

**Te Ohu Kaimoana Trustee Ltd
Aotearoa Fisheries Ltd.
Sealord Group Ltd.
Endurance Fishing Ltd.**

27 February 2009

**SUBMISSION TO THE EMISSIONS TRADING SCHEME
REVIEW COMMITTEE**

The contact person for this submission is:

Simon Boag

Strategy Manager - Sealord Group

PO Box 11, Nelson

sab@sealord.co.nz

Telephone +64-3-5483069

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1.0 Summary of the submission

The Coalition is a result of Maori enterprise and endeavour arising from the 1992 Fisheries Settlement between the Crown and Māori. All of the businesses (other than endurance) which form the Coalition are an expression of Māori fishing rights. Although the Fisheries Settlement is set out in statute to be “full and final”, for it to have enduring value both partners must make efforts to advance the agreements that were the basis of the Settlement. To give effect to that continuing relationship, the Crown must make informed decisions on matters affecting Māori fishing rights and interests. That duty clearly applies when the matters on which decisions are to be made are significant. Emissions trading is one of the most significant issues for Māori, the Coalition and the Fisheries Settlement.

This submission’s first proposal is that the Crown should:

1. Expressly address the affect of emissions trading on Māori fishing interests in good faith during the process of reviewing the Act.

The Coalition is the formation of 13 diverse entities with involvement in all aspects of the New Zealand commercial fishing industry. The Coalition represents a significant portion of the New Zealand industry (“the sector”). As a % of the industry it annually represents:

- 124,000 tonnes of quota (21% of the total allowable commercial catch)
- 12,000 tonnes of mussels (21% of 2006 industry harvest)
- 1,300 staff (14% of total sector employment)
- \$434m turnover (17% of sector turnover)
- \$377m in exports are trade exposed (29% of the sector’s export earnings)
- \$32m in gross profit (22% of industry estimated total)

The intent of the Kyoto Protocol to the United Nations Framework Convention on Climate Change (“The Kyoto Protocol”) is to reduce global greenhouse gas (“GHG”) emissions. New Zealand’s commitment is to return GHG emissions to 1990 levels or to take responsibility for emissions above this level. The fishing industry has already undertaken significant work to reduce absolute fuel consumption and there is evidence to show it may be already be below the targeted 1990 level of GHG emissions.

This submission’s second proposal is therefore that:

2. The industry should only need to take responsibility for emissions above 1990 levels. A mechanism within the current Act would be a 100% free allocation ad infinitum provided gross emissions remain below 1990 levels.

The Coalition’s operations are energy intensive directly consuming 31 million litres of liquid fuels and 21 gigawatts of electricity. Total energy cost is \$34m. 97,000 tonnes of CO₂e are emitted by upstream energy suppliers (at the point of obligation) in producing this energy. These producers will pass all emission costs on to the Coalition. The Coalition is working hard to reduce energy consumption.

Economic conditions leading into and through 2008 placed significant pressure on the industry and profit levels are currently low. If CO₂e enters emissions trading at \$30/tonne the Coalition will see costs increase under the proposed scheme by \$2.9m. This will decrease profits by 9%. The Coalition already faces very high levels of cost recovery from fisheries management and food safety

regimes. Emissions trading will also increase the costs of linked industries up and downstream of the seafood industry. These costs have not been calculated but will be significant.

The Coalition exports 87% of total turnover and competes with commodity fish products from countries that do not and will not operate in economies in which carbon is costed. Competing products include those from developing Southern Hemisphere countries exporting similar species. The international competitiveness of the New Zealand seafood industry is at risk.

