

# **Structural Adjustment Review Committee (SARC)**

## **Chair's Summary**

**13th Meeting**

**MLC Building**

**Martin Place, Sydney**

**28 - 30 July 2014**

## TABLE OF CONTENTS

|          |   |           |
|----------|---|-----------|
| <b>1</b> | <b>INTRODUCTION .....</b>   | <b>3</b>  |
| <b>2</b> | <b>TIMELINE .....</b>   | <b>3</b>  |
| <b>3</b> | <b>ANALYSIS OF SUBMISSIONS.....</b>                                   | <b>3</b>  |
| <b>4</b> | <b>SHARE CLASS IMPACT ANALYSIS.....</b>                               | <b>4</b>  |
| <b>5</b> | <b>ITCALS .....</b>   | <b>4</b>  |
| <b>6</b> | <b>ABORIGINAL COMMERCIAL FISHING.....</b>                             | <b>5</b>  |
| <b>7</b> | <b>ENGAGEMENT/CONSULTATION STRATEGY.....</b>                          | <b>6</b>  |
| <b>8</b> | <b>COALITION* MEETING .....</b>                                       | <b>6</b>  |
| <b>9</b> | <b>FEEDBACK TO SARC .....</b>   | <b>7</b>  |
|          | <b>ATTACHMENT 1: INTRODUCTION TO SARC MEETING WITH COALITION.....</b> | <b>8</b>  |
|          | <b>ATTACHMENT 2: KEY POINTS RAISED BY THE COALITION .....</b>         | <b>10</b> |

\* Coalition of NSW Catchers Groups, Associations and Individuals

## **1 Introduction**

The SARC met for three days in Sydney, 28-30 July 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 further considered the impacts of linkage options at the share class level. The form of the exit grant was also discussed and the opportunity taken to hear from Professor Ledyard on international experience of exit grant design similar to that being undertaken in NSW fisheries. It is interesting to note that misallocation of shares has been experienced and dealt with effectively in a number of other situations, including water and pollution (carbon credits).

The opportunity was taken for some direct interaction between the SARC and industry at a meeting of the Coalition of NSW Catchers Groups, Associations and Individuals at the Sydney Fish Markets. Further details of that useful discussion are included below.

## **2 Timeline**

The SARC had hoped to provide a definitive timeline by which it would be able to provide advice to the Department and Minister on linkage options and associated Reform issues. It is now clear that the additional independent economic advice (see below) will not be available in time to allow for meaningful consultation with industry before Christmas. The consequence of this is that SARC recommendations will not be provided until early 2015. Given previous experience of delays, the SARC will await confirmation that the economic review outlined below is running to the proposed schedule before confirming this proposed timing.

Economic review: The SARC had planned to brief potential bidders for the independent economic consultancy during this meeting. However the SARC was informed by DPI that the process to identify consultants has taken longer than anticipated due to Government purchasing requirements and processes. The SARC agreed a timeline for the consultancy with DPI. A contract should be signed by mid-September 2014 with a draft report to the SARC delivered by 14 November. Following comments from the SARC, the final report should be completed by 19 December. The report will then be available on the DPI website to ensure transparency. It is proposed that the independent consultancy will consider i) the economic conditions of the fisheries targeted by the reform including the current economic viability of the key share classes within these fisheries ii) whether and how ITQs and ITEs (share linkages) would improve the financial viability of these fisheries iii) valuation of shares and the value of a fishing business and iv) issues associated with fisheries having high catch/effort to low shareholding ratios. The consultancy will also review and critically analyse the proposed approach to implement the exit grant and associated mechanisms.

## **3 Analysis of submissions**

The analysis of submissions has been a complex process, since it is important that all submissions are given due consideration, including ideas and suggestions for improving the reform process. The Department has committed to having the full analysis completed and on the website by the end of August, with a summary possibly available

before this. The analysis will be focused at the fishery level, noting, as appropriate, differences between share classes within those fisheries. All submissions from commercial fishers, the public, recreational fishers and NGOs will be analysed.

#### **4 Share class impact analysis**

At the request of the SARC, DPI is undertaking an analysis of each of the proposed share linkage options within each share class and assessing the investment required by fishing businesses to maintain current activity. This will help determine the cost benefit of the investment.

