PICFI Metrics Update: Maximizing Indigenous Participation, Capacity, Partnerships and Capital in the Fishing Industry

FIRST NATIONS FISHERIES COUNCIL

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1 Opportunity Profile

The Pacific Integrated Commercial Fisheries Initiative (PICFI), which was due to expire on March 31st, 2016, was renewed through March 31st, 2017. PICFI, along with its Atlantic counterpart (AICFI), will continue to provide support to First Nations Commercial Fishing Enterprises (CFEs) to increase Indigenous participation in the fishing industry.

Through a combination of (i) ongoing federal government support, (ii) appropriate partnerships with established industry players and educational institutions, and (iii) access to external capital and resources, a significant opportunity exists to expand, enhance and scale the initial success of PICFI and other programs across Canada, based on five overarching areas of development:

- Indigenous participation
- Employment, training, and career development
- Governance, management, and financial performance
- Diversification, value-added, and vertical integration
- Leveraging resources and partnerships

2 PICFI Context and Background

The acquisition of access (licenses and quota) and the establishment of successful Commercial Fishing Enterprises (CFEs) were key objectives of PICFI. Through the relinquishment process, over 300 commercial fishing licenses and quota were relinquished to 25 CFEs in British Columbia as of March 2014. CFEs now play an important role for many First Nations communities and members that rely on the harvesting, processing and marketing of multiple species for their livelihoods and well-being. Successful CFEs are also an increasingly integral part of the overall sustainability of the fisheries, especially with regards to the involvement of First Nations in data collection, monitoring, management and decision-making.

In 2005, the original PICFI proposal included a funding envelope of $350 million over five years. In 2006, the federal government approved $175 million for five years. Since then, total projected funding for PICFI related activities for the period 2006 – March 31st, 2016 is approximately $260 million.

In 2015, PICFI added a new source of funding – the Pacific Commercial Fishing Diversification Initiative (PCFDI) – based on funding provided by Indigenous and Northern Affairs Canada (INAC) under its Strategic Partnerships Initiative (SPI). PCFDI funding is due to expire March 31st, 2018.

PICFI funding to CFEs has supported investment in access (licenses and quota), CFE setup, capital assets, capacity building, operational support, and business expansion/diversification:

Table 1: PICFI CFE Program Summary (2008 – March 2016)

PICFI Funding & Support	Description	Period	Avg. Annual Amount	Total Amount
Access acquisition	Relinquishment to First Nations (under communal commercial designation) of commercial licenses and quota from the market.	2008 - 2015	$16.45M	$131.6M
Capacity support	Business planning, training, certification, CFE registration, etc.	2009 - 2011	$2.125M	$6.375M
Capital support	Vessel, gear, shore-side infrastructure, etc.	2011	$6M	$6M
Operational support	Annual ongoing management, operations, training, business development, etc.	2011 – 2015	$3.85M	$19.25M
Business Development Support (BDS)	Direct acquisition of commercial access, vessel and gear, and operational upgrades by CFEs.	2015	$9.375M	$9.375M
Diversification support (PCFDI SPI)	Expansion of CFE business model through vertical integration in the fishing industry.	2015 - 2017	$2M	$6M
			Total	**$178.6M**

CFEs are now established as an integral part of the fishing industry on the coast and interior of BC, directly supporting their First Nations communities through the leasing of licenses and quota, harvest activity, employment and training, and revenue generation. However, CFEs face a number of internal and external challenges that limit their ability to expand beyond their current role:

2.1 Internal Challenges

- Limited and diverse mix of access relative to the industry (unable to capture economies of scale);
- Wide range of access value between CFEs, ranging from approx. $0.6M - $12M (excluding five inland demonstration fisheries);
- Limited benefit stream to each First Nation within aggregates due to dilution effect (i.e. not enough access to support participation of all communities), especially communities with existing member-owned fleets;
- Communal commercial access is owned by DFO and issued annually to eligible First Nations entities only (limits ability to plan for the long-term);
- Communal commercial access does not appear on the balance sheets of CFEs and cannot be used as security for loans;
- Limited appetite for investment in vessels, gear and infrastructure (aging fleet) due to limited balance sheet and PICFI program uncertainty;
- Aging demographic of experienced fishers and limited number of new community entrants due to limited access, vessels and gear;
- CFE governance and management capacity constrained by (i) dependence on DFO access portfolio and ongoing support, and (ii) limited balance sheets to expand and generate economies of scale;

- Limited commercial experience working with industry partners and non-government funding sources;
- "Demonstration fisheries" designation for inland fisheries, which limits capacity for long-term planning.

