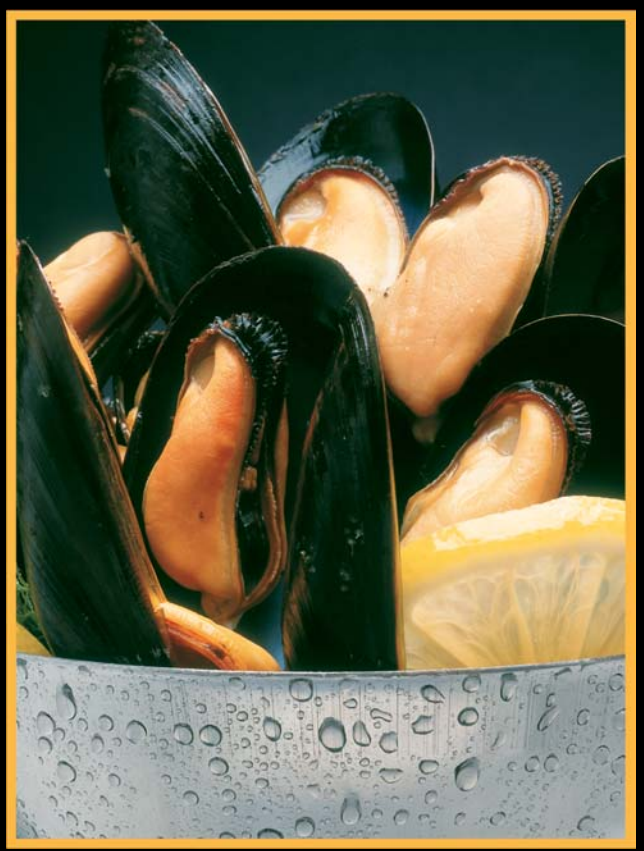
Newfoundland and Labrador
SEAFOOD INDUSTRY

Year In Review 2005



GOVERNMENT OF
NEWFOUNDLAND AND LABRADOR
Department of Fisheries and Aquaculture

Seafood Industry **2005** Year In Review

Contents

Message From The Minister

I am pleased to present the Seafood Industry 2005 Year in Review. The review highlights a wealth of information pertaining to the performance of our province's seafood sector, including aquaculture and key aquatic species such as crab, shrimp, groundfish and pelagics.

As Newfoundland and Labrador's largest private-sector employer, the fishery continues to be the principal economic engine of our rural communities. Last year was a particularly successful year for pelagic species, registering a 43 percent increase in landed value. A strong fishery is expected to continue in 2006.

Newfoundland and Labrador has a pure environment with a rich harvest of some of the world's finest seafood products. Numerous efforts to enhance quality over the past year have been instrumental in expanding the value of our seafood products. These efforts will continue to be a top priority for my department in 2006. As a province, we must further increase the awareness of the variety and quality of Newfoundland and Labrador seafood products, if our industry is to remain competitive and grow in an increasingly competitive global marketplace.

Our province is just beginning to tap the potential of the aquaculture sector. Enhanced efforts to develop this sector have been undertaken and have proven to be highly successful. During 2005, salmonid aquaculture produced over 5,000 tonnes, exceeding $26 million. Over 3,000 tonnes of mussels were produced in our mussel industry, with a value approaching $7 million. Our government plans to further strengthen this sector for the overall benefit of Newfoundland and Labrador's seafood industry, particularly in rural areas of the province.

The seafood industry is the backbone of our provincial economy. This is particularly true in rural Newfoundland and Labrador. As such, it is a top priority for government, as is the sustainability of rural Newfoundland and Labrador. This will continue in 2006.

Honourable Thomas G. Rideout, M.H.A.
Lewisporte District
Minister of Fisheries and Aquaculture

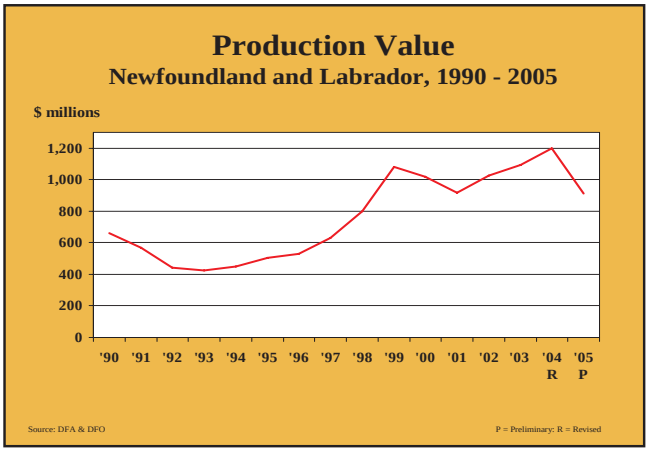
Fishing Sector Performance 2005

The seafood industry contributed significantly to the provincial economy in 2005, despite facing market difficulties and resource challenges. The production value was $913.5 million in 2005, down from $1.2 billion in 2004. While the production value has declined, it remains near historical high levels.

