



NSW Department of Primary Industries  
NSW Fishing Cooperative Viability Study  
Final Report

May 2014

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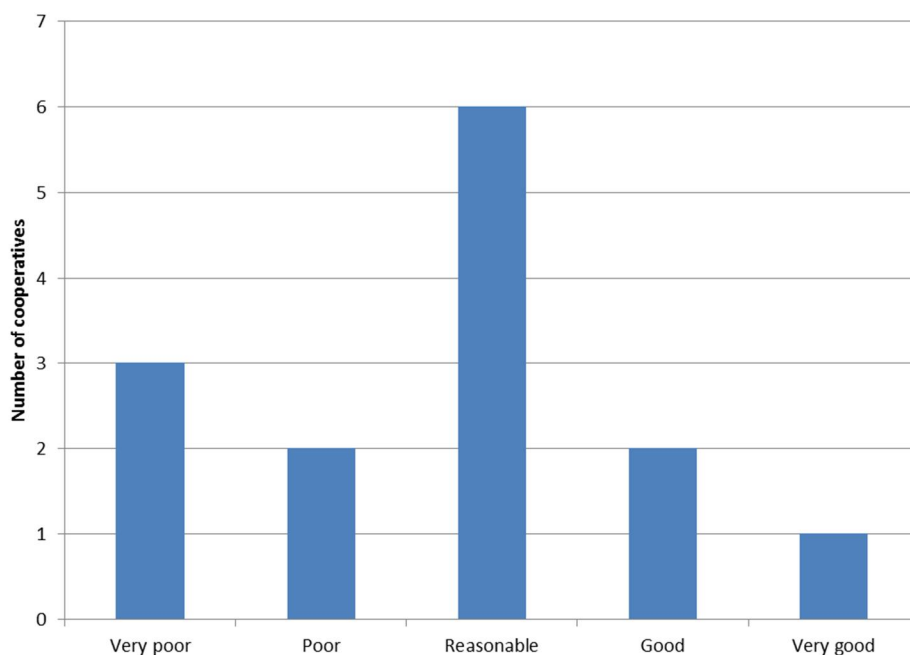
# Executive summary

The NSW Department of Primary Industries (NSW DPI) in consultation with the Structural Adjustment Review Committee (SARC) contracted GHD to complete a study into the potential impacts of the Commercial Fisheries Reform Program (the Reform Program) on the viability of NSW fishing cooperatives.

## *Financial viability of cooperatives*

Consultation undertaken as part of this study found that stakeholders from 11 of the cooperatives (79%) rate the financial viability of their cooperative as being “reasonable”, “poor” or “very poor”, leaving stakeholders from three cooperatives (21%) rating their viability “good” or “very good” (Figure 1).

Figure 1 Cooperatives rating of current financial viability<sup>1</sup>



Of the five cooperatives who rated their financial viability as being “poor” or “very poor”, three were located on the far north coast of NSW and two were located south of Sydney.

Cooperatives were benchmarked against a range of factors impacting on the profitability and viability of their business including fixed and variable costs, membership, throughput, diversification of services and markets. Table 1 presents the benchmarked results in terms of:

- Minimum
- Median
- Maximum
- Least confident cooperatives: average results for cooperatives who rated their financial viability as “low” or “very low”.
- Most confident cooperatives: average results for cooperatives who rated their financial viability as “high” or “very high”.

<sup>1</sup> Categories were not defined; therefore the results are based on the cooperative’s own interpretation.

Table 1 Benchmarking of factors impacting cooperative viability<sup>2</sup>

Benchmark	Minimum	Median	Maximum	Less financially viable	More financially viable
Profit margin	-10%	1%	10%	-6%	2%
Annual throughput (tonnes)	59	326	1,964	684	313
Revenue per tonne throughput	\$4,087	\$9,935	\$42,805	\$8,680	\$17,440
Costs per tonne throughput	\$4,380	\$8,927	\$42,947	\$9,242	\$17,048
Costs as a % of revenue	75%	99%	110%	106%	98%
Fixed costs as a % of total costs	15.87%	26%	44%	31%	23%
Fixed costs per tonne throughput	\$1,464	\$2,604	\$15,215	\$2,595	\$3,949
Variable costs per tonne of throughput	\$2,465	\$6,305	\$27,732	\$6,647	\$13,099
Full-Time Equivalent (FTE) staff	0.40	5.00	33.40	13.35	6.57
Throughput per FTE (tonnes)	13	58	125	51.94	54.52
Revenue per FTE	\$291,937	\$574,336	\$1,739,173	\$388,229	\$1,022,526
Percent of members who are active	43%	75%	100%	64%	94%
Average throughput per active member (tonnes)	5.83	13.77	82.20	13.38	11.42
Seafood marketing revenue as a percentage of total revenue	75%	96%	100%	92%	97%
Distance from Sydney (Km)	51	366	779	586	451

**Potential impacts of the Commercial Fisheries Reform Program on cooperative viability**

**Impacts on overall number of fishers and seafood supply**

The number of commercial fishers reporting in NSW has declined by 36% since 1997/98, while the reported total wild catch and gross value of product declined at a lower rate (26% and 4% respectively), see Figure 2. This trend suggests that smaller/part-time/less operational fishers have been exiting the industry, while the remaining fishers have been expanding or becoming more productive, see Figure 3.

The Reform Program can be expected to intensify this trend, by providing added incentives for certain fishers to exit the industry and developing better conditions for those fishers who intend to remain in the industry.

<sup>2</sup> Minimum and maximum columns do not relate to a single cooperative

Figure 2 Change in fishing business numbers, total volume and total value of catch, since 1998/99<sup>3</sup>

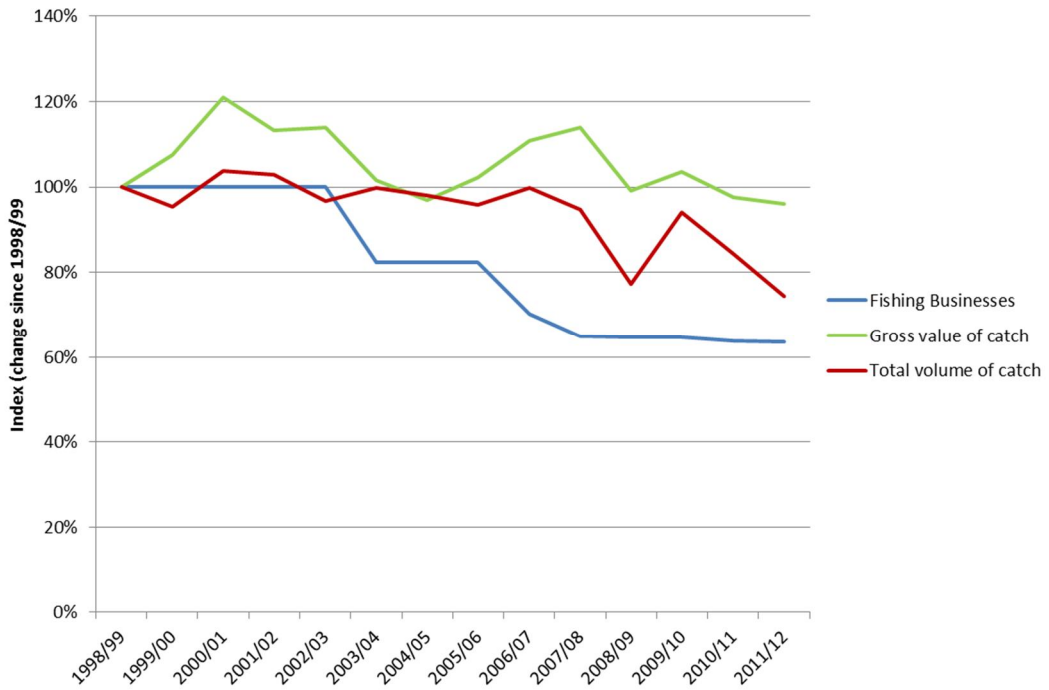


Figure 3 Average annual catch and gross value of production (GVP) per fishing business<sup>4</sup>



<sup>3</sup> NSW DPI provided data.

<sup>4</sup> NSW DPI provided data.

## Impacts on cooperative membership and throughput

Consultation with cooperatives suggests that many are concerned about the potential loss of membership into the future. Membership is generally expected to decline primarily due to a lack of profitability (compared to other industries), aging members and a lack of new entrants.

The median expectation is that the Reform Program will reduce cooperative membership by 9% and reduce cooperative throughput by 4%. (Table 2), indicating that cooperatives generally expect to lose smaller or inactive fishers.

Table 2 Analysis of anticipated loss of members and throughput

	Minimum	Median	Maximum
Expected loss of members	0%	-9%	-46%
Expected loss of throughput	0%	-4%	-22%

## Impact on profitability

GHD modelled the profitability of cooperatives under four throughput scenarios (Table 3) ranging from the status quo to a 15% decline. The results suggest that the number of cooperatives recording before tax operating profits could decrease from nine (60%) to three (20%). However based on the experience of previous reforms, the decline in throughput and therefore profitability is likely to be temporary (as discussed in section 4.1.1), particularly if the reforms meet their objective of putting the industry on a more profitable basis in the long term.

Table 3 Profitability impact analysis

Scenarios	Median profit	Average profit margin	No. of cooperatives recording an operating profit	Per cent of cooperatives recording an operating profit
Status quo	\$18,459	1%	9	60%
-5% throughput	-\$10,468	-0.1%	7	47%
-10% throughput	-\$56,035	-1.3%	4	27%
-15% throughput	-\$120,848	-2.6%	3	20%

The analysis in Table 3 assumes that all cooperatives will be affected equally by the reforms, which is unlikely to be the case.

## Liability due to repurchase or repayment of shares

Cooperatives are required to repurchase shares from exiting members at their request. GHD modelled the potential liability for cooperatives to repurchase shares of exiting members, as a result of the Reform Program. The results suggest that all but one cooperative expects to face a liability of less than \$40,000, based on their expected member losses. The majority of cooperatives did not believe this liability would significantly affect their financial viability, particularly given the conditions in place in the Cooperatives Act 1992 (the Act) and cooperative constitutions, which allow repayments to be deferred or in some cases waived.

However the results do suggest that one cooperative will face a liability of \$200,000, based on an expected member loss of 11%. Despite the conditions for debt to be deferred, this potential liability is likely to have a major impact on this cooperative's viability, particularly since there is an existing carryover liability to purchase shares from exiting members.

## Risk of membership falling below the minimum threshold (five members)

Section 73 of the Act prescribes that a cooperative must maintain a minimum of five members. If membership drops below this threshold, the cooperative must cease carrying out business in 28 days or the Directors will be guilty of an offence.

At present there are three cooperatives with ten or less active members, one of which expects to be left with only five members following the Reform Program. If a cooperative's membership falls below the

minimum threshold, the remaining members may choose to either dissolve and wind up the operation, or convert to a company structure whereby the remaining members become directors.

### **Risk of members voting to voluntarily wind up a cooperative**

The Reform Program will prompt all fishers to consider their future within a relatively short period of time. This may result in a situation where the majority of cooperatives members vote to voluntarily wind up a cooperative. In this situation all assets would be liquidated, outstanding debts paid, and remaining capital redistributed to members.

This scenario is possible for cooperatives which have considerable equity, e.g. via real estate assets, and a smaller membership base which is less committed to remaining in the industry in the longer term. However, for the overwhelming majority of cooperatives this scenario is unlikely, as the potential disbursement of equity to members is unlikely to be significant enough to compensate for the loss of the cooperative from their local industry.

Recent cooperative closures at Crowdy Head and Twofold Bay (see Section 4.6), were driven by a lack of profitability and membership, rather than equity disbursements.

### **Loss of competition in the event of cooperative closures**

The loss of competition following a cooperative closure could be significant, depending on the level of alternative competition in the region from private companies or neighbouring cooperatives.

In most cases it would be expected that private companies or neighbouring cooperatives would evolve to service the remaining fishers, however the overall loss of competition could result in:

- Lower prices for fish
- Higher fees/costs
- Less opportunity to value add (e.g. via retail outlets, additional processing and access to export markets)
- Increased likelihood of products being refused or downgraded (compared to cooperatives which generally accept all products and often pool returns).

### **Loss of services in the event of cooperative closures**

A cooperative closure might result in the loss of member/industry services including:

- The supply of ice, chandlery, bait and tackle
- Value adding (e.g. filleting and packaging)
- Accommodating the wish of some fishers to differentiate their products in the local market (eg. by labelling and packaging)
- Export services
- Moorings
- Book-keeping, finance and other services.

Many of these services could be made available through alternative suppliers however in many cases they are likely to be less convenient and/or more expensive for fishers to access.

Most cooperatives also provide more intangible services to the broader community including:

- Encouraging tourists (e.g. via information boards, viewing areas)
- Managing wharf or harbour facilities, in either an official capacity, or through their ongoing presence
- Contributing employment and economic activity to the local economy.

## **Impacts of recent cooperative closures**

### **Crowdy Head Fisherman's Cooperative**

The Crowdy Head Fisherman's Cooperative closed in July 2012. At the time of closure the cooperative had six remaining members, who did not receive any dividend following repayment of debts.

Of the six remaining members, only four or five fishers continued to operate in the region and have joined neighbouring cooperatives in Laurieton and Taree. These remaining fishers are catching the same amount, however without the support of their local cooperative they are generally working longer hours and paying more for inputs and services.

### **Twofold Bay Fisherman's Cooperative**

Twofold Bay Fisherman's Cooperative closed in 2013 largely as a result of increased competition from private operators and reduced throughput following the Commonwealth buyouts.

All 11 previous cooperative members continue to operate in the region. A private operator has taken over the cooperative's facilities, however the loss of competition from the cooperative has reduced returns for fishers. The overall catch from the region has not been affected, however costs are higher.

