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Southern Rocklobster Limited

Investment Proposal - Proposed Seafood Cooperative Research Centre

NOVEMBER 2006





INVESTMENT STATEMENT

The Australian Southern Rocklobster industry strategic plan has clearly laid out the industry future in terms growth targets and priority investment in research and development to achieve its objectives.

We aim to increase the value of the lobster chain by a minimum of 80% within the life of the proposed CRC, taking the industry export value from \$190m to \$350m per annum through a combination of price, volume and value added growth.

Each export dollar created by the lobster industry generates around \$2.5¹ in multiplier business impacts primarily in regional Australia - we aim to take our contribution to business in Australia from \$.475 billion to \$.875 billion in the period.

A strategic partnership between the Fisheries Research and Development Corporation and the southern rocklobster industry through Southern Rocklobster Limited (SRL), has established funding certainty and capacity to deliver this growth to the industry and Australia.

We have a clear understanding of target areas that will have the greatest benefit for industry. Our investment in the proposed CRC is specifically aimed at a substantial commercial return towards our growth targets in our two highest priority areas namely market planning and development and optimising the harvest.

Investment and participation in the CRC is compellingly obvious to my Board.

Roger Cotton
Independent Chair Southern Rocklobster Limited

¹ EconSearch 2006



Introduction

Southern Rocklobster Ltd (SRL) has commenced a long term program of making the Australian Southern Rocklobster the first choice of premier seafood consumers in world markets. This new company was established in 2004 by fishers in Tasmania, Victoria and South Australia. In its first 2 years it has assembled the industry's leaders and key stakeholders, defined attractive market opportunities and identified strategies to enhance industry's offer to consumers.

The challenge to be addressed in the next 7 years through to 2014 is to translate this opportunity into increased returns to industry through collective research and development; closer collaboration between scientists and our fishers, supply chain leaders and supporting communities; and a commercial commitment to delivering the best offer to high value consumers.

Our strategic challenges and time horizons are shown below - each in some way aligns to the program areas the proposed CRC.

Southern Rock Lobster Strategy Horizons	Near Horizon 2003-08	Mid Horizon 2009-14	Far Horizon 2015-20
Price Management - Protect prices- Alliances - Best Practice - Build prices- Niche Markets - Value adding - Brand Promotion			
Volume Management - Enhancement - Fattening - Reseeding - Aquaculture - Growout - Propagation			
Industry Management - Structure and Leadership - Alliances and Systems - Marketing and R&D Investment			

Objectives

The Australian Southern Rocklobster Industry intends to be the preferred supplier of lobsters to global super-premium-fine-dining (SPFD) consumers by 2020. Under the national leadership of Southern Rocklobster Ltd, the industry has set a number of objectives that define its strategy over the next 5 years:

1. Lobster products will be securely positioned in niche markets, predominantly in USA, Europe/Middle East, Australia and Asia.
2. Industry will have well established technologies and procedures for enhancement of wild rock lobster stocks.



3. Industry embraces translocation, stock enhancement and aquaculture so that wild catch and aquaculture present complementary offerings to an enhanced rock lobster product line.
4. Increase the average real beach price of southern rocklobster by \$20/kg by 2011.
5. Increase chain margins shared by fishers and processors by a real value of \$25/kg by 2011.
6. 15% compound growth in average licence value through to 2011.
7. The culture of the Australian based fishers and processors will have become more integrated through chain alliances, R& D investments, and adoption of e-commerce practices and tools.

Global R&D challenge to meet growth objectives

The Australian Southern Rocklobster (*Jasus edwardsii*) industry is a niche supplier of approximately 4,500 MT of premium rocklobster to world markets. More than 80% of Australian lobster production (comprised of three species) catch is exported.

Recent studies² have identified a number of primary trends in global markets.

- Consumers across an expanding range of markets have much improved access to fresh food. This is primarily due to advances in refrigeration technology, packing and airfreight systems. In some instances this has stimulated increased demand for seafood products (e.g. sashimi, sushi, live fish);
- Consumers are reducing their red meat consumption in Western societies, in response to favourable reports on the health benefits of seafood, and a decline in real prices of some species (e.g. salmon, catfish). The appeal and consumption of seafood is broadening;
- Global supply and marketing of seafood is improving. This is driven by the increasing ability of the fishing industry to manage production and marketing, resulting in reduced uncertainty, increased efficiency and increased market share.
- World seafood trade is expected to increase significantly in live/chilled/fresh finfish, frozen whole fish and fillets, mostly to markets in USA, EU and Asia (Taiwan, Japan, China, Singapore, Malaysia); and
- Real prices from 2000-2020 for crustaceans and high value finfish are expected to increase by 15% and could be potentially as high as 60% if fish stocks are threatened.

The industry must be proactive in redesigning and repositioning its offer to globally, and in seeking out other global niches that will value its limited supply. To do so it must:

1. understand and engage better with super premium fine-dining consumers who value intangible attributes of our product, rather than its intrinsic value and
2. build, develop and control more cost effective distribution channels to guarantee this value.

On this basis increased price per kg of lobster and beach margin will be sustainable.

