



**HOUSE OF COMMONS
CANADA**

**THE CANADIAN LOBSTER FISHERY:
TRAPPED IN A PERFECT STORM**

**Report of the Standing Committee on
Fisheries and Oceans**

**Rodney Weston, MP
Chair**

JUNE 2009

40th PARLIAMENT, 2nd SESSION

The Speaker of the House hereby grants permission to reproduce this document, in whole or in part for use in schools and for other purposes such as private study, research, criticism, review or newspaper summary. Any commercial or other use or reproduction of this publication requires the express prior written authorization of the Speaker of the House of Commons.

If this document contains excerpts or the full text of briefs presented to the Committee, permission to reproduce these briefs, in whole or in part, must be obtained from their authors.

Also available on the Parliament of Canada Web Site: <http://www.parl.gc.ca>

Additional copies may be obtained from Publishing and Depository Services
Public Works and Government Services Canada
Ottawa, Ontario K1A 0S5
Telephone: 613-941-5995 or 1-800-635-7943
Fax: 613-954-5779 or 1-800-565-7757
publications@tpsgc-pwgsc.gc.ca
<http://publications.gc.ca>

**THE CANADIAN LOBSTER FISHERY:
TRAPPED IN A PERFECT STORM**

**Report of the Standing Committee on
Fisheries and Oceans**

**Rodney Weston, MP
Chair**

JUNE 2009

40th PARLIAMENT, 2nd SESSION

STANDING COMMITTEE ON FISHERIES AND OCEANS

CHAIR

Rodney Weston

VICE-CHAIRS

Hon. Lawrence MacAulay

Raynald Blais

MEMBERS

Mike Allen

Hon. Gerry Byrne

Randy Kamp

Peter Stoffer

John Weston

Scott Andrews

Blaine Calkins

Yvon Lévesque

Dave Van Kesteren

OTHER MEMBERS OF PARLIAMENT WHO PARTICIPATED

Greg Kerr

CLERK OF THE COMMITTEE

Julia Lockhart

LIBRARY OF PARLIAMENT

Parliamentary Information and Research Service

François Côté, Analyst

THE STANDING COMMITTEE ON FISHERIES AND OCEANS

has the honour to present its

SIXTH REPORT

Pursuant to its mandate under Standing Order 108(2), the Committee has studied the Atlantic lobster fishery and has agreed to report the following:

TABLE OF CONTENTS

INTRODUCTION	1
INDUSTRY PROFILE	3
FINANCIAL AND ECONOMIC CHALLENGES	4
Access to credit	4
Ensuring fishermen’s income.....	10
MARKETING LOBSTER.....	12
Eco-Certification	14
SUSTAINABILITY-RELATED CHALLENGES	17
Ecological Sustainability and Ecosystem Considerations	18
Lobster Abundance	18
Increasing Egg Production	19
Minimizing Waste	19
Refugia	20
Reducing Fishing Effort	20
CONCLUSION.....	26
LIST OF RECOMMENDATIONS.....	27
APPENDIX A: LIST OF WITNESSES	29
APPENDIX B: LIST OF BRIEFS	33
REQUEST FOR GOVERNMENT RESPONSE	35

THE CANADIAN LOBSTER FISHERY: TRAPPED IN A PERFECT STORM

INTRODUCTION

The House of Commons Standing Committee on Fisheries and Oceans (the Committee) travelled to the East Coast of Canada from March 29 to April 2, 2009 for a study of the current situation in the lobster fishery. In southwest Nova Scotia, lobster prices were at their lowest levels in 20 years during the opening month of the 2008-2009 fishing season. In 2008, lobster fishermen from Prince Edward Island received some of the lowest prices in decades. There are early indications that the 2009 fishing season could be significantly worse in terms of prices. In addition, there are significant concerns about the high exploitation rate and the sustainability of the resource.

The situation has been described as a perfect storm hitting the lobster industry: a combination of resource uncertainty in certain areas, increased costs of doing business, and a decreasing demand for a luxury product in the context of a global economic and financial crisis. The serious challenges facing the lobster industry have led some stakeholders to ask for the assistance of the government, including the creation of a licence retirement program.

As a first step for the Committee's lobster fishery study, representatives of the Fisheries Resource Conservation Council (FRCC) were invited to appear in relation to a 2007 report entitled *A Sustainability Framework for Atlantic Lobster 2007*.¹ The FRCC was created in 1993 as a partnership between the scientific and academic sector, and all sectors of the fishing industry. Together, Council members make public recommendations to the Minister of Fisheries and Oceans on such issues as total allowable catches and other conservation measures for the Atlantic fishery. The Council also provides advice in the areas of scientific research and assessment priorities.

The FRCC released its 2007 lobster report in response to a request from the Minister of Fisheries and Oceans to review the 1995 Conservation Framework for Atlantic Lobster. The report states that the "review provides an opportunity to assess the relevance of a report written over a decade ago and to provide a long-term strategic outlook for the lobster resource and its beneficiaries on the east coast of Canada."²

1 Fisheries Resource Conservation Council, *Sustainability Framework for Atlantic Lobster*, 2007, FRCC.07.R1, July 2007, <http://www.frcc.ca/2007/Strategic%20Lobster%20Framework%202007.pdf> (accessed April 23, 2009).

2 Ibid.

The FRCC has made recommendations in several areas with respect to ecological sustainability, fishery management, and enforcement and compliance. The FRCC noted that the overall lobster landings have remained high probably because the fishing effort has increased and less likely because the lobster biomass is high. The FRCC also noted an increased dependency of communities on the lobster resource. The FRCC speculated that as a result, the economic sustainability of the lobster fishery could be at risk. The Council is particularly concerned that the exploitation rates are high and most lobsters are harvested before maturity, all of this in the absence of accurate data on the lobster stock size. The Committee notes that there was very little focus and no recommendations targeting issues of market and price stability for lobster in the FRCC report. We understand, however, that these issues were not part of the Council's mandate.

During its four days on the East Coast, the Committee heard from close to 40 witnesses: lobster fishermen, buyers, processors and local government officials. Most of the Lobster Fishing Areas (LFAs) of the southern Gulf of St. Lawrence and the Scotia-Fundy region were represented. Our witnesses described an industry that is complex in its structure, relatively unorganized and facing numerous challenges. These challenges are exacerbated by the difficult economic times. There is also the perception by some that governments are not doing enough for the industry and the communities depending on it. The Committee agrees with many witnesses that there are problems that call for immediate and short-term solutions that should allow the industry, particularly lobster fishermen, to survive the current crisis, and more structural problems and resource conservation matters for which long-term solutions are needed. At the time of the hearings we were only weeks away from the opening of the 2009 lobster season in many LFAs.³ Mr. Linus Bungay, Operation Manager at Ocean Choice PEI Inc., summed it up:

There is the short term, May 1, which is right around the corner. Something needs to be done before that date for fishers to be able to make a living, I believe. We want to highlight the fact that something needs to be done in the short term. [...] We also think that we cannot lose sight of the long-term systemic issues. We need to make the lobster business a viable industry, an industry that during the next down cycle is able to handle that bump and let us be viable enough to stay in it for the long term.⁴

The Committee believes that the challenges faced by the lobster fishery fall into three different categories: challenges of financial and economic nature, which include key issues such as accessing credit and ensuring the lobster fishermen's income and reducing his or her operating costs; marketing challenges; and sustainability-related challenges centered on conservation measures, the rationalization of the fishing effort, and the reorganization and the rejuvenation of the industry. All these issues will be discussed in this report.

3 Except for LFA 25 in the Northumberland Strait, the lobster fisheries in the Gulf of St. Lawrence open late April to early May and close in late June to early July.

4 Linus Bungay, *Committee Evidence*, March 31, 2009.

INDUSTRY PROFILE

Lobster is the most widely distributed of Atlantic fish species and contributes to the livelihood of more harvesters than any other species. According to Fisheries and Oceans Canada (DFO) officials, the lobster industry brings close to \$1 billion a year to the Canadian economy.⁵ The landed value of lobster in 2007 was \$562 million. The lobster fishery is the single most valuable fishery in Atlantic Canada, representing about a third of the total landed value for all commercial fisheries (excluding aquaculture). As such, it has been and remains one of the economic pillars for many Québec and Atlantic Canada communities. There are over 10,000 lobster fishing licences, and together with processing plant workers and people involved in the export of lobster products, more than 25,000 Canadian workers make a living in the utilization of this marine resource.⁶

The lobster fishery is managed by areas, the Lobster Fishing Areas or LFAs. There are 38 inshore and one offshore LFAs. The offshore fishery (LFA 41) is prosecuted 50 miles off the coast of Nova Scotia and involves only eight licences. Both inshore and offshore fisheries are closely regulated. Entry is limited, and licence fees range from \$100 to 1,890 annually.⁷ Management of the fishery uses input controls as it is subject to seasonal openings and restrictions on licence and trap numbers. The number of licences, which can be transferred with DFO's approval, has been stable for several years. Escapement measures such as legal minimum size and prohibiting the landing of berried females are also used as conservation tools. All these measures vary by area or region.⁸ There are however no limits on how much lobster may be caught. In some LFAs, there are limits on the number of hauls allowed per day.

