



NL Independent Fish Harvesters Association Inc.

Rationale Against Continuation of LIFO Policy in the Northern Shrimp Fishery

Submitted by

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Submitted to

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June 3rd, 2016

Newfoundland and Labrador Independent Fish Harvesters Association - Rationale Against Continuation of LIFO Policy

The purpose of this document is to present the opposition of the Newfoundland and Labrador Independent Fish Harvesters Association (NLIFHA) to the Last-in-First-Out (LIFO) principle as it relates to the northern shrimp fishery. Our organization represents enterprise owners in the Northwest Atlantic Fisheries Organization (NAFO) Division 3K with vessels greater than 40' length overall. Our harvesters have significant interests in one of the most important shrimp fishing grounds in Canada (Shrimp Fishing Area 6). The application of LIFO has had direct ramifications to our harvesters, resulting in significant quota declines. For instance, from 2012 to 2015, our share of the Area 6 quota has declined by almost 18%, from 13,400MT to 11,009MT. Over the same time period, the offshore allocation in Area 6 has declined by less than 9% from 18,145MT to 16,559MT.

In 1978, DFO issued 11 licenses to ten corporations permitting access the offshore northern shrimp fishery. An additional six offshore licenses were added between 1979 and 1990. Following the collapse of the groundfish stocks and rapid expansion of the northern shrimp population, interest in the near-shore fishery grew; particularly on the north east coast of Newfoundland (which was significantly impacted by the loss of the groundfish fisheries). Numerous temporary inshore licenses were granted in 1997 to groundfish harvesters with vessels less than 65' length overall. These temporary inshore licenses were converted to permanent licenses a decade later in 2007.

In 1997, with the introduction of the temporary licenses, a new set of sharing principles were added to the northern shrimp fishery to guide sharing arrangements into the future. The principles include:

1. Conservation of the resource is paramount.
2. The viability of existing enterprises will not be jeopardized.
3. Current northern shrimp license holders will retain the overall 37,600MT allocation that was provided to them in 1996. Where total allowable catch (TAC) for all areas combined exceeds 37,600MT, 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 will be given to inshore vessels less than 65 feet in length. Access by midshore and offshore fleets will be considered for the more northerly fishing areas.
7. Existing license holders will share some of the increased TAC.
8. Employment will be maximized in both harvesting and processing sectors where possible.

The LIFO principle was first described in the 2003 Integrated Fisheries Management Plan (IFMP), and was implemented to protect the licenses with the longest history in the fishery. At its core, the policy ensures that the offshore license holders, which received access prior to the inshore, are guaranteed a base allocation of 37,600MT across all shrimp fishing areas to ensure continued viability and to protect their investments. If quotas decrease below the base allocation the most recent entrants to the fishery

are removed. This principle results in a disproportionate decrease to the quota allocations of the inshore fleet compared to the offshore.

The current policy protects the offshore share to the detriment of the inshore harvesters, who initially received their access to offset the economic hardships experienced from the collapse of the groundfish fishery. LIFO has ensured that the inshore enterprise owners continue to face economic challenges, in the face of continued quota decreases.

Following the cod moratorium, snow crab and shrimp were relied upon to replace the revenues lost from the groundfish harvest and grow the Newfoundland inshore fishery. In 1997, when the government issued temporary shrimp licenses (subsequently converted to permanent licenses in 2007) to help mitigate the economic impacts of closing the groundfish fishery, our harvesters invested significantly in new vessels and equipment. In 2014 the shellfish harvest in Newfoundland was worth over \$250 million. Shrimp was second only to snow crab in terms of value but is by far the largest in terms quantity landed (80,853MT in 2014). Shrimp represents between 30 and 60% of the fishing revenues for our fishers who participate in the fishery.

The recent declines in the shrimp resource have had adverse effects on many of our association's enterprises. The decrease in the resource, and the previous government's insistence to adhere to the LIFO principle, has prompted the completion of a number of studies examining the importance of the inshore shrimp fishery to Newfoundland. The significance of the shrimp fishery for the inshore harvesters can be summarized based on these reports:

1. Inshore shrimp quota in Newfoundland is harvested by approximately 250 vessels and over 97.5% of their catch is landed within the province. In contrast, the offshore quota is harvested by only 17 license holders – seven from Newfoundland - using 11 vessels, and only 56.5% is landed in Newfoundland. In fact a great deal of the shrimp that is landed to be processed from the offshore fleet goes to other countries where it is processed and then competes with the shrimp landed from the inshore fishery.
2. The inshore landings support the operation of 10 shrimp processing plants employing approximately 1,500 people. No offshore catch is sold to local processors as it is processed onboard the vessel at sea. Over the past five years the inshore fleet has landed in excess of 450 million pounds of raw shrimp to be processed.
3. Inshore shrimp enterprises contribute over \$11 million into local economies through the purchase of groceries, fuel, and conducting routine maintenance. As many of the offshore vessels do not land in Newfoundland, the same level of economic spinoff is not achieved.
4. Recent quota cuts to snow crab in NAFO area 3k, which have exceeded 20% since 2012, have increased the dependence on shrimp for the inshore sector.
5. From 2012 to 2015 the inshore vessels in Area 6 have harvested their entire quota. In comparison, according to DFO quota reports, the offshore license holders have only caught 76% of their quota in the same area.
6. The offshore license holders have access to a number of additional shrimp fishing areas farther north, whereas our inshore harvesters are limited primarily to a single area. For 2015, the

