



# Review of Deemed Value Rates for Deepwater Stocks 1 October 2012

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Prepared for the Ministry for Primary Industries

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<b>Contents</b>	<b>Page</b>
<b>Introduction</b>	<b>1</b>
<b>Deadline for Submissions</b>	<b>1</b>
<b>Executive Summary</b>	<b>2</b>
<b>Background</b>	<b>3</b>
The Deemed Value Framework	3
The Act and the Deemed Value Guidelines	4
<b>Analysis</b>	<b>5</b>
Review of 2010/11 fishing year	5
<b>Conclusions</b>	<b>9</b>



## Introduction

1 This Initial Position Paper provides the Ministry for Primary Industries (the Ministry's) initial proposals relating to deemed value rate changes for deepwater stocks, to apply from 1 October 2012.

2 The Ministry has developed this IPP for the purpose of consultation as required under the Fisheries Act 1996 (the Act). The proposals outlined in the paper are preliminary and are provided as the basis for consultation with stakeholders.

3 In August 2012, the Ministry will provide a Final Advice Paper to the Minister for Primary Industries. The FAP will summarise the Ministry's and stakeholder's views on the proposed deemed value rate changes and make recommendations to the Minister. A copy of the FAP and the Minister's letter setting out his final decisions will be posted on the MPI website as soon as these become available.

## Deadline for Submissions

4 The Ministry welcomes written submissions on the proposals contained in the IPP. All written submissions must be received by the Ministry no later than 4pm on **Tuesday, 14 August 2012**.

Written submissions should be sent directly to:

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P O Box 2526  
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or emailed to [kara.mckelvey@mpi.govt.nz](mailto:kara.mckelvey@mpi.govt.nz)

5 All submissions are subject to the Official Information Act 1982 and can be released, if requested, under that Act. If you have specific reasons for wanting to have your submission withheld, please set out your reasons in the submission. The Ministry will consider those reasons when making any assessment for the release of submissions if requested under the Official Information Act 1982.

## Executive Summary

6 This paper outlines the Ministry for Primary Industries (the Ministry's) initial proposals relating to deemed value rate changes for deepwater stocks, to apply from 1 October 2012. Stakeholders are invited to provide their views on these proposals. Their views will then be considered in final advice to the Minister for Primary Industries.

7 The deemed value framework is the Ministry's primary tool for mitigating the risk that catch of stocks managed under the Quota Management System (QMS) will exceed their respective catch limits. The Ministry's proposed deemed value rate changes for deepwater stocks for the fishing year starting on 1 October 2012 are summarised in Table 1.

Table 1: Proposed deemed value rate changes for deepwater stocks

Species	Stock	Current deemed value rates (\$/kg)			Proposed deemed value rates (\$/kg)		
		Annual	Interim	Differential	Annual	Interim	Differential
Alfonsino	BYX1	\$1.51	\$1.44	Standard schedule	\$2.20	\$1.98	Standard schedule
	BYX2	\$2.00	\$1.00	Stock-specific schedule starting at 10% overcatch	\$2.20	\$1.98	Stock-specific schedule starting at 10% overcatch
	BYX3	\$1.50	\$0.75	Standard schedule	\$2.20	\$1.98	Standard schedule
	BYX3 <sup>1</sup>	\$0.75	\$0.38		\$1.10	\$0.99	
	BYX7	\$1.76	\$0.88		\$2.20	\$1.98	
	BYX8	\$1.25	\$0.63		\$2.20	\$1.98	
	BYX10	\$1.66	\$0.83		\$2.20	\$1.98	
	GSH4	\$0.34	\$0.17	Standard schedule	\$0.40	\$0.36	Standard schedule
	GSH4 <sup>1</sup>	\$0.15	\$0.08		\$0.20	\$0.18	
	GSH5	\$0.34	\$0.17		\$0.40	\$0.36	
	GSH6	\$0.15	\$0.08		\$0.40	\$0.36	

8 The primary rationale for reviewing the deemed value rates for the stocks listed in Table 1 is as follows:

- Despite the increase in deemed value rates, catch of BYX2 again exceeded available ACE during 2010/11 (by 6.9%). At the time of writing catch has also exceeded available ACE for the 2011/12 year.
- Catch of BYX3 exceeded available ACE during the 2010/11 year by 2.6%.
- The Ministry's Inshore Fisheries Management Team is proposing to amend deemed value rates for the ghost shark stocks managed by that team. To ensure consistency, the Ministry also proposes amending the deemed value rates for the ghost shark stocks managed by the Deepwater Fisheries Management Team.

<sup>1</sup> These deemed value rates apply only to fish that is landed in the Chatham Islands and received by a licensed fish receiver located on the Chatham Islands.

