

Table 1. North Sea & West of Scotland Whitefish Fleet Financial Performance

| | 1998 | 2001 | 2002 | 2003 | % Change | % Change |
|--|----------------|----------------|----------------|----------------|-------------|-------------|
| | Average £ | Average £ | Average £ | Average £ | 98 - 02 | 02 - 03 |
| Earnings | 627,433 | 456,195 | 511,322 | 497,000 | -19% | -3% |
| Fishing Expenses | | | | | | |
| Fuel & oil | 43,219 | 76,200 | 79,631 | 84,000 | 84% | 5% |
| Crew share | 222,568 | 126,460 | 146,264 | 141,000 | -34% | -4% |
| Total Fishing Expenses | 395,685 | 281,337 | 329,264 | 325,000 | -17% | -1% |
| Total Vessel Owner Expenses | 121,442 | 128,676 | 140,438 | 144,000 | 16% | 3% |
| Net Profit (before depreciation & interest) | 116,741 | 39,168 | 41,620 | 28,000 | -64% | -33% |

| NS & WoS Demersal Trawl > 24 M Sector (sample: 15 vessels) | | | | | | |
|--|----------------|----------------|----------------|----------------|-------------|-------------|
| | 1998 | 2001 | 2002 | 2003 | % Change | % Change |
| | Average £ | Average £ | Average £ | Average £ | 98 - 02 | 02 - 03 |
| Earnings | 772,399 | 615,450 | 696,353 | 680,000 | -10% | -2% |
| Fishing Expenses | | | | | | |
| Fuel & oil | 50,006 | 114,941 | 121,325 | 125,000 | 143% | 3% |
| Crew share | 276,488 | 168,812 | 203,164 | 195,000 | -27% | -4% |
| Total Fishing Expenses | 476,786 | 400,152 | 467,299 | 460,000 | -2% | -2% |
| Total Vessel Owner Expenses | 136,882 | 166,734 | 193,384 | 190,000 | 41% | -2% |
| Net Profit (before depreciation & interest) | 158,731 | 48,565 | 35,670 | 30,000 | -78% | -16% |

| NS & WoS Demersal Trawl < 24 M, > 300 Kw Sector (sample: 26 vessels) | | | | | | |
|--|----------------|----------------|----------------|----------------|-------------|-------------|
| | 1998 | 2001 | 2002 | 2003 | % Change | % Change |
| | Average £ | Average £ | Average £ | Average £ | 98 - 02 | 02 - 03 |
| Earnings | 526,232 | 361,865 | 402,684 | 400,000 | -23% | -1% |
| Fishing Expenses | | | | | | |
| Fuel & oil | 42,665 | 58,552 | 56,311 | 62,000 | 32% | 10% |
| Crew share | 174,104 | 99,405 | 111,949 | 108,000 | -36% | -4% |
| Total Fishing Expenses | 312,272 | 227,604 | 246,425 | 250,000 | -21% | 1% |
| Total Vessel Owner Expenses | 133,936 | 115,429 | 111,829 | 120,000 | -17% | 7% |
| Net Profit (before depreciation & interest) | 80,024 | 18,832 | 44,429 | 30,000 | -44% | -32% |

| NS & WoS Demersal Trawl < 24 M, < 300 Kw Sector (sample: 11 vessels) | | | | | | |
|--|----------------|----------------|----------------|----------------|-------------|-------------|
| | 1998 | 2001 | 2002 | 2003 | % Change | % Change |
| | Average £ | Average £ | Average £ | Average £ | 98 - 02 | 02 - 03 |
| Earnings | 326,472 | 210,530 | 280,257 | 275,000 | -14% | -2% |
| Fishing Expenses | | | | | | |
| Fuel & oil | 22,343 | 26,714 | 30,780 | 35,000 | 38% | 14% |
| Crew share | 114,616 | 57,831 | 86,210 | 85,000 | -25% | -1% |
| Total Fishing Expenses | 205,738 | 128,513 | 174,527 | 180,000 | -15% | 3% |
| Total Vessel Owner Expenses | 71,182 | 61,642 | 71,901 | 85,000 | 1% | 18% |
| Net Profit (before depreciation & interest) | 49,552 | 20,375 | 33,829 | 10,000 | -32% | -70% |

