



**PRIMARY INDUSTRIES
AND RESOURCES SA**

AQUACULTURE COST RECOVERY POLICY REPORT

Prepared by

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AQUACULTURE COST RECOVERY

POLICY REPORT

PROPOSAL

To introduce a cost recovery policy framework which provides for the equitable sharing of costs associated with the resource management and regulation of the aquaculture industry in South Australia.

BACKGROUND

The Aquaculture Cost Recovery Policy has been developed in accordance with the provisions of Part 4 of the *Aquaculture Act 2001*. In accordance with these provisions the Minister responsible for administering the Aquaculture Act may make aquaculture policies for any purpose directed towards securing the objectives of the Act and must, in the preparation of a draft policy, obtain and consider the advice of the Aquaculture Advisory Committee.

Section 12 of the Aquaculture Act requires the Minister to prepare a report in relation to a draft aquaculture policy containing:

- an explanation of the purpose and effect of the draft policy;
- a summary of any background and issues relevant to the draft policy;
- the analysis and reasoning applied in formulating the policy; and
- an assessment of the consistency of the draft policy with the Planning Strategy and any relevant Development Plan, any relevant environment protection policy and any other relevant plans or policies.

Draft aquaculture policies and the related reports must be referred to prescribed bodies and relevant public authorities. Additionally, the Minister must invite interested persons to make written submissions in relation to the draft policy. Following consultation the Minister must consult with and consider the advice of the Aquaculture Advisory committee on all matters raised as a result of public consultation.

Following approval of the draft policy by the Minister the draft policy must be referred to the environment, Resources and Development Committee of the Parliament. The environment, Resources and Development Committee may approve the policy, seek amendments to the policy or object to the policy. In the event that the environment, Resources and Development Committee objects to the draft policy the policy must be laid before both Houses of Parliament where it may be disallowed.

The Aquaculture Cost Recovery policy was prepared having regard to the State Government goals and strategies contained within the Planning Strategy for Country South Australia, August 1996 and is consistent with that Strategy. It is also consistent with relevant provisions in the Development Plan, Environment Protection Policies and other relevant plans or policies.

In May 2002 Cabinet approved the release of a Policy Discussion Paper outlining options for cost recovery associated with the regulation of aquaculture in accordance with the *Aquaculture Act 2001*.

The Policy Discussion Paper was prepared in conjunction with Econsearch Pty Ltd, and identifies the areas of PIRSA Aquaculture's activity that would be considered as "attributable costs" in a cost recovery sense.

The objectives *Aquaculture Act 2001* are:

- to promote the ecologically sustainable development of marine and land based aquaculture;
- to maximise the benefits to the community from the State's aquaculture resources; and
- to ensure the efficient and effective regulation of the aquaculture industry.

It is recognised that the introduction of cost recovery involves the measurement of resources expended on those activities considered attributable to industry.

The issue of cost recovery was discussed in general terms with industry as part of the consultation involved with the Aquaculture Act Discussion Paper and the release of the Draft Aquaculture Bill.

DISCUSSION

The general principle of cost recovery is that individual service recipients contribute to the costs of a government service at a level that is approximately equivalent to the costs of activities from which direct benefits are received.

This Policy Report has been prepared in accordance with the Productivity Commission's report, "Cost Recovery by Government Agencies" (August 2001). In particular, cost recovery principles relating to resource and regulatory management have been applied to aquaculture.

The Productivity Commission recommended with regard to Resource Management:

- Government should bear the cost of those resource management functions which benefit the community generally.
- Users should contribute according to the benefit which they derive from the public provision of effective resource management.
- Industry should pay for its share of research costs that are necessary for the industry to achieve the objective of sustainable profitability.
- Where other users specifically benefit from publicly funded resource management they should contribute to the cost.

Aquaculture development, management and regulation encompasses a variety of activities which have the objective of attaining optimum use of the marine or fresh water environment, the fish stocks in it, and the man-made resources applied to the cultivation and ultimate 'use' of the fish.

While there will be some debate about the factors to be considered in determining the optimal use of the community resources utilised for aquaculture activities, it is generally agreed that the resource should be managed in a way that is most valuable for the broader community whilst providing for a sustainable level of aquaculture production.

Optimal use of community resources implies an optimal management framework. This means that the resources used for regulation, surveillance, development, etc should be applied in a way that maximises the net benefit to the community.

Cost recovery arrangements should apply to specific activities rather than the management authority as a whole. This means that there may be a cost recovery charge for some activities but not for others, and the level of cost recovery may vary between program areas (in the range 0-100%).

Therefore the management authority should not set targets to recover a specific proportion of total costs. The proposed charges should be calculated on an activity-by-activity basis.

Cost recovery arrangements should be justified on economic efficiency grounds and not be undertaken merely to raise revenue for the management authority. This implies that the activities of the management authority (in this case PIRSA Aquaculture) should be, among other things (see objects of the Act), enhancing the efficient operation of the industry.

