

SHARED RISKS AND BENEFITS PROPOSAL

Seafood Producers Association

July 11, 2018

CONTEXT

- On the website Save Our BC Fisheries:
<http://www.saveourbcfisheries.info/the-problem.html> individuals are encouraged, via the click of a mouse, to send a computer generated e-mail or letter, and sign a petition to Justin Trudeau and Dominique Leblanc, each of which contain the following statements:
 - In BC the cost of licenses and quota is being driven up by international investors, leaving no room for small processors, local independent fishermen, and small-scale community and family owned business to exist.
 - Do you believe that it is right that fishery advisory tables are only open to license holders who are increasingly private investors (including non-Canadians) that don't fish, thus ensuring that fish harvesters and communities have no voice concerning their local industry?
 - Would you agree, as I do that this is not in the interest of the Canadian public and represents management of the resource not in step with the legislation that exists. And that licenses, permits and quotas, and the benefits they provide, should be returned to our harvesters and fishing communities?

CONTEXT

- I am calling on you to commit to Pacific fisheries policy reform that can address these issues, and return the many benefits of this resource to our harvesters, communities and the Canadian public. A critical first step to achieving this is an external review of current licensing policy as soon as possible with the next 6 months.
- The current regional management structures and policies that allow unrestricted ownership and unlimited transferability of fishing licenses and quota, are negatively affecting historical values in BC's fishing industry.
- The cost to purchase quota for Pacific commercial fish species has skyrocketed over the last 30 years due to concentrated ownership by a wealthy few. This has led to economic prosperity for a select few at the cost of many fishermen and coastal communities.
- ...and the average age of harvesters has climbed from 54 in 2003 to 62 in 2015, reflecting that the next generation isn't entering the industry.

CONTEXT

- The UFAWU is circulating the following information as part of a survey they are conducting (<https://survey.sogosurvey.com/r/yx7otA>):
 - Minister Dominic LeBlanc is amending the Fisheries Act. He says that the benefits of the fisheries belong to fishermen and their communities. The new Act includes a new goal - the preservation or promotion of independence in commercial inshore fisheries.
 - To do this, the new Fisheries Act gives the Minister the specific power to:
 - Refuse to grant fishing licenses to fish processors and other corporations.
 - Regulate the use and control of a license or lease and to prohibit transfer of the use and control of a license or lease.
 - If a corporation is issued a license, the minister can regulate who is designated to fish it.
 - Right now, DFO is making new regulations for fishermen in Atlantic Canada to ensure that the owner of a license is fishing on the boat, that quotas cannot be leased, that processing companies cannot 'control' fishermen and that processing companies cannot own quota or licenses in 'inshore' (small boat) fleets.

CONTEXT

- A Fisheries Labour Market Information Study, done for the Canadian Council of Professional Fish Harvesters and released on January 24, 2018, concluded that the "British Columbia fishery is not seeing growth comparable to other fishing regions" and that "The potential benefits of a renewed fishery for coastal regions and Indigenous communities in BC justify a deeper look at industry structures and the policy approach in the region."
- On February 6, 2018 the Minister of Fisheries tabled amendments to the Fisheries Act: "The amendments include added provisions that would give the Minister authority to make licensing decisions based on socio-economic considerations and for the preservation and promotion of independent owner operators."
- At the April 26, 2018 meeting of the Parliamentary Standing Committee on Fisheries and Oceans regarding Pacific fisheries licensing policy, Liberal MP Ken McDonald stated that an Owner/Operator requirement should be entrenched in the Act and that this would help fishermen get the value of the resource in the water.

CONTEXT

- On June 19, 2018 the Parliamentary Standing Committee on Fisheries and Oceans passed the following motion (with an amendment adding: "starting no later than February 2019):
 - "That the Committee undertake a study to examine the regulation of West Coast fisheries, specifically in relation to fishing licenses, quotas, and owner operator and fleet separation policies, in order to evaluate the impact of the current regime on fisheries management outcomes, the distribution of economic benefits generated by the industry and the aspirations of fishers and their communities, and to provide the government with options and recommendations to improve those outcomes, and that the Chair shall be empowered to coordinate the necessary witnesses, resources and scheduling to complete the task."

