

# **Organizational and Performance Review of Nunavut's Offshore Fishing Industry**

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## *Glossary*

ABC	Aboriginal Business Canada
ARDA	Agricultural and Rural Development Act
BFC	Baffin Fisheries Coalition
BRIA	Baffin Regional Inuit Association
CFP	Commercial Fisheries Program
CIP	Community Initiatives Program
CSFL	Cumberland Sound Fisheries Limited
DFO	Department of Fisheries and Oceans
DOE	Department of Environment
DSD	Department of Sustainable development
ED&T	Department of Economic Development & Transportation
FDDF	Fisheries Development and Diversification Fund
GN	Government of Nunavut
HTA	Hunters and Trappers Association
INAC	Indian and Northern Affairs
IPAC	Independent Panel on Access Criteria
NDC	Nunavut Development Corporation
NEDS	Nunavut Economic Development Strategy
NFS	Nunavut Fisheries Strategy
NLCA	Nunavut Land Claims Agreement
NTI	Nunavut Tunngavik Incorporated
NWMB	Nunavut Wildlife Management Board
PFL	Pangnirtung Fisheries Limited
QIA	Qikiqtani Inuit Association
RWO	Regional Wildlife Organization
SIP	Strategic Investment Program
TAC	Total allowable catch

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## EXECUTIVE SUMMARY

Nunavut's offshore fisheries sector has undergone an unprecedented expansion over the past two decades. Rising expectations among Nunavut residents for social and financial benefits are also increasing. Since fishery resources are limited, the key question becomes how the quota will be allocated in Nunavut and to whom it will be allocated. The Nunavut Fisheries Working Group determined that an organizational and performance review will help to support the development of policy that will guide Nunavut's fisheries development.

This document reports on the findings of this review and provides a set of recommendations on policies and methods for quota allocation within Nunavut. The report is intended to serve as a tool for governments, industry and other organizations in Nunavut for future policy and program development, strategic planning and investment decisions. A key focus of the report is that it will serve as a resource to the Nunavut Wildlife Management Board's (NWMB) as it seeks to fine-tune its "Policy on the Commercial Marine Fisheries Quotas."

### *The Policy and Strategic Environment*

#### Setting targets for effective policy

Nunavut's internal fisheries policy should accomplish the following tasks:

- Support fisheries science and marine wildlife protection;
- Respond to collective Inuit/community rights to benefit from fisheries; and
- Increase the Nunavut value of fisheries through private and community-owned entrepreneurial initiative.

Potential conflicts between these tasks could arise in the following areas:

- Deciding what portion of the fisheries value should be seen as a 'collective' benefit and what portion is 'new value' created by entrepreneurs;
- Dividing up the 'collective' benefit amongst different communities and deciding how these revenues are used;
- Balancing political pressure to 'equitably distribute' current benefits from the 'fisheries pie' with the more complex and risky vision that the value of the 'pie' can be increased through fisheries development; and
- Deciding how much of Nunavut's federal and territorial economic development resources should be focused on helping community-owned and private sector entrepreneurs create new value from the fisheries in order to capture socio-economic returns.

Nunavut's fisheries can provide benefits to Inuit communities in three ways:

- Resource rents (royalties paid to resource owners);
- Provide jobs and other socio-economic benefits;
- Enterprise profits (dividends paid to business owners).

Resource rents are the 'surplus' left after all the costs including reasonable enterprise profits have been paid to the companies managing quota and prosecuting the fishery. Socio-economic benefits arise by 'capturing' some of the value represented by enterprise costs—wages, crew share, training, purchase of goods and services, and so forth.

Through entrepreneurial activity, businesses can also create additional value by carrying out the fishery in different ways. This may involve vessel ownership, processing, marketing, and supplying goods and services. The 'surplus' left over after all costs have been paid—including an amount representing the

'collective value'—is the enterprise profit. It belongs to business owners who have invested their financial resources and business skill into the enterprise.

### Decisions about 'collective benefits'

Two decisions need to be made about collective benefits:

- How much each community gets?
- Who in the community decides how to use it?

Once a community gets its 'collective' share of the benefits the issue of who in the community represents the 'collective interest' and therefore gets to make decisions on behalf of the entire group needs to be addressed. Here, the NLCA is clear that in issues of fisheries, including commercial fisheries, the HTAs are the responsible organization. It will be up to NTI to ensure that these HTAs have good systems of governance and have adequate technical support to represent the interests of their collective membership to competently exercise their responsibility.

### Creating a bigger 'pie' through fisheries development

Past success in developing OA turbot and in firing up harvest efforts in SFA 1—as two current examples—shows that investing in 'development' can dramatically increase the size of the 'collective benefits pie' in addition to capturing additional 'entrepreneurial value' and associated socio-economic benefits. However, development options all have certain levels of entrepreneurial risk associated with them.

A decision about what portion of the current value of royalties should be focused toward development efforts is essentially 'shareholder' business. However, the reality in Nunavut is still that there have been few examples of the relative risks and benefits available from alternative development strategies. HTAs and their membership may not have the insider knowledge to enable them to competently weigh all the options.

### Focusing economic development funds toward fisheries development

The obligation for sectoral economic development in Nunavut is shared between government and sector players. Royalty revenues used to invest in inshore or offshore economic projects are essentially equity contributions from communities and businesses. The territorial and federal governments continue to have a responsibility to use their existing economic development funds to support these projects. Their decisions on how much goes into fisheries development versus development of other sectors need to be based on the potential social and financial returns from alternatives available at the level of each community. Existing processes—political pressure, financial analysis, Nunavut Economic Forum consultation, entrepreneur-driven application—are capable of mediating this issue.

### Current policy guiding the way benefits from the fishery are managed

Current policy related to the allocation of quota does not attempt to manage the 'collective value' (including collective Inuit benefits and socio-benefits) separately from the 'entrepreneurial value' (profits). This is not a problem, provided the entities that access quota are capable of managing both these dimensions simultaneously. This means that quota recipients should be able to:

- Represent Inuit interests;
- Implement viable business plans; and
- Create socio-economic benefits by implementing the NFS

To do this requires that the NWMB consider:

- *Governance capacity* of quota recipients to represent collective interests;
- *Business capacity* to add value to Nunavut's fishery; and
- *Strategy implementation capacity* to promote long-term socio-economic development.

The current draft NWMB points system for determining quota allocation may have the effect of supporting applicants more on the basis of historical attachment and economic viability than on the basis of collective Inuit or community rights. The point allocation system assigns considerably more points for historical and economic criteria than for guaranteeing collective benefits.

If a fair balance is not achieved between these competing interests, political backlash will grow over allocation decisions. The only current solution to mediating all of these potential sources of stress has been to integrate these dimensions into the NWMB allocation criteria. This will place the board in the unenviable situation of making contentious decisions that go well beyond their stated desire to avoid getting involved in issues unrelated to their core stock management role. A "Nunavut Fisheries Allocation Advisory Committee" is proposed as a possible solution to this situation.

### Policies that have been effective so far

Important success has been achieved in three areas:

- Gaining access and allocation from DFO;
- Exploring viability of onshore processing; and
- Progress toward gaining value from the offshore.

Nunavut has achieved tremendous success in its strategic goal of gaining a greater share in its adjacent fisheries resources. While efforts are on-going to bring Nunavut's share in line with other adjacent fishery jurisdictions, the past gains are a sign that the strategy employed to date is working. Coordinated efforts between the NWMB, NTI, the Government of Nunavut, and industry have succeeded not only in increasing the share of quota held by Nunavut through the NWMB, but has succeeded in gaining a place for Nunavut as a new entrant into the fishery. They have dramatically increased the size of the 'pie' available to be distributed as 'collective' benefits and as 'socio-economic benefits'.

Efforts to explore the potential for an inshore marine fishery have been carried out since the 1980s under the guidance of the territorial government. After twenty years, these activities seem to have led to some successes. The most successful initiative, in terms of developing a solid foundation of knowledge on which to base the strategic decisions that must be made today, has been the investment in Pangnirtung's winter turbot fishery. While the conclusion is not as favourable as might have been desired, the stocks seem to be there but the ice platform is unreliable. However, the potential of this fishery is known. Another 'success'—in terms of building a reliable knowledge base—has been the commissioning of various feasibility studies. The Tavel (2001) assessment of shrimp processing clearly concluded that the economics of processing this stock onshore would not support a viable inshore shrimp fishery. While disappointing, closing the door on this potential option narrows the field of opportunity and helps to focus efforts to find a viable inshore option, if one exists.

However, in other areas, exploratory work and viability assessment has not been carried out in an adequately systematic way to convince communities, HTAs, or the territorial government whether an inshore fishery is viable. With regard to the issue of onshore processing, the twenty-some years of experience—including more than a decade and a half of intensive public investment through the NDC into the Pangnirtung fish—has provided a solid 'pilot' project base of knowledge and data into the processing option. That is the success. The shortfall here, from a policy/strategy point of view, is that neither the government or the NDC has carried out sufficiently rigorous analysis to determine whether, and under what conditions fish processing might provide greater benefits than can be achieved through simple royalty sale of quota; might be viable from a business perspective; or might return a net positive economic return from a broad socio-economic perspective.

Up until the formation of the BFC, the model adopted by most quota-holders to gain value from offshore allocations was to simply negotiate a royalty payment with an established license-holder out of the Atlantic fishery. Variations in this model included the occasional banding-together of several quota-holders in an attempt to leverage a better deal. Some level of pressure was also placed on license-holders to provide crew positions and training on-board. However, the game plan began to change significantly with the adoption of a 'soft' strategy to maintain the significant new allocation of OA quota in a single block held by multiple

HTAs and other previous quota-holders in a formal corporate structure, the BFC. This decision has had major success in propelling Nunavut in the direction of actually becoming a 'fleet player'—owning vessels and fishing its own quota.

Allocation of quota to a variety of organizational forms and strategic models should also be seen as an important 'success'. Rather than solely making offshore quota available to HTAs, past NWMB allocation decisions provided the opportunity to experiment with different models. This has provided the opportunity to assess the actual performance of these models based on empirical evidence.

### Policy gaps and conflicts

Several policy gaps remain to be resolved:

- Financing inshore/onshore development;
- Clarifying 'collective' benefit versus 'entrepreneurial benefit'; and,
- Aligning policy with control of 'levers'.

The discussion on inshore policy points out an obvious inconsistency in Nunavut's emerging policy framework related to financing inshore development. On the one hand, the DOE is seeking to require investment of off-shore revenues into the inshore fisheries sector. On the other hand, there has been inadequate investment of public (or private) resources to demonstrate that a viable inshore fishery actually exists to be invested in. Further, the only onshore processing plant continues to be uneconomic as a business after more than a decade of public subsidy. If the 'collective benefits' from offshore quota allocations are expected to be used to undertake the risk associated with developing the inshore fishery—a risk that appears to be high based on the previous twenty years efforts—this expectation should be clearly set out and subjected to debate amongst the 'collective' group who owns this benefit.

An additional policy gap relates to the potential for establishing new processing plants. What are the ground rules? What level of territorial funding will be available as leverage for private (HTA) investment? What level of on-going subsidy or one-time investment will be available for the establishment of processing plants? Investors need to know the 'rules of the game' in order to weigh the risks and benefits before choosing where to put their money.

The nature of the 'collective' dimension of Nunavut quota should be clarified. Is this quota a 'public' or regional 'good', a benefit of the land claim, or the private property of whoever happens to get hold of it? Past allocation practice seems to be unclear on this. If quota is supposed to generate some level of collective benefit, it would seem apparent that its allocation to any specific individual or organization needs to generate a clear benefit to this group—whether that is the general public, a regional sub-set of the public, or Inuit as land claim beneficiaries. This has implications for the development of policy related to:

- *Benefits disclosure*: Policy to guide quota recipients in the level of transparency and reporting requirements related to how their use of quota has benefited the relevant group;
- *Governance competency*: Policy to set out the minimal test for competency of the recipient organization to act in the interests of the relevant beneficiary group. This might address communications with membership, financial transparency (CEOs and board; board and membership); board competency and so forth. The litmus test would be, "Does the organization have the needed checks and balances in place to ensure it makes decisions in the interests of its membership?" and
- *Non-compliance*: Policy needs to be established to indicate what steps would be taken if minimal compliance to the above disclosure and competency standards are not met by a quota recipient. This might include both 'carrots'—assistance to organizations willing to 'get their house in order'—as well as 'sticks'—with quota withdrawal being the final step.

The NWMB has expressed a position that it has no role in fisheries development, only in fisheries management. Meanwhile, the Nunavut Fisheries Strategy adopted by the GN and NTI indicates that quota allocations should be tied to fisheries development. But neither NTI nor the GN has control over the 'levers' of allocation. Unless this tension is resolved, the NWMB is going to get dragged into the politically charged business of making decisions related to fisheries development and allocating benefits.

### *Where Does Nunavut's value In The Fishery Lie?*

The value of quota can be divided into a number of sections. The various sections have distinct values and they have distinct owners, as well. These sections are:

- Rent value – it is the value in excess of the income less expenses and after allowing for a reasonable profit. This amount can be stripped off and the business model still functions profitably with a market return. The rent is often considered as the royalty payment. The amounts may be similar but the concepts are the different. The royalty payment is different in that it represents the value a participant will pay for that additional amount of quota. At different volumes points along the cost curve of operating the vessels, the royalty has a different true value. Market conditions and competition often are the key factors impacting the rent value;
- Socio-economic value – This is the value that the addition of the quota has if it is employed in the area. The royalty is used to provide lower cost fish resulting more benefits in a multiplier effect with the fish and/or royalty than without; and,
- Entrepreneurial profits – The result of investment activity which generates a profit above any other gains such as a socio-economic gain

The following conclusions are drawn from the performance analysis of the various fisheries models:

Offshore vessel ownership model: A primary driving focus of allocations should be to push the fishery to a vessel ownership model. A complete move in this direction will be difficult because of the needs to have southern quotas, access to other licences, etc. This is a preferred path. As well, with this model, the owner of the royalty—whoever owns the quota or the quota-holding corporation—is fully paid as are the shareholders of the vessel corporation itself. These do not need to be the same entities. Further, significant socio-economic benefits accrue to the general community of Nunavut through wages, crew shares and other expenditures of the vessel operation paid within Nunavut. These are estimated, for modelling purposes, at \$440 per tonne of quota.

Onshore Processing: The onshore plant model (CSFL+PFL turbot) provides the highest socio-economic benefit per tonne of quota, at approximately \$680 per quota tonne compared to the BFC collective model at \$440 per quota tonne. This model does not, however, pay back the shareholders of the fish processing corporation, and requires an on-going subsidy from the government or from fishing royalties. This is to say, without perpetual subsidy and the use of some of the royalty value, the plant portion of the model either breaks even or loses money. Further, royalty holders are paid only a portion of what they could get by selling their quota to an offshore vessel. The value of other components of the benefits such as improved self-esteem, reduced social costs, etc. have not been estimated. These are real benefits of people having jobs.

Royalty collection: The HTA royalty distribution model and the model where HTAs invest royalty proceeds into corporate ventures would both be expected to generate some socio-economic benefits. In the first case, these would be entirely indirect, arising from the dividends paid out. In the case of HTA corporations, direct socio-economic benefits would arise if the corporation involved activities that paid salaries. Indirect benefits would arise from any distribution of corporate profit that might take place. The example of using royalty revenue to operate a soap stone distribution business has been noted earlier.

The only difference between the HTA corporate investment model and the private corporate investment model lies in who makes decisions about what investments are made, what dividends are paid out and who gets the dividends. The HTA, with good governance, will represent a collective interest while the private company would represent the interest of the company's shareholders. In both these models, for the sake of illustrating the potential, a successful enterprise earning a reasonably decent 12.5% return is shown. Of course the potential exists that the equity from royalties could be lost through a business failure, or through bad management, high overheads, and so forth. The potential to create higher than 12.5% returns is also real.

Inshore vessel ownership: There is not yet any example of an inshore vessel model so the relative benefits and the benefits flow profile cannot be prepared.

### *Recommendations For The Future*

Recommendations are designed to move Nunavut's marine fisheries toward seven key targets or objectives:

- Conservation and sustainability are paramount;
- Gain access to all resources off the shores of Nunavut must be achieved as soon as possible;
- Build of community capacity so control can be at the community level therefore reducing dependency on outside interests;
- Increase and improve training and employment in order to reduce the leakage from the harvesting of Nunavut resources;
- Try over time to develop a balance between offshore and inshore fisheries; and
- Use of funds from access to resources to fund development of science and inshore initiatives;
- Enterprise viability.

The following recommendations are intended to support the attainment of these targets by establishing a solid foundation for allocation of fisheries resources and for investment into exploration and development.

### Nunavut's Fisheries Foundation

There are three pieces that need to be carefully put together to build a solid foundation:

- Fish block—There are two parts to the fish allocation: the actual fish, and the 'rent' value. The 'rent' is approximately equal to the royalty;
- Value receivers—These are the beneficiaries of the 'fish block.' They include the quota holders, owners of the enterprises, recipients of socio-economic benefits, and fishery exploratory researchers;
- Government policy—This is driven by the strategy documents on fisheries and economic development and includes getting all the allocations off Nunavut's coast, community-based development and control, fisheries as an economic development tool, development of inshore fisheries for employment, conservation, economic viability.

## Guiding Principles For The Offshore Marine Fisheries

The following guiding principles and recommendations should be considered in allocating the marine resources:

### **Science**

Allocate a percentage of the royalty from all allocations, new and existing, to an Exploratory Fisheries Fund. The recommended percentage is in the 5% to 10% range for five years. After five years the concept would be re-evaluated. This levee would result in about \$250,000 per year at 5%. Each quota holder would pay this fee prior to fishing the allocation. The fund would have specific rules for use such as to fund offshore and inshore (including benthic studies) exploratory fishing research and testing of technologies to harvest fish. The purpose would be to define the location and size of the resources. These funds would be used to lever additional funds primarily from DFO and INAC. Industry funds would be used for capital and operational investment in any new or expanded fisheries. Management of the funds would through a joint working group made up of the GN, NTI, DFO and representatives of the fishing industry. The funds would reside at NTI.

### **Economic viability**

The allocation policy should favour models which are financially viable. At present, the financially viable forms are based on the offshore model.

### **Governance, transparency and independence**

As part of the allocation agreement, the receiving group should be required to submit a detailed Business Plan for review and approval. As well, a Governance Plan indicating how they propose managing the business, how and when they will report back to their shareholders or membership, a list of governance regulations they will incorporate into their Articles of Association and an agreement on annual reporting and disclosure to the NWMB should make up part of the allocation submission. This should be a requirement for all quota allocations including OB turbot and all shrimp fishing areas. This plan should extend to all the companies that have use of the money and/or the fish attached to quota, so that 'for-profit' companies layered below the quota receiving would be required to report as well. These reports should include: ownership disclosure, key contracts, and financial statements. Since NWMB is only an allocation arm, it does not have the business review capacity. This review should be done through NTI or an affiliate/designate. Detailed, standardized requirements of what must be supplied in the Business and Governance Plans should be determined and supplied to all applicants.

Each year when holding quota the recipients must prepare a report detailing the previous years operations and how the have met or why they have failed to meet the Business and Governance Plans. These reports must contain full financial and ownership disclosure.

### **Nunavut benefit or 'Nunavutization'**

Nunavut benefits must be considered in the allocation process. Each applicant must supply a Benefits Plan (as part of their business plan) which would identify benefits for the community, Baffin, Nunavut and for other communities. A minimum level of Nunavut benefits should be set by the NWMB for all participants to meet. Each year the recipients must submit a report on their progress with their Benefits Plan.

### **Penalties**

Failure to comply with reporting requirements or other regulations set forward by the NWMB should result in penalties in the form of a reduced allocation. These would be temporary until the problem was resolved satisfactorily. If this does not force compliance, removal of the entire quota would ultimately occur.

### 'Initial Division' Of Quota

The 'Initial Division' of fisheries quota is the 'ideal' allocation that would be achieved under conditions where every recipient was actively seeking to carry out effective quota-using business plans and where constraints to quota allocation based on previous allocations were not in play.

This initial allocation would be for ALL quotas for which the NWMB has a role, including 0B quota for both shrimp and turbot.

The following principles and recommendations address how allocations can be made in the real-life context, keeping in mind the notion of 'Initial Division'. The process of Initial Division is done under the auspices of the NWMB but with the involvement of NTI and GN.

The NWMB's role is to allocate quota based on a determination of the Initial Division and an analysis of the various plans required to be submitted by the applicants. This analysis and review role could be undertaken in a number of ways. The key parties should be NTI and GN. Our suggested format is to form a Nunavut Fisheries Allocation Advisory Committee with members from NTI and GN. NTI should have the majority of the votes. This Committee would first undertake the Initial Division secondly review all the various plans submitted by the applicants and thirdly, importantly, undertake the review of the annual reports submitted by each recipient of quota.

The Initial Division is an allotment or 'community entitlement' versus a request. In this way, hopefully the politics can be removed from the analysis.

