

INITIAL POSITION PAPER – CARRY FORWARD OF UNCAUGHT PAUA ACE

Executive Summary

- 1 This IPP proposes to remove paua stocks (paua) from Schedule 5A of the Fisheries Act 1996 (the Act).
- 2 Removing paua from Schedule 5A of the Act would allow holders of annual catch entitlement (ACE) to carry forward up to 10% of ACE, if uncaught, into the next fishing year.
- 3 This change would provide the paua industry with opportunities to increase the economic benefits derived from commercial paua quota. The Paua Industry Council (PIC) contends that the ability to carry over ACE would provide flexibility in the administration of the fishery, improve the match of product supply with export demand, improve the price obtained, and, remove unnecessary costs associated with end-of-year ACE balancing. PIC estimates that this initiative has the potential to create up to \$3 million of additional export revenue from improved matching of supply to market demand.
- 4 Removing paua from Schedule 5A would have no sustainability impact.
- 5 The change would result in low implementation costs in the first year, comprising resource costs to progress the required Order in Council and administrative costs to give effect to the change. PIC has agreed to pay the administrative costs.

The Issue

- 6 Paua was added to Schedule 5A of the Act in 1999 on the grounds paua is a target fishery and there was no need to manage unexpected catch at the end of the fishing year.
- 7 PIC has requested that paua be removed from Schedule 5A to allow commercial paua fishers to carry forward up to 10% of their ACE, if uncaught, from one fishing year to the next (as per section 67 A of the Act).
- 8 PIC considers removing paua from Schedule 5A would provide opportunities to increase the economic benefits derived from paua quota. PIC notes that fluctuations in export demand for paua create intra-annual volatility in prices. The high value of paua ACE creates incentives for ACE holders to catch all ACE before it expires at the end of the fishing year, regardless of the price on the export market. Allowing carry forward of up to 10% of ACE, if uncaught, would mean that, where prices are low towards the end of a year, catch could be deferred until prices improve in the following fishing year.
- 9 PIC also considers removing paua from Schedule 5A would reduce business compliance costs by providing flexibility for end of year ACE-balancing.

Rationale and assessment of Options

- 10 Only two options are available; the *status quo* and to remove paua from Schedule 5A.
- 11 Section 67B(1)(b) was included in the Act to specifically allow stocks to be removed from Schedule 5A.
- 12 The proposed amendment affects only commercial fishers of paua, and there is no sustainability impact.

Option 1 – Status Quo

- 13 Under the *status quo* paua would remain on Schedule 5A and paua ACE holders would continue to be unable to carry forward any uncaught ACE.
- 14 Under this option PIC could opt for enhanced across-industry co-ordination and co-operation in order to match supply with demand and streamline end-of-year ACE balancing.

Impact

- 15 Retention of the *status quo* would not provide the paua industry with opportunities to improve the economic benefits obtained from the paua fishery through the carry forward of ACE.

Costs

- 16 The opportunity to realise improved economic benefits from the paua fishery would not be as great as under Option 2. Enhanced cross-industry co-ordination and co-operation would not provide the same level of flexibility as Option 2, nor the ability to reduce business compliance costs during end-of-year ACE balancing.

Benefits

- 17 Under the *status quo* the implementation cost associated with making an Order in Council to remove paua from Schedule 5A would not be incurred. The administrative costs to implement the change (see Option 2 below) would also not be incurred.

Option 2 – Amend Schedule 5A

- 18 Under this option paua would be removed from Schedule 5A by an Order in Council made under s 67B(1)(b) of the Act.
- 19 Paua ACE holders would then be able to carry forward up to 10% of ACE, if uncaught, to the following fishing year.
- 20 FishServe would give effect to the changes by updating their ACE balancing and reporting systems.

Impact

- 21 There are approximately 388 quota holders, 199 ACE holders and 236 divers across 11 paua fishstocks (covering the entire New Zealand paua fishery) that would potentially benefit from the proposal.
- 22 The proposed carry forward of catch would have no impact on the sustainability of paua stocks or the health of the aquatic environment because catch entitlements would not be increased. Instead, catch would be deferred and carried forward to the following fishing year.

Costs

- 23 This option requires an Order in Council.
- 24 The administrative costs to give effect to this change are estimated to be \$5,000 plus GST, but possibly less depending on the final degree of change required to FishServe reporting systems. This administrative cost would be borne by the paua industry.
- 25 Informing stakeholders of the change is expected to have low resource impact.

Benefits

- 26 This option would provide opportunities to increase economic benefit from the commercial fishery.
- 27 PIC estimates that this initiative has the potential to create up to \$3 million of additional export revenue from improved matching of supply to market demand. The return to ACE holders, given this best scenario, could improve by \$1.5 million. MFish notes that these value increase estimates cannot be verified prior to making the change.
- 28 The option also has the potential to reduce industry compliance costs associated with end of year ACE balancing. Direct and indirect costs associated with end of year ACE balancing, including business compliance costs, are driven by the very high cost of ACE and that deemed values are set at 200% of the port price. Figures supplied by PIC indicate that up to \$50,000-\$60,000 per year could be saved by this initiative. MFish notes that these cost reduction estimates cannot be verified prior to making the change.

Other Management Controls

- 29 No other management controls are proposed. As the proposal reduces restrictions, no supporting offence and penalty provisions need to be introduced or amended.