

**WORKING GROUP I
(ORGANIZATIONAL STRUCTURE, BUDGET AND FINANCIAL CONTRIBUTIONS)**

**APPLICATION OF COST RECOVERY PRINCIPLES TO THE PROVISION OF
COMMISSION SERVICES**

Prepared by the Secretariat

I. INTRODUCTION

1. At the second session of the Preparatory Conference, the Preparatory Conference Secretariat was asked to provide information on the application of cost recovery principles to certain Commission services. The present working paper responds to that request and is intended to supplement paper WCPFC/PrepCon/WP.7.
2. The present paper is divided into five parts covering: (i) scope of application of cost recovery principles; (ii) background information on cost recovery principles; (iii) identifying services that may have their costs recovered; (iv) cost recovery in international fisheries management organizations; and, (v) conclusions.
3. Cost recovery in this paper means the recovery from vessel operators, by the Commission, of certain costs of the Commission's services. The paper attempts to identify the costs of Commission services that can be charged directly to vessel operators. In this context, cost recovery does not relate to the recovery from Commission members of the costs of Commission services. Nor does it relate to any national policies whereby Commission members might seek to recover the costs to them of membership in the Commission from their vessel operators.

II. BACKGROUND

4. Several countries use cost recovery and user charges are used to fund fisheries research, management and monitoring services.¹ Cost recovery and user charges are used to achieve a number of objectives, such as:

¹ Cost recovery regimes are applied to varying degrees for various fisheries management services by a number of the PrepCon participants (Australia, Canada, the FFA member countries in relation to some services provided via the FFA, New Zealand, and the United States of America)

- (a) Improving efficiency in the delivery of fisheries research and management services;
- (b) Reducing the burden upon government finances; and
- (c) Ensuring that society as a whole does not subsidize the activities of the fisheries sector.

5. There is a large body of academic work on the benefits of cost recovery for the efficient provision of fisheries research, management and enforcement services. The theoretical arguments in favour of cost-recovery or user charges are that it improves the incentives within government to provide services in the most cost-effective way. As a monopoly provider of services, it is assumed that few incentives exist for governments to utilize the most cost-effective means to deliver services. Further, government providers of management services may be rewarded via increases in operating budgets even though they demonstrate poor efficiency in the delivery of management services. It is argued that the introduction of cost recovery, combined with a concomitant ability for those paying the costs to be involved in decisions relating to the delivery of services, should create incentives for those services to be provided in a more cost-effective way.

6. In a number of countries where cost recovery has been introduced the primary objective has been to reduce the burden on government finances. In these situations, while cost recovery has been applied for certain services, there has not been an accompanying increase in the level of participation by users in the decision-making process related to the delivery of services. In such situations the economic efficiency gains in the delivery of services that may be expected from the introduction of cost recovery will not be realized. If, however, improving the efficiency of provision of fisheries services is not the primary motivation for the introduction of cost recovery, then this is factor will be of little concern.

7. Where cost recovery is applied in the delivery of fisheries services two alternative approaches have generally been applied to identify whether the government or the sector (or a combination of the both) should pay for the service provided:

(a) The first approach is the concept of avoidable costs, where a sector is charged on the basis that the service is required by the presence of fishing activity. Under this approach, the fisheries sector normally pays a relatively (to the approach below) larger portion of the costs.

(b) The second approach for identifying who should pay is the concept of attributable costs or 'beneficiary pays'. This second principle attributes costs on the basis that those paying receive a benefit from the provision of the service. A normal result of this approach is that the sector pays a relatively (to the approach above) smaller portion of the costs.

Both approaches are applied in the various jurisdictions that currently utilize cost recovery. Often the fiscal imperatives that have driven application of cost recovery make it difficult to identify clearly the extent to which one or other approach has been applied.

8. In this paper, it is proposed, in summary, that the avoidable cost approach to cost recovery be used by the Commission but that the application of this approach is confined to situations where the Commission services are provided at the request of an operator and owing to the existence of a fishing activity.

III. COST-RECOVERY AND THE COMMISSION

9. Within the context of the Commission it is highly unlikely that the efficiency benefits discussed in the above paragraph will have the opportunity to be realized. Those who face the charges applied under a cost recovery scenario (i.e., vessel operators) will have little, if any, influence over how the Commission will deliver its services. That being the case, it is unlikely that adoption of cost recovery within the Commission context will introduce the efficiency gains that may otherwise be expected. It is, however, unlikely that cost recovery would be mooted within the Commission on the basis of achieving an efficiency objective. Instead a more likely scenario is that cost recovery would be applied on the basis of either equity or fiscal objectives.