2.2 External Challenges

The fishing industry is competitive, global, and increasingly dominated by large, vertically integrated operators/partnerships across harvesting, processing and sales/marketing. Through consolidation, access to capital, and integration, industry players are mitigating a number of challenges/risks:

- barriers to entry including the high financial cost of access;
- uncertainty of supply at the harvesting level;
- tight margins and high financial risk at the processing level;
- a globally competitive marketing and sales environment.

3 Participation, Capacity, Partnerships and Capital

3.1 First Nations Participation

The ownership, control and management of, and access to fisheries resources is a high priority for First Nations in BC. Significant resources, time and effort are currently expended on constitutional federal and provincial efforts to secure rights (often though the courts) to manage the fishery for cultural, social, environmental and commercial purposes. As the fishing industry is so important to First Nations, an opportunity exists to significantly increase their participation in the sector through economic reconciliation, instead of the courts.

Economic reconciliation provides a path to reset the relationship with First Nations, and to transform access to opportunities at the community level. While ownership of licenses and quota is the foundation of economic reconciliation, many additional opportunities will flow from greater ownership and participation in the sector (e.g. harvest related activity, value-added processing, logistics/distribution, sales/marketing, etc.). Greater regional and local control of opportunities in the fishing industry by First Nations will also benefit non-First Nations. For example, the recent closure of the Canfisco cannery in Prince Rupert has eliminated 500 jobs[1], and the only active processing facility in the area is owned by Lax Kw'alaams Band. In Nanaimo, five Nuu-chah-nulth Nations recently acquired St. Jean's Cannery & Smokehouse through their CFE[2], thereby ensuring that employment, value-added processing and profits will remain in the area.

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[1] CBC. Canfisco Cannery Closing Operations in Prince Rupert, November 12th, 2015
[2] Business in Vancouver. New Era Begins for Nanaimo's St. Jean's Cannery, December 4th, 2015

While the rights-based track will play out through economic reconciliation, or over time in the courts, the approach to commercial participation consisted primarily of limited access through DFO relinquishment. This approach, while providing a foothold in the commercial arena, is still marginal due to the small total amount of commercial access currently available to First Nations, a lack of capital to acquire more access, and the nascent capacity of CFEs to manage large-scale, vertically integrated fisheries.

A positive development (in 2015-16) was the provision of funding through BDS to support direct acquisition of commercial access by CFEs, instead of through relinquishment. This change is important as it increases the capacity of CFEs to acquire their own access.

The success of the BDS and PCFDI SPI programs in 2015-16 (renewed in 2016-17), demonstrates that CFEs are both interested and committed to pursue commercial opportunities through (i) direct acquisition of access on the open market (instead of through relinquishment), and (ii) diversification through horizontal and vertical integration.

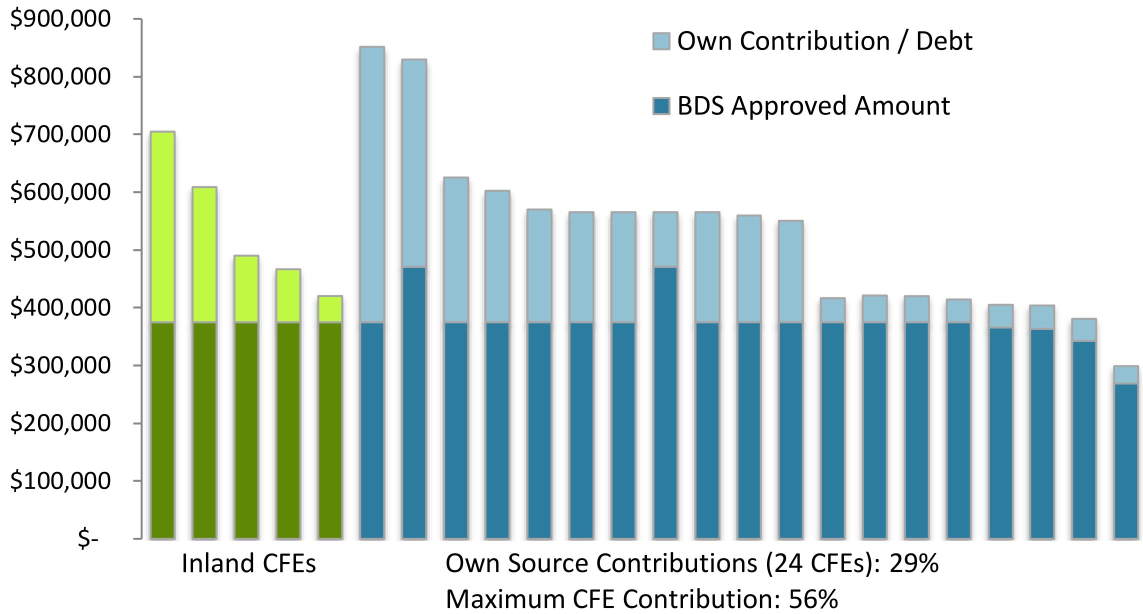
Table 2: BDS & PCFDI SPI Summary – Approved Projects & CFE Contributions (March 2016)

