

**P.E.I. Department of
Agriculture, Fisheries, and Aquaculture
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**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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I. 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.

II. Background

Based on several advisories (during 2005 in particular) from the P.E.I. lobster fishing stakeholders, and their representative organizations, government had been apprised, by industry members and their representative industry association, of the following claim/situation:

As a result of decreased landings of lobster throughout all ports on the Northumberland Strait side of Prince Edward Island, lobster fishing enterprises are experiencing varying degrees of financial hardship and threat to their business viability.

The receipt of information on this was, and continues to be, of particular concern to the government of the Province of Prince Edward Island. Much of the information relayed to government officials was done so by individual fishers who provided their personal financial perspective. These reports did not paint a rosy picture. This information was further reinforced in late summer of 2005 by the Prince Edward Island Fishermen's Association. As a result of these approaches and submission, government recognized the potential that this threat might inflict upon fishing families, coastal communities, and the general Island economy. In an attempt to determine both the breadth and depth of the challenge facing the Northumberland Strait based fishing enterprises the Minister of Agriculture, Fisheries, and Aquaculture initiated a process to quantify the situation.

III. Methodology

On December 1, 2005, over the signature of the Minister, letters (*Schedule H*) were sent to every licensed P.E.I. fisher based in LFA 25 and 26A (approximately 625) offering fishers who wished to participate in this comprehensive industry study and report. In early January, 2006, the Department of Agriculture, Fisheries, and Aquaculture placed newspaper advertisements as a reminder to these fishers of the opportunity to participate.

A detailed survey document (*Schedule I*) was developed for data collection and analysis from interested respondents and mailed out to respondent along with a cover letter requesting specific verifiable financial information and providing assurance of confidentiality.

Throughout the January to early April period of 2006, a series of confidential, one on one, interviews were conducted with 60 fishers who responded to the Minister's letter and/or advertisement. These fishers were ones experiencing varying degrees of challenge in maintaining lobster fishing enterprise viability and operations.

Complete and comprehensive survey data was collected from only 30 of those respondents, a relatively low response rate given the anecdotal reports of strained financial situation of lobster fishers in LFA 25 and 26A. The financial reporting from those 30 respondents was compiled and formed the database for the financial reporting within this report. The other 30 fishers interviewed, mostly in person, but some via teleconference with spouses communicating on behalf of their fisher spouses, unavailable as they had gone west for the winter to supplement the family income, but wished to participate and have a voice in this study. While not part of the financial analysis, their comments and observations were noted and accounted for in the compilation of this report.

The reader is cautioned on two points relative to the sampling methodology and sample set size:

- The industry economic landscape presented within this report is based on a sample size that represents approximately 10% of industry fishing enterprises with the two LFA's (25 & 26A). Detailed and comprehensive financial information of an unaudited but verifiable nature was obtained from half of the respondents or 5% of the fishing enterprises within the affected Lobster Fishing Areas.
- While the report findings provide detailed industry insight and point to a declining economic viability trend which is (and should be) of concern to all; the reader is reminded that the letter of invitation to participate sent to industry by the Minister (*Schedule H*) asked for response and survey participation by those experiencing economic viability concerns. Because of the fact that the review did not survey a fully representative spectrum of industry enterprises (from fiscally challenged to strong economic business units), the measure of fiscal challenge facing those entities participating in the survey cannot be extrapolated or used to accurately determine what percentage of all industry entities are experiencing fiscal sustainability difficulties.

The following points attempt to present a condensed, summary format of the findings.

IV. Situational Overview

As previously noted, approximately 30 in-depth interviews were conducted with fishers from ports all along the Northumberland Strait. *Schedule A* provides summarized demographic and financial information on the survey participants. The data collected included a comprehensive set of information parameters including: catch level, asset inventory, debt schedule, capitalization model, effort, and operational costs (variable, fixed, short and long term). Information of a financial nature was collected from CRA (Revenue Canada) income tax returns. In addition to the 30 in-depth surveys a further 30 + fishers came forth to provide additional (but less comprehensive) data input. Information gleaned from these 60

owner/operators of fishing enterprises was combined to form the database from which this report was developed. An attempt has been made to present the findings in point form fashion so as to provide a concise understanding of the economic situation facing the Northumberland Strait lobster fishery as of the end of the 2005 fishing year.

Fishing Effort

As a preface to the findings, comments, and recommendations presented on the following pages; the Grant Thornton personnel tasked with undertaking this study feel that it is prudent to make reference to the increases in fishing effort that have occurred over the past fifteen or so years. The Canadian commercial lobster fishery is controlled and managed by **input controls** rather than **output controls**. Many other Canadian commercial fishery species/sectors are managed by **output controls** -generally either a Total Allowable Catch (Global Quota) or IQ's / ITQ's (Individual Enterprise Quota / Individual Transferable Quotas). Various regulatory “input” controls have been in place and enforced by Fisheries and Oceans Canada including several measures to “control” fishing effort on the lobster resource. These include fishing seasons, trap limits, and limited entry licensing. During the time period extending from the early 1980's until the late 1990's record levels of lobster harvest were experienced in the Northumberland Strait as well as other Gulf of St. Lawrence lobster fishing areas. The high landings and resultant high fisher income levels during this period fuelled increased investment in enterprise assets by industry participants. Higher profits resulted in more income available for discretionary spending. Acquisition of larger vessels capable of fishing in foul weather reduced fishing days lost to wind, larger engines allowing quicker travel to more distant fishing grounds, state of the art fish finding and vessel navigation electronics allowed established and new entrant fishers to instantly become more efficient at directing for lobster, and larger trap sizes increased capture capability. All of these factors were not within the spectrum of regulated input controls DFO utilized to manage the fishery. These changes did increase the effort on the resource and resulted in increased catch per fishermen. The incremental catch gains achieved by these enhanced capital assets came at considerable cost. Capital costs for vessels and engines over this fifteen year period increased by as much as fourfold. The larger, more powerful and sophisticated boats, engines, electronics, and gear also brought with them increases annual operating, service, and maintenance costs. In the years covered by the in-depth economic analysis of this report, it is evident that the competitive battle to keep up with, or ahead of, competition from fellow fishers has resulted in two quite obvious observations:

- **Enterprise Over-Capitalization** (referenced elsewhere in this report) **has become commonplace**. Level of investment in capital equipment is far in excess of that warranted by the level of return on investment realized in recent years.
- **Catch rate reductions (per unit of input effort) brought about by the increased fishing effort have been experienced**. Probably resulting in a higher resource exploitation rate fueled by the need to address debt payments associated with over-capitalization.

V. Situational Overview - Findings

After a period of unprecedented high lobster landings in the late 1980's, the 1990's and the first year or two of this millennium, lobster catches have returned close to historical annual levels experienced between 1900 and 1980.

- A. The timing of the beginning of catch decline varied in different areas of the Northumberland Strait. Likewise, the rate of decline also varied. A graphic overview of the catch rates can be found in *Schedule B (B1 by respondents to this survey, B2 and B3 by Sub-Area as described below, and B4 and B5 by LFA).***

These factors can be summarized as follows:

Sub-Area 1 - In the portion of the Northumberland Strait from East Point to Georgetown, lobster landings remained relatively strong from 1985 through 2000-2001. Since that time a rapid rate of decline has seen catches reduced by as much as half over those enjoyed in the 1985-2000 years. Even with the decline, this area enjoys the highest average lobster catch rate in the Northumberland Strait.

Sub-Area 2 - In the portion of the Northumberland Strait between Georgetown and Wood Islands catches have dropped a similar or greater amount (percentage-wise) than in the more eastern waters - but the rate of decline has been much slower and fishers have had additional time to adapt to the catch reduction reality. Catch decline began at least 5 year earlier than in Sub-Areas 1 and 3. In the opinion of many industry stakeholders the western portion of Sub-Area 2 appears to be suffering from eco-system health and habitat degradation concerns.

Sub-Area 3 - In the portion of the Northumberland Strait between Wood Islands in the east and Summerside in the west catches were at very high record levels of landings from 1985 to 2001. A very rapid decline has ensued since 2000 with catches, in some instances, being only one third that of the previous 20 year average. This central portion of the Northumberland Strait is comprised of a bottom topography consisting of very widely scattered fishing grounds. As a result of this factor this area has the highest input/operational costs associated with fuel, labour, and depreciation of physical assets. *Schedule C2* presents a comparative table of input costs for each of the noted Sub-Areas. This area is comprised of the western portion of LFA 26A and the eastern portion of LFA 25. As noted for Sub-Area 2. above; Sub-Area 3 is the subject of much discussion concerning habitat and eco-system health factors. In light of these concerns considerable effort, by way of tripartite federal, provincial, and industry initiatives; has commenced to further investigate the reasons underlying the significant and rapid rate of catch reduction being experienced in the central portion of the Northumberland Strait.

Sub-Area 4 - In the portion of the Northumberland Strait between Egmont Bay and North Cape (all within LFA 25) catches have dropped very significantly in the eastern end (i.e. Egmont Bay) and lesser, but still significantly, in the western sector. The rate of decline varies from port to port but can be ranked between the rapid decline in Sub-Areas 1 and 3 and the more gradual decline experienced in Sub-Area 2. This area of the Strait has some unique factors at play. As LFA 25 is a fall season fishery, and because it is in close proximity to the western portion of LFA 24 - a spring season fishery on the north shore of P.E.I.; we have seen considerable demand for western LFA 25 lobster licenses by LFA 24 fishermen (or their immediate family members). In industry vernacular this practice is referred to as “stacking” of licenses. As a result of the fact that LFA 24 is May-June harvest season and LFA 25 is an August-October season, fishers or fisher families acquiring a second “ fleet” in LFA 25 enjoy operational efficiencies such as prosecuting both seasons/fisheries with one vessel, one fleet of traps and gear, etc. This phenomena of two or more lobster licenses being held by one entity demonstrates a fundamental weakness in DFO management policy inasmuch as the vague nature of licensing policy (and the interpretation of the same) allows situations to occur which directly contradict the federal fisheries department's own owner/operator policy. This situation should not continue to continue unchecked or unaddressed. Corrective action is long past due

B. Lobster Fishing Enterprise Operational Costs:

As indicated earlier, study findings demonstrated reduced catch levels in all fishing areas within the Northumberland Strait. This results in reduced levels of gross income for all respondent fishing enterprises. Parallel to this factor is the reality that several operational input costs have escalated rapidly in the past 4-5 years. The most notable of these are costs associated with fuel, bait, and labour. While respondent fishers did not have final verifiable financial results available at the time of the survey, a common theme or response to the financial results expected for 2005 was status quo with 2004, except for significant increase in their fuel and bait costs, estimating between 25% and 50%. As a result many respondents indicated interest only payments were made on their debts and in many cases no payments made. While price returns from the marketplace for lobster have been rising, the rate of increase has not been sufficient to offset increasing direct input (operational costs) - even had catches remained higher. *Schedule D* provides historical prices levels for both canner and market size lobster. For the most part, these three major cost areas are beyond the control of fishers - being determined by market realities far distant from Prince Edward Island. Again, it should be pointed out that initiatives are beginning to be taken by industry and the province to address areas of enhanced information and intelligence needs. Such initiatives, while very noteworthy, need to be expanded and reinforced so as to provide industry with improved tools for planning, reduction of enterprise operational costs, and maximization of earnings from fishing.

