

Commercial Fisheries Newsletter – October 2014

Significant developments in the reform program have occurred since the last newsletter in February 2014. This fourth edition includes an update on:

- Options paper submissions
- Ministerial announcements
- Structural Adjustment Review Committee
- Fishing co-operatives viability study
- Exit grant process
- A summary of port visits
- Other issues

With the new Liaison Manager settling into the role, fishers can expect to receive this newsletter more frequently. The next issue will also include more information on non-reform issues.

As always, feedback and suggestions are welcome from the industry on this newsletter and communication tools in general. Please provide comments to the Liaison Manager at: chad.lunow@dpi.nsw.gov.au.

How reform submissions are being considered

The Department received 1,314 submissions during April/May on the fisheries consultation/option papers. This included 762 submissions from commercial fishers (covering ~45% of the industry), 13 from other industry participants, 534 from non-commercial stakeholders and five form letters/petitions.

A copy of each individual submission was provided directly to the independent Structural Adjustment Review Committee (SARC), so it can take account of the full range of views when considering the options for each share class. Each submission has also been reviewed by the relevant Fisheries Managers and will be considered by the

Department as it further develops its views, options and recommendations.

An overview of the feedback in submissions will be made publicly available as a *Summary of Submissions* report. The report will reflect the industry's sentiments regarding the options presented, including which ones were viewed as most satisfactory through to least satisfactory or unworkable, and the reasons provided.

Suggestions that were made within submissions for alternative approaches or modifications to the options will be included in the report, as will general comments and concerns about the reform process. A summary of the views provided by non-commercial fishers will also appear in a separate section.

Collating and summarising the full range of comments has been a huge task given the number of submissions received, the complexity of the issues and the level of detail gone into by some respondents.

With the large number of share classes/options involved, the *Summary of Submissions* report will be a bulky document. However, to make it easier for people, it will be set out so that you can find the share class/es you're interested in (using the contents page) and then you can navigate straight to that section.

The report will also include general information such as background information, general summary statistics, the procedures used by staff to review/enter the submissions received, and detailed appendices.



Fisheries NSW expects to have the *Summary of Submissions* report finalised and available online (on the DPI reform website) during October.

Ministerial announcements

The strength of feedback received from commercial fishery shareholders during the consultation period (also see *Port visit summary*) was taken on board by the Department and the Minister, leading to the Minister making an announcement via media release on 18 June 2014, covering two major points:

- 1) more time will be provided for the SARC to work through the reform options and undertake further targeted consultation with industry, and
- 2) a three-year cap on share management fees will be applied (except for standard annual CPI adjustments).

The extra time allows the SARC to further consider the submissions, seek further independent economic advice on the potential impacts of the various options and the exit grant process, tailor the options, and undertake more consultation with industry before making its final recommendations to Government.

Equally, based on strong feedback from non-commercial stakeholders, on 14 August 2014 the Minister announced that the prohibition on netting will remain in place in creeks and waterways where it is not currently permitted, and that no increase in netting in Pittwater will be approved. This relates to the proposals that were in the options papers for additional meshing in Bournda Lagoon and Sandy Beach Creek, Merimbula Lake, Patonga Creek, Bonville and Pine Creeks, Newports and Boambee Creeks, Jerusalem Creek, Evans River, Mooball Creek, and Cudgen Creek.

Structural Adjustment Review Committee

The SARC has been meeting regularly this year and the Chair has been releasing a summary of the Committee's views and advice soon after each meeting. The Chair's summaries of the latest meetings are available at the reform webpage.

A summary of key parts from the recent Chair's summaries follows.

New timeline:

With the opportunity of additional time, the SARC has recommended a new approach and timeline for progressing with the reform program (see Table 1).

It is acknowledged that further delay will affect shareholders wishing to access the exit grants, however, given the importance of the process it is

critical to spend the time to ensure the right outcomes are achieved.