Total landings decreased by almost three percent to 326,323 tonnes in 2005 from 334,833 tonnes in 2004. The overall landed value decreased by 24 percent, from a record $606 million in 2004 to $461 million in 2005, due mainly to reductions in crab landings and lower crab prices. Groundfish landings increased by 11 percent to 59,272 tonnes in 2005 from 53,332 tonnes in 2004, due primarily to the opening of the gulf cod fishery and increased landings for yellowtail, redfish and turbot. The overall value of groundfish

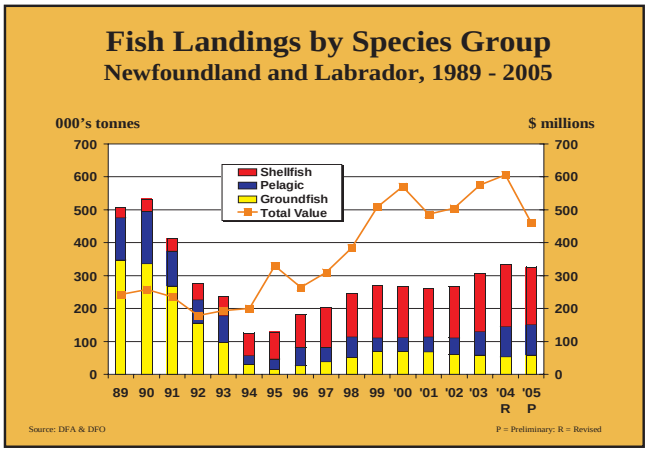
Fishing Industry Performance	*2004(R)*	*2005(P)*	*Percent Change*
LANDINGS (tonnes)			
Groundfish	53,332	59,272	11%
Pelagics	93,656	91,466	-2%
Shellfish	187,845	175,585	-7%
TOTAL*	**334,833**	**326,323**	**-3%**
Seals (number)	326,642	299,199	-8%
LANDED VALUE ($M)			
Groundfish	$61.5	$61.9	1%
Pelagics	$23.5	$33.5	43%
Shellfish	$505.8	$350.1	-31%
Seals	$15.3	$15.7	3%
TOTAL	**$606.1**	**$461.3**	**-24%**
PEAK EMPLOYMENT			
Harvesting (individuals)	14,100	13,000	-8%
Processing (individuals)	16,100	13,300	-17%
ANNUAL AVERAGE EMPLOYMENT (PY's)			
Harvesting	8,300	8,800	6%
Processing	7,800	7,000	-10%
AVERAGE INDUSTRY EMPLOYMENT (PY's)	16,100	15,800	-2%

Source: DFO, Statistics Canada and DFA (as of Jan.26 ,2006)
Note: R – Revised; P – Preliminary; PY's – Person Years.
Numbers may not add due to rounding
*(*Does not include seals)*



increased by less than one percent to $61.9 million in 2005 from $61.5 million in 2004. The sealing industry registered a 11 percent reduction in landings from 326,065 seals harvested in 2004 to 290,124 seals in 2005. The landed value of seals increased slightly to $15.7 million in 2005.

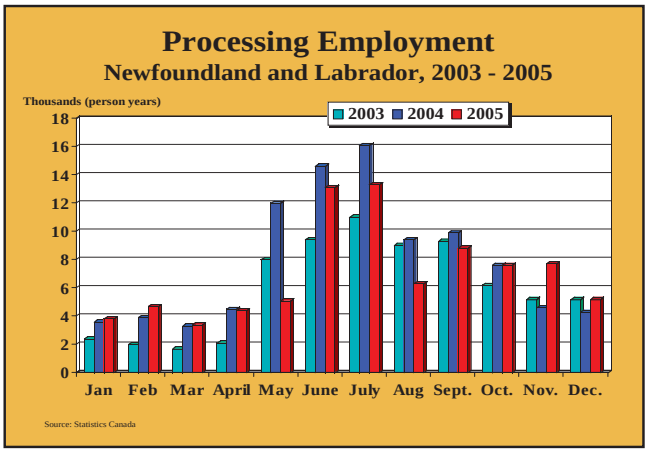
The landed value of pelagics increased from $23.5 million to $33.5 million, due mainly to higher mackerel prices to fishermen. Increased herring catches and slightly higher capelin landings helped maintain pelagic landings close to 2004 levels. Overall pelagic landings decreased by two percent from 93,656 tonnes in 2004 to 91,466 tonnes in 2005.



Shellfish landings declined by seven percent in 2005 to 175,585 tonnes, due primarily to lower crab catches. Lower crab quotas for most fishing areas and a late start to the crab fishery contributed to overall lower landings.

Employment

The Labor Force Survey (LFS) indicates that total annual average employment in the fishing industry decreased by two percent, from 16,100 person years in 2004 to 15,800 in 2005. This reduction is mainly attributed to decreased activity in the processing sector, due to delayed crab plant openings and the early closures of some crab fishing areas. Peak employment, an indicator of the number of people employed in the industry, fell by 13 percent, from 30,200 individuals in 2004 to 26,300 individuals in 2005.



Average employment in the processing sector decreased 10 percent to about 7,000 person years. Peak processing employment decreased by 17 percent to 13,300 individuals in 2005 from 16,100 in 2004.

Average harvesting employment increased six percent to 8,800 person years in 2005 from 8,300 person years in 2004. This increase was due, in part, to the increased cod quotas on the west coast and increased effort in other fisheries, specifically, Icelandic scallops and redfish in NAFO area 3O. Despite this rise in average harvesting employment, peak harvesting employment fell by eight percent to 13,000 individuals in 2005.

Aquaculture Sector Performance 2005

The aquaculture sector showed solid growth in 2005 despite exchange rate challenges in key markets. The Newfoundland and Labrador aquaculture industry continued its focus on four main commercial species (Atlantic salmon, steelhead, mussels and cod) outlined in the 1999-2000 Provincial Aquaculture Strategic Plan. This plan was updated in 2002 and again in 2005.

The combined farm-gate volume for all aquaculture species in 2005 was 8,164 tonnes, an increase of 45 percent from 5,626 tonnes produced in 2004. The overall export value of the aquaculture industry rose to $33.5 million, from $22 million the previous year. This increase was due primarily to an increase in market demand resulting in stronger, more stable prices.

Aquaculture Industry Profile

Employment (person years)	246
Export Value (millions)	$33.5
Commercial Shellfish Sites	72
Commercial Finfish Sites	17
Aquaculture Production (farm-gate) (tonnes)	8,164

Note: Employment is based on preliminary figures for 2004.

