



# Tasmanian Seafood Industry Council Submission to the

Rural and Region Affairs and Transport  
Reference Committee Inquiry into

# The fisheries quota system



## The Tasmanian Seafood Industry Council

The Tasmanian Seafood Industry Council (TSIC) is the peak body representing the interests of 491 wild catch fishers, 68 marine farming businesses who operate 168 marine farm lease areas and 57 seafood processing businesses.

With respect to the wild catch sector, TSIC represents the interests of all active fishers in Tasmania – i.e. those people who physically go to sea and catch fish. TSIC membership and wild catch participation is defined as those people who hold a *Fishing Licence Personal (FLP)*.

### **Summary:**

***All TSIC policy and strategic priorities represents the interests of active Tasmanian fishers.***

## Inquiry ToR

TSIC acknowledge that the fisheries quota system inquiry ToR are:

The fisheries quota system and examining whether the current ‘managed microeconomic system’ established around a set of individual transferable quotas results in good fishing practice, with particular reference to:

- a. good fishing practice that is ecologically sustainable with an economic dynamic that produces good community outcomes;
- b. how the current quota system affects community fishers;
- c. whether the current system disempowers small fishers and benefits large interest groups;
- d. the enforceability of ecological value on the current system, and the current system's relationship to the health of the fisheries;
- e. whether the current system results in good fishing practice that is ecologically sustainable and economically dynamic, and produces good community outcomes; and
- f. any other related matters.

## Outline of TSIC response to inquiry

This submission will not directly address each ToR. Instead, this submission will provide a narrative, including examples, to highlight the complex structure of Tasmanian fisheries management, industry structure, including ITQ ownership and ownership changes over time, and how the current ITQ ownership landscape can influence the Tasmanian commercial fishing fleet and the communities they live in.

This submission focuses on the Tasmanian fisheries context.

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## TSIC RESPONSE TO THE FISHERIES QUOTA SYSTEM INQUIRY

### Management of Tasmania's Marine Resources

The Wild Fisheries Management Branch of the Department of Primary Industries, Parks, Water and Environment (DPIPWE) manages fisheries in Tasmanian State waters.

To help guide management, DPIPWE rely on the overarching legislation, the Living Marine Resources Management Act 1995 (LMRMA), Rules, as well as management plans, regulations, research area orders, fisheries licencing, ministerial guidelines and public notices (<https://dpipwe.tas.gov.au/sea-fishing-aquaculture/sustainable-fisheries-management/legislation>).

Fundamental to the management of Tasmania's marine resources is the purpose and objectives defined in section 7 of the LMRMA.

7. Purpose and objectives defined as:

- (1) The purpose of this Act is to achieve sustainable development of living marine resources having regard to the need to –*
- (a) increase the community's understanding of the integrity of the ecosystem upon which fisheries depend; and*
  - (b) provide and maintain sustainability of living marine resources; and*
  - (ba) take account of a corresponding law; and*
  - c. take account of the community's needs in respect of living marine resources; and*
  - d. take account of the community's interests in living marine resources.*

Section 9 of the LMRMA defines ownership of Tasmania's marine resources as follows:

9. *Ownership of living marine resources*

- (1) All living marine resources present in waters referred to in [section 5 \(1\) \(a\)](#), [\(b\)](#) and [\(c\)](#) are owned by the State.*

Furthermore, the management of fisheries is required to consider community-wellbeing (that is, make provisions for economic, social, and equity considerations) under the National Strategy for Ecologically Sustainable Development (1991), as endorsed by the Tasmanian Government.

Decision making, including the setting of a Total Allowable Catch (TAC) requires a scientific evidence base. In Tasmania, stock assessments of wild fisheries are conducted by the Institute for Marine and Antarctic Studies (IMAS), funded through the Sustainable Marine Research Collaborative Agreement (SMRCA), a partnership between the state government and IMAS.

While these assessment reports have been useful to track biological performance of the stocks, information regarding economic and social aspects of Tasmania's fisheries is limited<sup>1</sup>.

Social and economic aspects of a fishery must be considered, in line with the Principles of the LMRMA 1995.

**Summary:**

***Tasmania's marine resources are owned by the Tasmanian community and the government is tasked with ensuring they are used in a sustainable manner and in the best interests of the Tasmanian community (i.e. sustainability, economic and social objectives).***

## Quota Management

The LMRMA allows for the use of both input and output controls to manage a fishery. This concept is defined in Section 35 of the Act.

### *35. Fishery capacity rules*

*Rules may be made in relation to the following matters relating to the capacity of a fishery*

- (a) the quantity of fish that may be taken*
- (b) the apparatus that may be used*
- (c) the number of vessels and persons in that fishery*
- (d) the method by which capacity is to be determined*

Section 35 (a) and several subsequent sections and rules allow for the implementation of a quota management system (an output management control). Quota management systems control the amount of resource caught in any given fishing season or time period through the setting of a Total Allowable Catch (TAC).

