

Submission to the
Ministerial Advisory
Panel on Northern
Shrimp



Quinsea Fisheries Ltd.

Background

We recognize the Ministerial Advisory Panel (the Panel) will have some challenges in developing recommendations for the Minister, and we hope that our unique perspective may offer some balance to your recommendations.

The Panel is well aware of the history of the fishery and heard different positions from different sectors. Each of them with their own views, but all of them with one thing in common, THEY HAVE BENEFITTED FOR AT LEAST 20 YEARS FROM ACCESS TO NORHTERN SHRIMP.

What stakeholders with access to northern shrimp have not clearly disclosed to the Panel is:

1. How they responded when they knew stocks were going to decline (signals were there as early as 2007 and stated in a Fisheries Minister press release when inshore enterprises were made permanent).
2. How did they invest or spend the WINDFALL profits realized in recent years. Knowing the stock was declining and profits were the highest ever, a prudent operator would have reduced their risk by paying off their outstanding debts, investing in non-shrimp licenses, etc. Certainly, a prudent operator would not further invest in licenses for a stock known to be declining.

Acknowledging these two points, it is ironic that those stakeholder's who knew stock declines were coming and have benefitted the most from the access to northern shrimp, are only now looking to resolve a long-standing allocation issue.

We BELIEVE that NL plants will play a critical role in the future of the shrimp business, and are committed to ensuring that the processing assets of Quinsea continue to be utilized, people are employed, and that benefits continue to accrue to people in this province.

Our observations regarding the shrimp business that should be given consideration by the Panel are:

1. **There are structural deficiencies in the industry** - Through the fleet separation policy, vertical integration of harvesting and processing in NL is very limited. Those benefiting from vertical integration and preferential access include shrimp plants in St. Anthony and Charlottetown, and when allocations did permit Fogo Island also benefited.

The plants in St. Anthony and Charlottetown both have competitive advantage by having direct access to frozen at sea industrial shrimp for production. The competitive advantage is realized because transfers of industrial shrimp can be done at cost rather than market value, or simply as a transfer at no cost under charter lease agreements. This permits these plants to have a 'subsidized' supply stream that other plants have not access to. Further, given that they have this subsidized supply stream, these

same plants can be more competitive when purchasing industrial shrimp from others, and also should realize reduced overheads because of the volume of industrial produced in addition to fresh shrimp supplies.

WE BELIEVE THE PANEL CAN 'LEVEL THE PLAYING FIELD' BY MAKING RECOMMENDATIONS THAT PERMIT ACCESS TO A MODEST LEVEL OF SUPPLY FOR NEWFOUNDLAND BASED PROCESSING PLANTS.

2. **Stakeholders with direct access have realized significant benefits** - All harvesting stakeholders and special allocation groups have benefitted greatly by access to shrimp. But producers are dictated how much to pay for product, limited by competition on how much they can sell the product for, and most plants have NO means of securing even a modest level of supply.

WE BELIEVE THAT MOST SHRIMP PLANTS HAVE NOT BENEFITTED AT ALL FROM THE HUGE INCREASE IN VALUE OF SHRIMP.

3. **Production capacity at some level needs to be supported** - It seems all stakeholders think that stock declines will continue, but it's just as likely shrimp stocks may increase again at some point in the future. Shrimp are fast growing, and if water temperatures decline again the northeast coast will see commercial shrimp stock increase within 4 years. WE MUST NOT LOSE SIGHT OF THIS FACT, and recommendations to the Minister should ensure that shore based processing assets are sustained at some level to be able to respond this fact.

WE BELIEVE THAT SOME SHRIMP PROCESSING CAPACITY MUST REMAIN IN ORDER TO RESPOND TO STOCK CHANGES IN THE FUTURE.

4. **CETA will offer opportunities for shore based shrimp plants**- We believe, as a point of FACT, that CETA will result in competitive advantage for NL plants to produce frozen at sea shrimp for European markets. This should include production of value added products that are consumer ready. Quinsea made the INVESTMENT in 2015 at Old Perlican to produce frozen commercial grade shrimp. We believe that production of this shrimp will be a key component to the future of this business.