An unfortunate study finding suggests that in many cases, for those fishers who responded to the Minister’s invitation to participate in the review, enterprise operational costs necessary to be incurred to prosecute the lobster fishery on a seasonal basis (defined as those direct input costs not including any capital cost allowance) are in

themselves difficult to meet from current levels of fishing income. That is to say that in many areas, and at present levels of capitalization, insufficient catch and income exists to begin to retire capital debt or provide for asset replacement and that income in many cases is not sufficient to even meet those direct costs associated with fuel, bait, and labour.

C. Capitalization Level

Euphoria caused by the record high levels of landings and lobster fishing income in the 1985-2000 period (and fueled by continuing low interest rates) has resulted in a markedly different level of capitalization when one compares both entry cost thresholds and asset package value over this time frame. *Schedules E and F* provide graphic and summarized data on these factors. A move to larger and larger vessels, more powerful engines, and an exotic array of electronic navigational and fish finding electronics has resulted in high capital costs with the resultant high debt servicing attached to such acquisitions. In addition to the debt servicing, the larger more powerful vessels consume more fuel and are more costly to service and maintain - significant factors in themselves from a cost necessary to be supported from catch/income. In short, the asset package utilized by many fishers (while offering enhanced safety and comfort) is difficult, if not impossible, to fiscally justify based on recent catch and income levels. While this is a reality to note, it should also be understood that this is not a simple factor that can be corrected quickly - certainly in the typical enterprise model. Another factor of capitalization that affects new entrants in particular is the cost of entry or buy-in to the lobster fishery (*see Schedule F*). Since the very early 1970's the lobster fishery has been managed as a limited entry fishery wherein one must "retire" an existing fisher or licence holder in order to gain entry. In the first few years of limited entry, and in that time of lower landings, buy-in cost was reasonable - as low as \$ 5,000. in some cases. This has continually risen over the years and some Northumberland Strait enterprises have sold for in excess of \$ 300,000 in the past few years. In large measure, high entry costs facing fishermen "buying in" to the fishery in the 1999-2003 period were a result of fall-out from the Marshall Decision and the artificially inflated market price for enterprises created by the federal government and resultant from the methodology and process by which they acquired licences to displace effort being granted to regional First Nation communities. Prices for enterprise packages including licenses and physical assets peaked in the 2000-2002 period. The 2005 year saw substantial softening of the lobster enterprise market and 2006 sales to date have been almost non-existent to date. Discussions with Island fishing asset brokers confirm that offers for "excellent packages" are peaking at \$ 130,000. or less, other than in the extreme western portion of the Strait. While market price can almost universally be said to be set by supply and demand it is interesting to observe what the product is that is actually being bought and sold (Lifestyle, EI income stream, etc).

D. Debt Levels:

Global consumer and business debt levels are at record highs. Low interest rates, even 0% interest rates are fuelling this debt accumulation. Worldwide, consumers are falling prey to considering only the "payment" rather than the total debt picture. Like any consumer, fishers are not immune to this temptation. Unlike many in society, fishers (like others who make

their livelihood from the land or the sea) are pursuing a model that presents them with unpredictable factors which prevent accurate forecasting of either income or input costs.

While many of the respondent fishers along the Northumberland Strait are financially troubled, one cannot place all burden of blame on an individual's management skills. Many of those interviewed operated soundly and generally conservatively, basing business decisions on historical facts. Expenditures are often based on historical income levels and catch trends/expectations. Most of those interviewed demonstrated a historical tendency to make a capital outlay using a model that would provide for debt retirement should catch levels drop by 20%-25%. This rationale was sound for generations. This tactic has failed in the face of the rapid, significant, and unanticipated catch and income declines since 2000.

Common among those interviewed was an inability to make payment against capital debt in recent years. Many could not make interest payments in this past year or two. Lines of credit are often fully extended, and survival becomes a daily burden. During the course of the survey and study investigation considerable anecdotal information was offered which suggested that while economic health is a concerning factor, stress related to present challenges is threatening and affecting mental and social well being within the fishing family unit.

Of particular concern is the factor that can be described as a return to “Packer Debt”. As conventional sources of financing dry up (banks, credit unions, etc), more and more fishers are turning to lobster processors for financing and loans. Because this source of funding comes from capital already borrowed by processors from conventional lenders and then is loaned again to fishers it comes at an increased cost - interest rate wise. Even more serious are those instances where fishers have borrowed from “finance companies” to make their boat payment or other loan obligation at the conventional lenders. The interest rates being charged by conventional lenders is presently in the 7% - 8% range, generally not locked in with regard to rate (at floating interest rates). Given that catch levels are precluding many from making payments on principal or interest at these rates, consider the situation of those who have loans at rates of 27% or higher.

Packer Debt is a burden and deterrent to the lives of both fisher and processor (or “packer”). Both parties are caught in the arrangement. On the packer or processor's part the credit is extended as a cost of doing business under the belief that it helps ensure raw material supply. In the absence of other financing alternatives, and often in a time of immediate need or financial stress, the fisherman turns to the value of the goodwill present in his relationship with a processor as a source of “bridge financing”. Historically, packer loans were in the form of “advances” on catch to be delivered and the assumed debt was repaid within the timeframe of the immediate fishing season. In recent years, and in the face of declining catch rates, many fishers have found themselves unable to retire the debt from the sale of fish product in a given year - with the result that the debt accumulates and compounds. Multiple years of reduced catches have exacerbated this problem. Many fishers are experiencing severe hardship caused by a combination of factors. Common, and the largest factor present, is the reduced catch levels of approximately 50%. Those facing difficulty are largely fishers who are new to the industry in the past 4-5 years or those that

have made a major capital acquisition (boat and/or engine) within the same time period. Either of these investments made just ahead of, or in the face of, decreasing catches has wreaked havoc to their operational plan

A concerning aspect of Packer Debt is the fact that a large percentage of Packer Debt is held by Off-Island processors and buyers. This debt is held by mainland processors directly or through their local/based in P.E.I. buyers or representatives. If one subscribed to the belief or adage that whoever controls the purse strings controls the business - then we should be concerned that what should be a P.E.I. industry controlled natural resource is becoming within the control of puppet masters “from away.”

E. License Transfer - Enterprise Mobility Effects:

Historically lobster licenses are issued for a particular LFA and not on a port by port basis. Full mobility rights allowed fishers to purchase a license from any area or port within their LFA and transfer it to another port/fishing ground. Strong anecdotal evidence demonstrates that the result of this transfer policy has resulted in licensed enterprises moving from areas of lower catch rates to areas of higher catch rates. Generally put, the effect has been evidenced by movement of licenses from the central portion of the Northumberland Strait to fishing grounds in both the eastern and western ends of the Strait. The result has been an overcrowding and increased effort on the eastern and western fishing grounds and a major decrease in the number of fisher enterprises prosecuting the fishery in the area west of Wood Islands to Summerside/Egmont Bay. It should be further noted that even with this outward migration of licenses from the central Northumberland Strait the catch in that area has declined rapidly over the time period covered by the study. Similar outward migration from this area has been occurring at various rates in all decades since the 1970's. Port freezes on license transfers between ports within a LFA have been explored and applied as policy in LFA 25 in 2005/2006. The value of this is yet to be determined. In LFA 25 we see situations where fishers travel great distances to fishing grounds. The policy of a port freeze and the potential benefit of reducing pressure on particular fishing grounds relies on the deterrent of increased operating costs (especially fuel) if a fisher attempts to fish from one port and travel to a distant fishing grounds closer to other ports in the LFA. Historically and typically, the enterprises/licenses migrated back and forth between ports based on catch and income opportunities of individual fishing grounds. The fact that remains constant has been a continuing out migration from the central portions of the Northumberland Strait to ports and fishing grounds closer to the eastern and western ends of the Strait. As an example of the magnitude of this trend DFO statistics now indicate that 78% of all LFA25 lobster licenses are located in ports west of West Point or fishing on fishing grounds west of West Point (the vast majority of these 78% are in fact from Mimminegash west. The result has been increased congestion in these areas of higher catch rates and the question on the ability of the lobster resource to sustain the resultant increased harvest effort levels. As mentioned earlier, stacking of licenses in western P.E.I. (LFA 25/LFA 24) complicates matters further and the seemingly complicit involvement of DFO in allowing “trust agreements” and other such devices which contravene enshrined owner/operator further contributes to the chaotic factors at play.

F. Social Benefits:

As a result of consultations with fishers as part of this survey a universal fact was confirmed. This fact is as follows: In the present Northumberland Strait lobster fishery there does not appear to be many, if any, enterprise models (meaning income minus expenses minus debt retirement) that result in a positive return on investment before inclusion of Employment Insurance (EI) benefits (*see Schedule C1*). Clearly, essentially all fisher families are dependent on EI benefits to make the model work. In fact many of those interviewed volunteered the fact that even some of the EI benefit income is factored into the debt retirement schedule associated with acquisition of a new capital asset or the industry buy-in model.

