Restaurant & Catering

Senate Rural and Regional Affairs and Transport References Committee

Inquiry into the biosecurity risks associated with the importation of seafood and seafood products (including uncooked prawns and uncooked prawn meat) into Australia

APRIL 2017

RESTAURANT & CATERING AUSTRALIA

Restaurant & Catering Australia (R&CA) is the national industry association representing the interests of over 39,000 restaurants, cafes and catering businesses across Australia. R&CA delivers tangible outcomes to small businesses within the hospitality industry by influencing the policy decisions and regulations that impact the sector's operating environment.

R&CA is committed to ensuring the industry is recognised as one of excellence, professionalism, profitability and sustainability. This includes advocating the broader social and economic contribution of the sector to industry and government stakeholders, as well as highlighting the value of the restaurant experience to the public.

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Restaurant
& Catering

TABLE OF CONTENTS

EXECUTIVE SUMMARY

As the peak industry association representing the interests of over 39,000 restaurant, café and catering businesses across Australia, R&CA welcomes the opportunity to provide input to this inquiry. Whilst R&CA remains cognisant of the critical imperative to protect Australia's biosecurity, this needs to be balanced against the interests of Australia's tourism and hospitality industry, which represents Australia's fastest growing employment sector.

R&CA has previously written to the Minister for Agriculture outlining its concerns on the Government's suspension on raw imported prawns. R&CA's position is that this suspension should be lifted to address the chronic shortages of supply and unsustainable price increases which have ensued. This should be completed as a matter of urgency and well before the conclusion of the six-month time frame. In addition, R&CA argues that there needs to be greater advice, coordination and communication with importers regarding the timing and results of quarantine and testing. Finally, the outcomes of the Department's investigation must be communicated in a timely manner to allow for the effective planning of product re-entry into the market.

As a competitive export exposed sector, the capacity of restaurants, cafes and caterers to pass on price increases is minimal. Price competition is such that businesses will either substitute prawn dishes with other proteins or absorb prices increases, despite very low margins.

Whilst the impacts of the suspension of raw imported prawns on the tourism and hospitality sector are yet to be fully realised, R&CA remains deeply concerned about the significant economic effects on café and restaurant businesses which are already experiencing over 100% increases in the price of prawns which, if absorbed as expected, will result in a decrease in the average restaurant's net profit of 25.1%.

OVERVIEW OF TOURISM AND HOSPITALITY INDUSTRY

SIZE AND VALUE

The hospitality sector makes a sizeable contribution to the national economy and Australia's tourism industry. As of 30 June 2016, there were approximately 39,469 cafes and restaurants in operation across Australia.[1] Significantly, the number of cafes and restaurants increased over the 2015-16 financial year in every single Australian state and territory, growing by upwards of 5 and 6 per cent in some jurisdictions.[2] Over 92.4 per cent of the almost 40,000 cafes and restaurants in Australia are small businesses employing 19 people or less.[3] According to the most recently available Australian Bureau of Statistics (ABS) data, turnover in the café, restaurant and catering sector was $24.9 billion for the year ending February 2017.[4]

PROFITABILITY

Despite the growth in the number of business and industry revenues, the profitability in the restaurant, café and catering sector is not growing. According to the most recent ABS data, the average profit margin of a café or restaurant is 3.8 per cent.[5] This very low average net profit is driven by very high costs of labour, good and occupancy.

As detailed in the attached extract from the Restaurant & Catering Australia's 2016 Benchmarking Report[6], the cost of food is 31.2% of food revenue. This cost is second only to wages and salary costs at 44.2% as a cost of doing business for the sector.

[1] Australian Bureau of Statistics (ABS) 2017 *8165.0 - Counts of Australian Businesses, including Entries and Exits, Jun 2012 to Jun 2016*, http://www.abs.gov.au/ausstats/abs@.nsf/mf/8165.0

[2] Ibid.

[3] Ibid.

[4] Australian Bureau of Statistics (ABS) 8501.0 - *Retail Trade, Australia, Feb 2017,* http://www.abs.gov.au/ausstats/abs@.nsf/mf/8501.0

[5] Australian Bureau of Statistics (ABS) (2008) *8655.0 - Cafes, Restaurants and Catering Services, 2006-07*, http://www.abs.gov.au/ausstats/abs@.nsf/Lookup/8655.0Main%20Features32006-07

[6] Restaurant & Catering Australia, (2016) Industry Benchmarking Report, p.17.