According to a 2006 benchmarking study of the lobster industry, "the industry supports several hundred buyers and shippers of live lobster. There are about 50 plants concentrated in the southern Gulf of St. Lawrence producing various processed products. All buyers, shippers and plants must be licensed by provincial authorities, with fees ranging

5 David Bevan, *Committee Evidence*, March 24, 2009.

6 Wendy Watson-Wright, *Committee Evidence*, March 24, 2009.

7 LFA 34 has the highest licence fees at \$1,890 a year. According to DFO, licence fees today are calculated based on the four-year average of each fishery's landed value from 1990 to 1993. Since this licence fee structure took effect in 1996, landed values in the fisheries have changed considerably. In 2004, LFA 34 lobster fishermen had in average a total fishing revenue and an income of respectively \$245,479 and \$79,046, significantly higher than in other LFAs.

8 For example, according to FRCC (2007) the legal carapace size was established for 2006 at 83 mm in LFA 22 (Magdalen Islands), 70 mm in LFA 25 (P.E.I.) and 82.5 mm in LFA 34 in southwest Nova Scotia.

from \$10 to \$2,000. There are no limits to entry for buyers and shippers, though in most provinces they must meet certain investment criteria. Processing plants engaged in the export trade must be federally registered (\$1,500 fee) and must meet specified standards. Plants and production are subject to periodic CFIA inspection.”⁹

FINANCIAL AND ECONOMIC CHALLENGES

Access to credit

“I think credit is the most important thing right now in this industry,” said Mr. Mark Bonnell, President of Mariner Seafoods in Prince Edward Island.¹⁰ This statement provides a good summary of testimony given by numerous witnesses. The recent global credit crunch, and apparent build-up in some LFAs of lobster product inventories have had an impact on the capacity to buy lobster from fishermen at a price that is acceptable to them. Mr. Linus Bungay explained:

The industry has always operated on an assumption that every fisherman will have an immediate market for all his catch. That notion is based on the presumption that processors will buy every fish they can and process what they cannot immediately sell for inventory. That inventory, in turn, is financed by lines of credit used to pay for the raw product. It is what is known in other industries as bridge financing. You are all familiar with what has happened to credit with banks and other sources. Credit is harder to get and in many cases is simply not available if it is to be used to finance inventory.¹¹

Access to credit is also a problem for fish harvesters. In fact, it has been a problem for years and the current financial crisis is only making it worse. Some speculate that in 2009, fishermen may not have access to proper credit instruments to be able to actually gear up for their fishery. Getting a loan as fishermen is particularly difficult for the new entrants or young individuals that wish to take over from fishermen leaving the fishery. The Committee was particularly moved by the testimony of a young lobster and scallop fisherman from New Brunswick, Mr. Neil Withers. He explained:

It's very difficult to borrow money from the local Bank of Montreal or the Bank of Nova Scotia. They want collateral for everything, and a licence isn't considered as having any value because it's basically government owned. [...] But in terms of whether there was more cost to go with the BDC, I don't believe there was any more cost than in having to go with a normal bank like the Bank of Montreal. We had to do a lot of paperwork and have a lawyer involved to draw up.... I don't know all the terms for all these papers I signed, actually. I just wanted to go fishing. We had an accountant involved. When I got into it, the fellow I was buying out created a company, then I created a company. Then

9 Gardner Pinfold Consulting Economists Ltd., *Benchmarking Study on Canadian Lobster*, March 2006, http://www.ats.agr.gc.ca/canada/4217_e.htm (accessed April 14, 2009).

10 Mark Bonnell, *Committee Evidence*, March 31, 2009.

11 Linus Bungay, *Committee Evidence*, March 31, 2009.

my company bought out his company, and it saved a lot of money in taxes. It allowed him to drop his price some and just more or less run it through loopholes to save me money to get through to it.¹²

According to Ms. Edmée Métivier of the Business Development Bank of Canada (BDC), there are two forces currently affecting access to credit: the recession and the tightening of conditions to obtain credit. The recession makes many businesses hesitate to initiate new projects. The tightening of credit is caused by some foreign financial institutions leaving the market, a difficult bond market, and the reluctance of financial institutions to lend in uncertain economic times. For entrepreneurs that have a long standing business relationship with a Canadian financial institution, the risk is less and banks will continue lending to them. However, for entrepreneurs that are trying to establish a relationship with a new financial institution or operate in a sector that is strongly affected by the recession, the risk is greater and banks are reluctant to lend to them.¹³

Historically, according to Mr. Bonnell, “the banks in Canada have taken the attitude that they don't want anything to do with the seafood industry and, therefore, [have] driven some of the larger companies overseas, into the Icelandic banks.”¹⁴ With the recent collapse of Icelandic banks perceived to be sympathetic to the seafood sector, such as the Glitnir financial group, the access to credit for many seafood processors on the East Coast has essentially dried up. The collapse of Icelandic banks which was triggered by a combination of bad debt and an inability to continue to raise capital caused a lot of disruption in the marketplace in Canada, particularly in Atlantic Provinces where they had heavily invested.¹⁵ According to representatives from Canadian banks, these foreign financial institutions targeted the Atlantic fishing industry not because they had a better knowledge of the industry, but rather because, as a new player on the market, they saw new opportunities to increase their market share.¹⁶ As a consequence of the collapse, Ms. Edmée Métivier explained that “for Canadian banks [as well as for the BDC], the exit of foreign non-regulated peers means that we are straining to meet new significant demand.”¹⁷ She added that “new increased demand has caused [the BDC's] portfolio to grow more than anticipated.”¹⁸

12 Neil Withers, *Committee Evidence*, April 2, 2009.

13 Edmée Métivier, *Committee Evidence*, June 11, 2009.

14 Mark Bonnell, *Committee Evidence*, March 31, 2009.

15 Edmée Métivier, *Committee Evidence*, June 11, 2009.

16 Marion Wrobel, *Committee Evidence*, June 11, 2009.

17 Edmée Métivier, *Committee Evidence*, June 11 2009.

18 Ibid.

The Canadian banks argued that they do consider the fishing industry as a source of valuable clients. As proof, they described the size and the nature of their portfolio. For example, “for loan authorizations under \$5 million, BMO has provided \$142 million to businesses in the salt water fishing industry in Atlantic Canada,”¹⁹ and the Royal Bank has “\$202 million in authorized business loans to the fishing industry, with outstanding loans totalling \$111 million.”²⁰ Of the total amount loaned by the RBC, “approximately 89% is to the shellfish segment, with most of that to the lobster sector.”²¹ In somewhat of a contradiction with what the Committee had otherwise heard, Canadian bank representatives also told us that in the past 5 or 6 years, their lending policy toward the fishery industry had not changed. According to Mr. Peter Conrod of the Royal Bank, the perception that their lending policies may have changed could be due to “challenges that [the industry] had from a cash flow perspective.”²²

Lobster processors told the Committee that in some cases they are unable to get insurance for their receivables.²³ Mr. Denny Morrow of the Nova Scotia Fish Packers Association confirmed: “The world banking crisis was affecting seafood buyers and their distribution chain customers through tighter credit and concern about uninsured receivables.”²⁴

The credit crunch and the reluctance of banks and insurers to accept receivables as collateral against risk have pushed processors to request help from both the federal and provincial governments, either in the form of loan guarantees, bridge financing, secure interim funding, sharing cost of borrowing, or interest buydown. Any of these solutions would enable the processors to purchase lobster and to market products in an orderly fashion. The idea seems to have the support of fishermen.²⁵

The lack of credit for processing plants and brokers will have a negative impact on the prices fishers receive for their catch, maritime wide. Government must make available credit options for our industry similar to what the government is providing other sectors of the Canadian economy.²⁶

19 Steve Murphy, *Committee Evidence*, June 11, 2009.

20 Peter Conrod, *Committee Evidence*, June 11, 2009. According to Mr. Conrod, 66% of the RBC’s fishery loan portfolio is extended to processors and wholesalers, with 23% being provided to harvester clients. A remaining 11% of the portfolio is extended to the finfish segment.