VI. Summary

To a large degree the probability and possibility of survival for the fishers responding to this report is slim or grim. To review and summarize the factors presented to this point, those central factors facing industry stakeholders in the Northumberland Strait:

- **The Negatives**

Negative factors include lower catches, increased operational costs, high service costs on high levels of capitalization, high entry / buy-in costs fuelled by EI changes, and the Marshall Decision.

The Marshall Decision of 1999 resulted in substantially increased cost for those desiring to enter the fishery. In order to acquire sufficient capacity (licenses) the Government of Canada bought out or retired existing fishers in order to fulfill First Nation needs within the Marshall Decision. Market economics resulted in an entry cost rise well in excess of 50% in most areas. (*see Schedule F*)

- **The Positives**

The positive factors are the subsidizing nature of Employment Insurance benefits and low interest rates. (EI has played both a positive and negative factor role in the enterprise model over time.)

Changes to federal Employment Insurance regulations over the past decade have resulted in fishers and their spouses (if employed in the enterprise) being eligible to receive EI benefits on a year round basis except when they are actually fishing. In short, this means that eligibility and EI receipt occurs both in summer months as well as during the winter shutdown of the fishery. Prior to these regulatory changes or change in regulation interpretation spouses were not eligible for EI benefits (as in most small family businesses), and EI was received only in the October 31 to May 1 time frame. While no change is

anticipated with Employment Insurance qualifications that would herald any cause for concern; many of those interviewed described a situation where low catches prevented them from qualifying for higher levels of EI benefits or preventing them from qualifying for access to full term EI benefits. Since the mid 1950's when EI benefits became available to fishers, the presence of this income support device has drawn more people to pursue careers as fishers. Changes over the past two decades have seen fishers spouses gain eligibility, and have seen fishers qualify for EI benefits on a year round basis (excluding time actively fishing). These factors occurred post limited entry licensing policy and have resulted in increased enterprise pricing for those seeking to enter the industry and have added some fuel to the problem of over capitalization generally present in the industry.

Interest rates are at near record low levels. While these levels are expected to remain below those of our neighbors to the south, rising U.S. rates will drag our rates upward. A rise of only a percent or two will be sufficient to destroy the model by which many lobster fishers are presently surviving financially.

VII Conclusions

- A. Based on study findings and anecdotal information it appears that the financial viability of respondent lobster fishing enterprises in the Northumberland Strait ports are in jeopardy. While catches are at, or even above, long term historical averages; these catches come as a result of expanded level of input effort which brings with it greatly increased capital and operating costs.
- B. While lobster science is still in a relative infancy stage, few sources would suggest improvements to catch will be realized in the near future. However, fishers can and should explore means to rework the fishery prosecution model to achieve cost reductions and higher values per pound/unit of harvest sold. Given the higher level of operational costs attributed to fuel, bait, and labour and disregarding factors associated with overcapitalization; it is not financially possible to operate a viable lobster fishing enterprise on average historical (individual) catch levels alone.
- C. Household income: *Schedule C1* is a most telling and compelling presentation of information. As recently as the 2001 fishing year net income from fishing accounted for **46.6%** of household income with the remainder split relatively evenly between EI benefits (27.6%) and other income (25.8%). Other income is comprised of fisher and spousal income from non-fishing sources. In the 2004 fishing year fishing income as a percentage of household income dropped to **11.9%**. EI income contribution rose to 44.1% (although in real dollar terms it fell by \$ 1,000.) Other income in dollar amount also remained constant but now comprised 44.1% of the income coming into the household. Again to summarize, over the 2001 to 2004 time frame in LFA 25 & LFA 26A income from fishing as a percentage of household income dropped from 46.6% to 11.9% for those fishers responding to the survey.

- D. Within the context of the sample size limitations and predictive abilities possible from such a sample size (both noted previously in this report) it is fair to report that a trend of eroding enterprise viability is present that is of significant concern to require and deserve intervention action. Additionally, the probability is high that, if left unchecked by the absence of intervention action, a compounding of the present challenge will likely occur.
- E. While the average total catch of lobster in the Northumberland Strait has been stable or flat until the early 1980's, and where it appears we are returning to these catch levels (after a welcome but difficult to explain catch spike from 1985-2000) it is reasonable to suggest that reduction in effort is required to offset those factors outside human control. Effort reduction is defined as a reduction in the total number of fishers sharing in the overall catch of the lobster resource coming from the Northumberland Strait. While substantial efforts may be made utilizing various means to enhance resource abundance, effort and technology in these areas cannot take place rapidly enough or affect a level of increased abundance within a time frame to stave off enterprise collapse for many harvesters. A new model must result in fewer fishers sharing the resource coupled with a very close series of controls to prevent future over capitalization and harvest effort increase. While effort reduction is seen to be the only certain manipulative factor that will effect positive change, one should exercise caution when exploring the means to bring about effort reduction. On the following pages we present a series of recommendations or suggestions as to measures that will aid a return to industry economic health. These measures are not meant to be exhaustive or be followed to the letter. They are presented as options for consideration by those vested with the obligation to form a new industry model foundation. The end goal is clear but the means to achieve and affect the desired remedy will only come into focus after a wider and more pro-active future course charting exercise is undertaken by industry and government in concert with one another. It is imperative that realignment measures be started in the near term.

VIII. 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.

IX. Wrap Up

What is real and without question based on the information provided by respondents to this survey is that our present business model is destined to failure. Northumberland Strait fishers interviewed fell within two groups. The first includes those in some varying degree of financial difficulty. The other includes those that are still solvent thanks to retained earnings from long time participation in the fishery, or other fortunate circumstances, but see themselves being caught up in the downward spiral in the not too distant future. Those offering optimistic promise for a return to fiscal health while maintaining the present model and level of enterprise participation were very much a minority view.

The status quo option refers to those who believe that a “do nothing” approach is best. Do nothing means to let business and market economics “rationalize” the industry and the problems of fishers. A status quo or “do nothing” approach suggests that intervention, adjustment, realignment, or tweaking of the present Northumberland Strait lobster fishing enterprise model is unwarranted or unwise.

However, left to its own fortunes, the Northumberland Strait lobster fishery will see a growing number of receiverships and bankruptcies in the coming months and years. These unfortunate situations, when realized, will result in severe downgrading in the value of all enterprises. The major flaw of following a status quo or do nothing option (outside of the horrific business and personal pain) is the fact that no licenses will be lost or reduced from the system. This is unlike rationalization that takes place as a result of business failure in other sectors of the economy. The negative macro-economic impact on the economy of P.E.I. resulting from following a status quo option would be substantial.

A long term “made in P.E.I.” solution to the present lobster industry difficulties is unlikely. Intervention policy that will effect real change or paradigm shift can only be afforded (literally) by the Federal government. In moving towards effort reduction in the Northumberland Strait we must remember that corrective measures must also apply to the industry on the Nova Scotia and New Brunswick side of the Northumberland Strait. Federal assistance, of any magnitude, must be prescribed to the industry in all three provincial jurisdictions. In respect of this factor, both industry and governments should accelerate and broaden their working arrangements with their colleagues in our two neighboring provinces, who’s fishers share with ours, the fishery in LFA 25 and LFA26A. The collective voice may have sufficient amplitude to result in action.

While effort reduction, via license retirement, is the only option that will bring long term stability to the industry; this rationalization process will require two to three years to complete - in the most optimistic of funding conditions. The 2006 year will be one that brings with it a number of lobster fishing enterprise business failures - receiverships and bankruptcies. A number of these (estimated 10-15 cases) will be unavoidable. Some of these are already in process. In these cases the debt load is so great that no salvation plan can be imagined that would allow these to return to financial health. The vast majority of those enterprises in a position of fiscal challenge are still within a state of health that could see recovery should an application of a series of sound recovery plan actions be undertaken. The first task in these cases is to stop the bleeding. Cessation of enterprise bleeding and stabilization of the business unit are the immediate objectives necessary to be achieved.

**P.E.I. LOBSTER FISHING ENTERPRISE SURVEY
LFA 25 & 26A**

Respondent Fisher Demographics*

Fishing Grounds	LFA 25 / 26A	Sub-Area 1	Sub-Area 2	Sub-Area 3	Sub-Area 4
	30	14	6	8	2
Fisher Age	<30	30-39	40-49	50-59	+60
	2	8	9	11	0
Years Fished	<5	6-14	15-24	25-34	+35
	2	6	12	7	3
Education	Elementary	Elementary + vocational training	High School	College / some post secondary	University degree
	6	9	6	5	1