Figure I: Percentage of Costs to Revenue

Expense Item	2014-15	2013-14	2012-13	2011-12
Food *(food cost to food sales)*	31.2%	34.9%	29.3%	29.9%
Beverage *(beverage cost to beverage sales)*	30.6%	31.8%	30.7%	28.1%
Rent	8.3%	8.8%	9.9%	6.8%
Rates & Taxes	3.7%	4.7%	3.1%	2.4%
Property Insurance	0.8%	1.5%	1.5%	1.0%
Electricity, lighting and gas	3.2%	3.9%	3.3%	2.7%
Wages and salaries *(including Super)*	37.9%	35.8%	39.3%	38.4%
Staff on-costs *(Payroll Tax, Workers Compensation)*	5.4%	4.9%	4.4%	7.0%
Staff training	0.9%	1.5%	1.6%	1.2%
Equipment, depreciation / lease	2.7%	3.2%	2.9%	2.7%
Repairs, maintenance & replacement	2.5%	3.3%	2.4%	2.1%
Cleaning, laundry and rubbish removal	2.0%	2.3%	1.5%	1.8%
Insurance	1.5%	1.7%	1.5%	1.4%
Interest	1.0%	2.0%	1.0%	1.7%
Accounting & management	2.5%	3.1%	1.8%	1.4%
Advertising & promotion *(social media/website)*	2.9%	3.0%	2.6%	2.3%
Printing & stationary	0.8%	1.3%	0.8%	1.1%
Credit card charges	1.3%	1.9%	1.1%	1.3%
Telephone & postage	0.8%	1.3%	1.0%	1.1%
Travel *(including motor vehicle expenses)*	1.0%	1.1%	1.1%	0.6%

Source: Restaurant & Catering Australia (2016) Industry Benchmarking Report, p.17.

KEY CONCERNS FOR CAFÉ AND RESTAURANT SECTOR

The suspension of raw imported prawns has already had a significant economic impact on many café and restaurant businesses which R&CA believes will worsen as the supply of prawns continues to dwindle. The economic impacts of the suspension of raw imported prawns is being felt by restauranteurs and café owners in the form of increased costs and a reduction in sales. An ongoing shortage in the supply of prawns is particularly problematic for restauranteurs and café owners as they enter peak periods of trading for the year.

INCREASED COSTS

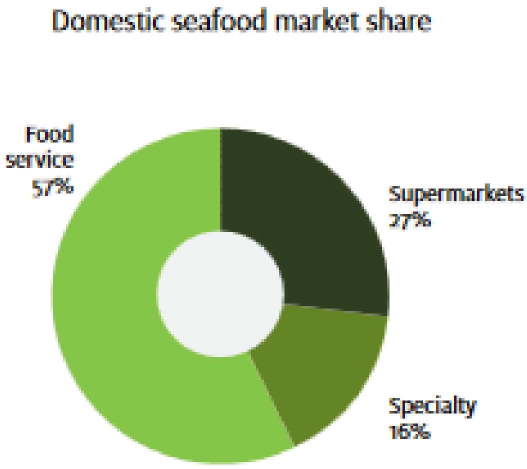
The imports suspension has already resulted in a significant increase in the price of green prawn products. One R&CA member restaurant has reported that the cost of purchasing Argentinian prawns has increased from $17.80 to $37.90, a percentage increase of 113 per cent. As the shortages of these imported prawns continues, R&CA anticipates that the cost will continue to rise even higher. These increases have put considerable pressure on the cafe and restaurant sector, especially for businesses with a high proportion of prawns and other seafood items on their menus. For these businesses, the rapid and unsustainable increase in the cost of prawns has forced them to alter their menu to either reduce or remove prawn dishes.

IMPACT ON PROFITABILITY

In 2016, Australia imported 250,000 tonnes of seafood valued at first point of sale at $1.3 billion[7] which is sold across both the retail and food service sectors. For the purposes of analysing potential economic impacts on the cafés and restaurants, it important to identify the cost of seafood being sold in the food service sector alone. It has previously been estimated that of the domestic seafood market share food service accounts for approximately 57 per cent as demonstrated by Figure II overleaf. When applied to the figure of $1.3 billion, the total value of imported seafood in food service sector in 2016 was $741 million.