A revision in late 2008 in the Act saw the fishing industry receive three years of 50% free allocation. This does not provide time for the industry to adapt to the cost of carbon. The submission's third and fourth proposals are then, that as an energy intensive and trade exposed industry, the Seafood Industry:

3. **Receives the same treatment under the Act as other trade exposed industries and the agriculture sector. Specifically:**
 - **That fishing vessels (liquid fuels) receive a 90% free allocation (based on 2005 emissions) for the period 2011 to 2018 and then a declining % to 2029 and,**
 - **That because land processing is a step subsequent to the fishing process and not a stand alone industry, is equally trade exposed and is part of an energy intensive industry; that the Stationary Energy and Industrial Technical Advisory Group should apply the same free allocation (as liquid fuels) from emissions arising from the production of electricity used in shore processing.**
4. **That the current uncertainty regarding the wording of the Act be clarified so that charter vessels also receive free allocations.**

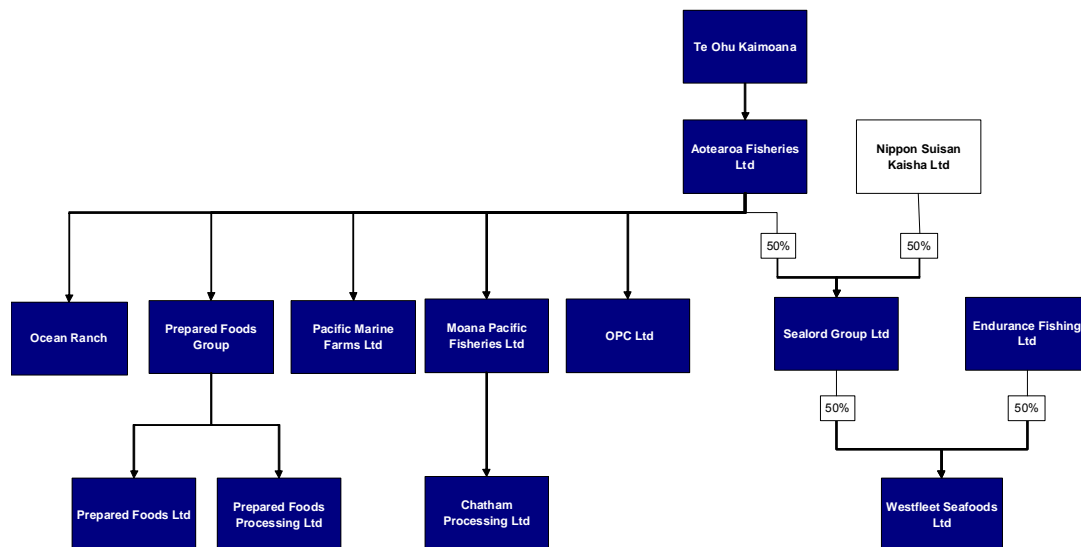


Figure 1 Schematic representation of the Coalition of companies making this submission

2.0 Coalition partners

- 2.1. Te Ohu Kai Moana Trustee Ltd. (“TOKM”), Aotearoa Fisheries Ltd. (“AFL”), Sealord Group Ltd. (“Sealord”) and Endurance Fishing Ltd. (“Endurance”) are closely linked through the various ownership structures shown in Figure 1.

This submission is on behalf of all companies highlighted in Figure 1 and is specific to the seafood industry. Partners with interests in other industries may make separate submissions. The operations of the four Coalition partners are described in sections 4.0 – 7.0 of this submission.

The Coalition has also had input into the Seafood Industry Council’s (“SeaFic”) submission. This submission aims to broadly support the principles of SeaFic’s submission with factual investigated examples.

- 2.2. The Coalition represents a significant portion of the New Zealand industry (“the sector”). Annually the Coalition represents:

- 124,000 tonnes of quota (21% of the total allowable commercial catch)
- 12,000 tonnes of mussels (21% of 2006 industry harvest)
- 1,300 staff (14% of total sector employment)
- \$434m turnover (17% of sector turnover)
- \$377m in exports are trade exposed (29% of the sector’s export earnings)
- \$32m in gross profit (21% of industry estimated total)

- 2.3. The Coalition is comprised of nine operating companies covering almost all aspects of the sector, these companies have involvement in:

- Wild harvest and aquaculture production
- Fresh and frozen products
- Export and domestic markets
- High and low value species
- Finfish and invertebrates (such as squid, mussels, lobster and kina)
- Freshwater and marine species
- Inshore, deep water and international fishing operations
- Frozen at sea and fresh vessels
- Trawl, bottom/surface longline, autoline, gill net, potting, trapping and diving fishing methods