Respondent Fisher Financial Overview*

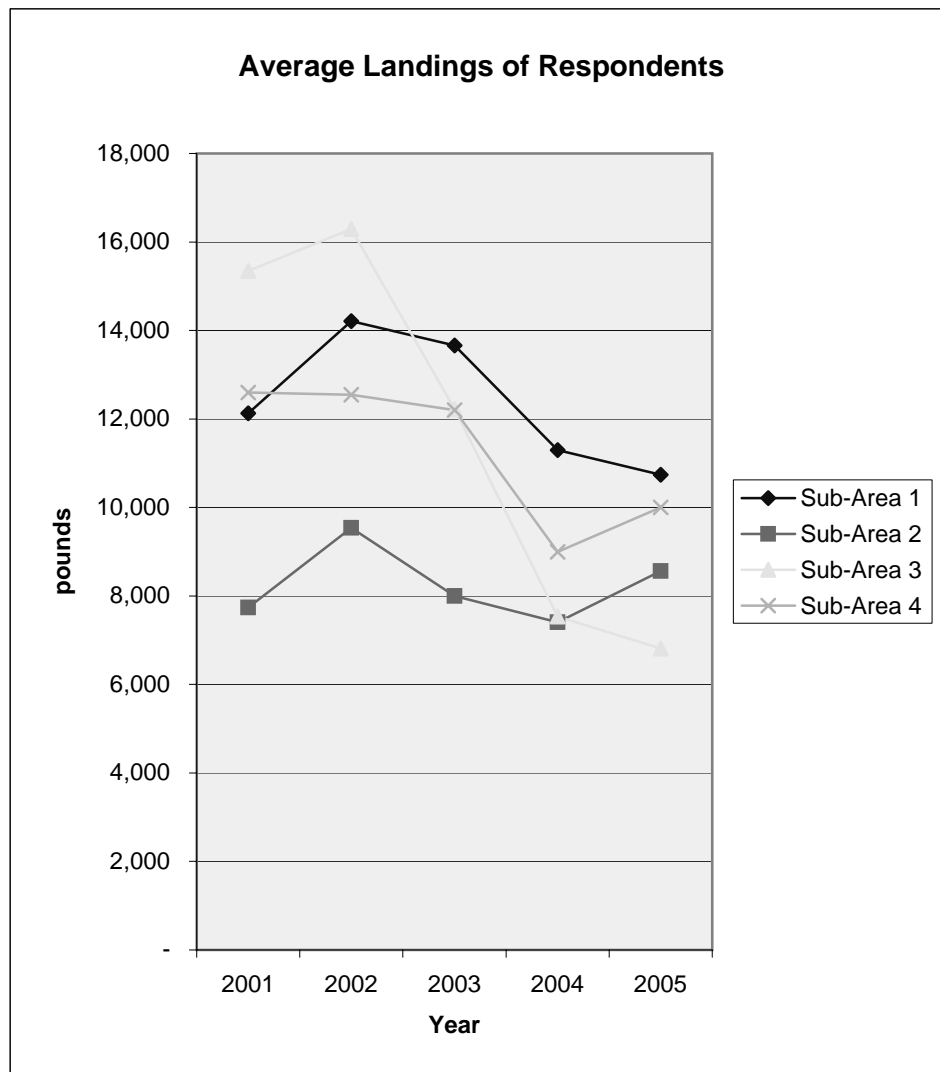
Gross Fishing Revenues (\$'000)	<40	41-55	56-70	70-85	+85
2004	6	9	9	0	2
2003	3	4	4	9	4
2002	0	4	4	3	9
2001	0	4	2	6	5
Net Fishing Income (\$'000)	<0	0-10	10-20	20-30	+30
2004	11	7	4	2	2
2003	5	7	5	2	5
2002	2	2	6	6	4
2001	0	4	1	7	5
Capitalization (debt) (\$'000)	0	0-100	100-200	200-300	+300
	1	9	9	9	2

*As provided by survey respondents

**P.E.I. LOBSTER FISHING ENTERPRISE SURVEY
LFA 25 & 26A**

Lobster Landings

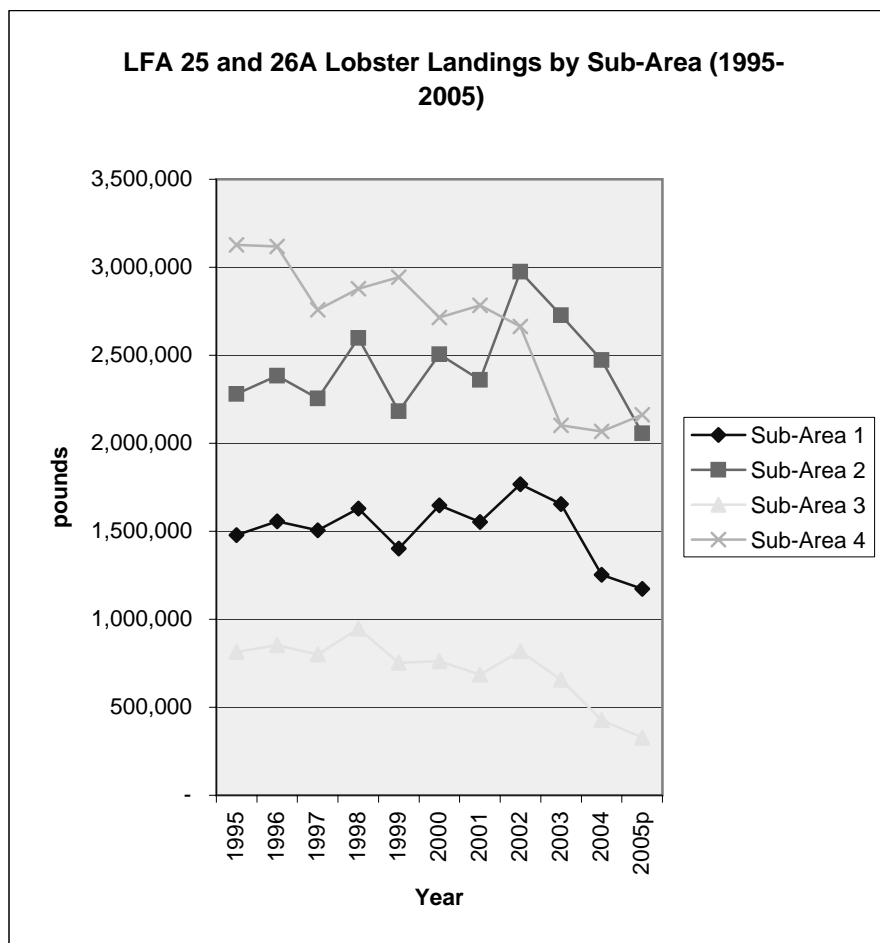
Average Landings of Respondents in Pounds				
Year	Sub-Area 1	Sub-Area 2	Sub-Area 3	Sub-Area 4
2001	12,128	7,738	15,346	12,600
2002	14,211	9,540	16,291	12,550
2003	13,658	8,000	12,223	12,200
2004	11,294	7,404	7,538	9,000
2005	10,742	8,563	6,809	10,000



**P.E.I. LOBSTER FISHING ENTERPRISE SURVEY
LFA 25 & 26A**

Lobster Landings by Sub-Area*

Total Landings by Sub-Area Ports				
Year	Sub-Area 1	Sub-Area 2	Sub-Area 3	Sub-Area 4
1995	1,478,749	2,280,863	814,098	3,128,079
1996	1,556,930	2,384,255	852,086	3,118,392
1997	1,504,676	2,255,446	799,147	2,758,732
1998	1,629,886	2,597,720	948,117	2,878,316
1999	1,402,225	2,181,973	752,432	2,944,495
2000	1,646,409	2,505,685	761,358	2,714,803
2001	1,553,187	2,360,151	685,037	2,783,677
2002	1,768,022	2,974,649	817,285	2,663,104
2003	1,655,118	2,727,220	656,974	2,100,938
2004	1,252,745	2,472,406	427,398	2,067,549
2005p	1,172,856	2,057,001	326,873	2,161,667



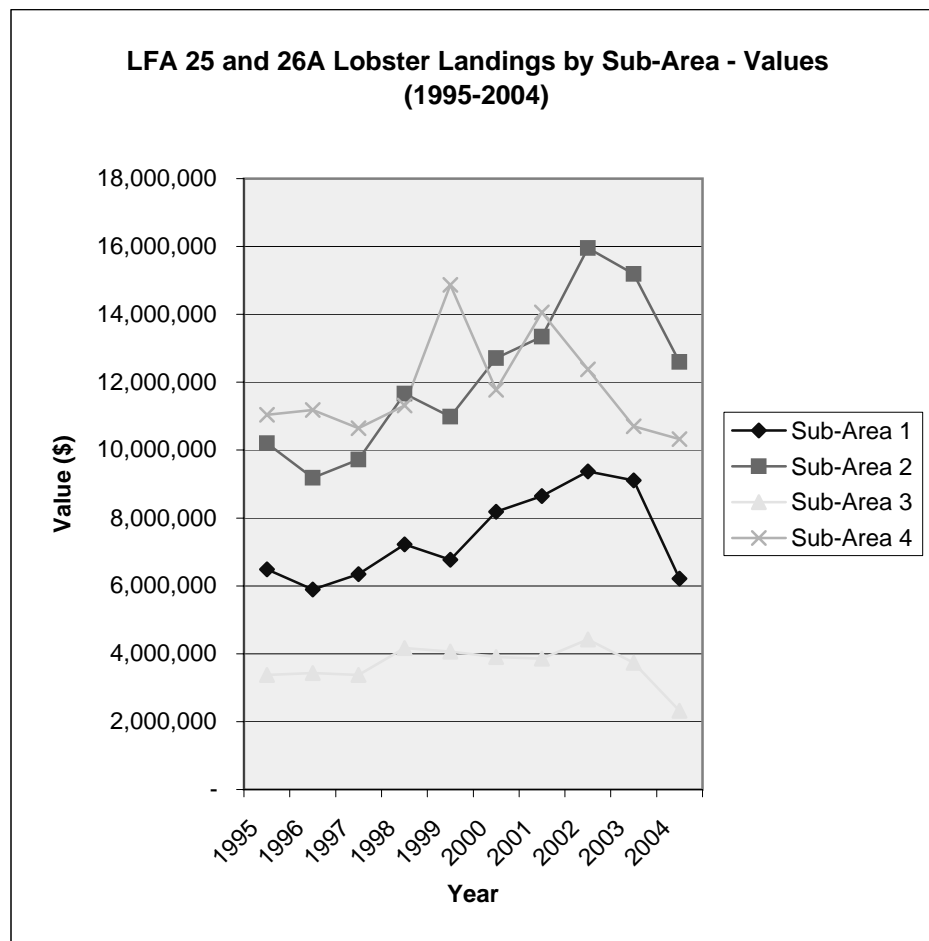
*Source: Statistics Division, Gulf Region, Dept. of Fisheries & Oceans

p - preliminary numbers compiled from buyers statements

**P.E.I. LOBSTER FISHING ENTERPRISE SURVEY
LFA 25 & 26A**

Lobster Landings by Sub-Area - Values*

Total Landings by Sub-Area Ports - Value (\$)				
Year	Sub-Area 1	Sub-Area 2	Sub-Area 3	Sub-Area 4
1995	6,491,137	10,206,364	3,371,057	11,037,985
1996	5,893,188	9,179,168	3,436,618	11,181,470
1997	6,346,929	9,716,665	3,377,310	10,648,177
1998	7,221,375	11,665,409	4,169,797	11,313,419
1999	6,768,224	10,988,454	4,063,202	14,865,196
2000	8,182,784	12,709,406	3,901,972	11,775,668
2001	8,648,288	13,339,217	3,861,107	14,054,851
2002	9,374,319	15,954,274	4,418,612	12,382,834
2003	9,112,651	15,190,689	3,731,615	10,700,923
2004	6,212,912	12,595,410	2,320,703	10,320,988