Table 1. SARC recommended timeline for reform program.

Key step	Target date
Review the submissions received and the <i>Summary of Submissions</i> report	current
Final independent economic analysis report received by the SARC	19 Dec 2014
SARC develops draft recommendations on exit grant design	Feb 2015
Regional meetings of the Department with industry to discuss share class linkage options and explain the exit grant (facilitated by SARC Chair)	Feb/Mar 2015
Department's advice on preferred share linkage options received by SARC	by 31 March 2015
SARC draft recommendations on share linkage options developed	by 30 April 2015
Targeted SARC/industry consultation on draft recommendations	May 2015
Following consideration of these processes and consultation the SARC will finalise its recommendations to Government	30 June 2015
Minister for Primary Industries decides on and announces share linkages and determines commencement date for the exit grant process	Late 2015
Implementation of exit grant	Late 2015



Meeting with industry groups:

The SARC met with representatives from different industry groups, confirmed that the reform program is going ahead and provided an update on progress. The SARC stressed that the reform options will be assessed by share class and by fishery, taking into account their specific characteristics and public submissions (i.e. one share linkage option does not fit all). The Committee also noted that additional options are being considered and the design and operation of the exit grant is under review.

The SARC outlined two overarching criteria that are being used to guide its assessment and recommendations:

1. that the benefits to shareholders of any recommended linkage option must justify any investment required, and
2. that any recommended option reduces the erosion of profits, by the occasional entry of fishers into the fishery in response to good conditions.

In response to points raised by the group about consultation, latent effort and delays, the SARC agreed that further consultation was needed and noted that the need for reform may need to be reconsidered for share classes where activation of latent effort is unlikely to be a problem, which may affect the distribution of exit grant funding for fisheries where reform was more necessary.

Spanner crab:

The SARC considered the approach for the spanner crab northern zone given that the Minister previously approved (following industry consultation in 2009/10) a move to catch quota for that share class, and the recent Ministerial announcement about extra time prompted calls from many northern zone shareholders to move ahead with that decision.

The SARC has advised that:

- catch quota should be implemented for the Northern Zone commencing 1 July 2015,
- fishers in the Northern Zone should have access to the exit grant program (in whatever form that takes) when it is implemented across

all fisheries in late 2015,

- the ITCAL should be set at 164,143 kg to facilitate adjustment, but this should move to a scientifically based TAC by the second quota year given the credible stock assessment information that is available,
- the current minimum shareholding for new entrants should be retained, and
- a decision on share linkage in the spanner crab Southern Zone be taken within the overall reform program timeframe for all other fisheries.

Communication and engagement:

The SARC stressed the need to improve communication between the Department and fishers and noted it is in the best interests of the industry, especially for the promotion of industry as a sustainable, well managed industry, to work constructively with the Department and its fisheries managers to explore ways forward.

Independent economic analysis:

In direct response to industry concerns, an independent economic analysis will be commissioned to help inform the SARC's consideration of share linkage options by:

- estimating current private return on investment for the five relevant fisheries and in comparison to other primary industries and fisheries,
- providing comment on whether and how share linkages would improve the financial viability of these fisheries,
- assessing the value and current economic viability of the key share classes within these fisheries,
- reviewing and critically analysing the proposed approach to implement the exit grant and associated mechanisms.

The SARC has looked at proposals from three consultancy companies for doing the work and recommended a consulting firm, AgEconPlus for the bulk of the study. Review and critical analysis of the exit grant will be undertaken by a separate company.

Definitions

Economic Viability: "Increasing the difference between the revenues generated from a share class or fishery and the total costs to produce those revenues." (Source: SARC Meeting No.14 Chair's Summary)

Application: This indicates that the objective to improve economic viability applies at the share class or fishery level, rather than at the individual shareholder level. Many factors determine how individuals run their businesses and whether they are or will be individually profitable.

