Chapter 3.

Political Economy Aspects of Decommissioning Schemes

The performance of decommissioning schemes can best be regarded as mixed. While some schemes have achieved lasting capacity reductions in a cost-efficient manner, other schemes have used less cost-effective means of reaching targets. Many schemes, however, did not achieve their objectives in terms of either cost or enduring capacity reductions. The analysis on the economic aspects of decommissioning schemes highlighted a range of factors that underlie the design and implementation of successful decommissioning schemes and have identified potential pitfalls for policy makers. The selected case studies highlighted the ways in which different countries have responded to particular decommissioning challenges focusing on the motivation for the schemes, design details, outcomes and lessons learned. Taken together, the economic analysis and the case studies underscore the need for careful and considered choices to be made when designing and implementing such schemes, a process that is not always simple or straightforward.

However, there appears to be a disjunction between the continued appeal of decommissioning schemes to governments and their relatively poor performance. Much of this can be explained using the political economy framework developed for the OECD's project on fisheries policy reform (OECD, 2009). This chapter provides a review of the key political economy factors underlying the use of decommissioning schemes. These include: the drivers for the introduction of decommissioning schemes; the distribution of benefits from the schemes; the use of decommissioning schemes as compensation strategies; and the impact on policy credibility.

Drivers for Decommissioning Schemes

The push for the introduction of decommissioning schemes has generally arisen from a sense of crisis within a fishery. This is typically a depletion of fish stocks due to open access or regulated open access management regimes and the resulting excess fleet capacity and fishing effort. However, in many cases, the sense of crisis has not been related directly to environmental concerns about the status of the fish stock(s). Rather, the driving force appears to have been economic crisis within a fleet or fishery, with environmental benefits being seen largely as a positive but secondary outcome of the need for adjustment. The two are of course linked, as resource sustainability is a necessary condition for improved profitability.

The driving force underlying the development of a coalition amongst industry participants for the introduction of adjustment assistance is, therefore, likely to be the more immediate problem of poor profitability. But poor economic performance is not necessarily enough to garner consensus amongst participants of the need for policy change: conditions often have to become really bad to encourage a coalition for reform to develop (Drazen, 2000). There is a very strong tendency towards the status quo when it comes to fisheries. This is primarily a result of the common property nature of the resource and the existence of exogenous fluctuations in environmental and economic conditions. The prospect of enduring change is also an issue if fishers are to join a coalition for change. Decommissioning schemes are much more likely to gain industry acceptance if the returns from short term adjustment can be assured (if not necessarily guaranteed). This was reflected in the experiences of many countries examined in this report where the use of decommissioning schemes was a precursor to, or a component of, more fundamental reforms.

In other cases, the pressures for capacity adjustment are externally imposed. In the case of the EU, for example, resource depletion has been a major factor behind the capacity reductions imposed through the Common Fisheries Policy (although poor profitability was a more significant factor at national levels). The Chinese Taipei longline buyback was the product of a decision by an RFMO and as taken up by Chinese Taipei at least in part to assert its international environmental credentials. And in the United States, the TNC/ED buyout of licences in the Pacific groundfish fishery is an example of how pressure from environmental lobbies can be translated into action.

While industry is generally the *demandeur* for a policy concession in the form of adjustment assistance, the government is the supplier. And in this case, the government may also have a significant incentive to join an

emerging coalition for such assistance. As noted earlier, one of the major political advantages of decommissioning schemes is that they offer a high profile policy intervention that is action-oriented and ostensibly focussed on solving the problem of a declining publicly-owned resource. There is, of course, some balancing in the government's calculus in this area as decommissioning schemes are generally very expensive and have to compete with wider government priorities for funding. Nevertheless, the prospect and rhetoric of a "win-win" outcome can be very appealing and support for the provision of decommissioning assistance often ensues.