| NS & WoS Seine Net Sector (sample: 35 vessels) | | | | | | |
|--|----------------|----------------|----------------|----------------|-------------|-------------|
| | 1998 | 2001 | 2002 | 2003 | % Change | % Change |
| | Average £ | Average £ | Average £ | Average £ | 98 - 02 | 02 - 03 |
| Earnings | 622,818 | 430,441 | 402,076 | 390,000 | -35% | -3% |
| Fishing Expenses | | | | | | |
| Fuel & oil | 42,802 | 48,794 | 44,310 | 47,000 | 4% | 6% |
| Crew share | 221,047 | 130,379 | 117,540 | 114,000 | -47% | -3% |
| Total Fishing Expenses | 396,493 | 263,424 | 253,232 | 250,000 | -36% | -1% |
| Total Vessel Owner Expenses | 107,710 | 128,448 | 119,419 | 120,000 | 11% | 0% |
| Net Profit (before depreciation & interest) | 118,616 | 38,569 | 29,424 | 20,000 | -75% | -32% |

| Twin Rig Whitefish Trawl Sector (sample: 20 vessels) | | | | | | |
|--|----------------|----------------|----------------|----------------|-------------|-------------|
| | 1998 | 2001 | 2002 | 2003 | % Change | % Change |
| | Average £ | Average £ | Average £ | Average £ | 98 - 02 | 02 - 03 |
| Earnings | 965,878 | 603,294 | 676,101 | 630,000 | -30% | -7% |
| Fishing Expenses | | | | | | |
| Fuel & oil | 71,415 | 126,245 | 122,507 | 128,000 | 72% | 4% |
| Crew share | 352,800 | 151,830 | 165,039 | 155,000 | -53% | -6% |
| Total Fishing Expenses | 595,531 | 278,075 | 404,763 | 374,000 | -32% | -8% |
| Total Vessel Owner Expenses | 205,442 | 158,596 | 175,835 | 184,000 | -14% | 5% |
| Net Profit (before depreciation & interest) | 164,905 | 79,990 | 95,503 | 72,000 | -42% | -25% |

Economic Survey of the North Sea and West of Scotland Whitefish Fleet

Key Features

Summary

- Future fisheries management decisions must take into consideration the current fragile financial health of the whitefish fleet.
- The whitefish fleet has experienced a 50% cut in vessel numbers since 2000.
- Vessel earnings fell by an estimated 27% between 1998 and 2001, but have since stabilised with a 9% increase in income expected between 2001 and 2003.
- The average net profit margin for whitefish vessels in 1998 was 18.6%, compared to 5.6% in 2003.
- A fall in the volume of landings and depressed market prices, combined with increases in quota leasing, insurance and fuel costs have squeezed vessel profit margins.
- Despite the difficult economic conditions there has been some investment, with 50% of those surveyed investing in quality on board practices in the last 12 months.

Background

The Cod Recovery Programme, effort limitation, decommissioning, low quotas and increasing competition from imports are influencing the changing structure and viability of the whitefish fleet.

Fisheries management decisions, culminating in the December 2003 Fisheries Council, will shape the future structure of the UK whitefish fleet. It is therefore imperative that up-to-date, timely, economic information is available to the industry and fisheries managers.

The 2001 Economic Survey of the UK Fishing Fleet was the most recent nation-wide economic survey of the UK catching sector. This new study presents updated financial information from 1998 to 2003 on five sectors of the North Sea and West of Scotland (NS & WoS) whitefish fleet. These are: -

North Sea & West of Scotland Demersal Trawl >24m

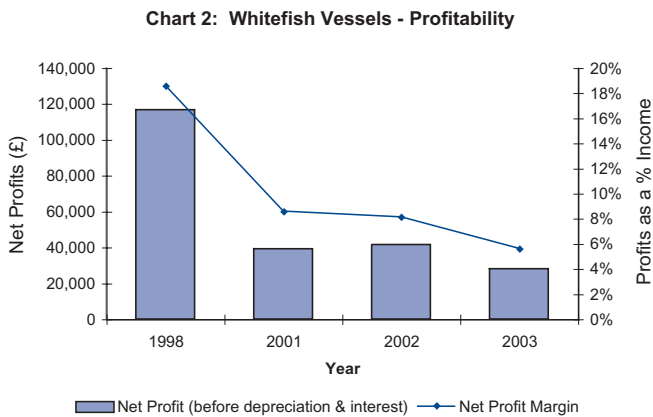
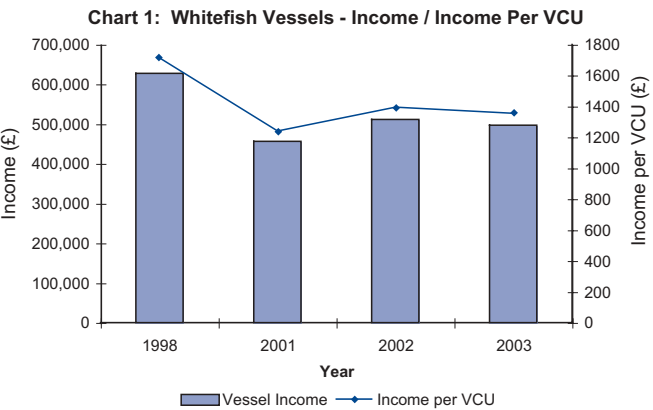
North Sea & West of Scotland Demersal Trawl, <24m, >300kW

