



Annual Report

2006 – 2007



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1. Chairman's Report – Roger Cotton

I am pleased to present my Chairman's Report at the end of the third year of operations of Southern Rocklobster Limited (SRL), a year which I believe has been a watershed in terms of progress towards meeting the objectives as developed and laid out in the 2006 Strategic Plan.

The Strategic investment platforms embodied in the updated plan of 2006 are:

- 1 Market Planning and Development.;
- 2 Optimising the Harvest;
- 3 Sustainability and Environment;
- 4 Viable funding for SRL;
- 5 Human Resources and Communication; and
- 6 Running the Business.

Your Board and the Executive have worked solidly during the year on a range of projects in each of these strategic areas and I am delighted to report the completion of our key market development project to establish an Import Platform to facilitate fisher direct trade to the West Coast of the USA. This has only been possible through support provided by the Fisheries Research and Development Corporation (FRDC), Department of Agriculture Fisheries and Forests (DAFF) and with a strong commitment by industry to guarantee the supply of lobster that meets the quality specifications demanded by the premium markets.

The Import Platform has been trialled extensively and operated successfully for six months over this past year and SRL is now well placed to facilitate expansion of the Import Platform globally. It is pleasing to note, that coinciding with the launch of the Import Platform a substantial lift in industry returns across the board (in the order of 20%) was achieved during the year, and I believe we have now moved a long way towards meeting our overall financial objective of increasing average beach price by \$20 per kg by the year 2011. A fantastic result in anyone's terms.

In the area of optimising the harvest, I can report that SRL has invested with the Tasmanian Aquaculture and Fisheries Institute (TAFI) in developing propagation techniques as a first step to securing our stake in this developing opportunity. In addition we have supported a major lobster translocation project, a joint initiative between TAFI, the industry and the South Australian Research & Development Institute (SARDI), and we are most grateful for the support and the confidence that has been shown to us by all of these project participants.

The uptake of the Clean Green Program continues to be pleasing, in particular with strong support and involvement having occurred in Tasmania and Victoria during the year. Most importantly, the Clean Green brand is now a registered trademark and is linked to our successful Market Development Program. Indeed, premiums are now being attracted by Clean Green participants, driven by market outcomes.

The Clean Green program remains our flagship environmental initiative and in 2007/2008 it is the intention of SRL to increase uptake and expand the program across the wider industry.

The financial position of SRL remains strong and I can report that the organisation has traded in surplus for the 2006/2007 year, and was Balance Sheet positive at the 30th June 2007. Our funding is secured through a 5 year MoU with FRDC and once again this funding was supplemented by a range of projects through FRDC, DAFF and South Australian Market Access Program. It is pleasing to report that all projects continue to be operated within the overall program budget and this is a credit to the Executive team.

The immediate term (2-3 year) funding stream for SRL remains solid through the MoU in place with the FRDC however, during the year the Board commenced investigations of long term funding options beyond the MoU, as we determined the need to ensure ongoing support and sustainability for our key Market Development Program is a priority.

SRL has maintained high levels of communication with our membership through a planned extension program involving linkages to our State organisations, various Port meetings, presentations and the quarterly newsletter. In addition our website has been further developed to provide additional information to the wider community about the industry and our programs. We are also cognisant that we need to be even more proactive in delivering a good communications program to all stakeholders.

I congratulate the SRL Executive team for the newsletter in particular, which continues to develop as a quality information source for our membership and broader stakeholders and invite your contributions to add even further value.

In summary, this year has seen a substantial shift in the way the industry operates with the implementation of the Import Platform. For the first time we have seen a contracted supply model implemented, with fisher ownership through the entire chain, bringing together the fisher and the customer for the first time.



It is early days and several key risks and challenges need to be dealt with going forward, however I have every confidence in your Board and the Executive team that these issues will be dealt with head on and decks cleared to further develop our ambitious program.

In closing progress towards our objectives is not possible without support and contributions from a range of individuals and organisations. I must thank the Fisheries Research & Development Corporation, in particular Dr Patrick Hone for the ongoing support, encouragement and commitment shown towards SRL. Thanks must also go to other key supporters including DAFF, the SA Government and all our research partners.

I am also particularly excited about our future prospects, through our relationship with the Australian Seafood CRC, of which we are the major wild harvest investor. This relationship will present a raft of new opportunities for further development of the industry, with the aim of further delivering on our strategic objectives.

Thank you for your past and your future confidence in what is an exciting era for SRL and our industry.

