

10 June 2022



Mr R Smith
Ministry for Primary Industries
PO Box 10420
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Ministry for Primary Industries



Cc Dan Bolger
Deputy Director General
Fisheries New Zealand



Cc Steve Mitchell
Manager Costing & Modelling Cost Recovery
Ministry for Primary Industries

Dear Ray

COMMENTS ON DRAFT 2022/23 COST RECOVERY LEVIES

1. You have asked for comments on the draft 2022/23 levies for Fisheries and Conservation services.
2. This submission presented by Seafood New Zealand (SNZ) represents the views of Seafood New Zealand (SNZ), Fisheries Inshore New Zealand Ltd (Fisheries Inshore), and the Federation of Commercial Fishermen.
3. The submission is in three parts – first, second matters of a generic concern and third individual comments on levy components. A number of industry organisations and companies will forward their own submissions as they consider appropriate.
4. This submission has been prepared by Tom Clark of Fisheries Inshore. Any queries should be directed to Mr Clark in the first instance.

PART I MATTERS OF WIDER CONTEXT

5. There are two matters of wider context that need to be considered in the application of levies for 2022-23.

Reviews of Cost Recovery

6. We have been advised for the last two decades that MPI would review cost recovery for the fisheries sector and that matters relating to:
 - a. the recognition of the public interest and adverse effects principles
 - b. the need for greater transparency in cost

- c. the efficacy of the consultation process and in particular deficiencies in the planning processes for inshore fisheries and the aquatic environment inputs
- d. the attribution basis for costs

would be addressed in that forum. That has not been possible with MPI cancelling any and all reviews of cost recovery sought by industry and agreed to by Government in the past two decades.

7. Following an intensive collaborative process in 2006 and 2007, a joint MPI and industry working group report reviewing cost recovery was presented to the Government in December 2007. No action was taken on the recommendations of that review.
8. In December 2015, MPI announced a First Principles Review of cost recovery. MPI planned to consult on cost recovery in the period to March 2016 and implement changes with effect from mid-2017. Despite assurances that there would be further consultation with industry on the proposal, MPI released its preliminary findings in February 2017 without any meaningful dialogue with the seafood industry. Fisheries cost recovery was not specifically addressed in those preliminary findings. In 2018, the Ministry advised that having undertaken its own analysis of fisheries cost recovery, they were satisfied that its cost recovery activities were legally valid and consistent with the Act but noted that they were working with an industry reference group to review fisheries cost recovery.
9. After more industry urging to progress that review, in February 2021, we received a draft Terms of Reference for a cost recovery review. Feedback on those ToR were provided and there was a strong measure of agreement to them. In October 2021 in the Fisheries New Zealand consultation on the wider rollout of on-board cameras the Ministry stated on page 14 that the wider review of cost recovery was to commence later in the 2021 year. Yet, in April 2022, via email MPI advised the review would not proceed. That was despite an assurance that before any cost recovery for digital monitoring would be introduced, there would be a full review of fisheries cost review. The Government has decided to press on with cost recovery of digital monitoring in 2023-24 despite not undertaking the wider review promised.
10. It is a matter of deep concern that MPI gives commitments to the industry that it will review cost recovery but then repeatedly fails to honour them.

Industry's Financial Situation

11. The industry is currently under severe financial pressure from:
 - a. the effects of COVID impacting markets and labour supply,
 - b. a Government determined to increase the returns to labour inputs,
 - c. the introduction of a new service to be cost recovered in the form of cameras,
 - d. significant changes to the landings regime which can only result in increased costs of disposing of unwanted fish and
 - e. most recently, a doubling of fuel costs.
12. While other sectors have received assistance from the Government, the fishing sector has been forced to face and absorb the costs of the recent events without any support or relief.
13. There is no doubt that the current financial pressures will drive many operators out of the industry to the cost of ordinary New Zealanders who rely on the commercial fishing sector to deliver their share of the national fish resource to them.
14. The lack of recognition of the financial pressure in the latest decisions on recovery of costs for cameras has left many fishers feeling that MPI is indifferent to their plight. Had the 2022 Market Economics analysis¹ commissioned by MPI to assess the ability of the inshore sector to meet the additional \$10m cost of digital monitoring been updated to reflect:

¹ Financial analysis of inshore fisheries: Profitability and cost incidence of the wider rollout of the On-board Cameras Programme, Market Economics, January 2022

- a. the doubling of fuel prices,
- b. the increase in employee wage rates and
- c. additional cost inflation in all inputs,

MPI would have been aware that very few fishers are profitable or able to draw revenue from their fishing activities and face tying up their vessels. With fishers being forced to tie up their vessels, ordinary mums and dads and families will be forced to surrender their access to reasonably priced, sustainable, protein rich nutrition to sectors of New Zealand society who either have personal wealth and experience that enables them to harvest their own fish.