offshore fleet's shrimp allocation was approximately 47,000MT. This allocation was dispersed over seven different fishing areas. Of the total allocation, the offshore has harvested less than 65%. Thus the offshore fleet has the opportunity to make up for its quota losses in other fishing areas but the inshore fleet does not have the same options available to it. Furthermore the offshore shrimp is able to prosecute its fishery on a year round basis and are free to move throughout the different areas.

7. Total income losses experienced by the inshore harvesters, as well as the shore based plants, resulting from LIFO are \$10.1 million and have resulted in a loss of almost 250 person years. In contrast, the offshore cuts resulted in only an income decrease of \$577,000 and nine person years. This equates to a difference of nearly 18 times in terms of labour revenues and approximately 28 times more person years compared between the two sectors.
8. **Over 90% of the fisheries in Atlantic Canada have stabilized sharing arrangements which are based on a percentage share. No other fishery in Atlantic Canada is subject to a LIFO application.**

Previous governments recognized the importance of the fishing resource for small inshore harvesters. In 1979 Minister Romeo LeBlanc – at the time of the offshore fishery development – stated:

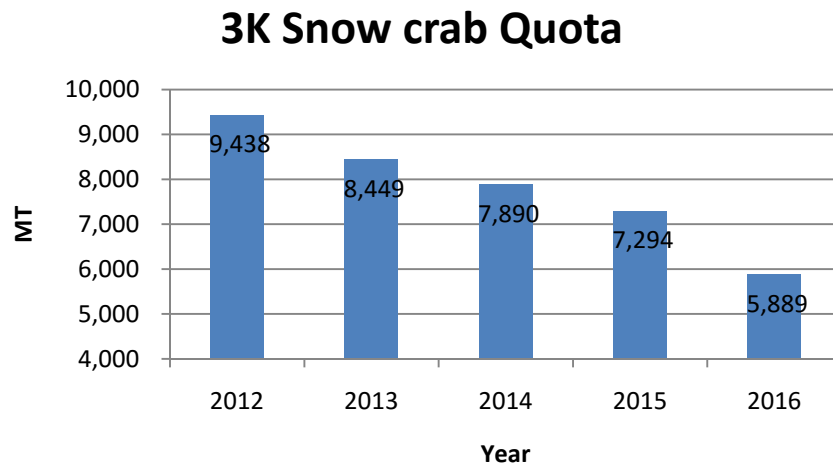
“The first interest that has to be considered – and as long as I am the minister the first interest that is considered – is the interest of the fisherman starting with those who live in the communities that are most isolated and whose mobility is most limited. It was in the name of the small coastal communities and the small fishermen who could not compete with the foreign fishing fleets that we argued successfully with the rest of the world that Canada should manage the 200 mile zone (cited in Griffiths 2011, 238)”

Minister Leblanc was known for supporting small-scale harvesters and small coastal communities that were economically and socially dependent on the adjacent resources. The above quote made as part of a speech to the House in 1979 provides precedent against the implementation of LIFO and its favouring of the offshore companies.

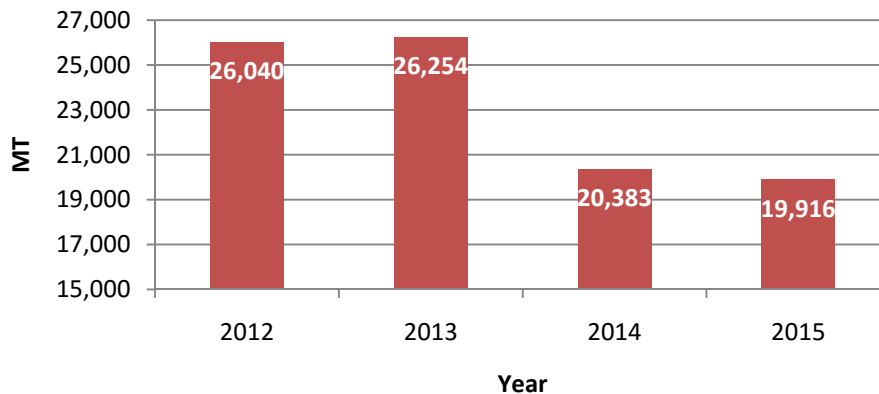
The issues associated with LIFO have become more pressing following the 2015 annual research survey of the shrimp resource in the main Canadian fishing areas). The results of the survey indicated that there has been another significant reduction in the shrimp stock's biomass. Specifically, with the increasing cod biomass (which has grown from tens of thousands of tonnes to over 200,000 tonnes in less than 10 years) the shrimp quotas are likely to continue to decline. Area 6 showed a decline of 33% in fishable biomass and a decrease of 25.6% in its spawning stock biomass, both of which will have enormous consequences for the foreseeable future. The drastic reduction in the inshore allocations severely jeopardizes the viability of our enterprises, putting at risk the businesses that our fishers have worked so hard to build.

