

EXECUTIVE SUMMARY

Decommissioning schemes are widely promoted as providing a “win-win” outcome for fisheries with expectations of reductions in capacity, improved profitability and less pressure on stocks. Around USD 430 million was spent on such programmes in OECD countries in 2005, accounting for 7% of total government financial transfers to the sector (OECD, 2006a). However, there are concerns that decommissioning schemes often fail to reach their objectives from both an economic and an environmental perspective. So why do they remain so popular with policy makers?

The answer lies, at least partly, in the fact that decommissioning schemes are widely viewed as an active and highly visible policy intervention that is indispensable in the policy toolkit for dealing with the problems of excess capacity in fisheries. The political appeal to governments of such schemes is strong, while industry is also often attracted to decommissioning schemes as a means of improving the profitability of the industry and promoting industry rationalisation.

From an economic perspective, however, the use of decommissioning schemes is not without its pitfalls. Recent analysis and experience has identified a number of theoretical and practical issues arising from their use, indicating that careful planning is required in the development and implementation of such schemes. This report reviews the key economic and policy issues underlying the design, implementation and outcomes of decommissioning schemes in fisheries. Drawing on theoretical insights and practical lessons from experiences of OECD countries, the issues addressed in the analysis include: the role of management arrangements in determining the long term success of decommissioning schemes; who should pay for decommissioning schemes; price formation mechanisms; and the role of expectations of fishers in undermining the effectiveness of the schemes.

A selection of recent examples of decommissioning schemes in OECD and non-OECD economies is presented in the report. These highlight a range of innovative directions in design of decommissioning schemes as well as some continuing challenges. The case studies are:

- Industry-funded buyout in the United States Bering Sea/Aleutian Islands King and Tanner Crab Fishery;
- NGO-funded permit buyout in the United States Pacific Groundfish fishery;
- Australia’s Business Exit Assistance scheme under the *Securing our Fishing Future* structural adjustment package, funded by government;
- Mandatory, government funded vessel decommissioning scheme for tuna longline vessels in Chinese Taipei;
- Decommissioning schemes in France financed by EU and French government funds; and
- The series of decommissioning schemes undertaken for the coastal and offshore fleets in Korea.

The success of decommissioning schemes and the outcomes for fisheries are influenced by the degree to which the political economy aspects of policy reform affect the design and implementation of decommissioning schemes and associated policy measures. The report examines a number of dimensions of this issue including; the role of economic and environmental conditions in forming coalitions of support for the introduction of industry adjustment assistance; the distribution of benefits both within the industry and over time; the use of decommissioning schemes as compensation strategies to gain support for or reduce opposition to wider reforms in the fishery or sector; and the importance of policy credibility in helping ensure that governments and industry reap the potential benefits from decommissioning schemes.

The main conclusion of the report is that decommissioning programmes have been demonstrated to be a useful policy tool, but only in certain circumstances. They can accelerate the transition to a rationalised fishery managed on the basis of stronger use and access rights (based on output or input parameters) and improved ecosystem health. As part of a package of transitional assistance and management changes, they can provide a window of opportunity to help transform the nature of a fishery from one characterised by non-cooperative behaviour to one in which incentives are well-aligned and cooperation is the rational outcome of interactions between fishers.

Decommissioning schemes used on their own, however, do not provide a long term solution to the problems of the “race-to-fish” incentive that remains in fisheries with poorly developed or enforced use and access rights. Unless complementary measures are taken to effectively manage the fishery, short term gains from the buyback are likely to be eroded as remaining fishers expand effort, previously inactive vessels and licences are activated, or as new entrants join the fishery. Moreover, the provision of continuous, on-going decommissioning funding is likely to result in rising vessel and licence prices as expected future resource rent is capitalised into asset values. This will increase the cost of future decommissioning and necessitate a continuous process of exogenous reductions in vessel capacity to offset the effects of effort creep driven by technological change and capital stuffing over the longer term.

The report develops a set of best practice guidelines, based on the analysis, that identify the key areas that policy makers need to be aware of when designing decommissioning schemes. The guidelines are intended to assist policy makers ask the right set of questions as they develop programmes and will help ensure that decommissioning schemes are efficient and cost-effective in meeting their stated capacity reduction objectives. In July 2008, the principles and guidelines were adopted by the OECD as a Council Recommendation, reflecting the high level of political importance attached to the issue of ensuring effective fishing capacity adjustment and resource sustainability.

