



# LABRADOR FISHERMEN'S UNION SHRIMP COMPANY LIMITED

**SUBMISSION TO THE MINISTERIAL ADVISORY PANEL (MAP)  
ON THE LAST IN, FIRST OUT (LIFO) POLICY ON THE  
NORTHERN SHRIMP FISHERY  
JUNE 3, 2016**

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# INTRODUCTION

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The Labrador Fishermen’s Union Shrimp Company Limited (LFUSCL) is a Canadian controlled private corporation that is co-operatively owned by the Fishers of Southern Labrador. The company has a heavy dependence on the Northern Shrimp Fishery and its shareholders participate in all aspects of the shrimp fishery including:

- Offshore Fishers
- Inshore Fishers
- Special Allocation Holders

There is a wide range of views by our shareholders but there is one common theme from all shareholders, “Labrador’s interest in the Northern Shrimp Fishery has to be protected”.

## BACKGROUND OF THE COMPANY

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The origin of this company can be traced back to 1978 when there were two licences available for the following areas in Labrador:

1. L'Anse Au Clair to Red Bay
2. Lodge Bay to Cartwright

These areas combined into one organization and this organization was eventually incorporated as Labrador Fishermen's Union Shrimp Company Limited (LFUSCL), on January 15, 1979. Adjacency was the basis for Southern Labrador receiving the initial licences and today adjacency remains the major principle the company supports for quota allocation. The following principles were established in 1978 and these principles are incorporated into the by-laws of the company:

**Bona Fide Full Time Fishers** – All Bona fide full time fishers residing in the area from L'Anse Au Clair to Cartwright were eligible to own one share in the company.

**Loss of Qualification** – If a shareholder left the fishery or relocated from the area defined in the by-laws then his share would be cancelled by the company.

**Retirement from the Fishery** – If a shareholder retired from the fishery and did not take employment outside the fishery then he was permitted to keep the share. If retirement was followed by active employment outside the fishery then his share was cancelled.

**Death of a Shareholder** – This will result in the cancellation of the share without any financial remuneration.

**Restriction on Dividends** – There is a restriction on dividends that maximizes the payment of dividends to \$1 per share per year. This ultimately has meant that no dividends have ever been paid from the company and profits realized by the company have remained in the company for investment in infrastructure in Coastal Labrador.

The success of the company can be seen by comparing the infrastructure in Southern Labrador today vs the infrastructure that existed there in 1978.

## COMPANY OPERATIONS

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The company operations include:

1. Multi species groundfish plant in L'Anse Au Loup.
2. Crab plant in Cartwright.
3. Crab plant in Mary's Harbour.
4. Shrimp processing plant in Charlottetown.
5. Whelk and scallop processing plant in Pinsent's Arm. This operation also serves as a buying station for the whole area.
6. Two middle distance vessels – Nain Banker and the Belle Isle Banker.
7. 50% interest in M.V. Osprey Limited that owns and operates the MV Northern Eagle, a factory freezer shrimp trawler.

These operations have been developed and in many years supported by profits realized from the offshore shrimp fishery. Without a profitable offshore shrimp fishery many of these operations would not exist today. These operations have had a very significant impact on the economy of Southern Labrador as is evident by the ten year summary of payments the company has made in Coastal Labrador.

| Table 1   |                       |
|---|-----------------------|
| Labrador Fishermen's Union Shrimp Company Limited |                       |
| 10 Year Historical Activity                       |                       |
|   | <b>Total</b>          |
| Fish purchases                                    | \$ 186,205,809        |
| Wages and benefits                                | 57,781,475            |
| Payments to crew                                  | 27,708,336            |
| Materials and supplies                            | 13,237,989            |
| Repairs and maintenance                           | 9,164,410             |
| Fuel  | 16,511,089            |
| Freight   | 26,163,344            |
| Municipal taxes                                   | 2,841,494             |
| Capital expenditures                              | 18,200,613            |
| Donations   | 278,902               |
| <b>Total</b>                                      | <b>\$ 358,093,461</b> |

## COMPANY OPERATIONS

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The above represent considerable expenditures in a very small region and the table below shows

|              |  | Table 2      |
|--------------|--|--------------|
| Year         |  | Total        |
| 2015         | Fishermen serviced   | 604          |
| 2015         | Employees  | 517          |
| 2015         | Crew employed on various shrimp vessels including the Northern Eagle | 57           |
| 2015         | Crew members for the Banker Boats                                    | 48           |
| <b>Total</b> |  | <b>1,226</b> |

how many people actually are employed/paid by LFUSCL.

