Basic Economics of Land-Based Water Recirculating Aquaculture Systems

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Outline

- **Basic Economic Elements of Land-Based RAS**
  - Capital Expense (CAPEX)
  - Operating Expense (OPEX)
  - Working Capital
- **Comparison of Land-Based RAS and Net-Pen Salmon Production Models**
  - Capital Expense
  - Biological Production Model
  - Production Cost
  - Cash Flow
  - Net Present Value
Capital Expenses for Land-Based RAS (CAPEX)

- Land
- Rearing Tanks
- Buildings
- RAS Equipment Package
- Water Supply System
- Feeding System
- Backup Generator System
- Monitoring and Control System
- Effluent Treatment/Solids Management
- Processing Facility
Operating Expenses for Land-Based RAS (OPEX)

US $ per kg salmon produced (HOG)
Working Capital Requirement

- The business requires enough upfront cash reserve to cover the expenses throughout the initial production cycle until the first harvest generates sales revenue
  - Atlantic Salmon – 24 months
  - Rainbow Trout/Steelhead – 12 months
  - Tilapia – 6 months
Economic Comparison of Two Production Models

**Land-based RAS farm**
Producing 3,300 M.tons HOG Atlantic Salmon

**Model Net Pen farm**
Producing 3,300 M.tons HOG Atlantic Salmon

Illustration: B. Stenberg
**Model Land-based RAS farm (32 million US $):**

*One* production site

Invested equipment:
- 40,000 m³ of rearing tank volume
- 25,500 m² of building area
- 2,500 m² processing facility
- 885 m³/min of pumped RAS flow
  - Pumps and Piping
  - Screen filters
  - Biofilters
  - Gas Conditioning Filters
- 1.08 – 1.26 kg feed per m³ supply water
- Feeding Systems
- Backup Generators

Investments in total: 32 M US $ - approximately 192 MNOK

Maintenance and reinvestments set equal to the depreciations

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**Model Net Pen farm (12.3 million US $):**

*Two* production sites, each with six net pen cages.

- ≈587,000 m³ net-volume
- 120,000 m² area footprint visible at sea
  - ≈179,000 m² area footprint incl. no thoroughfare zone
  - ≈463,000 m² area footprint incl. no fishing zone

Invested equipment:
- 3 licences
- 12 Floating rings (157m Ø)
- 24 nets (25 m deep)
- 2 mooring systems
- 2 boats
- 2 feed barges (150 Mtons)
- 12 camera systems
- 12 feed distributors
- 12 power systems

Investments in total: 72.9 MNOK – approximately 12.3 M US $

Maintenance and reinvestments set equal to the depreciations
Model Land-based RAS farm
- One production site for all life-stages
- Four cohorts per year

- Growth based on thermal growth coefficients from Freshwater Institute growout trials, adjusted down by 10%:
  - 1.1 for Fry
  - 1.25 for Smolt
  - 1.8 for Pre-growout
  - 2.2 for Growout

- Mortality per generation 16%

- Feed conversion ratios:
  - 0.75 for Fry
  - 0.90 for Smolt
  - 1.0 for Pre-Growout
  - 1.1 for Growout

- Overall Feed to Whole Fish Produced (kg/kg): 1.09

Model Net Pen farm:
- 2 production sites & 3 licences of 780 M.tons of maximum total biomass at sea.
- Two transfers of smolts to sea annually, to one site
  - S1 at 1st of April, 100 grams, 520' smolts in three cages
  - S0 at 1st of August, 75 grams, 520' smolts in three cages

- Growth based on the Skretting table, Specific Growth Rate (SGR), adjusted down by 12%.

- Mortality per generation approximately 16.1% (average in Mid-Norway in 2011) (Norwegian Food Safety Authority 2011).

- Economic feed conversion ratio: 1.27 (average in Norway over the last ten years) (Directorate of Fisheries 2013).
Model Land-based RAS farm

- Rearing Density
  - 80 kg/m³ maximum
- Harvesting:
  - Time from first feeding to first harvest: 21 months
  - Harvest every week of the year
    - Each cohort harvested over 13 weeks
    - One grisle harvest at ~1.2 kg for 50% of males
  - Harvest in total: 3,947 M.tons LWE; 3,300 M.tons HOG
    (5% purge loss / 12% HOG loss)
  - Initial harvest weight (whole fish): 4.5 kg
  - Average harvest weight (whole fish): 5.1 kg
- No downtime in the bioplan

Model Net Pen farm:

