

International Coalition of Fisheries Associations

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South Pacific Regional Fisheries Management Organisation – Funding Discussion Paper

1. Introduction

- 1.1 This paper was prepared for the International Coalition of Fisheries Associations by its New Zealand member, The New Zealand Seafood Industry Council.
- 1.2 The paper discusses approaches to funding the SPRFMO annual budget once the Convention comes into force. It explores the three components that have been discussed by participants as forming the basis for contributions:
 - A fixed basic fee
 - A variable fee based on national wealth
 - A variable fee derived from the historic record of fishing in the SPRFMO area
- 1.3 It also explores the relative weightings that could be given to each component and some rationales that might be used to determine an appropriate total weighting for each component.

2. Letter from Chair – 3 December 2010

- 2.1 The Chair, Bill Mansfield, circulated a letter to all participants on 3 December 2010 that recalls the discussion on this item at Prepcon 1 and has a spreadsheet attached to it prepared by the Secretariat as “an illustration, in as reasonably realistic a manner as possible, of how a notional budget might be spread amongst a notional number of members with notional combinations of wealth and catches”.
- 2.2 The spreadsheet proposes a split of the annual budget between the three components noted above of
 - Basic Fee – 10%
 - Wealth Based Fee – 40%
 - Fishing Based Fee – 50%

3. Basic Fee

- 3.1 The discussion at Prepcon 1, based on a discussion paper prepared by the European Union (PrepCon-01 – Inf 03) proposed a Basic Fee divided in equal shares among all members that would provide 10% of the total annual budget.
- 3.2 Such a flat fee component appears reasonable as a basic contribution for all members, regardless of economic status or participation in fishing, as an expression of their national interest in the business of SPRFMO.

4. Wealth Based Fee

- 4.1 The same discussion paper (PrepCon-01 – Inf 03) proposes that the wealth based component identified in the Convention Text account for 40% of the total budget. This

proportion is repeated in the Secretariat's illustrative spreadsheet attached to the Chair's 3 December 2010 letter.

- 4.2 The spreadsheet suggests dividing the wealth based contribution into two parts – 20% of the budget collected based on the total GNI of each member and 20% of the budget collected based on the total GNI per capita of each member.
- 4.3 It is suggested however, that there is a need to examine from a policy perspective what is the most appropriate proportion of the outstanding 90% of the budget that should be collected either on a measure of national wealth, or related to fishing (which is the other basis upon which contributions to the budget should be calculated).
- 4.4 Is there any part of the annual budget of SPRFMO that is more appropriately attributable to national good interest or "public good"? Are there, for example, "public good" elements in the operational budget that would be inappropriate to attribute to fishing that might otherwise be paid for from the economic benefits of fishing?
- 4.5 It is suggested that, to the extent that there are such "public good" costs that are not fully covered in the flat membership fee, they could be collected through a fee component based on national wealth. One such, for example, could be to make contributions to a fund to facilitate the participation of developing state contracting parties provided for in Annex 2 to the draft Financial Regulations. It seems unlikely that, in total, all the attributable "public good" costs will amount to as much as 40% of the total annual budget as has been suggested in previous papers or as has been reflected in the Secretariat's spreadsheet.

5. Fishing Based Fee

- 5.1 It is suggested that, as a matter of principle and to the maximum extent possible, those who derive the most economic benefit from the fisheries in the SPRFMO area should be responsible for paying the costs of the annual budget. It is also suggested that attribution of costs to the economic benefits of fishing should be done in ways that might encourage those costs to be recovered from the commercial beneficiaries of fishing. It is suggested therefore that participants give careful consideration to finding bases for collection that relate realistically to fishing operations and to the relative commercial values of the fish species that are being caught. In so doing, SPRFMO may be able to be established on a funding basis that minimises fishing activities being implicitly or explicitly subsidised.
- 5.2 The Secretariat's spreadsheet explores collecting a budget contribution of 50% from the historical catches attributable to member states primarily as flag states. It further proposes that the contribution be split between pelagic and demersal catches on the basis of 40% to pelagic and 10% to demersal catches. There is no examination of how this split relates to the relative landed values of the fish species concerned. This will be explored in some detail further on in this paper.
- 5.3 Basing fees on historical catches has a simple logic to it – it reflects historic records and is relatively readily calculated for billing to member states. However, past history will not necessarily align well with the way the fishery is actually being conducted and may present problems in enabling the fees to be equitably passed on to commercial operators relative their actual available catch opportunities. This is especially so as the most recent history of fishing has taken place in the context of a significant increase in fishing capacity and catch in the mackerel fishery that seems unlikely to be sustained in the medium term. Basing fees on catch history may also unduly influence decisions on future access and allocation – despite best endeavours to avoid such linkages. Finally, basing fees on historic catches and their historic distributions between participants may not align well with the way access to the fishery is controlled in the future, if that control is based on permitting vessels and managing effort rather than allocation of tonnages or proportions of total allowable catches.
- 5.4 Having noted those concerns, it is also acknowledged that SPRFMO will be a membership based organisation that needs assurance that its funding needs can be secured in advance.

