

Regulatory Impact Statement

FISHERIES (FEES, ROYALTIES AND LEVIES) REGULATIONS 2017

Prepared by Regulatory Impact Solutions
for the
Department of Economic Development, Jobs, Transport and Resources

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Fisheries (Fees, Royalties and Levies) Regulations 2017

GLOSSARY

FCRSC	Fisheries Cost Recovery Standing Committee
FRDC	Fisheries Research and Development Corporation
GVP	Gross Value Production
RFL	Recreational Fishing Licence
RIS	Regulatory Impact Statement
SIV	Seafood Industry Victoria
TAC	Total Allowable Catch
VFA	Victorian Fisheries Authority

SUMMARY

Purpose of this document

Regulatory Impact Statements (RIS) are prepared to explain the rationale for and impacts of proposed statutory rules. This RIS has been prepared for the Fisheries (Fees, Royalties and Levies) Regulations 2017 (“the proposed Regulations”), proposed to be made under the *Fisheries Act 1995* (“the Act”).

The RIS has been prepared for the Department of Economic Development, Jobs, Transport and Resources (“the department”). A primary purpose of a RIS is to inform public consultation on the proposed Regulations. All submissions in relation to the proposed Regulations will be considered before the Minister for Agriculture makes a final decision on whether to proceed with the proposed Regulations.

What is being proposed, and why?

The proposed Regulations set fees, levies and royalties (collectively referred to in this RIS as “charges”). The proposed Regulations will replace the existing Fisheries (Fees, Royalties and Levies) Regulations 2008, which cease to have effect (“sunset”) on 30 January 2018.

Government fees and levies are designed to recover the costs incurred by government when providing services to, or undertaking activities for, private individuals that directly benefit from, or give rise to the need for, those services or activities. The proposed Regulations would set the following charges:

Charge type	Expected revenue (2018-19)
Prices for recreational fishing licences	\$10.4 million
Cost recovery levies for fisheries services (commercial fisheries)	\$2.5 million
Other levies collected from commercial fisheries (grants levies and Fisheries Research and Development Corporation (FRDC) levy)	\$0.9 million
Royalties (abalone fisheries)	\$0.5 million
Transaction fees	\$0.1 million
TOTAL REVENUE	\$14.4 million

The particular charges proposed within each group are set out in Attachment 1 (see page 42). The commercial fisheries levies and transactions fees are determined in line with the government’s cost recovery policy and guidelines.

As with the current Regulations, the charges are mostly expressed in fee units¹, the value of which is determined each year by the Treasurer under the *Monetary Units Act 2004*. The value of the charges will increase each year in line with the Treasurer’s determinations.

Most of the proposed charges involve no change; they are the same (in terms of fee units) as the current charges.

The prices (in fee units) for recreational fishing licences (RFL) have been kept at their current levels. The proposal to keep those prices at the current level is based on a review of the impact of previous price changes, and sample data collected by the department on the willingness of recreational fishers to make a contribution towards projects that support recreational fishing across the state.

¹ With the exception of the 3-day recreational fishing licence, which is fixed at \$10 because it is below the value of 1 fee unit. Some charges (e.g., FRDC levy and abalone royalty) are calculated as a percentage with reference to GVP.

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Commercial fishers would continue to pay fisheries services levies to recover part of the costs of managing the state's fisheries. The total cost of the services is around \$22 million per annum. The proposed levies would recover 11 per cent of this cost, reflecting that many of the benefits of managing fisheries are to the community as a whole, or would need to occur even in the absence of commercial fishing. The 11 per cent of costs recovered through levies are those costs that are reasonably directly attributable to the activities of commercial fisheries. There will also continue to be a levy cap for small operators, resulting in forgone revenue of \$22,000 per annum.

The proposed Regulations retain a royalty to be paid for abalone quota units. Royalties are a means by which the government can extract a monetary return for allowing the use of resources owned by the state. The royalty is currently calculated at 7.2 per cent of Gross Value Production (GVP) minus levies paid for fisheries services and the FRDC levy. No change to the formula is proposed, on the basis that a change to the formula would lead to undesirable distributional impacts between abalone quota holders. The department welcomes the views from individual abalone licence and quota holders on this position. There is no proposal to extend royalties to other fisheries.

The proposed transactions fees have been determined on a full cost recovery basis, based on the incremental cost of each activity. Following a review of the costs to government of processing each transaction type, the fees for a range of transactions are proposed to be changed to match the estimated cost of each transaction. This would result in a reduction in all transaction fees except for commercial licence application fees for licences other than abalone access licences. Overall, the changes to transactional fees would reduce revenue by around \$10,000 per annum.

A number of alternatives are examined in this RIS:

- Increasing RFL prices to allow the Trust Account to pay a higher amount towards the government's costs of enforcement.
- Changing the RFL pricing structure to make revenue contributions in proportion to the number of days a person is authorised to fish under each licence type.
- Removing the 28-day RFL.
- Lowering price for first-time recreational fishers.
- Increasing the level of costs recovered through the fisheries services levies.
- Alternatives to the current small operator concession.
- Changing the formula used to calculate the abalone royalties.

The alternatives are discussed briefly in the table below and more extensively in the body of the RIS.

Option	Summary of option evaluation
Increasing RFL prices	Increasing licence prices could deter recreational fishing and may not result in sufficient additional revenue being collected to support expanded recreational fishing through better projects. The department believes that the current revenue balances the willingness of recreational fishers to pay for the projects funded through the Trust Account and the government's policy to promote and support an increase in recreational fishing.
Changing RFL pricing structure	This option would recalibrate RFL prices so that most of the revenue raised is in proportion to the number of days a person is allowed to fish under each licence type. The impact of this is to reduce the prices of the short-term licences and increase the prices of the 1 and 3-year licences—assuming no changes to the number of each licence type purchased. In practice, there would be changes to the types of licence purchased, with a large shift towards shorter-term licences undermining the sustainability of the Trust Account funding and creating barriers to increased recreational fishing.
Removing the 28-day RFL	This option was considered because of an observed decline in sales of the 28-day RFL. Under this option, existing licence holders would have to choose another licence type instead (3-day or 1-year). This

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Option	Summary of option evaluation
	<p>may allow a (very small) decrease in the prices of other licence types. However, that would be at the expense of current 28-day licence holders, who would need to buy a licence that no longer matched their desired fishing activities. The department believes that, while this licence type is purchased by a small and decreasing group, there is still a need to provide a licence type of this duration (for example, for families that fish once a year during school holidays).</p>
<p>Lowering price for first-time recreational fishers</p>	<p>Based on stakeholder feedback, an option was considered to introduce a special lower price for first-time recreational fishers, as a way of encouraging more people to try the activity. While conceptually of merit, it would be difficult or overly burdensome to properly administer such a special arrangement to avoid improper use. Further, the department considers that the price of a 3-day licence (proposed to remain at \$10) is small enough to be no barrier to new recreational fishers. Moreover, many recreational fishers begin fishing when under 18, and no licence is required for people in that age group.</p>
<p>Increasing the level of costs recovered through the fisheries services levies</p>	<p>For commercial fisheries, the overall amount of costs recovered through the fisheries services levies was considered. While the proposed levies continue to recover only around 11 per cent of the cost of government activities attributable to fisheries management, it was considered that many of the activities would continue to be undertaken in the absence of commercial fishing licences, or have a wider benefit to the community (e.g. environmental research, surveillance to protect the value of the resource), and therefore should not be fully recovered from licence holders. The department believes the current level of cost recovery is appropriate as it reflects the costs that are necessarily incurred because of the existence of commercial fishing.</p>
<p>Alternatives to the current small operator concession</p>	<p>A number of alternatives in how the concession could be applied to better target the intended small operators were considered. These were found to be costly to administer and could not be justified given the small value of the concessions.</p>
<p>Changing the formula used to calculate the abalone royalties</p>	<p>Consideration was given to changing the formula to ensure it continues to capture an appropriate value for the use of the resource and not result in adverse consequences for the recovery of other government costs. The option considered set the royalty at 3 per cent of GVP, with no deductions for other levies paid. This would restore the ability to capture the intended value of the resource through the royalty. A variation was also considered that would set the royalty at 2.3 per cent of GVP, which limits the amount captured at the current average revenue level (as a percentage of GVP). Both these options would involve the Western zone (with less capacity to pay and fewer licence holders) paying substantially more each year, while the Eastern zone (with the greatest capacity to pay a royalty) would pay substantially less. The department believes these distributional impacts are undesirable, but would welcome views from the sector and the wider community on the fairness of this option.</p>

Extent of cost recovery

The following table shows the projected revenue of the proposed fees, levies and royalties in 2018-19 compared to the corresponding costs to government. Some items are indicative only.

Purpose	Activity	Cost/ expenditure	Revenue raised	% recovered
Regulation of recreational fishing	Education and enforcement	\$7 – \$7.5 million	\$2 – \$2.5 million	~30%
	Administration	\$750,000	\$750,000	100%
	Sales commissions	<\$200,000	<\$200,000	100%
	TOTAL	\$8 – \$8.5 million	\$3 – \$3.5 million	~39%
Projects and other initiatives funded from the RFL Trust Account	TOTAL^a	\$7 – \$7.5 million <i>(Funds available for allocation)</i>	\$7 – \$7.5 million	100%
Regulation of commercial fisheries	Compliance services	\$12.5 million	\$0.4 million	3%
	Management services	\$3 million	\$0.5 million	17%
	Administration services	\$4.9 million	\$0.5 million	10%
	Research	\$1.6 million	\$1.1 million	69%
	Transaction fees	\$120,000	\$120,000	100%
	TOTAL	\$22 million	\$2.6 million	11%^b
Abalone royalties	TOTAL	NA^c	\$500,000	NA

^a Allocation of Trust Account funds are determined each year from available revenue in the Account. Some funds may be carried over to future years, or expenditure may draw on previous years' unspent funds.

^b Overall level of cost recovery also takes into account the effect of concessions which are applied after calculation of levies for each service type.

^c There is a small cost of administering the royalties, but this has not been separately estimated. The royalty is not designed to recover these costs.

Who has been consulted?

In the development of the proposed Regulations, the department consulted with the Victorian Fisheries Authority, the Fisheries Cost Recovery Standing Committee (FCRSC)² (for levies and royalties for commercial fisheries) and the Statewide Recreational Fishing Roundtable³ (for RFL fees).

Members of the Statewide Recreational Fishing Roundtable indicated support for continuing the current RFL price arrangements. A number of potential variations suggested by members have been included in this RIS for assessment. A summary of different revenue options and possible variations to the current fees included in this RIS was distributed to members in June 2017, and no further issues have been raised.

FCRSC was first briefed on the review of the Regulations and development of the RIS last October and feedback was invited. A summary of the draft proposals was distributed in June

² This committee comprises an independent Chairperson; four members nominated by Seafood Industry Victoria (SIV) who have expertise in the commercial wild-catch sector; one member nominated by SIV who has expertise in the aquaculture sector; two members from the department/Victorian Fisheries Authority, and the Executive Director of SIV. See – [Fisheries Cost Recovery Standing Committee on the Victorian Fisheries Authority webpage](#).

³ This group provides a forum for the exchange of ideas and the facilitation of interactions between leaders in the recreational fishing sector. It is a stakeholder forum, independently chaired and hosted by the Victorian Fisheries Authority (see [Statewide Recreational Fishing Roundtable on the Victorian Fisheries Authority webpage](#) for further information).

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2017 and feedback sought. Industry members continue to support the principle of cost recovery for the commercial sector on the basis of including only those costs that are directly attributable to commercial fishers. A number of known areas of interest to stakeholders are discussed in this RIS, including the implementation of the small operator concession and the setting of abalone royalties. No other alternative approaches have been suggested. It is noted that the amount of the costs that are recovered is subject to ongoing review and the Victorian Fisheries Authority will continue to work with industry to ensure the integrity of the costs and to explore opportunities to improve the administration of the levies.

As part of the development of the proposed Regulations, the department undertook an evaluation of the existing Regulations. This evaluation involved consultation with the above groups as well as a survey of recreational fishers.

Questions for stakeholders

The release of the proposed Regulations now provides an opportunity for wider feedback from any interested party. Submissions may be made **by Tuesday 3 October 2017** through the website engage.vic.gov.au/fisheries-ris-2017, or written submissions may be sent to:

Fisheries FRL Regulations RIS
c/- Domestic Animals, Fisheries, Forestry and Game Policy
Level 26, Department of Economic Development, Jobs, Transport and Resources
GPO Box 2392 Melbourne 3001

Stakeholders are welcome to comment on any part of the proposed Regulations, but may wish to comment specifically on the following:

- Are the proposed fees, levies and royalties fair and reasonable?
- Are the activities undertaken by the Victorian Fisheries Authority done efficiently (including activities previously undertaken by Fisheries Victoria)?
- Are there any likely risks or consequences of the proposed Regulations that have not been identified?
- Is there merit in changing how royalties are calculated, and if so, how?
- Are there other alternative approaches not included in this RIS that should be considered?

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COMMISSIONER FOR
BETTER REGULATION

GPO Box 4379
Melbourne Victoria 3001
Telephone: 03 9092 5800

9 August 2017

Dr Emily Phillips
Deputy Secretary, Agriculture, Food and Fibre
Department of Economic Development, Jobs, Transport and Resources
1 Spring Street
MELBOURNE VIC 3000

Dear Dr Phillips

I would like to thank the staff of the Domestic Animals, Fisheries, Forestry and Game Policy unit in the Department of Economic Development, Jobs, Transport and Resources for working with our team on the preparation of the Regulatory Impact Statement (RIS) for the proposed *Fisheries (Fees, Royalties and Levies) Regulations 2017*.

Under section 10 of the *Subordinate Legislation Act 1994* (the Act), the Commissioner for Better Regulation is required to provide independent advice on the adequacy of all RIS prepared in Victoria. The Commissioner's role is to advise on the adequacy or otherwise of the analysis presented in the RIS, rather than the merits or otherwise of policy or regulatory proposals. A RIS is deemed to be adequate when it contains analysis that is logical, draws on relevant evidence, is transparent about assumptions made, and is proportionate to the proposal's expected effects. The RIS also needs to be clearly written so that it can be a suitable basis for public consultation.

I am pleased to advise that the final version of the RIS received by us on 8 August 2017 meets the adequacy requirements of the Act.

The Regulations prescribe charges expected to raise a total of \$14.4 million in 2018-19 (with fees set to increase at the Treasurer's rate each year thereafter), comprising:

- charges for recreational fishing licences (RFLs) (\$10.4 million);
- charges for commercial fishing including licences (\$2.5 million) and related transaction fees (\$0.1 million), and the Fisheries Research and Development Corporation levy (\$0.9 million); and
- royalties for abalone fisheries (\$0.5 million).

The Department notes in the RIS that revenue raised by RFLs is held in the RFL Trust Account, which was created in 2000-01 with the intention of using that revenue 'for programs that benefit recreational fishing, and not as a means to recover government costs of regulating the sector' (p.13).

The proposal would retain the current RFL charges, which will be used to:

- fund projects and other initiatives via the RFL Trust Account; and
- cover costs and expenses incurred in the administration of recreational fishing licences and some of the costs of education and enforcement activities (in recognition that these provide some benefit to recreational fishers).

The Department explains its rationale for retaining the current charges for RFLs by outlining in the RIS (p.24) how different alternatives were compared based on whether or not:

- it is appropriate to use Trust Account funds to pay for the full costs of regulating recreational fishing;
- prices should be set based on the amount of fishing undertaken by each licence holder;



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- prices can reflect the activities involved in regulating different licence categories;
- different licence categories incur different administrative costs; and
- different price settings could have negative effects on administrative costs and the sustainability of the RFL Trust Account.

In the RIS, the Department canvasses a range of other variations to the current charges for RFLs that were suggested by stakeholders, and explains that, with one exception, these possible changes 'are considered not practical at this time' (p.27).

Charges for commercial licences are expected to raise around \$2.5 million. In setting charges for commercial fishing licences, the Department has considered options relating to the appropriate proportion of regulatory costs to recover from licence holders, and how best to recover those costs from different licence holders (p.30). The RIS contains an explanation of which costs the Department considers to be attributable to commercial licence holders, and notes that the current approach of recovering these costs (based on the different costs attributed to each fishery) is preferred in order to avoid cross-subsidisation. Charges for related transaction fees (estimated to raise around \$0.1 million) have been set on the basis of full cost recovery.