There are several arguments that we would like to bring to your attention as to why LIFO should be abolished and a new policy implemented that does not discriminate against the inshore harvesters.

1. **Adjacency** – In most other fisheries adjacency to the resource is an overriding principle in determining how quotas are allocated. In fact, the 1997 sharing principles (identified earlier in the document) specifically refer to adjacency. Our members are immediately adjacent to the Area 6 shrimp resource. In most of the inshore fishers who fish Area 6 harvest much of their quotas in area adjacent to the 3K area. Considering the offshore sector which includes license holders from Nova Scotia, PEI, Nunavut as well as Newfoundland and Labrador, there are regional groups who are allocated a significant portion of the Area 6 resource despite not being within the Area or even remotely adjacent. This demonstrates that the current application of LIFO is inconsistent with its original intent.
2. **Economic dependence** – Our members are heavily dependent on inshore shrimp allocations to operate economically viable enterprises. Unlike harvesters in other areas which have access to significant snow crab allocations, our snow crab fishery is small (for example, NAFO Division 3L snow crab quota in 2015 was roughly 31,000MT compared to approximately 7,000MT for Division 3K). Since 2012, snow crab quotas in most other areas have been increasing. Over the same time period, the 3K snow crab quota has decreased by over 2,000MT. This decline in snow crab access has heightened the dependence of our shrimp allocations to our members. The following figures show the declines in shrimp and snow crab access for our members.

