

**SUBMISSION TO THE MINISTERIAL ADVISORY PANEL
FOR THE LIFO REVIEW**

May 31, 2016



Newfound Resources Limited

Good afternoon.

My name is Brian McNamara, President of Newfound Resources Ltd and owner of the offshore shrimp vessel Newfound Pioneer. Our head office is in St. John's and we operate from the port of Bay Roberts in Newfoundland. I appreciate the opportunity to address to the Panel on such a very important subject and I hope that by relaying some of my experience and knowledge collected over 30 years as a white-collar fisherman in the northern shrimp industry that I can contribute to and assist with, even if in a small way, the Panel's very difficult task at hand.

As a founding member and director of the Canadian Association of Prawn Producers I wish to state the obvious; LIFO should be honored for all the reasons as outlined in CAPP's earlier comprehensive report presented to the Panel.

As an active participant in the offshore fishery since 1991 (actually since 1984 dating back to my FPI days) there are several additional informational items that I wish to present that are linked not only to our company's history but also our history with our good friends and longtime partner Makivik Corporation. I will avoid duplication and focus on substantiated and evidence-based facts although there are a few factoids presented by others that I will also address.

1. The Makivik Partnership

Over the years we have had a number of quota partners including the Conne River Micmac, the Lower North Shore Fishermen's Association and the Fogo Island Co-op when they held offshore quotas. Our royalty payments to them were significant but, sadly, they lost their allocations through quota cuts and our own viability was greatly impacted. NRL only holds a single license which today carries a quota of 2456 mt of harvestable borealis quota and if LIFO is implemented and IF the quota cut is 40% our EA would reduce to just over 2300 mt. If this were the only quotas we could fish it would mean we would be tied up for more than 1/2 the year which simply means we would be out of business. As a quick comparison, the fishable EA assigned to our license when the fishery expanded in 1997 was 2206 mt (the threshold of 37,600/17).

Conclusion #1 ... There is no significant difference between harvestable quota held by an offshore license today and the harvestable quota held in 1997.

During the 1980's and early 1990's, one of the key goals in the northern shrimp industry was how to make an offshore shrimp license self-sufficient. DFO's 1990 Economic Assessment (pgs. 59-61) concluded that a single shrimp license was not viable and required either access to groundfish or access to another shrimp license/partnership....and this was for a vessel estimated to cost \$16M, appx 1/4 of what a vessel costs today. By way of clarification, an earlier presentation by the All Party Committee from NL contained the erroneous statement that an offshore vessel could be viable with 2200 mt of shrimp which they attributed to this same 1990 report. I can find no such statement in this report and the APC has not responded to my request for clarification. If there is any further doubt we need only look at the subsequent 1995 DFO study of the Economic

Viability of the Northern Shrimp Fishery as prepared by Gardner Pinfold which concluded that “a new shrimp trawler in the 65m range costing \$25M would need about 2800 mt to break even”.

Conclusion #2 ... It should require no further study to conclude that a \$60 million vessel requires much, much more than 2800 mt to be viable or, expressed in another way, an offshore shrimp license cannot support an offshore vessel.