CONTEXT

- In a June 21, 2018 article in the Richmond News, BC MP Ken Hardie (also a member of the Parliamentary Standing Committee on Fisheries and Oceans) made the following statements:
 - "Really, what we've developed on the West Coast is like a cartel," said Hardie, who, as of this month, has convinced the Standing Committee on Fisheries and Oceans to begin examining, by February 2019, West Coast fisheries regulations and their social and economic impact on fishers and small coastal communities.
 - Hardie said the system hasn't necessarily impacted consumer prices. Rather the profits are simply ending up in the hands of "slipper skippers" who own and lease quotas from office towers.
- "The lion's share of proceeds are going to people treating it as an investment. And it's more than an investment. It means something to these communities. It's social and cultural; things that are important to us." said Hardie.

CONTEXT

- The current Minister of Fisheries has clearly identified his intention to address social issues in making the following policy statements at a meeting of the Canadian Independent Fish Harvesters' Federation in July 2017:
 - As Minister, my goal is to bring our government's support for middle class life through a progressive fisheries policy.
 - How can we make sure that the benefits of the fishery go to those who work hard to prosecute it, and to the communities that support them?
 - The goal is to make sure that fishers and their local communities and economies benefit from the fishery
 - The fruits of labour must remain with independent fishermen
 - The Minister has the authority to ensure that the wealth and value flowing from our fisheries remain in their local community
 - Owner operator policies are one way to make the fishery fairer for those who work hard to make their living from it

CONTEXT

- Fishing licenses provide privileged access to a public resource
 - A system where access to a fishing license is determined by who you're related to or how many hundreds of thousands of dollars you have, or how much debt you are willing to take on, seems unfair.
 - Fishing license overvaluation because of near-indefinite access by virtue of automatic renewal and reissuance and transferability makes it difficult for young fishermen to access the fishery and may entirely prevent new entrants.
 - Changes to Canada's licensing regime may have a major impact on fishery operations.
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- Based on these policy statements, the Minister of Fisheries is focussed on strengthening the position of independent fishermen through the long standing policy of owner operator and fleet separation on the Atlantic coast. He is also receiving pressure to do the same on the Pacific coast.

CURRENT SITUATION

- Many of the comments surrounding the call for licensing policy and regulatory review and reform suggests the current system is broken and must be changed. Some of the suggested changes include one or more of the following:
 - scrap IVQs
 - prohibit or severely constrain transferability
 - owner operator requirement
 - prohibit license and quota holdings by processing companies (fleet separation)
 - sunset clause on the issuance of licenses and quotas
 - requirement to land catch at communities adjacent to the fishing grounds (adjacency)
 - reallocation of quota (to other commercial users, communities, sectors)

CURRENT SITUATION

- Over the last 30 years there has been significant reform in the management of fisheries
- Initially the reforms focussed on two primary issues - conservation and safety
- The management reforms led to:
 - more conservative TACs
 - weak stock management
 - increased at-sea and dockside monitoring
 - the adoption of IVQs in many fisheries
 - more integrated fisheries management
- While these measures have been successful at ensuring sustainable and safer fisheries, they have not adequately addressed the socio-economic issues being raised currently.
- The current management measures have brought greater focus and attention to the socio-economic issues around the distribution of benefits, concentration of ownership, community impacts, and accessibility for new entrants.

CURRENT SITUATION

- Solutions to address social concerns in BC fisheries need to originate on the West Coast, consistent with how the BC industry works.
- We don't need to throw out the management measures that have been successful, we need to compliment them with other measures that bring balance to the socio-economic concerns.
- These underlying concerns are:
 - the fair and equitable distribution of risks and benefits associated with the capture and sale of fish in a fishery
 - access to new fishermen

ADDRESSING THE UNDERLYING ISSUE

- In response to the Minister's policy direction, some BC commercial fishermen are proposing an approach consistent with existing practices utilizing long standing DFO advisory processes and the Minister's discretionary licensing authority.
- Annually, in preparation of the IFMP (Management Plan), DFO receives advice from each fishery advisory committee on policy and management measures included in the IFMP.
- This process could be expanded so that each advisory committee would have a subcommittee made up of license holders, vessel owners and crew charged with providing consensus advice on the sharing arrangements for the value of the landed catch for that specific fishery (a trip settlement sharing arrangement).
- The consensus advice received from each fishery advisory process would be published in the annual IFMP for that fishery.
- The IFMP would identify the subcommittee recommendations on how the license holder, vessel owner and crew should share (always stated in percentages) in the net proceeds from the sale of the landed catch.

