Informing strategies, policies and options supporting owner-operated fishing businesses in fisheries experiencing corporatisation

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In submitting this report, the researcher has agreed to FRDC publishing this material in its edited form.

Contents

Acknowledgments

Southern Rocklobster Limited would like to acknowledge the keynote speakers that presented at the workshop:

Professor Caleb Gardner - Director of the Sustainable Marine Research Collaboration Agreement (SMRCA) and Acting Head of the IMAS Centre for Fisheries and Aquaculture.

Dr Nick Rayns - Independent fisheries consultant and former second-in-command at the Australian Fisheries Management Authority

Dr Evelyn Pinkerton - Professor at the School of Resource & Environmental Management,
Simon Fraser University, Burnaby, Canada.

Mike Barron - Professional lobster and ground fisherman, Area 34, Nova Scotia, Canada.

Stephen Xiao - Director - M&A Transaction Services, KPMG Australia

Executive Summary

Background

The Australian wild caught Southern rock lobster industry operates in the South Eastern part of Australia and spans three distinct jurisdictional areas - South Australia, Victoria and Tasmania. The industry comprises a fleet of vessels run by a mix of family owned and operated business and vertically integrated export businesses.

Some industry participants consider that the ownership structure has an impact on the culture of the industry which extends to benefits to regional communities, employment and job satisfaction.

Southern Rocklobster Limited (SRL) recognised there is diversity in the composition of the industry's structure and the receipt of benefits from the fishery varies between user types. SRL sought to hold a workshop to assess other similar examples and if there appropriate management options to address them.

Aims, Objectives & Methodology

A workshop hosted by Southern Rocklobster Limited was held in Melbourne in October 2019, to allow industry stakeholders, managers and investors the opportunity to discuss the current industry structure and determine any paths of action.

Keynote speakers were selected to facilitate discussion of the benefits of various and current ownership structures. As experts in the field they presented on key parts of individual transferable quotas, their history in Australia and case studies from North America.

Speakers included Professor Caleb Gardner, Dr Nick Rayns, Steven Xiao, Evelyn Pinkerton and Mike Barron. Speaker's qualifications and experience are outlined in the report.

Discussion

The workshop discussion, facilitated by Caleb Gardner focused on pragmatic options if industry agreed that measures needed to be taken to address the unintended consequences of ITQ systems.

Dr Rayns provided the benefits that TAC ITQs offered fisheries. These included integration with macro changes in global economics and followed trends in capitalism and the enhancement of free trade.

The workshop discussion involved discussing the various dimensions of the characteristics of 'rights'; flexibility, exclusivity, quality of title, transferability, divisibility and duration

The workshop considered whether Individual transferable quotas constitute rights. In Australia there has been a push to equate ITQs as rights which increases exclusivity of a publicly owned resource. This reduces an investor's exposure to the risk of the Government altering the framework.

The Australian seafood sector has not kept pace with the implementation or development thinking for alternative business arrangements. Comparisons were made between the land-based agriculture sector and its ability to diversify into other commodities, markets and value adding strategies. Speakers at the workshop outlined that there are genuine management options for curbing the rate at which a fishery becomes more exclusive. Whilst some alternatives seems novel and in some instances even extreme, it

was discussed that in Australia, these alternatives are often left unexplored when fisheries are being established or reformed.

Internationally there is a considerable body of arrangements that are being implemented that can inform Australian fisheries. These were discussed in length during Dr Pinkerton's presentation.

The desired framework for a fishery must first decide what its goals are. These goals might include; the prevalence of owner operator businesses, low entrance costs for young fishers, support for regional communities and return on investment.

The workshop reviewed options to deliver objectives and fishery community goals. These options ranged from legislative and regulatory instruments to voluntary local agreements. Assessment of these goals could constitute further work in this area.

Recommendations & Implications

The purpose of the workshop was not to consult with industry on various options, but to lead thought and inform strategies, policies and options on what areas industry could improve, and how it could implement change to achieve those improvements. As such, the outcomes of the workshop have no realisable implications on the industry. The outputs expected from the workshop are:

1. A succinct summary and discussion on "Current direction of the SRL fishery, and options for changing course from fisheries elsewhere".
2. An avenue for the provision of a synthesis of Alternative Business/Deed/Corporate models that can be used to deliver different objectives when implementing management measures including ITQs, TACs and ITEs or Input Controls.
3. Debate and education for attendees at the workshop.
4. To synthesise alternative business/deed/corporate models that can be used to deliver different objectives when implementing management measures including ITQs, TACs and ITEs or Input Controls including:
    - A brief overview of alternatives
    - A conceptual framework for informing decisions
    - Case studies of examples used by different fisheries to deliver particular goals
    - Further resource material – eg web links, publications etc

Introduction

The Board of Southern Rocklobster Limited (SRL) had on several occasions discussed the industry's ownership composition and trends. These trends include the reduction in fleet size due to policy and desire for industry to impose input controls. At a meeting of the Board in February 2018, the issue of ownership concentration' and rationalisation as a direct result of ITQ management implementation (across all SRL jurisdictions) was discussed in depth. It was noted that general dissatisfaction amongst 'grass-roots' members of the industry (owner operated business) could be loosely attributed to reductions in fleet size and an increasingly concentrated ownership base. Furthermore this issue had never been openly addressed or discussed by a wide range of stakeholders.

The Board saw an opportunity to bring interested parties together in the presence of several experts on ITQ management to discuss this issue in an open forum.

The workshop was held on Monday, 7 October 2019 at Tullamarine Airport.

Objectives

1. Plan for and adapt to corporatisation in the Southern rock lobster fishery and summarise concerns and identify possible solutions.

2. Identify ways that fishers can become better organised and better able to protect their interests.

3. Identify comparisons with fisheries that exist within ITQ managed systems.

Method

The workshop steering committee consisted of Dr Annabel Jones (PIRSA), Professor Caleb Gardner (IMAS) and Tom Cosentino (SRL). The steering committee tabled concepts for the content of the workshop as well as potential keynote speakers.

The format of the workshop would follow a logical process beginning with an explanation of the theory of individual transferable quotas followed by the history of their usage in Australia, as well as in the rock lobster fisheries and ending with the benefits and disadvantages experienced as a result of their implementation.

Several case studies were drawn upon from international guest speakers, particularly from Canada where the East coast (NS) lobster fishery is absent of an ITQ system.

Invitations to the workshop were sent to all SRL member organisations, the FRDC, IMAS and each of the State fisheries management teams. All enquiries as to attendance outside of these groups were accepted. A full list of attendees is available in the Appendix to this report.

The workshop concepts were developed from a set of categorised questions developed by the steering committee based on discussions held by the RD&E Committee and SRL Board. These are set out in the Appendix to this report.

Recommendations

1. To synthesise alternative business/deed/corporate models that can be used to deliver different objectives when implementing management measures including ITQs, TACs and ITEs or Input Controls including:

    - A brief overview of alternatives
    - A conceptual framework for informing decisions
    - Case studies of examples used by different fisheries to deliver particular goals
    - Further resource material – eg web links, publications etc

Project Materials Developed

- **Appendix 1 Workshop agenda**
- **Appendix 2 Workshop attendees**
- **Appendix 3 Steering Committee concepts**
- **Appendix 4 presentations**

Appendix 1 - Workshop Agenda

SRL Corporatisation Workshop

7 October 2019

Holiday Inn, Melbourne Airport

Time	Item #	Item	Speaker
9:45am to 10.00am	1	Welcome, introduction & objectives of the workshop	Tom Cosentino
10:00am to 10:30am	2	The economic fundamentals of ITQ management	Prof Caleb Gardner (IMAS)
10:30am to 11:00am	3	The trends in Australian ITQ managed fisheries	Dr Nick Rayns (FutureCatch, former AFMA)
11:00am to 11:15pm	**TEA**		
11:15am to 12:00pm	4	Hegemony and resistance: Disturbing patterns and hopeful signs in the impact of neoliberal policies on small-scale fisheries around the world	Dr Evelyn Pinkerton (Simon Fraser University)
12:00pm to 12:45pm	5	A fisherman's perspective. Learnings from the Nova Scotia lobster fishery	Mike Barron
12:45pm to 1:45pm	**LUNCH**		
1:45pm to 2:15pm	6	Globalisation and changes to overseas investment in Australia's resources	Stephen Xiao (KPMG)
2:15pm to 3:15pm	7.1	Workshop discussion Part 1: Road testing management options	Facilitated by Prof Caleb Gardner (IMAS)
3:15pm to 3:30pm	**AFTERNOON TEA**		
3:30pm to 4:45pm	7.2	Workshop discussion Part 2: Road testing management options	Facilitated by Prof Caleb Gardner (IMAS)
4:45pm to 5:00pm	8	Summary and meeting close	Tom Cosentino

Appendix 2 - Workshop Attendees

Nicholas Rayns

Caleb Gardner

Clive Perryman

Patrick Hone

Roger Rowe

Michael Blake

Markus Nolle

Pauline Nolle

Ian Cartwright

Ross Bromley

John Brady

Emily Ogier

Sarah Jennings

Colin Buxton

Evelyn Pinkerton

John Sansom

Kyri Toumazos

Nathan Kimber

Toby Jeavons

Florence Briton

Karlie McDonald

Hilary Revill

Paul Richardson

Thomas Cosentino

Mike Barron

Stephen Xiao

Appendix 3 - Steering Committee Concepts

1. The economic fundamentals of ITQ management

- what is rent?

- that it exists only because of limited entries and decision to reduce labour

- rationalisation isn't necessary for competitiveness where there is rent (eg c.f. dairy),

- estimates of what the rent vs labour tradeoff could be in lobster

- should the government get involved in managing outcomes of fisheries

2. How does the community benefit from ITQs?

- How does company tax income alter with ITQs?

- Scale of reinvestment of rent into the community or new enterprises?

- Is rent lost through other process like ownership or rent flows outside jurisdiction?

- Does the reinvestment of rent outweigh the loss of employment?

3. Where are we heading with current targets for SRL fisheries

- Quantify the scale of the planned future rent increases and cuts in vessels and employment based on current targets

- Add in scale of industry proposed additional cuts to employment (eg changes in pots/vessel)

- Estimate the targeted increase in workforce age and cuts in new entrants.

- Projections of rent changes on current trajectories of ownership outside jurisdiction

4. Who is responsible for retrieving the bolted horse?

The fishery is heading towards minimal employment with much diminished regional or Australian benefit. At the same time rents will be increasing and overall economic yield from the fishery will continue to grow to extraordinary levels.

- What does the legislation and policy say about whether something needs to be done?

- Would "industry" like a say?

5. Could we put the horse back in the stable even if we wanted to?

If there was an obligation or appetite for restoring community benefit from lobster fisheries, what could be done?

What we need are examples and ideas of tuning and adjusting our systems to improve the state of our fishery and restore some community benefit. We recognise that there's no consensus that diminishing community benefit is a bad thing. This discussion just dispels the idea that nothing can be done ("what could we do?", "the horse has bolted", "the quota has changed hands", "it's just the way of the world", "we needed to get boats out of the fishery for it to survive", etc etc).

Appendix 4 - Presentations

Presentations attached:

1. Prof Caleb Gardner - Corporatisation, quotas, ITQs and rent export in lobster fisheries
2. Dr Nick Rayns - Why do we have TAC-ITQ Management? And how do we future-proof it?
3. Dr Evelyn Pinkerton - Strategies supporting access rights of owner-operators of small-scale fisheries (SSFs) in a neoliberal world
4. Mike Barron presented his experiences as a lobster fisherman in an input controlled fishery. His presentation file was unable to be transferred.
5. Stephen Xiao - Demystifying Chinese Investment in Australia

Corporatisation, quotas, ITQs and rent export in lobster fisheries

Caleb Gardner

UNIVERSITY of TASMANIA | IMAS INSTITUTE FOR MARINE & ANTARCTIC STUDIES

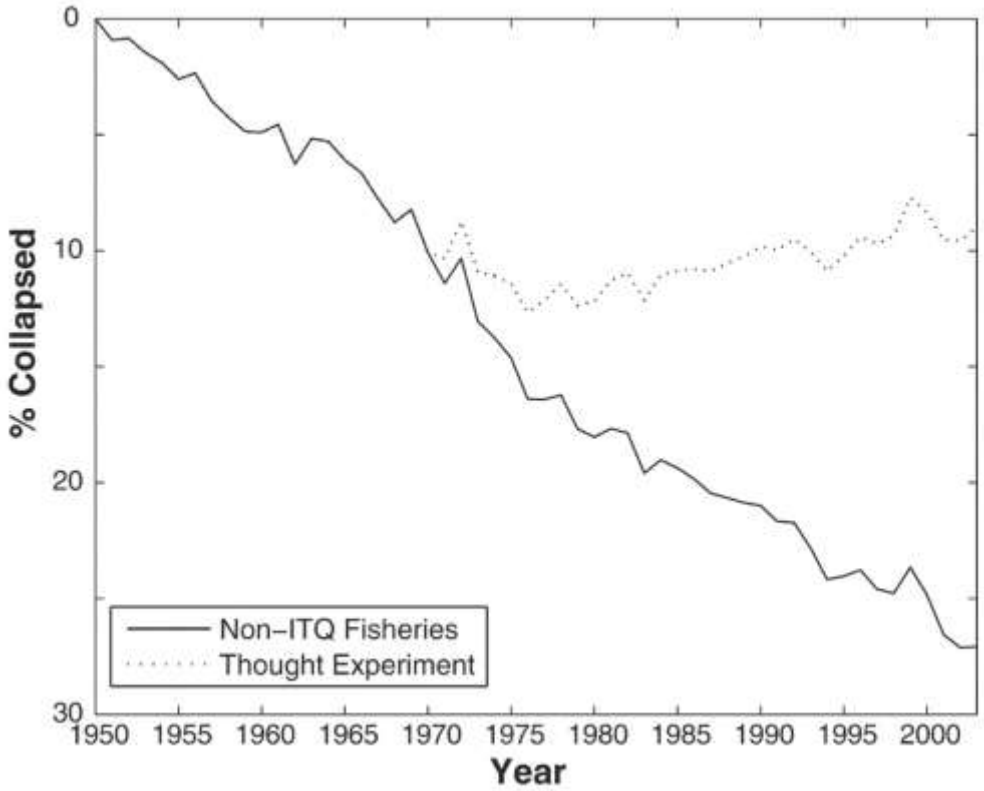
Individual transferable quotas …the theory

ITQs …the theory

- Quota controls total catch (not the only method to limit catch, but is direct)
- Input controls suffer technology creep – TACs are one solution

Catch control ("Q") was the most influential feature for application of ITQs in Australian lobster fisheries (effort creep + recruitment trough)

Incorrectly equated with avoiding "tragedy of the commons"!



Costello et al., 2008. Can Catch Shares Prevent Fisheries Collapse? Science

ITQs …the theory

- Promote “fishing to market”
- Promote stewardship by fishers
- Fishers become owners of the resource so are incentivised to allow good harvest strategies
- Less competition so reduces capital stuffing
- Less competition so safer for fishers

BULLETIN OF MARINE SCIENCE, 78(3): 529–546, 2006 MOTE SYMPOSIUM INVITED PAPER

WHY FISHERIES MANAGEMENT FAILS: TREATING SYMPTOMS RATHER THAN THE CAUSE

James E. Wilen

ABSTRACT

Most fisheries management controls fishing mortality directly with top-down measures like time and area closures and gear restrictions. Decisions about these measures take place in adversarial, politically charged arenas. Scientists criticize conventional methods, mostly arguing for more draconian applications of the same tools. Economists also criticize them, but because they believe such methods focus on the symptom rather than the cause of problems. From the perspective of economists, the race to fish, the drive to increase fishing power, and the perversion of the politics of the management process are all driven by the insecurity of access faced by fishermen under most systems. Economists believe that fishermen's incentives are distorted by insecure harvest privileges, leading them to compete wastefully with each other and with managers for fish. Alternatives they recommend include "rights-based" harvest privileges. Although the shortcomings of these institutions have been argued about for over two decades, enough evidence has accumulated for a focus on consequences rather than speculation. Virtually all such experience shows that rights-based management institutions alter incentives in ways favorable to conservation and stewardship. An important inducement for behavioral changes is the wealth that is capitalized into the values of permits in rights-based systems.

ITQs …the theory

- Increase technical efficiency of the fleet to create economic rents
- Enable future cash flows to be capitalised into share prices
- Rewards entrepreneurialism / corporatisation of the supply chain
- Enable inefficient fishers to exit with wealth
- Contracts the number of fishing firms (“too many boats” or “too many divers”, etc)

Many of the outcomes of ITQs that are today discussed as problems, like loss of opportunity for new entrants were intended. So therefore indicate “success”.

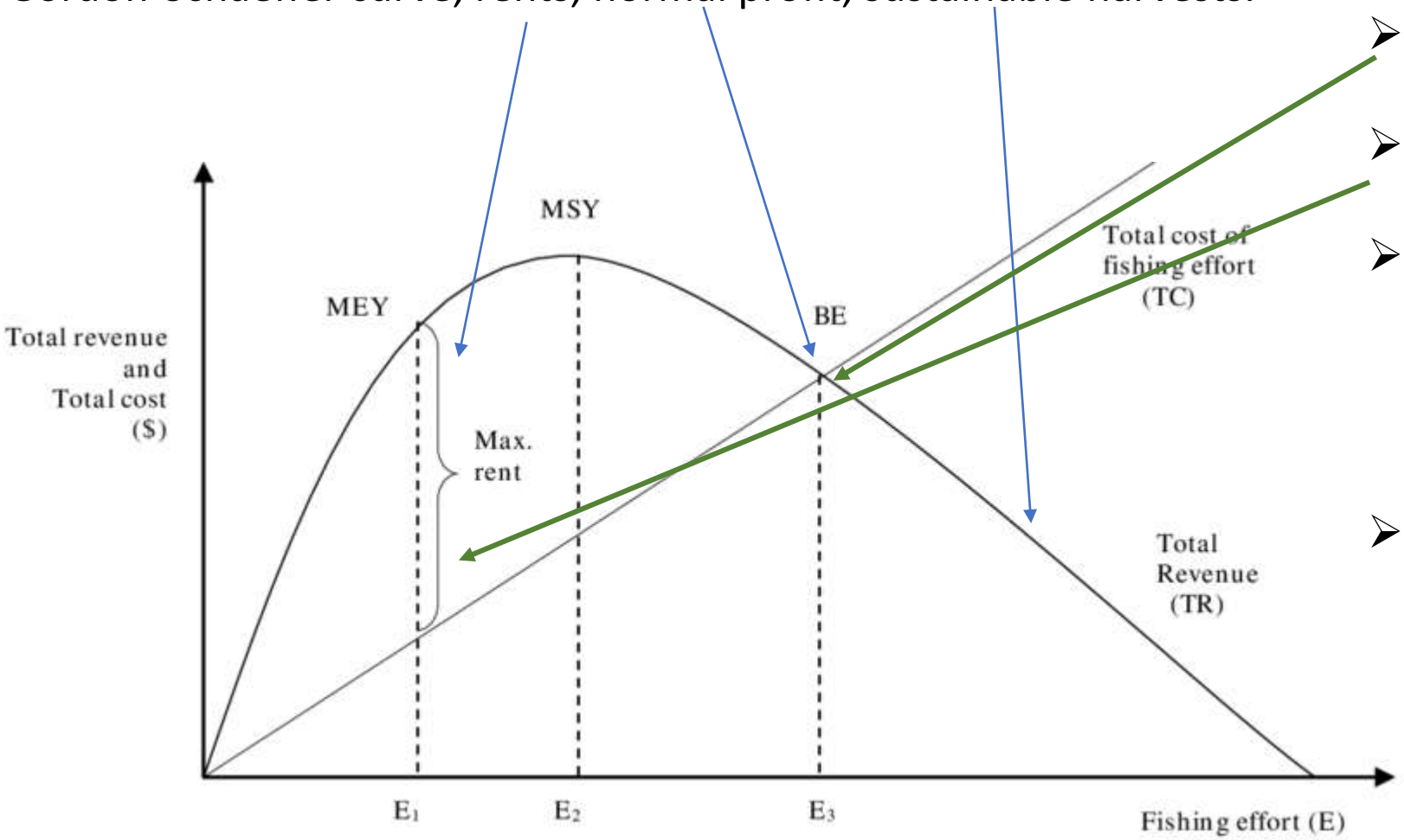
Confusion between licence payments, cost recovery, rent and royalties

- "Lost Freight Café"– on public land (Mt Wellington Park)
- Pays rates to Hobart City Council. Like a licence payment in fishery as it's cost recovery by council for maintenance services.
- Also pays rent for use of pubic land. Like a royalty payment in fisheries (outside Australia).

- "Macquarie St Foodstore Café" – on private land
- Pay council rates for shared service costs, like fishers pay licence fees.
- Also pay land tax because property has elements of public resource in Australian (UK) Georgist taxation

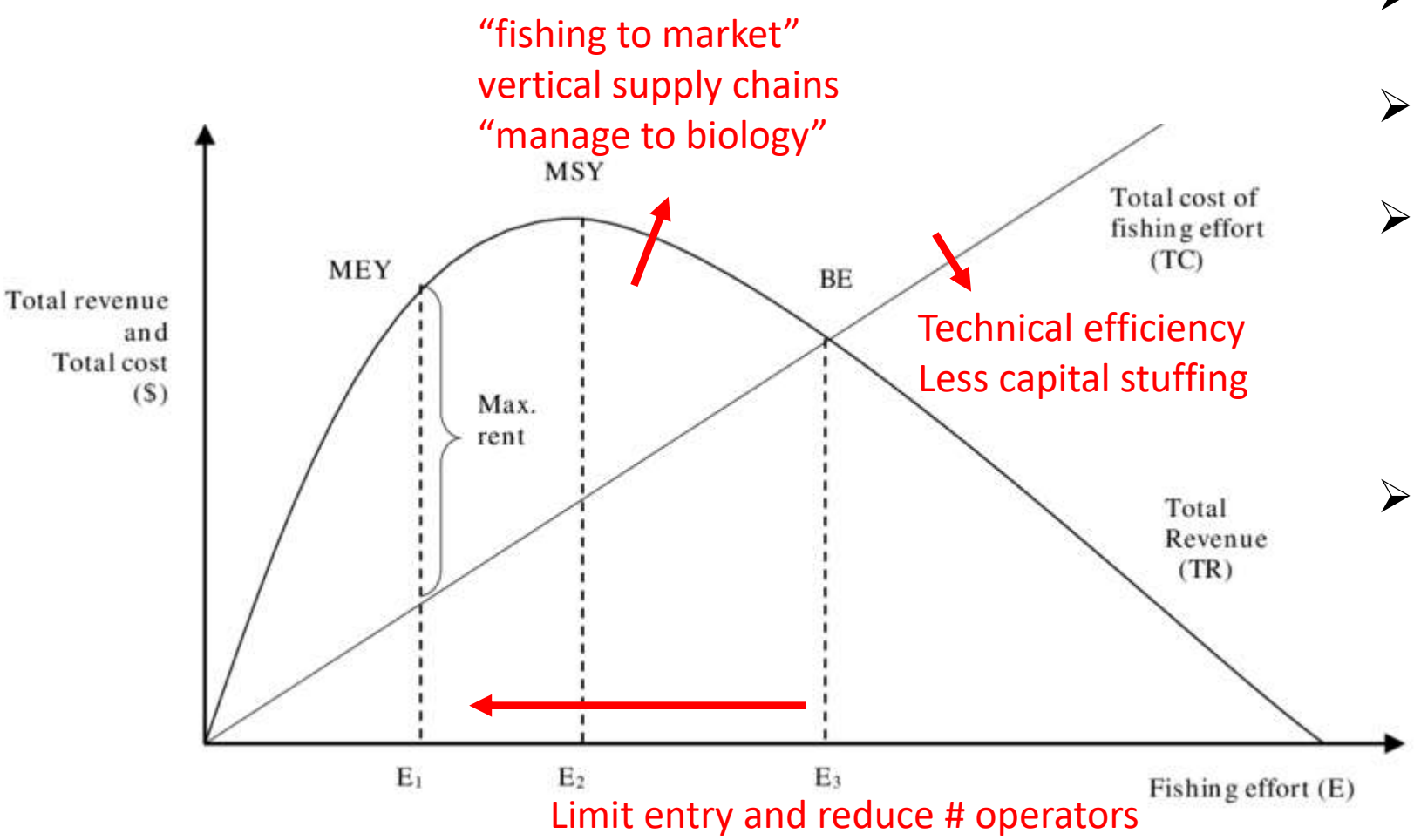
- Land tax is a royalty and is ~ 15% of rent.

Gordon-Schaeffer curve, rents, normal profit, sustainable harvests.



- This is where competitive industries operate (like cafés)
- This is what limited entry fisheries target (in theory)
- Economic rent is seen in fisheries by payments for access, either royalties (public rent) or lease fees (private rent).
- Note rent changes with effort, PLUS any of the other factors

Gordon-Schaeffer curve, rents, normal profit, sustainable harvests.



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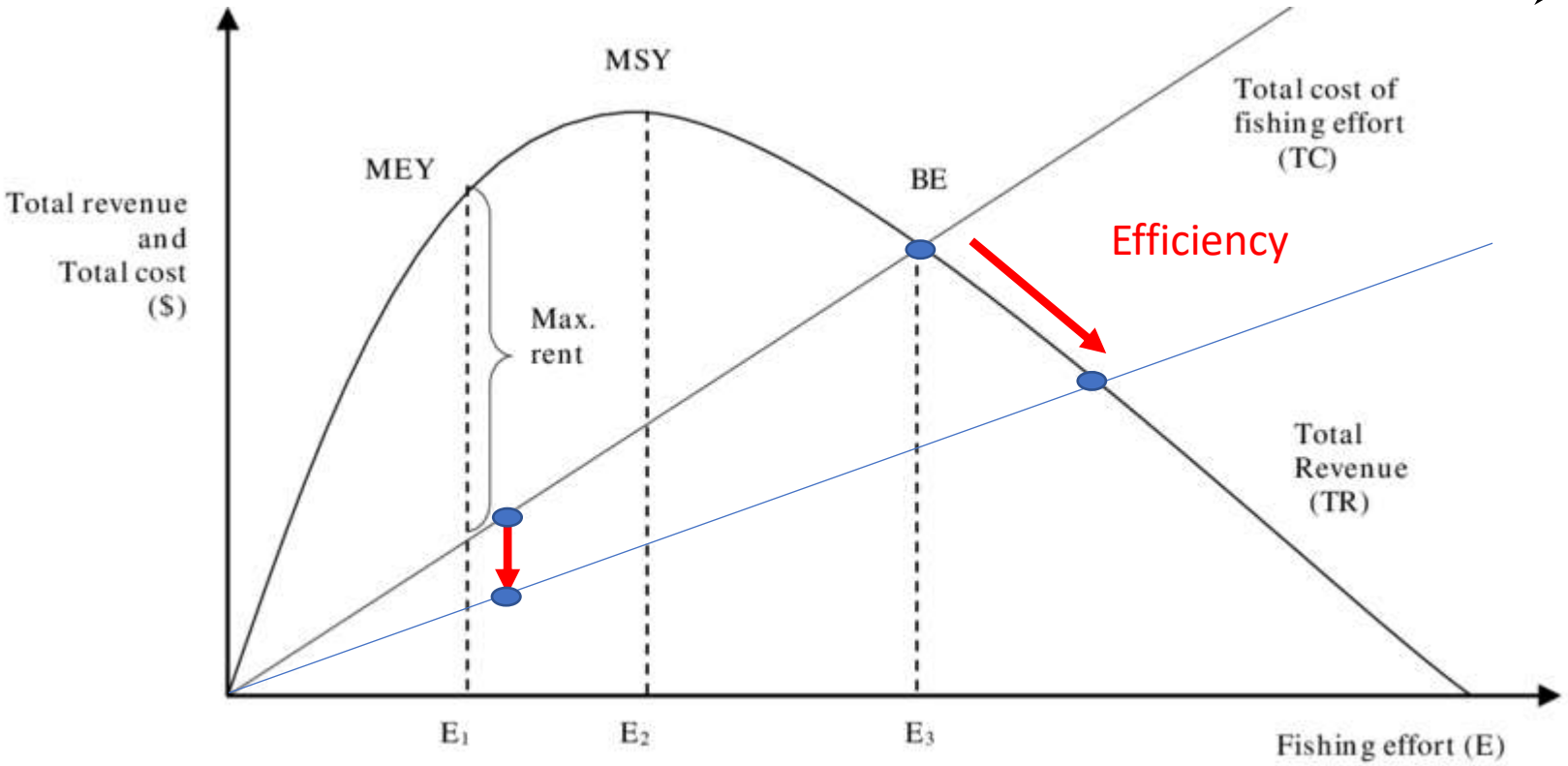
Gordon-Schaeffer curve, rents, normal profit, sustainable harvests.



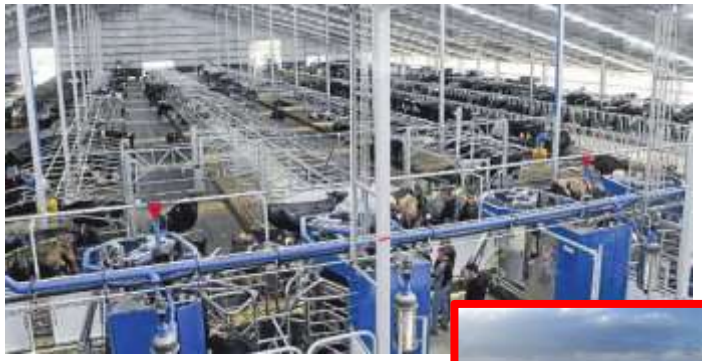
- What happens if we just move this line?
- Different things happen depending on whether effort is dynamic or regulated

What happens with efficiency gains?

In a competitive system … price falls and firms become efficient to remain viable ("it's the way of the world and we needed it to survive")

Very different with fisheries. Supply is regulated. So reduced labour creates rents, not lower price. There's no imperative to become efficient for survival.

Who gets the rent?