#### **Community-based allocations**

Initial Divisions should be allocated to the community level. The HTA appears to be the organization that should hold the quota in the community's best interests. Depending upon the actual Plans proposed by the HTAs, they may not be able to manage the Plans at first and will require oversight from the NTI to ensure that they have the capacity. The actual divisions that are given based upon the Plans submitted also should be held by the HTA.

#### **Economic need**

Hamlets which have less development and fewer opportunities should benefit from some preference in the allocation of fishery opportunities.

#### **Adjacency**

Adjacency is important and should be recognized in the allocation process.

#### **Historic economic dependence**

Economic dependency of households and of businesses should be considered in the allocation process.

#### **Inshore fisheries development**

A small portion of the overall turbot quota needs to be allocated to inshore test-fishing. The purpose of this allocation is for test purposes only. If proven, then two things will occur.

First the Exploratory Fisheries Fund will be used to see if the target stock is separate from the main offshore stock. If no new fishery—with its own additional TAC—emerged, then, the quota allocation required for the inshore effort will be removed from the existing quota (offshore) of the community/ies benefiting from the inshore fishery. If exploratory fishing demonstrated a separate stock, then a new and separate TAC could be identified.

Secondly, the fisheries strategy prepared by DOE and NTI states that royalty and profits are to be applied to the further development of fisheries. This may not be the best decision for the hamlets or for Nunavut. The policy that best applies would be to have the decision rest at the community level. They can best determine if the funds should be spent on fisheries development, on fishery investments, or on other uses. Solid decision making at this level requires that communities have a good level of knowledge of the fisheries sector and the real opportunities that they represent to them. NTI and DOE have a role in extending this knowledge into communities.

#### **Role of private operators**

The quota will not be given to private individuals or corporations.

### **New Entrants**

For the next three years, do not open the fishery to new community entrants for the 0A and 0B turbot and for the shrimp areas. If substantial new allocations occur—above the existing allocations plus the estimated 2500 t increase in 0A turbot—then this point could be reconsidered.

### **Changes over time**

Stocks, economic opportunities, community populations all change with time. So should allocations. Allocations should not change so quickly as to unduly disrupt people or enterprises. There should be a process by which quotas allocations can evolve as conditions change. This should be in the allocation policy but it is early to see how it should work. The general principle would be that if you did not produce the required benefits or failed to follow your business plans then the allocation process would be re-opened. The proposed three year time limit for allocations after approval of the Business, Governance and benefits Plans appears reasonable.

### **BFC Allocations**

The BFC is a valuable organization and is a model of the collective concept for offshore development. The report recommends that the quotas be held by the communities likely through the HTAs. Given some of the problems in getting the communities to work together under the BFC in the past there may be some problems in getting the communities to pass their quotas to the BFC to fish. The NWMB should ensure that the BFC has sufficient quota to operate efficiently for the next 5 years so it can get well established. It may not require the rent value of this fish for all that time. It may be necessary to have the BFC directly hold some quota during this period.

It is expensive to operate a collective model in the Arctic. It would be folly for each community to try to operate their own 'BFC' since the overheads would be a large financial burden. Therefore efforts should be made to make the BFC attractive to existing and new members so that ideally it would represent all communities with quota. The BFC will have to deal with its private and corporate members who will not have any quota in the future if these recommendations are followed. This is a time for the BFC to renew its shareholder structure, dividend policy and communication policies and actions. As well, BFC should work to increase the capacity of their Board and member organizations in understanding the various components of directing their investments and their responsibility to their shareholders/members.

BFC should increase the focus on building capacity within Nunavut. The COO may live in NF but the operational focus needs to be in Nunavut. The office functions and capacity building constructed in NF should be undertaken in Iqaluit. This would reduce financial leakage from the region but more importantly it will start to build a local capacity. For the Board of Directors of BFC to make the switch to Iqaluit would be important from both a capacity building and a political viewpoint.

### **CSFL and PFL**

The onshore plant operations have been valuable to Pangnirtung and its citizens. There are some difficult issues to discuss and determine in relationship to the operation of the plant. Serious discussions are required among these firm's shareholders, the citizens of Pangnirtung, the local HTA and GN. The Consultants recognize that this issue is complex and the plan of action will come out from discussions with all interested parties.

### Allocation Process

Not everyone is prepared for a new allocation process. Furthermore, it will take some time for all would-be participants to be able to participate. Therefore the following plan is proposed:

- The 3-year renewable policy would be deferred, as proposed by the NWMB, until the 2008 season. Until then allocations will be on a year-by-year basis;
- Given the short time until the 2006 season, it will likely be impossible to have everything ready to go for the season so an approach based on 2005 may be necessary;

- The number of quota recipients should not be increased. It is recommended that the quota presently available to the private companies should be made available for allocation directly to the communities. The private companies can negotiate with the communities (HTAs) to receive access to fish. The royalty will likely stay with the community. While CSFL is a private company, it is a special situation since at least 50% of the rent value (royalty) of the fish—and the fish itself—is made available to support PFL. This is, therefore, more complicated than just an allocation of quota rents to a private company. Serious decisions need to be made by the shareholders of PFL—and these issues will, therefore, necessarily involve the Nunavut government. The role of BFC in supplying fish also needs to be re-negotiated. The Consultants recognize that this has political components.

For 2006, the BFC should again supply fish to PFL and the status quo should be maintained for 2006 so all parties can discuss this issue and decisions can be made;

- The BFC has a very large portion of the 0A turbot quota and some hamlets consider that the allocation should be theirs. Yet the role of the BFC has been, and continues to be, very important in advancing the Nunavutization of the fishery. Some modification of how quota is allocated maybe required. The Consultants believe that the BFC needs access to fish to operate and at present, while it is purchasing the vessels, it also needs access to the 'rent' to offset the cost of capital acquisition. This will be required unless the governments decide to fund its capital needs. The Consultants suggest that the BFC should have access to the fish for 5 years and that after three years consideration be given to stripping all or part of the 'rent' from the allocation leaving access to the fish. This 'rent'—realized by BFC paying a royalty for the fish it catches—would be allocated to communities using a similar methodology as used in determining the 'Initial Division';
- Using the above guiding principles based on community issues, the NWMB determines the range of new plus available quota. This will be the 'Initial Division' that can be allocated to each community of existing quota holders. This process should favour hamlets with less development opportunity, that are adjacent to the resource, and that have a demonstrated need for access;
- The NWMB calls for proposals from all participants in all fisheries to submit a Business Plan, Nunavut Benefits Plan, and a Governance Plan. Applicants commit to entering an agreement to provide annual updates and reports on the above plans plus complete disclosure of business and financial activities to NTI or their designate;
- NWMB will allocate quotas to communities that satisfy the requirements noted above (adjacency, need, history, governance plan, benefits plan and business plan). Quotas will be given out to communities up to the allocation amount determined by the Initial Division calculations. If the community needs more fish (not quota royalty) for its business plan than has been determined by the Initial Division, the community would purchase quota at the 'going rate' from other communities;
- The remaining fish not allocated in any year would be fished by BFC and/or QC under a royalty charter basis with the royalty flowing to the recipient communities as per the Initial Division calculations;
- This process could run for two years. This would give each community a chance to develop a viable business plan;
- If some communities do not file approved Business Plans, then other communities will be able to make application for part of the Initial Division that went to that community. In this way, beneficial business models should develop over time;

- Quota not allocated would be fished as a royalty model—with a Nunavut preference whereby Nunavut vessels would get first access to fish this quota—with the royalty funds being given to the communities as per the Initial Division; and

The selection process may be slow or it may happen quickly. It really depends upon the business opportunities that the communities develop.

## PART 1. NUNAVUT FISHERY DEVELOPMENT — RETROSPECTIVE

Several key activities, strategies and achievements have contributed to the current state of Nunavut's marine fisheries. These include early and on-going exploration of inshore potential; the establishment of processing capacity in Pangnirtung to service the Cumberland Sound winter fishery; access to offshore shrimp licenses; allocation of offshore turbot quota; and the emergence of a concerted strategy to become an active player through the establishment of the Baffin Fisheries Coalition. Each of these key events is briefly presented in this section.

### *Inshore fisheries exploration*

The earliest focus of the territorial government and of the HTAs has been on assessing and developing the inshore fishery. Baffin region HTAs, the territorial and federal governments, Baffin Fisheries Coalition (BFC) and Qikiqtaaluk Corporation (QC), have all sponsored significant exploratory fishing projects over the past 20 years. The table below provides a summary of projects seeking to assess inshore turbot potential. Similar efforts to identify shrimp, crab, clam, and other species have been made. Funding for these projects has been significant. In 1992 alone, some \$2.12 million was budgeted through the federal-territorial economic development agreement for this purpose.

Through these efforts, a commercial winter turbot fishery was identified in Cumberland Sound in the mid-1980s. Promising clam populations have been identified near Qikiqtarjuaq and additional winter turbot fisheries adjacent to Clyde River and Pond Inlet. The potential for other commercial marine fisheries has not yet been either confirmed or ruled out. In 2005, DFO designated Cumberland Sound as a fishery separate from OB and provided a 500t TAC to support summer turbot fishing and after the recommendation of the NWMB.

**Table 1. INSHORE TURBOT EXPLORATORY EFFORTS IN NUNAVUT**

Date	Location	Description	Outcome
1985	Pangnirtung	1985 summer turbot attempt found no fish, brought in Greenlanders to teach winter technique and caught 186 fish in a few days. Prepared by Crawford, R. & Dahlke, L (1988) for AFSAC.	"Surmised that halibut leave Cumberland Sound before the summer months and return again the following fall. Accordingly, halibut fishery development at Pangnirtung has focused on establishing a winter/spring fishery, the season when ice travel is optimal and halibut market prices are highest."
1989	Pangnirtung	P&L Services contracted to carry out a test fishery.	Mechanical problems, followed by storm damage led to high costs to fly in a mechanic, charter a plane, and fly in parts. No fish caught.
1990	Frobisher Bay	Exploratory fishing by three vessels. Subsequently reported on by Northlands Consulting (1994).	"Did not result in commercial promise for any species."
1993	Arctic Bay	Longlining for turbot.	No turbot
1993	Broughton Island	Co-Pro Ltd. (Henry Copestake) organized "prospective joint venture" test fishing with 64 ft to 93 ft gillnet-equipped vessels near Broughton Island. Also reported by Hathaway, B.L. 1993.	Harvestable turbot concentrations, particularly in waters 100 miles south east of Broughton Island. Hathaway reports a CPUE for turbot at this area was 0.0031 kg/m <sup>2</sup> /hr—considered moderate. "Feasibility of a commercial turbot fishery at this identified site cannot be assessed without population surveys..."
1993		"Financial and economic analysis of the 1986-1990 exploratory fisheries for turbot and scallops in CS, Baffin Island." Economic and commercial analysis report 135. DFO. Topoliniski, D.E.	Suggests "a limited potential for fish harvesting and processing operations to provide normal returns to labour and capital in the absence of ongoing government support. Social impacts accrue in terms of employment activity, supplements to cash incomes and to subsistence activity, and reported improvements in individual and community morale."

## Operational and Performance Review of Nunavut's Offshore Fishing Industry

Date	Location	Description	Outcome
1994	Pangnirtung	Exploratory fishing in Cumberland Sound using a local 42 ft fixed gear vessel (gillnets, longlines, shrimp and crab traps) and a chartered 67 ft dragger using gillnets and otter trawl. 500 turbot in CS and Davis Strait were tagged and released to determine if CS has a resident stock.	Identified commercial otter trawl and gillnet potential for turbot in deep water (at least 400 m) in CS and Davis Strait.
1994	Broughton Island	Used a 35 ft Cape Islander-type boat owned by the HTA used mobile trawl gear to fish for shrimp and scallops.	No commercial promise.
1994	Clyde River	Experimental turbot fishery in Home Bay.	Not successful.
1995	Pond Inlet	Inootik, S reports on winter turbot test fishery.	8 holes yielded 116 turbot over a one-month period. Assessed as "minimal turbot caught" (March 2 to April 20).
1996	Cumberland Sound	DFO feasibility study for tagging turbot to determine if they are located in CS and whether they move out of the sound.	No result of feasibility study reported, but must have been positive since subsequent tagging was done.
1996	Clyde River	HTA proposal to explore for turbot off Buchan Gulf area.	No indication if this proceeded or not.
1998	CCFI	Re-evaluation of data to assess viability of using 65 ft and 110 ft vessels to longline for turbot.	Could be viable if cost and catch rate assumption hold.
Un-dated	Pangnirtung	F. Weihs case study of CSF Ltd.	Five months after incorporation in Dec 1988, they processed 200,000 kg turbot, gross revenues of \$518,000 and profit of \$147,000 on these sales.
2003	Pond Inlet and Clyde River	Turbot longline resource assessment for Scott Fjord and Eclipse Sound carried out by Marine Institute.	Clyde River: CPUE of 2.5 turbot/hour/100 hooks (within range of Pangnirtung rate of 2 to 6 turbot/hour/100 hooks). Note that the "resource is only part of the equation. Processing, storage, transportation and markets are the major factors that determine success or failure of a new fishery."  Pond Inlet: no commercial turbot in Eclipse Sound. But "vast areas of potential turbot grounds...Until these areas are sampled the door remains open for development within the communities assessed here, as well as other communities in the Baffin Island Region."
2003	Cumberland Sound	Summer resource assessment study	
2003	Pangnirtung	Winter study of improved kite technology	New success kite developed and tested
2004	Clyde River, Pond Inlet, Cumberland Sound	Experimental summer fishery to determine concentrations of turbot during the summer months	
2005	Davis Strait	Winter turbot 0A experimental research survey	Lead to increase in 0A turbot

Source: Marine Institute, commissioned by the DSD Fisheries and Sealing Division, 2001 plus additional data from DOE.

### *Pangnirtung winter turbot fishery*

The first test fishing for turbot, executed from the winter ice platform in Cumberland Sound, was initiated from Pangnirtung in 1985 using long-line gear, with Greenlandic fishers brought in through federal-territorial economic development funding through the Agricultural and rural Development Act (ARDA) to provide technical expertise. Success of the experiment led to the start of the Cumberland Sound winter turbot fishery by 1987. DFO provided quota from Canada's 0B TAC to the Pangnirtung HTA to support this fishery. Cumberland Sound Fisheries Limited (CSFL) was incorporated in 1988 as a widely-held

company to operate the winter turbot fishery. Quota to support the winter fishery was provided to the Pangnirtung HTA. DFO began allocating offshore quota to CSFL in 1992.

Since this time, the winter fishery has been actively conducted in the region on an annual basis since this time. Fishing is carried out during the months of January to May, using longlines set through holes cut in the sea ice. Ice platform conditions in Cumberland Sound, are unstable, however, leading to variable success from year to year. The highest catch level to date, some 400 t, was achieved in 1993. Recent catch rates have been in the range of 14 t to 250 t.

### ***Onshore processing at Pangnirtung***

To process the winter turbot from Cumberland Sound, Cumberland Sound Fisheries Limited established a small fish plant, built around the community freezer. In 1993 CSFL sold its processing assets to Pangnirtung Fisheries Limited (PFL), a subsidiary of the NWT Development Corporation. A new plant was build and completed in 1994. Uncertain ice conditions meant that the fish plant could not count on a reliable supply of fish from the winter inshore fishery. In order to support on-going processing capacity in their community, CSFL has used part of its quota to purchase frozen H&G turbot to be landed at its plant for further processing and marketing.

While CSFL has purchased shares of the PFL, the Nunavut Development Corporation (NDC) has maintained a controlling interest, ensuring that the company remains eligible for territorial operating subsidies. In 2004, the Nunavut Development Corporation engaged Deloitte & Touche to prepare an opinion of the fair market value of the PFL. The firm concluded that “the fair market value as at March 31, 2003 of all of the issued and outstanding common shares of the Company is Nil.”

### ***Processing feasibility studies***

In 2001 the Government of Nunavut commissioned Tavel Limited to assess the feasibility for a shrimp and groundfish processing facility in Nunavut. The study focused on the potential viability of a shrimp processing facility in Iqaluit to support an inshore shrimp fishery. The results clearly indicated that a viable business case for such a facility could not be made.

The Nattivak HTA in Qikiqtarjuaq commissioned Marcop Developments Ltd. in 2005 to develop a business case for a fish plant in that community. The outcome of that study has not been made public.

### ***Inuit participation in a new Atlantic shrimp fishery***

A new Atlantic shrimp fishery began in 1978 with the issuing of eleven licenses to nine companies based out of Quebec, Newfoundland, Nova Scotia, and New Brunswick. Increasing TACs led to expansion of the shrimp fishery. In 1986, Makivik Corporation gained a shrimp license. In 1987 the Baffin Regional Inuit Association (BRIA) received a licence and Unaaq Fisheries Limited—jointly owned by BRIA and Makivik—received a second license. The Baffin Inuit 1.5 licenses are now held by Qikiqtaaluk Corporation (QC). From the outset, QC entered into a 20-year royalty deal with an Atlantic shrimp company to fish its licences and allocations, thereby tying its hands for two decades.

Part of the reasoning behind the award of this license to Inuit can be explained by considering the context of developing law related to Aboriginal rights, as well as the land claim negotiations that were underway. During the late 1980s the issue of Aboriginal fishing rights was becoming important to Department of Fisheries and Oceans (DFO). The case of an Aboriginal man, Ronald Sparrow, who claimed an Aboriginal right to fish was winding its way up the courts. In 1986, the British Columbia Court of Appeal overturned a lower court conviction of Mr. Sparrow and the case was heading to the Supreme Court to test the assertion of an Aboriginal right to fish under the Constitution.

It should also be noted that at the time when access to the shrimp fishery was opened to Inuit, prices were low and the catch levels had declined dramatically. Shrimp licences did not carry the same value as they do today when stocks increased and prices rose. Between 1981 and 1984, for example, the annual catch had declined from 9000 t to 3000 t. As a result, there was lots of TAC that was not being taken by the existing license-holders. At the time more money was being made in the groundfish (cod) fishery. The political conditions for permitting new, Aboriginal entrants were ideal.

Continuing increases in shrimp TAC in 1999 led DFO to provide Nunavut with an allocation of 1750 t northern shrimp in SFA 2. The NWMB put out a call for applications and made its first shrimp allocations. These were provided to CSF (525 t), Mittimatalik HTA (125 t), Mayukalik HTA (125 t), Amarak HTA/Quilruaq Corp (225 t), Aqviq Marine (150 t), Kabva Marine (150t) and QC (450 t).

In 2000, Nunavut gained allocations of striped shrimp from DFO to be fished inside the NSA. Additional allocations of this species were provided by DFO in 2002. In 2003, an increase in the SFA 1 TAC for northern shrimp led DFO to allocate 1,000 t to Nunavut for sub-allocation by the NWMB. An allocation of 187 t to Makivik Corporation of the Nunavik Inuit was also made. A further increase in 2004 led to Nunavut having a total allocation in SFA 1 of 3,722 t. This new quota allowed the NWMB to award the BFC with its first shrimp quota, and bring two new private companies into the fishery.

### ***Nunavut seeks offshore turbot***

Prior to the start of the winter turbot fishery in the mid-1980s, the only fishing of Canadian turbot quota being carried out in 0B was being done by foreign charter vessels. Thus, from 1986 to 1990 Inuit were the only Canadians fishing Canada's allocation of turbot in NAFO sub-area 0. However, in 1990 the federal government launched the "Groundfish Developmental Program" as part of a \$584 million "Atlantic Fisheries Adjustment Program." This program was designed to assist the Atlantic fishing industry that was experiencing the collapse of the cod fishery. The department's policy objective was to reduce the economic harm to companies dependent on the Atlantic groundfish fishery caused by declining TACs. Ensuring that Atlantic fish plants maintained access to fish also helped to reduce the tremendous political pressure faced by DFO from the declining processing sector.

Effort was made by Nunavut interests to get support under this program and access to the offshore groundfish fishery. However, DFO's objective was to stem the impending economic disaster caused by too many dependent fish plant workers and not enough fish. The department was not seeking to introduce new entrants. The policy and criteria set out by DFO clearly kept new entrants—including Nunavut Inuit—out of the program. To support the program, 'developmental' quota was designated within the 0B area. Starting in 1990, the foreign charter fleet allowable catch began to be reduced in order to provide room for a developmental quota for Canadian vessels from the Atlantic Provinces. By 1992, Canadian vessels were catching 8,266 t turbot under the developmental program out of a quota of 10,460 t. Pangnirtung winter turbot fishers caught 430 t out of their quota for that year of 1000 t.

Following three years of developmental fishing, in 1993 DFO began to re-profile the developmental quota into company quotas and a competitive 0B fishery. The competitive fishery was open to any existing Atlantic groundfish license-holder but was inaccessible to Nunavut which had no licenses. Of a total competitive quota of 6,540 t in 1993, 1,817 t was caught. As previously noted, an allocation of 500 t was provided to CSFL in that year. CSFL fished 327 t<sup>1</sup> of this allocation through an arrangement with Japanese and Southern vessels.<sup>2</sup> In 1994, NAFO reduced the TAC for sub-areas 0+1 B and Canada's share declined from 12,500 t to 5,500 t. Nunavut maintained its 1993 quota of 1,000 t inshore and 500 t offshore throughout this period.