The estimated \$0.9 million in revenue from the Fisheries Research and Development Corporation (FRDC) levy will continue to be collected by the State Government and provided directly to the FRDC. The Department notes in the RIS that no change to this levy is proposed (p.17).

The Department outlines several potential changes to the abalone royalties and notes that while it is possible to change the abalone royalty in ways that could better achieve the Government's objectives and avoid 'undesired interactions' with the payment of levies, the costs of this change would fall on 'those already with the least ability to pay any additional amount' (p.37). On this basis, the Department proposes to retain the current royalties approach.

In addition to monitoring whether the proposed charges recover the expected amounts, the Department outlines its commitment to determine whether the proposal remains the best way of achieving the Government's objectives via the Victorian Fishing Authority's (VFA) normal annual reviews of commercial fee and levy data. The Department also outlines its commitment to work with the VFA to collect more detailed data and evidence to inform future decisions based on fishing patterns of different types of recreational fishers and how enforcement activity impacts on different groups.

It is government practice that this letter be published with the RIS when it is released for public consultation.

Should you wish to discuss any issue raised in this letter, or the implications of new information or policy options identified through the public consultation process for your proposal, please do not hesitate to contact me on (03) 9092 5800.

Yours sincerely



Anna Cronin
Commissioner for Better Regulation

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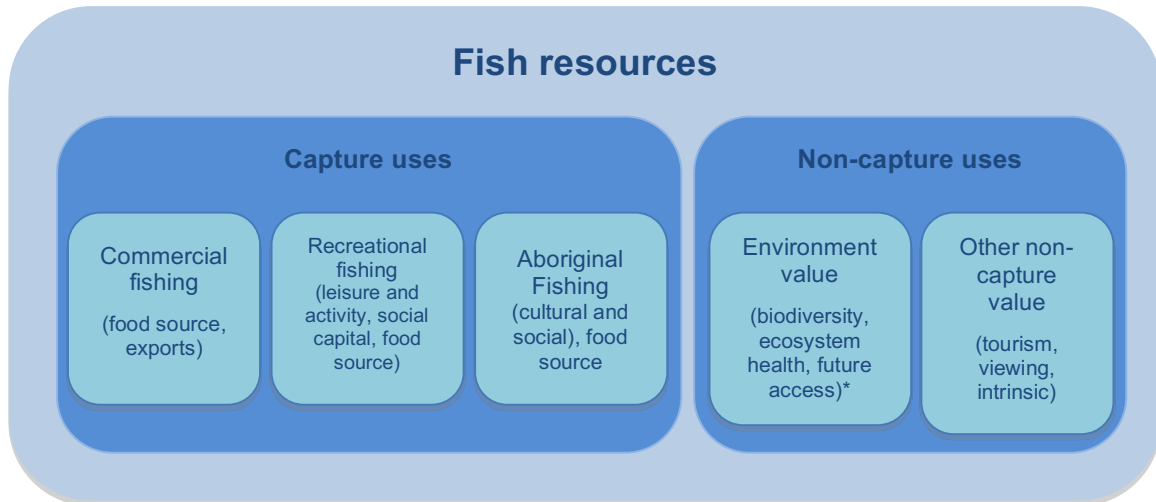
1. WHY IS THE GOVERNMENT CONSIDERING ACTION?

1.1 Context: The need for fisheries management

Defining 'fish resources' and how they are used

Fish within Victoria's inland and marine waters⁴ are a 'resource'—that is, they have a value. Fish resources have a number of potential uses (and benefits), which can be categorised as shown in Figure 1 below.

Figure 1: Sources of value of fish resources



* Environmental uses can include preservation of species (existence/bequest value) as well as related benefits such as ocean or river health.

All these uses have flow-on effects in terms of economic activities that support each use (e.g., manufacture and sale of equipment used in fishing). But each use has a cost, even if it is only the opportunity cost of not being able to use the resource in some other way.

Fisheries management and the 'problem of the commons'

Historically, fisheries management emerged as a response to the problems of overfishing and inefficient resource allocation in fisheries, and the social problems that go with resource misuse. Experience around the world has shown that unmanaged fisheries do not result in the optimal utilisation of fish stocks; nor do they enable the best use of the human resources and capital that are used in fishing. Unmanaged fisheries—where anyone with the motivation and the means to engage in fishing can do so to any extent—results in the 'problem of the commons': each fisher will have an incentive to catch as much as he or she can before someone else does. This leads to over-capitalisation (e.g., too many boats), too much expenditure on fuel and other inputs, and too many fishers and crews. That is, there is too much effort applied to harvesting the available fish resources.

Unmanaged fisheries waste economic resources, which in normal circumstances could be profitably employed in other productive activities. Ultimately, the result can be depletion of the fish stock and collapse of the fishery. Furthermore, in unmanaged fisheries, no-one has the correct incentive to undertake activities that will help build up stocks for the future.

Fisheries management encompasses a variety of activities that have the objective of attaining 'optimum' use of the fisheries environment, the fish stocks in it and the man-made resources applied to the catching and ultimate 'use' of fish. Views differ as to what factors should be considered in formulating a set of objectives to achieve 'optimum' use of marine and inland fish resources, but there is broad consensus with the propositions that the management

⁴ Within Australia, each state is responsible for fisheries within its internal waters (which include river, lake and estuarine fisheries) as well as fisheries adjacent to its coastline within three nautical miles.

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regime should provide for long-term sustainability of yields, and allocation of the fishery resources among competing uses in the way which is most valuable to the community. For any particular use, be it conservation, or commercial, recreational or traditional fishing, optimum use also implies an economically efficient allocation of resources such as labour and capital (effort) in the fishery.

While aquaculture does not directly involve taking naturally available fish resources, some (but not all) regulatory activities pertaining to the proposed Regulations are relevant to aquaculture fisheries. These include environmental management, controlling where aquaculture can occur, and translocation of live aquatic organisms.

Aims of the Fisheries Act 1995

The *Fisheries Act 1995* (the Act) establishes a modern legislative framework for the regulation, management and conservation of Victoria’s fisheries. The Act aims to:


- provide for the management, development and use of Victoria's fisheries, aquaculture industries and associated aquatic biological resources in an efficient, effective and ecologically sustainable manner
- protect and conserve fisheries resources, habitats and ecosystems including the maintenance of aquatic ecological processes and genetic diversity
- promote sustainable commercial fishing and viable aquaculture industries and quality recreational fishing opportunities for the benefit of present and future generations
- facilitate access to fisheries resources for commercial, recreational, traditional and non-consumptive uses
- promote the commercial fishing industry and to facilitate the rationalisation and restructuring of the industry
- encourage the participation of resource users and the community in fisheries management.

The framework for fisheries management in Victoria

The key elements of the framework for managing fisheries in Victoria are shown in Figure 2 below.

Figure 2: Framework for fisheries management in Victoria

Set total sustainable catch	All sectors		
Allocate access	Recreational	Commercial	Aboriginal
Access entitlements	Open access (licensing applies)	Limited access (commercial entitlements)	Traditional owners
Harvest strategy	Harvest managed within general limits and targets, with clear decision rules	Harvest managed within specific limits, with performance indicators, and clear decision rules	Estimated take provided for within the harvest strategy
Management tools	Output or input controls	Output or input controls	Input controls


 Management planning involving stakeholders

The government’s approach is to secure fisheries for the long term, generating economic and social benefits for our communities.

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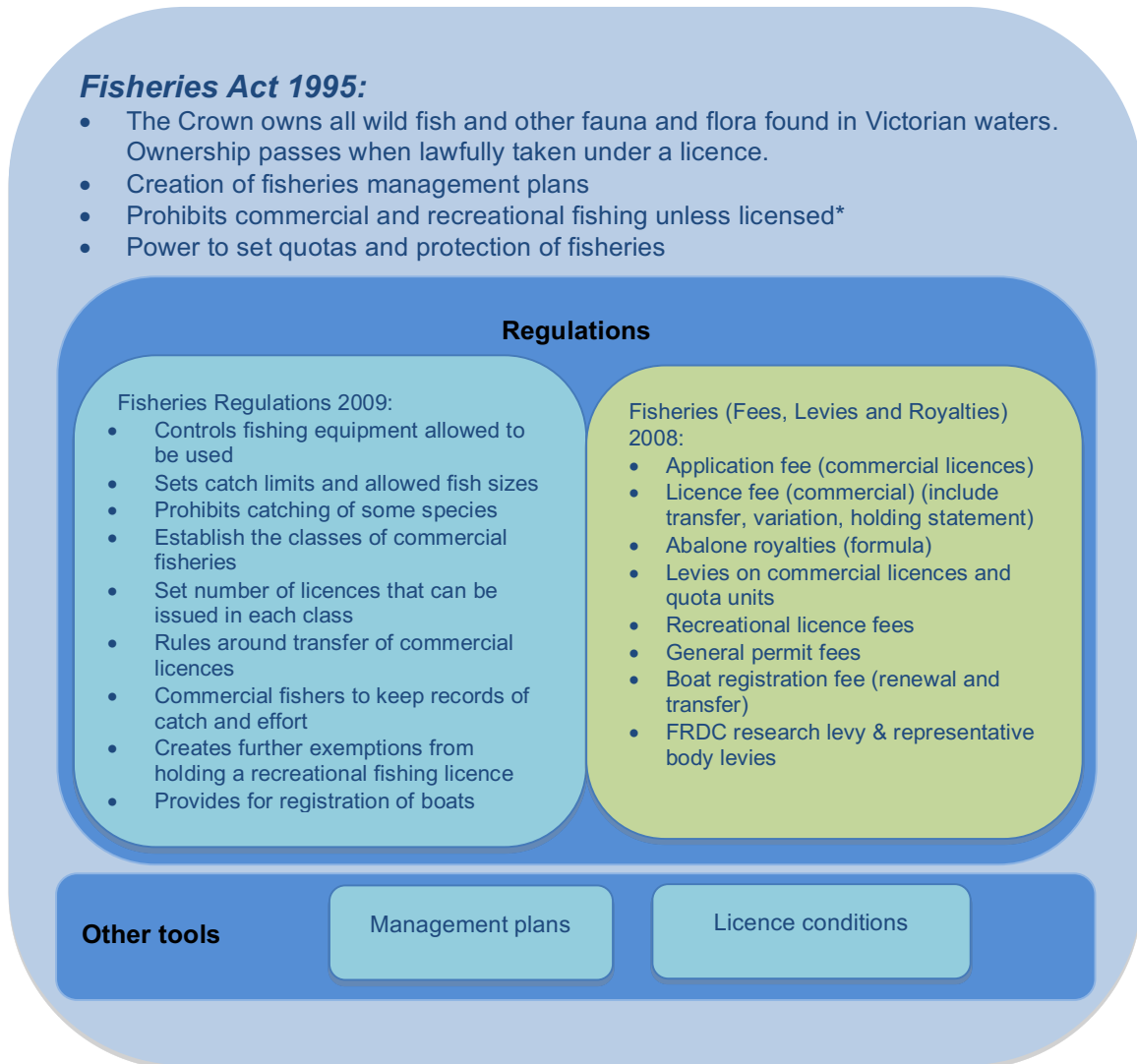
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Under the Act, a person cannot take or attempt to take fish from marine waters or inland waters, or use or possess recreational fishing equipment in, on or next to Victorian waters, unless he or she is authorised to do so directly under the Act.

Structure of legislative arrangements for fisheries management in Victoria

Certain elements of Victoria's fisheries management are contained in the Act itself, or in the Fisheries Regulations 2009. Figure 3 below illustrates where certain aspects of the management of fisheries reside.

Figure 3: Legislative arrangements for fisheries management



* A person under the age of 18 may fish recreationally without holding a recreational fishery licence.

The Act, the 2009 Regulations, management plans and licence conditions are outside the scope of this RIS and the proposed Regulations.

The existing Fees, Royalties and Levies Regulations are the means by which fishers pay:

- a contribution to government administration costs for operating the fisheries management arrangements, including fees for issuing and administering licences, permits and registration, as well as enforcement and compliance costs
- a contribution to services provided for commercial fisheries by government. This includes services undertaken for the specific purpose of providing direct benefit to commercial fishers (e.g., compliance activities that protect the commercial value of the licence). This

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has traditionally excluded activities that provide a more general benefit to the community as a whole, even though commercial fishers may benefit (e.g., environmental research is undertaken to protect the community's value in fish resources, although it also assists the government to make decisions on catch limits, quotas, etc.)

- a monetary return to the community for the value of the fish resources taken (royalties paid by abalone fisheries only)
- for projects that benefit, support and promote recreational fishing in Victoria.

The existing Fees, Royalties and Levies Regulations sunset on 30 January 2018 and new Regulations are needed to ensure fishers continue to pay for the use of the resource and services provided by the government.

1.2 The impacts of recreational fishing

Encouraging recreational fishing

There is a policy objective to support and promote recreational fishing in Victoria as it:

- is a pursuit of leisure for a large number of Victorians
- has cultural significance to many Victorians
- contributes to overall economic activity, especially in regional Victoria, including a contribution from potential tourism attraction from outside Victoria and, in particular, spending in local areas.

Allowing and supporting high quality recreational fishing in Victoria is a significant economic activity. There are costs associated with ensuring recreational fishing is available and accessible to as many people who wish to fish. These costs may include provision of infrastructure, research, education, and stocking.

Managing the impact of recreational fishing

The impact of recreational fishing on total fish resources is effectively managed through input and output controls such as catch limits, and sometimes fish stocking.

The Fisheries Act and the Fisheries Regulations 2009 require all people over 18 years of age to hold a licence if they wish to fish recreationally, unless otherwise exempt under those Regulations. The administrative cost to government of issuing such licences is relatively small (around \$700,000 per annum, or around \$2.50 per licence issued), particularly as there is a clear trend towards online purchasing, which allows the automated purchase of a licence. There are, however, some enforcement costs that arise as a result of the recreational licensing arrangements; these costs generally fall to the government.

There are currently 74 Fisheries Officer positions within the Victorian Fisheries Authority that engage in fisheries education and enforcement activities to promote sustainability and responsibility in fishing and fishing related activities; about 60 per cent of their time is involved in the provision of these activities in relation to the recreational sector. All Fisheries Officers provide services to the recreational fishing sector and interact with recreational fishers through:

- monitoring, investigating, enforcing and promoting compliance with the Act and other Acts with respect to people engaged in fishing activities
- collecting intelligence related to recreational fishing-related offences
- participating in recreational fishing-related educational activities with school groups and the broader recreational fishing community
- advising fisheries management on issues relating to recreational fishing
- assisting the Authority's Fisheries Management and Research Unit on matters relating to recreational fishing
- contact with recreational fishers in the field

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- attending angling club meetings
- attending recreational fishing-related shows, family fishing events, forums and clinics
- attending fish stocking/liberation events
- liaising with grant recipients regarding the successful completion of infrastructure type projects under the annual Recreational Fishing Grants Program (Large Grants)
- responding to recreational fishing issues raised from the 13FISH Offence Reporting Line
- producing recreational fishing-related media releases/distributing booklets, pamphlets
- engaging with culturally and linguistically diverse communities.

The total cost to government of providing education and enforcement activities in relation to recreational fishing is around \$7.3 million per year.

The combined costs of government administration and enforcement related to recreational fishing amounts to around \$8 million per year.

This total cost includes administration of group recreational fishery licences. Group licences are issued at the discretion of the VFA, and based on the particular circumstances of a proposed recreational fishing event. Usually less than 25 group licences are issued each year for special cases, such as when a group of disadvantaged people fish recreationally on one occasion only. The costs associated with administration of the group licence is higher for these licences as applications are assessed manually, but will be different in each case. For simplicity, group licence fees are set to be the same as the 1-year RFL licence, although the fee may be waived if the Minister is satisfied that special circumstances apply.

RFL Trust Account

Recreational fishers in Victoria have a history of contributing funds, through their licence fees, to be used to further support and enhance the quality of recreational fishing in Victoria. This is done via the RFL Trust Account.

