Fisheries New Zealand
Tini a Tangaroa

Deemed Value Guidelines

Guidelines for the review of deemed value rates for stocks managed under the Quota Management System

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Purpose

These Guidelines set out the operational policy that Fisheries New Zealand will use to inform the development of advice to the Minister on the setting/adjusting of deemed value rates.

The Guidelines were developed based upon the following purpose statement for the deemed values regime:

'The primary purpose of the deemed values regime is to provide incentives for individual fishers to acquire or maintain sufficient ACE to cover catch taken in the course of the year, while:

- *Allowing flexibility in the timing of balancing;*
- *Promoting efficiency; and*
- *Encouraging accurate catch reporting.*

Deemed values regime

The quota management system (QMS) implies an obligation for commercial fishers to balance catch with available annual catch entitlement (ACE). By providing incentives for commercial catch to not exceed the available ACE, deemed values are a key component of the catch balancing regime. As commercial catches of many fish stocks can be hard to accurately predict, the deemed values regime must be sufficiently flexible to provide fishers with a mechanism to deal with unintended and accidental catch in excess of ACE, while providing incentives and constraints to limit over-catch.

Deemed values act by providing economic incentives at the level of the individual fisher. If deemed value rates are set too low, fishers may not be incentivised to source available ACE to balance with catch. Such behaviour can lead to catch in excess of available ACE with consequential effects on stock sustainability and the value of quota rights. Likewise, deemed value rates set too high may not incentivise fishers to accurately report catch which will have consequent effects on the quality of information available to inform management decisions.

The effectiveness of the incentives provided by deemed values are influenced by factors that include individual fishers' compliance with landing and reporting requirements, the provision of appropriate ACE packages by quota holders and licenced fish receivers (LFRs) and the impact of other incentives (e.g. those created by market conditions).

The economic incentives and disincentives provided by deemed values are directly related to other economic variables such as operating costs, ACE prices and landed fish prices. When any of these factors change, the incentives created by deemed values also change. For the correct incentives to remain in place, changes in economic variables may require adjustments to the deemed value rates.

Types of deemed value rate

The deemed values regime does not create a standard deemed value rate, but a set of rates that apply under different circumstances:

- **Interim deemed value rates** are charged each month to for every kilogram of unprocessed fish landed in excess of ACE. If the fisher subsequently sources ACE to cover his or her catch, the interim rates are remitted. Interim deemed value rates for all stocks are set at 90% of the annual rate.

- **Annual deemed value rates** are charged at the end of the fishing year on all catch in excess of ACE. If the fisher has not sourced 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.
- **Differential deemed value rates** are the progressively increased deemed value rates that apply to some stocks as the percentage by which a fisher's catch in excess of ACE also increases. The standard approach is to increase the annual rate in 20% increments, up to a maximum of 200% of the annual deemed value, however more or less stringent schedules may be applied depending on the specific circumstances of the stock.[1] Differential rates provide fishers with a stronger incentive to remain within their ACE and reflect the increasingly detrimental impact of higher levels of over-catch on sustainability and the long-term value of the resource.

Catch Balancing Review Process

Those stocks for which a deemed value rate review may be necessary will be identified through the Catch Balancing Review Process (Appendix 1).

The purpose of the Catch Balancing Review Process is to guide a more integrated approach to reviewing the management settings for stocks where catch balancing issues are of concern. As part of the process, Fisheries New Zealand, along with representatives of the commercial fishing industry would identify and prioritise potential solutions to those issues. These could include total allowable catch (TAC) reviews, deemed value rate reviews, research planning and other management responses. Outputs of the review would be subject to engagement and consultation with tangata whenua and stakeholders as required.

The following criteria will be used to determine which stocks enter the Review Process each year;

- Catch has exceeded the available ACE (either at the level of the stock, or the individual operator);
- Significant changes in the economic characteristics of the fishery (e.g. landed price, market ACE value); or
- The current deemed value rates are inconsistent with these Guidelines.

