Australian Government
Department of Industry, Innovation and Science

Addendum to Seafood Origin Information Working Group Paper

November 2017

Background

At the meeting on 5 July 2017, the working group requested additional information on some matters raised in the working group paper. The additional findings presented in this addendum are based on further desktop analysis, information from working group members[1], and further consultation with the department's Office of the Chief Economist and the NSW Department of Primary Industries. Working group participants are invited to discuss the findings in this addendum at the meeting on 22 November 2017, chaired by Assistant Minister Laundy.

Economic impact of consumer origin misperceptions on the Australian seafood industry

Available evidence suggests concerns about origin misperceptions are mainly confined to low-cost foodservice segments, and affect only a small percentage of Australia's total edible seafood production. Based on price comparisons, Australian seafood appears to compete more directly with higher priced proteins (e.g. lamb, beef) than with imported seafood, while low-cost imported seafood appears to compete more directly with lower price proteins (e.g. chicken, mince).

1.1 The working group requested additional information on competition between Australian seafood and imported seafood in order to better understand the segments most impacted by misconceptions about seafood origins, and the impacts on the Australian seafood industry as a whole.

1.2 Concerns about origin misperceptions and 'unlabelled' imported seafood tends to focus on low-cost foodservice segments where there are higher levels of imported seafood. Imported low-cost white flesh fish, mainly basa and hoki, are commonly sold through low-cost foodservice venues in Australia targeting price-sensitive consumers. Imported basa and hoki are a unique choice in low-cost foodservice since they are substantially cheaper at wholesale and offer year-round supply. Similarly, imported squid, octopus and prawns are substantially cheaper at wholesale compared to Australian alternatives (see *Table 1*).

[1] Restaurant and Catering Australia (RCA) and Australian Hotels Association (AHA) discussed the compliance costs stemming from operational requirements faced by chefs and owners of foodservice businesses; Sydney Fish Markets (SFM) provided information regarding consumer purchasing behaviour; Northern Territory Seafood Council (NTSC) and NSW Department of Primary Industries (DPI) provided information regarding consumer preferences as indicated in consumer surveys undertaken by the NTSC and the DPI.

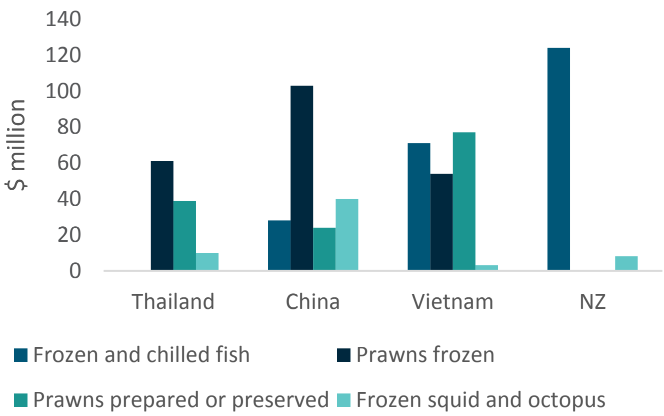
Type of seafood	Approximate wholesale price imported (per/kg)	Approximate wholesale price Australian (per/kg)	Percentage difference
Basa	$4.00[2]	-	-
Hoki	$9.50	-	-
Barramundi filleted	$15.80	$27.00	71%
Flathead	$16 for Argentinian	$30.00	87.5%
Atlantic or Tasmanian salmon filleted*		$27.50	NZ produce is about 7% more expensive
NZ Pacific or king salmon filleted*	$29.50	-	
Octopus (cleaned) 16/25	$8.00	$12.00	50%
Whole calamari 6/8	$11.00	$16.00	45.5%
Prawn cutlets 16/20	$18.00	$42.00	133%

