



Will I clear my feet? Perspectives on a fishing vessel scrapping scheme in Scotland



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ABSTRACT

This paper examines the factors which influence the decision to enter into a government scrapping scheme. In particular, the underlying motivations behind decisions are examined. Owners were participants in Scottish fisheries which were subject to stock recovery measures. Semi-structured in-depth interviews were conducted with 39 vessel owners during and following a vessel buy-back scheme. The analysis identifies several key factors affecting the decision to keep or dispose of a vessel in the context of a scrapping scheme. These are grouped into factors relating to owner and vessel characteristics, industry and market factors and preferences and expectations of owners. Owners expecting profitable operation considered how to use government grants to enable fresh investment in the fishery. For vessels with poor expected performance, owners' principal concern in considering whether to dispose of a vessel was "will I clear my feet?" i.e. would the owner be clear of debt if he disposed of the vessel? Despite wanting to exit, if they could not get clear of debt by disposing of the vessel, owners suggested they might continue to operate unprofitable or low profit boats in anticipation of possible improved fishing opportunities arising from the next quota allocation.

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1. Introduction and background

Against a background of a stock recovery programme, this study analyses perspectives of fishing vessel owners on decision-making during a scrapping scheme in Scotland. Owners were presented with an opportunity to dispose of their vessel(s) during the Fleet Resilience Scheme between August 2010 and March 2011. The scheme formed part of a broader strategy for fish stock recovery and thus fishing opportunities were declining. The strategy sought to consolidate fishing opportunities and rationalise the Scottish fishing fleet. Based on in-depth qualitative interviews, this study reviews the main factors that influenced decision-making by fishing vessel owners when presented with this opportunity. Given this background, the research investigated whether fishing vessel owners respond primarily to financial incentives to exit or, and in particular, whether non-financial and structural factors are the dominant issues in making vessel disposal decisions.

More specific research questions were developed to enable analysis of vessel owners' perspectives of a government-funded exit opportunity. The questions we sought to answer were as follows:

- What factors do owners take into account when making decisions relating to investment, exit or switching from one fishery to another?
- What values and beliefs do vessel owners hold that influence their decision-making?
- How do owners identify their specific options in relation to staying or exit?
- What techniques and practices do owners use to evaluate their options?
- What information do owners use to evaluate options?
- What roles do they ask others to perform? e.g. provider of expert analysis, neutral sounding board, stating their preferences
- What difficulties do owners experience as they try to identify options, evaluate options and make their choice?
- How do owners approach the issue of risk and uncertainty in the decision making process?
- What expectations do vessel owners have of the financial performance of their fishing businesses?

Perspectives from vessel owners presented here suggest that vessel owners are influenced in two principal ways. First, we identify several key factors which influence vessel owners' desires and preferences with respect with the disposal decision. Second, owners' judgement as to their best option (keep or dispose) was not always the same as their preferred choice. This analysis also

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distinguishes owners' decisions to dispose of a vessel from an owner's decision to retire personally from the current fishery or the fishing industry.

In many modern European fisheries there is or has recently been excess fleet capacity (catching capability) in relation to the permitted fishing opportunity [1], which can lead to under-utilisation of vessels, low return on investment, issues with enforcement of fishing regulations and rent dissipation from fisheries [2]. Fleet over-capacity can occur when key fish stocks, having been over-exploited in the past, are depleted and are subject to stock recovery measures, meaning that permitted harvest is restricted. In cases of over-capacity, in order to achieve a more appropriate balance between fishing capacity and fishing opportunity, governments may try to reduce the number of vessels in their national fleet. Governments seek to design policy instruments to encourage actions by business owners that will achieve government policy aims of sustainable, profitable fisheries [3]. In recent years many fishing capacity management policies have not achieved their desired aims [4].

In Scotland during 2010 and early 2011, the Scottish government operated a "licence parking" and fishing vessel decommissioning (scrapping) scheme known as the Fleet Resilience Scheme (FRS), which was open to owners of white fish and nephrops (*Nephrops norvegicus*, colloquially known as prawns) vessels throughout Scotland. The scheme allowed vessel owners to concentrate fishing rights onto fewer vessels and to sell or retire the "donor" vessels. Donor vessels ceased to be licensed fishing vessels and could be sold privately or the owner could apply for a Fleet Resilience Grant from the government up to a maximum value of the insured value of the vessel or £250,000, whichever was the lower. Vessels which were the subject of a grant were required to be scrapped. If the licence were to be used in the future for a new vessel, the grant must first be repaid to the government [5].

