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# **SA PRODUCTIVITY COMMISSION**

## **Research and Development Inquiry**

### **Submission by the Marine Fishers Association**

#### **Background:**

The Marine Fisher's Association represents the 305 licence holders in the State's marine scale fishery, a fishery that supplies local fish to local markets and retail outlets (fish retailers, restaurants, pubs etc) as well as to interstate markets. The fishery is dominated by sole proprietors and traders and is predominately based in regional, coastal communities where they are an important part of local economies, culture, and identity. A recent economic assessment of the fishery<sup>i</sup> (part of annual economic surveys that have been done since 1998) showed that the average return on investment was negative.

Licence holders pay annual licence fees to the Department of Primary Industries and Resources (PIRSA) for the right to fish commercially.

These licence fees are determined under an annual process of 'cost recovery' where all Government services relating to the management of the fishery are recovered from licence holders by way of their licence fees. These Government services include PIRSA management services, licence administration services, compliance activities and 'Directorate' services (i.e. time of the Director of Fisheries).

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It also includes the recovery of all R&D costs related to the fishery that are expended by the South Australian Research and Development Institute (SARDI).

Overall, fishing licence fees for the fishery have been increasing steadily over the past decade as Government agencies' costs for their services have increased. Licence fees in the sector are currently around 12% of Gross Value of Product (GVP), having increased over the past decade from around 6.5% of GVP. In 2019/20, the fishery paid \$2.708 million in licence fees, with these licence fee costs being the third highest of the industry's fixed and variable costs, only exceeded by labour and fuel costs<sup>ii</sup>.

Between 1999/2000 and 2019/20, total licence fees paid by the fishery have increased from \$1.706 million to \$2.708 million despite the number of licence holders having decreased from 450 to 305 during the same period. This has resulted in the average fee/licence holder increasing from \$3,791 in 1999/2000 to \$8,877 in 2019/20, an increase of 134%<sup>iii</sup>.

These licence fees (as a proportion of GVP) are the highest of any commercial fishery in South Australia and also the highest in Australia with most other states charging between 4.5-7.5% of GVP. Comparisons with licence fees charged in other countries, the marine scalefish licence fees may also be the highest licences fees in the World, with, for example, EU licences fees being around 2% of GVP (although fees are based on ship tonnage) and USA fees being in the range of 2-3.5% of GVP, depending on the State<sup>iv</sup>.

## Research and Development Expenditure

Of the \$2.708 million in licence fees paid by the industry in 2019/20, \$863,368 (or 31.9%) was budgeted for R&D, with the majority (95.5%) going to SARDI<sup>v</sup> for biological research. Both SARDI and PIRSA provide in-kind support for basic fish stock monitoring activities although the industry's contribution is around 80% of the total research projects' costs with SARDI/PIRSA contributing around 20%.

Using the industry's levy contribution of 0.25% of GVP (\$53,570 in 2019/20) to the Commonwealth's Fisheries Research and Development Corporation (FRDC), SARDI is also able to undertake additional and specific biological research projects related to marine scalefish species which are part-funded by FRDC by matching industry contributions.

Currently, SARDI have six ongoing, multi-year FRDC-funded projects with a total annual budget of approximately \$908,000<sup>vi</sup>.

There is also an ongoing annual economic and social survey and assessment of the fishery which has been undertaken by a private-sector consulting company (BDO/Econsearch) since 1998. This

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work comprises just 2% of the total annual R&D expenditure and is the only private-sector R&D undertaken in support of the fishery.

Therefore, of the annual investment in R&D by the marine scalefish industry in 2019/20 of \$863,368, part of that is able to be leveraged through FRDC funding to undertake R&D, with SARDI and PIRSA also providing in-kind support on a project-by-project basis.

The total R&D investment into the marine scalefish industry is therefore approximately \$1.7 million annually (in 2019/20), or about 8.4% of GVP.

Over 95% of this R&D expenditure goes to biological research, undertaken by SARDI.

This total R&D investment is more than the average of all other OECD countries except New Zealand and above the OECD advisory level of 5% of GVP<sup>vii</sup>.

## Effectiveness of the R&D Activities

Despite the relatively high level of R&D expenditure, the marine scalefish fishery has not benefitted. The industry has been in decline for many years, as evidenced by trends during the period 1999/2000 to 2017/8<sup>viii</sup>, which include:

1. The GVP of the industry declined from \$32.0 million in 1999/2000 to \$23.0 million in 2017/18, a decline of 28%.
2. The GVP of the industry as a proportion of the GVP of all SA's fish catch fell from 10.8% of the total SA catch to 8.5% during the period
3. The number of licence holders decreased from 450 in 1999/2000 to 305 in 2017/18, a decline of 32.2%.
4. The annual rate of return on capital has remained low or negative during the period ranging from -2.3% (2000/01) to 2.7% (2011/12). It is currently (2018/19) at -2.2%.
5. Several key species that comprise the fishery have been recently assessed as 'unsustainable' despite the large investment in R&D over many years (and resulting management actions) designed to ensure stock sustainability. The fishery for snapper, one the key species of the fishery, was closed completely in 2019.

