

**P.E.I. Department of
Agriculture, Fisheries, and Aquaculture
P.O. Box 2000
Charlottetown, P.E.I.**

**An Economic Analysis of Lobster Fishing Enterprises
In Lobster Fishing Areas (LFA) 25 & 26A of the Northumberland Strait**

**Based On Interviews/Surveys Of Fishers Responding
To A Ministerial Invitation To Participate By Offering
Financial Data On Enterprise Viability**

**The following pages present, in point form executive summary fashion,
a critical situation overview and offer potential areas and methods of addressing
the existing challenge. It should be noted that the suggestions and recommendations
presented are preliminary and need to be further explored, researched, and developed
via consultations between government(s) and industry.**

**The information reported has come from respondents on a voluntary basis
and does not represent a true statistical analysis of the industry.**

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Executive Summary

From the detailed information provided by fishers during the preparation of this report it is clear that those fishers who provided the data requested face considerable financial challenges. Although the response rate to the invitation from the Minister was quite low (30 out of over 600) the trends that appear to be developing within the commercial lobster fishery in the Northumberland Strait are of concern. Despite catch levels remaining well within historical variations the economic structure of the modern day fishery is much different than in the past making it very difficult for fishers to respond quickly to difficult economic developments. Should these trends continue, or worsen, it can be reasonably predicted that there will be a significant increase in those fishers experiencing financial difficulty with adverse effects on families, associated fishing enterprises and the province as a whole. Interventions should be considered now which may provide support to those fishers within the group that came forward who are in a position to recover their financial position and to address the larger issues within the fishery including a reduction of fishing effort and enhancements which may reasonably be expected to, over time, increase lobster stocks. It is clear that Prince Edward Island is not in a position to act on these measures independently and will need to seek the cooperation of: fishers; the federal government who have overall responsibility for the lobster fishery; and the provinces of Nova Scotia and New Brunswick who share with Prince Edward Island lobster fishing grounds in the Northumberland Strait.

Recommendations

Report recommendations include those that may have application for the current situation facing the respondents to this study and those that have longer term implications and impacts. Some recommendations apply to both.

A. That the Government of the Province of Prince Edward Island establish a “Fishing Industry Debt Review Board ”

This mechanism would provide service to the fishing industry similar to that enjoyed to the agriculture sector via the Farm Debt Mediation Board. Those fishers presently in financial distress would have at their service a team of professionals who work as mediators with enterprise creditors to seek recovery plans allowing those presently challenged fishers with sustainable enterprises a chance of a return to viability. Several cases of receiverships and bankruptcies are predicted for 2006. Many of these can be avoided if fishers have access to professionals (at nominal or no cost) that could formulate debt restructuring plans acceptable to lenders and other creditors.

B. The Province and Fishing Industry should increase lobby efforts towards DFO and the federal government to achieve the goal of licenses attaining “property” status.

A major stumbling block presently exists regarding the dichotomy of opinion or desire on the definition of the fishing license and the privilege versus right versus property debate. All survey respondents agreed that in order to optimize the cost of financing for industry buy-in an operating expense - fishing licenses should be treated as property and have inherently attached to them the ability for licenses to be assigned as collateral. The present situation is untenable as it requires fishermen to raise large amounts on capital from sources outside the normal and regulated financing community. As noted earlier the cost of funding outlays for licenses comes at considerable premium to most fishers and, indeed, precludes many able and potential entrants from breaking into the industry at all.

C. That the Province, in concert with industry as represented by the Prince Edward Island Fishermen's Association, work to obtain funding from the Government of Canada to undertake a license buy-back that would retire 15% of the fishing licenses /entities in the Northumberland Strait.

These licenses should be retired evenly on a pro-rated basis along the entire Northumberland Strait (see note below following recommendation D). The cost to retire this volume of P.E.I. based licenses is estimated at approximately \$ 25 million. The rationale for this funding is clear and is based on the historic value of the lobster fishing industry to the individual, community, and provincial economy

in addition to contributions made by the historical and a future successful industry to the tax revenues of both the Provincial and Federal governments.

D. That the Province, in concert with industry as represented by the Prince Edward Island Fishermen's Association, work to obtain funding from the Government of Canada, to secure a long-term repayable industry loan in an amount sufficient to retire a further 10% of the P.E.I. based fishing licenses/entities in the Northumberland Strait.

This further buy-back of licenses would result in the removal of 25% of existing lobster licenses/fishing enterprises presently prosecuting the Northumberland Strait lobster fishery. Repayment of this loan shall be made by remaining industry stakeholders as a condition of yearly licensing based on a per pound payment over a ten to fifteen year term, on each and every pound of catch landed. Final terms of this loan to be negotiated between industry and governments.

Note to Recommendations C & D above.

To be effective it is important to remove licenses from all/each fishing grounds in the Northumberland Strait at the suggested level of 25% of total present capacity. Achieving this presents a conundrum under present regulations as legally a lobster fishing vessel can leave any port and fish any ground within the confines of the LFA within which the fisher is licensed. To initiate these recommendations will require a joint effort and agreement among all provinces, New Brunswick, Nova Scotia, as well as Prince Edward Island who share and compete in these fishing areas.