[7] Figure obtained from Seafood Importers Association of Australasia (SIAA).

Figure II: Percentage breakdown of domestic seafood market share



Source: Spencer, S & Kneebone, M (2012), FOODmap: An analysis of the Australian food supply chain, Department of Agriculture, Fisheries and Forestry, Canberra, p.54.

It is then necessary to calculate the value of imported prawns sold in the foodservices sector. In 2016, the imported value of all prawn imports was $368.6 million.[8] When represented as a proportion of all imported seafood ($1.3 billion), the percentage was 28.4 per cent. When applying this percentage to the total amount of seafood sold in the foodservices sector, this equals $210.4 million which is the total amount spent on imported prawns in the foodservice sector.

Table I: Extrapolations of Data on Imported Prawns Sold in Foodservice Sector

Percentage (%) Increase in Price	Cost of Imported Prawns when percentage (%) increase applied
0%	$210,400,000
25%	$263,000,000
50%	$315,600,000
75%	$368,200,000
100%	$420,800,000
113%	*$448,152,000*
125%	$473,400,000
150%	$526,000,000
175%	$578,600,000
200%	$631,200,000

[8] Figure obtained from Seafood Importers Association of Australasia (SIAA).

Based on the calculations in Table 1, $210.4 million of imported prawns sold in the foodservices sector may increase to $263 million with only a 25 per cent increase in price. Anecdotal evidence from R&CA members suggests that the cost of imported Argentinian prawns has increased by 113 per cent since the suspension. If this figure is applied to the total cost of imported prawns, the figure is $448.2 million. The difference in the cost of imported prawns with a 113 per cent increase is $237.8 million.

To work out a per capita cost of imported raw prawns to cafes and restaurants, it is necessary to divide the total cost of raw imported prawns by the total number of cafes and restaurants. As of 30 June 2016, there were 39,469 cafes and restaurants in operation across Australia. Whilst not every one of these café and restaurants would offer prawn and seafood items on its menu, it is reasonable to conclude that three-quarters of these businesses (75 per cent) would have at least one of these items present. If the total number of cafes and restaurants offering at least one prawn or seafood item on the menu is calculated as 75 per cent of 39,469, the final number is 29,602. Table 2 below calculates the cost of imported prawns per each café and restaurant, according to percentage increase. A limitation in this data is that it does not account for the fact that individual cafes and restaurants do not purchase identical quantities of prawns.

Table 2: Extrapolations of Data on Imported Prawns Sold in Foodservice Sector

Percentage (%) Increase in Price	Cost of Imported Prawns when percentage (%) increase applied	Cost of Imported Prawns per café and restaurant
0%	$210,400,000	$7107.63
25%	$263,000,000	$8884.53
50%	$315,600,000	$10,661.44
75%	$368,200,000	$12,438.35
100%	$420,800,000	$14,215.26
113%	*$448,152,000*	*$15,139.25*
125%	$473,400,000	$15,992.16
150%	$526,000,000	$17,769.07
175%	$578,600,000	$19,545.97
200%	$631,200,000	$21,322.88

Whilst it is not possible to predict exactly how much the cost of prawns will increase by, it is still useful to quantify the overall cost of imported prawns per each café and restaurant. If the 113 per cent increase already evident in the cost of Argentinian prawns is applied, the cost of imported prawns per café and restaurant is $15,139.25 – a cost difference of $8,031.62 when a 0 per cent increase is applied. Therefore, the average restaurant is paying an additional $8,031.62 for imported prawns. This figure gives an indication of the increase in the cost of raw imported prawns being passed on to individual restaurants and cafes. This figure must be taken as an average as not all cafés and restaurants purchase imported prawns in the same quantities.

According to the ABS report *8655.0 - Cafes, Restaurants and Catering Services*, the total amount of income earned across the café and restaurant sector was $9.7 billion.[9] Earnings from all food sold, including from meals consumed on the premises, takeaway food and takings from catering services, was $7.1 billion, equating to 73.3 per cent of all income earned.[10] Applying this percentage to the overall $24.9 billion turnover for the year ending February 2017 in the café and restaurant sector, food, the average food turnover is $18.3 billion.[11] When taking into account the average food cost of sales of 31.2 per cent[12], this expressed as a dollar figure is $5.7 billion. As the total value of prawns in the foodservices sector is $210.4 million, this figure represents 3.6 per cent of **all** food turnover for cafés and restaurants.

