

EXECUTIVE COUNCIL

CONFIDENTIAL

Title of Report: *Illex* Fees - 2012
Paper No: 204/11
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Report of: Director of Natural Resources

1.0 Purpose

This paper considers *Illex* licence fees for 2012. It proposes that the fee structure used in the 2011 season be maintained for the 2012 season. It also proposes that the refund policy continue. This paper is very much a re-run of a similar paper produced late last year in respect of the 2011 season (Exco 277/10).

2.0 Recommendations

That Executive Council be advised to recommend as follows:

- (a) That the fees and fee structure applied to the 2011 *Illex* season be maintained for the 2012 season, including the full range of discounts.
- (b) That the refund policy introduced for the 2011 *Illex* fishery be maintained for the 2012 season.
- (c) The calculation of any refund be linked to catch value, for any value above the current base value, in addition to catch volume.
- (d) That the refund policy published in the advance of the season be applied to vessels which tranship in Falkland ports or harbours and co-operate fully with the catch verification process. Vessels not satisfying those criteria will be eligible for a refund but not under that published policy and consequently the refund rate may be different.

3.0 Summary of Financial Implications

No immediate financial implications. The licence revenue stated in the current estimates remains the target, although the potential variability on *Illex* revenue is well known.

4.0 Background

4.1 The paper attached as Annex A sets out the information on *Illex* fees used for 2011. The information reflects decisions which have been implemented over a number of years. A clear refund policy is set out. *Illex* fees are typically of the order of £ 90 000 per vessel and as in most FI fisheries the objective has been to aim for a 10 % fee/revenue target.

4.2 The changes implemented back in 2010 were intended to make FI licences more attractive both for existing customers and any new customers. The revised arrangements seemed successful in that 70+ licences were taken up in 2010 and 92 licences in 2011, compared to c. 45 in the two previous years, although other factors may also have contributed. 2010 was a poor year and resulted in refunds of 90% of fees. 2011 was a better year catch wise, and additionally the value component of the catch dictated no refunds. *Illex* revenue for the 2011 season was of the order of £8.8 Million. The refund issue which was considered by Exco in July (181/11) was to do with the various periods in the season and is not a problem with the refund policy per se. Applications for the last period may not be forthcoming unless it looks as if there is a strong finish to the season and/or it has been a late season.

4.3 The fee level together with the various discounts used in recent years appears sustainable. The 2011 season was better than some previous seasons but it has not transformed the fortunes of the industry. By comparison it was a good year for fisheries revenue for FIG but it is not the continuous stream of revenue once produced by this fishery. It is known that one company will not return next year and not all companies find it straightforward to raise funding. In 2011 the fee/revenue ratio was probably down around 7%, whereas in 2010 it would have been more like 27% prior to the refund. The refund would have had the effect of reducing the fee/revenue ratio, but in a poor year like 2010 it doesn't make up for the fact that it was a very poor year. The catch was less than 200 tonnes per vessel so regardless of the fee/revenue ratio, companies would be struggling to make ends meet. In recent years the fee/revenue ratio has been averaged over 3 years to dampen some of the fluctuations happening previously, and on this basis there are few grounds for any change in *Illex* fees. The bigger game is in getting the numbers in. An increase in 10% on fees might be an extra £400 – 800K depending on the number of vessels. 80 customers compared to 40 customers is an extra £ 4 Million.

4.4 There has been a somewhat delayed consultancy and study on resource rents. The consultant(s) are due to visit in late September. This has no great bearing on the setting of *Illex* fees for 2012. The study has specifically addressed fisheries in the ITQ system where revenue is relatively stable, where local companies are involved and where there is potential for some trade off between the direct charging of access fees and raising revenue through taxation or alternative mechanisms. In any event it will be tight to move from the consultants visit in late September to setting fees for 2012 in time for the fishery starting. If anything, information has to be out earlier for the *Illex* fishery.

4.5 This issue was considered by the Fisheries Committee on 10th August 2011. It was agreed that the paper should proceed to Exco.

5.0 Financial Implications

There are no immediate financial implications. At current fee levels the total licence fee estimate is relying on £ 1.69 Million of *Illex* license revenue, which was also the case for the last financial year. This is pretty much as conservative an estimate on *Illex* revenue as has existed, which accords with government policy of marginalising fluctuations in such revenue, at least in terms of deficit control. The actual *Illex* revenue will depend on the season and could range from nil to c £ 9 Million.