## **The role and limitations of Government**

Cooperatives are requesting that the government provides stability and certainty to industry, in order to encourage confidence and investment. Cooperatives are also seeking for government to help reduce costs, improve management of fisheries and infrastructure, control illegal fishing and improve labelling and promotion of the local industry.

When dealing specifically with cooperatives, governments must maintain principles of "competitive neutrality" under the COAG *Competition Principles Agreement*<sup>5</sup>. These principles are not explicit, however they would generally preclude governments from undertaking activities such as:

- Providing generic support or bail out payments for cooperatives
- Discounting or waiving crown land lease payments<sup>6</sup>
- Any other support specifically designed to improve the commercial viability of cooperatives, as separate from private competitors

However, the principles of competitive neutrality would most likely not preclude governments from undertaking the following activities:

- Providing services which benefit the whole of industry
- Paying or compensating cooperatives for providing specific public goods (e.g. tourism services, monitoring and management of wharf or harbour facilities)<sup>8</sup>.

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<sup>5</sup> Council of Australian Governments, *Competition Principles Agreement* – 11 April 1995 (as amended to 13 April 2007).

<sup>6</sup> Cooperatives and most other businesses are ineligible for crown land rent concessions and hardship relief, NSW DPI, 2012, *Rent concessions and hardship relief for Crown land tenure holders*.

<sup>7</sup> The NSW Government is currently undertaking a comprehensive review of crown land management, aimed at "improving community outcomes, engaging with the private sector, and revitalising the regions". NSW Department of Trade and Investment 2012, *Comprehensive review of NSW Crown Land Management*.

<sup>8</sup> In some circumstances these services would be subject to tender.



## **Conclusions**

The financial viability of NSW Fishing Cooperatives generally reflects that of its members and the broader industry, with flat or declining throughput relative to fixed costs and competition from imports, putting pressure on operating profits.

Despite these difficulties some cooperatives remain confident about their future, often due to their ability to value add to product, draw income from diversified sources or rely on sound asset backing.

If the Reform Program meets its stated objectives it will put the industry on a more profitable basis in the long-term. However, in the short-term the reforms are likely to reduce the profitability of some cooperatives via the loss of members and throughput.

GHD believes that if current trends continue, a small number of cooperatives (between one and three) will likely become unviable and therefore be forced to either close, amalgamate or convert to private companies. The Reform Program may bring about these changes earlier than expected.

Rationalisation of NSW fishing cooperatives is likely to be beneficial in the longer term, particularly if it enables services to be maintained in regions where cooperatives are facing ongoing challenges to remain viable.

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Appendix A Stakeholders interviewed

Appendix B Survey template

Appendix C Telephone interview template

Appendix D Excerpts from GHD's 2009 NSW Fishing Cooperative study

Appendix E Cooperatives Act 1992 (NSW) Section 172 and 173

# 1. Introduction

## 1.1 Purpose of this report

The NSW Department of Primary Industries (NSW DPI) in consultation with the Structural Adjustment Review Committee (SARC) has contracted GHD to complete a study into the potential impacts of the *Commercial Fisheries Reform Program* (the Reform Program) on the viability of NSW fishing cooperatives.

Table 4 lists the Terms of Reference for the project and corresponding sections of the report.

Table 4 Terms of Reference

Terms of Reference	Corresponding sections of the report
Summarise the main elements/outcomes of and responses to relevant previous studies completed and publications relating to the operation and viability of NSW fishing cooperatives	2.2 Previous studies investigating the viability of NSW fishing cooperatives
Identify the main revenue/cost factors that influence the operation and viability of NSW fishing cooperatives	2.3 Factors influencing cooperative viability
Summarise (in broad terms) the present financial position and vulnerabilities of each of the existing NSW fishing cooperatives.	2.3 Factors influencing cooperative viability
Review relevant legislation, rules, constitutions and/or shareholder policies to summarise the liability of cooperatives should the membership base decline	4.4 Potential liability implications from member losses
Consider (using existing information) the possible impacts of structural changes to NSW commercial fisheries on seafood supply and overall cooperative viability	4 Potential impact of the Reform Program
Consider the potential impact of cooperative closures on the harvest sector, including examining how industry has responded to any closures of cooperatives that have occurred over the last few years	4.5 Impact of cooperative closures
Examine if and what role government has in supporting or ensuring the ongoing operation and viability of NSW fishing cooperatives, in the context of a deregulated fish marketing system and COAG agreements promoting market competitiveness.	5 The role and limitations of Government

## 1.2 Scope, limitations and assumptions

The scope of this project has allowed for the views of one representative from each of the commercial fishing cooperatives. This was usually the manager but a greater diversity of opinion may have been obtained if more representatives had been consulted.

The report is subject to the following limitations and assumptions:

- Analysis draws heavily on cooperatives' financial statements to evaluate profitability. Care should be taken when interpreting these results because:
  - Profitability can vary from year to year and financial statements do not always provide a transparent picture of overall business operations, due to their highly aggregated nature.

- Cooperatives are managed to maximise value to members, which does not necessarily involve maximising profits.
- Financial statements did not always clearly separate revenue derived from local seafood versus revenue derived from imported seafood or other services and investments. On these occasions the consultant relied on their judgement.
- Financial statements did not always clearly separate fixed versus variable costs. On these occasions the consultant used their own judgement.
- All data and responses received from stakeholders were assumed to be correct.
- When estimating potential liability from exiting members, it was assumed that all exiting members held share values equal to the average shareholding for each co-operative (unless advised otherwise by the co-operative).
- When modelling the potential impact of reduced throughput (Section 4.3), the analysis assumes cooperatives do not react to conditions by reducing costs, or re-allocating resources and attention to value adding or diversified sources of income. This analysis also assumes that all cooperatives will be affected equally by the reforms, which is unlikely to be the case. In reality some cooperatives draw throughput from fisheries which are outside the scope of the reforms, e.g. Lobster and Commonwealth fisheries. It is also expected that some fisheries within the scope of the reform, will be more affected than others, which will in turn determine the relative impact on cooperatives.

### 1.3 Confidentiality

This report draws on confidential data and information provided by cooperatives. To maintain this confidentiality all results have been presented without linking to individual cooperatives e.g. through averaging and aggregation. Where it has been necessary to present results for individual cooperatives, a numbering system has been used (e.g. in Figure 5, Figure 6, Figure 7 etc.), however cooperative numbers in different figures and tables do not necessarily correspond to each other.

### 1.4 Methodology

The methodology for the study is summarised in the following five steps:

1. Scope development: The scope of the study was developed by NSW DPI in consultation with the NSW Fishing Cooperative's Association and the Structural Adjustment Review Committee.
2. Industry workshop: GHD attended the Fishing Cooperatives Working Group meeting held in Coffs Harbour on 23 July 2013, to discuss with cooperatives the potential impacts of the Reform Program.
3. Review of past documents and data: GHD reviewed past documents and data relating to structural adjustment and the viability of NSW fishing cooperatives
4. Consultation and information gathering: GHD wrote to the managers of all NSW commercial fishing cooperatives, outlining the purpose and scope of the study, and asking for their participation by:
  - Completing and returning a survey (template provided in Appendix B);
  - Forwarding a copy of their most recent annual reports; and
  - Participating in a telephone interview (template provided in Appendix C)

A summary of the consultation undertaken is provided in Table 5 below.

Table 5 Consultation summary

Measure	Number
Total number of NSW Fishing Cooperatives	15
Survey	8 (53%)
Telephone interviews	14 (94%)
Financial/annual reports provided <sup>9</sup>	15 (100%)
Interviews with fishers previously involved in folded cooperatives (Crowdy Head and Twofold Bay)	3
Other interviews	1
Fishing cooperative meetings	2

5. Analysis: Drawing on the information provided, and other available sources, GHD undertook analysis to address the terms of reference.

GHD benchmarked cooperatives against a range of factors impacting on the profitability and viability of their business including fixed and variable costs, membership, throughput, diversification of services and markets etc. The results are presented under the following categories:

- Minimum
- Median
- Maximum
- Least confident cooperatives: average results for cooperatives who rated their financial viability as “low” or “very low”
- Most confident cooperatives: average results for cooperatives who rated their financial viability as “high” or “very high”.

6. Reporting: GHD completed the report drawing on information obtained to address the terms of reference. Once complete a draft report was circulated to DPI and cooperatives for comment before the final report was finalised.

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<sup>9</sup> Reports were either provided directly by cooperatives or obtained from NSW Fair Trading

## 2. Current viability of cooperatives

This section summarises the current viability of NSW Fishing Cooperatives drawing on evidence collected as part of this study and relevant previous studies or publications.

### 2.1 Overview

At present there are 16 fishing cooperatives operating in NSW; since 1996 four have ceased operating (Table 6).

Table 6 NSW Fishing Cooperatives (operating and recently closed)

Currently operating	Recently closed
Ballina	<b>Since 2007</b> Crowdy Head Twofold Bay
Bermagui	
Brunswick Head	
Clarence River	<b>Between 1996 -2007</b> Tuggerah Wooli
Coffs Harbour	
Commercial (Newcastle)	
Evans Head	
Hastings River	
Hawkesbury River	
Laurieton	
Macleay River	
Taree	
Ulladulla	
Wallis Lake	
Wollongong	

NSW fishing cooperatives are generally operating under increased financial pressure due to the following factors:

- A reduction in members and throughput
- Increasing overhead costs
- Competition from individual fishers who are not members of cooperatives
- Competition from domestic aquaculture operations and cheaper imported products<sup>10</sup>

In response to these pressures, many fishing cooperatives are seeking to diversify their income, or add value by marketing their products to niche customers.<sup>11</sup>

### 2.2 Previous studies investigating the viability of NSW fishing cooperatives

#### ***Review of the financial impacts of deregulation of fish marketing on, and possible restructuring of Fisherman's Cooperatives, Mann Judd April 1996***

This study was commissioned by the NSW Fisherman's Cooperative Association to:

1. Assess the ability of individual cooperatives to withstand a decline in membership and product.
2. Examine and identify opportunities for cooperatives to merge or enter into joint venture arrangements, and assess the costs and benefits of these opportunities.

<sup>10</sup> Stevens R 2007, *Report on Structural Adjustment in Commercial Fisheries in New South Wales*, NSW Department of Primary Industries, 12 October 2007.

<sup>11</sup> Australian Bureau of Statistics, 2012, *Fishing Cooperatives in Australia 1301.0*



The study found that of the 17 cooperatives examined, two recorded an operating loss in the previous year (Laurieton and Wollongong). If deregulation caused a 10% reduction in throughput five cooperatives would have recorded an operating loss (Laurieton, Wollongong, Tuggerah, Brunswick Byron and Evans Head). While some cooperatives were found to be less susceptible to declining throughput due to deregulation, the report suggested that all cooperatives would, directly or indirectly, suffer financial loss from the fragmentation of the cooperative system.

The study urged all cooperatives to seriously consider amalgamation, not only in response to a deregulated market, but as a means of overcoming the business pressures being experienced by cooperatives.

The study identified opportunities for amalgamation to occur either via mergers of neighbouring cooperatives or a structured process of regional groupings. The study also identified a range of issues which would need to be resolved for amalgamation to occur (Table 7).

**Table 7 Amalgamation benefits and issues to be resolved**

Benefits of amalgamation	Issues to be resolved for amalgamation to occur
<p>The study found that almost every cooperative would benefit from amalgamation, via one or more of the following areas:</p> <ul style="list-style-type: none"> <li>• <u>Secure additional markets</u> (such as regional or export) for existing product)</li> <li>• <u>Bigger source of product</u> – allows access to new markets (such as, but not limited to, processing or export), gives more flexibility with prices</li> <li>• <u>Less competition</u>, therefore higher/more consistent selling prices</li> <li>• <u>Economies of scale</u> allow more cost-effective marketing</li> <li>• <u>Cost savings</u> including administration (reductions in overhead as well as staff numbers), operational (such as closing down factories/outlets) and saving on duplicating plant and equipment, better buying power of a bigger group</li> <li>• Business in a weak trading position may use/see amalgamation as a <u>chance to survive</u></li> <li>• <u>Releasing fishermen from financial and day to day obligations of running cooperatives</u> and allow them to focus on their core business – fishing.</li> </ul>	<p>The study identified the following issues which would need to be resolved for amalgamation to proceed:</p> <ul style="list-style-type: none"> <li>• <u>Share structure</u></li> <li>• <u>Board structure</u> and representation</li> <li>• Development of a <u>strategic plan, business plan and marketing plan</u></li> <li>• First <u>right of refusal</u> of catch</li> <li>• Assessment of which cooperative should/might be <u>converted into depots</u></li> <li>• Investigation and evaluation of <u>retail operations</u>, including assessment of scope for expansion, need for upgrading, etc.</li> <li>• <u>Rates of commission</u> charged to members, and non-members</li> <li>• <u>Charges</u> for other members services including ice, fuel, boxes, handling changes</li> <li>• <u>Method of pricing</u> – pooled or individual box/manifest</li> <li>• Responsibility for claiming of <u>diesel fuel rebate</u> (cooperative or member)</li> <li>• Location and responsibility of <u>central management</u>, including accounting and reporting systems</li> </ul>

Since this study was completed in 1996, there have been no formal amalgamations of cooperatives. There is however evidence that amalgamations are occurring organically. Four cooperatives have closed in this time (see Table 6), and in most cases neighbouring cooperatives have arranged to service the remaining fishers in these areas. While these arrangements often result in reduced services and/or competition in the local area, there is also evidence that joining a larger cooperative improves overall efficiency and provides access to larger and more diverse markets. Consultation suggests the injection of new members and increased throughput has

been particularly beneficial for remaining cooperatives (the impact of cooperative closures is discussed further in Section 4.5).

