

Submission to the Review Panel on  
Foreign Chartered Vessels

by

Kahungunu Asset Holding Company

7 October 2011

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7 October 2011

Ministerial Enquiry into Foreign Chartered Vessels  
c/o MAF  
PO Box 1020  
WELLINGTON 6140

Attention: Jenny Wood

### **Ministerial Enquiry into Foreign Chartered Vessels**

Kahungunu Asset Holding Company (KAHC) thanks the Enquiry Team for the opportunity to provide information.

KAHC supports the submission provided to you by Te Ohu Kaimoana and provides this submission to add our own companies experience using Foreign Charter Vessels (FCVs). We also support the submission of the Northern Deepwater Limited Partnership, and Ngati Kahungunu Iwi Incorporated, our shareholder.

### **Who is Kahungunu Asset Holding Company?**

The Kahungunu Asset Holding Company (KAHC) is 100% owned by Ngati Kahungunu Iwi Incorporated, was established to manage the Treaty of Waitangi Fisheries settlement for Ngati Kahungunu and Rongomaiwahine, and is also charged with managing the Iwi's other commercial assets.

Ngati Kahungunu Iwi rohe extends from Paritu, north of Mahia Peninsular to Turakirae, South Wairarapa. Our offices are co-located with Ngati Kahungunu Iwi Incorporated in Hastings.

KAHC owns nett fishing assets of approximately \$50 million. This includes valuable packages of both offshore and inshore quota plus shares in Aotearoa Fisheries Limited, who in turn owns half of Sealord.

### **KAHC's Experiences with FCVs.**

KAHC has had an exceptionally successful investment strategy, underpinned by a number of principles, one of which is that we don't enter into the operation of fisheries in which we lack a depth of operational experience. Instead we seek to identify successful companies where we can add value, and we do this by investing funds, management expertise and sometimes make ACE available.

One of our decisions has been to enter an arrangement with Ngapuhi Asset Holding Company whereby we both lease our deepwater ACE to a fishing operation jointly owned by Ngapuhi and an Auckland based Fisheries Management Company, DSM Limited. The 3 entities then jointly manage the ACE and use a Korean FCV to catch a significant proportion of our deepwater ACE, including the valuable species – hoki and squid. The operation purchases additional ACE to balance the catch plan for the vessel so it can remain and fish in New Zealand waters year round.

The results from the last 2 years that we have been in this arrangement demonstrate that we have been able to improve the return on our deepwater ACE as we not only get the market price for our ACE but also receive an additional payment for our ACE as a result of the fishing operation. This current fishing year will be our third in this arrangement.

Our KAHC Directors have been concerned to ensure that the FCV we use is operated to the highest possible standards, that crew are paid properly (above the NZ minimum rate required) and looked after, and that the vessel, though old, is safe and well maintained.

We do this by personal inspection of the vessel by the fisheries subcommittee of our Board and through discussions with the Captain. We see all observer reports on the vessel, both from company commissioned observers and from feedback from MAF observers.

Most importantly we are bound into an arrangement with DSM Limited, whose 2 director/owners have a long and successful history of managing fishing vessels in NZ waters including the use of FCVs. They have the responsibility to ensure very good crew and vessel management is maintained.

### **Why FCVs are Vital in the NZ Fishing Industry**

We won't repeat the detailed information you have received from Te Ohu Kaimoana and other Maori organisations.

The fact for our Company is that we have been dismayed by the misleading information campaign orchestrated by a few large companies, whose aim appears to be to reduce competition for ACE.

The rationale is that by removing or restricting FCVs, companies (like ours) who sell their ACE would have far fewer options for buyers and would receive significantly lower ACE prices.

This would in turn lead to ACE buyers being able to access ACE at lower prices and increase their profits. It has been estimated that the removal of FCV's could reduce deepwater ACE values by more than 30%, resulting in increased benefits to the large companies, reduced returns to Iwi quota owners thereby devaluing the Treaty of Waitangi Fisheries Settlement.

For Ngati Kahungunu, such loss of income would require major reductions in the economic, social and cultural programmes operated by Ngati Kahungunu based on reduced funding from KAHC.

A further effect of removing FCVs from New Zealand waters is that less fish would be caught. An example which demonstrates this, is that our JV arrangement makes profits some years by buying in additional ACE from companies which either don't have the boats or the ability to catch all their ACE for some fish species in specific areas. Squid trawl ACE can often be acquired at low prices as few vessels (such as the FCV we use) can catch it economically in some years in the southern waters. Without FCVs the fish would remain uncaught (and in the case of squid, die within a year).

It is ironic that all major New Zealand owned fishing companies use FCVs, directly or through subsidiaries, or sell some of their ACE to FCV operators.