The company owns 50% of the MV Northern Osprey and provides two thirds of all crew members for the MV Northern Eagle. These are full time well-paying jobs that are highly sought after in Labrador communities. Labrador crew members received the following crew shares in the last ten years. These numbers are not included in the LFUSCL 10 year historical data on Table 1.

| Table 3          |               |
|------------------|---------------|
| Year             | Total         |
| 2011             | \$ 3,638,524  |
| 2012             | \$ 3,769,018  |
| 2013             | \$ 4,996,157  |
| 2014             | \$ 5,081,503  |
| 2015             | \$ 6,943,811  |
| Five year total  | \$ 24,429,013 |
| Average per year | \$ 4,885,803  |

## OTHER OFFSHORE

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The company exchanges quotas as part of other business arrangements with a number of companies. These agreements would normally require some crew positions and this has resulted in the following additional crew shares over the last five years.

| Table 4      |                     |
|--------------|---------------------|
| Year         | Total               |
| 2011         | \$ 676,538          |
| 2012         | \$ 700,802          |
| 2013         | \$ 928,973          |
| 2014         | \$ 944,842          |
| 2015         | \$ 1,291,115        |
| <b>Total</b> | <b>\$ 4,542,270</b> |

The company is a member of the Northern Coalition and own two of the seven shares in that organization. This Coalition was formed in 1996 to enable existing licence holders directly adjacent to the resource to gain additional access to shrimp resources. This marked the first time

Northern Groups from three distinct geographical areas worked together to improve their position in the fishery.

In 2003, the Inshore Cod/Crab Affected Fishers of Southern Labrador were given a 3,400 ton shrimp quota in SFA 5 subject to the condition that it would be managed by LFUSCL. This may seem like a large quota but when you consider there are over 100 fishers involved in this group the amount available to each fisher is less than 75,000lbs. This shrimp has improved the economy along the Labrador Coast for a number of reasons:

- A. Improved the viability of these fishers.
- B. The combined income was sufficient for these fishers to remain in the fishery.
- C. The harvesting of this product created jobs in both harvesting and processing sector.
- D. LFUSCL were able to expand their operations along the Labrador Coast through various shrimp and turbot agreements and other quota trades within the fishery.



## OTHER OFFSHORE

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This quota was combined with the quota available to the 2J CDP fishers and jointly harvested by both the inshore and offshore fleets thus creating many job opportunities for residents of Coastal Labrador. The benefits from this fishery since 2003 can be summarized as follows:

| Table 5  |                      |
|--|----------------------|
| Amount   |                      |
| Profit participation paid directly to fishers                      | \$ 22,024,155        |
| Additional crew shares resulting from the harvest of these quotas  | 8,351,998            |
| Additional crew shares from turbot obtained through quota exchange | 15,378,868           |
| Additional processing labour in Charlottetown                      | 5,000,338            |
| <b>Total</b>   | <b>\$ 50,755,359</b> |

# THE IMPORTANCE OF THE OFFSHORE FISHERY

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The importance of the offshore fishery to Coastal Labrador cannot be overstated. It is the economic engine responsible for development along the Labrador Coast for the last 37 years. The challenges in Coastal Labrador include:

- Lack of infrastructure;
- Higher operating costs;
- Higher construction costs;
- Logistics;

Revenues from this fishery has enabled LFUSCL to attack and conquer these challenges. The company has invested approximately \$15,000,000 in the last five years to build new plants and to modernize older facilities. Without the latest technology, plants in Southern Labrador would not be able to compete with plants on the island due to the short season and the low level of product available to these plants. The middle distance vessels were purchase from funds derived from the offshore shrimp fishery. This has allowed the company to expand and provide real quality jobs to our fishers for eight months of the year. The company now has the financial capacity to help Labrador fishers to buy new enterprises and/or expand and improve their existing enterprises. Without this financial assistance, the ownership and product available from these licences would have left Labrador and obviously taken the related benefits with them.

## Importance of the Inshore Fishery

The inshore shrimp fishery is the basis for the shrimp processing plant in Charlottetown. This was crucial for the 2J fishers because the additional species made their enterprises viable and provided the owners the financial strength to expand and modernize their vessels. The plant has become a major employer in Southern Labrador and it is the biggest land processing plant that the company operates.