Distribution of Costs and Benefits from Decommissioning Schemes

The distribution of benefits from decommissioning schemes is also significant in explaining the process underlying their design and implementation. In general, these schemes are narrowly targeted to a fishery or fleet. When the buybacks are publicly funded, the costs are thinly spread over society as a whole while the gains are concentrated on a small group within the fishery. There can also be significant regional benefits from the schemes. Even within fisheries in need of adjustment, the distribution of gains between those who leave the fishery and those who stay can determine the strength of the coalition for reform. In addition, there may be some uncertainty about the distribution of gains if it is not clear that the decrease in capacity is going to lead to an improvement in stock status and increased profitability. The management system in place both before and after the decommissioning scheme will therefore play a role in the relative bargaining power of those who wish to leave the fishery and those who wish to stay.

There is also a time element to the distribution of benefits. Those who leave the fishery immediately as a result of payouts will receive immediate benefits, while those who remain may have to wait for some time for their benefits to be realised, particularly if the fishery was in an overfished condition. The potential delay in benefits for those who remain underscores the importance of effectively managing the remaining effort from expanding or new effort entering in order to sustain support for the decommissioning scheme.

Decommissioning Schemes as Compensation Strategies

In many cases, decommissioning schemes have been used as a compensation strategy within a larger policy reform process. Indeed, the more successful decommissioning schemes have been introduced as part of a broader package of fisheries management changes focussed on improving

the economic and environmental performance of management. This has generally involved the introduction or strengthening of property rights-based management, enabling fisheries to become self-regulating with respect to capacity. They can also help to speed the process of adjustment.

It has been demonstrated that decommissioning schemes have the greatest chance of being successful when they are implemented in conjunction with significant management changes. Usually, this has involved the introduction of rights-based regimes which have helped to resist the tendency for remaining vessel owners to increase effort unnecessarily or for new effort to enter the fishery. The Australian experience in the northern prawn and southern fisheries bears this out. Similarly, Norway's buy-back programs have resulted in improved profits due to the introduction of an individual quota regime under which vessels are tied to the quota.

From a political economy perspective, there are two key reasons why governments might provide compensation through decommissioning schemes in the pursuit of broader policy reform. First, governments may seek to overcome resistance to management reforms by providing compensation to those who stand to lose from reform. Compensating transfers in the form of buyouts can be critical in obtaining the consent of affected individuals and groups to management change and allowing the change to take place. They can also be used to drive a wedge between sub-groups within a fishery that may be blocking the management reform. This serves to break down the homogeneity of the group's interests and can increase its coordination costs.

Second, compensation can be driven by distributional concerns and can be used to offset the negative effects of change. Decommissioning schemes can provide a means for individuals to exit the industry with dignity and with some return on their investment in the fishery over the years. Because of the low or non-existent value of assets in many fisheries that find themselves in crisis, it is usually not possible for fishers to sell up in order to exit the industry (Clark *et al.,* 1979). As a result, the government can step in to buy the assets (which may, in fact, be some form of access rights such as licences, but with low or zero value), allowing the fishers concerned to either relocate or retrain. However, providing decommissioning grants in the absence of other policy measures to assist economic diversification may not necessarily lead to sustainable social outcomes, particularly in fishery-dependant coastal regions. Similarly, if the payments become integrated into the expectations of fishers, then there is less incentive to find durable solutions to the diversification issue. The consequent impacts on community resilience can be significant and can retard the adoption of necessary adjustments that are triggered by the need for decommissioning schemes. In

general, therefore, compensation payments should be temporary and directly targeted to affected groups.

Policy Credibility

Fisheries management takes place in a dynamic policy environment where there are feedback loops between government policies and fishers' behaviour. Each group is constantly adjusting to expectations about the future actions of the other, meaning that a purely static view of the policy environment will provide only a partial perspective on the issues underlying decommissioning schemes. The signalling and credibility of government policy over time is therefore central to ensuring that fishers receive the appropriate signals for ensuring sustainable and responsible fishing. This is particularly evident in three areas.