3.0 The Coalition’s Interest in the Review

The Coalition’s interest in the Climate Change Response Act (2002) (“the Act”) is with regard to:

- The term of reference: *“consider the impact on the New Zealand economy... ..of any climate change policies, having regard to the weak state of the economy, the need to safeguard New Zealand’s international competitiveness, the position of trade-exposed industries, and the actions of competing countries”*, and,
- the impact of the Act on the Fisheries Settlement.

We wish to be heard in support of this submission.

4.0 Te Ohu Kai Moana Trustee Ltd.

TOKM is the corporate trustee of Te Ohu Kai Moana Trust (“the Trust”) and was established under section 31 of the Māori Fisheries Act (2004). The Trust has a multi-faceted role. It holds all the control shares in Aotearoa Fisheries Ltd., its commercial subsidiary. The Trust must advance the interests of iwi individually and collectively, primarily in the development of fisheries, fishing, and fisheries-related activities, in order to:

- ultimately benefit the members of iwi and Māori generally;
- further the agreements made in the 1992 Deed of Settlement between the Crown and Māori for the settlement of Māori commercial fisheries claims (“Deed of Settlement”) and to assist the Crown to discharge its obligations under the Deed of Settlement and the Treaty of Waitangi; and,
- contribute to the achievement of an enduring settlement of the claims and grievances referred to in the Deed of Settlement

TOKM actively assists iwi organisations who have received, or who will receive fisheries assets under the Fisheries Settlement. TOKM also works actively with the wider fishing industry, its subsidiary companies and participates in a number of industry organisations to protect the interests of iwi and Māori as the beneficiaries of the Fisheries Settlement.

5.0 Aotearoa Fisheries Ltd.

AFL is the largest Māori-owned fisheries company in Aotearoa/New Zealand. Its investment in the New Zealand seafood industry includes Ocean Ranch, Prepared Foods Group Ltd. (“Prepared Foods”), Pacific Marine Farms Ltd. (“Pacific Marine”), Moana Pacific, OPC Ltd., Sealord, and Chatham Processors Ltd. (“CPL”).

5.1. Prepared Foods Group is separated into two entities:

- Prepared Foods Processing Ltd. - the largest processor of paua in New Zealand with more than 1,000 tonnes (in shell) harvested each year.
- Prepared Foods Ltd. is - sales and marketing arm of the company.

5.2. Pacific Marine specialises in the export of raw Pacific oysters that are grown at eight marine farms from Parengarenga in Northland to the Marlborough Sounds.

The company exports half of its produce to Australia and 40% to Japan, US, Malaysia, Hong Kong and Singapore.

At the height of the season, Pacific Marine employs around 100 staff, including workers at its processing plants in Coromandel and Whangarei.

- 5.3. Moana Pacific is New Zealand's largest inshore fishing, processing and marketing company and is a major Māori fishing asset.

The company has a large processing capacity with a total of 22 plants and depots nationwide. AFL does not own fishing vessels. Catch is supplied by independently owned vessels under contract.

Moana Pacific supplies to the Asian and US markets and is one of the biggest local suppliers to the New Zealand retail market. Moana Pacific prides itself on being a Māori -owned company and is ideally suited to assisting the development of the Māori fishing industry.

- 5.4. Chatham Processing is based at Waitangi on the Chatham Islands, its core business is exporting live lobsters, wetfish, scallops and kina (sea urchin).

The company maintains a high revenue export operation, mainly into China. Live lobsters are taken from holding tanks on the Islands to restaurants, retail outlets and hotels in mainland China in a day. The company also exports lobster tails to North America for high-end restaurants. CPL works closely with Moana Pacific to optimise marketing channels for live lobster.

CPL is the largest single employer on the island employing up to 10-20 people depending on seasonality. 75% of the employees are from the local iwi.