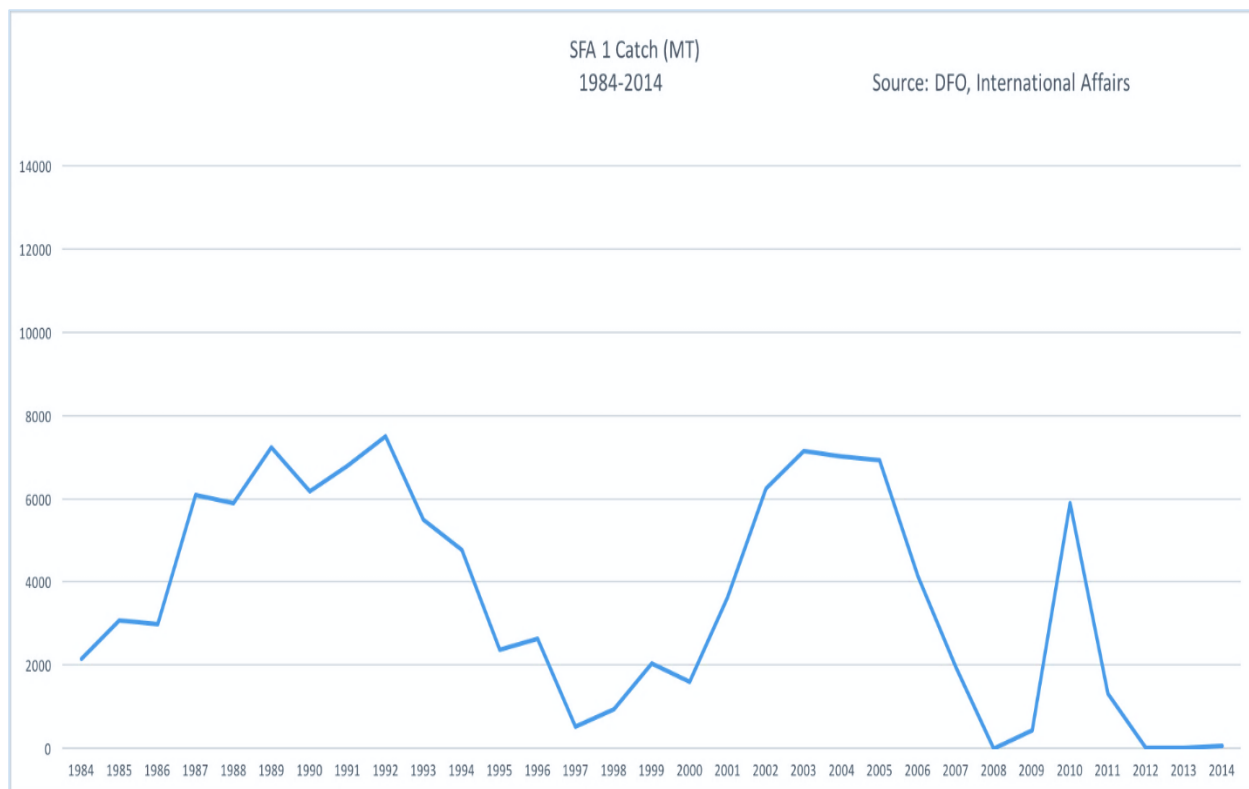
Today's construction costs, technology, market requirements and changing climate means that capital costs are very high. Viability is attained by either having a second license (3 companies), access to groundfish (rapidly declining option as Nunavut acquires its own vessels), access to special allocations (highly competitive) or combining licenses. This last category describes the partnership between Makivik and NRL.

The evolution of this partnership will also shed some light on broader management issues that are relevant to the LIFO debate.

The Makivik presentation referred to our revenue sharing which currently totals several million dollars per year that is used by Makivik for a broad range of development initiatives in Nunavik. We are proud to be a part of this success story ...but it's a two way street. Geography dictates that Nunavik does not have a suitable port for offloading and shipping out so that all shrimp harvested is delivered to the island portion of our Province. This is not just SFA 6 shrimp but rather shrimp from all areas which pumps over \$10 million into the NL economy through incremental crew earnings and purchases above and beyond our NL based license.

The history of our partnership also includes some very relevant information as it relates to the LIFO debate. Firstly it should be pointed out that NRL's opportunity to partner arose out of the bankruptcy of Makivik's former partner. Actually that company owned 2 vessels, Kinguk and Aqviq, which joined a long list of vessels that did not survive the earlier economic struggles of the offshore shrimp fishery (CAPP report pg. 16 and 1995 Economic Study pg. 19). I am reminded of the FFAW TV advertisement that amazingly proclaims "corporations will survive, no matter what". If you don't remember the ad, it also includes a video of a Spanish trawler which I assume tries to shamelessly sway public opinion by linking our offshore vessels to Spanish trawlers and presumably Spanish fishermen pillaging our coastal resources but I digress.