The consultant will prepare a detailed report and also a plain-English summary for all fishers and the public. The report is due to be delivered to the SARC by late December 2014.

Please note that this economic study is different (not related) to the FRDC funded study being carried out by the University of Technology Sydney (UTS). See the information provided on that study hereabouts.

Cost recovery policy:

The SARC previously made suggestions on the approach to the future cost recovery policy, which will be developed by Government with input from the Ministerial Fisheries Advisory Council (MFAC). It will also include consultation with stakeholders. At its June 2014 meeting, the SARC suggested adopting a two tiered model. The first part would be a base fee payable by all shareholders to contribute towards management costs such as compliance, catch reporting and monitoring and the second part being a variable cost calculated in proportion to each operator's shareholdings.

The type of issues that the cost recovery policy will need to consider include:

- What costs are *attributable* to industry? (total costs will be less than 100% of the Department's costs as the Department provides other functions not attributable to the commercial fishing industry),
- What portion of attributable costs should be recovered from industry? The current level of recovery is around 40% of estimated attributable costs.
- Is there a case for a 'public good' component

NSW commercial fishing socio-economic study by the University of Technology Sydney (UTS)

In the mid 1990's the Clarence River Fisherman's Cooperative commissioned a socio-economic report identifying and quantifying the social and economic benefits of the commercial fishing industry to regional communities in NSW. The co-op realised that accurate evidence based information would help support greater consideration of the fishing industry by local councils, the government and the community in general during any decision making process.

Following the establishment of the Professional Fisherman's Association (PFA) and the success of the first study a second expanded study on the socio-economic influence of the commercial fishing industry between Ballina and Coffs Harbour was commissioned. This second report provided new information over an extended area, as well as providing a comparison to the previous study for the Clarence River region.

Now, the Fisheries Research Development Corporation (FRDC) is funding a new, state-wide appraisal of the socio-economic influence of the commercial fishing industry. Your support of this significant and important project could provide the first accurate information on the socio-economic importance of the industry across the state. Supporting this project when UTS post out their economic surveys will support your industry and its future in this state. If you would like to know more about this project and the use of the data being collected, contact Dr Kate Barclay on 02 9514 1579 or email

kate.barclay@uts.edu.au



that industry shouldn't pay for?

- What level of efficiency savings should apply?
- What processes and systems should be used for setting priorities for expenditure, accounting and reporting?

In the meantime, while the cost recovery policy is developed, the three year cap on share management charges, as announced by the Minister in June, will apply.

Further information:

To read more detail about the SARC's views and advice or keep up to date with Chair's summary reports, you can download them from www.dpi.nsw.gov.au/fisheries/commercial/reform/sarc.

Also, as a new initiative, the Industry Liaison Manager will be emailing all SARC Chair's Summaries to those who have provided their email address to Fisheries Business Services (FBS). If you would like to receive the SARC reports by email as they become available, please provide FBS with your email address by calling 1300 720 662 or emailing fisheries.businessservices@dpi.nsw.gov.au. If you believe FBS already has your email but you did not receive the SARC Chairs Summary of Meeting No.14 (emailed 22/9/14) please contact FBS and check that your email details are recorded correctly.

Cooperative viability report available

The final report for the [NSW Fishing Cooperative Viability Study](#) undertaken by independent economic consultants, GHD Pty Ltd, has been finalised and can be viewed on the reform webpage.

The report covers areas such as:

- existing financial viability of cooperatives,
- potential impacts of the reforms on cooperative viability (noting that apart from spanner crab Northern Zone, no decisions had been made on reform options when the study report was done, and that situation remains the same now),
- impacts of previous cooperative closures (such as Crowdy Head and Twofold Bay), and
- the role of Government in supporting

cooperatives.

The report concludes that "The financial viability of NSW Fishing Cooperatives generally reflects that of its members and the broader industry, with flat or declining throughput relative to fixed costs and competition from imports, putting pressure on operating profits.