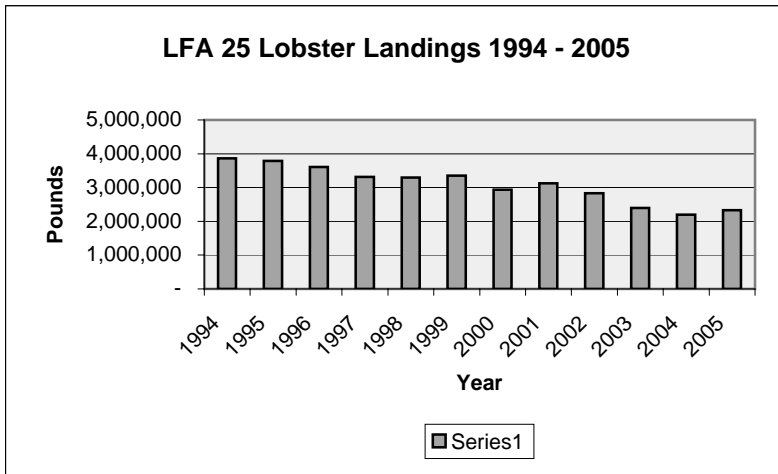


*Source: Statistics Division, Gulf Region, Dept. of Fisheries & Oceans
Values are measured in actual Canadian dollars for the year of landing

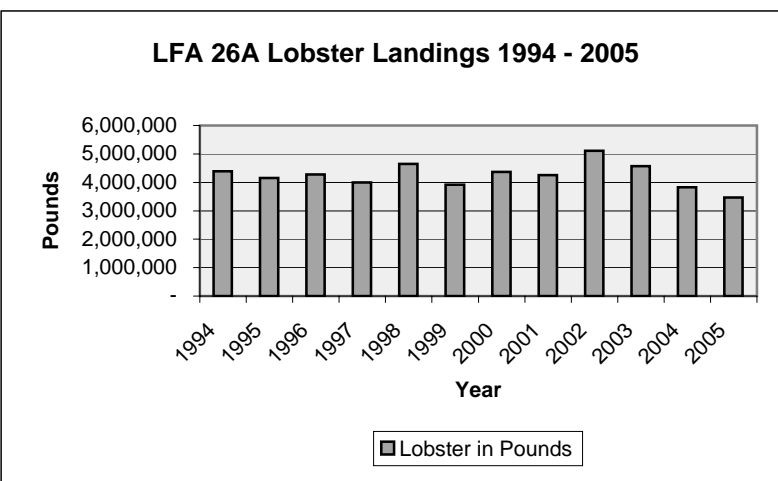
**P.E.I. LOBSTER FISHING ENTERPRISE SURVEY
LFA 25 & 26A**

Lobster Landings*

LFA 25 Lobster Landings	
Year	Total Lbs
1994	3,861,248
1995	3,788,091
1996	3,603,456
1997	3,316,395
1998	3,299,814
1999	3,349,905
2000	2,934,043
2001	3,120,713
2002	2,829,960
2003	2,391,322
2004	2,199,227
2005	2,329,257



LFA 26A Lobster Landings	
Year	Total Lbs
1994	4,387,535
1995	4,149,294
1996	4,272,282
1997	4,001,557
1998	4,644,197
1999	3,920,935
2000	4,365,698
2001	4,258,128
2002	5,113,679
2003	4,565,926
2004	3,827,160
2005	3,468,268

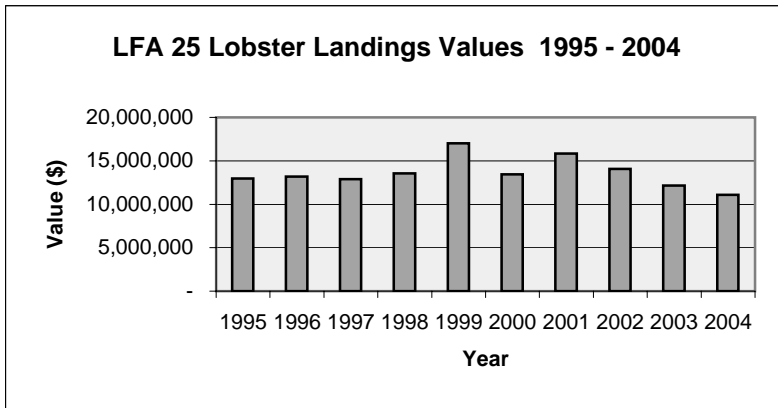


*Source: Statistics Division, Gulf Region, Dept. of Fisheries & Oceans
P.E.I. Dept. of Agriculture, Fisheries, and Aquaculture

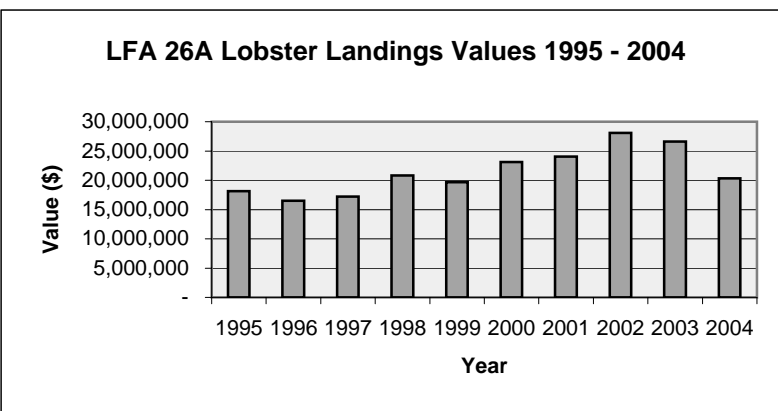
**P.E.I. LOBSTER FISHING ENTERPRISE SURVEY
LFA 25 & 26A**

Lobster Landings - Values*

LFA 25 Lobster Landings	
Year	Value (\$)
1995	12,981,260
1996	13,203,758
1997	12,888,062
1998	13,551,581
1999	17,025,690
2000	13,461,038
2001	15,838,901
2002	14,060,283
2003	12,150,430
2004	11,094,901



LFA 26A Lobster Landings	
Year	Value (\$)
1995	18,125,282
1996	16,486,687
1997	17,210,020
1998	20,818,418
1999	19,659,386
2000	23,108,793
2001	24,064,560
2002	28,069,757
2003	26,585,449
2004	20,355,111

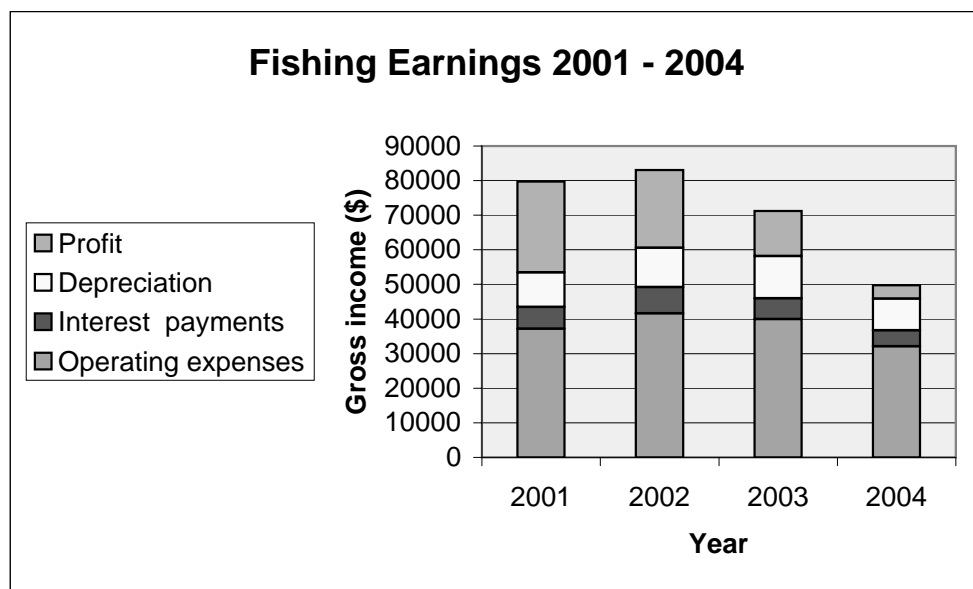


*Source: Statistics Division, Gulf Region, Dept. of Fisheries & Oceans
Values are measured in actual Canadian dollars for the year of landing

**P.E.I. LOBSTER FISHING ENTERPRISE SURVEY
LFA 25 & 26A**

Earnings Analysis of Respondents

	2001		2002		2003		2004	
Fishing Operations*								
Gross income	\$ 79,700	100.0%	\$ 80,900	100.0%	\$ 73,600	100.0%	\$ 53,200	100.0%
Operating expenses								
Bait, ice, salt	3,900	4.9%	4,000	4.9%	4,000	5.4%	3,100	5.8%
Crew share, labour	15,100	18.9%	16,700	20.6%	15,900	21.6%	12,400	23.3%
Fuel, maintenance	11,500	14.4%	10,600	13.1%	11,000	14.9%	10,600	19.9%
Gear, traps, nets	2,100	2.6%	2,700	3.3%	3,100	4.2%	1,400	2.6%
Other operating	4,600	5.8%	7,600	9.4%	6,000	8.2%	4,600	8.6%
	<u>37,200</u>	46.7%	<u>41,600</u>	51.4%	<u>40,000</u>	54.3%	<u>32,100</u>	60.3%
	42,500	53.3%	39,300	48.6%	33,600	45.7%	21,100	39.7%
Financial expenses	<u>6,300</u>	7.9%	<u>5,400</u>	6.7%	<u>8,400</u>	11.4%	<u>8,000</u>	15.0%
	36,200	45.4%	33,900	41.9%	25,200	34.2%	13,100	24.6%
Depreciation and amortization	<u>10,000</u>	12.5%	<u>11,400</u>	14.1%	<u>12,200</u>	16.6%	<u>9,200</u>	17.3%
Net fishing income	\$ 26,200	32.9%	\$ 22,500	27.8%	\$ 13,000	17.7%	\$ 3,900	7.3%