**Summary:**

***TSIC supports the use of output controls, notably quota management, to sustainably manage Tasmania's marine resources.***

## Individual Transferable Quota's

Individual Transferable Quota's (ITQs) refer to individual portions of a TAC (unit of quota) which are allocated to individuals. These quotas ultimately allow access to catch a specific quantity of a specific species.

Under Tasmanian regulation, ITQ ownership has been separated from the licences and approvals to catch the quota. That is, an ITQ can be bought, sold or leased, all within a free market environment, with anyone deemed to be a fit and proper person able to own an ITQ (i.e. a fisher, ex-fisher, investor, company, superannuation firm etc).

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<sup>1</sup> [https://www.imas.utas.edu.au/\\_\\_data/assets/pdf\\_file/0007/1144582/EconSocial-Assessment-Tasmanian-Fisheries-2016-17.pdf](https://www.imas.utas.edu.au/__data/assets/pdf_file/0007/1144582/EconSocial-Assessment-Tasmanian-Fisheries-2016-17.pdf)

To catch an ITQ in Tasmania, you must hold a Fishing Licence Personal, and have access to the appropriate fishing licences / entitlements and quota. The exact requirements are different for each quota managed fishery. You do not have to own the quota to catch the quota, instead you can lease it or catch it based on a price per unit caught.

The participants in an ITQ fishery can be defined by the level of harvest, level of ITQ ownership and/or lease behaviour.

Active fishers will catch >0 tonnes. Active fishers can be broadly defined as:

- 1) An owner operator – a person who actively fishes (FLP) and owns the appropriate licences / entitlements and enough quota to allow them to earn a livelihood from their personally owned fishing operations and quota. There is no requirement to lease quota.
- 2) A partial owner operator – a person who actively fishes (FLP) and owns / accesses the appropriate licences/entitlements. Owns some quota but is also reliant on leasing in some quota.
- 3) A lease fisher – a person who is a supervisor (or sometimes owns) on an entitlement / licence but owns no quota, so is fully reliant on leasing in quota.

Investors can be defined as those participants whose annual recorded catch = 0 tonnes. That is, an investor simply owns the quota, and leases it out to fishers (either personally, or through a broker or processor) to get caught.

Investors are required to pay annual quota renewal fees, or in the case of abalone, a royalty payment.

There are a range of other licence renewals and costs associated with being an active fisher, which are not borne by an ITQ owner. These include FLP and Fishing Licence Vessel (FLV) renewals, vessel survey, insurance, AMSA costs, MAST costs amongst many more.

**Summary:**

***The Tasmanian ITQ system allows quota to be owned by anyone – including outside of Tasmania. Under the Tasmanian ITQ system, the Government has no control over who can own quota and where they reside, apart from the requirement of being a ‘fit and proper person’.***

**ITQ management and ITQ ownership**

ITQs (quota management) was introduced to Tasmanian fisheries management as a mechanism to rebuild stocks and support the long-term sustainable harvest of Tasmania’s marine resources.

Restricting the amount that can be caught, combined with improving stocks and resultant increased catch-rates, will (has) ultimately lead to a reduction in the number of vessels in a fleet (i.e. less vessels needed to catch the TAC as catch rates are higher and they are more efficiently), unless some form of input control is used to counter this dynamic.

Table 1: An overview of ITQ managed fisheries in Tasmania

Fishery	Year	Quota units established
Abalone	1985	3,460
Rock Lobster	1998	10,506
Giant Crab	1999	1,010
Scallop	2000	10,310
Banded Morwong	2008	1,192

The establishment of ITQs in Tasmanian fisheries saw the original allocation of ITQs based on active involvement in a fishery through a proven catch history. Subsequently, all active fishers were initially owner operators. For many years, ITQs were handed down between family, or sold to another active fishing operation. This was in part due to the 'tradition of fishing families' and the relatively low value and affordability of ITQs.

Over time, the value of ITQs and the annual return on this ITQ investment in the two most valuable Tasmanian wild catch fisheries, abalone and rock lobster, has increased dramatically. This made ownership of an ITQ an attractive prospect for investors, as well as for ex-fishers to retain ownership as a form of superannuation.

This significant increase in ITQ capital value ultimately created a barrier for fishers to own quota. This has caused a reduction in the number of owner operators in the Tasmanian fleet, and an increase in investment ownership, including ownership outside Tasmania.

The IMAS Report Economic and Social Assessment of Tasmanian Fisheries 2016/17 provides the following insights from 2016-17:

Abalone:

- 85% quota owners are investor – 15 % active fishers
- 29% quota investors residing outside Tasmania and increasing
- Diver numbers declining 14% from 2009 to 2016
- Proportion of divers who are owner-operators declined

Rock Lobster:

- 55% quota owners are investor – 45% active fishers.
- 23% quota investors residing outside Tasmania and increasing
- Active vessels numbers declined 14% from 2014 to 2016
- Proportion of fishers who are owner-operators declining

It is important to reiterate that these figures are from 2016-17 – and it is most likely these trends have shifted even further towards investor ownership and ownership outside Tasmania.