21 Ibid.

22 Ibid.

23 Denny Morrow, *Committee Evidence*, April 1, 2009.

24 Ibid.

25 Ed Frenette, *Committee Evidence*, March 31, 2009.

26 Francis Morrissey, *Committee Evidence*, March 31, 2009.

If [the processors] could have enough line of credit this year to be able to buy the product, process it, keep the people working in the plant, and sell it out in an orderly fashion, within 14 months to 16 months we'd all gradually start to get out of this mess we are in. If they don't have a line of credit large enough to be able to operate this year, what's going to happen is that either boats will be tied to the wharves—in other words, once the plant has no more money, it can't purchase any more lobster, which means the workers have gone home, which means the crew on my vessel has gone home too or else someone will start dumping product onto the market at an unrealistically low price.²⁷

Francis Morrissey of the LFA 24 Lobster Advisory Board

With proper credit in place, hopefully this will provide better returns for our fishermen.²⁸

Craig Avery of the Western Gulf Fishermen's Association

The Committee therefore recommends:

That the Government of Canada explore in cooperation with the lobster industry all the options to provide the industry bridge financing or loan guarantees that they need to get through the current global economic and financial crisis.

That the Government of Canada encourage Export Development Canada to provide insurance on receivables to processors that export lobster products abroad.

That Export Development Canada provide a report to the House of Commons Standing Committee on Fisheries and Oceans on its fishing industry portfolio.

When Mr. Withers was asked whether loan guarantees provided by the federal government would help, he answered that “it certainly should lower the cost to get into [the fishery].”²⁹ He added:

DFO would have an idea of what's going on in the fishery and be able to see better into the future. If you go to a bank and there's a fellow sitting there in a suit, all he sees are numbers in front of him. If those numbers don't add up, then you don't get your money.

27 Ibid.

28 Craig Avery, *Committee Evidence*, March 31, 2009.

29 Neil Withers, *Committee Evidence*, April 2, 2009.

But if you had a committee from DFO, or a loan board type of thing, they could look at the fleet as a whole and see that it is healthy and looks to be healthy. It would probably be easier to get the money that way.³⁰

The idea of government guaranteeing loans to fishermen is not new. There are existing provincial loan board agencies and programs for fish harvesters. Furthermore, there used to be a federal *Fisheries Improvement Loans Act* that was meant to assist fishermen who would not otherwise be able to obtain loans from lending institutions because of inability to meet the usual down-payment or security requirements of the lenders. Loans could be used for purposes related to a fishing enterprise such as building or buying a boat, buying gear such as nets or traps or purchasing a vehicle. An additional advantage to the borrower was that the interest rate was limited to one percent over the prime rate. DFO administered the loans guaranteed under the Act. Introduced in 1955, the loan program established pursuant to the Act was terminated in 1987. With the expiration of this program, the *Small Business Loans Act* was amended to add fishermen as eligible borrowers under the Canada Small Business Financing Program (CSBFP). This Act was replaced in April 1999 by the *Canada Small Business Financing Act*. The whole program is however not targeted towards the fishing sector of which the loan officers have presumably very little knowledge.

The Committee heard from the P.E.I. Fishermen's Association that it had submitted recommendations for inclusion in the recent federal budget that included the development of policy initiatives to ease access to credit for fish harvesters, as well as encouragement to the provinces to initiate or improve fisheries loan board agencies and programs. The Committee believes that the government should look seriously at these suggestions. However, the Committee also believes that the federal government has already put in place programs for the benefits of small businesses that could be used by fishermen, whether the vehicles are Industry Canada's CSBFP³¹, the various programs of the Atlantic Canada Opportunities Agency (ACOA), or the Business Development Bank of Canada. Furthermore, Budget 2009 has provided \$1 billion over two years for a Community Adjustment Fund to help mitigate the short-term impacts of restructuring in communities. In the Atlantic and the Québec regions this support would be respectively provided by the ACOA and Economic Development Agency of Canada for the Regions of Québec.

Budget 2009 also contained two initiatives to improve business access to credit, including fishing businesses. One of these programs is the Business Credit Availability Program (BCAP) "in which BDC, Export Development Canada and private sector banks are participating to help ensure that at least \$5 billion in loans and credit support is made available to creditworthy businesses whose access to credit would have been otherwise restricted. It is best understood as an enhanced cooperation between private sector

30 Ibid.

31 For an account of the kind of help fishermen can obtain from this program, please consult Industry Canada, *Lending a Hand - The Role of the CSBFA in Fostering Entrepreneurial Success*, December 2001, available at <http://www.ic.gc.ca/eic/site/csbfp-pfpec.nsf/eng/la02590.html> (accessed April 15, 2009).

financial institutions and BDC, to refer creditworthy clients when there is a desire to share in the risk.”³² It would appear from the Committee’s hearings that little of that information has trickled down to the level of the fishermen so far. Understandably, the size of the BDC’s fishery loan portfolio is relatively modest with 380 loans while there are 26,000 fishermen in Atlantic Canada. There is an obvious role for the Government of Canada to promote adequately its programs, and more specifically for DFO to communicate effectively this information given its privileged relationship with fishermen.

The Committee recommends:

That the Government of Canada develop initiatives to increase access to credit for fishermen and fishing enterprises, as well as encourage private lenders to ease credit restrictions on the fishing sector.

That the Government of Canada increase the visibility of existing specific federal financing programs for which fishermen are eligible, and that Fisheries and Oceans Canada play a coordinating role in that respect.

Finally, the Committee heard that Canadian financial institutions, including the BDC, had been meeting in recent months with DFO on the matter of access to credit for the fishing industry. The subject of the value given to fishing licences for the purpose of access to credit, particularly in the context of the recent decision of the Supreme Court of Canada in *Saulnier v. Royal Bank* was discussed. In October 2008, the Supreme Court of Canada upheld the 2006 decision of the Nova Scotia Court of Appeal in *Saulnier v. Royal Bank*.^{33, 34} The ruling confirmed that commercial fishing licences are property that can be sold to settle a bankruptcy. This case generated some public interest in the context of the *Fisheries Act*³⁵ because it involved the question of property interest in fishing licences. The main issue before the Court of Appeal was whether Mr. Saulnier had any property interest in his fishing licences that could pass to his trustee in bankruptcy under the federal *Bankruptcy and Insolvency Act*³⁶ or to his secured creditor under the Nova Scotia *Personal Property Security Act*. The Supreme Court stated that “if not property in the common law sense, a fishing licence is unquestionably a major commercial asset.” The court added that the licence “holder acquires the right to engage in an exclusive fishery under the conditions imposed by the licence and, what is of prime importance, a proprietary right in the wild fish harvested thereunder, and the earnings from their sale.”³⁷

32 Edmée Métivier, *Committee Evidence*, June 11, 2009.

33 2006 NSCA 91. See <http://www.canlii.org/en/ns/nsca/doc/2006/2006nsca91/2006nsca91.pdf>.

34 2008 SCC 58. See <http://scc.lexum.umontreal.ca/en/2008/2008scc58/2008scc58.html>.

35 R.S.C. 1985, c. F-14.

36 R.S.C. 1985 c. B-3.

37 2008 SCC 58. See <http://scc.lexum.umontreal.ca/en/2008/2008scc58/2008scc58.html>.

The Committee was told that DFO is presently gathering information to help banks determine the value of licences which, according to bank representatives, could vary from zone to zone, species to species, or year to year.³⁸ The Committee expects DFO will act diligently in this matter.

Ensuring fishermen's income

Without assistance and without a shore price for lobster that will provide a decent net income to fishermen and their families, and given the increasing costs of doing business, many lobster fishermen will not be able to continue on in this fishery.