2J Fishers are directly adjacent to approximately 50% of SFA 6. However, a review of the allocation of the inshore quota in SFA 6 shows that their share is substantially less than 50%.

## 1997

- 2J Fishers – 11.6% of SFA 6 inshore
- 3L Fishers – 22.7% of SFA 6 inshore
- 4R Fishers – 20.1% of SFA 6 inshore

# THE IMPORTANCE OF THE OFFSHORE FISHERY

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## 2008 (Peak)

- 2J Fishers – 11.2% of SFA 6 inshore
- 3L Fishers – 23.4% of SFA 6 inshore
- 4R Fishers – 24.4% of SFA 6 inshore

## 2015

- 2J Fishers – 13.5%
- 3L Fishers – 18.6%
- 4R Fishers – 20.97%

A review of these allocations questions whether the 2J fishers received a fair and reasonable share of the inshore quota in SFA 6.

The importance of adjacency in fishery allocation policy is supported by Government of Newfoundland and Labrador and the Fish Food and Allied Workers Union (FFAW). LFUSCL also strongly supports the principle of adjacency in the allocation of resources. Corrections are required in the distribution of inshore SFA 6 quotas if adjacency is considered a real principle in fishery allocation policy. 2J fishers have not received a reasonable share and the allocation to 2J CDP does not appear to have followed any particular policy. Consider the following allocations;

1. 2J CDP Fishers had 1,306 tons in 1999 when total SFA quota was 40,022.
2. 2013 – SFA 6 inshore quota was 40,280 tons but 2J CDP fishers were reduced to 900 tons.

## THE IMPORTANCE OF SFA 6 TO THE OFFSHORE FISHERY

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SFA 6 is extremely important to the offshore fishery. It represents 29% of the fishable quotas available to a licence and there are certain periods of the year when it is the only area where fishing is possible because of the ice conditions in the other areas.

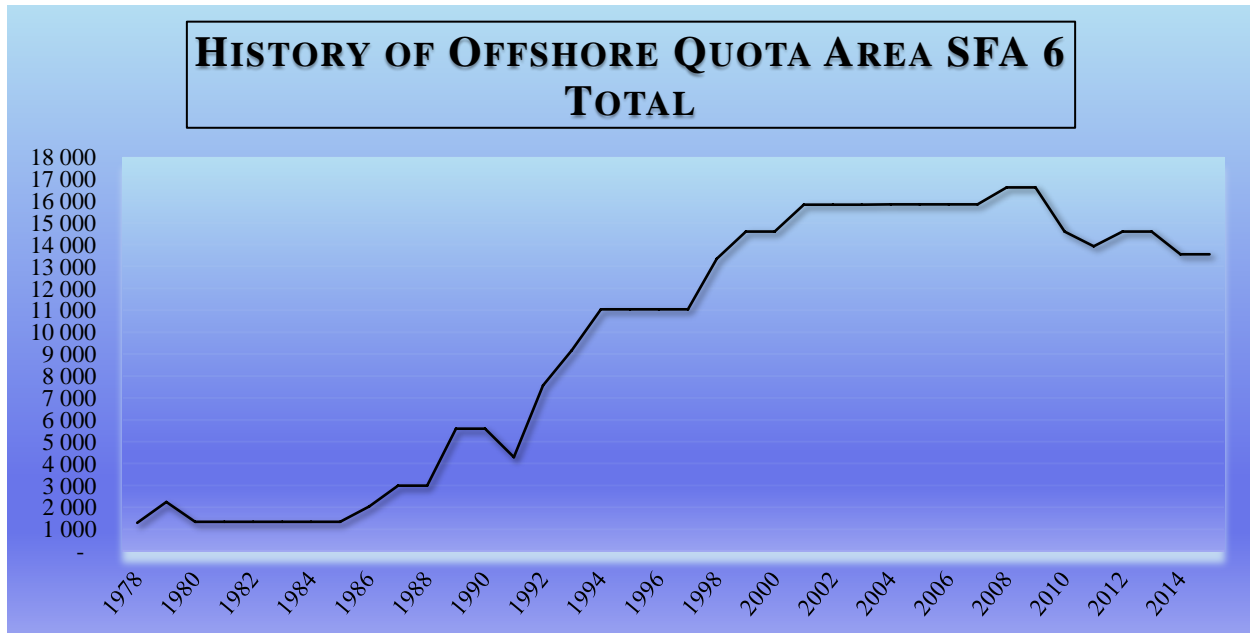
| Northern Shrimp Fishery |  |             |
|-------------------------|--|-------------|
| Fishable Quota          |  |             |
| SFA                     | Fleet  | Per Licence |
| 2                       | Davis Strait West<br>Offshore Borealis                         | 283         |
|                         | Davis Strait East<br>Offshore (Expl. P.<br>borealis E of 63°W) | 47          |
| 4                       | Offshore   | 611         |
|                         | Offshore competitive   | 66          |
|                         | NSRF Survey  | 100         |
|                         | Montagui (bycatch)   | 237         |
| 5                       | Offshore   | 450         |
|                         | Offshore competitive   | 147         |
| 6                       | Offshore   | 798         |
|                         |  |             |
| Total                   |  | 2,740       |