Source: DFA

Species Review - Wild Fisheries

Shellfish

Still the most dominant sector in the Newfoundland and Labrador fishery, shellfish registered declines in both landings and value in 2005. Overall shellfish landings decreased by seven percent from 187,845 tonnes in 2004 to 175,585 tonnes in 2005 and value dropped 31 percent. Lower crab landings were the main contributor to this decline.

Opportunities in Cod Aquaculture

The species that brought settlers to Newfoundland 500 years ago is now the newest opportunity for aquaculture in the province. The production of cod *(Gadus Morhua*) is the next species for commercialization.

Newfoundland and Labrador is a leader in the development and promotion of cod aquaculture worldwide with a combination of innovative private-sector pioneers supported by the research expertise of Memorial University of Newfoundland (MUN).

Building on this partnership and following a successful research and development phase, the province is poised to begin an exciting new era in demonstrating the commercial viability of cod aquaculture. This brings us full circle from hunters of cod to farmers of cod.

In 2005, the Newfoundland Aquaculture Industry Association, in partnership with the MUN School of Business and the Department of Fisheries and Aquaculture, initiated two studies to address the business case for cod aquaculture and a formal business plan for a commercial scale cod aquaculture demonstration farm.

The first step was to address the business case for cod aquaculture and include an assessment of the current state of the sector in the province, market perceptions, research and development challenges, and a business case analysis. The study concluded that, before the cod aquaculture sector can develop further, its viability must be commercially demonstrated.

The second study presented the formal business plan for a commercial scale cod aquaculture demonstration farm. This included the

technical and financial requirements to construct and maintain a commercial cod aquaculture demonstration site in this province.

Looking forward, Newfoundland and Labrador has an opportunity to bring together twenty years of technological innovation and expertise with prime biophysical conditions to commercialize cod aquaculture. This, coupled with a strong history in the processing and marketing of cod, provides a strategic opportunity for our province to regain its position as the premier supplier of prime cod to the world's tables.

The Government of Newfoundland and Labrador is committed to working with industry stakeholders to ensure that rural communities benefit directly from a commercial cod aquaculture industry.

Cod was the reason that many of these communities were founded. Cod aquaculture could be the reason they remain.

Crab

Lower crab quotas in a number of fishing areas contributed to landings falling by 21 percent, from 55,656 tonnes in 2004 to 43,955 tonnes in 2005. Price reductions and overall poor markets resulted in a significantly lower landed value, decreasing by 53 percent from $301 million in 2004 to $140 million in 2005. Crab prices to harvesters in 2004 were at an all-time high, averaging $2.45 per pound. In 2005, these prices dropped sharply to $1.45, due to poor market conditions. Early closures, due to soft shell in 3K, resulted in approximately 4,000 tonnes of the crab quota being left in the water.

Shellfish Volume and Landed Value 2004 and 2005

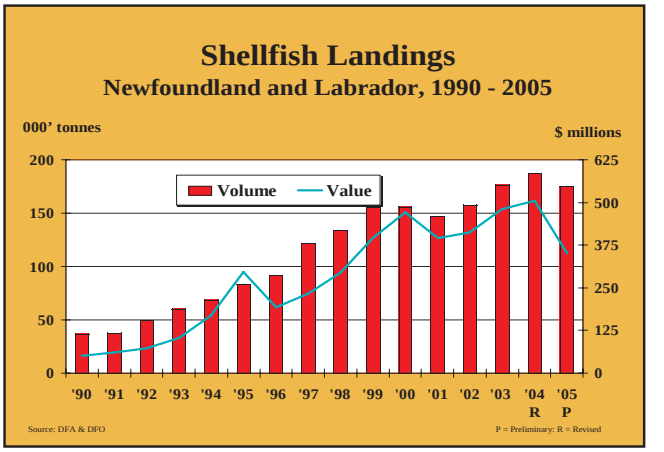
	2004(R)		2005(P)	
Species	**Volume (tonnes)**	**Value (000's)**	**Volume (tonnes)**	**Value (000's)**
S.S. Clams	15,058	$12,352	12,234	$9,791
Quahaugs	2,190	$876	3,439	$1,376
Icelandic Scallops	893	$667	2,809	$3,577
Sea Scallops	3,472	$5,003	1,990	$2,887
Squid	2,490	$1,414	516	$273
Lobster	1,925	$21,225	2,593	$29,881
Shrimp	100,167	$155,448	101,152	$153,951
Snow Crab	55,656	$300,577	43,955	$140,273
Other	5,994	$8,247	6,897	$8,096
Total	**187,845**	**$505,809**	**175,585**	**$350,105**

Source: DFO & DFA *P-Preliminary; R-Revised*

Shrimp

This fishery is prosecuted by two main fleets, the wetfish fleet (<65 ft.) landing fresh product for the cooked and peeled market and factory freezer trawlers harvesting and processing frozen-at-sea product.

Overall shrimp landings of 101,152 tonnes in 2005 remained on par with last year's landings. Inshore landings fell five percent from 66,121 tonnes to 62,640 tonnes in 2005 and the landed value decreased by a similar amount from $72.9 million in 2004 to $69 million in 2005. Landings for the factory freezer fleet increased by 13 percent in 2005, from 34,046 tonnes in 2004 to 38,512 tonnes.



Other Shellfish

Despite an overall decline in shellfish landings of seven percent, several species registered increases in 2005. Quahaug landings went from 2,190 tonnes in 2004 to 3,439 tonnes in 2005, a 57 percent increase. Icelandic scallop landings also increased by 215 percent from 893 tonnes to 2,809 tonnes in 2005, due to an increased harvesting effort. Whelk landings rose by 117 percent from 1,115 tonnes in 2004 to 2,422 tonnes in 2005 because of expanded markets and an improvement in market prices. Lobster landings increased 35 percent, from 1,925 tonnes to 2,593 tonnes in 2005.