In the Magdalen Islands, lobster fishermen's costs have more than tripled in the last 20 years. According to Mr. Léonard Poirier, Director General of the Association des pêcheurs propriétaires des Îles-de-la-Madeleine, looking at the progression of gross and net revenues leads to an inescapable conclusion: "starting in the year 2000, one has the sense that any increase in gross revenues went into covering expenses."³⁹ His colleague, Mr. Mario Déraspe, President of the same organization, clarified the combined effect of this situation with the collapse of the prices in 2008:

Over the years, profitability was good, but in 2008, the markets collapsed. A fisher's revenue is calculated on the basis of the resource and market prices. We can control the resource through certain measures, but we cannot control the market. Prices have declined. Last year, we lost more than \$1 per pound. Since profit margins were low, that really hurt. As well, expenses are on the rise. If the price goes down and expenses go up, we will be in trouble. That is what happened in 2008. What will happen in 2009? We do not know. We are just about to put our traps in the water.⁴⁰

As far as solutions, Mr. Déraspe told the Committee that the federal government had a major responsibility with respect to costs. He said:

For example, over the years, the cost of a licence went from \$35 to \$750, just for the lobster fishery. The cost of some other licences is also exorbitant. In our opinion, in order to help resolve the problems we experienced last year, the licence cost could be lowered. A moratorium could be declared, which would help the fishers. We have never asked for direct subsidies from either the provincial or federal government. This year, we are asking them to help us out, either in the form of temporary relief or a moratorium, so that the market recover.⁴¹

38 Craig Thompson, *Committee Evidence*, June 11, 2009.

39 Léonard Poirier, *Committee Evidence*, March 30, 2009.

40 Mario Déraspe, *Committee Evidence*, March 30, 2009.

41 Ibid.

The Committee has heard various suggestions during its hearings to reduce the costs of doing business (e.g. costs for fuel, insurance, licence and observer fees, etc.), stabilize the fisherman's income, and change requirements for EI qualification. For example, the Committee heard in PEI that lobster industry workers should be allowed to qualify for EI benefits based on their 2008 earned income.⁴²

Given the urgency of the situation, the Committee recommends:

That the Government of Canada in partnership with the lobster industry explore the idea of some form of income support for lobster fishermen to address immediate concerns.

Licence fees have been identified in some LFAs as a major contributor to the cost of doing business. Fishermen stressed that they expect to get benefits back from paying these fees. Representatives of LFA 34 fishermen who are currently paying the highest licence fees⁴³ for lobster in Canada suggested that, instead of requesting a reduction of their licence fees, which many of them are struggling to pay, DFO use half the amount and finance a local initiative to establish a lobster marketing office in southwest Nova Scotia.

The Committee acknowledges that the department is currently reviewing fishery licence fee structure. According to DFO, the present license fee structure which took effect in 1996 is based on the four-year average of each fishery's landed value from 1990 to 1993. The Committee encourages DFO to expedite its review of the fishery licence fee structure, and to look at the costs and revenues associated with various fisheries in the context of current business operations.

The Committee recommends:

That Fisheries and Oceans Canada provide assistance to the lobster fishermen to reduce their costs. The review of the fishery licence fee structure should be expedited.

42 The Committee heard from both the PEIFA and the Southern Kings and Queens Fishermen's Association on that proposal. Ed Frenette, *Committee Evidence*, March 31, 2009; Ken Drake, *Committee Evidence*, March 31, 2009; and Bobby Jenkins, *Committee Evidence*, March 31, 2009.

43 See footnote no. 7.

MARKETING LOBSTER

The Committee found that there is no coherent marketing scheme for the benefit of the individual lobster fishermen either domestically or internationally, especially in light of the economic downturn and under-tapped markets at home and abroad. In our view, the lack of a coordinated marketing scheme is a major contributor to problems in the lobster industry.

The market for lobster is complex. According to the Gardner Pinfold benchmarking study, Canada supplies its domestic market as well as exports lobster to some 60 countries. The analysis of markets for lobster is complicated by the high level of exports of live lobster to Canada from Maine, much of it being processed and re-exported to the U.S.⁴⁴

Lobster is either sold live shortly after being landed or after a period in holding tanks or pounds, or sold processed (frozen whole or shelled, shelled and canned). The proportion of these products varies regionally: PEI lobster is mostly canned while the lobster from southwest Nova Scotia or the Magdalen Islands is predominantly sold live. The quality of the landed lobster varies and somewhat dictates whether it will be marketed live or processed.

One of the elements of this crisis is the low shore price obtained by lobster fishermen for their catch. To understand how this came about, it is important to know more about the drivers of the shore price. The Gardner Pinfold lobster benchmarking study tells us that: "As the dominant final product market, supply and demand conditions in the U.S. tend to drive the price of lobster in Canada."⁴⁵ The study further says that: "Prices have risen fairly steadily over the past 15 years, at least doubling since 1990. This comes in response to increased market development and demand, while supply (catch) over the period has remained fairly stable (total landings have increased by about 10%)."⁴⁶

According to the same study, the difference in shore prices between lobster fishing regions "reflects ultimate product market, seasonal factors, quality, as well as port market competition. [...] Shore prices are responsive to seasonal movement in supply and demand, with market size lobster (>82.5 mm) the most sensitive to market conditions."⁴⁷ Furthermore, shore prices are determined by the interactions between fishermen and buyers. These interactions are described in the following manner:

44 Gardner Pinfold (2006).

45 Ibid.

46 Ibid.

47 Ibid.

Lobster buyers (or "dealers" as they are also known in the U.S.) and fishermen are linked in informal ways. The arrangement may be described as one of mutual dependence. Buyers/dealers do not own fishing vessels (unless they are harvesters first and buy as a sideline) and do not have a secure supply of lobster. They depend on fishermen. Similarly, with few exceptions, fishermen do not own and operate lobster handling facilities (though some have small holding facilities in some areas), and do not have a ready means of marketing their catch. Most depend on buyers. Fishermen generally agree to sell all lobster to a particular buyer in exchange for an agreement by that buyer to provide a range of services, including provision of supplies and credit and access to unloading facilities and transportation. Buyers also agree to take all lobster from that fisherman at the prevailing shore price.⁴⁸

The Committee was told during its hearings on the East Coast in early spring 2009 that supply and thus shore prices were affected by the existence, only weeks from the beginning of the season, of large inventories of frozen lobster products that would have to be marketed. The Committee also learned that another more structural problem related to supply was the creation of gluts on the market. For example, in LFA 34 (southwest Nova Scotia), it is estimated that 50% of the lobster is landed in the first 15 days of the fishing season.⁴⁹ Mr. David Bevan, DFO's Assistant Deputy Minister for fisheries management, told the Committee:

One thing we don't want to do is to have too much supply come in too quickly, overload the capacity, and then have people put in the position where they can't get access to buy it and they can't move their product quickly enough to feed the need anticipated by the fishermen. So if it could be slowed down by voluntary measures, by fishermen in the area in conjunction with the processing plants, that would at least help to avoid a situation where people run out of the capital that they have.⁵⁰

Most witnesses agree that there is a need for more marketing efforts for lobster. Many witnesses acknowledged the recent initiative launched by the federal government and three Atlantic Provinces in February 2009 to boost lobster marketing in the U.S. The amount of money was small and limited to the fiscal year about to end on March 31, 2009. Moreover, the initiative did not involve the whole lobster industry as the provincial governments of Québec and Newfoundland and Labrador were not parties to the program. The initiative was also limited to marketing abroad and did not cover domestic markets. The Committee believes that the initiative is worth pursuing in the short term and for the future. The Committee sees a role for the federal government in this as the manager of the resource, given that an orderly marketing process for lobster would have a positive impact on the sustainable exploitation of the resource.

48 Ibid.

49 Denny Morrow, *Committee Evidence*, April 1, 2009.

50 David Bevan, *Committee Evidence*, March 24, 2009.

The Committee therefore recommends:

That the Government of Canada, in partnership with all provincial governments and industry representatives encourage the creation of an Atlantic-wide multi-stakeholder marketing research and advertising council to promote Canadian lobster domestically and abroad.

The Committee acknowledges that this recommendation is consistent with the federal government's announcement on May 22, 2009 that it will collaborate with the industry "in a lobster development council to increase domestic and international market access and support the industry in reaching the eco-certification standards necessary to increase their global markets."⁵¹ For example, in relation to the development of a marketing strategy for lobster products, the Committee heard the idea suggested by the LFA 34 fishermen that a portion of lobster licence fees be used for marketing.

Eco-Certification

In the course of its study, the Committee heard about another issue related to marketing, but that has broader implications for fishermen: the traceability and the certification of fishery products for responsible and sustainable management of the resource. Conservation groups in North America and Europe have directed a considerable effort toward raising consumer awareness of the problem of declining fish stocks in recent years. As a result of growing concerns about sustainability, "eco-labels" (or "green labels") have become an emerging phenomenon. Several organizations label fish as eco-friendly or sustainable on behalf of seafood companies, grocery retailers and fish markets. In 2005, the UN Food and Agriculture Organization published guidelines on certification of seafood considered to be the minimum standards for any credible seafood certification program.⁵²

The Marine Stewardship Council (MSC) is one of the best known certification and eco-labelling organizations. The MSC is a global non-profit organization created in 1997 by the World Wildlife Fund (WWF) and Unilever (the world's largest buyer of seafood) to find a solution to the problem of overfishing. Companies wishing to use the MSC seal on their products undergo a chain of custody certification process that is promoted as open and transparent, and that guarantees traceability from boat to plate. Certified fisheries must show that they meet the MSC's environmental standard for sustainable fishing, which is based on three core principles: sustainability of exploited fish stocks, maintenance of the

51 Fisheries and Oceans Canada, "Canada's Economic Action Plan – Harper Government Delivers Support for the Lobster Industry \$10 million to be provided to Atlantic Canada and Québec through the Community Adjustment Fund," News Release, May 22, 2009.