**Summary:**

***ITQs in Tasmania's abalone and rock lobster sectors are increasingly owned by investors, with a growing portion residing outside of Tasmania. ITQs have caused a decrease in owner operators and a decrease in active vessels in the fleet.***

When aligning the shift in ownership (especially outside Tasmania), with the principles of the LMRMA – notably managing in the best interests of the community who own the resources, it is reasonable to ask the following question:

*Is a reduction in fishing fleet numbers and a shift in quota ownership away from the fishing fleet to investors, and more importantly investors living outside of Tasmania, meeting the principles and objectives of the LMRMA, the Tasmanian communities' expectations on how our natural resources should be managed (returned to the State) and National Strategy for Ecologically Sustainable Development?*

## Flow of financial benefit under an ITQ system

ITQs are based on a free market economy, with quota and lease arrangements and dive rates being set by the forces of supply and demand. However, the government management of a community owned resource, which is shared with a range of other users and access right holds, combined with the market relationships between different ITQ stakeholders, creates significant complexity, which ultimately dictates the flow of financial benefit from Tasmania's marine resources (especially to lease / dive fee fishers). These flow of benefits relate to both the capital value of quota, as well as the annual return on the leasing / catching of this quota.

The following two sections aim to show how the financial benefits from an abalone and rock lobster quota unit flow between investors and fishers who lease / catch the quota for a fee from an investor owner.

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### The abalone fishery example

#### Abalone sector structure – an overview

In 2017, abalone divers who are owner operators (dive and own quota) accounted for less than 15% of the abalone fleet. The exceptionally high price of buying a quota unit (was \$270,000 pre COVID) makes it extremely prohibitive for abalone divers to obtain finances to 'buy in' to ITQ ownership, especially when there is fierce competition with 'cash in hand' investors.

Today, abalone quota ownership is in large confined to 'ex fisher' owners and those privileged enough to have the cash available to invest in abalone quota. There is an increasing proportion of investors who reside outside of Tasmania (29% in 2017 and even higher today). The motivation of investors is driven by the yearly increase in the capital value of the abalone quota asset, and the significant annual return on this capital investment (see below). Annual return on this investment can be maximised if the dive fee to catch the quota can remain low. Under the abalone deed, investors must also pay the Tasmanian government a royalty, with majority of Deeds currently at 7% GVP.

In turn, an increasing number of abalone divers are reliant on accessing abalone quota from investors, brokers and / or processors. They derive an income through diving for a set per kg dive fee. The abalone dive fee has stayed relatively stable over many years, sitting at around the \$7 – 8 per kg and jumping to around \$10 – \$11 / kg after the release of the Knuckey Report in 2017<sup>2</sup>.

While some divers will own a Fishing Licence (abalone dive) (FLAD – the licence that entitles an individual to dive and catch quota), other divers will be a supervisor on someone else's FLAD. A FLAD also has a capital value, which changes over time. Abalone divers bear the costs associated with a dive operation, including vessel maintenance, vessel survey, fuel, insurance etc.

Abalone stocks in Tasmania have been on the decline for over a decade. This has resulted in the continued reduction in the TAC over the last 11 years, with significant reductions in 2020 and 2021. To highlight the magnitude of TAC reduction, the TAC in 2015 was 1,854 tonnes and in 2021 the TAC is 833 tonnes. This

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<sup>2</sup> <https://dpiwwe.tas.gov.au/Documents/Review%20of%20Tasmanian%20Abalone%20Dive%20Rates%20-%20revised.pdf>

significant reduction in TAC has created additional barriers for divers to access quota (i.e. less kgs to go around). Combined with a low barrier to entry into the abalone dive workforce, control of majority of the abalone TAC by two key processors and in turn control of the dive rate, the abalone dive sector has increasingly become a part time workforce.

### Summary:

**Abalone divers are increasingly reliant on investors to access quota. With quota increasingly hard to access due to declining TAC, an oversupply of divers and fierce rivalry between divers, the result is a part time abalone dive workforce.**

*Is a part-time workforce in the abalone dive sector in the best interests of the abalone resource and the community that divers live in and contribute too?*

*Is the abalone dive sector maximising its employment opportunity, or is the flow of economic return to investors and divers (see next section) restricting employment opportunity and economic return to Tasmania?*

Flow of economic return to ITQ owners (investors) and dive fee fishers

The Knuckey (2017) analysis into the cost of diving provides the best and most recent (2017) figures to compare the economic return to investors and fishers. In 2017, the average beach price for abalone was \$55 / kg and the amount taken each quota unit was 446 kg.

The following tables shows the economic return to an investor quota owner and diver reliant on a dive fee.

### RETURN TO INVESTOR

Gross Return on 1 unit (446 kg)	446 kg x \$55 beach price	<b>\$24,530.00</b>
Expenses		
<ul style="list-style-type: none"> <li>• 7% royalty</li> <li>• Fee paid to diver</li> </ul>	<ul style="list-style-type: none"> <li>• 0.07 x \$24,530</li> <li>• \$7.56 x 446 kg</li> </ul>	<ul style="list-style-type: none"> <li>• <b>\$1,717.10</b></li> <li>• <b>\$3,371.76</b></li> </ul>
		<b>\$5,088.86</b>
<b>Net Return to Investor per unit</b>		<b>\$19,441.14</b>

### RETURN TO DIVER ON A DIVE FEE

Knuckey (2017)<sup>3</sup> calculated the net return and expenses to an abalone diver who leases a FLAD and catches 24.25 tonnes of abalone per annum as follows.