There is also evidence that, while cooperatives are not engaging in formal amalgamation, they are interacting and collaborating more closely with each other through:

- Trading of product; and
- Sharing of resources (e.g. transport, book-keeping, ideas and knowledge).

***The Contribution of, and Future Opportunities for, NSW Commercial Fishing Cooperatives, GHD Hassall May 2009***

In late 2008 an additional study was commissioned by NSW DPI to assess the position of fishing cooperatives within the NSW commercial fishing industry<sup>12</sup>. The study provided an economic profile of the cooperative system (summarised in Table 8), and identified drivers of future performance for fishing cooperatives (summarised in Table 9).

**Table 8 Economic profile of NSW commercial fishing cooperatives (2009)**

Factor	Summary of findings
Services	The range of services offered varies considerably however manufacture and sale of ice, fuel, cold storage, mooring and marketing are offered by most. Fees tend to be charged for all of these services.
Profits	In general, profits from the largest cooperatives have been rising over the past three years. In contrast, most of the other cooperatives have seen fluctuating or decreasing profits, and some cooperatives are running at a loss. There is not necessarily a strong association between cooperative throughput and profitability. This is due to cooperatives obtaining revenue from other operations such as restaurants, retail shops and value adding.
Throughput	The majority of cooperatives estimate that more than 80% of local throughput (commercial catch) is sold through their cooperative. Half of the cooperatives are experiencing declining throughput. However, this has been attributed to government buy-out of fishing licences, quota restrictions and the establishment of marine parks.
Member numbers	In most cases, member numbers have declined, although cooperatives reported that the vast majority of members are active. The majority of cooperatives have 90-95% of local fishers as members. On average, around 95% of members' catch is sold through the cooperatives.
Servicing non-members	The majority of cooperatives allow non-members to use their facilities on a fee-for-service basis. In most cases, non-member product represents less than 10% of total cooperative throughput.
Marketing	Two thirds of cooperatives reported selling the majority of their product to the Sydney Fish Market (SFM), while the remaining third cited local buyers as their primary market. Trends in freight costs and improved local prices have made local sales increasingly attractive. Around 25% of cooperatives are selling some of their product interstate, while overseas shipments are being made by 20% of cooperatives.
Staff numbers	Cooperative staff numbers have been relatively stable over the last 5-10 years. One third of cooperatives have three or less FTE's. Management duties tend to be performed by one FTE, and this person has usually been employed by the cooperative for many years.

<sup>12</sup> GHD Hassall, 2009, *The Contribution of, and Future Opportunities for, NSW Commercial Fishing Cooperatives*, NSW Department of Primary Industries.

The study identified strengths, weaknesses, opportunities and threats (SWOT) for fishing cooperatives, and the characteristics of those cooperatives which have a more positive outlook (summarised in Table 9 below and provided in full in Appendix D).

**Table 9 Drivers of future cooperative performance (2009)**

<p><b>Strengths</b></p> <ul style="list-style-type: none"> <li>• Provision of services</li> <li>• Industry representation</li> <li>• Willingness to diversify</li> </ul>	<p><b>Opportunities</b></p> <ul style="list-style-type: none"> <li>• Growth in local demand (wild caught, clean and green product)</li> <li>• Vertical and horizontal integration</li> <li>• Reviewing business structures</li> <li>• Efficiency improvements (reducing costs or increasing capacity)</li> </ul>
<p><b>Weaknesses</b></p> <ul style="list-style-type: none"> <li>• Same fees for non-members</li> <li>• Low entry contributions</li> <li>• Low morale</li> <li>• Difficult to raise capital from members</li> </ul>	<p><b>Threats</b></p> <ul style="list-style-type: none"> <li>• Marine parks</li> <li>• Supermarkets dealing direct</li> <li>• Regulations</li> <li>• Decline in membership</li> <li>• Rising costs</li> <li>• Recruiting</li> <li>• Lack of government assistance</li> </ul>
<p><b>Characteristics of cooperatives that hold a more positive outlook;</b></p> <ul style="list-style-type: none"> <li>• Strong business relationship with suppliers, based on mutual respect and a formal supply agreement;</li> <li>• Open to new ideas and opportunities such as sharing resources with other cooperatives;</li> <li>• Maximise marketing opportunities such as value adding and finding buyers for less 'popular' product;</li> <li>• Targeted investment in new equipment or facilities, to increase the efficiency of operations;</li> <li>• Diversified revenue streams, avoiding reliance on any single source of income and helping to manage risk;</li> <li>• Regularly seek strategic business advice from external sources such as accountants or consultants; and</li> <li>• Strong management structure and associated support staff.</li> </ul>	

The report concluded by providing three broad recommendations for how NSW fishing cooperatives could improve their viability into the future

3. Review cooperative rulebooks and policies
4. Investigate a change in business structure
5. Investigate further marketing opportunities

Consultation suggests that these recommendations have been adopted by some, but not all cooperatives. The full recommendations are provided in Appendix D.

## 2012 Australia's Top 100 Cooperatives, Credit Unions and Mutuals by Annual Turnover

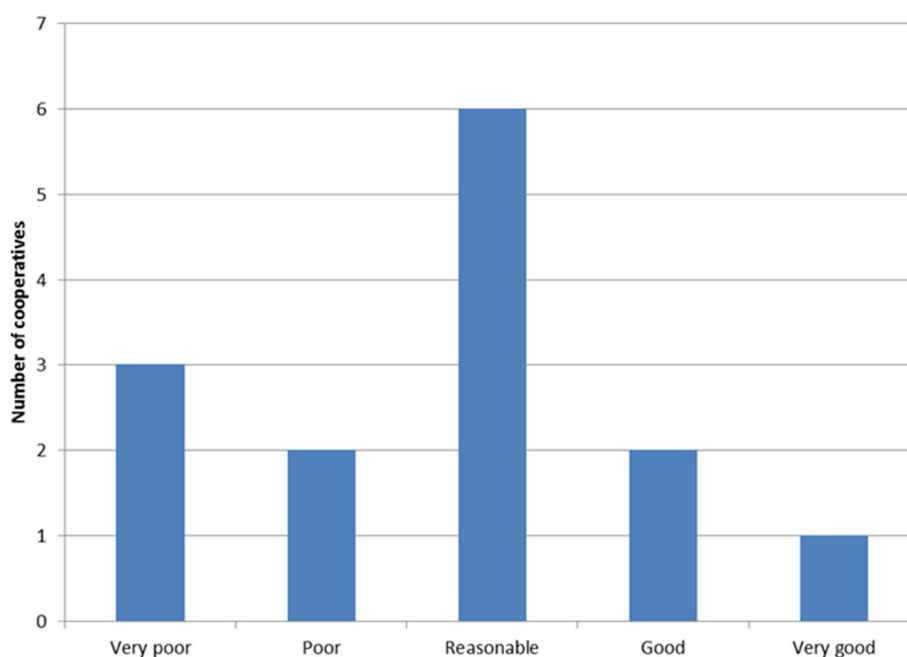
In 2012 four fishing cooperatives were ranked in the top 100 Australian Cooperatives in terms of annual turnover<sup>13</sup>, of which three were from NSW.

- #81 Clarence River Fishermen's Cooperative Ltd (\$14.5M)
- #90 Commercial Fisherman's Cooperative (\$13.3M)
- #94 Coffs Harbour Fishermen's Cooperative Limited (\$11.2M)

### 2.3 Factors influencing cooperative viability

Consultation undertaken as part of this study found that stakeholders from 11 of the cooperatives (79%) rate the financial viability of their cooperative as being "reasonable", "poor" or "very poor", leaving stakeholders from three cooperatives (21%) rating their viability "good" or "very good" (Figure 4).

Figure 4 Cooperatives rating of current financial viability<sup>14</sup>



Of the five cooperatives who rated their financial viability as being "poor" or "very poor", three were located on the far north coast of NSW and two were located south of Sydney.

These ratings are generally supported by the before tax profit margins<sup>15</sup> observed in the most recent annual reports provided (Figure 5 and Table 10 below). These results show a median profit margin of 1%, with six cooperatives recording a loss, and only one cooperative recording a profit margin above 5%.

<sup>13</sup> Cooperatives Australia 2012, *Australia's Top 100 Cooperatives, Credit Unions and Mutuals by Annual Turnover*.

<sup>14</sup> Categories were not defined; therefore the results are based on the cooperative's own interpretation.

<sup>15</sup>  $(\text{Net profit} / \text{total revenue}) \times 100$

Figure 5 Cooperative profit margins before tax

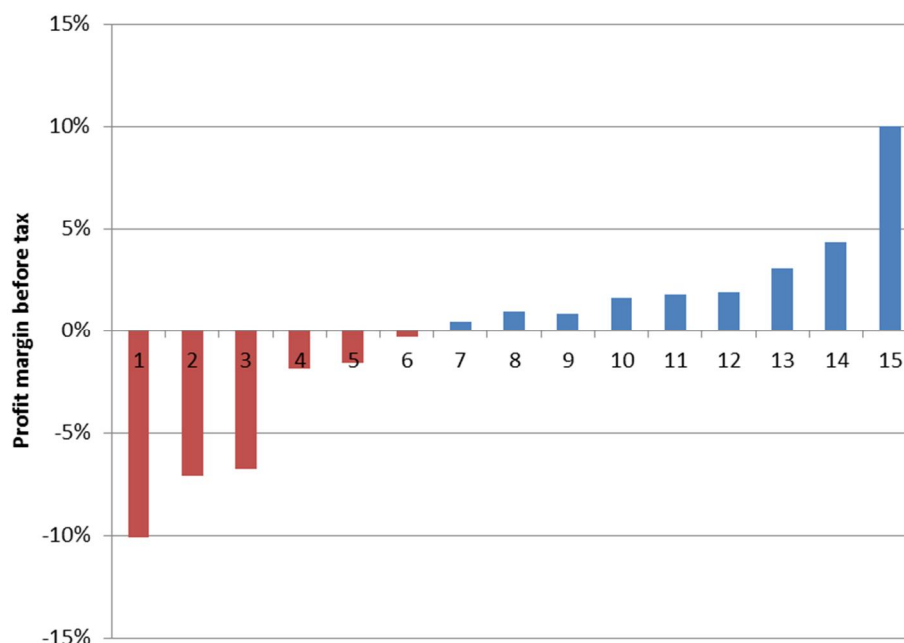


Table 10 Profitability analysis

Benchmark	Minimum	Median	Maximum	Less financially viable	More financially viable
Profit margin	-10%	1%	10%	-6%	2%

After consultation with cooperatives the following have been identified as the main factors influencing the viability of their cooperative:

- Cost
- Throughput
- Membership
- Value adding and diversification of services and markets
- Market conditions
- Other factors

Each of these factors is analysed in further detail below.

### 2.3.1 Costs

The large majority of cooperatives cited rising costs as a major factor impacting on profitability and therefore viability. In particular, many cooperatives appear to be suffering from rising fixed costs (staff, lease of premises, building maintenance, compliance costs etc.) at a time when throughput has been steadily declining.

Analysis below (Table 11) shows that the most profitable cooperatives have higher costs and revenue per tonne of throughput. This is to be expected as these cooperatives generally engage in value adding activities particularly via retail outlets<sup>16</sup>. The analysis also shows that more financially viable cooperatives have:

- Lower overall costs as a percentage of revenue
- Lower fixed costs as a percentage of total costs
- Lower fixed and variable costs per tonne of throughput

<sup>16</sup> Retail outlets often generate income from non-local seafood and other products, however these items are generally not shown separately in financial reports.

Table 11 Cost analysis

Benchmark	Minimum	Median	Maximum	Less financially viable	More financially viable
Revenue per tonne throughput	\$4,087	\$9,935	\$42,805	\$8,680	\$17,440
Costs per tonne throughput	\$4,380	\$8,927	\$42,947	\$9,242	\$17,048
Costs as a % of revenue	75%	99%	110%	106%	98%
Fixed costs as a % of total costs	15.87%	26%	44%	31%	23%
Fixed costs per tonne throughput	\$1,464	\$2,604	\$15,215	\$2,595	\$3,949
Variable costs per tonne of throughput (marginal costs)	\$2,465	\$6,305	\$27,732	\$6,646.58	\$13,099

Below is a brief discussion of the major cost categories.

### **Lease and property costs**

Cooperatives located on crown land cited annual lease payments of between \$50-100,000 as a major fixed cost. In contrast, cooperatives which own their own property assets generally considered themselves to be more financially viable on account of ongoing asset appreciation.

### **Staffing costs**

The more viable cooperatives are generally able to minimise fixed costs by operating with fewer staff in relation to throughput and revenue (see Table 12).

Table 12 Staffing analysis<sup>17</sup>

Benchmark	Minimum	Median	Maximum	Less financially viable	More financially viable
FTE's	0.40	5.00	33.40	13.35	6.57
Throughput per FTE (tonnes)	13	58	125	51.94	54.52
Revenue per FTE (\$)	\$291,937	\$574,336	\$1,739,173	\$388,229	\$1,022,526

### **Operating and maintenance costs**

The increased cost of utilities including electricity, water and gas was frequently cited, as well as the high costs of maintaining extensive facilities (e.g. large ice making machines) which were installed to cater for throughput levels much higher than presently experienced.

### **Compliance costs**

Many cooperatives also cited increased compliance costs for areas such as food safety, OHS and quality assurance (e.g. for the major supermarkets).

#### 2.3.2 Throughput

Annual throughput varies markedly between cooperatives (Figure 6).

<sup>17</sup> Cooperative FTEs were calculated by giving part time staff a 0.4 FTE weighting and casual staff a 0.2 FTE weighting.