The RFL Trust Account was established in 2000-01 following the introduction of the All-Waters Recreational Fishery Licence on 15 July 1999. The intention of the Trust Account is that licence revenue is used for programs that benefit recreational fishing, and not as a means to recover government costs of regulating the sector. This is evidenced by the fact that the Act requires all fees and levies received in relation to RFLs be paid into the RFL Trust Account rather than forming part of general government revenue, and money in the Trust Account can only be used for the purpose of improving recreational fishing. As such, the rationale for setting levies is not primarily a question of cost recovery as typically applies in setting government fees.

While there is no cost recovery policy for recreational fishing, some RFL revenue has been used to fund important operational activities such as education and enforcement. Historically, around 30 per cent of this cost (just over \$2 million per year) has been met from RFL sales revenue, in recognition that those activities provide some benefit to recreational fishers. This is not an automatic contribution, and the proportion of costs met by the Trust Account has varied in the past. The original reason for only some of the cost of enforcement being met from RFL revenue is that this reflected the increase in enforcement effort as a consequence of moving to All-Waters RFLs and the associated licence prices introduced in 1999. This matched the *incremental* costs associated with the introduction of the current RFLs.

The Act also allows money in the Trust Account to be used for costs and expenses incurred in the administration of recreational fishery licences. This includes a small amount paid to sales agents as commission.

All revenue above the amounts for enforcement, education and administration is available for discretionary activities that seek to benefit recreational fishers.

The Trust Account is not primarily aimed at recovering costs of government activities. The amount of Trust Account funds used to offset some of the costs of enforcement and education is a policy judgement that includes consideration of fishers' willingness to pay a

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price for their licence, and ensuring there is adequate funds available in the Trust Account for projects and initiatives. Balancing these needs is discussed in the options section of this RIS.

In 2015-16, RFL sales provided \$6.8 million to the Trust Account, while \$7.4 million was spent from the Trust Account in the following areas:

Grants for projects, fish stocking, VRFish and Fishcare Victoria Inc	\$4,224,864
Enforcement and education	\$2,236,258
Sales commissions to retail agents	\$184,673
Administration	\$740,309

See Attachment 2 for further details on RFL Trust Account expenditure in 2015-16. Details on expenditure for 2016-17 is expected to be published by October 2017.

RFL prices underwent a significant review and changes made to prices in 2016, in which the (now current) prices were generally supported in the RIS public consultation. The purpose of those price changes was to increase the funding available to the Trust Account from 2016-17 onwards. RFL sales are expected to generate around \$8.7 million in 2016-17 and around \$9.2 in 2017-18. At that time, prices were increased on the understanding that all the additional revenue generated by the increased prices would be spent on boosting recreational fishing through a range of initiatives and programs.

Stakeholder views on the current RFL prices

A survey of a focus group of recreational fishers conducted as part of the review of the current Regulations sought views on the current RFL prices, and showed that:

- 56 per cent of respondents indicated that the current revenue raised for the Trust Account is about right, while 44 per cent indicated that there was a need for increased spending on projects and more revenue should be raised through RFL prices to fund this⁵
- a majority of responses pointed to a willingness to pay at or above the current RFL prices (see Attachment 3).

On the other hand, around half of recreational fishers consider the cost of the fishing licence is an important factor in deciding whether to buy a licence, or which licence they will buy. This is more so for shorter duration licences. Almost half of recreational fishers think the cost of the fishing licence is significant compared to other costs involved in fishing.

The department has interpreted these survey findings, together with changes to actual sales of licences in response to past price changes, to indicate that there is general support for the current prices, but a high risk that increases above the current prices may result in a material fall in people willing to buy licences.

⁵ The survey included a third option 'reduce RFL revenue and Trust Account spending', which received zero responses.

1.3 The cost of managing the state’s fisheries

Managing the impact of commercial fishing

There are costs to government that arise directly because of the need to manage fisheries. This includes costs of managing the amount of fish that can be captured, the allocation of fish resources between uses, and management of take within each capture group. There are also costs of monitoring and enforcement.

The government undertakes a number of services in its role as manager of the state’s fisheries (either via the department or the Victorian Fisheries Authority). These services and functions are:

Service category	Description of activities
Research – includes stock assessment, data collection and modelling	Applied scientific research studies and assessments are required to understand the biology of fisheries so they can be managed in a sustainable manner, including through the establishment of the Total Allowable Catch (TAC) in quota managed fisheries. Research includes analysis and modelling of data for stock assessment (including from catch and effort recording, dive surveys and other surveys). This type of research is essential to determine the sustainable resource base for a fishery.
Management – includes quota setting and operational management for fisheries	For most fisheries in Victoria, a management plan is typically developed to manage harvest and access. Such plans cover a range of aspects including: the establishment of the TAC; its assignment to quota holders (e.g. for quota-managed fisheries such as rock lobster, abalone, giant crab and scallops in Victoria) and effort or input controls to limit catch; compliance issues; and other regulatory issues. In the aquaculture sector, reserve management plans are prepared for the allocation of crown resources.
Compliance – includes surveillance, intelligence, inspections and education	There are a range of compliance activities that are undertaken, such as surveillance, intelligence, investigations, inspections and education services. Some compliance activities are solely associated with the commercial sector (e.g. compliance by licence/quota holders with commercial fishing rules) while others are associated with the overall protection of the fishery, such as monitoring to detect illegal fishing.
Administration – licence administration and cost recovery administration	<p>Licensing is used to manage commercial and recreational access. Licences are required for commercial and recreational fishing and for boat registrations and renewals. This service also includes managing the collection of “catch and effort” data in the wild-catch sector and production data in the aquaculture sector that must be provided to the Victorian Fisheries Authority by licence holders.</p> <p>To maintain and administer the cost recovery system requires appropriate processes and systems; consultation on services and costs; and fees and levy setting. It also includes support for the FCRSC, including sitting fees and personal expenses of members.</p>

Some of these activities would need to be undertaken even if no commercial fishing was allowed. Management of fisheries requires a thorough understanding of how the ecological systems function and how various users (including commercial and recreational fishing) affect the functioning of the systems. Long-term sustainability of these systems, including long-term utilisation of fish resources, is an objective of resource management.

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The cost to government of undertaking these activities in 2016-17 was as follows:

Service category	Cost in 2016-17
Research	\$1.6 million
Management	\$3.0 million
Compliance	\$12.5 million
Administration	\$4.9 million
TOTAL COST	\$22 million

Costs included in each category are only those related to commercial fisheries. For example, licensing and enforcement costs related to recreational fishers are not included.

Who should pay for fisheries management services?

The principal benefit of fisheries management is the achievement of optimal utilisation of Victoria's living fish resources. This involves resolving the resource management decisions, and improved efficiency in use of fishery resources in both the short and long term.

A public good has two characteristics that distinguish it from a private good. First, if a public good is provided for one person it is automatically provided for all because it is not feasible to charge individuals for use of it, or to exclude any one from using it. Second, the use of a public good by one person does not diminish the amount available for others.⁶

Most of the services provided by governments fall somewhere on the spectrum between pure public and pure private goods. This applies to many of the activities considered in relation to commercial fishing in Victoria. Some types of activities, such as compliance, are not neatly categorised as public or private goods; they can provide significant benefits to users as well as to the wider community, both now and in the future.

Surveillance is a case in point, with one perspective being that it is a normal policing function of the state and, hence, like police forces, should be paid for by the community. Fishers in a managed fishery have a form of property right, and the argument is that they are entitled to have that right protected as other citizens have their property protected. On the other hand, fishing grounds are owned by the community and a fisher's 'right' to access it is subject to constraints. If there were no parties seeking to take fish, society would have no need to have surveillance undertaken.

Surveillance of a fishery can have two objectives. One is protecting the resource to, say, achieve long-term ecological sustainable development. The other objective is to police the management rules that are in place to benefit fishers directly: rules aimed at prohibiting a particular fisher causing a cost to their fellow fishers by, for example, cheating on quota or gear.

Research is another example of shared benefits. Some research undertaken is specific to supporting commercial fishers. Other research, such as environmental research, is necessary in the overall regulation of commercial fishing (e.g., to inform decisions about catch limits and quotas) but may be undertaken primarily to protect the community's interest in ecosystem health. This suggests some research costs should be borne by commercial fishers while some costs should be borne by taxpayers generally.

Efficiency and equity considerations require that users as well as taxpayers should contribute to the costs of resource management. Contributions to resource management should be seen as integral costs of fishing, just as are the costs of capital, labour, fuel and gear. Users should also be responsible for the costs of ensuring compliance with the constraints imposed by government for resource management purposes. The proportions that should be borne by governments and users are likely to change from fishery to fishery and over time.

Currently, the levies collected from commercial fishers for fisheries services and activities amount to about 11 per cent of the total costs to government of managing the state's fisheries.

⁶ Defence is a classic example of a public good.

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This reflects that most of the activities associated with managing fisheries are not directly attributed to commercial licence holders; for example, some research and monitoring would occur even in the absence of commercial fishing, as would some enforcement to protect against illegal fishing. Some activities are also considered to have shared between commercial fishers and the wider community; for example, catch and effort reporting is a necessary activity due to the existence of commercial fishing, but enables the government to make better decisions about the management of fisheries and policy settings. Overall, the 11 per cent share of costs is considered to match a fair and reasonable proportion of the total costs of managing the state's fisheries.

A small amount of under-recovery (around \$22,000 per annum) is due to a concession given to small operators. Levies payable are capped at 38.9 fee units (\$553 in 2017-18) if the averaged annual catch (over the three financial years preceding the licensing year of any class of access licence), is less than 500 kilograms per licence. This concession is applied on a per fishery basis.

Other costs that are recovered

Traditionally, the Victorian Government has used the levy Regulations to collect revenue on behalf of other bodies on a 'pass through' basis.

The Fisheries Research and Development Corporation (FRDC) is an example. The FRDC was created under commonwealth government legislation. The commonwealth expects commercial fishers to contribute to research funding. It has been the agreed approach for many years that commercial fishers contribute to the FRDC at a rate of 0.25 per cent of GVP per annum. The State collects the levy on behalf of Victoria's commercial fishers and provides it to the FRDC. Funds collected from commercial fishers by the FRDC are then matched by the commonwealth. The FRDC levy generated \$179,626 from Victoria's commercial fishers in 2016-17.

The Fisheries Act provides for the levies to also include levies to cover grants made to industry bodies. The grants levies consist of an amount collected from all wild-catch licence and quota unit holders and processor licence holders, which is subsequently granted to Seafood Industry Victoria (SIV) as the identified representative body for the commercial fishing industry in Victoria.

In the Abalone Central and Western Zones, additional levies are collected from quota unit holders for the zonal representative bodies. SIV and other representative bodies (i.e. Western Abalone Divers' Association and Abalone Victoria Central Zone) have agreements with the Victorian Government to collect levies from the licence holders within the relevant fisheries and grant those monies back to the representative bodies for their operation. The grants are subject to the bodies meeting key performance criteria, including appropriate use of the funds. Grant funds are largely used on salaries for employees, the operation of the Boards and, in the case of the abalone bodies, on improving monitoring of stock status in their fishery.

Including these grants levies in the Regulations generates benefits for the industry bodies. Specifically, it gives legal force to the levies, thereby requiring all relevant fishers to contribute; otherwise they may be unlikely to do so. The State takes advice from the representative bodies in setting the levy amounts. The levies have not been changed for many years. The grants levies are expected to generate about \$753,000 in 2016-17.

No changes to the FRDC or grants levies are proposed. This is on the basis that the government only collects this revenue on behalf of other bodies, and expects those bodies to advise the government if the amounts raised should be changed. Accordingly, these levies are not considered further in this RIS.

1.4 The cost to the community of taking fish resources

Fish in the wild are a publicly owned resource, and fishers of all types access fisheries for private gain. Allowing a party to take fish from the wild is a cost to the community. The loss of the resource is an opportunity cost, as the resource is no longer available for other uses which may also provide a benefit to the community (e.g., more fish in the environment, or more opportunities for recreational fishing).

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Ideally, where fish resources are taken, those taking the resource should pay for the public value of the fish taken (a 'resource rent'⁷). This is particularly the case where the fish are taken for commercial purposes (i.e. the party taking the fish is able to generate a monetary profit).

Resource rent charges allow governments to capture some (or all) of this value on behalf of the public. A simple form of resource rent is a royalty, which in its most effective form would be a charge on fish landings and would align private costs with social costs to the fishery as a whole. Royalties price the fish in order that the fish will be treated like other correctly priced inputs in fisher's production decisions.

However, royalties and other resource rent charges can sometimes face serious practical problems. Placing an accurate value on the opportunity cost on behalf of the community is difficult. In an ideal world, a market mechanism could exist where parties would bid a price to be allowed to take fish for commercial purposes. In practice, this is not feasible due to the nature of the fisheries licences, incomplete markets, informational problems, and a lack of sufficient competition in many areas.

These practical issues have typically meant royalties are set with regard to the level of profitability of a particular activity, reflecting the ability to pay more so than measuring the underlying public value of the fish; the idea being that high profitability is likely to encourage over-exploitation of the resource at the expense of other uses (including commercial activities in the future). This approach has also meant royalties have not been widely used in fisheries management. Many commercial fishing operations are marginal, and it is unlikely that they would earn consistent surplus value that could be extracted by profit-based resource rent charges such as a profit-based royalty.

Most studies on this matter (e.g., the recent Productivity Commission inquiry⁸) do not consider that resource rent charges can be effectively applied in most fisheries at the present time. Resource rent charges are currently not used in Australian fisheries, with the exception of the abalone fishery in Victoria (where a royalty is used)⁹, and are not common practice worldwide.

It has been the traditional approach in Victoria that royalties are only used for abalone fisheries. This was introduced in consultation with industry to reflect the profitability of the fishery. Notwithstanding short-term variability in the market value of its catch, the abalone sector has displayed a trend of high profitability over the medium and longer term, which warrants the payment of a royalty. The value of the royalty collected from abalone licensees was around \$400,000 in 2016-17.¹⁰

The department does not believe there is a rationale to extend royalties to other fisheries, due to the practical challenges of applying it and because the existing controls against over-exploitation are considered effective.

⁷ Resource rent represents the profit a natural resource firm makes over and above the normal profit, business costs and government charges that arise because access to the resource is restricted. The profit is over and above the profit that would be required to prompt investment in the resource in a competitive market.

⁸ Productivity Commission, *Inquiry into regulation of the Australian marine fisheries and aquaculture sectors*, December 2016.

⁹ Western Australian charges levies that are calculated as a percentage of GVP. However, the purpose of these charges is to recover government costs, and is not intended to work as a way to recover resource rents.

¹⁰ The method for calculating the royalty payable is 7.2 per cent of GVP, less the amount of all other fisheries services levies and FRDC levies. This may result in a negative royalty where these levies exceed 7.2 per cent of GVP.

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1.5 The cost of transactions

While the fisheries services costs discussed above apply to a fishery as a whole and require a method for allocating costs among fishers, there are a number of services provided by the Victorian Fisheries Authority that can be attributed directly to individual fishers. These services are required to be provided by government under the Act, including considering a (commercial) licence application, issuing general permits, and issuing boat licences. Performing these transactions involves a recoverable cost to government.

The following table shows the Victorian Fisheries Authority's estimate¹¹ of the cost of providing each transaction (in 2016-17).

Fee	Estimated cost of service
General permit	\$142
General permit (developing fishery)	\$213
Variation of general permit	\$142
Protected aquatic biota permit	\$142
Variation to protected aquatic biota permit	\$142
Fishing boat registration	\$36
Fishing boat registration renewal	\$36
Fishing boat registration transfer	\$36
Commercial fishery application fee (aquaculture – Crown land and on-shore)	\$284
Commercial fishery application fee (abalone access licence, fish receivers' (abalone), aquaculture private land)	\$284
Commercial fishery application fee (all others)	\$284
Licence fee for issue or renewal of commercial fishery licences	\$36
Transfer of commercial fishery licence (aquaculture)	\$213
Transfer of commercial fishery licence (abalone access)	\$213
Transfer of commercial fishery licence (other)	\$213
Transfer of individual quota units (abalone)	\$213
Transfer of individual quota units (other)	\$36
Variation of commercial fishery licence	\$36
Abalone quota unit holding statement	\$36
Notification by holder of abalone fishery access licence	\$36

Based on the number of transactions in each category in 2015-16, these transactions in total cost the government around \$110,000 per annum.