² National Food Industry Strategy Ltd, Seafood Services Australia, Western Australian Department of Fisheries, 2004



Within this global context, SRL has identified the following R&D requirements:

Investment Platform Priority 1 - Market Planning and Development

- Manage market risk within acceptable limits through market diversity
- Create relevant support structures readily accessible to industry to develop markets
- Develop a whole-of-chain approach to market development
- Establish product standards through the supply chain and support these with an accreditation program
- Position Australian Southern Rocklobster products to attract premiums in new markets
- Establish mechanisms to ensure commitment to supply to market specifications
- Understand changing market needs and consumer preferences
- Develop consumer and trade recognition of Australian brands on high quality Australian lobsters
- Develop strategic partnerships with other Australasian suppliers to optimise market outcomes

Investment Platform Priority 2 - Optimising the Harvest

- Understand, develop and implement tools to increase the available biomass
- Secure a stake in propagation
- Establish economic models to assist in fisheries assessment and management decisions
- Quantify potential sustainable biomass and harvest yield





Progress since 2004

SRL have achieved substantial progress since incorporation in 2004. Key milestones include:

- Integrated on boat catch quality, environmental management and workplace safety system completed and implemented - SRL 2004
- Long term industry investment in R&D secured – SRL 2005
- Long term R&D management and investment partnership with FRDC established – 2005
- Global niche market research completed in partnership with FRDC -2005
- USA supply chain research completed in partnership with FRDC - 2006
- Restructured domestic supply model developed and tested – FRDC 2006
- Supply chain standards and quality management system developed and tested in partnership with Department of Agriculture Forestry and Fisheries accreditation – 2006
- Traceability model developed and tested in partnership with DPI Victoria and SASTEK – 2004-06
- Global branding solution developed and tested in partnership with Harcor Security Seals 2005-06

SRL has established several of the key building blocks and is poised to implement a market focussed global development program.

CRC R&D Contribution

Following summarises the start up R&D programs proposed as part of the CRC at a national level including other key lobster species where relevant. It is anticipated that additional investment will follow during the life of the CRC.

1. Dry Bait

About 30,000MT of frozen bait, with a value of over \$40million, are imported for rocklobster fishing alone. Added to the cost of imports are cold storage and refrigerated transport (over \$4million) and the cost of disposing of cartons, liners and bait bands.

A number of attempts to produce a dry, pathogen-free bait have been made, but no systematic research effort has been conducted. Producing a dry bait that will both attract and retain lobsters in pots will generate balance of payments and internal cost savings exceeding \$10million pa and completely remove the hazard of the disposal of plastics and cartons.





2. Trap design.

It costs about approximately \$5 to set and retrieve a rocklobster pot. With increasing input costs, particularly of fuel, this cost can only rise and reduce the profitability of fishing. Improving the design of lobster pots so that they catch more each time they are pulled means that fewer pots need to be pulled in order to catch a vessel's quota (or target). However, one of the major planks in research for sustainability of lobster fisheries is the catch-per unit-of-effort (CPUE) calculation, which relies on a standard pot design.

Pots must also not interfere with non-target species such as sea-lions. So pot designs must be tested thoroughly, not only for their economics but also to show that there is no 'downside' to their adoption. A 20% increase in pot efficiency would saving the industry and estimated \$2.5 million every year.

3. Translocation

The Southern Rocklobster industry targets red shallow water lobsters – so offshore (pale) stocks are under-exploited (>90 % of commercial catch comes from <50 m depth). The red shallow water lobster achieve price premium often in excess of \$10/kg.

Translocation will involve shifting lobster from slow growth / low value areas to fast growth / high value areas a minimum of \$18m per annum in value through price, weight harvested and cost savings.



4. Value Chain Integrity

This value chain program is aimed at adding an extra \$90 million in industry value from exports and \$26m in profitability by increasing beach price by \$20/kg, resulting in:

- \$1/4 billion in regional economic activity; and
- 900 regional jobs.

In March 2005, the industry concluded market research (FRDC 2004/215) trials undertaken in the Napa Valley and London have shown that ASR has the culinary capabilities to be positioned as the top 5% of protein within the global Super-Premium-Fine-Dining (SPFD) sector. Premiums above current returns to Australian of up to 40% have been identified.



Servicing of this sector requires the industry to address the following market drivers:

1. **Quality** – guaranteeing product condition, packaging and presentation;
2. **Availability** – guaranteeing supply consistency within a prescribed season;
3. **Suitability** – product form is for suitable use as determined by the customer e.g. “New World” or “Fusion” cooking;
4. **Value** – the price to quality relationship and not price alone; and
5. **Branding** – including provenance, sustainability and the character of the fishery.
6. **Traceability** – guaranteeing point of origin and tracking product management through the chain

Capturing the opportunity requires R&D to establish comprehensive infrastructure and systems at a global scale to deal with:

- Market specifications
- Supply consistency
- “Pot – plate” quality guarantees
- Product development
- Value added lines
- Transport survivability and recoveries
- Packaging developments and
- Traceability, branding and logistics.



SRL CRC Investment

SRL is committed to a minimum of \$200,000 cash investment for 2007-08 through to 2009-10 and then \$310,000 cash per annum for 4 years on a tied basis for implementation these projects. An additional \$40,000 cash as a contribution tied to “Improving Supply Chain Practices” is also committed.

In the years 2007/08 – 2009/2010 further cash contributions of \$95,000, \$100,000 and \$110,000 respectively, will be made tied to “Improving spatial management of southern rocklobster fisheries to improve yield, value and sustainability”.

Finally SRL anticipates these contributions will be at least matched with in-kind resources from industry.

The commercial return on investment expected by the SRL Board as described above is substantial.