Figure 6 Annual throughput

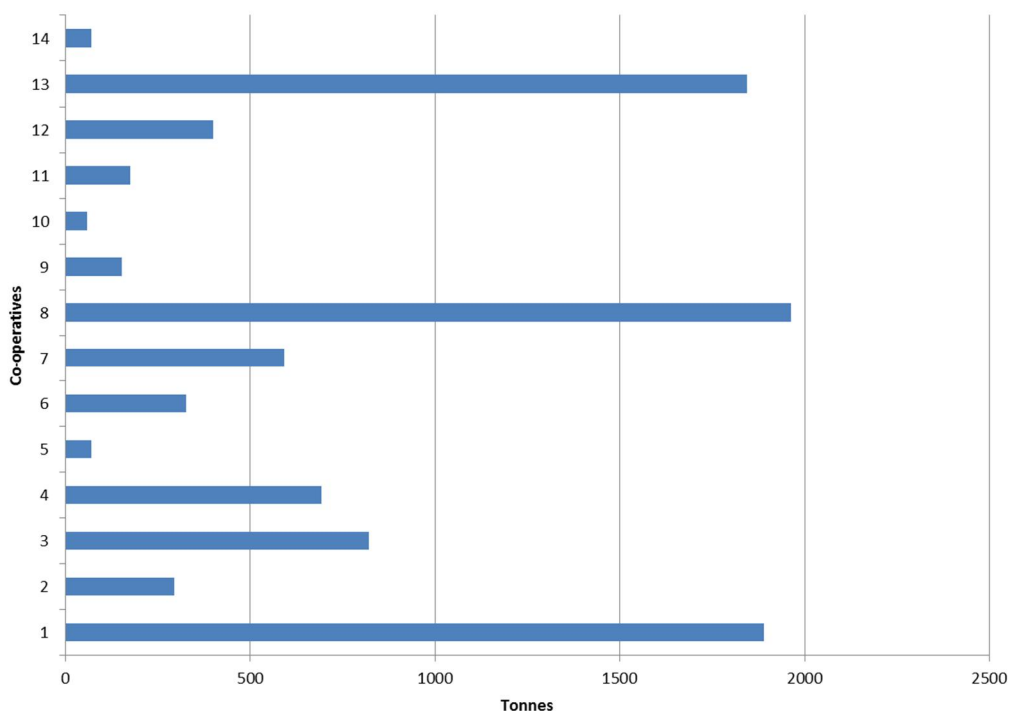


Table 13 shows the proportional change in cooperative throughput and active members since 2007 (where data exists). The results show on average cooperatives lost approximately 12.5% of active members over this period, however throughput was relatively stable, declining by just 1.7%.

Table 13 Change in throughput and membership<sup>18</sup>

Cooperative	Change in throughput since 2007		Change in members since 2007	
	Tonnes	%	Members	%
1	-690	-36.5%	-5	-3.6%
2	-75	-20.2%	-3	-10.7%
3	140	20.5%	0	0.0%
4	0	0.0%	-3	-7.3%
5	10	16.7%	0	0.0%
6	21	6.9%	-9	-34.6%
7	60	11.3%	0	0.0%
8	104	5.7%	-1	-13.7%
9	61	40.1%	-6	-17.1%
10	-64	-26.8%	-7	-22.6%
11	-150	-37.5%	-17	-40.5%
12	-3	-0.2%	0	0.0%
Total	-586		-67	
Average	-49	-1.7%	-5.6	-12.5%

Throughput relative to costs is cited as a key determinant of cooperative profitability and viability. As discussed earlier, cooperatives are facing rising fixed and variable costs; it is therefore vital that these businesses achieve the necessary throughput to cover these costs if they are to maintain their profitability. It therefore stands that while the most profitable or viable cooperatives did not necessarily have the highest throughput, (Table 14), these cooperatives did have higher throughput per unit of cost (Table 11).

While throughput is important, cooperatives can increase profitability without increasing throughput, by adding value to product (e.g. through effective marketing, retail sales etc.).

Table 14 Throughput analysis

Benchmark	Minimum	Median	Maximum	Less financially viable	More financially viable
Annual throughput (tonnes)	59	326	1,964	684	313
Average throughput per active member	5.83	13.77	82.20	13.38	11.42

### 2.3.3 Membership

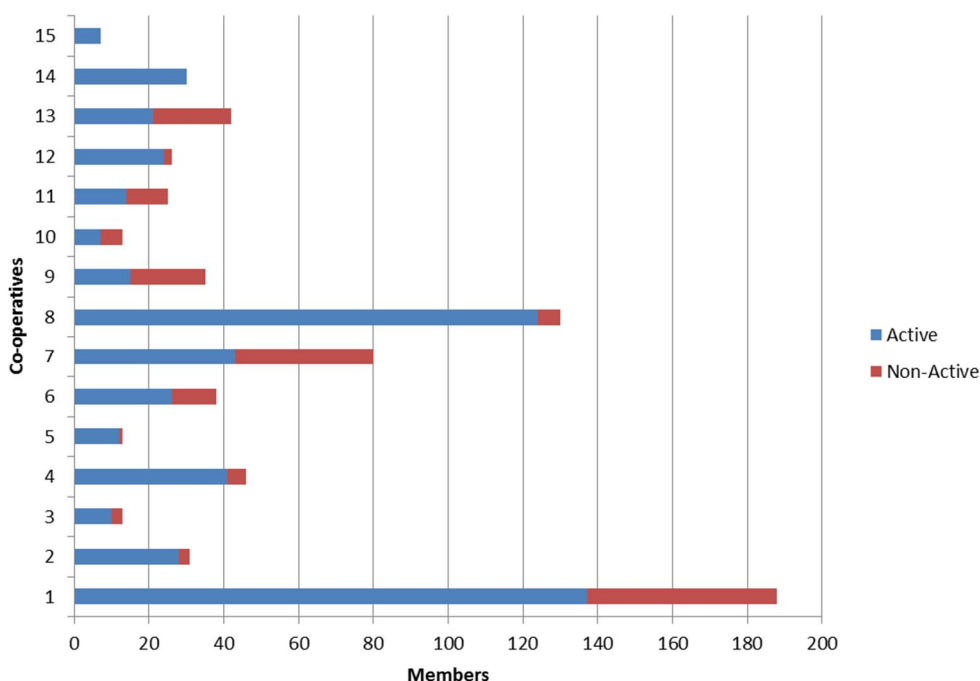
Cooperative membership numbers vary greatly, ranging from seven to 137, with an average of 35 (Table 15). Strong membership is one measure of a cooperative’s viability, however some cooperatives remain financially viable despite low membership and others are less financially viable despite having a larger membership.

Table 15 Membership analysis

Benchmark	Minimum	Median	Maximum	Less financially viable	More financially viable
Percent of members who are active	43%	75%	100%	64%	94%

Most cooperatives have a proportion of non-active members. (Figure 7). These are members who are not deemed to be active under the cooperative’s constitution, usually because the member has not delivered sufficient product to the cooperative or membership fees have not been paid. The median proportion of inactive members is 25%. The data in Table 15 suggests that the more financially viable cooperatives have a slightly higher percentage of active members.

Figure 7 Membership numbers of NSW fishing cooperatives



Most cooperatives cited age combined with market conditions as a major factor causing membership decline. Many family fishing businesses are not being handed on to younger generations due to the perceived lack of security and profitability compared to other industries. Some cooperatives suggested that older generations have actively discouraged younger generations from entering the industry.



### 2.3.4 Value adding and diversification of services and markets

Some cooperatives have been successful in value adding and diversifying into other areas to reduce their reliance on bulk seafood markets. Some of these areas include:

- Selling ice, chandlery, bait and tackle
- Leasing property to retailers or companies requiring office space
- Tourism
- Restaurants
- Filleting service
- Accommodating the wish of some fishers to differentiate their products in the local market (eg. by labelling and packaging)
- Selling live fish
- Royalties
- Grants
- Mooring fees and wharf charges
- Selling frozen fish (to help manage prices and maintain more consistent supply throughout the year)
- Exporting markets
- Interest earned on cash investments.

Figure 9 below summarises the most common diversification/value adding activities undertaken by cooperatives.

Figure 8 Diversification of services

Cooperative	Diversified Services							
	Ice	Fuel	Mooring	Marketing	Storage	Retail shop	Filleting	Transportation
1								
2								
3								
4								
5								
6								
7								
8								
9								
10								
11								
12								
13								
14								
15								
16								

Table 16 shows that despite efforts to diversify income, the median proportion of revenue derived from seafood sales is still very high (96%). The results also show that the more financially viable cooperatives are actually more reliant on seafood sales as a percentage of total revenue (97%). These cooperatives appear to be focussed on value adding within their core business, rather than diversifying into other services. It should also be noted that this analysis is limited by the extent to which financial reports distinguish between different income sources.

**Table 16 Diversification analysis**

Benchmark	Minimum	Median	Maximum	Less financially viable	More financially viable
Seafood sales as a percentage of total revenue	75%	96%	100%	92%	97%

### 2.3.5 Seafood market access and diversification

Many cooperatives cited seafood market access and diversification as a major factor impacting on viability. The cooperatives primary markets are depicted in Figure 9 below. This shows there is a high reliance on the SFM, as well as wholesale, local retail and cooperative retail outlets.

**Figure 9 Diversification of markets**

Cooperative	Diversified Markets					
	Coop retail	Local retail	Wholesale	Sydney Fish Markets	Melbourne Wholesale Fish Market	Export
1						
2						
3						
4						
5						
6						
7						
8						
9						
10						
11						
12						
13						
14						
15						

Given the costs and logistical difficulties of transporting seafood long distances by road, many cooperatives cited their location in relation to Sydney and the population density in their local area as key factors impacting viability. This finding is supported by Table 17 which shows that the most profitable cooperatives are located closer to Sydney.

**Table 17 Distance and traveling time from Sydney**

Benchmark	Minimum	Median	Maximum	Less financially viable	More financially viable
Distance from Sydney (Km)	51	366	779	586	451

### 2.3.6 Market conditions

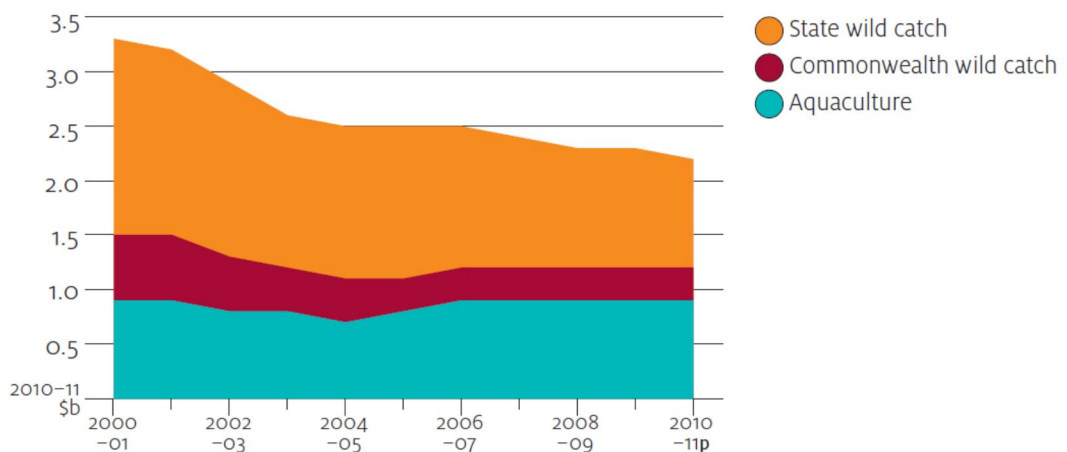
The economic viability of fishing cooperatives is clearly linked to the conditions of the wild caught fish and seafood market. This market is experiencing pressures from a range of factors including:

- Competition from imports and reduced export demand (Figure 10), due in part to the high Australian dollar
- Competition from aquaculture (Figure 11)
- Flat or declining production (Figure 12)
- Flat or declining prices (Figure 13)
- Market competition with other protein alternatives (e.g. chicken, beef, etc.)

Figure 10 Real value of fisheries exports and imports (Australia)<sup>19</sup>



Figure 11 Real value of fisheries production, by sector (Australia)<sup>20</sup>



<sup>19</sup> Skirtun, M, Sahlqvist, P, Curtotti, R & Hobsbawn, P, 2012, *Australian fisheries statistics 2011*, ABARES, Canberra. P 24.

<sup>20</sup> Ibid., p 25.