# Background

## *The Deemed Value Framework*

9 The purpose of the deemed value framework is to provide an incentive for fishers to acquire sufficient annual catch entitlement (ACE) to balance against their catch so that the collective catch for each QMS stock does not exceed its catch limit. The catch balancing regime is a key fisheries management tool, contributing to both sustainability and utilisation objectives.

10 Sustainability objectives are achieved when deemed value rates encourage fishers to balance catch with available ACE and, in doing so, encourage harvesting to remain within the available ACE.<sup>2</sup> Incorrectly set deemed value rates may lead to catches in excess of the TACC or available ACE, which may have negative implications for sustainability.

11 Utilisation objectives are achieved by providing flexibility for commercial operators to manage unexpected and small overruns in ACE holdings, allowing periodic catch balancing. In the long-term, the sustainability implications that may result from over-catching could result in TACC reductions, which also impact on utilisation objectives.

12 There are three types of deemed value:

- a) Interim deemed values are charged each month during a fishing year for every kilogram of fish landed in excess of ACE. If the fisher sources enough ACE to cover his or her catch by the end of the fishing year, the interim deemed values paid are reimbursed. Interim deemed value rates have historically been set at 50% of the annual rate but under the new draft Guidelines, are usually set at 90% of the annual rate.
- b) Annual deemed values apply where a fisher's catch exceeds ACE holdings at the completion of the fishing year.
- c) Differential annual deemed values also apply at the completion of a fishing year if a fisher's catch exceeds ACE holdings. For stocks to which differential deemed value rates apply, the rate that is charged increases depending on the proportion by which catch exceeds ACE holding.

Differential deemed value rates can either be a standard schedule of catch in excess of ACE holdings (see Table 2 below) or stock-specific. For stocks to which the standard schedule applies, the first increment applies when catch is more than 20% in excess of ACE holdings and the last increment applies where catch is more than double ACE holding. The standard schedule applies to approximately half the stocks managed under the QMS.

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<sup>2</sup> For most stocks the amount of ACE available in any one year is usually greater than the Total Allowable Commercial Catch (TACC) due to ACE carried forward from one year to the next under section 67A of the Act.

Table 2: Standard schedule for differential deemed value rates

Catch in excess of ACE holdings	Differential deemed value rate as a percentage of the annual deemed value rate
0–20 %	100 %
> 20 %	120 %
> 40 %	140 %
> 60 %	160 %
> 80 %	180 %
> 100 %	200 %

13 Stock-specific differential deemed value rates vary depending on the nature of the fishery. For some species, such as hoki and southern blue whiting, the first increment applies to catch 2% in excess of ACE holdings. For other stocks, such as cardinalfish, the first increment applies to catch 20% in excess of ACE holdings. Differential rates reflect the increasingly detrimental impact of overcatch on sustainability and utilisation objectives from higher levels of overcatch.

### *The Act and the Deemed Value Guidelines*

14 Section 75 of the Fisheries Act 1996 (the Act) requires the Minister to set deemed value rates for all stocks managed under the QMS. The Act also specifies the matters that the Minister must take into account when setting those rates.

15 To assist with the deemed value setting process, the Ministry developed *draft Deemed Value Guidelines* (the *draft Guidelines*). The *draft Guidelines* replace the 2007 Deemed Values Standard and set out an operational policy to inform the advice that the Ministry provides to the Minister on setting deemed value rates. The *draft Guidelines* contain the following principles:

- a) Deemed value rates must generally be set between the ACE price and the landed price.
- b) Deemed value rates must generally exceed the ACE price by transaction costs.
- c) Deemed value rates must avoid creating incentives to misreport.
- d) Deemed value rates for constraining bycatch species may be higher.
- e) Deemed value rates must generally be set at twice the landed price for high value single species subject to international catch limits.
- f) Deemed value rates for Chatham Island landings may be lower.
- g) Interim deemed value rates must generally be set at 90% of the annual deemed value rate.
- h) Differential deemed value rates must generally be set.



16 The *draft Guidelines* do not differ substantially from the 2007 Deemed Values Standard. Two of the key changes are:

- Interim deemed value rates will generally be set at 90% of the annual rate, rather than at 50%. This is to encourage fishers to balance catch during the year rather than waiting until the end of the year when ACE may not be available.
- Reviewing deemed value rates for all stocks of a particular species to ensure consistency

17 The *draft Guidelines* are available on the publications section of the MPI website ([www.mpi.govt.nz](http://www.mpi.govt.nz)).

## Analysis

### *Review of 2010/11 fishing year*

18 The total amount of deemed values invoiced for deepwater stocks for the fishing year that ended on 30 September 2011 was approximately \$1.7 million. However, around two-thirds of this total (\$1.2 million) came from a single stock (LIN7). Most of the rest came from a small number of stocks.