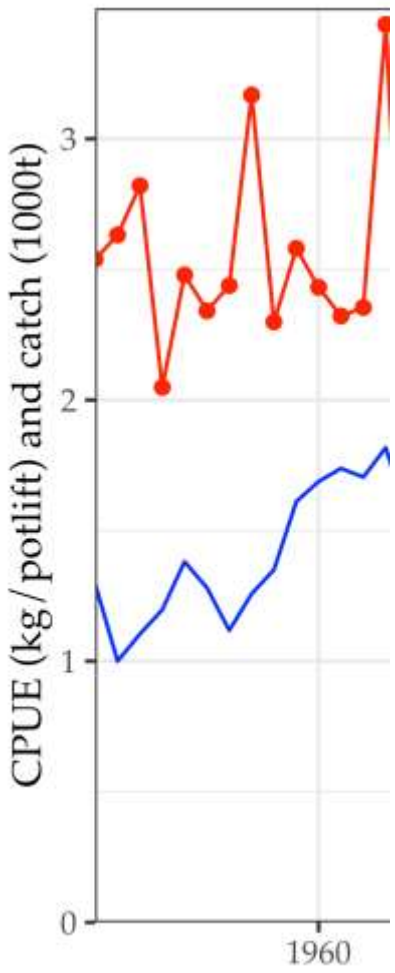






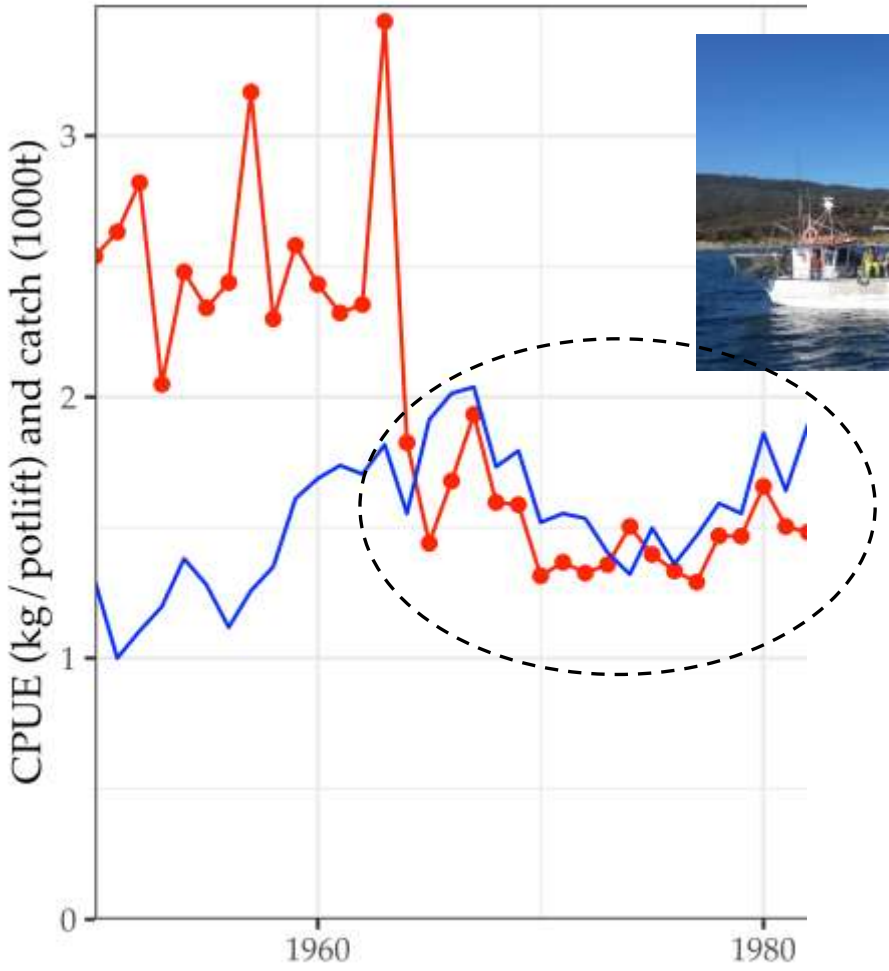



Tasmanian fishery history - very high stock abundance after WW2



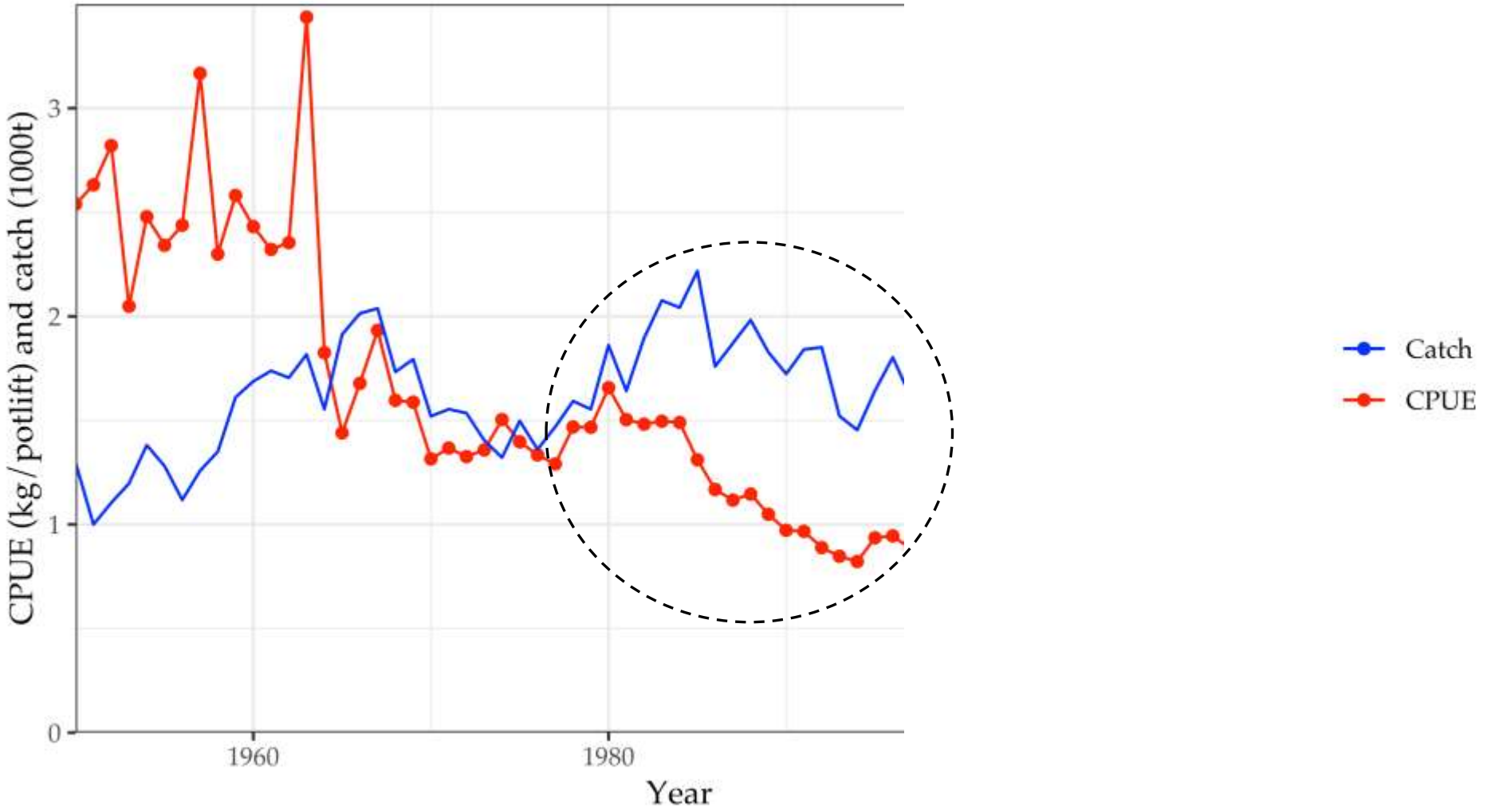
Catch
CPUE

- Stocks healthy but more depleted through to 1980s

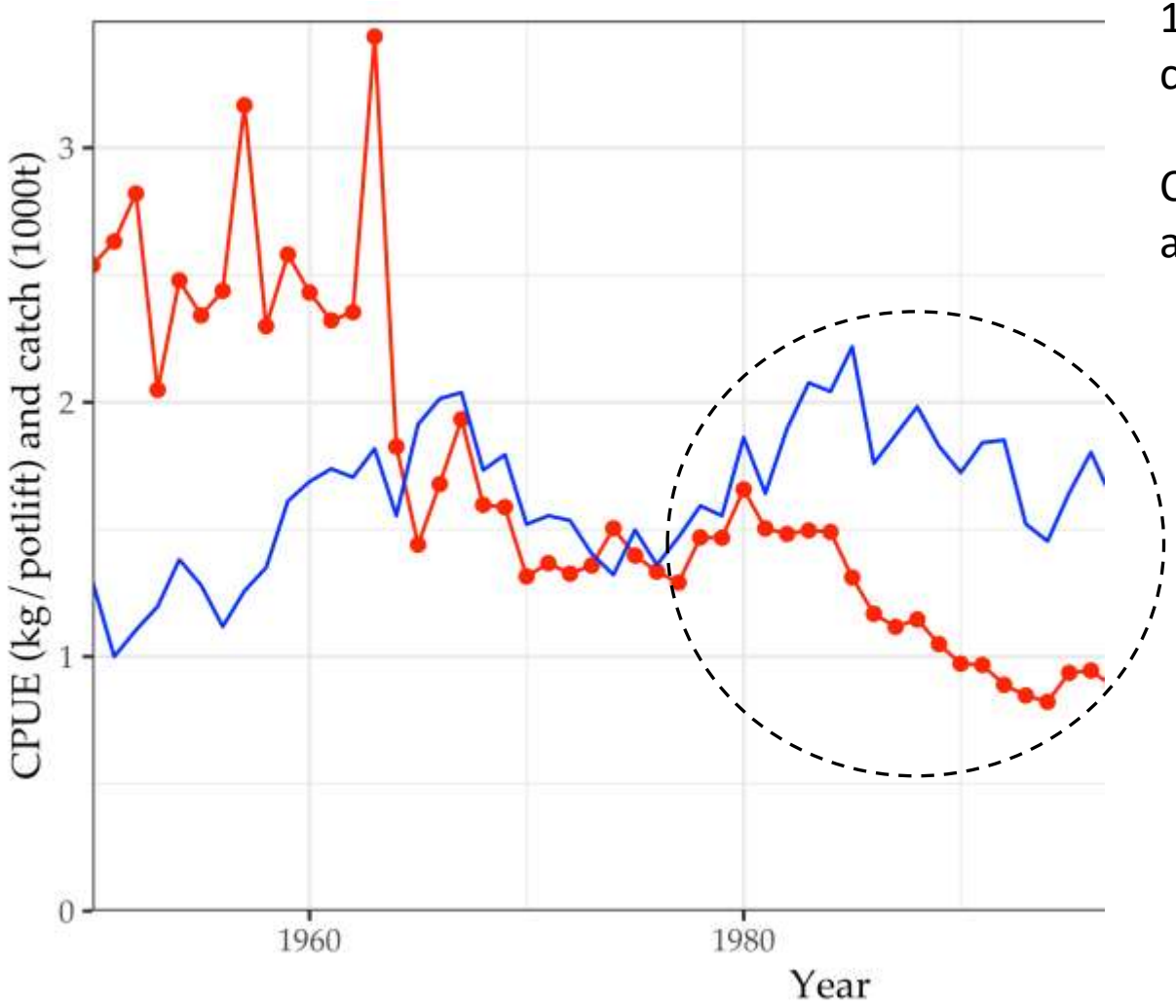


Catch
CPUE

- Low stock by 1993 due to low recruitment + excessive catches
- Catches better controlled by seasons and then total commercial catch limit in 1998 (“quota”)

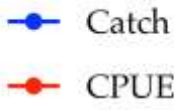


- Low stock by 1993 due to low recruitment + excessive catches



1993 - Stock at lowest level and getting worse so catch needed to be reduced.

Closed seasons did the job but there was appetite for larger change (stewardship!).



ITQ systems were the trend

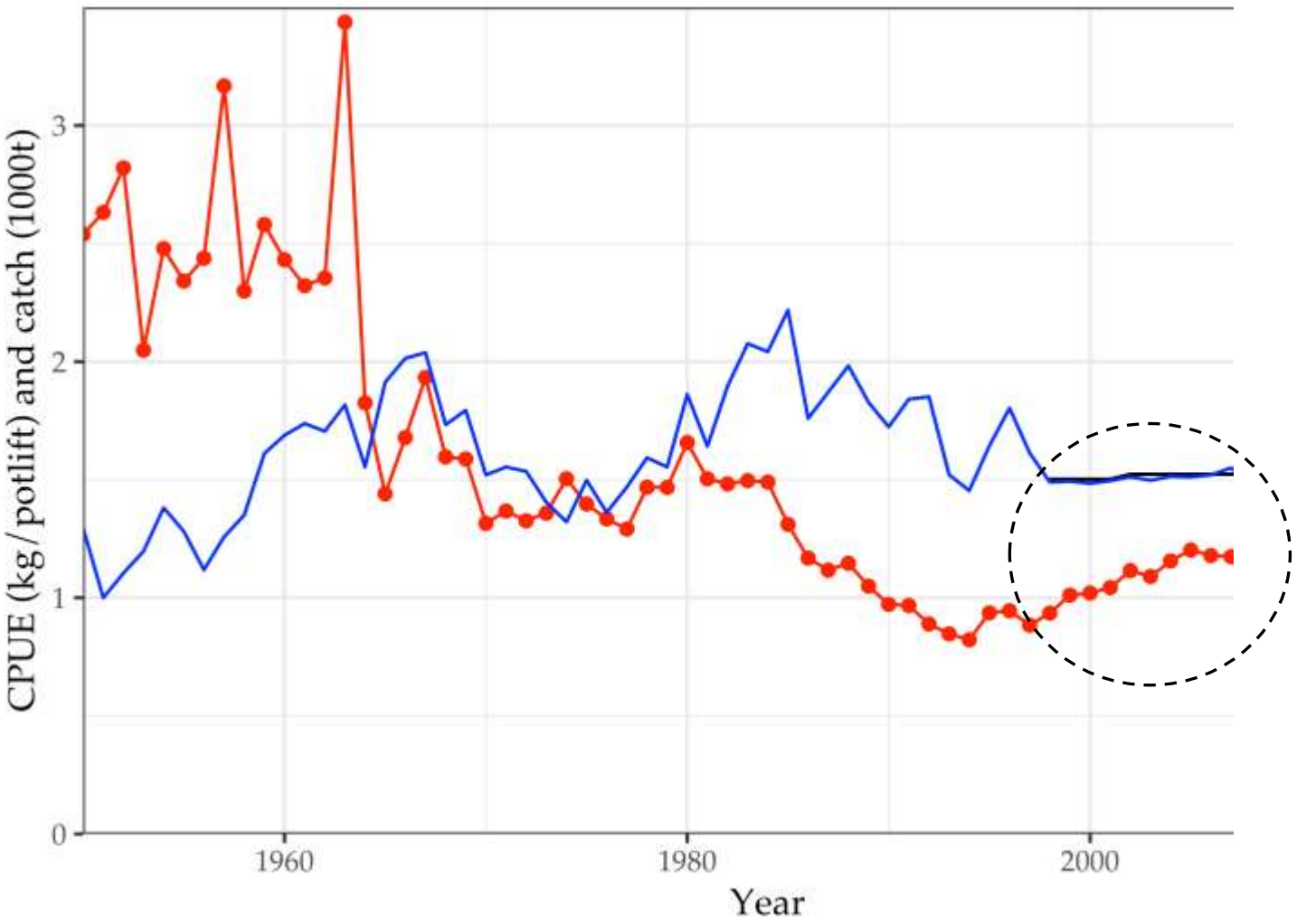
Iceland 1984

SZ – SA 1993

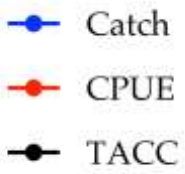
NZ 1986

Tas Abalone 1991

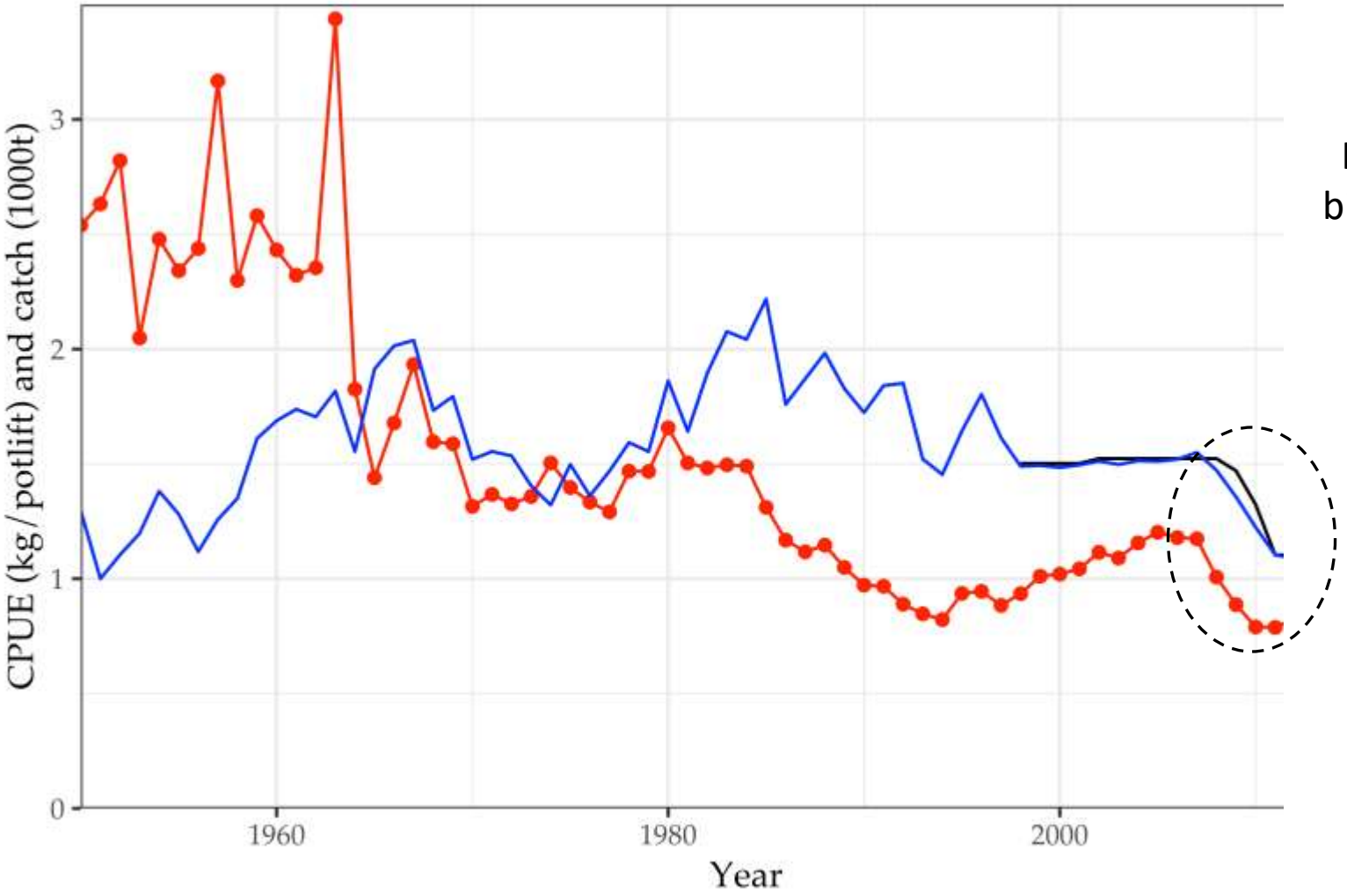
Good recruitment + quota = stock recovery through to 2008



Stock rebuilding required less catch. But not ITQs.

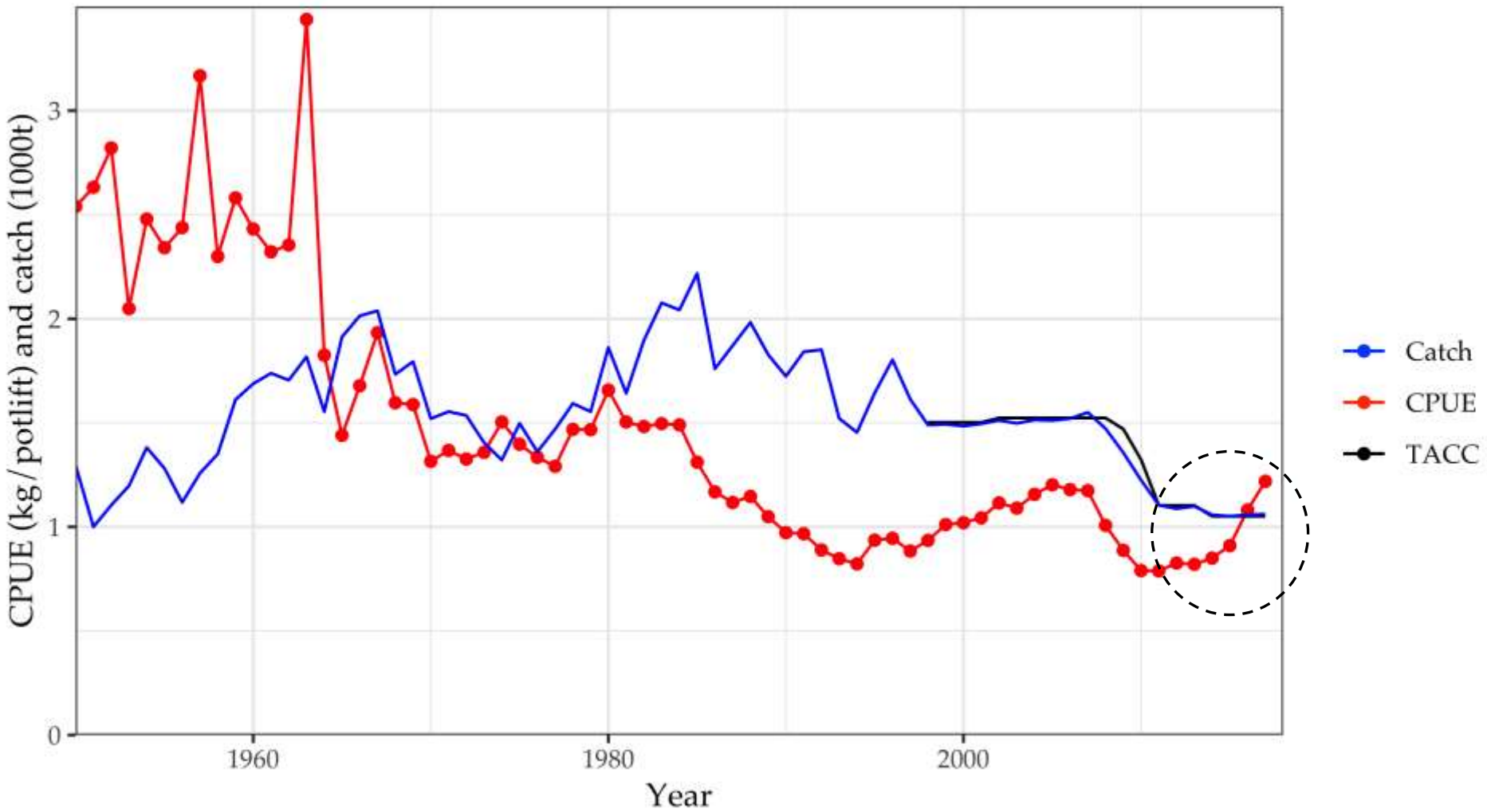


As with other states, “stewardship” and “fishing for profit” never really took off as concepts.
(lowing TAC perceived as bad for business….even after 20 years)

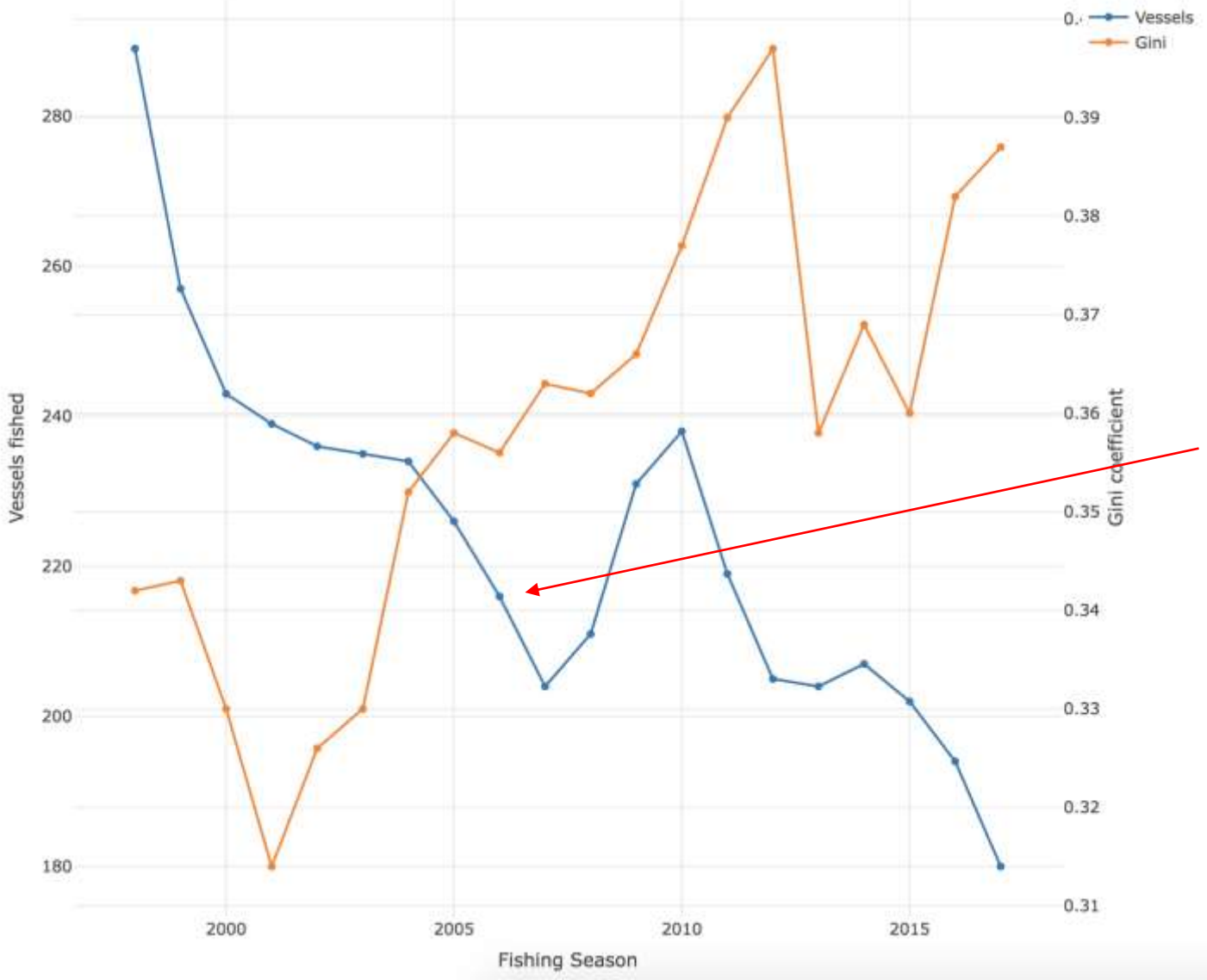


Industry and government had a bias towards revenue (high catch) not long-run asset value

Quota cuts led to statewide recovery – catch rate now higher than previous 30 years and growing



- Controlling the catch, by any means, is good for the stock
- Changes in the industry more complicated and not always textbook
- Increasing concern about predictable/ intended/desirable outcomes of ITQs (eg fewer fishers, fewer young fishers, high lease prices, less efficient firms exiting).



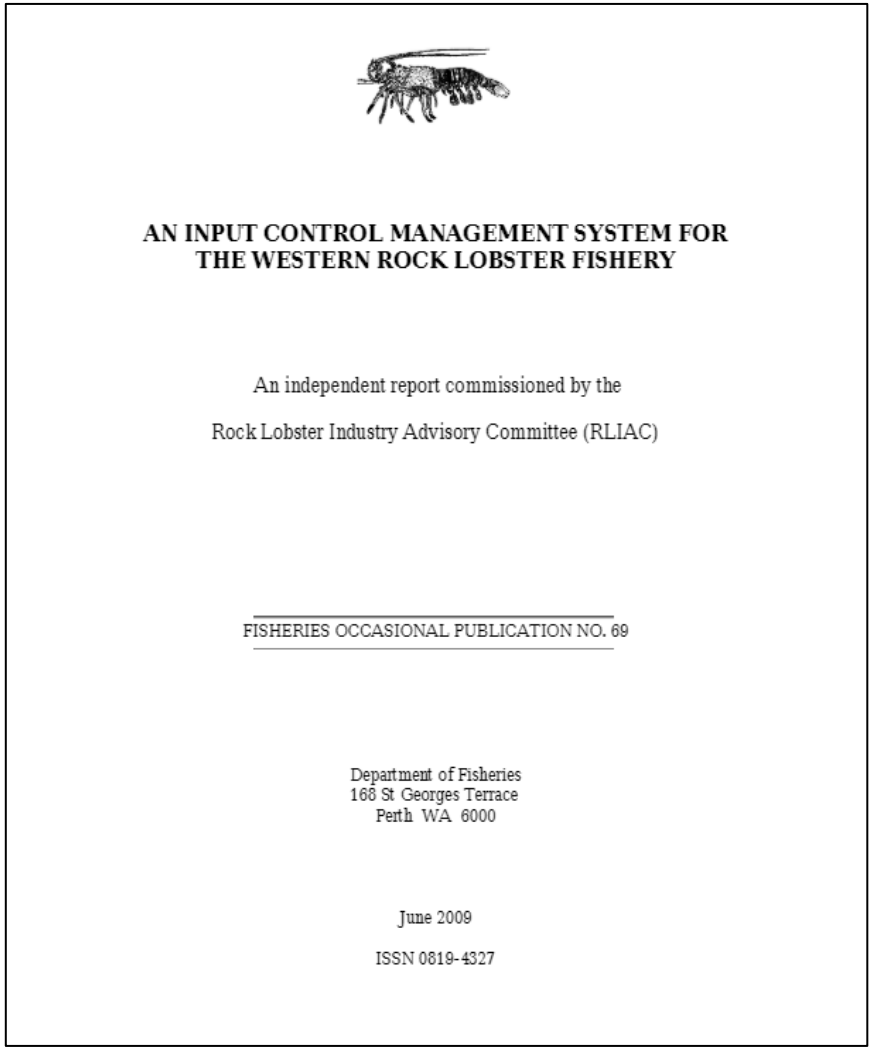
Catch concentrated on fewer vessels

Fleet shrinking (was 340 vessels in 1990s)

Industry expresses concern about “new entrants” (yet talk about too many boats (or divers)).