ADDRESSING THE UNDERLYING ISSUE

- Having advice in the IFMP on how to share the proceeds from the catch doesn't, by itself, result in operational practices consistent with the advice. There must be an incentive for each and every licensed operator to accept and implement the advice (at a minimum).
- Currently, every vessel/person seeking a commercial fishing license annually completes a commercial fishing license application.
- In making that licensing application, the applicant is acknowledging to the Minister that they intend to comply with rules, regulations and policies governing the fishery, including the advice provided by the industry advisory committees on sharing of the catch proceeds.
- If during the fishing season, a participant (crew or vessel owner) believes that the sharing practice (settlement) with respect to a specific vessel trip was not consistent with the IFMP advice, they can register a complaint to the license appeals board.

ADDRESSING THE UNDERLYING ISSUE

- All participants associated with that vessel's operation and settlement would be provided the opportunity to present evidence regarding the dispute and the appeal board would submit findings (advice) to the Minister.
- The Minister would then consider this information when future licensing requests (i.e. license renewal or license, trap, or IVQ transfers) were submitted and based on these considerations the Minister may decide not to reissue the license or allow any license, trap or IVQ transfers for a period of time (i.e. the following fishing season).
- The incentive to comply would be increased further by making all licenses transferring to a vessel (i.e. for stacking licenses, traps or quota) also subject to the appeal and Minister's discretion.
- Complaints could be filed with the appeal board at any time during the fishing year, but appeal hearings would only be heard during specified time periods near the end of the fishing season to ensure advice is provided to the Minister prior to the next fishing year.

ADDRESSING THE UNDERLYING ISSUE

- This is a grass roots initiative coming from active industry participants and is based on an understanding of the various BC commercial fishing industry practices and management systems.
- The process and approach respects the progress made over the last two decades to control fishing effort, account for total mortality, stay within sustainable harvest levels and collect important catch and effort data from fisheries.
- The proposed approach also builds on the existing advisory processes, encourages industry participation from all user groups, and strengthens industry's roles in providing advice to the Minister on how to manage fisheries they participate in.

HALIBUT EXAMPLE

Situation:

- Fishing vessel "Viking King" has a halibut license (L100) with 0 lbs of halibut quota and plans to fish halibut in the coming season.
- Based on an average landed halibut price of \$10/lb in the previous season, the Viking King wishes to catch 20,000 lbs of halibut this season.
- Prior to the start of the halibut season, Viking King's owner leases 20,000 lbs of halibut quota from halibut license holder L200 and pays \$7/lb (L200 receives \$140,000 immediately).
- Viking King now has 20,000 pounds of halibut on L100.
- Viking King goes out and catches 20,000 lbs of halibut in one trip.
- The landed halibut price the Viking King will receive is unknown until the Viking King comes into the dock to offload and sell the 20,000 lbs of halibut to the buyer.
- The following shows the settlement for the vessel under the current practice and under the Shared Benefits approach based on three different landed price scenarios:

HALIBUT EXAMPLE

Scenario 1: Vessel receives \$10/lb landed value:

	<u>Current</u>	<u>Shared Benefits</u>
Gross Stock (20,000 x \$10/lb)	\$200,000	\$200,000
minus lease	\$140,000	\$0
minus trip expenses	\$20,000	\$20,000
Net Stock	\$40,000	\$180,000
Split: License/vessel/crew	(0/50/50)	(60/20/20)
License share	\$0	\$108,000
Vessel share	\$20,000	\$36,000
Crew share	\$20,000	\$36,000

HALIBUT EXAMPLE

Scenario 2: Vessel receives \$9/lb landed value:

	<u>Current</u>	<u>Shared Benefits</u>
Gross Stock (20,000 x \$9/lb)	\$180,000	\$180,000
minus lease	\$140,000	\$0
minus trip expenses	\$20,000	\$20,000
Net Stock	\$20,000	\$160,000
Split: License/vessel/crew	(0/50/50)	(60/20/20)
License share	\$0	\$96,000
Vessel share	\$10,000	\$32,000
Crew share	\$10,000	\$32,000

HALIBUT EXAMPLE

Scenario 3: Vessel receives \$8/lb landed value:

	<u>Current</u>	<u>Shared Benefits</u>
Gross Stock (20,000 x \$8/lb)	\$160,000	\$160,000
minus lease	\$140,000	\$0
minus trip expenses	\$20,000	\$20,000
Net Stock	\$0	\$140,000
Split: License/vessel/crew	(0/50/50)	(60/20/20)
License share	\$0	\$84,000
Vessel share	\$0	\$28,000
Crew share	\$0	\$28,000

HALIBUT EXAMPLE

<i>Resulting Shares of Gross Stock:</i>	<u>Current</u>	<u>Shared Benefits</u>
	(%)	(%)
<i>Scenario 1:(\$10/lb)</i>		
License	70	54
Vessel	10	18
Crew	10	18
<i>Scenario 2:(\$9/lb)</i>		
License	78	53
Vessel	6	18
Crew	6	18
<i>Scenario 3:(\$8/lb)</i>		
License	88	53
Vessel	0	18
Crew	0	18

Note: The above scenarios apply to halibut only and do not show all of the deductions that may occur on a trip settlement (grub, license fees, financing, etc). The examples are merely meant to demonstrate the mechanics and differing results between the current settlement approach and what is proposed under the shared risks and benefits approach.