52 FAO, *UN Guidelines for the Ecolabelling of Fish and Fishery Products From Marine Capture Fisheries*, 2005, <http://www.fao.org/docrep/008/a0116t/a0116t01.htm> (accessed April 23, 2009).

ecosystem on which the fishery depends, and effective and responsible management.⁵³ In Canada, only two fisheries have so far been certified (the “Canada northern prawn” on August 5, 2008, and the “Gulf of St. Lawrence northern shrimp” on September 23, 2008), but others such as the Eastern Canada offshore lobster fishery are listed on the MSC’s web site as in the process of being assessed against the MSC standard. In the U.S., the Maine lobster trap fishery is currently undergoing independent assessment against the MSC environmental standard for sustainable fishing.

Many witnesses voiced concerns over the issue of certification, which could rapidly become a prerequisite for the access to markets. They are worried that the industry will have to bear the cost of obtaining and maintaining certification. The lobster industry in its current state will be in a difficult position to answer this added challenge.

We now must bring the fishery into the new millennium. We have many new ideas on the local, national and international front, and many new demands and regulations, buzz words and acronyms within which to operate or be shut down. The costs that are now being downloaded and attributed to our members, such as monitoring, electronic data-inputting, eco-labelling, traceability, catch certificates, and the MSC, will ultimately bankrupt our industry without proper focus, without proper implementation of such, and without a well thought-out cost-recovery regime.⁵⁴

Maureen O'Reilly,
Administrative Officer of the
Prince Edward Island Seafood Processors Association

Challenge number one is the high financial cost to attain and maintain MSC certification. Our concern is the ongoing high financial burden placed on the industry once the industry completes the pre-assessment and the final certification of the MSC.

Recommendation: that the parliamentary committee review the rationale for the MSC requirements to conduct yearly audits and the stipulated need for a reassessment every five years. Industry will work with government bodies to find other less costly mechanisms that can and should be put in place to ensure that MSC requirement standards are annually met by industry, with a required MSC reassessment in 10 years.⁵⁵

Ashton Spinney from Nova Scotia

We have been following closely the MSC process on sustainability. Our fishermen have always tried to look after the resource and the habitat so that there would be something there for their children and grandchildren. We are now thrown into an MSC or other traceability and sustainable theme. We have no problem working towards this; we have a problem with the astronomical cost to the industry for certification. It seems that once we

53 Marine Stewardship Council (MSC), “Our Solution,” <http://www.msc.org/healthy-oceans/our-solution> (accessed April 23, 2009).

54 Maureen O'Reilly, *Committee Evidence*, March 31, 2009.

55 Ashton Spinney, *Committee Evidence*, April 1, 2009.

pay around \$500,000 for a certification that says we are sustainable, in five years' time we will have to start the process all over again. This will, in my mind, take away from fishermen being sustainable, as there will be no one left to worry about.⁵⁶

Norma Richardson,
President of the Eastern Shore Fishermen's Protection Association

There are alternatives to the MSC certification. For example in Japan, the Japan Fisheries Association, which represents more than 400 organizations and companies in the country's fishing industry has established a national certification system for fishery products: the "Marine Eco-label Japan". The system complies with the management guidelines on responsible fisheries, including processing and distribution, as established by the Food and Agriculture Organization of the United Nations in 2005.⁵⁷

Market access is a key priority of DFO's sustainable fisheries and aquaculture management sector. The department acknowledged in its 2009-2010 *Report on Plan and Priorities* that "Canada does not currently have in place a fully integrated traceability system for meeting [the] requirements [for sustainably managed and legal fisheries]. This has generated considerable concern from provincial counterparts and industry stakeholders. If this situation persists over the longer term, Canada will lose market share."⁵⁸ Consequently, DFO "will make changes to the management of our fisheries to support market access through legislation, regulation, policy, negotiations and increased advocacy efforts with others along the seafood value chain. DFO will work to create the necessary conditions to maintain and improve market access, thus optimizing economic benefits and increasing stability in our fisheries sector."⁵⁹ A market access action plan is under development to explore DFO's role in this area. Support to the industry to meet the current and emerging domestic and international requirements (including eco-certification and concerns with food safety) is being considered.

The Committee recommends:

That Fisheries and Oceans Canada in partnership with the lobster industry explore the idea of a Canadian certification system for fishery products that would comply with the internationally established management guidelines on responsible fisheries.

56 Norma Richardson, *Committee Evidence*, April 1, 2009.

57 Japan Fisheries Association, "Outline of the MEL Japan," <http://www.melj.jp/sub7.html> (accessed April 15, 2009).

58 Fisheries and Oceans Canada, *2009-2010 Estimates, Part III — Report on Plans and Priorities*, Ottawa, 2009, p. 38.

59 Ibid.

That Fisheries and Oceans Canada support the efforts of the lobster industry to obtain and maintain the international certification of their fishery for sustainable management.

SUSTAINABILITY-RELATED CHALLENGES

The federal government's overall goal with respect to fisheries management is the "conservation of Canada's fisheries resources to ensure sustainable resource utilization through close collaboration with resource users and stakeholders based on shared stewardship."⁶⁰ As the House of Commons committee responsible for overseeing DFO's programs and activities, our role is to ensure that this avowed objective is fulfilled.

In 1995, the FRCC challenged the lobster industry and DFO on matters of sustainability with the release of *Conservation Framework for Atlantic Lobster*, which provided advice on conservation strategies to the Minister of Fisheries and Oceans.

For the Council, the general objective of conservation in 1995 was to keep stocks in a "healthy" state under various environmental conditions.⁶¹ The key elements of a healthy lobster resource were good egg production, a reasonable fishing mortality and a biomass composed of several year classes.⁶² The Committee believes these elements are still valid.

The 1995 Conservation Framework recommended mechanisms and tools that would allow stakeholder participation in the decisions needed to ensure sustainable lobster fisheries. These proposed measures were meant to increase the level of egg production and to significantly reduce both exploitation rates and the effective fishing effort.

Twelve years later, the Minister of Fisheries and Oceans asked the FRCC to review progress on the 1995 lobster Conservation Framework. Overall, the assessment was not positive. Mr. Jean-Guy d'Entremont, Chairman of the FRCC, told the Committee that: "As far as the review of the 1995 framework is concerned, [the Council] found that very little had been done since 1995 in reducing capacity, reducing effort, and minimizing risk. So the 1995 report and the toolbox within are still very useful today."⁶³

60 Ibid., p.35.

61 Fisheries Resource Conservation Council, *A Conservation Framework for Atlantic Lobster*, FRCC.95.R.1, 1995, p. vi, <http://www.frcc.ca/scanned%20reports/Lobster.pdf> (accessed May 13, 2009). These environmental conditions can cause large natural fluctuations. "To dampen the effects of such fluctuations in a fishery necessitates sufficient long term recruitment rates and sufficient biomass to maintain reasonable catch levels when recruitment conditions become unfavourable."

62 Ibid.

63 Jean-Guy d'Entremont, *Committee Evidence*, March 12, 2009.

One exception was however noted in the 2007 FRCC report where fishermen of the Magdalen Islands (LFA 22) had designed and implemented two consecutive 10-year conservation plans based in part on the 1995 recommendations of the FRCC. As a result, the fishery achieved the objective of doubling the egg production mostly through incremental increases in the legal minimum size of landed lobster. In the lobster fishery like in many others, however, “one size fits all” solutions or plans are not always advisable or workable. Solutions that may have worked in some LFAs are not necessarily appropriate, desirable or even wanted elsewhere.

As noted earlier in this report, there are still concerns that exploitation rates are high, most lobsters are harvested before maturity, and that harvesting is taking place in the absence of accurate data on the lobster biomass. The Committee shares these concerns and believes that several recommendations in the 2007 FRCC report merit further consideration by the industry as well as by DFO.

During its hearings, the Committee received a great deal of testimony on the challenges faced by the lobster fishery, many of which related to the matters of ecological sustainability, ecosystem considerations and the reduction of fishing effort. What follows is a discussion of these matters.