Once a preferred linkage option for each share class has been determined, the cumulative impact on fishing businesses will also be examined. This will identify potential perverse and extreme results on fishing businesses that will need to be taken into account when considering linkage options.

An understanding of cumulative impacts of the preferred options will have several uses, including: to assist the SARC in making recommendations, inform the external economic analysis, fisheries managers and advisors and assist fishers to make decisions. This analysis will also be refined by advice from industry and the independent economic consultants.

#### **5 ITCALs**

As part of the preliminary consideration of linkage options, a number of issues regarding ITCALs were discussed. The SARC is aware from submissions that many fishers believe that some of the proposed ITCALs are not high enough but that other stakeholders are concerned about the potential for the proposed ITCALs to result in additional sustainability risks.

The SARC wishes to note that:

- the SARC's agreement to allow for ITCALs to be set at the maximum catch level over the last 10-15 years, where there are no sustainability concerns, is largely a response to the need facilitate the adjustment process in the short term;
- the SARC is also keen to analyse the impact of the current levels of the proposed ITCALs with a view to ensuring that their levels are not set so high that they discourage, rather than facilitate adjustment during the exit grant process;
- adopting high levels of ITCALs will reduce the burden of adjustment in the short-term, but there is a long term trade-off, given that some fishers will need to purchase additional shares prior to linkage;
- catch and effort levels will need to be scientifically based and fishers should factor into their decision making that following linkage, it is likely that TACs/TAEs will be lower than ITCALs.

The SARC also discussed sustainability issues relating to ITCALs during the period of transition to implementing linkages and the establishment of scientifically based catch and effort levels, noting the following:

- given that the current constraints on catch and effort in the fisheries to which this reform applies will remain during the transition to share linkage, setting ITCALs higher than current levels should not in itself stimulate more fishing effort or higher catch. However, there may be an incentive for some fishers to fish harder when restricted to fewer share classes and to meet financial commitments arising from the acquisition of additional shares;
- there are concerns for the sustainability of some species at recent catch and effort levels, heightened by the effect on CPUE-based stock assessments of the industry admissions of underreporting of effort in some fisheries;
- the need for the SARC's earlier recommendation that the DPI review the trigger points in the Fishery Management Strategies to ensure that these are sufficiently sensitive to detect significant changes in catch or effort and the management arrangements in the period to transition to share linkage are appropriately responsive (Issue 7.5, Chairs Summary, 8-9 January 2014). The SARC has sought advice from DPI about progress in implementing this earlier recommendation.

## **6 Aboriginal commercial fishing**

Following the SARC's meeting with the Ministerial Fisheries Advisory Council (MFAC) in June, MFAC recommended that the SARC consider the impact of the reform program on small scale Aboriginal commercial fishing operations with a view to determining the nature and extent of any negative impacts and how they may best be addressed.

Subsequently, the SARC has had discussions with Assoc. Prof. Stephan Schnierer, a member of MFAC and an Indigenous fisheries researcher and advocate, who has recently conducted research into the impact of management changes on the viability of Aboriginal commercial fishers and their communities in NSW. At this meeting the SARC discussed this issue with DPI. The Department has undertaken to further review the data and information provided in Assoc. Prof. Schnierer's report in order to inform the SARC's understanding of the nature and extent of the issues. The SARC was also made aware that some Aboriginal commercial fishers, through the Aboriginal Fishing Advisory Council (AFAC) had approached the Minister to express their concerns about the impact of the reforms and that the Minister had encouraged them to engage in the consultation process of the reform package. The SARC is awaiting the final analysis of submissions from the Department in order to better understand the potential impact of the reform process on commercial Aboriginal fishers.

The SARC had a preliminary discussion with the department about possible ways to encourage further engagement of Aboriginal commercial fishers in the ongoing consultation process and the options that may be available to minimise the impact of the

reform package on Aboriginal cultural fishing. The SARC agreed that it would write to the Minister to clarify current Government policy in this area.