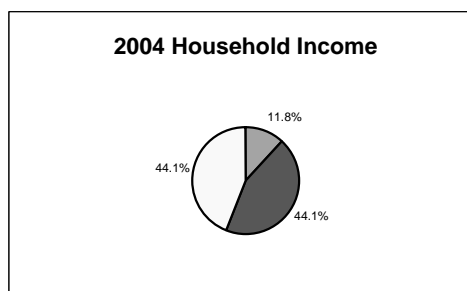
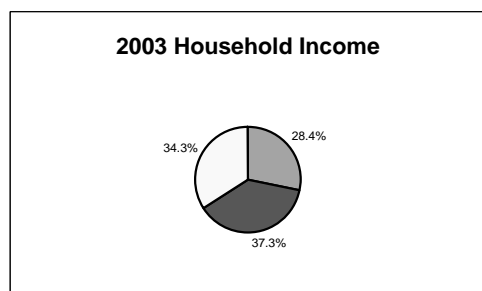
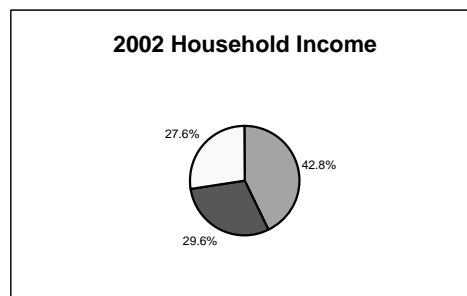
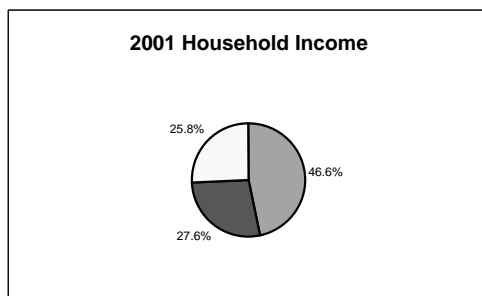


*Average results of survey respondents as reported on income tax returns (returns are prepared on a cash basis, eg. financial expenses represent interest paid and not necessarily accrued during the year)

**P.E.I. LOBSTER FISHING ENTERPRISE SURVEY
LFA 25 & 26A**

Earnings Analysis of Respondents (continued)

	2001	2002	2003	2004
Household Earnings*				
Fishing	\$ 26,200 46.6%	\$ 22,500 42.8%	\$ 13,000 28.4%	\$ 3,900 11.8%
EI benefits	15,500 27.6%	15,600 29.6%	17,100 37.3%	14,500 44.1%
Other	<u>14,500</u> 25.8%	<u>14,500</u> 27.6%	<u>15,700</u> 34.3%	<u>14,500</u> 44.1%
Total family income	\$ 56,200 100.0%	\$ 52,600 100.0%	\$ 45,800 100.0%	\$ 32,900 100.0%



■ Fishing income ■ EI benefits ■ Other income

*Average results of survey respondents as reported on income tax returns (returns are prepared on a cash basis)

**P.E.I. LOBSTER FISHING ENTERPRISE SURVEY
LFA 25 & 26A**

Sub-Area Earnings Analysis - 2004

	Sub-Area 1	Sub-Area 2	Sub-Area 3	Sub-Area 4
Fishing Operations*				
Gross income	\$ 57,500 100.0%	\$ 42,200 100.0%	\$ 53,300 100.0%	\$ 48,700 100.0%
Operating expenses				
Bait, ice, salt	2,900 5.0%	3,600 8.5%	3,400 6.4%	2,700 5.5%
Crew share, labour	10,500 18.3%	11,700 27.7%	15,600 29.3%	9,600 19.7%
Fuel, maintenance	10,300 17.9%	9,000 21.3%	12,100 22.7%	12,000 24.6%
Gear, traps, nets	1,100 1.9%	1,000 2.4%	2,300 4.3%	800 1.6%
Other operating	5,100 8.9%	2,600 6.2%	3,900 7.3%	8,500 17.5%
	<u>29,900 52.0%</u>	<u>27,900 66.1%</u>	<u>37,300 70.0%</u>	<u>33,600 69.0%</u>
	27,600 48.0%	14,300 33.9%	16,000 30.0%	15,100 31.0%
Financial expenses	<u>8,500 14.8%</u>	<u>7,300 17.3%</u>	<u>7,500 14.1%</u>	<u>7,600 15.6%</u>
	19,100 33.2%	7,000 16.6%	8,500 15.9%	7,500 15.4%
Depreciation and amortization	<u>10,200 17.7%</u>	<u>4,800 11.4%</u>	<u>10,100 18.9%</u>	<u>8,700 17.9%</u>
Net fishing income (loss)	\$ 8,900 15.5%	\$ 2,200 5.2%	\$ (1,600) -3.0%	\$ (1,200) -2.5%

*Average results of survey respondents as reported on income tax returns (returns are prepared on a cash basis, eg. Financial expenses represent interest paid and not necessarily accrued during the year)

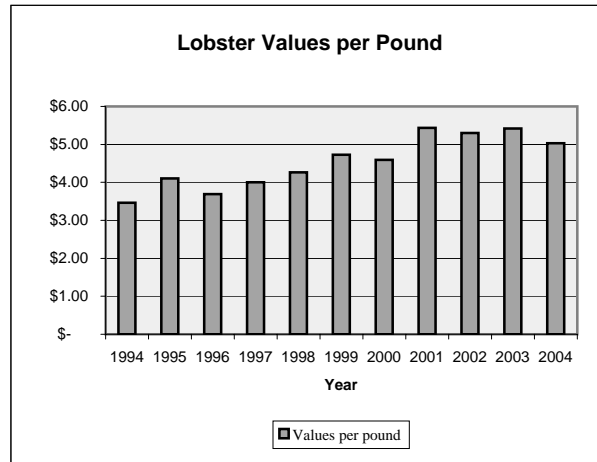
**P.E.I. LOBSTER FISHING ENTERPRISE SURVEY
LFA 25 & 26A**

Lobster Landings and Values*

Q = Quantity in millions of pounds

V = Values in thousands of dollars

Year	Q	V	per lb.
1994	18.9	\$ 65,398	\$ 3.46
1995	19.3	\$ 79,242	\$ 4.11
1996	18.0	\$ 66,424	\$ 3.69
1997	17.8	\$ 71,243	\$ 4.00
1998	18.9	\$ 80,553	\$ 4.26
1999	18.8	\$ 88,925	\$ 4.73
2000	19.1	\$ 87,769	\$ 4.60
2001	19.1	\$ 103,894	\$ 5.44
2002	19.9	\$ 105,399	\$ 5.30
2003	20.0	\$ 108,308	\$ 5.42
2004	19.9	\$ 100,099	\$ 5.03



*per Prince Edward Island Department of
Agriculture, Fisheries and Aquaculture
2004 - 2005 Annual Report

**P.E.I. LOBSTER FISHING ENTERPRISE SURVEY
LFA 25 & 26A**

Capitalization

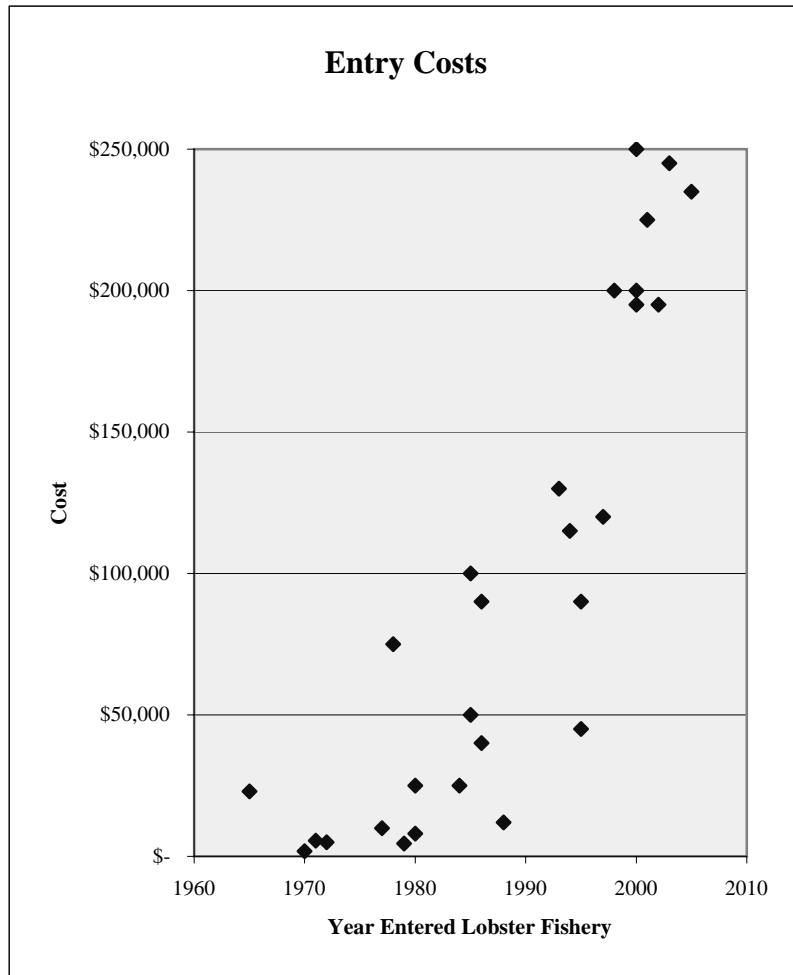
	All Fishers	Sub-Area 1	Sub-Area 2	Sub-Area 3	Sub-Area 4
Debt*					
Short term					
Trade	\$ 3,700	\$ 1,700	\$ 7,000	\$ 5,600	\$ -
Operating loan / line	8,500	11,000	13,900	2,200	-
	<u>12,200</u>	<u>12,700</u>	<u>20,900</u>	<u>7,800</u>	<u>-</u>
Long term					
Bank / Credit Union	88,900	74,300	142,900	74,900	85,500
Government	19,300	20,100	-	37,300	-
Packer / Buyer	14,700	14,900	25,200	8,600	6,000
Personal	16,400	27,800	8,300	-	-
Family	14,700	6,800	-	39,700	40,000
	<u>154,000</u>	<u>143,900</u>	<u>176,400</u>	<u>160,500</u>	<u>131,500</u>
Total debt	\$ 166,200	\$ 156,600	\$ 197,300	\$ 168,300	\$ 131,500