North Sea & West of Scotland Demersal Trawl, <24m, <300kW

North Sea & West of Scotland Seine Netters

North Sea & West of Scotland Twin Rig Whitefish Trawl

All UK registered vessels fishing areas Vlab and IVabc (with greater than 50% of the value of their catch constituting whitefish in 2002) were included. Financial information was collected on 107 vessels, representing a sample of 38% of the fleet. In addition, 40 interviews with skippers, vessel owners and agents were carried out during September and October 2003.



Industry Structure

The whitefish sector has declined in economic and social importance over the last 10 years. This sector does however continue to make an important direct and indirect economic contribution to many fishing communities.

Fisheries department statistics report a 24% fall in whitefish vessel numbers between 1998 and 2002 (see Chart 3). Decommissioning in 2003 will remove over 70 vessels from the Scottish fleet, with a further 20-25 vessels likely to be decommissioned in England and Wales. Over the last year, a number of whitefish vessels have also been sold overseas, with others switching to targeting nephrops where possible. We estimate that in 2004 there will be a dedicated whitefish fleet fishing the North Sea and West of Scotland of around 220 vessels. This represents a 50% fall in vessel numbers from 2000.

Onboard employment (FTE) is estimated to have fallen by 36% over the last five years to 1,727 in 2002. A reduction in vessel numbers and average number of crew has contributed to this fall.

Fleet Performance

A summary of the financial performance of the whitefish fleet is provided in Table 1.

Income

Income for whitefish vessels fell by 27% between 1998 and 2001. The latest results however point to some stability, with a 9% increase in vessel income between 2001 and 2003 (see Chart 1). In 2002, the average vessel income ranged from £280,275 for demersal trawlers <24m, <300kW, to £696,353 for >24m demersal trawlers.

A 28% fall in average income per vessel capacity unit (VCU) was recorded for whitefish trawlers from 1998 to 2001. Earnings have improved slightly in 2002/2003 to £1,350-£1,400 per VCU.

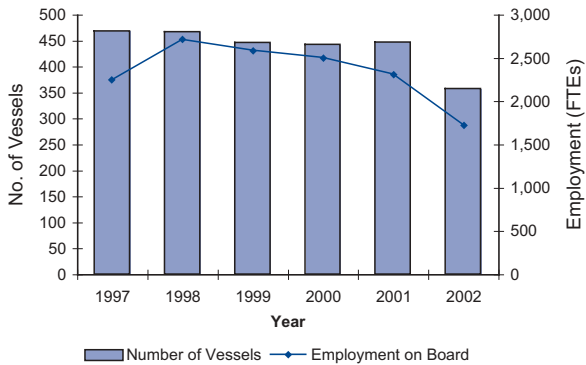
Days at sea limits and low quota levels were highlighted by many skippers as the major restrictions on vessel earnings.

Restricted fishing opportunities are not the only influence on vessel earnings. Low quayside prices (particularly haddock) have also influenced vessel earnings over the last 12 months. The important contribution cod makes to vessel income was stressed by a number of skippers.

Imports (mainly from Iceland and Faeroe), and an increasing trend to by-pass the market are the main factors depressing quayside market prices. Reduced buyer concentration may also be an influence. In many respects quayside markets are now a top-up source of supply.

Transitional aid was a welcome source of non-fishing income in 2003. A number of skippers interviewed stressed that without this assistance they would have likely gone out of business in the last 12 months.

Chart 3: Whitefish Sector Vessels / Employment



Expenses

Expenses are split between fishing expenses (fuel and oil, boxes, ice, food and stores, commission, harbour dues, subscriptions and levies, shore labour, travel costs, crew share) and owner expenses (vessel gear and repairs, insurance and the hire and maintenance of electronic equipment).