Funding Program	Description	# Apps	Total Project Amount	Program Available Amount	Min CFE Contrib.	Actual CFE Contrib.	Actual CFE % Contrib.
Business Development Support (BDS)	Direct acquisition of commercial access, vessel and gear, and operational upgrades by CFEs.	24	$12.70M	$9.03M	10%	$3.67M	29%
Diversification support (PCFDI SPI)	Expansion of CFE business model through vertical integration in the fishing industry.	3	$4.52M	$1.05M	10%	$3.47M	77%
	Total	**27**	**$17.22M**	**$10.08M**	**10%**	**$7.14M**	**41%**

One measure of this commitment is the allocation of retained earnings by CFEs towards (i) the acquisition of access, and upgrades to equipment and operations under BDS, and (ii) diversification opportunities in value-added processing, aquaculture, and market access (sales and marketing) under PCFDI SPI. The minimum contribution threshold for CFEs was set at 10% for both programs. The actual average CFE contribution for BDS projects is 29% (BDS) and 77% (PCFDI SPI), which is indicative of two key points:

- the capital required for eligible projects is significantly higher (especially for access acquisition and diversification) than the funds available under the BDS program ($375,000 per CFE) and PCFDI SPI ($6 million over three years);
- despite being risk averse, CFEs are willing to invest their retained earnings when leveraged through external funding (e.g. program support, loans, partnerships/vendors).

Figure 1: BDS Projects: CFE Equity Commitments (March 2016)



3.2 Employment, Training and Career Development

A key objective of the PICFI and PCFDI SPI programs is the employment of CFE community members in the fishing industry. As of November 2015, there were approximately 1098 jobs related to CFE activity in British Columbia. Most of these jobs are harvest related, although the increasing focus of many CFEs and member communities to diversify into processing, distribution and value-added, presents a significant opportunity for employment growth. For example, approximately 250 community jobs are now directly related to harvesting and processing activity in Lax Kw'alaams.

Increased employment in this sector is a high priority for many First Nations communities for a number of reasons:

- Deep cultural connection and identification with the marine environment;
- Historical dependence on seafood for social, cultural and economic well-being;
- Established community fleets, which are currently underutilized;
- Deep experience/knowledge of the fishing industry within communities;
- History of employment in harvest and processing activity;
- Further alienation from the sector post rationalization of licenses/quota, and consolidation/concentration of fleets/industry players;
- Aging demographic and limited involvement of younger community members.

In order to support community employment and career development in the sector, PICFI prioritized the development of training plans for harvest related knowledge and skills 2008 - 2012. Technical and safety training was successfully delivered through CFEs and partners (e.g. Fish Safe BC). Individuals were trained and mentored in CFE business management, fisheries operations and safety, and are equipped to operate with sound business and management practices and fishing expertise. Data collected from 2007 - 2012 shows a total of 1,725 days of training, involving 2,393 actual trainees.

Looking forward, the focus of training needs to cover a wider range of education, knowledge and skills development:

- Training and support for shareholders and CFEs at the governance/board level;
- Human resource planning and support at the management and operations level;
- Ongoing technical and safety training at the harvest level;
- New training and skills development across horizontal and vertical integration (e.g. in shore-side operations, value-added processing, distribution, logistics, sales and marketing);
- Youth recruitment and mentoring to scale-up employment and career development in the sector.

The development of a regional plan is underway to scope, design and deliver training and education, in partnership with FNFC, CFEs and educational institutions. Through direct engagement with CFEs, the plan focuses on identifying training and education needs that are best served through collective coordination and support. An application to ESDC's Skills and Partnership Fund was submitted in July 2016, to access resources for implementation of the plan.

3.3 Governance, Management, and Financial Performance

An important component of PICFI's success to date is the establishment of separate legal entities to manage the commercial access portfolios, on behalf of member First Nations. There are 97 First Nations that benefit from the PICFI program, and all act effectively as shareholders/unit holders of their respective CFEs (a few CFEs still operate directly under Band control).