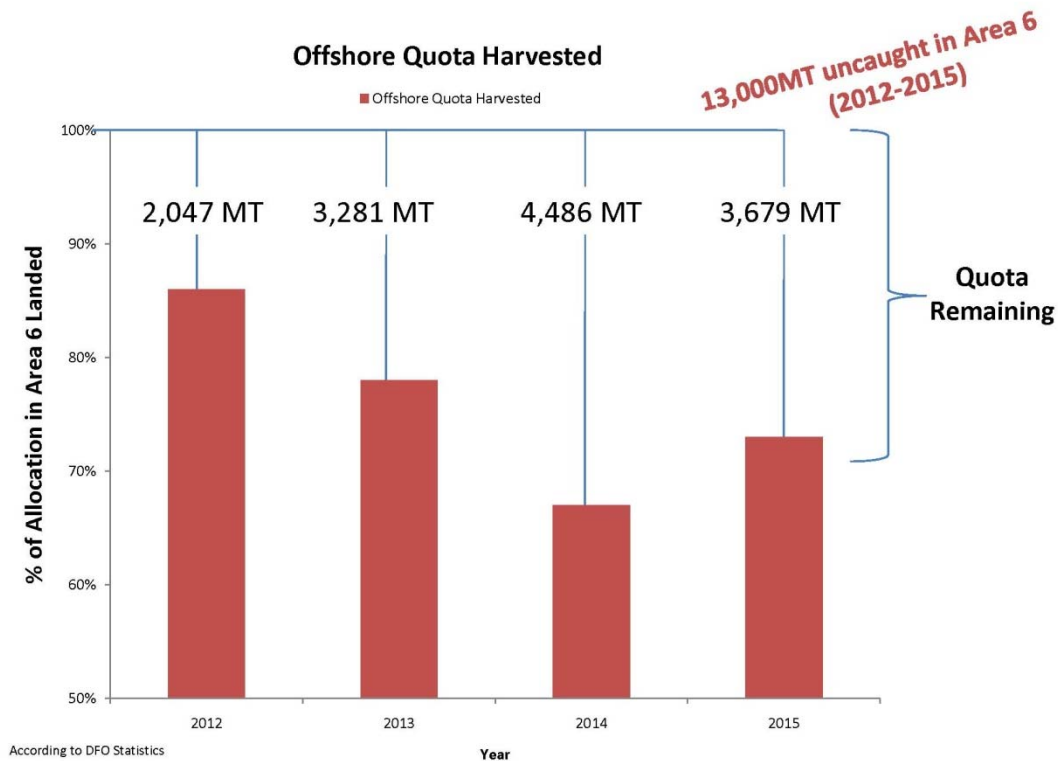


Area 6 Total Inshore Shrimp Quota



The inshore shrimp fishers from 3K generate a total revenue of approximately 52.6 million (based on 120 vessel shares). With each inshore enterprise employing 5 individuals on 89 vessels this equates to 445 jobs paying average wages of \$55,000 each (\$25 million total). In addition the inshore vessels provide a great deal of economic spin-off opportunities for the small rural communities in which they land to offload. Through fuel, groceries and refit alone it is estimated that the 3K inshore fleet alone contributes \$12 million in these spin-offs. All said the inshore fishery in 3K contributed nearly \$40 million to the economies of rural Newfoundland.

- Vessel shares** – Despite having the largest inshore allocation for Area 6, our members receive the smallest shares on a per vessel basis. In 2015, the Division 3K allocation was 14,477MT which was split between 120 license holders. This represents a per license share of 120.6MT. Division 2J, as the second regional group that is adjacent to Area 6, received 4,178MT divided among 21 license holders for a per license share of 198.9MT. The offshore allocation of 16,559MT is divided amongst the 17 licenses resulting in a per license share of 974MT. Although our members receives one of the greatest shares, when it is converted to a per license basis we have the smallest allocation.
- Catches** – Since 2012 our fleet has harvested 100% of our yearly allocation. Over the same period of time, according to DFO quota reports, the offshore fleet has caught only 76% of its allocations in Area 6, resulting in over 13,400MT remaining in the water. This clearly demonstrated that our quota is more important to us than the offshore's allocation is to them. This is another clear example of where they have other shrimp fishing areas to fish as well as alternative fisheries –such as turbot- available to them. The following table shows the amount of quota remaining in Area 6 according to DFO quota reports



5. **Ill-defined concept** - LIFO is a poorly detailed concept that is subject to interpretation that clearly favors the offshore sector. For instance, in 2007 all temporary inshore permits were converted to regular licenses. This was completed as part of a federal/provincial renewal initiative for the Newfoundland industry. In 2007, the integrated fisheries management plan (IFMP) stated that the LIFO principle now applies to new participants/allocations; however a description of what a new participant/allocation holder is not provided and is subject to interpretation. At the same time in 2007 the inshore licenses were made permanent licenses and therefore should not be considered new entrants. Under this change to the IFMP – the LIFO policy should therefore not apply to the inshore license holders.
6. **Encouraged to combine** – We have been encouraged by Government policy to rationalize our fishery by combining shrimp licenses and quotas to improve the viability of our operations. As a consequence, a number of fishers have incurred substantial debt and now find that their access to the fishery will be significantly reduced by LIFO. For instance a typical NAFO division 3K shrimp license with quota was valued at over \$800,000.
7. **Ecosystem concerns** – Shrimp fishing area 6 is the only shrimp fishing area that has year round harvesting. The offshore fishes from January to May and then from November to December, while the inshore harvests shrimp from April (if ice permits) to October. This results in the area not having a chance to rejuvenate it is consistently under pressure. Another consideration is that the shrimp release their eggs in April and May, therefore those caught during the summer

and late fall are not egg bearing. In contrast the offshore fleet, harvesting during the winter and spring harvest a great amount of egg bearing females.

Having survived the collapse of the groundfish resource, we understand and respect the measures put in place by DFO's by management and science to ensure a healthy fishery. It is imperative that we continue to implement sustainable principles in order to have a fishery for future generations and we recognize that reductions in quotas are necessary to accomplish this goal. However, it is our view that that these cuts should not be made at the expense of the inshore fishers and plant workers in Newfoundland who have come to rely on the fishery as a major economic contributor to this coastal region. We believe that any cuts should be shared equally throughout all fleet sectors. This is the most just manner of minimizing the impact on the vulnerable inshore sector, where being able to participate in multiple fisheries is essential to ensure economically viable enterprises.

REQUEST

Our association is requesting that the LIFO policy be immediately repealed for the reasons described herein, as it results in a discriminatory sharing of the northern shrimp resource. The policy as it is now unfairly penalizes the inshore operators, who are relied on throughout Newfoundland. The impacts of LIFO on the inshore harvesters in our area are made worse when the declining snow crab resource in our area is also taken into account. This policy continues to jeopardize the economic viability of our enterprises, and the further reduction to our shares could spell economic disaster for our fleet. Ultimately we would prefer that the inshore fishery receive exclusive access to SFA 6. Whereas the offshore has six alternative shrimp fishing areas to harvest its quota the inshore only has two with the majority occurring in SFA 6. By removing the offshore from SFA 6 it would also eliminate the year round fishing pressure and reduce the number of egg bearing female shrimp that are caught.

Regards,



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