Source: Consultation with working group members, August 2017

Table 1: Wholesale price per kilogram of select seafood species

1.3 In 2014–15, the greatest value of frozen and chilled fish imports to Australia was hoki from New Zealand, followed by frozen basa from Vietnam, together worth around $195 million.[3] Imports of frozen prawns, squid and octopus from Thailand, China, Vietnam and New Zealand totalled $280 million, and processed prawns from Vietnam, Thailand and China totalled $140 million (See *Figure 1*).[4]

Figure 1: Categories of seafood imports from major import sources by value 2014-15



1.4 Imported basa and hoki tend to come in a variety of sizes, including plate sizes particularly attractive to foodservice.[5] Imported pre-prepared seafood (e.g. pre-battered, pre-crumbed, pre-marinated) is also cost-effective in low-cost foodservice since it eliminates the relatively higher labour cost for Australian foodservice venues to prepare seafood onsite.[6] With Australian seafood processors generally unable to manufacture pre-prepared seafood at comparable price to low-cost imports[7], imported seafood is a common choice in meeting consumer demand in lower cost foodservice segments.

[2] FRDC 2011, Project Report 2010/222: A study of the composition, value and utilisation of imported seafood in Australia, August and http://www.richardsbrothersseafoods.com.au/RBS-General-Price-List.pdf

[3] While disaggregated figures on basa and hoki was not available, the department consulted with the FRDC and analysed the information on the FRDC data portal which draws on data from ABARES. Using Table s38 from the ABARES publication, *Australian Fisheries and Aquaculture Statistics 2015*, and comparing publicly available export statistics for NZ (Seafood New Zealand 2017, Export Statistics – June 2017 (Provisional)) and Vietnam (http://ofco.info/inspection/statistics.html) the department gathered that the largest categories of frozen and fresh fish imports were of basa and hoki.

[4] ABARES 2016, *Australian Fisheries and Aquaculture Statistics 2015*, Table s38

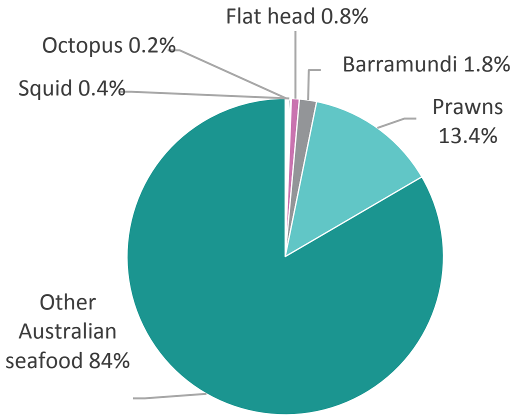
[5] FRDC, 2011, Project Report 2010/222: *A study of the composition, value and utilisation of imported seafood in Australia*, August. Also appears to be supported by a by results of a search of a seafood wholesalers' websites *Richards Brothers Seafood* and *Pacifica Trading*

[6] FRDC, 2011, Project Report 2010/222: *A study of the composition, value and utilisation of imported seafood in Australia*, August

[7] IBISWorld, 2017, seafood processing in Australia, page 7

1.5 While the degree of competition is unclear, the price and characteristics of low-cost imported seafood suggests imported basa, hoki, prawns, octopus and squid are more in competition with cheaper proteins such as chicken or mince[8] rather than Australian seafood. It was observed in a 2011 study commissioned by the Fisheries Research and Development Corporation (FRDC) that low-cost imported seafood does not compete directly with more expensive Australian white flesh fish.[9]

Figure 2: Select species as a percentage of gross value of Australian seafood production 2014-15



1.6 Seasonal Australian whole fish on special may be seen as a budget-buy and could offer competition to imported produce in some coastal regions. However, this does not take into account labour costs of gilling, gutting and preparing it for consumption.[10]

1.7 Based on price, Australian seafood appears to compete more directly with higher price proteins such as lamb and beef. Research also suggests Australian barramundi and flathead competes closely with Australian salmon.[11] Fresh salmon consumed in Australia far exceeds that of Australian barramundi[12], and is popular in meeting consumer demand for Australian produced fish. The salmon industry's focus on quality management, new product development and promotion is credited with establishing salmon as a leader in the Australian seafood market and constraining Australian barramundi prices.[13]