Management plan had social indicator of 220 vessels. Breached in 2006. Numerous feasible options discussed … but higher rent (lease price) prioritised.

Western Rock Lobster



AN INPUT CONTROL MANAGEMENT SYSTEM FOR THE WESTERN ROCK LOBSTER FISHERY

An independent report commissioned by the

Rock Lobster Industry Advisory Committee (RLIAC)

FISHERIES OCCASIONAL PUBLICATION NO. 69

Department of Fisheries
168 St Georges Terrace
Perth WA 6000

June 2009

ISSN 0819-4327

- Established an “ITE” system with gear units linked to pots (eg 100 units = 85 pots)
- Could be used to limit catch to a TACC…in theory
- Failed to be applied properly (industry lobbying)
- ITE was blamed in 2009 when recruitment crashed so the fishery was shifted to ITQs

ELSEVIER

Ocean & Coastal Management, Vol. 28, Nos 1–3, pp. 117–146, 1995

0964-5691(95)00041-0 0964-5691/95 $9·50 + 0·00

Figuring fish and measuring men: the individual transferable quota system in the Icelandic cod fishery

Gísli Pálsson* & Agnar Helgason

Department of Anthropology, University of Iceland, 101 Reykjavík, Iceland

ABSTRACT

This article discusses inequality in the Icelandic cod fishery, focusing on changes in the actual distribution of fishing quotas and the ways in which Icelanders currently talk about equity and ownership. The individual transferable quota (ITQ) system, introduced in 1984, divided access to an important resource among those who happened to be boat owners at that time. Statistical findings with respect to the cod fishery – based on a database (the 'Quotabase') constructed using detailed information on all vessels that have been allotted ITQs from the onset of the system – show that ITQs have been increasingly concentrated in the hands of the biggest companies. Many of the small-scale boat

Most of the changes have been predictable – they were being discussed in the 1990s and expected / intended from efficiency.

- Loss of firms from regional towns
- Ageing of the fishers
- Shrinking fleet
- Ownership in a few companies

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Bluefin tuna fishery policy in Malta: The plight of artisanal fishermen caught in the capitalist net

Alicia Said *, Joseph Tzanopoulos, Douglas MacMillan

Durrell Institute for Conservation and Ecology, School of Anthropology and Conservation, University of Kent, UK

ARTICLE INFO

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ABSTRACT

The bluefin tuna fishery has undergone a major shift in Malta, moving from an open access artisanal nature to a privatized and industrialized activity dominated by the purse seining fleet and the BFT ranching industry. The shift has been exacerbated by the national implementation of an individual transferable quota system, which has enabled the concertation of quotas into fewer hands. The main objective of this article is to understand how privatization has evolved within the sector and the way the Maltese artisanal fishermen are experiencing the shift. This study takes an exploratory mixed-method approach to quantitatively and qualitatively understand how policy underpinnings interplay with the sustainability dimension of the small-scale fishing sector. Results show that the transition of the bluefin tuna fishery from artisanal to industrial has generated a legitimacy crisis over fishing rights, decreased profitability amongst most of the artisanal fleet, and led to a series of socio-ecological impacts on the artisanal fisheries system at large. It is concluded that the neo-liberal trajectories of industrialization have directly undermined the continued sustainability of artisanal fishing communities.

Again - corporatisation and loss of employment was predictable and intended consequence of ITQs.

People discuss intended outcomes of ITQs as negatives. Eg high lease fees, reduced employment

Is this what we really wanted?

Marine Resource Economics, Volume 23, pp. 105–117
Printed in the U.S.A.

0738-1360/00 $3.00 + .00

Thalassorama

Rent Collection, Rent Distribution, and Cost Recovery: An Analysis of Iceland's ITQ Catch Fee Experiment

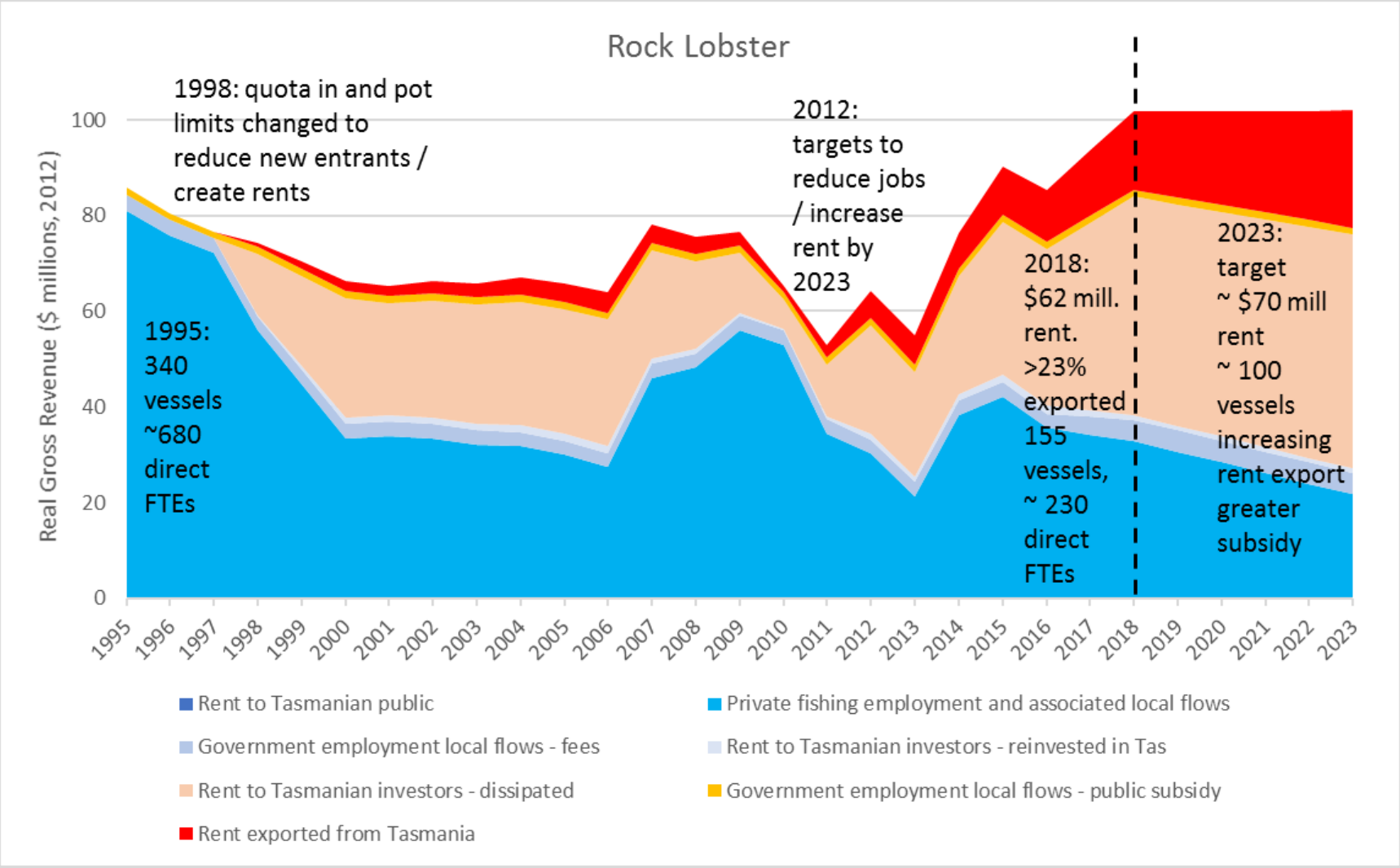
THOROLFUR MATTHIASSON
University of Iceland

Abstract *Resource rentals can be defined as payments made by the user of a resource to the stakeholders to whom the payment accrues. Typically, resource rentals take the form of a payment by a commercial enterprise to the state. Resource rentals can be viewed as a tax on resource rents (i.e., on net income derived from the use of a resource) or as royalties or access fees to a resource. The Icelandic Fishery Management Act requires that vessel owners pay a resource rental in the form of the "catch fee" (veidigjald), which is one of the first attempts to explicitly use resource rent generated in fisheries as a base for government revenue. This paper first discusses the legislative activity leading up to the introduction of the catch fee, followed by a discussion of how the Fishery Management Act defines the fee. Then, the effect of using a quota-lease-charge rule is discussed and finally there is an evaluation of whether the catch fee is high enough.*

Key words Resource rentals, catch fee, ITQs, Icelandic fishery management.

JEL Classification Codes D33, D63, H21, Q22, Q28.

In Australia (and non-Maori NZ) rents generally gifted, with no attempt to ensure any community benefit from rents, (although this occurs elsewhere)



Successfully cut ~160 vessels / 450 jobs from the fishery ("too many boats")

This reduction in "costs" created $62 million in rent

~100 jobs cut to export rent from Tasmania

Still "too many boats" so industry want to cut employment with input control changes

Stock rebuilding to also increase rent.

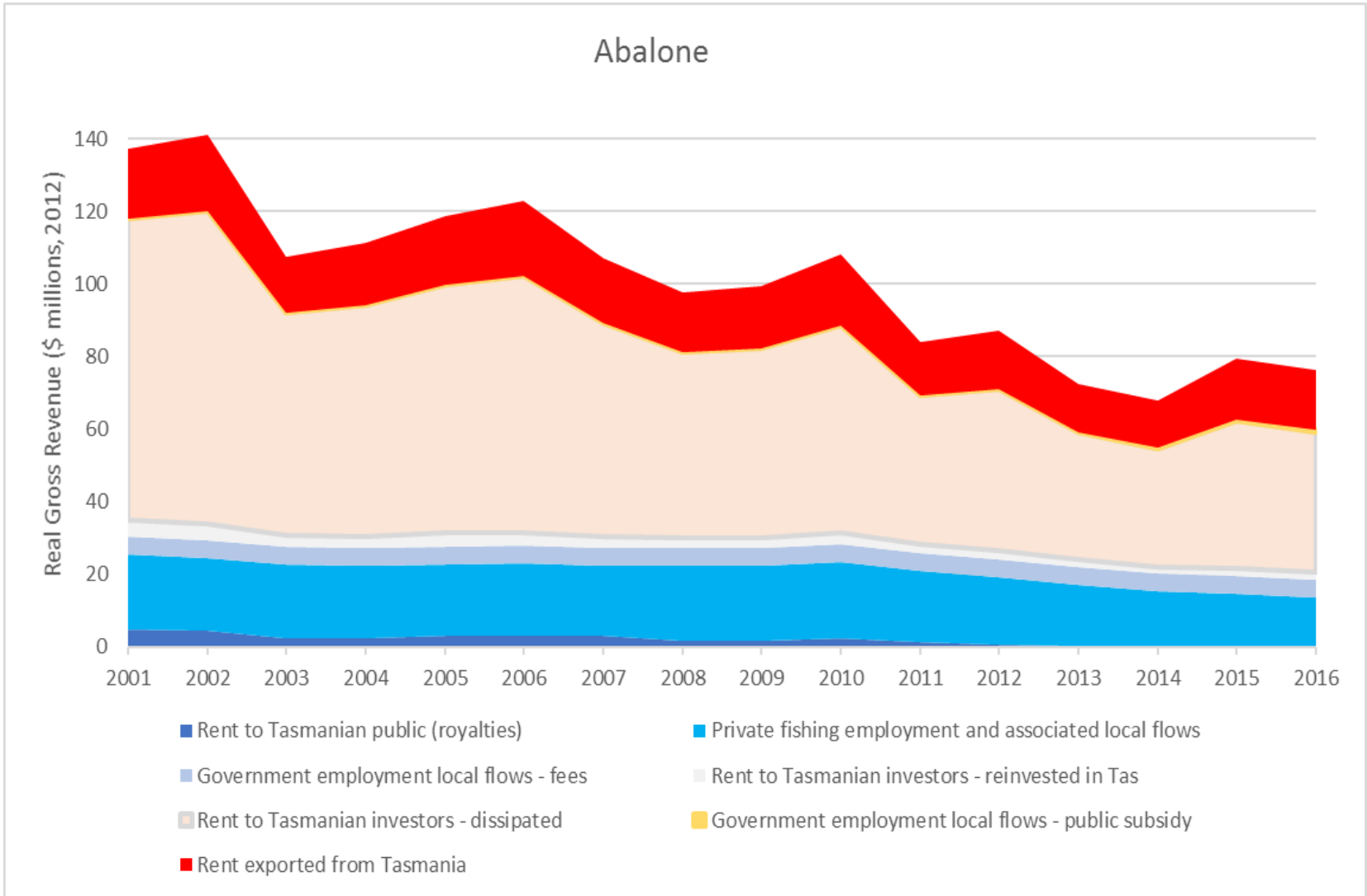
"At its most substantial, the number of residents peaked above 1200.

By the turn of the century, the population had shrunk by 500, threatening basic services. The commercial fishing industry fell away, and beef farms across the island consolidated."

Hopeful new residents are being turned away from picturesque Flinders Island. Photo: Sarah Rhodes

Flinders Island, idyllic spot in Bass Strait, grappling with growing pains and identity crisis

ALLISON WORRALL | JAN 28, 2018

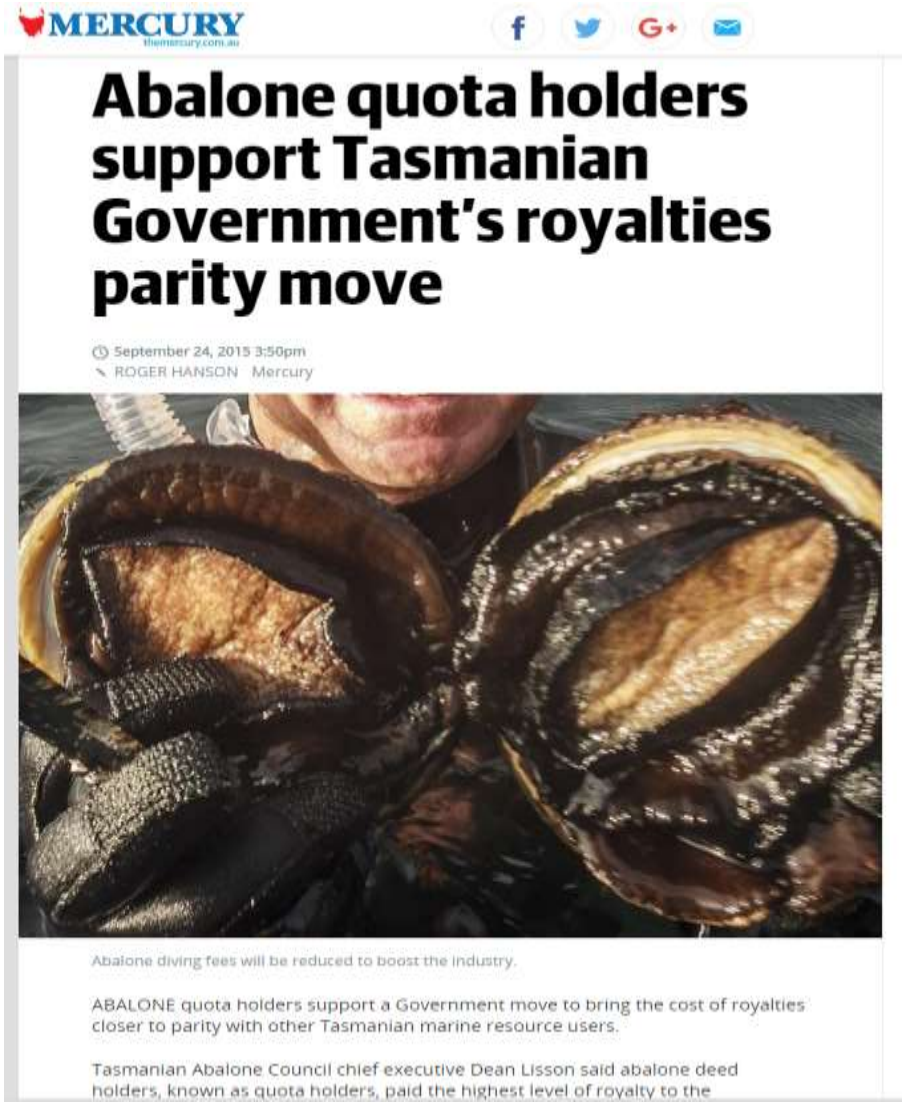


A tiny fraction of rent returned to the community until 2012.

Fishery now relies on public subsides

Rents exported

Employment benefit cut due to lower catch. And now there's claims of "too many divers".



MERCURY
themercury.com.au

Abalone quota holders support Tasmanian Government's royalties parity move

September 24, 2015 3:50pm
ROGER HANSON Mercury

Abalone diving fees will be reduced to boost the industry.

ABALONE quota holders support a Government move to bring the cost of royalties closer to parity with other Tasmanian marine resource users.

Tasmanian Abalone Council chief executive Dean Lisson said abalone deed holders, known as quota holders, paid the highest level of royalty to the

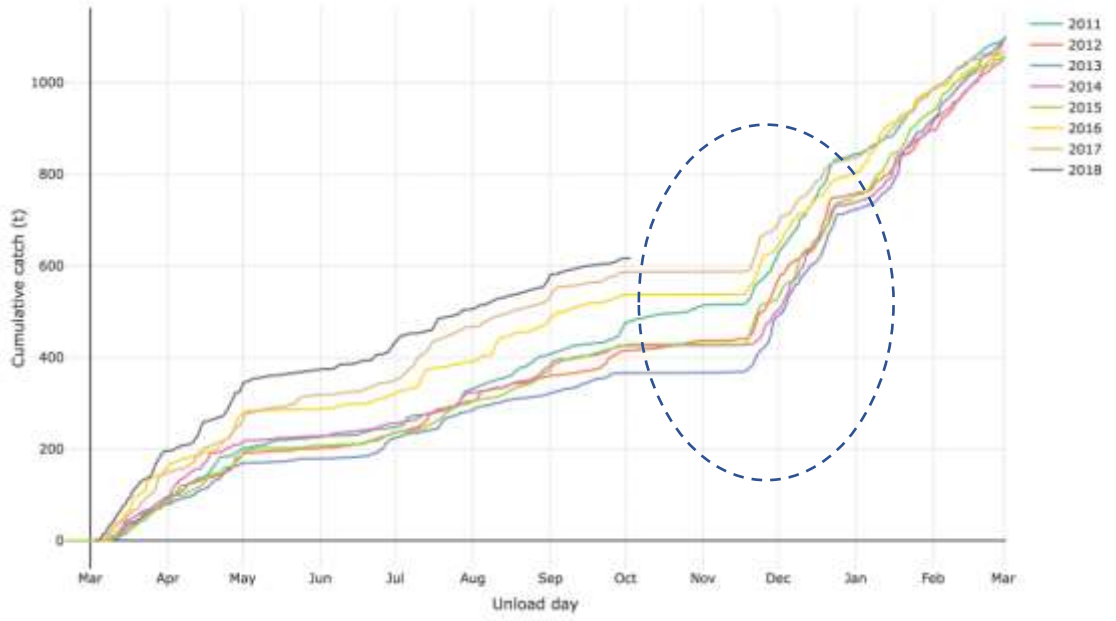
"maximise the economic return to the Australian community"

- Tasmanian abalone paid a royalty until 2015
- Tasmanian kelp harvesting continues to pay
- Victorian commercial scallop dive licence was auctioned
- Some company tax paid
- Some reinvestment of private rents to the benefit of the community (~ 2%)
- Trickle down of wealth of those quota owners who live in the jurisdiction?

Some cracks in the theory…

- **Promote "fishing to market"**
- Promote stewardship by fishers
- Fishers become owners of the resource so are incentivised to allow good harvest strategies
- Less competition so reduces capital stuffing
- Less competition so safer for fishers

- Catch never shifted away from periods of high/catchability/low quality/ low price so still need closures.
- Why? Transferability means quota is infinite for lease fishers
- Why wasn't this obvious?



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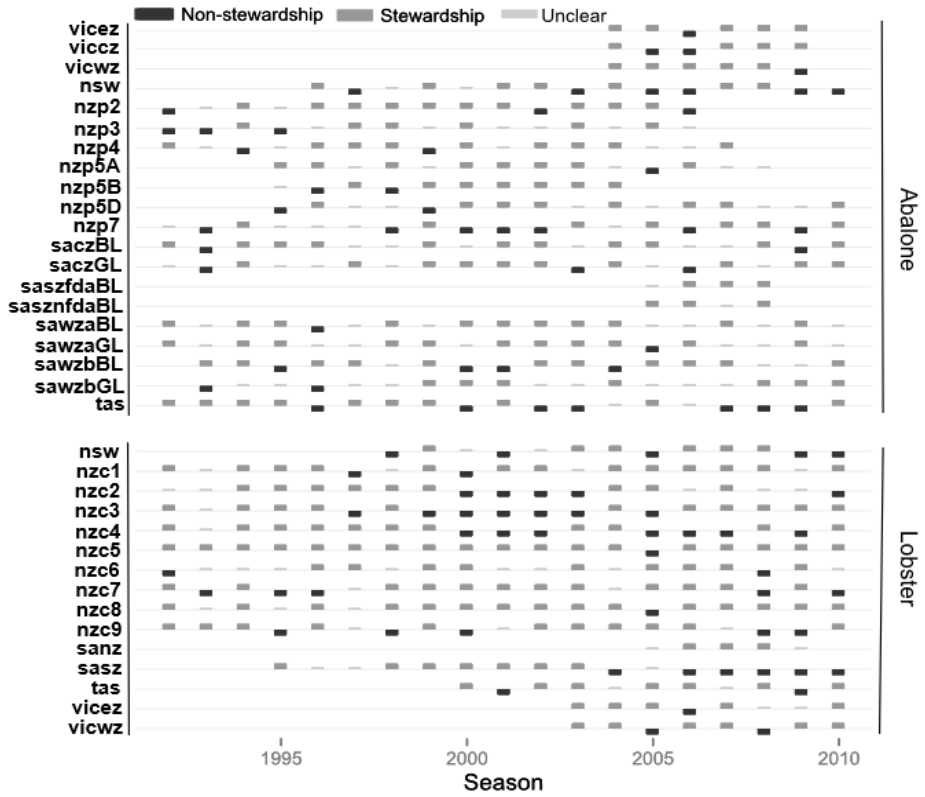
Leon et al. show bias against protecting declining stocks with TAC cuts in 35 ITQ managed fisheries in Australia and NZ. And outline ~ 6 reasons why the theory was naïve.



Marine Policy

Volume 35, Issue 5, September 2011, Pages 692-702

Beyond individual quotas: The role of trust and cooperation in promoting stewardship of five Australian abalone fisheries

Patrick W. Gilmour, Peter D. Dwyer, Robert W. Day

Show more

Abstract

Private property rights, such as individual transferable quotas, are thought to encourage fishers to act as resource stewards. To achieve this, however, fishers must be able to cooperate with each other. This paper examines the relationship between trust, cooperation and stewardship in five abalone (*Haliotis*) fisheries in southeastern Australia. Industry-led resource management initiatives are used as indicators of stewardship, sometimes including substantial sacrifice of catch quota. Higher levels of trust and cooperative capacity enabled greater levels of industry-based resource management in four of the five fisheries. In one case, however, high levels of trust and cooperative capacity did not translate into associated levels of resource management. It is suggested that additional factors, such as perceptions of resource condition, are key determinants of resource stewardship. Private property rights may, therefore, be less important than previously argued.

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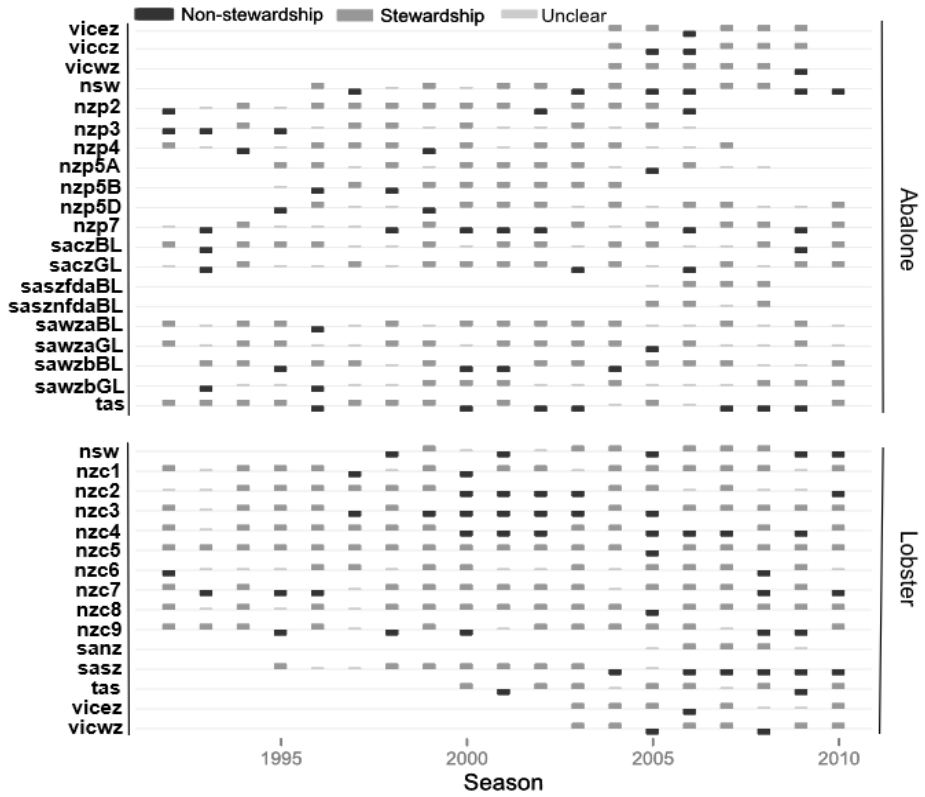

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And more – the theory of ITQs was naive

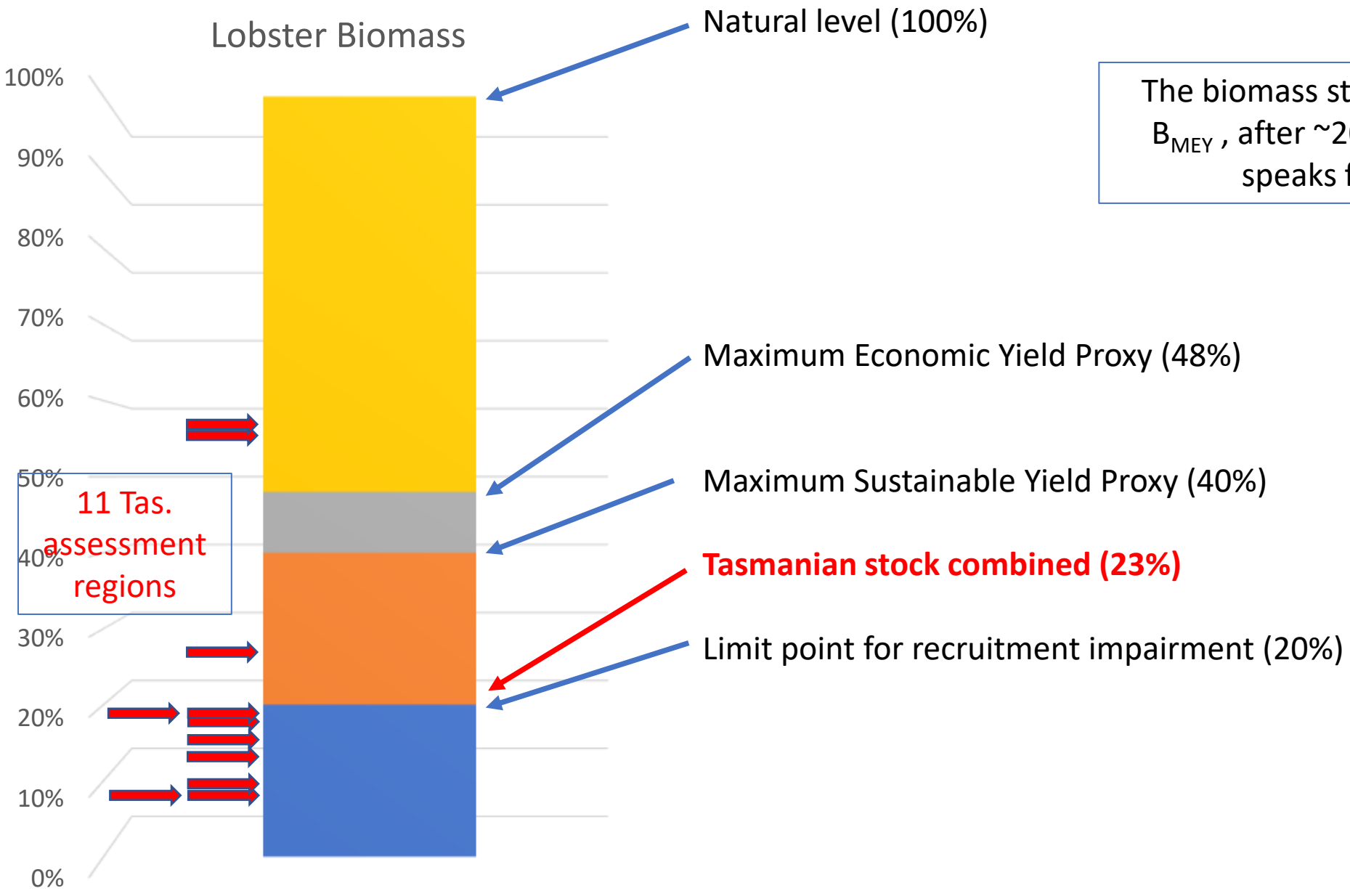
Research

Using Private Rights to Manage Natural Resources: Is Stewardship Linked to Ownership?