- 5.5. OPC is an inshore processing and marketing company. It does not own vessels; catch is landed by contracted independent vessels. It is based in Whitianga in the Waikato.

6.0 Sealord Group Ltd.

Sealord is jointly owned by AFL and Japanese seafood company Nippon Suisan Kaiasha Ltd. The Māori ownership was enveloped by the Treaty of Waitangi Fisheries Commission until the shareholding was taken over by AFL.

Sealord owns quota shares which will generate 112,000 tonnes (greenweight tonnes or "GWT") of annual catch entitlement in 2008/9 and farms around 12,000 tonnes of Greenshell[®] mussels ("mussels"). Sealord operates a fleet of deep sea vessels, charters deep sea vessels and owns mussel harvest vessels.

Processing occurs in Nelson and offshore but only New Zealand based processing is included in this submission. Products include a large range of coated products, frozen fillets, frozen block, frozen mussels and fresh fish.

Sealord is a key supplier of frozen and chilled seafood to wholesalers, processors and retail chains in North America, Europe, Asia and Australasia. Its marketing network consists of bases in the United States, UK, France, Spain, Hong Kong, Japan, Korea, Denmark, Australia and New Zealand. This submission does not include either the financials or energy use of any marketing activity or of any products manufactured offshore and imported (i.e. canned tuna).

7.0 Endurance Fishing Ltd.

Endurance Fishing Ltd. is a fishing company operating two vessels from Nelson. It is innovative in that one vessel is a 'large inshore' stern trawler able to operate in both the inshore (inside the territorial sea) and deepwater fisheries (territorial sea to EEZ limit) due to its significant horsepower, electronics and fishing hardware normally only present on larger vessels. The other vessel is New Zealand's only autoliner/trawler.

- 7.1. Westfleet Seafoods ("Westfleet") is a 50/50 joint venture between Sealord and Endurance. It is situated in Greymouth on the west coast of the South Island. Westfleet targets 40+ species of fish. It owns five inshore vessels and has contract catching agreements with up to 10 independent vessels. This fleet is typical of the inshore fleet operating throughout New Zealand.

It operates a factory where about a third of fish is sold in fresh form into major Australian fish markets and throughout New Zealand. Westfleet manages its own sales throughout New Zealand, but also uses the Sealord marketing network and independent fish brokers.

8.0 Relevance of emissions trading to Coalition

- 8.1. **The Fisheries Settlement** is set out in statute to be "full and final". A final settlement has responsibilities for both parties to the Settlement – for it to have enduring value both partners must make efforts to advance the agreements that were the basis of the Settlement. In the case of the Fisheries Settlement, that was for enduring rights to fish based on sustainability. TOKM and iwi consider that the Crown has ongoing responsibilities (as spelt out by the Courts) to protect actively, and not impose policies that would devalue the Fisheries Settlement. We recognise that, from time to time, the Crown will be required to change existing law or policy relating to Māori fishing interests.

However, any such change is only justified if it is required to achieve sustainability of fisheries. In the absence of such a justification, explicit agreement by iwi is needed before there can be any attenuation of the Fisheries Settlement.

The Deed of Settlement confirmed the continuing relationship between the Crown and Māori with respect to fishing rights and interests. Although the Deed of Settlement extinguished all commercial fishing rights and interests of Māori, it did not override or otherwise negate the Treaty of Waitangi. The Treaty, and its principles, therefore continues to apply in respect of Māori fishing rights and interests.

To give effect to that continuing relationship, the Crown must make informed decisions on matters affecting Māori fishing rights and interests. That duty clearly applies when the matters on which decisions are to be made are significant. Emissions trading is one of the most significant issues for Māori, the Coalition and the Fisheries Settlement.

8.2. The intent of the Kyoto Protocol to the United Nations Framework Convention on Climate Change (“The Kyoto Protocol”) is to reduce global greenhouse gas (“GHG”) emissions. Signatory Nations made commitments versus a 1990 benchmark. New Zealand’s commitment is to return GHG emissions to 1990 levels or to take responsibility for emissions above this level.