Figure 12 Wild caught fishery production (NSW)<sup>21</sup>

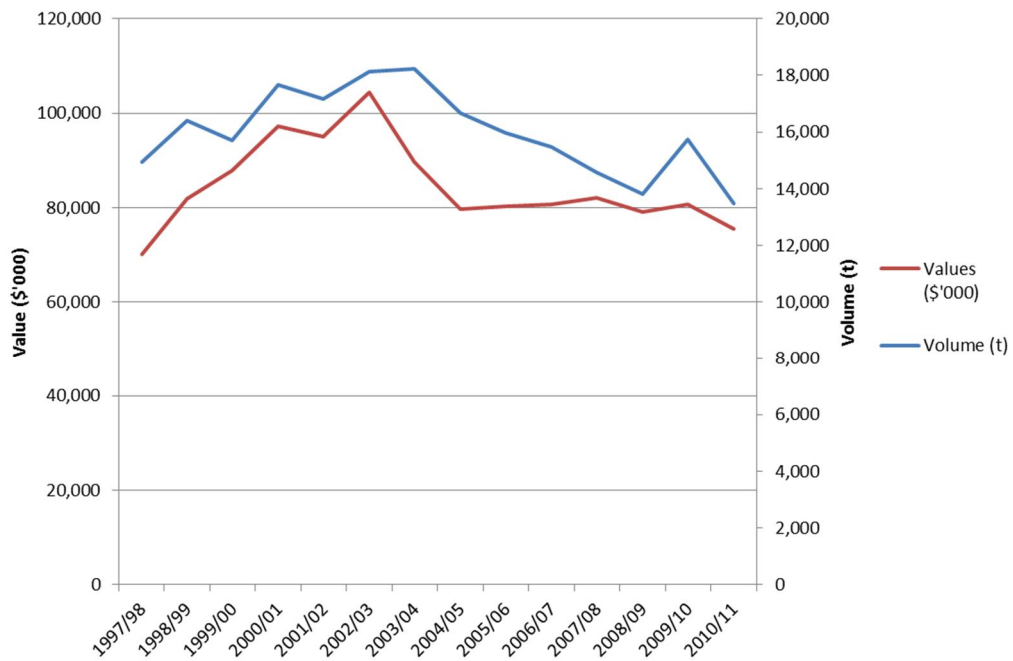
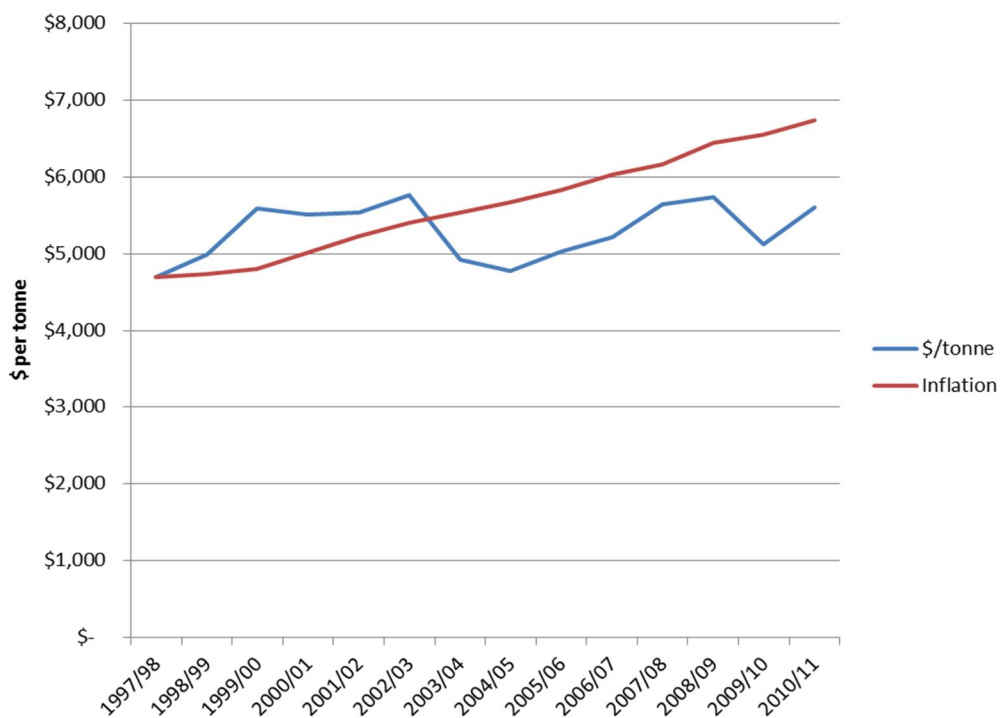


Figure 13 Wild caught average prices (NSW)<sup>22</sup>



### 2.3.7 Other factors

The following factors were also cited as impacting on cooperative viability:

- Resource access
- Access to capital
- General red tape

<sup>21</sup> ABARE Fisheries Statistics.

<sup>22</sup> ABARE Fisheries Statistics.

## 2.4 Responding to challenges

As outlined above, there are a number of challenges facing NSW fishing cooperatives, many of which are external factors, largely outside their control (e.g. utility costs, market conditions, imports etc.).

However there is evidence of some cooperatives successfully responding to these challenges, to maintain or improve their viability.

Consultation with cooperatives found a variety of different (often opposing) strategies being adopted by cooperatives, to suit their particular situation or perceived competitive advantage. For example:

- Some cooperatives have diversified to reduce reliance on seafood sales, while others have remained focussed on their core business, with more emphasis on value adding to seafood
- Some cooperatives have focussed on lifting throughput and bulk marketing while others have focused more on lifting quality and niche marketing
- Some cooperatives are actively seeking new members to improve throughput, while others are not taking new members in order to maintain returns to existing members.

# 3. About the Commercial Fisheries Reform Program

This section describes the Commercial Fisheries Reform Program, including the development, components, timeline and the concerns raised by cooperatives.

## 3.1 Development

The Fisheries Management Act 1994 (the Act) was introduced in an effort to establish access rights to the NSW fishing industry. The Act allowed for the allocation of shares (based primarily on catch history), which would be secure, defined, tradable and allow for internal adjustment in response to factors including changes in seasons, sustainability needs, costs and markets.

The share management scheme was initially introduced in the lobster and abalone fisheries in 1996, however most of the remaining fisheries were not declared share management fisheries until 2004. The original intent of the Act has not been realised, due to a range of reasons including the way the shares were allocated in 2007 and the fact that they have not, apart from the abalone and lobster fisheries, been linked with access to the resource.

The *Independent review of NSW commercial fisheries policy, management and administration* (Independent Review)<sup>23</sup>, was completed in March 2012. The Independent Review broadly investigated the shortcomings of commercial fisheries policy, management and administration in NSW, and provided recommendations for improvement. The report recommended reform activities relating to structural adjustment, as well as governance and consultation processes.

The NSW Government broadly supported all key recommendations from the Independent Review and the large majority of minor recommendations<sup>24</sup>, resulting in the announcement of the *Commercial Fisheries Reform Program* on 14 November 2012.

## 3.2 Components

In terms of structural adjustment the *Commercial Fisheries Reform Program* proposes the following:

**Linking shares to resource access:** Linking shares in each share class to resource access (catch or fishing effort), thus providing a system for autonomous adjustment.

**Exit grants:** Implementing a \$15.5 million exit grant program to provide an enhanced opportunity for fishers to exit the industry or particular fisheries and for those wanting to remain to acquire shares during a (temporary) period when there will be considerable downward pressure on share values.

**Revised fee structure:** Applying a new (transitional) fee structure and amount from July 2013 to move towards cost recovery and so that fees better reflect the access to the resource.

**Streamlining existing controls:** Streamlining existing fishing controls to remove those that become redundant once the share linkage has been determined and commenced, to help the remaining fishers operate in a more efficient manner.

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<sup>23</sup> Stevens, R. et al. March 2012. *Independent Review Report into NSW Commercial Fisheries Policy, Management and Administration*.

<sup>24</sup> NSW Government 2012, *Government response to the recommendations of the Independent review of NSW commercial fisheries policy, management and administration 2012*.

### 3.3 Indicative timeline

At the time of writing the proposed timeline for introducing the Reform Program was according to Table 18. Decisions on the form of share linkage and the initial total catch or effort levels will be made by the end of 2013. The exit grant process will occur through 2014 and the share linkages will commence around the end of 2014.

Table 18 Indicative timeline for implementation of Commercial Fisheries reforms as at November 2012<sup>25</sup>

Time	Activity
Pre July 2013	<ul style="list-style-type: none"> <li>Commence creation of Ministerial Fisheries Advisory Council, Structural Adjustment Review Committee and Working Groups.</li> <li>Appointment of dedicated Reform Implementation Team, including Industry Liaison Manager to improve consultation and communication with industry.</li> <li>Discussions commence with shareholders on options for share linkage.</li> <li>DPI works on recommending likely total catch and effort levels.</li> <li>Exit grant scheme developed by NSW DPI, under the oversight of the Structural Adjustment Review Committee.</li> <li>Legislation amendments commenced to give effect to reforms.</li> <li>Consultation occurs with industry over establishment of the peak industry body.</li> </ul>
July 2013	<ul style="list-style-type: none"> <li>Change to the structural and level of share management charges (to apply on a per share class basis).</li> </ul>
October 2013	<ul style="list-style-type: none"> <li>Tenders open for exit grants.</li> </ul>
December 2013	<ul style="list-style-type: none"> <li>Share linkages determined.</li> <li>Total catch and effort levels determined.</li> </ul>
February 2014	<ul style="list-style-type: none"> <li>Tender period closes.</li> <li>Identification of redundant fishing controls that can be removed.</li> </ul>
March 2014	<ul style="list-style-type: none"> <li>Exit grant payments commence to approved business owners once shares are transferred/surrendered.</li> <li>Legislation amendments done in preparation for the share linkages and determined total catch and effort levels.</li> </ul>
January 2015	<ul style="list-style-type: none"> <li>Share linkage and resource access (Total Allowable Catch/Total Allowable Effort) implemented and redundant fishing controls removed.</li> </ul>

### 3.4 Concerns raised by cooperatives

Several fishing cooperatives have raised concerns about the potential impacts of the Commercial Fisheries Reform Program<sup>26</sup> on their viability. Some of the issues raised include:

- Indications that the viability of some cooperatives is already tenuous
- Claims that any loss of seafood supply or a decline in the cooperative shareholder base could lead to reduced viability and/or closure of some cooperatives
- Varying views on what the financial requirements and obligations of cooperatives are, should shareholders leave a cooperative
- Concerns that cooperative closures will threaten the ongoing operation and viability of the commercial fishing industry (to which it provides certain services) contrary to the objectives of the Reform Program.

These concerns are analysed in the following sections of this report.

<sup>25</sup> NSW DPI 2012, *Fact Sheet: Commercial Fisheries Reform*, November 2012.

<sup>26</sup> NSW DPI 2013, *Terms of Reference: Informing a response to concerns about the potential impacts of the Commercial Fisheries Reform Program on the viability of NSW fishing cooperatives and therefore the catching sector*.

## 4. Potential impact of the Reform Program

This section analyses the potential impacts of the Reform Program on cooperatives. In particular this section analyses the potential:

- Impact on overall number of fishers and seafood supply
- Impact on membership
- Impact on throughput
- Liability due to repurchase or repayment of shares
- Risk of membership falling below the minimum threshold (five members)
- Risk of members voting to voluntarily wind up a cooperative
- Impact of cooperative closures on service provision

It must be noted that at this point, all potential impacts are speculative, as it is unknown how many fishers will exit and which existing controls will be streamlined to enhance future efficiency of fishers.

### 4.1 Potential impacts on overall number of fishers and seafood supply

The number of commercial fishers reporting in NSW has declined by 36% since 1997/98, while the reported total wild catch and gross value of product declined at a lower rate (26% and 4% respectively) see Figure 14. This trend suggests that smaller, part-time or less operational fishers have been exiting the industry, while the remaining fishers have been expanding or becoming more productive, see Figure 15.

The Reform Program can be expected to intensify this trend, by providing added incentives for certain fishers to exit the industry and developing better conditions for those fishers who intend to remain in the industry.



Figure 14 Change in fishing business numbers, total volume and total value of catch, since 1998/99<sup>27</sup>

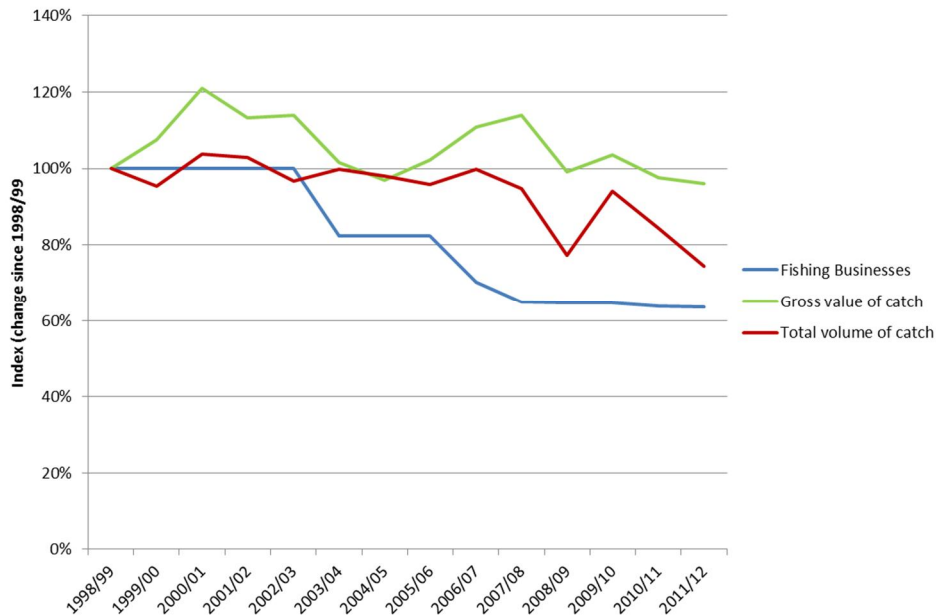


Figure 15 Average annual catch and gross value of production (GVP) per fishing business<sup>28</sup>



#### 4.1.1 Indicators from previous reforms and buy-outs

The previous reforms and buy-outs undertaken provide a case study for how the current Reform Program might affect seafood supply. In most cases reforms and buyouts reduced the number of fishers reporting and resulted in an initial decline in catch. However in subsequent years the overall catch rebounded as remaining fishers increased their catch to compensate for the ongoing steady decline in fishers.

<sup>27</sup> NSW DPI provided data.

<sup>28</sup> NSW DPI provided data.

## 4.2 Potential impact on cooperative membership

Consultation with cooperatives suggests that many are concerned about the potential loss of membership into the future. Membership is generally expected to decline primarily due to a lack of profitability (compared to other industries), aging members and a lack of new entrants.

Consultation found that on average cooperatives expected to lose 13% of members and 9% of throughput due to the Reform Program (Figure 16 and Table 19), indicating that cooperatives generally expect to lose smaller or inactive fishers.