1.8 In terms of impacts on the total Australian seafood industry, the main concerns raised with the department have come from Australian producers of barramundi, flathead, squid, octopus and prawns. These species represent only 16.6 per cent of Australia's $2.67 billion total edible seafood production[14] (see *Figure 2*)[15], suggesting consumer misperceptions do not pose widespread impact across Australia's seafood production.

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8 A general comparison of edible animal and seafood proteins on a retail price/kg basis shows chicken drumsticks costs $0.35/100g; basa $0.70/100g and Tasmanian Atlantic Salmon $3.90/100g, mince $0.70/100g www.coles.com.au at 4 October 2017; FRDC, Factsheet: Fish Prices and Value: a Marketing Challenge, 2010.

9 FRDC 2011, Project Report 2010/222: *A study of the composition, value and utilisation of imported seafood in Australia,*

10 FRDC 2010, Fish Prices and Value: a Marketing Challenge

11 FRDC 2011, Project Report 2010/222: *A study of the composition, value and utilisation of imported seafood in Australia,* August. Also appears to be supported by results of a search of a seafood wholesaler's website *Pacifica Trading*

12 FRDC 2011, Project Report 2010/222: *A study of the composition, value and utilisation of imported seafood in Australia,* August. Also appears to be supported by results of a search of a seafood wholesaler's website *Pacifica Trading*

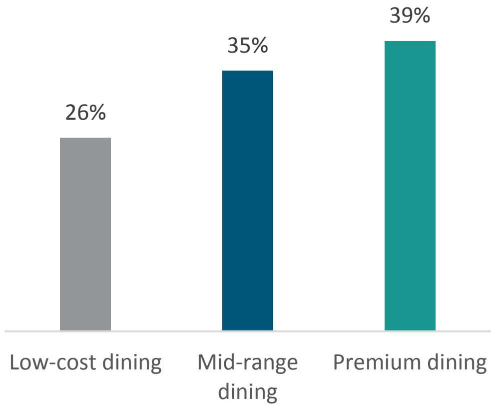
13 FRDC 2011, Project Report 2010/222: *A study of the composition, value and utilisation of imported seafood in Australia,* August. Also appears to be supported by results of a search of a seafood wholesaler's website *Pacifica Trading*

14 Total edible seafood excludes sardines (used mainly for pet food), pearls, goldfish and ornamental fish (used for aquariums), which is worth a total of $93 million. The value of total edible seafood production is the value of seafood at the 'beach' or point of landing.

15 ABARES 2016, *Australian Fisheries and Aquaculture Statistics 2015*, and bespoke input from ABARES

1.9 Although origin misperceptions may occur more commonly in low-cost dining, low-cost dining itself represents a smaller share of total restaurant consumption. This suggests market opportunities for Australian seafood in low-cost restaurants would be limited. In the specific case of restaurant consumption, low-cost restaurants[16] account for only 26 per cent of total Australian restaurant industry revenue[17] (see *Figure 3*). It should be noted restaurant consumption does not necessarily reflect consumption patterns across all other types of foodservice.

Figure 3: Segmentation of Australian restaurants by revenue 2017



1.10 It was generally recognised amongst working group members at the July meeting that as the foodservice type becomes more sophisticated (moving into mid-range and premium dining), consumer demand for premium seafood increases, consumer willingness to pay premium prices increases, and establishments are more likely to promote seafood origins — reducing the impact of misperceptions about seafood origins.

Consumer demand for seafood origin information

Available market research indicates origin information is important to consumers, but not the most important factor in consumer decision-making. Other important factors valued by consumers include freshness, species, price, and region. The research also indicates some consumers may be unable or unwilling to pay higher prices for Australian seafood compared to imported alternatives. The department is not aware of any research measuring the prevalence of consumers being unable to obtain seafood origin information through reasonable enquires with foodservice staff.