The majority of CFEs are structured as Limited Partnerships, with a General Partner responsible for the management of the affairs of the Limited Partnership. The members of each CFE aggregate are the Limited Partners, and the structure works efficiently for governance, management, liability, and tax purposes. Furthermore, the ability of the CFE to focus on running the business is consistent with the intention of many communities to create a degree of separation between politics, government administration and business.

Good governance and management is critical to the success of any business, and there is a wide range of governance and management practices across the 25 CFEs. This range of practices is normal, given:

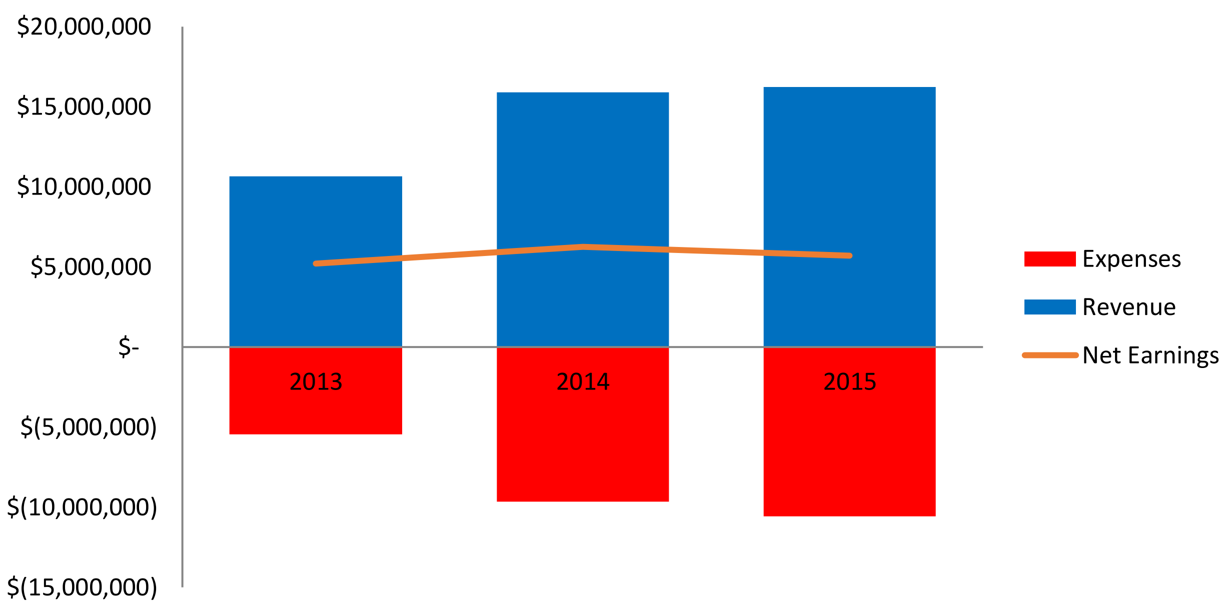
- the initial focus on setup, administration, management and training;
- the period of time it normally takes to develop a corporate culture of governance, board oversight and experienced management.

Looking forward, CFEs, DFO, and industry and training partners will need to focus on further developing and transferring governance, management and operational skills to CFE board members, management, operators and community members as CFEs expand.

Landed values have increased from approximately $17 million (2013) to $22 million (2015). The 2015 value represents approximately 5% of the Pacific region's total landed value. On average, CFEs have generated solid revenues and positive net income over the last three years, based on recently reviewed and updated data (see Figure 2). Gross revenues have increased between 2013 (approximately $10.6 million) and 2015 (approximately $16.2 million); however, this revenue generation is not evenly spread as:

- CFEs with smaller, less valuable and/or less diversified access portfolios are less profitable and more vulnerable to adverse changes;
- inland CFEs are especially susceptible to cyclical salmon runs under the demonstration fishery designation.

Figure 2: Total Revenue, Expenses and Net Income – All CFEs (2013 – 2015)



While the revenue and net income trends are positive, the same cannot be said for balance sheet growth. CFEs essentially operate without a balance sheet (except for retained earnings and some equipment), as access portfolios reside with DFO. Under the BDS program, 2015-16 was the first year that support was provided for direct acquisition of access by CFEs. Growing the balance sheet will be an important part of the growth strategy for many CFEs, especially as the sector depends on economies of scale and diversification of access portfolios to be viable over the long-term.

3.4 CFE Rating Index

In order to track the progress of CFEs, a CFE Rating Index was developed that benchmarks the overall capacity of CFEs against established industry standards set by sector incumbents. Baseline figures for CFEs were established as of March 31st, 2015, following the initial CFE investment and setup phase. The CFE Rating Index was prepared for October 31st, 2015, and updated as of March 31st, 2016.