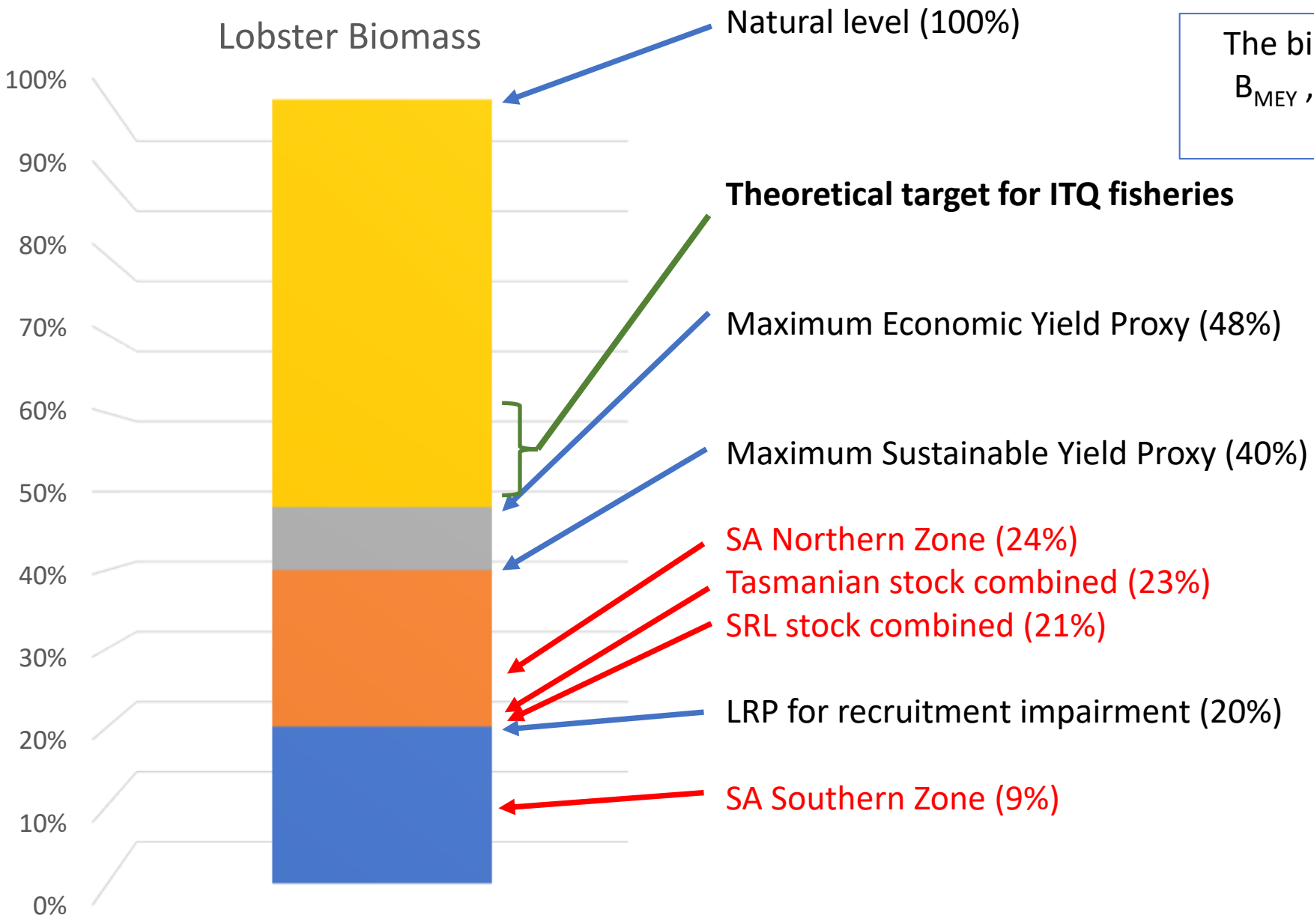
Patrick W. Gilmour [1], *Robert W. Day* [1], *and Peter D. Dwyer* [2]

ABSTRACT. There is increasing interest in privatizing natural resource systems to promote sustainability and conservation goals. Though economic theory suggests owners of private property rights have an incentive to act as resource stewards, few studies have tested this empirically. This paper asks whether private rights-owners were more conservative with respect to their management opinions than nonrights-owners in five Australian abalone (*Haliotis* spp.) fisheries. Multiple regression analyses were used to link opinions to demographic, economic, and attitudinal variables. In contrast to standard economic assumptions, nonrights-owners suggested more conservative catch limits than did rights-owners, confirming qualitative observations of behavior in management workshops. Differing views about the condition of the resource and differing levels of experience contributed to these results. The first of its kind, this study directly demonstrates that private rights do not necessarily promote the greatest level of stewardship. This has substantial implications for how natural resources are governed globally, but also warns against applying simplistic behavioral assumptions to complex social-ecological systems.

Key Words: *Australia, comanagement, fisheries, individual transferable quota, property rights, stewardship, sustainable behavior*



The biomass status relative to B_{MEY} , after ~20 years of ITQ, speaks for itself



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An no evidence of improved ecosystem stewardship with ITQs. Regulation of inputs by managers needed.

Marine Policy ▮ (▮▮▮▮) ▮▮▮–▮▮▮

Contents lists available at ScienceDirect

Marine Policy

journal homepage: www.elsevier.com/locate/marpol

Are input controls required in individual transferable quota fisheries to address ecosystem based fisheries management objectives?

Timothy J. Emery [a,*], Bridget S. Green [a], Caleb Gardner [a], John Tisdell [b]

[a] Institute for Marine and Antarctic Studies, University of Tasmania, Private Bag 49, Hobart, Tasmania 7001, Australia
[b] School of Economics and Finance, University of Tasmania, Private Bag 85, Hobart, Tasmania 7001, Australia

ARTICLE INFO

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Keywords:
Individual transferable quota
Ecosystem based fisheries management
Input controls
Fisheries management
ITQs
Externalities

ABSTRACT

This study examined the use of Individual Transferable Quotas (ITQs) to effectively manage fishing impacts on all ecosystem components, as required under Ecosystem Based Fisheries Management (EBFM) principles. A consequence of changing from input controls to output-based (catch) management is that the control of the regulating authority tends to be reduced, which may affect the outcomes for ecosystem management. This study reviewed the use of input controls across six fishing methods in 18 ITQ fisheries, which have been independently accredited as ecologically sustainable by the Marine Stewardship Council (12 fisheries) or under Australian environmental legislation for Wildlife Trade Operation (six fisheries). Input controls were retained across a range of ITQ fisheries, with non-selective fisheries such as trawl, gillnet and line employing more input controls than selective fisheries such as purse-seine, pot/trap and dredge. Further case-studies confirmed the widespread and recent use of input controls (spatial and temporal closures) with the aim of managing ecosystem impacts of fishing. The retention of input controls, particularly closures affects the security (quality of title) characteristic of the fishing use right and the theoretical ability of fishers to manage their right for their future benefit. The security characteristic is weakened by closures through loss of access, which undermines industry trust and incentive for long-term decision making. By reducing the security of ITQs, individual fisher incentives and behaviour may separate from societal objectives for sustainability, which was one of the foremost reasons for introducing ITQ management.

Some cracks in the theory…

- Promote “fishing to market”
- Promote stewardship by fishers
- Fishers become owners of the resource so are incentivised to allow good harvest strategies
- **Less competition so reduces capital stuffing**
- **Less competition so safer for fishers**

Transferability squeezes lease fishers…
…and increases risk taking.

ICES Journal of Marine Science Advance Access published February 26, 2014

ICES Journal of Marine Science

ICES CIEM

ICES Journal of Marine Science; doi:10.1093/icesjms/fsu019

Fishing for revenue: how leasing quota can be hazardous to your health

Timothy J. Emery[1]*, Klaas Hartmann[1], Bridget S. Green[1], Caleb Gardner[1], and John Tisdell[2]

[1]*Institute for Marine and Antarctic Studies, University of Tasmania, Private Bag 49, Hobart, Tasmania 7001, Australia*
[2]*School of Economics and Finance, University of Tasmania, Private Bag 85, Hobart, Tasmania 7001, Australia*

**Corresponding author: tel: +61 3 6227 7234; fax: +61 3 6227 8035; e-mail: timothy.emery@utas.edu.au*

Emery, T. J., Hartmann, K., Green, B. S., Gardner, C., and Tisdell, J. Fishing for revenue: how leasing quota can be hazardous to your health. – ICES Journal of Marine Science, doi.10.1093/icesjms/fsu019.

Received 17 September 2013; accepted 20 January 2014.

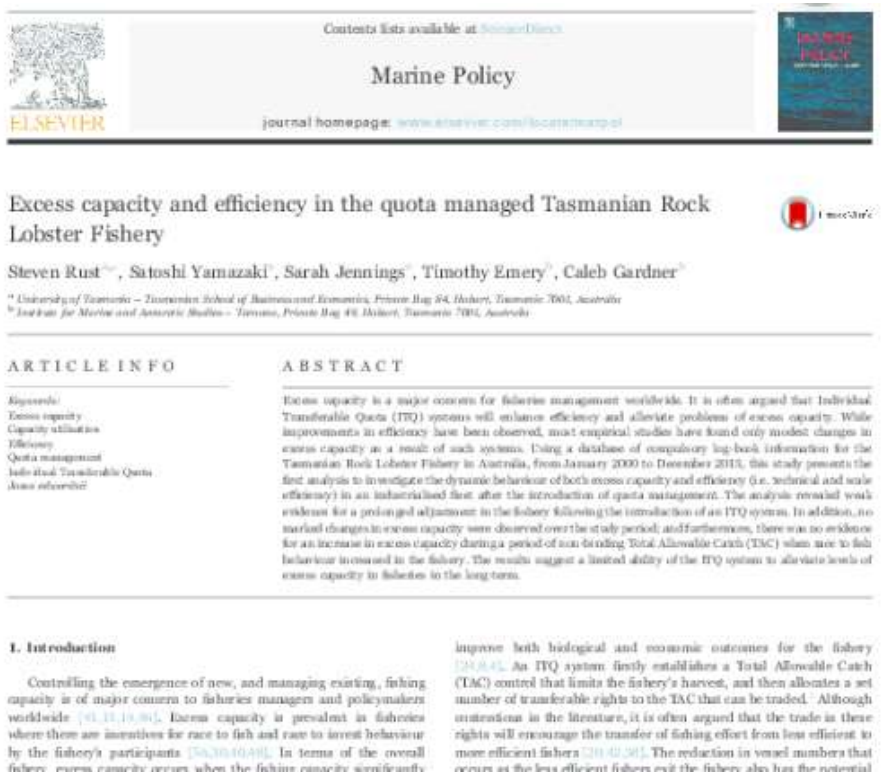
Fisheries management decisions have the potential to influence the safety of fishers by affecting how and when they fish. This implies a responsibility of government agencies to consider how fishers may behave under different policies and regulations in order to reduce the incidence of undesirable operational health and safety outcomes. In the Tasmanian southern rock lobster fishery, Australia, the expansion of the quota lease market under individual transferable quota (ITQ) management coincided with a rise in the number of commercial fishing fatalities, with five between 2008 and 2012. A discrete choice model of daily participation was fitted to compare whether physical risk tolerance varied between fishers who owned the majority of their quota units (quota owners) and those who mainly leased (lease quota fishers). In general, fishers were averse to physical risk (wave height), however this was offset by increases in expected revenue. Lease quota fishers were more responsive to changes in expected revenue than quota owners, which contributed to risk tolerance levels that were significantly higher than those of quota owners in some areas. This pattern in behaviour appeared to be related to the cost of leasing quota. Although ITQs have often been considered to reduce the incentive for fishers to operate in hazardous weather conditions, this assumes fishing by quota owners. This analysis indicated that this doesn't hold true for lease quota fishers in an ITQ system, where in some instances

Some cracks in the theory…

- **Increase technical efficiency of the fleet to create economic rents**
- Enable future cash flows to be capitalised into share prices
- Rewards entrepreneurialism / corporatisation of the supply chain
- Enable inefficient fishers to exit with wealth
- Contracts the number of fishing firms (“too many boats” or “too many divers”, etc)

“…we found little evidence for a temporal change in either excess capacity or efficiency following the introduction of an ITQ system in the Tasmanian rock lobster fishery”

Ie the operators who survive have deepest pockets / most motivation. Not the best operations.



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Excess capacity and efficiency in the quota managed Tasmanian Rock Lobster Fishery

Steven Rust, Satoshi Yamazaki, Sarah Jennings, Timothy Emery, Caleb Gardner

ARTICLE INFO

ABSTRACT

Excess capacity is a major concern for fisheries management worldwide. It is often argued that Individual Transferable Quota (ITQ) systems will enhance efficiency and alleviate problems of excess capacity. While improvements in efficiency have been observed, most empirical studies have found only modest changes in excess capacity as a result of such systems. Using a database of compulsory log-book information for the Tasmanian Rock Lobster Fishery in Australia, from January 2000 to December 2015, this study presents the first analysis to investigate the dynamic behaviour of both excess capacity and efficiency (i.e. technical and scale efficiency) in an industrialised fleet after the introduction of quota management. The analysis revealed weak evidence for a prolonged adjustment in the fishery following the introduction of an ITQ system. In addition, no marked changes in excess capacity were observed over the study period; and furthermore, there was no evidence for an increase in excess capacity during a period of non-binding Total Allowable Catch (TAC) when more to fish behaviour is ceased in the fishery. The results suggest a limited ability of the ITQ system to alleviate levels of excess capacity in fisheries in the long-term.

1. Introduction

“Too many fishers” versus “corporatisation”

Marine Resource Economics, Volume 23, pp. 25–35
Printed in the U.S.A.

0738-1360/00 $3.00 + .00

The Control of Market Power in ITQ Fisheries

LEE G. ANDERSON
University of Delaware

Abstract *The notion of restricting the amount of quota shares that can be owned by a single entity (sometimes called excessive share limits or ownership caps) is almost universal in fisheries managed with ITQs. While there is no general agreement on exactly what this means, the focus is normally on monopoly power and the attainment of management objectives or equity goals. This paper addresses the monopoly power issue and derives a formula for determining the maximum percentage any one entity can control before incentives to withhold production become operative. Implications for general and specific policy analysis are provided.*

Key words ITQ, excessive share, monopoly.

JEL Classification Codes Q21, Q22, Q28.

Regrets emerged about loss of owner operators.

Corporatisation was predicted but the sophisticated manipulation of markets was not.

Eg processor deals to control market share.

Marine Resource Economics, Volume 23, pp. 37–63
Printed in the U.S.A.

0738-1360/00 $3.00 + .00

The Benefits of Rationalization: The Case of the American Lobster Fishery

SCOTT R. STEINBACK
NOAA Fisheries Service

RICHARD B. ALLEN
University of Rhode Island

ERIC THUNBERG
NOAA Fisheries Service

Abstract *The American lobster (*Homarus americanus*) fishery is currently the most valuable fishery on the Atlantic coasts of both the USA and Canada based on ex-vessel value. Lobster conservation policies have traditionally focused on technical restrictions such as minimum size requirements, v-notching, and a prohibition on taking egg-bearing females to protect the resource, rather than direct controls on fishing effort or catch. However, in 2005 the Atlantic States Marine Fisheries Commission adopted a plan for the southern New England lobster management area (Area 2) that establishes a structure for limiting the number of license holders and the number of traps each lobsterman can have in the water. In this article, a bio-economic modeling exercise is employed to examine the biological and economic impacts of reductions to the level of fishing effort in a fishery that is modeled to represent the full-time lobster fishing fleet in Area 2. Model results show that a reduction in fishing effort has the potential to: (i) improve the sustainability characteristics of the lobster resource and, in contrast to popular belief, (ii) actually stimulate economic growth in the coastal economy.*

No question that efficient industries that generate rent can be good for the community…

PERSPECTIVE:
SOCIOECONOMICS

Daniel W. Bromley
Bromley is the Anderson-Bascom Professor of Applied Economics at the University of Wisconsin—Madison. He can be contacted at dbromley@wisc.edu.

Abdicating Responsibility: The Deceits of Fisheries Policy

…but the details are important and the current ITQ structure fails to deliver against management responsibilities

ABSTRACT: The imperiled status of global fish stocks offers clear evidence of the comprehensive failure of national governments to provide coherent management to protect those stocks. The universal policy response to this failure seems to consist of nothing more imaginative than the free gifting to the commercial fishing sector of permanent endowments of income and wealth under the Utopian claims associated with individual transferable quotas (ITQs). It now seems that the fishing industry is to be entrusted to become exemplary stewards, to become efficient, to maximize resource rent, to stop racing for fish, and to make society better off. These exultant promises are rendered false by the incoherent models from fisheries economics that are confused about the essential concepts of:
1. Efficiency; 2. Economic rent; 3. Resource rent; 4. Ricardian rent; 5. Average costs and average revenue among firms and across an industry; 6. Extra-normal profits; 7. Stewardship; 8. Property; 9. Rights; 10. Privileges; and 11. Property rights.
This spurious and misguided embrace of ITQs can only compound the tragedies of past malfeasance by the dangerous endorsement of this bundle of confusions, contrivances, and deceits.

Thank you.

Tax versus Royalties

Feroe Islands

8% revenue as royalty
+ government cost recovery
+ 30% corporate tax on taxable income (actual ?)

Tasmania

0.1% lease fees as royalty
+ zero government cost recovery
+ 30% corporate tax on taxable income (actual 1.1% revenue)

Business

BREAKING NEWS Omar Al-Kutobi, Mohammad Kiad sentenced to 15 in years jail for preparing to commit a terrorist attack

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Corporate taxes not paid by more than a third of large companies

By business reporter Michael Janda

Updated 15 minutes ago

More than a third of large public and private companies paid no tax in 2014-15, according to data released by the Australian Taxation Office (ATO).

The ATO's latest corporate tax transparency report showed 36 per cent of large firms had zero tax payable in 2014-15.

The entities covered by the report are public and foreign firms with an income of $100 million or more and companies privately owned by Australian residents with an income of $200 million-plus.

There were 1,904 companies that fell into these categories.

Resources and energy had the greatest proportion of firms that did not pay any tax, at just under 60 per cent, while almost 40 per cent of manufacturers also paid nothing.

Financial firms, retailers and other companies in the services sector were much more likely to have paid up, with less than 30 per cent having a zero tax bill in 2014-15.

Tax commissioner Chris Jordan said it was likely that trend continued in the most recent 2015-16 financial year.

PHOTO: Companies in the struggling resources and manufacturing sectors were less likely to pay tax. (freeimages.com: surely)

MAP: Australia

Key points:

Is hoping that some corporate tax will be paid enough?

Who has better accountants – owner operators or corporates?

Who has more opportunity to offset – integrated corporations with overseas operations or owner operators?

How to recover community benefit?
First prioritise a benefit

FOOD

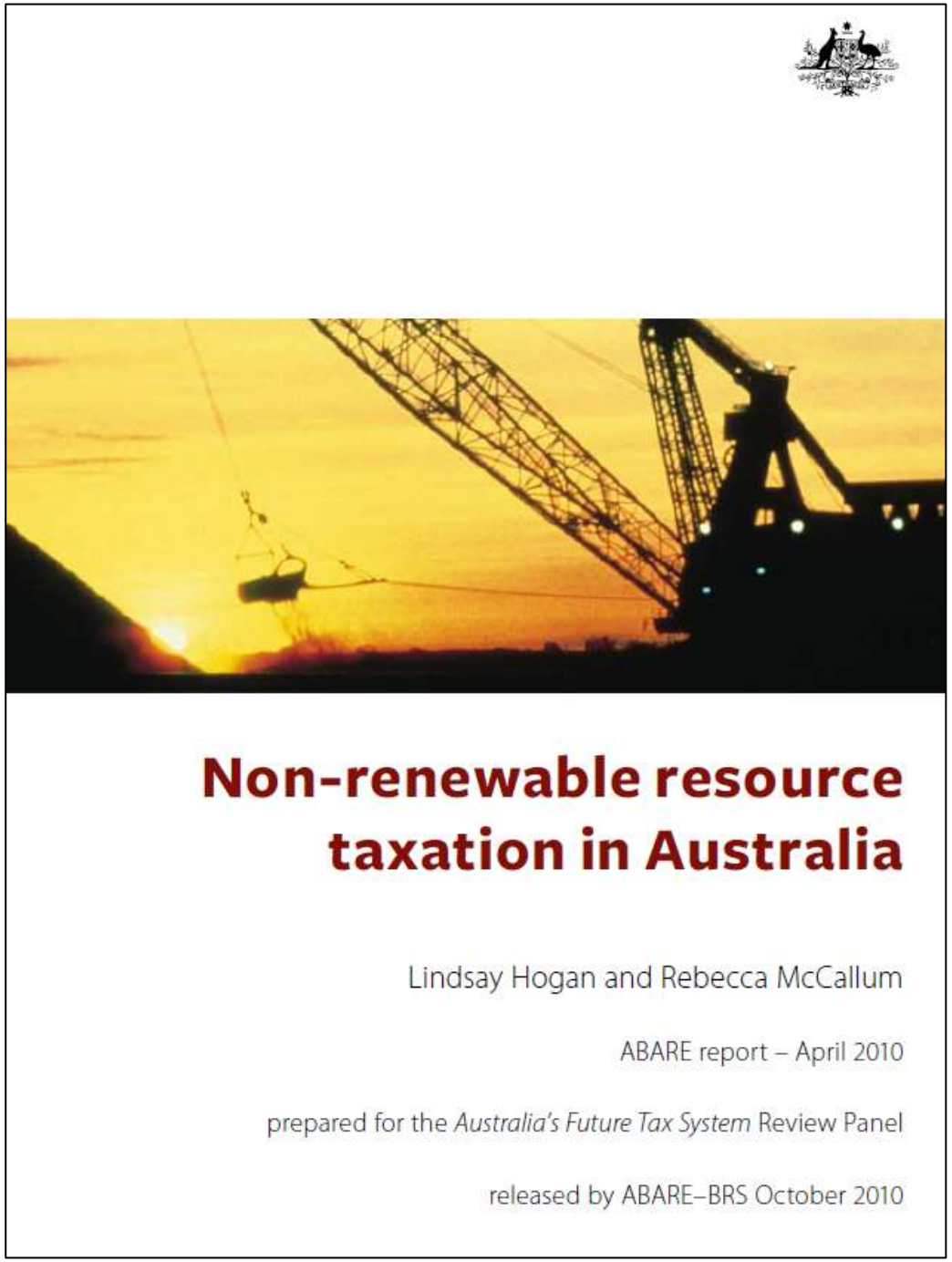
Eg require local sale

EMPLOYMENT /
NEW ENTRANTS /
REGIONAL ACTIVITY /

Eg raise TAC and regulate catch with input controls instead (ITE system)

COMMUNITY ECONOMIC BENEFIT

Eg Royalties (perhaps at same rate as land tax to encourage entrepreneurism)



Treasury understand the anomaly of fisheries not paying for access to a public resources.

Only held back by politicians.

Think fisheries are not worth it? Consider the effort they put into taxis.

Another historical leaked report shows New Zealand firms dumped thousands of tons of blue whiting in 2012

By Undercurrent News May 30, 2018 09:15 BST

Source: Seafood New Zealand

A A Comment

Another leaked New Zealand government report has shown thousands of metric tons of fish were dumped and unreported in 2012, renewing calls for an independent inquiry into New Zealand's fisheries management, reports *Stuff*.

Trends in the abalone fishery – more stewardship required

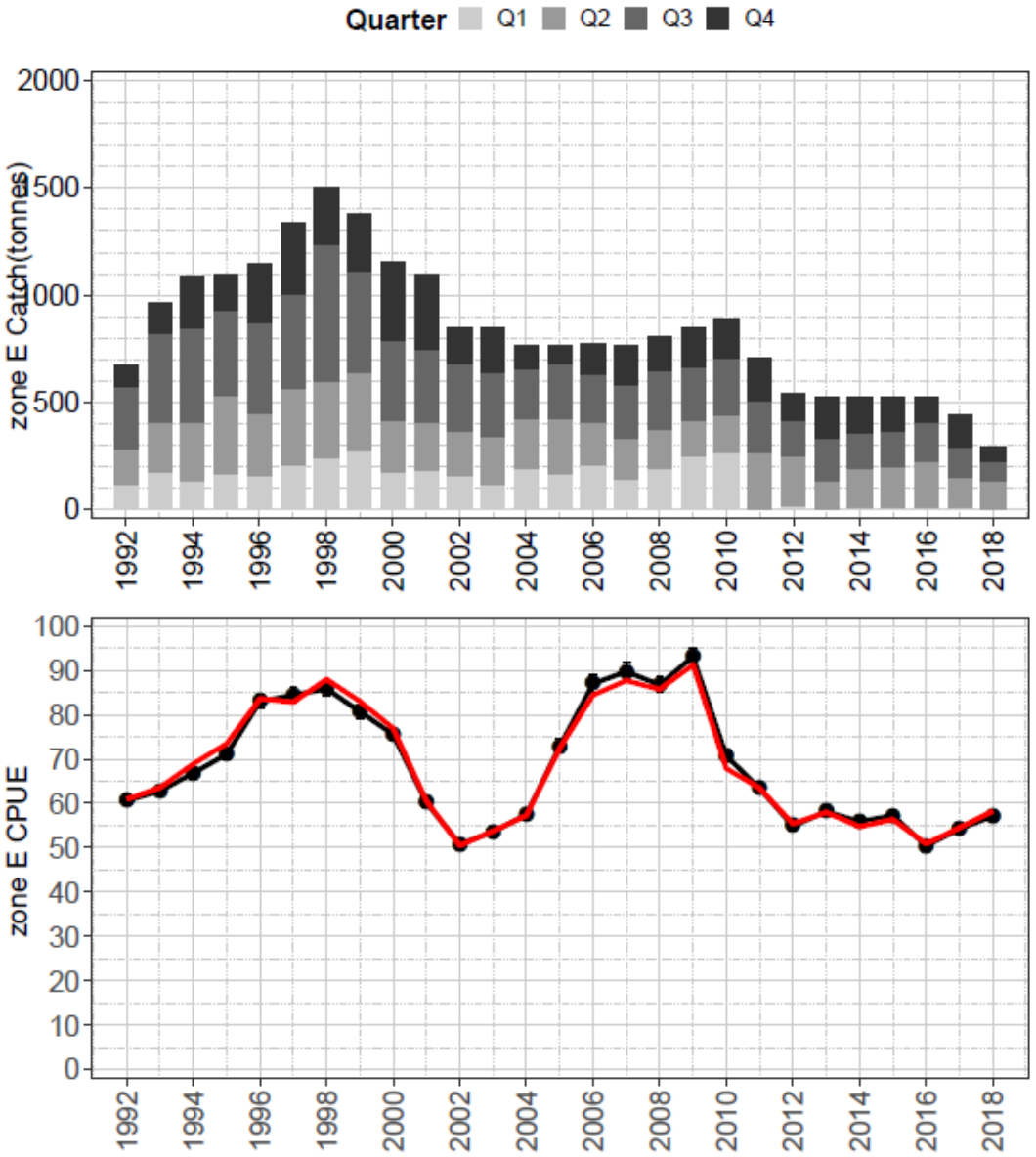


Figure 3.1: *Zone-wide catch and catch rate for Eastern Zone blacklip abalone, 1992–2018. Upper plot: catch (t) by quarter pooled across blocks currently classified as Eastern Zone. Lower Plot: standardised CPUE (black line) and geometric mean CPUE (red line).*

- Rapid increase in catch / effort in 1980s/1990s
- Peaked @ 1500 t in 1998 for whole eastern zone (ie including Acteaons and to SE Cape)
- Declines over last decade
- >90% of the eastern fishery south of Tasman Peninsular (ie ~ 10% in the area currently of concern for barrens)

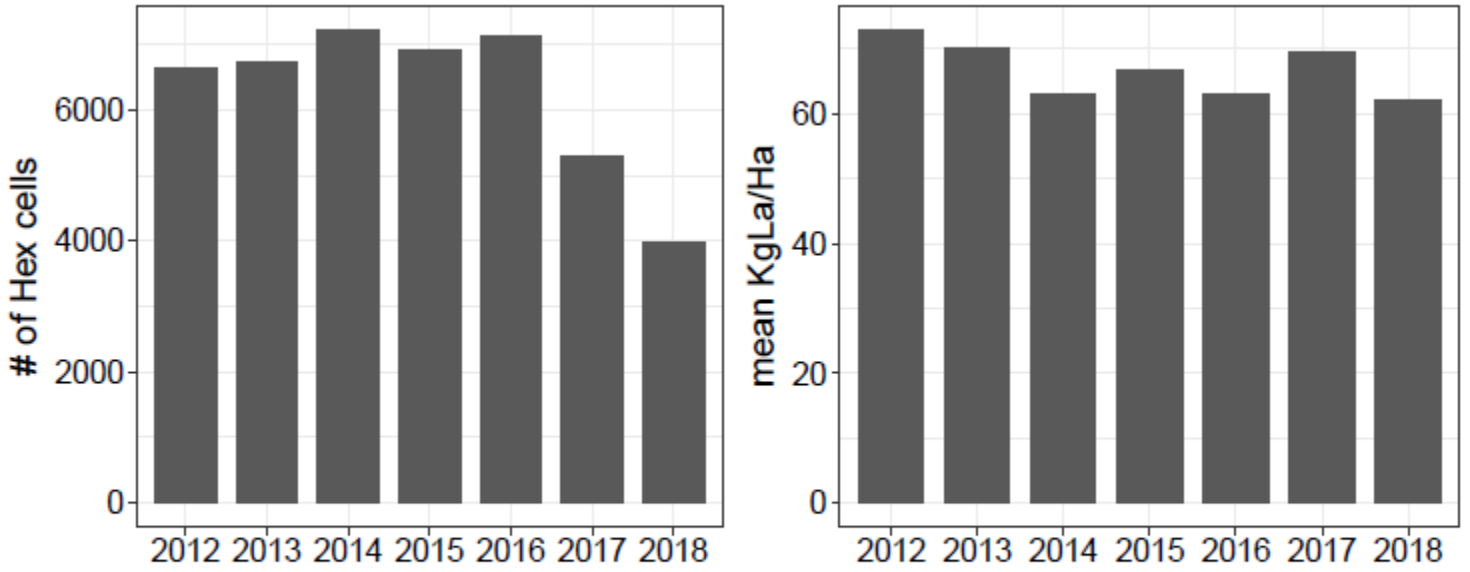


Figure 3.6: *Number of 1 Hectare grid cells where at least 5 minutes of fishing was observed for Eastern Zone blacklip abalone, and the total catch landed divided by the number of hex cells visited as the mean catch landed per hex cell.*

