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Extract from Rigsrevisionen's report on
**quota concentration in
the Danish fishing industry**
submitted to the Public Accounts Committee



1849
147.281
237
1976
114.6
22.480
908

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1. Introduction and conclusion

1.1. PURPOSE AND CONCLUSION

1. This report concerns quota concentration in the Danish fishing industry. In 2002, the Danish parliament decided to reform the Danish fishing industry and introduce transferable fishing quotas, which meant that Danish fishers were allowed to buy and sell quotas, i.e. rights to catch a certain amount of fish. Transferable quotas replaced ration fishery, where all vessels had equal access to catch a certain amount of fish, for instance every week or month. The ration fishery made it difficult for the fishers to plan their work and earn an income that would also allow them to replace an ageing fleet of vessels.

2. The purpose of the reform was to improve the economic viability of the fishing industry, make the system more flexible, and modernise and adapt the capacity of the fleet to the fishing opportunities. However, the introduction of transferable quotas was not intended to lead to excessive concentration of quota ownership.

It is the Ministry of Environment and Food's responsibility to implement and support achievement of the objectives of the reform. The Danish parliament expected the fishers' economy to improve following the introduction of the quotas per se, but also foresaw a risk that quota ownership might be excessively concentrated. A prerequisite for achievement of the objective to improve the economy of the fishers, without excessive concentration of quotas, is therefore that the ministry monitors the development and intervenes by setting rules to prevent excessive concentration of quotas. The Danish parliament has not offered any exact definition of excessive concentration. According to the comments to the law, the ministry was instructed to establish and keep a fishing quota register in order to ensure the transparency of quota ownership and provide a basis for checking compliance with the regulations.

3. The purpose of the study is to assess whether the Ministry of Environment and Food has supported the parliament's intention concerning concentration of quotas. The report answers the following questions:

- Has the Ministry of Environment and Food provided rules that support the parliament's intention not to excessively concentrate quota ownership?
- Has the Ministry of Environment and Food established a system that ensures satisfactory management of quota ownership?

Rigsrevisionen initiated the study in May 2016.

CONCLUSION

Rigsrevisionen criticizes strongly the Ministry of Environment and Food's management of quota ownership, which has not supported the Danish parliament's intentions concerning excessive concentration of quota ownership. Rigsrevisionen's assessment is based on the following findings:

First, the ministry has not provided rules that support the parliament's intention concerning quota concentration; the ministry has not provided clear operational goals that provided a basis upon which it could be determined when quota concentration was excessive, and, in reality, the rules have not consistently been able to serve as an effective limit on quota concentration. At the same time, the ministry has failed to monitor the development in total aggregate quota concentration over time, and it has relied on incomplete data.

Subject to the uncertainty of the ministry's data, Rigsrevisionen's comparison of the ministry's data shows that the 16 largest ITQ fishers' ownership of the total ITQ has increased from 53 per cent in 2012 to 66 per cent in 2017. The comparisons also show that the ten largest VTQ owners within specific fishing segments had ownership of, on average, 40 per cent of the VTQ fishery in 2011. This share has increased to 47 per cent today in spite of the political aim to limit further concentration of quotas by the regulations adopted in 2012.

In response to political requests, the rules governing quota concentration have been changed several times by limiting the number of quotas that could be held by the individual fishers. The ministry kept the limit on ITQs at 10 percent in the period from 2006 to 2009, but changed the basis for the calculation of quota concentration in 2009 and 2014, which gave the fishers access to acquire more quotas without exceeding the limits for quota ownership.

In principle, the decision to calculate quota concentration based on the Danish final quota rather than on the initial quota meant that, on paper, concentration of ownership would be lower if the final quotas were generally larger than the initial quotas. Rigsrevisionen finds it unsatisfactory that the ministry, in connection with the study, has not provided a basis for estimating the impact of this change on the calculation of quota concentration. The changed basis for calculation implemented in 2014 also had the consequence that the fishers could swap some of the quotas that are included in the calculation of quota concentration with international quotas that are not included in the calculation.

The change implemented in 2009, which involved the merger of several ITQs into one quota, also had the consequence that the individual fishers' share of the total ITQ could change without any active interference from the fishers. This was possible because the calculation of quota concentration, rather than being exclusively based on the share of quotas owned by the individual fishers, became increasingly dependent on fluctuations in the size of the quotas.

ITQ

ITQs (Individual Transferable Quotas) placed on herring, mackerel and industrial fishery.

VTQ

VTQs (Vessel Transferable Quotas) placed on fishing stocks for consumption such as cod, Norway lobster and plaice.

FINAL QUOTA

Denmark's quota after adjustments (based on scientific advice) and international quota swaps.

INITIAL QUOTA

The fishing quota allocated to Denmark by the EU at the beginning of the year.

It is Rigsrevisionen's assessment that the changes have, in practice, complicated the administration of the ministry's current rules governing ITQ concentration and turned the limits on the number of quotas that can be held by individual fishers into flexible rather than fixed limits.

Second, the Ministry of Environment and Food has not established an administrative system that allows the ministry to determine accurately how many quotas the individual fishers hold. The ministry has not had the most basic administrative set-up in place to register trade with quotas, and thereby also quota ownership, correctly. Standard administrative procedures, such as exact rules for reporting transfers of vessels and quotas, instructions for case workers and procedures for assuring the quality of documentation received, have to date been non-existent. In consequence, the basis for calculating quota ownership and quota concentration has been completely inadequate.

Rigsrevisionen has established that fishers have exceeded the limit on quotas ownership on several occasions due to the ministry's inadequate administration of quota ownership. To this should be added that the ministry has failed to stop trades in quotas, that had the consequence that the fishers buying quotas exceeded the limit. On two occasions, the ministry has also granted exemptions to fishers, who, according to the ministry's incorrect registrations, had exceeded the limit for quota ownership. Overall, Rigsrevisionen concludes that the ministry's current practice of registration of ownership is too affected by error to be useful. Rigsrevisionen finds it unsatisfactory that the ministry's control of compliance with the rules has been inadequate, and that the ministry has passed incorrect information on to the parliament on the basis hereof.

It is Rigsrevisionen's overall assessment that, for a number of years, the ministry has estimated the ITQ concentration based on incomplete data, different methods of calculation and incorrect registrations of transfer and ownership of quotas. At the same time, international swapping of quotas has provided an option to swap quotas that should have been included in the calculation of quota concentration. As a result, neither the ministry nor the public has an accurate picture of the concentration of quota ownership.

On the basis of the study, the ministry has informed Rigsrevisionen that the ministry will commission a retrospective analysis by an external party to determine in more detail the scale of the problems identified by Rigsrevisionen. The analysis will address the appropriateness of the current system of regulation, including the desirability of the current extensive trade with quotas. The analysis will also look into the appropriateness of having one overall limit on quota ownership for all ITQ species rather than having limits for each individual ITQ species, the rules concerning controlling interest in and real ownership of commercial fishing companies and the problems associated with using initial or final quotas for the estimation of quota concentration, as pointed out by Rigsrevisionen.

The ministry has asked the police to investigate the cases where Rigsrevisionen has found reason to suspect that a criminal offence has been committed.