### **Conclusions.**

KAHC has been in a commercial arrangement alongside Ngapuhi Asset Holding Company whereby we have made our deepwater ACE available and jointly, been viable to support one FCV.

Ngati Kahungunu Iwi Incorporated is reliant on the dividends that KAHC pay from returns from our fisheries assets, for a range of activities it supports throughout the Iwi area in the SE North Island and benefits it provides to Iwi members.

KAHC has an asset base which is over 90% seafood based. It is the only fisheries settlement to benefit the Ngati Kahungunu Iwi directly as any future land based settlements will be settled directly with Hapu.

KAHC has developed successful investment strategies, one of which is reliant on the availability of FCVs.

While we support any means which ensures that all vessels fishing in NZ waters, including FCVs, operate legally in all respects, we strongly support a continuation of the use of FCVs, without which, the financial viability of our Iwi's operations would be undermined.

Naaku noa

Na  
Rangi Manuel  
Chairman

Iwi Collective Partnership General Partner Ltd  
53 the Esplanade, Kaiti  
**GISBORNE**

9 October 2011

Jenny Wood  
Ministerial Enquiry into Foreign Charter Vessels  
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**WELLINGTON 6140**

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Tena koutou,

**Re: Submission on Ministerial Inquiry into Foreign Charter Vessels**

**Introduction**

1. The Iwi Collective Partnership (ICP) is pleased to be able to submit on the Ministerial Inquiry into Foreign Charter Vessels (Inquiry). Within our submission we provide a brief introduction to the ICP including its purpose, values and membership and our indirect use of Foreign Charter Vessels (FCVs).
2. The principle objective of the Inquiry is stated as follows:

*To ensure that the operation of foreign owned and flagged vessels chartered by New Zealand fishing companies supports the following government objectives:*

- *protect New Zealand's international reputation and trade access*
  - *maximise the economic return to New Zealand from our fisheries resources*
  - *ensure acceptable and equitable New Zealand labour standards (including safe working environments) are applied on all fishing vessels operating in New Zealand's fisheries waters within the exclusive economic zone.*
3. The Inquiry webpage states that if it is demonstrated that these objectives are being undermined by current practices then the Inquiry is tasked with making recommendations relating to policy and legislative amendments and improvements to operational practices.
  4. The Inquiry webpage further states that in light of the objectives restated in paragraph 2 the Inquiry review panel is to consider the following questions:
    - *The application of New Zealand's legislative regime to the use and operation of fishing vessels, and in particular foreign charter vessels, with respect to labour, immigration, maritime safety and fisheries management and the compliance with that regime by such vessels and their operators.*

- Any international reputation risks associated with the use of FCVs
  - Any trade access risks associated with the use of FCVs
  - Whether the economic factors supporting the use of FCVs deliver the greatest overall benefit to New Zealand's economy and to quota owners
  - Whether acceptable and equitable labour standards (including safe working environments) are, or can be applied on all fishing vessels operating in New Zealand's fisheries waters within the Exclusive Economic Zone; and
  - Any other matters that the Inquiry considers relevant.
5. We have had the opportunity to view draft submissions from Te Ohu Kaimoana and SeaFIC and wish to state our support for those submissions. It is not our intention to comment on all of the questions listed for the Inquiry as we think the majority are addressed appropriately within the aforementioned submissions.

### Introducing the ICP

6. The ICP was incorporated as a limited partnership in September 2010 but has operated as an unincorporated collective of iwi fishing interests since 2007. Its membership is made up of 14 iwi from various locations throughout the North Island. 12 of the iwi are formal shareholders in the ICP while the remaining two iwi supply ACE to the ICP through ACE supply agreements (iwi members). Table 1 contains a list of all 14 iwi members, their regions and status within the ICP.
7. The ICP Board consists of 6 directors elected and appointed by the 12 iwi shareholders. 3 directors are appointed by the 3 largest iwi shareholders while the other 3 directors are elected by the remaining 9 shareholders. The current Board is comprised as follows:
- Mr Chris Insley, Ngati Porou
  - Ms Tina Porou, Ngati Tuwharetoa
  - Mr Shane Heremaia, Te Arawa (Chair)
  - Mr Maru Samuels, elected
  - Mr Tiaki Hunia, elected
  - Ms Debbie Packer, elected
8. The general manager of the ICP is Mark Ngata of Ngati Porou Seafoods.