- All commercial abalone divers are GPS tracked
- As the total allowable commercial catch has been cut, they're now visiting few locations
- Catch per hectare is steady

South

Barrens seen

North

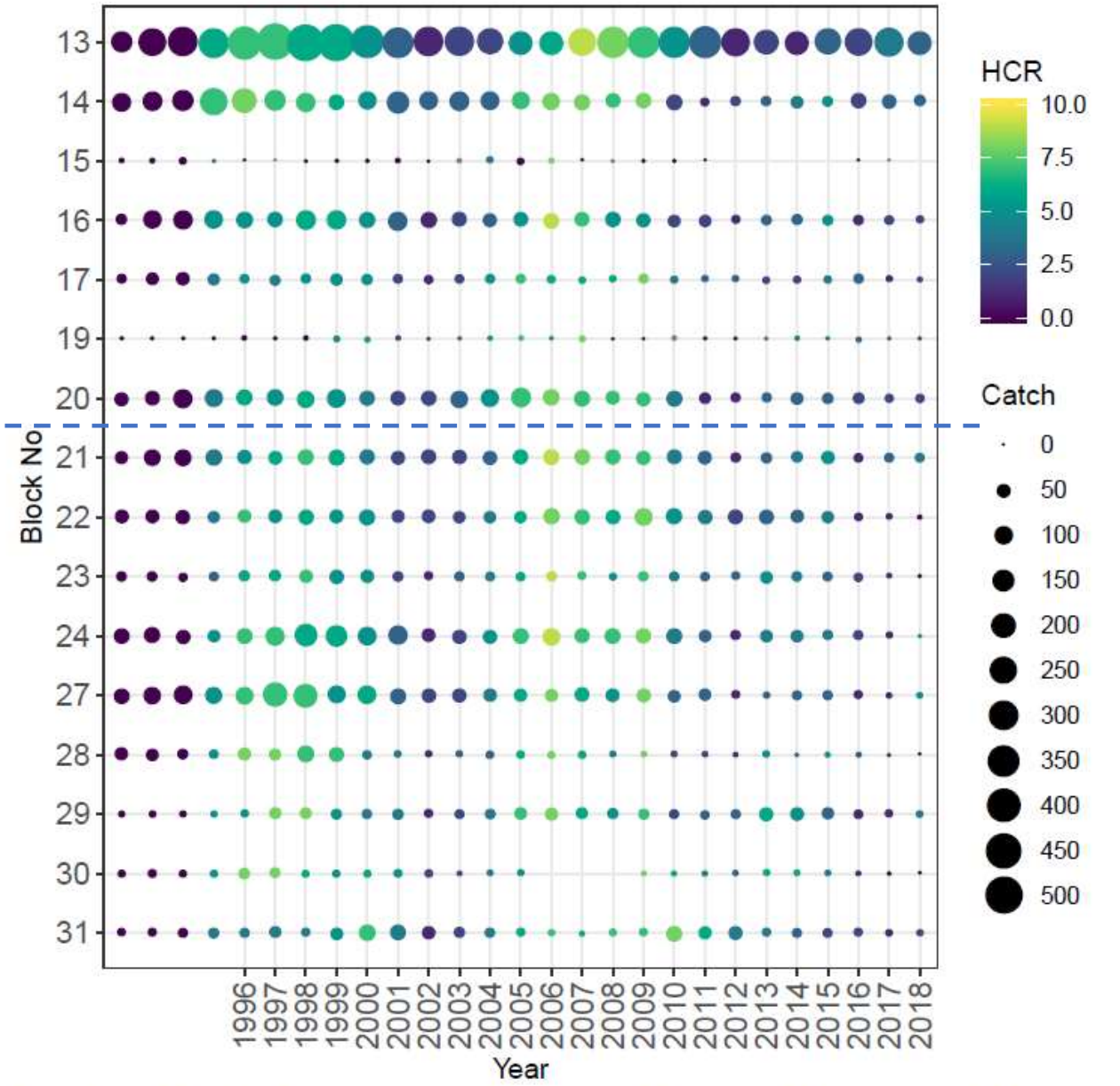
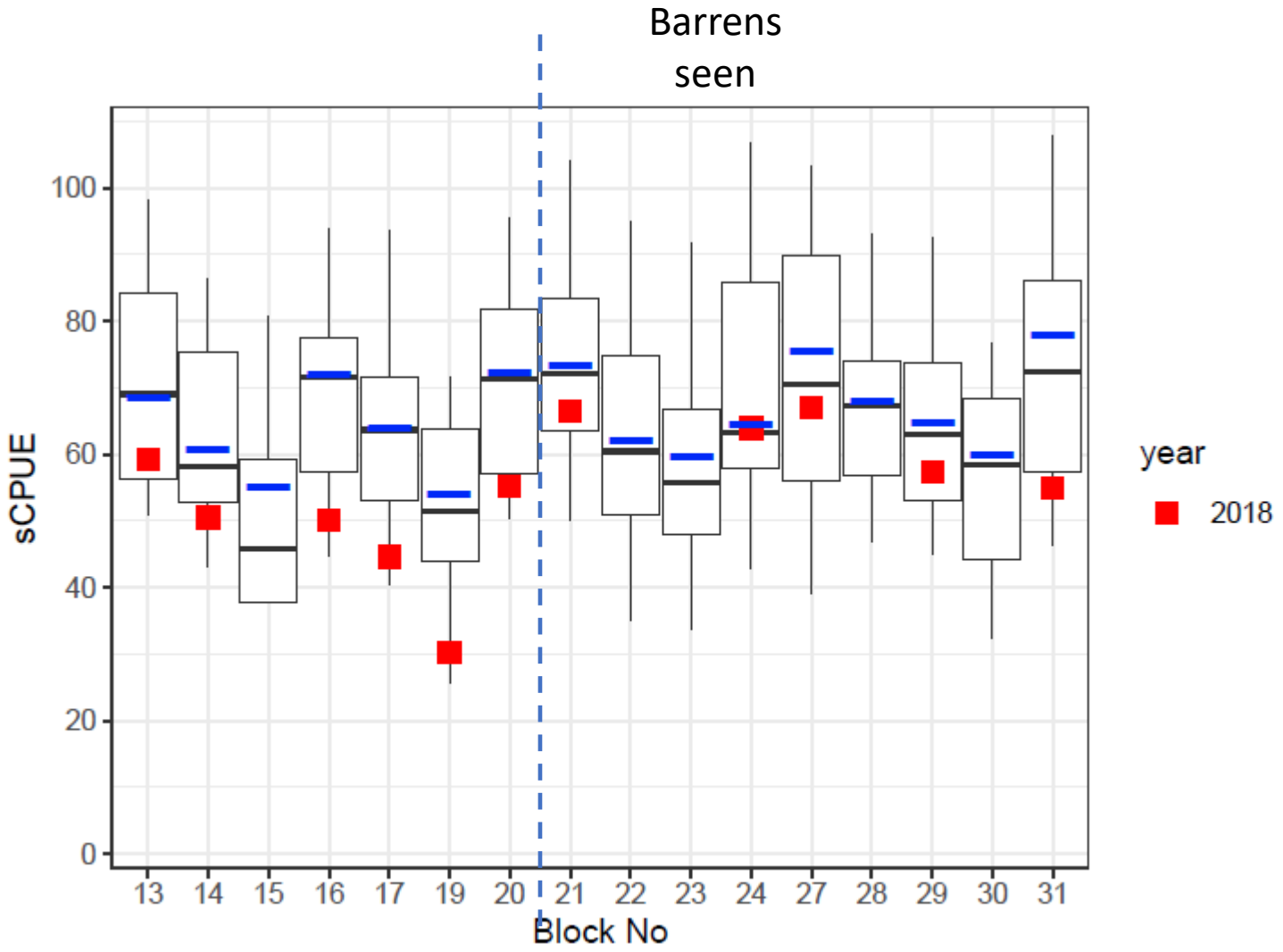


Figure 3.2: *Bubble plot of harvest strategy combined score (bubble colour) and catch (bubble size) for Eastern Zone blacklip abalone.*

- Yellow blocks have indicators of increasing stock abundance, blue have trends of decreasing abundance
- Dot size is proportional to catch
- East coast abalone stocks have been in decline since ~ 2010
- Spatial pattern indicates caused primarily by factor other than barrens
- i.e. catch limit was too high, cyclic down turn in recruitment, heat waves

South → North



- Red squares (2018) are further below historical norms (boxes) in the SE
- Conclusion 1. – the woes of the east coast abalone fishery are not primarily loss of habitat to barrens
- Conclusion 2. – conservative catch setting important regardless of ecosystem change

WHY DO WE HAVE TAC-ITQ MANAGEMENT?

And how do we future-proof it?

By Dr Nick Rayns

FutureCatch

FISHERIES TO THE 1980s

- Fishing gear & technology development
- Markets, refrigeration & transport development
- New deeper water, higher volume fisheries
- The rising cost of investment
- Foreign fishers in Australian waters
- Profit & investment risks due to input control management
- The limits of fisheries resources recognised
- The rise of sustainability as a principle of development
- Stock collapses a regular event

- **Something(s) had to change**.

WHY TAC-ITQS? THE PROS

- Macro changes in global economics – capitalism & free trade was good
- UNCLOS, UNFSA, declaration of 200nm EEZ & foreign fishers leave AFZ
- Development & exploitation of resources was encouraged – risk & ownership issues
- The failure of existing fisheries management approaches – ageing fleets, low investment, annual access rights, poor profits, a ‘produce’ rather than ‘market’ approach
- Fisheries becoming out of step with the rest of the market-based economy
- The unrealised value of natural resources was recognised – so how to take advantage of it?

Some form of long-term security of access combined with a limit on the amount that could be harvested (satisfied sustainability and also created scarcity value)

WHY TAC-ITQS? THE CONS

- The privatisation of access to a public resource
- Windfall gains by current fishers
- Market power – quota aggregation
- Foreign ownership & foreign boats
- The cost of future entry – owner-operator v corporates
- Quota owner versus fisher
- Effects on fishing communities – fewer employed & where are the profits?
- The quota market – transparent or manipulated?
- Some fisheries have been successful under input controls, so why change?

Significant resistance and delay in moving to TAC-ITQ management & some fisheries may not be suited anyway

THE NEW ZEALAND TAC-ITQ EXPERIENCE

- The introduction of TAC-ITQ management in 1986
- Fixed or variable proportions of the catch – a $110M fix
- Monitoring the catch & enforcing ITQs – a $10M fix
- Limits on foreign investment, quota aggregation and minimum holdings
- The Treaty of Waitangi & fisheries – a large transfer of wealth
- Expanding the ITQ system – how many stocks is too many?
- The costs of implementation & maintenance - cost recovery
- **Protecting the rights-based system**
- **All parties failing to listen and adapt to change**
- **Industry feels like it's 'under siege'**

THE AUSTRALIAN TAC-ITQ EXPERIENCE

- 1988 first domestic TAC on Eastern Gemfish
- Commonwealth fisheries ITQs from the early 1990s (not completed until 2011)
- State/NT fisheries ITQs from the late 1990s (still being introduced)
- Decision processes disruptive, costly and lengthy for many fisheries
- Different fisheries rules in each jurisdiction – incl. foreign ownership, quota aggregation & cost recovery
- Fishing rights with various statutory strengths & weaknesses
- Over time fewer on-water participants & more investors (incl. former fishers)
- A greater market focus, but still many producers
- Improved capital value and profitability overall

Where to next?

TRENDS THAT IMPACT ON ITQs

- The (continuing) expansion of what ‘sustainable seafood’ means

- Increasing climate effects on seafood
- Changing community attitudes towards access to natural resources

- The rise of the Chinese market and its future
- The nationalist tide & trade barriers
- Vegetarians, vegans and protein substitutes
- Financial markets, investment & negative interest rates

WHAT SUSTAINABLE SEAFOOD MEANS NOW

- the seafood itself, including how it is killed
- the marine ecosystem, especially protected species
- the seafood supply chain & the welfare of its people
- the welfare of other animals - bycatch
- the community’s demand/right to know about their fish
- carbon footprint & zero carbon seafood.

Do you have good, straightforward answers to what actions you are taking to be sustainable when people ask; that involve you taking some responsibility?

CLIMATE TRENDS & VARIABILITY

- Ocean warming (1+ degree C average to date but regionally quite variable)
- Changes in currents & water-mass movements are significant (strengthening, weakening, seasonal changes)
- Extreme marine events more common (both up and down)

- Stock productivity, range &/or reproductive impacts are already happening and likely to for many more species

Are you monitoring the oceanographic changes in your fishery and modelling future scenarios that enable you to take and/or plan for adaptive action now?

CHANGING COMMUNITY ATTITUDES

- Expect to be able to reasonably access ‘their’ natural resources & for those using it to be transparent in public reporting
- The history of commercial fisheries management is unknown to more than 99% of Australians
- Community issues regarding public resources are often reflected in political positions on those issues
- Social media enables a new set of pathways by which interest groups express views on issues
- Industry has something of a choice about whether to go into a ‘protect’ and/or ‘adapt’ modes of response
- The NZ Our Promise/report card is one way of publicly responding to changing community attitudes, but more is needed

What is your strategy to monitor community trends, objectively analyse which ones matter to your industry, make changes to address them and communicate those back to the community and politicians?

MATTERS FOR CONSIDERATION

- Develop a national strategy to protect commercial fishing rights and recognise the strategy must adapt to always changing circumstances
- Create a public and political narrative about the benefits of your fisheries to the community and why TAC-ITQ fisheries are best-placed to deliver those benefits
- Identify the key risks to your fishing rights and to the extent you can invest in reducing those risks, including gaining statutory strength
- Consider how free you want the quota market to be and what limits you want placed upon it based on a formal analysis of the costs and benefits
- Learn from other sectors, especially water rights, as there are some striking parallels with fishing rights
- Consider an Australian version of the NZ ‘Promise’ and ‘Ocean Bounty’ initiatives to gain public support for who you are and what you do.

THANK YOU & QUESTIONS

Strategies supporting access rights of owner-operators of small-scale fisheries (SSFs) in a neoliberal world

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(1) Recent inspiring developments in British Columbian owner-operator fisheries

- Fisheries Minister Romeo LeBlanc originally brought in fleet separation and owner-operator policies for the under 65 ft. inshore fleet on Canada's east coast in 1970s and 1990s (& PIIFCAF in 2007). Since this was **policy but not law**, violations took the form of trust agreements and controlling agreements and even some ITQs
- LeBlanc's son Dominic, as Fisheries Minister in 2018, proposed that the *Fisheries Act* be amended to entrench these policies into law
- ***The Parliamentary Committee on Fisheries was then intensely lobbied by British Columbia fishermen to extend this policy and law to Canada's heavily ITQed Pacific fisheries.***

…Recent developments in British Columbian owner-operator fisheries

- Young fishermen touched the hearts of Parliamentary Committee which decided to study the issue & then **recommended "made-in-BC" transition to owner-operator** in a May 2019 report, through an Independent Commission on a BC owner-operator policy
- Canadian *Fisheries Act* was amended in June 2019, laying the groundwork for making owner-operator & fleet separation mandatory in Atlantic inshore fisheries & recommending consideration of social & cultural components of ***all*** fisheries, in addition to economic.

What British Columbia example illustrates

- With appropriate leadership, entrenched policies can be challenged!
- ITQs are permits/privileges (not rights) & can be eliminated by policy decisions if the pubic so wills.
- New Zealanders surveyed public opinion Sept 2019: overwhelming support for radical reform of their ITQ system
- Even conservative ideology feels threatened by possible loss of jobs and sovereignty with freely transferable ITQs
- Politicians are touched by youth whose futures are being ruined (e.g., Greta!)

BC/Atlantic Canada exemplify one of 8 possible strategies that are alternatives to ITQs

- (1) State **prohibits access rights** for non-fishermen **[occupational criteria]**
- **Norwegian fleet separation**. Ottar Brox. “battle of Trollfjord”
- These 8 strategies are not mutually exclusive: some include aspects of the others, based on a combination of geographic location, occupation, scale of operations, and political or ecological values such as the wellbeing of local communities and ecosystems
- They are worth considering separately because they show how widespread and varied the alternatives are

Alternatives to neoliberal approaches to access: 8 *facilitating strategies*

- (1) State **prohibits access rights** for non-fishermen
- (2) Local or national institutions **hold & lease out** access rights according to place-based & sustainability criteria
- (3) Local bodies **limit sale or lease of access rights** to certain kinds of buyers (*transferability is limited*)
- (4) State **uses non-market mechanisms to limit & transfer** licenses/quotas (cannot be bought and sold)

…Alternatives to ITQs and neoliberal access control:

- (5) Local governing bodies **exercise conservation rights** by closing local fisheries when stock conditions will not support a fishery (contrary to wishes of the state)
- (6) Successful **resistance** by artisanal fisheries to **invasion & overfishing by larger gear & development** projects
- (7) Alternative marketing strategies by SSFs bypass corporate fish processors: **gain market power**
- (8) State regulation or **re-regulation dampens neoliberal control mechanisms**

(2) Local, state, or national institutions hold & lease out access rights according to place-based & sustainability criteria: *regional & local examples*

- (a) Cape Cod Fisheries Trust (privately funded, regional)
- (b) Licence bank held by 3 BC tribal councils (state funded, regional)
- (c) BC Groundfish License/Quota Bank (NGO funded, regional)
- (d) Thorupstrand Coastal Fishermen's Guild in Denmark (local fishing community) more efficient than trawl fishery (obtains higher value for fish per unit of fuel consumed in fishery + lower discard rate)

… (2) Local, state, or national institutions hold & lease out access rights according to place-based & sustainability criteria: (no funding involved)

- (e) Alaska CDQ Program: national & state allocation of 10% of offshore groundfish ITQs to regional organizations which use lease revenues to fund local fishing licence access
- (f) Namibian government: allocates IQs preferentially to vessels with Namibian ownership & crew
- (g) Canadian gov't re-allocates catch from offshore foreign vessels in EEZ to 3 co-operatives which lease out catch to members.

…State issues IQs based on equity or ecological performance (as license banks do)

- Namibian government leases quota to individuals/companies for set periods; lower fees for vessels carrying many Namibian crew
- Lease fee covers costs of managing this public resource
- Non-market values, which license banks take as principles, show how licensing could be used by government to achieve desired fishing behavior needed for conservation
- Enables fishermen to get fair price because not controlled by processors; avoids hi-priced ITQ leasing, while rewarding conservation practices & local hiring

…More on licence banks/quota banks

- Does not have to cost government anything if it's simply a reallocation of existing privileges (Alaska & Newfoundland examples)
- Some licence/quota banks are licences/quota purchased by local organizations through grants from foundations, etc., and with ongoing fund-raising (e.g., Cape Cod Fisheries Trust)

Non-transferable Individual quotas (IQs) do the job without the problems of ITQ

- Newfoundland fixed-gear halibut fishery since 2013 issues equal IQs to inshore multi-species fishermen if they earn a certain amount in other fisheries (i.e., not opportunists, but serious fishermen).
- Fishermen choose in advance the 2-week period they want to fish, and thus there is no “race”: effort spread out over season
- $200 licence fee pays entire cost of program designed by fishermen, including dockside monitoring: **no cost to government**
- Designed by former DFO economist and fishermen’s union rep, working with SSFs province-wide.

Some European states distribute IQs to Producer Organizations to divide up available TAC

- France uses IQs instead of ITQs to distribute access privileges to regional Producer Organizations.

(3) Local bodies limit sale of access rights to certain kinds of buyers [geographic criteria]

(a) EU local Producer Organizations in many countries only allow sale of IQs to other members of the Producer Organization (regionally organized)

(b) Levelton report (Nova Scotia) recommended **community consultations re who** can receive transferred license

(c) Norwegian farmers won't let farmland be sold to non-farmers [a and b are geographic criteria; c is **occupational**]

(4) States use *non-market mechanisms* to limit and transfer licenses [//Namibia]

***Maine, USA**: lobster licenses owned by state; revert to state on retirement; reissued or terminated if fewer licenses desirable; apprenticeship program to help youth jump the queue, with trap limits

***France**: IQs revert to Producer Organization and are re-allocated to another fisher. Cannot be sold.

(5) Local governing bodies exercise *conservation rights* by closing local fisheries when stock conditions will not support a fishery

- Haida Nation (Indigenous) legally stops Canadian Department of Fisheries (DFO) from opening a herring fishery in an area they co-manage with Parks Canada and DFO
- the existence of a co-management board with a history of successful collaboration in the area was the main reason a judge ruled in favour of Haida, against opening the fishery
- If the herring fishery had been ITQed, Haida success would have been unlikely

(6) successful resistance by artisanal fisheries to *invasion & overfishing by larger gear* & habitat destruction by development projects

- Torres Straits Islanders resisted pressures to move into more "business-like" rock lobster fishing operations, despite intense competition from ITQed fishery; they preferred small-scale, low-overhead
- Eastport Peninsula Lobster Protection Committee in Newfoundland combined interdisciplinary knowledge & support of both university researchers & government scientists with their own knowledge; local fishers developed & promoted a unique approach to lobster conservation based on exclusive harvesting rights & a diverse array of conservation initiatives, including closed areas.
- Both assert local cultural values and resist outside pressure

…(6) successful resistance by artisanal fisheries to invasion & overfishing by larger gear & *habitat destruction by development projects*

- Dominican Republic: university helps legitimize local SSFs banning outsiders using destructive gear & dynamite
- Malawi SSFs on Lake Chiuta: chiefs evict hi-tech gear of outsiders & show that only small gear is appropriate for ecology of lake
- In both Malawi and Dominican Republic, **state contributes no funding but legitimizes locals to evict destructive outsiders**.
- Lummi Tribe in Washington State, US, defeats attempt to build coal port terminal which would destroy its herring and crab SSF // BC (social movements with non-indigenous supporters resist pipelines)

(7) alternative marketing strategies by SSFs bypass corporate fish processors

- ***Direct marketing***: fishermen employ more people per unit of fish sold & get better price for higher quality product
- ***Community Supported Fisheries***: social enterprise that uses market power to support a broader range of benefits
- Accountability to conscientious consumers concerned about labor injustices, overfishing, mislabeling
- Customers pay any sum in advance; informed when fish arrives & choose what to buy & when; learn identity of fisherman. In both cases, fishermen get c.30% higher price

(8) government regulation or re-regulation which dampens neoliberal control mechanisms

- Norwegian pushback against ITQs through proposed constitutional amendments to limit transfer of ITQs to county
- In Iceland, unlike most other countries engaging in such practices, there have been 26 convictions of bankers and financiers since 2010 and the popularity of the Pirate Party in 2016 revealed public anger against government's failure to regulate the ITQed fisheries in the public interest.

The problem: why SSFs tend to get deprived of access rights [paradigm of neoliberal economists]

- ***The Sunken Billions*** 2008 by World Bank & FAO. difference between potential & actual net economic benefits from marine fisheries = USD 50 bn/yr. "by improving governance of marine fisheries, **society could capture a substantial part of this annual economic loss…Excess competition over limited fish resources results in declining productivity, economic inefficiency, & depressed fisher incomes**"
- "Some of the [Icelandic] economists who are responsible for the introduction of the ITQ system did, before the meltdown, quite honestly express[the view] that the privatization of the commons inevitably causes smaller communities to lose out. They even questioned whether fisheries-dependent communities are actually part of the fishing industry proper. **The exclusion of these communities was seen by them to be not just logical, but also justifiable, rational & necessary**"*

…why SSFs tend to get deprived of access rights [paradigm of neoliberal economists]

- Fiona McCormack 2017: ***expropriation of SSFs considered necessary to increase efficiency*** (New Zealand excluded 1500-1800)
- Pinkerton and Davis 2015. ***SSFs in BC deliberately excluded*** in 1969 limited entry program if earned less than $2,500/yr
- Stephen Marglin: artisanal production nearly always considered ***an obstacle to capitalist profit***

…*the problem:* discrepancies in claims that neoliberal policies create incentives to conserve

- ITQs and other neoliberal policies tend instead to have negative effects on incentives to conserve
- incentives that appeal to self-interest are likely to fail when they undermine the moral values that lead people to act altruistically or in other public-spirited ways (Bowles)
- Torres Straits SSFs rejected ITQs because they felt ITQs would make people greedy & undermine community relations
- Icelandic SSFs believed their ITQ system was oriented only toward economic goals & did not protect fisheries resources

What these strategies together illustrate:

- the need for governance informed by thinking beyond the narrow perspective of neoliberal economics – thinking which considers **equitable distribution, legitimacy, the importance of livelihoods, the health of local ecosystems, & many socio-economic, cultural, & ecological issues**
- the thinking behind neoliberal economics is asocial or even anti-social & does not match what has been recorded on the ground by other social scientists, including other economists.
- SSFs can be efficient, effective, sustainable, resilient & serve a more general social purpose of great value to public welfare and to government agencies, one **not** dedicated only to profit making.

We cannot afford to ignore:

- Five of the overall strategies involved **government policies or regulations which directly enabled small-scale fisheries to survive**. At least some government attention or regulation is often required to achieve the broader goals of fisheries management
- The **role of culture** in framing the social construction of particular problems.
- **Social institutions** for regulating fisheries may or may not emerge, depending on:
  - whether or not particular problems are recognized;
  - whether or not those problems make it onto group or institutional agendas

…What these strategies together illustrate:

- the ability of local or regional organizations of small-scale fishers to address difficult challenges to their survival. All of these would have benefitted from government support
- overlap in use of certain strategies: keeping licenses in local areas, keeping licenses affordable, preventing transfer of licenses via the market, allowing only owner-operators to own licenses, asserting local conservation rights to prevent habitat destruction or use of destructive gear, direct marketing to obtain optimum value from fishing, providing loans or support to local small-scale fisheries

…What these strategies together illustrate

- Many countries consider fish a public good to which access is accorded in relation to the benefits accruing to adjacent fishing communities or the nation, as in Namibia. In the Dominican Republic, Lake Chiuta in Malawi, & the Haida in BC, government or the courts played a useful role in recognizing the value of local conservation rights & granted or delegated formal protection against outside fishers under their authority.
- In a neoliberalizing world, the **rights to protect fish habitat & stocks from destructive developments & to prevent complete domination by corporate parties in controlling raw fish markets** could be considered **as important as, or even more important than, access rights.**

…What these strategies together illustrate

- Interdisciplinary knowledge and a mutually-supportive social movement is often built through coalitions between multiple actors who shared intersecting interests in conservation & access rights, as occurred in the Dominican Republic, in Newfoundland, & with the Lummi & their allies in Washington State

…these strategies together illustrate how SSFs contribute to social & ecological welfare

- Small-scale fishers who have gained access rights or privileges through their own struggles have played both ecologically & socially positive roles in local marine or lake ecosystems, & in contributing to the wellbeing of their communities and even their nations.
- This should not be surprising, considering that small-scale fishers are less concerned with private capital accumulation than with food security, livelihoods, & community wellbeing. When they have these, their communities are net contributors to the larger public & ecological welfare, & will seldom be a drain on public resources. They are instead a substantial boon to public welfare which needs to be recognized & protected

KPMG

THE UNIVERSITY OF SYDNEY

Demystifying Chinese Investment in Australia

April 2019

KPMG.com.au

About our reports

KPMG and The University of Sydney formed a strategic relationship to research and publish insights on doing business with Chinese investors. Our first report was launched in September 2011 and this is the fifteenth *Demystifying Chinese Investment* report in our series. This report examines Chinese investment in Australia for the calendar year 2018 and incorporates the latest *Chinese Investors in Australia Survey*. This special edition provides timely, new insights into the perceptions of the Australian investment climate by Chinese investors as well as the key challenges they feel they face in Australia.

The catalyst for our report series was the lack of detailed factual information about the nature and distribution of China's outbound direct investment (ODI) in Australia. Without this information, there is misinformation and speculation. Our reports seek to set the record straight and debunk the myths associated with Chinese investment in this country.

Australia's Prime Minister Scott Morrison (left) and Premier of the State Council of the People's Republic of China Li Keqiang (second right) at a bilateral meeting during the 2018 ASEAN Summit in Singapore, Wednesday, November 14, 2018. (AAP Image)

Methodology

The dataset is compiled jointly by KPMG and The University of Sydney Business School and covers investments into Australia made by entities from the People's Republic of China through mergers and acquisitions (M&A), joint ventures (JV) and greenfield projects. Knight Frank has provided data and analysis on real estate transactions in the 2018 calendar year. 'Real estate' referred to in this report does not include residential apartment and private home sales. The dataset also tracks Chinese investment by subsidiaries or special purpose vehicles in Hong Kong, Singapore and other locations. The data, however, does not include portfolio investments, such as the purchase of stocks and bonds, which do not result in foreign management, ownership or legal control.

Our database includes direct investments recognised in the year in which parties enter into legally binding contracts and if necessary, receive mandatory Foreign Investment Review Board (FIRB) and Chinese Government investment approvals. In certain instances, final completion and financial settlement may occur in a later year.

For consistency, the geographic distribution is based on the location of the head office of the Australian invested company and not on the physical location of the actual investment project. Completed deals which are valued below USD 5 million are not included in our analysis, as such deals consistently lack detailed, reliable information.

Unless otherwise stated, the data referred to throughout this report is sourced from the KPMG/ University of Sydney database, and our previously published reports.[1] The University of Sydney and KPMG team obtains raw data on Chinese ODI from a wide variety of public information sources which are verified, analysed and presented in a consistent and summarised fashion. Our sources include commercial databases, corporate information, and official Australian and Chinese sources including the Australian Bureau of Statistics, FIRB and Ministry of Commerce (MOFCOM) of the People's Republic of China.

Our data is regularly updated and continually revised when new information becomes available. In line with international practice, we traditionally record deals using USD as the base currency. However, since 2015 our reports have used AUD for detailed analysis.

We believe that the KPMG / University of Sydney dataset contains the most detailed and up-to-date information on Chinese ODI in Australia.

1 Includes *Australia & China Future Partnership*, September 2011; *The Growing Tide: China ODI in Australia*, November 2011; *Demystifying Chinese Investment*, August 2012; *The Energy Imperative: Australia-China Opportunities*, 25 September 2012; *Demystifying Chinese Investment in Australia*, March 2013; *Demystifying Chinese Investment in Australian Agribusiness*, October 2013; *Demystifying Chinese Investment in Australia*, March 2014; *Demystifying SOE Investment*, August 2014; *Chinese Investors in Australia Survey*, November 2014; *Demystifying Chinese Investment in Australia*, May 2015 Update; *Demystifying Chinese Investment in Australia*, April 2016; *Demystifying Chinese Investment in Australia*, May 2017; *Demystifying Chinese Investment in Australian Healthcare*, January 2018 , *Demystifying Chinese Investment in Australia*, June 2018.