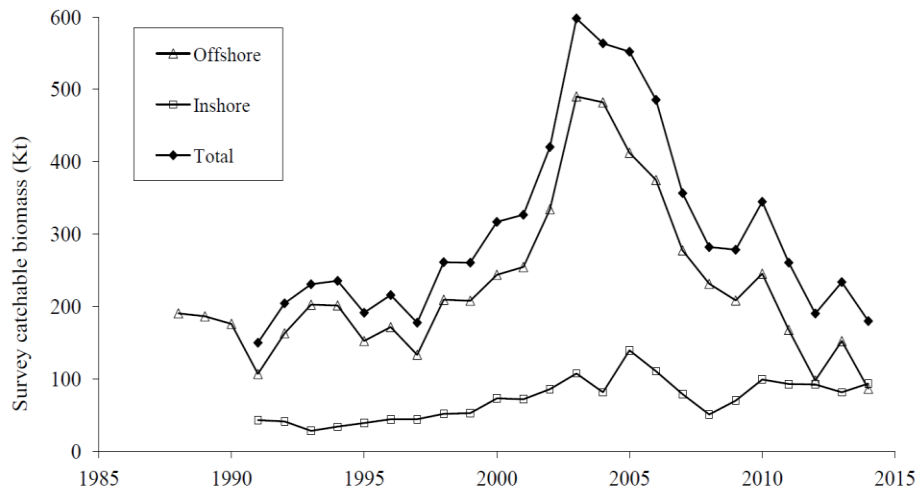
These 2 vessels were built in 1987 to pursue the Canadian fishery. In 1987 fully 1/3 of the total Canadian offshore quota was located in what is now called SFA 1 and this quota was fully caught (DFO 1990 Economic Assessment, pgs. 85-88). In those days SFA 1 was "the most important area in terms of total catch" (ibid pg. 11) but massive price declines exceeding 30 % soon followed (ibid pg. 30). As the graph below clearly shows, catches from 1997-2000 plummeted and following a brief recovery in 2002-2005 the catches slowly collapsed starting in 2006. Both vessels went bankrupt in 2006.



The Canadian fleet expends considerable time in SFA 1 but catches for the last 9 years have been negligible. The only exception was 2010 when 5882 mt was caught of which almost half was caught by a foreign vessel (Norma Mary). That shipowner reports considerable losses incurred for 2010 (discussion with shipowner May 2016). Interestingly the 1321 mt of " Canadian catch " reported in 2011 included the catch of a foreign vessel with Russian/Estonian crew. Anecdotal reports indicate financial results were very poor.

The health of the overall stock off Greenland has deteriorated in recent years and the TAC has fallen dramatically. To avoid a barrage of TAC and catch numbers it is much simpler just to present the research survey results in graph form on the next page.

survey (total biomass)



There was a small uptick in 2015 but it will take several years to determine if that is a sign of recovery or a dead cat bounce. For many years we have seen the disappearance of shrimp on the Canadian side of the line (migration?) but the more recent overall survey declines make opportunities for a Canadian fishery seem extremely remote.

So why do we still show significant quotas available in SFA 1. The reason is that Canada has historically claimed a 17% share of the Greenland offshore quotas. Greenland does not recognize Canada's claim and instead allocates 3% of the TAC to Canada. Since MSC requires quota sharing agreements, Greenland approached Canada recently to discuss a deal. All attempts have failed but it is unlikely this outstanding MSC issue will be problematic to Greenland as long as there are no shrimp on the Canadian side for Canada to catch. In the meantime Canada still claims 17% for strategic negotiating reasons in the faint hope that we might get more than 3%.

An earlier presenter questioned why the total of the various quotas held by Canadian groups (offshore/Nunavut/Nunavik) exceeds the Canadian TAC. The reason is simple - the Canadian TAC fluctuates with the overall TAC but the Canadian participants do not consider it worthwhile or productive to enter domestic discussions over how quota reductions should be shared.

Conclusion #3 ... SFA 1 is indeed paper fish. If in some future years this fishery recovered to the point where there were material Canadian catches then EU/MSC pressure would surely revise the real quota to appx 2000-3000 mt.

This long explanation of SFA 1 is necessary to address the incessant and highly unsubstantiated claim by LIFO opponents that the offshore has a kitty of quotas " up north" that we choose not to harvest. Nothing could be further from the truth. Some vessels are critically short of quota today.

The SFA 1 discussion is also linked to another topical issue - threshold quota levels. While threshold levels and adjacency are addressed in the next section there is a very strong connection mathematically between the disappearance of the SFA 1 shrimp "stock" and the threshold level as illustrated in the following table:

Threshold Levels

| | 1996 | 2015 |
|---------------|---------------|--------------------------------------|
| SFA 0 | 500 | 500 |
| SFA 1 | 8500 | - |
| SFA 2 | 3500 | 4813 |
| SFA 3 (Mont.) | 1200 | - (bycatch only) |
| SFA 4 | 5200 | 11,519 (excludes 1700 mt for survey) |
| SFA 5 | 7650 | 10,150 |
| SFA 6 | <u>11,050</u> | <u>13,559</u> |
| | 37,600 | 40,541 |

Conclusion #4 ... The 2015 offshore quotas exceed the 1996 threshold levels but when 2016 approximated reductions (discussed earlier) are applied, using LIFO, there will not be a significant difference in 2016/17 from 1996. This runs strongly contrary to the unsubstantiated and contagious claims by many of those who oppose LIFO.