Other shellfish species, however, declined in 2005. Sea scallop landings decreased by 43 percent from 3,472 tonnes in 2004 to 1,990 tonnes in 2005. Squid and sea urchin landings also decreased by 79 percent and 75 percent respectively.

GROUNDFISH

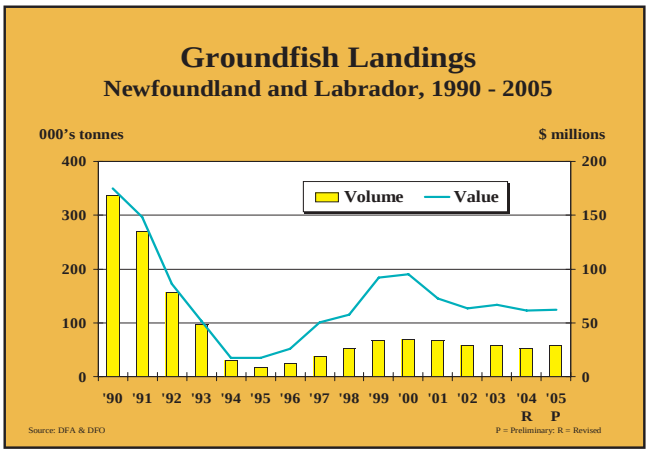
Groundfish landings increased by 11 percent in 2005 to 59,272 tonnes from 53,332 tonnes in 2004, due primarily to higher flounder, redfish and turbot landings.

Groundfish Volume and Landed Value 2004 and 2005

Species	2004(R) Volume (tonnes)	2004(R) Value (000's)	2005(P) Volume (tonnes)	2005(P) Value (000's)
Cod	14,521	$18,077	15,914	$20,384
Redfish	6,047	$2,948	7,793	$3,193
Halibut	493	$3,260	433	$2,867
American plaice	2,138	$1,647	2,404	$1,858
Flounder	13,888	$10,612	14,582	$11,039
Turbot	9,826	$12,939	11,673	$16,898
Hake	1,519	$802	2,101	$1,137
Monkfish	989	$1,051	1,166	$1,242
Skate	1,402	$332	1,464	$349
Other	2,509	$9,842	1,742	$2,971
Total	**53,332**	**$61,510**	**59,272**	**$61,938**

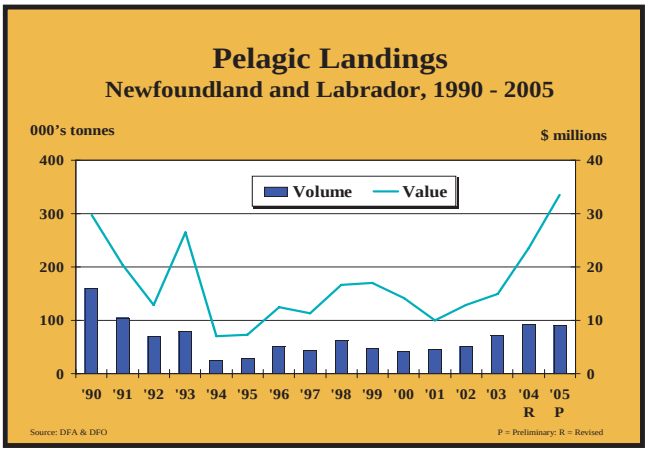
Source: DFO & DFA *P-Preliminary; R-Revised*

Most groundfish species registered higher landings, except for halibut which decreased 12 percent, from 493 tonnes in 2004 to 433 tonnes in 2005. Its landed value also fell by 12 percent from $3.3 million to $2.9 million in 2005.



Lumpfish roe landings fell 56 percent in 2005, from 1,765 tonnes in 2004 to 779 tonnes, and its landed value decreased by 74 percent to $2.5 million from $9.5 million in 2004. This decrease in lumpfish roe landings was a result of a new harvesting strategy adopted by harvesters in response to market conditions in 2004.

Turbot landings increased by 19 percent from 9,826 tonnes in 2004 to 11,673 tonnes in 2005, due primarily to increased inshore landings. The landed value increased 31 percent, from $12.9 million to $16.9 million in 2005. Yellowtail flounder landings registered a slight 4.8 percent increase, from 12,590 tonnes in 2004 to 13,191 tonnes in 2005. The estimated landed value of yellowtail flounder grew by 4 percent to $10 million during the same period.



PELAGICS

Overall pelagic landings decreased 2.3 percent in 2005, from 93,656 tonnes to 91,466 tonnes. The landed value increased 43 percent, from $23.5 million in 2004 to $33.5 million in 2005, due mainly to higher mackerel prices paid to harvesters.

Pelagics Volume and Landed Value 2004 and 2005

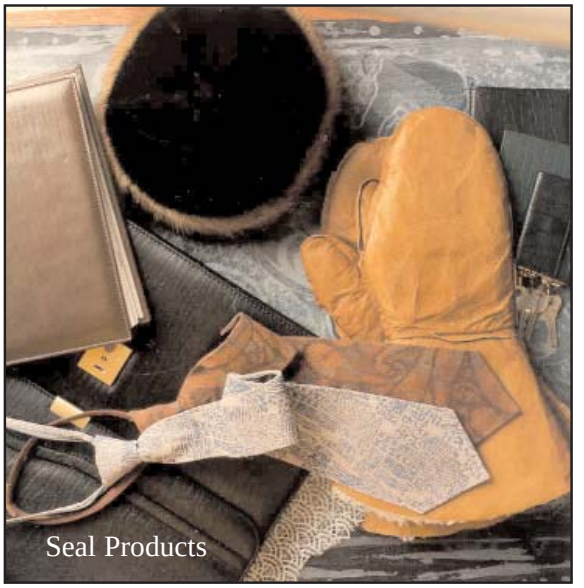
Species	2004(R) Volume (tonnes)	2004(R) Value (000's)	2005(P) Volume (tonnes)	2005(P) Value (000's)
Herring	20,060	$3,177	24,373	$5,911
Mackerel	39,987	$10,659	32,909	$17,386
Capelin	33,394	$9,015	33,721	$9,552
Other	215	$605	463	$664
Total	**93,656**	**$23,456**	**91,466**	**$33,513**

Source: DFO & DFA *P-Preliminary; R-Revised*

Mackerel and capelin continued as the most significant pelagic fisheries accounting for 52 percent and 29 percent respectively of the total value of pelagics.

