Inquiry into the fisheries quota system

Further submission from the Australian Southern Bluefin Tuna (SBT) Industry Association
16 September 2022

We welcome the opportunity to make a further submission. This Inquiry is important because:

(1) The main fisheries management system (ITQs) has not reviewed in-depth by a Parliamentary Committee since it was introduced in 1984. In 2006, the Government mandated ITQs as the management system for Commonwealth Fisheries, unless there was good reason not to use ITQs.
(2) It raises important issues of public policy.
(3) Statements in submissions so far raise claims that need to be scrutinised.

Main issues in this submission

This does not repeat our original submission to the Inquiry. It:

(1) Addresses points raised by other witnesses in the Hearings, including transparency of quota ownership, the assertion that ITQs are an economic instrument only, about how to create employment in fisheries (eg value adding), lenders and buying ITQs, data on risk and return from fisheries quota, and corporate and foreign ownership of ITQs or fishing Rights in general.
(2) Addresses further points that we committed to submit at the public hearing – including data on the SBT contribution to the community.
(3) Addresses the specific issue of whether ITQs are the best solution for every fishery.

General observations

These are:

(1) A lot of the debate is about Tasmania – especially the rock lobster and abalone industries. The history and current structure of fisheries (and aquaculture) management systems in Tasmania is often different from the rest of Australia, and particularly the Commonwealth approach. As we note below – many of the criticisms of ITQs in Tasmania may not apply to the Commonwealth (for example – ownership transparency).
(2) On (1) - we note the evidence by Mr Hammond which concludes (page 27 of Hansard 1 October 2021) that a key report on Tasmania by IMAS/UTAS has been almost "….done in an academic bubble." In defence of IMAS/UTAS, we need to note that the decisions to apply ITQs in Australia, in NZ, in Japan, and in North America – were initiated by economists and ecologists from Universities, Productivity Commission, ABARES and Treasury. In Australia, this same academic support flowed onto using the same principles for Water Rights. To our

knowledge, all of these groups continue to support ITQs in fisheries, where they are suitable.

ITQs are not the best management solution for every fishery

(1) For some fisheries, the arrival/departure of the stocks is so abrupt, that the benefits of ITQs can't be realised. A good example of that is the SA Spencer Gulf & West Coast Prawn Fishery (SG) – managed by the SA Government. The fishery is managed by 42 licences with equal rights, and continual real-time monitoring of catches to maximise prawn sizes. There are strict regulations on maximum boat length and engine horsepower. The outcome is that fishing is now down to 40-50 nights pa. – and the product quality is recognised world-wide. The downside is a large capital asset unused for much of the year. Another disadvantage is that boat length restriction had severely hindered the capacity to add value to the fishery by packing on board. The length is now being changed after a long debate over some years.
(2) For some fisheries, the recruitment of juveniles into the fishery is so uncertain that it is not possible to set a TAC, and therefore have ITQs. This is the case with another major prawn fishery - the Commonwealth Northern Prawn fishery, managed by AFMA through Individual Transferable Effort (ITE) Units.
Again, the major species caught in the fishery is driven by factors (eg rainfall) external to management of the fishery, but the Fishing Rights and capacity are still transferable.
(3) The history and social background (eg structures) to some fisheries mean that they may be better under non-ITQ structures. Note later that the Japanese management by local communities was previously thought to be a good example – but the long-term gaps in that system has led to Japan adopting ITQs from 2021 for almost all their fisheries.
(4) Where governments have made a conscious decision for ongoing large subsidies to specific fisheries for social and other reasons. The Alaskan Salmon fishery raised in the Committee Hearings is one such example. In that case, the US Government in May 2022 announced grants of $US 132m to reverse the declines in various Alaskan fisheries, particularly salmon. This follows two government funded (loans) buyouts of 100 boats in the Southeastern Alaska Purse Seine Salmon fishery.

Transparency of ownership of ITQs

I have listed later a range of general claims in the submissions about ITQs and Australian fisheries that are not supported by the evidence. We have separately dealt with transparency of ownership, because it is such a widespread misunderstanding,

A number of witnesses did not seem to know that the ownership of Commonwealth (AFMA) Statutory Fishing Rights (SFRs) and the SFR's held (owned SFRs ± leased for that season) are totally transparent. Every month, AFMA updates the two Registers for each fishery – for example:

https://www.afma.gov.au/fisheries-services/concession-holders-conditions

For a small fee, the Registers can also be obtained (updated) during a month, and including the address of each SFR owner. It is quite common for different owners on the Register to have the same address because of common ownership or family ownership. If there is any doubt about who owns what company – then this can be easily checked on company registers or with anyone who understands the particular fishery.