10. The fiscal objective for introduction of cost recovery within the Commission is clear, and no different to the approach in a number of national jurisdictions applying cost recovery. The Commission would be seeking to minimize costs to the overall membership. As a result, the Commission would pass on the costs of certain services to vessel operators rather than provide for such costs within the assessed contributions of the Commission.

11. The equity objective as a basis for the introduction of cost recovery within the Commission context may at first glance appear less obvious. Some Commission services such as the Commission vessel monitoring programme are only required by certain classes of vessels (those that fish on the high seas in the Convention area). In these situations it can be argued that such services should not necessarily be funded by assessed contributions as this could see members with no fishing activity on the high seas, in this example, supporting a service the need for which is not generated by the activity of their vessels.

12. In the remainder of this section, the following Commission services are discussed using the principles and objectives outlined above:

- (a) Science and data services;
- (b) Observer services;
- (c) Vessel Monitoring System (VMS) services; and
- (d) Vessel register services.

A. Science and data services

13. Scientific research and data collection and management are subject to cost recovery within certain national jurisdictions but in such cases there is generally a clear link between operators and the provider of the service. In most cases the service provider is able to identify the beneficiaries of the service and as result costs can be attributed in an equitable and transparent manner.

14. In the area of data and science the Commission does not interact directly with vessel operators. It is the Commission members that interact with the vessel operators in relation to these services. In the case of data it is the duty of the Commission member to obtain all necessary data and information from their vessels and provide this to the Commission. The vessel operator has no clear link with the Commission in relation to provision of data. As a result the Commission is one step removed from the user for the purpose of attempting to recover costs. For this reason, it

is likely to introduce greater administrative complexity and higher costs if these services were to be considered for cost recovery.

15. It is also useful to recall that since the concept of cost recovery was first raised in discussions at MHLC4, there has not been any suggestion to use such a mechanism to fund the costs of core science or data management within the Commission.

16. Since it has not previously been proposed that these services be funded through cost recovery, and because the mechanisms required to undertake cost recovery from vessel operators could be complex (and would likely require considerable resources and cost to implement), it is not suggested that science and data services be considered for cost recovery.

B. Observer services

17. Observer coverage is an area where cost recovery could be applied. However, the degree to which the Commission itself is involved in the recovery of costs associated with the programme will be heavily influenced by the nature of the observer programme that is adopted by the Commission.

18. If the Commission relies on a programme of observer coverage which is provided in large part by existing national and regional observer programmes then the majority of costs associated with the programme will occur not at the Commission level but at the level of the national or existing regional programmes. Recovery of costs will be at the discretion of these programmes. A number of the potential providers of observer programmes already operating in the region apply cost recovery to the services they provide. The observer programmes operated by the Forum Fisheries Agency in relation to vessels operating in the region under the US-Pacific States Tuna Treaty and the Federated States of Micronesia Regional Access Arrangement both utilize cost recovery. A number of national observer programmes in the region also operate cost recovery.

19. If cost recovery is adopted in relation to observer coverage, it should not be difficult to apply. A clear linkage exists between the provider of the service and the person requesting it, as the vessel operator needs to interact with the observer provider in order to arrange for the placement of the observer.

20. Observer coverage is potentially an area where efficiency objectives may be possible to achieve. If the Commission uses existing observer providers as part of the Commission observer programme then users of the service will have the ability to source observers from the most cost-effective provider. It may be that vessels already utilizing observers provided under existing programmes choose to continue to use such observers, as this will minimize other costs to the operator such as the cost of entry into port to uplift a new observer.

C. Vessel Monitoring System Services

21. As in the case of the observer programme, the Commission's vessel monitoring system (VMS) is likely to be a service where direct interaction between the Commission, or the Commission's appointed service provider, and vessel operators is likely to occur.

22. It is unlikely that the Commission will have a need for multiple providers of this service given that the key concept behind the Commission VMS is that of a centralized system. Therefore, introduction of cost recovery in relation to the entire funding of this Commission service is unlikely to generate significant efficiency gains. As previously mentioned, however,

fiscal and equity objectives may be such that the Commission determines that cost recovery for the costs of the Commission VMS is appropriate.