Figure 16 Anticipated percentage change in membership and throughput due to Reform Program (as estimated by cooperatives)

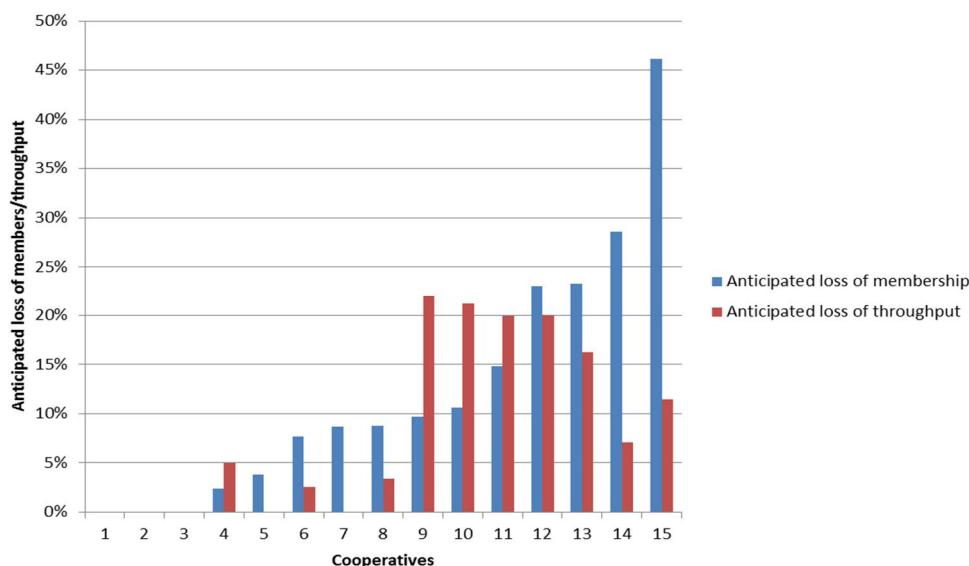


Table 19 Analysis of anticipated loss of members and throughput (as estimated by cooperatives)

	Minimum	Average	Maximum
Expected loss of members	0%	-13%	-46%
Expected loss of throughput	0%	-9%	-22%

In evaluating these results, it should be noted that many cooperatives found it difficult to estimate the potential impact due to:

- Uncertainty around the detail of the Reform Program (particularly the size of exit grants)
- Difficulty distinguishing the impact of the Reform Program on membership and throughput, from the ongoing impact of aging members, low returns, competitive pressures etc.

These results should also be compared to the change in throughput and membership since 2007 (Table 13). While only a small sample size, these results do not show a strong relationship between loss of active members and loss of throughput. Over this period, the average cooperative lost 6% of members and gained 0.2% of throughput.

### Non-active members

Non-active members will be the most likely to exit the industry as a result of the Reform Program. The linking of shares to resource access should add value to their share holdings and the provision of exit grants will appeal to many non-active fishers, while the increase in annual fees will make it less economically feasible to hold shares without fishing.

It is likely that all non-active cooperative members could exit the industry as a result of the Reform Program.

## Active members

Active members will be much less likely to exit the industry as a result of the Reform Program. Members who are actively fishing will be less attracted to exit grants or concerned about rising fees. However, depending on a range of factors (including the form of linkage determined, total catch/effort levels set and the level of shares held), active members may be required to purchase shares in order to continue to operate at their desired level. In the longer term active fishers will benefit from a more stable system, which provides autonomous adjustment, a stronger access right and streamlined fishing controls.

Regardless, it is expected that a proportion of active fishers will choose to exit the industry as a result of the Reform Program. These will most likely include fishers who were already considering exiting the industry, either due to retirement, low profitability or career change.

### 4.3 Potential impact of reduced throughput

As demonstrated in Figure 14 and Figure 15 above, a reduction in the number of fishers does not necessarily result in reduced throughput, as existing operators absorb some of the lost throughput.

Consultation found that some cooperatives already believe they have a reasonable understanding of how their membership and therefore throughput will be affected by the Reform Program, particularly those with a small number of active members:

- Some cooperatives were comfortable that their throughput will not be affected, as their active members will remain in the industry, and/or absorb the loss of exiting members
- Some cooperatives were concerned that active members would leave, and the loss in throughput will not be absorbed by existing or new members
- Some cooperatives felt particularly concerned that they may lose some of their most active members who account for the majority of their throughput.

Loss of throughput is generally more of a concern to cooperatives which have high fixed costs, less diversified income, fewer assets and/or higher debt levels, particularly due to carryover liabilities to re-purchase shares from recently exiting members.

The extent to which changes in throughput affect profitability depends on the extent to which a cooperative has alternative income sources, and the operation's fixed costs. The potential impact of reduced throughput on cooperative profits was modelled using the most recent financial figures available. Revenue and costs were grouped into variable and fixed categories. i.e:

- Revenue from seafood sales/trading (sensitive to throughput change)
- Revenue from other sources (not sensitive to throughput change)
- Variable costs: cost of sales (sensitive to throughput change)
- Fixed costs: overheads and borrowing costs (not sensitive to throughput change)

The before tax profit or loss was then modelled under the following scenarios:

1. **Status quo: no change in throughput**
2. **5% reduction in throughput**
3. **10% reduction in throughput**
4. **15% reduction in throughput**

The analysis provides a basic assessment of the potential short-term impact of change in throughput, however the model does not account for the following:

- Potential upward price impacts due to reduced throughput
- The ability of a cooperative to respond to reduced throughput by:
  - Value adding
  - Diversifying income
  - Improving efficiency (reducing variable costs)
  - Reducing overheads
  - Restructuring their assets/fixed costs (e.g. non-essential depots)

The results (Table 20), show that most cooperatives are already operating at low profitability levels, or losses<sup>29</sup>.

### ***Long-term impacts***

The analysis in Table 20 represents the potential short-term impacts of the Reform Program. However if the reforms meet their objective of putting the industry on a more profitable basis, the decline in throughput and therefore profitability is likely to be temporary (as demonstrated in Figure 14 and discussed in section 4.1.1).

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<sup>29</sup> However it is important to acknowledge that cooperatives are managed to maximise value to members, which does not necessarily involve maximising the cooperatives' profitability.

Table 20 Modelled impact on profitability from reduced throughput

Cooperative	Status Quo		-5% throughput		-10% throughput		-15% throughput	
	<i>Profit</i>	<i>Profit margin</i>	<i>Profit</i>	<i>Profit margin</i>	<i>Profit</i>	<i>Profit margin</i>	<i>Profit</i>	<i>Profit margin</i>
1	-\$283,350	-1.88%	-\$455,561	-3.18%	-\$627,771	-4.62%	-\$799,982	-6.22%
2	-\$290,543	-6.76%	-\$329,614	-8.07%	-\$368,684	-9.52%	-\$407,755	-11.14%
3	\$117,799	1.78%	\$30,882	0.49%	-\$56,035	-0.93%	-\$142,953	-2.52%
4	\$106,663	0.85%	\$15,376	0.13%	-\$75,911	-0.67%	-\$167,198	-1.57%
5	\$70,652	10.2%	\$64,657	9.7%	\$58,662	9.1%	\$52,667	8.5%
6	\$60,807	3.05%	\$40,920	2.15%	\$21,033	1.16%	\$1,145	0.07%
7	\$96,445	1.63%	\$35,336	0.63%	-\$25,772	-0.48%	-\$86,881	-1.72%
8	\$123,896	0.93%	-\$16,538	-0.13%	-\$156,971	-1.29%	-\$297,405	-2.56%
9	-\$124,195	-10.10%	-\$123,079	-10.40%	-\$121,964	-10.73%	-\$120,848	-11.09%
10	-\$8,280	-0.33%	-\$46,254	-1.94%	-\$84,228	-3.72%	-\$122,202	-5.69%
11	-\$8,979	-1.61%	-\$11,019	-2.07%	-\$13,058	-2.57%	-\$15,098	-3.13%
12	\$10,056	0.48%	-\$10,468	-0.52%	-\$30,992	-1.62%	-\$51,516	-2.85%
13	-\$116,593	-7.13%	-\$146,342	-9.41%	-\$176,092	-11.92%	-\$205,841	-14.73%
14	\$68,311	4.36%	\$45,217	3.04%	\$22,123	1.56%	-\$971	-0.07%
15	\$18,459	1.89%	\$12,669	1.36%	\$6,878	0.78%	\$1,088	0.13%
<b>Median</b>	\$18,459	1%	-\$10,468	-0.1%	-\$56,035	-1.3%	-\$120,848	-2.6%
No. of cooperatives recording an operating profit	9		7		4		3	
Percent of cooperatives recording an operating profit	60%		47%		27%		20%	

## 4.4 Potential liability implications from member losses

This section summarises the liability implications for cooperatives should their membership base decline as a result of the Reform Program. In particular this section reviews implications under the following scenarios:

- A cooperative is required to re-purchase and re-pay shares from exiting members
- A cooperative's membership drops below the minimum threshold (five members)
- Members vote to wind up a cooperative.

### 4.4.1 Re-purchase or repayment of shares

Cooperatives are regulated and supervised by NSW Fair Trading's Registry Services under the Cooperatives Act 1992 (the Act). Within the boundaries of this legal framework individual cooperatives have specific constitutions, rules and policies which determine specific aspects of the cooperatives operations.

Should a cooperative's membership base decline as a result of the Reform Program, cooperatives will be bound by the requirements of section 172 of the Act, concerning the purchase and repayment of shares (see Appendix E).

In summary, cooperatives are required to repurchase shares from exiting members at their request, however there are a number of safeguards in place which are designed to reduce the financial impact on the cooperatives. These include:

- Provisions to ensure that only funds "not required for the activities of the cooperative" be used to repurchase shares
- Provisions which prevent the board from repurchasing shares if it is likely to make the cooperative insolvent, or if the cooperative is already insolvent
- Provisions which allow the cooperative's board to exercise alternatives including
  - Holding funds in an interest bearing deposit until the cooperative is in a position to release the funds without adversely affecting the cooperatives viability
  - Issuing debentures or cooperative capital units (CCUs) of the cooperative to the member

In addition to the safeguards within the Act some individual cooperatives have additional rules within their constitutions which determine if, when and how shares are repurchased.

### *Estimated liability*

Table 21 below calculates the expected liability from share repurchases based on each cooperatives' average share holding by the member losses under the following scenarios:

1. The cooperatives estimated member loss
2. 10% member loss
3. 20% member loss
4. 30% member loss

The results suggest that all but one cooperative expects to face a liability of less than \$40,000, based on their expected member losses. The majority of cooperatives did not believe this liability would significantly affect their financial viability, particularly given the conditions in place in the Act and cooperative constitutions.

However the results do suggest that one cooperative will face a liability of \$200,000, based on expected member losses of 11%. This potential liability is likely to have a major impact on this cooperative's viability, particularly given this cooperative, like others, has carryover commitments to repurchase shares from recently exiting members.

Table 21 Modelled share repurchase liability

Cooperative	Average share holding <sup>30</sup>	Expected member loss due to reform (as anticipated by the cooperative)		Expected liability			
		(No.)	(%)	Cooperative estimate of member loss <sup>31</sup>	10% loss of members	20% loss of members	30% loss of members
1	\$10,000	20	11%	\$200,000	\$188,000	\$376,000	\$564,000
2	\$1,500	3	10%	\$4,500	\$4,650	\$9,300	\$13,900
3	\$10,000	1	4%	\$5,000	\$13,000	\$26,000	\$39,000
4	\$10,000	4	9%	\$40,000	\$46,000	\$92,000	\$138,000
5	\$8,000	3	23%	\$24,000	\$10,400	\$20,800	\$31,200
6	\$1,000	4	15%	\$4,000	\$2,700	\$5,400	\$8,100
7	\$2,000	7	9%	\$14,000	\$16,000	\$32,000	\$48,000
8	\$1,200	10	8%	\$12,000	\$15,600	\$31,200	\$46,800
9	\$1,000	0	0%	\$0	\$3,500	\$7,000	\$10,500
10	\$5,000	0	0%	\$0	\$6,500	\$13,000	\$19,500
11	\$1,000	0	0%	\$0	\$2,500	\$5,000	\$7,500
12	\$2,000	12	46%	\$24,000	\$5,200	\$10,400	\$15,600
13	\$15,000	1	2%	\$15,000	\$63,000	\$126,000	\$189,000
14	\$5,000	7	23%	\$35,000	\$15,000	\$30,000	\$45,000
15	\$1,000	2	29%	\$2,000	\$700	\$1,400	\$2,100
Average	\$4,913	5	13%	\$25,300	\$26,183	\$52,367	\$78,550

Table 22 Sample comments regarding liability from exiting members

Sample of comments received from cooperatives
<ul style="list-style-type: none"> <li>• Only small shareholders will exit, so it should be relatively easy to pay out</li> <li>• This is a major concern as our cooperative already has exiting members waiting to be paid</li> <li>• Not a major issue for us, we are more concerned with the loss of throughput</li> <li>• We have asset backing, so we can meet these costs</li> </ul>

<sup>30</sup> Figures represent the cooperatives estimate of average share holding across all members, or if available across those members expected to exit.

<sup>31</sup> Average share holding multiplied by expected member loss.

#### 4.4.2 Membership drops below minimum threshold (five members)

Section 73 of the Act prescribes that a cooperative must maintain a minimum of five members<sup>32</sup>. If membership drops below this threshold, the cooperative must cease carrying out business in 28 days or the Directors will be guilty of an offence.

At present there are three cooperatives with ten or less active members, one of which expects to be left with only five members following the Reform Program (Table 23).

Table 23 Cooperatives with ten or less active members

	Current number of active members	Expected loss of members during Reform Program
Cooperative A	10	1
Cooperative B	7	0
Cooperative C	7	2

If a cooperative's membership falls below the minimum threshold, the remaining members may choose to either dissolve and wind up the operation, or convert to a company structure whereby the remaining members become directors.

#### 4.4.3 Members vote to voluntarily wind up a cooperative

The Reform Program will prompt all fishers to consider their future within a relatively short period of time. This may result in a situation where a majority of cooperatives members vote to voluntarily wind up a cooperative. In this situation all assets would be liquidated, outstanding debts paid, and remaining capital redistributed to members.