*Average of data/estimates as provided by survey respondents

**P.E.I. LOBSTER FISHING ENTERPRISE SURVEY
LFA 25 & 26A**

Entry Costs

Fisher ID	Year Entered	Entry Cost*
F1	1985	\$ 50,000
F2	1979	\$ 4,500
F3	1984	\$ 25,000
F4	2003	\$ 245,000
F5	1985	\$ 100,000
F6	1986	\$ 90,000
F7	1998	\$ 200,000
F8	2000	\$ 200,000
F9	2005	\$ 235,000
F10	1980	\$ 25,000
F11	1988	\$ 12,000
F12	1978	\$ 75,000
F13	1995	\$ 45,000
F14	1992	
F15	2000	\$ 195,000
F16	2001	\$ 225,000
F17	1965	\$ 23,000
F18	1972	\$ 5,000
F19	1995	\$ 90,000
F20	2000	\$ 250,000
F21	2001	
F22	1977	\$ 10,000
F23	1993	\$ 130,000
F24	1971	\$ 5,500
F25	1997	\$ 120,000
F26	1980	\$ 8,000
F27	1986	\$ 40,000
F28	1994	\$ 115,000
F29	2002	\$ 195,000
F30	1970	\$ 1,800



*per Fisher

The Lobster Fishery of the Future – How the Building Process Might Begin:

In addition to the recommendations presented within the main body of the report to which this schedule is attached, it is noted that continued effort is necessary to ensure improvement in the area of industry communications and information distribution. In an attempt to suggest “topics” for use in fostering a process for review of both industry regulatory and business management issues the following pages present “example scenarios” of new policy direction – presented solely as suggestion of the type of “outside the box” thinking that is necessary to be initiated, if we are to escape the present endless belt treadmill process that has plagued the consultation process between government and industry to date.

During the course of the industry interviews it was noted that fishermen regarded present federal lobster resource management regulations, policies, and tools as if they were etched in stone and not subject to modification or enhancement. This observation leads one to believe that insufficient time has been spent by industry on exploring “outside the box” measures, or changes to regulatory framework, that might provide industry with an enhanced set of working tools by which to achieve even more effective and profitable industry management.

While a basic premise of economics dictates that the greatest economic benefit is achieved when wealth passes through the most hands, present lobster industry economics mandate that we might be better served if we waiver from this tenet, albeit carefully. In realizing the goal of effort reduction by removing licences and traps from Northumberland Strait waters it is recommended and suggested that industry and governments explore additional options for effort reduction that fall beyond the standard mind-set option of licence buy-back. This may require that the thought process expand from fixation on the present set of industry regulating input controls. There appear to be potential regulatory and policy measures that could be investigated and, possibly, implemented to provide either alternate or additional mechanisms for effort reduction or realization of enterprise cost efficiency while maintaining both the Department of Fisheries and Oceans obligation for resource protection and fulfilling industry’s desire for assurance of sustainability of both the resource and a way of life. As a starting point for **discussion and/or argument** the following concepts are presented. These are in no way recommended or presented as a result of any endorsement by any industry participant. The purpose of including them as an appendix to the report is to provide “examples” of mechanisms that might result from industry discussions – should we be able to nurture an enhanced level of such discourse.:

The lobster industry has historically been regulated by input controls including: seasons, size limits, trap limits, limited # of licences, etc. The following three “scenarios” are presented as examples of “outside the box thinking”.

- The first one is a recycling of an older existing DFO policy. DFO has, for some time, had in its mix of regulatory devices a tool called the **Partnership Policy**. The Partnership Policy allows for two licenced lobster enterprise operators to join forces and fish from one vessel with 150% of the allowable traps for one licenced enterprise. Present day fishing models usually include crew members from family. In such cases the Partnership model has little attraction as it provides little incentive or ability to provide EI benefit qualification to more than the two principals of the partnership. If, however, it is believed that every trap taken out of the water is of benefit to all including the resource; perhaps the policy should be modified to allow 500 or even 550 traps to be fished in a partnership licence arrangement (trap limit in LFA 26A is presently 300 while LFA 25 trap limit is 250). As an enhanced option for older fishers or perhaps immediate family members who are both licenced holders - we might see more interest and take-up on this option - - resulting with less traps in the Strait. The benefit to the fishers is less capital costs (one boat, one engine, etc) resulting in a higher level of net income although the total traps fished is reduced.
- Present regulations include a maximum number of traps per licenced operator. Universal agreement is present that a cap is necessary on the total number of traps within a LFA. Under the present management regime value (for transfer or succession purposes) is placed upon the licence - the “paper”. The Australian model is interesting to review. In this model the value is placed on the trap and “traps”are regularly bought or sold, traded or leased, for short terms or permanently. While a full fledged conversion to this model is neither suggested nor would be entertained by industry, a modified version or partial version may warrant consideration, hence the following points:

DFO’s true role is to manage the resource for biological sustainability. Their stated or implied role has never been one of managing the business end of the industry - the people and greed stuff. Many of their regulations are present as a result of industry lobby through the years based on a set of circumstances or challenges of the day - generally of a “people management” nature.

A modified Australian model might include provisions that would allow the following scenarios to play out. Remember, effort control must be maintained and the maximum number of traps would always be equal to the maximum allowable individual licence holder’s trap limit multiplied by the total number of licences. Under a modified plan DFO might implement a policy (based on industry lobby) that would allow an individual fisherman to fish up to 360 traps (In an LFA 26A example - **a maximum 20% more than the average per licence holder**). The fishermen could acquire these additional traps by one of several means:

i) As a short term lease from another fisherman who is paid say \$ 50,000 for a 5 year lease of his 60 traps. This might allow the fishermen leasing the traps to pay off some high interest debt and he would still be better off fishing 240 traps for the next five years without the cost of debt principal and interest. In this example no net reduction of traps occurs but fishermen have a new business tool with which to manage their enterprise.

ii) Carrying this concept further might see the following scenario deemed to have merit. If DFO policy allows a fisherman to acquire additional traps up to 20% more than the present limit and if DFO implements supportive and enabling policy or regulations at industry's request, we might see innovative ways to effect further effort reduction. An example of this way of thinking might be a policy that allows three existing fishermen to join together to "buy-out" a retiring colleague. It might work like this in the LFA 26A trap limit model: Three fishermen buy-out a fourth fisherman. Each of the three purchasers gets to keep and fish 60 traps. The net effect after the purchase would see three fishermen with 360 traps each or 60 additional and the remaining 120 traps ($300-180=120$) would be taken out of the fishery permanently. Utilization of this tool by existing fishers to reduce effort / traps in the water might result, within 10 to 15 years, in a situation where virtually all fishermen have moved to the 360 trap level. It is natural to think that at this time, or before, moves would be set in motion by these same fishermen to agree to drop the trap limit back again to 300 - using the same rationale that was used during the major time of trap limit reductions in the late 1960's - less bait, less fuel, less expense - while maintaining the same catch level.

It is respected that the inclusion of the suggestion of a "modified Australian" model (albeit only to encourage exploration of novel business management options) would be to great a leap of faith or change for most fishermen. It perhaps raises the fears associated with inequality or even the notion of quotas which continues to be a taboo area.

December 01, 2005

Dear :

I am writing to invite your participation in a review of the financial situation of lobster fishers in Lobster Fishing Areas (LFAs) 25 and 26A.

Lobster Fishing Areas 25 and 26A have been experiencing declines in landings for a number of years. In addition, fishing expenses such as fuel and bait have increased during the same time.

We have received requests for financial assistance. In fact, I have met with the board of the Prince Edward Island Fishermen's Association (PEIFA) to discuss the issue. As a result of that meeting, a formal request from the PEIFA for a financial relief package to assist lobster fishers in LFAs 25 and 26A was submitted to the Department of Agriculture, Fisheries and Aquaculture.

Now that the fall season is over and in order to fully assess and understand the extent of financial issues facing the fishers in LFA 25 and 26A, the Department will conduct a detailed study of the situation. The object of the study is to determine the specific impact of lower lobster catches on fishers' incomes. Participants in the study will be asked to provide detailed financial information, including Canadian Customs and Revenue Agency Income Tax returns and notices of assessment, banking and lending institution records, and other government program records to verify financial information. All information collected will be held strictly confidential, and no information specific to individuals will be released or included in the final report.

Grant Thornton has been engaged to complete this comprehensive industry study and resultant report. Professionals from several branches of this firm will be involved in assuring that the data collection and analysis meets with stringent and recognized accounting principles. Additionally, Grant Thornton has engaged Alan Baker to assist them with the data collection aspect of the study. If you wish to participate in the study by way of supplying financial information on your fishing enterprise, please contact Mr. Baker at (902) 962-2345 to arrange a time and location to meet at your convenience. Once again, all information collected will be held strictly confidential, and no information specific to individuals will be released or included in the final report.

Thank you for your co-operation. If you have any questions, please contact Barry MacPhee, Manager of Marine Fisheries at (902) 368-4880.

Yours truly,

Kevin MacAdam
Minister

**P.E.I. LOBSTER FISHING ENTERPRISE
SURVEY OF ECONOMIC FACTORS
LFA 25 & 26A**

CONFIDENTIAL

The information provided by the lobster fishers taking part in this survey shall be held in the strictest confidence. The data obtained from the individual fishers shall only be seen by the individual(s) undertaking the data collection. These individuals will analyse the provided information and combine and average it with information from other fisherman in a manner that will assure the protection of both data and source of the individual fisher data. Any resultant report produced as a result of the LFA 25 & 26A Economic Viability Study will adhere to these confidentiality assurances and any publically available information will only be of a “grouped”, “averaged”, or “within a high/low range” type presentation.

