

EXECUTIVE COUNCIL

RESTRICTED

Title of Report: Fisheries Access Fees 2010
Paper No: 264/09
Date: 17 December 2009
Report of: Director of Natural Resources

1.0 Purpose

The purpose of this paper is to set fisheries access fees for 2010. Fees in respect of the *Illex* fishery for 2010 have already been set. The fees being set here relate to the *Loligo* and Finfish fisheries and deal with the fisheries which are now in the Individual Transferable Quota system.

2.0 Recommendations

That Executive Council be advised to recommend that:

- a) The fees for the Restricted Finfish and *Illex* (G) fishery, and the Restricted Finfish fishery (W/Z) be increased by 10%, and
- b) The fees remain unchanged in respect of the:
 - Loligo* (C/X)
 - Finfish (A/Y)
 - Skate and Rays (F/R)
 - Toothfish – Longline (L), and
- c) The fee level remains unchanged in respect of the Restricted Finfish – Pelagic (S) fishery, but that the TAC be amended in accordance with ExCo paper 260/09 and fees adjusted pro rata.

3.0 Summary of Financial Implications

	2009/10 £	2010/11 £	Full Year £
<u>Operating Budget</u>			
321 0070			
Decrease on Restricted Finfish – Pelagic fees	(181257)	(362513)	(362513) *
10% increase on ‘G’ and ‘W/Z’ licence types	137862 -----	198824 -----	198824 -----
	(43395)	(163689)	(163689)

* This is the same reduction in revenue as set out in ExCo paper 260/09 so should not be counted twice!

4.0 Background

- 4.1** This paper makes recommendations for all fisheries except *Illex*. The two distinct *Loligo* seasons are usually the subject of separate ExCo papers. This paper would normally deal with the February – April fishery, a second paper in the New Year would deal with the July – September fishery. It is advocated that fees for both *Loligo* seasons in 2010 be set now.
- 4.2** The general approach on setting access fees has been to aim for a specific ratio of access fees to revenue (turnover); the fee/revenue ratio. In most cases the target fee/revenue ratio has been 10%, although it might extend to 15% in higher value fisheries. This is the system used at present. It has the merit of being relatively straightforward. The main data inputs are catches and prices, the former should be quite clear where the latter depends on the industry for good information. The industry are less enthusiastic about the process for setting fees. They have several arguments with one of the main ones being that no account is taken of major cost components; fuel costs, exchange rates, etc. Whilst the fee/revenue ratio provides a guide, other factors are taken into account. In particular companies audited accounts are looked at. Strong profits support other arguments for increasing fees, whereas thumping losses would argue for no increase or possibly even a decrease.
- 4.3** In order to address the differing views on the process of setting access fees, consultants have been contracted to review the process. Consultants have been contracted to review resource rents and access fees in the fishery. This is a £96000 consultancy with FIG and the

fisheries association (FIFCA) jointly funding the project. The consultants are due to report in May 2010, so the outcome of the project should be relevant to setting fees for 2011.

Fees for 2009 were left at 2008 levels partly on the basis that the fee setting process was being reviewed, that fuel prices were high, and in return for full co-operation by the industry on the resource rent review. The industry may well argue that this arrangement should apply to 2010.

- 4.4 The fee/revenue ration approach undoubtedly has the advantage of simplicity, albeit that it does rely on decent fish sales price information. One of the issues the industry has frequently raised is whether f.o.b. (free on board) or c.i.f. (cost, insurance, freight) prices are used in the calculation. The f.o.b. price is effectively that which applies as the fish leaves Berkeley Sound or FIPASS, the c.i.f. price is what applies as the fish enters Spain. The industry contends that the price information they provide is at the point of sale in Spain, so therefore is the c.i.f. price. They argue that insurance and freight costs should be deducted in order to calculate a true first sale value.
- 4.5 This may be technically correct, although in terms of the relatively long history of applying the fee/revenue concept it has generally been Spanish market prices which have been applied. Data used to be sourced from Spain, from the www, and now increasingly from FI companies themselves. The prices have generally been c.i.f. Europe and to a large degree these are the prices which have consistently been applied.
- 4.6 On the one hand the fee/revenue approach is simple and straightforward. On the other hand that is one of the main criticisms levied by the industry; it may be too simple! It will be interesting to see what the review of resource rents produces. The current approach is relatively immune to either inefficiency or manipulation of accounts, not that there is any suggestion that this is a current problem. The main issue with the current fee/revenue approach is obtaining reliable price information. The local industry has been used together with a number of www options for comparison.

5.0 Access Fee Recommendations

- 5.1 FIG has a contract with Imperial College (IC) and they have been asked to provide access fee advice under that contract. Elements of that advice have been used as the basis for this paper. The fish price information calculated by IC is one of the key components. This information has been shown to the industry to establish whether it represents recent price information and to give them the opportunity to comment accordingly. The price data has been applied to FIG's catch

data as there appears to be some discrepancies between our database and that at IC.

5.2 *Loligo* (C/X – Licence)

Table 1 *Loligo* catch & fee/revenue

Period	Catch (tonnes)	Fee/Revenue
First Season 2009	12989	9.14%
Second Season 2009	18360	14.15%
Year 2009	31349	12.02%
3 year average 06 -08	45780	8.27%
3 year average 07-09	41916	9.03%

The *Loligo* fishery has been poor in 2009. Total catches at 31474 tonnes are well down on average. If fees were being set in isolation for the first *Loligo* season there might be some argument for a minor increase as the fee/revenue ratio is at 9.14% on first season results alone. However, as can be seen the fee/revenue ratio is much higher for the second season, and is at 12% for the whole year. Comparative figures are also given for 3 year catch averages. There is no potential for a fee increase. There is some disparity between first season (£ 1.94 M) and second season (£ 4.24 M) *Loligo* fees which has arisen for various reasons. The total fee at £ 6.18 M delivers approximately 10% fee/revenue but at some point there may need to be some rebalancing between the fees for the two *Loligo* seasons. It is recommended that these fees be held for 2010.