Seals

The sealing industry registered another vibrant year in 2005, with a landed value of approximately $15.7 million and a market value approaching $40 million. A three-year Atlantic-wide quota was set in 2003 at 975,000 seals. As of 2005, 91 percent of the quota was filled by Newfoundland and Labrador harvesters,


Seal Products

with 290,124 seals taken this past season. Full utilization of these seals continued in 2005 with the processing of the pelt, meat and oil.

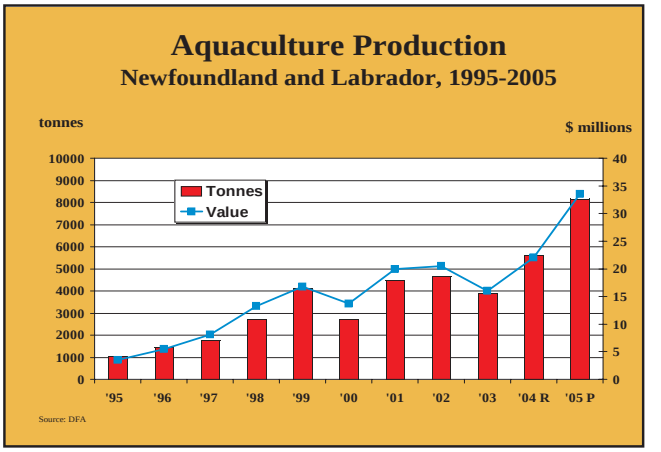
Strong markets for seal products prevailed in 2005 resulting in high prices to sealers. The demand for seal products is expected to remain strong in the near future and prices are expected to remain stable.

The Government of Newfoundland and Labrador continues to support a renewed management plan for seals based on sound scientific advice.

Species Review - Aquaculture

The aquaculture sector showed significant growth in both the salmonid and shellfish sectors in 2005. Total production for the sector was 8,164 tonnes. The major increase occurred in the salmonid sector which accounted for 61 percent of aquaculture production. Research and development in cod aquaculture continued in 2005, helping to bring this sector to the forefront of commercial production.

The Aquaculture Branch provided considerable assistance to industry participants in 2005 through the delivery of its Direct Industry Assistance Programs, specifically the Aquaculture Innovation Program (AIP), the Human Resource Development Program and the Marketing Intelligence Assistance Program. The Fish Health Program and the Environmental Biological Monitoring Program (EBMP) were again offered to industry by the Aquaculture Branch.



Shellfish

Blue mussel production increased by 37 percent to 3,157 tonnes from 2,298 tonnes in 2004. The value of mussels rose 40 percent to $7 million during the same period. There were 34 companies, with 72 commercial sites, licensed to grow mussels in 2005 and this number is steadily increasing.

Most mussels produced in 2005 were primary processed as fresh, whole product. A small amount was processed into secondary products, frozen whole in shell, frozen meats and value-added product.

Mussel production is projected to reach 10,000 tonnes in the long term, as the demand for blue mussels increases and new markets such as Europe are established. The 20 percent EU tariff on value-added and secondary processed mussels and the ten percent EU tariff on live, fresh or chilled mussels remain significant impediments to developing this market.

Salmonids

Salmonid aquaculture continues to expand with the ongoing involvement and investment in this sector by local, national and international companies. There are several companies hatching and growing salmonids in the province, with increased interest from numerous companies inquiring about establishing new aquaculture operations.

Total salmonid production grew a further 50 percent to 5,006 tonnes in 2005. The overall production value of the salmonid sector also rose in 2005 to $26.6 million, up 56 percent from $17 million in 2004. All Atlantic salmon and steelhead are produced by five companies operating in Fortune Bay and Bay d'Espoir.

There are 22 salmon and 21 steelhead grow-out sites currently licensed in the province, with 17 commercial sites actively involved in the production cycle for salmonids.

There are currently nine salmon and five steelhead site applications at the pending approval stage, with a total of 36 site applications in the provincial referral system. There are two hatcheries within the province supplying salmon smolts to the industry. A small number of salmon smolts and all steelhead fingerlings are imported from outside the province.

Cod

Cod aquaculture is in the development or pre-commercialization phase in Newfoundland and Labrador. In 2004, 19 tonnes of hatchery-raised cod were produced, at a value of $81,000, for test-marketing. The first hatchery-raised Atlantic cod was successfully harvested and test-marketed with positive feedback on its quality. Continued research and development of this sector led to the issuance of six licences for cod aquaculture in 2005.

Detailed bio-economic analysis indicates cod aquaculture can be a profitable venture with considerable potential for growth and economic development. Since 2001, 350,000 juvenile cod were transferred from the Ocean Sciences Centre to pilot-scale sites on the south coast of Newfoundland.

