

Structural Adjustment Review Committee (SARC)

**Chair's Summary
14th Meeting
MLC Building
Martin Place, Sydney
10 - 12 September 2014**

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* Coalition of NSW Catchers Groups, Associations and Individuals

1 Introduction

The SARC met for three days in Sydney, 10-12 September 2014. This summary covers commentary from the SARC on the major issues raised and discussed at that meeting.

The SARC was provided with an update on the analysis of public submissions and reviewed additional data on impacts of linkage options at the share class level. Quotes from companies interested in undertaking an economic analysis of aspects of the Fisheries Reform, including the Exit Grant were reviewed and a recommendation of the preferred consultant provided to the Department.

Members of the Coalition of NSW Catchers Groups, Associations and Individuals, including the PFA, met with the SARC and a range of issues was discussed.

2 Meeting with the Coalition

SARC extended an invitation to the Coalition of NSW Catchers Groups, Associations and Individuals to continue the dialogue started at the Sydney Fish Markets on 29 July 2014. Accordingly, the SARC requested the Coalition nominate up to five persons¹ to attend their meeting on 11 September for a two hour session to discuss the Reform Program. At this meeting, the SARC confirmed that the Reform Program is going ahead and provided an update on progress. The SARC stressed that reform options will be assessed by share class and by fishery, taking into account their specific characteristics as well as industry and public submissions. The SARC also informed the group that additional options are being considered and that the design and operation of the exit grant is under review. 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.

Key issues raised by the Coalition nominees were the need for further regional consultation by share class, that activation of latent effort may not be a significant issue in all fisheries/share classes, and that delays in the Reform are causing financial and emotional stress for industry. The SARC agreed that engagement at share class level was essential and restated that one size does not fit all i.e. a linkage option for one share class may not be the best outcome for another share class. The SARC also agreed that further consultation/engagement was necessary to produce the best outcome noting, however, that this will cause a further delay in implementation and thus, further uncertainty. Where, for particular share classes, the activation of latent effort is unlikely or would not be a problem if activated, the SARC noted that in these cases, consideration may be given to the need for reform, including access to the exit grant. This may also provide additional funding for fisheries where reform was more necessary.

¹ Mary Howard, Paul Sullivan, Gary Howard, Dane Van der Neut, Tricia Beatty

3 Revised timeline

The SARC reviewed the timeline for the reform including the economic analysis consultancy and incorporation of the findings of that study into the Department's and SARC's consideration of the design of the exit grant and of share linkage options. The revised timeline also responds to industry calls for further consultation on the reform program by incorporating two further rounds of consultation. Key dates in the reform program are provided below.

The SARC acknowledges that the new timeline will not suit everyone in industry and that some operators are keen to have the design of the reform program confirmed as soon as possible. The SARC considers, however, that on balance the benefits of the economic analysis and the opportunity for further consultation on the options will deliver a better long-term outcome for industry.

Key step	Target date
Final report of the economic analysis	19 December 2014
SARC draft recommendations on exit grant design	February 2015
Regional meetings of the Department with industry to discuss share class linkage options and explain the exit grant (facilitated by SARC Chair)	February/March 2015
Department's advice to SARC on preferred share linkage options	by 31 March 2015
SARC draft recommendations on share linkage options	by 30 April 2015
Targeted SARC/industry consultation on draft recommendations	May 2015
Final SARC recommendations to Government	30 June 2015
Implementation of Exit Grant	Late 2015

4 Spanner crab

In 2011 the Minister advised spanner crab shareholders that the Northern Zone of the Fishery would move to an individual transferable quota (ITQ) scheme. Implementation of the scheme was subsequently brought within the overall Reform Program in order to provide an opportunity to consider the appropriate share linkage option for the entire fishery – both Northern and Southern Zones. The Minister reaffirmed the decision to move to ITQs in the Northern Zone in April 2014 when she announced the public consultation phase of the reform program, noting a link between shares and catch quota had previously been approved.