5.3 Restricted Finfish & *Illex* (G – licence)

Period	Fee/Revenue
Year 2008	4.6%
3 year average 06 -08	6.09%

Current fees are £ 769004 per annum. On the basis of the above fee/revenue there is scope for a 10% fee increase.

5.4 Finfish (A/Y Licence)

Period	Fee/Revenue
Year 2008	7.57%
3 year average 06 -08	9.7%

Current fees are £ 1129011 per annum. On the basis of the 3 year fee/revenue history there is little scope for any increase.

5.5 Restricted Finfish (W/Z – Licence)

Period	Fee/Revenue
Year 2008	5.82%
3 year average 06 -08	5.81%

Current fees are £ 1219240 per annum. There is scope for a 10% fee increase.

5.6 Skates & Rays (F/R Licence)

Period	Fee/Revenue
Year 2008	8.2%
3 year average 06 -08	7.46%

Fees for this licence type were reduced for 2009. The companies involved in the fishery for this species; ‘the Skate group’, continue to make the case that the fees are comparatively high, despite the fee/revenue ratios calculated above. The fee/day on this licence type does seem high compared to some other licence types. There is a bycatch issue which needs controlling on this licence type and which would reduce turnover, and hence should lead to a higher fee/revenue ratio. No change in licence fee is recommended.

5.7 Toothfish – Longlining (L – Licence)

Current fees are £ 760700 per annum. The fee/revenue ratio is calculated to be at 9.65%. CFL has been making a number of significant investments in relation to fisheries development. Whilst this may seem somewhat extraneous to the fee setting process, no increase is recommended at present.

5.8 Restricted Finfish – Pelagic (S- Licence)

Current fees are at £ 543770 per annum. The fee/revenue ratio is assessed as being at 10.9% and no increase is recommended. Exco paper 260/09 is relevant to this fishery. If the recommendations made in that paper have been accepted the Total Allowable Catch of Southern Blue Whiting in this fishery reduces to 6000 tonnes from 18000 tonnes. In that case it is recommended that the fee be reduced pro rata to £ 181257.

6.0 Conclusion

- 6.1 There is scope for 10% fee increases in respect of the ‘G’ and ‘W/Z’ fisheries/licence types. If implemented these would raise revenue of

£76900 and £121924 respectively, so a total of £198824. The two main options are:

- a) Implement these fee increases raising an additional c. £200K of revenue from the fishery; or
- b) Defer any fee changes (apart from the TAC related adjustment on the 'S' fishery), until the review of resource rents and access fees is complete.

Any increase in fees whilst the review of access fees is underway is likely to attract significant criticism, and the industry are likely to argue that it will have an impact on co-operation. The commitment made in 2008 to hold 2009 fees at 2008 levels, was largely restricted to 2009, although equally at that time it was probably anticipated that the review would have concluded within 2009.

6.2 Industry Consultation

The process has been that the fishing industry (FIFCA) are consulted on some aspects of the access fee process. This has happened through the Fisheries Committee. The intent is to allow the industry to comment on any issues of fact, but not to recommend any particular level of fee. This latter function is for ExCo. The paper produced by IC was distributed to the industry and discussed with them. There were a number of issues with the paper which were not resolved in the time available. In essence the fee/revenue calculations are fairly straightforward, they depend on good catch data and good price data. The Fisheries Department should have good catch data. IC provided price data. The industry were asked to comment on this data in particular, as that enables all the fee/revenue calculations to be checked. Some comments were received confirming some prices. In some cases the industry would like more information on how prices were calculated. No prices have been identified as being wildly incorrect. Additionally, the price information has been compared with other sources (www etc). The industry do make the point that it was their understanding that the fishing fees would be unchanged pending the outcome of the Resource Rent Review process which is currently underway.

7.0 Financial Implications

- a) Restricted Finfish – Pelagic (S); Reduction in Revenue:

The current fees are £543770 and there is no scope to change the fee level. In reducing the TAC from 18000 tonnes to 6000 tonnes, the fees reduce pro rata to 33.3% of previous fee levels. The new annual fee becomes £181257. Therefore, the full year's loss of revenue is £362513. The fees are invoiced in two equal amounts for payment by 30 June and 31 December, so if the payment for December '09 is maintained at the old fee then the reduction for

'09/10 is half of the full year reduction of £181K. However, as recorded elsewhere Fortuna Ltd, will seek a refund/reduction on 2009 fees.

b) Restricted Finfish (W/Z) and *Illex* and Restricted Finfish (G); Fee Increase:

The current fees for 'G' are £769004, and for 'W/Z' are £1219240, so a 10% increase on these fees raises an additional £198824 in a full year. 'W/Z' licences are paid in 4 equal quarterly instalments; whereas 'G' licences are paid at the end of the first and second quarters. Consequently, the full increase in 'G' licence revenue will be captured in '09/10, whereas only 10% of the increase on 'W/Z' fees will fall in this financial year (£76900 + 60962 = £137862).

8.0 Legal Implications

None

9.0 Human Resources Implications

None