WE BELIEVE THAT INVESTING IN PROCESSING FOR FROZEN AT SEA SUPPLIES WILL PERMIT OUR PLANT TO MOVE TOWARD A YEAR ROUND PRODUCTION OPERATION.

5. **Policy changes should support Newfoundland based multi-species plants**- The panel is in a unique position to make recommendations to the Minister that can have **positive impact on policy decisions in the future**. We feel it is **IMPERATIVE** to give consideration to providing a modest level of **SUPPLY SECURITY** to Newfoundland based multi-species plants. Why only multi-species plants?

- A) Multi-species plants have a large, mobile in-house work force, providing a significant number of jobs in remote rural locations.
- B) Multi-species plants can respond quickly to changes in species availability,
- C) Multi-species plants have diversity of production capacity makes these plants more FINANCIALLY secure to weather the changes coming.
- D) Multi-species plants can provide buyers the diverse species and product mix they require to meet their customers needs.

WE BELIEVE THAT MULTI-SPECIES SHRIMP PLANTS IN NEWFOUNDLAND SHOW HAVE ACCESS, IN SOME MANNER, TO FROZEN AT SEA SHRIMP RESOURCES TO LEVEL THE PLAYING FIELD WITH THOSE WITH PREFERENTIAL ACCESS, MAINTAIN PROCESSING CAPACITY FOR POSSIBLE STOCK GROWTH, AND TO EXPLOIT OPPORTUNITIES THAT WILL BE AVAILABLE FROM CETA.

Quinsea Fisheries Limited

Quinsea Fisheries Limited (Quinsea) has a multi-species plant in Old Perlican, NL. This facility was the first operating shrimp plant on the Northeast coast of NL. Shrimp supplies have been an integral part of the success of this multi-species plant and contributed significantly to economic well being of the western Avalon region. Shrimp remains an essential part of this multi-species plant for the following reasons:

1. Shrimp provides employment stability to a highly seasonal operation. In fact, shrimp provides the employment stability for workers in the entire plant.

April	May	June	July	August	September	October	November	December

2. SFA 6 shrimp provides 90% of our shrimp supply, and we purchase nearly one quarter of SFA 6 shrimp landed in NL.
3. Our plant in Old Perlican is a major rural employer, employing 414 people in 2015. Employment is provided in 13 communities where we either purchase or produce shrimp.
4. Our work force younger than most, almost 50% less than 50 years, and are all multi-skilled, permitting them to move throughout the plant from one species to another at any time.
5. Shrimp was 46% of our 2015 sales.

Should LIFO be continued, modified, or abolished and why?

LIFO should be modified. This modification should include an access policy to stocks that gives consideration to Newfoundland based processing plants.

Why? The offshore sector has realized significant gains in supply since inshore harvesters first gained access to SFA 5 and SFA 6. Current record high market prices makes this fleet immensely profitable, and it can remain profitable even with reduced or modified access.

WE BELIEVE THE PANEL MUST CLEARLY STATE IN FINDINGS THAT RECENT YEARS HAVE RESULTED IN MASSIVE PROFITS IN BOTH THE INSHORE AND OFFSHORE HARVESTING SECTORS.

Special allocation holders, as well as Charlottetown and St. Anthony based plants have been given allocations either directly or indirectly while Newfoundland based plants, other than Fogo previously, have not been given consideration in access decisions. The rationale is unclear why DFO has given favourable consideration to some plants, while ignoring other plants. It seems DFO recognizes that some minimum level of supply security is required for plants to be sustainable, but for some reason this recognition does not extend to the all plants.

WE BELIEVE THE PANEL MUST ACKNOWLEDGE IN WRITING THAT SOME PLANTS HAVE PREFERENTIAL ACCESS AND THAT THIS HAS RESULTED IN THESE PLANTS GAINING COMPETITIVE ADVANTAGE OVER OTHERS.

