

External Review of the Department's Last-In, First-Out Policy on Northern Shrimp

*Written Submission for the
Ministerial Advisory Panel*

Department of Agriculture, Aquaculture and Fisheries

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Introduction

The Northern Shrimp Fishery was developed by a few companies in the 1970's at a time when the first groundfish decline was observed. Significant investments were made in order to develop a viable year round fishing business which also required efforts to identify market opportunities for shrimp.

When the shrimp biomass expanded in the late 1990's, additional access was granted to inshore fishers on a temporary basis using mainly the adjacency principle. Given the fluctuating nature of the shrimp resource, it was clear at the time that the Last-In, First-Out (LIFO) principle would be applied when the stock declined. This measure also protected the viability of the offshore traditional fleet sector. The traditional fleet supported the temporary access allowed during the time of exceptionally high quota, trusting the LIFO principles would be respected when the stock returned to more traditional levels.

Our provincial historical share of the resource took a serious hit when new access was provided to groups from other provinces. The abundance of shrimp also flooded traditional markets which affected the viability of our traditional shrimp mid-shore fleet. The price dropped to a low of \$0.38 per pound in 2008 and forced the sector to rationalize. Despite these factors and various Fisheries and Oceans (DFO) initiatives to bring stability to fisheries in Atlantic Canada, adjacency continued to be the preferred criteria used for sharing arrangements in the Northern Shrimp Fishery when resource expanded over the years.

The purpose of this position paper from the Department of Agriculture, Aquaculture and Fisheries (DAAF) of New Brunswick is to provide:

- 1) a background of the Northern Shrimp Fishery and its importance to New Brunswick;
- 2) an overview of past decisions/reviews in this fishery and their implications on our fisheries sector, and
- 3) our rationale to maintain the LIFO Policy as the Ministerial Advisory Panel (MAP) finalizes its review process.

Background

The development of the Northern Shrimp Fishery on Canada's East Coast was pioneered by a partnership of fishing companies who enabled fishing technology transfer to take place and they invested in large scale vessels in order to operate year round.

Of the initial 11 licences, two New Brunswick companies located in northern New Brunswick (Caraquet and Lamèque) invested heavily in this fishery and its market development.

In addition to creating employment for New Brunswickers on their vessels, their involvement in the Northern Shrimp Fishery also strengthened their operations in the mid-shore shrimp sector (Gulf of St. Lawrence and Scotian Shelf) to benefit fishers and plant workers involved.

The ability of New Brunswick companies to extend their market offering of both the mid-shore cooked and peeled shrimp and the offshore frozen at sea shrimp is central to their economic viability and their market resilience.

When the resource expanded in the 1990's, a large increase in access was granted mainly to inshore fisheries and to community groups from Nunavut, Labrador, Newfoundland and Québec and Prince Edward Island in the form of special allocations. Many obtained preferential treatment by not having to pay the same amount for the allocations obtained compared to the offshore fleet sector which contributes significantly for the management of the fishery through access fees (\$2.5 M annually).

The expansion of access to the Northern Shrimp Fishery was governed by four principles:

1. Conservation of the resource will be paramount;
2. Viability of the existing enterprises will not be jeopardized and a threshold of 37,600 tonnes was established;
3. There will be no permanent increase in harvesting capacity. Participation by new entrants will be temporary and will end when quota declines in the future, and;
4. Adjacency will be respected if the resource expands further.

This was used as the basis for LIFO Policy.

Subsequent DFO initiatives (such as the *Atlantic Fishery Policy Review* and the *Independent Panel on Access Criteria*) used to govern decision-making when providing access to new entrants in fisheries that have undergone substantial increase in abundance or landed value were commissioned, and recognized the LIFO Policy as a self-adjustment mechanism. Furthermore, the *New Access Framework* (2002) which was adopted to guide all decisions on new access consisted of three principles and three traditional criteria:

Principles

1. Conservation
2. Recognition of Aboriginal and Treaty Rights
3. Equity

Criteria

1. Adjacency
2. Historical Dependence
3. Economic Viability (LIFO)

In 2009, the Total Allowable Catch (TAC) reached 85,725 tonnes in Shrimp Fishing Area (SFA) 6. The offshore sector obtained 16,612 tonnes and the inshore sector was allocated 59,613 tonnes with the remaining 9,500 tonnes being attributed under special allocations.

The LIFO Policy was clearly spelled out in the *Intergraded Fisheries Management Plan* (IFMP) for Northern Shrimp in 2003 and 2007 and documentations related to the Northern Shrimp Advisor Committee (NSAC).

DFO converted inshore licences to regular licences in an effort to promote stability of the inshore fleet which allowed the sector to make business decisions based on clear guidelines.

In 2010, 2011 and 2014, the TAC was reduced which triggered the LIFO Policy to be applied and the Minister removed some special allocations from the fishery and reduced the allocation of other participants based on the existing sharing formula reflected in the LIFO Policy.

In 2012, Ernst & Young was mandated to review whether the policies, methodologies and principles were appropriately applied in the decision-making process to remove participants when TAC declined in the Northern Shrimp Fishery in 2010, 2011 and 2014. The External Advisor Process determined that DFO did apply the rules and management policies for the Northern Shrimp Fishery.

