



# Review of deemed value rates for bluenose 3 (BNS 3) landed in the Chatham Islands for 1 October 2014

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## DEADLINE FOR SUBMISSIONS

MPI welcomes written submissions on the proposals contained in the IPP. All written submissions must be received by MPI no later than 5pm on Wednesday 25 June 2014.

Written submissions should be sent directly to:

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Ministry for Primary Industries  
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or emailed to [FMsubmissions@mpi.govt.nz](mailto:FMsubmissions@mpi.govt.nz)

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# INTRODUCTION

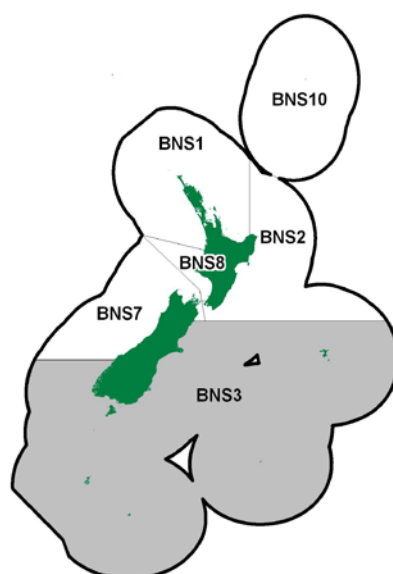


Figure 1: BNS 3 Quota Management Area

1. The purpose of this paper is to outline proposed changes to deemed value rates for bluenose taken from BNS 3 (see figure 1) and landed in the Chatham Islands and received by a licensed fish receiver located there. The Ministry for Primary Industries (MPI) seeks your written feedback on these proposals and any additional information of relevance **by 5pm Wednesday 25 June 2014**.

## SUMMARY

2. Under the Fisheries Act 1996 (the Act) the Total Allowable Commercial Catch (TACC) is reinforced by the requirement to make monetary payments, known as deemed values, for any catch of quota management species that is not balanced with Annual Catch Entitlement (ACE).
3. The Total Allowable Commercial Catch (TACC) for BNS 3 was reduced by 45% on 1 October 2008, a further 51 % on 1 October 2011 and 31% on 1 October 2012. The latest reduction in TACC has not been reflected in commercial catch which has remained at 2011/12 levels.
4. MPI considers the failure to constrain catch within the TACC is linked to current deemed value settings. There is currently one set of standard rates that apply across BNS 3 and one set of significantly lower rates that apply for resident Chatham Island fishers landing BNS 3 to Licensed Fish Receivers located in the Chatham Islands. Concerns that the lower Chatham Island rates make it more economic to target bluenose without obtaining ACE were raised part way through the 2012/13 fishing year. A consultation on options to alter deemed value rates was undertaken but a decision was deferred to allow for further consultation with parties involved.

5. Changes in behaviour do not appear to have occurred following these discussions and similar patterns are being observed. After only six months of the current fishing year, 93% of the TACC is already caught.
6. This paper outlines MPI's initial proposals (see Table 1) to increase the annual deemed value rates for BNS 3 landed in the Chatham Islands for catch exceeding more than 20% of ACE holdings. It is also proposed that the Chatham Islands interim deemed value rate be increased to 90% of the annual deemed value rate in accordance with MPI's Deemed Value Guidelines<sup>1</sup>.

Table 1: Current and proposed deemed value rates (per kg) for BNS 3

		Interim	Annual (including differential for various thresholds of exceeding ACE entitlement)									
Landed in:			0-5%	5-10%	10-20%	20-30%	30-40%	40-50%	50-60%	60-80%	80-100%	>100%
Current	Chatham Islands	\$0.53	\$1.05	\$1.05	\$1.05	\$1.26	\$1.26	\$1.47	\$1.47	\$1.68	\$1.89	\$2.10
	All other locations	\$2.70	\$3.00	\$4.00	\$5.00	\$6.00	\$7.00	\$8.00	\$9.00	\$10.00	\$10.00	\$10.00
Proposed	Chatham Islands	\$0.95	\$1.05	\$1.05	\$1.05	\$2.00	\$4.00	\$5.00	\$6.00	\$10.00	\$10.00	\$10.00
	All other locations	\$2.70	\$3.00	\$4.00	\$5.00	\$6.00	\$7.00	\$8.00	\$9.00	\$10.00	\$10.00	\$10.00