Yours Sincerely,



Roger Cotton
Independent Chair



2. Directors' Reports

2.1 Market Development and Planning – Mr Rodney Treløggen

Market Development and Planning remains the highest priority investment area for Southern Rocklobster Limited and the project work in 2006/07 followed on from the 2005/06 program which established tools for developing the super premium fine dining segment of the USA market.

A major step forward was taken during 2006/07 with the establishment of an Import Platform in the USA as part of the extension of the FRDC project 2006/216. The Import Platform is effectively the legal and operating infrastructure to facilitate trade by fishers direct to customers in the USA and it was trialled successfully for six months from January 2006.

Implementation of the Import Platform involved developing and managing quality systems, supply, distribution, service providers, in-market communication and education programs, financial transactions and risk management systems – a truly unique industry owned trade facilitation model has been created.

However, it is important to note that SRL is not trading in rocklobster, and the legal framework established maintains ownership of the lobster through the chain by licence holders. The necessary legal and accounting structures have been established to ensure this happens and SRL's role is to manage supply chain structures, assets and services, the distribution process, traceability system, accreditations, the Clean Green trademark and supply, to ultimately meet customer requirements in the market.

The Import Platform operating practices are based on the Clean Green product standard throughout the supply chain. The system ensures that product delivered to the customer meets the market specifications and supply chain members operate in accordance to the behavioural requirements detailed in the standard. A key building block for the Platform was the completion of the DAFF Supply Chain standards project, which produced the relevant standards for an integrated supply chain framework right through to the market place.

The product integrity is guaranteed by the "Australian Southern Rocklobster Clean Green" trade mark, which is printed onto a unique tag attached to the rocklobster antenna. The tag also contains a barcode on the opposite side to the mark, which offers complete track and trace of the product from the point of capture to the point of consumption – "Pot to Plate".

A further key development was the appointment of a USA importer/distributor, based in Los Angeles, who was contracted on a fee for service (rate per lb) basis to import, pick-up, unload, manage tanking systems, pack and distribute in Los Angeles and Las Vegas.





The Import Platform includes a dedicated financial and risk management system to deal with following;

- Accounting, invoicing and fisher payments;
- Banking USA & Australia;
- Contracts and service provider payments;
- Guaranteeing supply;
- Mortalities through-out the chain;
- Exchange rate;
- Payment default; and
- Collections.

I am very proud of the fishers who have supported the program during the year and supplied product for the start-up trial through the newly established contracted supply model. The contracted supply model involved fishers committing a set volume of product meeting the product specifications, over a fixed period and delivered to a specified location. This is a fundamental and major change in the way fishers have operated.

The USA trial through the Import Platform targeted 2kg plus lobsters, and it is pleasing to note that an average beach price return of \$35 per kg has been achieved for the tonnage facilitated to market through the Platform – a substantial (around 40%) improvement above the previous season.

In support of the Import Platform, the communication and education tools identified in FRDC project 2006/216 “Development of supply chain distribution and communication tools to support entry of Australian Southern Rocklobster into the Super Premium Fine Dining Sector in the USA”, were trialled with high-end chefs in Las Vegas and Los Angeles. The tools include;

- Best practice DVD;
- Flip cards – storage, handling, product specifications, packing guidelines;
- Food service manual;
- Website – including the track and trace interface; and
- Program profiling materials (hats and polo shirts).

The trials involved education of chefs about the Clean Green program, product, preparation techniques, plate margins and handling techniques, and training wait staff, so they understand the culinary characteristics and preparation techniques for the product.

The development and implementation of the Platform is the culmination of several key projects managed by SRL from 2005 onwards including global market research, supply chain development, traceability, chain standards and creation of communication tools.

Along side trialling the Platform, two in-market visits were conducted as part of a Board and industry development program. The first was timed to coincide with the start up of the Import Platform and commissioning of service providers and facilities in the US market. The second was timed to coincide with the National Restaurant Association Show in Chicago, with the aim of gaining a broader understanding of the market opportunity and the nuances of US food service industry.

I am pleased to summarise the following successes for the year:

- A robust US Import Platform was established and trialled based on a restructured supply chain;
- Contracted supply model to standards (pot to plate) developed;
- Full product traceability established;
- Clean Green Southern Rocklobster Brand launched;
- Market penetration in super premium fine dining segments (based on the value proposition supported by the Clean Green brand); and
- Trade at increased returns to the industry and Australia.