Iwi	Region	Status
Te Arawa	Bay of Plenty	Shareholder
Ngati Tuwharetoa	Bay of Plenty	Shareholder
Ngai Te Rangi	Bay of Plenty	Shareholder
Whakatohea	Bay of Plenty	Shareholder
Ngati Awa	Bay of Plenty	Shareholder
Ngai Tai	Bay of Plenty	Shareholder
Ngati Manawa	Bay of Plenty	Shareholder
Ngati Ruanui	Taranaki	Shareholder
Nga Rauru	Taranaki	Shareholder
Taranaki Iwi	Taranaki	Shareholder
Te Rarawa	Northland	Shareholder
Ngati Porou	Gisborne	Shareholder
Te Aitanga a Mahaki	Gisborne	ACE Supplier
Rongowhakata	Gisborne	ACE Supplier

Table 1: ICP Iwi Membership

9. The ICP is open to increasing its membership to other iwi who can add value and who themselves appreciate the values of transparency, integrity, respect and trust.

#### **Why the ICP was established**

10. The ICP was formed on a desire by its iwi membership to become more active in the business of fishing. The benefits of the ICP to individual iwi membership include:

- Economies of scale through the collectivisation of iwi ACE.
- Pursue optimal returns on ACE.
- Create opportunities that build iwi member capacity, capability and participation within the fisheries sector.
- Improve understanding and capacity to manage risk.
- Promote kaitiakitanga and sustainable practices within fisheries.
- Improve business performance through developing a strategic direction that is realistic, logical, and achievable.
- Sharing of knowledge and experience amongst iwi members through tuakana – teina principles.
- Attract fisheries investment opportunities.
- Attract opportunities for iwi members to advance their participation within the fisheries value chain.

11. The ICP's values are as follows:

#### Whanaungatanga (We are like a family)

- Showing mutual respect and integrity in all we do.
- Building lasting relationships (Kotahitanga) through trust.

#### Manaakitanga (We look after each other)

- Being hospitable is important.
- We support one another.
- Honest and open communication binds us and builds trust.

#### Makohakoha (Using our expertise)

- Consistently high levels of achievement through effective and efficient management.
- We recognize the expertise and efforts of our people and partners.

#### Kaitiakitanga (We are guardians)

- Being an influential steward of the resources is a bottom line.
- It is our responsibility to ensure sustenance for the present and future generations.

#### Whakaaronui (Visionary – we are part of the sea and other fisheries and they are part of us)

- We are visionary, creative and innovative.
- We will be proactive rather than reactive towards achieving our goals which requires using our initiative to promote our vision.

## Wider ICP Fisheries Interests

12. As rightfully pointed out in Te Ohu Kaimoana's submission, the ICP's iwi members have interests in AFL and indirect interests in Sealord through the ownership of AFL income shares. All voting authority in AFL rests with Te Ohu Kaimoana which holds 100 percent of the voting shares.

## Our Journey

13. Prior to the ICP its 14 iwi members had individual ACE supply agreements with various fishing companies. The majority of these were with AFL and Sealord for a term of 3 years. The ACE supply agreements expired in 2010 and the iwi made a strategic decision to formally joint together and to work collective with a stronger strategic focus.

14. There was also a desire to find fishing partners who understood our commercial aspirations and the long-term inter-generational nature of our goals and our responsibility to the environment as kaitiaki. Hence we developed a business profile and began a nationwide search for compatible strategic fishing partners. We requested the following information from interested partners in order to assist the ICP to assess which of the strategic partners were most closely aligned with the ICP's objectives and values:

- *Compliance record, including fisheries compliance, OSH, and environmental.*
- *Previous experience in working with iwi.*
- *Ability to provide acceptable returns to potential iwi partners annually. It is understood that other opportunities may not be developed fully in year 1 therefore, leasing of ACE and pricing will be a key criteria.*
- *Ability to provide opportunities where iwi can participate (employment, scholarships, cadetships, co-branding) and add value to returns, through your operations.*
- *Commentary on how Iwi ACE will add value to your business.*
- *Outline how your company works with its current partners in a manner that provides transparency, integrity and respect.*
- *How would you develop and promote trust amongst potential iwi partners for the long term?*
- *What is a long term relationship in your view, (i.e. 3yrs, 5yrs)?*
- *What ACE parcels are you specifically interested in?*
- *What networks do you have within the industry that could assist the ICP to improve its returns within other ACE parcels (inshore, pelagic, lobster, etc)?*
- *Explain how your company can accommodate the responsibility iwi have as Kaitiaki (guardians) in relation to our ACE assets.*
- *Iwi also have a responsibility to provide Kaimoana at major iwi hui or tangihanga (funerals). How will a relationship with your company look to assist in meeting that requirement as a strategic partner?*

15. Therefore the ICP separated its ACE holdings into key parcels and following a lengthy review and negotiation process, committed these parcels to strategic partners it believes will add value to its returns and potential opportunities long term. The Strategic Partnerships are shown in Table 2 below.