- 15. Many crew, processing and support sector employees will find themselves out of work.
- 16. Having said that, while MPI has not sought to find additional relief for fishers, we recognise it has at least constrained the increase in the levies for 2022-23 to minimal levels.
- 17. The decision to recover \$10m of digital monitoring costs in 2023-24 and 2024-25 does not augur well for a sector that cannot meet its current financial obligations. Any thought that the sector might be able to absorb a further \$10m annually in the future for digital monitoring is fanciful at best.

PART II – GENERIC ISSUES

- 18. In previous submissions, we have raised:
 - a. the recognition of the public interest and adverse effects principles
 - b. the need for greater transparency in cost
 - c. the efficacy of the consultation process and in particular deficiencies in the planning processes for inshore fisheries and the aquatic environment inputs
 - d. the attribution basis for costs.
- 19. With the inability to have these issues re-considered in any review process, we are compelled to again raise them formally with MPI in this submission.

Legality of Cost Recovery - recognition of the public interest and adverse effects principles

- 20. In previous submissions, we have commented at length on the validity of cost recovery and the legal provisions relating to cost recovery. Cost recovery of fisheries and conservation services is enabled under Part 14 and, in particular, section 262 Cost Recovery Principles of the Fisheries Act 1996. Recovery can only occur for specific services provided for specific purposes. While a wider range of fisheries services may be provided by MPI, only those meeting the statutory requirements may be cost recovered.
- 21. The position is somewhat different for conservation services where only those services addressing adverse effects can be recovered as conservation services. The Act's provisions would appear to preclude any CSP funding being used for research into protected species where there is no adverse effect from fishing.
- 22. We do not accept that the Cost recovery Rules accurately reflect the provisions of the Act, particularly in respect of the recognition of the public interest and adverse effect principles. In the current political climate where environmental considerations appear to hold sway in resource allocation decisions, the current Rules are inconsistent with that interest. Public interest in the setting of catch allocations and the research that underpins them, and in the management of marine biodiversity and environment and the research that underpins that management is not properly recognised in the Cost Recovery Rules.

Greater Transparency

- 23. A major issue to be addressed in cost recovery is the lack of transparency and accountability for all activities and costs. The Ministry needs to be a provider of cost effective and appropriate services.

24. In accordance with Treasury’s guidelines on cost recovery from citizens by Government departments,² SNZ insists that far more accountability is required by MPI on their purported charges – both in the future and in past years. This is especially so where cost recovered services are provided internally by a Government department that are neither subject to normal external market forces nor benchmarked against comparable costs from commercial suppliers. There is nothing unique in the provision of fisheries services that would see the Government being the sole or the even an essential service provider. There is no evidence that MPI is a particularly good or cost-effective supplier of these services.
25. MPI has provided some information as to the costs incurred in the provision of its services but that serves only to demonstrate a “cost plus” mentality persists, not a “value for money” mentality. When services are provided at such high costs, it behoves a Crown organisation to ensure that the costs are minimised and that value is being delivered. This is not the case with fisheries services. The absence of information on the volume and nature of services precludes any scrutiny of either the cost effectiveness or the appropriateness of activities.
26. We welcome the development of new reporting systems and frameworks for the compliance framework and look forward to working with the Compliance directorate on reviewing and scrutinising activities to ensure a cost effective, appropriate activity is provided.
27. We note with concern the absence of a commitment to reduce observer costs commensurate with the increase in the level of digital monitoring in the inshore sector. If the Crown wishes to maintain the use of duplication of monitoring, we cannot see any justification for any cost recovery of any duplication of monitoring activity.

