



TAYLOR WOODINGS

NEWS FLASH

21 October 2009

Crayfish – On the Rocks

The WA Western Rock Lobster (“WRL”) industry became the first fishery in the world to be certified as sustainable by the Marine Stewardship Council in 2000. The fishery has contributed on average \$300m a year to national seafood exports, some 20% by value of national fishing exports.

However, recent declines in successful spawning rates has lead WA Department of Fisheries (“WA Fisheries”) to initiate measures designed to rebuild breeding stocks. The WA Minister for Fisheries’ recently imposed further restrictions on the industry for this season - starting 25 November 2009. These restrictions are expected to continue for three years.

The reductions in commercial catch quantities, and the measures by which these reductions are achieved, may see a substantial reduction in the number of industry operators. It could also have downstream impact on related industries and coastal communities.

Background

Since the 1960’s, settlement rates of juvenile WRL (“Puerulus”) have been used by WA Fisheries to monitor annual spawning rates and estimate future commercial catch quantities. Puerulus settlement rates have declined sharply since 2006/07, decreasing breeding stock and hence commercial catch rates for the next three to four seasons.

WA Fisheries has been implementing management measures to reduce catch quantities enforcing a 15% quota reduction in 2007/08, a further 15% in 2008/09, and a further 30% for the upcoming 2009/10 season. A combination of measures is being enforced to achieve these reductions including:

- delaying the start of the season;
- allowing use of only approximately 40% of licensed pots;
- reducing fishing to four or five days per week; and
- increasing the minimum legal size of lobsters.

Economic Impact

These cumulative quota restrictions (assuming 2008/09 beach-prices of around \$25/kg hold for 2009/10) will reduce operators’ 2009/10 revenue by over 50% compared with 2006/07.

Although operators are only able to utilise approximately 40% of their pot-licences they must still carry debt or leasing costs on all of their licences, significantly reducing their return on investment.

More information

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Since the introduction of quota restrictions the value of individual pot-licences has crashed. Currently licences are trading at between \$9,500 and \$12,500 per pot compared with \$25,000 to \$35,000 immediately prior to the restrictions. A WA operator's balance sheet that might previously have shown pot-licences valued at \$3m-\$5m would now show \$1m-\$2m.

In addition, substantial numbers of cray boats are now for sale, depressing re-sale values. New vessels cost between \$1m-\$2.5m to build but resale values are currently between \$300,000 and \$800,000.

Any highly-gearred operators are hardest hit and the declining asset values limit their ability to exit the industry. Banks are likely to become increasingly hesitant to finance operators and will rely more on personal assets as security.

Operators choosing to stay in the industry must generate operational efficiencies wherever possible. Some operators are teaming up with others to fish two sets of licences from the one boat.

Opportunities for ex-cray boats in other industries are also limited. Some vessels may secure work in the pleasure charter, marine contracting or oil & gas sectors. However, such opportunities are restricted by a vessel's maneuverability, cargo handling capabilities and licensing requirements.

Impacted downstream industries include fish processors, coastal transport, vessel maintenance, boat building, fuel suppliers and general provisions.

An approach to the Federal Government for emergency funding payments to WRL operators under the *Federal Exceptional Circumstances Scheme* was recently rejected.

Other States

Similar pressures are evident in other Australian rock lobster fisheries. For the 2009/10 season:

- The South Australian Government reduced the catch quota by 31% due to declining puerulus settlement rates and a significant drop in catch;
- The Victoria Government reduced the current season catch quota by 21% and spent \$5m buying back 16% of the State's rock lobster licences because of a drop in catch rates;
- Tasmania, whose industry was worth \$60m annually, reduced its quota by 3%. Further reductions for the 2010/2011 season are likely to be announced soon;
- The NSW Government has enforced quota restrictions on its rock lobster industry since 1994 resulting in a decrease in the number of operators by 40% over the last 10 years. The catch quota remains unchanged for 2009/10;
- The Torres Strait Island rock lobster fishery experienced quota reductions of 44% from 2006/07 to 2007/08. Quota restrictions for the 2009/10 season are yet to be announced.

Commentary

The issues affecting the rock lobster industry demonstrate the environmental and regulatory risks borne by all commercial fisheries. Sudden decreases in catch and revenue can have an almost immediate effect on trading viability, debt serviceability and the values of specialist assets.



How Taylor Woodings can assist

Taylor Woodings has extensive experience with formal and informal insolvency assignments. Across all appointments, we work hard to find practical solutions to the challenging situations that we face with the desired aim of maximising returns for all stakeholders.

Some of our experience and recent formal appointments include the following:

- Formal appointments and advisory work in the fisheries sector including sale of vessels, licences and Government buy-back schemes;
- Advisory work for financiers, suppliers and operators in the retail boating sector;
- Reviewing sale opportunities, including costings, for a specialist ship which was subsequently sold, fully repaying the financier's debt;
- Acting alongside an Owner's Representative to review costing methodologies and the completion path for a luxury vessel.

Confidential discussion

If you wish have a confidential discussion about any matter raised in this newsletter, please contact one of our Taylor Woodings' partners in Sydney, Perth or Melbourne.

More information

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