



State Aquaculture Research, Training and Service Delivery
Capabilities Review

Supplementary Paper – Other options for management of ACAAR

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1. Background

On 20 May 2016, Australian Venture Consultants provided the Department of Training and Workforce Development and Department of Fisheries (the 'Clients') with a final draft report pertaining to the study commissioned by the Clients titled, *State Aquaculture Research, Training and Service Delivery Capabilities: A review of research, training and service delivery capacity operated by TAFE colleges and the Department of Fisheries* (the 'Study').

A key recommendation of the Study is that the oversight of the operations of the Australian Centre for Applied Aquaculture Research (ACAAR) (see Section 2.5 of the Study) be transferred to the jurisdiction of the Department of Fisheries under a new structure that involves significant industry and other end-user participation in the governance of ACAAR (as well other similar State owned aquaculture and restocking infrastructure), to be known as the Western Australian Aquaculture Development and Restocking Unit (WAADRU) (see section 8.3 of the Study).

As discussed in Section 7 of the Study, there is significant precedence in other Australian jurisdictions for government ownership of hatchery infrastructure for the purpose of supporting both re-stocking programs and private aquaculture enterprise. There is also precedence in some Australian jurisdictions for government owned hatchery facilities to be transferred to private ownership. Examples of this include Salmon Enterprises of Tasmania, or Saltas, (see Section 7.1.1 of the Study) and Queensland Tropical Finfish Hatchery (see Section 7.5.2 of the Study).

While the Study gave due consideration to alternative Western Australian Government and other public sector structures that could potentially host ACAAR (see Section 8.3.2), it did not consider the immediate partial or whole privatisation of ACAAR as a realistically valid option from a policy or commercial perspective.

The Clients have asked Australian Venture Consultants to provide greater detail as to why a privatisation pathway is not considered a valid pathway for ACAAR. This supplementary paper represents Australian Venture Consultants' response to that request.



2. Privatisation Options

Before responding more specifically to the Clients' request, it is worthwhile explaining options pertaining to the extent to which ACAAR could be privatised, as well as the two privatisation pathways that would most likely apply to the privatisation of ACAAR, if such a pathway was deemed a realistic policy or commercial option. This is discussed in the following subsections.

2.1. Whole or partial sale

ACAAR could potentially be privatised on a whole or partial basis. Privatising ACAAR on a whole basis, would involve transferring the ACAAR facilities, lease obligations and management rights to a third party as discussed in Sections 2.2 and 2.3 below.

Partial privatisation of ACAAR could take a number of forms, but would most likely involve the Western Australian Government retaining ownership of the ACAAR facilities (including any new facilities that may be established pursuant to the recommendation contained in Section 8.3.1 of the Study), whilst transferring the management rights of ACAAR to a third party subject to a service agreement, facilities access and use agreement and leasing or sub-leasing agreement.

2.2. Sale to a commercial hatchery operator

A potential acquirer of ACAAR (on a whole or partial basis) is a commercial aquaculture hatchery operator. A commercial hatchery operator can be in the form of:

- An enterprise whose core business is to operate marine aquaculture hatcheries for the purposes of supplying seed stock to aquaculture or re-stocking operations on a commercial basis; or
- To an operator of downstream aquaculture grow-out facilities who is seeking to own and operate a Western Australian based hatchery for reasons of control and security of supply of seedstock for those grow-out facilities.

2.3. Sale to a downstream industry operated entity

Where participants in the downstream aquaculture industry agree that it is in their collective interests to jointly own, control and operate a hatchery facility from which those participants can individually acquire seed stock, those industry participants could establish a jointly owned incorporated body to facilitate that objective. This is most likely to take the form of a co-operative in accordance with the *Co-operatives Act 2009* (WA).

The Western Australian Government could then partially or wholly transfer ACAAR to that incorporated body. A mollusc hatchery operating in Victoria is structured under such a model (see Section 7.4.1 in the Study), as is a finfish hatchery operation in Tasmania (see Section 7.1.1 in the Study). In both these cases the State Government is or was an initial investor in the hatchery.



3. Why the Privatisation of ACAAR is not a Viable Option

For the reasons set out in the following subsections, the whole or partial privatisation of ACAAR under any of the structures outlined in Section 2 above, is deemed to not be a viable option in the current circumstances. This is discussed in the following subsections.

3.1. ACAAR is not a Self-Sustaining Business

Excluding grants from the Western Australian Government, ACAAR has earned a total operating revenue of A\$4.5 million since it commenced operations in 1994. As discussed in detail in Section 2.5.1 of the Study, this has been sourced from fish supply contracts (for both aquaculture and re-stocking purposes), as well as a wide range of applied research contracts. This represents average revenue of just \$214,000 per annum.

Furthermore, the acquisition of contracts that have delivered this revenue has been very sporadic over the life of ACAAR, with total revenue largely underpinned by a small number of relatively large contracts. For example, the vast majority of ACAAR's non-grant revenue (37 percent) over this period has been sourced from fish-supply contracts and the majority (73 percent) of that revenue has been derived from a contract with a single aquaculture operation, which also uses a private hatchery operation to source its juveniles.