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<sup>1</sup> DFO data.

<sup>2</sup> Unaaq Fisheries Inc. 1994. "An Evaluation of Training to Support the Baffin Fisheries." P 11.

## ***The Nunavut Land Claims Agreement and establishment of NWMB***

The NLCA came into effect in 1993. Shortly afterward, the NWMB issued its first call for applications for 0B turbot quota. The historic allocation of 1000 t to the inshore winter fishery and subsequent allocation of 500 t to CSFL offshore was technically maintained. However, in practice, the NWMB waits to see how the winter fishery is shaping up and then allocates available quota after that. Since the winter fishery has never exceeded the offshore allocation to CSFL, the allocations the board makes to other HTAs and businesses have never been affected by the winter fishery's priority.

All entities that applied for quota from the NWMB received some allocation. These included 750 t to Pangnirtung HTA/CSFL, 320 t to Nattivak HTA, 280 t to QC, 40 t to Clyde River HTA, and 40 t to Mittimatalik HTA. Two private companies that both owned small vessels and that had been involved in various inshore exploratory efforts also received quota—40 t to Kabva Marine, and 30 t to Aqviq Marine. These allocations remained constant until 2000/01 at which time the private companies lost their quota since they had not been using it. This was reallocated amongst the existing quota-holders, with no new entrants brought into the fishery.

## ***Nunavut develops the 0A turbot fishery***

Efforts to establish a fishery in 0A were first initiated by the territorial government with support from Indian and Northern Affairs Canada (INAC) in 1993/94. NTI, NWMB, QC, CSFL and others participated in and provided funding for these efforts in the late 1990s. By 1999, adequate data was available to estimate turbot biomass for the southern portion of the area and, based on this estimate, the NAFO Scientific Council established a TAC for this fishery in 2001. DFO provided the entire Canadian share—3,500 t—to Nunavut, based on the territory's developmental efforts and adjacency. This was subsequently increased to 4,000 t.

## ***Nunavut becomes a 'player' in the offshore***

### ***Baffin Fisheries Coalition***

With Nunavut established as a new territory in 1999, a renewed focus on economic development opportunities in the eastern Arctic was emerging. The Department of Sustainable Development (now Department of Environment (DOE)) believed that significant opportunities in offshore fisheries were being missed and established a fisheries directorate. Together with Nunavut Tunngavik Incorporated (NTI) and Nunavut Wildlife Management Board (NWMB), the department sought to ensure that the new opportunity in 0A would lead to Nunavut becoming a full participant in the offshore fishery—gaining jobs, profits, and control over fishing decisions, not simply benefiting from the royalty that southern fishers might be willing to pay in order to generate their profits. QC was still bound into its 20-year contract, and had not established a track-record in aggressive fisheries development. The outcome was that the Baffin Fisheries Coalition (BFC) was established. Rather than being representative of all Baffin Inuit, the initial membership of this company was made up of the existing holders of shrimp and turbot quota. NWMB allocated the entire quota to the BFC, enabling this agency to develop a stronger bargaining position with vessel-owners, support the cost of hiring an experienced fisheries manager, and ensuring that the proceeds from royalty sales would support an aggressive strategy to purchase an offshore vessel.<sup>3</sup> The BFC has proceeded to successfully execute its business plan, established under an MOU, amongst the various member shareholders. To maintain flexibility, the company entered into yearly—not multi-year—royalty contracts.

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<sup>3</sup> The 2003 Burke Consulting Inc. report: "Nunavut's Offshore Fisheries Resources: Turbot and Shrimp Access and Allocations," and the 2004 Senate Report "Nunavut Fisheries: Quota Allocations and Benefits" provide good information on the emergence of the BFC.

### *QC out of its contract*

When QC's contract ended in 2002, the corporation maintained flexibility for future options by entering into short-term arrangements. QC has recently purchased a shrimp factory trawler to pursue its shrimp licence.

### *The Atlantic fleet is woken up*

After years of simply selling quota to the Atlantic fleet, Nunavut is now making a clear move to become a player in the offshore fishery. The progress made by the BFC, and the clear sign from QC that it is moving ahead, has sent the message to Atlantic fishers that their share of the Nunavut fishery is coming to a close. Paying a royalty to fish was one thing, losing access to the fish—and the profit and use of existing vessels as and when it made sense—is something very different.

Nunavut has poked the 'giant' and is now getting a reaction. This is coming in several forms. First, the level of interest to fish in SFA 1 has always been low. Nunavut quota-holders frequently refer to their allocations as "paper shrimp" since they have difficulty finding any vessel owner willing to pay a reasonable royalty to fish it for them. However, in recent years, it has become clear that Nunavut, through both the BFC and QC plans to acquire and control fishing capacity, is going to fish its SFA 1 quota. As a result the southern fleet is starting to increase their catch effort in the area, presumably with a view to protecting their allocations under the principle of "use it or lose it."

Secondly, some Atlantic license-holders are seeing that Inuit involvement in the fishery is the way of the future. It presents an opportunity for them to sell out now, get a good price, and retire.

Finally, there may be a correlation between the aggressive mobilization of Atlantic fishing interests at the senate and parliamentary hearings on Nunavut allocation and this sense that they are losing a valuable fishery that had formerly been theirs to use. Southern fishing interests could be served by slowing the Nunavutization of the Arctic fishery and breaking apart the BFC, in order to maintain bargaining relationships with individual, smaller scale quota-holders.

## ***Summary***

- Biological/geographical constraints to the inshore fishery have limited its development potential. The inshore fishery has had a minor role in the overall fishery;
- Up until very recently, allocation of quota to Nunavut has not displaced the existing Atlantic fleet participants. It has only adjusted the 'terms' of access slightly—something that the fleet could live with. The allocations to Nunavut required that the Southern interests pay a rent for the access;
- The BFC represents a new entrant to Canada's groundfish fishery. This represents an important departure from past "business-as-usual." While industry secrecy prevents open and transparent access to behind-the-scene political manoeuvrings and private corporate 'lost leader' deals, it is reasonable to expect that the *status quo* Atlantic fleet will seek to undermine the development of a new "Nunavut fleet" in what has been 'their' fishery. Paying royalties for quota is one thing—profit can still be made. Having to share access is a slippery slope to losing access and this is an entirely different game—one some existing stakeholders don't want to play;
- An understanding of the economic interests perceived to be at stake by the existing fleet helps to shed light on recent events taking place in the political forum (parliamentary and senate); new deals being offered to HTAs and other quota-holders; and increased southern fishing efforts in SFA 1;
- The following statements reflect twenty years of fishery development activities tell us a lot about the opportunities as they now stand:

- Offshore factory freezer vessels, both fixed gear and trawler, has been proven to be profitable and sustainable from an economic perspective;
- Onshore processing of inshore winter caught turbot has proven to be possible but uneconomic and requiring continuing support;
- Onshore processing of offshore frozen at sea turbot has proven to be possible but uneconomic and requiring continuing support; and
- Inshore summer fishing with either on-board processing and freezing or freezing onshore has not been proven one way or the other.

Other studies done for onshore processing of a variety of species such as shrimp and clams also show the requirement for support for a plant even after grants for capital and infrastructure construction.

The inshore fishery is spoken about often and there has been support to develop it over the last 20 years. Both the char and the winter turbot fishery in Cumberland Sound still require financial support. Economic viability has been elusive due to:

- Short seasons for harvesting result in low plant capacity utilization;
- High costs of harvesting and the long transportation distances result in highly priced raw materials;
- A complex array of split responsibilities and roles among Governments and communities often slows initiative. Interest at the community level wanes with delays and necessary but detailed reporting requirements. Funding is usually gathered from a number of sources, resulting in delays—with a short season of opportunity, projects may get delayed until the next year;
- The expectation of the “Nunavut Fisheries Strategy” is that funds for fisheries development will flow from groups given access to quota. The connection between the strategy and quota allocation process does not provide the levers that the GN or NWMB can use to force the use of these funds for fishery development;
- Expansion of the Pangnirtung plant, unreliable winter catches, and growing interest in offshore fisheries based on experience in the shrimp fishery led to increasing demand in the early to mid-1990s to gain access to the offshore turbot fishery. However, from the outset, events did not work in Nunavut's favour.

While Nunavut was focused on assessing and developing the potential of the inshore turbot fishery, significant events were taking place in the offshore. Canada's desire to 'Canadianize' the fishery by replacing foreign charters with Canadian vessels coincided with the collapse in the early 1990s of the Atlantic groundfish fishery. The Atlantic offshore fishing industry was a powerful political force, highly knowledgeable and well-connected to DFO decision-making procedures. This happened prior to the significant court cases—such as the Sparrow Decision—related to Aboriginal participation in resource industries.

While the DFO position is perhaps understandable in the context of 'political' and 'economic' emergency the decision to give OB access to Atlantic interests had important implications for the development of Nunavut's adjacent turbot fishery.

## **PART 2. THE POLICY AND STRATEGIC FRAMEWORK**

### ***2.1. THE REGULATORY ENVIRONMENT***

#### *Nunavut Land Claims Agreement*

The Nunavut Land Claims Agreement (NLCA) lays out a legal framework influencing much of the context for Nunavut's fishery development. It establishes the NWMB to share jurisdiction with the Department of Fisheries and Oceans over marine management in the Nunavut Settlement Area and in marine areas adjacent to Nunavut. This shared jurisdiction is described below. The NLCA (Section 5.6.39, 40, 45) also identifies precedence for Inuit Hunter and Trapper Organizations (HTAs) and Regional Wildlife Organizations (RWOs) in economic activities involving the harvest of wildlife resources. Allocation of harvest rights to commercial interests other than those sponsored by HTAs or RWOs will be awarded first to long-time Nunavut residents and to enterprises that provide direct benefits to the Nunavut economy.

#### *DFO and NWMB co-jurisdiction*

Regulation of Nunavut's offshore fishery is carried out under the terms of the Nunavut Land Claims Agreement and the Fisheries Act and its related regulations. Of relevance to Nunavut's offshore fishery the relevant regulations are the Atlantic Fishery Regulations, 1985. The Atlantic Fishery Regulations address the registration of persons and vessels, the licensing of persons, spacing and type of gear, vessel classes, fishing areas and close times, and fees.

The DFO Minister has authority for making decisions related to the allocation of licenses permitting access to a fishery and of quota permitting the harvest of a maximum quantity of a particular fish species.

Under the NLCA, ratified in 1993, jurisdiction over fishing within the Nunavut Settlement Area (NSA)—extending from Nunavut's coast 12-miles out to sea—is shared between the NWMB and DFO, with the NWMB essentially exercising a decision-making role. While the minister (DFO) exercises a power to disallow NWMB decisions, this power is subject to specific constraints under the terms of the NLCA Section 5.3.11 to 5.3.15. The NWMB also has a mandate under Section 5.2.37 and 5.2.38 to be involved in research related to management of wildlife (including fish). The Board has established the Nunavut Wildlife Research Trust which provides funds to leverage government research in areas of importance to the Board's mandate.

Article 15, Part 3 of the NLCA addresses marine areas outside the NSA within two prescribed zones that encompass Nunavut's adjacent offshore fisheries. Section 15.3.7 is of particular relevance:

“Government recognizes the importance of the principles of adjacency and economic dependence of community within the Nunavut Settlement Area on marine resources, and shall give special consideration to these factors when allocating commercial fishing licences with Zones I and II. Adjacency means adjacent to or within a reasonable geographic distance of the zone in question. The principles will be applied in such a way as to promote a fair distribution of licences between residents of the Nunavut Settlement Area and the other residents of Canada and in a manner consistent with Canada's interjurisdictional obligations.”

The NWMB is comprised of board members appointed by Inuit organizations (four members), the federal government (three members), and the territorial government (one member). The members then elect a Chairperson who is appointed by the Federal Government.

### *GN regulatory involvement relevant to offshore fisheries*

Under the Nunavut Act, Section 23(1), the Government of Nunavut (GN) has legislative powers in the area of: “u) the expenditure of money for territorial purposes.” This power essentially provides the Government of Nunavut with the potential to influence fisheries development through territorial government spending priorities.

### *NTI involvement*

NTI is the Inuit organization mandated to represent Inuit interests. NTI is also the lead Inuit organization with a degree of authority related to the regional Inuit organizations and their development corporations. As such the organization has an active interest in decisions made by both the federal government, by the NWMB, and by QC, the development corporation of the Qikiqtani Inuit Association (QIA). This interest encompasses the management of Nunavut's offshore fisheries, the distribution of benefits arising from the fisheries, and the outcome of fisheries development strategies. Given this mandate, NTI has taken an active role in key litigation activities related to access and allocation as well as being actively involved in fisheries development strategy development.

As a representative organization for the 85% Inuit population of the territory, NTI has a keen interest in Nunavut economic development. It has played a leadership role in developing Nunavut's Economic Development Strategy, has established Atuqtuarvik Corporation as a major business financing organization, and is playing a lead role in the Nunavut Economic Forum. NTI has a fisheries unit within their organization.

## **2.2. POLICY AND STRATEGIC ENVIRONMENT**

### ***Access and allocation policy***

The most obviously critical policy related to Nunavut's fisheries development path is that which allocates the resource. Receiving quota is a valuable allocation that can be used to finance fisheries development—or can be used to fund any other activity. Quota provides the holder with negotiating power that can be used to broker deals with fishing entities that have access to fish the resource. This negotiation can be limited to the royalty payment to be received, but it can go beyond that to include access to jobs on fishing vessels, partnership ventures leading to vessel ownership, and so forth.

#### Independent Panel on Access Criteria (IPAC)

The 2002 report of the Independent Panel on Access Criteria called for “no additional access be granted to non-Nunavut interests in adjacent waters until Nunavut has achieved access to a major share of its adjacent fishery resources.” The panel identified three “overarching principles” on which access decisions should be made. The top priority is *conservation of the resource*; then, *recognition of Aboriginal and treaty rights* and finally, *equity*. The panel specifically linked their Nunavut recommendation to “the spirit of the Nunavut Land Claims Agreement” and to “adjacency principle.”

#### DFO Policy

With regard to new access, DFO accepted IPAC's Nunavut recommendation in its 2002 response to the Panel. Recent allocation decisions partly support the DFO's claim to be implementing the recommendation. All of the 0A turbot went to Nunavut. However, only 64% of the 2004 increase in SFA 1 shrimp was provided to Nunavut for allocation through the NLCA-sanctioned NWMB, with 6% going to Makivik and the remaining 30% to the existing license-holders. Nunavut was not pleased with that outcome.

#### NWMB quota allocation policy

The NWMB's position of fisheries development is influential since it recommends to DFO, the final decision-maker, the quota allocations. Currently the NWMB has no policy related to fisheries development other than a statement of "a need for the fishery to be diversified striking a healthy balance between inshore and offshore operations, and between different gear types." The board is said to be focused on its role as a resource manager, not as an active player in influencing the direction of fisheries development. Nor has the NWMB used its quota-assignment clout as a lever to force disclosure of benefits arising from the quota allocation decisions it has made.

The NWMB quota allocation policy is currently undergoing revision by the board. The September 2005 (Draft 4) version is the subject of this review, as that is the most current available draft. The policy indicates the following objective:

To facilitate a co-operative and diversified approach to fisheries development, maintaining compliance with the principles of conservation, relying upon re-investment in the fishery by Nunavut fishers, and ensuring the wide distribution of tangible benefits to Nunavummiut. The policy makes reference to being in accordance with the Nunavut Fisheries Strategy and indicates that through its allocation policy the NWMB seeks to encourage:

- The conservation of marine resources and the protection of marine habitat;
- A balance over time between community-based inshore operations and co-operative offshore enterprises—all of which are owned and operated by Nunavummiut;
- Substantial re-investment of revenues received from one of Nunavut's most valuable common property resources; and
- The creation of employment, training and educational opportunities for Nunavummiut.

The draft allocation policy sets out nine principles to guide the board in its allocation decisions both inside and outside the NSA:

1. Healthy marine populations and habitat are essential to sustain the economic, social and cultural harvesting needs of Nunavummiut, for both present and future generations (See NLCA Section 5.1.5(c));
2. The fishery is a valuable and vital common property resource to be managed in an open, transparent and accountable manner for the equitable benefit of all Nunavummiut;
3. There is a need for the fishery to be diversified, striking a healthy balance between inshore and offshore operations, and between different gear types;
4. In allocating commercial marine fisheries resources, preference needs to be given to Nunavummiut and to operations providing direct benefits to Nunavut's economy (See NLCA Section 5.6.45);
5. In order to achieve a prosperous Nunavut-controlled fishery, there is a need for people to work together in harmony (See the Inuit Qaujimagatuqangit principle of Piliriqatigiingniq);
6. A prosperous Nunavut-controlled fishery requires substantial involvement of viable commercial ventures sponsored or owned by RWOs and HTAs (See NLCA Section 5.6.39);
7. There is a need to give special consideration to adjacency in the allocation of commercial marine fisheries resources (See NLCA Section 15.3.7);
8. In allocating commercial marine fisheries resources, there is a need to give special consideration to the economic dependence of communities on those resources (See NLCA Section 15.3.7); and

9. In allocating commercial marine fisheries resources, there is a need to give special consideration to economically viable fishing enterprises that have historically participated in and relied upon a particular fishery.

A set of nine criteria are developed to provide the NWMB with “an objective means to rank potential participants.”

**Table 2. DRAFT 2005 SCORING FOR NUNAVUT’S COMMERCIAL MARINE FISHERIES**

<b>Criterion</b>	<b>Points</b>
RWO/HTA ownership/sponsorship	15
Viable commercial venture with a positive history	15
Ownership by Nunavut residents	10
Employment of Nunavummiut, Inuit	10
Ownership by Nunavummiut of vessel	10
Other direct benefits to Nunavut	10
Adjacency to fishing area	10
Economic dependence on resource	10
Responsible stewardship	10
<i>Total Score</i>	<i>100</i>

### ***Policy related to the direction of fisheries development***

Development of Nunavut’s adjacent offshore fisheries can follow several paths. Several important statements and strategies have been developed that provide insight into the development path desired by Nunavut interests.

#### ***The Pinasuaqtavut Statement—GN Legislative Agenda for 2004 to 2009***

The Pinasuaqtavut Statement is relevant to fisheries development in that it sets out the agenda of the Second Legislative Assembly of Nunavut, 2004 to 2009. The statement confirms the Government of Nunavut’s commitment—at the highest level—to community economic development and to implementing the Nunavut Economic Development Strategy’s (NEDS) focus on key sectors, including fisheries. The agenda includes implementation of the Nunavut Fisheries Strategy (NFS) and working to increase Nunavut’s allocation of the offshore fishery.

#### ***Nunavut Economic Development Strategy***

The NEDS was prepared jointly by NTI and the GN and has been adopted by the Nunavut Economic Forum, a group made up of more than 25 member organizations. The strategy sets out a ‘capacity-building’ agenda for economic development focused on knowledge of the land, human resources, community economies, and target sectors.

The strategy sets out some key points: protection of the environment; development of community economies; respect for the NLCA; development of sectors including fisheries. Since the adoption of the territorial strategy, the GN and NTI has been working together to generate sectoral strategies that specifically identify issues and actions related to key sectors. One of the most recently completed sector strategies relates to fisheries.

### *Nunavut Fisheries Strategy*

The NFS identifies six “key objectives” that are seen as necessary to move Nunavut’s fisheries vision forward:

- Science and conservation
  - Recognize conservation and sustainable use as paramount
- Organizational capacity & governance
  - Develop strong organizational capacity at the community level
  - Develop strategic regional partnerships
  - Engage with the federal government
- Access and allocation
  - Achieve the vast majority of adjacent fisheries resources
- Labour market
  - Increased fisheries labour force capacity
  - Improved retention of workers through “education in workplace dynamics”
- Infrastructure
  - Marine infrastructure required for fisheries development
  - Infrastructure to address Canada’s sovereignty issues in the Arctic
- Funding & revenue generation
  - Develop sources of funding and strategies to generate revenues to support science, training, infrastructure, business development and other capacity building activities required to achieve Nunavut’s fisheries development vision.

To achieve these objectives, a number of “strategies” or “strategic considerations” are identified. Some of these shed some insight into where the strategy partners stand on various issues where alternative strategies and policy direction can be taken.

The strategy highlights an “overwhelming desire” for inshore fisheries development amongst Nunavut communities. “Further efforts must be made to achieve a greater balance between inshore- and offshore-based activities, given the benefits this will bring to coastal communities.” The strategy notes that this will require “significant investment in infrastructure.”

The strategy document sets standards for offshore fisheries development that include economic viability, conservation, transparency and accountability, creation of meaningful employment opportunities, support for infrastructure development.