The fishing industry has already undertaken significant work to reduce absolute fuel consumption and may already be below the targeted 1990 level of GHG emissions. The Coalition business structure was very different in 1990 so it is not possible to directly compare 1990 and current emissions. However, there are several facts suggesting that the Coalition may have already achieved the overarching 1990 target:

- a) Industry catch was 523,000 tonnes in the 1989/90 fishing year (12 months from October 1989) and is currently 568,000 tonnes.
- b) In the 1996/97 fishing year (the oldest year in which Sealord can provide comparable figures) the fleet was comprised of 53 vessels. Currently the Sealord fleet is comprised of seven vessels¹
- c) This same pattern of fleet rationalisation has been repeated across the industry. Figure 2 shows vessel numbers reducing by 1,736 vessels (55%) within only a very small decrease in catch.

VESSEL & CATCH STATISTICS ²		
1990-2007		
Year Ending 30 September	Vessels Registered	Catch (tonnes)
1989/90	3,149	523,500
2004/05	1,413	520,400
2007/08	TBC ³	567,724

Figure 2 New Zealand fishing industry vessel number and catch over time

- d) Members of the Coalition, together with other New Zealand fishing companies, have recently rationalised the orange rough / oreo dory deepwater fishing fleet, reducing fuel consumption by over one million litres. This achievement will be a matter of public record and has been described in an entry into the 2009 EECA energy awards.

¹ The longliners Janas and Avro Chieftain are included in fuel and emissions data within this submission because they take fuel within New Zealand (and will be subject to any cost placed on carbon) but they do not fish within the New Zealand EEZ.

² Source: SeaFic

³ Current vessel numbers in New Zealand were not immediately available from the Ministry of Fisheries

8.3. **Coalition partner businesses are energy intensive with the coalition spending around \$34m** per annum (see figure 4). Figure 3 (below) details each Coalition partner's energy consumption by area. Fishing is an energy intensive business. Liquid fuels (light fuel oil, diesel and some petrol) consumption is 31 million litres (28 thousand tonnes). A high proportion of this is used in the activity of fishing, particularly stern trawling, but fuel is also used in shore processing. Grid electricity is used in shore processing.

	Petrol (litres)	Diesel (MGO) (litres)	Fuel Oil (LFO) (litres)	LPG (litres)	Electricity (kwhs)
Rehua		226,000	4,298,000		
Thomas Harrison		209,000	1,883,000		
Janas		900,000			
Antarctic Chieftain		900,000			
Otakou		151,500	1,363,500		
Taimania		1,458,162			
Vickerman Street			1,130,000		18,071,699
Shellfish			450,000	56,028	5,529,824
EBA harvest vessels			300,000	9,681	
Meridian 1		53,000	5,264,000		
Professor Mykhaylo Aleksandrov		54,000	5,410,000		
Alexander Buryachenco		55,000	5,428,000		
Pool & lease vehicles	12,480				
Sealord	12,480	4,306,662	25,226,500	65,709	23,601,523
Galatea		453,830			
Tasman Viking		804,457			
Office/vehicles					14,088
Endurance Fishing	-	1,258,287	-	-	14,088
Harbour Holdings Vessels		300,000			
Processing/office	3,875			5,904	792,000
Westfleet	3,875	300,000	-	5,904	792,000
OPC		42,534			234,224
Moana Pacific					3,715,249
Chatham Processing		3,335			2,556,180
Prepared Foods					1,076,923
Pacific Marine					666,863
AFL	-	45,869	-	-	8,249,439
TOKM⁴					
COALITION TOTAL	16,355	5,910,818	25,226,500	71,613	32,657,050

Figure 3 Coalition partner annual energy consumption by type

⁴ TOKM's operational activities are through subsidiary companies. They have some energy consumption but this is immaterial and not stated.