NOTE - Small **Bold Faced** Number Next To Question Response Space Is Used To Facilitate And Assure Standardized Data Entry And Survey Accuracy / Confidentiality Guarantee

Fisherman Personal Information:

Survey Participant / Lobster Fishermen: **001** _____

Address: **002** _____ Fishing Port: **003** _____ Assigned ID: **004** _____

Fishing Grounds: **005** _____ Vessel: **006** _____ CFV #: **007** _____

Telephone: **008** _____ Fax: **009** _____ E-Mail: **010** _____

Fishermen Age/DOB: **011** _____ Years Fished: **012** _____

Fishing Licences Held: **013** _____

Off-Season Employment (Yes/No): **014** _____ Type: **015** _____

Year Entered Fishery As Core / Bona Fide: **016** _____

Years Spent as Crew Member/Cork/Sternman: **017** _____

Educational Background: **018** _____

Additional Training: **019** _____

Lobster Fishing Business / Fishing Assets Description - Inventory:

Vessel Description:

Age: 020 _____ Make/Builder:021 _____ Construction Type:022 _____

Length:023 _____ Width: 024 _____ Tonnage: 025 _____ Cu. #:026 _____

General Overall Condition: 027 _____

Estimated Remaining Useful Life: 029 _____ Est./Planned Year of Replacement:030 _____

Engine / Propulsion System Information:

Engine Make and Configuration: 031 _____ Year Manufactured: 032 _____

Computerized Engine Management System: Yes: 033 _____ No: 034 _____

Year Acquired by Fisherman: 035 _____ HP: 036 _____ Year of Latest Rebuild:037 _____

Drive Gear Make: 038 _____ AGE: 039 _____ Year of Latest Rebuild:040 _____

Shaft Diameter Size and Type: 041 _____

Propellor Make and Size: 042 _____ Size 043 _____

Fuel Consumption: Gallons/Litres Per Hour:044 _____ GPH/LITRES (Circle One)

Gallons/Litres Per Week (6 Days) in Lobster Season: 045 _____ Gals/Litres (Circle One)

Electronic and Navigational Equipment:

Central Computer System: Make:046 _____ Model: 047 _____ Age:048 _____

Global Positioning System: Make:049 _____ Model: 050 _____ Age:051 _____

Radar: Make:052 _____ Model: 053 _____ Age: 054 _____

Plotter: Make: 055 _____ Model:056 _____ Age: 057 _____

Sounder/Sonar Unit 1: Make:058 _____ Model:059 _____ Age:060 _____

Sounder/Sonar Unit 2: Make:061 _____ Model: 062 _____ Age:063 _____

Loran Unit: Make:064 _____ Model: 065 _____ Age:066 _____

VHS Radio: Make:067 _____ Model: 068 _____ Age:069 _____

SSB/Radio Telephone: Make:070 _____ Model: 071 _____ Age:072 _____

Auto-Pilot: Make:073 _____ Model: 074 _____ Age:075 _____

Other Electronics: 076 _____

Other Vessel Equipment (Utilized in Lobster Fishing):

Trap Hauler: Make: 076 _____ Model: 077 _____ Age: 078 _____

Trap Lander: Make:079 _____ Model: 080 _____ Age: 081 _____

Lobster Fishing Gear:

Traps:

Number:082 _____ Construction: 083 _____ Size:084 _____ Age: 085 _____

Number:086 _____ Construction: 087 _____ Size:088 _____ Age: 089 _____

Number:090 _____ Construction: 091 _____ Size: 092 _____ Age: 093 _____

Number:094 _____ Construction: 095 _____ Size: 096 _____ Age: 097 _____

Anticipated Replacement Time and Number: 098 _____

Buoys: Number: 099 _____ Condition:100 _____ Avg. #/% Replaced Annually:101 _____

Rope: Amount: 102 _____ Condition: 103 _____ Average % Replaced Annually:104 _____

Bait Storage Tanks: Type: 105 _____ Number: 106 _____

Lobster Holding Tanks & Pumps: Type:107 _____ Capacity(lbs.):108 _____ Pump GPH: 109 _____

Trap / Lobster Gear Storage Shed / Bait Shed:

Location: 110 _____ Size: 111 _____ Age: 112 _____

Land: 113 _____ Owned 114 _____ Leased Condition: 115 _____

HISTORICAL CATCH & FINANCIAL DATA

This section of the industry survey contains those elements related to the historical catch of the fishing enterprise and the financial outcomes of the business based on this past level of catch. As stated previously this information, like that previously given, is and will be, treated with the highest degree of confidentiality. No one other than the study team will be privy to any individual's information.

CATCH DATA

Fisherman: 116 _____ **ID #:** 117 _____

Year Entered the Lobster Fishery: 118 _____ **Years Fished:** 119 _____

Entry Cost: 120 _____ **Asset Package:** 121 _____ (See Attached)

Catch History: (Note: Data on Years 2002-2005 Mandatory - Balance Optional)

Year: 2005 Canners: 122 _____ Markets:123 _____

Year: 2004 Canners: 124 _____ Markets:125 _____

Year: 2003 Canners: 126 _____ Markets:127 _____

Year: 2002 Canners: 128 _____ Markets:129 _____

Year: 2001 Canners: 130 _____ Markets:131 _____

Year: 2000 Canners: 132 _____ Markets:133 _____

Year: 1999 Canners: 134 _____ Markets: 135 _____

Year: 1998 Canners: 136 _____ Markets: 137 _____

Year: 1997 Canners: 138 _____ Markets: 139 _____

Year: 1996 Canners: 140 _____ Markets:141 _____

Year: 1995 Canners: 142 _____ Markets:143 _____

Year: 1994 Canners: 144 _____ Markets:145 _____

Year: 1993 Canners: 146 _____ Markets:147 _____

Year: 1992 Canners:148 _____ Markets:149 _____

Year: 1991 Canners:150 _____ Markets:151 _____

Year: 1990 Canners:152 _____ Markets:153 _____

Fishing Grounds Fished in Each Particular Season/Year:

Grounds Fished: (Note: Data on Years 2002-2005 Mandatory - Balance Optional)

2005 _____	152	1996 _____	161
2004 _____	153	1995 _____	162
2003 _____	154	1994 _____	163
2002 _____	155	1993 _____	164
2001 _____	156	1992 _____	165
2000 _____	157	1991 _____	166
1999 _____	158	1990 _____	167
1998 _____	159		
1997 _____	160		

Financial Data - Current and Historical

The information provided by individual fishermen regarding the economic health of their fishing enterprises will be combined with information from others to provide a clear picture of the average economic soundness and enterprise viability of the lobster harvest sector in Lobster Fishing Areas 25 and 26 A. The analysis of the survey data and findings will be useful in guiding governments and industry policy and program development in the future. Because of the importance of the lobster fishery to the industry stakeholders, as well as, to the Prince Edward Island economy and because of the potential uses of the data; the base information must be accurate, verifiable, and auditable. For this reason, the information collected from fishermen must be supported by documentation from a recognized authority or source. These sources of verification include, Canadian Customs and Revenue Agency Income Tax returns and Notices of Assessment, Banking and Lending Institution Records, and other government program records. The following information is provided in accordance with these principles and confirmation of support verification document is noted and appended.

Lobster Fishing Enterprise Capitalization Information:

Fisherman: 168 _____ Sole Proprietorship: 169 _____ Incorporated Entity: 170 _____

In the case of a corporation, Year Incorporated: 171 _____

Family Members Employed in The Enterprise: Yes 172 _____ No 173 _____ # 174 _____

Data Collection Of A Fiscal Nature Will Be Captured Within Three Formats Or Statement Types. These formats are universally recognized standard accounting formats.

I. Income Statement or Statement of Revenue and Expenses

(Total Fishing Income & Expenses - Lobster & other Fisheries)

II. Balance Sheet - Statement of Assets and Debt/Equity

III. Schedule of Debt - Short & Long Term and Sources of Financing

(Whether Debt or Equity Type)

The work sheets are attached on which this information will be captured for preparation of the three noted statements.

Economic Survey - Lobster Fishing Areas 25 & 26A

BALANCE SHEET - WORKSHEET

Enterprise Identification: 175 _____

Date Info Compiled: 176 _____ Compiled By: 177 _____

ASSETS

Current Assets: 178 _____

Receivables: 179 _____

Investments: 180 _____

Fishing Assets: (See Inventory Attached)

Vessel:(Including Engine, Electronics, Deck Equipment) 181 _____

Fishing Gear: (Traps, Rope, Buoys, Nets, Drags, Nets, Tackle, etc)182 _____

Motor Equipment: (Truck, Outboards, Compressors, etc) 183 _____

Land, Trap House, Workshop, Boat House, etc. 184 _____

Other (Describe): 185 _____

Total Assets: 186 _____

LIABILITIES

Accounts Payable: 187 _____

Operating Loan / Line of Credit:188 _____

Current Portion of Long Term Debt: 189 _____

Long Term Debt: Bank / Credit Union 190 _____

Government / Gov't Agency 191 _____

Private / Family 192 _____

Fish Packer/Buyer 193 _____

Other 194 _____

Equity/Enterprise Net Worth

Shareholder Equity: 195 _____

Shareholder Loan: 196 _____

Retained Earnings: 197 _____

TOTAL LIABILITIES & EQUITY: 198 _____

Economic Survey - Lobster Fishing Areas 25 & 26A

INCOME STATEMENT - WORKSHEET

Enterprise Identification: 199 _____

Date Compiled: 200 _____ Compiled By: 201 _____

Revenue / Income:

Gross Fishing Revenue by Species:

Lobster 202 _____

Herring 203 _____

Mackerel 204 _____

Tuna 205 _____

Scallops 206 _____

Groundfish 207 _____

Other Pelagics (smelt, silversides) 208 _____

Other Molluscan Shellfish 209 _____ Note: 210 _____

Other Fishing Income 211 _____

Employment Insurance Income (Net of Clawback)212 _____

Spousal Employment Insurance Income (if fishing enterprise related) 213 _____

Total Gross Income: 214 _____

Disbursements - Expenses:

Wages & Salaries 215 _____

Salary Expenses (CPP,EI, etc) 216 _____

Fuel 217 _____

Bait 218 _____

Fishing Vessel Maintenance & Repair 219 _____

Gear Repair / Small Item Replacement 220 _____

Insurance: Vessel 221 _____ Gear/Buildings 222 _____

Utilities/Communications 223 _____

Wharf Leases & Property Taxes (Trap House, etc) 224 _____

Current Portion of Long Term Debt 225 _____

Interest Expense 226 _____

Vehicle Expense/Insurance 227 _____

Professional Fees - Accounting / Legal / Membership 228 _____

Fishing Licence Fees 229 _____

Depreciation & Amortization Expense 230 _____

Total Expenses: 231 _____

Net Income (Loss) Before Taxes: 232 _____