There are some stocks adjacent to NL that increased in recent years (cod, halibut, turbot, flatfish, redfish) that will provide revenue for inshore and offshore harvesters in NL. Stakeholders are vehemently defending their access rights to northern shrimp, while the same groups argue over how much access they should be getting the re-emerging or growth species stocks. This FACT means that there are alternatives for those currently with access to shrimp.

WE BELIEVE THE PANEL SHOULD CONSIDER OTHER SPECIES ACCESS IN THEIR POLICY RECOMMENDATIONS.

LIFO need to be modified to reflect the facts that those that have had access have benefitted greatly, that some plants have preferential access to shrimp that provides them competitive advantage, and that other species can supplement the lost revenue from both the inshore and offshore sectors.

WE BELIEVE THAT THE PANEL SHOULD MAKE RECOMMENDATIONS THAT PERMIT ALL INDUSTRY STAKEHOLDERS, INCLUDING MULTI-SPECIES PLANTS, TO BENEFIT FROM NORTHERN SHRIMP. THE RATIONALE IS TO PROVIDE ECONOMIC BALANCE TO THE PANELS RECOMMENDATIONS.

What key considerations should inform any decision to continue, modify or abolish LIFO?

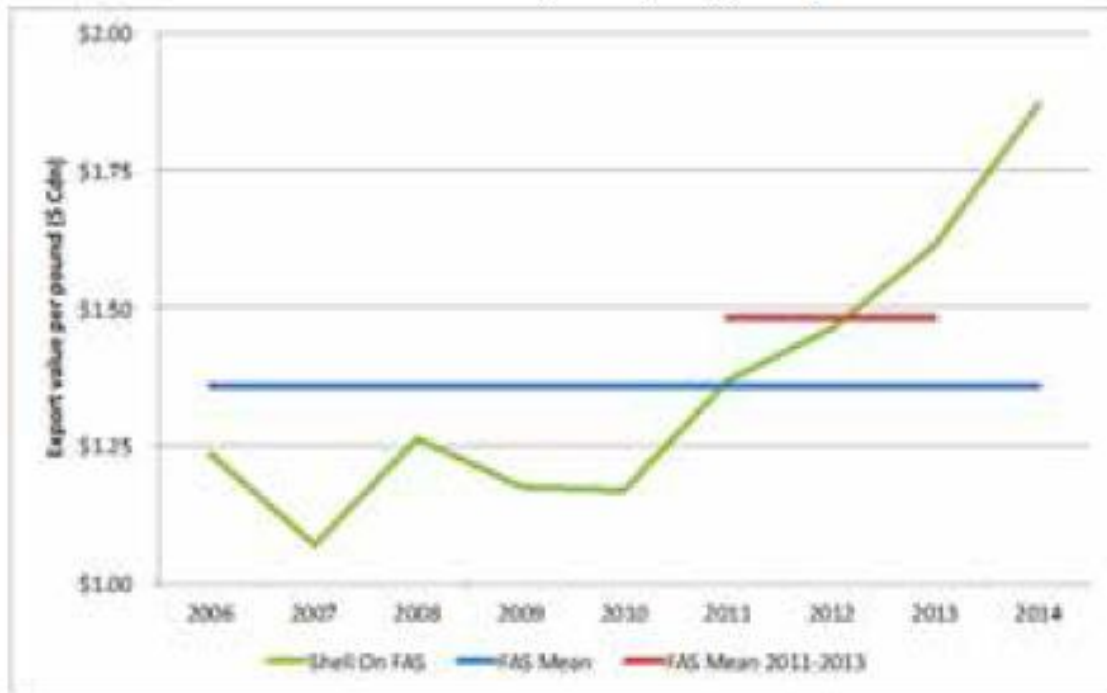
Volumes available to the offshore have increasing enormously since 1997- The precise numbers are difficult both to obtain and disseminate; but, the Panel has access to accurate numbers. We believe the scope of these statements to be accurate given the information available. This is to be a FACT based undertaking, so we **encourage the Panel to obtain the accurate volumes** to verify our statements here today.