2.1 The working group requested further detail on stated consumer preferences for seafood origin information in foodservice. The department identified six relevant studies, with their key findings summarised below.

NSW Seafood, commissioned by the NSW Department of Primary Industries, 2016[18]

2.2 The research found, of the 1 000 NSW residents interviewed, 64 per cent rated locally caught Australian seafood as the most important aspect influencing their seafood purchase decision. In regards to expenditure on seafood, 47 per cent of respondents spent less than

[16] Low-cost foodservice offer value simple, value-based meals; mid-range offer a wider variety of foods with the broadest consumer appeal; premium foodservice comprises restaurants that offer high-quality service, luxury settings and quality food and ingredients. Source: IBISWorld, 2017, *Restaurants in Australia H4511a.*
[17] IBISWorld, 2017, *Industry Report H4511a Restaurants in Australia.* Note: This figure relates to restaurants only, and is not representative of all foodservice.
[18] Internal report for the NSW Government

$20 per week on either fresh seafood cooked at home or seafood meals out of the home, compared to 24 per cent spent who spent $20-29 per week, and 23 per cent spent more than $30 per week. The most common reason given for not eating more seafood at home was price, with 43 per cent of respondents indicating seafood was too expensive.

Social and Economic Evaluation of NSW Coastal Professional Wild-Catch Fisheries: Valuing Coastal Fisheries, research by FRDC and its research partners, 2016[19]

2.3 The research covered a range of topics. In regards to origin information, it found 48 per cent of 342 respondents preferred Australian seafood and 34 per cent indicated preferences for seafood from either their region or town/city.[20] This was consistent with a questionnaire of fish merchants, who indicated that seafood sourced from their region, town or city was consistently the highest-selling product across all product lines.

Report on the 2013, 2014 and 2015 Consumer Surveys: Awareness of the Northern Territory seafood labelling laws and the commercial seafood industry, commissioned by the Northern Territory Seafood Council (NTSC), 2016[21]

2.4 The study conducted three annual surveys in 2013, 2014, and 2015, with a total of 1 689 responses. It found the most important factors influencing seafood purchasing decisions at foodservice were: (1) product 'freshness'; (2) support for the NT industry; and (3) origin information. The study also measured the value consumers said they were prepared to pay for NT seafood over imported or other Australian seafood. At restaurants, nearly 39 per cent of participants said they were prepared to pay in excess of a 20 per cent premium for NT seafood over imported seafood. At takeaway venues, around 27 per cent of participants said they were willing to pay this premium.

Tracking the impacts on seafood consumption at dining venues arising from Northern Territory's seafood labelling laws, commissioned by the FRDC, 2011[22]

2.5 The study surveyed 20 foodservice representatives and 279 consumers. It found the most important factor in consumer purchasing decisions was freshness, then origin information, followed by species, sustainability, and price. The study also found as seafood labelling regulations were introduced in NT, many foodservice venues consolidated the number of their seafood suppliers, and maintained the same seafood menu offerings. The cost of seafood origin labelling at foodservice was not considered as significant, however there were 'major concerns' from the sector in needing to regularly update menus due to supply issues with NT/Australian product and the need for ongoing training of staff.

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[19] Social and Economic Evaluation of NSW Coastal Professional Wild-Catch Fisheries: Valuing Coastal Fisheries
[20] IBID- page 95 of the document.
[21] Internal report for the Northern Territory Seafood Council
[22] Tracking the impacts on seafood consumption at dining venues arising from Northern Territory's seafood labelling laws

A Final Seafood Omnibus: Evaluating changes in Consumer attitudes and behaviours, commissioned by the Australian Seafood Cooperative Research Centre (ASCRC), 2015[23]

2.6 The research found origin labelling in foodservice was strongly supported by almost 100 per cent of the total 2 538 respondents to the survey, with 87 per cent favouring Australian seafood. While consumers understandably welcome origin information, the research found freshness, how the seafood was cooked, price, support for the Australian seafood industry, and species were rated as more important than origin information in foodservice purchases. When asked how much premium they would be willing to pay for Australian barramundi fillets if imported barramundi fillets were $15 per kilo, 53 per cent of respondents indicated up to a 30 per cent premium.