If specific program areas of the management authority are shown to address some level of market failure then, in that regard at least, those program areas will ensure an improvement in economic efficiency (i.e. more productive utilisation of the resource).

Broadly, the areas where government carries out activities of direct benefit to industry are defined below.

Resource management:

- determines the appropriate areas for aquaculture activity, allocating the rights to use of the resource and the evaluation of environmental impacts. This also includes attention to the ecosystem of the target areas, the interests of the broader community that has traditionally had access to the resource and considers regional social and economic impacts.

Because the management of the resource benefits the resource users, the users should contribute to the cost of management. A substantial proportion of the management costs are devoted to the compliance with zone policies such as obtaining industry support for the policies, surveillance, enforcement and monitoring.

Regulatory management:

- should aim to ensure that resources used in the industry are managed efficiently, and take into consideration the environmental impacts and operational activities associated with aquaculture. Importantly, this can also deal with the management of disease, release of fish into a farming activity and the ability of a farmer to sell fish.

Research and Development:

- The government provides research and development products or services because it requires some information for its internal policy processes, to meet equity, social or environmental objectives, or because of economic (ie market failure) reasons. That is, the public good characteristics of some products of positive spillover effects (or externalities), where a private provider would not be able to charge all users, limits the potential for the service to be provided privately. Aquaculture research and scientific activities produce information that can help to open up new opportunities for industry development, to help industry and Government to reach decisions and to produce effective solutions to a range of challenges.

The Productivity Commission report recognises cost recovery arrangements should not include the cost of activities undertaken for Government, such as ministerial or parliamentary services and international obligations.

Given the likely fee increases and the development stage of some sectors, it is proposed that full recovery of attributable costs be achieved by the 2006/07 financial year. It is expected that the majority of marine sites will be allocated by this time, allowing a greater number of producers to share in the attributable costs, thus reducing the likely impact per producer.

Fees collected in the 2001/02 financial year represented approximately 25% of attributable costs, and as such, a constant increase of 20% of attributable costs per year will achieve the implementation schedule.

AQUACULTURE COST RECOVERY POLICY DEVELOPMENT

The Act provides for the making of aquaculture policies by the Minister, which collectively form the key planning, management and regulatory tools that are available to Government. An aquaculture policy can make reference to a standard or other document published by a specified body. The Act requires that the Minister must prepare a report in relation to a draft policy containing an explanation of the purpose and the effect of the draft policy. If the Minister approves an aquaculture policy, the Minister must, within 28 days refer the Policy to the Environment, Resources and Development Committee of Parliament.

Provisions of the Aquaculture Act allow for the recovery of periodic fees payable by a licensee or other fees in respect of any matter under the Act.

The Aquaculture Resource Management Fund (the Fund) will be established to receive fees, expiation fees, penalties, rents or any other amount paid to the Minister under the Act. The Act also enables the Fund to receive money appropriated by Parliament for the purposes of the Fund.

PIRSA Aquaculture has a statutory and regulatory responsibility for the management of aquaculture practised in South Australia and will do so through the granting and renewal of essential licenses, leases and permits pursuant to the *Aquaculture Act 2001*.

As the aquaculture industry is largely the beneficiary it should contribute to the services provided accordingly. Industry should either provide the industry-specific management services itself or have the services performed by the management authority on a full cost recovery basis. Given the differences among aquaculture sectors and the range of regulatory and resource management and measures, a method needs to be in place to determine which elements of resource and regulatory management services industry should pay for, and to what degree. Clearly, the aquaculture industry should pay for measures relating solely to it; where other sectors of the community benefit, the cost should be shared.

In addition there is a need to ensure aquaculture related research supports decision making for resource management and industry development. Some research or development activities that do not meet either the internal need of government or market failure tests may nevertheless be funded by government, but only if the government explicitly decides that there are other significant policy reasons for doing so. All other research and development products should be cost recovered using an appropriate cost recovery methodology.

Once government and industry have established the total costs, a portion of the recoverable costs will be raised through direct fees for service. Consequently a mechanism is required to determine how to attribute the balance of the recoverable costs across sectors. The balance of the recoverable costs can be raised through licensing and leasing revenue.

Not all sectors in the aquaculture industry are at a similar level of maturity, and dependence on common property resources varies between sectors. For marine based sectors, there is a relatively high need for planning, compliance and other services, as well as a significant utilisation of common property resources. For land based sectors there is no substantial use of common property resources in the farming process. However it is important that charging methods are adequate to ensure that resources used in the

industry are managed effectively and take into account the environmental impacts and operational activities associated with aquaculture. Importantly, this can also deal with the management of disease, release of fish into a farming activity and the ability of a farmer to sell fish.