In order to “ensure that Nunavut’s offshore fisheries development efforts serve the overall public interests of Nunavut,” the offshore fishery should invest in and support the inshore capacities of Nunavut communities. Also, “As a condition of licensing, the NWMB and DFO should ensure that companies receiving access to Nunavut quotas are required to re-invest into the fishing industry.” And, it is essential that quotas be utilized in a publicly accountable manner that benefits the territory at large. Adopt policy to

ensure companies are reinvesting some of the revenue from the fishery into development and diversification efforts.

- “Ensure Nunavut’s internal access and allocation decision-making process is open and transparent.”
- Improve understanding of labour force preferences and workplace design issues of relevance to the inshore and offshore fisheries in order to match as much as possible demand with supply and to improve worker retention.
- Build fisheries labour force capacity through training and career development.
- Implement the Small Craft Harbours Investment Strategy and support Nunavut deep-sea port feasibility studies.
- “Where possible, processing sector investments should attempt to identify benefits to other communities. This could be achieved through the establishment of feeder operations and other support structures.”
- Develop a policy on processing facilities in Nunavut, as no legislation currently exists.

### ***The Development Funding Environment***

If Nunavut is to adopt a strategy to leverage the economic value of its offshore fisheries into jobs and value-added processing activities, critical investments will be required. How will these be funded? Several programs have been available for business and economic development in Nunavut, both from the territorial and federal governments.

#### ***Territorial government funding programs***

The GN Department of Economic Development & Transportation (ED&T) administers several funding programs to support economic development in communities and provide equity for individual businesses. Communities are each allocated \$100,000 per year under the Community Initiatives Program (CIP), with some re-allocation taking place amongst communities. Total business contributions in the Baffin region have averaged just over \$450,000 per year in recent years. This year the department introduced a new Strategic Investments Program (SIP) with a budget of \$4 million for this year. The program will support private sector economic infrastructure; knowledge and innovation; and “high priority strategic projects.” While the SIP is a one-year program, it might be expected that some future funds will be available in order to leverage federal economic development funding toward territorial priorities.

The DOE hosts several programs related to fisheries support, diversification and development. The Fisheries Development and Diversification Fund (FDDF) have a budget of \$525,000 to leverage additional funds to support fisheries projects. The Commercial Fisheries Program has a budget of some \$190,000 and includes a component to subsidize the cost of transporting fish products between communities.

The territorial government, through the Nunavut Development Corporation, has invested major funds into the PFL fish plant. In addition to annual subsidies, the NDC has provided major shareholder loans to the company.

#### ***Federal government funding programs***

In 2004/05 the federal government announced new funds for territorial economic development, including some \$27 million for Nunavut over four years. A significant portion of these funds—probably in the range of \$1.5 million per year—are expected to be targeted toward fisheries development. These contributions will be expected to be provided as ‘matching funds’ in four ‘thematic areas’: knowledge base; infrastructure; human and organizational capacity development; and diversification.

Funding support for economic projects and for specific businesses is available from Industry Canada’s Aboriginal Business Canada program (ABC). However, the ABC program is focussed specifically on three

'pillars': tourism, youth, and 'innovations'. In Nunavut, most ABC funds have been allocated to businesses in the tourism sector.

INAC will also begin to provide some \$2.5 million per year to assist the Inuit community economic development organizations (Kakivak in the Baffin region) to deliver effective community economic development programming. INAC's priority is to invest in tools and resources to increase effective decision-making. The goal is to help create the necessary conditions and environment to enable communities to seize and sustain socio-economic opportunities.<sup>4</sup> The implications of this shift in focus for fisheries development will become clearer as program funds begin to be allocated through the CEDOs.

### *Private sector investment in fisheries*

In the past, there has been some investment of private funds into the fisheries industry. QC has maintained fisheries staff capacity, and carried out some exploratory crab fishing using their own resources. QC has also apparently been focusing funds into vessel acquisition. With the establishment of the BFC, a major portion of quota-generated royalty revenues have been re-invested into exploratory offshore development in OA, vessel acquisition, lobbying efforts, training, and some level of inshore projects. The various HTAs have invested varying amounts into exploring options for inshore fisheries development.

## **2.3. ANALYSIS OF THE POLICY AND STRATEGIC ENVIRONMENT**

### ***Setting targets for effective policy***

Nunavut's internal fisheries policy should accomplish the following tasks:

- Support fisheries science and marine wildlife protection;
- Respond to collective Inuit/community rights to benefit from fisheries; and
- Increase the Nunavut value of fisheries through private and community-owned entrepreneurial initiative.

Potential conflicts between these tasks could arise in the following areas:

- Deciding what portion of the fisheries value should be seen as a 'collective' benefit and what portion is 'new value' created by entrepreneurs;
- Dividing up the 'collective' benefit amongst different communities and deciding how these revenues are used;
- Balancing political pressure to 'equitably distribute' current benefits from the 'fisheries pie' with the more complex and risky vision that the value of the 'pie' can be increased through fisheries development; and
- Deciding how much of Nunavut's federal and territorial economic development resources should be focused on helping community-owned and private sector entrepreneurs create new value from the fisheries in order to capture socio-economic returns.

### *'Collective benefit' versus 'new value'*

Nunavut's fisheries can provide benefits to Inuit communities in three ways:

- Resource rents (royalties paid to resource owners);
- Provide jobs and other socio-economic benefits;
- Enterprise profits (dividends paid to business owners).

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<sup>4</sup> INAC May 9, 2005 letter to partner organizations.

Resource rents are the 'surplus' left after all the costs including reasonable enterprise profits have been paid to the companies managing quota and conducting the fishery. Socio-economic benefits arise by 'capturing' some of the value represented by enterprise costs—wages, crew share, training, purchase of goods and services, and so forth.

Through entrepreneurial activity, businesses can also create additional value by conducting the fishery in different ways. This may involve vessel ownership, processing, marketing, and supplying goods and services. The 'surplus' left over after all costs have been paid—including an amount representing the 'collective value'—is the enterprise profit. It belongs to business owners who have invested their financial resources and business skill into the enterprise.

### *Decisions about 'collective benefits'*

Two decisions need to be made about collective benefits:

- How much each community gets?
- Who in the community decides how to use it?

Deciding on community share is an issue of politics, rights, and fairness—not unlike the challenges faced by DFO at the national level. IPAC resolved the challenge by establishing three principles in descending priority: conservation first, then Aboriginal rights, then equity, where 'equity' includes consideration of things like adjacency and historical attachment. In Nunavut, it might be expected that:

- NWMB determines what is needed to address 'conservation';
- NTI determines distribution amongst Inuit communities; and
- GN advises NTI on how 'equity' should factor into distribution decisions, since they have been the key player in supporting community-owned and private sector enterprise development.

The pragmatic consequences for how this might actually play out in an allocation framework will be addressed in Part Four.

Once a community gets its 'collective' share of the benefits the issue of who in the community represents the 'collective interest' and should therefore get to make decisions on behalf of the entire group needs to be addressed. Here, the NLCA is clear that in issues of fisheries, including commercial fisheries, the HTAs are the responsible organization. It will be up to NTI to ensure that these HTAs have good systems of governance and have adequate technical support to represent the interests of their collective membership and to competently exercise their responsibility.

### *Creating a bigger 'pie' through fisheries development*

The past use of offshore quota simply to collect royalty revenues has limited Nunavut to a small portion of the potential value that could accrue to the territory. Further, past success in developing OA turbot and in firing up harvest efforts in SFA 1—as two current examples—shows that investing in 'development' can dramatically increase the size of the 'collective benefits pie' in addition to capturing additional 'entrepreneurial value' and associated socio-economic benefits. However, development options all have certain levels of entrepreneurial risk associated with them.

So the question arises, what portion of the current value of royalties should be focused toward development efforts? Ideally, this decision would be made by the representatives of the collective beneficiaries—it's essentially 'shareholder' business. However, the reality in Nunavut is still that there have been few examples of the relative risks and benefits available from alternative development strategies. HTAs and their membership may not have the insider knowledge to enable them to competently weigh all the options.

Therefore, for the present time, a decision needs to be made about how much of the immediately available 'collective' value of the fishery (represented by the royalty value of quota) should be diverted to ensure that an 'adequate level' of development activity takes place in order to create more value in the future. This decision weighs collective Inuit interests with assessment of future economic opportunities. As such the key institutions responsible for making the decision are NTI and the GN.

A related issue is whether onshore processing should be subsidized by offshore fishing revenues. Some argument can be made that Nunavut's demonstrated interest and engagement in onshore processing has, and may continue to, contribute to the territory's ability to gain access to a higher share of its adjacent fishery. However, the level of subsidy, in the form of allocations of offshore quota, required to maintain processing plants might be greater than a community might otherwise gain on the basis of adjacency. Decisions need to be made about whether some of the 'rent' value of offshore fish should be tied to specific plants and, if so, how much.

### *Focusing economic development funds toward fisheries development*

The obligation for sectoral economic development in Nunavut is shared between government and sector players. Royalty revenues used to invest in inshore or offshore economic projects are essentially equity contributions from communities and businesses. The territorial and federal governments continue to have a responsibility to use their existing economic development funds to support these projects. Their decisions on how much goes into fisheries development versus development of other sectors need to be based on the potential socio-economic returns from alternatives available at the level of each community. Existing processes—political pressure, economic analysis, Nunavut Economic Forum consultation, entrepreneur-driven application—are capable of mediating this issue.

## **2.4. CURRENT POLICY GUIDING THE WAY BENEFITS FROM THE FISHERY ARE MANAGED**

In the context of Nunavut's fisheries fish in the water represent two types of potential value: a 'collective value' (including collective Inuit benefits and socio-economic benefits), and an 'entrepreneurial value' (profit). Current policy related to the allocation of quota does not attempt to manage these sources of value separately. This is not a problem, provided the entities that access quota are capable of managing both these dimensions simultaneously. This means that quota recipients should be able to:

- Represent Inuit interests;
- Implement viable business plans; and
- Create socio-economic benefits by implementing the NFS

To do this requires that the NWMB consider:

- *Governance capacity* of quota recipients to represent collective interests;
- *Business capacity* to add value to Nunavut's fishery; and
- *Strategy implementation capacity* to promote long-term socio-economic development.

The current draft NWMB points system for determining quota allocation may have the effect of supporting applicants more on the basis of historical attachment and economic viability than on the basis of collective Inuit or community rights.<sup>5</sup> The points allocation system assigns considerably more points for historical and economic criteria than for guaranteeing collective benefits (see table below).

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<sup>5</sup> The Consultants struggled a bit with the concept of quota as an Inuit Aboriginal and land claim right versus a public community right. At any rate, there is some level of 'collective' property associated with Nunavut's fisheries.

*Comparison of NWMB Draft Policy with ‘Policy Tasks’*

<b>Policy Tasks</b>	<b>NWMB Criterion</b>	<b>NWMB Points</b>
Fisheries science and marine wildlife protection	Responsible stewardship	10
Protect collective Inuit rights to fisheries benefits	RWO/HTA ownership/sponsorship	15
	Adjacency to fishing area	10
Increase value of fisheries	Employment of Nunavummiut, Inuit	10
	Ownership by Nunavut residents	10
	Economic dependence on resource	10
	Viable commercial venture with a positive history	15
	Other direct benefits to Nunavut	10
	Ownership by Nunavummiut of vessel	10

If a fair balance is not achieved between these competing interests, political backlash will grow over allocation decisions. Some signs of emerging stress in the system already include:

- Inuit communities wanting ‘their share’ of the fishery benefits;
- Enterprises wanting a chance to fish for ‘value-added’;
- Frustration that “collective” benefits are being unfairly diverted away from rightful beneficiaries to carry out what some see as a public responsibility for economic development; and
- Expectations that use of quota will maximize local fishery sector training and jobs, rather than be used to produce more diverse (and potentially more evenly distributed) benefits.

The only current solution to mediating all of these potential sources of stress has been to integrate these dimensions into the NWMB allocation criteria. This is going to place the board in the unenviable situation of having to make contentious decisions that go well beyond their stated desire to avoid getting embroiled in issues unrelated to their core stock management role. A “Nunavut Allocation Advisory Committee” is proposed in Section 4.3, below, as a possible solution to this situation.

**2.5. REALITY CHECK: ‘LEVERS OF INFLUENCE’**

In order to address the diverse interests and competing values, the key players in Nunavut’s fisheries need to understand who controls what. Various agencies control different ‘levers’ of relevance to Nunavut’s fisheries and fisheries development. What are the levers that can be used to influence how the sector develops? Who controls these levers? Is this control mediated by legislation, by policy, or by formal strategies?

In order to focus limited resources in directions that can actually achieve end results, government policy needs to be developed in relation to the actual ‘levers’ and ‘authorities’ available to it. In the context of harnessing the allocation decision process to fisheries development the following needs to be clearly recognized:

- HTAs and the Qikiqtaaluk Wildlife Board (QWB) are the first-in-line beneficiaries under NLCA and therefore hold the lever to control how revenues generated by quota are allocated;
- DFO holds the lever of control over total allocations to Nunavut;
- NWMB effectively controls the territorial 'access and allocation' lever, but is constrained in its policy-making and decisions by the NLCA;
- GN/DOE controls levers related fisheries investment (FDDF) and can provide investment in organizational capacity and in infrastructure. Through the Nunavut Development Corporation and the department of ED&T the government has the potential to invest directly in companies. The DOE also has research capacity to assess the socio-economic benefits arising from fisheries quota. However the GN has no leverage to force recipients to share data. Nor does it have any more than a 'power of persuasion' to incorporate criteria related to development or benefit to the NWMB's allocation policy; and,
- NTI manages the 'Inuit interest' and holds leverage through the NLCA.

## **2.6. POLICIES THAT HAVE BEEN EFFECTIVE SO FAR**

Important success has been achieved in three areas:

- Gain access and allocation from DFO;
- Explore viability of onshore processing; and
- Progress toward gaining value from the offshore.

### *Success in gaining access and allocation for Nunavut*

Nunavut has achieved tremendous success in its strategic goal of gaining a greater share in its adjacent fisheries resources. While efforts are on-going to bring Nunavut's share in line with other jurisdictions across all adjacent fisheries, the past gains are a sign that the strategy employed to date is working.

This success of this effort has arisen out of the following strategic elements:

- Policy-driven sub-allocation process established and adhered to by the NWMB. By exercising its allocation role objectively and in a way that is open to scrutiny, the NWMB has demonstrated that Nunavut is competent to manage the allocations it has received;
- Cooperation between NTI, the Government of Nunavut, and industry in developing a consistent advocacy and communications message;
- Solid policy research and careful development of logical arguments to substantiate the message;
- Strategic investments into fisheries development in OA; and,
- Coordination and development of fishing capacity through the BFC.

These coordinated efforts have succeeded not only in increasing the share of quota held by Nunavut through the NWMB, but has succeeded in gaining a place for Nunavut as a new entrant into the fishery. They have dramatically increased the size of the 'pie' available to be distributed as 'collective' benefits and as 'socio-economic benefits'.

### *Processing and inshore fisheries development*

Efforts to explore the potential for an inshore marine fishery have been carried out since the 1980s under the guidance of the territorial government. Supported through federal – territorial agreement funds provided

under the Agricultural and Rural Development Act (ARDA) until the mid-1990s, various efforts continued under territorial economic development and business support programs. More recent support for inshore development activities has come from the FDDF. Exploratory efforts were typically led by HTAs, although some projects were also carried out by QC. After twenty years of activity, these activities seem to have led to some successes.

Most successful, in terms of developing a solid foundation of knowledge on which to base the strategic decisions that must be made today, has been the investment in Pangnirtung's winter turbot fishery. Here the level of effort has been consistent enough to provide a reasonably reliable insight into the potential of this inshore fishery. While the conclusion is not as favourable as might have been desired—stocks seem to be there but the ice platform is unreliable—at least the potential of this fishery is known.

Another 'success'—in terms of building a reliable knowledge base—has been the commissioning of various feasibility studies. The Tavel (2001) assessment of shrimp processing clearly concluded that the economics of processing this stock onshore would not support a viable inshore shrimp fishery. While disappointing, closing the door on this potential option narrows the field of opportunity and helps to focus efforts to find the viable inshore option, if one exists.

However, in other areas, exploratory work and viability assessment has not been carried out in an adequately systematic way to convince communities, HTAs, or the territorial government either that an inshore fishery is viable or that it is not. The potential that a winter turbot fishery might be possible in other regions with appropriate ice platforms continues to be a 'live' issue that various HTAs want to pursue in order to help support onshore processing. The potential that turbot stocks might be fished within the NSA 12-mile designation of Cumberland Sound or adjacent to other communities is currently untested. Although the groundwork to permit exploratory fishing along these lines has been laid, fishing efforts have been remarkably light and, so far, have yielded negative results.

The relatively recent formation of the BFC provided a renewed organizational force to drive investigation into the strategic question as to whether the inshore is an option or not. However, the question of inshore potential has been secondary to the company's mandate.

With regard to the issue of onshore processing, the twenty-some years of experience—including more than a decade and a half of intensive public investment through the NDC into the Pangnirtung fish—has provided a solid 'pilot' project base of knowledge and data into the processing option. That is the success. The shortfall here, from a policy/strategy point of view, is that neither the government or the NDC has carried out sufficiently rigorous analysis to permit other communities, HTAs, or government to determine whether and under what conditions fish processing might provide greater benefits than can be achieved through the simple royalty sale of quota. As a consequence, even though "the Pangnirtung model" is considered not financially viable to replicate in other communities, the notion that onshore processing should be pursued continues to rank high in Nunavut's fisheries strategy. Yet after twenty years of turbot processing experience no one knows what a 'viable' model would look like.

### *Gaining value from the offshore fishery*

Up until the formation of the BFC, the model adopted by most quota-holders was to simply negotiate a royalty payment with an established license-holder out of the Atlantic fishery. Variations in this model included the occasional banding-together of several quota-holders in an attempt to leverage a better deal. Some level of pressure was also placed on license-holders to provide crew positions and training on-board.

However, the game plan began to change significantly with the adoption of a 'soft' strategy to maintain the significant new allocation of 0A quota in a single block held by multiple HTAs and other previous quota-holders in a formal corporate structure, the BFC. This decision has had major success in propelling Nunavut in the direction of actually becoming a 'fleet player'—owning vessels and fishing its own quota.

It is not known what might have happened in Nunavut's fishery had the 4000t 0A turbot quota had been allocated piecemeal as under previous policy. Would this northern quota have been fished by the southern

fleet? Would it have become a simple royalty fishery as has happened with 0B turbot and the shrimp quota? If no progress was being demonstrated to actually get into the business of fishing, would Nunavut be positioned to gain future increases in 0A TAC? While these are hypothetical questions, the historical evidence suggests that the choice to maintain 0A quota in a block—and to allocate it to an entity exclusively designed for fisheries development—should be recognized as a major success.

Allocation of quota to a variety of organizational forms and strategic models should also be seen as an important 'success'. Rather than solely making offshore quota available to HTAs, past NWMB allocation decisions provided the opportunity to experiment with different models. This has provided the opportunity to assess the actual performance of these models based on empirical evidence.

## **2.7. POLICY GAPS AND CONFLICTS**

Several policy gaps remain to be resolved:

- Financing of the inshore/onshore development;
- Clarifying of 'collective' benefit versus 'entrepreneurial benefit'; and,
- Aligning policy with control of 'levers'.

### *Financing inshore development and onshore processing*

The discussion on inshore policy points out an obvious inconsistency in Nunavut's emerging policy framework. On the one hand, the fisheries strategy prepared by the DOE and NTI is seeking to require investment of off-shore revenues into the inshore fisheries sector. On the other hand, there has been inadequate investment of public (or private) resources to demonstrate that a viable inshore fishery actually exists to be invested in. Further, the only onshore processing plant continues to be non-viable as a business after more than a decade of public subsidy.

To address this apparent inconsistency seems to require that the principle of 'user pay' be adopted by the territorial government. If the 'collective benefits' from offshore quota allocations are expected to be used to undertake the risk associated with developing the inshore fishery—a risk that appears to be high based on the previous twenty years efforts—it would be useful to set this expectation out in policy and subject this to debate amongst the 'collective' group who owns this benefit.

An additional policy gap relates to the potential for establishing new processing plants. What are the ground rules? What level of territorial funding will be available as leverage for private (HTA) investment? What level of on-going subsidy or one-time investment will be available for the establishment of processing plants? An investor needs to know the 'rules of the game' in order to weigh the risks and benefits before choosing where to put their money. Specifically, can plants expect on-going subsidy? Will this subsidy arise from offshore quota allocated 'permanently' to a plant? Are public to private equity contribution ratios going to be the same in the fisheries sector as in other sectors, or is the offshore revenue expected to reduce the level of public economic development contributions? If a policy to allocate sufficient offshore quota to ensure viability of onshore processing plants is adopted, it will clearly be in the best interests of any community to be first up for the new plant—thereby accessing the benefits of this subsidy for their community before they are tied up by some other community. This should be expected to be a pure political play, unless policy is developed that establishes specific criteria for support of plant establishment. The proven availability of viable inshore fishing opportunities could be one such criterion.