It is Victorian Government policy that such costs be charged to the beneficiaries of the services at full cost, unless there is a clear policy reason for not doing so.

¹¹ The estimated costs should be considered indicative only based on a desktop review rather than actual tracking of precise process times. This is appropriate given the very small amounts of revenue collected by these fees. The estimated costs are based on the relevant manager's experience of how long it takes to manage a *typical* transaction and multiplying that by an hourly rate (\$71/hr) that is representative of the staff managing the transactions. Transactions that may sometimes raise unexpected or unique issues that require more time were not considered. For many transaction categories, there are often very low numbers of transactions each year, e.g. in 2015-16 there were no transactions processed for applications for access licences, nor aquaculture crown land licences. This makes it difficult to precisely estimate the costs. The estimates include only staff costs including an allowance for on-costs and overheads.

1.6 What would happen if no Regulations were made?

Without the Regulations dealing with charges, the government would not be able to recover costs associated with managing fisheries. While in some cases the inability to recover costs would result in the government funding the activities that would still occur (e.g., enforcement, administration of licences), the inability to set charges would mean some services would no longer be provided at all or at significantly reduced levels (e.g., education, research, funding of projects through the RFL Trust Account). Overall, failure to impose charges would compromise the approach to fisheries management in the state, and reduce the benefits derived across the community from having well managed fisheries.

1.7 Review of current Regulations

Prior to the development of the proposed Regulations, Fisheries Victoria (the predecessor to the Victorian Fisheries Authority) undertook a review of the existing Regulations. This was particularly relevant as the levies for commercial fisheries and the price of RFLs had been increased since the current Regulations were first made in 2008.

The review found that the current Regulations were on the whole achieving their intended purpose. In relation to specific fee types, the review found:

- The increases to RFL prices from 1 July 2016 did not appear to have reduced the overall amount of recreational fishing nor increased non-compliance, and had achieved the purpose of increasing the revenue available for use in the RFL Trust Account.
- The projects funded from the RFL Trust Account were considered to be of net benefit to the recreational fishing sector.
- The current RFL prices were within (at or below) the willingness to pay of surveyed recreational fishers (see Attachment 3).
- The Fisheries Services levies were achieving their intended purpose of recovering a portion of the costs of providing fisheries services, and balancing the needs of small operators. On the basis that the underlying costs on which the levies are based had not changed materially (i.e., increased only in line with changes in the value of fee units), the review concluded that the remade Regulations should continue the current levy arrangements. Increases to some of the levies since 2013-14 did not appear to have had any material effect on the amount of commercial fishing.
- The royalty arrangements for abalone quota units were achieving their intended purpose, within the context of allowing the amount of the royalty payable to vary for changes in GVP and other levies. However, there was concern with the royalty design¹² in terms of the weak incentives for the sector to scrutinise the level and efficiency of fisheries services provided by government; and confusion between the separate objectives of cost recovery for government services and recovering part of the value of the fish resources taken, which may mean neither objective is being effectively met.
- The transaction fees were generally higher than the estimated costs of each transaction; the regulatory impact statement should consider aligning these fees to the estimated cost.

The review identified a low level of awareness among both commercial and recreational fishers of 'what they get for their money'.

The review report is available on the Engage Victoria website:
engage.vic.gov.au/fisheries-ris-2017.

¹² The current royalty is calculated at 7.2 per cent of GVP, less any fisheries services or FRDC levies payable. Where the levies exceed 7.2 per cent of GVP, the royalty formula results in a 'negative royalty', effectively a rebate to offset against the amount of levies to be paid.

2. WHAT OUTCOMES DOES THE GOVERNMENT AIM TO ACHIEVE?

2.1 Cost recovery

'Cost recovery' may be defined as the recuperation of the costs of government-provided or government-funded products, services or activities that, at least in part, provide private benefits to individuals, entities or groups, or reflect the costs their actions impose.

The costs of these activities need to be recovered in some way – either from users or others who benefit from the good, service or activity; from those whose actions give rise to the costs; or from taxpayers more generally.

Typically, the 'beneficiary pays' approach can be used to identify who should pay for the provision of government goods and services. Under this approach, private parties should, in general, meet their share of the costs of providing goods and services that confer private benefits. Commensurately, cost recovery charges should not be applied to costs incurred by the government from meeting public interests or providing public goods and services (such costs are more appropriately funded from efficient and equitable taxes).

It is Victorian Government policy that cost recovery occurs on the basis of a user-pays system, whereby those who utilise services should be obliged to pay for the cost of those services, rather than having them funded from general taxation revenues.

2.2 Target One Million policy

The net economic benefit of fishing in Victoria

A November 2015 study¹³ concluded that the direct expenditure on recreational fishing in Victoria was \$2.6 billion in 2013-14. It found that the *net* benefit (i.e. after taking account of the costs of fishing) of recreational fishing in 2013-14 was \$622 million.

It was estimated that the recreational fishing sector contributed 16,257 direct jobs in Victoria in 2013-14, with around 34,000 jobs when indirect impacts are taken into account.

The net present value of recreational fishing over the next 20 years was estimated at \$91.2 billion in terms of total output, and \$50.8 billion in terms of value-added to the economy.

The policy and associated initiatives

The Victorian Government has committed \$46 million to delivering its *Target One Million* plan for recreational fishing, which will get more Victorians fishing more often (i.e. increase the number of fishers to one million by 2020). Measures to support the plan include:

- halt commercial netting in Port Phillip and Corio Bays over eight years
- establish the Victorian Fisheries Authority as a statutory authority
- ban netting at the mouths of rivers in the Gippsland Lakes
- establish a Better Fishing Facilities Fund
- increase fish stocking to 5 million fish per year
- implement a marine species stocking program
- open recreational trout cod fisheries in Beechworth
- stock barramundi into Hazelwood Pondage
- allocate 'Stronger Fishing Club' grants
- deliver school education and children's fishing programs.

¹³ The study was undertaken by Ernst & Young, commissioned by VRFish. It is available on the VRFish website. The results are based on extensive primary market research.

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Target One Million primarily draws funds from non-RFL sources, including appropriations announced in the 2015-16 State Budget and departmental reprioritisation. Consistent with the *Fisheries Act 1995*, RFL revenue will continue to be used to fund initiatives and programs to improve recreational fishing. This includes supporting several of the above areas, which would clearly assist in meeting the *Target One Million* objectives.

2.3 Supporting a sustainable commercial fishing industry

Employment in Victorian fishing is significant. Together, the commercial wild harvest fishing and aquaculture sectors provide direct and indirect employment for over 1,700 Victorians. Capital investment in the sector is also sizeable. Licensed operators have capital investments in boats, licences and processing facilities exceeding \$1 billion. Combined, these labour and capital resources produce a significant economic output annually. The GVP of the sector has averaged in excess of \$70 million per annum over the past three years.

Of all the state's fisheries, those for abalone and southern rock lobster are the most valuable, worth annually around \$20 million and \$25 million respectively. In addition to these fisheries, a large diversity of fish resources are utilised. The scope of commercial fisheries in Victoria encompasses such fish species as eels, scallop, giant crab, squid, sardine, salmon, whiting, snapper, garfish and bream. Maintaining and enhancing the sustainability of commercial fishing is an important policy objective and is reflected in the aims of the Act.

2.4 Objectives of the proposed Regulations

The outcomes sought to be achieved by the proposed Regulations are:

- to ensure an appropriate amount of revenue is raised from RFLs to fund projects that benefit recreational fishing through the Trust Account, and allow an appropriate share of the costs of regulating the recreational fishing sector to be met from the Trust Account, consistent with improving the opportunities for recreational fishing in Victoria. An amount is appropriate to the extent that it can ensure the availability of sufficient funds for relevant projects and initiatives without deterring people from recreational fishing or resulting in other forms of non-compliance or threatening the sustainability of the Trust Account.
- to recover an appropriate share of the costs of services provided to, or because of, the commercial fishing sector, including fisheries management services, compliance activities, and licence administration costs. A share is appropriate to the extent that it: reflects the distribution of benefits of the services between commercial fishers and the wider community; takes account of ability to pay, in the context of volatility in the value and volume of catch each year; and facilitates the economic use of available fish resources where this aligns with other environmental, economic and social objectives.
- to recover an appropriate value of resource from abalone fisheries through charging a royalty on quota units.

This RIS has a specific scope. It deals only with setting relevant fees, royalties and levies, covered by the current Regulations, that are due to sunset on 30 January 2018. The RIS does not deal with other matters, including setting the classes of licences, exemptions, and other conditions, which are covered by the *Fisheries Regulations 2009*. Therefore, the scope of options considered in the following chapters is limited to the amounts of fees and levies for the existing licence structure.

3. RECREATIONAL FISHING LICENCE PRICES – OPTIONS ASSESSMENT

3.1 Introduction

A number of alternative options for RFL prices were considered in the course of the RIS process. The alternatives were assessed with reference to a 'base case'.

3.2 Base case

The theoretical base case for RFL prices involves setting no price at all (effectively a zero price). Recreational fishing would still be prohibited under the Act unless a licence was held.

The department assumes that even if licences were free the amount of fishing would be roughly the same, and so the level of regulatory activity undertaken in relation to recreational fishing would be roughly the same.¹⁴ The main differences relating to the costs of regulating recreational fishing would therefore be that:

- the costs of regulation would fall by around \$700,000 as no payments would need to be processed
- government would directly fund the entire \$7.5 million in enforcement costs associated with recreational fishing, meaning that all taxpayers would be covering these costs.

On the other hand, lack of RFL revenue would remove the source of funding for the range of programs funded through the Trust Account. The lack of the programs would limit recreational fishing opportunities in a very practical sense. As this would affect the quality of recreational fishing, as well as access to it (in terms of physical infrastructure but also through reduction of fish stocking), the department expects that the number of people who fish recreationally would remain at its current level in the short term, but likely decline over the medium term. Alternatively, the government would need to use taxpayers' money to fund projects to benefit recreational fishers.

In the absence of RFL revenue and its associated funding of programs through the Trust Account, there is a possibility that some recreational fishers could 'club' together to make voluntary contributions to fund some programs and projects, particularly at the local level. The department understands that this is unlikely to occur where there is no compulsion to ensure that contributions are shared.

3.3 Options for setting RFL prices

Retaining the current fees would generate revenue of around \$10.4 million in 2018-19 (the first full financial year under the new Regulations). Under the proposed Regulations revenue of this amount would be all deposited into the RFL Trust Account and would be allocated from the Trust Account as follows:

- around \$2 to \$2.5 million towards education and enforcement by fisheries officers (covering around 30 per cent of the full cost of these activities)
- around \$750,000 for licence administration (100 per cent of administration costs)
- up to \$200,000 for agents' sales commissions (100 per cent of the payments to agents)
- the remaining \$7 to \$7.5 million would be available (with any other funds that remain in the Trust Account from previous years and interest) for allocation to projects and activities

¹⁴ It is difficult to predict how the absence of an RFL price would affect the level of recreational fishing. Evidence from the survey of recreational fishers suggests that the overall number of people who fish recreationally was not particularly sensitive to the price of licences, and that the current RFL prices are at or below the willingness to pay for associated programs. This suggests that the current prices are not a significant barrier to people fishing recreationally (although there may be an impact on the amount of fishing some people may do).

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that meet the required criteria (i.e., discretionary programs to support and enhance recreational fishing).

Over the next ten years (the life of the proposed Regulations), the amounts allocated to enforcement, administration and commissions are assumed to not materially change (other than in line with inflation).

The department is satisfied that the expenditure of the Trust Account is efficient. Discretionary spending on grants and other projects is subject to a rigorous competitive assessment process overseen by the Recreational Fishing Grants Working Group, and there are detailed criteria that spending must meet. This ensures that expenditure occurs where there is greatest need and benefit. In terms of scrutiny of the Trust Account's expenditure, including contribution to government costs, annual reports of the Trust Account's revenue and expenditure is required to be tabled in parliament, making all expenditure transparent. The annual budget for fisheries is also routinely scrutinised by the parliamentary Public Accounts and Estimates Committee, and the entire budget has recently been reviewed in detail as part of the establishment of the Victorian Fisheries Authority.

The costs of licence administration (i.e., issuing licences and processing payments) of around \$2.50 per licence is considered efficient, particularly in the context of improvement to the issuing processes that have made it more convenient for fishers to purchase licences online.

The choice of the proposed licence prices is therefore primarily driven by an intention to ensure that funds of around \$7 million to \$7.5 million remain available for projects and activities, while also allowing the Trust Account to make a contribution to government costs attributed to the regulation of recreational fishing, which improve fishing opportunities.

In identifying and analysing options the department has considered whether or not:

- it is appropriate to use Trust Account funds to pay for the full costs of regulating recreational fishing
- prices should be set based on the amount of fishing undertaken by each licence holder
- prices can reflect the activities involved in regulating different licence categories
- different licence categories incur different administrative costs
- different price settings could have negative effects on administrative costs and the sustainability of the RFL Trust Account.

The options considered were:

- Option 1: to increase RFL prices to allow the RFL Trust Account to pay for the full cost of RFL administration and enforcement activities, without reducing the \$7 to \$7.5 million available for projects and programs, and changing the pricing structure so that prices are in proportion to licence duration (i.e., the number of days allowed to fish under each licence type)
- Option 2: retain the current overall revenue to the RFL Trust Account (i.e., allow the Trust Account to continue to pay around 30 per cent of enforcement costs and 100 per cent of all other costs of regulating recreational fishing), with prices changed to be in proportion to licence duration
- Option 3: retain the current prices, which recover 30 per cent of enforcement costs and 100 per cent of all other costs of regulating recreational fishing, and ensure sufficient funds are available for projects and activities. Under this option, prices of different licence types would not change to be in direct proportion to licence duration.

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The different RFL prices (in 2016-17) under each of these options are set out below:

Licence type	Option 1	Option 2	Option 3 (current prices)
3-day	\$3.14	\$2.97	\$10.00
28-day	\$7.21	\$5.61	\$20.30
1-year	\$62.13	\$41.22	\$35.70
3-year	\$172.18	\$112.58	\$96.70

The basis for determining these fees is included in Attachment 3.

The department identified Option 3 as its preferred option on the basis of the following analysis.

Licence duration and RFL prices

Ideally, the revenue should mostly be raised in proportion to the amount of fishing undertaken by each licence holder. The amount of time fishing will be broadly proportional to the amount that individual fishers enjoy the benefits of projects funded via the RFL Trust Account. In Options 1 and 2, prices are set in proportion to the duration of the licence (i.e., the number of days that a person could fish under each licence) and use this as a proxy for the amount of fishing actually done. Duration is used as a proxy because it would be administratively difficult to licence recreational fishing based on the actual number of days spent fishing. While it is possible that someone with a shorter duration licence could fish on more days over the year than someone with a 1-year licence, on average, the duration of the licence should generally align with how much an individual fishes, and therefore their share of enjoyment of the benefits of the Trust Account discretionary projects spending.¹⁵

Enforcement activity and licence categories

Enforcement costs are also not likely to be strictly uniformly distributed for all fishers. There are likely to be some types of fishers that contribute more than others to government costs of compliance and enforcement. This could relate, for example, to their inexperience in fishing causing more, or more severe, breaches of regulatory requirements. The survey of recreational fishers suggested that around 20 per cent of 3-day licences were purchased by people who have been fishing less than a year, compared to only 10 per cent of 1-year licences. However, among the group of these “new” fishers, only 22 per cent bought a 3-day licence, with the majority (65 per cent) buying a 1-year licence. Overall, there is no evidence available to make a direct link between licence type and enforcement effort. As above, enforcement costs should be in proportion to the amount of fishing done, for which licence duration is the best approximation.

Administrative costs and licence categories

Licence administration does not vary with amount of fishing, but instead is relatively the same for all licence types. This is about \$2.50 per licence.