Ecological Sustainability and Ecosystem Considerations

Lobster Abundance

A number of witnesses, including representatives of the FRCC, noted that the industry and DFO do not have sufficient knowledge of the status of the lobster resource. The danger is that, at the current exploitation rates, there is a high probability that the resource is being overfished. Indeed, the FRCC believes that “targets and thresholds in terms of biomass and exploitation rates need to be defined to identify safe biological limits.”⁶⁴

The Committee was told that current high landings in many LFAs indicate a healthy lobster biomass. Mr. Ashton Spinney told the Committee that lobster landings were close to a 100-year high.⁶⁵ The Committee wonders, however, if the high landings could also just as well be due to increased fishing effort.

Obviously, achieving a better understanding of the status of the lobster resource in the various LFAs would be complex and costly. However, the Committee believes that this should be a priority research goal for DFO Science.

64 FRCC (2007).

65 Ashton Spinney, *Committee Evidence*, April 1, 2009.

Increasing Egg Production

Doubling egg production was an important objective of the 1995 FRCC's Conservation Framework. To achieve this goal, the industry needed to maximize the number of females reaching sexual maturity. In 2007, the FRCC recommended "that 50% of female lobster be allowed to mature before becoming available to the fishery to reduce the risk of recruitment over-fishing."⁶⁶

Mr. d'Entremont presented evidence showing that in many LFAs, the percentage of lobster harvested before reaching sexual maturity was high. For example, in the Bay of Fundy down to the southwest coast of Nova Scotia, where the legal minimum carapace size is established at 82.5 mm, 50% of the females mature at 97 mm. Only 2% of the females caught at the minimum legal carapace size therefore have a chance to reproduce, a situation which in the Committee's view is clearly unsustainable.

Solutions discussed during the Committee's hearings included setting a legal minimum carapace size closely to or above the size at which an average lobster reaches sexual maturity, setting an upper limit beyond which larger lobsters would be allowed to escape could also be set, a practice called "windowing", and marking captured berried females and returning them to the water, also known as v-notching. The Committee understands that these solutions might not be achievable in all LFAs.

Minimizing Waste

The FRCC recommended in 2007 "that the industry and DFO develop protocols and adjust fishing seasons to improve the quality of lobster landed."⁶⁷ This recommendation pertained to the problem of waste and poor handling in the industry. According to Mr. Colin McDonald, Chief Executive Officer of Clearwater Seafoods, this issue is an important one.

There is absolutely no control over landed quality. To a fisherman, a lobster is a lobster. He sells it by weight. It doesn't matter if it's soft, weak, a cull, or the ugliest 10- to 20-pound jumbo you have ever seen. It is all money to him. Unfortunately, to a customer and the consumers, it does make a difference.⁶⁸

Indeed, "15% of all the lobsters caught each year go to the garbage can instead of going to the market. That's 15 million pounds and roughly \$150 million worth of value, all because of bad handling practices."⁶⁹

66 FRCC (2007).

67 Ibid.

68 Colin McDonald, *Committee Evidence*, April 1, 2009.

69 Ibid.

Refugia

Refugia are areas or reserves that are closed to fishing. They are an example of ecosystem-wide approach applied to fisheries management and serve as a buffer against resource depletion. Refugia can be particularly useful in cases where there is limited knowledge of a given resource. Because of their limited mobility, lobsters are good candidates for such reserves: adult lobsters can thus be protected and be given a chance to reproduce.⁷⁰

In LFA 40 on Brown's Bank, there is an area closed to lobster fishing. As larvae are spawned, drift and settle in adjacent LFA 34, lobster fishermen benefit. According to Mr. Ashton Spinney, "we are reaping the benefits of [the Brown's Bank refugia] today."⁷¹ Currently the closure is limited to lobster fishing.

Based on what the Committee heard, it is not clear whether DFO has any immediate plans to establish refugia for lobster in other areas of the East Coast. However, in October 2005, the department announced the designation of the Eastport Marine Protected Area. This designation is the result of a process initiated by the Eastport Peninsula lobster fish harvesters in 1995 to address declining catches and to implement an overall lobster conservation strategy for the Eastport Peninsula.⁷²

Reducing Fishing Effort

Whether called rationalization, renewal or rejuvenation of the industry, a government buyout, a licence retirement program, or self-rationalization, there was a broad consensus on the need to reduce fishing effort in the lobster fishery. The end objectives may differ from one group to another. Many believe that adjustments to the fishing effort are needed to achieve ecological and economic sustainability objectives. Others see a need to buy-out licences to allow older fishermen to retire with dignity and protect their financial interest, while creating opportunities for younger people to enter the fishery and rejuvenate the industry.

70 FRCC (2007).

71 Ashton Spinney, *Committee Evidence*, April 1, 2009.

72 Fisheries and Oceans Canada, "Eastport Marine Protected Area", Backgrounder, 2005, <http://www.dfo-mpo.gc.ca/media/back-fiche/2005/hq-ac61d-eng.htm> (accessed June 9, 2009). The Eastport Peninsula is located on the northeast coast of Newfoundland and Labrador, in Bonavista Bay.

According to the FRCC, the current high exploitation rates of the resource pose a threat to sustainability and should therefore be reduced. It is important to have a good estimate of exploitation rates for all LFAs, which should be monitored. In some LFAs, reducing the exploitation rate will require substantial reductions in fishing effort.⁷³

In this regard, there are several options for reducing fishing efforts including buying-out excess capacity or permanently retiring licences, reducing trap limits, shortening fishing seasons, and placing restrictions on the frequency of trap hauling. No one option should necessarily be applied to all LFAs. The Committee strongly believes that these types of initiatives should come from the fishermen themselves, and be tailored to their needs and practices.

The option the Committee most often heard was licence buyout or retirement. Put simply, many fishermen suggested that the Government of Canada, through DFO, initiate and fund a licence buyout program. In 2006, a report commissioned by the P.E.I. Department of Agriculture, Fisheries and Aquaculture recommended that “funding from the Government of Canada to undertake a license buy-back that would retire 15% of the fishing licences/entities in the Northumberland Strait” be sought.⁷⁴ Others however, disagreed, and were in favour of self-rationalization or industry-led initiatives.

The practice of licence retirement program has a long history in Canadian fishery management. There were two major government-funded voluntary lobster licence buy-back programs in the late 1970s. Both the PEI Lobster Vessel Certificate Program and the Lobster Licence Vessel Certificate Retirement Program were the government’s response to the 1974 Lobster Task Force report, that had proposed reducing participation in the lobster fishery by 25 to 50%. In the end, about 22% of the Category “A” lobster licences was removed, having a positive impact on the earnings of fishermen remaining in the fishery. The cost of the program at the time was estimated at \$5 million.⁷⁵

In the 1990s, there were also initiatives related to the collapse of the groundfish fisheries on the East Coast. During this period, participation in the commercial fisheries was reduced through federally funded licence and early retirement programs. More responsible fishing practices, including selective harvesting methods to reduce by-catch, were also encouraged. Federal initiatives on the East Coast in 1990s included the Northern

73 FRCC (2007).

74 Grant Thornton, *An Economic Analysis of Lobster Fishing Enterprises In Lobster Fishing Areas (LFA) 25 & 26A of the Northumberland Strait*, May 2006, http://www.gov.pe.ca/photos/original/FA_ExecSumm.pdf (accessed June 9, 2009).

75 L. Scott Parsons, *Management of Marine Fisheries in Canada*, NRC Research Press, Ottawa, 1993, pp. 170–175. See also Joseph Gough, *Managing Canada’s fisheries: from early days to the year 2000*, Éditions du Septentrion, Québec, 2007, pp. 349–350.

Cod Adjustment and Recovery Program (NCARP), the Atlantic Groundfish Strategy (TAGS), and the Canadian Fisheries Adjustment and Restructuring program.⁷⁶ These special adjustment programs which were developed during this period to assist affected fishermen are no longer in place.⁷⁷

According to DFO, limited-entry licensing, area licensing and licence stacking, early retirement programs for fishery workers displaced by restructuring in the industry, community adjustment and regional economic development programs in coastal areas, industry self-rationalization, and licence retirement programs have contributed to Canada achieving progress in managing its domestic fishing capacity.⁷⁸

There are notable examples of industry-initiated measures to reduce fishing effort. In 2006, harvesters in Québec began restricting trap size and reducing in small increments the numbers of traps per licence. A self-rationalization of the fishing fleet was also initiated through a buy-back program. Mr. Donald Walker, member of the FRCC and president of the Regroupement des pêcheurs professionnels du sud de la Gaspésie, explained:

We put a plan in place very early because of the crises that our fishing sector was going through. [The plan] started with the licence buyout just because we knew that the fishing effort needed to be reduced. To start with, we went with a percentage, which we tried to reach by measures like reducing the number of traps per fisherman, the maximum size of the traps, and we started to use a standard trap. Then, as to the buyout option, we started using our funds to buy out businesses 100%. That has changed over the years. We now get the fishermen to participate. It is not just the government that invests, there is also an investment from the fishing industry. This means that the fishermen have a stake in protecting their resource and in investing in the future.⁷⁹

The impact hasn't been as great on the price as it has been on the increase of viability to the fishermen who are left in the area.⁸⁰

76 Fisheries and Oceans Canada, *Fisheries Management Policies on Canada's Atlantic Coast*, 2004, http://www.dfo-mpo.gc.ca/afpr-rppa/Doc_Doc/FM_Policies_e.htm (accessed June 9, 2009).

