

Chapter 4.

Principles and Guidelines for Decommissioning Schemes

Decommissioning schemes have been demonstrated to be a useful policy tool in certain circumstances. They can accelerate the transition to a rationalised fishery managed on the basis of stronger use and access rights 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. In effect, decommissioning schemes can serve as “shock therapy” to help fisheries adjust.

However, decommissioning schemes used on their own do not provide a long term solution to the problems of the “race-to-fish” incentive that often arise in fisheries with poorly defined or enforced use or access rights. Unless complementary measures are taken to effectively close access to 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.

From a political economy perspective, decommissioning schemes have a role to play in helping to garner support for reform of fisheries management policies. As both an income redistribution mechanism and a compensation tool, decommissioning schemes can assist in reducing opposition to needed policy reforms and overcoming bias towards the status quo. However, caution is needed as the expectation of future financial assistance in times of

adverse economic and resource conditions can undermine policy credibility of governments' reform efforts. In this respect, the transitional nature of decommissioning schemes needs to be emphasised.

The analysis in this report highlights the fact that the situation facing fisheries throughout OECD and non-OECD economies differs considerably. Such diversity will need to be reflected in the design and implementation of decommissioning schemes to ensure that the incentives for fishers and governments are appropriately aligned both during and following the implementation of the scheme. Nevertheless, there is a set of broad policy principles that should underlie the design of decommissioning schemes, regardless of the specific fishery and country circumstances. Such a set of policy principles and guidelines have been distilled from the analysis and lessons learned from the case studies in this report, as well as from the insights obtained from the expanding body of experience in the use of decommissioning schemes.

The set of best practice principles and guidelines presented identify the key areas that policy makers need to be aware of when designing and implementing decommissioning schemes. The principles and guidelines have been adopted by OECD governments as a Council Recommendation and are part of the broader OECD efforts to help OECD and non-OECD economies continue to pursue sustainable and responsible fisheries.¹ OECD governments are committed to taking these principles and guidelines into account when considering introducing decommissioning schemes. It is also intended that the guidelines provide assistance to non-OECD economies as they are increasingly confronted with the need to make adjustments to the capacity of their fishing fleets.

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.

NOTE

1. An OECD Council Recommendation is one of the legal instruments that can be adopted by the OECD Council of Ministers. The provisions of a Council Recommendation are not strictly legally-binding (*i.e.* they are “soft law”). However, they represent a high level of political commitment on the part of OECD governments and contain reporting obligations on how governments have taken up the Recommendation.

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)
DFE	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)

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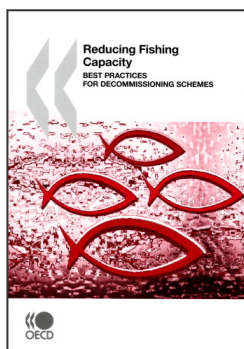
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From:
Reducing Fishing Capacity
Best Practices for Decommissioning Schemes

Access the complete publication at:
<https://doi.org/10.1787/9789264044418-en>

Please cite this chapter as:

OECD (2009), "Principles and Guidelines for Decommissioning Schemes", in *Reducing Fishing Capacity: Best Practices for Decommissioning Schemes*, OECD Publishing, Paris.

DOI: <https://doi.org/10.1787/9789264044418-5-en>

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