It must be noted that the only truly vertically integrated business within the Coalition is Sealord; it is present at the catching, processing and marketing steps. If the full energy consumption of the value chain was included energy and carbon emissions would be much higher. For instance Moana Pacific holds over 10,000 tonnes of quota - 9% that of Sealord's. The fuel use for this fleet of contract vessels is not shown in the figures but will actually have energy consumption roughly equal to the 9% of the Sealord energy consumption (see footnote 6). Likewise, Endurance is only present in fishing and Westfleet are only partially present in fishing. If the fully integrated energy consumption was included figures for the Coalition would be significantly higher. It is very likely that the companies contracting to the Coalition will endeavour to pass all or some of these costs to Coalition partners.

The industry is acutely aware that it is at risk by its reliance on energy and significant work has and is occurring:

- SeaFic in conjunction with the Energy Efficiency Conservation Authority (“EECA”) are undertaking project that involves bringing an international expert in reducing energy costs through gear and marine technology to New Zealand to work with our fishers.
- The winner of the EECA Industrial/Manufacturing Energy Wise Award in 2007 was Sealord.
- In the deepwater sector, companies (including those from the Coalition) are trialling a collective catch arrangement, using the more efficient vessels and then sharing the costs and benefits of the arrangement. This work will form the basis of the 2009 EECA award entry.
- EECA have three active projects underway with the industry all of which are with members of the Coalition. Endurance have converted a vessel to a less energy intensive fishing method, Sealord are trialling energy efficient fishing gear supported by a fuel flow meter and Sealord and Talley's Fisheries have completed the first ever energy audits on fishing vessels in New Zealand.

8.4. The Coalition's resultant annual **CO₂e debt is 97,387 tonnes** as shown in Figure 4. The cost of New Zealand emission units is uncertain but at \$30/tonne this equates to \$ 2.9 m across the Coalition.

	CO ₂ e tonnes ex-Petrol 0.00228 ⁵	CO ₂ e tonnes ex-Diesel (MGO) 0.0026 ²	CO ₂ e tonnes ex-Fuel Oil (LFO) 0.00294 ²	CO ₂ e tonnes ex-LPG 0.00162 ²	CO ₂ e tonnes ex-Electricity 0.00015 ⁷	Annual energy cost \$m (excl. CO ₂ e cost)	TOTAL CO ₂ e tonnes
Sealord	28	11,197	74,166	106	3,540	31.0	91,894
Endurance	-	3,272	-	-	2	0.9	3,274
Westfleet	9	163	-	10	119	0.4	917
AFL	-	119	-	-	1,237	1.6 ⁶	1,357
TOKM	-	-	-	-	-	-	-
COALITION TOTAL	37	15,368	74,166	116	4,899	33.9	97,387

Figure 4 Coalition annual CO₂e debt

⁵ Emission factor

⁶ See 6.1. Endurance, Westfleet and AFL are not fully integrated so the actual energy costs with their value chain is significantly higher. For instance AFL's value chain energy cost if all contract fishing vessels were calculated would be somewhere in the order of \$2.8m, \$1.2m more than stated.

8.5. At \$30/tonne CO₂e the cost passed on from point of origin energy producers will reduce the Coalition's net profit before tax by \$ 2.9 m down to \$ 29.1 m. This is a reduction of 9%. In late 2008, section 75 of the Act provided some benefits to fishing vessel operators providing a 50% free allocation for the initial three years of the scheme. This will reduce the cost by 25-50% for three years. The range in figures being caused by the uncertainty around the eligibility of charter vessels (as set down in section 75 (3)), shore processing and aquaculture. It will however be a hard landing in year four. The lack of a staggered entry does not provide any time for considered industry rationalisation or building new vessels. Three years will only provide time for a rush of projects that may reduce energy consumption by as little as 1 or 2%. Step change is required and time is required to achieve this.

