



SPRFMO

6th Meeting of the Commission
Lima, Peru, 30 January to 3 February 2018

COMM 6 – PROP 10
Proposal to amend the SPRFMO Budget Formula
Chairperson

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Proposal from the Chairperson of the Commission

Overview

This proposal seeks to amend Regulation 4.7(a) of the SPRFMO Financial Regulations to resolve an outstanding structural issue in the budget formula.¹

The current formula, as outlined in Regulation 4.7(a), has never been applied as it is described. The budget formula, when applied, has routinely proven to be volatile and uneven, giving rise to substantial swings in Member contributions over relatively short intervals. This has been partially due to the unexpected changes in catch composition, including the emergence of a significant flying jumbo squid fishery (which has influenced the ‘unevenness’ in contributions) and fluctuations in high seas catch.

The FAC and the Commission have discussed this budget formula issue since 2015 in an effort to resolve the clear structural issue. The Secretariat has also usefully provided support and analysis to the Commission and FAC which have guided these discussions². This proposal builds on the progress made by the FAC and the Commission in those years.

Australia, Chile, China, the Cook Islands, the EU, New Zealand, Peru, Chinese Taipei and Vanuatu provided feedback during the bilateral consultations stage, which has been considered in the preparation of this proposal.

Consistent with the FAC’s deliberations in previous years, the proposed amendments seek to improve predictability and fairness in the budget outcome for all Members, take appropriate account of the principles previously endorsed by the Commission³ and offer greater long-term stability.

The proposed amendments, with a rationale for each change, are provided at Attachment A of this proposal in tracked changes. These changes, together, provide greater stability and predictability in the budget and are a better reflection of the Commission’s regulatory effort. Additionally, contributions as a percentage of the total budget are relatively stable compared to SPRFMO 5 budget, and are a fairer distribution than would occur if the budget formula in the Financial Regulations was applied.

The revised model continues to be consistent with the principles upon which the formula was agreed, including to reflect a ‘beneficiary-pays’ principle to ensure that each Member’s contribution is commensurate with their relative use and benefit of the fishery resources.

¹ The SPRFMO Financial Regulations were drafted by the Preparatory Conference between 2010 and 2012 and adopted at SPRFMO 1 in 2013.

² See *Possible options for revising the SPRFMO budget contributions formula* submitted to the 3rd meeting of the FAC (2016) as FAC-03-05 and *Further information to assist SPRFMO deliberations on the financial contribution formula* submitted to the 4th meeting of the FAC (2017) as FAC 04-Doc 06.

³ At its third meeting, Member of the FAC expressed general support for the following principles: (i) consistent with the Commission’s earlier recommendations, interfere as little as possible with the agreed formula in the Financial Regulations; (ii) aim in principle to move towards a formula that reduces volatility in the movement of members’ contributions; (iii) no member should contribute less in 2016-17 than in 2015-16; and (iv) no member’s contribution should increase unreasonably. (see para 6(a) of the report of FAC3, which was adopted by the Commission. The report also notes that “[s]ome delegations noted that any revisions to the contribution formula should lead to outcomes that are equitable....”

Application of the proposed new budget formula

A series of tables is provided at Attachments B-D to demonstrate how this proposed formula would apply in practice:

- 1 Attachment B illustrates how the proposed new formula would apply to the budget proposed by the Secretariat for the 2018/19 financial year (see FAC5-Doc05). This provides Members with a realistic indication of their contribution for the 2018/2019 financial year should this proposal be adopted.
- 2 For comparative purposes, Attachment C compares the FAC4 recommended budget for 2017/18 with this proposal⁴. In this example, the proposal uses 2017/18 figures to enable genuine comparison between the two outputs. In other words, Attachment C enables Members to compare how the new proposed formula would have affected their contribution if it was applied in Adelaide at SPRFMO 5.
- 3 Attachment D shows two tables:
 - a) The first is a 7 year time series (including an estimate for 2019/20) which applies the proposed new formula, using the 2017/18 budget figure of \$939 000 to enable comparison with last year. This illustrates how the proposed budget formula improves stability and reduces volatility in the contributions.
 - b) The second table in Attachment D applies the proposed new formula without the revised basic fee. This is also presented as a 7 year time series. This has been provided for information because some Members queried the benefit of revising the basic fee. As the proposed revisions to the basic fee bring are consistent with the FAC's previous deliberations, we have elected to retain it in this proposal as a basis for further discussion.

⁴ The FAC 4 recommended budget is shown in Annex 2 of the Report of the 4th FAC meeting where the sum of Member contributions was \$939 000. This is the budget the FAC recommended to the Commission. Members will recall the Commission subsequently agreed to increase the budget by \$225 000 to fund the Executive Secretary changeover costs (which were funded from "other sources", not Member contributions). Accordingly, the FAC 4 recommended budget is used as the basis of this model for comparative purposes. The model also assumes the USA had been a Member at the time.