Just comparing to 1997, it appears the offshore fleet is harvesting twice what they were then and they are doing this on fewer vessels. The offshore license holder direct access, that provided to the 17 license holders, is higher now than in 1997, again being harvested by fewer vessels. This all means that the remaining vessels have had very significant increases in shrimp available to harvest.

Market prices to the offshore provides viability even at lower volumes - Export data from Strategis shows that the offshore sector prices have more than doubled in the past five years. *[increased from the \$1.00-\$1.25 price range per pound (late 2000's) to \$2.40 or higher in 2015]*. This has occurred while fuel costs, that make up a large part of operating costs, have declined. So, if the offshore fished in the late 2000's at a price as low as \$1.00, they must have had at least a modest return or they would not have fished.....but, with an increase in revenues of more than double what they were getting just five years ago, the **PROFITS ARE MASSIVE**.

The offshore fishery operated and harvested most available shrimp when prices were much lower than those recently seen. The Shrimp Socio Economic Impact Report, Exhibit E.4, clearly shows that prices had been much lower in the late 2000's, ranging from \$1.00-\$1.25 per pound. This is also when fuel costs were higher than seen in 2015, so operating costs for all fleets would have been lower at the time. These export prices include all product sizes, industrial and commercial.

Exhibit E.4: Frozen at sea (FAS) export prices



Source - Shrimp socio-economic study - Pisces Consulting Limited

NL export data for code 03061610, shell-on frozen shrimp, shows prices have continued to rise, with prices in 2015 to September at \$2.40.

03061610	2012	2013	2014	2015 - Sept.
NL	1.47	1.62	1.86	2.40

One can only conclude that if the offshore fleet could fish their allocations when fuel costs were higher and prices were only \$1.00-\$1.25, then the price gains of \$1.00-\$1.40 must go primarily, or all, to profit. For the offshore to continue to lobby for LIFO to be upheld while making massive profits is driven by corporate greed. This greed provides rationale for the Panel to make recommendations that see this wealth re-distributed in a more fair manner.

WE BELIEVE THAT WITH ACCESS INCREASES AND HIGHER MARKET PRICES THE OFFSHORE SECTOR CAN EASILY BE VIABLE WITH LESS QUOTA.

Inshore harvesters may have challenges in the near future. The profit picture is not much different with the inshore shrimp vessels, where prices have gone up from the \$0.60 range to the \$2.00 range. Though inshore quotas have reduced, catch rates have remained strong and fuel prices have declined increasing the inshore vessel margins for the shrimp fishery immensely. The inshore fleet does not fish year round, and many vessels have limited access to other species, so their financial operating position is much less clear than the offshore. But, with further declines in stock, this fleet will be challenged to remain viable without a significant reduction in the size of the fleet. This point is well illustrated in the Pisces report, exhibit E.7, but what was not said in the report is why in 1997 when there was only 9,000t for the inshore were 350 or more vessels allowed to gear up? DFO encouraged the fleet to capitalize by offering access to all that geared up; the viability of this fleet was compromised right at the beginning, and DFO must take responsibility for that.

WE BELIEVE THE PANEL MUST ACKNOWLEDGE THAT DFO HAS TO BARE THE REPSONSIBILITY OF CREATING OVERCAPACITY IN THE INSHORE SHRIMP SECTOR.