According to ABS data, the average profit margin of a café or restaurant is 3.8 per cent.[13] When this percentage profit margin is applied to the overall turnover of $24.9 billion, the total average profit of the café and restaurant sector is $946.2 million. When taking into account the fact that there are 29,602 cafes and restaurants serving seafood (estimated), the average profit for each individual business is $31,964.06. Given that the average increase in the price of imported prawns for each individual café and restaurant $8,031.62, this would reduce the average overall profit to $23,932.44, or a percentage decrease of 25.1 per cent.

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[9] Australian Bureau of Statistics (ABS) (2008) *8655.0 - Cafes, Restaurants and Catering Services*, *2006-07*, http://www.abs.gov.au/ausstats/abs@.nsf/Lookup/8655.0Main%20Features32006-07

[10] Ibid

[11] Australian Bureau of Statistics (ABS) 8501.0 - *Retail Trade, Australia, Feb 2017,* http://www.abs.gov.au/ausstats/abs@.nsf/mf/8501.0

[12] Restaurant & Catering Australia, (2016) Industry Benchmarking Report, p.17.

[13] Australian Bureau of Statistics (ABS) (2008) *8655.0 - Cafes, Restaurants and Catering Services*, *2006-07*, http://www.abs.gov.au/ausstats/abs@.nsf/Lookup/8655.0Main%20Features32006-07

REDUCTION IN SALES

The increased cost of raw imported prawns has also resulted in customers buying less prawn-related menu items in cafes and restaurants as they are unable to afford to higher prices for these dishes. Subsequently, patrons are either ordering less expensive seafood dishes not containing prawns or avoiding ordering seafood dishes entirely. There is a strong link between increased seafood consumption in Australia and affordability which has been highlighted in previous academic research.[14] This research has also indicated that one of the major barriers to seafood consumption in Australia is concerns over the price.[15] This research suggests that when the cost of seafood increases there is a corresponding decline in the amount consumed by Australian consumers.

The problem of reducing sales of prawn dishes in cafes and restaurants has been compounded by the short notice period given when the suspension on raw imported prawns was announced. In this way, restaurants and café-owners were not given sufficient time to adjust to these changes. R&CA members have reported a widespread lack of consumer awareness about the suspension of raw imported prawns and overwhelmingly negative responses to any increase in prices. Some restaurants and cafes have also modified the text on their menus to include information about the raw imported prawn suspension and any small increases in prices.

FLOW-ON EFFECTS ON OTHER SEAFOOD PRODUCTS

Based on feedback received from members, R&CA is also concerned about the potential flow-on effect that significant price increases in imported prawns may have on other seafood items. As consumers are deterred by the significant increases in the cost of prawn dishes, this will result in greater demand for other seafood dishes which are more affordable. Seafood is already the third most commonly eaten meat in Australia, consumed by 57 per cent of the population according to 2014 data published by Roy Morgan.[16] As the demand for more affordable seafood items increases, this will put additional pressure on the cost of these items. Should the cost of purchasing other

[14] McManus, A., Hunt, W., Howieson, J., Cuesta-Briand, B., McManus, J. and Storey, J. (2012), *Attitudes towards seafood and patterns of consumption in an Australian coastal town*. Nutrition Bulletin, 37: 224–231.
[15] Birch, D., Lawley, M., Hamblin, D., (2012) "Drivers and barriers to seafood consumption in Australia", Journal of Consumer Marketing, Vol. 29 Issue: 1, pp.64-73.
[16] Roy Morgan, (2015) *Supermarkets most popular seafood shopping spot*, Press Release, Finding No. 6232, http://www.roymorgan.com/findings/supermarkets-most-popular-seafood-shopping-spot-201505110004

seafood items increase significantly, this may also cause restaurant and café owners to remove more seafood dishes from their menus as they have already done so with prawns.

CAPACITY TO PASSS ON PRICE INCREASES

As a competitive export exposed sector, the capacity of restaurants, cafes and caterers to pass on price increases is minimal. Price competition is such that businesses will either substitute prawn dishes with other proteins or absorb prices increases, despite very low margins.

In an export sense Australia is already seen as an expensive destination. The World Economic Forum published a tourism competitiveness study[17] in 2015 that found that whilst Australia is very competitive in overall terms (at number 7 in the world) it is uncompetitive in terms of price competitiveness (see figure 5 below).