The CFE Rating Index reflects the capacity of CFEs to: (i) maintain existing operations, employment and revenue generation under a variety of conditions, and (ii) expand, diversify, and increase revenue and employment opportunities. The CFE Rating Index is a compilation of attribute scores, with three levels: “Sustainable”, “Pass”, or “Fail” (see Table 3). A fourth level “Collapse” is also included for projection purposes.

Table 3: Definitions - CFE Rating Index

Level	Description
Sustainable	CFEs that satisfy a “Sustainable Commercial Fisheries Business Level” are well established and sufficiently advanced to significantly expand operations, and/or continue to operate even when business conditions adversely fluctuate. Such fluctuations could include market downturns, resource shortages, negative financial climate and disadvantageous currency positions, world economic situations, environmental impacts, labor disruptions, etc.
Pass	CFEs that satisfy a “Minimum Passing Level for Business Capacity Achievement” are able to satisfactorily perform under current circumstances and market conditions, provide employment and financial contributions to the community. Their capacity to significantly expand operations and/or weather adversity is limited.
Fail	CFEs in the “Fail” level are able to perform under favorable conditions. They are vulnerable to adverse changes across DFO programs, market downturns, resource shortages, and internal governance, management and operational constraints. Overall, their capacity is limited to maintenance of their CFE under favorable conditions.
Collapse	CFEs in the “Collapse” category no longer operate as a CFE.

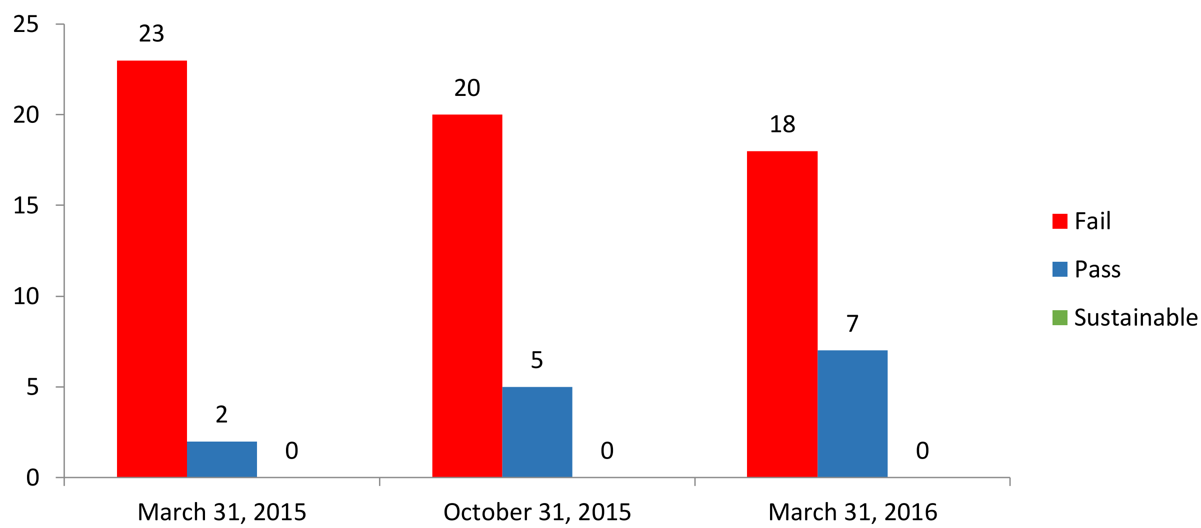
Table 4 and Figure 3 demonstrate the progress that has already been made during the last fiscal year of CFE operations. However, the CFE Rating Index also demonstrates the need for ongoing support to ensure that more CFEs are able to develop over time to the point that they can independently withstand, and prosper, in the face of the many challenges they face in the industry.

Table 4: CFE Rating Index

Date/Scenario	Collapse	Fail	Pass	Sustainable	% Pass or Above
March 31, 2015	N/A	23	2	0	8%
October 31, 2015	N/A	20	5	0	20%
March 31, 2016	N/A	18	7	0	28%

In particular, only 20% of CFEs reached the "Pass" level as of October 31st, 2015, and 28% as of March 31st, 2016, while none of the CFEs reached the "Sustainable" level. The conclusion to be drawn from this data, is that most CFEs will not be able to operate effectively if PICFI sunsets after March 2017. In most cases, CFEs are at a level of development where they will likely collapse without a degree of ongoing support.