Gross Return from dive services		<b>\$183,439 (\$7.56/kg)</b>
Expenses to catch		<b>\$128,825 (or \$5.31 / kg)</b>
Net Return to Diver		<b>\$54,614 (\$2.25 / kg)</b>
<b>Net Return to Diver per unit</b>	<b>\$2.25 x 446</b>	<b>\$1003.50</b>

<sup>3</sup> <https://dpipwe.tas.gov.au/Documents/Review%20of%20Tasmanian%20Abalone%20Dive%20Rates%20-%20revised.pdf>

Note – COVID-19 has had an impact on the abalone beach price.

### **Summary**

***The owner of an abalone unit has a significantly higher net return (\$19,441.14) compared to a diver (\$1,003.50), despite the diver taking on all the operational, safety and regulatory risks.***

### *Question*

*Is it equitable for those privileged enough to own quota, especially those residing outside Tasmania, to take the lion's share of profit from a Tasmanian community owned abalone resource?*

*Is the disproportionate distribution of profits to investors (who bear financial risk of their capital asset losing value) and divers (who take on operational cost, and safety and regulatory risk) providing adequate economic return to Tasmania, and the communities that abalone divers live and work in?*

### **Capital investment return on ITQs vs FLADS**

From 2014 to 2019, the value of an abalone quota unit increased from approximately \$170,000 to \$270,000 per unit. This is despite continued quota cuts in the fishery. The impacts of COVID-19 on the key abalone markets have reduced this value over the last 12 months.

From 2014 to 2019, the value of a FLAD, the licence that entitles someone to catch abalone (assuming they have access to quota) has gone from \$150,000 to approximately \$80,000, assuming you can find a buyer.

### **Summary**

***The capital value of abalone quota has increased significantly over time, while the capital value of a FLAD has reduced significantly over time (pre-COVID).***

### **Abalone sector owner operators**

Abalone divers who have managed to own abalone quota are the most profitable individuals within the abalone dive sector.

Abalone owner operators only account for 15% of quota holders.

### *Has separating ITQ ownership created market failure in the abalone dive sector?*

Changes in the levels of participation by fishers and investors in the quota market ultimately affects the distribution of financial benefit to different participants through changing incentives and market conditions for the sale and lease of quota units. In recent years, the flow of benefits has flowed (favoured) ITQ owners, which as previously stated have been increasingly controlled by investors.

The current abalone ITQ and dive market dynamic is complex, but Knuckey (2017) makes the following observations:

- **Strong bargaining power of the quota owners/agents**, as buyers of dive services, intensifying as Total Allowable Catch has declined. Over 60% of the quota distribution is controlled through the two main processors. This is a key determinant influencing dive rates.
- **Fierce competition amongst divers**. Significant diversity between dive services contributes to this intense rivalry; increasing the chance of maverick behaviour and reducing the potential for successful collective bargaining. Also, for some divers, high exit barriers can cause businesses to remain even when not profitable, further contributing to competitive rivalry.
- **Low barriers to entry**. Despite a limited number of FLADs, the dive-services market is easily accessible by new entrants because there are many dive licences available (~15% are latent) for lease at relatively modest cost (~\$10,000 per year). Capital costs to enter the market are relatively low (\$50,000 – \$80,000 for second-hand ute, boat and equipment); no experience and limited dive qualifications and training are required. Because 50% of the current TAC is caught by only 28 divers, theoretically, the entire fishery could be harvested by about half of the 121 FLADs if all divers were working full time.

Knuckey (2017) further states that *“securing access to quota (increasing volume) is a greater imperative to lease divers than increasing the dive rate because of the economies of scale that can be achieved”* and *“a 5 tonne catch increase (bringing the catch close to the Felmingham 2009 average of 30 tonnes) results in an income of just over \$75k for an estimated 140–150 days of work”*.

Since this report, the abalone TAC has undergone further significant reductions, from 1,561 tonne in 2017 to 833 tonnes in 2021.

With no significant reduction in the number of diver numbers, an oversupply of diver capacity and the control of majority of ITQs / the TAC by two processors, it is the view of TSIC that the ITQ structure of the Tasmanian abalone industry has resulted in market failure for the abalone dive sector (also see TSIC submission to the Knuckey (2017) report in appendix 1). This has ultimately resulted in a part time workforce, who are not receiving a proportional share of economic return on an abalone unit.

What are the consequences of this failure? Put simply, divers are being ‘squeezed’ out of the industry, and they are increasingly not in a financial position to provide any significant economic input into the communities they live in.