The biggest change in fishing expenses over the last 6 years has been an increase in quota leasing and fuel costs. Fuel costs have increased from £43,219 in 1998 to £79,631 in 2002 for whitefish vessels. Costs are expected to increase by a further 5% in 2003.

Whitefish quota levels set for 2003 have forced almost all vessel owners to lease quota. Over the last year whitefish vessel owners have leased on average around £15,000 worth of quota, with some owners spending up to £60,000. The leasing of quota was highlighted by many skippers as a serious issue facing the fleet.

An increase in fishing expenses combined with a fall in income has had a direct impact on crew share. The crew share for whitefish vessels in 2002 was £146,264, representing a 34% fall from 1998. In 2002 crew costs ranged from £86,210 for <24m, <300kW demersal trawlers, to £203,164 for >24m demersal trawlers. Many vessels are now fishing with less crew (not always through choice) to keep costs to a minimum.

Owner costs have increased by 16% from 1998 to 2002. This increase is being driven mainly by insurance costs. Vessel owners have however taken steps to minimise costs over the last year. 40% of those surveyed have cut back on gear and vessel repairs where possible, while 30% have sourced cheaper insurance.

Quota leasing costs, an increase in fuel prices and insurance premiums have reduced crew share and vessel profitability in 2003.

Profitability

Net profit levels in the whitefish fleet are estimated to have reduced by 64% between 1998 and 2002 (see Chart 2). Net profit for whitefish trawlers in 2002 was £41,620 compared to £116,741 in 1998, and is expected to fall by 33% between 2002 and 2003, to £28,000. The net profit margin for whitefish vessels in 1998 was 18.6%, compared to 8.1% in 2002, and an expected 5.6% in 2003.

In 2002, the net profit margin ranged from 12% for <24m, <300kW demersal trawlers, to 5% for >24m demersal trawlers.

Please note that net profit is before vessel interest payments and depreciation. Only limited information has been collected on vessel loans and overdrafts. Nevertheless, we estimate that factoring-in interest payments alone reduces the overall average net profit in 2002 from 8% to 4%. The low level of profits recorded across the whitefish fleet inhibits future investment. Factoring-in depreciation will impact further on net profit.

Investment

Low profit levels combined with uncertainty of future fishing opportunities has restricted the ability of many owners to modernise or replace their vessel. If current low profit levels continue there may be serious implications for the long-term sustainability of the whitefish fleet. Quality, health and safety may also be compromised under such conditions.

A wide range of debt levels was reported across the vessels surveyed. Although difficult to quantify, we estimate the average debt for a whitefish vessel to be £500,000. Despite low interest rates, a number of vessel owners are struggling to repay debts and are relying on banks to keep them in business.

Despite the difficult economic conditions, there has been some investment in the fleet. This consisted mainly of carrying out major repairs, quota purchase, or investing in quality. 50% of those interviewed have invested in quality practices (e.g. weighing at sea, on-board ice-making and smaller box weights). There have also been a few business minded skippers who have invested in new builds in the last five years.

Conclusions

The whitefish fleet has restructured in the last three years, with decommissioning removing half the fleet over this period. The Cod Recovery Plan has resulted in significant quota reductions, area closures, increases in mesh size, effort limitation (days at sea) and structural adjustment.

This survey highlights a significant reduction in both vessel earnings and net profit since 1998.

A number of external pressures have influenced the economic performance of the fleet. Reduced quotas and the number of days at sea has restricted the financial performance of the fleet. Import competition and the increasing trend to by-pass the market are the main factors depressing quayside market prices and vessel income. An increase in quota leasing, insurance and fuel costs have also increased overall vessel costs.

Profit margins in the whitefish fleet are extremely low, and have been for five years. There are signs however that vessel earnings have stabilised (albeit at relatively low levels). Low profit margins combined with the short-term nature of fisheries management are inhibiting investment. Skippers and vessel owners remaining in the fleet (following the 2003 decommissioning scheme) have however shown a long term commitment to the industry.

Management decisions made in the coming weeks may determine the future of the UK whitefish fleet. It is therefore vitally important that any management measures placed on the fleet take into consideration the current fragile economic health of the UK whitefish fleet. It is desirable to achieve sustainable fish stocks, but economic sustainability is also essential to ensure the future of the UK whitefish industry.

To order copies of the full report “2003 Economic Survey of the North Sea and West of Scotland Whitefish Fleet”

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