## **7 Engagement/consultation strategy**

It is clear to the SARC that despite considerable efforts by the Department, PFA and others to consult on the Reform package, a large number of shareholders remain unclear about the proposals and the anticipated benefits of reform. In the view of the SARC, this has been partly responsible for the significant rejection of the proposed linkages, other aspects of reform and the limited attention given to workable alternatives. The result of the recent tender process not to award a consultative services contract, the absence of an acknowledged (by Government) peak body for commercial fishers and the limited impact of the DPI Liaison Manager role as noted to SARC by industry have compounded the problems associated with communicating effectively with fishers.

As highlighted in the last SARC Chair's Summary, the delayed implementation of the Reform offers an important opportunity to increase understanding of the current and proposed options and to undertake more and more targeted consultation at the share class level about alternatives.

While the members of SARC heard from the Coalition meeting that there is little faith in the Department and its staff, we remain of the view that the DPI Liaison Manager and Fisheries Managers remain a fundamental part of the consultation process going forward. The SARC is currently working with the Department to agree a format for consultation between now and the end of the year, which will include further direct discussions between SARC and industry as part of the 'targeted discussions' referred to in the Ministers press release and previous Chair's summaries.

The SARC is examining how to extend observer access to the SARC to include representatives of industry in addition to the PFA. This would be for a limited number of individuals who are members of fishers' organisations and with whom it would be possible to have constructive dialogue concerning the Reform process. Such access would enable an exchange of views and provide an opportunity to have direct contact with members of the SARC.

## **8 Coalition Meeting**

The SARC attended a meeting of the Coalition of NSW Catchers Groups, Associations and Individuals at the Sydney Fish Markets on Tuesday 29 July. The SARC Chair provided an introductory address, which is included as Attachment 1 to this summary. A number of concerns about the Reform and associated issues were raised in a two-hour session, which was conducted in an orderly and helpful manner. These issues are summarised in Attachment 2 and will be considered by SARC in formulating recommendations for DPI and the Minister.

## 9 Feedback to SARC

The SARC encourages all shareholders and interested parties to continue to provide their views and suggestions on the Reform. Please either discuss these with the appropriate Fisheries Manager, DPI Liaison Manager or send them to:

The Chair, Structural Adjustment Review Committee  
C/- Mr Chad Lunow  
Commercial Fisheries Liaison Manager  
Commercial Fisheries Reform  
Fisheries NSW  
36 Marina Drive (PO Box 4291)  
Coffs Harbour  
NSW 2450

Telephone: 02 6691 9684  
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## **Attachment 1: Introduction to SARC meeting with Coalition**

The Reform process has arisen from a Government decision that seeks to address a number of concerns related to NSW fisheries, other than rock lobster and abalone. Trying to address a range of problems that have been in existence for many years and in a relatively short timeframe, is a challenging task. The central issues to be addressed through the reform are the misallocation of shares and a complex and increasingly inefficient set of input controls.

In summary, there are two key aims of the Reform:

- achieving greater value and meaning in shares; and
- improving long-term economic viability and efficiency.

In the view of the SARC, the reform process will also be essential to achieving long-term sustainability.

The reform process, including consultation, establishment of working groups etc. is the business of the Department, under the direction of the Executive Director and the Minister.

SARC's role is to provide oversight of that process, provide feedback to industry and DPI on a range of reform issues including linkage options, and to provide final advice to the Minister on share linkages.

NSW fisheries and the process of reforming them is complex. It is clear to the SARC from working groups, comments in the media and industry submissions that there is:

- lack of confidence in the Department, its staff and SARC and the consultation process;
- poor understanding of, and concern with, the Reform objectives and the options suggested to address them, including the exit grant and application of the \$16 million;
- some support for reform, but with significant changes to the options and processes discussed to date;
- a view that the options were a 'done deal' rather than for discussion and as a stimulus to find alternative approaches;
- there would be significantly less ability to switch activities to suit environmental and stock changes;
- an expectation that a 'one size fits all' approach would be imposed;
- deep concern that industry will be required to bear short term costs for uncertain future benefits;
- some investment in shares and rationalisation of operations is occurring in response to the proposed reforms; and
- a view that industry should not pay for past Government mistakes.



SARC heard these concerns and took the view that maintaining the original timeline and some aspects of the Reform process would not be appropriate, and advised the Minister accordingly. As a result the Minister provided more time and more resources for additional economic analysis. This analysis will consider:

- the status and viability of NSW fisheries; and
- the proposed approach to the exit grant and associated processes.