Appropriate Trust Account contribution to government costs

The purpose of the Trust Account is not primarily about recovery of government costs. At the time of the most recent price changes (2016), prices were increased on the understanding that all the additional revenue generated by the increased prices would be spent on boosting recreational fishing through a range of initiatives and programs. In order to make a larger contribution to government enforcement costs without reducing the amount available to

¹⁵ This will not always be the case, even between two people who fish the same number of days over a year. Expenditure from the Trust Account will tend to vary year to year across different geographic areas, or in relation to different types of fish or types of fishing. The time of the year a person decides to fish may also affect how much they benefit from Trust Account projects (e.g., they would enjoy fewer benefits at busy times of year, or if they fish just before or just after fish stocking has occurred). Nevertheless, there is no practical way to better match licence prices to these kinds of differences, as licences apply equally over all areas and times.

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projects, Option 1 would require increasing RFL prices to generate greater revenue (an additional \$5 million per year in total). There is a question about the practicality of doing this (see below); however even if possible this would result in prices above the estimated willingness to pay of a large number of recreational fishers, which would undermine the purpose of the Trust Account and reduce the benefits of other Trust Account expenditure. The department considers that this option would be likely to reduce the number of people that fish, and/or reduce the amount of fishing a person may do, and/or increase the risk of people fishing without buying a licence - see Attachment 3 for further discussion about optimal pricing. For these reasons, Options 2 and 3 are strongly preferred to Option 1, and Option 1 was discarded and only Options 2 and 3 remain for consideration.

Effect of RFL prices on administrative costs and RFL Trust Account sustainability

In general, the regulation of recreational fishing can operate more efficiently and RFL Trust Account funding for projects and initiatives can be projected and planned with more confidence when fee revenue is based on longer-term licences rather than shorter-term licences. This is because:

- it costs more to process multiple short-term licence applications than to process a smaller number of longer term licence applications
- having more long-term licence holders provides greater certainty about expected fee revenue being raised for the RFL Trust Account.

Fee structures that makes shorter-term licences substantially cheaper than longer-term licences might encourage those who would otherwise purchase longer-term licences to instead purchase shorter-term licences. If this effect is strong enough, it can have the perverse outcome increasing the costs of administering *all* licences, and can reduce the sustainability of the Trust Account.

On the other hand, any attempt to raise more funds from longer-term licences to support the sustainability of the Trust Account might increase the RFL price beyond the willingness to pay of those who currently purchase longer-term licences and result in a material decrease in the number of people fishing (or if they switch to shorter-term licences, a decrease in the total revenue available). For more detail on the relationship between RFL prices and the willingness to pay of recreational fishers, see Attachment 3.

The department's view is that Option 2 results in very low prices of 3-day and 28-day licences and higher prices of 1-year and 3-year licences. As it is unlikely that people would fish for all the days available under a longer-term licence, the price differences would risk driving people away from purchasing longer-term licences, increasing administrative costs and reducing the sustainability of the Trust Account. On this basis, the department's preference is to instead set RFL Prices so that longer-term licences still cost more than shorter-term licences, but not in exact proportion to the duration of the licence. The department's view is that this is also reasonable given that, as discussed above, licence duration is not going to be a perfect proxy for the benefits enjoyed by any individual licence holder.

It is difficult to know with certainty what specific RFL prices might result in the best possible outcomes in terms of administrative costs and the sustainability of the fund, because it is difficult to predict precisely how changes in RFL prices might change the types of licences purchased by fishers. The department therefore proposes to retain the current prices, having concluded based on its survey of recreational fishers that the current RFL prices are not greater than the willingness to pay of most fishers, and are unlikely to result in above adverse consequences. These prices were also generally supported when set recently in 2016 following a significant review and consultation.

On this basis, Option 3 (retaining the current prices) is preferred to Option 2 (changing the fees to be in direct proportion to licence duration), and the department proposes to retain the current RFL prices.

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Impact of retaining current prices

Continuing the prices at their current rates would generate around \$10.4 million in revenue in 2018-19. This is on the basis that continuing the existing price structure would be unlikely to lead to a material change in the number of licences purchased (i.e., around 300,000 licences).

The department believes that this level of revenue is consistent with funding programs of overall net benefit to the sector—i.e., there is an adequate pipeline of projects (that would yield a positive net benefit) to be funded from the Trust Account at this level of licence fees, which fall within the willingness to pay of most recreational fishers. Over the long term, these funding arrangements are expected to support recreational fishing by more people than under the base case.

In terms of the licence types, the projected sales and revenues in 2018-19 would be as follows:

Licence duration	Number sold	Revenue
3-day licence	102,610	\$1,026,102
28-day licence	15,691	\$327,302
1-year licence	143,476	\$5,056,116
3-year licence	41,960	\$3,990,452
TOTAL	303,737	\$10,399,972

The prices under this and other options retain the existing licence types, which vary only by duration. These licence types are created under different Regulations and are outside of the scope of this RIS to vary.

The proposed Regulations will also continue to set the price of the group recreational fishery licence at the same price as the 1-year licence (2.51 fee units). Group licences are issued very infrequently, and there is the ability for the Minister to waive the fee if the Minister is satisfied that special circumstances apply. As such, revenue from group licences has not been separately forecast.

3.4 Possible variations to the current price structure

The following variations were also considered by the department, and have been discussed with members of the Statewide Recreational Fishing Roundtable. With the exception of the discount for online purchases (which is proposed to continue), these variations are considered not practical at this time. No major or relevant issues were raised by stakeholders beyond those discussed in this RIS.

Discount for online licence purchases

The current price structure includes a discount for 1- and 3-year licences purchased online. While there is an administrative saving of around 3-4 per cent associated with online sales (the avoidance of needing to pay commission to retail agents, partially offset by the cost of providing a plastic licence card), the rationale for the discount was to encourage more people to buy licences online. The review of the current Regulations found that there had been a strong shift towards online purchases, however, the lower price was found not to be a primary reason for the shift (only around 5 per cent of those moving to online purchases stated that the lower price was a factor in their change). While much of the shift to online purchases may have been driven mostly by other factors to date, the department believes that encouraging remaining recreational fishers to consider purchasing their licence online has merit in terms of improving administrative efficiency. Online purchases also tend to achieve better compliance behaviour and improves the integrity of the system.

Alternative options to the current price structure would be to extend the discount across all licence types, or to remove the discount altogether. Due to their lower price, a discount to shorter-duration licences would be very small, and unlikely to be any real incentive. Removal of the discount would simplify the range of prices of RFL, but would result in fishers that had already moved to online purchases paying more in the future.

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The department welcomes stakeholder views on whether the discounts for online licences should continue.

Removal of 28-day licence

Based on the identified decline in 28-day licence sales, an option to remove that recreational licence type was considered. Under this option, existing licence holders would have to choose another licence type instead (3-day or 1-year).

As these licence holders would be more likely to move to a 1-year licence if they wished to maintain the same level of fishing activity, such a shift may allow a (very small) decrease in the prices of other licence types (around 2 per cent on average). However, this would be at the expense of current 28-day licence holders, who would need to buy a licence that no longer matched their desired fishing activities (i.e. they would pay more than they needed in order for others to pay less). Alternatively, this group would reduce the amount of fishing they undertook, which would be inconsistent with the government's policy objective to encourage recreational fishing. The department believes that, while 28-day licence purchasers are a small and decreasing group, there is still a need to provide a that type of licence (for example, for families that fish once a year during school holidays).

'New fisher' licence

Based on stakeholder feedback, an option was identified to introduce a special lower price for first-time recreational fishers, as a way to encourage more people to try the activity. The department believes that, while there is merit in this concept in principle, it would be difficult or overly burdensome to properly administer such a special arrangement to avoid improper use. In addition, changes to other regulations would be necessary to give effect to this option, which is outside the scope of the current RIS. The regulations that establish the different classes of licences are scheduled to sunset in 2019 and will be reviewed ahead of that time. Lastly, the department considers that the price of a 3-day licence (proposed to remain at \$10) is unlikely to be sufficiently high that price alone would deter a potential first time recreational fisher from participating.

Other variations

Stakeholders raised a number of options related to the types of RFL categories, in particular, requiring groups currently exempt from purchasing a licence to make a contribution (potentially at a concessional rate), thereby reducing the amount of revenue needed to be collected from current licence holders. This is outside the scope of this RIS (which deals with the remaking of the 2008 Regulations), as the exemptions are included in the Act and in the 2009 Regulations. The 2009 Regulations are scheduled to sunset in 2019 and will be subject to a separate regulatory impact statement, at which point the basis for those exemptions can be revisited.

4. COMMERCIAL FISHERIES LEVIES AND TRANSACTION FEES – OPTIONS ASSESSMENT

4.1 Introduction

A number of alternative options for commercial fisheries levies and transaction fees were considered in the course of the RIS process.

As noted in section 1, the government incurs total costs of around \$22 million per annum in managing the fisheries for which commercial licences are granted (wild-catch and aquaculture). In addition, costs of around \$110,000 are incurred in processing the various transactions related to commercial fishing.

It is Victorian Government policy that costs are recovered from those who benefit from the service, or give rise to the need for it, and that recovery should be on a full cost basis, rather than having the services funded from general taxation revenues.

The following table sets out some preliminary considerations in setting fees and levies that seek to recover government costs, as required by the government's cost recovery guidelines.

Issues to address when considering cost recovery arrangements

Issues to be addressed	Comment
Is provision of the output or level of regulation appropriate?	Fisheries management is embedded in the Act and the 2009 Regulations. This creates necessary activities for the Victorian Fisheries Authority in the administering the regulations and managing fisheries services. In most cases, the output and level of regulation is a direct consequence of the legislative framework. There are some areas where the level of activity is scalable/discretionary.
What is the nature of the output or regulation?	Administration, enforcement Fisheries services (e.g., research, monitoring, management, education) Other programs/initiatives undertaken on behalf of the sector
Who could be charged?	The Act only allows fees/levies to be charged to licence/quota/permit holders. If fees are not recovered from licence holders, all costs must be met from the state budget.
Is charging feasible, practical and legal?	Setting of fees and levies is authorised under the Act, and is practical as the charges are directly linked to the licensing activities.
Is full recovery of costs from those able to be charged appropriate?	No. Some activities are more appropriately described as benefitting the community as a whole or would still be undertaken if there were no commercial fishing (e.g., policy and some research, surveillance).

4.2 Fisheries services levies

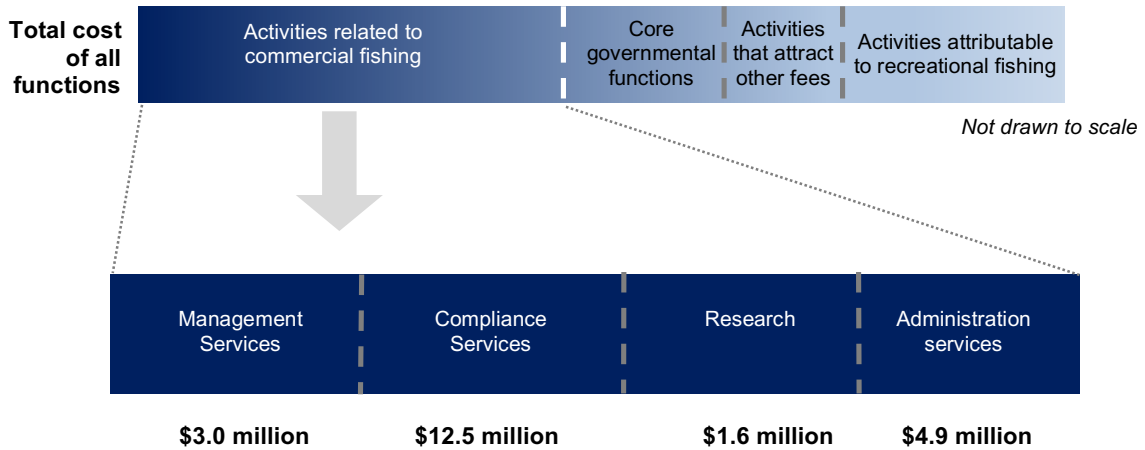
Base case: zero cost recovery

In the absence of any Regulations setting charges, the entire cost of providing fisheries services would need to be met from general taxation through the state budget. Most of the activities would still need to be undertaken to allow the government to effectively manage the fisheries resources.

Options for cost recovery: what amount should be recovered from licence holders?

The Victorian Fisheries Authority and the department have estimated the cost of managing the state’s fisheries. All the activities undertaken by government that relate to, or can be apportioned to the recreational fishing sector, are excluded. Activities for which other fees are charged (e.g., issuing of licences, quota transfers) are also excluded from this estimate. Further, activities that relate to core governmental functions (such as policy formulation and support to the Minister) are excluded. This leaves the following costs of fisheries services (in 2016-17 terms) to be considered for cost recovery.

Figure 4: Costs of managing the state’s fish resources



The first option to be considered is that this full cost be fully recovered through the fisheries services levies. This would generate revenue of around \$22 million in 2018-19, and represent an average increase in levies of over 800 per cent.

The second option would continue the current arrangements of recovering only part of these costs. The second option would seek to recover around \$2.5 million per annum in costs (around 11 per cent of the total costs of managing the fisheries) as follows:

Service category	Cost to be recovered through levies
Research	\$1.1 million
Management	\$0.5 million
Compliance	\$0.4 million
Administration	\$0.5 million
TOTAL RECOVERED	\$2.5 million

A more detailed list of the activities for which costs are included in this total, and discussion of the reasons for these, is provided at Attachment 4. The department considers this allocation is still appropriate for the purposes of setting levies. The department has consulted with the Fisheries Cost Recovery Standing Committee, which indicated general support for continuing the current approach as an appropriate recovery of costs from the industry.

The cost of each of these service categories¹⁶ has been estimated using a fully distributed cost method, whereby the total cost of the government’s fisheries staff and resources is allocated across each activity. This includes direct staff costs as well as other costs such as overheads, an allocation for use of capital and equipment, accommodation and transport.

The department is confident that the costs included in these amounts are efficient. The budget for managing fisheries has recently been reviewed as part of the establishment of the Victorian Fisheries Authority, and the portfolio output budgets are routinely scrutinised by the

¹⁶ The Act requires levies to be set according to each of these categories.

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parliamentary Public Accounts and Estimates Committee. In relation to the costs included in the second option, the Fisheries Cost Recovery Standing Committee meets quarterly and provides input into ongoing review of the need and cost of individual fisheries services. The department notes that through annual reviews over the past three years, costs covered by the current levies have fallen by around 12 per cent, allowing levies to be reduced by this amount (on average). Recent changes indicate improved efficiency, including revising the percentage of preparation and travel time allocated to commercial fishers for inspections (reduced from about 30 per cent to 5 per cent in some cases), and revising the process for undertaking stock assessment in finfish fisheries such that an assessment is now done annually instead of every 4 years but at the same cost and also now includes independent expert reference group. The review of the current Regulations compared the current levies to those charged in South Australia and found Victoria's to be lower in terms of proportion of GVP.

To determine individual levies, these costs are then allocated across all commercial fisheries/licence classes. This allocation is based on an informed analysis by fisheries officers of the amount of time and effort that can be attributed to each fishery. Within each fishery, the allocated cost is divided equally among licence holders, as the only feasible means of allocation. For fisheries that have quota units, some of the cost is allocated on a per licence basis, with the majority allocated according to the number of quota units to better match the cost of services to the individual licence holder.

The current levies align with recovering \$2.5 million per annum. The second option therefore amounts to continuing the current levies (in terms of fee units).

The department believes the second option is the more appropriate as, while some of the costs are attributable to commercial fisheries, the services also provide a more general benefit to the community, or include activities that may need to be undertaken to some extent even if there were no commercial fishing (e.g., enforcement). The second option therefore reflects an appropriate sharing of these costs between commercial fishers and the community.

There are other options available for allocating the total costs among fisheries. For example, levies could be set to be in proportion to the total value of catch for each fishery, or could be set to be the same for all licence holders regardless of fishery. While both of these approaches are feasible, the department considers they are clearly inferior, as the levies would no longer align to the share of costs that can be attributed to each fishery, and would result in cross-subsidisation between fisheries. While cross-subsidisation can sometimes be justified (and is likely to occur to some extent within a fishery), the department does not consider there is a strong policy reason for creating cross-subsidisation between fisheries.

Small operators

Even under the second option, there are some levies that would represent very significant costs for some licence holders. Under the second option, total fisheries services levies for an individual licence holder vary from \$320 to over \$5,000. This may be unaffordable for some smaller operators.