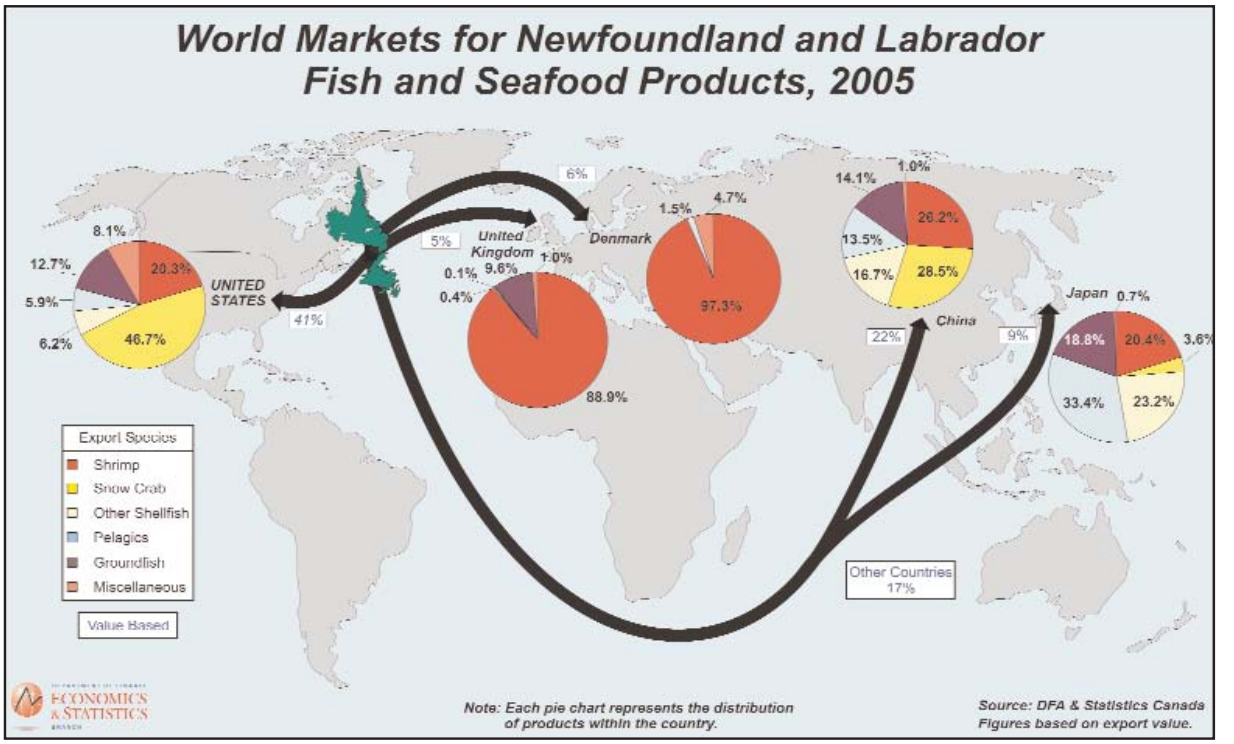
The development of commercial cod aquaculture will require the establishment of a large scale demonstration farm, nursery and hatchery facilities, as well as private-sector investment.

Market Overview

The United States and China are the province's largest markets for fish and seafood products with 41 percent and 22 percent respectively exported to those countries. Japan (nine percent) Denmark (six percent) and the United Kingdom (five percent) are the other main

world markets for our seafood and fish products. The remaining 17 percent is marketed to over 25 other countries.

Exchange rates remained a major issue in 2005, particularly for Newfoundland and Labrador exporters who registered further declines on their returns on seafood sales to the United States. The Canadian dollar continued to strengthen during the year, relative to the U.S. dollar, negatively affecting profit margins on product traded in exchange for U.S. currency.



China continued to dominate world markets for frozen groundfish. Low labour rates and a readily available supply of capital, provide China with the ability to produce low cost fish products. This creates a competitive challenge for Newfoundland and Labrador producers.

Crab

Over the past several years, the demand for snow crab has remained relatively strong in the United States and Japan. This strong demand has contributed to historically high market prices in 2004. In 2005, however, due to high crab inventories and resistance to high prices from consumers in the U.S. marketplace, crab prices fell. According to Urner Barry Publications Inc., the average price paid for five to eight-ounce snow crab sections fell from $U.S. 4.53/lb. in 2004 to $U.S. 3.49/lb. in 2005. Industry analysts suggest lower prices helped boost demand and sales at the retail level this past year. These analysts predict that these lower prices will likely lead to an increased level of snow crab promotion in 2006, resulting in a more stable supply/demand situation and less volatile prices. Crab sales to Japan were higher in 2005 and it is expected that strong interest from Japanese buyers will continue in 2006.

Shrimp

High European Union (EU) tariffs and the strengthening Canadian dollar were the two most significant factors contributing to another challenging year in the shrimp industry in 2005. The 20 percent EU tariffs continued to negatively impact Newfoundland and Labrador shrimp producers, making it very difficult to

An Overview of the Cashin Report: A Return to Price Stability for 2006

Special Discussion

Government implemented a pilot project for raw material sharing program for the processing sector in 2005. Opposition from the harvesting sector resulted in government appointing Richard Cashin to review the program.

Mr. Cashin's report, submitted to government in November 2005, contained 17 recommendations and covered four broad areas. These recommendations were related to the Raw Material Sharing (RMS) model, Collective Bargaining, General Industry Issues and, federal and provincial policy.

In general, the report found that, while there were some positive elements of RMS, other challenges limited the realization of the benefits envisioned by industry and government. The opposition of harvesters, the lack of support by some of the larger processors, and changes in DFO policy, negated some of the potential benefits. Government accepted the report's recommendation to discontinue the RMS pilot project.

As an alternative to the RMS pilot project, the report proposed that all parties explore a production limitation system. This system would have to be negotiated between harvesters and processors.

In response to Cashin's recommendations on Collective Bargaining, Government introduced legislation in February 2006 that establishes a new method of setting prices that includes the establishment of a fish price setting panel. The panel will deal with issues of price and condition of sales.