Key findings

Chinese investment in Australia declined by

37.6%

from USD 10 billion in 2017 to USD 6.2 billion in 2018.

In AUD terms the rate of decline was

36.3%

from **AUD 13 billion** in 2017 to **AUD 8.2 billion** in 2018.

The rate of decline has accelerated since 2017 and is now closer to the trend observed in the United States and Canada.

Chinese ODI dropped by

83% & 47%

in the United States and Canada respectively in 2018

Private companies accounted for

87%

of deal value and over 92% of deal volume with an overall trend towards smaller sized deals.

State-owned enterprise investment in Australia contributed only

8%

in deal volume and **13%** of deal value in 2018.

Healthcare was the most popular sector for Chinese investors, attracting

42%

of total investment in 2018 and maintaining the growth trend of previous years.

Commercial real estate fell to second position with

35.8%

of total value.

New mining investment has **dropped sharply** in 2018 after a big year in 2017.

While global foreign direct investment (FDI) in 2018 **declined by 19%** to USD 1.2 trillion, Chinese global outbound direct investment actually **grew by 4.2%** in 2018 to reach USD 129.8 billion

Survey respondents also confirmed it's getting **harder to get capital out of China**, there are challenges in raising capital in Australia and there is a deteriorating outlook for revenue and profit growth in 2019.

The *Chinese Investors in Australia* Survey revealed Chinese executives still see Australia as a **relatively attractive place** to invest with an improving political climate and there has been a slight increase in their sense of feeling welcome.

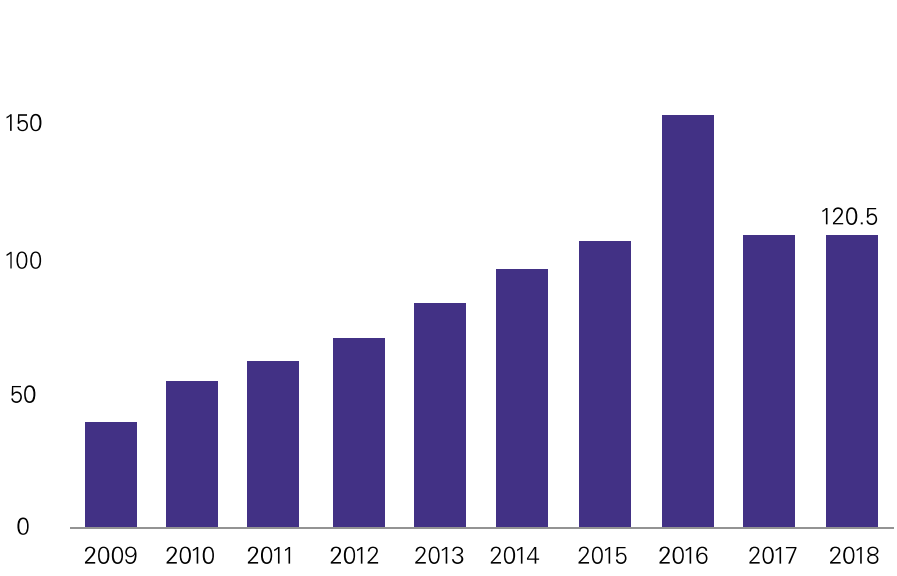
Global trends and context for Australia

2018 – A year of uncertainty

2018 was a year of uncertainty in global economic affairs amidst slower global growth, decline of global foreign direct investment (FDI) and general apprehension about worsening conditions for international business. Preliminary UNCTAD figures confirm concerns about deglobalisation. Global foreign direct investment (FDI) in 2018 declined by 19 percent to USD 1.2 trillion, down from USD 1.5 trillion in 2017. The downturn in global FDI has affected most developed countries. Europe experienced the sharpest decline in total inbound FDI with 73 percent, whilst the US experienced an 18 percent decrease. Australia has done comparatively well with a 39 percent[2] increase in total global inbound FDI from all foreign companies.

China remains a major global foreign investor, with the latest official figures showing that in 2018 China's ODI actually grew 4.2 percent from a year earlier to reach USD 129.8 billion in 2018. This includes USD 120.5 billion of non-financial investment, which increased by 0.3 percent, and USD 9.3 billion of financial ODI, which increased by 105.1 percent[3]. Chinese non-financial ODI in 56 countries along the 'Belt and Road' rose by 8.9 percent from a year earlier to USD 15.4 billion.

Chinese outbound direct (non-financial) investment 2009-2018 (USD billion)



Source: MOFCOM

2 https://unctad.org/en/pages/newsdetails.aspx?OriginalVersionID=1980&Sitemap_x0020_Taxonomy=UNCTAD%20Home;#1618;#Investment%20Trends%20and%20Policies%20Monitors;#6;#Investment%20and%20Enterprise.

3 http://english.mofcom.gov.cn/article/newsrelease/policyreleasing/201901/20190102829745.shtml

Chinese direct investment in the United States continued a steep decline, with data compiled by Rhodium Group showing that it reached USD 4.8 billion in 2018, down from USD 29 billion in 2017, and from USD 46 billion in 2016[4]. Chinese investment into Canada also sharply fell by 47 percent from CAD 8.4 billion (USD 6.2 billion) in 2017 to CAD 4.4 billion (USD 3.4 billion) in 2018[5].

In Europe, overall Chinese direct investment fell after the closure of several mega deals in prior years (e.g. Syngenta, Switzerland). However, major European economies continued to attract Chinese investment, such as France (USD 1.8 billion, up 86 percent), Germany (USD 2.5 billion, up 34 percent), Spain (USD 1.2 billion, up 162 percent), Sweden (USD 4.1 billion, up 186 percent), while smaller Eastern European economies such as Hungary, Croatia and Poland experienced even higher growth rates. The United Kingdom registered the highest investment of any European country with deals worth a total USD 4.9 billion[6].

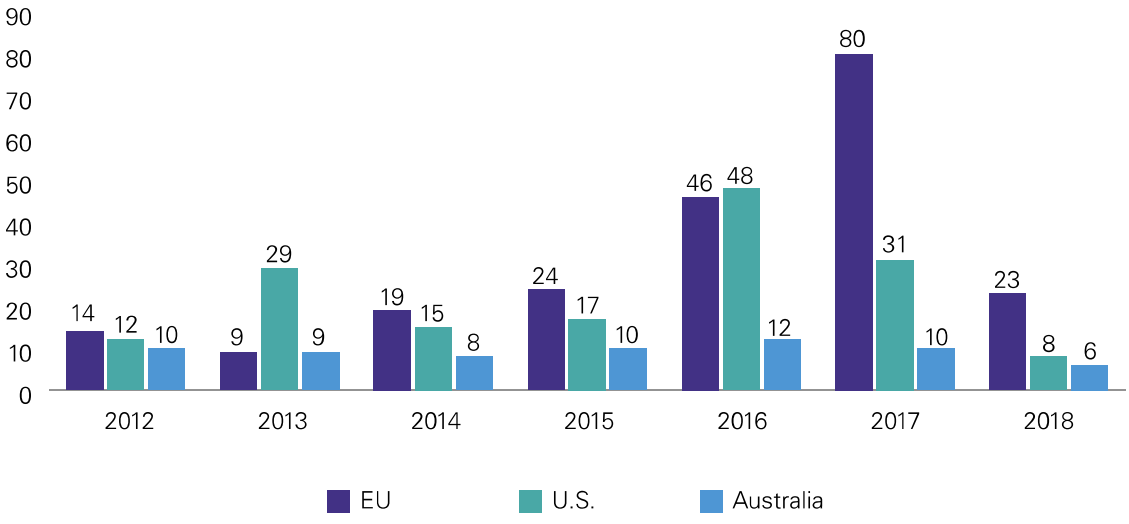
What is causing this change?

The overall trend of Chinese overseas investment is changing due to policy changes in China and in some developed markets.

Domestically, and in line with its goal to reduce financial risks, the Chinese Government started implementing a series of measures since early 2017 to ensure that overseas investments by Chinese firms: (i) are not speculative; (ii) are undertaken after fully considering major potential risks; and (iii) are consistent with the company's strategy and the country's socio-economic development goals. As part of these efforts, authorities released a list specifying the categories of overseas investments that will be encouraged, restricted and prohibited.

Externally, several jurisdictions have made and/or are considering making changes to their foreign investment review powers, which means that investments in some sectors may be limited or prohibited altogether.

Value of completed Chinese FDI transactions (2012 – 2018) USD billion



Source: https://rhg.com/research/chinese-fdi-in-north-america-vs-europe/: KPMG & University of Sydney

4 https://rhg.com/research/chinese-investment-in-the-us-2018-recap

5 https://cloudfront.ualberta.ca/-/media/china/media-gallery/research/tracker/2-year-end-review-2018.pdf ; (CAD to USD conversion by https://www.irs.gov/individuals/international-taxpayers/yearly-average-currency-exchange-rates)

6 https://www.bakermckenzie.com/en/newsroom/2019/01/chinese-fdi

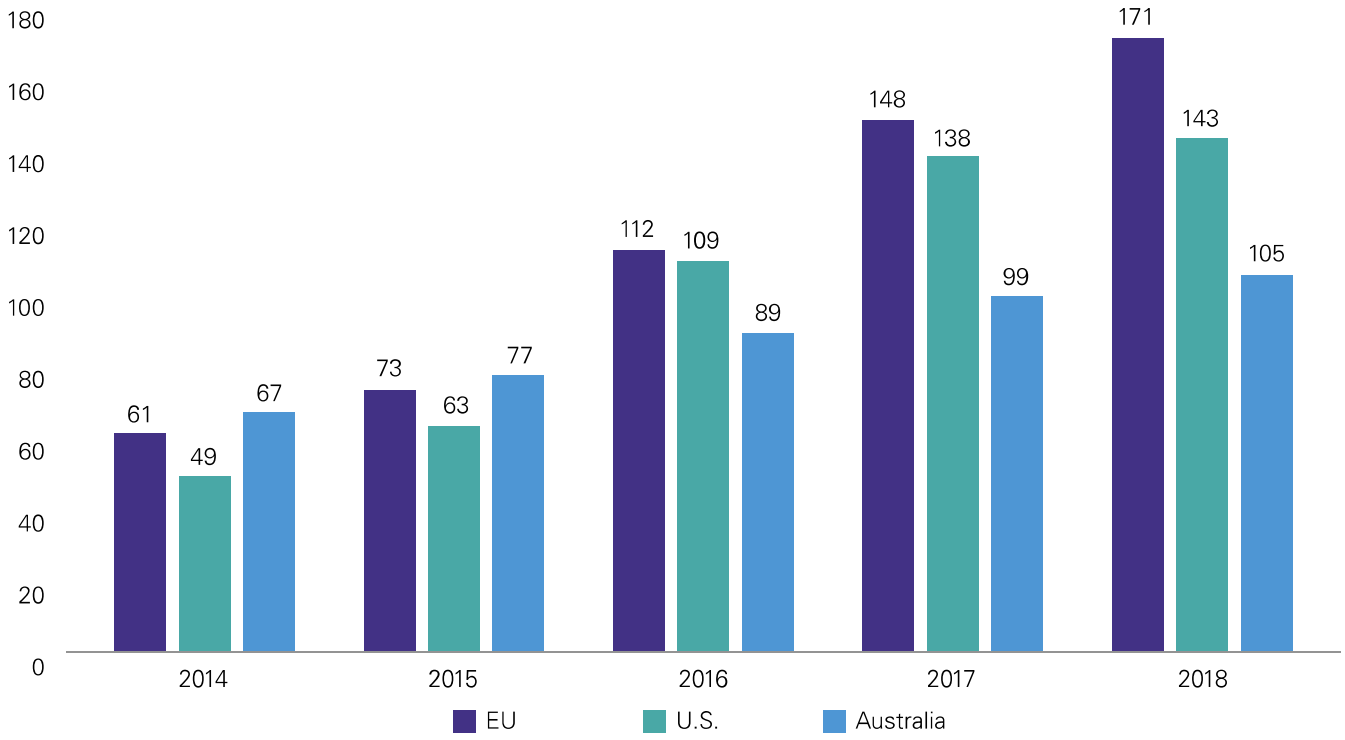
Recent initiatives by the Chinese Government to regulate global ODI

Encouraged overseas investment	• Overseas infrastructure investment that facilitates the 'Belt and Road' construction and the interconnectivity of peripheral infrastructure; • overseas investment to promote the exporting of advanced capacity; • high-quality equipment and technical standards; • cooperation with foreign high-tech and advanced manufacturing enterprises; • the establishment of R&D centres abroad; • participation in the exploration and development of overseas oil and gas, minerals, and other energy resources; • mutually beneficial and win-win investment cooperation on agriculture, forestry, animal husbandry, fishery and other areas; • overseas investment in business and trade, culture, logistics and other areas of services in an orderly manner; and • establishment of offshore branches and service networks by qualified financial institutions.
Restricted overseas investment	• Overseas investment in sensitive countries and regions where China has not established diplomatic ties, are at war, or are restricted by bilateral or multilateral treaties or agreements of which China is a signatory; • overseas investment in real estate, hotels, cinemas, entertainment and sports clubs; • overseas establishment of equity investment funds or investment platforms without actual, specific industrial projects; • overseas investment using outdated production equipment that does not meet the technical requirements of the investment recipient country, and; • overseas investment that does not meet the environmental protection, energy consumption and safety standards of the recipient country.
Prohibited overseas investment	• Overseas investment involving the export of core technology or product from the military industry without the approval of the government; • overseas investment involving the use of technology, techniques or products that are banned from export by the government; • overseas investment in industries such as gambling and pornography; • overseas investment that is banned by international treaties concluded with or signed by China, and; • other overseas investments that endanger or may endanger national interests and national security.

Going forward, we expect continued Chinese regulatory oversight of Chinese overseas investment and a trend towards increased foreign investment review in other jurisdictions will impact the sector and geographic mix of China's ODI.

Source: China Outlook 2018, KPMG's Global China Practice, https://assets.kpmg/content/dam/kpmg/cn/pdf/en/2018/03/china-outlook-2018.pdf. Summarized from 'Opinions on Further Guiding and Regulating the Direction of Overseas Investments', State Council of the People's Republic of China, 18 August 2017, http://www.gov.cn/zhengce/content/2017-08/18/content_5218665.htm

Accumulated Chinese investment in Australia, USA and EU 2014 – 2018 (USD billion)



Source: KPMG & University of Sydney, Rhodium, Merics[7], Baker McKenzie[8]

7 https://www.merics.org/en/papers-on-china/chinese-investment-europe-record-flows-and-growing-imbalances

8 https://www.bakermckenzie.com/en/newsroom/2019/01/chinese-fdi

Australian Foreign Minister Marise Payne, left, and Chinese Foreign Minister Wang Yi reach to shake hands at the end of a joint press conference at the Diaoyutai State Guesthouse in Beijing. (AP Photo/Mark Schiefelbein)

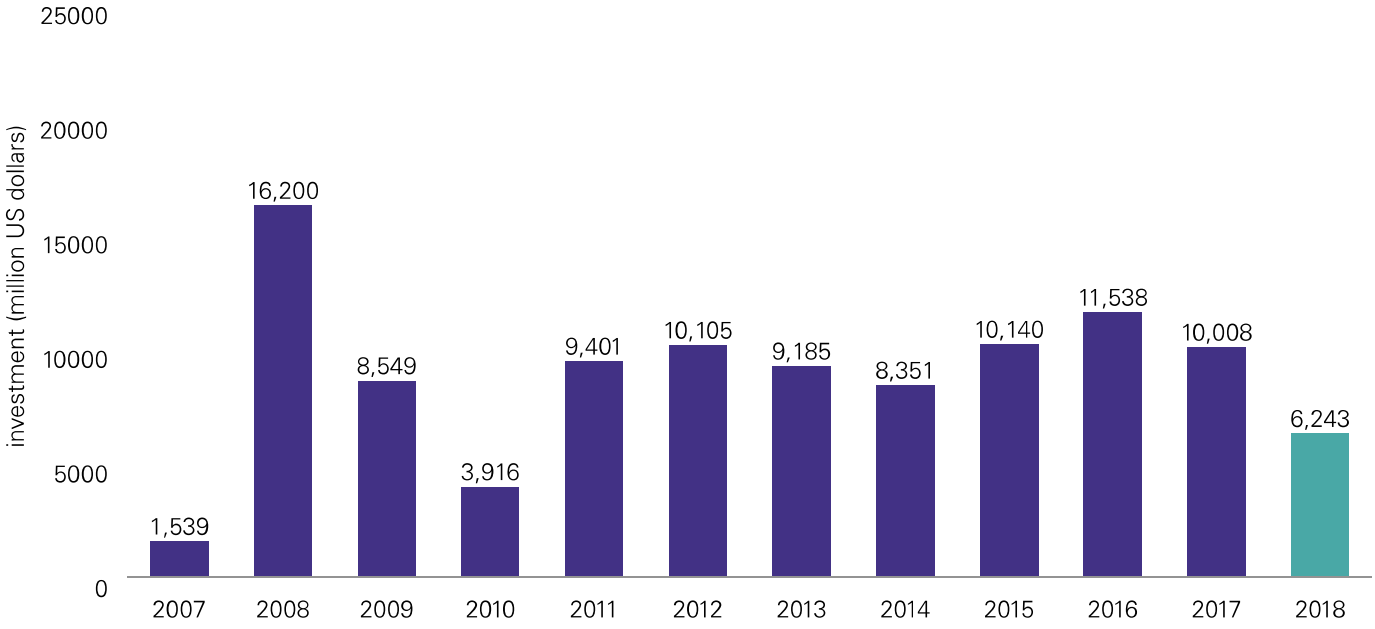
Overview of Chinese investment in Australia

Chinese investment in Australia declined by 37.6 percent in USD terms or 36.3 percent in AUD terms in 2018, from USD 10 billion in 2017 (AUD 13 billion) to USD 6.2 billion (AUD 8.2 billion).

This annual result (in USD terms) brings Chinese ODI back to the second lowest level since the mining and gas driven investment peak year of 2008.

The number of transactions has also decreased 28 percent for the first time since 2011. Based on our data, 74 transactions were completed in 2018, compared with 102 in 2017.

Chinese ODI to Australia by value 2007 – 2018 (USD million)



Source: KPMG/Sydney University database

Note: Prior year annual figures are updated with the latest information as new information becomes available and as required

Selected major Chinese investments in Australia in 2018

Target Name	Acquirer Name	Industry Sector	State	FINAL Value (AUD million)
Sirtex Medical (Liver Cancer treatment device)	CDH Investment, China Grand Pharma	Healthcare	NSW	1,900
Life-Space Group	By-Health	Healthcare	VIC	702
Hony's shares in Santos 4.8%	ENN	Energy (oil and gas)	SA	619
Nature's Care	China Jianyin Investment Ltd (JIC) and Tamar Alliance Fund	Healthcare	NSW	600
MMG Lane Xang Minerals Limited (90% Stake)[1]	Chifeng Jilong Gold Mining Co Ltd	Mining	VIC	375
Cattle Hill Wind Farm of Goldwind Australia	Power China	Renewable Energy	TAS	330[2]
RCR O'Donnell Griffin Rail	John Holland/CCCI	Infrastructure	NSW	100

Source: *The KPMG/Sydney University database*

Note: *[1] Mine assets are located in Laos, MMG Australia was the vendor*

[2] Total project investment

Chinese investment in Australia by industry

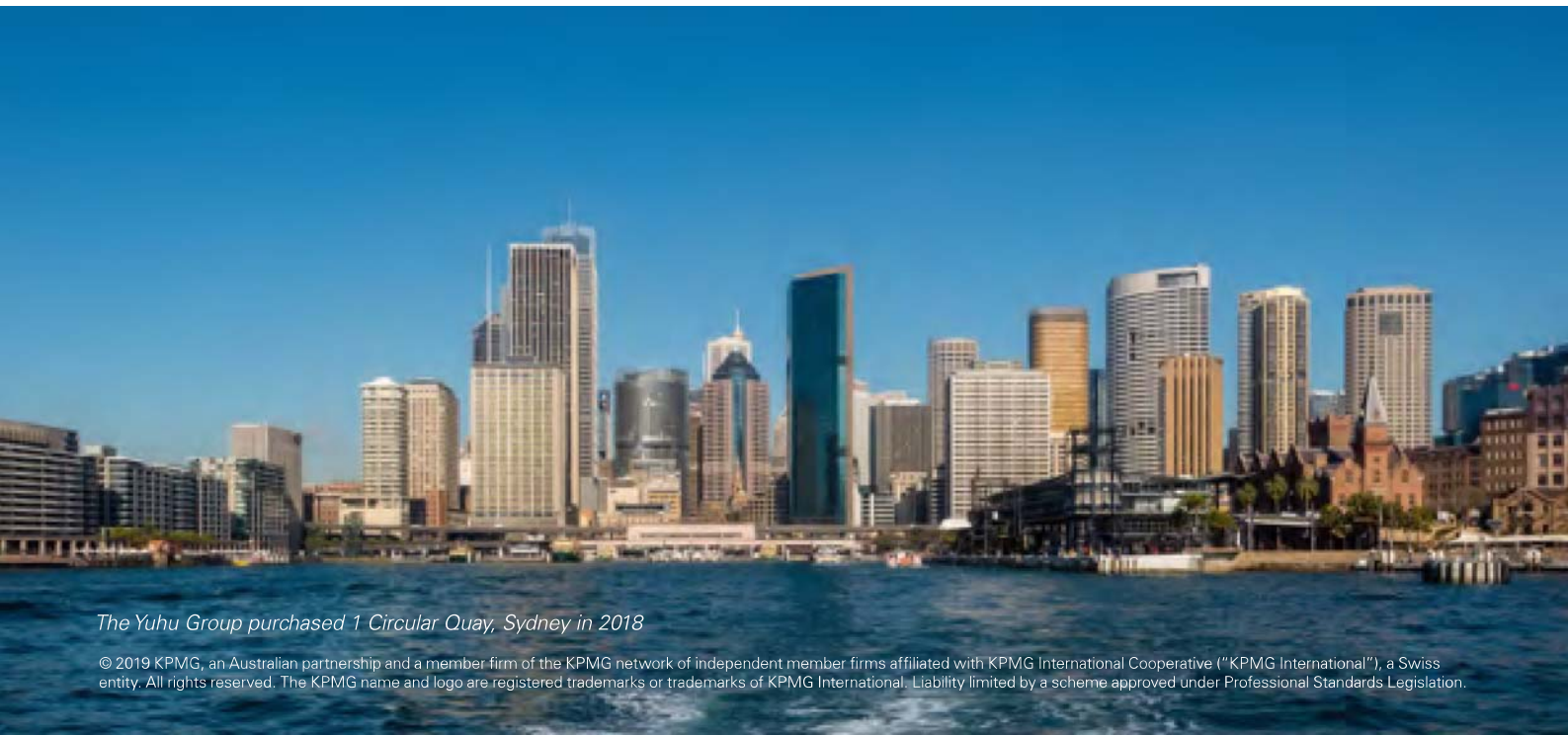
The continued reduction in Chinese investment in Australia reflects a combination of factors, including changing drivers of Chinese ODI such as an increased demand for outbound investment in high value-added sectors to 'bring back' expertise and high-quality brands and products that can support China's industrial upgrading and meet the evolving demands of Chinese middle class consumers.

As part of this trend, large strategic investments in resources, energy and infrastructure have given way to smaller investments, primarily by private investors, into projects that are tactical and directly linked to Chinese consumer market demand. This is particularly evident in the targeting of the Australian healthcare sector by Chinese investors. Investment in Australian healthcare providers helps alleviate the absence or shortage of quality care facilities in China, for example reproductive care offered by Genea Limited and liver cancer treatment by Sirtex.

Real estate investment in 2018 was characterised by risk minimisation and declining deal sizes. Analysis by Knight Frank shows that two thirds of all commercial real estate transactions were in the AUD 5 to AUD 50 million range. Considering that the two largest transactions by Yuhu Group accounted for one third of the value of all commercial real estate investment, there is a distinct focus on smaller transactions by private sector investors.

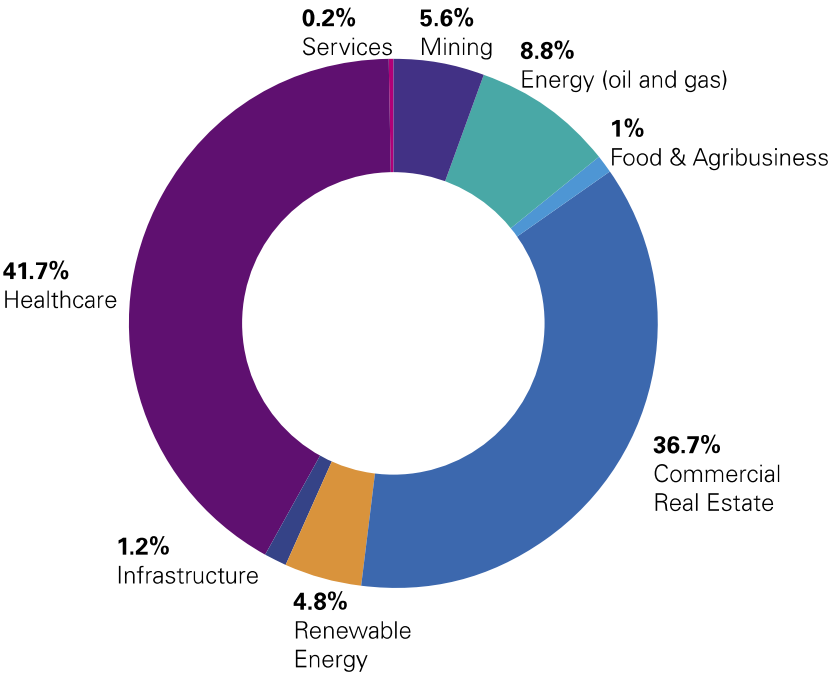
Mining investment has likewise shifted towards lower deal sizes, with the only large deal in 2018 being the acquisition of a majority stake in a mining asset in Laos which was owned by MMG Australia. Investment in lithium mining, while low in 2018, is driven by strong market demand in China and globally. This trend is likely to continue thanks to Australia's status as the major global lithium supplier.

There were no major 2018 investments in areas such as energy (oil and gas), infrastructure and construction, food and agribusiness and renewable energy.



The Yuhu Group purchased 1 Circular Quay, Sydney in 2018

Chinese ODI by Industry in 2018 (percentage of total)



Source: The KPMG/Sydney University database

Chinese investment in Australia by industry 2018

Industry	Value (AUD million)	% of 2018 total	Change in % from 2017
Healthcare	3,436	42%	111%
Commercial Real Estate	3,027	37%	-31%
Energy (oil and gas)	726	9%	295%
Mining	464	5%	-90%
Renewable Energy	395	5%	217%
Infrastructure	100	1%	-79%
Food & Agribusiness	85	1%	-92%
Services	11	0%	-96%
Total	8,244	100%	

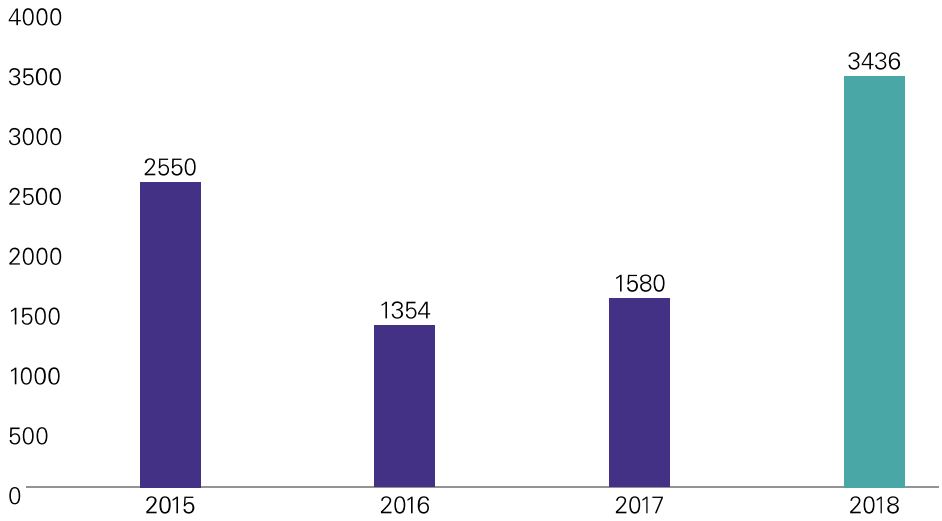
Source: The KPMG/Sydney University database

Healthcare

Chinese investment into the healthcare sector totalled AUD 3.4 billion, which represented a 111 percent increase over 2017. After a steady growth trajectory since 2015, healthcare has become the biggest sector receiving Chinese investment in 2018.

We have seen high levels of investments from China into Australia's health sector since 2015. 2015 was the second highest year of investment into this sector at AUD 2.6 billion (AUD 1.6 billion in 2017 and AUD 1.4 billion in 2016).

Chinese investment in Australian healthcare (AUD million)



Source: The KPMG/Sydney University database

2018 saw China's first major deal in medical devices (into Sirtex Medical).
SIR-Spheres Y-90 resin microspheres are released into the arterial blood supply. Copyright Sirtex Medical

In 2018, eight transactions were recorded, targeting healthcare products (AUD 1.3 billion), healthcare devices (AUD 1.9 billion) and healthcare services (AUD 0.23 billion). The investment into Sirtex Medical is the first major deal in medical devices. As noted in our 2018 health sector report, Chinese investors are primarily interested in scalable medical services and healthcare products.[9]

Three mega deals (>AUD 500 million) were recorded during the year, from CDH Investment and China Grand Pharm into Sirtex Medical, By-Health into Life-Space Group and China Jianyin's Investment into Nature's Care. There were five other significant deals completed in 2018 including a Chinese/Hong Kong consortium investing into IVF and fertility clinic group, Genea. The largest deals were located in NSW and VIC. Both state-owned and private investors were active in this sector with private investors completing the largest two deals in 2018.

All 2018 investors in healthcare are new to this sector in Australia. Only one investor had another minority investment in a food business in Australia, dating back to 2011.

