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OPERATIONAL COSTS AND COST-RECOVERY OPTIONS

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Paper prepared by the Secretariat

Introduction

1. At the Sixth Regular Session of the Commission (WCPFC6) held at Papeete, French Polynesia in December 2009 the Commission adopted the report of the Third Regular Session of the Finance and Administration Committee (FAC3) that included a recommendation that a study be undertaken to identify opportunities for cost recovery and alternate sources of funding as well as review the possibility of Cooperating Non-Members and Observers making financial contributions. Paragraph 361 of the WCPFC6 Summary Report states, in part, "...it was recommended that a cost recovery study be undertaken to identify means of gathering additional funds for the work of the Commission, for example, through cost-recovery for air-time costs associated with the Commission VMS, financial contributions from CNMs and/or a registration charge for observer delegations." Also at WCPFC6 the Commission Chair identified for CCMs' consideration at the Sixth Regular Session of the Technical and Compliance Committee (TCC6) a review of the Regional Observer Programme and Vessel Monitoring System, including cost-recovery.

2. Although the Commission at WCPFC6 decided that a nominal registration fee (para.31 of CMM 2009-01) of US\$2,500 should apply for carriers and bunkers, it has not agreed whether this is a "one-off" or annual fee, or to what purpose these funds should be applied once they have been collected by the Secretariat. Also in relation to a registration fee for carriers and bunkers, para.30 of CMM 2009-01 refers to "...costs of VMS registration and observer placement".

3. This paper, prepared by the Secretariat, presents some cost-recovery options based on the discussions recorded in the summary reports of WCPFC6 and FAC3. Though not identified by the Commission as such, the WCPFC Record of Fishing Vessels (RFV) is a potential cost-recovery opportunity that has been included for completeness.

4. It should be noted at the outset that this paper is not the cost-recovery study mentioned in para. 361 of the WCPFC6 Summary Report. The preparation of a robust cost-recovery scheme for the Commission will require agreed parameters and adequate financing, both of which will require decision making by the Commission.

Commission Vessel Monitoring System (VMS)

5. The Commission VMS uses the Pacific VMS infrastructure managed by the secretariat of the Pacific Islands Forum Fisheries Agency (FFA Secretariat) based at Honiara, Solomon Islands. The Pacific VMS also supports a VMS for the FFA members (FFA VMS) covering their respective national waters.

6. The Pacific VMS is an open architecture, integrated service utilizing FFA-owned IT VMS infrastructure, software and services. It comprises co-location services under an FFA contract with the Macquarie Telecom Data Centre based at Sydney, Australia.

7. Automatic Location Communicators (ALC) [also known as Mobile Transmitter Units (MTU)] in use by the Commission VMS include those reporting via satellites operated by Inmarsat-C, Iridium and CLS Argos. The rate of positions reported to the Commission VMS by these ALCs/MTUs varies from 1-4 hours.

8. At present the Commission supports the operation of the Commission VMS through its annual budget, approximately 13.8 per cent of which was allocated for the Commission VMS in 2010.

9. Approximately 2,800 fishing vessels are currently being monitored in the high seas of the Convention Area by the Commission VMS¹. Of these, approximately 1,400 report directly to the Commission VMS and 1,400 report to the Commission VMS via the FFA VMS when they enter the high seas in the Convention Area². Since the RFV currently contains records of 6,200 vessels there is potential for many more of them to require monitoring by the Commission VMS in the near future.

10. The Commission has the option of either continuing to support the operation of the Commission VMS through its annual budget or institute an equitable cost-recovery scheme based on the widely accepted principle of “user-pays”. If it chooses the former option it is estimated that by 2012, 14.2 per cent of its indicative annual budget of US\$6,781,744 (US\$960,350) will be required to support the Commission VMS.

11. If the Commission institutes a cost-recovery scheme for the Commission VMS, generally accepted cost-recovery principles oblige the Commission to:

- a. establish the total annual cost³ to operate the Commission VMS;
- b. divide this cost by the total estimated number of fishing vessels for the required monitoring period; and
- c. charge each fishing vessel operator and receive payment of a fee calculated on an equal basis prior to their vessel being authorized to undertake fishing operations in the Convention Area.

