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CABINET

MINISTERIAL COMMITTEE ON ECONOMIC STRATEGY

AID FOR THE FISHING INDUSTRY

Memorandum by the Minister of Agriculture, Fisheries and Food and the Secretaries of State for Scotland, Wales and Northern Ireland

BACKGROUND

1. The Cabinet on 5 February (CC(81)5th Conclusions, Item 3) agreed that it was necessary to give some immediate indication of the Government's concern over the plight of the fishing industry. The Prime Minister said that she would take an early opportunity of indicating that the Government was ready to review the amount and duration of aid to the fishing industry and we were invited to review its financial state and report, with proposals.

2. The analysis annexed to this paper, which has been produced by officials in our departments and agreed with Treasury officials, brings out clearly the financial pressures bearing on our fishing industry.

3. Arriving at firm figures for an industry comprising so many small units is very difficult but the information provided by the industry suggests that in 1980 it suffered a gross cash outflow, before subsidy, which may have been as high as £44 million made up of operating losses of £7 million, interest charges of £19 million and capital payments of £18 million. The special subsidies of about £13 million paid last year reduce this figure to just over £30 million. The imprecise nature of the information available for some parts of the industry means that this figure may be subject to a wide margin of error. However, it is impossible to avoid the conclusion that the industry entered 1981 in a seriously weakened state.

4. We cannot be precise about how the industry will fare during 1981. However, the evidence on the industry's indebtedness at the end of 1980 is sufficiently good to indicate that it will need to be able to meet interest payments of some £9 million and capital payments of another £9 million over the first half of this year. It is equally clear that the trends in costs and quayside prices mean that the industry's operating losses are likely to be substantially higher in the first half of this year than they were in the second half of 1980. The British Fishing Federation, whose members account for only 20% of the United Kingdom catch, have forecast an operating loss of £5.5 million for this period. We estimate from the information supplied by industry organisations which represent all sectors of the United Kingdom inshore fleet that the operating losses in the inshore fleet will be about £5 million for this period. This indicates a gross cash outflow for the whole industry of £28-29 million between January and June, which will be offset only by the £2.5 million of the subsidies granted last year which was paid this spring, a deficit of some £26 million.

5. This picutre of the industry's economic prospects, taken with the continuing uncertainties over the outcome of the Common Fisheries Policy negotiations, makes it clear why the industry is in the state of anxiety and restlessness which led to the recent fishermen's strike. We must expect further unrest if no action is taken to ameliorate the industry's position.

6. Fishermen perceive the main problem to lie with unduly low prices, which are much influenced by imports, and the fact that their fuel costs - which can represent up to 30% of total operating costs - are higher than those of their competitors.

7. There is no scope for action which would significantly affect prices. It would, however, be possible to act on fuel costs by providing fuel subsidies as the French do and, as we understand, the Belgians are planning to do.

8. More generally it is evident that unless new aids are provided for the industry we risk not only weakening even further the financial basis of our fleet but also losing, irretrievably, the confidence and support of the industry which we must have whilst we seek to complete the negotiations on the Common Fisheries Policy.

9. To meet our obligations to the industry we must provide aid commensurate with the scale of its problems and in a manner most likely to be effective. We therefore propose that £25 million in cash should be made available for new support for the industry to reflect its needs between April and September.

10. We recommend that, of this sum, £20 million should be made available as an advance from the Contingency Fund to finance a Fishing Vessel Support Scheme on the lines of that introduced last August, which we would aim to introduce and pay as soon as possible. The balance of £5 million we would propose to allocate to a fuel subsidy at a rate of 10% of cost. Since we are unlikely to be able, for administrative reasons, to implement a scheme before July it would be appropriate to provide for it to run until March 1982.

11. The necessary provision amounting to £25 million in cash (19.4 million at 1980 survey prices) could not be met from offsetting savings and could therefore only be met if it were accepted as a claim on the Contingency Reserve. Once an agreement on a Common Fisheries Policy has been reached it will be necessary to provide finance for an agreed Community restructuring programme, and such assistance, already agreed in principle, would now have to be found from the Contingency Reserve.

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Ministry of Agriculture, Fisheries and Food
23 March 1981

ANNEX

THE FINANCIAL POSITION OF THE FISHING INDUSTRY

BACKGROUND

1. We have received and assessed information concerning the industry's financial difficulties from each of the main fishermen's organisations in the UK. The British Fishing Federation (B.F.F.), which represents the major vessel-owning companies who take about 20% of the U.K. catch by volume, presented information for actual performance during the second half of 1980 and forecast performance for the first half of 1981, based on a 90% sample of their membership. The other organisations which provided figures were not able to provide such comprehensive information, reflecting the fact that they represent large numbers of small partnerships and individuals. Nevertheless, their information, taken together with information available to departments, does enable us to draw up a picture of the financial condition and prospects of the inshore sector of the fleet throughout the United Kingdom.