Despite these difficulties some cooperatives remain confident about their future, often due to their ability to value add to product, draw income from diversified sources or rely on sound asset backing.

If the Reform Program meets its stated objectives it will put the industry on a more profitable basis in the long-term. However, in the short-term the reforms are likely to reduce the profitability of some cooperatives via the loss of members and throughput.

GHD reported that if current trends continue, a small number of cooperatives (between one and three) will likely become unviable and therefore be forced to either close, amalgamate or convert to private companies. The Reform Program may bring about these changes earlier than expected.

Rationalisation of NSW fishing cooperatives is likely to be beneficial in the longer term, particularly if it enables services to be maintained in regions where cooperatives are facing ongoing challenges to remain viable."



Definitions

Latent Fishing Capacity: Fishing capacity that could be applied to a fishery but is not, over any given timeframe.

Application: Latent fishing capacity can be a risk to the sustainability and/or viability of a fishery if it starts being activated in any significant way and if there are insufficient controls in place to slow or cap that activity. However, the risk of activation of latent fishing capacity will differ depending on the situation and may or may not represent a significant problem in a particular sector

Exit Grants

With extra time being provided to consider the submissions, do further consultation and seek independent economic advice, the timing of the exit grant process has had to be deferred. The Minister has quarantined the exit grant funds (\$15.5 million) until the reform program has been completed so it will remain available for this purpose.

Some fishers have raised concerns regarding the exit grant process including:

- claims that shareholders will be able to unfairly capitalise on access to the funding
- that the available money should be used for a buyout targeting latent effort or for those wishing to leave the industry, *prior* to the options for restructure of the industry being developed
- uncertainties about how much to bid during the exit grant process or to spend on obtaining shares if required, given the possible all-or-nothing result.

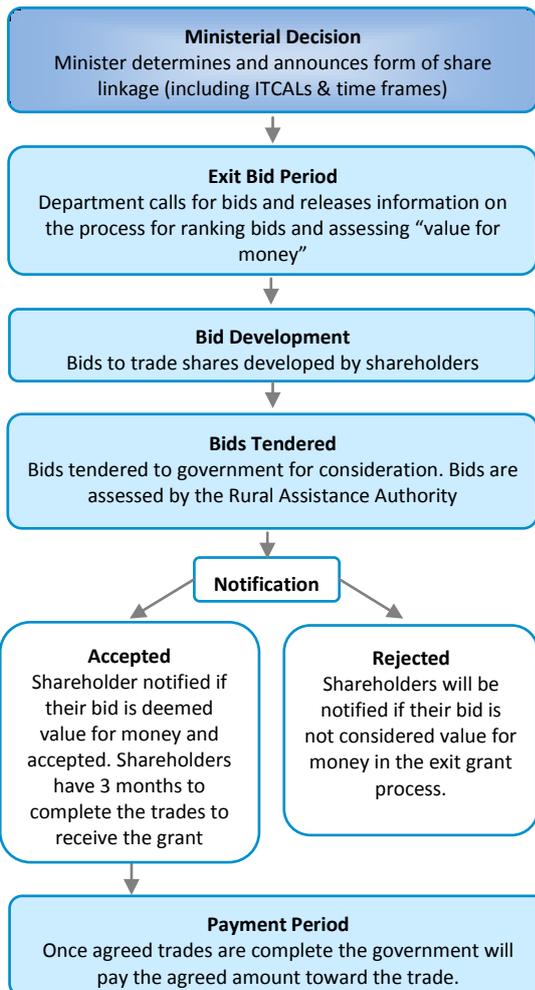


Figure 1. Exit grant process as currently envisaged, noting that this is subject to change after consideration of the economic analysis.

These concerns will be given full consideration by DPI, the SARC and also through the economic consultancy which will review and critically analyse the design of the exit grant process and associated mechanisms (also see Figure 1).