Coalition entity	Annual catch entitlement (quota) GWT	Annual mussel production GWT	Average employment count ⁷	Annual turnover (all) NZ\$m ⁸	Annual turnover trade exposed (exports) NZ\$m	NPBT in most recent reporting year NZ\$m
Sealord ^{9,4}	112,000	12,000	1,000	confidential	confidential	confidential
Endurance ⁴	1,563 ^{10,11}	-	24	confidential	confidential	confidential
Westfleet ⁴		-	35	confidential	confidential	confidential
OPC	-	-	20	see AFL Group	see AFL Group	see AFL Group
Moana Pacific	-	-	100	see AFL Group	see AFL Group	see AFL Group
CPL	-	-	30	see AFL Group	see AFL Group	see AFL Group
Prepared Foods	-	-	30	see AFL Group	see AFL Group	see AFL Group
Pacific Marine	-	-	75	see AFL Group	see AFL Group	see AFL Group
AFL Group ¹²	10,115	-	see subordinates	113.7 ¹³	108.0	16.5
COALITION TOTAL¹⁴	123,678	12,000	1,314	434	377	32
Industry Total¹⁵	586,000	87,724	7,000	1,413	1,300	150¹⁶
Coalition %	21%	14%	19%	31%	29%	21%

Figure 5 Coalition's significance within the industry

⁷ Includes employees and full time contractors.

⁸ Financial details by company are expressed in total (other than AFL which publishes an open annual report) for reasons of confidentiality.

⁹ Turnover excludes international marketing businesses, international fishing ventures (includes Antarctic joint venture), Westfleet and New Zealand marketing.

¹⁰ Owned 2008/9 annual catch entitlement. Excludes ACE leased in.

¹¹ Westfleet and Endurance ACE combined.

¹² AFL companies included in AFL Group financials.

¹³ Excludes Sealord dividend.

¹⁴ Total (export + domestic) turnover estimated, no figures on domestic turnover are available, thus it is derived assuming 92% exported (SeaFic estimate).

¹⁵ SeaFic figures.

¹⁶ SeaFic estimate.

8.6. 2008 was a period of high New Zealand currency value and unprecedentedly high energy costs. The Coalition exports 87% of production and is energy intensive so was particularly negatively affected. Members of the Coalition subsequently took defensive hedge positions on fuel and currency. Thus the more favourable recent conditions of low currency value and low energy cost will not immediately flow through.

The Coalition faces high levels of cost recovery. The industry contributes over \$35m per annum in levies and fees for fisheries management. In addition the industry pays \$1.5m in New Zealand Food Safety Authority levies and an immeasurable amount complying with fisheries management and food safety regulations. These are some of the highest costs imposed on an industry in the world and certainly the highest of any industry in New Zealand.

The industry is currently more favourably positioned than many industries. As a food producer sales are less volatile than other manufacturing industries, a weaker New Zealand dollar, fuel cost is down and the sustainability of key fish stocks is good. The fishing industry is positioned to partially offset New Zealand's currently negative economic growth. However, emissions trading in its current form is a significant threat to this positive affect.

If there is an immediate cost imposed by emissions trading, Coalition companies will be forced to seek structural changes within the business to offset this and to restore profit levels. The fishing operation must occur in New Zealand but other processes could be moved to "non-Kyoto" economies. Over 900 of the total 1,314 Coalition employees are employed in shore processing.

8.7. The Coalition's international competitiveness is at risk. At 87% the Coalition's trade exposure is very high but typical of the industry at 92%. The Coalition is a price taker in the international market. The entire New Zealand industry supplies only 2% of the world's seafood. It will not be possible to pass on the costs of emissions trading to customers. Many of our competitors are developing nations who, under the Kyoto Protocol, have no obligation to reduce their carbon emissions until they achieve developed nation status. There are two specific examples of this both at a species and product level:

- a) Southern Hemisphere continents like Africa and South America (both have developing nation status and no Kyoto target) and fish and sell the same fish genera and species as the New Zealand industry. Examples include ling, hoki and orange roughy - all of which are within the top 10 New Zealand export species.

b) Hoki is the largest quota holding by species within the Coalition and the New Zealand industry in general. Around 70% of the hoki catch is manufactured into “block” – an international product with standardised dimensions that are then further manufactured into fish fingers and other coated products. Fish block is a true global commodity and driven by the Northern Hemisphere pollock fisheries, the largest of which are the Russian and Alaskan pollock fisheries. Annual hoki catch in New Zealand is 90,000 tonnes. The combined Russian/Alaskan Pollock fishery annual catch is 1,515,000 tonnes¹⁷ - 17 times larger than the hoki fishery. Neither the Russian nor the United States fishing industry will be subject to the cost of carbon from their activities. Although Russia has ratified the Kyoto Protocol the economic collapse of most countries in the former Soviet Union mean Russia will be able to meet its obligation without imposing a cost on carbon. The United States has not ratified the Kyoto Protocol.