THE POSITION IN 1980

2. The B.F.F. figures show a negative cash flow for the six months to December 1980 of £7.1 million of which £4.2 million was represented by operating losses, £1.42 million by interest charges and £1.44 million by capital repayments on loans. No figures are available for the first six months of 1980 but figures provided last year covering the six months to March 1980 taken with those mentioned above suggest that the net cash outflow of members of Federation was of the order of £11-12 million for the whole of 1980, before account is taken of payments under last summer's Fishing Vessel Support Scheme and the earlier FPO Subsidy Scheme.

3. The Scottish figures derive from information based on a sample of 89 boats submitted by the Scottish Fishermen's Federation (S.F.F) which, supplemented by other material made available to the

Department of Agriculture and Fisheries for Scotland, suggests that the Scottish fleet, which takes about half the United Kingdom catch, achieved a small operating surplus of about £2.5 million in 1980. This was more than offset by interest charges and capital repayments which are estimated to have been of the order of £12 million and £11 million respectively. Taken togeth these figures indicate a negative cash flow for this part of the industry in the region of £20 million before account is take of subsidy. These figures rely on the industry's expereince tha capital payments are made over seven years; since this is not long in comparison with the expected life of a vessel, it is possible that banks will show flexibility in extending the repayment periods.

4. The Scottish figures show the position in respect of about five eighths of the catch of the United Kingdom inshore fleet. Figur relating to the balance of this sector of the fleet have to take account of information provided by the National Federation of Fishermens Organisations (N.F.F.O) who gave us a localized sample of 91 vessels which, together, recorded an operating loss of £313,000 and interest payments of £375,000 during 1980. Gross up these would indicate an operating loss of £3.6 million and interest payments of £4.2 million for this part of the fleet. Th NFFO gave no information on capital payments, but payments of the order of £4 million would be consistent with the interest payments quoted. Together these figures imply a total net cash outflow of about £12 million before subsidy. Information about trends in Northern Ireland is consistent with this conclusion.

5. Taken together the figures set out above indicate a total cash outflow, before subsidy, for the fishing industry as a whole of some £44 million in 1980. The small size of the SFF and NFFO samples mean that the calculations are subject to a wide margin of error; however, even allowing for a 20% overstatement, the figures would give a total cash outflow of some £35 million.

6. If the range of gross cash outflow is taken to lie in the range £35-44 million, Government assistance paid to vessel owners through the Fishing Vessel Temporary Support Scheme (£11.6m in 1980) and the Fish Producers' Organisations Subsidy Scheme (£1.2 m paid directly) would have reduced the net cash outflow to a figure in the range £22-31 million.

7. These figures are confirmed as being of the right order of magnitude by returns provided by the Bank of England and other supporting information provided by the industry. The Bank figures show that the U.K. fishing industry's bank indebtedness rose by £21 million in the year to November 1980. Additionally officials estimate, after discussion with the accountants who prepared the B.F.F. figures, that B.F.F. members used some £4 million from inter-company borrowings and sales of assets, including vessels, to fund part of their negative cash flow. Equally the other sectors of the industry will have been able to utilise resources such as non-bank borrowings (for example the SFF have indicated that the indebtedness of fish salesmen who are part owners of vessels but who are excluded from the Bank of England's definition of the fishing industry, is estimated to have risen by perhaps £2 million) and income tax refunds. The industry therefore entered 1981 in a seriously weakened state.

THE POSITION IN THE FIRST SIX MONTHS OF 1981

8. There are obvious difficulties about forecasting the industry's cash flow position over the coming months. Data are available showing the indebtedness of all sectors of the industry at 31 December 1980. After taking account of the recent reduction in MLR the capital repayment and interest charges for the first six months of 1981 are each likely to be of the order of £9 million, totalling £18 million.

9. Officials have been unable to agree a figure for operating loss over this period. However, data supplied by the BFF suggests that their members, who account for about 20% of the total UK catch, face an operating loss of about £5.5 million over this period. The difficulties facing the industry have since been confirmed by evidence available from price and volume of catch figures for the major species (cod, haddock and plaice) at the main English ports showing that total gross returns this January were 29% below, and those in February were 32% below, the previous year's level, although it must be noted that the February figures were to some extend distorted by the "fishermen's strike". This leads to the conclusion that, while it is not possible to make a reliable quantitative forecast for the industry as a whole, there is every reason to believe that the industry will suffer a further deterioration in its overall position, possibly a very substantial one, compared with the last six months of 1980.

23 March 1981