12. During the year following the initiation of the Commission VMS on 1 April 2009 the Secretariat expended a total of US\$1,176,594 to support its operation. Table 1 presents the direct expenditure items (see Footnote 3) used to derive this total, noting that this is based on 2800 vessels registered on the VMS Register.

Commission VMS Expenditure Item	Cost (US\$)
SLA costs paid to the FFA Secretariat	559,772
Air-time charges by MCSPs ^[1]	446,600
VMS Manager Salary	122,891
VMS Manager Travel Costs	22,059
VMS Operators’ Salaries	25,272
TOTAL	1,176,594

Table 1: Commission VMS Expenditure Items, 1 April 2009-31 March 2010

¹ An estimate of the Commission VMS Operating Costs for the period 2010-2014 in WCPFC-TCC5-2009/27 dated 23 September 2009 assumed 2,595 active MTUs reporting in 2010 with annual increments of 250 active MTUs reporting thereafter.

² Approximately 800 vessels of the 1,400 vessels reporting via the FFA VMS enter the high seas in the Convention Area each month where they are monitored by the Commission VMS.

³ For the purposes of this paper, “Total Annual Cost” refers to some of the direct costs to the Commission. In a more comprehensive analysis it could also include indirect and overhead costs, and their variable and fixed components.

^[1] Mobile Communications Service Providers

13. The estimated Commission costs for 1 January – 31 December 2011, based on an estimated 3000 vessels would be as shown in Table 2.

Commission VMS Expenditure Item	Cost (US\$)
SLA costs paid to the FFA Secretariat	448,200
Air-time charges by MCSPs ^[1]	558,060
VMS Manager Salary	203,966
VMS Manager Travel Costs	25,000
VMS Operators' Salaries	37,874
VMS Staff Training	10,000
TOTAL	1,283,100

Table 2: Commission VMS Expenditure Items, 1 Jan-31 Dec 2011

14. The annual Commission VMS fee may be calculated by dividing the estimated operating costs for the period January - December 2011 by the number of vessels being monitored (3,000). Table 3 presents three options for calculation of the annual Commission VMS fee.

	Air-time (US\$)	Air-time + SLA Costs (US\$)	Air-time + SLA Costs + Staff Costs (US\$)
Actual Cost (US\$)	558,060	1,006,260	1,283,100
Commission VMS Fee (US\$)	186	335	428
Cost per vessel per day (US\$)	0.51	0.92	1.17

14. The operator of each authorized vessel using the Commission VMS would be required to pay for being monitored by the Commission VMS. For administrative simplicity the WCPFC Secretariat would invoice each flag State CCM directly based on the number of vessels the flag State CCM concerned has advised the Commission it has authorized. The flag State CCM would then recoup this cost from the operators of its authorized vessels.

15. Some vessel operators may state that they do not intend their vessels to operate in the Convention Area for an entire year and should therefore not be required to pay the full Commission VMS fee. However, the combined fees cover the cost of operating and administering the entire Commission VMS, and must be collected prior to the commencement of fishing operations in the Convention Area so that operating costs can be met as they occur. An alternative approach may be to offset the cost-recovery payment by one year, with flag State CCMs paying for the operation of the Commission VMS in a given year and vessel operators paying a Commission VMS Fee the following year, once actual costs are known.

Regional Observer Programme

16. The WCPFC Regional Observer Programme (ROP) that commenced in 2009 is rapidly becoming a key component of scientific data collection and compliance monitoring for the Commission. This applies to target species and for the growing interest in minimizing by-catch. The closure of two high seas pockets within the Convention Area, the possible closure of the two remaining high seas pockets and areas of high seas in the Convention Area east of 170°E latitude, 100 per cent observer coverage on purse seine fishing vessels, and the requirement by 2012 for 5 per cent observer coverage of all longline fishing vessels dictate the need for 400-450 trained observers at

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present with an additional 200-250 trained observers by 2012 as a minimum, with continuing maintenance of these levels due to attrition.