77 Fisheries and Oceans Canada, *A Policy Framework for the Management of Fisheries on Canada's Atlantic Coast*, 2004, http://www.dfo-mpo.gc.ca/afpr-rppa/Doc_Doc/policy_framework/policy_framework_e.htm (accessed June 9, 2009).

78 Fisheries and Oceans Canada, "The International Plan of Action for the Management of Fishing Capacity — Canada and the International Plan of Action for the Management of Fishing Capacity," Background, July 2001, http://www.dfo-mpo.gc.ca/foa/IPOAbackgrounder_e.htm (accessed June 9, 2009).

79 Donald Walker, *Committee Evidence*, March 12, 2009.

80 Ibid.

Mr. Léonard Poirier added:

If a comprehensive assistance program is implemented by the federal government, we should not be limiting it to rationalization. Restructuring must involve more than just rationalization. It must also include equalization. That is what we are interested in, here in the Magdalen Islands. We have made rationalization efforts in the past, and they did not cost the federal government a cent. We are now making efforts to conserve the resource, in terms of the fishing effort. We are in the process of rationalizing our fishing effort through all kinds of means, including by decreasing the number of traps. There again, this is not costing the federal government one cent. As far as we are concerned, restructuring should include stabilization.⁸¹

Several witnesses praised the potential benefits of decreasing the capacity of the lobster fleet as shown by the following comments:

By having a licence buyout program, it leaves the remaining fishermen to become more profitable, which allows the rural communities to continue to exist and the processing plants to remain with the workers.⁸²

Francis Morrissey

In short, the fishermen in our lobster fishing area have offered to reduce the number of traps from 300 to 250 in the spirit of being partners with the federal government. This would mean 65 fewer lobster licences in our district. We would reduce our trap numbers if the government would buy out an equal number of traps. To do this, we think the cost would be 65 licences times \$200,000 each. This single action would reduce the trap fishing effort by one-third of the total fleet in our area.⁸³

Bobby Jenkins,
Southern Kings and Queens Fishermen's Association

Just to mention a few things on the conservation part of the buyback, if we take out the 65 fleets to start with, there's an environment impact. Each boat burns 20 to 30 gallons a day; anything they may be dispersing into the water is gone. Concerning the 50 traps, there are 402 fishermen in our area here, so right there you're going to save at least an hour a day. You're looking at three or four gallons less fuel for each vessel every day for 50 days, and looking at less bait, which makes it easier on the other gaspereaue fishery.⁸⁴

Donald Johnston,
President of the Southern Kings and Queens Fishermen's Association

81 Léonard Poirier, *Committee Evidence*, March 30, 2009.

82 Francis Morrissey, *Committee Evidence*, March 31, 2009.

83 Bobby Jenkins, *Committee Evidence*, March 31, 2009.

84 Donald Johnston, *Committee Evidence*, March 31, 2009.

In setting up any new licence retirement program, DFO and the industry should heed the comments made by the Office of the Auditor General of Canada (OAG) on licence retirement programs, more specifically on TAGS, in 1997 and 1999.⁸⁵ In particular, the OAG criticized the lack of logic and clarity in the assessment of eligibility of groundfish workers for the program. Program accountability was found to be deficient with respect to achieving the goals of fishing capacity reduction and labour adjustment. In fact, the OAG concluded in 1997 that “efforts were directed at income support for individuals affected by the groundfish moratorium; groundfish harvesting capacity was not significantly reduced through TAGS measures.”⁸⁶ Improvements to the program were however noted in the 1999 follow-up report.

The OAG’s comments were echoed by the FRCC in 2007, which supported “options that involve self-rationalization within the industry.” The FRCC concluded “that a government-funded buyout of licences is not an effective means to deal with the over-capacity in the lobster fishery. If it is decided that a buyout is preferred then it should be done in conjunction with other mechanisms that will ensure that the fishing effort is not allowed to increase following a buyout.”⁸⁷

Some witnesses agreed. For example, Mr Mark Bonnell said that fishermen “traditionally landed around 20 million pounds of lobster for a number of years in Prince Edward Island, no matter whether we used 1,000 traps or whether we used 300 traps. The effort would be less, but the landings would be better and the fishers who remained would be financially better off through landing more poundage. I don't think you're going to reduce the number of pounds by reducing the number of participating vessels.”⁸⁸

Other witnesses added a word of caution:

Before we started this buyout, we were concerned about the gears moving to different areas. We went after DFO and were successful in getting, finally, a port freeze put in place, because we felt that if we buy eight or ten gears out of an area and somebody brings in eight or ten more, we haven't accomplished much. It's something we have brought up with DFO before.⁸⁹

Danny Arsenault, Vice-President of the Prince County Fishermen's Association

85 Auditor General of Canada, *1997 Report*, “Chapter 16—Human Resources Development Canada—The Atlantic Groundfish Strategy”, 1997, http://www.oag-bvg.gc.ca/internet/English/parl_oag_199710_16_e_8097.html (accessed June 9, 2009). Auditor General of Canada, *1999 Report*, “Chapter 8 - The Atlantic Groundfish Strategy—Follow-up”, 1999, http://www.oag-bvg.gc.ca/internet/English/parl_oag_199904_08_e_10137.html (accessed June 9, 2009).

86 Ibid.

87 FRCC (2007).

88 Mark Bonnell, *Committee Evidence*, March 31, 2009.

89 Danny Arsenault, *Committee Evidence*, March 31, 2009.

For example, Island lobster harvesters have long called for a licence rationalization program that would see the permanent retirement of licences from the fishery. For two brief years in 2004 and 2005, LFA 25, using funds from the sale of a snow crab quota, was able to permanently retire nine lobster licences and shelve a number of others for one year at a time. Unfortunately, court rulings prevented any further action along this front. Since then, Island fishers have been requesting government support and most recently have entered into discussions with federal and provincial authorities to develop a rationalization process, with contributions from the two levels of government and the industry.⁹⁰

Ed Frenette,
Executive Director of the Prince Edward Island Fisherman's Association

Finally, the Committee heard from the Atlantic Alliance for Fisheries Renewal (AAFR)⁹¹, which is proposing a comprehensive strategy to rationalize the inshore fishing fleets they represent, including the lobster fishery. According to the AAFR:

- “The overall objective is to remove up to one-third of current enterprises from inshore fleets in the three regions to address both enterprise viability and stock rebuilding and sustainability objectives.
- It is proposed that the federal government will invest approximately \$233 million over a five-year period in a fund, administered by existing federal agencies, to provide capital, credit and loan guarantees to support fleet rationalization.
- It is proposed that harvester organizations play a central role in designing and implementing restructuring programs at the fleet level to ensure effective pursuit of both viability and resource conservation objectives.
- Fleet organizations would access funds and credit support based on detailed proposals and business plans that meet strict criteria for accountability and effectiveness.

90 Ed Frenette, *Committee Evidence*, March 31, 2009.

91 The AAFR is comprised of the Fish, Food and Allied Workers Union (FFAW/CAW), the Maritime Fishermen's Union (MFU), the Alliance des pêcheurs professionnels du Québec (APPQ), the Gulf Nova Scotia Bonafide Fishermen's Association, the Gulf Nova Scotia Fishermen's Coalition and the Northumberland Fishermen's Coalition.

- Industry applicants will be responsible for marshalling one third or more of the investment costs for rationalization plans for particular fleets. They may engage provincial governments and other interests as partners in developing these plans and investment resources.”⁹²

In the Committee's view, there is a need to reduce fishing effort in the lobster fishery by way of a rationalization strategy where appropriate. The model for this rationalization should come from the industry and could vary from region to region. Therefore, the Committee recommends:

That the Government of Canada, in collaboration with the governments of the Atlantic Provinces and Québec, support an industry-led rationalization plan for the Canadian lobster fishery (publicly-funded where appropriate) that must take into account regional needs and requirements.