- Rearing Density
  - 25 kg/m³ maximum
- Harvesting:
  - Time from first feeding to first harvest: 24–31 months
  - Time at sea before first harvest: 16 months
  - Harvest 8 months of the year
    - Harvest S1 from July to October
    - Harvest S0 from November to February
  - Harvest in total: 3,975 M.tons LWE; 3,299 M.tons HOG
    (5% purge loss /12% HOG loss)
  - Average harvest weight (whole fish): 4.5 kg
- Two months of falling between production cycles
Model Land-based RAS farm

Biomass in kg

Month - Year

Model Net Pen farm

Biomass in kg

Year - Month
Feeding

Model Land-based RAS farm

Model Net Pen farm

Feed Demand in kg

Month - Year

Year - Month
Model Land-based RAS farm

Harvest in metric tonnes

Month - Year

Model Net Pen farm

Harvest of salmon i M.tons

Year - Month
Model Land-based RAS farm
Total estimated production cost per kilo HOG: 3.98 US $
  - Uses 0.05 US $ / kWh;
    Comparative Norway is 0.17 US $ / kWh

Model Net pen farm
Total estimated production cost per kilo HOG: 4.24 US $
Comments: EFCR, mortality & utilization: Model Net Pen Farm

- Not a optimal utilization of three licences!
  - It's possible to harvest as much as 1,600 – 1,700 M.tons per licence (~2 x Model)
    - Requires a more large-scale operation

- Average EFCR used in the calculation is high: 1.27
  - It's possible to achieve an EFCR more closely to 1.00
    - Top 25 % EFCR in Norway over the last ten years is 1.14
    - Top 10 % EFCR in Norway over the last ten years is 1.04

- Average mortality at 16.1 % is high
  - Some sites in Norway are now achieving only 2 – 4 % mortality
  - Then on the other side, some sites have mortality at over 30 % - mostly due to disease.
Use of "best-practice" inputs

- EFCR: 1.14
- Mortality: 8 % per generation
- Gives a production cost of **4 US$/kg HOG** (Compared to 4.24 US$/kg)
  - Reduction in feed cost
  - Reduction in smolt cost
- Model Net Pen Yield per smolt: **3.44 kg**
  - Model Net Pen Base Case: **3.17 kg**
- Model RAS Yield Per Smolt: **3.97 kg HOG**

4 US$/Kg

- Feed cost
- Smolt cost
- Insurance cost
- Salary
- Well boat cost
- Other operating cost
- Depreciations
- Cost of primary processing
Initial test marketing in the Vancouver area and in the Washington DC area indicated that product sold at premium pricing (30% or more).

- Basis of premium was different in different markets – sustainable (BC) and local (DC)
- Land-based RAS produced salmon is a premium product that is being sold into an incremental market that currently doesn’t buy net pen salmon (Kuterra data).
- Most major retailers have sustainable seafood purchasing policies that land-based RAS produced salmon will be able to meet.
Quick Estimation of Profitability – Base Case

**Model Land-based RAS farm – w/o Premium Price:**

**Investments:**
- Investments in total: 32 M US $

**Income:**
- Price per kilo 34 NOK or 5.66 US $
- Total estimated income: **18.68 M US $**

**Costs:**
- Production cost excluding financial cost: 3.98 US $ / kg
- Total production costs (ex. finance): ≈ **13.13 M US $**

**Earnings before Interest and Taxes (EBIT):** **5.55 M US $**

**Model Net Pen farm – Conservative Performance:**

**Investments:**
- Investments in total: 12.3 M US $

**Income:**
- Fish Pool forward prices
  - 2014: 35.85 NOK/kilo
  - 2015: 33.88 NOK/kilo (Jan - Aug)
- Estimated price per kilo: 34 NOK ≈ 5.66 US $
- Total estimated income: **18.67 M US $**

**Costs:**
- Production cost excluding financial cost: 4.24 US $ / kg
- Total production costs (ex. finance): ≈ **13.99 M US $**

**Earnings before Interest and Taxes (EBIT):** **4.68 M US $**
**Model Land-based RAS farm – Premium Price:**

**Investments:**
- Investments in total: 32 M US $

**Income:**
- Possibility for a 30% price premium
  - Price per kilo \((5.66 \times 1.3) = 7.36\) US $

- Total estimated income: **24.29 M US $**

**Costs:**
- Production cost excluding financial cost: 3.98 US $/kg
- Total production costs (ex. finance): **13.13 M US $**

**Earnings before Interest and Taxes (EBIT): 11.16 M US $**

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**Model Net Pen farm – High Performance:**