The recent extension of the timeframe for the reform program has, however, prompted calls from many Northern Zone operators for implementation of that decision to begin ahead of the revised reform program schedule. The SARC considered this issue and believes that it is appropriate that the decision for the Northern Zone be implemented as soon as possible. The SARC recommends that:

- catch quota should be implemented for the Northern Zone commencing on 1 July 2015;
- fishers in the Northern Zone have access to the exit grant program (in whatever form that takes) when it is implemented across all fisheries, in the second half of 2015; fishers should note that details of how this will occur in relation to the timing of the exit grant, and how the grant will be applied, need to be developed;
- the Interim Total Commercial Access Level (ITCAL) proposed in the Options Paper (164,124 kg for the Northern Zone) be implemented to facilitate adjustment, acknowledging that existing allocations in the Northern Zone were based on validated catch history some 25 years ago and that the current catch profile no longer reflects the original allocation
 - the SARC notes that some submissions sought a higher ITCAL than proposed in the Options Paper. The SARC does not support this since it believes that to do so would exacerbate the impact on shareholders of a transition from higher ITCALs to a scientifically based TAC;
- given the availability of a credible scientific resource assessment for the stock run by Queensland, where the majority of the catch of this stock is made, the ITCAL should be converted to a scientifically based TAC by the second quota year commencing July 2016;
- that the current minimum shareholding for new entrants be retained, noting that the SARC sees value in this as a fisheries management tool and that there was general support for this approach in the submissions in response to the Options Paper.

The SARC considered whether a decision should also be made now on share linkage in the Southern Zone. While the SARC is of the view that the fishery should ultimately be managed as single fishery, rather than two separate Zones, The SARC recommends that:

- a decision on share linkage in the Southern Zone be taken within the overall reform program timeframe for all other fisheries.

5 Communication and consultation

There is a need to further improve communication between the Department and fishers to ensure a better understanding of the aims of the Reform and the options available to achieve the objectives of the Reform in a way that provides an appropriate level of benefits to fishers and the community. The Department is aiming to have ongoing discussions within key share classes to further explore linkage options, and the outcomes of these discussions will feed into the considerations of SARC. For its part, SARC will continue to seek to liaise with the PFA and other members of the Coalition through the Chair's Summary and occasional briefings.

6 The Department and Industry

One major constraint to communication is the apparent lack of trust and respect by some in industry for the Department and its staff. This distrust appears to have its origins in decisions by previous governments, some of which are directly linked to the current Reform (e.g. the issue of shares) and others of which are less so (the creation of marine parks and recreational havens). In the opinion of the SARC, Department staff are working diligently to seek the best possible results from the Reform. At the working groups and subsequent meetings, Department staff have been putting forward Government policy on the Reform, rather than seeking to find means to oppose alternative suggestions on reform from industry, as has been suggested. The SARC would like to reassure industry that no decisions on either linkages or the exit grant have been taken, but the Reform is proceeding. It is therefore in industry's best interests to cooperate as fully as possible in working with the Department to constructively explore ways forward. Finally, building a stronger, more viable industry and creating better relationships between fishers and managers will lay the groundwork for the promotion of industry as a sustainable, well managed industry, making an increasingly valuable contribution to the NSW community.

7 Economic Analysis Consultancy

The Economic Analysis Consultancy is close to commencement. The report of the consultancy will inform SARC's consideration of share linkage options by:

- Estimating current and comparative (with other primary industries and fisheries) private return on investment for the following fisheries: Ocean Hauling, Ocean Trawl, Ocean Trap and Line, Estuary General and Estuary Prawn Trawl.
- 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 and DPI assessed proposals from three consultancy companies regarding the economic analysis study. A recommendation on the preferred company based upon expertise, methodology and value for money was made to the Executive Director, NSW Fisheries. It is expected that the study will commence in late September.