As discussed in Section 2.5.2, since at least 2011, ACAAR has been reliant on an annual grant from the Western Australian Government to meet approximately 50 percent of its direct operating costs. Since 2011, the amount of this annual grant has grown at a CAGR of approximately 11 percent. In addition, ACAAR is the beneficiary of an undefined level of indirect subsidisation in the form of corporate services that have been provided to it by South Metropolitan TAFE and its predecessor organisations.

For the past five years at least, ACAAR has consistently produced an operating deficit of between A\$400,000 and A\$700,000, excluding the annual Western Australian Government grant and indirect subsidisation. Given that ACAAR benefits from indirect subsidies in the form of operating costs that are absorbed by its host, South Metropolitan TAFE, there is likely to be limited scope for addressing this operating deficit through cost reduction initiatives.

Even in the case of a potential strategic acquirer of ACAAR that is not primarily motivated by generating a competitive financial return from ACAAR, it is highly likely that acquirer would need to be comfortable that there is adequate opportunity in the market for ACAAR's services to approximately double the revenue currently generated by ACAAR such that its operations are at least approaching self-sustainability. An acquirer of ACAAR that was seeking financial investment returns would need to be comfortable that there is opportunity to increase ACAAR's revenue substantially beyond twice as much as ACAAR is currently generating.

As discussed in the following Section 3.2 below, it seems unlikely that a potential acquirer would be able to achieve such comfort.



3.2. Uncertain Market Outlook for ACAAR Services

Future demand for both contract research and fish stock supply services from ACAAR is dependent on growth in the Western Australian aquaculture industry, particularly the marine finfish sector, as well as growth in demand for juvenile fish from fish re-stocking programs.

Some confidence that there is opportunity that revenue growth can be achieved can be garnered from:

- The fact that there is currently a limited number of aquaculture operations (see Section 5 of the Study) and fish re-stocking programs (see Section 6.1 of the Study) in Western Australia, and therefore any future revenue growth is occurring from a relatively low base; and
- From a policy and project achievements perspective, it can be reasonably argued that the development environment for both aquaculture and fish re-stocking programs has never been better in Western Australia than it currently is (see Section 1.1.5).

However, for a wide range of reasons the aquaculture sector in Western Australia has historically struggled to grow (see Section 1.1.4 in the Study) and the aquaculture projects in Western Australia that present the most attractive growth opportunities for ACAAR are all at relatively early stages of project development (see Section 5 of the Study) and still face considerable development risks. Additionally, while the acceptance of the merits of re-stocking for conservation purposes or to support recreational fishing is increasing, some key stakeholders remain sceptical as to its effectiveness.

Collectively, these factors result in considerable uncertainty as to whether ACAAR will be able to grow its operating revenue to the level that is needed to render it a self-sustaining business, let alone an attractive financial investment. It is possible that if the Western Australian Government decided to no longer support other smaller hatchery facilities in Western Australia, ACAAR might benefit from increased revenue by taking over the clients of those other hatchery facilities. However, the increased revenue that would be achieved by ACAAR from such a scenario would only be incremental.

3.3. Industry Does not have the Resources to Acquire or Manage ACAAR

An operator of downstream aquaculture grow-out operations or a collaboration of such operators (see Section 2.3 above) may be prepared to acquire and operate ACAAR under sub-optimal financial circumstances if that acquisition delivered strategic dividends such as seed stock supply control and security.

However, the Western Australian aquaculture industry is not a stage of maturity where this can be realistically contemplated. There are only a handful of Western Australian aquaculture businesses, few, if any of which have achieved financial sustainability (see Section 5 of the Study) and not all of these are significant ACAAR customers (see Section 2.5.1 of the Study).

Even if ACAAR was transferred to industry ownership on a *gratis* basis and the current operating grant guaranteed for a period, the internal resources of Western Australian aquaculture operators are limited and focused entirely on their core business (developing their downstream grow-operations) in what is a challenging operating and commercial environment. The need to manage ACAAR in addition to this would represent a management and resource distraction that has the likelihood of compromising the development of production projects.



3.4. Privatising ACAAR is Counterproductive to the Client's Intent

The Term of Reference required the Study to, among other things:

- (a) Identify Western Australian Government aquaculture research, training and service delivery capabilities that are redundant or in excess of current needs; and
- (b) Develop options to ensure that Western Australian Government aquaculture research, training and service delivery capabilities are optimally structured and deployed to support the development of a sustainable Western Australian aquaculture industry.

The Study clearly identifies that ACAAR is critically important to the development of the Western Australian aquaculture industry, as well as the execution of re-stocking programs and is therefore not in excess of current needs (see Section 8.3.1 in the Study). Denial of access to ACAAR's capabilities would unquestionably be catastrophic for particularly, the nascent Western Australian aquaculture industry.

In light of the arguments presented in Sections 3.1, 3.2 and 3.3 above and the detailed analysis contained in the Study, the partial or whole privatisation of ACAAR is not only unlikely to be a transaction that could realistically be effected with a *bona fide* counterparty, but would be contrary to the Client's intent of ensuring Western Australian Government aquaculture research, training and service delivery capabilities are optimally structured and deployed to support the development of a sustainable Western Australian aquaculture industry.

This is why privatisation of ACAAR was not considered a viable option for consideration in the Study.