Note that there are special allocations available to some vessels but it is highly competitive so that some vessels do not have access to any special allocations.

Finally, you will notice a reference in the Makivik presentation (pg. 22) to the phrase " Reverse Order". This was a term we used often circa 1997, especially following Mr. Mifflin's news release on April 23, 1997 (ref: NR-HQ-97-24E) where he stated that " viability of the existing enterprises will NOT be jeopardized. Current northern shrimp license holders will retain their full 1996 allocation in all Shrimp Fishing Areas -- 37,600 tonnes. There will be no permanent increase in harvesting capacity. Participation by new entrants will be temporary and will END for those SFA's where quotas decline in the future and the established thresholds are reached. The thresholds will be defined as the 1996 quotas in EACH of the six shrimp fishing areas". (emphasis added)

This decision was clear and we all used the expression "reverse order" and other similar terms in those days. The FFAW's choice of terms is reflected in their October 10, 1997 letter to DFO i.e. " in the event of a decline in future TAC, the share for the inshore sector would be reduced accordingly, possibly to zero "which is a very clear acknowledgement of both the threshold level and "Reverse Order".

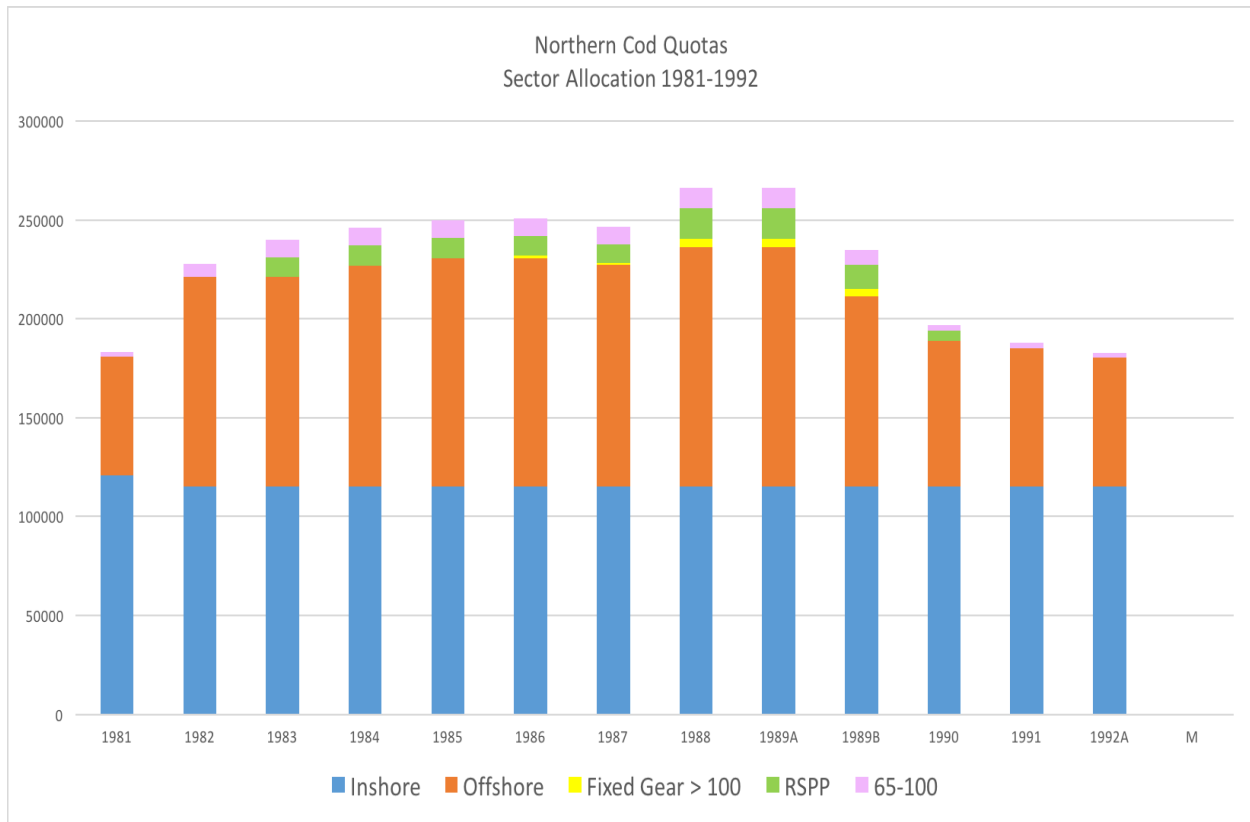
In our industry's never ending quest for acronyms some accountant-type soon realized that this clear simple system resembled one of the accounting methods for valuing inventory and the term LIFO soon entered our lexicon and was formally used by DFO in the next (2000) Management Plan. I would much prefer to go back to the original term which no one could accuse of being vague or unfamiliar so perhaps we could start by renaming this Panel the Reverse Order Panel.