6.0 Legal Implications

There are no legal implications providing the refund policy is made clear to applicants prior to submission of applications.

7.0 Human Resources Implications

There are no HR implications although the level of inspections of jiggers transshipping in FI harbours will have to be increased.

Annex 1

FALKLAND ISLANDS FISHERY

Illex fees 2011 and Ancillary Issues

1. Fee Formula – Jigging Vessels:

$$\text{Fee (£)} = \text{£}0.364 * (\text{GT} * (\text{S} + 1.5\text{D})) + 97280$$

GT = Gross Tonnage

S = Number of Single Jigging Machines

D = Number of Double Jigging Machines

2. Season:

The season runs from 15 February 2011 to 15 June 2011. The season is split into 3 periods which will be charged as a proportion of the full fee as follows:

Period	Proportion of Fee %
15 February – 15 March	5%
16 March – 15 May	80%
16 May – 15 June	15%
Total	100%

A minimum time period of 80% must be purchased.

3. Deposit and Payment:

A 10% deposit should be paid by **18 January 2011**. Outstanding payments for each period must be paid (received by FIG's bank) at least 15 days in advance of the relevant fishing period. Payments will be eligible for the early payment discounts set out below, providing the payment is made on time by the relevant date (for example in order to receive a 6% early payment discount on the full fee (100%), the entire fee would have to be received by FIG by 31 January 2011).

4. Early Payment:

The usual early payment discounts are available as follows:

6% for payment by 31 January 2011

5% for payment by 31 May 2011 *

4% for payment by 30 June 2011 *

* Payments can be held until these dates but must be guaranteed by an Irrevocable Letter of Credit or equivalent.

5. Vessel History Discount:

A discount of 1% per year is available for any season fished by the vessel in the last 10 years. The maximum discount which may be claimed is 10%.

6. a) Licence Fee Refund Policy:

In the event of a poor season FIG will take account of the average catch in assessing refunds. The refund policy will be based on catch as follows:

Catch (MT)	Percentage Refund
> 1500	0%
1500 – 1250	10%
1249 – 1000	25%
999 – 750	40%
749 – 500	50%
499 – 250	70%
< 250	90%

b) Licence Fee Refund Policy – Catch Value:

The refund policy is intended to be linked to catch and catch value. The base price used to calculate the figures in the table at (a) above is \$ 936 per tonne (whole *Illex*). If the 2011 *Illex* price is higher than the current base rate this will be factored into the refund calculation. In any case where the average *Illex* price is above \$ 936 the calculation will be:

*(Average Price \$ / \$ 936) * Average Catch = Revised average catch for refund.*

For example if the 2011 *Illex* price is \$ 1123.2 and the average catch is 1400 tonnes the calculation will be:

$$(\$ 1123.2 / \$ 936) = 1.2$$

*Average catch (1400 tonnes) * 1.2 = 1680 tonnes (This is the adjusted catch figure used for the refund calculation in the table at (a)).*

The adjustment will only be made if the price is above \$ 936. Price information will be collected from available sources.

c) Monitoring of Catch Levels

FIG will be the ultimate arbiter of catch levels and reserves the right to weight the assessment in favour of verified information. In order for this to work vessels may need to undergo additional inspections and give adequate notice of departure from the fishing zone etc.

This will be calculated on the basis of average vessel catch and not on an individual vessel basis.

The refund policy set out here in section 6 will only apply to vessels which comply with the requirements of catch monitoring. A number of these are covered by mandatory requirements which in any case are covered by the Fisheries Ordinance and regulations, such as:

- Full and reliable catch reporting
- Other fishery monitoring reports (Fishcom/end etc)
- Embarkation of an observer if required
- Sufficient notice of intention to leave fishing zones to allow for inspection

Additionally, the refund policy set out above will only apply to fishing vessels which conduct transshipment operations in Falkland Island ports and harbours. Vessels not complying with this voluntary measure will still be eligible for refunds in the event that the results of the season determine that a refund is due but the refund may be calculated at a different rate. It may be less than the rate that would be calculated by the procedures set out in **6 (a) & (b)** above in respect of vessels which are fully compliant.

7. Exploratory Licences:

FIG will consider the issue of one or two Exploratory Licences (at no cost) to allow verification of whether *Illex* are present in the zone. It will be a condition of such exploratory licences that an FIG Observer be carried. The duration of such licences will be limited, and may be curtailed if it is readily apparent that vessels could be operating successfully on a normal commercial licence.

John Barton
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30 November 2010