Major Chinese investments in Australian healthcare in 2018

Target Name	Acquirer Name	Service/Products	State	Value (AUD million)
Sirtex Medical	CDH Investment and China Grand Pharma	Liver Cancer treatment device	NSW	1900.00
Life-Space Group	By-Health	Probiotic products	VIC	702.00
Nature's Care	China Jianyin Investment and Tamar Alliance Fund	Health supplements	NSW	600.00

Source: The KPMG/Sydney University database

Investment into Australian healthcare is driven by the following factors:

- The attractiveness of the 'Australia package': the combination of transferable management know-how, high-level care service experience, state of the art technology, the 'clean, green and healthy' image of Australian products, and the attraction of Australia for Chinese health tourism.
- The high quality of specialised services in Australia that are replicable in the Chinese market and can be customised and scaled up to fit the specific needs of China's middle to high-end consumer markets.
- The development of cross-border e-commerce which further enhances the growth in demand within the Chinese market for high quality nutritional supplements.
- Synergies with China consumer growth markets. Having a 'China Story' with a link back to Chinese domestic demand remains a key theme driving Chinese investor decisions.

Chinese investors interested in Australia's healthcare sector include specialised healthcare providers, pharmaceutical companies expanding into service provision, private equity investors, and other financial and insurance providers.

Unlike in previous years, there was no recorded health sector investment by traditional real estate companies looking to diversify into healthcare in 2018. Instead, we observed Chinese companies partnering with other Chinese companies that have healthcare experience and capabilities to invest in Australia. These Chinese companies are now more internationally experienced and are looking globally to upgrade their expertise to meet Chinese domestic demand.

9 Demystifying Chinese Investment in Australian Healthcare, January 2018

Real Estate

Knight Frank

Data and analysis contributed by Knight Frank Australia

Analysis by Knight Frank Australia

Chinese capital outflows into global real estate totalled USD 22 billion in 2018, a significant decline on 2017 levels partly reflecting the slowdown in the Chinese economy and the ongoing impact of domestic policy developments directed at tightening the government's oversight on investments by Chinese firms targeting offshore real estate assets. Chinese investment was more focused closer to home with Hong Kong accounting for 43 percent of total capital outflows, while the United States remained a popular destination for investment, making up 26 percent. Australia accounted for 11 percent of total investment in 2018, roughly in line with the share in 2017. Investment in the United Kingdom, one of the most popular destinations for Chinese investment in 2017, declined to 5 percent of the total. Outside of Hong Kong, investment in other major markets in Asia such as Japan and Singapore also fell.

Chinese investment into Australian real estate (excluding residential dwellings) was AUD 3 billion, down from 2017 levels. Total transaction value was driven by Yuhu Group's AUD 1.1 billion acquisition of Dalian Wanda's property assets in Australia – the One Circular Quay Development in Sydney and the Jewel Resort Site on the Gold Coast — accounting for 37 percent of total investment from mainland China in 2018.

By sector, mixed use development accounted for 40 percent of total investment inflow and was driven by the Yuhu acquisition. Investment in the office sector made up 31 percent of the total, supported by Zone Q's acquisition of 55 Clarence Street. Residential development sites continue to account for a significant share of investment. The industrial sector made up a negligible share of transaction value in 2018, although ESR's pending acquisition of Propertylink, if approved by shareholders, will boost investment in the sector in 2019.

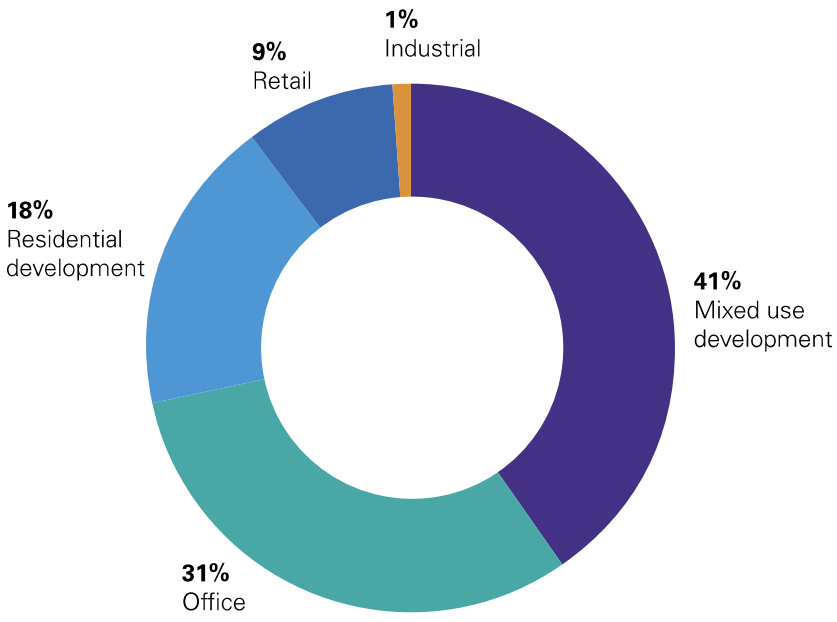
Outside of a couple of large deals, Chinese investment continued to be mainly directed towards smaller acquisitions. Two-thirds of the total number of transactions occurred in the AUD 5 million to AUD 49 million price bracket, while 19 percent of acquisitions were between AUD 50 million and AUD 99 million. The shift towards smaller transactions partly reflects the ongoing impact of measures to limit capital outflows from China.

NSW remains a key destination for Chinese capital, although investment flows were more geographically diversified than in 2017. NSW accounted for 52 percent of total investment inflow in 2018, while Victoria made 34 percent of the total. Eight of the top 10 transactions occurred in Sydney and Melbourne. Queensland's share of total investment was 11 percent, driven almost entirely by Yuhu's acquisition of the Jewel Resort Site on the Gold Coast. While Sydney and Melbourne are expected to remain key destinations for Chinese capital, improving occupier market conditions and relatively attractive yields in Brisbane and Perth will make these cities increasingly attractive for Chinese investors seeking to diversify their property investments.

Top real estate transactions for 2018

Property	Location	Type	Purchaser	AUD million
One Circular Quay Development	Sydney	Mixed use development	Yuhu Group	804
Jewel Resort Site	Gold Coast	Mixed use development	Yuhu Group	315
55 Clarence Street	Sydney	Office	Zone Q	256
187 Thomas Street	Sydney	Office	Greaton Group	146
The Victorian Police Centre	Melbourne	Office	Zone Q	125
China Aoyuan Yarrawa Road	Wingecarribee	Residential development	China Aoyuan Properties	100
Park Sydney	Sydney	Retail	Golden Horse Nine Dragons	100
Jenkins Orchard	Melbourne	Mixed use development	Nan Xin Investment Pty Ltd	99
750 Craigieburn Road East	Melbourne	Residential development	Landream	90
353–383 Burwood Highway	Melbourne	Office	Xin Hai City (Forest Hill) Pty Ltd	89

Real estate investment share by sector



Source: Knight Frank Research; RCA

Energy (oil and gas)

The oil and gas sector recorded three completed deals in 2018 with a total value of AUD 726 million, accounting for 9 percent of the total investment from China. While this represents a 295 percent increase from 2017, it was primarily driven by ENN's acquisition of more shares in Santos for AUD 619 million. There were two smaller scale investments into Queensland and Western Australia. This follows the trend in recent years as investments into this sector have remained below 10 percent of total investment inflow.

Mining

In 2018, mining as a sector accounted for 5.6 percent of the total Chinese investment inflow with five mining deals totalling AUD 464 million, a decrease of over 90 percent from 2017. This brings Chinese mining investment in Australia back to 2016 levels after a peak in 2017 driven by Yancoal's AUD 3.4 billion acquisition of Rio Tinto's thermal coal assets. The only large sized deal in 2018 was MMG Limited (MMG) selling its 90 percent interest in Lane Xang Minerals which owns the Sepon mine in Laos PDR, to Chifeng Jilong Gold Mining Co Ltd (Chifeng), for AUD 375 million. Other mining investments were primarily related to gold projects in WA.

While China's focus on improving efficiencies and environmental quality sustains demand for higher grade Australian iron ore and coal, there has been a reduction in Chinese investment in the traditional mining sector, reflecting a correction in supply and demand imbalances.

Chinese investment interest in lithium mining continues as Australia remains the dominant raw material supplier for global battery production for electric cars and other purposes. Lithium investment has predominantly been based in Western Australia.

Lithium ore moving along a conveyor belt.

Case study: Mining

Lithium processing by Tianqi Lithium secures Australia's place in global new battery energy markets

Tianqi Lithium is an example of a new generation of Chinese investment in Australia that is directly tied to the fast growing global lithium battery market. The AUD 700 million investment by Tianqi to build a lithium hydroxide processing plant in Western Australia is creating a new lithium industry in Australia. By choosing to process in Australia, Tianqi's investment generates higher value-add for the Australian economy and drives deeper integration, employment creation and more localised economic activities in regional Australia.

Tianqi is a 51 percent majority partner in Talison Lithium — a joint venture company with US lithium company Albemarle — which owns the Greenbushes mine in Western Australia, the world's largest lithium mine.

"Australia is a major supplier of lithium resources, with around 50 percent of the world's lithium sourced from Western Australia. About 80 percent of the world's lithium mineral processing takes place in China at the moment." said Phil Thick, General Manager of Tianqi Lithium Australia, the local subsidiary of Tianqi Lithium.

Tianqi, which has three lithium processing operations in China, made a strategic decision in 2016 to diversify lithium processing away from China and to build processing capabilities in Australia by investing in the construction of a large-scale processing plant in Kwinana, Western Australia, with an annual production capacity of 48,000 tonnes of lithium hydroxide, an essential ingredient for lithium batteries.

Phil Thick said "It is a Chinese company (Tianqi Lithium) that drove that decision. The industry was initially surprised to hear Tianqi's decision to build a plant of this scale in Australia. Now, other global lithium companies have followed Tianqi and at least three major processing plants in Western Australia have been announced. If these plants are completed and in operation, Australia could have a significant stake in the world's lithium processing."

Australia was Tianqi's first overseas investment destination. The processing plant will be built to Australian standards, including environmental standards. Tianqi also expects to see a flow of world class expertise in both directions between China and Australia. Joint R&D programs are planned for Perth and China.

Tianqi Lithium Australia's management team are Australian, headed by Phil Thick. The parent company decided not to send Chinese expats to oversee the local operations.

Construction of the AUD 400 million first stage of the plant started in 2016 for an initial production capacity of 24,000 tonnes per year. The AUD 300 million second stage is expected to be completed in late 2019. Currently, over 900 people work on the construction site. Upon completion, there will over 200 full-time employees working at the plant. Tianqi made a commitment to achieve 85 percent local content in the construction phase. Most of the plant including steelwork and pipework are locally fabricated from local materials.

"The construction and operation of Tianqi's processing plant doesn't just create local jobs on-site, it will provide considerable opportunities for suppliers of gas, power, transport and chemical reagants", says Phil Thick. The plant is in the industrial area of Kwinana where unemployment is high.

Tianqi is also strongly committed to the highest level of corporate social responsibility. The Australian subsidiary has a dedicated budget for local community support. Currently, Tianqi Lithium is supporting four different arts organisations in the Kwinana area and works with local primary schools to run music programs and help disadvantaged children.

Renewable energy

Four new renewable energy investments were recorded in 2018, totalling just under AUD 400 million, which is a similar level to 2016 and an increase over the AUD 124 million recorded in 2017. While there remains strong interest in wind and solar projects in Australia and increasing interest in battery storage, most deals are small scale and many are green field investments. The largest renewable project in 2018 was Power China's acquisition of Cattle Hill Wind Farm from another Chinese company, Goldwind.

Despite ongoing regulatory uncertainties, Chinese interest in renewable energy investment remains high, driven by a growing maturity from existing Chinese investors. Another key motivation for Chinese solar companies to look at overseas markets including Australia is the landmark policy change in China restricting the construction of more solar farms, and removing all subsidies for community and household rooftop solar energy installations which were previously issued by local governments. International expansion is seen as one way to close the profit shortfall in the domestic market.

Infrastructure and construction

Chinese investment in large Australian infrastructure assets peaked in 2016 with two mega deals by CIC Capital into Asciano Limited and Port of Melbourne. Infrastructure investment accounted for 28 percent of the total investment in 2016. There were two smaller projects recorded in 2017 by State Grid and Beijing Enterprises Water Group.

In 2018 no major infrastructure assets were acquired by Chinese investors other than CCCI's acquisition of the rail business from engineering group RCR Tomlinson.

Although there is strong interest from Chinese engineering and construction companies to partner with or acquire stakes in Australian companies to bid for infrastructure and construction projects, no major new deals have been completed since CCCI International acquired John Holland in 2015.

According to our interviews with Chinese investors, the Australian infrastructure market is seen as a competitive market that promises long-term stable returns, but the regulatory and political risks surrounding controlling acquisitions have made Chinese companies wary in approaching new investment opportunities.

Food & agribusiness

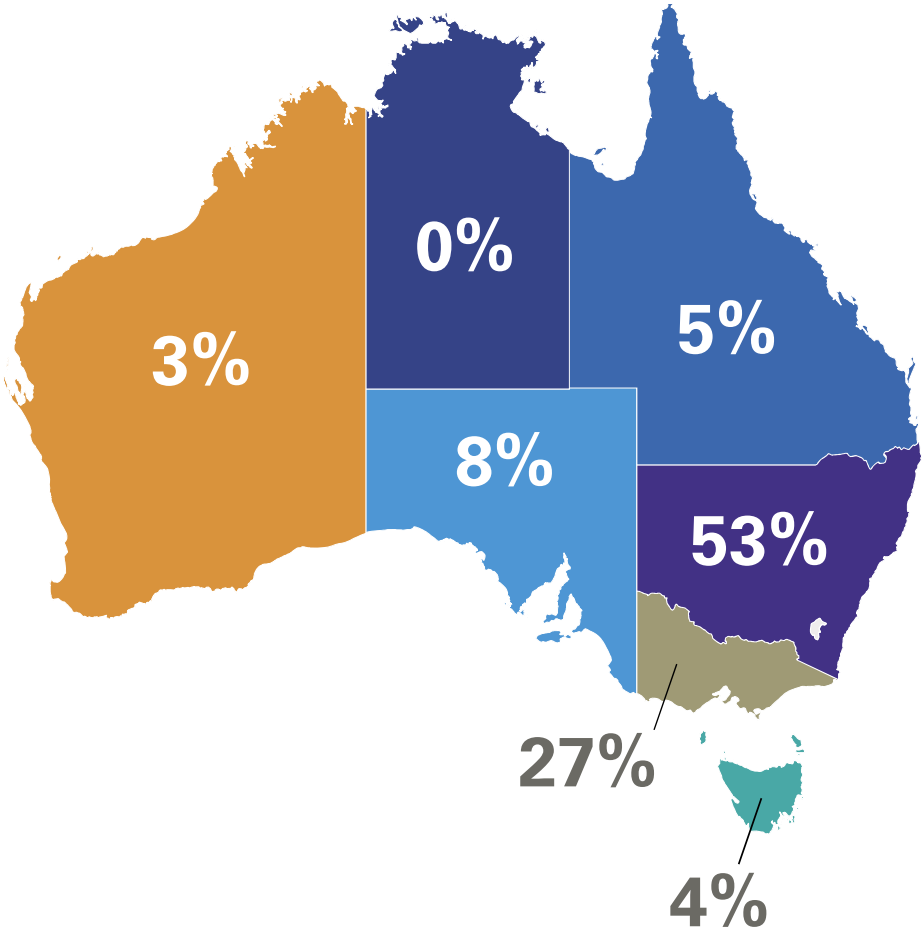
Three small deals were completed in the food and agribusiness sector in 2018 totalling less than AUD 100 million in total deal value. This represents about one percent of the total Chinese investments in 2018 and a 92 decline from 2017 which reflected one very large deal.

Goldwind Gullen Range Wind Farm.
Source: Image courtesy of Goldwind.

Chinese investment in Australia by geography

Chinese investment was again focused on NSW in 2018 with AUD 4.4 billion or 53 percent of the total value. Victoria remained in second position with 27 percent of total investment value in 2018.

Geographic distribution of Chinese investment in 2018 by state



State	Value (million AUD)	%
NSW	4,405	53%
VIC	2,199	27%
SA	640	8%
QLD	396	5%
TAS	342	4%
WA	263	3%
Total	8,244	100%

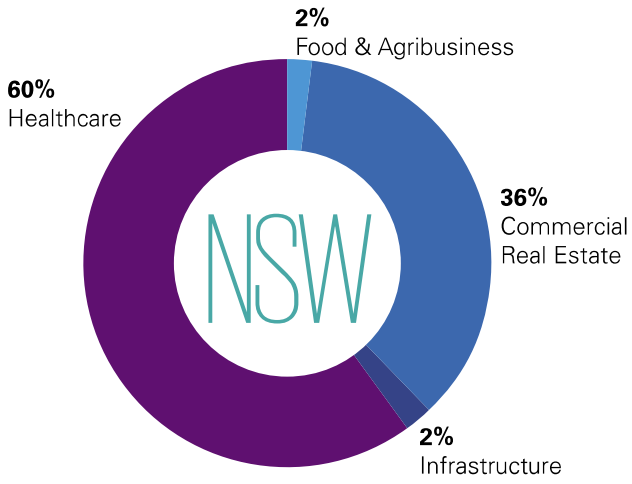
Source: The KPMG/Sydney University database

Source: The KPMG/Sydney University database

New South Wales

Industry	Transaction Value (AUD million)	Share
Food & Agribusiness	85	2%
Commercial Real Estate	1,576	36%
Infrastructure	100	2%
Healthcare	2,632	60%
Others	11	0%
Total	4,405	100.0%

Source: The KPMG/Sydney University database

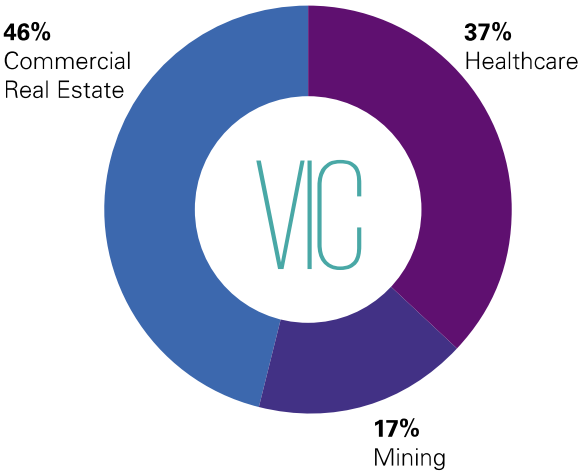


Source: The KPMG/Sydney University database

Victoria

Industry	Transaction Value (AUD million)	Share
Healthcare	804	37%
Mining	375	17%
Commercial Real Estate	1020	46%
Total	2199	100%

Source: The KPMG/Sydney University database

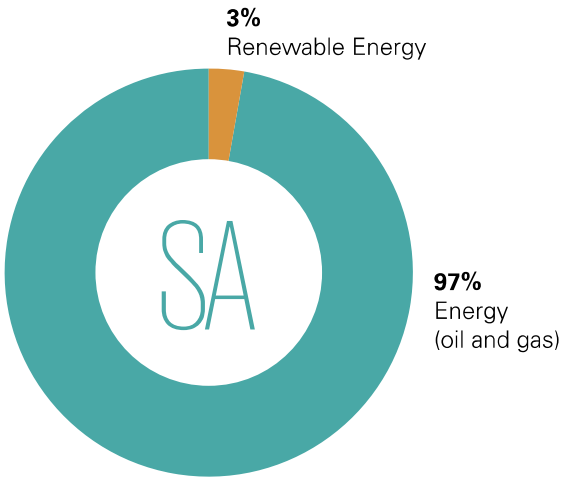


Source: The KPMG/Sydney University database

South Australia

Industry	Transaction Value (AUD million)	Share
Renewable Energy	21	3%
Energy (oil and gas)	619	97%
Total	640	100%

Source: The KPMG/Sydney University database

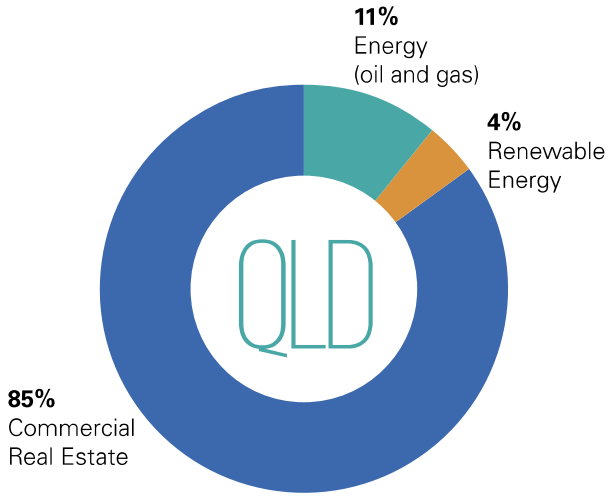


Source: The KPMG/Sydney University database

Queensland

Industry	Transaction Value (AUD million)	Share
Energy (oil and gas)	43	11%
Renewable Energy	18	4%
Commercial Real Estate	335	85%
Total	396	100%

Source: The KPMG/Sydney University database

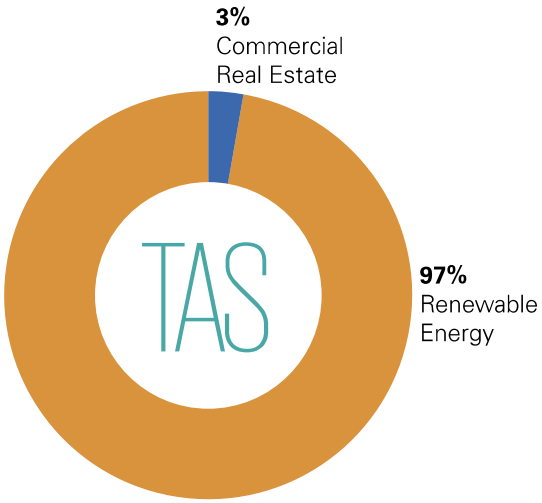


Source: The KPMG/Sydney University database

Tasmania

Industry	Transaction Value (AUD million)	Share
Commercial Real Estate	12	3%
Renewable Energy	330	97%
Total	342	100%

Source: The KPMG/Sydney University database

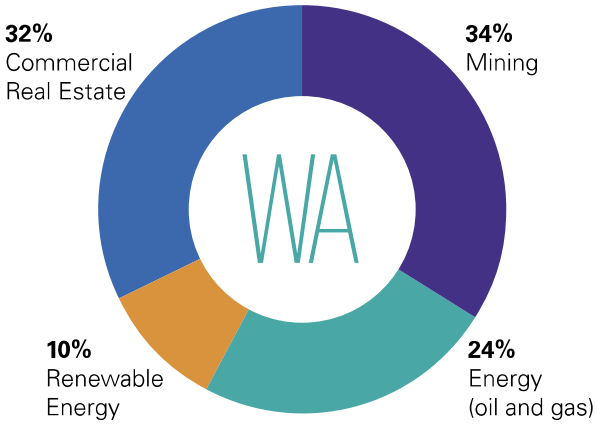


Source: The KPMG/Sydney University database

Western Australia

Industry	Transaction Value (AUD million)	Share
Mining	89	34%
Energy (oil and gas)	64	24%
Renewable Energy	26	10%
Commercial Real Estate	84	32%
Total	263	100%

Source: The KPMG/Sydney University database

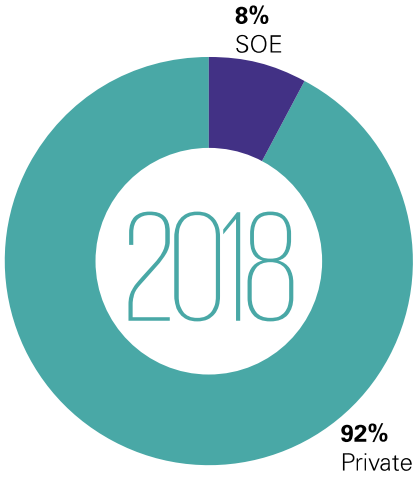


Source: The KPMG/Sydney University database

Chinese investment in Australia by ownership

Private investors accounted for 92 percent of the Chinese deal volume and 87 percent of deal value in 2018, up from 83 percent in number and 60 percent in value in 2017.

Investments by Chinese SOEs decreased both in terms of number and value compared to 2017.



Ownership	Investment Value (AUD million)	%	no. deals	%
SOE	1,071	13%	6	8%
Private	7,173	87%	68	92%
	8,244	100%	74	100%

Source: The KPMG/Sydney University database

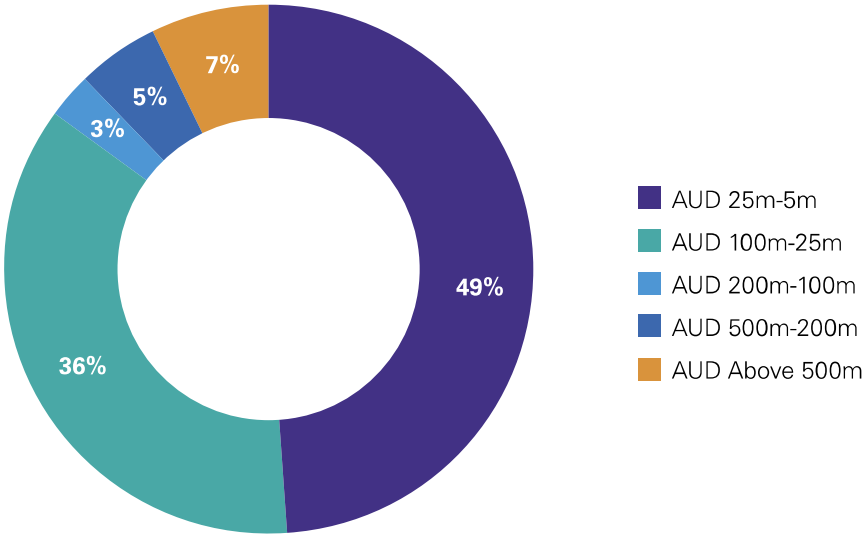
Source: The KPMG/Sydney University database

Chinese investment by deal size

The trend toward smaller deals has continued in 2018 with the average deal size at AUD 111 million, down from AUD 130 million in 2017.

The number of deals has also dropped below 100 to 74 deals. For the first time, nearly half of the transactions fell below AUD 25 million.

85 percent of deals fell below the AUD 100 million mark. This reflects more deals being done in mid-sized Australian markets in health, technology, services and real estate sectors.



Source: The KPMG/Sydney University database

Size of Deal (AUD)	number of deals	%	Value	%
AUD 25m–5m	36	49%	489	6%
AUD 100m–25m	27	36%	1598	19%
AUD 200m–100m	2	3%	271	3%
AUD 500m–200m	4	5%	1276	16%
AUD Above 500m	5	7%	4610	56%
Total	74	100%	8244	100%

Source: The KPMG/Sydney University database

Special edition: Chinese Investors in Australia Survey

About this survey

The Chinese Investors in Australia Survey is a comprehensive survey of the experiences and views of Chinese investors in Australia. The survey provides insights into the perceptions of the Australian investment climate by Chinese investors and the key challenges they feel they face in Australia.

The University of Sydney Business School and KPMG acknowledge the generous support of the late Dr William Chiu for enabling the first Chinese Investors in Australia Survey in 2014.

The 2019 Chinese Investors in Australia Survey was completed in February 2019 and used both survey and interview based information to focus on the latest sentiments covering 2018 and YTD 2019. We previously surveyed Chinese Investors in Australia in relation to 2017 and 2014 which enables some trend comparisons.

The University of Sydney Business School and KPMG surveyed senior executives from Chinese-invested companies located in Australia in February 2019 and in total 59 completed responses were received.

These companies operate in a broad range of sectors including real estate, mining, agribusiness, renewable energy, health and infrastructure.

The survey questions covered topical issues relating to experience, perceptions and confidence of Chinese companies investing in Australia. Where appropriate we have compared the survey results to those recorded in previous years.

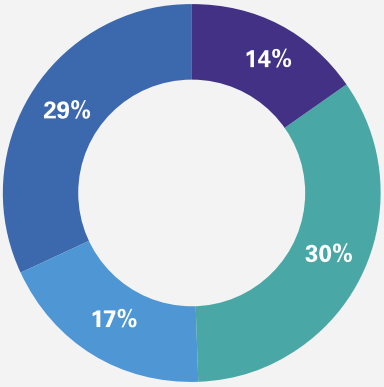
We would like to thank the Chinese companies who participated in our survey and interviews for the purposes of this report.

Our results are divided in three sections:

- Investment climate
- Operational challenges
- Performance and outlook

Survey demographic

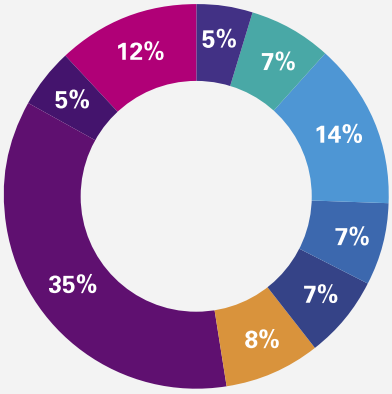
What size is your total investment in Australia?



- 0-25 million AUD
- 25-100 million AUD
- 100-500 million AUD
- 500-1000 million AUD

Number of respondents = 59

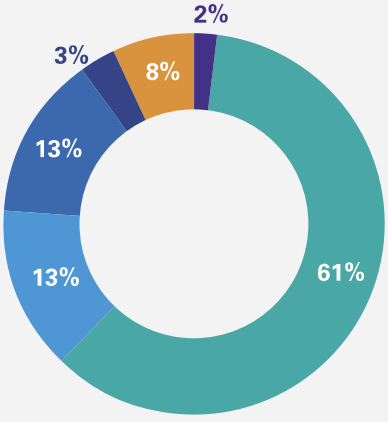
To what industry does the majority of your investment belong?



- Agribusiness
- Finance
- Infrastructure
- Real Estate
- Mining
- Healthcare
- Oil and Gas
- Others
- Renewable Energy

Number of respondents = 59

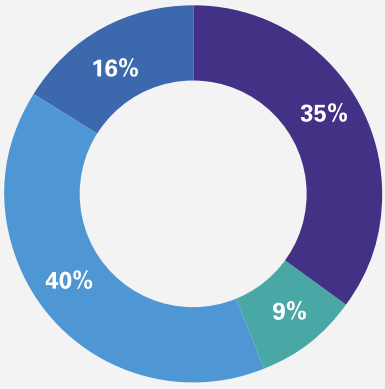
In which Australian state or territory is your business registered?