23. The requirement to operate the Commission VMS will be for those vessels that operate on the high seas in the Convention Area. As a result, some members of the Commission not involved in high seas fishing may argue that it is not appropriate for them to bear the cost of the Commission's VMS services when they as Commission members neither utilize the service (except in the broader sense that the service contributes to better conservation and management of a shared resource) nor generate the need for the service to be provided. It is therefore proposed that these services be considered for cost recovery in the future.

D. Vessel register services

24. As with data and science, this is another area of the Commission services where the Commission will not interact directly with vessel operators. The Commission is one step removed from the user for the purpose of attempting to recover costs. It is an obligation of Commission members to maintain a record of the vessels that are entitled to fly their flag and that are authorized to fish in the Convention Area beyond their flag State's waters. Commission members provide the information that is used by the Commission to maintain the Commission register. To introduce a system of cost recovery reliant upon the Commission recovering costs directly from vessels operators could be administratively complex and potentially costly. It is therefore not proposed that vessel register services be considered for cost recovery.

IV. USE OF COST RECOVERY IN OTHER FISHERIES ORGANIZATIONS

25. The use of cost recovery or user charges is a relatively new approach to the funding of services in the resources management area. Only in the last ten to fifteen years have national authorities begun to apply such charges within their own systems and the introduction of such processes even at the national level has not been without controversy. Against this background it is not surprising that there are few examples where cost recovery has been applied in the context of international fisheries organizations.

26. One of the few examples of cost recovery being applied by a Commission secretariat in the area of international fisheries management is within the context of the dolphin protection programme operated by the Inter-American Tropical Tuna Commission (IATTC) under the International Dolphin Conservation Programme (IDCP). Under the IDCP scheme large purse seine vessels are required to carry an observer to collect catch and biological information and to verify that the activities of the vessel have been in accordance with the provisions of the IDCP. The majority of costs for operating the scheme are recovered from vessel operators by way of a levy based upon the carrying capacity of the vessel. The IATTC also funds a portion of the scheme from within the assessed contributions; the level of Commission funding is currently in the order of 30 per cent of the total costs of the scheme.

27. Other examples of cost recovery applying in the context of regional fisheries organizations are generally within the context of a member state providing a service on behalf of the Commission, the delivery of the service having been prescribed by the Commission, and the individual member state determining whether or not user charges are appropriate. An example of this situation occurs in relation to provision of observer coverage under the CCAMLR scheme of international observation. Some CCAMLR members apply cost recovery to the provision of observers on vessels of other CCAMLR members. The approach, however, is not uniform within

CCAMLR and generally requires explicit agreement within the bilateral agreements between the member states involved.

V. CONCLUSION

28. While cost recovery may not be a prevalent form of funding for international fisheries organizations at this time, it is an approach that has received greater acceptance, particularly at the national level, in the last ten to fifteen years. Its use as a mechanism for funding fisheries management services is likely to increase over time.

29. It is unlikely that the application of cost recovery mechanisms by the Commission will bring about efficiency gains in the delivery of most Commission services. The possible exception may be observer coverage if the Commission adopts a programme that provides for existing observer programmes to provide observer services on behalf of the Commission. If the ability to utilize various observer providers exists then vessel operators will be able to choose the most cost-effective provider of observer services given the operator's particular circumstances. The absence of potential efficiency gains in the provision of services should not of itself preclude the possibility of applying cost recovery. A number of other, no less valid, objectives may be served by the application of cost recovery, including fiscal and equity objectives.

30. It is suggested that, in principle, cost recovery be confined to cases where the Commission services concerned are provided at the request of an identifiable person. In such a case, that person should pay of the costs of that service. Using this approach, it is recommended that:

(a) the costs of the Commission's science and data services and the vessel register services are NOT charged to individual vessel operators; and

(b) mechanisms are developed to ensure that the costs of observer and VMS services are charged to individual vessel operators.

31. Clearly, as noted in document WCPFC/PrepCon/WP.7, it is highly unlikely that the Commission would be in a position to implement either a comprehensive regional observer programme or a VMS in the early years of its operation and there remain a great many technical issues to be resolved before any such programmes could come into operation. However, if the Preparatory Conference is able to take a decision "in principle" at an early stage that these services would, in the long term, be funded through cost recovery, it would be possible for both members of the Commission and the fishing industry to begin to consider practical mechanisms for cost recovery. It would also greatly assist the Preparatory Conference in developing budget projections for the early years of the Commission.