**Investments:**
- Investments in total: 12.3 M US $

**Income:**
- Fish Pool forward prices
  - 2014: 35.85 NOK/kilo
  - 2015: 33.88 NOK/kilo (Jan - Aug)
  - Estimated price per kilo: 34 NOK \approx 5.66\) US $

- Total estimated income: **18.67 M US $**

**Costs:**
- Production cost excluding financial cost: 4.00 US $/kg
- Total production costs (ex. finance): **13.20 M US $**

**Earnings before Interest and Taxes (EBIT): 5.47 M US $**
Model Land-based RAS farm

- Salary: $1,575,000 / year
- Electricity: 21.5 mWh
  - Cost per kWh: 0.05 US $
- Oxygen: 3,000 M.tons
  - Cost per kilo: 0.2 US $
- Bicarb: 862 M.tons.
  - Cost per kilo: 0.35 US $
- Feed: 1.50 US $ per kilo
- Eggs: 1.2 million
  - Cost: 0.30 US $ each
- Management: $500,000 / year
- Primary processing:
  - Salary: $375,000 / year
    - 10 persons
    - Other cost included in the total calculation
- Price per kilo HOG: 5.45 – 8.77 US $

Model Net Pen farm

- Salary: $750,000 / year
- Primary processing: 0.38 US $ / kilo HOG
- Well boat 0.92 US $ / kilo HOG (includes smolt and slaughter transport)
- Insurance premium: 0.8 % of the value of the biomass
- Feed: 1.48 US $ per kilo
- Smolts: Conservative performance 1030’/year
  - High performance: 960’/year
  - Cost: 1.53 US $ each
- Other production cost (Ex. Electricity, de-liceing etc.) ≈ 0.43 US $ / kilo HOG
- Price per kilo HOG: 5.45 – 6.75 US $
- Licences not depreciated and is sold after 10 years

Both:
2 % inflation first 6 years; 3 % inflation four last years
Value of equipment/buildings etc. set to 0 after ten years
Net Present Value Analysis

- Rate of return calculated to 8.91 %. (6 % loan interest, 28 % tax, 27.23 % required return on equity before tax, 30/70 private equity/loan)

<table>
<thead>
<tr>
<th></th>
<th>3.23 %</th>
</tr>
</thead>
<tbody>
<tr>
<td>Risk free return</td>
<td></td>
</tr>
<tr>
<td>Commercial risk</td>
<td>10 %</td>
</tr>
<tr>
<td>Financial risk</td>
<td>10 %</td>
</tr>
<tr>
<td>Liquidity premium</td>
<td>4 %</td>
</tr>
<tr>
<td>Required rate of return before tax</td>
<td>27.23 %</td>
</tr>
<tr>
<td>Tax (28%)</td>
<td>7.63 %</td>
</tr>
<tr>
<td>Estimated required rate of return on equity</td>
<td>19.61 %</td>
</tr>
<tr>
<td>Estimated required rate of return on total capital</td>
<td>8.91 %</td>
</tr>
</tbody>
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Net present value at 8.91 % required rate of return

Model Land-based RAS farm:
- NPV: -16 M US $
- NPV & NO Required Rate of Return: 1,810,000 US $

Model Land-based RAS farm with premium price
- NPV: 13.33 M US $
- NPV at 0, at a required rate of return of: ≈ 14.35 %

Model Net Pen farm - Conservative performance
- NPV: 7 M US $
- NPV at 0, at a required rate of return of: ≈ 15.07 %

Model Net Pen farm - High performance
- NPV: 11.39 M US $
- NPV at 0, at a required rate of return of: ≈ 18.67 %
Net present value at 8.91 % required rate of return

Model Land-based RAS farm:
- NPV: -16 M US $
- NPV & NO Required Rate of Return: 1,810,000 US $

Model Land-based RAS farm - Premium Price
- NPV: 13.33 M US $
- NPV at 0, at a required rate of return of: $\approx 14.35 \%$

Model Net Pen farm - Conservative Performance
- NPV: 7 M US $
- NPV at 0, at a required rate of return of: $\approx 15.07 \%$

Model Net Pen farm - High performance
- NPV: 11.39 M US $
- NPV at 0, at a required rate of return of: $\approx 18.67 \%$

NPV is for 10 years
Brief Conclusions

- Production: Model Land-based RAS farm has a more consistent production than the Model Net Pen farm
- CAPEX: Model Land-based RAS farm capital cost is greater per unit of annual production than Model Net Pen capital cost per unit of annual production
- OPEX: Model Land-based RAS farm operating cost is slightly lower than Model Net Pen farm operating cost (within this analysis)
- NPV: Model Land-based RAS farm and Model Net Pen farm have similar net present value for the expected case