The following are related projects which commenced and/or were completed during the year and details are available on the SRL website:

1. **USA Import Platform implementation - Project FRDC Project 2006/216 extension**
2. **Australian Global Lobster Market Database - FRDC 2006/213;**
3. **Supply Chain Standards – DAFF;**
4. **Market Efficiency Program – SRL; and**
5. **Traceability - SSA FRDC 2004/412.**

The work to date has conclusively shown that with targeted research and development in-market, supply chains can be established that will allow positioning of Southern Rocklobster in the super premium fine dining markets.

The commitment to the program to date from fishers across the three states has been exceptional and the industry is now set to grow the Platform globally behind the next stage of the market research and development. The next stage of the market development program is to build on the momentum gained through the trial in 2006/07 and undertake additional R&D initially in the US market and then in new markets.

2.2 Optimising the Harvest – Mr David Johnston

The strategic investment platform, optimising the harvest, involves developing industry tools and management strategies aimed at increasing the volume and value of the biomass available for harvest or that can be produced.

During the year I am pleased to report that 2 key projects commenced in this area involving SRL namely:

1. Spatial Management of Southern Rocklobster Fisheries to improve yield value and sustainability and
2. Temperate Lobster Propagation.

The spatial management project is a collaboration between TAFI, SARDI and industry, and is developing management strategies to maximise industry profitability by addressing regional differences in biology such as growth rate and recruitment. The project is considering three main management strategies, namely;

1. sea ranching of lobsters by translocating into more productive regions;
2. the allocation of additional catch in underexploited areas (deep water); and
3. regional size limits that are suited to regional growth rates.

I am looking forward to the results of the project as they emerge over the next 2-3 years.

The propagation project is a three year project jointly between SRL and TAFI drawing on Australia Research Council funding. The project commenced in March 2007 and includes researching treatments to improve larval survival through to metamorphosis and developing technologies for commercial culture of Southern Rocklobsters.

The expectation over the next 3 years is that experiments will be undertaken including manipulation of the conditions of ozonation to disinfect seawater in an attempt to reduce bacterial content without causing adverse effects. In addition the scientists will undertake experimentation on larval husbandry, diet development and design of tanks and systems.

SRL aims to ensure that licence holders have a stake in this developing area and are in a position to invest in the future, should opportunity to commercialise propagation of temperate Southern Rocklobsters arise.

The following projects commenced and/or were completed during the year and details are available on the SRL website:

1. FRDC 2006/220 Spatial management of southern rocklobster fisheries to improve yield, value and sustainability; and
2. ARC propagation project – TAFI/SRL.



2.3 Sustainability and Environment – Mr John Sansom

The highly successful Clean Green Program continues to expand across the industry, with additional participation, primarily in Tasmania and Victoria occurring in 2006/2007. To date 245 vessels have been audited under the program representing 42% of the fleet across the three states. A total of 490 industry members have been trained to the industry standards through the program which by any standards is an outstanding achievement.

Importantly, the Clean Green program is now being influenced by market returns following the launch of the Clean Green brand on tagged lobsters in the USA during the year. This makes the program unique with environmental and other operating standards being linked to market outcomes. The industry has taken a major step during the year through their support for both the training and market development program with supply of certified Clean Green lobster.

However, an area of concern with the Clean Green program has been the drop out rate with a number of original participants opting not to renew their certification during 2006/07. This is a major concern to SRL and I am pleased to report that SRL has been successful in securing once off Department of Agriculture, Fisheries and Forestry (DAFF) funding support to increase the participation in the Clean Green Program in 2007/ 2008.

The funding through the EMS pathways to sustainable agriculture program will assist in increasing uptake across the three States and also understanding the role of the Clean Green brand and program in the market place. The ultimate objective of the project is to upgrade the Clean Green Program to deliver additional industry and market benefits to Clean Green members.

The other area of environmental challenge to the industry is that of Marine Protected Areas. Each State member organisation has been active during the year through participation with the South East Industry Working Group. The working group dealt with the establishment of 13 marine protected areas across southern Australia in Commonwealth waters during the year.

I am pleased to report that the process is nearing completion and the result is one where a minimum impact on the rocklobster sector across the three states has resulted.

The following project was maintained during the year and details are available on the SRL website:

1. Clean Green Program.



2.4 Viable Funding for SRL – Mr Kim Skeer

Viable funding to maintain the national development capacity for industry through SRL long term, is recognised by the Board as a major challenge for the industry. Currently SRL is supported through a five year MOU with the FRDC, which provides resources for R&D management and planning, extension programs and maintaining the SRL organisation.