# THE IMPORTANCE OF SFA 6 TO THE OFFSHORE FISHERY

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The offshore fishery has a long history in SFA 6 as evident from Table 7.

**Table 7**



## LIFO

The last in, first out (LIFO) policy means that participants/allocations will be removed from the fishery in reverse order of gaining access. The shareholders of LFUSCL fish in the following sectors:

- Less than 35ft
- Less than 65ft
- Offshore trawlers

The LIFO policy was meant to define how reductions in quotas were handled. However, the debate over LIFO appears to have become a debate between the inshore and offshore and not a debate over the real merits of the LIFO policy. All of the fishers noted above are adjacent to the resource and have some expectation of access to this resource. The debate should return to the merits of LIFO as a policy and not a debate between the merits of the offshore fishery and the merits of an inshore fishery.

# LIFO

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The foundation for the LIFO policy can be traced to Minister Mifflin's 1997 announcement. This announcement and the management/allocation measures announced were the result of extensive consultations with the public and stakeholders resulting in the development of the following principles:

1. Conservation of the resource is paramount.
2. Viability of existing enterprises will not be jeopardized.
3. Current Northern Shrimp licence holders will retain 37,600 tonnes that was allocated to them in 1996. Where TAC exceeds 37,600 tonnes temporary access will be given to new entrants.
4. Adjacency will be respected, which means that those who live near the resource will have priority in fishing it.
5. Priority will be given to increasing participation of aboriginal people in the established commercial fishery.
6. Priority access will be given to inshore vessels less than 65ft in length. Access by midshore and offshore fleets will be considered for the more northerly fishing areas.
7. Existing licence holders will share some of the increased TAC.
8. Employment will be maximized in both the harvesting and processing sectors where possible.

# RESPONSE TO QUESTIONS

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## 1. Should LIFO be continued, modified or abolished?

This has become a difficult question for LFUSCL to answer. The company has always supported LIFO because it provides great protection to the financial stability of the company. Profits from the licences are needed for LFUSCL to continue making significant contributions, to the local economy. Significant quota reductions will mean reductions in the financial capacity of the company to make contributions in future years.

The company has committed to the purchased of a new factory freezer trawler based on Department of Fisheries and Oceans's (DFO's) existing policies and procedures. However, management and the board have listened to the fishers who are the shareholders of this company. These fishers are concerned about their own financial viability.

The company supports the position of Labrador fishers when they question why adjacent fishers will have to receive the majority of the decreases in quota. The company also understands and respects the position of all 17 Northern Shrimp Licence holders who have a long history in this fishery and have built their business based on established DFO's policies. Attendance at many meetings over the last six months has made one thing obvious, "Industry participants push for policies that will provide the best benefits to their own organization".

Consider the following contradictions we've heard at meetings over the last several months:

1. Meeting with Minister Tootoo in St. John's – GEAC representatives support inshore receiving the majority but not all of the increase in cod up to the 115,000 ton levels. This could be considered a contradiction of the LIFO policy because the inshore fishers were the last to leave the cod fishery. Some significant members of GEAC also hold Northern Shrimp licences and thus are advocating different policy for different fisheries.
2. FFAW insist that the first 115,000 tons of northern cod go to the inshore, again this would appear to contradict their position on shrimp.
3. Some Nunavut interests maintain that LIFO is not acceptable when quota decreases are considered in their adjacent waters while other Nunavut interests push for the continuance of the LIFO policy in the Southern Zones.