### *Collective versus entrepreneurial benefits*

At some point the nature of the 'collective' dimension of Nunavut quota should be clarified. Is this quota a 'public' or regional 'good', a benefit of the land claim, or the private property of whoever happens to get hold of it? Past allocation practice seems to be unclear on this. If quota is supposed to generate some level of collective benefit, it would seem apparent that its allocation to any specific individual or organization needs to generate a clear benefit to this group—whether that is the general public, a regional sub-set of the

public, or Inuit as land claim beneficiaries. This would then have implications for the development of policy related to:

- *Benefits disclosure*: Policy to guide quota recipients in the level of transparency and reporting requirements related to how their use of quota has benefited the relevant group;
- *Governance competency*: Policy to set out the minimal test for competency of the recipient organization to act in the interests of the relevant beneficiary group. This might address communications with membership, financial transparency (CEOs and board; board and membership); board competency and so forth. The litmus test would be; “Does the organization have the needed checks and balances in place to ensure it makes decisions in the interests of its membership?” and
- *Non-compliance*: Policy needs to be established to indicate what steps would be taken if minimal compliance to the above disclosure and competency standards are not met by a quota recipient. This might include both ‘carrots’—assistance to organizations willing to ‘get their house in order’—as well as ‘sticks’—with quota withdrawal being the final step.

Current practice is that there is no requirement for quota recipients to either demonstrate their organization has adequate governance structures and capabilities in place to ensure quota yields the benefits claimed on applications to the NWMB, nor to disclose the actual benefits that have accrued to either the members of the quota-holder or to the ‘relevant beneficiary group.’

An area where some debate has emerged relates to entry and exit from multi-shareholder recipients of quota. The obvious issue relates to membership rules associated with the BFC. This is an area where policy is probably not needed since it is well covered by existing corporate law. Rather, if competent governance—including the requirement that the membership understands the decisions they are making and which are being made on their behalf—is in place, existing flexibility to design appropriate corporate structures should address the concern. Addressing membership entry and exit issues should make up part of the governance competency checklist.

A second area relates to how aggressively quota allocation is tied to ‘public’ versus ‘enterprise’ benefits. It is not uncommon that an organization acting in its own best interests may adopt a strategy that does not support the best long-term interests of the community as a whole. When the organization itself is community-based, the public good might be better served, however this cannot be taken for granted. Ensuring good governance is a start at addressing this issue, since an informed and empowered membership will presumably (eventually) align their representative organizations to function in their own best interests. However, membership empowerment takes time. Further, the interests of the ‘controlling membership’—those who are actively involved in influencing the decisions of a local enterprise—may not be the same as those of the ‘collective’ shareholders.

In the intervening time, should ‘levers’ be identified and used to adjust the business climate so that the pursuit of ‘enterprise profitability’ becomes aligned with the pursuit of ‘socio-economic benefits’?<sup>6</sup> The approach suggested in the current Nunavut Fisheries Strategy is to take the relatively hard policy stick of requiring revenues to be funnelled in certain ways as a condition of quota access. As discussed under inshore fisheries above, this approach may be problematic. Consideration of the potential for softer, incentive-based methods that recognize the uncertainty and risk associated with various fisheries development models should be explored first.

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<sup>6</sup> It is recognized that a major assumption is being made here that an empowered membership would actually support a reduced enterprise profit in return for more diffuse socio-economic benefits to their community and its residents. This might actually not be the case. ‘Socio-economic benefits’ might, in the end, benefit government more directly than membership.

A preliminary step here is to establish a clear framework to be used in assessing and talking about the 'benefits' that arise from alternative fisheries strategies. Table 12, in Section 3.10, provides a starting point for thinking about both the corporate and collective benefits of alternative fisheries strategies.

*Aligning policy with control of the 'levers'*

The GN and NTI have formally staked a position within the Nunavut Fisheries Strategy that they intend allocation decisions to be tied to fisheries development. The NWMB, for its part, has informally expressed the position that it has no role in fisheries development, only in fisheries management. Under the current allocation regime, neither NTI nor the GN has control over the 'levers' of allocation. As a result, either the NWMB is going to get dragged into the politically charged business of making decisions related to fisheries development and allocating benefits or else its decisions on who gets quota and access to fish will be made independently of the developmental implications of these decisions.

Under the current policy regime, the GN/NTI strategy to link quota access to re-investment into the fishing industry lacks teeth. The GN/NTI can only influence the things they have some leverage over. To proceed along this path, then, they need to undertake the same 'soft' approach—utilizing research and communications—toward the NWMB that has been used in the past with the DFO. But this will continue to pull NWMB into an area it is unwilling, and perhaps unwise for good reason, to go.

*Addressing the gaps*

Recommendations that the Consultants feel can address these policy challenges and gaps are presented in Part Four, below.

## **PART 3. ORGANIZATIONAL STRUCTURE AND PERFORMANCE**

### ***3.1. HOW THE MODELS HAVE MET THEIR ORGANIZATIONAL OBJECTIVES AND THE OBJECTIVES OF NUNAVUT***

A number of quota allocation models have developed over time in Nunavut to meet various objectives as described in the previous sections. The discussion below focuses on the impact that these models have had on the Nunavut fishery in particular and on the area as a whole.

#### ***Baffin Fisheries Coalition or Collective Model***

Structure: The BFC was incorporated in 2001 as a 'not-for-profit corporation' under the Part II of the Canada Corporations Act. Since the BFC cannot operate for-profit businesses under their charter, the BFC has incorporated a number of companies to carry on for-profit business interests. The BFC wholly owns Niqitaq Fisheries Limited. Niqitaq Fisheries Limited has been used to hold the two companies that own the fishing vessels. These companies are Inuksuk Fisheries Limited and Oujukoaq Fisheries Limited. Nataaqnaq Fisheries Limited—which the Consultants understand to be an Icelandic-controlled company—also has an ownership position in these two companies, and provides management for the day-to-day operation of these vessels. These are private companies organized for the sole purpose of owning all or part of fishing vessels to harvest all or part of the BFC quota allocations. We did not investigate who has the effective ownership of this company.

The BFC operates as a collective model, owned by several communities and individuals from around the Baffin region. The BFC is based on a major quota allocation that was provided to it by the NWMB, with the consent of the member organizations as expressed through the original MOU.

Membership: Eleven founding members from Nunavut, all of whom had existing access to various quotas, formed the BFC. These members own all the voting shares, which are comprised of separate and unique classes, allowing the BFC to pay dividends or other benefits on an unequal basis. In 2004, one member, Nattivak HTA of Qikiqtarjuaq resigned due to a disagreement over the direction of the BFC and use of the funds derived from the quotas. Nattivak did not feel that funds should be used to fund direct ownership of vessels but, rather, should be used to fund investments at the HTA level.

CSFL and PFL also resigned because they wanted direct access to the OA quota. After negotiations, which included the DOE, a deal was struck to land 200 t of the turbot quota to PFL. CSFL and PFL subsequently re-joined BFC. The last lot of turbot is being landed to PFL in the fall of 2005.

Additional members can be added only by approval of a majority of the Board of Directors. Any member may resign by submitting a letter of resignation. Also, any member may be required to resign by a vote of three quarters of the members at an annual meeting.

Corporate Objective: The BFC model was set up to operate as a 'collective' model, whereby OA quota would be kept together, and the membership—representing previous quota holders—would be able to work to further common goals under one governance structure. Significant thought, discussion and consultation went into the formulation of the BFC concept.

The MOU signed by the original eleven founding members reflects the consensus of the original signatories. These objectives are:

- Exploratory fishing;
- Development of new inshore fisheries and emerging fisheries;
- Development of offshore fisheries;
- Recruitment and training current and new jobs in the offshore fisheries;
- Investment in a Nunavut fishing vessel;

- Lobbying for more access to other fishing quotas including 0B turbot;
- Encourage scientific research; and
- Administration of the initiative including preparing calls for proposals.

All signatories agreed that no funds were to be paid to shareholders until after the first three years.

It is clear that the focus was to use funds to further additional development of the fishery, both inshore and offshore, and to get more control over the existing fishery through: controlling a vessel/s; lobbying for additional quota; raising the profile of the Nunavut position at meetings; and employing more Inuit on the existing vessels. In discussions with one of the visionaries of this concept, it was hoped that this model would generate the critical mass needed to make a difference in dealing with southern fishing interests and with the Government of Canada, and to ensure that control of the fishery would reside in the communities.

Based on interviews with key participants, and on a review of key reports and data, it is clear that the focus of the BFC has been to fulfil their mandate, as stated in the 2001 MOU. Comparing the results against the objectives, one must conclude that they have achieved success in this regard. Although this has not been free from controversy, progress has been made on the following objectives:

- Development of the offshore fishery – In the 0A turbot fishery, the BFC has caught most of its quota over the past four years. Fishing started in 2001, and there was concern whether all this quota could actually be caught. The BFC has been one of the parties that has assisted with financial support for the exploratory offshore research cruises which have led to an increased quota within 0A. \$112,000 was spent for this purpose in 2004. The BFC has also assisted members in fishing their quotas, which, even though contracts were signed, were not previously being fished.

**Table 3. PERCENTAGE OF 0A TURBOT HARVESTED BY BFC**

	2001	2002	2003	2004	Harvest %
BFC Allocation	3,500	4,000	4,400	4,200	
BFC Harvest	2,642	3,589	4,133	3,617	87%

- Investment in a Nunavut vessel – The BFC has a contractual arrangement with the option to purchase two vessels and has made an initial investment in the factory trawler ‘FV Inuksuk’ under this arrangement. At their October 2005 Board Meeting, the BFC voted to acquire a total of 51% of the companies owning the two vessels. The BFC has contracted with other fishing interests to transfer quotas of turbot for shrimp to put together a year-round fishing plan that appears to support a trawler and a fixed gear vessel. The Consultants have reviewed the fishing plan and find that it has the mix of fish species to allow the vessels to operate almost on a full time basis. The fixed gear vessel requires additional access to southern groundfish to complete its fishing plan.

Raising the ownership percentage increases the risk because an additional \$1,000,000 is required for the investment and the royalty rate reduces from 15% to 12.5%;

- Lobbying for more access – The BFC has definitely increased the profile of Nunavut interests in the industry and in pushing for more access to quota. There is no question that since the BFC started, it has raised the profile and interests of the Nunavut area in relationship to fishing and access. With the investments made by the BFC and QC, southern interests see their influence and involvement waning in the harvest of Nunavut and other Aboriginal allocations;

- Over the past three years, the BFC has raised the interest of southern companies to fish in SFA1. In the past, companies such as Kabva Marine were unable to get vessels to actually fish their quota. They referred to their SFA 1 quota as 'paper shrimp'. Now, the BFC has put together sufficient quota to attract interest. It has been suggested that the BFC's success has pushed southern interests to begin to fish their quotas in SFA 1, due to a fear that their previously un-utilized allocations would be claimed by Nunavut interests. The BFC represents a positive 'tipping point' for Nunavut interests in the offshore fishery.
- Recruitment and training – The BFC, along with others such as NTI, NWMB and GN, is taking a leadership role to get a medium-term training program—the Baffin Fisheries Training Partnership—operational, and to attract and train local mariners.
- Inshore fishery development – As noted in Part One, projects to develop the inshore and shore-based fishery have been conducted for the past 20 years. Profitability and success has been elusive in this area. One objective of the BFC has been to support inshore development. This is interpreted to mean at the community level. The BFC has funds set aside for projects and/or investments and has provided approximately \$176,000 up to 31 March 2005 for developmental fishing projects. With these funds, the BFC assisted proponent HTAs in accessing an additional \$800,000 for inshore projects. Other funding agencies and groups have been key to getting these projects off the bench. These funds were used directly for inshore fisheries exploration. As well, an additional \$50,000 was allocated to support areas of the general fishery. In relationship to the funds spent on the vessels, management and training, these funds are relatively small. In discussions with BFC management, they indicated that they have recognized this and are planning to hire a Fisheries Project Officer to work with the HTAs to development proposals. The BFC believes that a problem has been providing assistance at the community level to get projects designed and supported. The BFC Project Officer will no doubt assist, however it appears that this direct community development role is equally in line with government community economic development responsibilities.

As well, BFC has landed turbot at PFL over the past 5 years for a value of roughly \$2.5 million (estimating 2005 costs to be \$500,000). This is considered by BFC to be support of the inshore fishery.

On inshore development, the BFC believes that the first step is to prove that the resource is there and that a viable method to catch it is available, before investments in onshore processing can be made.

This is an area that has brought the BFC in conflict with at least one HTA, Nattivak HTA. Inshore fisheries are an area of important development as noted in the "Nunavut Fisheries Strategy" and of keen interest to the HTAs.

### ***Qikiqtaaluk Corporation (QC)***

Structure: Established in 1983, QC is an Inuit birthright development corporation owned by Qikiqtani Inuit Association (QIA) for the purposes of economic development. QC has one full shrimp licence and a 50% ownership in Unaaq Fisheries Limited which has an additional shrimp licence. As well, it has been allocated 285 t of turbot in 0B for over the past number of years. QC has taken a very limited role in fisheries development.

QC has always transferred its licences and quotas to southern fishing interests for royalty payments. These funds have been primarily used for investments outside of the fishery. QC has recently purchased a shrimp factory trawler. Industry rumours report that an agreement on the exchange of quotas will be signed between QC and BFC. The QC vessel is set up to only process shrimp while the BFC factory vessel can process both shrimp and turbot.

Membership: QC is wholly controlled by the Qikiqtani Inuit Association which is comprised of 19 Inuit board members, including one member elected from each of the Baffin region's 13 communities. According to the QIA website, the current President, Thomas Alikatuktuk, was involved in starting the Pangnirtung fish plant. The QIA is financed primarily by NTI.

Corporate Objectives: QC operates as the economic development arm of the QIA. It has investments, participates in joint ventures, and operates various businesses. Except for the recently acquired vessel and the shrimp licences, QC has not been involved in any other fishing activities. Its business interests include environmental cleanup of DEW line sites, mineral development support, real estate ownership (two office buildings and staff housing), management, construction, marine shipping, housing for Inuit on medical trips in Ottawa, a wood working division, property assessment and retail operations that include a gas bar and a coffee house. QC has, in the past, provided some funds for fishery development, including a crab survey.

The Consultants received very limited verbal information from QC and did not receive any of the requested written information.

### ***Cumberland Sound Fisheries Limited (CSFL)***

Structure: CSFL is a privately held company incorporated in 1988 to manage local fishing quotas and co-own a fish plant.

Membership: The shareholders include the Pangnirtung HTA, the local Pangnirtung Coop, as well as approximately 48 other residents of Pangnirtung. CSFL was organized to manage the quotas for the local winter fishery, and partly owns the fish plant. Membership is by share ownership.

Corporate Objectives: CSFL has been granted a quota for 750 t of 0B turbot for the past number of years, however, it transfers the quota to Pangnirtung Fisheries Limited (PFL). CSFL receives a cash payment for the quota and PFL negotiates and manages the arrangements with the harvesting company. CSFL also receives a 1,000 t shrimp quota in SFA1.

At present, the local HTA regulates access to the newly created 500 t Cumberland Sound turbot quota. The authority for this is uncertain.

CSFL's other business activities include owning and renting housing to Government and PFL management personnel, and rental of the Baader filleting machine. The business aspects of CSFL are largely dependent upon the granting of the quota (turbot and shrimp) and the continued operation of PFL.

### ***Pangnirtung Fisheries Limited (PFL)***

PFL is owned 51% by Nunavut Development Corporation (NDC) and 49% CSFL. PFL's sole business is to operate a fish plant processing turbot and char. The turbot comes from a winter ice fishery and from re-processing frozen-at-sea fish caught by PFL's royalty charter contractor. The plant loses money every year and requires support from NDC and from the sale of turbot quota transferred to PFL from CSFL.

Structure: A private company registered under the laws of Nunavut in 1992.

Membership: The shareholders are Nunavut Development Corporation (NDC), holding 51% of the voting common shares, and CSFL, holding 49%.

## ***Hunter and Trapper Organizations (HTA)***

The HTA model represents the organization closest to the hamlets and representing the closest organizational level to the hunters and trappers of the hamlet. HTAs are non-profit organizations.

Structure: The HTAs are enabled under the Nunavut Land Claims agreement (NLCA Art. 5.7) and have specific powers and functions including:

- Regulation of harvesting practices and techniques;
- Allocation and enforcement of community basic needs levels and adjusted basic needs among members;
- Assignment to non-members basic needs; and
- Management of harvesting among members.

The HTAs serve as forums for the communities to make decisions, implement them, and coordinate the shared use of local wildlife resources. These decisions are made in the context of existing laws and regulations. Also HTAs act as voices for communities dealing with governments and other organizations. Normally, HTAs provide for community food hunts and undertake other functions to assist the membership. They receive core funding from NTI for the operation of an office, hiring a manager, and some other functions, and may access other funding from the GN.

Lately some HTAs have undertaken fishery development projects, acting as a contact point for the community. As such, the HTA has been a natural group to receive access to quotas.

Membership: Generally an HTA is open to all resident Inuit in a hamlet. The local HTA may make some rules regulating membership. In Qikiqtarjuaq there is an age limit of 16 years for membership. The key governance mechanism is the annual general meeting where business is conducted and Directors elected.

## ***Individual Operators***

There are a number of private operators who have received quota over the years. All of these operators transfer their quotas to fishing interests in return for royalty payments.

Generally, these companies carry out other business activities outside the fishery. For example, Kabva Marine operates a construction company and collects soapstone for sale to carvers. In the past, Kabva Marine has undertaken developmental fishing programs sponsored by the GN. The revenues generated by fisheries quota are used for general business development and revenues.

The company representative stated that Kabva has an interest in fishing for turbot in the summer using the Cumberland Sound quota.

The Consultants were unable to contact Aqviq Marine Limited or Jencor Limited representatives for interviews and they did not return information forms faxed to them.

### ***3.2. ASSESSING THE QUOTA HOLDERS***

#### ***Use of the Revenue from the Quotas***

In this analysis, a calculation of the Nunavut benefit has been completed using the available information. The calculation is not a complete, nor fully adequate, socio-economic evaluation. The purpose is to provide the reader with a sense of where the direct benefits are obtained, and where they might be obtained in the future. It is not possible using this crude analysis to absolutely compare models. As well, the information on actual offshore crewing is not complete and approximations from the scattered data have had to be used. The calculation of the Nunavut benefit includes only direct financial calculations based upon expenditures

by the organizations. It does not include other indirect benefits, such as improved self-value, reduced social costs, increased social capital, and so forth.

### *Baffin Fisheries Coalition*

Initially the signatories to the MOU agreed to use all funds for the first three years toward meeting the BFC's objectives. The corporation has established various internal funds, such as the vessel fund (\$2,000,000 of which \$1,000,000 has been used); the training fund (\$100,000); and a research and development fund (\$500,000). These funds are presently fully funded.

Table 4, below, illustrates the use of funds by the BFC. It compares the financial statements from the year ending 31 March of 2003 with 2005 and against the budget ending 31 March 2006.

Several comments can be made related to the BFC's sources and use of revenues:

- The need-benefit calculation for the expenditures are very rough estimates done by the Consultants and are presented to show the approximate amount and areas where benefits to Nunavut arise. Table 4 shows that since inception the BFC has added more benefits to Nunavut than if a simple royalty payment was obtained. The 'added value' of crew wages significantly adds to the benefit. The BFC has seen a continuing increase in crew participation. In the initial years, the ratio of benefits compared to the royalty would have been less than 1.0;
- The addition of corporate profit from the vessel investment has a major impact on returns as compared to strictly a royalty sale. The BFC budget for 2005 shows a likely pre-tax value in the \$0.8 to \$1.1 million range (based upon 51% ownership). Once the vessels are fishing year-round and the training program gets more Inuit crew on the vessels for a longer time, the impact of increased profits and additional wages will see the ratio of income to straight royalty increase. One must be a little careful with the use of the numbers in Table 4, since net flows of funds out of Nunavut to pay for the principle and interest on the vessels is a net loss, if profits are used to fund the purchase. This is not the case if debt instruments are used.

The key issue is that with ownership and a push for Nunavut crews the value exceeds the simple royalty value. The relative impact of these factors are discussed below in Section 3.6;

- The Nunavut benefit calculation does not value the longer term benefits of the investments being sponsored by BFC, such as support for training; increasing the crew on the vessels; the building of capacity; and, the future profits from the vessel investments. These have true value and for many of these items they are truly seed investments;
- The BFC has provided 25% of their royalty income to support the plant in Pangnirtung by landing turbot to the plant at no charge to the company. This agreement ends in 2005 with the last landing of 200 t in the fall. Consideration needs to be given by all parties to negotiating a replacement agreement for fish supply. It could include the fishing of the 750t 0B quota by the BFC;

- Board honoraria, per diems and costs, and staff wages continue to rise in real dollars and are at approximately 25% of the royalties—rising from an average of 11% over the first four years. The BFC's role is changing with the partial ownership of two vessels and their stated goal to increase efforts in the inshore exploratory fishing area. The Board comes from around the Baffin region, and this increases the travel and per diem expense. The staff wage increase is a result of the following key factors:
  - Hiring of a President and increases in the contract costs for the Chief Operating Officer (COO);
  - Hiring of a Fisheries Development Officer to develop inshore fishery projects;
  - Hiring of office staff in St. John's NF to assist the COO and to handle the financial monitoring of the two vessels;
  - Hiring of a Crew Liaison Officer in 2003.
  