19 Despite over a million dollars worth of deemed values being invoiced for LIN7, the Ministry does not propose to review the deemed value rates for this stock for the 2012/13 year for the following reasons:

- a) Most of the LIN that was not balanced with ACE was taken as bycatch in the hoki and hake fisheries. Increasing the deemed value rate is unlikely to alter fisher behaviour.
- b) There are no sustainability concerns associated with the LIN7 stock. The most recent stock assessment, which was done in 2008, estimated that  $B_{2008}$  was about 69%  $B_0$ . The Ministry increased the TACC for this stock during 2009/10 and another stock assessment is due to be undertaken during the 2012/13 year.
- c) The current annual deemed value rate of \$2.38 is already close to the 2012/13 port price of \$2.44.
- d) Relatively high differential deemed value rates apply to this stock. A rate of \$3.40 applies to catch 2–20% in excess of ACE holdings while a rate of \$6.00 applies to catch more than 20% in excess of ACE holdings. The high differential deemed value rates were one of the main reasons why the amount of deemed values invoiced for this stock were so high when catch was only 236 tonnes in excess of available ACE.

20 The small number of deepwater stocks for which deemed values were invoiced during 2010/11 indicates that there was no systematic fishing on deemed values during this fishing year. However, alfonsino and ghost shark stocks have been identified for a review of deemed value rates for the 2012/13 year. Information relating to these stocks is summarised in Table 3 below.

Table 3: Summary of information relating to stocks for which deemed value rates are being reviewed

Species	Stock	10/11 catch in excess of ACE	Port price change 11/12 –12/13	12/13 Port price/kg	10/11 ACE price/kg	Current annual DV rate/kg
Alfonsino	BYX1	-	-15.6%	\$1.95	\$0.69	\$1.51
	BYX2	6.9%	-15.6%	\$1.96	\$1.05	\$2.00
	BYX3	2.6%	-15.6%	\$1.95	\$1.03	\$1.50 <sup>3</sup>
	BYX7	-	-6.5%	\$1.73	\$0.57	\$1.76
	BYX8	-	-15.6%	\$1.95	\$0.77	\$1.25
Ghost shark	GSH4	-	-0.8%	\$0.25	\$0.11	\$0.34 <sup>4</sup>
	GSH5	-	-0.8%	\$0.44	\$0.12	\$0.34
	GSH6	-	-0.8%	\$0.47	\$0.07	\$0.15

### Alfonsino stocks

21 Alfonsino (BYX) stocks are included in this review because:

- catch of BYX2 exceeded available ACE by 109 tonnes (6.9%) during 2010/11;
- catch of BYX3 exceeded available ACE by 28 tonnes (2.6%) during 2010/11;
- the export value of BYX increased by 15% between 2010 and 2011.

22 Catch of BYX2 has exceeded available ACE for five of the last seven years (see Table 4 below). The greatest overrun occurred during 2010/11 despite deemed value rates for this stock increasing at the start of that year. During the same period catch of BYX3 exceeded available ACE twice, during 2005/06 and 2010/11.

23 The port price for alfonsino stocks has actually decreased between 2012 and 2013. In contrast however, the export value of this species has increased by around 25% between 2009 and 2011. The Ministry considers the increased export price is likely to be one of the main reasons why catch has been exceeding available ACE, particularly for BYX2.

<sup>3</sup> The deemed value rate for BYX3 landed at the Chatham Islands is \$0.75.

<sup>4</sup> The deemed value rate for GSH4 landed at the Chatham Islands is \$0.15.

Table 4: Catch of BYX2 against available ACE between 2005/06 and 2011/12

Year	ACE (tonnes)	Catch (tonnes)	% above available ACE	Total deemed values invoices
2005/06	1 603	1 633	1.3%	\$ 61 300
2006/07	1 576	1 644	4.3%	\$ 118 600
2007/08	1 577	1 532	-	\$ 1 300
2008/09	1 621	1 589	-	\$ 3 500
2009/10	1 608	1 642	2.1%	\$ 63 000
2010/11	1 577	1 686	6.9%	\$227 958
2011/12 <sup>5</sup>	1 576	1 589	0.8%	-

24 The Ministry acknowledges that to increase the deemed value rates for BYX stocks to at or above the current rate for BYX2 (\$2.00 per kilogram) would be inconsistent with Principle 1 of the *draft Guidelines*, i.e. the deemed value rates would be greater than the port price. However, the *draft Guidelines* state that it may be appropriate to depart from this principle and the Ministry considers it appropriate for this species given the recent significant increase in export value and the fact that BYX is largely a target species in BYX2 and BYX3.