2. Newfoundland Resources Ltd

Like Makivik, our company history also provides a number of insights into the topic of LIFO and many of the broader shrimp issues that have been raised by LIFO-opponents.

In the early 1980's we received a 10,000 mt allocation of northern cod for delivery to 25 resource short plants in Nfld. A few years later a new allocation was assigned to a new "sector" to create the middle distance fleet (fixed gear > 100'). Over the next few years the quotas of both new entrants increased as did the quotas for the established offshore sector.

Contrary to popular opinion, the devastation caused by the collapse of the northern cod stocks was not limited to 1992. The following chart describes the slow death of the northern cod fishery and highlights our own company's demise:



As you can see from the graph, there were 4 quota reductions prior to the moratorium during which the newest entrants were removed, quotas for the long standing offshore fleet were slashed but the threshold of 115,000 mt for the traditional inshore cod fleet remained intact until the moratorium.

This LIFO debate is actually deja-vu for our company. However, before I discuss further it is important to acknowledge the devastation that was caused in the offshore industry beginning in 1989 and prior to the moratorium in 1992. That is certainly not to diminish the severity of the moratorium on our Province but just a respectful reminder that the devastation did not begin in 1992. Starting in 1989, quotas for larger vessels quickly fell and one by one adjacent offshore fish plants closed and communities were devastated. In 1990 alone, 4 year round processing plants were closed throwing almost 2000 processors in Trepassey, Gaultois, Grand Bank and St. John's out of work (Lament for an Ocean, Michael Harris).

Since initial quota reductions were applied in reverse order, our company's 15,350 mt cod quota was quickly eliminated. The ink was hardly dry on the mortgage for our new vessel the Polar Storm. While there was plenty of much deserved media about the quota cuts and job losses to communities I vividly recall the lack of attention paid to the loss of jobs by our 60 trawlermen (and indeed the hundreds of other trawlermen). These year-round men and women that worked

for NRL were all from both Newfoundland and Labrador but because they were spread out over our Province the loss of 60 full-time jobs did not attract attention.

I believe this mirrors the situation we face today. The broad dispersion of over 400 year round fishermen throughout NL does not attract the same attention as the highly concentrated inshore processing sector. An average inshore shrimp plant employs 120 seasonal workers (conversation with Clearwater). Our vessel employs 60 year round shrimp fishermen which roughly equates to 240 seasonal jobs or 2 processing factories. But let me be clear...one is just as important as the other but they are not equally visible.

3. Broader Issues

Several additional issues have been raised by those opposed to LIFO as support for their case. I will address them very briefly:

Adjacency: In order to fully comprehend the decision made by the Minister in expanding the shrimp fishery in 1997 it is necessary to read not only the 1997 Management Plan and related press release but also the 2 background materials provided at that time (B-HQ-97-24) as well as the speaking notes used by the Minister when he made the pivotal decision to expand the shrimp fishery on April 23, 1997. One " Backgrounder" is actually titled Adjacency and explains in detail how adjacency was expanded as a guiding principle in 1997. In essence, the document describes a process where the Minister asked us, the industry, how DFO should share the 1997 increases. " Close to 90% of the 160 submissions recommended adjacency as a significant principle. Further consultations in St. John's confirmed this ". The Minister went on to say that adjacency is "largely" the basis for dividing " the increase in the TAC ".

I remember this very clearly and I remember the dozens of meetings we had on this very subject. It was clear that adjacency would be the priority principle in allocating the incremental quotas in the future and the change in wording from the 1996 IFMP ("fair access by all Canadian user groups with particular emphasis on adjacency ...") to the 1997 wording ("adjacency will be respected ...priority") reflected this. However, the heavy emphasis on protecting the " existing enterprises " makes it abundantly clear that the heightened focus on adjacency was related to the incremental 1997 quotas in conjunction with recognition of historical access and the protection of the traditional participants.