Attachment A

<p align="center">Proposed amendments to Regulation 4.7(a) <i>(Amendments to Reg 4.7(a) in tracked changes)</i></p>	<p align="center">Rationale</p>
<p>Each Member of the Commission shall contribute to the annual budget, in accordance with the following formula determined according to Article 15 paragraph 2 of the Convention:</p>	<p>No amendment proposed.</p>
<p>(a) a basic fee of 20%:</p> <p>i. 10% of which shall be divided in equal shares between all Members of the Commission except that any developing country Member of the Commission that was not engaged in fishing for fishery resources in the previous calendar year 2 years prior to the year in which the budget is adopted shall have its notional share reduced by 25% with the consequent shortfall apportioned equally among the other Members of the Commission; and</p> <p>ii. 10% of which shall be calculated by summing the total number of years in which Members of the Commission engaged in fishing over a five year period which begins six years before the calendar year in which the budget is adopted, and then assigning the 10% fee proportionally amongst the active Members, based upon the number of years each Member has engaged in fishing (as defined in Article 1(g)) in this period;</p>	<p>(ii) introduces a new element into the budget formula’s basic fee. This fee would apply to all Members who have engaged in fishing over the same five year period referred to in (c). The 10% fee is proportionately applied by calculating the total number of years each Member was active over that five year period and multiplying it by the number of years a Member was actively fishing.</p> <p>This amendment to the basic fee will have a smoothing effect over budget contributions and ensure a fairer distribution across all Members.</p> <p>It is also proposed to rename the ‘base’ fee to ‘basic’ fee for consistent with Article 15(2) of the Convention.</p> <p>Calendar year is the basis for all activity, including catch, reporting.</p> <p>The reference to ‘two years prior...’ clarifies the existing practice for the way this aspect of the budget is applied due to data availability.</p>
<p>(b) a national wealth component of 30%, 15% of which shall be divided among the Members of the Commission according to their respective Gross National Income (as defined by the World Bank, or equivalent institution available), and 15% divided among Members according to their Gross</p>	<p>No amendment proposed.</p>

National Income per capita (as defined by the World bank, or equivalent institution available); and	
<p>(c) a catch component of 50%, 37.5% of which shall be divided among the Members of the Commission fishing for pelagic fishery resources and 12.5% divided among Members fishing for demersal fishery resources. The catch component shall be calculated on the basis of a five year average of each Member's respective catch limits and quota allocations prescribed under SPRFMO CMMs, where available, or otherwise a five year average of its total reported annual catch of the relevant fishery resources, in each case beginning six years before the calendar year in which the budget is adopted, subject to:</p> <ul style="list-style-type: none"> i. a factor of 0.5 being applied to the five year average for catches of <i>Disodicus gigas</i>; ii. where a catch limit or quota applies to a fishery resource that straddles the Convention Area and an area under a Member's national jurisdiction, then each of that Member's relevant catch contributions for the purposes of calculating the five year average referred to above shall be derived using the proportion of its total catch taken from the Convention Area over the preceding ten-year period, the most recent of which shall be calculated using the figures from the period beginning twelve years before the calendar year in which the budget is adopted. 	<p>These amendments:</p> <ul style="list-style-type: none"> a) reduce the value of the catch component from 60% to 50% (to account for the adjustments to the basic fee). The subdivision to the pelagic and demersal components preserves the existing proportions for sub-dividing pelagic and demersal catches; b) expand the reference years from three years to five years which will mean that contributions are less sensitive to fluctuations in intermittent high catches between years; c) use catch entitlements where available. Where a catch limit is not possible, actual catch would continue to be used for the purposes of the calculations. This will assist in stabilising budget contributions as catch entitlements are less likely to vary between years. However, noting that one Member has currently agreed to include its EEZ catch in its jack mackerel entitlement, it is necessary to calculate a high seas entitlement for each year that is used in the formula so that the 5 year average referred to in (c) can be calculated. The method proposed in (ii) is a 'rolling 10 year average.' i.e. for 2016, the amount of catch taken from the high seas during the 2006-2015 ten-year period is divided by the total catch for the same period resulting in a 10 year average proportion that is then multiplied by the Member's 2016 catch entitlement, thus becoming the "2016 high seas entitlement". For the 2018/19 budget the reference years (under this proposal) would be 2012-2016. The rolling 10 year average is designed to reflect that Member's high seas catch of jack mackerel while reducing the effect of catch volatility to produce an equitable budget outcome; and d) downweight squid catches by a factor of 0.5 (halved in all situations) to reflect the balance of the Commission and the Secretariat's regulatory effort.