25 The Ministry proposes that the basic annual deemed value rate for all BYX stocks be increased to \$2.20 and that the Chatham Islands rate for BYX3 be increased to \$1.10. The Ministry does not propose to change the differential deemed value structure for BYX stocks; the standard schedule will continue to apply to all stocks except BYX2, which will retain its stock-specific schedule that starts at catch 10% in excess of ACE holdings. The Ministry also proposes that the interim deemed value rates for all BYX stocks be set at \$0.98 with the Chatham Islands interim deemed value rate set at \$0.99. The proposed rates are detailed in Table 5 below.

<sup>5</sup> Information available to the end of May 2012. The 2011/12 year is not complete and total deemed value invoices will not be calculated until the end of the year.

Table 5: Proposed deemed value rate changes for BYX stocks

Stock	Current deemed value rates (\$/kg)			Proposed deemed value rates for 2012/13 (\$/kg)		
	Annual	Interim	Differential	Annual	Interim	Differential
BYX1	\$ 1.51	\$ 1.44	Standard schedule	\$2.20	\$1.98	Standard schedule
BYX2	\$2.00	\$1.00	Stock-specific schedule starting at 10% overcatch	\$2.20	\$1.98	Stock-specific schedule starting at 10% overcatch
BYX3	\$1.50	\$0.75	Standard schedule	\$2.20	\$1.98	Standard schedule
BYX3 <sup>6</sup>	\$0.75	\$0.38		\$1.10	\$0.99	
BYX7	\$1.76	\$0.88		\$2.20	\$1.98	
BYX8	\$1.25	\$0.63		\$2.20	\$1.98	
BYX10	\$1.66	\$0.83		\$2.20	\$1.98	

Table 6: Proposed stock-specific differential deemed value rates for BYX2

Catch in excess of ACE holdings	Percentage of the annual rate	Differential Rate
0-10 %	100%	\$ 2.20
> 10 %	120%	\$ 2.64
> 30 %	140%	\$ 3.08
> 50 %	160%	\$ 3.52
> 70%	180%	\$ 3.96
> 90%	200%	\$ 4.40

### Ghost shark stocks (GSH)

26 Three ghost sharks stocks (GSH4, GSH5 and GSH6) are managed under the National Fisheries Plan for Deepwater and Middle-Depth Fisheries (the Deepwater Plan). The remainder are managed under the Draft National Fisheries Plan for Inshore Finfish. In a separate consultation paper, the Ministry is proposing to amend the deemed value rates for the inshore ghost shark stocks.

27 To be consistent with the *draft Guidelines*, the Ministry also proposes to amend the deemed value rates for the ghost shark stocks managed under the Deepwater Plan. The proposed rates are detailed in Table 7 below.

<sup>6</sup> Chatham Islands rates.

Table 7: Proposed deemed value rate changes for GSH stocks

Stock	Current deemed value rates (\$/kg)			Proposed deemed value rates (\$/kg)		
	Annual	Interim	Differential	Annual	Interim	Differential
GSH4	\$0.34	\$0.17	Standard schedule	\$0.40	\$0.36	Standard schedule
<i>GSH4<sup>1</sup></i>	<i>\$0.15</i>	<i>\$0.08</i>		<i>\$0.20</i>	<i>\$0.18</i>	
GSH5	\$0.34	\$0.17		\$0.40	\$0.36	
GSH6	\$0.15	\$0.08		\$0.40	\$0.36	

28 Again, the Ministry acknowledges that the current and proposed rates for GSH4 are greater than the port price for this stock. However, the Ministry considers that having different rates for the adjacent GSH3 and GSH4 stocks<sup>7</sup> could create incentives to misreport.

## Conclusions

29 The proposals presented in this paper are initial positions developed for public consultation with stakeholders. Final advice to the Minister on the issues reviewed here will be informed by stakeholder submissions. Consequently, stakeholders are encouraged to present their views on these proposals.

30 The purpose of the deemed value framework is to provide incentives for fishers to balance catch with ACE and, in turn, reduce the risk of catch exceeding the TACC. The initial proposals outlined in this paper aim to do that in cases where the incentives provided by the current deemed value rates may not be strong enough. At the same time the Ministry does not want to create incentives for other undesirable behaviours, such as illegal discarding or area misreporting, with inappropriately set deemed value rates.

31 Final advice, incorporating stakeholders' views, will be submitted to the Minister in early September 2012. The Minister's decisions are expected shortly after that. The Minister has a relatively broad discretion when setting deemed value rates and is not legally bound by the *draft Guidelines*. The Minister will make his own independent assessment of the information presented by both the Ministry and stakeholders before making final decisions on these proposals. This reinforces the importance of stakeholders providing their views on the issues considered in this paper.

<sup>7</sup> The proposed deemed value rates for GSH3 are the same as that proposed in this paper for GSH4.