Ultimate Beneficial Ownership (UBO)

We note the issue of UBO was raised in the Hearings.

Over 98% of the quota for SBT are ASBTIA Members – all long term except the newest small quota owners who purchased quota in 2021 and 2022. Therefore, the Association knows the full structure behind each quota owner.

There are no UBOs in the quota ownership. It is transparent.

Willingness of Banks to fund new entrants at a higher LV ratio

Our experience is that the maximum of 15-20% quoted in some submissions and hearings is unusually low. Banks normally consider:

(1) The security of the asset. Clearly if an asset is continuously in doubt – then Banks will place a lower value.
(2) The value of the licence – very often buyers will over-price a value like any other asset, and Banks may price it lower because of their experience with the asset.
(3) Like any other loan and asset, Banks will revalue an asset over time. If the revaluation is downwards, the Banks may call in further security from other assets.

The submissions that ITQs are purely "an economic instrument."

We suggest that ITQs have substantial advantages other than just economic ones – and that this is widely recognised in the literature.

(1) Ecological – control/compliance. In almost all fisheries, a Total Allowable Catch (TAC) is applied – except where the catch is not predictable. It is difficult to see how, without ITQs a "race to fish" can be avoided. As noted often, this leads to catching outside the optimum period for the stock and the market, and see (3) below, it leads to unsafe fishing practices. As noted by IMAS/UTAS in evidence, having a TAC does not automatically lead to ITQs. However, the alternative to ITQs appears to be a "race to fish" and over-capitalisation and/or unsafe operating practices.
(2) Safety – it is logical that a TAC without ITQs lead to a "race to fish." This leads to unsafe fishing practices.

(3) Investment – As noted, open TACs lead to over-investment to compete in the race to fish.

Our view of what is good public expenditure

The determination of what is good "public policy" is for the Parliament – and all we can do is express a view.

The approach of the SBT industry is:

(1) Despite the industry's major quota cuts, natural disasters, market closures and price declines – the industry has never asked for or received any payment from government.
(2) There is a suggestion in evidence on 1 October 2021 that government might consider purchasing the quota and redistribute it to community fishers. There are a range of operational decisions with this which create substantial inequities in themselves – aside from wider issues such as using government funding for this rather than, for example, social housing. On the operational issues, some are:
    a. Do you charge for it?
    b. Do you distribute it to communities or individuals who have sold the quota?
    c. Does it mean returning to the owner-operator rule – which led previously to less safety at sea and rule-evasion.
    d. Does a family or group automatically inherit the quota through generations.

    Note: As noted later, these proposals are not consistent with the major current shift to quota in the largest community-based fisheries in the world in Japan. In the end, the Japanese Government recognised that their historical community-based system had led to major declines in harvesting of both wild fisheries and aquaculture.

Example of ITQs in the Australian Southern Bluefin Tuna (SBT) Fishery

It is worthwhile using the SBT Fishery to address the widest criticisms of the operation and impact of ITQs. The reasons for this are:

(1) SBT was the first ITQ fishery in Australia – starting 1984.

(2) The SBT fishery is probably the Australian fishery subject to the most criticism. For example, in their evidence to the 2017 Productivity Commission Inquiry, IMAS/UTAS put their conclusion:
    ''The (SBT) recreational catch is currently the only benefit that most Australians get from this (SBT) fishery…'' Page 5.

(3) Despite periods where most tuna companies were in receivership or under Bank control because of quota cuts or low prices, the SBT industry has never asked for

or received any government assistance. This gives the impression that the industry is continuously profitable – but it is a reflection of the industry belief that in an international fishery, policy support is more important than financial support.

(4) The criteria used in many SA and Commonwealth fisheries for allocation of initial quota, and subsequent management are based on the SBT example.

(5) Most important, the risks and returns in SBT are very transparent. They are outlined in many reports – including substantial transparent studies on prices, input costs, and government charges.

(6) The ITQs were introduced as a result of a recommendation by the Productivity Commission (then Industries Assistance Commission) after a detailed Inquiry. In other words – the Commission saw ITQs for SBT as the best public policy.

Foreign and corporate ownership

There may be a perception in the inquiry about the risks and returns in Australian fisheries – that there are high returns on investment, that there are few risks, and that this attracts corporate and foreign investment. Using SBT as an example:

(1) Every owner of SBT quota is an Australian citizen, almost all Australian family companies and some individuals. There is no foreign shareholding in any of these owners. One of the reasons is the strength of the Australian industry – another, and more important, is the risks involved in ITQ ownership (see below).