8.8. This submission does not address the **secondary cost affects** from value chains feeding into, or from, the seafood industry value chain. For instance there are value chains feeding into the seafood industry from separate industries such as packaging, fishing equipment and inward logistical freight. Downstream value chains in industries like sea freight, air freight, domestic transport and port operations will all be affected. These industries will attempt to pass their costs onto the seafood sector. As described in 8.7 (above) the seafood sector is a price taker on the international market. As an industry in which the majority of product is exported the inability to pass these costs to consumers will become a significant burden. This submission has not attempted to quantify these additional costs but they are in addition to the 9% profit reduction estimate made in 8.5.

¹⁷ Russia 700,000 tonnes, Alaska 815,000 tonnes.

9.0 Issues and proposed solutions

- 9.1. **Proposal 1:** In order to discharge its duty to make informed decisions and consult with Māori on truly major issues, the Crown ought to have assessed the impact of emissions trading on Māori fishing rights and interests and consulted with TOKM and iwi regarding those impacts. The Crown has not done so. As a result, the Act adversely impacts on the Deed of Settlement. The Crown should address this in good faith during the process of reviewing the Act.
- 9.2. **Proposal 2:** The intent of New Zealand's commitment under the Kyoto Protocol is to return New Zealand to 1990 GHG emissions. The fishing industry has undergone significant rationalisation and gained in efficiency and has most likely already achieved 1990 levels of emissions. Even if the industry is above 1990 emissions a 1990 target would be fair and equitable given the circumstances and is the Coalition's preferred basis under which to cost carbon.

Members of the Coalition have always viewed international benchmarks as achievable targets. The most significant emitter of the Coalition, Sealord, lodged an NGA application. This would have seen Sealord working toward international best practice, if it was not already there. The application was not considered when the scheme was abolished.

The industry has already met its Kyoto obligations and there is no justification for unnecessarily imposing costs on the industry when it has already achieved the wider objective. The industry should therefore only need to take responsibility for emissions above 1990 levels. A mechanism within the current Act would be a 100% free allocation *ad infinitum* provided gross emissions remain below 1990 levels and 1990 remains the target Kyoto Protocol year.

- 9.3. **Proposal 3:** If a 1990 emissions target is not considered an alternate proposal is made. As set down in this submission, the industry is energy intensive and highly trade exposed. For these reasons it should receive the same assistance structure provided to other trade-exposed companies and the agricultural sector. Specifically that Section 72(2) should be amended to provide a 90% free allocation (based on 2005 emissions) for the period 2001 to 2018 and then a declining percentage to 2029.

The Stationary Energy and Industrial Technical Advisory Group ("SEIP TAG") is tasked with the allocation of partial offsetting of emissions related costs from various sectors. As described the fishing industry is trade exposed and will not be able to pass the costs of emissions to customers. On shore processing is a step subsequent to the fishing process and it not a stand alone industry. On shore processing is a process within the industry value chain and should be considered as such. It is important that stationary energy (electricity) also receives fair consideration.

- 9.4. **Proposal 4:** The definition of fishing vessel operator in section 75(3) should be amended to read, "*means the operator as stated on the certificate of registration of a fishing vessel registered under section 103 of the Fisheries Act 1996*". This will confirm that vessels under charter are entitled to free allocations.
- 9.5. TOKM and SeaFic are best placed to establish a definition of the seafood sector, details of an allocation plan and the wording as to include charter vessels in free allocations. The Coalition would support their involvement to work collaboratively with officials on these issues.