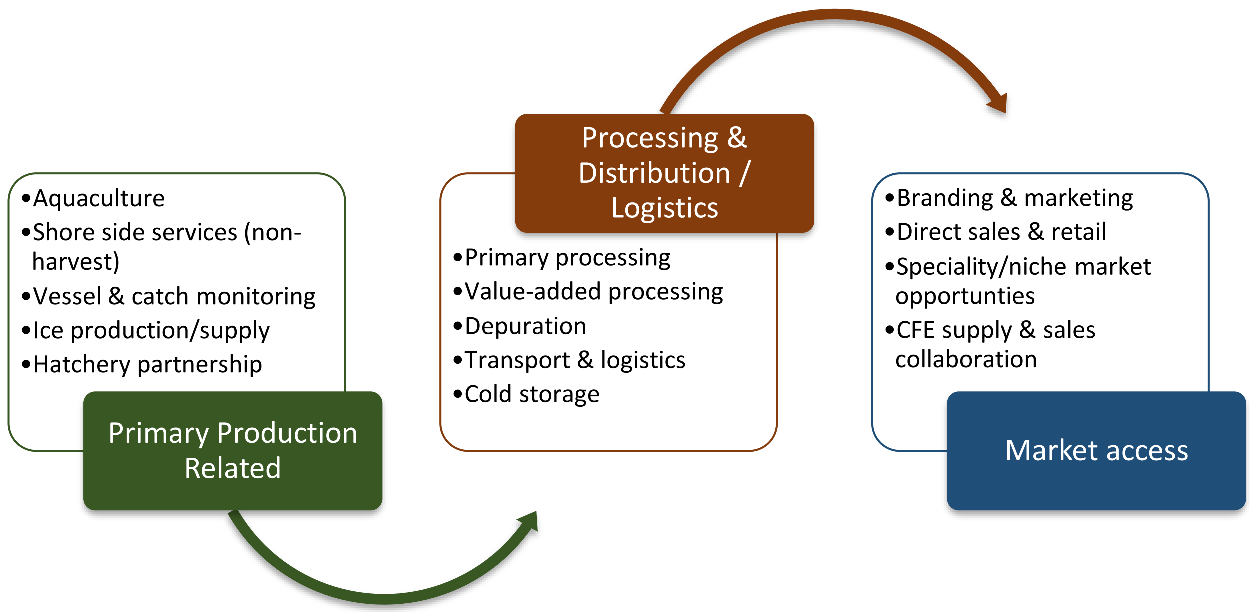
Figure 3: CFE Ratings Index (CFE Count)



3.5 Diversification, Value-added, and Vertical Integration

There is significant interest from CFEs to diversify into new opportunities (see Figure 4). The primary reasons for diversification are: revenue generation, employment and career development, growth and expansion, long-term viability, and risk mitigation.

Figure 4: Examples of CFE Value Chain Opportunities



In 2015-16, three PCFDI SPI projects were approved, one for each value chain categories:

- expansion of a closed containment facility by Kuterra;
- acquisition of St. Jean's Cannery by NSDC;
- installation of processing equipment by Lax Kw'alaams for value-added products.

Each project represents a significant step forward for the CFEs involved, and an example of what's possible to other CFEs. PCFDI SPI funding for these three projects was leveraged several times over, through CFE's retained earnings, and private sector loans.

3.6 Leveraging Resources and Partnerships

CFEs and their member communities will need to leverage all available options to expand, enhance and scale their operations and presence in the fishing industry. Significant support is required to build on the initial successes of PICFI, including:

- economic reconciliation and policies that prioritize First Nations participation and access (license and quota) acquisition at scale;
- coordination between programs that support First Nations access to funding, partnerships, infrastructure and technology (e.g. PCFDI SPI);
- support for industry partnerships that provide options for diversification, knowledge and skills transfer, and vertical integration by CFEs;
- innovative risk sharing models that catalyze investment of non-government sources of capital in support of CFE goals and objectives; and
- a national strategy to support education, career development, skills training and mentorship of existing and new members from CFE communities.

4 Looking Ahead

With the support of PICFI, the foundations are being laid to significantly boost Indigenous participation in commercial fisheries and diversification opportunities. CFEs are improving their ability to forge new commercial partnerships, maintain their business growth, and increase the flow of benefits to their member communities. However, given their current level of development, the internal and external challenges faced by CFEs leave them vulnerable to:

- the growing pains of young organizations with limited capacity;
- the competitive threats of established incumbents, and well-capitalized industry entrants (foreign and domestic);
- the cyclical uncertainties of resource supply.