CONCLUSION

This report on the lobster fishery in Atlantic Canada and in Québec describes challenges faced by the industry: financial and economic challenges such as the access to credit and the lobster fishermen's income; marketing challenges; and, sustainability-related challenges including the adoption of conservation measures and a rationalization of the fishing effort. These challenges affect each fishery area in a different way, and there is not a solution applicable to all.

For each of these matters, the Committee is advancing recommendations that are, in most cases, co-opted from the various representatives of the lobster industry met during our hearings. The goals of these recommendations are to provide the Government of Canada, and particularly DFO, with tools or ideas that should ensure in our view that the lobster industry as a whole will survive this “perfect storm” it is going through. Specifically, the Committee expects the federal government to do everything it can within its jurisdiction and in partnership with the industry and the provinces to improve access to credit for all sectors of the fishery, to ensure that lobster fishermen can earn a decent income and remain in the fishery, to market more effectively and in an orderly fashion lobster products here and abroad, and finally to ascertain that conservation measures and rationalization programs are in place to guarantee the survival of this fishery for generations to come.

Failure to take action by all stakeholders would put in jeopardy, the most valuable fishery on the East Coast of Canada.

92 Atlantic Alliance for Fisheries Renewal, *Renewal of Atlantic Fisheries — An Action Plan for Fleet Rationalization*, Brief to the Committee, 2009.

LIST OF RECOMMENDATIONS

RECOMMENDATION 1:

That the Government of Canada explore in cooperation with the lobster industry all the options to provide the industry bridge financing or loan guarantees that they need to get through the current global economic and financial crisis.

RECOMMENDATION 2:

That the Government of Canada encourage Export Development Canada to provide insurance on receivables to processors that export lobster products abroad.

RECOMMENDATION 3:

That Export Development Canada provide a report to the House of Commons Standing Committee on Fisheries and Oceans on its fishing industry portfolio.

RECOMMENDATION 4:

That the Government of Canada develop initiatives to increase access to credit for fishermen and fishing enterprises, as well as encourage private lenders to ease credit restrictions on the fishing sector.

RECOMMENDATION 5:

That the Government of Canada increase the visibility of existing specific federal financing programs for which fishermen are eligible, and that Fisheries and Oceans Canada play a coordinating role in that respect.

RECOMMENDATION 6:

That the Government of Canada in partnership with the lobster industry explore the idea of some form of income support for lobster fishermen to address immediate concerns.

RECOMMENDATION 7:

That Fisheries and Oceans Canada provide assistance to the lobster fishermen to reduce their costs. The review of the fishery licence fee structure should be expedited.

RECOMMENDATION 8:

That the Government of Canada, in partnership with all provincial governments and industry representatives encourage the creation of an Atlantic-wide multi-stakeholder marketing research and advertising council to promote Canadian lobster domestically and abroad.

RECOMMENDATION 9:

That Fisheries and Oceans Canada in partnership with the lobster industry explore the idea of a Canadian certification system for fishery products that would comply with the internationally established management guidelines on responsible fisheries.

RECOMMENDATION 10:

That Fisheries and Oceans Canada support the efforts of the lobster industry to obtain and maintain the international certification of their fishery for sustainable management.

RECOMMENDATION 11:

That the Government of Canada, in collaboration with the governments of the Atlantic Provinces and Québec, support an industry-led rationalization plan for the Canadian lobster fishery (publicly-funded where appropriate) that must take into account regional needs and requirements.

APPENDIX A LIST OF WITNESSES

Organizations and Individuals	Date	Meeting
<p>Fisheries Resource Conservation Council</p> <p>Gerard Chidley, Vice-Chairman Jean-Guy d'Entremont, Chairman Donald Walker, Member Arthur Willett, Executive Director</p>	2009/03/12	9
<p>Department of Fisheries and Oceans</p> <p>David Bevan, Assistant Deputy Minister, Fisheries and Aquaculture Management Robert Elliott, Director General, Economic Analysis and Statistics David Gillis, Director, Fish Population Science Sylvain Paradis, Director General, Ecosystem Science Wendy Watson-Wright, Assistant Deputy Minister, Science Sector</p>	2009/03/24	10
<p>Association des pêcheurs propriétaires des Îles-de-la-Madeleine</p> <p>Mario Déraspe, President Léonard Poirier, Director General</p>	2009/03/30	12
<p>Association of Inshore Fishermen of the Magdalen Islands</p> <p>Christopher Clark</p>		
<p>Cap sur Mer</p> <p>Jacques Chevarie, Director General Marc Gallant, Chief Financial Officer</p>		
<p>Centre local de développement des Îles-de-la-Madeleine</p> <p>Gabrielle Landry, Project Manager, Consolidating fishery resources exploitation in the Magdalen Islands</p>		
<p>Municipalité des Îles-de-la-Madeleine</p> <p>Joël Arseneau, Mayor</p>		
<p>LFA 24 Lobster Advisory Board</p> <p>Francis Morrissey, Chairman</p>	2009/03/31	13

Organizations and Individuals	Date	Meeting
Mariner Seafoods Lorne Bonnell Mark Bonnell, President		
Prince Edward Island Fisherman's Association Ken Drake, President Ed Frenette, Executive Director		
Prince Edward Island Seafood Processors Association Maureen O'Reilly, Administrative Officer		
Western Gulf Fishermen's Association Craig Avery, President		
Ocean Choice PEI Inc. Linus Bungay, Operation Manager	2009/03/31	14
Prince County Fishermen's Association Danny Arsenault, Vice-President		
Southern Kings and Queens Fishermen's Association Jim Jenkins Bobby Jenkins Donald Johnston, President		
As an individual Robert Hines	2009/04/01	15
Clearwater Seafoods Limited Partnership Colin MacDonald, Chief Executive Officer		
Eastern Shore Fishermen's Protective Association Nellie Baker Stevens, Coordinator Norma Richardson, President		
LFA 34 Management Board Ashton Spinney, Chair		
Maritime Fishermen's Union, Local 9 Roger LeBlanc, Secretary-Treasurer Hubert Saulnier, President	2009/04/01	16
Millbrook First Nation Adrian Gloade, Fisheries Manager		
Nova Scotia Fish Packers Association Denny Morrow, Executive Director		

Organizations and Individuals	Date	Meeting
As an individual	2009/04/02	17
Norman Ferris		
Dale Mitchell		
Steven Thompson		
Neil Withers		
Fundy North Fishermen's Association		
Greg Thompson, President		
Fundy Regional Forum		
Richard Thompson, Chair		
Alma Fishermen's Association	2009/04/02	18
Joanne Butland		
Jim Wood		
Maritime Fishermen's Union		
Christian Brun, Executive Secretary		
Canadian Centre for Fisheries Innovation	2009/04/23	20
Carey Bonnell, Managing Director		
Atlantic Canada Opportunities Agency	2009/05/05	23
Richard Comerford, Director General, Regional Operations		
Bank of Nova Scotia	2009/06/11	32
Craig Thompson, Area Vice-President, Atlantic Commercial Banking		
BMO Bank of Montreal		
Steve Murphy, Senior Vice President, Atlantic Division		
Paul Seipp, Commercial Banking Area Manager, Nova Scotia		
Business Development Bank of Canada		
Edmée Métivier, Executive Vice President, Financing and Consulting		
Canadian Bankers Association		
Marion Wrobel, Director, Market and Regulatory Developments		
RBC Royal Bank		
Peter Conrod, Regional Vice-President, Commercial Financial Services, Atlantic Region		

APPENDIX B LIST OF BRIEFS

Organizations and Individuals

Alma Fishermen's Association

Association des pêcheurs propriétaires des Îles-de-la-Madeleine

Atlantic Canada Opportunities Agency

Canadian Centre for Fisheries Innovation

Central Northumberland Strait Fishermen's Association

Eastern Shore Fishermen's Protective Association

Fisheries Resource Conservation Council

Fundy North Fishermen's Association

Fundy Regional Forum

LFA 34 Management Board

Mariner Seafoods

Maritime Fishermen's Union

Nova Scotia Fish Packers Association

Southern Kings and Queens Fishermen's Association

Western Gulf Fishermen's Association

REQUEST FOR GOVERNMENT RESPONSE

Pursuant to Standing Order 109, the Committee requests that the government table a comprehensive response to this Report.

A copy of the relevant Minutes of Proceedings ([Meetings Nos. 9, 10, 12 to 18, 20 to 24 and 27 to 33](#)) is tabled.

Respectfully submitted,

Rodney Weston, MP

Chair