Special allocation holders have also benefitted significantly from price increases- Many communities and territorial authorities have been granted access to provide the opportunity for economic growth and societal improvements. This access has increased for many under land claims agreements. These special allocations in many cases are simply leased annually to offshore vessels and the lease revenues, OR RESOURCE RENT, returned to these special interest groups. THIS RESOURCE RENT HAS INCREASED TREMENDOUSLY IN RECENTLY YEARS. SABRI disclosed the price they receive from Clearwater, \$400-\$600/mt, but they receive many other benefits under condition of this contract, Clearwater must maintain a plant in the community, frozen at sea shrimp must be produced at the plant, frozen at sea shrimp must be transshipped in St. Anthony. This means that the actual value is much higher than that disclosed. Whether the Panel has access to lease value or not, they must acknowledge that these lease values have increased massively with the increase in market value.

WE BELIEVE THAT THE HIGHER LEASE VALUES RECEIVED BY SPECIAL ALLOCATION HOLDERS DOES NOT WARRANT ANY FURTHER ACCESS AT THIS TIME.

Some shrimp plants have preferential access. Prior to 1997 there was only one shrimp plant in NL. When access to the inshore was provided, producers responded by making investment in processing capacity. Unlike the harvesting sectors, the processing sector are not permitted direct access to public resources to secure their investment, so the risk going in was much higher than the harvesting sectors. This restriction on resource access is the fundamental structural challenge within the seafood-processing sector in Canada. That said, there are exceptions to this limitation that provide preferential access to some shrimp plants:

- St. Anthony shrimp operations were established as a condition of gaining access to SABRI's 3,000t shrimp allocation. This permitted offshore harvesting of the allocation but required landing of the shrimp in St. Anthony and onshore processing of some of the landings.

- The plant is Charlottetown Labrador in part of the larger company of the LFUSCL. This company has licenses for northern shrimp, and directs some of this frozen shrimp to their plant in Charlottetown. Whether this is done on market value, cost or no value is not known to us, but regardless this gives the plant access to supply that reduces their annual overhead, provides employment and results in a competitive advantage over other shrimp producer in Newfoundland.

WE BELIEVE THE PANEL MUST ACKNOWLEDGE IN WRITING THAT COMPETITIVE ADVANTAGE HAS BEEN GRANTED TO SOME PLANTS DUE TO THE ACCESS TO SUPPLY THAT HAS BEEN GRANTED IN A DIRECT OR INDIRECT MANNER.

Maintaining shore based processing infrastructure is essential. Shrimp is reported to have declined due to a 'environmental regime shift' that favours groundfish and pelagic stocks at the cost of declining abundance of shellfish stocks. The only certainty in the wild fishery is that things will continue to change. Cod may or may not recover to commercial stock levels. If cod doesn't recover, will that be caused by an environmental shift that results in colder temperatures again? If that happens, won't shellfish stock rebound? If shellfish rebounds shrimp processing infrastructure will be needed.

Who has NOT benefitted from the recent market price increases? LAND BASED MULTI-SPECIES PRODUCERS. Why haven't they benefitted? BECAUSE THEY PAY AS MUCH, OR IN SOME CASES MORE, THAN THEY CAN AFFORD TO PAY FOR SUPPLY. This comes back to the structural deficiency in the industry, which has resulted most shrimp plants becoming fee for service providers, except those plants with preferential access through offshore licenses or special allocations.

While markets prices have more than doubled, vessel and special allocation returns have increased dramatically, multi-species plant returns have really not changed. Yet we have to continue to make capital investment to adapt to the species regime shift, but this erodes our financial returns. It is only because we have a **multi-species** plant that we can continue to make these investments.

WE BELIEVE THAT MULTI-SPECIES SHRIMP PLANTS THAT DO NOT HAVE PREFERENTIAL ACCESS TO SHRIMP MUST BE CONSIDERED IN THE PANEL RECOMMENDATIONS.

If LIFO were modified or abandoned, what are the elements of an access and allocation regime for the northern shrimp fishery?

The elements that should be considered are wealth distribution, providing a competitive playing field for multi-species producers, and providing Newfoundland based multi-species shrimp plants access to shrimp resources to permit transitioning during these changing times.

For clarification, our understanding of allocation versus access is:

Allocation - a permanent sharing arrangement whereby the licensed party is provided rights to fish on an annual basis a fixed percentage of the Total Allocation.