Share trading

The rate of share trading over the last few years (and even in recent months) indicates that a wide range of fishers are actively adjusting their business structures – see Figure 2.

While the Government will be supporting share trading with exit grants (with the current timetable indicating this will occur in late 2015), it doesn't prevent share trading from happening beforehand. Clearly, shareholders who trade in shares prior to the final Government decisions on the reform options for each fishery/share class take on a personal level of business risk.

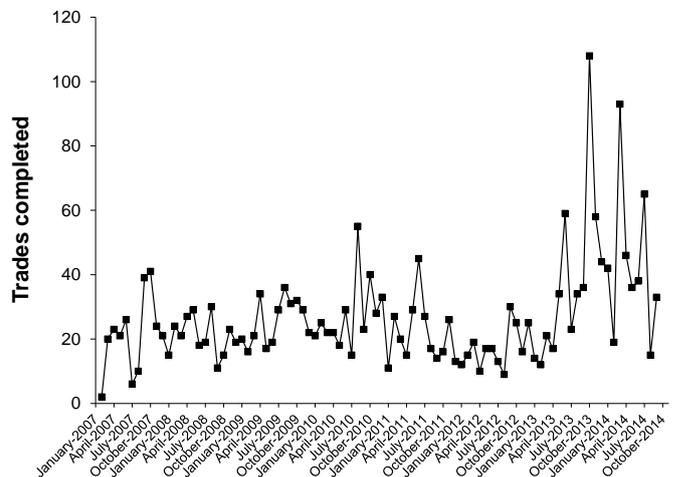


Figure 2. Monthly total share trades between January 2007 and September 2014 displaying recent increase in share trades.

Port visit summary

Fourteen separate NSW port visits were held from the Tweed Heads to Eden between 29 April and 8 May 2014. The port visits were an opportunity for one-on-one discussion with fishery managers to discuss potential business-specific outcomes under each option and to answer any private business questions they may have.

In response to industry calls, an open forum was also held at the beginning of each session to allow industry to collectively ask questions and hear the responses.

In total, more than 500 fishers attended and over 200 one-on-one meetings were held.

Some of the key concerns raised by industry during the port visits included:

- difficulty making business decisions without knowing future management and implementation costs;

FLASHBACK to the 2001 Estuary General Environmental Impact Statement (EIS)

The EIS provided a review of the Estuary General Fishery and outlined the key issues that arose from the operation of the fishery at that time. The issues identified included ensuring stock sustainability and improving economic viability. The review of the existing economic environment indicated only a small proportion of fishers surveyed were in economic surplus (20%). The average economic rate of return to capital across all the businesses was negative (-17%), the median being -30%.

To address these issues, several actions were identified and put into the draft Fisheries Management Strategy (FMS). These included:

A new share-based restructuring program to operate at the regional level to cap the number of fishers with access to the fishery (and in each part of the fishery) at historically active levels (page C-87)

That the total amount of fishing effort level applied to prawn stocks be determined by an independent expert committee (called the "Total Allowable Catch Setting and Review Committee") and subsequently allocated between fisheries (by the Minister) after stakeholder input (page C-87)

Implementing the Category 2 share management fishery provisions of the Fishery Management Act 1994 (page C-91)

Incorporating a restructure scheme at both the fishing business level and endorsement level that requires a minimum number of shares to be held before an endorsement to fish becomes available (page C-91)

Investigating the feasibility of implementing a tradeable crab trap entitlement regime to improve the catching efficiency for crab fishing (page C-91)

These extracts come from the 2001 NSW Fisheries "Estuary General Fishery Environmental Impact Statement Public Consultation Document". For more information see the links to the full EIS documents at: www.dpi.nsw.gov.au/fisheries/commercial/ea.