First, as has been discussed already, the provision of decommissioning transfers has an impact on the risk faced by fishers in their investment and production decisions if they create expectations in the industry that the government will cover losses that may arise from excess investment in vessels. This reduces the risk-adjusted discount rate used in making investment decisions with the result that vessel owners would expect to keep whatever profits result from their investment decisions while being spared the losses resulting from overfishing. This would in general promote overinvestment in the fishing industry, even under well-managed ITQ systems. Therefore, the continuous provision of decommissioning payments can significantly reduce the credibility of government policy on the need to find an enduring solution to excess capacity. This can be overcome, or reduced, if a decommissioning scheme for a particular fishery or fleet is announced as being a "one-off" opportunity for adjustment or exit.

Second, policy incoherence can significantly undermine policy credibility when it comes to fleet adjustment. A classic example is the co-existence of decommissioning schemes and payments for vessel construction and modernisation. For the last twenty years, the European Union has had a program[1] in place giving grants to decommissioning fishing vessels. Up until recently, the European Union also provided grants for construction of new vessels and modernisation of existing ones. There is evidence that the decommissioning grants have found their way back into the industry and stimulated investment in new vessels, in which case these grants have in effect become grants to investment (Jorgensen and Jensen, 1999). However, the structural funds provided for the decommissioning and for the renovation and moderanisation of Community fishing fleet during the 1994-1999 period, have in general terms been an incentive, pointed in the right direction to achieve the objectives implemented by the FIFG

(adjustment of the fleet to the available resources and to promote the economic sustainability of the fishing enterprises.) (Suris Regueiro, 2003). As part of its package of reforms to the Common Fisheries Policy, support for the construction of new vessels in the EU ceased at the end of 2004 (or at the end of 2006 for the outermost regions (French overseas departments, the Azores, Madeira and the Canary Islands), although expenditures under the CFP carried over into 2005.

Third, policy credibility is also reduced in cases where decommissioning schemes are employed in fisheries management regimes that do not sufficiently control effort expansion through vessel entry or input stuffing. This will serve to undermine the long-term effectiveness of the decommissioning schemes and reduce the credibility of the policy. Industry observations on the state of fisheries management will be built in to their expectations on future profitability and will do little to reduce effort or increase profitability.

NOTE

1. Or, rather, a sequence of programmess where the objectives have been redefined as one program has replaced another.

List of Acronyms

AFMA	Australian Fisheries Management Authority
BSAI	Bering Sea/Aleutian Islands Crab Fisheries (Alaska, US)
BSCZSF	Bass Strait Central Zone Scallop Fishery (Australia)
CFP	Common Fisheries Policy (EU)
DFF	Development Fund of the Fisheries (Iceland)
EC	European Commission
ED	Environmental Defense (US)
EEZ	Exclusive Economic Zone
EFF	European Fisheries Fund
EU	European Union
FAO	Food and Agriculture Organization of the United Nations
FIFG	Financial Instrument for Fisheries Guidance (EU)
FMP	Fishery Management Plan (US)
GAO	US General Accounting Office
GRT	Gross Registered Tonnage
GT	Gross Tonnage
ICCAT	International Commission for the Conservation of Atlantic Tunas
ICES	International Council for the Exploration of the Sea
IFQ	Individual Fishing Quota (US)
IPQ	Individual Processor Quota (US)
ITQ	Individual Transferable Quota
IUU	Illegal, Unreported and Unregulated Fishing

Kw	Kilowatt
LLP	Licence Limitation Program (US)
LRP	Licence Retirement Program (Canada)
MAGP	Multi-Annual Guidance Programme (EU)
MOMAF	Ministry of Maritime Affairs and Fisheries (Korea)
MPA	Marine Protected Area
MSY	Maximum Sustainable Yield
NASF	North Atlantic Salmon Fund
NGO	Non-Governmental Organisation
NMFS	National Marine Fisheries Service
NOAA	National Oceanic and Atmospheric Administration (US)
NPF	Northern Prawn Fishery (Australia)
NPFMC	North Pacific Fishery Management Council (US)
PFMC	Pacific Fishery Management Council (US)
PME	Permis de mise en exploitation (France)
RFMO	Regional Fisheries Management Organisation
SFR	Statutory Fishing Right (Australia)
TNC	The Nature Conservancy
TAC	Total Allowable Catch
VMQ	Vessel Moratorium Qualification (US)

Table of contents

Tables

Figures

Boxes