Clearly, this has implications for the timeline. The Minister, the Department and SARC are determined that the best results from the reform are obtained. Ultimately, the outcome is more important than rigid adherence to a timeframe.

That said, we recognise that an extended timeline results in an additional source of uncertainty for fishers, already concerned about what is a complex and difficult process.

Finally, while SARC is very concerned about the impact of the Reform on individual fishers and is working with the Department to undertake analysis at the share class level and fishing business level to better understand these impacts and, where possible address them.

## **Attachment 2: Key points raised by the Coalition**

### **Stated Position of the Coalition**

Participants stated unanimously that they would not accept an erosion of their current access rights. i.e. they have to be able to do what they are doing today without further investment in shares.

### **Future investment**

Participants are only prepared to make additional investments in order to expand their current operations. They also noted that sourcing funds for further investment could be difficult, particularly for older fishers. The uncertainty surrounding the reform has slowed down/halted investment.

### **Financial impact of current proposed linkages**

A number of participants described the likely financial impact on their operations of the share linkage options currently proposed. Implications of proposed options on the continued participation of Aboriginal commercial fishers were also raised as an issue.

Participants proposed a range of alternative options. Some of these may have been included in submissions. SARC encouraged participants to continue to engage in the consultation process and discuss alternative options with fisheries managers and/or to send any ideas to SARC.

The need to assess the socio-economic implications of the reform was noted. SARC informed the group that recent research had been funded by FRDC and the independent economic review would also address economic implications.

### **Flexibility**

Participants identified the need for ITCALs and the allocation mechanism to reflect the particular circumstances of fisheries, including where fisheries are particularly vulnerable to natural environmental fluctuations. The importance of not adopting a 'one size fits all' approach was emphasised.

Maintaining current diversity in terms of the ability of fishers to access their current range of share classes and fisheries was seen as very important.

### **Exit grant**

As a first step in the reform process, participants proposed that the \$14.5 million should be used to buy out effort and that such a step should be done soon.

Suggestions were also made to use the money to focus on a small number of 'hot spot' fisheries first as participants considered there were insufficient funds to include all fisheries in the reform process.

## Latent Effort

For some share classes, participants raised the issue that there was little prospect of 'latent' effort being activated and did not regard this effort as a threat to their future viability. The need to maintain current diversity in terms of access to a range of share classes and fisheries was also raised as factors which should be taken into account by the SARC.

## Impact of the restructure on sustainability

Concern was expressed about the potential threat on sustainability as a result of the increased fishing effort required to support loan repayments and/or ensure a reasonable return on investment if increased investment was required to maintain current fishing operations.

A need to take into account natural environmental fluctuations in some fisheries when setting ITCALs was also raised.

## Uncertainty caused by the Reform

Participants raised a number of concerns:

**Timeline:** The extended timeframe for the reform, whilst generally welcomed, was an extra source of uncertainty. Fishers, were not certain, for example, whether the reforms would be decided before the next annual round of levies in mid-2015.

**Management costs:** Absence of information surrounding both the level of management costs under proposed linkage options and the nature of cost recovery were identified as significant sources of uncertainty for industry. This uncertainty is making it very difficult to make decisions on investment or develop positions on all aspects of the proposed reform.

## Consultation

A number of issues were raised concerning the consultative process:

- The lack of a peak industry body was seen as an impediment to the reform process
- The group noted that they had little trust in fisheries managers and other departmental staff
- The lack of engagement of the departmental Liaison Manager with fishers was a major issue
- The need for 'targeted consultation' that has been noted by the SARC was emphasized and a request for a timeline made
- A request was made to ensure that the consultants selected to undertake the economic analysis engaged with industry members.
- A need to engage with 'grass roots' fishers and not just Working Groups

### Other issues

- Industry should not be responsible for misallocation/over allocation of shares on an equal basis and had previously been assured by the Department that catch history would be used in subsequent strengthening of shares.
- Concerned that there may be subsequent erosion of rights due to loss of fishing grounds even if reform proceeds.
- Comparison of the Reform with the move to quota in the rock lobster fishery is not an appropriate