Under these conditions the impact of price increases of prawns to restaurant will result in those increases being absorbed of substitution as suggested above.

Figure III: Travel & Tourism Competitiveness

Table 4: The Travel & Tourism Competitiveness Index 2015: Asia-Pacific *(cont'd.)*

	T&T Policy and Enabling Conditions Pillars, values				Infrastructure Pillars, values			Natural and Cultural Resources Pillars, values	
Country/Economy	Prioritization of T&T	International Openness	Price Competitive-ness	Environmental Sustainability	Air Transport Infrastructure	Ground and Port Infrastructure	Tourist Service Infrastructure	Natural Resources	Cultural Resources & Business Travel
EASTERN ASIA AND OCEANIA									
Australia	4.81	4.04	3.06	4.64	5.80	3.69	5.44	5.31	5.13
Japan	5.44	4.16	3.75	4.30	4.54	5.29	4.11	3.94	5.92
Hong Kong SAR	5.63	3.78	3.59	3.96	5.42	6.45	4.05	3.63	2.58
New Zealand	5.62	4.55	3.77	4.94	4.72	4.06	5.87	4.14	2.27
China	4.73	2.52	5.10	2.93	4.27	3.91	3.04	5.05	6.44
Korea, Rep.	4.52	3.60	4.06	3.86	4.05	5.06	4.33	2.34	4.85
Taiwan, China	4.41	4.07	5.04	4.09	3.40	5.40	4.05	3.01	3.25
Mongolia	4.01	2.69	5.25	3.24	2.33	2.09	3.21	2.51	1.78
Eastern Asia and Oceania average	**4.89**	**3.68**	**4.20**	**3.99**	**4.32**	**4.49**	**4.26**	**3.74**	**4.03**
Eastern Asia and Oceania standard deviation	0.60	0.72	0.82	0.67	1.10	1.34	0.98	1.10	1.78

[17] World Economic Forum (2015) *The Travel & Tourism Competitiveness Report 2015*, p.16
http://www3.weforum.org/docs/TT15/WEF_Global_Travel&Tourism_Report_2015.pdf

Scratchley's Restaurant at Newcastle

Scratchley's Restaurant has operated as a predominantly seafood restaurant in the same location for 27 years. It has evolved over the years from a 100 seat BYO to a 220-seat licensed restaurant, also with the addition of a cocktail bar recently.

The menu has also evolved with feedback from our patrons taken into account. The owner, Neil Slater, views consistency as the key to maintaining patronage over such a long time.

One entire page of their menu is prawn-related dishes so the current situation regarding the import of prawns will have a huge impact on the business. With the extremely high prices that will have to be charged for prawns, it will be impossible for many guests to afford.

Scratchley's employs 55-60 staff with an annual turnover of $5-6 million. On average, they sell approximately 40-60kg per week of these prawns, depending on the season. When this price doubles to $40 per kg, they believe it will be impossible to sell them.

They have an annual patronage of 100,000 guests per year who continue to dine at the restaurant for a value for money proposition. When the price of the sae dish increases from $38 to $48 the patrons will leave in droves.

To date, the business has reduced the size of the prawns from 21/25 to 25/30, reduced the portion number slightly, and purchased all the prawns they could source, hoping the common sense would prevail before supplies ran out.

That has not happened and Scratchley's has now run out of supply.

Neil Slater says that 'prawn dishes make up one-third of our extensive menu and we are yet to see how this will affect our business, but in the world of social media, it will not be pretty. I suspect we will lose a large percentage of customers which is why I purchased 300 kilograms of prawns in March as the last supplies dried up.

The even greater fear is that the pressure of the ban will impact on other seafood prices as well. The general public are eating more seafood than ever before and you are substantially restricting supply and forcing costs up to an exorbitant level.

At this stage, we are planning on trying to educate our customers as to the reason for the huge price increase by adding an insert into our menus as follows:

> *"Due to the Federal Government's ban on prawn imports (due to the white spot), the price of our dishes has risen substantially,*
>
> *Prawn prices have doubled from $22/kg to $40/kg. Australians consume 45,000 tonnes of prawns per year and we produce only 15,000 tonnes.*
>
> *We suggest you choose other items from our menu, If you choose prawns, enjoy them now as this situation will only get worse. Refer to website for information regarding the Government's ban on prawn imports'.*

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