Securing these potential gains and overcoming these challenges will still require ongoing support. Since 2012-13, PICFI has been extended on a short-term basis only. With a new PICFI deadline of March 31st, 2017, two scenarios may be considered:

- **PICFI Termination (March 31st, 2017)**
- **PICFI Status Quo (ongoing annual renewal)**

The PICFI Termination scenario is based on the current expiration of the program as of March 31st, 2017. Under this scenario, CFEs will experience significant challenges going forward to (i) maintain existing operations, employment and revenue generation, and (ii) expand, diversify, and increase revenue and employment opportunities. In addition to the negative impact on CFE operations, there will be larger consequences related to First Nations commercial fisheries under this scenario:

- an inability by DFO to support its existing First Nations commercial fisheries initiatives;
- a shift away from collaboration between First Nations, DFO and other partners;
- an increased risk of litigation by First Nations on constitutional grounds, resource management issues, and on allocations for commercial and sports fisheries;
- an increased risk of resurgent conflict between First Nations and non-First Nations commercial and sports fishers;
- a limited ability to protect PICFI investments in CFEs to date, and a decreased ability to leverage off these investments;
- loss of influence/ability to support partnerships between First Nations, industry, and access to capital, etc.

The PICFI Status Quo scenario is based on ongoing operational and relinquishment support (or possibly a continuation of the BDS program) on a year-to-year basis. Under this scenario, CFEs will likely continue to develop on an incremental basis, with unequal and limited potential for significant scale-up of access, capacity, revenue generation, employment, partnerships and diversification. The primary constraints under this scenario are:

- the lack of certainty to plan for the long-term, especially as it relates to DFO policies for Indigenous commercial access, new investment, capacity building, diversification and partnerships;
- the potential for termination of PICFI at any time;
- the uneven and limited capacity of many CFEs to take on industry incumbents on a stand-alone basis at this stage of their development.

Table 5 highlights a number of attributes within each of the five areas of development, and the impact on each attribute based on the two scenarios.

Table 5: Scenario Analysis – Attributes, Descriptions & Impacts

Attribute	Description	PICFI Termination	PICFI Status Quo
Indigenous Participation	Access ownership – level of industry commercial access available to CFEs as % of total commercial access value in BC. Level for PICFI Termination scenario estimated as of Oct 31, 2016.	10% - 15%	15% - 20%
	Capital infrastructure – level of vessels, gear, infrastructure owned by CFEs relative to industry. Uncertain relates to the ability of CFEs to maintain existing infrastructure under PICFI Termination scenario.	Low (Uncertain)	Low – Med
	Joint decision-making, resource management, data collection & monitoring, etc.	Low – Med (Uncertain)	Low - Med
Employment, Training & Career Development	Employment/jobs opportunities related to CFE operations, harvesting, value-added, etc. Uncertain relates to ability of CFEs to maintain employment opportunities under PICFI Termination scenario.	1,000 (Uncertain)	1,000 – 1,500
	Focus of training/career development for CFEs management, community members & recruits. Uncertain relates to ability of CFEs to support renewal of training for required certification.	N/A (Uncertain)	Technical & Management
Governance, Management & Financial Performance	Focus on building board governance & management capacity for existing operations and expansion.	N/A	Low - Med
	Ability to support revenue growth (income statement).	N/A	Low - Med
	Ability to support commercial access growth (balance sheet)	N/A	Low - Med
	Ability to support wealth creation through equity/retained earnings growth (balance sheet)	N/A	Low - Med
Diversification, value-added, vertical integration	Expansion of CFE activities across horizontal & vertical diversification, value-added & sales/marketing.	N/A	Low – Med
Leveraging resources & partnerships	Opportunities to leverage off policy & regulatory resources	N/A	Low - Med
	Opportunities to leverage off industry & other partnerships	N/A	Low - Med
	Opportunities to leverage off non-program funding sources (access to capital)	N/A	Low – Med
CFE Ratings Index	**Proportion of CFEs that attain the "Sustainable" rating. Level for PICFI Termination scenario estimated as of Oct 31, 2016.**	**0%**	**20%**

In order to forecast the expected business capacity level in future years, assuming some further support (especially for the CFEs with limited capacity) projections are used to extrapolate the extensive records of annual progress against established baseline projections.

Table 6 and Figure 5 show the trajectory of CFEs since March 31st, 2015, and a range of possible CFE Ratings Index outcomes under the two scenarios, looking out five years to 2020-21. The projections clearly show the sharp divergence between the PICFI Termination (as of March 31st, 2017) and PICFI Status Quo scenarios.

