TONGA INTERVENTIONS TO PART 1 OF THE 25TH SESSION OF THE COUNCIL OF THE ISA

Financial Model

1. Payment regime and mechanism

The payment regime and mechanism will need to ensure optimum revenues for the Authority from the proceed of commercial production and certain financial benefits are delivered in accordance with Article 140(2) of UNCLOS and most importantly the common heritage of mankind. Having viewed the different models some of the issues which we have noted are as follows:

(a) The need for the transitional scheme to be as simple as possible due to considerable risk and uncertainty; to be reviewed over time;

(b) Profit-based depends on tax structure, depreciation (accelerated or straight line). As such, there is a need for common accounting and tax codes, cost recovery rules. Additionally, allocation of common and fixed royalties must be aligned with land-based rates. A key input into the Discounted Cash Flow business valuation method, the discount rate consists of two components: Risk free rate of return. And Premium for risk assumed in owning and operating a business.

(c) Intergenerational equity is a concern with an exhaustible resource and there is a need to balance current with future revenue from this resource and the current and future consumption that follows. One option is to use the social discount rate to assess the NPV of resource royalties over time thereby incorporating the interests of future generations;

2. Further elaboration of environmental costs

Last year we had raised the need for the financial mechanism to factor in externalities or environmental costs and we wish to thank the open-ended working group for the great strides taken in incorporating this. It is crucial that environmental monitoring fees and funds be factored in to ensure appropriate resources are available to the Authority in ensuring the health and wellbeing of the marine environment. However, there is some concern in relation to the percentage allocated to environmental costs and the basis upon which this 1% was deemed appropriate.

Additional we share the view that environmental fees & the use of bonds and funds as incentive based mechanisms in addressing the environmental responsibilities of contractors and the application of a mitigation hierarchy framework can be factored into the current model.

3. Distribution of revenues among member states

The distribution of revenues amongst member states remains a matter for discussion and will be informed by the criteria to be discussed by the Finance Committee in developing the mechanism under Article 82. An assessment is further required to determine what is fair and equitable, particularly in addressing the concept of "special interests" in particular, small island developing States who are vulnerable and prone to natural disasters and hazards.