Having attributed the various activities of the management of aquaculture to the range of user groups, it is necessary to consider whether the associated costs should or could be recovered.

The first step is to determine the extent of user group benefit from the activity. This process is aided by categorising each activity according to beneficiary group. Drawing on the Centre for International Economics "Review of NSW Aquaculture Industry Costs and Prices" (2000, p. 38), these levels of recoupment for expenditure items can be defined as:

- a. **Producers individually:** any expenditure which is focused on activities of individual producers to:
- enable them to operate within an aquaculture industry,
 - improve their profitability on an individual basis, or
 - ensure they do not impose costs on others that cannot be recouped from the market (external costs).

This expenditure should be paid for entirely by the individual concerned.

- b. **Producers collectively:** any expenditure benefits current producers collectively in an aquaculture sector or group of sectors to:
- improve the general profitability of that industry or group of industries, or
 - protect any common property resources used.

This expenditure should be paid for collectively by that industry or group of industries.

- c. **Producers and community:** any expenditure undertaken to benefit current producers as well as the wider community (the latter including potential future producers) should be paid for in part by current producers and in part by taxpayers.
- d. **Community:** any expenditure undertaken solely to benefit sectors of the community other than current producers should be paid for solely by taxpayers.

This process of classifications should apply subject to following qualifications:

1. consistency with Government cost recovery policy in other sectors;
2. the existence of extenuating socio-economic considerations; and
3. the cost effectiveness of recovering the costs of any particular activity.

Cost recovery proportions by category of beneficiary activities determines the extent of user group benefit from the activity. This determines the level by which associated costs should or could be recovered.

Beneficiary category	Cost recovery proportion	Notes
Producers individually (recovered predominantly by fee for service)	100%	Expenditure which is focused on activities of individual producers should be paid for entirely by the individual concerned.
Producers collectively	76-99%	Expenditure that operates collectively on behalf of producers in an aquaculture sector or group of sectors. However, some activities may benefit future growers therefore should not be fully paid for by existing producers.
Producers and community	1-75%	Expenditure undertaken to benefit producers as well as the wider community should be paid for in part by current producers and in part by taxpayers. Assessment will be made on an activity-by-activity basis and, in principle, could lie outside the range indicated.
Community only	0%	Expenditure undertaken solely to benefit government and sectors of the community other than current producers should be paid for solely by taxpayers.

State development, social, environmental and other impacts

A recent survey by Econsearch Pty Ltd has estimated the value of the industry in the year 2003/04 is expected to be approximately \$390 million with corresponding growth in licenses and authorisations from 712 currently to in excess of 900. It is expected that direct employment of around 1,600 people will be achievable by the year 2003/04.

The development of aquaculture generates additional benefits to the community besides the actual operation itself. For example, the development of aquaculture could, in the longer term, ease harvesting pressure in the wild fisheries. This has obvious environmental and conservation benefits and, in the long run, may benefit the fishers in the wild fishery.

Similarly, the development of an aquaculture sector (i.e. an increase in the number of operators for a particular species) provides no direct benefits to the existing operators in that sector and may be detrimental if the expansion results in reduced prices or loss of market share.

Over time, however, there can be substantial indirect benefits to existing operators. The local provision of inputs and services can result in significantly lower cost of operations to the benefit of both new and existing operators.

The development of new enterprises and growth in support industries generates household income, employment and associated social benefits to the whole community.

The appropriate location and spatial distribution of aquaculture at the sector level through the development of zoning and regional policies is essential to the development of a comprehensive strategy for the ecologically sustainable development of the industry. A range of comprehensive approaches to resource planning have been used as a framework for resolution of issues of sustainable resource use, minimisation of user conflict and optimal resource allocation.

In implementing ecologically sustainable development (ESD) practices the whole ecosystem needs to be considered. This means the direct on site impacts to the stock and the environment are considered, the cumulative impacts are considered, and the broader social and economic issues are addressed. The economic impact of the development needs to be acknowledged, as this ultimately relies on sustaining essential ecological processes.

Aquatic animal health services provide the aquaculture industry with a competitive trade advantage by protecting, maintaining and validating South Australia's favourable aquatic animal health status. It is also critical to facilitate industry profitability and sustainability by managing business risks associated with disease outbreaks.

The proposed Cost Recovery Policy Framework is consistent with State Government Policy and the Productivity Commission's recent report, "Cost Recovery by Government Agencies".

CONSULTATION

The issue of cost recovery was raised with the interagency steering group during development of the Aquaculture Bill, and discussed with stakeholders through the formal consultation process leading up to the introduction of the Bill to Parliament.

More recently a comprehensive Cost Recovery Discussion Paper was endorsed by Cabinet and circulated to the South Australian Aquaculture Council, industry associations and government agencies prior to the development of a draft policy. It should be noted that interested parties have widely supported the use of the Productivity Commission's recommendations in the developing cost recovery policy.