This scenario is possible for cooperatives which have considerable equity, e.g. via real estate assets, and a smaller membership base which is less committed to remaining in the industry in the longer term. However, for the overwhelming majority of cooperatives this scenario is unlikely, as the potential disbursement of equity to members is unlikely to be significant enough to compensate for the loss of the cooperative from their local industry.

Recent cooperative closures at Crowdy Head and Twofold Bay (see Section 4.6), were driven by a lack of profitability and membership, rather than equity disbursements.

### 4.5 Impact of cooperative closures

The primary aim of commercial fishing cooperatives is to help maximise the profits of their members. Primarily this is achieved by providing aggregated services, thereby maximising product returns and minimising input costs.

There are three main ways in which cooperatives provide value to members:

1. Creating competition for members' catch
2. Providing services (supplies, value adding services, transporting fish to markets)
3. Shareholder dividends

In the event of a cooperative closure these benefits will be withdrawn from the local industry and community. The potential implications are discussed below.

<sup>32</sup> Unless otherwise approved by the Registrar upon formation of the cooperative



#### 4.5.1 Loss of competition for catch

The loss of competition following a cooperative closure could be significant, depending on the level of alternative competition in the region from private companies or neighbouring cooperatives.

In most cases it would be expected that private companies or neighbouring cooperatives would evolve to service the remaining fishers, however the overall loss of competition could result in:

- Lower prices
- Higher fees/costs
- Less opportunity to value add
- Increased likelihood of products being refused or downgraded.

The above impacts are indicative of a situation where there has been a loss of market competition; however in individual regional markets the impacts could be very different. For example the closure, amalgamation or privatisation of a cooperative could ultimately provide fishers with access to supply chains which are more efficient and responsive, and with access to more markets and value adding options.

#### 4.5.2 Loss of services

##### ***Member/industry services***

A cooperative closure might result in the loss of member/industry services including

- The supply of ice, chandlery, bait and tackle
- Value adding (e.g. filleting and packaging)
- Regional product differentiation
- Export services
- Moorings
- Book-keeping, finance and other services.

Many of these services could be made available through alternative suppliers. However, in many cases they are likely to be less convenient and/or more expensive for fishers to access.

##### ***Community services***

Most cooperatives also provide more intangible services to the broader community including:

- Encouraging tourists (e.g. via information boards, viewing areas)
- Managing wharf or harbour facilities, in either an official capacity, or through their ongoing presence
- Contributing employment and economic activity to the local economy.

#### 4.5.3 Loss of shareholder dividends

Few, if any, cooperatives regularly deliver substantial dividends to members. Therefore the loss of this benefit is not considered substantial.

## 4.6 Lessons from recent cooperative closures

### 4.6.1 Crowdy Head Fisherman's Cooperative

The Crowdy Head Fisherman's Cooperative closed in July 2012. At the time of closure the cooperative had six remaining members, who did not receive any dividend following repayment of debts.

**Reasons for closure:**

- Unable to make annual crown lease payments
- General increase in running costs
- Loss of members due to aging membership and general lack of profitability.

**Number of members at time of closure:** 6

**Members still operating in the region:** 4 or 5

**Impact of closure on the local industry:**

- Often there are only 2 fishing boats operating in the area, with many boats having left the area
- Remaining fishers have joined/started to supply neighbouring cooperatives in Laurieton and Taree
- Remaining fishers are catching the same amount, however without the support of the cooperative they are working longer hours to transport product, purchase supplies etc.
- Costs have increased for services once supplied by cooperative (ice, fuel, bait).

### 4.6.2 Twofold Bay Fisherman's Cooperative

Twofold Bay Fisherman's Cooperative closed in 2013 largely as a result of increased competition from private operators and reduced throughput following the Commonwealth buyouts in 2006.

**Reasons for closure:**

- Membership declined by around 66% during the previous Commonwealth buyouts and the cooperative was unable to recover with reduced throughput
- A private seafood supplier moved into the area, and reduced the cooperative's throughput, particularly from larger suppliers.

**Number of members at time of closure:** 11

**Members still operating in the region:** 11

**Impact on local industry:**

- A private seafood supplier (different from the one mentioned above) has taken over the cooperative's facilities, however the loss of competition from the cooperative has reduced returns for fishers.
- Overall supply has not been affected, however costs are higher.

## 5. The role and limitations of Government

This section examines the role of government in supporting or ensuring the ongoing operation and viability of NSW fishing cooperatives, in the context of a deregulated fish marketing system. Section 5.1 presents the feedback received from stakeholders, while section 5.2 examines the restrictions placed on government, which limit the extent to which cooperatives can be treated differently from private companies operating in the same market.

### 5.1 What cooperatives want from government

Cooperatives were asked what the role of government should be once the Reform Program is implemented. Below is a summary of the responses received from stakeholders.

#### 5.1.1 Stability

- Provide stability for fishers and investors
- Stop “moving the goalposts”

#### 5.1.2 Help reduce costs

- Provide crown lease assistance
- Reduce red tape
- Assist with the cost of training and accreditation

#### 5.1.3 Management of fisheries and infrastructure

- Need to more closely regulate recreational fishers
- The wharfs and jetties need to be managed and maintained

#### 5.1.4 Control of illegal/black market fishing

- Control illegal/black market fishing
- Control product coming across the Queensland border

#### 5.1.5 Labelling and promotion

- Extend country of origin labelling to restaurants
- Help support and promote the local industry
- Help promote the health benefits of seafood

## 5.2 Maintaining principles of “competitive neutrality”

### *What is competitive neutrality?*

Australian governments are bound by the COAG *Competition Principles Agreement*<sup>33</sup>, which amongst other things, requires them to maintain the principles of “competitive neutrality”<sup>34</sup>. These principles determine the way in which governments treat competitors in a market, through the delivery and pricing of goods and services.

### *Implications for governments providing services to the NSW fishing industry*

When providing services to the NSW fishing industry, governments must adhere to the principles of competitive neutrality. This is likely to require:

- Equal treatment of cooperatives and private companies: There are limits to the extent to which governments can treat one category of competitor (e.g. cooperatives) differently to another (e.g. private seafood processors and wholesalers).
- Cost recovery in the pricing of government goods and services: Agencies must set the price of a good or service, sold in a competitive market, at a level that at least covers the avoidable cost of its production. Avoidable costs are those that would be avoided if a good or service is not produced (similar to marginal cost)<sup>35 36</sup>.

The principles of competitive neutrality are not explicit and are often interpreted by different governments in slightly different ways<sup>37</sup>, however generally these principles would preclude governments from undertaking activities such as:

- Providing generic support or bail out payments for cooperatives
- Discounting or waiving crown land lease payments<sup>38 39</sup>
- Any other support specifically designed to improve the commercial viability of cooperatives, as separate from private competitors.

However, the principles of competitive neutrality would most likely not preclude governments from undertaking the following activities:

- Providing services which benefit the whole of industry (e.g. research, development, extension, monitoring, enforcement etc.)
- Paying or compensating cooperatives for providing specific public good (e.g. tourism services, monitoring and management of wharf or harbour facilities)<sup>40</sup>.

### *Enforcement*

Competitive neutrality complaints, investigations and reporting are managed by the following agencies:

- NSW Government: the Independent Pricing and Regulatory Tribunal (IPART)
- Australian Government: The Australian Government Competitive Neutrality Complaints Office (AGCNCO), within the Productivity Commission

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<sup>33</sup> Council of Australian Governments, *Competition Principles Agreement* – 11 April 1995 (as amended to 13 April 2007).

<sup>34</sup> NSW Treasury, 2002, *Policy Statement on the Application of Competitive Neutrality*, TPP 01-02.

<sup>35</sup> NSW Treasury, 2000, *Guidelines for Pricing of User Charges*, TPP 01-02.

<sup>36</sup> Productivity Commission 2001, *Cost Recovery by Government Agencies*, Report no 15, Canberra.

<sup>37</sup> Advice from IPART Economic Policy Division.

<sup>38</sup> Cooperatives and most other businesses are ineligible for crown land rent concessions and hardship relief, NSW DPI, 2012, *Rent concessions and hardship relief for Crown land tenure holders*.

<sup>39</sup> The NSW Government is currently undertaking a comprehensive review of crown land management, aimed at “improving community outcomes, engaging with the private sector, and revitalising the regions”. NSW Department of Trade and Investment 2012, *Comprehensive review of NSW Crown Land Management*.

<sup>40</sup> In some circumstances these services would be subject to tender.

## 6. Conclusions

The financial viability of NSW Fishing Cooperatives generally reflects that of its members and the broader industry, with flat or declining throughput relative to fixed costs and competition from imports, putting pressure on operating profits.

Despite these difficulties some cooperatives remain confident about their future, often due to their ability to value add to product, draw income from diversified sources or rely on sound asset backing.

If the Reform Program meets its stated objectives it will put the industry on a more profitable basis in the long-term. However, in the short-term the reforms are likely to reduce the profitability of some cooperatives via the loss of members and throughput.

Specifically this study has found:

- Consultation undertaken as part of this study found that stakeholders from 11 of the cooperatives (79%) rate the financial viability of their cooperative as being “reasonable”, “poor” or “very poor”, leaving stakeholders from three cooperatives (21%) rating their viability “good” or “very good”.
- Of the five cooperatives who rated their financial viability as being “poor” or “very poor”, three were located on the far north coast of NSW and two were located south of Sydney.
- The median expectation is that the Reform Program will reduce cooperative membership by 9% and reduce cooperative throughput by 4%, indicating that cooperatives generally expect to lose smaller or inactive fishers.
- In the short-term cooperatives are vulnerable to a decline in throughput. Modelling suggests that a 10% decline would reduce the number of cooperatives recording a before tax operating profit from nine (60%), to four (27%). However in the longer-term, the decline in throughput and therefore profitability is likely to be temporary, as the reforms begin to meet their long-term objectives.
- Based on their expected member losses due to the Reform Program, all but one cooperative will face a liability of less than \$40,000 for the repurchase of shares from exiting members. There are a range of provisions in legislation and constitutions which help cooperatives manage this liability, however some cooperatives already have existing carryover liabilities to repay members who have already exited.
- At present there are three cooperatives with ten or less active members, one of which expects to be left with only five members following the Reform Program (the legal minimum). If a cooperative’s membership falls below the legal minimum, the remaining members may choose to either dissolve and wind up the operation, or convert to a company structure whereby the remaining members become directors.
- Based on past examples, cooperative closures can result in a loss of competition and services in a region. However evidence suggests that private companies or neighbouring cooperatives can evolve to service remaining fishers.
- A previous report (Mann Judd 1996) recommended amalgamation of cooperatives as a means of ensuring ongoing financial viability. Since then, there have been no formal amalgamations, despite four cooperatives closing and others facing long term challenges to remain viable.

GHD believes that if current trends continue, a small number of cooperatives (between one and three) will likely become unviable and therefore be forced to either close, amalgamate or convert to private companies. The Reform Program may bring about these changes earlier than expected.

Rationalisation of NSW fishing cooperatives is likely to be beneficial in the longer term, particularly if it enables services to be maintained in regions where cooperatives are facing ongoing challenges to remain viable.

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# Appendices

## Appendix A Stakeholders interviewed

Name	Role & Organisation
Don Mowbray/Danielle Adams	Chairman/Manager, Clarence River Fishermen's Cooperative
Robert Gauta	Manager, Commercial Fishermen's Cooperative
Adrian Knowlden	Manager, Brunswick Head Fishermen's Cooperative
Jason Apps	Manager, Ulladulla Fishermen's Cooperative
Phillip Hilliard	Manager, Ballina Fishermen's Cooperative
Stephen Buckless	Managing Director, Southland Fish Supplies Pty Ltd
Rocky Lagano	Manager, Bermagui Fishermen's Cooperative
Michael Beasley	Manager, Coffs Harbour Commercial Fishing Cooperative
Laurie McEnally	Macleay River Fishermen's Cooperative
Kevin Aleckson	Manager, Evans Head Fishermen's Cooperative
Antonia Musemici	Manager, Woolongong Fisherman's Cooperative
Ian Sheather	Manager, Manager, Taree Fishermen's Cooperative
Gillian Beakey	Manager, Laurieton Fishermen's Cooperative
Robert Elford	Manager, Hastings River Fishermen's Cooperative
Greg Golby	Manager, Wallis Lake Fishermen's Cooperative
Gary Warren	Former Director, Twofold Bay Fishermen's Cooperative
Lester Keppie	Former Director, Crowdy Head Fisherman's Cooperative
Ken Hynes	Former Director, Crowdy Head Fisherman's Cooperative



# Appendix B Survey template

## *NSW fishing co-operatives survey to assess potential impacts of the Commercial Fisheries Reform Program*

### **STRICTLY CONFIDENTIAL**

GHD understands the commercial sensitivity of much of the information being sought and we will ensure that all information will be treated in strictest confidence.

Information from individual Cooperatives will not be shared with any agencies or other Cooperatives and will be used solely for the purpose of completing this GHD industry assessment.

Please review the following in preparation for your **phone interview**. We will discuss your responses at the arranged time.

Please contact the Project Manager, Seamus Hoban on (02) 9239 7288 if you have questions. Thank you for your participation.