The Consultation Process and Deficiencies in The Planning Processes

28. We do not consider that the current consultation process meets an acceptable standard of consultation. The Ministry’s appropriation process begins in November in the year before the levies are recovered with discussion on the departmental estimates of expenditure. Funding for existing programmes and new initiatives continue through the January to April period by which time departmental budgets and services have effectively been determined.
29. The MPI consultation invitation states *“Please note that this consultation document focuses on the cost of the services rather than the policy of providing the service. We have or will engage with you on the policy of fisheries services and you may provide your feedback on the nature of the services at that time.”* However, there is insufficient information in the document to ascertain what services are being delivered and whether the costs of those services are reasonable and justified.
30. Draft research programmes for both FNZ and CSP may be consulted with industry in the January-February period to establish initial views on possible projects. No costs are included in the programme elements at that time and little if any details on what is being proposed – the programmes are more a series of headlines. In May, the cost recovery for the Fisheries and Conservations services - Research, Observers, Compliance and Registry Services – are consulted with industry. While some services may be consulted with some sectors ,e.g. research projects as above, there is effectively no consultation with industry on the level and nature of other services until the full Cost Recovery consultation in May-June.
31. We remain concerned at the absence of a strategic approach and planning processes for both inshore finfish and aquatic environment research activities.
32. A medium-term draft inshore finfish research plan was established by, and is updated by, the inshore science team, notwithstanding the absence of an approved fisheries plan and stock management and monitoring frameworks, or any process that involves engagement with industry or apparent input from FNZ management. We have seen glacial progress on the drafting of an inshore finfish strategic plan, albeit being a protracted, seemingly low priority process, and look forward to FNZ establishing a stakeholder engagement process in which management and monitoring frameworks and research plans will be developed. We remain concerned at the absence of engagement on the inshore finfish stocks, the

² <https://www.treasury.govt.nz/publications/guide/guidelines-setting-charges-public-sector-2017-html>

management and monitoring frameworks for the stocks and the research needs and plans to inform the management.

33. There is a management vacuum regarding the impacts of fishing on the environment and the impacts of other activity on fisheries. While NPOA's contain research directions, there is no comprehensive strategic analysis of management needs. The aquatic research programme is an assemblage of research projects that have not been consulted in a meaningful manner and with no strategic planning process to underpin the projects. This situation has persisted for far too long to be ignored any further. There is no identification of priority areas of concern, no structured research plans for those areas and no engagement with stakeholders on the projects. Science working groups focus on the review of projects and are not a forum for the determination of management needs and priorities. It is unclear as to whether there is any co-ordination between Government agencies on any of those matters.

The Attribution Basis for Cost Recoveries

34. The current attribution for cost recoveries relies too heavily on the use of the Port Price Index. The poor response rate of Licenced Fish Receivers and the absence of appropriate consistent prices between the stocks can result in inappropriate cost allocations between the stocks. A more industry independent basis for the value of stocks is required to ensure a fairer attribution basis.
35. It is also appropriate that a fairer process based on stock or sector specific service levels be established for the attribution of the generic compliance and registry services. Given the improved recording of MPI resource inputs and expenditures, it should be possible to replace the current basis with a more appropriate basis.

PART III COMMENTS ON 2022-23 LEVIES

36. In commenting on the levies for 2022-23, we note that the cost recovery levies for 2022/23 do not contain any recoveries of costs associated with the implementation of electronic monitoring or electronic monitoring in the fleets. Under current Cabinet decisions, the costs of these services will be recovered in future years.

MPI Activity Budgets

37. We continue to be disappointed with the allocation of the fisheries appropriations.
38. MPI continues to allocate more of its expenditure on compliance and enforcement than researching and managing stocks. That has been a feature of the Fisheries Appropriations for the past two decades. In the last decade, the enforcement and monitoring appropriation has increased by over 56% while that of research has increased by only 12% or 1.2% per annum. Of the \$35.6m shown as research below, only \$24.5m is actual research, with the remaining 31% of the appropriation lost in [research] overheads. That research covers research into both the fisheries resources and the wider marine biodiversity and environment.
39. We cannot support enforcement and monitoring as the priority for a world-leading fisheries management nation. Most stocks have had no review since their introduction, most stocks have no agreed management performance measures and reviews of the sustainability measures for stocks are regularly declined through the absence of such measures. The unchanged and unrealistic sustainability levels require additional compliance and deemed value interventions to enforce them. Sustainability levels need to reflect actual fishstock abundance and provide for utilisation of fisheries resources to maximise their value to New Zealand.
40. Of the research expenditure, only \$2m is spent annually on the wider marine biodiversity and environment. In these days with a concentrated focus on environmental considerations, we cannot accept that such limited expenditure is acceptable. When combined with the DOC research expenditure of less than \$2m per annum, spending on wider marine biodiversity and environment research is woefully inadequate.

FISHERIES APPROPRIATIONS			
	2021/22	2022/23	
	Estimated Actual	Budget	Proportion
	\$m	\$m	(%)
Fisheries Policy Advice	7.72	8.25	6.6
Research for Sustainability and Management Controls	35.76	35.61	28.4
Fisheries Enforcement and Monitoring	57.07	65.35	52.1
Fisheries Management	13.54	12.96	10.3
Fisheries: Aquaculture	3.11	3.17	2.5
Fisheries Quota Shares & ACE Administration Costs	0.15	0.15	0.1
Total Appropriation	117.35	125.49	100.0%

41. Our preference is that the Government invest more in fisheries science and management rather than compliance, which would provide more appropriate catch settings and environmental management information and compliance activities would then be more targeted and focused on areas of high priority.
42. As noted above, the increased costs of camera operations have yet to be included in the above analyses. These will only serve to further increase the spend on enforcement and monitoring and leave research spending even more constrained.