The fish price setting panel will consist of three members appointed by government. Its main functions will be establishing parameters for negotiations, facilitation of collective bargaining and acting as an arbitration panel. It will only set fish prices when the parties to negotiations have been unwilling or unable to agree.

The changes to collective bargaining are designed to achieve the following policy objectives:

- the establishment of a balanced regime for collective bargaining and the setting of raw material prices to provide stability and predictability to participants;

- to allow industry to conduct fisheries on a timely basis within the limitations imposed by nature and market forces; and,

- to re-establish the confidence of international markets in the reliability of the Newfoundland and Labrador fishing industry from both a quality perspective and consistency of supply.

The panel will be a mechanism for ensuring a timely start to our fisheries. It will not prevent the parties from negotiating their own collective agreements.

The model will be a positive feature in the industry for 2006. Government will continue to analyze the report's other recommendations as the fishing season progresses.

A copy of the report can be found at:
www.fishaq.gov.nl.ca/cashinreport/

compete against European shrimp producers who are not subject to the same restrictive tariffs. The strengthening Canadian dollar resulted in lower returns to our shrimp producers. Some Newfoundland and Labrador companies are building on the market base they have established in the United States. The EU, however, remains a key market for our shrimp industry.

Processing Overview

Licensing Policy

In February 2005, the department implemented a new Fish Processing Licensing Policy Framework. Under the new guidelines, fish processing licences identify each species or species group of fish, that the licence holder is authorized to produce. This replaced the previous policy of issuing core and non-core licences. The new policy guidelines were introduced to promote a competitive and viable industry.

A Fish Processing Licensing Board, consisting of five members from outside the fishing industry, was tasked with reviewing publicly advertised applications for new processing licences and transfer requests. In 2005, the board reviewed and made recommendations on seven licence applications and 41 appeals, of which 31 were approved. The majority of these appeals involved the reinstatement of species removed from licences due to the implementation of the new licensing system recommended by the Dunne Report.

Under the new policy framework, licence holders will be required to produce a minimum amount of product, in order to maintain their species licence. This "use it or lose it" policy makes licence holders accountable for those species which they have been granted authorization to buy and process.

The following table outlines the number of species designations arising from the implementation of the new fish processing policies for the four most important species or species groups.

Number of Licences by Species Designation 2005

Species	*Number of Active Licences*
Groundfish	79
Pelagics	80
Snow Crab	39
Shrimp	13

Note: Some plants have more than one species licence

Processing Update

The province's seafood industry, through its 113 licensed primary processing facilities, supplied over 170,000 tonnes of products to the marketplace in 2005, a decrease of five percent from 2004. Production was comprised of 22 percent groundfish, 44 percent pelagics and 34 percent shellfish. Shellfish production fell by 23.5 percent, whereas groundfish and pelagics production increased by 4.1 percent and 11.5 percent respectively. Changes in production were generally reflective of changes in raw material supply.

The fish processing sector produced approximately 37,500 tonnes of groundfish products in 2005, up by four percent from 36,000 tonnes in 2004. At the same time, primary cod production fell by 17 percent. Escalating imported raw material prices, combined with declines in exchange rates without any changes in market prices, have further impacted producer margins and, as such, cod imports have fallen sharply. According to Statistics Canada, cod imports dropped to 1,650 tonnes from January to November from about 7,800 tonnes in 2004. This decline in imports is a continuation of a downward trend that has been occurring for a few years, due to the growing importance of China in the global economy. China has become a significant processor of cod, due primarily to their low-cost production capabilities. The province’s production continued shifting to higher end products like fresh fillets and heavy wet-salted product. Redfish production doubled in 2005, while turbot production increased by 18 percent from the previous year.

Consistent with higher landings, pelagic production at the plant level increased by 11.5 percent, from 67,000 tonnes in 2004 to 75,000 tonnes this past year. Herring production increased by 29 percent in 2005. The market for capelin in 2005 remained stable with prices close to 2004 levels. Female capelin production fell by almost eight percent, whereas male capelin production rose by 62 percent.

Shellfish production comprised 34 percent of total plant output in 2005 compared to 42 percent the previous year. The production of shellfish products fell by 23.5 percent from 75,500 tonnes in 2004 to 57,700 tonnes in 2005. Snow crab production accounted for most of the decline in processing activity in the shellfish sector, falling by 20 percent during this period, consistent with the reduced landings. Crab sections destined for the Japanese market accounted for close to 33 percent of snow crab products, up slightly from 30 percent in 2004. The production of U.S. sections accounted for 57 percent of snow crab production, down from 60 percent in 2004. Meat production declined sharply, falling to a little over 300 tonnes in 2005, since peaking at about 3,800 tonnes in 1997.

Shrimp is processed into a cooked and peeled product, which is destined primarily for markets in the U.S. and Europe. Shrimp production fell marginally from 28,000 tonnes in 2004 to 25,900 tonnes in 2005.

Quality Assurance

In response to the Dunne Report's recommendations to further strengthen the department's Quality Assurance Program, the department hired additional inspection staff in 2005 to more effectively monitor fish quality at dockside, during transport to plants and while awaiting processing.

The program's primary focus is to promote the province as a leading exporter of high quality seafood products. The level of quality consciousness throughout all sectors of the industry has been raised through the department’s increased presence in fishing communities and regular interaction with industry participants.

A Quality Working Group, to be established in 2006, is the next major initiative to further support the Quality Assurance Program. This joint industry/government advisory committee will help shape the direction and focus of the Quality Assurance Program by identifying and addressing quality issues as they arise in the fishery.