## Summary

**ITQs have contributed to market failure in the abalone dive sector in Tasmania.**

## The rock lobster Fishery ITQ Case Study

### Rock lobster sector structure – an overview

In 2017, rock lobster fishery owner operators accounted for less 45% of the fleet and decreasing. These active owner operators can hold anything from a small quota holding to a large quota holding.

The exceptionally high price of rock lobster quota makes it extremely prohibitive for active fishers to 'buy in' to ITQ ownership and become owner operators. Instead, majority of rock lobster quota ownership is confined to 'ex fisher' owners and increasingly, those privileged enough to have the cash to invest in rock lobster quota.

Furthermore, an increasing proportion (23% in 2017) of rock lobster investors reside outside of Tasmania. These investors are in large driven by the increase in capital value of their asset (the quota sale value) and maximising their annual return on that asset. Increased annual returns is achieved through high lease prices, which has been possible pre-covid due to the high beach prices. Investors pay an annual quota renewal fee.

An increasing number of rock lobster fishers are reliant on leasing rock lobster quota from investors, brokers or processors. This access is achieved through payment of a per kg lease price. This lease price is agreed before the product is caught. The lease price is in large proportional to the beach price and market value of rock lobster. In recent years, the high prices paid by the Chinese live market has resulted in high average beach prices (up to \$87 / kg average per year and \$120/kg at certain times of the year).

Rock lobster stocks in Tasmania are improving, mainly due to previous reductions in the TAC and the implementation of other input controls, such as size limits, and output controls, such as catch caps. As stocks improve, catch rates improve, making vessels more efficient. This has resulted in fierce competition for quota in recent years, which in turn has resulted in high lease prices. High lease prices minimises the return to a lease fisher (difference between lease and beach price) and financially exposes the lease fisher to unexpected reductions in beach price.

It is important to note that the recent COVID and market disruption with China has had a significant impact on the capital value of quota, lease price and beach price.

#### **Summary:**

**Rock lobster fishers are increasingly reliant on leasing quota from an investor or processor. As stocks improve, catch rates improve, making it more difficult to access quota. This has created competition for quota and exacerbated the lease price, and also resulted in a reduction in the fleet numbers.**

*Is a reduction in the number of active rock lobster vessels, and people employed by the rock lobster fishery, maximising employment opportunity and return to the Tasmanian community, especially in light of an increasing number of investors living outside Tasmania?*

## Flow of economic return to ITQ owners (investors) and rock lobster lease fishers

The following calculations provide an indication of the economic return to a rock lobster quota owner and lease fisher pre-COVID (2019-20), and post COVID / Chinese market disruption. It must be noted that these are indicative figures, which aim to show the trends in flow of finances from a rock lobster quota unit. Each separate business model and the level of quota ownership will dictate a true return.

A rock lobster unit allows 100kg lobster to be caught.

### RETURN TO ROCK LOBSTER INVESTOR

*Note – ‘other levies’ includes a per unit proportion of the TRLFA levy and FLV renewal fee.*

	Pre-covid (\$55 lease price)	Post market disruption (\$4 lease price)
Gross Return to investor / unit	\$5,500	\$400
Fixed Costs		
<ul style="list-style-type: none"> <li>• Renewal fee</li> <li>• Other levies</li> </ul>	<ul style="list-style-type: none"> <li>• \$307.80</li> <li>• \$72.78</li> </ul>	<ul style="list-style-type: none"> <li>• \$307.80</li> <li>• \$72.78</li> </ul>
<b>TOTAL</b>	<b>\$380.58</b>	<b>\$380.58</b>
Net Return to investor	<b>\$5,119.42</b>	<b>\$19.42</b>

### RETURN TO ROCK LOBSTER LEASE FISHER

	Pre-covid beach price	Post market disruption (\$4 lease price)
Gross Return to fisher / unit	\$87 beach = <b>\$8,700</b> \$90 beach = <b>\$9,000</b>	\$25 beach = <b>\$2,500</b> \$35 beach = <b>\$3,500</b>
Expenses (no wage to skipper)		
<ul style="list-style-type: none"> <li>• Cost to catch(IMAS)</li> <li>• Lease Quota</li> </ul>	<ul style="list-style-type: none"> <li>• <b>\$2,500</b></li> <li>• \$55 / kg = <b>\$5,500</b></li> </ul>	<ul style="list-style-type: none"> <li>• \$2,500</li> <li>• \$4 / kg = <b>\$400</b></li> </ul>
<b>TOTAL</b>	<b>\$8,000</b>	<b>\$2,900</b>
Net Return to rock lobster fisher	\$87 beach = <b>\$700</b> \$90 beach = <b>\$1,000</b>	\$25 beach = <b>-\$400</b> \$35 beach = \$600

It must be noted that during the transition from the record high lease prices (up to \$65 / kg) to the post market disruption beach price crash, many lease fishers were stuck with a \$35 to \$40 / kg beach price but up to \$65 / kg lease price. These fishers incurred significant debt.