Indeed in LFA 25, generally little respect remains for individual fishing grounds and fishers prosecute the fishery targeting areas where the greatest opportunity to maximize catch on a daily basis exists. In LFA 26A a relatively high level of respect for individual fishing grounds exists including a peer pressure based model of who can fish where. In western LFA 26A mobility has traditionally been allowed to happen based on the principal of choosing your fishing grounds on the opening day of the season when traps are set and staying there for the season. In the more easterly portion of LFA 26A an even more protective model exists where movement is discouraged in all but the rarest of cases - you fish where the license traditionally fished -- in other words, you fish the gear in the same areas as the fishers you acquired the license from. Recently, port freezes or restrictions on transfer of licenses from one port to another have been established in LFA 25. Similar "freezes" were experimented with in the 1970's. The major value of a port freeze in discouraging fishing concentration (on a particular grounds) is that reality of escalating operating costs for fuel and time. While fishers have historically objected to micro-management techniques or "drawing more lines" it will be difficult to achieve and keep an even level of effort reduction on individual fishing grounds unless some mechanism is established to manage the fishery. While an official mechanism to affect

such a initiative may be preferred, Charter mobility rights, practicality and the need for expediency may require that such measures as limiting capacity/enterprise numbers on individual grounds may have to be both effected and enforced by the collective resolve of fishers. Those wishing to explore some history of “industry led management” may wish to reference the book entitled “*The Lobster Gangs of Maine*”. While the name may seem rash the result of the industry directed protection and balance measures have, and continue to, help enterprise viability within that U. S. state.

E. That the Government of the Province of Prince Edward Island, in cooperation with the federal government, provide low interest bridging loans to those fishing enterprises deserving and meeting the qualifications for potential return to economic viability.

The intent of these loans is to allow survival in the short term while the effects of more permanent and long term solutions are sought. Government should consider incorporating the flexible debt reduction formula (as outlined in Recommendation 5 below) into these loans. It is important to note that the Province of P.E.I. presently provides considerable benefits to the industry through various sales tax and other tax exemptions. Relief of tax burden of this sort is not provided to other business outside the primary producer spectrum. The cumulative cost of these exemptions to the province is several million dollars annually.

F. That the Province of Prince Edward Island review its lending policies to the fishing industry.

At present the P.E.I. Lending Agency is the vehicle through which fishers obtain loans from the provincial government. This crown corporation provides loans to a wide spectrum of Island business utilizing standard banking practices and procedures. As a function of this review, it is recommended that government consider the establishment of procedures within the Lending Agency that recognize the unique attributes of the fishing industry and that have, incorporated as a component of those procedures, advice from the Fishing Industry Debt Review Board. Furthermore, it is recommended that the province explore the option of expanding the mandate of the federal government agency known as FCC (Farm Credit Corporation) to that of extending loans to the harvest sector of the Atlantic fishing industry. The Farm Credit Corporation is presently a banker to the agriculture, forestry, and aquaculture sectors of the primary producer industries. Additionally, and because of, the widely fluctuating nature of catch and income realities within the fishery, the Province consider incorporating into present and any new lending mechanisms for fishers who have sustainable enterprise's in place, a policy that indexes debt retirement payments to catch levels. If such a program were in place today many of the fishers' accounts, presently in default with the P.E.I. Lending Agency, would be in a more on-side position. The flexible repayment policy suggested would to fix minimum annual payments at a percentage of an enterprise's gross fishing income. The final

formulae for this model would be arrived at after further study and consideration of the merits of such a policy. Consideration would be undertaken by government in consultation with financial professionals and industry participation. In consideration of such a policy, the program would also include the need for an accelerated rate of loan repayment in years of above average catch and income levels. Ideally, the same flexible repayment policy should be made available, via government program, to those fishing enterprises who obtain financing through conventional commercial lenders - banks and credit unions.

- G. That the Minister of Fisheries for Prince Edward Island establish a working group comprised of industry representatives, environmental stewards, coastal community representatives, and economic planners for the purpose of investigating habitat restoration programs, methodology and initiatives that could be undertaken to enhance the benthic habitat of the Northumberland Strait (with particular emphasis on the central portions of the Strait).**

Preliminary action has been initiated in this area. This work should be continued, expanded in scope, and accelerated in execution. An integral part of this research should focus on development and testing of new fishing methodologies which result in reduction of habitat damage while providing an economically feasible manner for fishery resource harvest.

- H. That the Government of the Province of Prince Edward Island, through the Fisheries Extension Services Division of the Department of Agriculture, Fisheries, and Aquaculture, in partnership with the Prince Edward Island Fishermen's Association, undertake to develop and make available to Island fishing families, a series of enterprise management seminars and workshops, for presentation in the community.**

These government and industry sponsored sessions should be developed and facilitated by professionals from the finance, marketing, management, and business communities. During the course of the study, it was noted that in many cases the spouse of the fisher was maintaining the business records and is an integral component of the enterprise model. It is important that these seminars be developed in a fashion that attracts and encourages course participation, in addition to, providing value and skills enhancement to all family members participating in the fishing enterprise. Interview information obtained from the study indicates that the highest priority areas of skill enhancement are in the financial management (for both operations and capital asset acquisition), and succession planning.