensure that the the data are not contested - 2013 is still recent and therefore more open to dispute.

Option 3: Take the best year for each licence between 2010 and 2012.

Explanation: This method would require the creation of a formula to decide on the 'best' year for each licence over a 3 year period. This means each licence is judged on its best possible performance. It would be

extremely difficult to calculate and very open to challenge, by licence-holders disputing the definition of 'best' year. Resolving these disputes could cause some inconsistencies in the total number of FQAs issued, which may negatively affect the quota remaining in the U10m fleet pool.

Option 4: Use a future three-year period.

Explanation: This method would create a delay in the implementation of this change for at least 3 years. While it would give licence-holders an opportunity to fish for the quota they want to catch in the future, it may also attract some fraudulent practice to artificially inflate landing figures.

Option 5: Use the same period as for original FQA allocations.

Explanation: Whilst accurate records for landings made by the U10m fleet do not exist between 1996 and 1998, this option would ensure fairness and equality across all FQA allocations.

Option 6: Use the same period as the Ramsgate pilot (2009-2011).

Explanation: In 2009, the Environmentally Friendly Fishing Scheme allowed licence holders to exceed the normal monthly catch limits. If included, these results would dramatically skew FQAs in favour of a small group of vessels. If excluded, we could be open to challenge from those claiming that they had higher catches for the period.

DATA

Having decided the reference period, data from this timescale can be collated from the Registration of Buyers and Sellers (RBS) database and prepared for calculating each licence's share of the allocation.

Decision B. Define the "catch" attributed to each licence:

Option 1: Only pool quota will be counted for allocating FQAs, up to the monthly catch limits for each month.

Explanation: Leased quota (which enables licence-holders to catch more than their monthly catch limit) will continue to be an option for licence-holders who leave the pool, so they will not be disadvantaged by discounting this. Illegally caught fish over the monthly catch limit will not be accepted.

Option 2: The entire catch attributed to each licence will be counted.

Explanation: Everything caught attributed to a licence, including illegal catches and catch allowable through leasing, will be counted. This disadvantages vessels who do not (or cannot) lease quota and advantages vessels who overfish illegally.

Option 3: Each licence will have their monthly catch limits used in place of any catch data as a demonstration of potential catch.

Explanation: If the catch records are considered unreliable, this could provide a safe alternative to using catch records. However, since this does not take into account the actual track record of licences, this will result in an equal distribution of FQAs across the pool.

If we use catch records, the information that we have on the database is the information we will use for allocating quota. We are not intending to accept appeals and updates to this information. Any errors are likely to be spread across the whole pool, and one under-report may have a corresponding over-report on the same licence.

DATA => CATCH

Decision C. Define the total catch for the pool

Option 1: The sum total of all of the individual catch records **after** they have been calculated using **Decision B**

Explanation: The preferred option from Decision B will result in this being the sum of all individual catch records after a cap has been imposed to limit each monthly catch to the monthly catch limit. The total catch for each stock will then be the sum of all catches as if no licence-holder had caught any stock over the monthly catch limits. For each licence-holder who caught less than the monthly catch limit, the total catch will be less than the total catch that would occur based solely on the catch limits.

Option 2: The sum total of the monthly catch limits for all licences (the total potential catch) is used.

Explanation: For each licence holder who caught less than the monthly catch limit, every licence's proportion of the total catch would be reduced. In effect, an additional licence would be created which would be allocated all unused quota from each month, as this would not be allocated to any licence.

Option 3:   The total catch including leasing and illegal

Explanation: This is the most accurate representation of the catching potential of licences and could therefore be a basis for allocating FQAs.

At this point the catch (Decision B) will be expressed as a proportion of the total catch (Decision C) by dividing the catch by the total catch:

$$\frac{\text{CATCH}}{\text{TOTAL CATCH}}$$

Decision D. Defining what is to be allocated.

Option 1:   Allocate FQAs

Explanation: This would retain consistency across all quota allocations, where FQAs are comparable between all vessels of all sizes. By allocating the FQAs to a licence, the MMO would not need to continue managing the quota of any vessels which leave the pool.

Option 2:   Allocate part, or rebased, FQAs.

Explanation: Since U10m licences have considerably lower catches, on average, than the Sector (vessels in Producer Organisations), rebasing FQAs to allow a higher degree of accuracy and differentiation at the lower level may provide some benefits for the U10m vessels. For example, one existing FQA unit could become 10 new FQA units, with each new unit worth one-tenth of an existing unit. However, this will be complex to administer by the MMO as any rebasing would have to apply to all FQAs already allocated.

Option 3:   Allocate quota, with the FQAs held by the MMO.

Explanation: This would allow for a greater degree of flexibility in allocating to individual licences. The status quo would remain modestly changed, with the MMO continuing to allocate quota to U10m licences, but these licences to choose to take this quota elsewhere. We would need to decide if this quota would be transferable. This would require continued effort from the MMO, albeit on a less regular basis.

Option 4:   Allocate quota equivalent to whole FQAs, but FQAs remain with MMO.

Explanation: This is similar to Option 3, however for consistency all quota allocations would be the equivalent of whole FQA units.

The MMO does not always allocate quota equivalent to its entire FQA holding in each stock. Some of this quota is put aside to swap with the Sector in exchange for quota of

other stocks, and some is banked. This can happen at any time of year, and as such reacts to the pool's uptake of monthly catch limits.

Decision E. Define the quantities to be allocated (part 1)

Option 1:   Allocate equivalent to "used"

Explanation: Only allocating the FQAs equivalent to the quota actually used by the pool for each stock, up to the total number of FQAs held by the MMO for this stock, would provide an accurate and fair representation of how licences performed as part of the pool. Allocating "unused" quota to licences would inflate FQAs over catch of the stock in question and would disadvantage licences remaining in the pool that would otherwise see the benefits of the banking/swapping.