7. The current deemed value rates for BNS 3 landed in the Chatham Islands include an interim rate of \$0.53 per kg and an annual rate that ramps from \$1.05 per kg up to \$2.10 per kg at over 100% of ACE holdings. The proposed rates include an interim rate of \$0.95 per kg and an annual rate that ramps from \$1.05 per kg up to \$10.00 per kg at over 60% of ACE holdings. This provides a lower rate than the rest of BNS 3 up until this 60% threshold, recognising the different costs associated with landing on the Chatham Islands. The proposed rates are intended to encourage landing and reporting of bluenose taken as bycatch while discouraging fishing behaviour that will result in catch that substantially exceeds ACE.
8. Tangata whenua and stakeholders are invited to provide their views on these proposals and any additional information that the Minister should consider. These will be included in final advice to the Minister for Primary Industries.

<sup>1</sup> A copy of the Guidelines is available at <http://www.mpi.govt.nz/news-resources/publications.aspx>

# CONTEXT

## The deemed value framework

9. The purpose of the deemed value framework is to encourage commercial fishers to balance their catch with ACE while not discouraging them from landing and accurately reporting catch. The intent is to protect the long term value of stocks and to support kaitiakitanga by encouraging the overall commercial catch for each Quota Management System (QMS) stock not to exceed the total available ACE and/or the Total Allowable Commercial Catch (TACC)<sup>2</sup>. The effectiveness of this incentive is dependent on individual fishers' compliance with landing and reporting requirements, their responses to the incentives provided and on the impact of other incentives such as those created by market conditions.
10. The catch balancing regime is a key fisheries management tool contributing to both sustainability and utilisation objectives. Sustainability objectives are achieved as deemed value rates encourage fishers to balance catch with ACE and, in doing so, encourage harvesting to remain within the TACC. Incorrectly set deemed value rates may lead to catches in excess of the TACC (i.e. if set too low), which may have negative implications for sustainability and the long-term value of the resource. Likewise, incorrectly set deemed value rates may also discourage landing and accurate reporting (i.e. if set too high). These types of behaviour undermine sustainability and utilisation objectives.
11. Utilisation objectives are achieved by providing flexibility for commercial operators to manage unexpected and small amounts of catch in excess of ACE through periodic catch balancing. In the long-term, the sustainability implications that may result from over-catch could eventually result in TACC reductions, which may also impact on utilisation objectives, the long term value of the resource and kaitiakitanga. The application of the deemed values framework is described in detail in MPI's Deemed Value Guidelines.
12. Setting of deemed value rates is a separate process from setting TACCs and the adequacy of the TACC is not a matter that the Minister should consider when setting deemed value rates.<sup>3</sup> The deemed value rate changes proposed in this paper are aimed at protecting the TACC, regardless of the level at which it is set, by encouraging balancing of catch with ACE while avoiding creating incentives to dump and misreport

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<sup>2</sup> Interim deemed value rates are charged each month to commercial fishers for every kilogram of fish landed in excess of ACE. If the fisher sources enough ACE to cover his or her catch, the interim rates paid are reimbursed. If the fisher does not source enough ACE by the end of the fishing year, the difference between the interim and annual deemed value rates is charged for all catch in excess of ACE. Therefore, the annual rate applies at the end of the fishing year only.

Differential deemed value rates, if applicable, are also charged at the end of the fishing year if the fisher harvested well in excess of his or her ACE holdings. Differential rates reflect the increasingly detrimental impact of higher levels of catch in excess of ACE on sustainability and on the long term value of the resource, providing stronger incentives to avoid over-catch. For vulnerable or rebuilding stocks, a more stringent differential deemed value schedule (e.g. applying from 5% or 10% over catch) may be more appropriate than the standard schedule which uses 20% steps.

<sup>3</sup> *Pacific Trawling Limited & Independent Fisheries Limited v Minister of Fisheries, High Court, Napier Registry, 29 August 2008, CIV 2007-441-1016, Priestley J.*