Attachment B – Results of applying the proposed new budget formula to the proposed budget for 2018/19 (FAC5-Doc05)

2018/19 Financial year of the Organisation

Basic fee	20%	National Wealth	30%	Catches	50%
i	ii	GNI	GNI per capita	Pelagic	37.5%
10%	10%	15%	15%	Demersal	12.5%

Reference years = 2012 to 2016

Draft budget \$ 1,141,000

Members	Basic fee		Wealth component		Catches		Contribution	%
	i	ii	GNI	GNI per capita	Pelagic	Demersal		
Australia	\$8,082	\$12,678	\$4,318	\$26,522	\$0	\$20,722	\$72,322	6.3
Chile	\$8,082	\$12,678	\$797	\$6,594	\$83,251	\$0	\$111,402	9.8
China	\$8,082	\$12,678	\$37,470	\$4,026	\$221,412	\$0	\$283,667	24.9
Cook Islands	\$5,705	\$0	\$1	\$7,311	\$0	\$0	\$13,017	1.1
Cuba	\$5,705	\$0	\$247	\$3,202	\$0	\$0	\$9,153	0.8
Ecuador	\$5,705	\$0	\$314	\$2,836	\$576	\$0	\$9,430	0.8
European Union	\$8,082	\$10,142	\$55,928	\$16,203	\$37,520	\$1,521	\$129,396	11.3
Faroe Islands	\$8,082	\$0	\$8	\$24,069	\$5,655	\$0	\$37,815	3.3
Korea	\$8,082	\$12,678	\$4,652	\$13,451	\$9,793	\$0	\$48,655	4.3
New Zealand	\$8,082	\$12,678	\$603	\$19,041	\$0	\$120,382	\$160,786	14.1
Peru	\$8,082	\$10,142	\$622	\$2,900	\$14,553	\$0	\$36,298	3.2
Russian Federation	\$8,082	\$5,071	\$4,689	\$4,737	\$21,089	\$0	\$43,668	3.8
Chinese Taipei	\$8,082	\$12,678	\$1,799	\$11,335	\$6,513	\$0	\$40,407	3.5
United States of America	\$8,082	\$0	\$59,701	\$27,379	\$0	\$0	\$95,163	8.3
Vanuatu	\$8,082	\$12,678	\$3	\$1,545	\$27,514	\$0	\$49,821	4.4
Total	\$114,100	\$114,100	\$171,150	\$171,150	\$427,875	\$142,625	\$1,141,000	

Attachment C – Comparison between the proposed new formula and the FAC4 recommended budget

2017/18 Financial year of the Organisation

Basic fee	20%	National Wealth	30%	Catches	50%
i	ii	GNI	GNI per capita	Pelagic	37.5%
10%	10%	15%	15%	Demersal	12.5%

Reference years = 2011 to 2015

FAC4 Budget \$ 939,000

FAC4

Members	Basic fee		Wealth component		Catches		Contribution	%	Report	
	i	ii	GNI	GNI per capita	Pelagic	Demersal			Annex 2	%
Australia	\$6,651	\$9,989	\$3,554	\$21,826	\$0	\$17,087	\$59,107	6.3	\$68,474	7.3
Chile	\$6,651	\$9,989	\$656	\$5,426	\$62,966	\$0	\$85,689	9.1	\$89,684	9.6
China	\$6,651	\$9,989	\$30,836	\$3,313	\$181,427	\$0	\$232,217	24.7	\$225,752	24.0
Cook Islands	\$4,695	\$0	\$1	\$6,017	\$0	\$0	\$10,713	1.1	\$12,060	1.3
Cuba	\$4,695	\$1,998	\$203	\$2,635	\$0	\$0	\$9,531	1.0	\$8,657	0.9
Ecuador	\$4,695	\$0	\$258	\$2,334	\$228	\$0	\$7,516	0.8	\$8,356	0.9
European Union	\$6,651	\$7,991	\$46,027	\$13,334	\$32,200	\$1,254	\$107,458	11.4	\$125,399	13.4
Faroe Islands	\$6,651	\$0	\$7	\$19,808	\$4,365	\$0	\$30,830	3.3	\$26,950	2.9
Korea	\$6,651	\$9,989	\$3,828	\$11,070	\$7,882	\$0	\$39,421	4.2	\$43,890	4.7
New Zealand	\$6,651	\$9,989	\$496	\$15,670	\$0	\$99,034	\$131,841	14.0	\$132,824	14.1
Peru	\$6,651	\$7,991	\$512	\$2,386	\$14,823	\$0	\$32,364	3.4	\$29,923	3.2
Russian Federation	\$6,651	\$5,994	\$3,859	\$3,898	\$17,886	\$0	\$38,288	4.1	\$28,221	3.0
Chinese Taipei	\$6,651	\$9,989	\$1,480	\$9,328	\$7,496	\$0	\$34,945	3.7	\$24,674	2.6
United States of America	\$6,651	\$0	\$49,132	\$22,532	\$0	\$0	\$78,315	8.3		0
Vanuatu	\$6,651	\$9,989	\$2	\$1,271	\$22,852	\$0	\$40,766	4.3	\$46,333	4.9
<i>Other Funding</i>									\$67,803	7.2
Total	\$93,900	\$93,900	\$140,850	\$140,850	\$352,125	\$117,375	\$939,000		\$939,000	