Option 2:   Allocate all FQAs, regardless of how they were used.

Explanation: Since the future use of FQAs for managing the U10m pool cannot be predicted, it is possible to argue that the licence-holders should be given their "fair-share" of each stock, to either fish against or trade for other stocks. This would take some benefits of pool membership away with leavers.

Option 3:   Allocate swapped quota by proportion to used stock (i.e. allocate to the gainers of quota, but as original stock)

Explanation: Where Stock A's quota was swapped for Stock B's quota, the equivalent FQAs from Stock A should be allocated to licence's fishing against Stock B (as the beneficiaries of the swap).

Option 4: Allocate future year swaps based on pool-leavers track record.

Explanation: If FQAs are only allocated according to Option 1, quota previously used for swaps will continue to be available to the pool. A proportion of any future swaps could be allocated to pool-leavers (based on their track record). However, this may be challenged as these licence-holders will not be contributing anything to the swap (pool vessels may have otherwise been able to fish against quota used in the swap).

For stocks where the full amount of FQAs available to the MMO were not used to allocate quota, a system to find the average amount of FQAs allocated over the three year period needs to be available. The example table below demonstrates how an average can be found based on the number of FQAs held, the value of these FQAs in terms of quota and the total catch for each year:

	Year 1	Year 2	Year 3
FQAs (held by MMO)	25	25	25
Multiplier (value of 1 FQA in given year - tonnes)	100	120	130
Equivalent (total value of all FQAs held in given year - tonnes)	2500	3000	3250
Used (total catch in given year - tonnes)	2500	2500	2500
Equivalent (how many of the FQAs were used in given year)	25	21	19

Average FQAs used over three year period	22

The MMO also receives quota (not FQAs) from other sources, which it allocates to the U10m pool. Some of this quota is known at the start of each year – from underpinning (by which U10m pool quota for certain stocks has a guaranteed minimum which is upheld regardless of their FQA allocation) and certain cases of "top slice" – and some of this quota is received in an unplanned way – gifts from POs, licences satisfying their economic link and in-year reallocations. It is important to note that in these cases the MMO does not hold the FQAs linked to this quota.

Decision F: Define the quantities to be allocated – part 2 (after taking into account Decision E)

Option 1: Allocate equivalent to FQAs held by MMO

Explanation: Allocating FQAs should stick to the following General Principle: If the MMO does not hold the FQAs, the equivalent quota cannot be allocated to licences on a permanent basis. This quota should remain with the pool. This will avoid the need for continued management of licences which have left the pool by the MMO.

Option 2: Allocate equivalent FQAs to all quota allocated by MMO.

Explanation: Licences leaving the pool could be allocated an equivalent amount of quota to what they were receiving in the pool, by over providing FQAs to leavers, knowing that those remaining vessels will be provided for by the quota that comes in from these other sources. This will limit the number of leavers to the supply of FQAs, and in the event that quota from these sources ceases, will jeopardise the pool and remaining vessels.

Option 3: Allocate equivalent to FQAs held by MMO and continue to manage uplifts for pool leavers on a yearly basis.

Explanation: After allocating FQAs as in Option 1, the MMO could continue to allocate uplifts of quota to licences that have already left. This could be on an annual basis using solely the quota that is known at the start of the year (predominantly from underpinning). This option gives pool leavers some of the benefits of leaving the pool and staying in the pool.

Option 4: Allocate equivalent to FQAs held by MMO and continue to manage uplifts for pool leavers on an ongoing basis.

Explanation: After allocating FQAs as in Option 1, the MMO could continue to allocate uplifts of quota to licences that have already left. This would, by necessity, be on an ongoing, one-off basis as the quota comes in from various sources at different times. This option gives pool leavers many of the benefits of leaving the pool and staying in the pool.

$$\text{ROUNDED} \left\{ \frac{\text{CATCH}}{\text{TOTAL CATCH}} \times \text{FQAS} \right\}$$

Recommended methodology

By choosing Option 1 in each decision branch, the following method could be used to allocate FQA units to U10m vessels:

- Data is taken from the three year period 2010-2012. The required data is the reported catch for each licence against every stock the MMO holds FQAs. This will be on a month by month basis.

- These figures will then be capped at the monthly catch limit, as allocated by the MMO each month during the period. Any licence catching above this limit will have their catch reported as the catch limit; any licence catching below the limit (including no catch) will not have their reported catch changed.

- The total catch of the pool for each stock will be the sum of all licences catch after they have been capped.

- Using this information, each licence's proportion of the total catch can be calculated by dividing the licence catch by the total catch. Since Option 1 of Decision D is to allocate FQAs and Decision E is to allocate only FQAs equivalent to the quota actually used by the pool, these proportions will then be multiplied by the number of FQAs to distribute. This may result in a non-whole number.

- FQAs cannot be fractions. To correct this we need to round the figures. The first option is to round the figures to their nearest whole number. For some stocks, the total number of FQAs allocated after this may go over the total number available, for others this may go under. In these cases, rounding all species to the nearest 0.5FQA will allow an extra level of rounding. As previously, FQAs cannot be decimals. By rounding down every allocation we will arrive at a whole number which does not take the total number of FQAs over the limit.

- At this point, no stocks should be allocating FQAs over the limit imposed by Decision E on both options. For each stock, the best option is defined as the one where the total allocation of FQAs is closest to the total available, without going over this limit. This is selected for each stock, and the corresponding number of FQAs is allocated to each licence.

- No further quota will be offered to licences leaving the pool, and as such licence-holders will have a choice between taking the FQA allocation offered to them and leaving the pool, or staying a member of the pool.