

9 November 2010

Dear Stakeholder

DRAFT 2011 DEEMED VALUE STANDARD

The Ministry of Fisheries (the Ministry) is updating the 2007 Deemed Value Standard (the Standard). The Standard is to be used to guide the review of the deemed value rates of Quota Management System (QMS) fish stocks as part of either the 1 April or 1 October sustainability rounds.

The purpose of the deemed value framework is to provide an incentive for fishers to acquire sufficient Annual Catch Entitlement (ACE) to balance against catch. The catch balancing regime is a key fisheries management tool contributing to both sustainability and utilisation objectives. The sustainability objectives are achieved when deemed value rates encourage fishers to balance catch with available ACE and in so doing constrain harvesting to the Total Allowable Commercial Catch (TACC). The goal is to set deemed values at a level that promotes routine balancing activity that gives the flexibility for dealing with small overruns. Deemed values discourage intentional and on-going over-fishing. The goal is to achieve this objective in every stock.

The Ministry proposes the following three key changes to the existing deemed values standard:

Interim deemed values

The existing Standard recommends setting the interim deemed value rate at 50% of the annual deemed value rate as the standard default rate, with other settings possible but based upon stock-specific considerations. The Ministry proposes that the interim deemed values be set at 90% of the annual deemed value rate as the standard default rate.

When the interim rate is less than the price of ACE, a permit holder has an incentive to put off acquiring ACE as long as possible. Essentially, an interest-free loan is available for the difference between the interim and annual liabilities. Permit holders may arrive at the end of the year expecting to buy ACE, only to find that all ACE has been used. Low interim deemed values interfere with the signalling functions of ACE markets.

Since 2006, a second risk around interim deemed values has been identified; a permit holder can legally fish the entire year while paying only interim deemed values. If that permit holder goes into liquidation before the end of the year, the difference between the interim and year-end obligations may never be collected. The major effect of the proposed standard interim default rate of 90% will be to encourage fishers to acquire ACE sooner. Deemed values are set to exceed ACE price by at least 20%. Faced with a requirement to pay 90% of the annual rate or acquire ACE, it will usually be cheaper to buy ACE. This is exactly the incentive that s 75 seeks to create.

Differential deemed values

The Ministry proposes that differential deemed values be applied to virtually all stocks, making it clear that the Ministry believes that differentials are almost always appropriate. For most stocks, the existing conventional differential deemed values will be recommended. The following table summarises conventional ramping.

Conventional Deemed Value (DV) Ramping

% by which landings exceed ACE	Differential DV
20%	120% of annual
40%	140% of annual
60%	160% of annual
80%	180% of annual
100%	200% of annual

However, for stocks of low value species that have TACCs below 20 tonnes, the Ministry will consider setting differential deemed values with "flatter" ramping than conventional ramping. There may be only one or two steps at 50% or 100% or more above ACE. For stocks where utilisation and sustainability objectives could be best met by using a non-standard differential deemed value rate the Ministry will recommend differential deemed values that allow a very small margin (2% to 10%) above ACE and then steep ramping thereafter.

Discontinuing the Deemed Value Review Group

The third major change proposed is that the Deemed Value Review Group, which includes an industry representative from SeaFIC, will be discontinued. Direct communication with quota owners and Commercial Stakeholder Organisations (including SeaFIC) has been found to be a more effective way to identify potential stocks for deemed value review and options.

Consultation

Copies of the draft updated standard can be found on the Ministry's website www.fish.govt.nz under the "Consultations" section. If you have difficulties accessing the document or you wish to be posted a physical copy of the documents you can contact Trudie Macfarlane at (04) 819-4739 or trudie.macfarlane@fish.govt.nz. For more information on the consultation document please contact Gunther Wild at (04) 819-4252 or gunther.wild@fish.govt.nz.

The Ministry welcomes written submissions on the proposals contained within the consultation document. **Written submissions are due by 5pm, Tuesday, 30 November 2010** and should be emailed to Trudie.Macfarlane@fish.govt.nz or posted to:

Trudie Macfarlane
Ministry of Fisheries
P O Box 1020
Wellington

Please note that any requests for late submissions must be made to the Ministry no later than 12 November 2010.

Also, please note, all submissions received by the Ministry are subject to the Official Information Act 1982 (OIA). Please advise if you have any objection to the release of any information contained in a submission, and, in particular, which part(s) you consider should be withheld, together with the reason(s) for withholding the information. The Ministry will take into account all such objections when responding to requests for copies of, and information on, submissions under the Official Information Act 1982.

Yours sincerely,

A handwritten signature in black ink, appearing to read 'G. Lockwood', with a stylized, cursive script.

Gavin Lockwood
DCE – Fisheries Management