

**Commonwealth Fisheries Association**

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Submission to the Senate Select Committee Inquiry on Fuel and Energy

1. Introduction

The Commonwealth Fisheries Association (CFA) welcomes the establishment of the Senate Select Committee Inquiry into Fuel and Energy and is pleased to provide comment in relation to three aspects of the terms of reference, namely:

- i) the impact of higher diesel fuel prices on the Australian fishing sector;
- ii) the taxation arrangements on diesel fuel; and
- iii) the role of alternative fuels to diesel.

2. Overview of the CFA and the Seafood Industry

The Commonwealth Fisheries Association (CFA) is the peak industry body representing the interests of Commonwealth fishers, a significant part of Australia's \$2.4 billion seafood industry. Seafood is Australia's fourth largest primary industry.

The Commonwealth seafood industry is vital to the economy of rural and regional Australia, with direct employment in fisheries production and processing, and substantial downstream employment in supporting industries including transportation, storage, wholesaling, retailing sectors, catering and tourism sectors.

The fishing industry also play's an important role in Australia and globally as a contributor to food security for which the health benefits of seafood are well established and internationally-recognised, particularly in relation to heart health. It is therefore imperative that Government policy assists the industry to remain economically viable.

3. The importance of this inquiry

Diesel fuel is a vital input into the fishing industry, now comprising between 20-50% of total operating costs (depending on the fishery). Any change to Government policy regarding fuel taxation and use of alternative fuels needs to be developed in close consultation with the fishing industry to ensure economic stability is not threatened. Any such changes need to be carefully considered, to align with the Government's election commitment of returning the industry to profitability.

4. The Impact of Higher Diesel Prices on the Commercial Fishing Industry

The biggest challenge facing the commercial fishing industry in Australia is maintaining profitability in a trading environment typified by increasing international competition from low labour cost and subsidised markets. The increasing cost pressures, particularly due to high diesel fuel prices, are threatening the economic viability of many fishing operations.

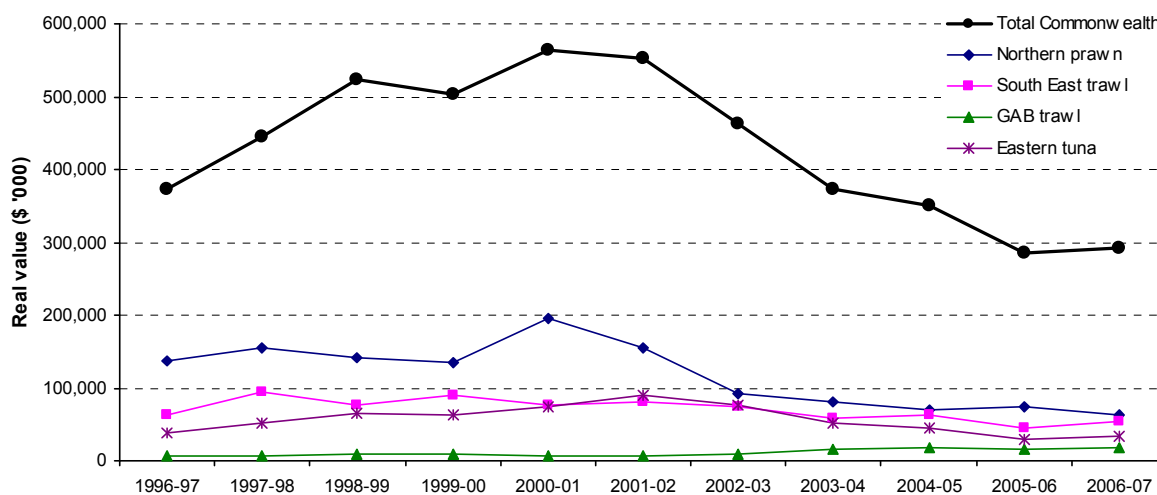
This challenge has been recognised by the Australian Government in its 2007 fisheries policy as follows:

“Rising fuel prices, declining real fish prices, poor water quality and loss of habitat have also had a major impact on the productivity and profitability of our fisheries. A Rudd Labor Government will invest in a comprehensive plan for sustainable fisheries. Labor’s Plan for Sustainable Fisheries will assist Australia’s seafood producers to return to profitability, improve recreational fishing opportunities and ensure the long-term sustainable management of our marine and freshwater fisheries resources”. (Australian Labor Party’s Plan for Sustainable Fisheries, 2007).