The Scottish demersal trawl fishing fleet includes vessels that have been used to catch mostly whitefish, vessels that have been used principally to catch nephrops and vessels that catch a mixture of both, some of these vessels switching their majority catch from one year to the next depending on prevailing economic conditions such as availability and prices [6].

The size of the North Sea cod stock had been increasing since a record low in 2006 [7], but because the stock size was still below the desired level, agreed levels of catching activity and volume of landings continued to decrease [8]. The recovering cod stock could reasonably be expected to result in better fishing opportunities at some time in the medium to long-term future [8].

In Scotland, quota unit holders could lease out their quota units enabling others to fish within the current quota year. Quota units could also be bought and sold, albeit via a cumbersome mechanism, and that would provide fishing rights for future years. This ability to move quota units between vessels meant that if total allowable catch (TAC) declined, and landings were effectively controlled, then owners could decide to remove some vessels from the fleet and distribute the associated quota units among remaining vessels. The use of this mechanism to reduce fleet size was obstructed by the introduction of an annually-allocated days-at-sea allowance. Rights to days at sea in future years could not be traded, therefore, there was no point accumulating large amounts of quota to a vessel if it could not obtain rights to days at sea to catch the fish allowed by the quota units [9].

The licence parking scheme was a mechanism within the Fleet Resilience Scheme created in 2010 to enable vessel owners to remove a vessel from the fleet and distribute the future days at sea allocation of that vessel (the donor vessel) among one or more remaining vessels. To encourage the take-up of this facility, there were grants for scrapping vessels, so that the fishing entitlements

(quota units and days at sea entitlement) of scrapped vessels could be allocated to remaining vessels. Grants to scrap vessels had a maximum value which was the lower of £250,000 or the insured value of vessel. The scheme ran from August 2010 to the end of March 2011 [5].

The rest of the paper is organised as follows. Section 2 provides a review of the literature on strategic decision-making by fishing vessel owners and develops a theoretical framework. The methodology is explained in Section 3 and analysis of interview responses is presented in Section 4. Evidence is discussed in Section 5 with conclusions arising from this study in Section 6.

2. Strategic decision-making by fishing vessel owners

Anderson [10] notes that "Profit-maximising individual participants will base entry and annual operating decisions on private returns and private costs." Entry and exit decisions by such profit-maximising individuals depend on the profit produced by the assets and labour. However, owner-operators of single fishing vessels have been found to be income-, rather than profit-, maximisers [11]. Whilst they should ensure that their business remains solvent if they wish to continue operating it, owners are thought to be resistant to exit if there is any possibility of continuing in business despite losses over time [12]. The non-financial benefits of continuing to operate are high and exit is undertaken reluctantly, perhaps more so than in other industries. The decision-making horizon for owners thus extends into the long term when the hope is that after surviving losses, the business can make profit. Since the fishing opportunity for quota species is set annually, decisions to continue operating or to dispose of a vessel are considered in an annual context. The short-term can reasonably be defined as a single year as there is an annual possibility of an upturn in fishing opportunities [13].

Nostbakken and del Valle, taking a firm-level approach, highlight that treating vessel owners as a homogenous group with identical motives and behaviours is not realistic and not useful when trying to design and manage successful, sustainable fisheries [14,15]. Several papers focus on strategic decisions and specifically the entry/stay/exit decisions, including resistance to exit, from an individual owner point of view [12,14,16,17]. These papers highlight the issues facing vessel owners, the factors that they consider when contemplating their response to declining profits and take a firm-level approach rather than a fishery-wide approach. Christensen and Raakjær differentiate fishers into groups with differing characteristics and likely responses [17]. Del Valle and Mardle employed a mix of qualitative methods to identify explanatory variables and quantitative modelling to describe the explanatory power of individual factors [15,18]. Table 1 shows factors identified in previous research and in this research.

Behavioural and organisational theories of the firm emphasise heterogeneity in investment decision-making and the need for a better understanding of owner characteristics to be able to better predict stay or exit decisions in a declining fishery [19]. Nostbakken notes "Despite the extensive focus on excess capacity in fisheries, little empirical work has been done on firm-level investment behaviour in fisheries" [14].

3. Methodology

This research explores vessel owners' disposal decisions during a period of declining fishing opportunities despite recovering fish stocks, when a government-funded exit scheme is available and when fishing rights were tradable. Our study uses a grounded theory, iterative approach. A review of the literature prompted key

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