The reasons for this lack of effectiveness of R&D investment in driving innovation and profitability in the industry are, in our view a result of several factors:

1. First and most importantly, is the lack of significant industry input into identifying research priorities. On paper, there exists a concept of 'co-management' between industry and PIRSA/SARDI. However, in practice, this does not work and is restricted largely to biological R&D. R&D priorities are identified by SARDI/PIRSA and then taken to industry for discussion. Inevitably, these priorities are presented as 'essential' for the management of the fishery, and industry suggestions or modifications to the R&D projects or their costs are generally not taken into account.

2. Secondly, there is no ability for industry to use R&D providers other than the Government-mandated organisation, SARDI for biological research on fish stocks, which currently comprises over 95% of total R&D expenditure. This puts SARDI in a powerful position. It is able to not only determine the R&D required but to also apply resources and charges without concern for cost-efficient delivery of the R&D, knowing that the funds will be made available through the cost recovery process and charged to licence holders as part of their licence fee. We certainly see this system of being forced to use a mandated R&D service provider as highly anti-competitive.
3. Thirdly, and a basic driving force behind the above two issues, is that SARDI/PIRSA operate with different incentives to the industry. The industry's focus is on achieving a profitable industry based on sustainable fish stocks. PIRSA and SARDI's incentives are to concentrate on management of the fish stocks and, in doing so, to maintain their funding and specialist staff levels, immune to any Government cutbacks. They are able to this by increasing their cost base annually and charging these costs back to the industry through the 'cost-recovery' process. Between 1999/2000 and 2019/20, SARDI's total R&D costs that were charged to the industry increased at a steady 2.1% - 2.6% (average 2.34%) per annum<sup>ix</sup>, despite the number of licence holders declining during this period by 32.2%. The end result of this, as noted above, is that the industry has possibly the highest licence fees of any fishery in the world (and certainly the highest in Australia) which, in turn, has contributed significantly to long-term poor economic performance of the industry.
4. As a result of these problems, R&D activities to support the fishery are expensive<sup>x</sup>, and are overly focussed on biological R&D.
5. Although it is the mandated Government research provider for the industry, SARDI's expertise is largely limited to biological R&D. This hinders the industry's ability to commission research into other critical elements of the fishery such as marketing, processing innovation, packaging, and fishing gear development.

## What can be Done to Make R&D for the marine scalefish fishery more relevant and cost-effective?

We believe that appropriately targeted R&D is essential in achieving profitable fishing businesses based on sustainable fish stocks. However, to achieve this, the current system of commissioning and undertaking R&D must be changed.

At the minimum, we suggest:

1. R&D support for the fishery be more industry-driven although in close collaboration with PIRSA and public and private research providers, including SARDI.

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2. An examination of the roles and interaction between the Government research provider (SARDI), PIRSA and industry be undertaken with the objective of aligning their currently different incentives for undertaking R&D.
3. Most importantly, all R&D support to the industry should be commissioned through an annual or multi-year competitive tender process with private-sector as well as public-sector firms and institutions being eligible according to their area of expertise.

Yours Sincerely



Dr. Gary Morgan  
Executive Officer  
Marine Fisher's Association

12<sup>th</sup> June 2020

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## References

- <sup>i</sup> BDO-Econsearch (April 2020): *Economic and social indicators for the South Australian Marine Scalefish Fishery, 2018/19*. A report to PIRSA Fisheries and Aquaculture, 95pp
- <sup>ii</sup> BDO-Econsearch (April 2020): *Economic and social indicators for the South Australian Marine Scalefish Fishery, 2018/19*. A report to PIRSA Fisheries and Aquaculture, page 70.
- <sup>iii</sup> BDO-Econsearch (April 2020): *Economic and social indicators for the South Australian Marine Scalefish Fishery, 2018/19*. A report to PIRSA Fisheries and Aquaculture, page 79.
- <sup>iv</sup> Food and Agriculture Organisation of the United Nations (2006). *Review of the State of World Marine Capture Fisheries Management*. FAO Technical Paper 488, FAO, Rome, 458 pp.
- <sup>v</sup> PIRSA (2020) *Cost Recovery Implementation Statement (CRIS) for the Marine Scalefish Fishery and Vongole fishery*. PIRSA, Adelaide, 67pp
- <sup>vi</sup> FRDC (2020). *FRDC Current research projects*. Available at <https://www.frdc.com.au/research/current-projects>. Accessed 11<sup>th</sup> June 2020
- <sup>vii</sup> OECD (2017), *Fisheries: R&D spending (Edition 2017)*, OECD Agriculture Statistics (database), <https://doi.org/10.1787/218dd345-en>, accessed on 13 June 2020.
- <sup>viii</sup> BDO-Econsearch (April 2020): *Economic and social indicators for the South Australian Marine Scalefish Fishery, 2018/19*. A report to PIRSA Fisheries and Aquaculture, 95pp
- <sup>ix</sup> PIRSA licence fee documentation including annual *Cost Recovery Implementation Statements (CRIS) for the Marine Scalefish Fishery and Vongole fishery*. PIRSA, Adelaide.
- <sup>x</sup> Two benchmarking studies of SARDI's fisheries R&D have been undertaken, one in 1999 and another (for rock lobsters only) in 2016, the latter funded by the rock lobster industry in SA. Both of these studies showed that SARDI's costs for contract research were the highest of similar public, and also private-sector institutions in Australia and New Zealand.