All stocks which enter the Review Process will not necessarily undergo a deemed value rate review. Rather, as deemed values function within the context of other management settings, the Review Process adopts an integrated approach to reviewing the management regime of stocks which meet the aforementioned criteria.

To provide the best possible information on the economic characteristics of the fishery and the potential causes of why a stock may have been over-caught, the Commercial Catch Balancing Forum provides input to the Review Process. The Commercial Catch Balancing Forum comprises representatives of commercial fishing interests, Te Ohu Kaimoana and Fisheries New Zealand officials and meets once or twice a year to discuss stocks which have met the criteria for review.

The Forum may provide information and input into decision making on the appropriate response to the review criteria. However, decision making will remain with Fisheries New Zealand and the Minister of Fisheries, and would be subject to engagement and consultation with iwi and stakeholders as required.

[1] For vulnerable or rebuilding stocks, or those taken with a high degree of selectivity, a more stringent differential schedule may be appropriate. Likewise, less stringent differential schedules may be more appropriate for low value, low TACC stocks where targeted fishing does not occur.

Deemed Value Guidelines

Proposals on the adjustment of deemed value rates developed through the Review Process will be informed by these Guidelines.

However, these Guidelines are not intended to be overly prescriptive and should provide for flexibility in the deemed value settings of individual stocks so as to meet sustainability and utilisation objectives. As such, the deemed value rates of some stocks may depart from these Guidelines, if appropriate.

These Guidelines supersede the previous iteration published in 2012.

Deemed value rates should incentivise fishers to balance catch against ACE

The economic theory underpinning the deemed value regime requires that the deemed value rate be set higher than the market ACE value so as to incentivise fishers to balance catch against ACE (rather than paying the relevant deemed value).

However, the market ACE value for any fish stock is highly variable due to a number of factors including:

- Price differentials for vertically integrated companies;
- Longstanding contractual relationships between harvesters and quota holders;
- Annual and monthly changes in the demand for ACE; and
- Circumstances where ACE market excess demand and deemed value rates may drive up the ACE price.

As such, setting deemed values above estimates of average ACE price may not capture the inherent variability in market ACE value.

Whilst recognising the limitations of such information the average ACE price is available as a reference point when assessing whether deemed value rates are providing the appropriate incentives. In general, setting the annual deemed value rate above the average ACE price should incentivise the majority of fishers to balance catch against ACE.

However, the traditional economic theory that the deemed value rate should always be set higher than the average ACE price should be approached cautiously to ensure the right incentives to balance and accurately report always exist. Consequently, Fisheries New Zealand recognises that it may not be appropriate to set the annual deemed value rate above the average ACE price under all circumstances. Such stocks will be identified on a case-by-case basis through the Catch Balancing Review Process that will include consideration of information on the operation of the ACE market received through the Commercial Catch Balancing Forum.

Given that estimates of average ACE price do not always capture the inherent variability in market ACE value, changes in the average ACE price will not automatically result in changes to the deemed value rate. The appropriate adjustment to the deemed value rate as a result of changes in the average ACE price will be identified on a case-by-case basis through the Catch Balancing Review Process.

Deemed value rates should incentivise accurate catch reporting

A deemed value rate set below the landed price of fish generally provides the appropriate incentive to balance and report catch. Whilst alternate sources of information on the landed price of fish are available (e.g. export data provided by Seafood New Zealand), the best available information on landed price is the port price survey. The port price survey collects information on the average price for unprocessed (green) fish paid to independent fishers by licenced fish receivers (LFRs).

However, the price fishers receive from LFRs varies both temporally and between individuals depending upon 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. As such, an index of 'average' landed price (as provided by the port price survey) is not always a reliable estimate of market value.

Whilst recognising that information on landed price can be limited, port price data can provide an appropriate reference point when assessing whether deemed value rates are providing the correct incentives. In general, setting the annual deemed value rate below the port price should ensure that deemed value rates incentivise accurate catch reporting.