Therefore it is unlikely that recovering costs through mechanisms that link dynamically to the conduct of the fishery in a real-time sense may be practical, regardless of how desirable they may be from an equity and incentive point of view.

6. Calculating Fees on Effort rather than Catch

- 6.1 Relating funding to effort rather than catch has not been explored in the Secretariat's spreadsheet. It was explored to a limited extent in the discussions among participants at PrepCon1, but no conclusion was reached.
- 6.2 Historic effort can be calculated just as readily as historic catch and effort has a better alignment to the current interim measures applying to the mackerel fishery. It may also be more readily used as a stable basis for calculating current and future interest in the fishery rather than actual catch achieved.
- 6.3 For example, fees could be calculated on an historic basis of actual numbers of vessels that participated in the fishery in a given period from each flag state with a weighting based on the GRT or GT of each vessel. The weighting might be fine-tuned by reference to the relative value of the species taken to further ensure that there is relative equity between catches taken by vessels in pelagic fisheries and vessels operating in demersal fisheries. In the case of Chile and Peru, the fees might be further adjusted to take account of the proportion of their fishing effort that fished for only part of the year in the SPRFMO area.
- 6.4 A portion of the fees could be collected based on permits issued by flag states for the current year, rather than being solely based on past history and thus contributions to the budget could be quite closely aligned in time to current interest in the fishery.

7. Relative values of fish species and fisheries

- 7.1 The Secretariat's spreadsheet suggests that the fishing related portion of the budget be allocated 40%/10% (or 4:1) between pelagic catches and demersal catches. The volume relationship upon which this allocation is based is 920,000tonnes of pelagic catch/2,382 tonnes of demersal catch. This implies that the average total value of the 920,000 tonnes of pelagic catch is equal to four times the average total value of the demersal catch. The total volume of demersal catch is one quarter of 1% of the volume of pelagic catch in the Secretariat's spreadsheet. This implies that one tonne of demersal catch is worth 100 times the value of one tonne of pelagic catch. It is acknowledged that on a per tonne landed basis there is a considerable difference in value between jack mackerel and orange roughy, but the value ratio per tonne of fish is nowhere near the 100:1 value ratio that is implied in the value split in the Secretariat's spread sheet, even if 100% of the jack mackerel catch were to be used for fish meal rather than the direct, human consumption food use that most of the high seas catch is destined for.
- 7.2 Jack mackerel is caught in the New Zealand fishery and is mostly exported as human consumption food fish to similar markets that buy jack mackerel from the SPRFMO high seas fishery. The average export value at the free-on-board stage for whole jack mackerel exported from New Zealand in the 12 months to October 2010 was NZ\$958/tonne¹. The average value for whole, frozen orange roughy exported from New Zealand (principally to China for further processing) in same period was NZ\$4486². This evidence suggests that a more appropriate value relationship between jack mackerel and orange roughy is 5:1.
- 7.3 On this basis, a market value-based attribution of the 50% of costs proposed for recovery from fishing would be for demersal catches to contribute \$6500 and pelagic catches to contribute \$493,500. This would be equivalent to \$0.536 per tonne for pelagic catches and

¹ Source: Statistics New Zealand and Seafood Industry Council Export Data Base

² Ibid

\$2.729 per tonne for demersal catches – a value ratio of 5.15:1. If expressed as a percentage of unprocessed value, using the New Zealand export values as a reference, the contribution from pelagic would be equivalent to 0.055% of value and the contribution from demersal fisheries would be equivalent to 0.06% of value.

- 7.4 As a rule of thumb for estimating the appropriate contribution that should be collected from demersal fishing and from pelagic fishing, if the contribution from fishing is to be based on landing rather than effort, it is suggested that one tonne of demersal landings should be regarded as equivalent in value to 5 tonnes of pelagic fish.
- 7.5 It should be noted that not all pelagic landing are jack mackerel and not all demersal landings are orange roughy. The following are the NZ\$ fob values³ for whole frozen exports of other species included in the list of species encompassed by the SPRFMO agreement:

Oreo dories	\$ 1,309
Alfonsino	\$ 3,000
Bluenose	\$12,560
Cardinal fish	\$ 3,889
Patagonian toothfish	\$21,000
Bass/Groper/Wreckfish	\$10,075
Squid	\$ 2,702
Other mackerels	\$ 981

³ Ibid