Conclusion #5 ... The 1997 decision (and numerous subsequent decisions as outlined in the CAPP submission) does not support any consideration of Retroactive Adjacency and clearly delineates the traditional participants from the new entrants who were largely granted access because of adjacency.

Any consideration of retroactive adjacency will surely create a house of cards. Will Labrador interests want to restart the clock on allocations off Labrador? Would Nunavut/Nunavik interests want to remove everyone else from say the turbot fishery?

The FFAW and others point largely to adjacency as the basis for their position to kick the offshore out of SFA 6 but their interpretation of the term adjacency creates a host of questions. How can 400 year round offshore fishermen from 116 communities in Nfld and Labrador not be considered adjacent? Is it because they are not unionized? More disconcerting is the fact that our Provincial Government has thrown these 400 Newfoundlanders and Labradoreans under the bus in their very public support of the union. Furthermore, since when does adjacency exclude 4 offshore license holders from the island part of our Province? Finally, and arguably the hardest aspect to understand, is why the FFAW's submission to this Panel last week in St. John's could include that 2 Labrador offshore license holders should be thrown out of SFA 6?

A wise person once said " be careful what you wish for" and that is very applicable to those who use a contrived interpretation of adjacency to monopolize access to SFA 6. I can tell you from our own fishing experience that in recent years, while we have had some success in fishing SFA 6 east of Rigolet the vast majority of the fishery now is conducted in the St. Anthony Basin. Despite its name this area is best characterized as directly adjacent to southern Labrador.

Conclusion #6 ... You do not need to be unionized to be adjacent.

I would add one technical point that may have implications for any adjacency discussion. We analyzed over 30 years of SFA 6 fishing and the shrimp concentrations have shifted several times. Those that are most adjacent today were not necessarily most adjacent 10 years ago and they were not necessarily most adjacent 10 years before that. Adjacency can be fluid.

Shrimp license holders from the island portion of the Province (and indeed the Maritimes) have fished off Labrador and Nunavut/Nunavik for decades. Nunavut/Nunavik licenses have also fished off NL for decades and Labrador offshore shrimp companies have similarly fished in harmony north and south. Historical attachment, economic viability and adjacency were clearly reconciled by DFO in 1997 and I believe this balance has been respected by all offshore licenses holders since 1997. Others should strive to do the same.

4. Is there a solution?

At the end of the Panel's session in St. John's last week I saw one of the more vocal inshore fishermen come over and shake the hand of one of the offshore fishermen who had just made a presentation. They congratulated each other. It showed a level of respect that is becoming rarer in this debate and I'm not sure how we can possibly find any compromise.

To paraphrase an ancient Greek saying " the first casualty of a dispute is often the truth". We continue to hear statements both in the media and during this process which are blatantly untrue and it is impossible to know if such statements are relevant to the present Panel's terms of reference and your considerations. These accusations include:

- a. "the offshore is plundering SFA 6 for 12 months of the year".... The truth is that each license has enough quota for appx 1 month fishing in SFA 6. There is a big difference between being allowed to access an area for 12 months and actually fishing. The inshore fleet of 250 vessels equates to appx 60 offshore vessels and extracts twice the amount of harvest as the entire offshore fleet.
- b. "the offshore fishes during the spawning season".... besides the inherent contradiction with item a) above, it has been conclusively demonstrated by DFO Science - most recently at the March 3, 2016 NSAC meeting where the senior DFO scientist Don Stansbury explained more than most of us ever wanted to know about the sex life of a shrimp – and specifically that spawning (which for shrimp is defined as when the eggs leave the head and are fertilized by the males) occurs late summer, early fall. This period of congregation is actually when most of the inshore fishing occurs.
- c. "bridging is irresponsible" there are many examples in modern year round international fisheries (including our competitors in Greenland) where a short window is allowed on the shoulders of a 12 month industry. There is no known scientific opposition to this practice. We've evolved a long way from the earlier days when we 'scrambled' on New Year's Eve to harvest our last quota before the clock struck midnight and prayed during the last few weeks that we wouldn't have even a minor breakdown that would have major economic consequences for the vessel.
- d. "temporary licences were converted to regular licences" ... technically this is true but as the CAPP presentation pointed out Minister Hearn's announcement specified that this did not effect LIFO status. If further substantiation is needed the Panel need only review minutes of NSAC meetings (1997) where we all discussed this in great detail.