HERRING EXAMPLE

Situation:

- Fishing vessel "Viking King" has a Herring Gillnet license (HG100) and plans to fish herring in the coming season in the Strait of Georgia.
- Based on an average landed herring price of \$2,000/mt in the previous season and an announced per gillnet license allocation of 10 mt, the Viking King wishes to fish two herring gillnet licenses this season.
- Prior to the start of the herring season, Viking King's owner leases a herring Gillnet license HG200 and paid \$12,500 (HG200 receives \$12,500 immediately).
- The Viking King owner also expects to receive a lease price of \$12,500.
- Viking King now has two herring licenses and 20 mt of herring to catch.
- Viking King goes out and catches 20 mt of herring in one opening.
- When the Viking King goes fishing the landed gillnet herring price is unknown and won't be known until sometime after offloading and selling the 20 mt of herring to the buyer.
- The following shows the settlement for the vessel under the current practice and under the Shared Benefits approach based on three different landed price scenarios:

HERRING EXAMPLE

Scenario 1: Vessel receives \$2,000/mt landed value:

	<u>Current</u>	<u>Shared Benefits</u>
Gross Stock (20 x \$2,000/mt)	\$40,000	\$40,000
minus lease	\$25,000	\$0
minus trip expenses	\$1,000	\$1,000
Net Stock	\$14,000	\$39,000
Split: License/vessel/crew	(0/50/50)	(60/20/20)
License share	\$0	\$23,400
Vessel share	\$7,000	\$7,800
Crew share	\$7,000	\$7,800

HERRING EXAMPLE

Scenario 2: Vessel receives \$1,800/mt landed value:

	<u>Current</u>	<u>Shared Benefits</u>
Gross Stock (20 x \$1,800/mt)	\$36,000	\$36,000
minus lease	\$25,000	\$0
minus trip expenses	\$1,000	\$1,000
Net Stock	\$10,000	\$35,000
Split: License/vessel/crew	(0/50/50)	(60/20/20)
License share	\$0	\$21,000
Vessel share	\$5,000	\$7,000
Crew share	\$5,000	\$7,000

HERRING EXAMPLE

Scenario 3: Vessel receives \$1,600/mt landed value:

	<u>Current</u>	<u>Shared Benefits</u>
Gross Stock (20 x \$1,600/mt)	\$32,000	\$32,000
minus lease	\$25,000	\$0
minus trip expenses	\$1,000	\$1,000
Net Stock	\$0	\$31,000
Split: License/vessel/crew	(0/50/50)	(60/20/20)
License share	\$0	\$18,600
Vessel share	\$3,000	\$6,200
Crew share	\$3,000	\$6,200

HERRING EXAMPLE

<i>Resulting Shares of Gross Stock:</i>	<u>Current</u>	<u>Shared Benefits</u>
	(%)	(%)
<i>Scenario 1:(\$2,000/mt)</i>		
License	63	59
Vessel	18	20
Crew	18	20
<i>Scenario 2:(\$1,800/mt)</i>		
License	69	58
Vessel	14	19
Crew	14	19
<i>Scenario 3:(\$1,600/mt)</i>		
License	78	58
Vessel	9	19
Crew	9	19

Note: The above scenarios apply to herring gillnet only and do not show all of the deductions that may occur on a trip settlement (grub, license fees, financing, etc). The examples are merely meant to demonstrate the mechanics and differing results between the current settlement approach and what is proposed under the shared risk and benefits approach.