Currently, this problem has been addressed by setting a levy cap of 38.9 fee units (currently around \$500) for fisheries where the averaged annual catch over the 3 financial years preceding the licensing year of any class of access licence is less than 500 kilograms per licence. The department believes that retaining the concession is warranted to assist operators to remain in the fishery as profitable, employing businesses. In the absence of the concession, there may be underutilised fish resources in some areas that have little alternative value.

Currently, the concession is provided on 25 licences, and the forgone revenue is around \$22,000. This means that the government pays for this amount of fisheries services directly from the state budget, rather than from levies.

This current concession is applied on a per fishery basis. The review of the current Regulations identified that this may not be the best targeted approach, as there may be some larger operators that receive the concession (by virtue of being in a fishery that is mostly small operators), while other genuinely small operators miss out on the concession (for example, where they are in a fishery with mostly larger operators). The department believes this latter problem is more prevalent and of concern to the sector.

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The options to apply the small operator concession in the future are:

- To continue the current arrangements (apply the concession to an entire fishery where the average catch is less than 500kg per licence)
- To apply the concession on an individual licence basis
- To not provide for any concession in the Regulations, but provide the equivalent value (\$22,000) to the industry body to use to assist small operators.

The current approach is the simplest and most efficient. While the other two options may mean that the concession is better targeted to genuine small operators, those options would require additional resources to implement, and those resources would likely be far in excess of the value of the concession. The additional administration costs would need to be recovered from the sector.

Applying concessions on an individual licence basis would be more resource intensive to determine eligibility each year, requiring additional analysis of catch data. There would also be other costs associated with changes to the Victorian Fisheries Authority's licensing IT systems to accommodate levies for individual licence holders, rather than on a per fishery basis.

Providing the assistance as a more explicit grant to be administered by an industry body would also require additional resources (staff time) to determine an appropriate allocation, acquit payments, and report back to government on the use of funds.

In both cases, the additional resources required would be likely to approach or exceed the current total value of the concession. Given the total value is relatively small, and the number of licences to which it applies is also small, the department believes that the current approach is superior as it is simple and efficient, and the extent to which the concession does not perfectly target small operators is likely to be very minor.

A final consideration of the small operator concession is whether the cap should be a fixed cap for all fisheries (the current approach) or be scaled in proportion to the costs of services enjoyed by each fishery. For example, the concession could be that small operators would pay 50 per cent of the levies that would otherwise apply to that fishery. The cap could also be applied as a percentage of GVP, to reflect that some fisheries involve low weight but high value fish.

The intent of the concession is to assist those with limited capacity to pay, which is likely to be more related to the volume/value of catch and less related to the cost of fisheries services allocated to the fishery. Therefore, the department believes that the concession in the form of a fixed cap for all small operators is the most effective way to achieve the objective.

4.3 Transaction fees

Overview

It is proposed to align transaction fees to the estimated cost of each transaction category. This will involve a reduction in all transaction fees, except for commercial fishery application fees (other than aquaculture, abalone access and fish receivers (abalone)), where costs were estimated slightly above the current fee.

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The various fees would be set as follows¹⁷:

Fee	Current Fee (fee units)	Fee amount from 1 July 2017	Proposed (fee units)	Fee amount from 29 January 2018	% change
General permit	10.5	\$149.30	10.2	\$145.00	-3%
General permit (developing fishery)	27.8	\$395.30	15.3	\$217.60	-45%
Variation of general permit	10.5	\$149.30	10.2	\$145.00	-3%
Protected aquatic biota permit	10.5	\$149.30	10.2	\$145.00	-3%
Variation to protected aquatic biota permit	10.5	\$149.30	10.2	\$145.00	-3%
Fishing boat registration	3.6	\$51.20	2.6	\$37.00	-28%
Fishing boat registration renewal	3.6	\$51.20	2.6	\$37.00	-28%
Fishing boat registration transfer	3.6	\$51.20	2.6	\$37.00	-28%
Commercial fishery application fee (aquaculture – Crown land and on-shore)	120.6	\$1,714.90	20.4	\$290.10	-83%
Commercial fishery application fee (abalone access licence, fish receivers' (abalone), aquaculture private land)	27.8	\$395.30	20.4	\$290.10	-27%
Commercial fishery application - Fish Receivers' (Scallop) Licence	18.9	\$268.80	20.4	\$290.10	8%
Commercial fishery application fee (all others)	18.5	\$263.10	20.4	\$290.10	10%
Licence fee for issue or renewal of commercial fishery licences	3.6	\$51.20	2.6	\$37.00	-28%
Transfer of commercial fishery licence (aquaculture)	18.9	\$268.80	15.3	\$217.60	-19%
Transfer of commercial fishery licence (abalone access)	27.8	\$395.30	15.3	\$217.60	-45%
Transfer of commercial fishery licence (other)	18.5	\$263.10	15.3	\$217.60	-17%
Transfer of individual quota units (abalone)	27.8	\$395.30	15.3	\$217.60	-45%
Transfer of individual quota units (other)	3.6	\$51.20	2.6	\$37.00	-28%
Variation of commercial fishery licence	3.6	\$51.20	2.6	\$37.00	-28%
Abalone quota unit holding statement	3.6	\$51.20	2.6	\$37.00	-28%
Notification by holder of abalone fishery access licence	3.6	\$51.20	2.6	\$37.00	-28%

In total, the proposed fees are estimated to raise \$120,000 per annum in 2018-19, slightly less than the current fees would have raised in that year. While the fee for licence applications for non-abalone access licences will increase slightly, the department notes that no such applications were made in 2016-17 and the impact on revenue will be immaterial; however, the proposed changes now align the application fee across all fisheries.

¹⁷ Note that the costs presented in section 1.5 of this RIS relate to costs in 2016-17. The table of fees in this section incorporates the increase in the value of fee units from 1 July 2017 of 2 per cent. Hence, a cost of transaction of \$213 in 2016-17 will correspond to a cost of \$217.60 in 2017-18.

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The department is satisfied the underlying costs for these transaction fees are efficient. In the review of the current fees, the department compared the fees in Victoria to similar fees in other states (where available) – see the report of the review available with this RIS.

Alternative option for transaction fees

The current fees bundle many fisheries into a single fee. For example, all fisheries other than aquaculture and abalone currently pay the same fee for a transfer of licence. A potential option is to differentiate fees for licence applications, transfers and variations, such that individual fisheries would face a unique fee. However, the department considers the determination of such fees under this option not to be feasible at this time, as there are too few transactions in each fishery to estimate a per fishery cost. All licences are processed for renewal each year, however, the activities involved in renewal are effectively similar for all licences and would not result in a different fee.

On the other hand, the number of separate fee categories could be reduced – for example a single fee of around \$60 for any transaction; essentially, all licence holders would pay slightly more for their annual renewal and then pay less for most other transactions. This ‘flat fee’ approach would increase the extent of cross-subsidisation between fisheries and between different types of transactions being sought. While cross-subsidisation is generally undesirable, some cross-subsidisation is inherent in any fee structure in order to make it practical, and an increase in cross-subsidisation may be justified if there are efficiencies to be gained by having a simpler fee structure.

The department understands that there are different tasks involved, resulting in different costs, and therefore a ‘flat fee’ approach would lead to greater cross-subsidisation between fisheries and between types of transactions being sought, with little offsetting benefit in terms of efficiency gains that could be achieved from such an option. On that basis, such an alternative is not proposed.

5. ABALONE ROYALTY – OPTIONS ANALYSIS

5.1 Introduction

A number of alternative options for the state's abalone royalty were considered in the course of the RIS process.

5.2 Base case

In the absence of the proposed Regulations, there would be no royalty collected from abalone fisheries. There would be no other real impact on the fisheries or on government aside from the inability to recover a value from the resource on behalf of the community. There would be no change in the level of abalone fishing in the absence of a royalty, as the level of fishing is regulated by other means.

5.3 Royalty options

Several key considerations guided the development of royalty options:

- The government's Cost Recovery Guidelines that apply to setting fees across government agencies do not apply to the setting of royalties.¹⁸
- As discussed above, royalties have only been charged in relation to abalone fisheries. The department does not consider that it is appropriate to extend royalties to other fisheries.¹⁹ The options to be considered are therefore limited to identifying the appropriate amount of royalty to be charged, and how the royalty amount is calculated.

5.4 Optimal royalty amount

While it is clear that a royalty is justified on policy grounds to be paid by abalone quota holders as a means of recovering a return on behalf of the community for the value of fish resources taken (see Chapter 1), there is limited objective evidence on the optimal amount of the royalty that should be paid. Ultimately, judgment is required to determine what is a fair and reasonable royalty.

In 2015-16²⁰ the abalone royalty generated revenue of \$459,030 (being the application of the royalty rate less the amount paid in fisheries services and FRDC levies). Since the current Regulations commenced, the royalty has averaged \$383,897 per year, or around 1.7 per cent of GVP. It is difficult to determine if this is an 'optimal' amount, as the department has very limited information about other costs incurred by operators and to what extent profits are above a normal level. Use of GVP also makes the calculated amount very volatile on a year to year basis.

The total royalty paid in 2015-16 (for the 2016-17 licensing year) reflected royalties paid by the Central and Eastern zones of \$532,174, partially offset by a negative royalty incurred by the Western zone (\$73,144).²¹ The negative royalty was due to a rapid decline in greenlip abalone as a result of diseased stock.

¹⁸ As discussed in the Fisheries Review report, cost recovery and resource rents are different concepts. The Cost Recovery Guidelines specifically exclude application to rents charged for access to Crown-owned resources and the setting of taxes, fines or other penalties to limit negative externalities associated with a particular activity.

¹⁹ The department does not consider other fisheries display profitability above a normal economic return that would therefore justify a royalty. Prices have recently risen for Rock Lobster, which has increased the level of profitability in that fishery. However, it is too soon to know if this profitability will be sustained in the longer term. The department will monitor how the fishery performs over the next few years and revisit the question of a royalty at a late time.

²⁰ Royalties paid in a financial year relate to the licensing period of the following financial year.

²¹ The current formula used to calculate the royalty payment may result in a "negative royalty". That is, where the combined amount of the fisheries services levies and the FRDC levy is more than 7.2 per cent of GVP (for the individual abalone fishery), there is no additional royalty payable and the amount to be paid for the levies is reduced such that only 7.2 per cent of GVP is paid in total.

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The amount of the royalty does not appear to be large relative to the market value of the abalone harvested.

The abalone sector has expressed a desire to reduce the overall amount of the royalty paid, but has not provided sufficient evidence to demonstrate why a lower royalty amount is appropriate. The department believes the current amount of the royalty is broadly appropriate, reflecting the outcome of past agreement with the sector, the government's expectations of a return to the community, and the current ability of the sector to pay the required royalties without adversely affecting the ongoing viability of the abalone industry. On this basis, the department believes future royalty arrangements should continue to recover a similar amount of revenue.

The department encourages other stakeholders and members of the community to comment on whether the overall amount of the royalty is appropriate.

5.5 Options for royalty calculation

The current formula for calculating royalties (7.2 per cent of GVP less the amount of fisheries services and FRDC levies) is well established and understood by abalone quota holders. The formula means that the amount of the royalty paid is responsive to both changes in the value of catch each year and the amounts needed to be paid by the sector for fisheries services it receives. In years where catch values fall but the level of fisheries services remains the same (or increases), there is less surplus value available to capture as a royalty.

However, the current approach to calculating the royalty amount is inconsistent with the principles of cost recovery and resource rents. Ideally, fisheries services levies should recover an appropriate share of the actual cost of providing those services, regardless of volatility in GVP. A royalty should capture a share of the value of the resource on behalf of the community and not be diminished by other levies.

The review of the current Regulations found that:

- where the royalty rate is higher than the total fisheries services and FRDC levies, there is an incentive for industry to encourage government to increase the amount of fisheries services provided to the fishery. If they are required to pay a total of 7.2 per cent of GVP, they would prefer to receive services in exchange for as much of this amount as possible. This risks reduced scrutiny about the level and efficiency of services provided to these fisheries, and would tend towards the fishery being provided services at the cost of the community missing out on a fair share of the value of the resource rent through the royalty.
- where the royalty rate is below the total of the other levies, the fishery is effectively receiving a concession from taxpayers, by paying less than the appropriate share of the cost of the services which are provided to it. The royalty formula acts as a ceiling on the total amount to be paid, regardless of the services that may need to be provided.

An option to address these problems is to separate the royalty calculation from the value of other levies. The royalty would be calculated with reference to GVP but not be reduced by other levies. This would involve the royalty rate being reduced to capture the same intended revenue.

Current formula	Alternative option formula
7.2% of GVP in the preceding year, minus fisheries services and FRDC levies	3% of GVP in the preceding year

The 3 per cent noted above is based on the revenue that would have been collected if the royalties were not reduced by the other levies, averaged across all zones over the past five years. This would restore the intent of the royalty. It would generate revenue of around \$590,000 per annum on average over the medium term, around \$130,000 higher than current amounts. The revenue increase reflects the expected change from the current negative royalty for the Western zone into a positive royalty amount.

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This change would involve the Western zone and Central zone paying more in total each year (around \$130,000 and \$70,000 on average, respectively), with the Eastern zone paying less (around \$70,000 on average).

A variation to this option would be to set the royalty rate only to preserve the current level of revenue (i.e., taking account of the revenue lost through the negative royalty). This would involve a royalty rate of 2.3 per cent of GVP. While there would be no change in total royalty revenue compared to the current formula, the Western zone would pay an additional \$120,000 in total each year while the Eastern zone would pay around \$120,000 in total less. (The Central zone would continue to pay about the same amount).

The department considers this is a theoretically superior approach because it would:

- align the calculation of the royalty with the objectives of requiring a royalty, and
- avoid undesired interactions with the payment of fisheries services levies.

This change would also encourage the industry to be more vigilant in scrutinising the level and efficiency of fisheries services provided by government, as the industry would directly benefit from cost reductions to these services.

However, compared to the status quo, such a change would increase the amount of royalty to be paid by the zone that currently has the least capacity to pay a royalty (based on expected profitability in the short term), while at the same time delivering a reduction in the royalty to be paid by the zone that currently has the highest capacity to pay. In other words, there would be distributional impacts associated with any change in the formula (i.e., 'winners' and 'losers'), with the negative impacts falling on those already with the least ability to pay any additional amount. This is an inequitable outcome.

The department considers that these distributive impacts are of more concern than a better theoretical alignment of the royalty, and therefore, in the absence of any advocacy from quota holders to change the formula in this way, proposes to retain the current royalty formula in the new Regulations. The department also notes that the current formula was aimed at allowing the amount of the royalty to take account of other contributions being made by those fisheries through the other levies.

Affected stakeholders may wish to provide comment on the merits of these alternative options.

Other approaches

A variation to the GVP formula would involve basing the royalty on GVP averaged over the previous three years rather than just the preceding year. This would reduce some of the volatility in the royalty amount from year to year, and would allow fishers to better predict the royalty amount in advance. However, this would also mean the royalty amount does not fall as much in years following a fall in GVP, creating a potential mismatch between the royalty amount and the capacity to pay at the point in time at which the royalty is determined. The department welcomes views from industry on this option.

A further option was identified that involved setting the royalty amount as a percentage based on the price at which abalone quota units were transferred. This would provide a means by which the royalty would reflect the market's value of the quota units. However, transfers are quite rare—only eight quota units were transferred in 2015-16 (out of a total 1468 quota units)—making this approach highly susceptible to one-off outliers. Further, there may be incentives to manipulate the reporting of transfer prices, of which the government has limited visibility.

All above options have assumed that the same royalty formula and rate should apply equally to both greenlip and blacklip abalone. The department believes that while the different types of abalone may experience different levels of profitability from time to time due to market volatility, there is no inherent reason why the abalone types should be treated differently for royalty purposes. The department welcomes views from stakeholders on this conclusion.

6. WHAT IS THE PREFERRED OPTION?

The preferred option is to remake the current levies and royalties without significant change, and amend the fees for transactions (predominantly by reducing them) to align with the estimated cost of each transaction.

The current arrangements for calculating the abalone royalty set the royalty at 7.2 per cent but allow other levies to be deducted from this amount. Those arrangements create some adverse incentives, and can result in a negative royalty, which distorts the separate objectives of:

- cost recovery for services provided to the fisheries, and
- ensuring the community is paid some of the value of the resource being taken.