In concluding I would like to offer 2 final ideas for the Panel's consideration.

Firstly, we have established that the earnings to fishermen are very good, both inshore and offshore i.e.

- offshore fishermen today generally earn > \$100k (CAPP Panel presentation)
- 75% of inshore fishermen earn > \$40k in 2015 from shrimp while 40% earn > \$70k (FFAW presentation to Panel May 23rd). Seasonal vessels harvested shrimp for an average 34 days per year (DFO Stats 2014)

However, there was virtually nothing mentioned by either the FFAW or the APC about the opportunities to address raw material supply to Canadian factories, other than of course to attack the offshore fleet including coarse remarks about a program 35 years ago to land 50% of the shrimp to local factories. By the way, that program ended in total failure because there were very

few shrimp plants, they weren't equipped to produce frozen raw material and the shrimp ended up being sold to salmon farms in the Bay of Fundy (per UIF Snarby). Industrial shrimp landings today vary widely depending on market conditions but it is reasonable to project that 15-20,000 mt of industrial shrimp is offloaded in Canada every year especially with the fairly recent closure of the Russian market. Contrary to popular opinion, offshore vessels strive to keep industrial shrimp in Canada but in the past it has proven difficult for domestic factories to compete for a variety of reasons not the least of which is duty factors plus the relative disadvantage of having to compete with European producers who operate year round. In 2015 NRL sold 20% of its industrial shrimp in Canada and I am aware that some vessels had more success.

The imminent signing of the CETA agreement will finally put Canadian processors on an equal footing with European factories (per conversation with Clearwater) so that they are in a position to pay fair market value for very large volumes of raw material and this provides a huge opportunity for NL that must be pursued. In its May 25th presentation to the Panel, CAPP offered this idea as a solution to the lower supply of product to shrimp processing factories. NRL strongly echoes that offer and further suggests that the Panel recommend a fair and constructive process that would bring the appropriate parties together and encourage both the FFAW and the Government of NL to please get onboard.

The second idea is likely beyond the mandate of the Panel since it involves a better approach to shrimp science. I attended a roundtable with the new Federal Minister last fall and we were all asked what could be done differently to improve our (shrimp) fishery. At the time our vessel was in SFA 6 experiencing the worst catches ever which was the same time that DFO's research vessel was conducting its annual survey. I told the Minister that he should expect a terrible survey result but that when we "look in the mirror" as an industry and slash quotas that we must be able to tell ourselves that we have done the necessary research. We have world class scientists who only recently were given a sign that help was on the way. But it's not enough. The annual shrimp survey is actually a tag-on to the traditional cod survey and is conducted at a time of year when shrimp in recent years have demonstrated to the industry that they would rather be somewhere else. Maybe it's a changing climate and I understand that we just can't switch around research schedules but we need to conduct additional science. In the last 2 years the offshore and inshore have experienced excellent results over a wide period (spring/summer) but if nothing changes we may soon find ourselves in a situation where survey results tells us that the shrimp we are catching are not there. Please don't try to find logic in my last statement but I think you get my point. The bigger issue is that we have to cast aside that which divides us today on management issues, at least occasionally, and leave no stone unturned to determine just how bad this problem really is.

I apologize if this topic is, well, off topic but it's too important to pass up and maybe there is an outside chance that it is relevant to the Panel as it considers the kaleidoscope of topics that are being presented to you.

On a final note, we had a golden opportunity in 1997 to slowly expand a shrimp fishery for the benefit of many generations of Newfoundlanders and Labradoreans. In my view, the quick addition of 300 vessels plus 13 processing factories occurred because of a lack of leadership by our federal and provincial government to curtail the expansion. Tough decisions weren't made and as a result the success won't see the end of one generation.

I understand the emotion; my hometown was devastated by the moratorium, my family and friends left the province (and never returned) and, yes, I lost my job too (having just bought a house and with 2 very young children).

But we can't run our fishery only on emotion. Facts do matter and policies need to be followed.

Some have said that LIFO only exists in the shrimp fishery. I don't know if that is true but I do know that in 1997 we carefully and meticulously prepared for the eventuality of quota declines.



(replacement vessel for Newfound Pioneer presently under construction)

Thank you for the opportunity to present our views to the Panel.