- The St. John's office of BFC is expanding with the addition of a Financial Clerk at a time when there is general concern over leakage of jobs and expenditures from Nunavut to the south. We understand the issue of the Board agreeing to the request of the COO living in St. John's. It is important to build the Iqaluit office capacity and any building of operational and financial capacity should be done in Iqaluit;
  
- During this study, comments were expressed related to the level of payment made to the COO and the honoraria and bonuses paid to Directors. Given that remuneration of staff and Directors is the responsibility and authority of the Board, it is the shareholders' responsibility to determine and control these issues. The real issue is, are these rates at market value or not? Expertise in planning and operating this company is definitely required and must be hired. The question that the Board—and ultimately the shareholders—must answer is; “Has the procedure to set remuneration been appropriate, and has a fair, market-driven value been set?” This is a governance issue. This issue follows directly from the discussion in the policy section over who has the right to the royalty—is it ‘owned’ by the corporation or by the public? Also, as these costs rise, benefits flowing through to the community HTA shareholders may decline. These costs need to be reviewed from the point of view of whether they are set at fair market rates and whether the shareholders are getting a fair share of the returns.

**Table 4. USE OF FUNDS AND NUNAVUT BENEFIT BY THE BFC FOR 2003, 2005, 2006**

	Period ending			
	31-Mar-06	Mar-31		
		budget	actual	% of Income
		(1)		% \$
<b>Income</b>				
Royalties	\$2,839,000	\$7,151,365		(2)
Other	\$44,939	\$805,991		
Total	\$2,883,939	\$7,957,356		
<b>Expenses</b>				
PFL fish delivery	\$0	\$2,500,387	31%	100% \$2,500,387
Operating cost	\$262,126	\$942,380	12%	30% \$282,714
Board honouraria and staff wages	\$729,882	\$1,669,688	21%	60% \$1,001,813
Board and staff travel	\$169,883	\$763,498	10%	20% \$152,700
Workshops and training	\$378,000	\$225,190	3%	75% \$168,893
Exploratory fisheries	\$200,000	\$569,502	7%	70% \$398,651
Profit-from Royalty income	\$1,156,529	\$2,389,737	30%	100% \$2,389,737
Revenue sharing to shareholders	(4)	\$600,000	8%	100% \$600,000
Est. Income from vessel ownership (3)	\$800,000	\$0		100% \$0
<b>Nunavut BFC expenditure benefit</b>	\$3,003,557			\$6,894,894
<b>Wage value of crews fishing BFC quotas</b>				
2006 target (5)	\$1,779,000			
2002-2005 (6)				\$1,669,000
<b>Total Nunavut benefit</b>	\$4,782,557			\$8,563,894
<b>Nunavut benefit as a % of royalty (9)</b>	168%			120%
Vessel investment (7)	\$2,000,000			\$0
<b>Employment equivalents on vessels (5)</b>				
2006 target (8)	64.3			
Average of first 4 years (8)				15.1

(1) Data from the BFC Financial statements

(2) Benefits estimated by consultant without analysis of account details

(3) Using a 51% ownership and pro formas prepared by the Nataaqaq Limited -range \$0.8 to 1.0 million (see text)

(4) To be determined by Board

(5) based upon \$27,650 wages per job

(6) Employment information supplied by BFC

(7) It is likely that the Board will increase its ownership to 51% and the investment to \$2,000,000 at next Board meeting

(8) Based on the calculation of \$27,650 annual wage per employee

(9) Same multipliers used as in (3) except horouraria and wages chaged to 70%

### *Qikiqtaaluk Corporation*

Until this year, QC has primarily used income from its shrimp licence and turbot allocation to fund investments outside of the fishery. An exception is their investment in the BFC and some fishery exploratory projects.

Recently, QC has completed an arrangement to purchase an ex-Royal Greenland shrimp processing vessel. Details on this arrangement have not been made available to the Consultants .

The range of royalty income from the fishery holdings of QC are estimated in the table below. Since the details of these investments are not known, the benefit to Nunavut from QC's use of these revenues is not known.

**Table 5. ESTIMATED ANNUAL ROYALTY VALUE OF QC LICENCES AND QUOTA**

	#	Quota (mt)	Value (\$/mt)	Cash value
Shrimp licences	1.5	6000	\$400	\$2,400,000
Turbot quota		285	\$500	\$142,500
Estimated total value				\$2,542,500

*Cumberland Sound Fisheries Limited*

CSFL receives in the range of approximately 50% of the cash value of the turbot royalty from PFL, twelve months after the start of the fishing season. This is presently in the range of \$180,000, from which a harvesting fee of \$30,000 is paid to DFO. The net gain is roughly \$140,000 on the turbot, with an additional \$30,000 on the shrimp. Their income stream comes both from this sale of access to the quotas, as well as from rental of housing and of a filleting machine they have purchased. The income is used for investments in housing and in the filleting machine, and for payments to the shareholders and directors, through dividend, honoraria, and management fees.

CSFL has undertaken fisheries development projects related to the Cumberland Sound fishery development and improvement including the testing of an improved kite for under-the-ice fishing in 2004.

Approximately ten percent of royalty revenues are distributed to the shareholders, with another ten percent being used for management fees and honoraria. Slightly less than half of the income is used as amortization expense for the housing and filleting machine investments. These should be recoverable on a cash basis on the sale of these items. At that point they would be available to the shareholders. Total payments to all shareholders have been in the range of \$55,000 per annum. The Nunavut benefits generated by quota supplied to CSFL are less than the royalty value of the quota. This arises as a consequence of CSFL supplying quota to PFL at less than market value.

*Pangnirtung Fisheries Limited*

PFL does not hold quota. Rather, the company negotiates with CSFL for transfer of their quotas to PFL. PFL then contracts with a harvesting company to land up to 25% of the turbot into the fish plant, with the vessel company keeping the remaining turbot. PFL receives a royalty on the fish not landed, which it uses for operations.

PFL has operated at a loss, and this is not expected to change under the current conditions. Various subsidies will be required to keep the plant operating, unless they are replaced by the injection of royalty revenues. The winter turbot fishery and the local char fishery depend upon the processing plant. From a brief review of the financial statements and from key person interviews, the following Table 6 illustrates that the direct benefits compared to the quota access cost (royalties) have been in the 0.53 to 0.75 range when the transport and operating subsidies are subtracted from the 'fisheries-generated' benefits. This means that greater direct benefit would be generated by simply collecting and distributing the royalty, rather than funnelling the quota and fish through the processing enterprise. If one includes the NDC and transport subsidies as part of the fisheries-generated benefit to the community, then the ratio of Nunavut benefits to the royalties and subsidies total has been on average about 1.14 to 1.27.

Much of the Nunavut benefit is obtained directly from the plant side of the operation (wages and fishermen income). In the year ending 31 March 2005, the Nunavut benefit generated by the plant was very close to the subsidy value.

### HTAs

In general, most of the funds raised by the sale of royalty quotas have been used to fund the ongoing costs of HTA operations. An estimate from the Nattivak HTA was that half of their income went to fuel and supplies for hunters, 20% to country food hunts or purchases, 10% to fishery development projects and 20% to overheads such as salaries and communication costs. The Pangnirtung HTA estimated that most of the dividend received from CSFL is used for a community hunt, purchase of country food and a community feast. Data have not been provided to indicate how much of the quota royalties have been used to pay honoraria and management fees.

**Table 6. BENEFIT OF QUOTA ALLOCATION FOR PANGNIRTUNG FISHERIES LIMITED**

	Mar 31 2007 Budget	Mar 31 2005 Actual	Mar 31 2004 Actual	Average
<b>Sales</b>	\$2,359,235	\$1,683,573	\$2,430,525	\$2,157,778
<b>Estimated Nunavut benefit to plant</b>	\$1,405,844	\$1,064,635	\$912,515	\$1,127,665
<b>Nunavut benefit as a % of sales</b>	60%	63%	38%	52%
<b>Subsidy</b>				
NDC operating	\$260,000	\$260,000	\$260,000	
DOE freight subsidy	\$150,000	\$119,948	\$148,410	
<b>Est. Nunavut plant benefit less subsidy</b>	\$995,844	\$684,687	\$504,105	
<b>Wages from offshore crew (1)</b>	\$450,611	\$193,550	\$193,119	
<b>Wages from BFC fish landed (2)</b>		\$51,613	\$72,098	
<b>Total est. Nunavut benefit less subsidy</b>	\$1,446,455	\$929,850	\$769,322	\$1,048,542
<b>Cost of quota allocation</b>				
CSFL loss of royalty on processed fish	\$136,355	\$237,168	\$190,200	
loss of royalty on 1000 mt + fish cost	\$775,000			
cost of BFC turbot		\$400,000	\$355,000	
loss of royalty on BFC fish		\$95,000	\$130,150	
<b>Total quota cost impact</b>	\$911,355	\$732,168	\$675,350	\$772,958
<b>Ratio benefit including subsidy : royalty</b>	1.59	1.27	1.14	1.36
<b>Ratio of benefit less subsidy : royalty</b>	1.14	0.75	0.53	0.81
<b>Job summary estimate</b>				
direct	18.9	16.2	21.9	
offshore crews	16.3	8.9	9.6	
fishermen-winter turbot	6.2	7.6	13.8	
total	41.4	32.7	45.3	
<b>Individual workers employed</b>				
plant employees		95	99	
offshore crews (estimated)		9	8	
inshore fishermen		51	74	

Information from Pangnirtung Fisheries Limited

(1) Mar 31 2005 actual; Mar 31 2005 estimate by PFL; budget based upon Mar 31 2004 for 750 mt plus additional 1000 mt.

(2) Estimated crewing calculated on a prorated basis from the CSFL 750 mt quota.

(3) Calculations are on a cash basis and have not considered amortization expenses

### **3.3. GOVERNANCE, TRANSPARENCY AND INVOLVEMENT OF THE MEMBERSHIP IN DECISION-MAKING**

Corporate governance issues were noted by many of the interviewees. Four key issues were noted:

- Are the Board members up to the task? — Complaints of Directors not reporting back to shareholders, and shareholders feeling that they do not have any say in the direction of the company. This often relates to having a knowledgeable person with the right set of skills representing the members/shareholders.

If the Directors are not conveying the concerns and interests of their membership, then the direction of the company will be at odds with the shareholders. Buried in this issue is the capacity of the individuals to act as Directors as well as the direction given to Directors by the Boards that they report to. Operating on a Board requires a set of skills plus the confidence to challenge Management. Without a skilled Board, Management will naturally fill the void. The representation from the shareholder/member communities is needed to ensure that Management's business emphasis is focused on items that the shareholder groups consider important. Every Board in the country has to deal with this issue.

Training of Directors—and of shareholders themselves—is required to overcome this problem. Shareholders need to know that they must select people with the required set of skills to represent them. Board members need to be trained in their responsibilities and authorities.

- Transparency — The HTAs and the BFC are 'not-for-profit' companies. In order to operate fishing companies, they must set up separate profit-generating companies directly owned by the 'not-for-profit' company. The management and operation of these companies thus becomes one further layer removed from the original shareholders. The problem noted in the first item may become a larger issue with layered companies. The model is not restricted to one layer of companies, they can extend further. Any of these firms may be making business contracts that will impact the original shareholder and the inherent values of their business and quota to them.

As the business dealing move beyond a simple royalty model, the options expand and the skill set required for making prudent decisions in the interests of the ultimate shareholders increases. The BFC is the model most noted by people who raised governance and transparency issues. It is, though, just the first of the models that is entering into more complicated business arrangements where governance and transparency to membership—and to other parties—becomes an issue.

- Independence — Public company boards try to ensure that they have a number of independent board members who do not directly benefit from involvement on the Board. All members on the HTAs and on the BFC are directly involved with decisions and will directly benefit from them.

Consideration should be given to having Independent Board members sit on the BFC, on QC and on the HTA Boards. Initially GN or NTI may have to provide this independence because of a lack of knowledgeable persons within the hamlets who are not already members of the HTAs.

- Self-dealing —The Nunavut practice of paying honoraria for every meeting—and for some organizations to pay bonuses as well—means that disproportionate benefits can be collected by a few members. This has the potential of aggravating issues among communities and within communities. Honoraria may well remain as common practice, but they must be fair,

reasonable and transparent to the membership. The Board members are also recipients of the benefits of the operations of the companies and organizations, therefore the payments should be moderate. Independent Directors who are expected to devote time to organizations from which they receive no benefit usually are paid more for their participation. This is certainly a concern in relation to the BFC Board, which has recently and substantially increased their honoraria, as well as for the HTA Boards.

These issues are not new to Nunavut. In fact, in February 2005, the Wildlife Policy Advisory Committee of NTI announced that it was forming a Secretariat to provide support and oversight to organizations such as RWOs and HTAs. This followed a 2004 review of the RWOs which indicated concern over management capacity, transparency and funds management. It would be prudent for the quota-issuing organization to place some limits on the daily and total amounts spent on honoraria, travel allowances and bonuses.

It would appear prudent that when a valued asset is given, the receiving party have the skills to properly utilize the asset. In the case of fisheries quota, this would imply that the quota-issuing agency—NWMB—has some responsibility to ensure the receiving groups have the skill sets, viable plans, and the appropriate checks and balances to assist in its successful implementation. More will be said in Part Four, below.

### *Baffin Fisheries Coalition*

The BFC has a Board of Directors that has the authority to direct the company's affairs. These Directors are selected by each of the member shareholders. In some cases, they are elected by the Board of Directors of the shareholder organizations, such as the HTAs, and in other cases are appointed by the management of the company or organization.

The Consultants reviewed selected minutes and motions of the BFC Board and found that Management prepared information for the Board on matters of corporate direction. The BFC held 43 meetings/telephone calls of the Board or Executive Committee in the past four years. From the random review of Agenda and Minutes, the Board discussed and approved major items that the Board is required and empowered to transact. Information packs are prepared in advance for all Board members.

BFC Management involves and utilizes the Board. However, there is some concern in relation to how fully member organizations are being informed on substantial issues. Comments that the HTA Boards are not receiving information on the activities of the BFC, and issues identified from the BFC that some Directors were not reporting back to their membership were heard. Breakdown in these critical communications results in a loss of linkage between the company and their membership base.

The issue of Management leading the Board were noted by two persons interviewed who were not Board members. This may or may not be true, but Boards without appropriate skill sets and confidence will be led by Management. Selection and training of Board members is key.

The issue of transparency of why and how decisions are made at the BFC came up in a few interviews. The belief is that the BFC should be more open because it is handling a property—fish quota—that is seen as a public asset. The BFC is a 'not-for-profit' company that is governed by its charter and by the Canada Corporations Act. They do not have to be anymore open than required by law or by the contracts that they enter into. This is a key issue for the BFC, and it is unlikely to go away. The issue takes a number of forms:

- Concern that the business of the company is not shared with others outside the company. Issues were raised in relation to: how the selections for royalty charter were made; the reasons for, and details of how the vessel investment was made; and, the value of the contract negotiated by the COO and the company. Basically these are decisions to be taken by a Board of Directors. Shareholders may instruct their Directors to report back to them on any of these issues for guidance. It is the shareholders who have the control over their Directors. Collectively the Directors make the decisions;

- The flow of information between the Board and the shareholders, as noted above.

### *Qikiqtaaluk Corporation*

Information has not been released to the Consultants from QC on its operations or governance.

### *Cumberland Sound Fisheries Limited*

CSFL is managed by a Board of Directors and an Executive Committee. CSFL has an annual meeting and financial statements are prepared. In interviews with the HTA and with two Directors, no issues of governance were raised. CSFL shares are widely held within Pangnirtung, therefore it may be expected that issues may be more easily identified because of the close proximity of the shareholders. This would be expected to support the resolution of issues.

### *Pangnirtung Fisheries Limited*

The Directors are selected by the shareholders. Preparation of financial statements and formal annual shareholder meetings are undertaken. An Executive Committee together with the General Manager conduct the general business. For key issues such as the contracting of the annual quota, submissions are sought from capable fishing companies and are analyzed by the General Manager and submitted to the Executive Board and to NDC for scrutiny. A review of the analysis for the past three years was reviewed by the Consultants and found to be satisfactory in determining the highest value for PFL. Because of the subsidy position, the NDC provides oversight on most of the business of the company. As well, independent auditors review the company's financial records on an annual basis.

PFL is the 'for-profit' corporation of the CSFL, however there is little concern related to 'layering' due to the additional oversight provided by the NDC.

### *HTAs*

The HTAs are required to hold annual meetings where the Directors are elected. The HTA must provide the regional Inuit association and NTI a financial audit each year. Minutes or motions of HTAs were not available for review.

As previously noted, since HTAs are non-profit, they sometimes form 'for-profit' companies when they enter into business dealings that require investment or other for-profit undertakings. At this stage, accountability directly to the membership changes. It falls to the Directors elected by the 'for-profit' organization to determine the actions of this company. It is the responsibility of the HTA Board to ensure oversight with their representatives on these Boards. There may also be additional levels of company ownership or contract arrangements. This is the relationship that member HTAs have with the BFC and that other HTAs have proposed with other fishing interests. Under strong governance, these arrangements are not a problem. However, increasing complexity in corporate structures and obligations requires a high level of capacity and transparency between staff, Board, and membership. Current governance issues, coupled with increasingly complex HTA – enterprise relationships, raises concern. NTI has formed a new Secretariat to oversee management, financial operations and governance of HTA after a series of issues were revealed in audits and reviews last year.

Operation of offshore vessels and onshore fish plants require a significantly greater management skill and intensity than the HTAs are familiar with in their normal operations. Training at both the Board and operations level is required, and it is incumbent upon those granting quota access to ensure these skills are in place, before allocating the quotas.

### 3.4. PERFORMANCE IN EMPLOYING AND TRAINING INUIT IN THE FISHERY AND IN INCREASING CAPACITY

#### Offshore crewing

Table 7 shows the employment data that was available to the Consultants. It is incomplete, missing all data from some quota holders and some data from others. The comparative analysis among the quota holders really does not inform much about effort or success. Given that most Inuit crew only work a portion of the trips available to them, the organizations with a smaller quota will generally generate more wages per tonne of quota.

**Table 7. OFFSHORE CREW EMPLOYMENT 2001-2004—AVAILABLE DATA**

	2004	2003	2002	2001
<b>QC (1 shrimp licence)</b>				
# crew			22	26
total wages			\$469,710	\$291,086
quota (t)	4000	4000	4000	4000
wages/t			\$117	\$73
<b>CSFL</b>				
# crew		9	8	
total wages		\$193,119	\$171,218	\$199,002
quota (t)	750	750	750	750
wages/t		\$257	\$228	\$265
<b>Clyde River HTO</b>				
# crew			6	5
total wages			\$102,278	\$90,974
quota (t)	45	45	45	45
wages/t			\$2,273	\$2,022
<b>Mittimatalik HTO</b>				
# crew			3	3
total wages			\$94,447	\$47,518
quota (t)	45	45	45	45
wages/t			\$2,099	\$1,056
<b>Nattivak HTO</b>				
# crew	13	14	10	13
total wages	\$238,548	\$310,865	\$180,460	\$92,367
quota (t)	330	330	330	330
wages/t	\$723	\$942	\$547	\$280
<b>BFC</b>				
# crew	41	25	20	5
total wages	\$689,000	\$670,000	\$270,000	\$40,000
quota (t)	4235	4783	4220	2642
wages/t	\$163	\$140	\$64	\$15

From various sources including company record

Other quota holders did not report

Given that approximately 16% of the sales value of the catch is paid out as direct crew wages, the opportunity for increasing Nunavut benefits is substantial. The total quota that Nunavut interests control equates to 5,900 t of turbot and 5,991 t of shrimp—not including the QC licences. At today's values, the crew component is approximately \$6.7 million. At 60% of the wages, this equates to \$4 million dollars. The addition of 1.5 shrimp licences from QC increases the crew wages by \$2.5 million, and at 60% Inuit crew potential the Inuit portion increases by \$1.5 million to \$5.5 million. However, there are major hurdles that need to be overcome to achieve these levels. Presently it is reported that:

- Most Inuit crew do not work year round but participate in 1 to 5 trips per year. The number of trips available per year range from around 6 to 12;
- Since the price of shrimp has dropped, the number of Inuit crew on the shrimp vessels has dropped because of lower earnings; and,
- To date almost all the positions filled are factory deck workers and a few working on the fishing deck.