### **Summary**

***Pre COVID a rock lobster investor had a net return of approximately \$5,119 per unit, while the lease fisher had a return of between \$700 and \$1200 depending on the beach price.***

***Lease fishers carry a significant financial burden should the beach price crash and high lease arrangements are in place.***

***The Investors return on a rock lobster unit can also suffer with disruption, such as the recent trade issues with China.***

***A lease fisher can make the same amount from a low beach price if the lease price is low.***

### **Question**

*When the lease price is high:*

*Is it equitable for those privileged enough to own quota, especially those residing outside Tasmania, to take the lion's share of profit from a rock lobster unit?*

*Is the disproportionate distribution of profits to investors and rock lobster lease fishers providing adequate economic return to Tasmania, and the communities that fishers live and work in?*

### **Capital investment return on rock lobster quota**

Pre-COVID, the capital value of a rock lobster unit was approximately \$95,000. Post COVID and market disruption, the value of a rock lobster quota unit is around \$55,000 to \$60,000, with many predicting further significant reductions.

Rock lobster owner operators

Rock lobster fishers who own their own quota are the most profitable in the fishing sector.

Rock lobster owner operators account for 45% of operators in 2017, with less likely today.

### **CONCLUSIONS**

Quota management is effective output management control to ensure sustainability of marine resources. Separation of ITQ ownership from the fishing sector has created a whole range of unintended consequences, which have ultimately seen the flow of majority of profits to investors, not the fishing fleet. As investors are increasingly living outside of Tasmania, is an ITQ system in the best interests of Tasmania and the Tasmanian community that owns the resource?



# TSIC RESPONSE TO THE GOVERNMENT COMMISSIONED REPORT REVIEW OF TASMANIAN ABALONE DIVE RATES (KNUCKEY AND SEN 2017)

## Executive Summary

Despite the Knuckey Report stating there is no market failure within the abalone dive services sector, the Report provides significant evidence for market failure at the level of the whole abalone industry. With the current industry structure, and continued decline in TAC, the dive services sector will continue to be in large uneconomical, with limited prospects for autonomous adjustment due to high exit costs, low entry costs, part time nature of some diving operations and other sources of income. Improved profitability, improved access to quota and improved professionalism and safety in industry will be achieved through a combination of improved dive rates and structural adjustment (rationalisation) of the dive services sector. Although there has been some recent evidence of improved dive rates, any rationalisation will require government support.

TSIC urge the government to review their position that there is no market failure in the abalone industry, and support a restructure of the dive services sector in the interests of FLAD owners, quota owners and regional communities supported by the dive service sector and the broader community who owns the resource.

## Introduction

The purpose of this document is to provide a formal, industry driven commentary against the findings of the Knuckey Report. TSIC is providing this response in support of its members, who are owners or supervisors of a Fishing Licence (Abalone Dive).

## Identifying the problem

TSIC acknowledge that the 'Knuckey Report' provides a 2016 overview of the status and economics of the Tasmanian abalone dive services sector. We agree that over the spectrum from small to large tonnage divers, some are happy with their participation and financial reward from their abalone dive operations. There is, however, an undefined portion of the dive services sector that is increasingly unable to make a full time living from their dive operations (pers. comms. with >20 divers claiming they represent the views of some 50 – 60 divers). There is evidence that an increasing number of individuals within the abalone dive services sector are operating at exceptionally low or negative profit margins as a consequence of not being able to access enough quota to catch and/or inequitable dive rates (i.e. average dive rate of \$7.56 / kg but the 2009 Felmingham Report showing \$10.00 as equitable – or \$11.50 with CPI). The current structure of the abalone dive service sector has created high exit costs and for some, very low entry and operating costs for others, with many divers needing to support their income through other employment. Such factors are impeding any short to medium term autonomous adjustment within the dive services sector. With predicted further declines in Total Allowable Catch (TAC), the situation is destined to get worse, unless there is a forced readjustment within the industry through either improved dive rates or greater access to quota or best of all, a combination of both.

## 'Market failure in the abalone industry

A competitive market is one in which large numbers of producers compete with each other to satisfy the wants and needs of a large number of consumers. In a competitive market no single producer, or group of producers, and no single consumer, or group of consumers, can dictate how the market operates. Nor can they individually determine the price of goods and services, and how much will be exchanged.<sup>1</sup> Competitive markets will form under certain conditions, and if any 'conditions' of this market equilibrium are violated, then market failure ensues. With respect to the Tasmanian abalone industry, the dive services sector can be considered the producer (or harvester) while the quota owner / processing market can be considered the consumer (or purchaser of diver services).

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<sup>1</sup> [http://www.economicsonline.co.uk/Competitive\\_markets/Competitive\\_markets.html](http://www.economicsonline.co.uk/Competitive_markets/Competitive_markets.html)

The Knuckey Report states 'our analyses have shown no evidence of market failure; the market appears both functional and competitive'. This statement reads true within the context of the use and trade of FLAD ownership rights, as almost all of the available 121 available FLADs are in use, there is continued trade of FLADs on the market (either sold or leased) and the TAC continues to get caught.