17. Costs of observer training, monitoring deployment schedules, safety training, briefing, debriefing, observer's final report and data collection, transfer of data to the Commission and other partner regional agencies, and auditing of national observer programmes to maintain acceptable performance levels in accordance with regional standards, are escalating beyond the current budgets of the Commission and its science provider, the SPC.

18. National and sub-regional observer programmes currently recover costs for observer deployment observer salaries, and allowances through national observer service providers, and the tuna fishing industry. Costs for the training of observers from Pacific Island members of the FFA and SPC are generally covered by donor and member contributions to those two organizations. WCPFC members that are not members of the FFA and/or SPC are required to fund their own training courses so that their observers are trained to meet regional standards.

19. At WCPFC6 the Commission accepted a proposed contribution by New Caledonia of €15,000 (US\$152,865) in 2010 for "Data Entry Support" for the ROP provided through the SPC, Noumea and noted that New Caledonia is prepared to make a longer term commitment for ongoing support

20. If the Commission agrees to institute a cost-recovery scheme for the ROP data entry in 2011, this would initially apply to purse seine fishing vessels but increasingly also to longline fishing vessels by 2012. Because actual costs for at least one full year of the operation of the ROP are not yet available at the full level of coverage noted above, only indicative budget figures are available for the estimation of an annual ROP fee for cost-recovery purposes.

21. At WCPFC6 the Commission approved the 2011 indicative budget for the ROP totaling US\$904,000, the bulk of which (US\$844,000) is for "Data Entry Support". Cost estimates for 2011 have been re-calculated with SPC and are based on 1352 Purse Seine trips and the 355 Long line trips expected in 2011 that will require data entry by SPC. As noted in the Regional Observer Programme Annual Report, data entry personnel requirements for 2011 at SPC have been reduced to 8 persons with additional persons coming from other funding for this year. An additional 2 persons will be required after 2013 when their current funding ceases. The total budget for data entry for 2011 is US\$533,269, but with the New Caledonia subsidy and contributions from SPC this is reduced to US\$334,769. This will rise by another US\$180,000 for personnel costs in 2013.

22. If the Commission were to consider cost recovery for the data entry portion of the ROP which is the highest cost activity for the Commission at this time, an option that could be considered:

a. Costs are divided across the approximate number of vessels expected to be active in the region in 2011 (3000) the cost per vessel would be \$112, without the New Caledonia subsidy the costs would be approximately \$152 per vessel.

b. Noting similar costs with the additional personnel for 2013 the costs would be US\$172 and US\$212 respectively per vessel.

Financial Contributions from CNMs

23. At WCPFC6 the Commission approved applications for renewal of CNM status by Belize, El Salvador, Indonesia, Mexico and Senegal, and approved applications for CNM status by Ecuador and Vietnam. Also at WCPFC6, many WCPFC members considered that CNMs who do not make a monetary contribution to the work of the Commission, but who gain financially from the fisheries of the Convention Area, are in effect "free riders". Several members considered that CNMs should contribute in proportion to the benefits they receive, with some of these suggesting that CNMs contribute in equal proportion to members of the Commission. Many of these members noted with concern the expanding budget for the work of the Commission, and the increasing burden this is placing on small island developing States (SIDS), as creating even more urgency for equitable cost sharing.

24. Other CCMs supported the current situation of encouraging CNMs to make voluntary contributions, citing in particular the fact that CNMs do not have full participatory rights⁴. These CCMs expressed concerns about setting a precedent in other RFMOs.

25. After further discussion, WCPFC6 adopted an amendment to CMM 2008-02 regarding financial contributions from CNMs that is reflected in para. 2(g) of CMM 2009-11 that replaces CMM 2008-02, as follows:

“A non-member seeking the status of CNM shall include with its request an explicit commitment to make financial contributions commensurate with what it would be assessed should it become a Contracting Party or a Member, pursuant to the scheme of contributions established by the Commission in accordance with Article 18(2) of the Convention. This provision shall not apply to a State or entity that is not eligible to become a member of the Commission.”

