

EXECUTIVE COUNCIL

CONFIDENTIAL

Title of Report: *Illex* Fees - 2011
Paper No: 277/10
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Report of: Director of Natural Resources

1.0 Purpose

This paper considers *Illex* licence fees for 2011. It proposes that the fee structure used in the 2010 season be maintained for the 2011 season. It also proposes that the refund policy continue with some modification. The changes proposed include some link to value of catch in addition to volume and to an improved monitoring process.

2.0 Recommendations

That Executive Council be advised to recommend as follows:

- (a) That the fees and fee structure applied to the 2010 *Illex* season be maintained for the 2011 season, including the full range of discounts.
- (b) That the refund policy introduced for the 2010 *Illex* fishery be maintained for 2011 with the variations proposed here.
- (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 2010. The information includes the fee formula and sets out information on options for season length, payment terms, discounts and a clear refund policy. Some of the changes for 2010 (set by way of Exco paper 245/09) represented some significant change from previous practice. The two fee structure for new and existing customers was abandoned. Options on season length were introduced. A clear refund policy was 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 for 2010 were intended to make FI licences more attractive both for existing customers and any new customers. A number of the new arrangements contributed to that and the clear refund policy is likely to have been a significant factor. This reduced risk to boat owners. The revised arrangements seemed successful in that 70+ licences were taken up compared to c. 45 in the two previous years, although other factors may also have contributed. Unfortunately, 2010 proved to be a poor *Illex* year with low catches. The average catch per vessel in FI waters was of the order of 155 tonnes, and even discarding the 25% lowest reports did not increase the average catch dramatically. It remained firmly at a level which dictated a 90% refund according to the new clear refund policy. This was duly implemented.

4.3 Whilst it is recommended that the same fee structure be used for 2011, it is proposed to introduce a couple of modifications. The first is to introduce some link to catch value. *Illex* prices have been low for a number of years, however prices have risen in 2010 as a result of scarcity. If the average jigger fee is £ 90 K and no refund is given if catches are over 1500 tonnes, and it is assumed the 10% fee/revenue target is met at 1500 tonnes, then this implies that each tonne of *Illex* is worth \$936 (exchange rate at 1.56). In the extreme and unlikely event that *Illex* value doubled to \$1872 per tonne the fee/revenue target would be achieved for half the catch or 750 tonnes. This was considered for 2010 but was not incorporated into the scheme as *Illex* prices had been low for a significant period. Additionally it was considered that it would be difficult to obtain reliable price information. This latter point remains a concern however it is considered that it would be worth seeking to establish a link to price for 2011. The proposal is that any increase in *Illex* price over the current base rate (\$936) would be factored in to the refund calculation. So in any case where the average price is above \$936 the calculation would be;

$$(Average\ price/936)*Average\ catch = Revised\ average\ catch\ for\ refund$$

For example in 2010 if the average price was \$1200 the calculation would be;

$$(1200/936) * 155 = 198\ tonnes$$

It is the figure of 198 tonnes that would be used to calculate the refund amount. In 2010 it would not have changed the amount refunded at a price of \$1200, the

average price would have had to be \$1510 or higher to alter the refund amount. There is no proposal to recalculate refund levels if the base price falls below \$936.

4.4 Linking refund policy to catch value in this way will have difficulties as already mentioned. It is likely to be difficult to gather verifiable information from the main markets and related to the main sales volumes. This will need some further investigation. There may be some index from auction sales which could be used in the calculation. In the end it may have to rely on the information which can be obtained, even if that is somewhat incomplete.

4.5 The second issue relates to verification of catch amounts. It can be seen in the 2010 information that it was stated that FIG “will be the ultimate arbiter of catch levels and reserves the right to weight the assessment in favour of verified information”. It indicated that there may have to be an enhanced inspection process. In 2010 catches did appear to really be low as reported and this was supported by observer reports and other sources. Consequently transshipping activity was low. However, there were also concerns about some changes in patterns of behaviour. In addition to maintaining the 2010 stance on catch and data verification it is proposed that this refund policy only be applied to vessels which have complied fully with the verification process (undergone inspections as requested, embarked observers if requested) and used designated Falkland ports and harbours for transshipment operations. This categorisation of vessels as cooperating or non-cooperating may seem slightly odd. There are clearly aspects such as cooperating with inspections at sea or embarking observers which are mandatory. Some flexibility is being permitted in that transshipping in FI waters is not being made mandatory but is actively encouraged and is essential if the vessels are to be eligible for the stated refund policy. Vessels not fully satisfying these criteria will still qualify for refunds, but in the absence of satisfactory verification of data the refund may be calculated at a different rate, so they take their chances on this aspect. The obvious alternative would be to refund ‘non – cooperating’ vessels at the next (lower) refund level as set out in the table in section 6 of Annex A. Any noncompliance which contravenes the fisheries ordinance will be dealt with under the relevant provisions of the ordinance.

4.6 The industry have been consulted on the proposals and have the following points and observations:

- The new policy on refunds and fees was positive for 2010. Despite the improved market prices, the overall outcome was still poor due to low catch levels.
- What reference price will be used for calculating refunds and what refund policy will be applied to non-cooperating vessels? The difficulty of obtaining reliable and relevant market information has been identified as a problem.
- Some monitoring and enforcement initiatives could have a deterrent impact on licence take up. This is not necessarily confirmation that there is any skulduggery going on, but reflects the fact that there are operational shortcuts which can save cost in what is not always a lucrative business.

Transshipping on the catching grounds rather than steaming to port is an example.

4.7 This issue was considered by the Fisheries Committee on 6th October 2010. Some of the issues set out in 4.6 were raised. It was agreed that the paper should proceed to Exco.

5.0 Financial Implications

There are no immediate financial implications. The current estimate for licence revenue remains the target. It could be argued that constraining the refund policy as proposed may make *Illex* licences less attractive, and hence reduce the number of customers. Equally it could be argued that the changes proposed will serve to safeguard revenue. It is possible to set out the impact of 10% or 20% less revenue but that will be self evident. There is no obvious basis for setting out any particular level of increase or decrease. At current fee levels the total licence fee estimate is relying on £ 1.69 Million of *Illex* license revenue. This is pretty much as conservative an estimate on *Illex* revenue as has ever existed, which accords with government policy of marginalising fluctuations in such revenue, at least in terms of deficit control.

6.0 Legal Implications

Any legal issue which arises is the potentially discriminatory aspect in the event that the refund policy comes into play. The question arises in relation to the proposal to possibly refund cooperating and non-cooperating vessels at different rates. The view is that providing the policy is clearly spelt out and communicated before customers apply for licences it should be defensible and the discrimination issue should not arise.

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 A

FALKLAND ISLANDS FISHERY

Illex fees 2010 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 2010 to 15 June 2010. 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 **15 January 2010**. 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 2010.

4. Early Payment:

The usual early payment discounts are available as follows:

6% for payment by 31 January 2010

5% for payment by 31 May 2010 *

4% for payment by 30 June 2010 *

* 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. 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%

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.

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.