- for some options the ITCAL levels would result in many shareholders being allocated significantly less access than their current activity, and the cost to buy more shares would be unaffordable;
- financial institutions were unlikely to lend money without a clear return on investment;
- scepticism about the extent to which exit grants would reduce the cost of shares for those who would need them, and the availability of shares in some cases;
- activation of latent effort wasn't considered a big risk or problem in some fisheries, particularly where start-up capital costs are relatively large;
- a view that government misallocated the shares originally and that it is not fair to ask existing fishers to contribute towards building stronger rights;
- there were no guarantees management arrangements wouldn't change again in the future;
- risk of investors/speculators purchasing shares to lease back to active fishers; and
- that the viability of co-operatives would be impacted.

All of these comments, and more, have been noted and are being considered by the SARC and DPI.

Other issues and opportunities

- A review of the **Commonwealth Marine Reserves** has begun (this is different to the NSW marine estate reforms). For more information on the Terms of Reference for the review, those involved, how you can get involved and supporting information can be found on line at: www.marinereservesreview.gov.au
- Keep an eye on www.dpi.nsw.gov.au/fisheries/consultation in the near future for a summary of the Ministerial Fisheries Advisory Council (MFAC) meeting held in Coffs Harbour on 18 September 2014.
- If you have any questions regarding payment of **management charges** for 2014/15, please contact the Fishing Business Services on 1300 720 662.
- Following extensive consultation and consideration of over 5,000 submissions, the Minister has announced changes to the recreational fisheries rules to commence on 3 November 2014. The changes and more information can be

Quote "At the end of the day, community access to local seafood depends on having a sound, profitable industry." Minister for Primary Industries and Small Business, the Hon Katrina Hodgkinson on the ABC Country Hour 12 Aug 2014.

found at:

www.dpi.nsw.gov.au/fisheries/recreational/changes-to-recreational-fishing-rules-commencing-3-november-2014

- Advent Energy Ltd holds an exploration permit to undertake gas exploration activities off the coast between Sydney and Newcastle. The NSW DPI submission to proposed seismic survey can be found at:
www.dpi.nsw.gov.au/__data/assets/pdf_file/0003/526548/pep11-seismic-survey-proposal.pdf

Further questions, information and feedback

Interested parties can find further information at the DPI Fisheries NSW website at: www.dpi.nsw.gov.au/fisheries/commercial.

There are links on that page to frequently asked questions, documentation from working group meetings, SARC meetings, and many other relevant documents including changes around the management fees.

If you have any questions please contact the Industry Liaison Manager, Chad Lunow, on 0437 942 142 or email him at chad.lunow@dpi.nsw.gov.au.

Support services

Don't forget about the free support services that are available to assist people, whether related to the reform process or not. This includes free financial counselling and advice and health services. Contact details have been provided before but please contact the Industry Liaison Manager if you didn't receive them or misplaced them and would like to take advantage of the services available.



CONTACTS

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Exit Grants	Doug Ferrell	02 9435 4667	0419 185 389	doug.ferrell@dpi.nsw.gov.au

OTHER USEFUL CONTACTS

	PHONE	FAX	EMAIL
Catch Records	02 6648 3921	02 6391 4709	catch.records@dpi.nsw.gov.au
Fisheries Business Services	1300 720 662	02 4424 7449	fisheries.businessservices@dpi.nsw.gov.au

USEFUL LINKS

Fisheries NSW Reform website	www.dpi.nsw.gov.au/fisheries/commercial/reform
Share trading notice board website	www.dpi.nsw.gov.au/fisheries/commercial/fishonline-noticeboard
Current shareholdings website	www.dpi.nsw.gov.au/fisheries/commercial/shareholding-information-for-share-management-fisheries
FishOnLine	Email: fishonline.support@dpi.nsw.gov.au

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Disclaimer: The information contained in this publication is based on knowledge and understanding at the time of writing (October 2014). However, because of advances in knowledge, users are reminded of the need to ensure that information upon which they rely is up to date and to check currency of the information with the appropriate officer of the Department of Primary Industries or the user's independent adviser.