<b>Fish Class</b>	<b>Company</b>	<b>Agreement Term</b>
Deepwater	Sanford Ltd	3 years
Pelagic	Pelco NZ Ltd	3 years
Inshore	Aotearoa Fisheries Ltd	3 years
Highly Migratory	Tahi Marine Ltd	Annual
Freshwater	Tahi Marine Ltd	Annual

**Table 2: ICP Strategic Partners**

16. The ICP is also a shareholder in Koura Inc - exploring live lobster export opportunities with other iwi and Maori interests from throughout New Zealand. It is likely that we will form a separate limited partnership to manage our lobster business more effectively. The new entity should be established before the April 2012 lobster season.
17. The arrangements above are our primary business partnerships and relationships where we direct our primary ACE parcels. We also have residual ACE parcels which we sell through quota brokers in order to maximise our revenue.

#### **Our Assets**

18. The ACE managed through the ICP is no different to general ACE. However, the quota that generates that ACE and held by each of our iwi members has the legal status of "settlement quota" under the Maori Fisheries Act 2004. Settlement quota is unique in that it cannot be sold or traded on the open market thereby preventing iwi from realising potential capital gains. The ownership structure is based on a policy that Treaty settlement assets should remain in the ownership of iwi so that it continued to benefit future as well as present generations. Therefore iwi members can only make a return on their assets by selling or utilising the ACE, hence optimisation of ACE sales is one of the ICP's objectives.
19. The ownership of settlement quota is divided across 57 iwi organisations each with their own set of beneficiary accountabilities and expectations. Not only is the ownership fragmented but the quota itself is spread across all quota species with many iwi holding small packets of every species. This splintered ownership presents unique challenges when it comes to utilisation of those assets and putting those assets to best use. Only certain business models suit this type of assets structure.
20. The Te Ohu Kaimoana submission provides greater detail on the fisheries Treaty settlement in New Zealand.

#### **Foreign Charter Vessels**

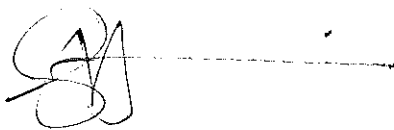
21. The ICP is aware that one of its business partners, Sanford Ltd, uses FCVs to catch some deepsea stocks. The management team of Sanford, at the request of the ICP, have provided information on their operational activities pertaining to their use of FCVs. We have no reason to doubt that Sanford's association with FCVs reflects positively on them, the ICP as a partner and New Zealand's fishing industry.

22. While we support the notion of utilising New Zealand fishing vessels and crew, FCVs provide a different competitive alternative. The use of FCVs allows the ICP to make rational decisions about vessel ownership. The cost of used and new vessels is set out accurately in the Te Ohu Kaimoana submission at a range of \$16 to \$50 million. The ICP as a collective of 14 iwi interests does not have the funds to make a capital investment of this nature and would therefore need to partner with other commercial interests.
23. Even if the ICP had the necessary capital to purchase a vessel there would be massive risks and challenges involved in the operation and management of the vessel. We are aware of stories of a number of iwi owned fishing vessel businesses failing for various reasons. These are all relevant factors when considering alternatives to using FCVs.
24. We support Te Ohu Kaimoana's view that the removal of FCVs would reduce competition in the market for ACE. This would affect the ICP. The removal of FCVs is likely to reduce ACE prices (and quota value) if fishing companies have no option but to purchase more expensive catching capacity. The alternative is that some species will be deemed uneconomic to fish thereby affecting ICP income and quota values.
25. Our understanding is that there are already sufficient regulations in place to manage FCV operations. In fact the Government has recently tightened the regulatory framework for managing FCVs. We believe that it is simply a case of the appropriate New Zealand agencies dealing with and enforcing those regulations appropriately.
26. We state our uncategorical support of foreign fishing crews - their fair treatment and comparable wages with New Zealand citizens. If there are any fishing companies that are mistreating crew then they should be dealt with individually as appropriate under existing laws and regulations. It would be unfair to make drastic regulatory changes that will negatively impact organisations such as the ICP when present regulations can be used to reign in any errant operators. We ask the Inquiry Panel to be mindful of the unique ownership structure for iwi settlement quota and the limitations on iwi in terms of the use of ACE derived from that quota.

#### **Oral Submission**

27. We would like the opportunity to appear before the Panel to present an oral submission. Our intention is to present at either the Auckland or Wellington hearing venues.

Nga mihi,



Shane Heremaia  
Chairman  
Iwi Collective Partnership General Partner Ltd