The Victorian Fisheries Authority will work with the sector to continually review the fisheries services provided to the sector to ensure the services are provided at an appropriate level and as efficiently as possible.

A complete list of the proposed charges is set out at Attachment A.

6.1 Revenue implications

Charge type	Expected revenue (2018-19)
Prices for recreational fishing licences	\$10.4 million
Cost recovery levies for fisheries services (commercial fisheries)	\$2.5 million
Other levies collected from commercial fisheries (grants levy and FRDC levy)	\$0.9 million
Royalties (abalone fisheries licences)	\$0.5 million
Transaction fees	\$0.1 million
TOTAL REVENUE	\$14.4 million

As with the current Regulations, the charges are mostly expressed in fee units²², the value of which is determined each year by the Treasurer under the *Monetary Units Act 2004*. The value of the proposed charges is expected to increase each year in line with the Treasurer's determinations.

6.2 Groups affected

The groups affected by the proposed Regulations are all commercial and recreational fishers. There are 630 commercial fishing licensees, most of whom are small businesses that employ a number of people. By comparison, there are around 300,000 RFLs purchased each year.

Additionally, there is a wider group of recreational fishers who do not pay the RFL charges, as they are exempt from requiring a licence. All of these recreational fishers still enjoy the benefits of money spent from the RFL Trust Account.

Small businesses that hold a commercial fishing licence will be affected by the commercial levies. Any levy is inherently more burdensome on businesses with less capacity to absorb the costs. This is why the department has proposed to continue the use of the small operator concession, which provides a cap on the levies payable by small businesses.

²² With the exception of the 3-day recreational fishing licence, which is fixed at \$10 because it is below the value of 1 fee unit. Some charges (e.g., FRDC levy and abalone royalty) are calculated as a percentage with reference to GVP.

6.3 Economic, social and environmental impacts

Overall, the proposed Regulations are expected to have a positive economic impact as:

- recreational fishing makes a positive contribution to the economy and well-being of Victorians. RFL fees fund initiatives and programs to improve recreational fishing experiences in Victoria
- appropriate cost recovery for the management of fisheries improves the allocation of economic resources and supports the most productive use of fish stocks among competing uses. Aligning levies to recover an appropriate amount of the costs improves allocative efficiency across the economy.

The department believes there is likely to be an overall positive impact on environmental and social outcomes in Victoria. Ensuring an appropriate level of funding means the services can be provided that inform decisions about management of the fisheries, including setting catch limits to balance the needs of recreational fishing opportunities, environmental objectives and other non-use benefits. The proposed Regulations take into account the ability of affected parties to pay for each type of charge.

The proposed Regulations do not limit any human rights under the Charter of Human Rights and Responsibilities Act 2006. A draft Human Rights certificate is included at Attachment 5.

6.4 Impact on competition and small business

The department believes the proposed regulations will have no material impact on competition.

RFL fees do not restrict competition as they are not paid by businesses.

Commercial fishery levies and transactional fees increase the costs of carrying on a commercial fishery business, and therefore increase a barrier to entry in the market. However, these impacts are in most cases expected to be small, in relation to other business costs.

The proposed levies may entail a higher burden on smaller commercial licence holders, and on that basis smaller licence holders may face a disproportionately higher burden as a result of paying the proposed levies. This impact has been addressed by the incorporation of small operator concessions that place a cap on the total levies payable by small operators. The department is seeking through this RIS views from stakeholders on how well the concessions are targeting small operators and options for improvement.

7. HOW WILL THE PREFERRED OPTION BE PUT IN PLACE?

No new administrative arrangements are necessary for the proposed fees, levies and royalties, as the Victorian Fisheries Authority already has systems in place to collect these from licence holders. The current amounts are published on the Authority's website.

The Authority and the department will provide relevant information to interested parties ahead of the commencement of the new Regulations through existing channels. This will include:

- a response to all those who provide a submission in response to the RIS
- notices to RFL sales agents
- information on the department's website and the Victorian Fisheries Authority website
- communications with key sector representatives
- printed material regularly provided to the commercial and recreational sectors.

The Fisheries Cost Recovery Standing Committee will also be advised.

No transitional arrangements are necessary and there are no major changes to any fees or levies.

For RFLs, there are monthly reconciliations against authorised agent licence sales. The department does not expect any enforcement issues associated with the collection of RFL revenue.

Collection of commercial levies and royalties is managed through annual invoicing of licence and quota holders. Commercial Fishery Licences expire on 31 March each year, except for Rock Lobster, Giant Crab and Sea Urchins, which expire 30 June. Full payment of fees and levies is required prior to licences or quota being renewed. Operations by commercial fishers cannot continue after the expiry date of their licence if the licence has not been renewed. Similarly, abalone quota units cannot be fished until the payment is made. Part payments of fees, royalties or levies are not accepted.

The Victorian Fisheries Authority will be responsible for monitoring implementation, tracking progress and addressing unforeseen implementation issues as they arise. This will include ongoing stakeholder engagement during implementation to help identify and manage issues.

The commencement of the Victorian Fisheries Authority on 1 July 2017 means certain functions are now divided between the Authority and the department. The department will retain the lead on Cabinet and Parliamentary business, regulatory changes and advice on strategic policy matters. The Authority will manage education, enforcement, science, fisheries management, licensing and operational policy matters, as well as undertaking new financial administration and governance roles.

8. EVALUATING HOW EFFECTIVE THE PREFERRED OPTION IS IN MEETING THE OBJECTIVES

The department and the Victorian Fisheries Authority are accountable to the Minister for Agriculture for the effective administration of the Regulations. This includes revenue collected and the Authority's costs in relation to its regulatory functions under the Act.

The effectiveness of setting charges is determined by:

- the degree to which the fees recover the expected amount of costs
- whether or not any unexpected or adverse outcomes occur caused by the fees (e.g. a rise in non-compliance).

The proposed Regulations will sunset after ten years, providing an appropriate point to undertake a complete evaluation of the effectiveness of the proposed charges. This will be undertaken by the department in collaboration with the Authority.

In the interim, the Authority in tandem with FCRSC will review fee and levy data on an annual basis to assist in determining whether:

- the current arrangements remain relevant given changes in circumstances (such as government policy changes)
- the objectives of cost recovery are still being met and/or there are better ways of achieving the objectives
- cost recovery charges are based on efficient and transparent costs.

Fisheries services levies are reviewed internally each year to determine if individual levies need to be adjusted as a result of changes in the number of licences in a fishery, or where costs are known to have changed.

In terms of revenue generated, the largest component of the proposed Regulations are the prices for RFLs. The proposed prices have been informed by a comprehensive review of the current Regulations. That review included a survey of fishers and a detailed analysis of sales data to better understand sensitivities to price changes. The proposed prices have also been informed by the public responses to the previous Regulatory Impact Statement, which was released in April 2016 and led to RFL prices changing on 1 July 2016. It is proposed that this level of analysis will occur again after five years, to be led by the department.

Ahead of this evaluation, there are a number of areas where the department and the Authority will seek to develop additional data and evidence to better inform future decisions. This will include collecting more detailed data about fishing patterns of recreational fishers holding different licence types (e.g., the total time spent fishing in a year), and distribution of enforcement activities to different groups.

It is also noted that the related Fisheries Regulations 2009 are scheduled to sunset in 2019. Any changes made to those Regulations may have consequences for the fees and levies in the proposed Regulations. As such, some fees and levies may need to be revisited as part of, or following, that process. Any such revisiting will be informed by the principles and analysis in the present RIS.

A key component of the monitoring process will include consultation with stakeholders and affected parties to obtain feedback on cost recovery arrangements. This will be done through existing consultation processes (Fisheries Cost Recovery Standing Committee and the State-wide Recreational Fishing Roundtable).

Attachment 1: Summary of proposed fees and levies

Proposed recreational fishing licences

Licence type	Current Price (fee units)	Current Price (from 1 July 2017)	Proposed price (fee units from 29 January 2018)	% change*
3-day licence	\$10**	\$10	\$10	0%
28-day licence	1.43	\$20.30	1.43	0%
1-year licence (online)	2.36	\$33.60	2.36	0%
1-year licence (agent)	2.51	\$35.70	2.51	0%
3-year licence (online)	6.44	\$91.60	6.44	0%
3-year licence (agent)	6.8	\$96.70	6.8	0%
Group licence	2.51	\$35.70	2.51	0%

* does not include any increase in the value of the fee units to be determined by the Treasurer each year.

** the price for 3-day licence is set in dollar terms as it is below the value of 1 fee unit (currently \$14.22).

Proposed fees for transactions

Fee	Current Fee (fee units)	Fee amount from 1 July 2017	Proposed (fee units)	Fee amount from 29 January 2018	% change
General permit	10.5	\$149.30	10.2	\$145.00	-3%
General permit (developing fishery)	27.8	\$395.30	15.3	\$217.60	-45%
Variation of general permit	10.5	\$149.30	10.2	\$145.00	-3%
Protected aquatic biota permit	10.5	\$149.30	10.2	\$145.00	-3%
Variation to protected aquatic biota permit	10.5	\$149.30	10.2	\$145.00	-3%
Fishing boat registration	3.6	\$51.20	2.6	\$37.00	-28%
Fishing boat registration renewal	3.6	\$51.20	2.6	\$37.00	-28%
Fishing boat registration transfer	3.6	\$51.20	2.6	\$37.00	-28%
Commercial fishery application fee (aquaculture Crown land and on-shore)	120.6	\$1,714.90	20.4	\$290.10	-83%
Commercial fishery application fee (abalone access licence, fish receivers' (abalone), aquaculture private land)	27.8	\$395.30	20.4	\$290.10	-27%
Commercial fishery application fee - Fish Receivers' (Scallop) Licence	18.9	\$268.80	20.4	\$290.10	8%
Commercial fishery application fee (all others)	18.5	\$263.10	20.4	\$290.10	10%
Licence fee for issue or renewal of commercial fishery licences	3.6	\$51.20	2.6	\$37.00	-28%
Transfer of commercial fishery licence (aquaculture)	18.9	\$268.80	15.3	\$217.60	-19%
Transfer of commercial fishery licence (abalone access)	27.8	\$395.30	15.3	\$217.60	-45%
Transfer of commercial fishery licence (other)	18.5	\$263.10	15.3	\$217.60	-17%
Transfer individual quota units (abalone)	27.8	\$395.30	15.3	\$217.60	-45%
Transfer of individual quota units (other)	3.6	\$51.20	2.6	\$37.00	-28%
Variation of commercial fishery licence	3.6	\$51.20	2.6	\$37.00	-28%
Abalone quota unit holding statement	3.6	\$51.20	2.6	\$37.00	-28%
Notification by holder of abalone fishery access licence	3.6	\$51.20	2.6	\$37.00	-28%

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Proposed (commercial) fisheries services levies

Fishery	Management services	Compliance	Research	Admin	Total FS levies	Levy amount in 2017-18	% change
Abalone (Western Zone) Fishery Licence	29.7	0	0	0	29.7	\$422.30	0%
Abalone (Western Zone) Black Lip Quota Unit	8.6	2.2	32.9	6.4	50.1	\$712.40	0%
Abalone (Western Zone) Green Lip Quota Unit	0	0	0	0	0	\$0.00	0%
Abalone (Central Zone) Fishery Licence	13.4	0	0	0	13.4	\$190.50	0%
Abalone (Central Zone) Black Lip Quota Unit	3.5	5.8	21.7	6.8	37.8	\$537.50	0%
Abalone (Central Zone) Green Lip Quota Unit	3.5	5.8	5.8	6.8	21.9	\$311.40	0%
Abalone (Eastern Zone) Fishery Licence	12.8	0	0	0	12.8	\$182.00	0%
Abalone (Eastern Zone) Black Lip Quota Unit	6.1	3.7	32.6	6.7	49.1	\$698.20	0%
Bait (General) Fishery	8.9	25.8	0	25.4	60.1	\$854.60	0%
Corner Inlet Fishery	6.7	73.1	79.2	39.6	198.6	\$2,824.10	0%
Eel Fishery	31.2	53.3	0	52.4	136.9	\$1,946.70	0%
Gippsland Lakes Fishery (Bait)	12.7	35.6	9.2	31.8	89.3	\$1,269.80	0%
Giant Crab Fishery Licence	12.3	23.5	23.4	10.7	69.9	\$994.00	0%
Individual giant crab (western zone)	1.1	2.1	2	1	6.2	\$88.20	0%
Gippsland Lakes Fishery	66.4	51.5	242.8	52.3	413	\$5,872.90	0%
Gippsland Lakes (Mussel Dive) Fishery	53.1	0	0	26.4	79.5	\$1,130.50	0%
Lake Tyers Fishery (Bait)	106.3	0	82.8	22.7	211.8	\$3,011.80	0%
Mallacoota Lower Lake Fishery (Bait)	106.3	19	82.8	24.9	233	\$3,313.30	0%
Snowy River Fishery (Bait)	53.1	9.5	41.4	26.3	130.3	\$1,852.90	0%
Ocean Fishery	1.4	8.7	0	12.4	22.5	\$320.00	0%
Purse Seine (Ocean) Fishery	46.5	0	0	49.3	95.8	\$1,362.30	0%
Scallop (Ocean) Fishery	12.6	1.4	0	12	26	\$369.70	0%
Wrasse (Ocean) Fishery	12	22	3.6	29.9	67.5	\$959.90	0%
Port Phillip Bay (Mussel Bait) Fishery	65.4	19	0	30.9	115.3	\$1,639.60	0%
Purse Seine (Port Phillip Bay) Fishery	2	39.3	24	20.1	85.4	\$1,214.40	0%
Scallop Dive (Port Phillip Fishery)	436.2	365.8	137.9	381.3	1321.2	\$18,787.50	0%
Sea Urchin Fishery	71.2	25.5	0	35.6	132.3	\$1,881.30	0%
Westernport/Port Phillip Bay Fishery	2	39.3	24	20.1	85.4	\$1,214.40	0%
Rock Lobster Fishery Western Zone Licence	17.1	15.3	106.8	29.7	168.9	\$2,401.80	0%
Individual rock lobster Western quota unit	1	1	4.4	1.4	7.8	\$110.90	0%
Rock Lobster Fishery Eastern Zone Licence	25.6	25	74.6	32.5	157.7	\$2,242.50	0%
Individual rock lobster Eastern quota unit	2.7	2.6	7.8	3.4	16.5	\$234.60	0%
Sydenham Inlet Fishery (Bait)	53.1	36.1	41.4	44.7	175.3	\$2,492.80	0%
Trawl (Inshore) Fishery	7.8	6.4	14.8	12.2	41.2	\$585.90	0%
Aquaculture (Private Land- indoor intensive)	31.2	3.3	0	6.8	41.3	\$587.30	0%
Aquaculture (Private Land- tourism)	54.5	6.7	0	8.8	70	\$995.40	0%
Aquaculture (Crown Land - Abalone)	108.2	5.1	0	8.8	122.1	\$1,736.30	0%
Aquaculture (Crown Land - Bivalve Shellfish)	190	36.4	0	10.8	237.2	\$3,373.00	0%
Aquaculture (Crown Land - Eels)	52.9	6.2	0	94.2	153.3	\$2,179.90	0%
Aquaculture (Crown Land - Other)	59.4	12	0	11.4	82.8	\$1,177.40	0%
Aquaculture (Crown Land - Offshore)	78.7	16.7	0	9.3	104.7	\$1,488.80	0%
Aquaculture (On-shore Abalone)	216.3	6.7	0	8.8	231.8	\$3,296.20	0%
Aquaculture (Private Land - Eels)	16.1	0	0	11.4	27.5	\$391.10	0%
Aquaculture (Private Land - Marine)	137.1	5.1	0	16	158.2	\$2,249.60	0%
Aquaculture (Private Land - Warm Water Finfish)	64.1	9.8	0	8.1	82	\$1,166.00	0%
Aquaculture (Private Land - Ornamentals)	7.1	25.2	0	7.7	40	\$568.80	0%
Aquaculture (Private Land - Salmonids)	29.6	6.8	0	7.5	43.9	\$624.30	0%
Aquaculture (Private Land - Other)	342.4	19	0	16	377.4	\$5,366.60	0%
Aquaculture (Private Land - Yabbies)	3.3	7.4	0	9.5	20.2	\$287.20	0%
Abalone Fish Receivers	0	109.6	0	293.3	402.9	\$5,729.20	0%
Scallop Fish Receivers	0	29.8	0	14.2	44	\$625.70	0%

Note: the value of each fee unit is \$14.22 from 1 July 2017. The new Regulations will commence operation from 29 January 2018, with the fee unit value at the same level. Hence, there will be no change to the amount of the levies at the time of commencement.