Given that the port price survey does not always capture the inherent variation in landed price, changes in the reported port price will not automatically result in changes to the deemed value rate. The appropriate adjustment to the deemed value rate as a result of changes in the reported port price will be identified through the Catch Balancing Review Process.

Fisheries New Zealand also recognises that it may be appropriate to set the annual deemed value rate of some stocks above the landed price to meet sustainability and/or utilisation objectives. Such circumstances will be identified on a case-by-case basis through the Catch Balancing Review Process and may include;

- Stocks taken in single species fisheries (e.g. CRA, PAU, SUR);
- Stocks subject to international catch allocations (STN 1) where the annual deemed value rate may be set at twice the landed price; or
- Stocks subject to rebuilding plans.

Differential deemed values may be set

Different differential deemed value rates may be set for different stocks.

For those stocks where utilisation and/or sustainability objectives require a very strong incentive for catch to not exceed available ACE, a stringent differential schedule may be applied. Likewise, differential deemed value rates may be less appropriate for those stocks for which there are no sustainability concerns and targeted fishing does not occur.

The need for the application of differential deemed values, and the exact nature of the differential schedule will be considered on a case-by-case basis through the Catch Balancing Review Process based upon;

- **The sustainability status of the stock** – Differential deemed value rates should be applied to those stocks where biomass is at the management target or subject to rebuilding plans so as to provide a strong incentive for catch to not exceed ACE.
- **Volume of fish taken** – Higher levels of over-catch may occur more frequently as a matter of chance for stocks with a low TACC.
- **Ability of fishers to control catch** – For stocks taken predominantly as target fisheries, fishers have a very high level of control over the amount of that stock landed. For some stocks almost entirely taken as bycatch, fishers have a more limited amount of control over the amount of that stock landed.

- **Shadow value** – For bycatch species taken in mixed fisheries, differential deemed value rates may be set to remove the value of the target species taken in association with the bycatch species.

By setting the deemed value rate a fisher must pay above the landed price, differential deemed values can incentivise fishers to misreport or illegally discard. Therefore, if a stringent differential schedule is applied (e.g. to stocks for which there is a sustainability concern), consideration should be given to an aligned compliance and monitoring response.

Other relevant matters may be considered when setting deemed values

Fisheries New Zealand may consider other relevant matters when developing advice on the setting/adjusting of deemed value rates and the application of differential deemed value rates. Such matters may include the significance of the stock to customary and non-commercial users.

The interim deemed value rate of all stocks should be set at 90% of the annual rate

The risks associated with setting the interim deemed value rate significantly lower than the annual deemed value rate include:

- Increasing the incentive for fishers to delay balancing. Delays in balancing may lead to a 'race for ACE' at the end of the fishing year, thereby increasing the risk that fishers are unable to balance catch with ACE; and
- Lower interim rates, relative to the annual rate, introduce the risk that an operator may fish excessively on interim deemed values before entering liquidation once annual rates are due.

To mitigate the above risks, the interim deemed value rates of all stocks should be set at 90% of the annual rate.

Deemed value rates for Chatham Island landings may be lower

Under section 75(5), the Minister may set deemed value rates for fish landed to a licensed fish receiver in the Chatham Islands that are different from deemed value rates applicable to fish from the same stock landed elsewhere. The price for fish landed in the Chatham Islands is generally lower than the price for the same species landed elsewhere because of the higher cost of transporting fish to markets. Therefore, there may be reasons to set different deemed value rates for the Chatham Islands.

For many stocks, the deemed value rates for the Chatham Islands has been set at about 50 percent of the deemed value rate applicable elsewhere in the same QMA. No strict procedures are appropriate. Instead deemed value rates applicable to fish landed on the Chatham Islands need to be considered on a case by case basis, in light of the relevant economic conditions of each fishery.

Appendix 1 – Catch Balancing Review Process