## RESPONSE TO QUESTIONS

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### 1. **Should LIFO be continued, modified or abolished?** *(continued)*

The Independent Panel on Access Criteria developed three overarching principles. The third overarching principle was based on “equitable treatment for all” and this overarching principle should be the principle that will determine how future quota reductions are shared in the Northern Shrimp Fishery.

LFUSCL operates an inshore shrimp processing plant, is involved in the operation of an offshore trawler and has financed numerous inshore vessels and therefore know the economics related to all parts of the shrimp fishery. Time changes everything, including economics, dependence on the fishery and therefore policies may have to change to suit the current environment. Based on a review of all the facts and the company’s knowledge of the shrimp fishery the company has concluded that LIFO has to change if all participants are to receive fair and equitable treatment. The pain of these quota reductions should be equitably shared by all participants.

### 2. **What key consideration (principles, objectives, stock status etc.) should inform any decision to continue, modify or abolish LIFO?**

The key consideration in the decision to continue, modify or abolish LIFO has to be fair and equitable treatment for all current participants. The existing participants currently participate in the fishery for a variety of reasons and the challenge is to review all the facts and determine what policy change will achieve “the most equitable treatment of all”. The immediate consequence of the decision is not about quota increases but about reductions in quota.

In order to determine the best balanced approach to quota reductions you have to look at the existing principles and determine where the balance can be found. You can’t exclude an adjacent offshore fisher for the benefit of an inshore fisher or vice versa unless there are other compelling reasons.



## RESPONSE TO QUESTIONS

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**3. If you support changing or abolishing LIFO what would be the elements of a new access and allocation regime for the Northern Shrimp Fishery?**

The following are the elements for a new access and allocation regime.

1. Conservation of the resource is the first priority and the overriding principle has to be “direct adjacency”.
2. Adjacency is the most confusing and manipulated policy in fisheries management and more emphasis has to be placed on what constitutes direct adjacency.
3. Equitable treatment to all stakeholders.
4. Economic dependence.
5. Historical Attachment.
6. Financial viability of all fleets.

## SUMMARY

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The plan developed for the expansion of the Northern Shrimp Fishery in 1997 was the result of consultations and careful planning in an attempt to recognize the importance of all stakeholders. This plan specified clear principles on how future allocations would be shared and at the same time offered protection to the existing seventeen licence holders. This protection was recognition for the work and effort these licence holders had expended to develop the Northern Shrimp Fishery.

The plan clearly defined that adjacent user groups should receive the majority of the benefits in future increases with some sharing for the historical participants. A review of the increases and decreases in quotas since 1997 clearly shows that these policies have been followed. LIFO was more specifically included in the 2000 management plan and again this policy has been applied for all quota reductions. However, the principle requiring “equitable treatment for all” has to be considered in the possible reductions in SFA 6 quota. The inshore has had access to SFA 6 since 1997 and it is hard to realistically refer to the inshore as a “temporary participant.”

Labrador interests have a very small share of SFA 6 quota while the area is adjacent to approximately 50% of this area. The distribution of the offshore fishery is based on sharing in all fishing zones and therefore it is hard to analyze and question how and why licences are distributed between geographical areas. However, a review of the distribution of the inshore fishery in SFA 6 clearly shows that 2J fishers have not received a reasonable share of this resource. The review also shows that LIFO was not followed in reductions to quota allocated to the 2J CDP fishers in SFA 6.

The company has shareholders that fish both offshore and inshore and both sectors still require access to SFA 6. One should not be excluded for the benefit of the other. Likewise, the company should not be excluded from SFA 6 given the fact that the company is more directly adjacent to SFA 6 than many of the other inshore fleets based on the island portion of the Province. Closer attention has to be paid to direct adjacency in all quota allocation decisions. DFO’s policies should be consistent in all shrimp fishery areas. The department has to be very careful modifying or changing existing policies to ensure that the industry will not lose the confidence of financial institutions. The removal of the offshore from SFA 6 would be a dramatic change in allocation policies and it would be a difficult change for financial institutions to accept.

There is only one shrimp processing plant operating in Labrador, an area that is adjacent to 50% of the resource. Labrador has to maintain access to enough shrimp to keep this plant operational and viable.