A Ministerial Advisory Panel (MAP) was tasked to evaluate if the LIFO Policy in the Northern Shrimp Fishery should be maintained, modified or abolished given the significant decline in shrimp abundance mainly in the SFA 6. The Panel report will be provided to DFO no later than June 15, 2016. Our department recently expressed concerns with the external review process.

Considerations

In our view, the Province of New Brunswick's historical attachment to the Northern Shrimp Fishery has been clearly demonstrated by CAPP, Lamèque Coop and Produits Belle-Baie's presentations.

A large component of their operation depends on allocations they have fished since the start of this fishery. Located in fishing communities in the Northern of New Brunswick, these companies are important employers in an area that was also dependant on groundfish, and survived through tough economic times when five (5) major processing plants shut down their operation when the moratorium was imposed.

Prior to the expansion of the fishery in 1996, New Brunswick historical share stood at 11.76% in SFA 6. New Brunswick is one of the two (2) provinces that were left out when additional access was provided and our Provincial Historical Share (PHS) dropped to 2.28% in 2008 and 2009. Last year, our share remained well below our historical level to reach 3.31%. Our companies have been involved in this fishery for nearly four decades.

We understand that the Minister of Fisheries and Oceans Canada considers a wide range of policies which are subject to clear and consistent rules and procedures to ensure fairness and transparency in his decision-making process. When new access was provided, the rules of engagement were very clearly stated in DFO's Press Release of April 23, 1997. The statement was further reinforced with subsequent DFO initiatives by making access and allocation decision-making processes more transparent and predictable which led to the Policy Framework for the management at *Fisheries of Canada's Atlantic Coast* which even used the LIFO Policy as an example to determine "exit rules for new entrants" in any particular fishery. The LIFO Policy was also outlined in provisions of IFMP of 2003 and 2007 and at the NSAC meetings.

In 2007, the conversion of temporary inshore shrimp permits to regular licences provided the tools to the inshore fleet sector to make business decisions to meet the self-reliant objective contained in the Policy Framework. This allowed the inshore sector to develop self-adjustment mechanism by a fleet for use in the event of a reduction in resource abundance and/or landed value. Reference to LIFO was again made. DFO ministers applied the LIFO Policy in 2010, and 2011 when biomass declined and reinstated participants based on this Policy in 2012 when the TAC increased.

Even with clear overarching principles defined in the *New Access Framework*, the adjacency criteria was excessively used to the benefit of NL inshore fleet. Letters were sent by previous New Brunswick ministers responsible for fisheries seeking equity in allocation attribution given on historical attachment to the resource.

The significant increases in allocation in the Northern Shrimp Fishery had a detrimental impact on our traditional mid-shore fleet which fished in the Gulf of St. Lawrence and on the Scotian Shelf. The abundance of cooked and peeled shrimp flooded the markets and the price dropped drastically. This situation was further compounded with the global economic downturn. DFO even created a task group on shrimp to develop an action plan to improve the status of the industry. The Government of New Brunswick had to re-invest in the mid-shore sector in order to improve the viability of the fleet even when shrimp abundance was at its historical level. Temporary relief on loan payments and rationalization of the mid-shore fleet sector occurred between 2007-2010 which avoided bankruptcies. In 2008, the value of the shrimp landings was at an all-time low while the stock was at its peak.

A precautionary approach framework was developed to ensure conservation of the resource which is the primary mandate of DFO. However, DFO has allowed a higher exploitation rate to take place when the female spawning stock biomass index in SFA 6 has been in the cautious zone for four (4) of the past five (5) years.

Signs of decline were first observed by science in SFA 6 in 2009. Collectively, we must take immediate action to reduce effort in this fishery in order to avoid further economic hardship. As the new access was based on SFA by SFA calculations, reductions in TAC should continue to be made according to that framework.

The current process has allowed stakeholders the opportunity to voice their views to maintain, modify or abolish the LIFO Policy. We realize that it is very difficult to manage access and allocation in a fishery where we understand that resource decline will have significant repercussions on many coastal communities on Canada's East Coast. However, asking the traditional offshore fleet to be removed from area SFA 6 in order to maintain the inshore allocation level only postpones the debate on the Policy issue.

The MAP should consult the position expressed by some groups in recent decisions regarding the Atlantic Halibut Fishery in the Gulf of St. Lawrence and the Greenland Halibut Fishery to see if stance were consistent with the approach taken in this fishery.

Contrary to the inshore fleet from NL that have access to other fisheries for their livelihood, our offshore fleet sector depends solely on shrimp for their viability.

Recommendation

Government of New Brunswick strongly recommends maintaining the LIFO Policy to secure investor confidence and protect the viability of the offshore fleet that developed this fishery.

The LIFO Policy has been recognized and adopted by previous DFO ministers to manage this fishery and has been included in the IFMP which also stresses the importance of share stewardship for the sustainability of the resource.

LIFO has to be implemented in order to maintain a balance of the harvesting capacity with resource abundance in this fishery where self-adjustment mechanisms should be developed on a fleet by fleet basis when the stock declines.

DFO must apply its own policies in its decision-making process in order to provide clear, stable, predictable and transparent rules to stakeholders which are fundamental to ensure long-term sustainability of any fishery.

In our view, LIFO has achieved this objective.

Since the MAP held Public Consultation Meetings, the Panel report should be made public to ensure a continuous transparent process as indicated in fisheries policy frameworks.

On a final note, “Conservation must be compulsory, not optional” (FRCC 98).