FISHERIES LEVIES 2019-2023				
Fisheries and Conservation Services Levies	2022-23 Levied \$m	2021-22 Levied \$m	2020-21 Levied \$m	2019-20 Levied \$m
Registry Services	3.6	3.5	3.6	3.7
Compliance	12.1	12.0	12.8	13.5
Observer Services	6.2	6.1	4.3	3.1
Fisheries Research	12.9	12.9	9.4	12.9
Fisheries Services Levies	34.8	34.5	30.1	33.2
DOC Observer Services	2.5	2.4	1.5	1.2
DOC Research Services	1.6	0.8	0.9	1.0
Conservation Services Levies	4.1	3.2	2.4	2.4
Total Levies for 2022-23 services	38.8	37.7	32.3	35.4
Prior years unders and overs adjustment	-0.2	-0.2	-0.3	-1
Net Levies Payable	38.6	37.5	32.0	34.4

43. We note the small increase overall this year in levies and commend MPI for that. We would have preferred however that the situation that the sector faces with costs were recognised and the Ministry

would have provided some reductions rather than modest increases – if not through cost recovery then through petitioning Government to provide equitable treatment to the primary sector on fuel costs

MPI Compliance

44. We have previously raised our concern with the cost recovery of compliance services.
45. Current compliance service delivery now annually costs quota owners approximately \$14,000 per permitted vessel and sees the ratio of one fishery officer for every 10 vessels/operators. The additional costs of Digital Monitoring will significantly increase compliance levies. It is a significant driver of the need to review wider cost recovery.
46. We recognise that MPI compliance activities are not being fully recovered in 2022/23. We consider this reflects in part that MPI consider a full recovery of costs is unjustified. We would however be interested in what the total recoverable amount would be.

MPI Observers

47. Previous reviews of New Zealand's observer day rates indicated they were excessively high, These have increased substantially in the past two years. We have seen no indication of attempts to reduce the observer rates despite standing offers from industry to work with MPI to identify and achieve cost reductions. We see no justification for MPI passing on the full cost to industry, particularly in the light of agreements to cap the daily rates of observers to industry.
48. We note that a number of sectors are scheduled to have both observer and camera coverage. Unless there is a FNZ project to verify the observer and camera imagery, we do not consider that coverage by both observers and cameras is appropriate or cost effective. Cabinet papers alluded to the reduction in observers on the basis of increased camera coverage. However, thus far we have only seen increasing observer costs and no strategic discussion about the utility of the Observer programme when cameras are introduced. Certainly, industry should not be charged for both.
49. The surface long line fleet remains the fleet with the highest estimated impact on seabirds. Continued observer coverage is warranted but a higher coverage rate would provide more definitive outcomes.

MPI Research

50. As in previous years, instead of a programme well-supported by a research strategy and strong management objectives, this year's aquatic environment projects are yet again an assemblage of projects, seemingly with little or no relationship to previous research. Notwithstanding that comment and the absence of context, the research projects being commenced this year appear appropriate in their own right in the topics they seek to address.

Comments on Specific Projects

51. Projects GUR2022-02 and SNA2022-03 can be removed from the schedule. They were contingent on industry not undertaking the research. Industry has approved and confirmed it will undertake the research in 2022 and the MPI projects can be removed.
52. BEN2022-01 Mobile bottom fishing footprint assessment and development of a web-interface includes both an updated assessment of the risk to include consideration of the 2021-22 spatial patterns and the development of a web interface. We agree that the updated benthic contact review should be cost recovered but see no reason why any funds expended on a web interface should be cost recovered. The development of a community focused web interface is not within the scope of recoverable fisheries services.

CSP Levies

53. We have included in the email presenting this submission our submission related to the CSP project and levies. Rather than attempt to paraphrase that submission into this submission, we have included it in its entirety. We wish it to be read as part of this submission.

Unders and Overs

54. We have reviewed the Unders and Overs material provided to us for analysis.
55. We agree with the calculations of Unders and Overs and the application of the adjustments to the stocks in the levy model.

Yours sincerely

A handwritten signature in black ink, appearing to read 'J Helson', with a long horizontal flourish extending to the right.

Dr Jeremy Helson
Seafood New Zealand