## The Act and the deemed value guidelines

13. Section 75(1) of the Act requires the Minister to set deemed value rates for all stocks managed under the QMS. Section 75(2)(a) requires the Minister, when setting deemed value rates, to take into account the need to provide an incentive for every commercial fisher to acquire or maintain ACE that is not less than the fisher's total catch of each stock taken.
14. Section 75(2)(b) allows the Minister, when setting deemed value rates, to have regard to:
  - the desirability of commercial fishers landing catch for which they do not have ACE,
  - the market value of ACE,
  - the market value of the stock,
  - the economic benefits obtained by the most efficient fisher, licensed fish receiver, retailer or any other person from the taking, processing or sale of the fish or associated with the fish,
  - the extent to which the catch of that stock has exceeded or is likely to exceed the TACC for the stock in any year; and
  - any other matters that the Minister considers relevant.
15. The practical application of these statutory criteria is set out in the Guidelines, which are summarised below:
  - deemed value rates must generally be set between the ACE price and the port price,
  - deemed value rates must generally exceed the ACE price by transaction costs,
  - deemed value rates must avoid creating incentives to misreport,
  - deemed value rates for constraining bycatch species may be higher,
  - deemed value rates must generally be set at twice the port price for high value single species fisheries and species subject to international catch limits,
  - deemed value rates for Chatham Island landings may be lower,
  - interim deemed value rates must generally be set at 90% of the annual deemed value rate; and
  - differential deemed value rates must generally be set.



## ANALYSIS

16. The ability for the Minister to set deemed value rates specific to the Chatham Islands is set out in Section 75(5) of the Act. This provision recognises that the costs of processing on the Chatham Islands can be significantly higher than mainland costs and the need to maintain the viability of the Chatham Island based fishing infrastructure and industry.
17. Clause 7 of the Fisheries (Interim and Annual Deemed Values) Notice 2003 (the Notice) provides for specific interim and annual deemed value rates for a number of stocks where these are landed in the Chatham Islands and received by a licensed fish receiver located there. One of those stocks is bluenose (BNS 3).