*Country of Origin Food Labelling Research, c*ommissioned by the Department of Industry, Innovation and Science 2015[24]

2.7 The research involved 18 consumer focus groups and a survey of 1 200 consumers, with the aim of understanding consumer sentiment on origin labelling for a range of retail food products. The majority of consumers said they seek origin information on food labels when shopping. However, other factors such as price and perceived quality often over-rode origin as a purchasing driver. Across all categories of seafood, price and quality/appearance were found to be more important than origin information. The research also indicated consumers often seek out ‘socially desirable’ products, but brand preference, convenience and price often over-rode this driver.

2.8 While the six studies indicate origin information is important to consumers, none of the studies suggest origin information is the most important factor in consumer decision-making. Also, none of the six studies measured the prevalence of consumers being unable to obtain origin information from reasonable enquires in their foodservice purchase.

2.9 It is unclear how consumer purchasing might change in response to origin labelling. However, the research from NTSC, ASCRC and the NSW Government suggest a significant portion of consumers may be unable or unwilling to pay the higher price for Australian seafood compared to lower priced alternatives. The research indicates some consumers are willing to pay between 20-30 per cent more for Australian seafood[25], yet general price comparisons of key seafood products suggest Australian products are about 46-133 per cent more than imported (see Table1).

[23] *A Final Seafood Omnibus: Evaluating changes in Consumer attitudes and behaviours*
[24] *Country of Origin Food Labelling Research*
[25] Commissioned by the Northern Territory Seafood Council, published 2016, *Report on the 2013, 2014 and 2015 Consumer Surveys: Awareness of the Northern Territory seafood labelling laws and the commercial seafood industry*

2.10 As outlined in Section 1, New Zealand is Australia's single largest source of chilled and frozen white fleshed fish (mainly hoki). To the extent consumers value origin information for choosing seafood from countries with a reputation for safe food and sustainable management practices, low-cost hoki from New Zealand would likely be a compelling value proposition compared to Australian alternatives.

2.11 Market responses when prawn imports were restricted in January 2017 due to white spot disease implies some consumers may be unwilling to pay premiums for Australian prawns. Anecdotal media reports[26] and industry observations suggests many foodservice businesses preferred to remove prawns from their menus (citing 'supply issues'), rather than increase meal prices using Australian prawns.

Further information on the impacts of mandatory regulation on foodservice businesses

If mandatory seafood origin labelling were introduced in foodservice, all 77 000 foodservice businesses would face a once-off direct cost to learn the law. Those business affected would then face a further once-off direct cost to comply, and incur ongoing direct costs to maintain compliance. While the quantum of costs depends on the type of labelling regulation, it is likely to be a significant (particularly on small businesses), and add to the frustrating accumulative burden felt in business.

3.1. The working group requested more information on the types of costs foodservice business would face from mandatory seafood origin labelling regulation. Below is a description of the main types of costs foodservice business may experience. However, it does not place a dollar figure on these costs, since that would depend on the nature of the particular labelling.

3.2. There are over 77 000 foodservice businesses in Australia, comprised of cafes, coffee shops, caterers, fast food, pubs, bars, nightclubs, restaurants and social clubs.[27]

3.3. If mandatory seafood origin information was introduced, all 77 000 businesses would face a once-off direct cost to learn about the new regulation to determine if/how it applies to them. This might include senior staff reading through regulation; perhaps calling the department's helpline (as seen during the retail origin labelling reforms); attending an information seminar; seeking legal advice if concerned about interpretation or risk; and they might speak to their seafood suppliers about the type of origin information they can provide.