The BFC has budgeted Inuit crew percentages increasing significantly in 2005 to approximately \$1.5 million or 32% of all crew positions on BFC vessels and on other vessels fishing the BFC's Nunavut quota. They estimate that this will increase to 45% and \$2.2 million by 2008.

A major four-year training initiative is underway to increase the numbers of crew and to train for more senior positions. The Aboriginal Skills and Employment Proposal (ASEP) sponsored by the Baffin Fisheries Training Partnership will train for a variety of crew positions. This is an important initiative to gain a larger share of crew earnings. By owning the vessels it is likely that there will be increased job openings available to graduates.

QC, BFC, Pangnirtung HTA and Nattivak HTA all reported running training programs. However, only the BFC reported specific spending amounts—\$114,000 on training initiatives in the past few years, which was further levered to support a \$637,000 program.

### ***3.5. CONTRIBUTION TO CULTURAL, SOCIAL AND ECONOMIC FABRIC OF NUNAVUT***

Revenues derived from involvement in the fisheries may be used to support activities in the traditional, land-based economy. This appears to be the situation with much of the royalty revenue generated by the HTAs. As previously noted, the Pangnirtung HTA, for example, uses its dividend from CSFL to support a community hunt. Similarly, creation of employment opportunities has a value that goes beyond the wages that work generates. While the value of these contributions is recognized, Nunavut has not yet generated a model that enables these values to be compared against purely economic values. Some framework is needed before these very important 'soft' benefits can be balanced against the easily measured 'hard' benefits of job wages and corporate dividends.

### ***3.6. SUPPORT OF OTHER ECONOMIC ACTIVITIES***

Some organizations are focused only on the fishery while others also undertake additional activities. These alternatives approaches appear to be issues of corporate objectives—such as the BFC's exclusive focus on fisheries, or other organizations pursuing options outside of the fishery. Corporations that include other sectors appear to see opportunities to invest proceeds derived from fish quota to profitable enterprises outside the fishery. Communities like Iqaluit and some of the larger hamlets—especially those with decentralized government departments—offer improved investment climates for other activities such as rental housing and service activities.

Table 8 summarizes the other economic investments of the organizations:

**Table 8. NON-FISHERY ECONOMIC ACTIVITIES OF QUOTA HOLDERS**

	Other economic ventures
<b>BFC</b>	nil
<b>QC</b>	numerous investments as noted in Section 3.1.2.
<b>CSFL</b>	rental housing in Pangnirtung and filleting m/c rental
<b>Nattivak HTO</b>	nil
<b>Amorak HTO (Quilruaq Corp)</b>	investment in a rental office building
<b>Clyde River HTO</b>	unknown
<b>Mittimatalik HTO</b>	unknown
<b>Mayukalik HTO</b>	unknown
<b>Aqviq Marine</b>	construction
<b>Kabva Marine</b>	soapstone mining and sales, construction
<b>Jencor Fisheries Ltd</b>	unknown

### 3.7. APPROACH TO AND IMPLEMENTATION OF CONSERVATION PRACTICES

Everyone showed an interest in, and concern for, applying the appropriate fishing practices in fishing their allocation. In the offshore, there is a role for fixed gear and trawler operations. These two fishing methods target different fish population structures. BFC's fishing plan calls for operations of both types of vessel. The BFC has a target in 2005 for 60% trawler, 10% hook and line and 30% gillnet.

The Nattivak HTA will operate three fixed gear vessels using gillnets when its plans move ahead. The fishing plan calls for the use of southern fishing licences to keep the boats fishing in the winter and spring when they can not fish in 0A and 0B.

For the Cumberland Sound 500 t turbot inshore quota, the HTA has decided to only allow hook and line. Little work has been done to determine just how best to capture this fish. If testing using the existing turbot gear gives economic returns, this decision will stand. Otherwise gill nets may have to be considered.

Up until this year, most of the quota caught under royalty arrangements has been captured by trawlers. The BFC has used both hook and line and gillnets, catching 33% of their quota in 2002 and 2004 with hook and line vessels. In 2004, 96% was caught by trawler, due to problems in getting the gill-netter Canadianized in time to participate in the 0A turbot fishery. The effort has been switching from hook and line to gillnets. One reason given for the switch was that whales and sharks were eating the turbot off the hooks.

Shrimp harvests can only be done using trawlers.

More important than what gear is used, is how it is operated. No data was obtained or reviewed on gear problems. In the recent Senate hearings, a complaint on the operation of a Norwegian fixed gear vessel chartered to the BFC was presented by a competitor to the BFC.

From a conservation perspective, there is no scientific evidence in the turbot fishery that one gear type is better than another. Likely, a mix of gear technologies provides the least risk both to the stock and to the economic performance of the fishing companies.

Issues of using collector freezer vessels, for example a 65 or 100 ft small factory vessel, and a fleet of small seasonal inshore fishing vessels have been raised. A number of concepts for appropriate vessel types and sizes have been discussed by DOE and by some HTAs.

This season, Nattivak proposed to use their Gasti 35 ft vessel to catch turbot and freeze it on a chartered factory gill-netter. The test has been postponed until later in October.

The BFC, together with their member HTAs, has developed a plan to use high speed vessels, likely in the 45-65 ft range, to catch inshore and near shore turbot and freeze it in one of the BFC's factory freezer vessels. The concept is to initially have the vessels owned by both the HTAs and the BFC. Over time the

vessel would be purchased by the HTAs. A sales and management agreement would be signed between the HTAs and the BFC. The BFC indicates that they expect each of their member-HTAs will have at least one vessel within three years.

At present, these techniques have not been proven, and questions on whether the fish are close enough to shore and if the small vessels are safe enough to use for all but a brief time in the summer, are still to be answered.

Factory trawlers are large, expensive and complicated to operate and manage. However, they are more flexible in the number of species that can be caught. Gill-netters in the 100 ft range are smaller and are less expensive to operate and have smaller crews. Both these vessel classes have roles in the Nunavut fishery. The decision on the vessel and gear type should be determined by the fishing plan and the business model of the proponent.

### 3.8. VESSEL ACQUISITION ACTIVITIES

#### *What activities are underway and what is the approach to purchase and management?*

##### *Baffin Fisheries Coalition*

The BFC now has a 25% ownership in a factory trawler and in a fixed gear vessel. The Board is considering whether they should increase the ownership to 51% at their October meeting.

With the limited window for fishing in areas 0A and 0B, vessels require access to fish in other areas to complete a year-round fishing plan. The Inuksuk 1 needs approximately 2,000 to 3,000 t of shrimp in southern fishing areas. The fixed gear vessel needs access to southern groundfish quotas. The BFC has negotiated various trades of quota in order to access sufficient fish to allow for the year-round operation of these vessels. Relationships have been established with companies associated with Aboriginal groups in order to increase their negotiation power with DFO. A deal has been struck with Sea Voyager Limited—owned by the Labrador Inuit Association (LIA)—for 500 t of shrimp in SFA 4 and 5 in return for 500 t of turbot. Access has been negotiated with Katsheshuk Fisheries Limited—a joint venture between Labrador Innu Nation and Ocean Choice International—for 1,500 t of SFA 5 and 6 shrimp in return for 1,250 t of turbot. The contracts and the pricing of the exchanges have not been reviewed.

Table 9 shows the fishing plan for these two vessels. The BFC’s plan is dependent upon obtaining access to the BFC’s members’ existing allocations plus an additional 1,030 t for full utilization. Without additional access—which could come from negotiating for new community-based quotas—the BFC would operate at a lower efficiency level.

**Table 9. QUOTA REQUIREMENTS OF THE BFC TO KEEP BOTH VESSELS FISHING**

Vessel	Turbot fishing plan	From BFC 0A quota	From Members 0B quota	Additional quota required
	t	t (1)	t	t
Inuksuk 1	3,500 (2)	1,750	220	630
Oujukoaq	1,250	500	200	400
<b>Total</b>	<b>4,750</b>	<b>2,250</b>	<b>420</b>	<b>1,030</b>

(1) Of the 4,000 t 0A quota, 1,750 t is used to secure access to southern shrimp quotas

(2) 1,750 t are traded from the 3,500 t noted for the Inuksuk 1

The BFC prepared a business plan to investigate purchasing a vessel in 2003. A search and assessment of available vessels was completed. Attempts were made to obtain financing for an acquisition. It was not possible to obtain the financing to complete the purchase, therefore an alternative method—a charter with an option to purchase—was adopted. This method has reduced the available vessel options. The FV Inuksuk has been used on charter and has performed well.

### *Qikiqtaaluk Corporation*

It is reported that QC has purchased 51% ownership in a shrimp vessel to harvest their shrimp quota. The format of the purchase is not known at this time. It is reported, though not confirmed, that the vessel was purchased from the same company with which the BFC negotiated their vessel—Nataaqnaq. It is not expected that QC will require additional shrimp quota for this vessel, given its existing allocations, so BFC and QC will likely have discussions on working together.

### *Pangnirtung Fisheries Limited*

PFL is requesting a minimum of 1000 t OA turbot allocation to replace the fish that has been landed to them by the BFC. The two-year deal between PFL and BFC expires at the end of this season. With this allocation, the plant will still require a subsidy from NDC, but will no longer require the BFC to provide a subsidy in the form of fish. The plant also includes the same quota transfer for approximately 50% of the value of the royalty as is currently in place between PFL and CSFL (750 t). A plan for transferring all of the CSFL quota directly to PFL, a continuing commitment for subsidy, and a requirement for the BFC to land some turbot to PFL should be developed and considered.

### *Nattivak HTA*

Nattivak HTA has formed a new company called Masiliit Corporation, an Inuit Status Firm. This company is to harvest the quotas of Nattivak and to lobby for additional quotas.

In April 2005, it entered into an agreement to harvest its quotas with an option to purchase the fishing vessels and licences of Clarence Cabot and a fishing licence of Harry Earle. The plan is still being developed and may include as many as three to five vessels in the 100 ft range. Investment requirements could be in the \$9 to \$10 million range. The company also has negotiated an agreement to harvest the Torngat Fish Producers Cooperative Society quota in 0B—160 t. This combined quota will be landed at Makkovik at the Torngat Fish Processors plant. An exchange program starting in 2006 will see workers from Qikiqtarjuaq travel to Makkovik for training and work in the fish plant.

Nattivak HTA stated that they require an additional 1,000 to 1,500 t of OA quota access for their fishing plan. The business plan is expected to be available prior to year end.

Nattivak HTA undertook a feasibility study for a multi-species processing plant at Qikiqtarjuaq. The information on this study has not been made public, but they state they require an additional 500 t of turbot to support the plant.

No other HTA replied to our requests. From various sources, none of the other HTAs appear to be close to making any decisions about vessel acquisition or plant construction.

## **3.9. PRIORITIES OF THE VARIOUS MODELS FOR THE NEXT 3 TO 5 YEARS**

### *Baffin Fisheries Coalition*

In the presentation to the Standing Committee on Fisheries, the BFC stated its priorities for the future were to acquire 100% ownership of vessels to be able to fish all its quota as well as other quota from Nunavut and elsewhere. As well, the company has the objective of increasing funding into the exploratory inshore fishery in partnership with their HTA members. It has made a significant financial commitment to training

in order to increase the number and skills of Inuit crew<sup>7</sup> so that they may take on roles of higher responsibility and greater pay. They also propose to develop a dividend policy and a review of their membership and communication policies.

### *Qikiqtaaluk Corporation*

Based on unconfirmed reports, it is likely that QC has made an initial 51% investment in a vessel. Its further plans are unknown, although there is indication that the corporation is currently developing a strategic corporate plan.

QC is also a supporter of the four-year crew training program, although, from the funding proposal, they do not appear to have committed funds to the program.

### *Pangnirtung Fisheries Limited*

The focus is to continue operation of the plant. They propose to be the direct quota recipient of a minimum of 1000 t of OA quota. They would expect to continue to receive some of the fish and some of the royalty that flows from the OB quota held by CSFL.

### *HTAs*

The Nattivak HTA plans to invest in three to five vessels. Once the vessel side is developed, they will continue to investigate the potential for an onshore processing plant using smaller, seasonally operating vessels. They have invested in a multi-species plant feasibility study. The result was that the plant would require an operating subsidy either in cash or in the form of additional royalty revenue. They determined that they should focus on the development of their offshore vessel purchase option.

Training of crew members and future plant workers are a part of their plans.

### *Private Individuals*

Kabva Marine Ltd. is interested to participate in the inshore fishery efforts in areas like Cumberland Sound. They do not have any specific plans because of the uncertainty around allocations, access, and technologies related to the inshore fishery.

## **3.10. WHERE DOES NUNAVUT'S VALUE IN THE FISHERY LIE?**

### ***The reality of fisheries in the North***

As summarized in the Part One, twenty years of various fishery development activities indicate the opportunities as they now stand. Offshore factory freezer vessels, both fixed gear and trawler, have been proven to be profitable and sustainable from an economic perspective. Inshore fishing and onshore processing models have not yet been shown to be economically sustainable.

### ***Setting a Minimum Performance Baseline***

In terms of direct Nunavut benefits, royalty streams have been the greatest source of benefits followed by employment on vessels, and then by the employment generated by the PFL plant.

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<sup>7</sup> The association between vessel ownership and increased Inuit crew is often made, based on various arguments. However, once Inuit do own vessels, empirical data will need to be collected to understand offshore employment dynamics.

The value of quota can be divided into a number of sections. The various sections have distinct values and they have distinct owners, as well. These sections are:

- *Rent value* – this is the value of fish in excess of income less expenses and after allowing for a reasonable profit. This amount can be stripped off and the business model still functions profitably and with a market return. The rent is often considered as the royalty payment. The amounts may be similar but the concepts are the different. The royalty payment is different in that it represents the value a participant will pay for that additional amount of quota. At different volume points along the cost curve of operating the vessels, the royalty has a different true value. Market conditions and competition often are the key factors impacting the rent value;
- *Socio-economic value* – This is the value that the addition of the quota has if it is employed in the area. The royalty is used to provide lower cost fish resulting in more benefits through the multiplier effect with the fish and/or royalty than without; and,
- *Entrepreneurial profits* – The result of investment activity which generates a profit above any other gains such as a socio-economic gain.

The offshore quota value, at its simplest, is a pure royalty operation. This option requires the least management input and offers complete flexibility from year to year on how the funds will be spent.

Based upon the 2005 season, the estimated royalty value of the offshore fishery is approximately \$4 million. If an additional 2,500 t of turbot are available next year, the simple royalty value will increase by \$1.1 million.

**Table 10. SIMPLE ROYALTY VALUE OF NUNAVUT QUOTA ALLOCATIONS FOR 2005**

Species	Area	Weight (mt)	Value (\$/mt)	Total value (\$)
Turbot	0A	4,400	\$500	\$2,200,000
	0B	1,500	\$550	\$825,000
Shrimp	SFA 1	3,721	\$250	\$930,250
	SFA 2	1,750	\$350	\$612,500
	SFA 3	500	\$200	\$100,000
<b>Less access fee</b>				-\$712,260
<b>Total</b>				<b>\$3,955,490</b>

This more or less sets the minimum value to Nunavut however changes in market conditions, currency rates and vessel operation input costs will vary the value of the royalty.

### ***Setting a Maximum Performance Baseline***

The maximum value is harder to determine and subject to the same changes in market and input cost risks. Management costs, risk and flexibility are reduced more or less in proportion to the increase in the performance target. For example, higher benefits are likely to arise with ownership, but risk from business changes increase, and the flexibility in how revenues can be utilized is reduced.

When investigating the maximum possible returns over the three to five year period, the two models that are currently proven were used since they represent the experience to date. These are the vessel ownership model, based on the BFC concept, and the onshore plant concept, as portrayed by PFL. The smaller inshore plant concept as considered by Nattivak was also reviewed, but since they are only projections without implementation experience, the results are likely to vary greatly from the *pro forma*.

Table 11, below, compares the sources, and *pro forma* levels, of returns to Nunavut of a combination turbot and shrimp trawler and a fixed gear vessel for a royalty charter against an ownership position after five years when a vessel would be completely owned and managed by the Nunavut company. The model is illustrative only and not meant to be a projection of any actual vessel. The returns to Nunavut included in these models only cover the vessel operation, and not any additional costs from operating the holding company such as BFC.

- The royalty income is the dominant revenue stream in the Nunavut fishery of 2004. Crew wages contribute a portion but are dwarfed by the royalty;
- The Nunavut fishery, as defined by the BFC and QC models, are moving to a new level of returns driven by the vessel ownership opportunity to control or at least push for more Inuit crew. This is supported by the four year fisheries training program. Crew wages will not alone equal the royalty income unless the Nunavut quotas are levered by additional southern quotas obtained through purchase (additional investment);
- Major gains occur with corporate profits from companies with good business plans that are successfully run. There is no guarantee of profits, and profits that are generated will change every year. Profits hold the potential to be equal to, or more than, the simple royalty;
- The other areas of important benefit are in the crew wages component, followed by vessel management functions. These are key multiplier areas because they trigger training needs and a raft of local expenditures;
- Likely, the overall target will be to have approximately 40-50% of the sales value come back to Nunavut in the form of a benefit from the vessel operation and ownership (including royalty value); and,
- The opportunity to increase the value of the fishery beyond the royalty model is focused on maximizing Inuit crews participation and ownership of the ventures in Nunavut.

**Table 11. POSSIBLE NUNAVUT TARGET FOR RETURNS TO THE TERRITORY FROM VESSEL OWNERSHIP**

	<b>Shrimp and Turbot Factory Trawler</b>			<b>Fixed Gear Factory Vessel</b>		
	<b>Nunavut benefit</b>			<b>Nunavut benefits</b>		
	Royalty charter	5 years		Royalty charter	5 years	
<b>Sales</b>	\$17,000,000			\$5,500,000		
turbot sales volume (mt)	2,000			1,100		
turbot selling (\$/mt)	\$4,500			\$5,000		
shrimp sales (mt)	4,000					
shrimp selling (\$/mt)	\$2,000					
<b>Operating Expenses</b>						
Wages	\$3,400,000			\$1,237,500		
- crew share	\$2,754,000	\$486,000	\$1,652,400	\$1,002,375	\$200,475	\$701,663
- life and health insurance	\$39,100			\$14,231		
- worker compensation	\$170,000	\$0	\$170,000	\$61,875		\$43,313
- food and provisions	\$170,000			\$61,875		
- travel costs	\$119,000			\$43,313		
- other costs	\$147,900			\$53,831		
Royalty						
- net royalty payment	\$2,288,000	\$2,288,000	\$2,288,000	\$687,500	\$687,500	\$687,500
Oil and fuel	\$2,240,000			\$627,200		
Fishing gear	\$445,000			\$392,000		
Observer	\$92,500	\$0	\$92,500	\$71,000		\$71,000
Maintenance	\$528,000			\$120,000		
Refit allowance	\$500,000			\$200,000		
Packaging and salt	\$680,000			\$26,000		
Unloading and discharge	\$255,000			\$21,000		
Sales commissions	\$850,000			\$275,000		
Freight	\$850,000			\$275,000		
Management	\$425,000	\$0	\$297,500	\$137,500		\$96,250
Insurance	\$400,000			\$24,000		
Principle and interest costs	\$1,392,000			\$380,000		
Profit	\$2,654,500	\$0	\$2,654,500	\$1,026,300	\$0	\$1,026,300
<b>Nunavut benefit</b>		\$2,774,000	\$7,154,900	\$6,737,500	\$887,975	\$2,626,025
<b>In water value</b>						
Total value (\$/mt)		\$530	\$1,366		\$577	\$1,705
<b>Nunavut % of value of sales (%)</b>		22%	56%		16%	48%
<b>Job equivalent at \$27,650</b>	99.6	17.6	59.8	36.3	7.3	25.4
<b>Inuit % of crew</b>		18%	60%		20%	70%

Management fee assumed that 70% spent in Nunavut

Royalty fee is based on 12.5% of sales less DFO access fee of \$60/mt

Wages on shrimp estimated for trawler at 15% with 5 year target at 60%

Wages on turbot trawler estimated at 20% with 5 year target at 60%

Wages on turbot fixed gear estimated at present at 20% with target at 70%

Capital cost of trawler estimated at \$16 million with 35% equity and 9% 15 year mortgage

Capital cost of the fixed gear boat at \$5 million with 35% equity and 9% 15 year mortgage

***What is the flow of benefits from each model?***

Earlier in Section 3.2, the value components of the fishery—along with the identity of who owned these components— was presented. Using the available data from the models that have been studied in this section, the value of each of these components of the models is placed within the matrix in Table 12, below. Again this is meant to aid in how to look at each model and where the benefits lie. The model should be used to aid in policy development. It is rough, and the numbers could be more accurate were better data available. Nonetheless, it clearly illustrates the division of benefits.