Access - a temporary arrangement whereby the community group, or other social entity, is provided access to a fixed percentage of Total Allocation under very prescriptive terms of use.

Specifically, Quinsea would like to see a community entity in Old Perlican provided access to northern shrimp. This access should be provided with very restrictive conditions:

- NOT be permanent.
- NOT be leased, but be used to SWAP for less valuable products.
- Be non transferrable.
- Be harvested by offshore license holders.
- Benefit exclusively the multi-species plant in the community.
- Access would be forfeited if the plant in the community closed, or 50% or more of the shrimp access was not used for 2 years.

Further, the access quantity should be:

- Provided based on 2015 plant supply to multi-species Newfoundland based plants that relied primarily on SFA 6 fresh supplies.
- Of sufficient quantity to permit SWAP for 25%-40% of 2015 shrimp supply.

So how much shrimp access should be provided for this purpose? That is difficult to define given the SWAP value must be determined. This SWAP value would be different depending upon where the access is granted, who requires the SWAP access the most in any given year, and the price difference between industrial and commercial grade shrimp.

For example, let's assume that every MT of access would be provide 2 MT of industrial shrimp delivered to the plant. So, if a multi-species plant had 10m pounds of supply in 2015, and 40% supply is required to sustain it at a modest operations level, then 4 million pounds is required, which is 1,800MT. At a SWAP ratio of 2 access of 900MT is needed.

The benefits of this SWAP arrangement are significant:

- It would level the playing field with St. Anthony and Charlottetown that both have preferential access to shrimp supplies.
- It would permit Newfoundland based multi-species shrimp plants to compete with Iceland shrimp plants who have preferential tariff access to the target markets in the UK and Scandinavian countries.
- It would encourage multi-species shrimp plants to invest in value-added (e.g. retail packs) production.
- It would permit Newfoundland based multi-species shrimp plants with sufficient revenues and margins to purchase additional industrial shrimp, or other previously frozen shrimp, at world market prices.
- It would permit Newfoundland based multi-species shrimp plants to use frozen shrimp to supplement employment that would allow the plants to move toward a year around operating model.
- It would not conflict with conditions of the CETA agreement.

The Panel may question why don't NL plants simply buy shrimp at current world market prices and produce twice frozen value added packs now?

- Currently much of the industrial shrimp from Canada is peeled in Iceland. Iceland has preferential market access, as they convert Canadian supplies to Iceland product and put in retail packs. Canada currently has a 20% tariff on retail packs that are not eligible the ATRQ. When CETA is in force this will provide a level playing field.
- Much of the current industrial supply from the Canadian offshore fleet is earmarked for their plants. These plants include LFUSCL plant in Charlottetown, SABRI's and Clearwater partnership plant in St. Anthony, the OCI plant in Port Saunders and partnership plant in Arichat, NS.

The Panel cannot resolve the market access issue, but can make recommendations to address the competitive advantage provided to some Canadian producers that have preferential access to shrimp supplies for shore based plants. If this issue cannot be addressed by providing some means of supply security to multi-species plants, then the issue should be addressed by providing an entirely new liberal method to providing equal

access to all plant or restrictive access to these preferentially treated plants.

In Conclusion

1. **We are NOT** advocating for moving the offshore out of SFA 6, but do believe the **Panel should consider** a more balanced approach for access between the inshore and offshore vessels.
2. **We are NOT** requesting access to RENT the resource.
3. **We are NOT** requesting direct or permanent access, but want the **Panel to consider transitional access** to ensure some shrimp processing capacity remains in place on the Northeast coast *until....*
4. **We are NOT** supportive of special allocations with no objectives, and feel increased returns to special allocation holders does not warrant additional access at this time.

We believe that there has been, and will continue to be, tremendous wealth generated by shrimp and that the **Panel should consider access based on historical resource dependence, that both distributes the wealth and addresses structural deficiencies in the industry.**