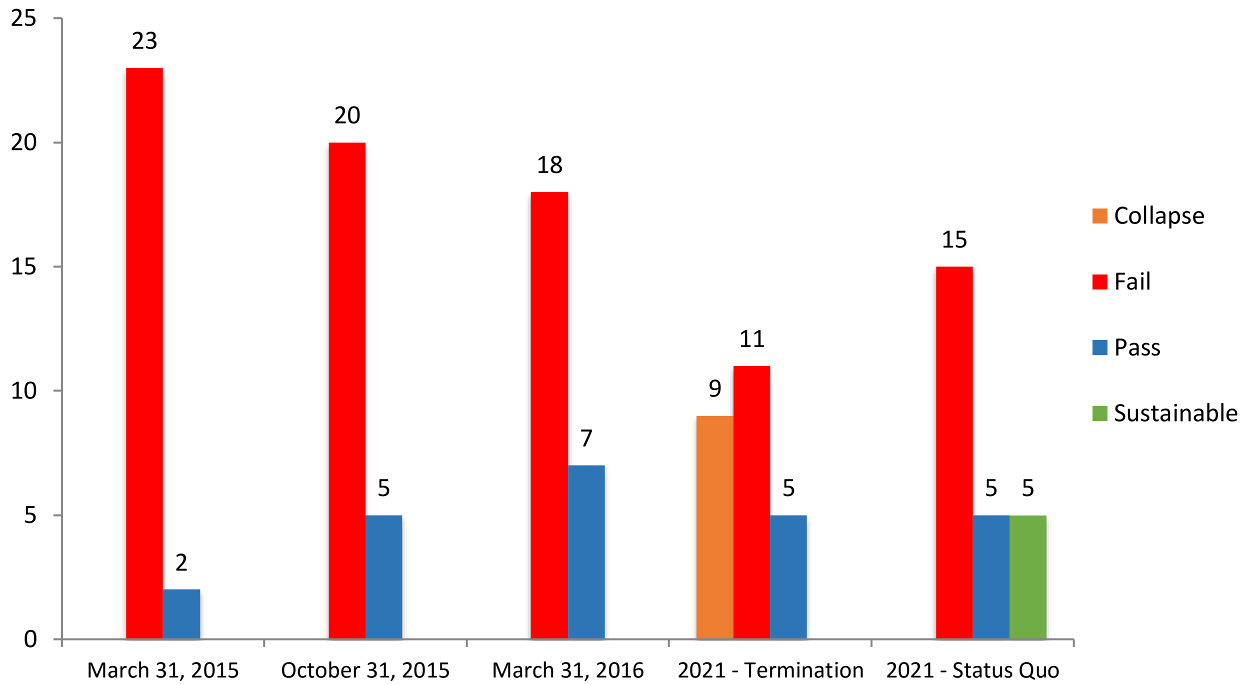
- the PICFI Termination scenario projects that no CFEs will attain a "Sustainable" level of operations, only five will attain a "Pass" level, and nine CFEs will collapse by 2021.
- the PICFI Status Quo scenario projects that five CFEs will attain a "Sustainable" level of operations, five will attain a "Pass" level, and none will collapse by 2021.

Table 6: CFE Ratings Index – Projections to 2020-21

Date/Scenario	Collapse	Fail	Pass	Sustainable	% Sustainable
Mar 31, 2015	N/A	23	2	0	0%
Oct 31, 2015	N/A	20	5	0	0%
Mar 31, 2016	N/A	18	7	0	0%
2021 - Termination	9	11	5	0	0%
2021 - Status Quo	0	15	5	5	20%

To be sure, CFEs have made demonstrable progress over a very short period of time. However, this progress is at significant risk, especially since most CFEs have yet to attain the "Pass" level, much less the "Sustainable" level that ensures their financial and operating independence, and resilience in the face of the risks and challenges of the fishing industry.

Figure 5: CFE Ratings Index – Projections to 2020-21



5 Conclusion

The metrics developed for the PICFI program clearly show how much has been achieved over a very short period of time, in terms of CFE business development and Indigenous participation in commercial fisheries. Pacific CFEs have invested in training and personnel skills development, enhanced their governance, business planning and operational capacity, and expanded their enterprises strategically and smartly.

The CFE Ratings Index is a valuable tool for showing how PICFI is getting results over time, and it also provides a comprehensive tool to assess the health of each CFE, and diagnose areas where different kinds of support may be needed. However, ongoing support is still clearly needed to bring CFEs to the point where they can operate independently, and be resilient to changes in the fishing industry.

Should support for PICFI continue, it is expected that CFEs will gradually increase their own financial and in-kind contributions in new investments and projects. In addition, they will begin to leverage other sources of commercial capital and business partnerships, on terms that are beneficial to the enterprise and its First Nations shareholders.