The selected consultancy company will be undertaking a limited amount of 'ground truthing' of economic data and the cooperation of industry will be sought in this regard. This cooperation will help to understand the effects on industry of different approaches to the Reform.

8 Analysis of submissions

The SARC was provided with a preliminary draft of the Department's analysis of submissions in response to the Options Papers. This is necessarily a complex exercise given the number and nature of submissions received from commercial fishers, the public, recreational fishers and non-government organisations. Many of the submissions raised issues that went beyond the questions asked in the response forms, many of which were useful, but added to the task of assessment. The analysis does not however, interpret the submissions, but simply summarises in a meaningful way, at the fishery and share class level, the views on the options presented and associated comments.

While this analysis has taken longer than expected the SARC noted that the analysis is very comprehensive and is already proving to be very useful input to the SARC's consideration of share linkage options. It is now nearing completion and it is expected that it will be available on the Department's website by early October.

9 Share class impact analysis

The SARC is developing an analysis framework for evaluating the impact of all proposed options at the share class level to assist it in making recommendations regarding share linkage. This analysis will estimate the relative costs and benefits of each option taking into account the particular characteristics of the share class, the fishery and other information and commentary provided in the public submissions. Data on estimated share values and return on investment, an expected outcome of the economic study, will also be included. Given the variability between fisheries, estimation will be easier in some share classes than others.

10 Meeting with Industry Liaison Manager

The SARC met with Mr Chad Lunow, Industry Liaison Manager, Commercial Fisheries Reform. Chad provided the SARC with a comprehensive update on the outcomes of his discussions with industry. He provided feedback from discussions with fishers on a number of issues, which included:

- A high degree of uncertainty, anger and fear among some in industry, much of which is attached to the uncertainty of the outcome.
- The need for consideration of the age demographic of the industry and the concern that the Reform had created a level of uncertainty that was preventing some fishers who wished to leave the industry, to sell shares/businesses and do so.
- That some in industry feel they are being forced to make a decision to pay-and-stay in or be forced out of the industry.
- Uncertainty over the exit grant process and what to bid/buy/sell.
- That some see those fishers that have observed the move to meaningful share management over the last several years and invested in more shares as somehow being 'corrupt' and/or 'insider traders'.

- Many of the messages from the Department are not penetrating through to some fishers making them feel uninformed and marginal.
- Seeking alternative ways to minimise the impacts on industry, for example 'soft' loans.
- A view that leasing (nominated fishers) should be replaced by owner operators only.
- There is a need to show the evidence of latency impacts on the industry.
- Not to disregard previous government promises.

The SARC notes that there has been some criticism that Mr Lunow is relatively new to NSW fisheries and that this is an impediment to his effectiveness. It is the view of the SARC that a 'fresh look' at issues is a benefit and that Mr Lunow's role is not to develop and recommend new options for reform, but to listen, provide information/updates to fishers and give feedback to the Department and SARC. All the points raised by Mr Lunow are being considered by the Department and SARC.

11 Economic Viability

A number of submissions have raised the issue of what is meant by improving economic viability of the NSW fishing industry. In this context, economic viability means the economic viability of a share classes or fishery as a whole. That is, increasing the difference between the revenues generated from the share class or fishery and the total costs to produce those revenues. It does not mean ensuring or improving the viability of each individual shareholder in a fishery as many other factors determine how individuals run their business. These factors can include, for example, the level of knowledge and skill of the operator, the level of debt, and whether the business owner is involved in other non-fishing activities.

12 Due diligence

The SARC has been made aware that in the recent past, some shareholders have bought shares and/or fishing businesses without knowing that the Reform Program had been announced. As with any proposed investment, it is important that potential buyers make efforts to find out about any factors which are likely to have a positive or negative impact on their investment before purchasing i.e. to undertake due diligence. This could include contacting the relevant DPI fisheries manager and looking at the DPI website.