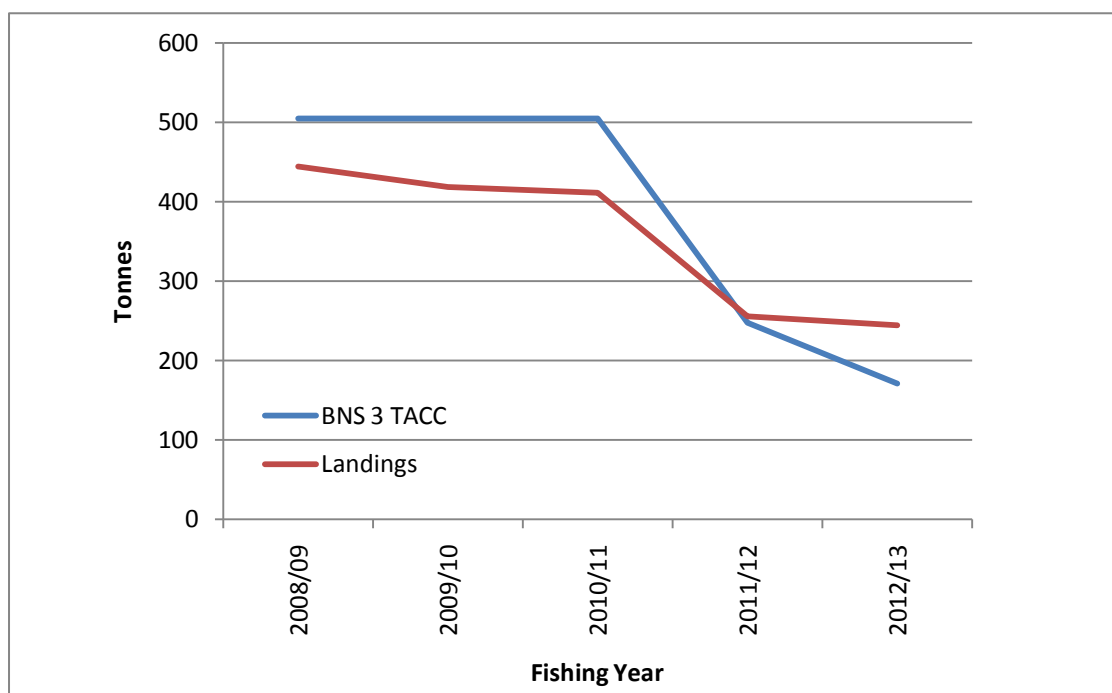


Figure 2: Annual landings of BNS 3 between the 2008/09 and 2012/13 fishing years

18. BNS 3 is caught by bottom longline, and bottom and mid-water trawl as both a by-catch and target species.
19. The port price across BNS is \$2.94 per kg. The Notice specifies an interim Chatham Islands deemed value rate per kg of \$0.53 and an annual rate of \$1.05 per kg. The standard BNS 3 deemed value rates are \$2.70 per kg (interim) and \$3.00 per kg (annual). The differential paid as the quantity of catch in excess of ACE increases, also varies between BNS 3 landed on the Chatham Islands and BNS 3 landed elsewhere. The maximum payable rate for BNS 3 landed on the Chatham Islands is \$2.10. The maximum for BNS 3 landed elsewhere is \$10.00
20. All bluenose stocks (BNS 1, 2, 3, 7 and 8) are currently subject to a rebuild plan. The TACC for BNS 3 had already been reduced by 45% on 1 October 2008, and was reduced a further 51% on 1 October 2011 and 31% on 1 October 2012 as part of this plan.

21. The latest reduction in TACC has not been reflected in commercial landings which have remained at 2011/12 levels (see figure 2).
22. Reported landings were 43% higher than the TACC for BNS 3 over the 2012/13 fishing year. Of this over-catch, 72 tonnes of the almost 74 tonnes of catch landed outside of ACE was attributable to a single company and deemed values totalling \$793,135.65 were billed. To date fishing for the 2013/14 fishing year is similar (slightly higher) than at the same in 2012/13. As at April 2014, the halfway point in the fishing year, the TACC is already 93% caught. MPI notes that, this year, landing under deemed values to the Chatham Islands may be proving attractive to an increasing number of players.
23. While TACCs have been reduced across bluenose stocks nationally, this extent of over-catch is not seen in the other bluenose quota management areas (see Table 2).

Table 2: Information that informed the proposed deemed value rates

Stock	Catch > TACC 11/12	Catch > Total ACE 11/12	Catch > TACC 12/13	2013 reported port price/kg <sup>4</sup>	11/12 ACE price/kg	11/12 deemed value invoices	12/13 deemed value invoices
BNS 1	-	-	-	\$6.04	\$1.94	\$1,781.18	\$28,245.60
BNS 2	-	-	2%	\$5.72	\$2.36	\$0.00	\$83,055.60
BNS 3	3.1%	2.8%	43%	\$2.94	\$1.22	\$33,732.72	\$793 135.65
BNS 7	5.6%	-	-	\$2.90	\$1.37	\$2,724.47	\$1,023.30
BNS 8	-	-	-	\$6.30	\$1.23	\$0.00	\$10,634.40

24. MPI proposes an increase to the deemed value rate for BNS 3 landed on the Chatham Islands. The purpose of the proposed increase is to ensure that catches are constrained to the TACC as much as possible to prevent the undermining of the TACC and rebuild plan. However, bluenose is a bycatch in important fisheries including ling, hapuku and alfonsino and it is also important to ensure accurate reporting of bluenose catches, particularly to monitor the impact of reductions on catch.
25. To balance the interests of fishers and ensuring sustainability MPI is proposing to increase annual deemed value rates above the threshold of 20% in excess of ACE holdings, but set these at a lower rate than the rest of BNS 3 up until the threshold of 60%. This recognises the different costs associated with landing on the Chatham Islands.
26. The current annual deemed value rates for BNS 3 landed in the Chatham Islands start at \$1.05 per kg and ramp up to \$2.10 per kg at over 100% ACE holdings. The proposed rates would still

<sup>4</sup> Reported port prices are the average price for green weight fish of each stock reported to be paid to independent fishers by licensed fish receivers (LFRs). These values ignore differences in size, quality and state of fish landed (i.e. fishing method), location of landings, seasonal price variations, deductions that fishers may pay to LFRs from time to time and price differentials for vertically integrated fishing companies. Reported port prices are therefore an indicator of limited reliability. In general, real port prices for average size and quality fish landed in the main ports by independent fishers would tend to be higher than the average prices reported by LFRs.

start at \$1.05 per kg but ramp up to \$10.00 per kg at over 60% of ACE holdings. The proposed rates are intended to encourage landing and reporting of bluenose while discouraging fishing behaviour that will result in catch that substantially exceeds ACE.

27. It is also proposed that the Chatham Islands interim deemed value rate be increased to 90% of the annual deemed value (\$0.95) in accordance with MPI's Deemed Value Guidelines<sup>5</sup>. This is intended to encourage fishers to balance catch with ACE regularly throughout the year.
28. MPI invites submissions on this proposal.

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<sup>5</sup> A copy of the Guidelines is available at <http://www.mpi.govt.nz/news-resources/publications.aspx>