

December 2010

ROCK LOBSTER INDUSTRY IN DIRE STRAITS CHINA BANS AUSTRALIAN IMPORTS

OVERVIEW

Australia's rock lobster industry, the nation's most lucrative export fishery, was this week struck a major blow when China stopped accepting Australian rock lobster imports.

China, typically serviced via Hong Kong, is Australia's major lobster export destination, taking 80 per cent of Australia's lobsters.

The move by China, if prolonged, could cost the Australian industry up to \$320 million in annual exports and send many operators out of business.

Although there has been no official announcement or explanation given for the ban, China's decision is believed to be an attempt to prevent Hong Kong-based importers smuggling Australian rock lobster into mainland China to avoid import tariffs.

Interestingly, China is still accepting imports from other countries, including New Zealand and South Africa.

The Australian Government has confirmed it is working with officers at the Australian Embassy in Beijing to investigate the issues and assured the industry it *"will continue to push for quick clearance of Australian product arriving in China."*

PLUMMETING PRICES

After poor prices throughout the 2009/10 season, rock lobster beach prices – the amount paid to fishermen by Australian processors on landing their catch – had improved during the early part of the 2010/11 season. Recently, prices approached \$50 per kilogram with the traditional Christmas-demand price spike.

However, since the introduction of the ban, beach prices are reported in various media to have plummeted up to 50 per cent to around \$25 per kilogram for live lobster.

The import ban could not have come at a worse time, with operators typically relying on peak prices and production in the lead-up to Christmas for a successful season.

AUSTRALIA'S ROCK LOBSTER INDUSTRY

The Australian rock lobster industry is valued at some \$400 million per annum (ABARE, 2009), with approximately 80 per cent (or \$320 million) of product exported to China and Hong Kong. Other international trading partners include Japan, Taiwan, the United States and Europe.

Around 80 per cent of Australia's production comes from the Western Australia and South Australia fisheries.

Most product is exported live to achieve the highest sale price. However a small proportion is cooked and frozen by Australian processors. Beach prices paid to fishermen are lower for product that is destined to be frozen.

DIMINISHING QUOTAS

The various State fisheries in Australia have endured difficult seasons recently with decreases in catch rates and juvenile settlement rates – both measures of the longer term vitality of the fisheries. In response, over recent seasons, various State Governments have introduced, and strictly enforced, increasingly tighter catch-quotas.

In the current 2010/11 season:

- South Australia's Government has shortened its season by two months due to concerns over decreases in catch rates;
- Tasmania's industry is considering implementing a voluntary 20 per cent reduction in catch-quota due to significantly reduced catches during the 2009/10 season;
- The New South Wales Government has slightly increased the catch-quota. However, reports suggest the industry is struggling to catch enough to even approach the quota limit;
- In Western Australia, the total catch quota remains unchanged. However, the Government has made significant changes for the 2010/11 season as to how the quota is managed.

IMPACT OF STRONG DOLLAR

As a large proportion of the nation's rock lobster production is exported the sector is exposed to exchange rate movements, with beach prices moving relative to the Australia: US exchange rate. The recent high Australian dollar has resulted in downward pressure on beach prices.

INDUSTRY EFFECTS

The combined effect of these factors is likely to have a significant impact on the commercial viability of many operators, including their ability to manage debt obligations, pay wages and other costs, and maintain their equipment.

Lobster processors and exporters, who are commonly burdened with seasonal debt facilities, high overheads and lobster-specific facilities, will be similarly impacted through major fluctuations in volumes and drastically reduced margins as they try to sell product to alternative export markets.

Small coastal communities around Australia, home to the lobster fleets and processors, will be hurt by a sustained ban. There is a risk workers will leave town in pursuit of other jobs during this peak part of the lobster season. This would make it difficult to efficiently restart operations should the ban be lifted.

TAYLOR WOODINGS' VIEW

With current beach prices at an extreme low for this time of the season it is likely that fishermen and processors will withhold live product from the market in the hope the ban is quickly lifted and prices recover. The alternative is to deliver part of their limited catch-quota at low live prices or offer it to the frozen and processed market.

As a very short-term measure fishermen may choose to stay at sea, holding their catch in their vessel's aerated live-holding tanks, in the hope that the ban is quickly overturned and they can land their catch at improved live beach prices. However, due to stress on the lobsters and the resulting deterioration in their condition, they can only hold them for a short period of time. Ultimately, to avoid damaging the catch, fishermen may have to land them and accept prevailing prices, including potentially at 'frozen' prices.

Those fishermen who can afford to, may delay fishing their quota and tie up their boats whilst waiting for a rebound in prices.

Processors have live-stock storage capacity constraints and, again, tank stocks quickly lose condition. As a result, at some point, the processors will have to move to freezing or processing their tank-holdings. The additional cost of this would reduce margins and hence the beach prices they can pay to fishermen.

Processors may also look at means to:

- value-add to their product similar to the way the salmon-industry has successfully added value through 'smoked salmon' and similar products;
- increase efforts to export to other international markets, however at lower prices than had been achieved with China / Hong Kong.

For a confidential discussion about any matter raised in this newsletter please contact on of the Taylor Woodings' partners listed below.

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