PRAWN EXAMPLE

Situation:

- Fishing vessel "Viking King" has a Prawn Trap license (W100) and plans to fish prawns in the coming season.
- Based on an average landed prawn price of \$12/lb in the previous season, the Viking King wishes to stack two prawn licenses this season so he can fish additional traps.
- Prior to the start of the prawn season, Viking King's owner leases a prawn license W200 and paid \$35,000 (W200 receives \$35,000 immediately).
- The Viking King owner expects to receive a lease price of \$40,000 for his license which is the base license and allows for more traps to be fished.
- Viking King now has two prawn licenses and an additional 50% more traps to fish with.
- Viking King goes fishing and hopes to catch 20,000 lbs of prawns, however the actual catch won't be known until the end of the season.
- When the Viking King goes fishing the landed prawn price is unknown and won't be known until the catch has been offloaded and sold to the buyer.
- The following shows the settlement for the vessel under the current practice and under the Shared Risks and Benefits approach based on two different price and catch scenarios:

PRAWN EXAMPLE

Scenario 1: Vessel receives \$12/lb landed value:

	<u>Current</u>	<u>Shared Benefits</u>
Gross Stock (20,000 x \$12/lb)	\$240,000	\$240,000
minus lease	\$75,000	\$0
minus trip expenses	\$50,000	\$50,000
Net Stock	\$115,000	\$190,000
Split: License/vessel/crew	(0/50/50)	(40/30/30)
License share	\$0	\$76,000
Vessel share	\$57,500	\$57,000
Crew share	\$57,500	\$57,000

PRAWN EXAMPLE

Scenario 2: Vessel receives \$10/lb landed value:

	Current	<u>Shared Benefits</u>
Gross Stock (20,000 x \$10/lb)	\$200,000	\$200,000
minus lease	\$75,000	\$0
minus trip expenses	\$50,000	\$50,000
Net Stock	\$75,000	\$150,000
Split: License/vessel/crew	(0/50/50)	(40/30/30)
License share	\$0	\$60,000
Vessel share	\$37,500	\$45,000
Crew share	\$37,500	\$45,000

PRAWN EXAMPLE

Scenario 3: Vessel receives \$12/lb landed value but only catches 15,000 lbs:

	<u>Current</u>	<u>Shared Benefits</u>
Gross Stock (15,000 x \$12/lb)	\$180,000	\$180,000
minus lease	\$75,000	\$0
minus trip expenses	\$50,000	\$50,000
Net Stock	\$55,000	\$130,000
Split: License/vessel/crew	(0/50/50)	(40/30/30)
License share	\$0	\$52,000
Vessel share	\$27,500	\$39,000
Crew share	\$27,500	\$39,000

PRAWN EXAMPLE

Scenario 4: Vessel receives \$10/lb landed value and only catches 15,000 lbs:

	Current	<u>Shared Benefits</u>
Gross Stock (15,000 x \$10/lb)	\$150,000	\$150,000
minus lease	\$75,000	\$0
minus trip expenses	\$50,000	\$50,000
Net Stock	\$25,000	\$100,000
Split: License/vessel/crew	(0/50/50)	(40/30/30)
License share	\$0	\$40,000
Vessel share	\$12,500	\$30,000
Crew share	\$12,500	\$30,000

PRAWN EXAMPLE

<i>Resulting Shares of Gross Stock:</i>	<u>Current</u>	<u>Shared Benefits</u>
	(%)	(%)
<i>Scenario 1:(\$12/lb, 20,000 lbs catch)</i>		
License	40	40
Vessel	30	30
Crew	30	30
<i>Scenario 2:(\$10/lb, 20,000 lbs catch)</i>		
License	50	40
Vessel	25	30
Crew	25	30
<i>Scenario 3:(\$12/lb, 15,000 lbs catch)</i>		
License	58	40
Vessel	21	30
Crew	21	30
<i>Scenario 4:(\$10/lb, 15,000 lbs catch)</i>		
License	75	40
Vessel	12.5	30
Crew	12.5	30

Note: The above scenarios apply to prawn by trap only and do not show all of the deductions that may occur on a trip settlement (grub, license fees, financing, etc). The examples are merely meant to demonstrate the mechanics and differing results between the current settlement approach and what is proposed under the shared risks and benefits approach.

NEXT STEPS

- A presentation has been made to DFO to explain the proposal – DFO is currently reviewing it from an operational and legal standpoint
- The shared risks and benefits proposal is being discussed by fishermen throughout the industry – this is important, to assess whether such an approach is acceptable and how to refine it to make it operational for each commercial fishery
- Fishermen are now starting to raise it with their respective industry organizations and fishery advisory committees
- A presentation will likely be made to the Parliamentary Standing Committee on Fisheries and Oceans when the Committee undertakes the work they committed to in their June 19 motion to “...examine the regulation of West Coast fisheries, specifically in relation to fishing licenses, quotas, and owner operator and fleet separation policies, in order to evaluate the impact of the current regime on fisheries management outcomes, the distribution of economic benefits generated by the industry and the aspirations of fishers and their communities...”