Almost the entire commercial fishing fleet is reliant on diesel fuel as its major business input with little or no opportunity to use alternative fuels. In most cases, there exists no ability to pass on increased costs to the consumer. Fishers are therefore especially vulnerable to ‘high diesel prices’.

5. Fisher Profitability

According to ABARE, the value of Commonwealth fisheries’ production has been declining in real terms since 2000-01 as illustrated in Figure 1. “The declining trend reflects that production in Commonwealth fisheries has been affected recently by unfavourable movements in a number of important economic variables. For example, fishing effort and catches have been influenced by fuel price increases and an appreciating Australian dollar that makes exports less competitive and imports more attractive to consumers. With increasing costs and a deteriorating competitive position, the financial viability of the industry is affected”. (Source: ABARE Fisheries Report 2007).



Source: ABARE, 2008

Figure 1. Real value (\$ '000) of Commonwealth fisheries (adjusted to 2006/07)

5.1 Fuel Costs as a Percentage of Total Cash Costs

The cost of diesel fuel represents a significant proportion of total operating costs for commercial fishers in Australia. In recent years, rising diesel fuel prices, coupled with relatively fixed returns, have had a significant impact on fisher profitability and threatens the economic viability of the industry, particularly fisheries located in remote areas and those that are high users of diesel fuel such as the trawl fisheries.

ABARE's 2007 fishery surveys indicate that fuel represents a major cost of fishing, typically accounting for 10–20 per cent of the total costs of operating a vessel. Since the 2007 fishery survey was published further rises in diesel fuel prices means that fuel now accounts for 20-50% of the total costs of vessel operation, and even higher in Northern Prawn and GAB trawl fisheries.

In summary the fishing industry has been severely impacted by increased fuel costs which are the major input cost and because they are unable to pass on any increased costs.

6. Taxation Arrangements on Diesel Fuel

The CFA recommends legislative change requiring a more open and transparent system of disclosure at State and Commonwealth Government levels regarding the composition of the diesel fuel price to ensure the fishing industry is not paying taxes and or levies for which the cause of the tax or levy is not fishery related.

7. The Role of Alternative Fuels

Several factors limit the opportunity of the fishing industry to convert to alternative fuels:

- The costs associated with purchasing new capital equipment for fishing vessels is significant and not something that can be undertaken in the current economic environment;
- Governments' need to invest in R&D to determine what alternatives fuels and technologies are available and / or appropriate;
- The design of current fishing vessels do not allow for the use of alternate fuels, with engine rooms designed around diesel engines and significant space required for the carriage of non-diesel fuels. To become more energy efficient in an ideal world, operators would need to build new vessels specifically designed for the purpose. Even if alternate fuels could be used in existing engines, the longevity of the engines may be reduced and maintenance may increase due to extra wear associated with the use of a non-oil based fuel;
- Fishers who operate in remote areas do not have direct access to alternative fuels as the infrastructure is not in place such as refuelling sites; and
- Where there is limited demand for alternative fuels in rural and remote areas, the pricing mechanism is characterized by a monopoly situation resulting in higher than normal fuel prices.

Any additional burden placed on the fishing industry without the necessary lead time could potentially destroy the entire Commonwealth fishing fleet.

7.1 CFA Alternative Fuel Recommendations

- The switch to "alternative fuels" should be encouraged through the granting of financial rebates/incentives to assist in the purchase or acquisition of new equipment/vessels /technology;
- The CFA recommends tax concessions (including R&D) as a means of assisting the transition to alternative fuels;
- In returning the industry to profitability, reducing carbon emissions and adjusting to a future of high fuel costs, options outside alternative fuels must also be considered in detail. Government should encourage and assist with strategic investigation into the full range of other technologies such as engine design, innovations in vessel hull design, gearbox/prop configurations, gear technology and other such areas.

8. Other Issues

The CFA is concerned that recent downward movements in global oil prices have not been passed on to consumers in a timely fashion in the form of lower retail diesel fuel prices, particularly in rural and remote areas of Australia.

The CFA therefore believes some form of Government intervention is required to ensure consumers as price takers are not 'unfairly discriminated' against by the major oil companies. CFA reiterates that diesel fuel is a vital input into the fishing industry, now comprising between 20-50% of total operating costs (depending on the fishery) and therefore recommends its inclusion in any proposed 'fuel watch scheme' and/or government intervention.

Yours sincerely

A handwritten signature in blue ink that reads "Chris Melham". The signature is written in a cursive, slightly slanted style.

Christopher Melham
Chief Executive Officer
Commonwealth Fisheries Association

6 September 2008