(2) In the 1990s, a foreign group bought 5% of the Australian quota to assist a number of Australian family companies out of receivership. As soon as the receiverships ended, the foreign company sold the quota back at the same price as they bought it.

(3) The large majority of the SBT quota is owned by family companies. One diversified Australian corporate bought 5% of the Australian quota in the 2000s – and has share-farmed the quota ever since. However, the company is now selling their quota and other tuna assets in 2022 – because the business is so high risk because of fluctuating export prices, the Yen/$A exchange rate, and uncertainty over future quota levels.

(4) New quota owners include – an Indigenous Corporation share-farming; an Environment Social Governance (ESG) group; and a group which has a different approach to maximising the marketing of Australian SBT. Importantly, all these new quota owners add value to the industry.

Value-adding – require ITQs or equivalent (?)

A major criticism of Australian primary industries – agriculture, mining and fisheries - is that they are not adding enough value to our resources.

What is often forgotten is:

(1) In the case of live sales – this is probably the highest value-adding possible, as the product is sold direct to retail consumption, so the return to Australia is the highest possible. Good examples of this are lobster, abalone and coral trout.

(2) In other fisheries such as SBT – over 85% of the Australian SBT quota is farmed by capturing a wild SBT, towing it to Port Lincoln, growing out for 4-6 months and then harvesting for export. The value-adding multiplier differs year to year – but we use an average of 4.5 times the wild fish.

In the SBT case – the global technology of farming tunas was pioneered in Australia. Farming is now the major source of the three premium tunas in the world – SBT, Pacific Bluefin Tuna (PBT) and Atlantic Bluefin Tuna (ABT). All three tunas are managed by a total quota, and in most catching countries, by a country quota, and often by formal or de facto ITQs in these countries.

The question is – would high value-added farming have developed without ITQs? The challenge is that farming requires a large investment – in addition to the catching of the fish. This includes contracting forward large feed supplies, expert staff, farm area licences, large boats to service the farm pontoons, advanced on-shore freezing and processing works, and marketing. Without an ITQ and guaranteed supply of live SBT – such large investment could never be justified.

Longlining of SBT

The recent increase in the share of the Australian SBT quota taken by the longline line sector of the fishery is, according to ABARES, a good example of ITQs at work – allowing quota to flow to its highest-value use (ABARES Status Reports 2020).

What has happened around the world

For a range of reasons, a large number of national and international fisheries are now managed by ITQs, IQs or some transferable catching right.

We again note that the Japan, the world's seventh largest fishing country, has announced they are moving to TAC management and, in most cases, to IQ. The reason is that the community-based system in Japan, mainly through co-operatives, has resulted in declining total catch. Japan is also moving to commercial allocation of fish farming sites, because the previous management by local co-operatives has failed to increase harvests.

The data on contribution

The outcomes of ITQs for SBT and other fisheries have been well documented. For SBT:

(1) All farmed SBT is sold at a common price, and almost all the farmed harvest is sold to Japan.
(2) The fob (in $A) and landed Japan (in Yen) values are totally transparent in almost real time.
(3) Japan is a data-rich country for fisheries – and the daily prices for Australian longline-caught (non-farmed) are public.
(4) ABARES – annually publishes economic status of each fishery.
(5) Annual Reports to the SA Govt show the NER for farming, forecast tonnages, price and quantity used of the major input (sardines). The price and quantity of imported feed is available.
(6) All the Commonwealth charges (AFMA cost recovery, AMSA, DAFF, FRDC research) and SA charges (see reference) for site, farm environmental monitoring, research, compliance are all publicly available.
(7) Who has what farm site.

The IMAS/UTAS points on AFMA's adherence to the Fisheries Management Act (FMA 1991)

It is not always clear, but the IMAS/UTAS core point appears to not be against ITQs but the way that AFMA applies its Economic Objective. The problems with this are:

(1) Applying an RRT is a matter for government policy – not for an Agency such as AFMA.
(2) Fisheries is a renewable resource – not a finite resource such minerals and forestry that it is compared with.
(3) Fisheries is a community-owned resource – and in the SBT case, is shared with the charter/recreational sector.
(4) The commercial sector pays full cost recovery.
(5) Management of the fisheries is totally under government control.

A more valid comparison is a situation where ownership of the resource was given to industry.

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