Questions	Response in 2008	Current response
<b>General</b>		
Name of Co-operative		
Respondents name		
What is the approximate quantity of your throughput? (total tonnes Weekly, monthly or annually)?		
Main species handled by your Coop:		
<b>Membership &amp; Ownership</b>		
Total Members		
Active Members		
Non Active Members		
What has caused changes in membership		
Have you undertaken initiatives to recruit or maintain members? Similarly, have you undertaken initiatives to maintain or increase the loyalty of members?		
Approximately what proportion of local commercial fishers are coop members? %		
Would you consider your membership to be fairly representative of local commercial fishing operators in the area (in terms of size & type of operations)? (Y or N)		
Minimum share ownership (\$)		
Maximum share ownership (\$)		
What other rules are in place for share acquisition/ownership?		
Average share of ownership		
On average, what proportion of their catch would you estimate each of your members sell through the coop? (%)		
Approximately what proportion of total local catch (by volume) would you estimate to be sold through your coop? (%)		
<b>Operations</b>		
Do you require a sales commission from your members?		
Do you require a standard contribution from your members?		
Details about how these contributions are applied/paid?		
Do you have non-members who use your coop on a fee for service basis?		

Questions	Response in 2008	Current response
What proportion of your total throughput would non-member sales represent? (%)		
What are the fees payable for your services by non-members?		
<b>Services offered by Co-op</b>		
ice		
fuel		
mooring		
marketing		
storage		
retail shop		
filleting		
Transportation		
other		
Describe any existing relationships with other stakeholders (e.g. SFM, other coops, private operators) in the seafood marketing chain (cost sharing, joint marketing etc)?		
<b>Marketing</b>		
In order of importance, what marketing pathways do you utilise? If this varies, please indicate your most usual approach and note what factors influence the variance.		
1st		
2nd		
3rd		
4th		
5th		
Are your returns pooled?		
If so, how?		
<b>Related Cooperative Activities/Services</b>		
Do you collect fees or charges from services such as moorings, ice, fuel, etc?		
Do you have any assets that are currently rented by external agencies? (restaurants, offices, etc)		
Do you have operations with a tourism element? Please describe?		
Do you operate/rely on other revenue generating enterprises? Do you purchase & sell any non-wildcaught species? Please list		
<b>Employment</b>		
Full time staff		
Part time staff		
Casual staff		
<b>Financial</b>		
What is the total value of your Cooperatives capital?		
How has this changed in recent years?		
Is there scope to raise further capital from your members?		
Do you have any outstanding funds owed to retired members?		
<b>Historical changes</b>		
Describe the historical trends in terms of how operations, structures and viability of your coop has changed over time.		
How do you expect the operations, structures and viability of fishing co-ops to change in the future?		
Has increasing international produce importation affected your business?		
If yes, how?		

Questions	Response in 2008	Current response
<b>Risks &amp; the future</b>		
What are your concerns for the future:		
Loss of membership		
Increased rental on government land		
Increased government fees		
Decreased tourist interest		
Increased international produce importation		
Commercial fishing industry structure		
Establishment of marine parks		
More complex food safety regulations		
Payout of capital to exiting members		
Restrictions on fishing grounds		
Restrictions on fishing methods		
Restrictions of total catch		
Restriction of allowable species		
Decreasing fisher numbers		
Introduction of quota system		
More complex OH&S regulations		
Other concerns (list)		
Do you intend to expand/introduce other revenue generating activities?		
If so, what form might such activities take?		
What are the potential impediments to future opportunities for your co-operative?		
How are you placed to respond to potential restructuring of the commercial fishing industry?		
Are there any plans to consider a different business model?		
What kind of changes do you expect to see in the industry in the future?		
Do you have strategies available or in place to cope with these changes and maintain operations?		
Any other comments?		

Thank you for your participation.

## Appendix C Telephone interview template

Name of Co-operative	Response	
Date and time of interview		
Interviewer		
Interviewee		
Summarise response to previous survey.		
The aim of this telephone survey is to focus on the potential impacts of the Reform Program.		
Impact of structural changes on co-operative viability		
	With reform	Without reform
How many members do you expect to lose or gain in the next 5 years?		
How much supply do you expect to lose during the Reform Program?		
How would you describe the financial viability of your co-operative into the future?	Very poor Poor Reasonable Good Very Good	
Does your co-operative have sufficient immediate funds to pay out exiting members?		
What is the appropriate role of government in a deregulated fish marketing system?		

# Appendix D Excerpts from GHD's 2009 NSW Fishing Cooperative study

Table 24 Financial stability of NSW cooperatives, 2007/08

Measure	Minimum	Average	Maximum
Working capital ratio	76%	207%	364%
Debt to assets ratio	18%	53%	78%
Debt to equity ratio	23%	154%	364%
Return on assets	1%	10%	35%
Percentage of expenses to revenue	79%	94%	99%

## SWOT Analysis

### Strengths

Cooperatives provide **services** such as ice, fuel, cold storage, mooring and marketing. Many of these services are provided at a lower cost than the commercial rate. Without these services being provided by cooperatives, individual fishing operators may not have the resources (financial, labour, machinery, time) to undertake or contract these activities themselves.

Cooperatives are perceived to provide a '**voice**' for the fishers, are a key part of the industry, and are seen to act as a broker between the fishers and other agencies (e.g. government, SFM). We are of the opinion that the cooperatives are well-placed to provide this role due to the absence of a peak industry body for individual fishing operators.

The majority of cooperatives have shown leadership in considering **diversification** opportunities and adopting these where appropriate for their individual circumstances. This mentality will be important to capitalise on future opportunities as they arise.

### Weaknesses

In some cases non-members pay the **same fees** as members for the services the cooperatives provide, while not selling through the cooperative. This practice provides no incentive for fishers to become members. We are of the opinion that this is contributing to the financial pressure being experienced by some cooperatives.

Some stakeholders believe that the member **entry contributions** set by some cooperatives are too low, and that this has a negative effect on cooperatives' cash flow. However, other stakeholders view low entry contributions as a positive factor, as, in some cases, young people cannot afford to raise sufficient capital to become a cooperative member.

There appears to be very **low morale** within some cooperatives, particularly in the south. The consultation with cooperatives revealed that a variety of issues are (or have been) facing some members including depression, alcoholism and /or crime. These issues discourage people from entering the industry, and lead to staff retention problems. One southern cooperative reported that working in the fishing industry was perceived by their local community as a 'last resort'.

Generally cooperatives felt that there was little or no scope to raise **further capital** from members. Most of the local fishermen are already cooperative members and those fishermen that are not members do not wish to become members. This suggests that any future investments by cooperatives will need to be funded via retained earnings or borrowing.

## Opportunities

In response to the pressure imposed on the industry by imported product, cooperatives can take advantage of existing local **demand** for wild caught product (which anecdotal evidence suggests is rising) and increase communication and education efforts to promote the 'clean and green' fishing practices of the local industry.

Consultation findings indicate that alternative marketing channels have been investigated by cooperatives. Importantly, it is clear that these opportunities have been considered and a conscious decision made as to whether to pursue this opportunity further. What does warrant further investigation, however, are opportunities for **vertical and horizontal integration**. This could involve collaborating with SFM in the manufacture and packaging of branded premium seafood products and in promotion of Australian products (as is already being undertaken by some cooperatives) or developing closer working relationships between cooperatives (whether this be formal such as amalgamation, or collaboration such as sharing transport facilities or administrative functions). This would enable cooperatives to take advantage of economies of scale.

Around 25% of cooperatives reported that they had considered changing their **business structure**. Declining member numbers was the primary reason provided for this. In some cases, consideration of a different business model (e.g. incorporation) formed part of a broader strategic planning process. However, the impression gained during the consultation with cooperatives was that a change in business structure was not being given detailed consideration.

Opportunities exist for cooperatives to increase the **efficiency** of their operations (either by reducing costs or increasing capacity). Examples cited during consultation include:

- Reconfiguring cooperative office space, to enable the area to be leased to a retailer such as a bait shop (thereby providing rental income);
- Opening or expanding retail shop space (to be owned and operated by the cooperative); and
- Planning activities, to determine how to capitalise on local tourism trade and other opportunities.

## Threats

Cooperatives are concerned about declining throughput (and resultant diseconomies) arising from the increasing area established as **marine parks**, the introduction of **quota systems**, and declining fish stocks.

There is an increasing threat of **supermarkets dealing direct** with fishers rather than through the cooperative. This is compounded by the fact that some assets required for marketing products, such as ice machines, are now relatively affordable by individual fishers.

Many imported products are not subject to the same stringent **regulations** (e.g. in regards to sustainable fishing) that domestic products are subject to. This is one factor contributing to imported product being shipped to Australia in greater quantities and sold at a lower price than domestic wild caught seafood. Some cooperatives felt that their local market recognised and appreciated the higher quality of local product, however others felt that the price competition from imports was too strong.

The number of individual fishing operators is declining due to retirement, licences being bought out, and fewer new entrants to the industry. This has led to a **decline in membership**, and places cooperatives under financial pressure.

**Rising costs** such as land rental, building lease costs and diesel. These cost increases tend to be absorbed by cooperatives because they feel they cannot be passed on to members or consumers.

Difficulty **recruiting** staff is an increasing problem for cooperatives. Specialist labour such as filleting is difficult to find, and other industries such as mining have attracted human resources away from the coast. This results in existing employees being under more pressure to undertake multiple positions (e.g. one cooperative reported its reliance on staff family members to maintain retail operations). It also places a capacity constraint on the provision of new services.

Cooperatives identified the **lack of government assistance** as a threat. In our opinion, this referred to a desire for increased communication, understanding, information and advice, rather than funding grants. One example of this was a cooperative that stated they did not know where to access information and advice on amalgamation.

## Recommendations

### 1. **Review cooperative rulebooks and policies**

Policies regarding fee structures and entry contributions appear to be contributing to the financial pressure being faced by some cooperatives. Given the changes occurring in the industry (e.g. declining NSW wild catch, reduced fisher numbers), it would be beneficial for cooperatives to review their rulebooks and consider whether policies need to be revised to increase flexibility. This could extend to investigating whether the cooperative structure (and associated legislation) is constraining cooperatives' ability to make strategic changes to their operations. If changes are made to increase the flexibility of operations, this may renew cooperative enthusiasm to investigate new opportunities as they arise. It is also likely to have a positive effect on member morale and staff retention.

### 2. **Investigate a change in business structure**

The impression gained during consultation was that a change in business structure (e.g. incorporation, amalgamation) had not been given detailed consideration by the majority of cooperatives. This is possibly due to factors such as fear of loss of identity, rivalry between cooperatives, 'tribalism' and the perception that less successful cooperatives have more to gain (financially) from an amalgamation than other cooperatives. It may also be due to a lack of adequate information or advice. It is our opinion that a change in business structure warrants further investigation, to identify the potential costs and benefits involved.

### 3. **Investigate further marketing opportunities**

Alternative marketing channels have been thoroughly investigated by cooperatives. Opportunities do exist, however, to consider the potential for vertical or horizontal integration. We believe this warrants further investigation, due to the potential to exploit economies of scale. It may also be worthwhile for the industry to adopt a collaborative approach to communication and education efforts focussing on the 'clean and green' fishing practices of local fishers, to further encourage local demand for wild caught product.

# Appendix E Cooperatives Act 1992 (NSW) Section 172 and 173

## Section 172 Purchase and repayment of shares

(1) The rules of a cooperative may authorise the cooperative to:

- a. purchase any share of a member in the cooperative at the request of the member, and
- b. repay to a member, with the member's consent, the whole or any part of the amount paid up on any share held by the member when the sum repaid is not required for the activities of the cooperative.

(2) The amount paid by a cooperative under this section in purchasing shares or repaying any amount paid up on shares, or both, in any financial year of the cooperative must not exceed the sum of:

- a. 5% of the nominal value of the issued share capital of the cooperative immediately before the commencement of that financial year, and
- b. the amount of any additional share capital of the cooperative subscribed for during that year.

(3) The Council may by order in writing exempt a cooperative from the operation of subsection (2) in respect of a particular financial year, either unconditionally or subject to conditions.

(4) The amount paid for a share when it is repurchased may be an amount determined by the board that is less than the nominal value of the share but only:

- a. if the books of the cooperative disclose that the amount paid is the net shareholder's equity per share in the undertaking of the cooperative, or
- b. in accordance with the rules of the cooperative.

(5) This section does not apply if the member has been expelled from the cooperative or the member's membership has been otherwise cancelled under Part 6.

(6) A cooperative must not repurchase shares or repay amounts paid up on shares if:

- a. the cooperative is likely to become insolvent because of the repurchase of the shares or because of the repayment of amounts paid up on the shares, or
- b. the cooperative is insolvent.



### **Section 173 Deposits, debentures or CCUs in lieu of payment when share repurchased**

(1) If a co-operative repurchases a share of a member, the co-operative may instead of paying the purchase price to the member:

- a. in the case of a deposit-taking co-operative, apply the amount as an interest bearing deposit by the member with the co-operative, or
- b. allot or issue debentures or CCUs of the co-operative to the member in satisfaction of the amount.

(2) Subsection (1) applies only:

- a. if the board is of the opinion that payment of the repurchase price would adversely affect the financial position of the co-operative, or
- b. if the board and the member so agree.

(3) The deposit, debenture or CCU bears interest during any period:

- a. in the case of a co-operative with share capital:
  - (i) at the rate (or, if there is more than one rate, at the higher or highest rate) of dividend payable in respect of that period on the share capital of the co-operative, or
  - (ii) if the rate of dividend payable in respect of that period has not been determined, at the rate (or the higher or highest rate) payable in respect of the immediately preceding period for which a rate has been determined, or
  - (iii) if a rate of dividend has never been determined in respect of the share capital of the co-operative, at the rate that the board of the co-operative considers reasonable, or
- b. in the case of a co-operative without share capital, at the rate that the board of the co-operative considers reasonable, or
- c. if the rules provide for a rate to be payable that is higher than the rate applicable under paragraph (a) or (b), at that higher rate.

(4) The deposit, debenture or CCU must be repaid to the member as soon as repayment would not, in the opinion of the board, adversely affect the financial position of the co-operative.

(5) The deposit, debenture or CCU must in any case be repaid within 10 years (or within any shorter period that the rules of the co-operative may require) after the repurchase of the shares concerned.

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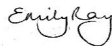



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