An important development during the year saw SRL commit to the proposed Australian Seafood CRC with a substantial investment of the FRDC MOU funds and a commitment to move key projects to the CRC. The CRC was successful in attracting additional Commonwealth Government funding and as a consequence the budget available to SRL has increased substantially for additional R&D. The CRC will operate for seven years, commencing 1st July 2007.

A major challenge looking forward will be long term support for the ongoing in-market promotion, education and communication activities, beyond the R&D phase and the Board commenced assessing the longer term options during the year.

The following are related projects that were maintained, commenced and/or completed during the year and additional details are available on the SRL website:

1. FRDC / SRL MOU FRDC 2006/215; and
2. CRC–Seafood Cooperative Research Centre.



2.5 Human Resources and Communication – Mr David Lucas

Communication with industry and wider stakeholders remains a central platform for SRL. Each year as part of the FRDC MOU a formal communication program is developed and implemented to guide communication with stakeholders. The 2006/07 program included:

1. quarterly newsletters;
2. media releases;
3. industry profiling events;
4. strategic planning workshop;
5. regional port meetings; and
6. maintenance of the website.

During 2006/2007 the key industry profiling activities occurred in Chicago, Sydney and China. Four newsletters were produced covering the range of projects undertaken by SRL and other relevant activities. These are distributed to all licence holders and major stakeholders in the industry, including government and the processing sector.

The annual strategic planning workshop was conducted in May in Canberra, with Dr Gary Morgan facilitating. Invitations to participate went to all stakeholders including government, managers, researchers, exporters and industry. The workshop updated the strategic plan, reviewed progress of projects and developed priorities for the coming year. Importantly the SRL Board signed off on market development as the highest priority strategic platform going forward.

As part of the strategic planning process a summary of project briefings was compiled and distributed to all stakeholders.

The following project was maintained during the year and details are available on the SRL website:

1. FRDC / SRL MOU FRDC 2006/215.

2.6 Running the Business - Mr Kym Redman

The key elements involved in this strategic platform for SRL are maintaining good corporate governance and efficient business procedures. As part of this process the Board has adopted the following principles and procedures:

1. Laying solid foundations for management and oversight by explicitly recognising the respective roles and responsibilities of the Board, as laid out in the “Duties and Responsibilities of Directors and Officers” which is prepared by the Australian Institute of Company Directors
2. Structuring the Board to add value and meet SRL objectives through an annual review of the Board for effective composition, size and commitment to adequately discharge its responsibilities and duties.
3. Ensuring ethical and responsible decision-making through guidance at Board meetings by the Chair who is highly credentialed in governance processes. The Board and management are advised of conflict of interest responsibilities at the commencement of Board meetings
4. Protecting the integrity in financial reporting through verification by accountants at each Board meeting and independent annual audit. In addition project finances are subject to random audit by Government funding agencies.
5. Making timely and balanced disclosure by preparation of the annual report, director’s statements, financial statements, project reports and trade facilitation reports by November each year.
6. Respecting the rights of shareholders by ensuring constitutional processes are followed and all legal and accounting requirements are met.
7. Recognising and managing risk by ensuring monthly operational reporting by management and control of finances by independent accountants.
8. Encouraging enhanced performance through annual review and strategic planning.
9. Remunerating fairly and responsibly by reviewing project budgets and consultancy rates before approval.
10. Recognising the legitimate interests of stakeholders by planned communication with all stakeholders.

In terms of business procedures SRL operates with a part time administration executive group along with the voluntary Board and independent chair. A budget of \$75,000 per annum covers these areas of expenditure including office accommodation and all other infrastructure to support the organisation. Funds to cover these costs are derived through FRDC 2006/215.

The management structure to date has been highly successful and the MOU funding provides certainty for the SRL Board to operate in a strategic way. It should be noted that SRL operates close to breakeven as it is not for profit and has entered into forward agreements for income and expenses.

The following project was maintained during the year and details are available on the SRL website:

1. FRDC / SRL MOU FRDC 2006/215.



2.7 Key Financial Summary

The following summaries the un-audited financial position for Southern Rocklobster Limited.

	2007	2006	Reference
1. Net Members' Equity	\$40,586	\$1,420	App 1 Page 8
2. Net Profit	\$39,166	\$1,053	App 1 Page 7
3. Project Operations – Financial			Appendix 2
All projects have been conducted inline with whole of project life budgets.			
4. Trade Facilitation			
Gross 06/07 Revenue	\$418,120		
Net Trading Profit	\$6,764		
Less Premium Reserved for Fishers	\$6,764		Appendix 3
Adjusted Net Profit	<u>\$ Nil</u>		

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