[26] Daily Mercury, 8 July 2017, *'Prawn shortage' not all it's cracked up to be*; new.com.au, 8 February 2017, *Ban on imported frozen green prawns causes headache for takeaway restaurants*; ABC News, 2 June 2017, *White spot disease blamed for decline in prawn sales in Queensland*

[27] IBISWorld 2016/17, Industry Reports: Cafes and Coffee Shops in Australia; Catering Services in Australia; Fast Food Services in Australia; Pubs, Bars and Nightclubs in Australia; Restaurants in Australia; Social Clubs in Australia

3.4. Those foodservice businesses which are affected by labelling would then face a further once-off direct cost to transition to the new regulation. This may consist of: updating their menus, which may include redesigning printed menus, ordering new non-temporary menu boards, and updating electronic boards or chalk boards; discussing the changes to their business with other staff; training existing staff on the new regulation; and establishing business systems which may have been implemented as a result of the new regulation.

3.5. Those affected businesses would also face ongoing direct costs: they may need to reprint or rewrite menus in line with the frequency that their seafood origin changes, which could be daily or weekly for many businesses; the chef may need to continually monitor the origin of seafood from each supplier and communicate this information to staff; and, the business may need to increase the time to train new staff members, as this may now include information on the regulation, the business system to monitor seafood origin information, what to do if the seafood origin information changes, and how to updated the menus.

3.6. In addition to direct costs, mandatory seafood origin labelling is likely to be seen as a frustrating addition to accumulative burden felt by foodservice businesses, with the time owners spend on compliance distracting from other parts of their business.

3.7. With 93 per cent of foodservice businesses being small and non-employing[28], the cost of regulation would fall most acutely on small businesses less able to absorb regulatory costs compared to medium and large businesses.[29] Foodservice is sensitive to additional regulation since the sector already operates with lower profit margins compared to other industries[30] and with a medium level of regulatory burden.[31]

3.8. If mandatory seafood origin labelling is introduced in foodservice, the costs to business will depend on the information required at point of sale. Different options would likely pose different regulatory costs on business. For example, for regulation identifying seafood only when it is produced in Australia, low-cost foodservice businesses which only sell imported seafood may not need to update their menus or have significant ongoing compliance costs. Conversely, if regulation identifying the origin of every individual seafood menu items is adopted, then all foodservice businesses selling seafood would be impacted and face both one-off and ongoing compliance costs.

3.9. If faced with mandatory seafood origin labelling regulation, foodservice businesses may choose to 'lock in' with suppliers who can consistently provide low cost seafood (most likely to be imported) and result in decreased demand for Australian seafood. Foodservice businesses may be less willing to periodically change to Australian seafood if it requires costly

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[28] Australian Bureau of Statistics, 2017, *8165.0 Counts of Australian Businesses, including Entries and Exits, Jun 2012 to Jun 2016*
[29] Australian Bureau of Statistics, 2017, *8165.0 Counts of Australian Businesses, including Entries and Exits, Jun 2012 to Jun 2016*
[30] Bankwest, 2017, *Food and Beverage Services Industry Report*
[31] IBIS World 2017, Industry Reports: Restaurants in Australia, January

menu reprints. Some businesses may simply remove all seafood from menus to avoid the cost and frustration of updating menus whenever their seafood sourcing changes. Consumers may have less choice in seafood (Australian and local) sold in foodservice and reduced access to seafood locality information (e.g. ‘Moreton Bay prawns’ becomes ‘Australian prawns’).

3.10. Mandatory seafood origin labelling in foodservice may also set a precedent for other labelling interventions in foodservice. In addition to seafood, pork and a range of vegetables also compete with imported sources and changes in seasonal supply, and consumers may equally want origin information on a wide range of foods consumed through foodservice.