Principles and Guidelines for Decommissioning Schemes

Principles

- Decommissioning schemes provide a useful mechanism for reducing capacity in situations where there is overcapacity. They can be used when urgent action is required to bring fishing capacity in line with available fisheries resources.
- Taking preventative measures to avoid overcapacity from occurring is preferable to using decommissioning schemes to adjust capacity. Fisheries management systems should be appropriately designed to prevent overcapacity and overfishing from occurring, and to ensure that there are appropriate incentives for fishers to automatically adjust fishing capacity and effort.
- The search for a perfect measure or a perfect assessment of capacity should not delay action to address overcapacity, although it is necessary to have an agreed measure of capacity to implement and enforce a cap on or reduction in capacity.
- Decommissioning schemes should be designed to achieve the “best value for money”, representing a cost-effective investment of public funds to achieve given capacity reduction objectives. They should be well-targeted and time-limited.
- Decommissioning schemes will not, on their own, address the fundamental problems of overcapacity and overfishing. Decommissioning schemes should be designed as part of a package of adjustment measures towards sustainable and responsible fisheries. Social measures to assist retraining of fishers and community adjustment should be considered as part of fisheries adjustment packages.

Guidelines

Design

- Decommissioning schemes should have well-defined objectives that are clearly articulated and measurable in order to ensure that the reduction targets are achievable and will have a positive impact on resource sustainability and economic profitability.
- It is essential that the full range of management policies in place for the fishery, including the decommissioning scheme, are coherent and mutually supportive.
- Governments should ensure that the management regime in place following the completion of the decommissioning scheme effectively prevents capacity from re-entering the target fishery or other fisheries, otherwise the beneficial effects of decommissioning will be negated over the medium to longer term.
- Governments should ensure that the incentives of fishers are appropriately aligned in order to facilitate autonomous adjustment in the fishery in the future. This can be done by improving the specification and enforcement of access rights (based on either output or input dimensions) which will help to address the market failures that lead to the overcapacity problem.

- Decommissioning schemes should be designed as part of one-off structural adjustment programs in order to avoid becoming incorporated into the expectations of the sector and distorting current and future investment incentives and plans.
- The expected benefits and costs of decommissioning schemes should be evaluated during the design phase in order to ensure that the scheme will result in a net increase in economic welfare.
- Governments should facilitate stakeholder involvement in the design and implementation of decommissioning schemes. This will improve acceptance of and compliance with the schemes' objectives and operations. The use of pilot programs may help. Stakeholder involvement will also improve the likelihood of cooperation in the post-adjustment management of fisheries.

Implementation

- In implementing decommissioning schemes, governments should ensure that the criteria for determining the recipients of decommissioning pay-outs are transparent.
- The mechanisms to determine the prices paid to decommission vessels, permits, licences and other entitlements should provide the best use of public funds in terms of impact on capacity and profitability. Where practical, governments should employ auctions to determine the prices and recipients of decommissioning payouts as this will generally provide the most cost effective means of determining prices and result in the most economically efficient allocation of resources.
- Where more specific targeting of fleets or licence holders is required, other mechanisms such as fixed rate payments may be less complicated and costly to implement and should be considered by governments. Governments should ensure that such mechanisms are transparent and targeted, and that they minimise the transactions costs involved in their use.
- Governments should target both latent and active capacity to ensure that capacity is effectively reduced and that capacity does not become reactivated in the fishery following the decommissioning scheme. Governments should take into account the potential impact of sequential decommissioning of latent and active capacity on resource sustainability and economic profitability.
- Under the beneficiary pays principle, governments should require those who benefit from a decommissioning scheme to contribute to the costs of the scheme. A combination of industry and public funding improves the incentives for cooperative management of the fishery as the remaining fishers have a stronger stake in the future of the fishery, particularly if there is sound fisheries management in place.
- *Ex-post* evaluations of decommissioning schemes, linked to measurable performance indicators developed in conjunction with the scheme's objectives, should be undertaken to improve transparency and accountability. This will also help to ensure that the design and implementation of future schemes is informed by the experience of prior schemes.