- ACT
- QLD
- NSW
- SA
- VIC
- WA

Number of respondents = 59

The ownership structure of the Chinese parent company is:



- A central SOE
- A private enterprise
- A provincial SOE
- A public company

Number of respondents = 59

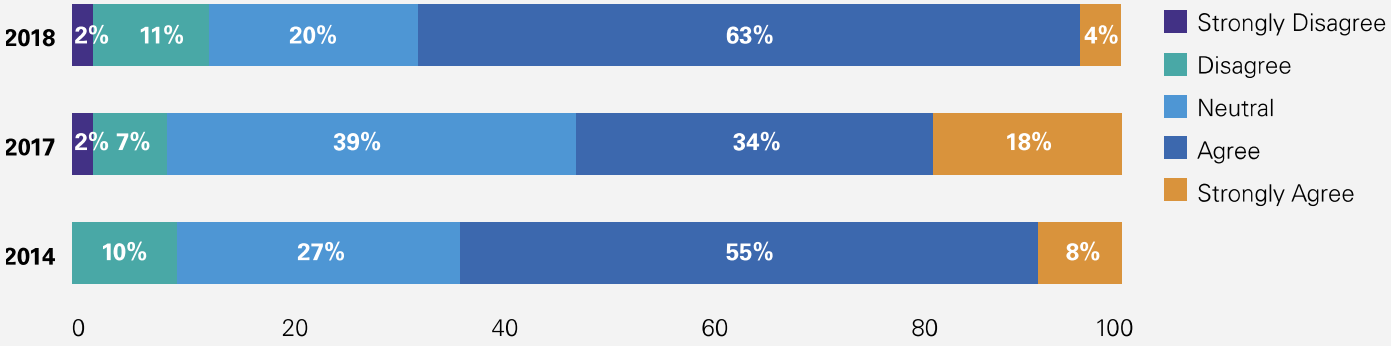
2018 investment climate

Based on the survey responses, the overall investment climate for Chinese companies in Australia was mixed in 2018. On the one hand, Australia remains a preferred investment destination relative to other countries and there has been a slight improvement in their perceptions of the political climate towards China since 2017. On the other, Chinese executives are finding it harder to get investment approvals and capital out of China, and more respondents feel unwelcome to invest in Australia.

Key findings:

- In the midst of global geopolitical uncertainty and unpredictable US-China trade negotiations, Chinese investors find Australia a safer environment than in previous years. 67 percent of the surveyed respondents regarded Australia as a safer economic environment than many other countries, an increase from 52 percent in 2017 and 63 percent in 2014.
- Chinese companies see an improvement of the political climate in Australia regarding the role of Chinese investment. 59 percent of the surveyed respondents stated that the political debate in 2018 has made Chinese companies more cautious to invest in Australia, compared with 70 percent in 2017.
- Compared to last year, there were more Chinese investors who told us they feel welcome to invest in Australia (38 percent vs. 35 percent in 2017). However, there was also a slight increase in the percentage of respondents who feel unwelcome, from 15 percent to 19 percent.
- China's tightened capital controls and regulatory investment approval restrictions on overseas investments over the last couple of years appear to be behind the slowdown in new investments and follow-up investments in Australia. 80 percent of respondents told us that it was more difficult to get capital out of China in 2018 compared with 65 percent in 2017. Based on the survey responses, private companies are most affected by the capital export restrictions.

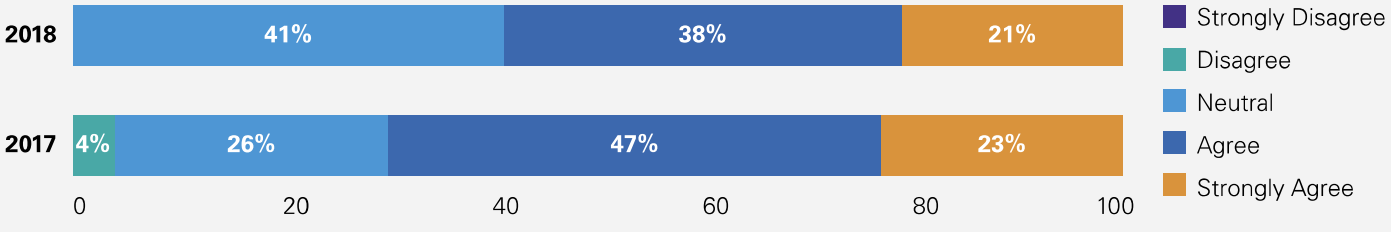
Australia is a safer economic environment for Chinese direct investment than many other countries.



2018 Number of respondents = 54

In a globally competitive landscape for attracting capital, Australia is relatively well placed. 67 percent of respondents regarded Australia as a safer economic environment than many other countries, an increase from 52 percent in 2017 and 63 percent in 2014.

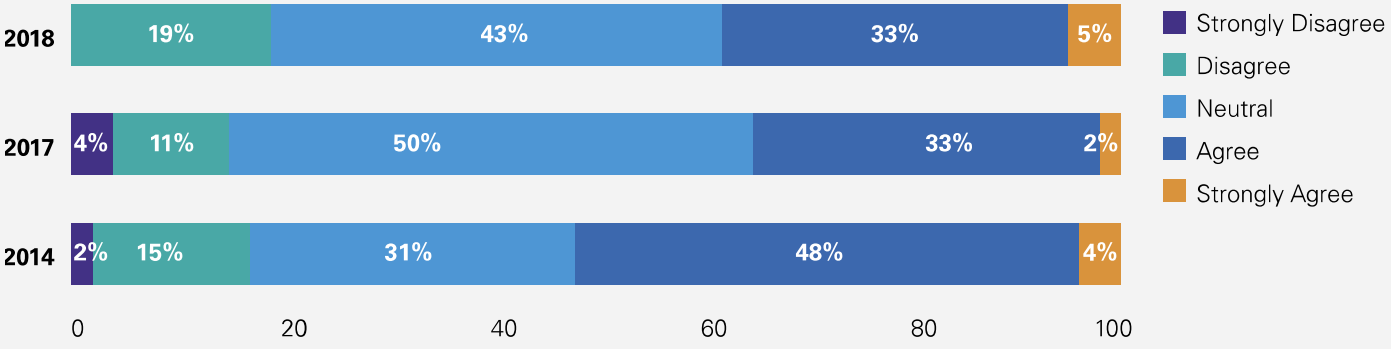
The political debate in Australia in 2018 has made my company more cautious to invest.



2018 Number of respondents = 58

There has been an improvement in the perceptions around political environment regarding China. 59 percent of the surveyed respondents stated that the political debate in 2018 has made Chinese companies more cautious to invest in Australia, compared with 70 percent in 2017.

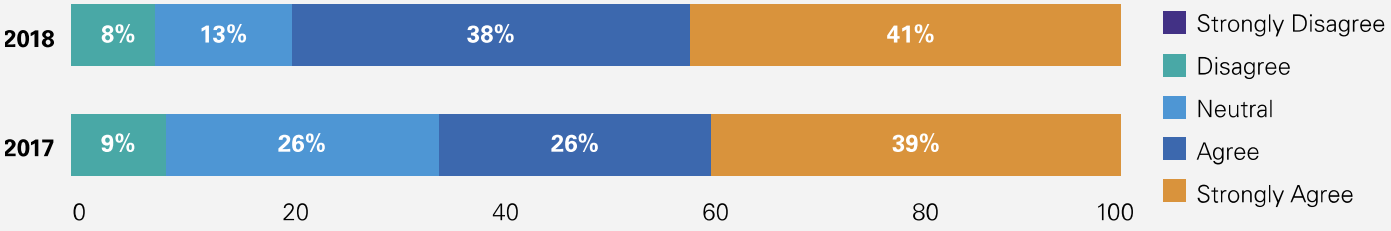
Chinese investors feel welcome to invest in Australia.



2018 Number of respondents = 54

The sentiments of Chinese investors were polarised in 2018. Compared with 2017, there were more Chinese investors who said they feel welcome to invest in Australia (38 percent in 2018 vs. 35 percent in 2017). At the same time, there was an increase in the percentage of respondents who feel unwelcome (19 percent in 2018 vs. 15 percent in 2017).

It is more difficult for my company to get capital out of China since 2018.



2018 Number of respondents = 53

80 percent of respondents stated it is more difficult to get capital out of China in 2018 compared with 65 per cent in 2017.

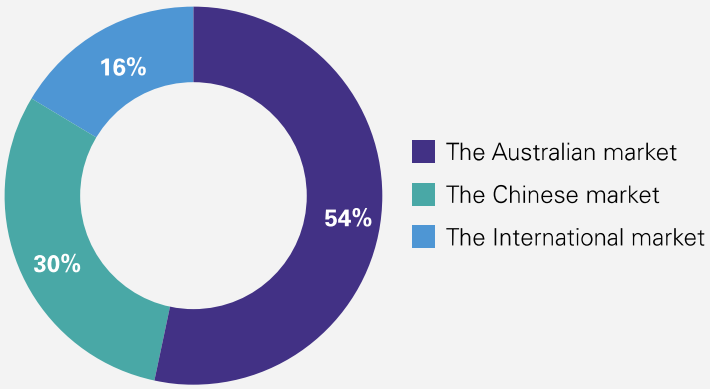
Operational challenges

In this year's survey, we focused on post-investment operational issues and challenges that Chinese firms face in Australia. Most of the findings are consistent with 2016 (i.e in our 2017 report), although there are clear signs of deterioration in relation to views on Australian media coverage, falling profitability and accessing finance.

Key findings:

- As Chinese investment has shifted away from the mining and energy sectors, Chinese investors have become more integrated into the Australian economy.
- Australian media coverage continues to be seen as unsupportive by Chinese investors, with a significant fall since 2017.
- Chinese investors continue to see Australian business leaders, local government and state governments as the most supportive stakeholders.
- Chinese companies noted their greatest challenges as obtaining finance, low profitability and obtaining government approvals in Australia and China.
- Australia continues to be seen by Chinese investors as a more expensive country to operate in than the UK, US and Canada. Chinese investors indicated that the gap in overall business costs between Australia and other comparable countries has increased over the last years.

Is your supply chain strategy focused on the Australian, Chinese or international market?

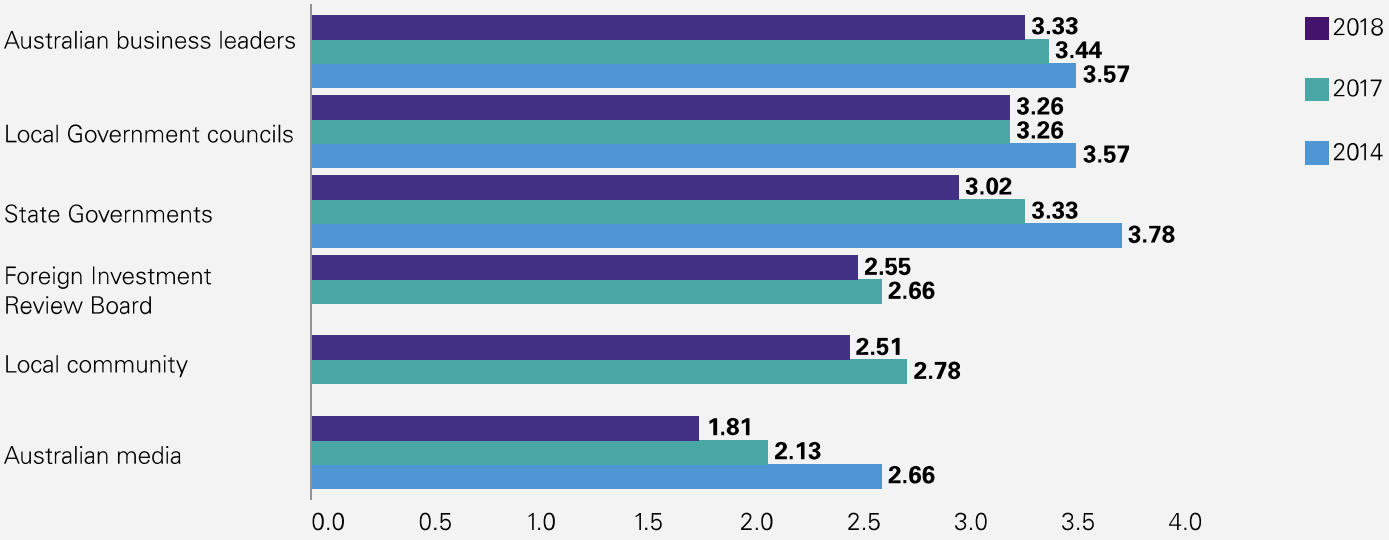


Number of respondents = 43

More than half (53 percent) of the respondents stated that their supply chain is focused on the Australian market, followed by the Chinese (30 percent) and international (16 percent) markets. This ties into the private sector investing into sectors like real estate, healthcare and food & beverage.

The following stakeholders are supportive towards Chinese investors.

(1=Strongly Disagree, 2=Disagree, 3=Neutral, 4=Agree, 5= Strongly Agree)

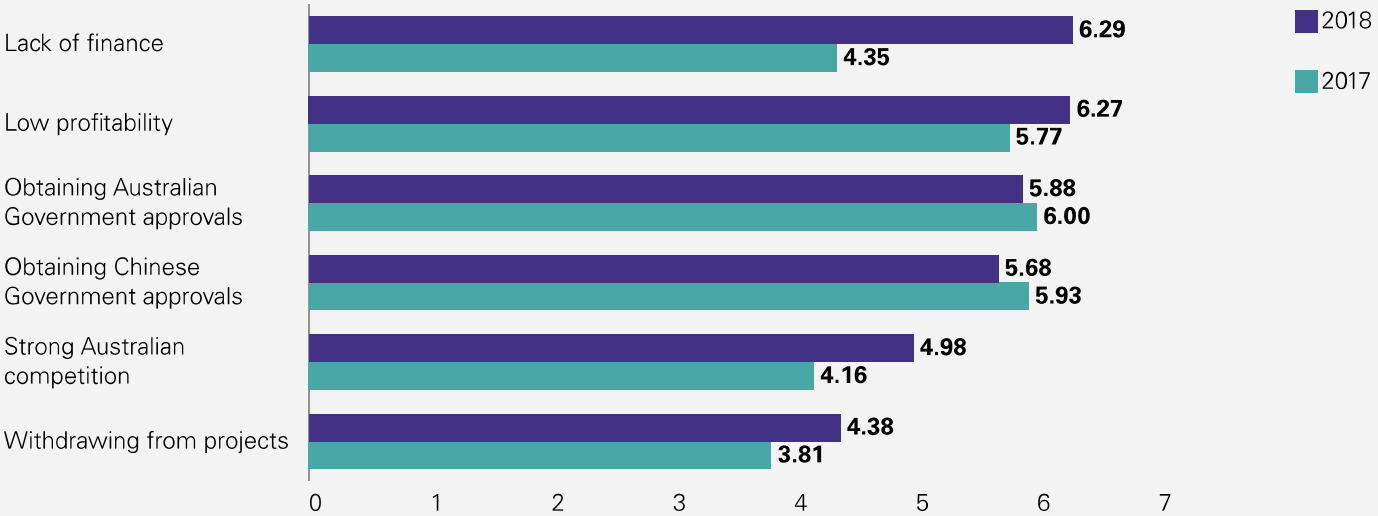


2018 Number of respondents = 56

Australian industry leaders are viewed as most supportive towards Chinese investors, followed by local government councils and State Governments. The local community and Australian media are seen as less supportive.

Since your investment in Australia, what problems have you faced?

(0 = Not Important, 10 = Very Important)

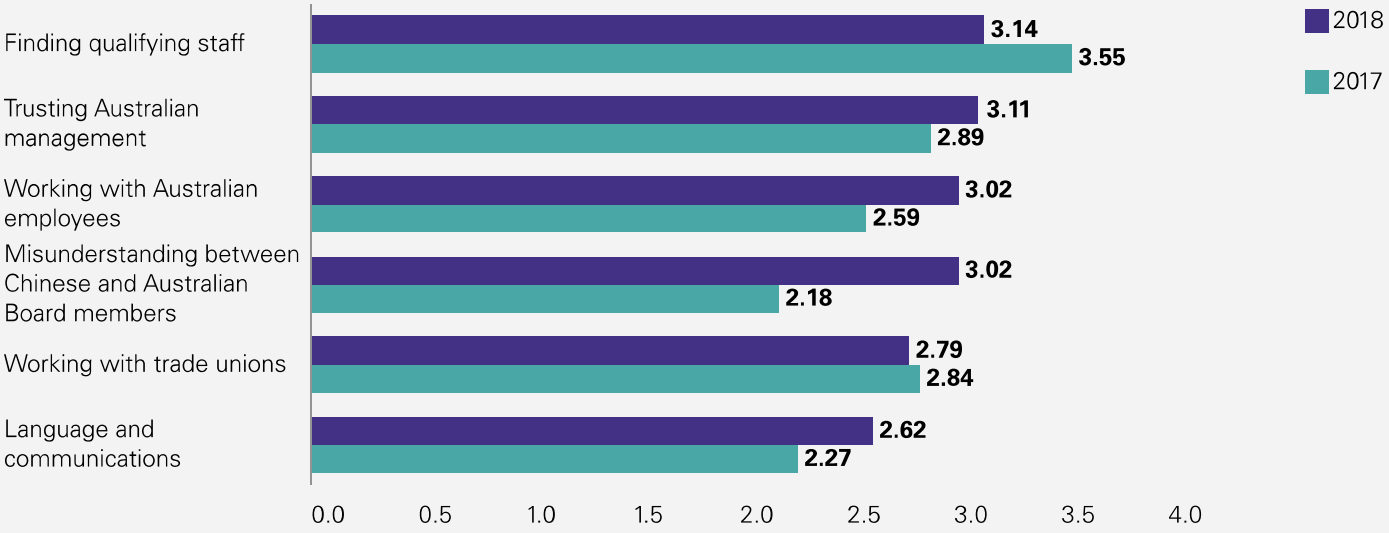


2018 Number of respondents = 56

Lack of finance emerged as the top challenge for Chinese companies with investments in Australia, moving up four places relative to last year. This was followed by low profitability and obtaining Australian and Chinese government approvals respectively. There also appears to be an increase in the competition felt from Australian firms, as well as challenges leading to Chinese companies withdrawing from projects.

Since your investment in Australia, have you faced the following difficulties?

(1=Strongly Disagree, 2=Disagree, 3=Neutral, 4=Agree, 5= Strongly Agree)

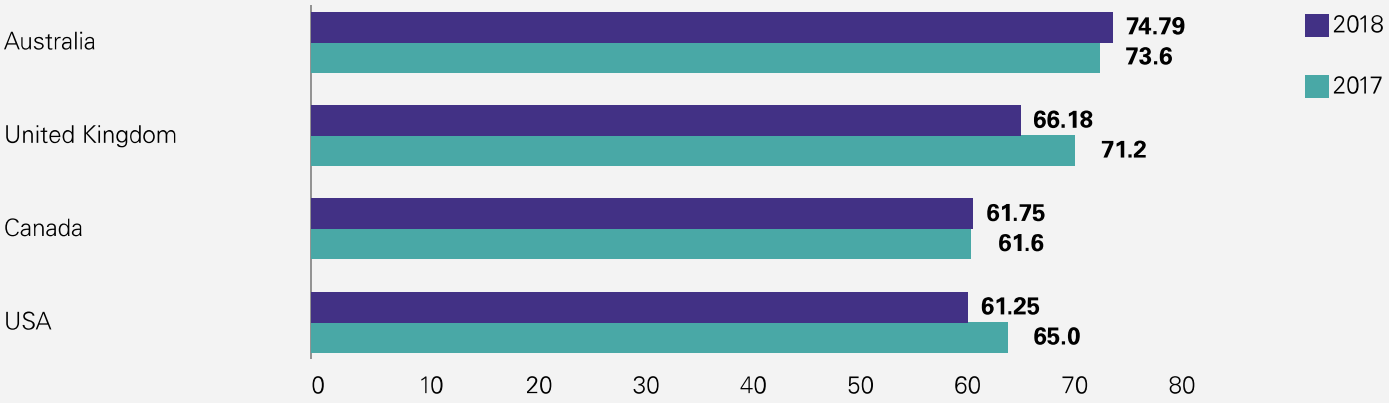


2018 Number of respondents = 54

Finding qualified staff remains a difficulty for Chinese companies, but it is improving. Building trusted and effective working relations between Chinese owners and Australian management and Board members remains an ongoing challenge, which is likely due to differences in governance models and market dynamics between Australia and China.

In your opinion, what is the level of overall business costs in the following countries?

(0 = Very Low, 100 = Very High)



2018 Number of respondents = 52

Chinese investors estimate that in Australia overall business costs are higher than in United Kingdom, Canada and USA. The respondents stated that the level of overall business costs in Australia has increased slightly in 2018.

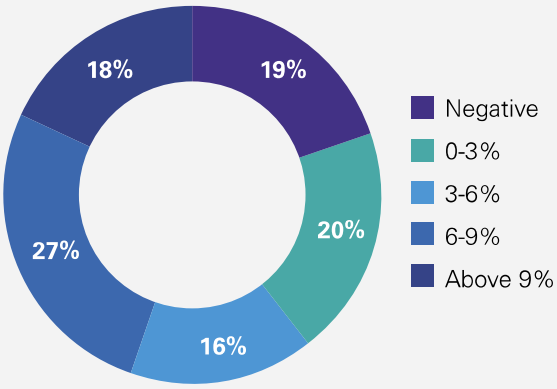
Performance and outlook

Despite the many challenges facing their Australian operations, the last three years have generally been a good period financially for Chinese investors in Australia. The outlook, however, appears to be mixed and uncertain, with a decrease in the levels of optimism about future growth when compared to last year.

Key findings:

- Nearly half (45 percent) of surveyed respondents reported an average return on net asset (ROA) above 6 percent for the last 3 years, while 20 percent reported negative ROA. Renewable energy, finance and infrastructure investments enjoyed strong results. Profitability is mixed for real estate, agribusiness, and resource sectors. These results reflect the strong performance of the Australian economy, as well as the increased capability of Chinese firms to handle operational challenges in Australia.
- Around half of the surveyed Chinese investors believe their revenue and profitability will improve in 2019, reflecting cautious optimism among Chinese investors in Australia. This is much lower than the expectations when surveyed in 2017.
- This is balanced by on-going apprehension, with 32 percent of Chinese companies predicting that their revenue will deteriorate, and 25 percent believing profitability will worsen in 2018.

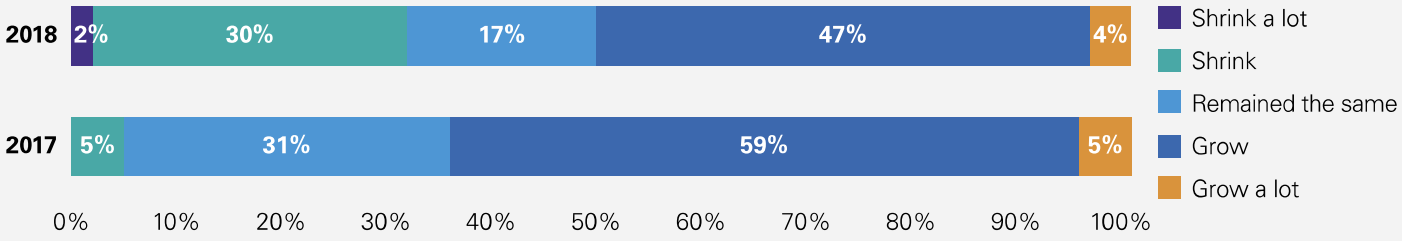
For the last 3 years, what is your average return on net assets (ROA)?



2018 Number of respondents = 56

45 percent of respondents reported an average return on net assets (ROA) above 6 percent for the last 3 years, while 20 percent of respondents reported negative ROA.

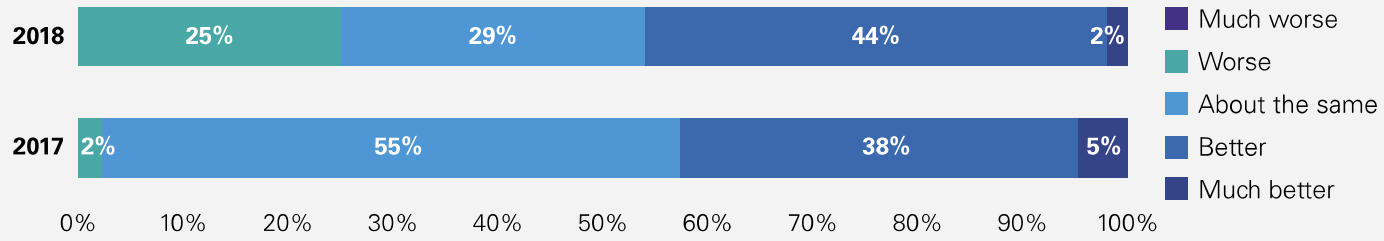
I expect our turnover next year will:



2018 Number of respondents = 57

51 percent of respondents think their turnover will grow in 2018 and 32 percent think their turnover will decline.

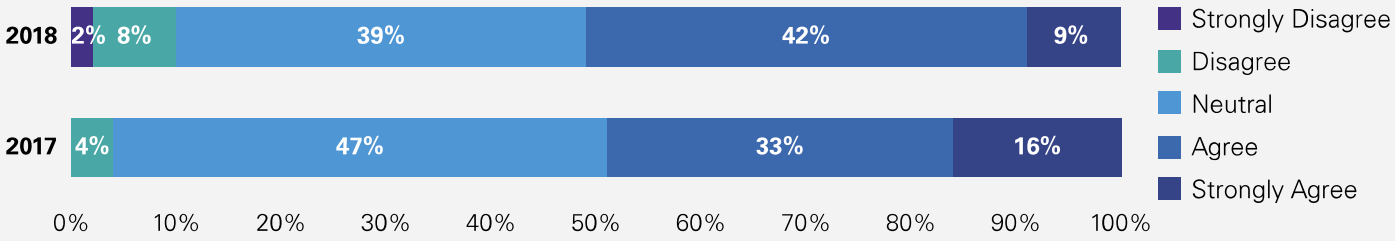
I expect that our profitability next year will be:



2018 Number of respondents = 55

46 percent predict their profitability will grow in 2018, while 25 percent expect profitability to decline.

I am very optimistic about our business prospects in Australia for the next year.



2018 Number of respondents = 59

50 percent of respondents in 2018 are optimistic about business prospects in Australia over the next year, compared with 49 percent in 2017.

Final word

These results confirm that in 2018, Australia felt the pinch of a significant reduction in new Chinese investment, reflecting the impact of policy changes in China affecting overseas investment. Australia was not alone and our experience mirrored trends in Europe and North America. In the United States, for example, Chinese direct investment last year dropped to a degree that makes the decline in Australia look modest.

Looking forward, it seems Australia's investment links with China may be increasingly affected by global, rather than purely bilateral dynamics. At the same time, the recent decline in Chinese investment in Australia provides an opportunity to reflect on the role that future Chinese investment should play in Australia's long-term domestic economy and our economic integration into the Asian region.

This should be done with clear focus on the new opportunities for foreign investment which are expected to continue to open up in the China market, including with the implementation of the new Foreign Investment Law and related rules and regulations.

Whilst Chinese investors confirm they remain positive about many aspects of the Australian market and its prospects compared with many other countries, there is an increasing concern around transparency of regulations, high costs and their continued perception of being unwelcome as reflected by negative Australian media coverage.

It is against this backdrop that Australian companies seeking further investment must continue to explore and present unique opportunities that appeal to the key value drivers of targeted Chinese investors if Australia is to remain a leading destination for Chinese investment.

The Australia healthcare industry is a great example of this, defying the overall trend in Chinese investment in 2018 to generate significant annual growth.

The healthcare sector leveraged the most attractive aspects of Australia's leading consumer brands on Chinese e-commerce platforms. They utilised our leading research, highly skilled workforce, respected safety and technical manufacturing and also services, standards. These qualities were matched with the emerging and large-scale needs of the Chinese domestic consumer markets and Chinese companies with the ability to get their approvals, raise investment capital and complete transactions.

This has enabled the healthcare sector to eclipse the mining and real estate sectors in 2018 and demonstrates a formula for attracting Chinese investment in times of tighter Chinese capital controls.

The case study on lithium mining in this report shows how Chinese investment can augment Australia's traditional strengths in the mining sector by adding new processing facilities that will create substantial economic and employment benefits for Australia. Central to this operation is a successful US-China joint venture that integrates Australia deeply into the global lithium supply and value chains.

There is still a long journey ahead for other Australian industries that have the potential to receive much greater sums of Chinese investment and sector participation. Investment in food and agriculture is a key example. Australian brands in this sector continue to enjoy a green, safe and premium image with Chinese customers, including in e-commerce channels. After some controversial investments in agricultural land a few years ago, there has been a noticeable pause but we are beginning to see a consolidation of investment in processing and value-adding facilities such as regional abattoirs that provide local employment as well as potentially new export markets for local farming communities through successful, large scale deals.

Chinese investors should continue to look for ways to communicate, engage and integrate their senior executives into the Australian market.

Meanwhile, Australian governments, corporations and professional advisers must continue to assist Chinese executives to better understand community attitudes around corporate social responsibility standards and ways to better integrate their company's operations and brands in local economies and communities.

The Australian media will continue to freely report and provide opinions, so Chinese companies need to adapt to this reality and look for effective ways of telling their stories and perspectives.

Australia is already perceived by most of our survey respondents to be safer and more attractive as a destination for their investment relative to many other countries. To build upon this reputation, we also need to be aware of the very real impact that poorly received, politically motivated public discourse and unbalanced media coverage can have on the future level of Chinese capital entering Australia.

2018 need not define a trend of lower Chinese investment in Australia into the future, but it is a period to reflect upon. There are a great many opportunities for Chinese companies to contribute towards the development and internationalisation of Australian industries and supply chains in the coming years and there is much that can be done to improve the perception of the Australian market to Chinese investors and vice versa.

With further perseverance across industries and all levels of government, there is no reason why Australia can't return to the high levels of Chinese capital inflow seen historically between 2011 and 2017.

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