26. The challenge for the Commission will be in the determination of fee levels that will apply in different cases, e.g.:

- a. no fishing privileges (information-exchange only); or
- b. fishing undertaken by a set number of vessels exclusively in the EEZ of a CCM; or
- c. fishing privileges based on historical catch levels by flag vessels in the Convention Area.

27. For the Secretariat to prepare the relevant assessments on request from each non-member applicant for CNM status it will require advice from the Commission as to the basis upon which it should assess the respective financial contributions. One option would be that, CNMs could each be charged a flat fee based on the lowest budget contributions for SIDS in the budget papers.

Registration Charge for Observer Delegations

28. At WCPFC6, New Zealand, on behalf of FFA members, suggested that FAC3 consider whether there are any costs for the Commission associated with the participation of observers. FAC3 was invited to advise the Commission on the appropriateness and, if necessary, the level of observer registration fees in recognition of the growing number of observers and the costs incurred in catering for them at Commission meetings.

29. FAC3 considered a proposal by Samoa on behalf of the FFA Group that observers to WCPFC meetings, including subsidiary bodies, be charged a registration fee to offset the additional costs incurred by the Commission as a result of their participation. FAC3 recommended that this be included in the cost-recovery study.

30. The Secretariat has identified the following cost areas in relation to catering for observers at Commission meetings:

- a. Secretariat staff time in corresponding with observer representatives regarding their respective applications for observer status and with CCMs regarding these applications;
- b. preparation of meeting name-plates for each observer delegation;
- c. hire of meeting room facilities sufficiently large to accommodate observers;
- d. establishment of additional space outside the meeting room for observer poster presentations;
- e. printing of extra copies of meeting documents;
- f. purchase of additional refreshments at Commission meetings; and
- g. organization of additional transport during Commission meetings.

31. Considering the lobbying and promotional opportunities meeting attendance offers to observers⁵, it seems appropriate that a registration fee should apply to observers wishing to attend

⁴ The Secretariat is not aware of any voluntary contribution to the work of the Commission by a CNM.

Commission meetings⁶. The Secretariat estimates that an observer registration fee within the range of US\$500–700 per delegate is reasonable, based on the current level of nominal registration fees at international meetings and conventions.

Registration Fee for Carriers and Bunkers

32. At WCPFC6 the Commission adopted the amendment to CMM 2004-01 regarding carriers and bunkers as contained in WCPFC6-2009/DP04 (Rev.2), now CMM 2009-01, with the amount of the nominal registration fee (para.31) of US\$2,500⁷. However, the Commission has not yet determined whether this should be a “one-off” or annual fee as noted in para.2 of this paper, or agreed to what purpose these funds should be applied once they have been collected by the Secretariat⁸.

33. CMM 2009-01 requires that vessel operators shall commit to pay a nominal fee to contribute to the work of the Commission until such time as the Commission undertakes a review to determine vessel specific costs relevant to para.30, described in that paragraph as, “...the costs associated with complying with Commission decisions, such as the costs of VMS registration and observer placement.” It is suggested that a detailed review to determine “vessel specific costs” is needed, with terms of reference agreed by the Commission and possibly funded by the accumulated nominal registration fees.

34. If the Commission agrees to institute a cost-recovery scheme for the Commission VMS then the cost of “VMS Registration” (see para. 13) can be factored into the fee vessel operators must pay to contribute to the work of the Commission. The cost of “Observer Placement” may be determined based on the observer deployment costs currently recovered through observer service providers and the tuna fishing industry. The cost for observer deployment on a purse seine fishing vessel is approximately US\$5,000 for a fishing trip of 45 days duration.

WCPFC Record of Fishing Vessels

35. The WCPFC Record of Fishing Vessels (RFV) is directly linked to the Commission VMS because vessels to be monitored by the Commission VMS must first be listed in the RFV. Because of its close linkage to the Commission VMS the RFV received early consideration for cost recovery (WCPFC/PrepCon/WP.8 dated 31 October 2002).