Attachment 2: Expenditure of RFL Trust Account (2015-16)

Revenue	
Total receipts for the year (RFL sales, investment income, refunds and GST recoverable)	\$6,954,776.77
Disbursements	
Recreational Fishing Grants Program and other projects Payments to 80 projects	\$2,801,736.12
Fisheries Enforcement & Education Branch	\$2,236,258.00
Fish Stocking The purchase and liberation of native and salmonid fish to stock into Victorian rivers.	\$790,620.53
VRFish	\$436,664.69
Fishcare Victoria Inc.	\$195,842.40
Community Information Recreational Fishing Grants Program/Recreational Fishing Licence disbursement reporting related advertising & publicity.	\$64,302.89
RFL sales commissions (6% of agent sales) Applicable to sales commissions incurred during 2014-15, paid in 2015-16 financial year.	\$184,673.08
Costs and expenses incurred in the administration of RFLs	
Salaries and on-costs.	\$288,685.20
Business, corporate & other levies (common domain access levy, OH&S levy, training & development levy, centre leader levy, CBD accommodation and workstation charge, computer internal lease costs).	\$168,299.80
Professional and contract services.	\$168,561.76
Agency labour hire.	\$69,885.00
Postal expenses, parking, vehicle hire, accommodation, printing, stationery, telephones, banking charges, office equipment, software maintenance, external learning and IT assistance.	\$41,927.28
Recreational Fishing Grants Working Group Sitting fees, sustenance, accommodation, vehicle hire, venue hire, and personal expenses.	\$2,949.55
GST payable	\$183.50
Total disbursements for the year	\$7,447,616.80
Net cash inflow/(outflow)	(\$495,813.03)
Cash as at 1 July 2015	\$4,864,253.54
Cash as at 30 June 2016 **	\$4,368,440.51

Amounts are net of applicable GST

** Provision to fund previously approved Recreational Fishing Grant Program projects extending into 2016-17 and beyond as applicable and other items totalling \$2,710,176.01. Cash balance includes \$2,500,000 which has been invested.

NOTE: Audited Trust Account expenditure for 2016-17 will be published around October 2017.

Attachment 3: Calculating prices for recreational fishing licences

Total revenue objectives and willingness to pay

The RFL Trust Account is used for funding projects and initiatives that facilitate recreational fishing, such as improving access, and fish stocking. These are things that require central coordination to fund (and often provide) because individual fishers are not able to do them alone, or would have an incentive to ‘free ride’ on others (i.e., to use the benefit of things paid for by others).

The types of things funded through the Trust Account are known as “public goods”. In the absence of any licensing of recreational fishing, projects and initiatives that benefit recreational fishing would not be done unless funded by the government. However, once provided by government (paid for by all taxpayers), it is difficult to limit how much people use the goods and services. While the beneficiaries are generally limited to those likely to participate in recreational fishing, there would be demand for funding these selective public goods higher than the optimal level.

The well-established policy solution to this problem is to require people within the group of beneficiaries to make a compulsory contribution to the cost of the public goods. Only those that make the contribution may use the public goods; the enforcement of the contribution necessitates the use of licences to control who may use the public goods. This ensures that the cost of the public goods is paid for by those that use them through the licence price.

The optimal amount of spending on these public goods is determined by the willingness of the group of beneficiaries to pay for the goods. Where licence prices are below the willingness of fishers to pay for the public goods, not enough of the goods will be provided, and prices should be increased.

However, there is a degree of self-selection when setting licence prices. There is not a uniform willingness to pay for all recreational fishers, but a range of values. Therefore, even at prices below the average willingness to pay, there may be some individuals for whom the price is above their willingness to pay. It is likely therefore that increasing prices towards the average willingness to pay may result in a fall in the number of people buying a licence.

On the other hand, while total revenue from licences is increasing, the additional public goods able to be provided is likely to encourage more people to want to participate in recreational fishing. The nature of the projects funded from licence revenue is specifically aimed at improving access and opportunities for recreational fishing. An increase in the level of public goods (assuming they still meet this aim) in effect induces an increase in willingness to pay, because there is greater net benefit available. That said, in general, an increase in the number of projects is likely to show diminishing returns – that is, as the number of projects increases, the average net benefit of total spending will fall. Falling average benefits is likely to result in a decrease in the willingness to pay for those additional projects.

At some point, an equilibrium exists reached between willingness to pay and the level of public goods. However, while this may be optimal in economic terms, it may not be desirable. When increasing licence prices, at some point there will be a material reduction in the number of licences being bought, and may even result in less revenue collected overall. This may theoretically be a more optimal outcome – the remaining recreational fishers still enjoy the public goods within their willingness to pay, and may even enjoy them more because there is fewer people to share with. This is not desirable from a policy perspective as the increase in benefits would be concentrated in a smaller group of people, and is inconsistent with the policy objective to increase participation in recreational fishing (which has significant economic flow-on benefits, particularly in regional areas).

Therefore, the ideal prices for licences should increase up to the willingness to pay, but not if the additional projects to be funded by the additional revenue have a materially lower net benefit, and not if the increased prices result in a material decrease in the number of people fishing or a decrease in total revenue available.

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Data on willingness to pay

As part of the review of the effectiveness of the current Regulations, a survey of a focus group of recreational fishers sought information on their willingness to pay for an RFL on the understanding that all revenue was deposited in the Trust Account for funding of recreational fishing improvement programs.

- In relation to the revenue generated for the Trust Account, 56 per cent of respondents indicated that the current revenue raised from RFL sales was about right, while 44 per cent indicated that there was a need for increased spending on projects and more revenue should be raised (a third option – to ‘reduce RFL revenue and Trust Account spending’, was also included, but received zero responses).²³
- Asked about prices they would be willing to pay, given the current level of Trust Account expenditure, respondents indicated the following price levels:

Licence	Price in 2016-17	Average willingness to pay	Median willingness to pay
3-day licence	\$10	\$8.75	\$10
28-day licence	\$20	\$23.75	\$20
1-year licence (online)	\$33	\$62	\$50
1-year licence (agent)	\$35		
3-year licence (online)	\$90	\$142	\$120

RFL prices

This RIS analyses three options for RFL prices. These prices have been built up as follows:

Option 1:

	3-day	28-day	1-year	3-year
Administration component (around \$750,000 per annum) – allocated on a per licence basis	\$2.50	\$2.50	\$2.50	\$2.50
Payment of full cost of enforcement and education directed towards recreational sector (around \$7-\$7.5m per year) – allocated in proportion to the number of days allowed to fish under each licence	\$0.23	\$2.15	\$28.06	\$79.97
Funds available for Trust Account projects (around \$7-\$7.5m per year) – allocated in proportion to the number of days allowed to fish under each licence	\$0.23	\$2.15	\$28.06	\$79.97
Funding for agent’s commissions (around \$250,000 per year) – allocated on the basis of 6% of each licence price	\$0.18	\$0.41	\$3.52	\$9.75
TOTAL PRICE	\$3.14	\$7.21	\$62.13	\$172.18

²³ A number of respondents who indicated the level of RFL revenue should remain around the same also suggested the RFL prices should be reduced, on the basis that some revenue should be recovered from groups currently exempt from purchasing a licence. This is outside the scope of the present RIS.

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Option 2:

	3-day	28-day	1-year	3-year
Administration component (around \$750,000 per annum) – allocated on a per licence basis	\$2.50	\$2.50	\$2.50	\$2.50
Payment of some cost of enforcement and education directed towards recreational sector (around \$2-\$2.5m per year) – allocated in proportion to the number of days allowed to fish under each licence	\$0.08	\$0.72	\$9.37	\$26.71
Funds available for Trust Account projects (around \$7-\$7.5m per year) – allocated in proportion to the number of days allowed to fish under each licence	\$0.22	\$2.07	\$27.02	\$77.00
Funding for agent's commissions (around \$200,000 per year) – allocated on the basis of 6% of each licence price	\$0.17	\$0.32	\$2.33	\$6.37
TOTAL PRICE	\$2.97	\$5.61	\$41.22	\$112.58

Option 3 (current prices):

	3-day	28-day	1-year	3-year
Administration component (around \$750,000 per annum) – allocated on a per licence basis	\$2.50	\$2.50	\$2.50	\$2.50
Payment of some cost of enforcement and education directed towards recreational sector (around \$2-\$2.5m per year)	\$1.60	\$3.84	\$7.19	\$20.47
Funds available for Trust Account projects (around \$7-\$7.5m per year)	\$5.30	\$12.74	\$23.87	\$67.93
Funding for agent's commissions (around \$200,000 per year) – allocated on the basis of 6% of each licence price	\$0.60	\$1.22	\$2.14	\$5.80
TOTAL PRICE	\$10.00	\$20.30	\$35.70	\$96.70

NOTES:

1. Prices shown excludes discount for online purchase, discussed separately in the RIS.
2. The implied relativities under Option 3 are that enforcement costs and TA project funds for the 28-day licence are 2.4 times those of the 3-day licence; and for the 1 year licence are 4.5 times those of the 3-day licence. The department considers this reflects a reasonable difference in the amount of fishing undertaken by each licence type (on average).
3. Under all options, 3-year licence components for enforcement and project funds are three times the amount of the 1-year licence, less about 5% to reflect that they are paying up front (time value of money).
4. All prices are shown as would apply in 2017-18. Under all options, prices would be increased annually in line with changes in the value of fee units.
5. Options 1 and 2 are illustrative only for the purposes of this RIS, as they assume the same number of sales for each licence type. In practice, under such prices, most recreational fishers would be expected to change the licence they purchase. Unless they intend to fish on a large majority of days under their licence, most fishers will be better off changing from longer duration licences to buying multiple shorter-term licences. As such, total revenue would fall, or prices of all licences would need to increase substantially to achieve the same level of total revenue. However, with most fishers buying multiple shorter licences each year, a greater share of the total revenue would be needed to cover administration costs, leaving less available for projects.

Attachment 4: Costs included and excluded from proposed commercial fisheries levies

Commercial levies were comprehensively reviewed in 2013 through extensive formal consultation with the sector, including the Fisheries Cost Recovery Standing Committee. As a result of that review, levies were progressively increased to recover a greater share of the total cost of services.

At the time of the 2013 changes, the department and the industry agreed on which cost items should be recovered through levies and which were more appropriately categorised as providing a wider benefit. Fisheries services and activities that were completely excluded from cost recovery were:

- Environmental research—even though this research informs commercial fishing activity and government decisions about commercial fishing, this activity would need to be done in the absence of any commercial fishing
- Investigations, surveillance and intelligence of unauthorised fishing—while this activity protects the commercial licence holders, these activities would still need to occur even in the absence of commercial fishing (e.g., to ensure environmental values were protected) and hence are not incurred because of the granting of commercial licences. It is difficult to determine whether the overall level of enforcement activity related to unauthorised fishing is more or less with the existence of commercial fishing; in practice the amount of costs excluded on this basis are determined based on enforcement officers' assessments of time allocated to different types of compliance, and on the basis that licence holders should not have to pay for the wrong behaviour of non-licence holders.
- Regulatory policy services, cost recovery policy and administration (e.g., the costs of making the Regulations), emergency management—these activities were considered general government responsibilities

The department considers the rationale for excluding these activities from cost recovery remains. In 2016-17, these activities amount to around \$19.7 million. This leaves costs of around \$2.7 million to be considered for recovery from levies.

The 2013 levies also made a number of other adjustments to the total amount of costs to be recovered, referring to these reductions as “concessions”. At the time, these concessions were expected to reduce the total levy revenue by around \$965,000 per annum, resulting in total revenue of only 80 per cent of costs “attributable” to commercial fisheries (i.e., costs after excluding the activities the benefit the wider community listed above). These concessions were:

- Nil cost recovery for surveillance, intelligence, investigations and prosecutions in relation to all commercial licensees and quota unit holders
- Reduced cost recovery for catch and effort (set at 65 per cent of costs)
- Nil cost recovery for preparation of fishery management plans
- Reduced attribution of costs to finfish fisheries
- Levy cap for small operators.

Some of these items reflected concern by industry about the level of costs, with the concessions providing an opportunity to explore scope for reduction in the cost of services under the new prospective system. Since that time, there have been substantial reductions in costs of some fisheries services, and adjustments to the levies to incorporate these changes in costs.

The exclusion of some costs related to catch and effort activities and the preparation of fishery management plans are now considered not correctly categorised as “concessions”. In reality, these are activities that also have a larger benefit to the wider community, because they ensure that government decisions about allowing commercial take of the state's fish resources, and coordinating activities across other fishery objectives, are well informed. Fisheries management plans ensure that the community's interests are protected. The

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department considers it appropriate that the government costs related to the preparation of fisheries management plans and 35 per cent of costs related to capturing catch and effort data—together around \$150,000 per annum—are not recovered from commercial fishers, but continue to be met from government funding.

The small operator concession is proposed to continue. This acts as a levy cap for small operators. Valued at only around \$22,000 per annum, this is a very small departure from full cost recovery of the activities which directly arise because of the existence of commercial fishing.

These adjustments mean that costs of \$2.5 million per year are to be recovered through fisheries services levies, as described in the following table.

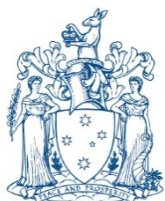
Included \$2.5 million	Excluded \$19.5 million
Research	
\$1.1 million	\$0.5 million
Data collection, monitoring and analysis for stock assessment (\$1.1m)	Environmental Research (\$0.5m)
Education and Enforcement	
\$0.4 million	\$12.1 million
Inspections of licensed or authorised commercial fishers (\$0.4m) <i>(Education is only recovered if it forms part of an inspection)</i>	Surveillance, enforcement, intelligence and prosecutions in relation to licensed commercial activities Surveillance of unlicensed or unauthorised commercial activities Intelligence related to unlicensed or unauthorised commercial activities Investigation and/or major case management related to unlicensed commercial activities Community engagement
Fisheries Management	
\$0.5 million	\$2.5 million
Setting quota and harvest limits (\$0.09m) Operational management of marine fisheries (\$0.23m) Operational management of freshwater fisheries (\$0.07m) Operational management of aquaculture fisheries (\$0.11)	Regulatory (policy) services Emergency management Fishery Management plans
Administration*	
\$0.5 million	\$4.4 million
Commercial Catch and Effort (\$0.14) (65% of costs) Quota catch recording services (\$15,000) Commercial Licence & Quota administration (\$0.35m) Administration of the Fisheries Cost Recovery Standing Committee (\$16,000)	Commercial Catch and Effort (35% of costs) Cost recovery policy Cost recovery regulation amendment Cost recovery administration

** Costs related to IT systems for cost recovery and licence management are also technically included as administration costs, however in practice these costs are small and no individual cost has been assigned for the purpose of calculated levies.*

Attachment 5: Draft Human Rights certificate

*In accordance with the Guidelines made under the **Subordinate Legislation Act 1994**, a draft copy of the Human rights certificate under section 12A must be published alongside the regulatory impact statement for a proposed statutory rule.*

Draft



Minister for Agriculture

Subordinate Legislation Act 1994

HUMAN RIGHTS CERTIFICATE

(Section 12A)

FISHERIES (FEES, ROYALTIES AND LEVIES) REGULATIONS 2017

I, Jaala Pulford, Minister for Agriculture, and Minister responsible for administering the **Fisheries Act 1995**, certify under section 12A of the **Subordinate Legislation Act 1994** that, in my opinion, the proposed Fisheries (Fees, Royalties and Levies) Regulations 2017 do not limit any human rights under the **Charter of Human Rights and Responsibilities Act 2006**.

Dated:

Hon Jaala Pulford MP

Minister for Agriculture