There is no denying that the dive services sector is structurally unattractive with low profitability, as stated on page 2 of the Knuckey Report. This is mainly the consequence of a large component of the dive services sector having essentially no control over access to quota, where they operate or the dive rate they receive. Instead this bargaining power lies with owners of quota, with vast majority of this power monopolized by two processing companies, who are controlling over 60% of all quota. This is clear evidence that the consumer (the purchaser of dive service market) is not only dictating how a majority of the dive service sector operates, but has such monopoly that they can set abalone diver rates.

It is the view of TSIC that this situation constitutes market failure at the level of the abalone industry. Evidence of this market failure is provided throughout the 2017 and 2015 Knuckey Reports:

- The bargaining power of the buyers (quota owners / processors) of dive services is extremely strong and a key determinant of dive rates. With over 60% of quota distribution being fully controlled by two (2) processors, there is a monopoly situation which sees a significant component of the dive services sector having little to no control over.
- A continued decline in TAC but a stable number of FLAD operators / divers (121) is intensifying this bargaining power. As noted in the 2015 Knuckey Report, "One difficult area is that the quota unit value (in kgs) can be adjusted to the current state of the fishery, while the number of dive entitlements remains static, determined at 121 by historical capacity and decisions. Where once these dive entitlements were accessing ~ 3000 t of quota annually, during 2015 they only had access to 1850 t. Effectively, there is now an oversupply of divers and this is creating a range of competing economic and social issues in the fishery"
- This continued decline in TAC but stable dive sector is also creating increased competitive intensity (rivalry) between dive service businesses. This has created maverick behavior, which has ultimately led to undercutting of dive rates by a portion of the dive service sector in order to obtain access to quota.
- Established divers have high exit costs, which means that some divers will continue diving, even when not profitable.
- There are very low barriers to entry. An individual who already owns a vessel, tow vehicle and dive equipment can enter the abalone dive sector for as little as \$2,000 (i.e. can lease a FLAD for \$1,000 per month). Such part time divers have little skin in the game and often have other primary sources of income.
- The number of FLADs is higher than required to catch the current TAC. Theoretically, the TAC could be caught by half the 121 available FLAD licences.

### [A worse situation than reported in the Knuckey Report](#)

The Knuckey Report states that there is currently an over-supply of FLADs within the dive service sector, a consequence of an ever decreasing Total Allowable Catch (TAC), but a stable number of divers available to catch the TAC. The Report states a 33% decline in TAC since 2001 (17 years). This figure, however is both incorrect and misleading. Available catch data actually shows a 41% decline in TAC from 2010 to 2017. This is a significantly higher rate of decline over a much shorter period of time. Currently available data and projected trends would suggest a further reduction in the TAC for at very least the next quota season. Unfortunately, the Knuckey Report provides no insight into what the dive services sector will be like under different TAC outcomes and/ or over a 2 – 5 year projection.

### [Increasing dive rates versus providing greater access to quota!](#)

The information contained within the 'Diver costs and revenues' section of the Knuckey Report is confusing and potentially misleading, especially when there is such diversity in business structure, which means fixed / variable costs can vary greatly. It is difficult to determine if Figures 2 to 4 apply to FLAD owners or people who lease a FLAD, while the information contained within Table 4 covers such diversity of quota owner / divers and lease fishers that comparisons of a bottom line are relatively meaningless. Regardless, TSIC does not support the Knuckey view that

‘securing access to quota (increasing volume) is a greater imperative to lease divers than increasing the dive rate because economies of scale can be achieved’.

It is TSIC’s view that obtaining a higher dive rate is far more beneficial for the abalone dive sector compared to securing access to more quota. Looking at total income from dive operations (pre-costs) eliminates any bias and uncertainty of complexities and variations in business structures. When comparing the total income from diving per unit effort (day worked) under an increased access to quota scenario (Table 1) and increased diver rates in increments up to that recommended in the 2009 Felmingham Report, with CPI (Table 2), it is obvious that increasing diver rates provides far greater financial return and benefit to divers.

**Table 1 - Change in income under an increased catch per year, but stable current diver rate of \$7.56 (Knuckey recommendation)**

	average catch (status quo)	+5 tonne	+10tonne
Tonnage caught	24.25	29.25	34.25
Total income from diving	\$183,330	\$221,130	\$258,930
Average days worked	120	145	170
Average income per day diving	\$1,528	\$1,525	\$1,523
Difference compared to average		<b>-\$3</b>	<b>-\$5</b>

**Table 2 – Change in income under an increased diver rate but current average catch of 24.25 tonne**

	Knuckey reported average diver rate	+\$0.44	+\$1.44	+\$2.44 (Felmingham 2009)	+\$3.95 (Felmingham CPI to 2017)
Diver rate/ kg	\$7.56	\$8.00	\$9.00	\$10.00	\$11.50
Total income from diving	\$183,330	\$194,000	\$218,250	\$242,500	\$278,875
Average days worked	120	120	120	120	120
Average income per day diving	\$1,528	\$1,617	\$1,819	\$2,021	\$2,324
Difference compared to average		<b>+\$89</b>	<b>+\$291</b>	<b>+\$493</b>	<b>+\$796</b>

### Still a need for rationalisation!

The opportunity to derive an increased income by having greater access to quota is 100% reliant on reducing the number of operational FLADs in the abalone dive sector. TSIC supports the concept of rationalisation of the dive sector, especially in light of predicted continued decline in TAC and statements in the Knuckey Report which clearly show an excess catching capacity in the dive services sector. Rationalisation would allow greater and easier access to quota. If combined with increased diver rates, the dive services sector would be able to derive a fair and equitable return for their operations.