36. The RFV’s data holdings are becoming increasingly complex. Because many of the vessels listed in the RFV will never fish in the WCPFC Convention Area, the RFV database contains a growing body of under-utilised data that places increased demands on the time devoted by the Secretariat to data quality and related issues.

37. It is suggested that the imposition of a fee for each listed vessel, derived on a cost-recovery basis, may reduce the number of listed vessels to those that are likely to fish in the WCPFC Convention Area. This would increase the effective use of Secretariat manpower and data storage capacity, and allow more timely responses by the Secretariat to operational queries from CCMs.

38. For 2010 the Secretariat estimates that US\$186,000 will be needed to support the RFV’s operation. Table 1 presents the expenditure items (see Footnote 3) used to derive this total.

⁵ Commission direction to the Secretariat would be required as to which category of observer described in the Rules of Procedure would be subject to a registration fee.

⁶ The Secretariat is not aware of any other RFMO or RFB levying an observer registration fee.

⁷ Over US\$220,000 in fees has been collected by the Secretariat since the coming into force of CMM 2009-01 on 9 February 2010.

⁸ Although paragraphs 365 and 366 of the WCPFC6 Summary Report contain suggestions from some CCMs regarding the future allocation of surplus funds, the nominal registration fees could simply be deducted from the next Commission budget total when assessing annual contributions. There appears to be no impediment to the US\$2,500 nominal registration fee being collected annually.

RFV Expenditure Item	Cost (US\$)
Service Level Agreements for technical support	36,000
Maintenance of computer equipment	50,000
Administrative Assistant Data Entry Post	15,000
Communications (including Internet)	35,000
Software and Programming Services	50,000
TOTAL	186,000

Table 3: RFV Expenditure Items

39. An annual RFV fee of US\$30 per vessel may be calculated by dividing the RFV's operating costs (US\$186,000) by the number of authorized vessels (6,200)⁹. If one looks at a 3000 vessel list for the point of cost recovery, the charge is approximately US\$65 per vessel.

Discussion

40. It is assumed that for cost recovery to be effective in offsetting operational costs for the Commission the fees for cost recovery would:

- a. be due prior to commencing fishing and payable on an annual basis;
- b. be based on calendar year as for invoicing purposes with full charges levied independent of the period or length of operations; and
- c. charges may differ between vessels of members and non-members.

41. If the Commission were to consider cost recovery for VMS, RFV and ROP there are a number of options that may be considered, some of which include:

- a. separate charges for each service to be paid prior to fishing;
- b. separate charges for each service to be paid by 1 January of each year based on all vessels on the RFV, or VMS registry at that time, or by a set time as determined by the Commission, e.g., within the first quarter of the year, with new vessels paying prior to commencing fishing;
- c. combined lump sum charge by vessel for all Member Vessels, payable for all vessels on the register as per sub para (b).

42. The FAC3 and WCPFC6 summary reports refer to the need for alternate sources of funding for the work of the Commission, including cost-recovery. Instituting a cost-recovery regime for an organization necessitates the inclusion of a provision for appropriate resources and systems to manage this regime. The Secretariat would experience considerable difficulty in instituting a cost-recovery mechanism without the simultaneous provision of more sophisticated costing and accounting systems than it currently uses. This should be borne in mind in any consideration of the need for a consultancy to develop a robust cost-recovery regime for the Commission, and the draft terms of reference and budget for such a consultancy.

Conclusion

43. TCC6 is invited to:

- a. review the above ideas on cost recovery to assist in further clarifying the need for a consultancy to further develop a full cost-recovery regime for the Commission;
- b. develop draft terms of reference for this consultancy;

⁹ The application of an RFV fee may result in a reduction of the number of authorized vessels necessitating a future amendment to this calculation.

- c. include an estimated cost for this consultancy in the draft TCC Work Programme and Budget, 2011-2015; and
- d. develop recommendations on these matters to the Commission for its consideration at WCPFC7.