**Table 12. WHERE NUNAVUT'S FISHERIES VALUE FLOWS**

Model	Direct value to quota owner	Direct socio-economic benefits	Corporate profit	On-going subsidy (4)	Net Nunavut benefits (2)	Quota used to support model (1)		Net Nunavut benefits per tonne
						Shrimp	Turbot	
HTA royalty distributed to members	\$500,000				\$500,000		1000	\$500
HTA royalty invested at 12.5% ROI	\$500,000		\$62,500		\$562,500		1000	\$563
Private company royalty invested at 12.5% ROI			\$562,500		\$562,500		1000	\$563
Use royalty to subsidize plant (3)	\$180,000	\$1,192,844	\$213,000	-\$410,000	\$1,219,594		1750	\$697
Use royalty to invest in offshore vessels (5)	\$2,750,000	\$3,124,626	\$3,680,800		\$9,555,426	4000	3100	\$1,346

(1) Royalty value \$500/t for turbot and \$300/t for shrimp.

(2) Dividends, wages, and local expenditures will yield indirect and induced socio-economic benefits, not addressed in this model.

(3) Combines the PFL and CSFL models using 2006 budget.

(4) This is the on-going government subsidy needed in addition to the allocated quota.

(5) BFC model after 3 years with 100% vessel ownership.

## *Conclusions related to the models*

The following conclusions are drawn from the above analysis of the various fisheries models:

### *Offshore vessel ownership*

A primary driving focus of allocations should be to push the fishery to a vessel ownership model. A complete move in this direction will be difficult because of the needs to have southern quotas, access to other licences, etc. This is a preferred path. As well, with this model, the owner of the royalty—whoever owns the quota or the quota-holding corporation—is fully paid, as are the shareholders of the vessel corporation itself. These do not need to be the same entities. Furthermore, significant socio-economic benefits accrue to the general community of Nunavut through wages, crew shares and other expenditures of the vessel operation paid within Nunavut. These are estimated, for modelling purposes, at \$3,124,625—or \$440 per tonne of quota.

### *Onshore Processing*

The onshore plant model (CSFL+PFL turbot) provides the highest socio-economic benefit per tonne of quota, at approximately \$680 per quota tonne. This compares to the BFC collective model at \$440 per quota tonne. This model does not, however, pay back the shareholders of the fish processing corporation, and requires an on-going subsidy from the government. This is to say, without perpetual subsidy and the use of some of the royalty value, the plant portion of the model either breaks even or loses money. Further, royalty holders are paid only a portion of what they could get by selling their quota to an offshore vessel. The value of other components of the benefits such as improved self-esteem, reduced social costs, etc. have not been estimated. These are real benefits of people having jobs.

### *Royalty collection*

The HTA royalty distribution model and the model where HTAs invest royalty proceeds into corporate ventures would both be expected to generate some socio-economic benefits. In the first case, these would be entirely indirect, arising from the dividends paid out. In the case of HTA corporations, direct socio-economic benefits would arise if the corporation involved activities that paid salaries. Indirect benefits would arise from any distribution of corporate profit that might take place. The example of using royalty revenue to operate a soap stone distribution business has been noted earlier.

The only difference between the HTA corporate investment model and the private corporate investment model lies in who makes decisions about what investments are made, what dividends are paid out and who gets the dividends. The HTA, with good governance, will represent a collective interest, while the private company would represent the interest of the company's shareholders. In both these models—for the sake of illustrating the potential—a successful enterprise earning a reasonably decent 12.5% return is shown. Of course, the potential exists that the equity from royalties could be lost through a business failure, or through bad management, high overheads, and so forth. The potential to create higher than 12.5% returns is also real.

### *Inshore vessel ownership*

There is not yet any example of an inshore vessel model, so the relative benefits and the benefits flow profile cannot be prepared.

## **PART 4. RECOMMENDATIONS FOR THE FUTURE**

The recommendations in this chapter are designed to move Nunavut's marine fisheries toward seven key targets or objectives. These include the following six targets identified in the Nunavut Fisheries Strategy:

- Conservation and sustainability are paramount;
- Gain access to all resources off the shores of Nunavut must be achieved as soon as possible;
- Build community capacity so control can be at the community level therefore reducing dependency on outside interests;
- Increase and improve training and employment in order to reduce the leakage from the harvesting of Nunavut resources;
- Develop overtime a balance between offshore and inshore fisheries; and
- Fund development of science and inshore initiatives using the funds from resource access.

While the strategy contains no statement on economic sustainability, the draft NWMB allocation policy does contain references to commercial viability. The Consultants have concluded that commercial viability is also a key target for fisheries development. Some subsidization from profitable areas of the fishery is acceptable but that large scale on-going government subsidies are not wanted or proposed. Involvement of the private sector as an operator and investor is also supported. Therefore the seventh target therefore is:

- Enterprise viability.

The following recommendations are intended to support the attainment of these targets by establishing a solid foundation for allocation of fisheries resources and for investment into exploration and development.

### ***4.1. THE PARTS OF NUNAVUT'S FISHERIES FOUNDATION***

There are three pieces that need to be carefully put together to build a solid foundation:

- *Fish block*—There are two parts to the fish allocation: the actual fish, and the 'rent' value. The 'rent' is approximately equal to the royalty;
- *Value receivers*—These are the beneficiaries of the 'fish block.' They include the quota holders, owners of the enterprises, recipients of socio-economic benefits, and fishery exploratory researchers;
- *Government policy*—This is driven by the strategy documents on fisheries and economic development and includes getting all the allocations off Nunavut's coast, community-based development and control, fisheries as an economic development tool, development of inshore fisheries for employment, conservation, economic viability.

## **4.2. GUIDING PRINCIPLES FOR THE OFFSHORE MARINE FISHERIES**

The draft NWMB policy was reviewed and commented on in Part Two, above. Some concerns were identified in Section 2.4 and 2.7. The following guiding principles and recommendations are designed to address these gaps. They should be considered in allocating the marine resources.

### ***Science***

Conservation and any future increases in allocation will be based upon exploratory fishery science. As well, defining the inshore resources is the first step towards an inshore fishery. This is in all the players' interest.

### ***Recommendation***

Allocate a percentage of the royalty from all allocations, new and existing, to an Exploratory Fisheries Fund. The recommended percentage is in the 5% to 10% range for five years. After five years the concept would be re-evaluated. This levee would result in about \$250,000 per year at 5%. Each quota holder would pay this prior to fishing the allocation. The fund would have specific rules for use such as to fund offshore and inshore (including benthic studies) exploratory fishing research and testing of technologies to harvest fish. The purpose would be to define the location and size of the resources. These funds would be used to lever additional funds primarily from DFO and INAC. Industry funds would be used for capital and operational investment in any new or expanded fisheries. Management of the funds would through a joint working group made up of the GN, NTI, DFO and representatives of the fishing industry. The funds would reside at NTI.

### ***Economic viability focus***

The analysis in Part Three reports that the opportunity to maximize 'Nunavut benefits' is in the development of the offshore factory freezer model. This model is economically viable and provides socio-economic benefits. Corporate profits are needed to continue the investment in the industry and to return value to shareholders/members.

The onshore plant model offers socio-economic benefits but its viability is dependent upon fund transfers from other sources. These transfers appear to be required perpetually. Other onshore models such as the shrimp peeling plant and the multi-purpose plant also require continuous subsidy, based on the results of feasibility studies. There may be other models out there which will be viable, but at this time they are not known and are unproven.

With the income from profitable ventures, investments can be made in other areas. For example, profits from offshore fishing can be used to support inshore operations. A viable concept is to invest into an offshore fishing venture and then use the surplus funds to operate a small inshore plant once the offshore venture is financially stable. The vulnerability of the inshore operation is high since it is dependent upon the success of the offshore and inshore operations. The Consultants see no need to regulate that profits from the offshore fishery must be directed into the inshore fishery regardless of viability and long term sustainability terms.

### ***Recommendation***

The allocation policy should favour models which are financially viable. At present, the financially viable forms are based on the offshore model.

### ***Governance, transparency and independence***

The offshore quota is a benefit given by DFO. There is a public component to this benefit. Therefore there would appear to be some oversight responsibility on the part of the granting group to ensure the recipient is

capable of properly managing this benefit, and that the public is fully informed of its use and of the benefits that have arisen. This transparency will open up the activities of the business to the general membership and provide for oversight by NTI. It also creates a potential for review by independent third parties which should bring some ideas on how the business plans could be improved.

### *Recommendation*

As part of the allocation agreement, the receiving group should be required to submit a detailed Business Plan for review and approval. As well, a Governance Plan—indicating how recipients of quota propose managing their business; how and when they will report back to their shareholders or membership; and, an agreement on annual reporting and disclosure to the NWMB—should make up part of the allocation submission. This should be a requirement for all quota allocations, including OB turbot and all shrimp fishing areas. This plan should extend to all the companies that have use of the money and/or the fish attached to quota, so that ‘for-profit’ companies layered below the quota receivers would be required to report as well. These reports should include: ownership disclosure, key contracts, and financial statements. Since NWMB is only an allocation arm, it does not have the business review capacity. This review should be done through NTI, an affiliate, or some other designated entity. Detailed, standardized requirements of what must be supplied in the Business and Governance Plans should be determined and supplied to all applicants.

Each year they hold quota, recipients should prepare a report detailing the previous year’s operations and how they have met—or why they have failed to meet—the Business and Governance Plans. These reports should be required to contain full financial disclosure.

### ***Nunavut benefit or ‘Nunavutization’***

Nunavut benefits from the ‘added value’ provided from the use of the fish. Communities requesting quota allocation must provide the details of how Nunavut will benefit. A Benefits Plan should be submitted. A minimum level of Nunavut benefits should be set by NWMB or NTI. A common procedure on how to evaluate Nunavut benefits needs to be designed. At that point, the target for benefits can be determined. It likely should be compared on a per tonne basis. NTI or DOE should ensure that applicant HTAs receive assistance in developing their Benefits Plans. Definition of how Nunavut benefits are assessed and calculated should be prepared by the NWMB and given to each applicant.

### *Recommendation*

Nunavut benefits must be considered in the allocation process. Each applicant must supply a benefits plan (as part of their business plan) which would identify benefits for the community, Baffin, Nunavut and for other communities. A minimum level of Nunavut benefits should be set by the NWMB for all participants to meet.

Each year the recipients must submit a report on their progress with their Benefits Plan.

### ***Penalties***

Failure to comply with reporting requirements or other regulations set forward by the NWMB should result in penalties in the form of a reduced allocation. These would be temporary until the problem was resolved satisfactorily. If this does not force compliance, removal of the entire quota would ultimately occur.

## **4.3. ‘INITIAL DIVISION’ OF QUOTA**

The ‘Initial Division’ of fisheries quota is the ‘ideal’—or ‘target’—allocation that would be achieved under conditions where every recipient was actively seeking to carry out effective quota-using business plans and where constraints to quota allocation based on previous allocations were not in play.

This initial allocation would be for ALL quotas for which the NWMB has a role, including OB quota; turbot and shrimp.

The following principles and recommendations address how allocations can be made in the real-life context, keeping in mind the notion of 'Initial Division'. The process of Initial Division is done under the auspices of the NWMB, but with the involvement of NTI and GN.

The NWMB's role is to allocate quota based on a determination of the Initial Division and an analysis of the various plans required to be submitted by the applicants. This analysis and review role could be undertaken in a number of ways. The key parties should be NTI and GN. Our suggested format is to form a Nunavut Allocation Advisory Committee with members from NTI and GN. NTI should have the majority of the votes. This Committee will first undertake the Initial Division secondly review all the various plans submitted by the applicants and thirdly, importantly, undertake the review of the annual reports submitted by each recipient of quota.

The Initial Division is an allotment or 'community entitlement' versus a request. In this way, hopefully, the politics can be removed from the analysis.

### ***Community-based allocations***

Given the NLCA identification of HTO precedence, further supported by GN policy on community-centred decision making, the quota should be allocated to be controlled at the community level. The most appropriate organization to receive the quota is the HTO. The concept of the BFC, where the quota is maintained together but the control of the fishing organization—through community-level shareholders—fits this method as well. Combining of quota allocations by communities allows for undertaking larger projects. This should be encouraged.

#### ***Recommendation***

Initial Divisions should be allocated to the community level. The HTO appears to be the organization that should hold the quota in the community's best interests. Depending upon the actual Plans proposed by the HTAs, they may not be able to manage the Plans at first and will require oversight from the NTI to ensure that they have the needed capability.

The actual divisions that are given based upon the Plans submitted also should be held by the HTA.

### ***Economic need***

The fishery is seen as an economic driver and a resource to be used for community economic development. In some Baffin communities, economic development opportunities are more varied than just the fisheries sector. In other communities there may be fewer alternatives available. The process of economic development implicates other departments and resources other than just fisheries. Allocating access to the fishery should be considered in the light of other opportunities such as access to jobs arising from government decentralization, mining, arts and crafts, or tourism. Preference should be given to hamlets that do not have as many opportunities as other ones.

#### ***Recommendation***

Hamlets which have less development and fewer opportunities should benefit from some preference in allocation of fishery opportunities.

## ***Adjacency***

Adjacency to the fish resource is a factor that should improve a hamlet's economic opportunity. In the offshore, this deals primarily with the benefit of quota allocation. Employment for persons from other hamlets must be encouraged. Therefore, as part of the Benefits Plan, a plan on how to include other communities in the fishery should be included.

### ***Recommendation***

Adjacency is important and should be recognized in the allocation process.

## ***Historic economic dependence***

This principle is important in order to avoid disrupting peoples' lives who have become involved in fisheries activities and to protect viable investments that have been made into fisheries-related capital equipment.

### ***Recommendation***

Economic dependency of households and of businesses should be considered in the allocation process.

## ***Inshore fisheries development***

Although there is not an economically viable inshore model at this time, inshore development is an area of high interest for NTI, the GN, and the hamlets. There are two key issues in this area:

First, inshore development requires quota to test-fish for turbot. Therefore, a small portion of the overall turbot quota needs to be allocated to inshore test-fishing. The purpose of this allocation is for test purposes only. If proven, then two things would occur. First the Exploratory Fisheries Fund will be used to see if the target stock is separate from the main offshore stock. This is similar to the approach that was used in Cumberland Sound. If no new fishery—with its own additional TAC—emerged, then the quota allocation required for the inshore effort would be removed from the existing quota (offshore) of the community benefiting from the inshore fishery. If two communities benefited, then the communities would split the supply of the quota requirement. The same can be done for the shrimp fishery. Of course, if exploratory fishing demonstrated a separate stock, then a new and separate TAC could be identified and the 'pie' will have increased.

Secondly, the GN fisheries strategy states that royalty and profits are to be applied to the further development of fisheries. This may not be the best decision for the hamlets, or for Nunavut. The policy that would best apply would be to have the decision rest at the community level. They can best determine if the funds should be spent on fisheries development, on fishery investments, or on other uses. Solid decision-making at this level requires that communities have a good level of knowledge of the fisheries sector and the real opportunities that it present to them. NTI and DOE have a role in extending this knowledge into communities.

## ***Role of private operators***

There is a role for private operators in providing investment for, and operation of, fishing activities. These activities add value to the fishery. These operators will need fish to operate their ventures. They should approach the quota holders to obtain access to fish the fish they need. They should not, however, have access to the rent value that arises from quota ownership.

*Recommendation*

Quota should not be given to private individuals or corporations.

***New Entrants***

For effective use of existing quota, one does not want to cut the 'pie pieces' too small. As well, it will be a challenge to work with all the groups that now have access to the fishery in order to improve governance and knowledge of the sector, and to develop solid business plans/strategies. At some future time, the development potential of the inshore fishery will be known and the offshore quota will be fully 'Nunavutized.' At that time, revenues from quota rents may not be needed for further investment and a legitimate call for wider distribution of the benefits might be anticipated.

*Recommendation*

For the next three years, do not open the fishery to new community entrants for the 0A and 0B turbot and for the shrimp areas. If substantial new allocations occur—above the existing allocations plus the estimated 2500 t increase in 0A turbot—then this point could be reconsidered.

***Changes over time***

Stocks, economic opportunities, community populations all change with time. So should allocations. Allocations should not change so quickly as to unduly disrupt people or enterprises. But there should be a process by which quotas allocations can evolve as conditions change. This should be in the allocation policy but it is early to see how it should work. The general principle would be that if an organization did not produce the required benefits, or failed to follow their business plans then the allocation process would be re-opened.

The proposed three-year time limit for allocations after approval of the Business, Governance and benefits Plans appears reasonable.

***BFC Allocations***

The BFC is a valuable organization and is a model of the collective concept for offshore development. This report recommends that quotas be held by the communities—likely through the HTAs. Given the problems in getting communities to work together under the BFC in the past, there may be some problems in getting communities to make their quotas available to the BFC to fish. The NWMB should ensure that the BFC has sufficient quota to operate efficiently for the next five years so it can get well-established. It may not require the rent value of this fish for all that time. It may be necessary to have the BFC directly hold some quota during this period.

It is expensive to operate a collective model in the Arctic. It would be folly for each community to try to operate their own 'BFC' since the overheads would be a large financial burden. Therefore, efforts should be made to make the BFC attractive to existing and new members so that ideally it would represent all communities that hold quota. The BFC will have to deal with its private and corporate members who will not have any quota in the future if these recommendations are followed. This is a time for the BFC to renew its shareholder structure, dividend policy and communication policies and actions.

***CSFL and PFL***

The onshore plant operations have been valuable to Pangnirtung and its citizens. There are some difficult issues to discuss and determine in relationship to the operation of the plant. Serious discussions are required among these firm's shareholders, the citizens and Pangnirtung, the local HTA, and GN. The Consultants

recognize that this issue is complex and the plan of action will come out from discussions with all interested parties.

#### **4.4. ALLOCATION PROCESS**

Not everyone is prepared for a new allocation process. Furthermore, it will take some time for all would-be participants to be able to participate. Therefore the following plan is proposed:

- The three-year renewable policy would be deferred, as proposed by the NWMB, until the 2008 season. Until then allocations will be on a year-by-year basis;
- Given the short time until the 2006 season, it will be likely impossible to have everything ready to go for the season so an approach based on 2005 may be necessary;
- The number of quota recipients should not be increased. It is recommended that the quota presently available to the private companies should be made available for allocation directly to the communities. The private companies can negotiate with the communities (HTAs) to receive access to fish. The royalty would likely stay with the community. While CSFL is a private company, it is a special situation since at least 50% of the rent value (royalty) of the fish—and the fish itself—is made available to support PFL. This is, therefore, more complicated than just an allocation of quota rents to a private company. Serious decisions need to be made by the shareholders of PFL—and these issues will, therefore, necessarily involve the Nunavut government. The role of BFC in supplying fish also needs to be re-negotiated. The Consultants recognize that this is a political decision.

For 2006, the BFC should again supply fish to PFL and the status quo should be maintained for 2006 so all parties can discuss this issue and decisions can be made;

- The BFC has a very large portion of the OA turbot quota and some hamlets consider that the allocation should be theirs. Yet the role of the BFC has been, and continues to be, very important in advancing the Nunavutization of the fishery. Some modification of how quota is allocated may be required. The Consultants believe that the BFC needs access to fish to operate, and that at present, while it is purchasing the vessels, it also needs access to the 'rent' to offset the cost of capital acquisition. This will be required unless the governments decide to fund its capital needs. The Consultants suggest that the BFC should have access to the fish for five years and that after three years consideration be given to stripping all or part of the 'rent' from the allocation, leaving access to the fish. This 'rent'—realized by the BFC paying a royalty for the fish it catches—would be allocated to communities using a similar methodology as used in determining the 'Initial Division';
- Using the guiding principles based around the community issues, identified above, the NWMB determines the range of available quota to each community. This will be the 'Initial Division' that can be allocated to each community of existing quota holders. This process should favour hamlets with less development opportunity, that are adjacent to the resource, and that have a demonstrated need for access;
- The NWMB calls for proposals from all participants in all fisheries to submit a Business Plan, Nunavut Benefits Plan, and a Governance Plan. Applicants commit to entering an agreement to provide annual updates and reports on the above plans plus complete disclosure of business and financial activities to NTI or their designate;
- NWMB will allocate quotas to communities that satisfy the requirements noted above (adjacency, need, history, governance plan, benefits plan and business plan). Quotas will be given out to communities up to the allocation amount determined by the Initial Division calculations. If the community needs more fish (not quota royalty) for its business plan than has been determined by

the Initial Division, the community will purchase quota at the 'going rate' from other communities;

- The remaining fish not allocated in any year will be fished by BFC and/or QC under a royalty charter basis with the royalty flowing to the recipient communities as per the Initial Division calculations;
- This process could run for two years. This will give each community a chance to develop a viable business plan;
- If some communities do not file approved Business Plans, then other communities will be able to make application for part of the Initial Division that went to that community. In this way, beneficial business models should develop over time;
- Quota not allocated will be fished as a royalty model—with a Nunavut preference whereby Nunavut vessels would get first access to fish this quota—with the royalty funds being given to the communities as per the Initial Division; and
- The selection process may be slow or it may happen quickly. The speed really depends upon the business opportunities that the communities develop.