There is a general consensus amongst abalone divers that approximately 40 FLADs need to be removed from the sector to allow improved access to quota. TSIC support this figure (i.e. approximately 80 active FLADs in the fishery). The Knuckey Report provides a good overview of rationalisation options (pages 25 – 28).

TSIC urges the Government to continue dialogue and provide support for rationalising the abalone dive sector to mitigate future issues around excess catching capacity, inability to access quota, inability to derive a fair and equitable income relative to workloads, and ultimately to help mitigate the current market failure within the abalone industry.

### Linking safety with income

The Knuckey Report did not support the argument that ‘divers are compromising the safety of their operations because of low dive rates and that higher rates would lead to improve safety standards’. Instead, the report stated that improved safety is more likely to be achieved through appropriate regulations and a comprehensive system of enforcement. However, the report also states that marginal diver operators running on a cash basis have little prospect of replacing equipment when it reaches end-of-life. TSIC cannot separate the financial inability to replace

vital equipment, which is a lifeline between divers and the air / land they need to live, and a decline in safety outcomes. It is obvious that if divers cannot afford to maintain equipment there will be a decline in safety outcomes. Looking back 10 years, when return to divers was good and income excellent, all divers had new boats and new dive equipment and they were better able to meet the requirements of their Code of Practice as they had cash available. Although anecdotal, it could be argued there is a link between financial return and safety, at least with respect to equipment used and regular maintenance/servicing.

The Knuckey Report also states that diving was a remarkably safe occupation... and abalone divers only made up 12.5% of divers treated for decompression illness (Smart 2010). TSIC contest this statement on two levels. Firstly, personal correspondence with Dr Smart showed that the abalone industry is the only industry in Tasmania where dysbaric osteonecrosis (DON) is occurring, with cases in abalone divers aged under 35. DON is now accepted as due to untreated (or late treated) DCI and repeated extreme exposures. The abalone dive industry may have old divers and bold divers, but very few old bold divers (Pers Comms. Dr Smart).

Secondly, it is widely reported that commercial fishers have the most dangerous job in the world<sup>2 3 4 5</sup>. As an abalone diver in Tasmania, you face unpredictable elements, cold water, breaking waves, currents and sharks amongst more. Fishing and in particular diving IS a very dangerous job. Demands are exacerbated by long days (driving and diving) and significant paperwork at the end of each day to meet compliance requirements. Such a challenging job deserves an appropriate cut of any profits made.

### Why a fix is needed

The structure of the Tasmanian abalone industry, which has seen a separation of quota ownership from the catching sector, has created market failure and prevented the equitable flow of financial return (profits) to the dive services sector. This is evident in the Knuckey Report showing the average dive rate as \$7.56, but the 2009 Felmingham Report stating \$11.50 (indexed to 2017 as recommended in the report) as a fair diver rate.

With projected future cuts to the abalone TAC, excess catching capacity, difficulties in accessing quota, fierce competition for quota, maverick behaviour and poor share of the profits for the dive service sector, the future outlook for the dive service sector is bleak, with the full effect of the current situation to become fully felt over the next 2 – 5 years, unless forced adjustment action is taken.

It should be obvious that the abalone dive industry cannot function without the dive services sector. Furthermore, abalone divers are in fact those living and operating in regional Tasmanian communities. As part of their operations, they are providing a positive economic input into these communities through purchase of food and fuel, rental of properties and utilisation of a diverse range of other fishery services. Many divers live in regional communities, supporting schools, sporting clubs and more. It is imperative that structural adjustment is promoted to ensure the continued viability of the dive services sector, and the continued benefits into regional communities are realised.

### TSIC Recommendations

- Acknowledge there is market failure within the Tasmanian abalone industry, which is felt most by the harvest sector.
- Promote improved diver rates – with a note that there is evidence that diver rates have improved during the 2017 quota year.
- Actively support rationalisation of the dive service sector to approximately 80 active FLADs, as autonomous adjustment will not / cannot occur under the current climate, but there is clear evidence of excess catching capacity within the diver services sector.
- Rationalisation and improved diver rates could create a full time, professional dive services sector, which operates under an improved safety culture.

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<sup>2</sup> <http://www.cnn.com/2017/01/04/the-10-most-dangerous-jobs-for-men.html>

<sup>3</sup> <http://list25.com/25-most-dangerous-jobs-in-the-world/5/>

<sup>4</sup> <https://www.finder.com.au/most-dangerous-jobs-australia>

<sup>5</sup> <https://www.mybusiness.com.au/culture/1045-the-10-most-dangerous-jobs-in-australia#>