Fisheries Development

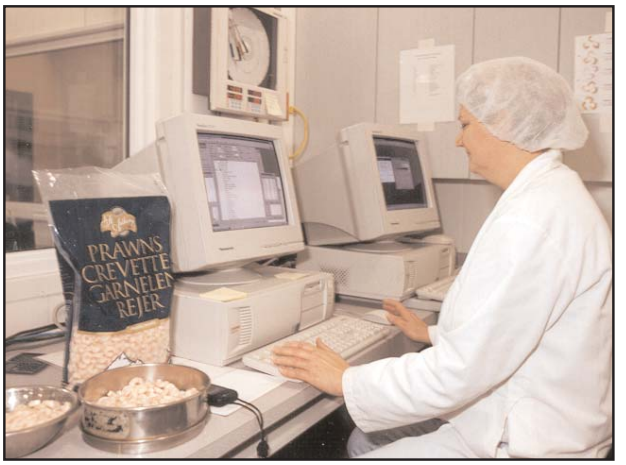
The province, through the Department of Fisheries and Aquaculture, continued to support fisheries development in 2005 related to underutilized or non-utilized species and the enhancement and improvement of traditional fisheries. The development of emerging species is vital to small vessel operators who have traditionally participated in the cod fishery. Funding for these developmental activities is part of government's commitment to rural Newfoundland and Labrador which continues to be challenged by recent problems in the fishery. These fisheries development initiatives are intended to diversify our fishery and maximize the value of the Newfoundland and Labrador seafood industry.

The department budgeted $450,000 for fisheries development and diversification in 2005 and is currently involved in twenty-six development projects

throughout all regions of the province. The department's goal is to maximize the returns to the province's economy from all fish resources through the provision of services and implementation of policy and development programs.

In 2005, the Department of Fisheries and Aquaculture supported the fishing industry through further development of underutilized species, quality improvement, diversification initiatives, improved market access and improved utilization of discarded fish by-products.

The department partnered with the Department of Fisheries and Oceans, the Marine Institute and the Canadian Centre for Fisheries Innovation to further diversify and increase the value of the seafood harvesting and processing sectors.



Inshore Shrimp

The department continued its work in 2005 to improve the quality of shrimp being landed by inshore vessels. Projects included a comparative analysis of the impact on quality of boxing versus bagging shrimp. Other quality-related research was undertaken on color and other attributes as a measure of final product quality. Work on many of these initiatives will continue in 2006.

Sea Cucumber

The development of a sea cucumber fishery continues to be a priority for the department. Several cucumber projects to identify resource levels and utilizing underwater video technology and biological assessments have been undertaken in the western region of the province. Other research is ongoing relating to new unloading methods, sorting tanks and other adaptations to make the cucumber fishery more viable.

Toad and Stone Crab

The department's regional office in Labrador has undertaken a number of projects in 2005 to determine the biomass and potential fishing grounds for toad and stone crab.

Snow Crab and Shrimp Harvesting

The department continued to support work in 2005 relating to escapement studies on snow crab. It also participated in studies on a multi-level shrimp trawl design to evaluate the vertical distribution of shrimp in the lower part of the water column.

Whelk

The department continued to develop the whelk fishery in 2005 and is working, in consultation with industry, to improve handling practices and whelk meat quality for international markets.

Resource Status

The following table provides a summary of Total Allowable Catch (TAC) for selected stocks and Newfoundland and Labrador's share of this allocation.

Northern Shrimp

The Northern shrimp resource is located in a large area extending from the Grand Banks to the Davis Strait. Northerly regions are fished exclusively by the factory freezer licence holders, while the southern regions are accessed by both the wetfish and factory freezer fleets. Biomass estimates in the southern

regions remain at historically high levels. Significant increases in the TAC were introduced in 2003, mainly in these southern areas. Record landings were observed in 2004 with the inshore sector landing approximately 66,000 tonnes. Slightly lower landings were recorded in 2005. The TAC in the 3L portion of the stock will be increased by 9,000 tonnes in 2006.

2005 TACS for Selected Stocks

	TAC (t)	NL Share
Groundfish		
3Ps Cod	15,000	69%
3Pn 4RS Cod	5,000	72%
Redfish Unit 2	8,000	48%
NAFO Stocks		
Turbot	19,000	33%
Yellowtail Flounder	15,000	90%
3O Redfish	20,000	20%
Pelagics		
Herring	29,730	100%
Mackerel	75,000	N.A.
Capelin	34,000	100%
Shellfish		
Crab	50,000	100%
4R Shrimp	9,350	66%
Northern Shrimp		
- inshore	60,000	98%
- offshore/special allocations	100,000	52%

Source:DFO & DFA

Gulf Shrimp

The Newfoundland and Labrador fleet fish in the Esquiman Channel portion of the Gulf of St. Lawrence. The province's portion of the TAC was 5,300 tonnes in 2001 and 2002.

The TAC was increased in 2004 following a cut in 2003. The 2005 TAC was set at 6,140 tonnes for the Newfoundland and Labrador based fleet. Current scientific information suggests the stock is healthy.

Snow Crab

The snow crab resource is declining in some areas of the province. Catches in 2005 declined by 21 percent to 44,000 tonnes, as a result of quota cuts and an early closure in NAFO area 3K due to soft shell.

Crab Quotas for 1999 and 2005

NAFO Area	1999 Quota (t)	2005 Quota (t)
2J	4,455	1,425
3K	18,200	12,860
3L	26,250	27,078
3NO	3,250	2,410
3Ps	7,700	4,100
3Pn4R	1,330	1,845

Source: DFO

Cod

The offshore portion of the 2J3KL stock has remained under moratorium since 1992. A limited inshore fishery was conducted from 1998-2002. A fishing moratorium was placed on the entire stock area in April 2003 and continued through to 2005.

The TAC for the 3Ps cod stock was reduced in 2001 from 20,000 tonnes to 15,000 tonnes, due to concerns about recruitment. The TAC remained at 15,000 tonnes for the past five fishing seasons. The latest scientific information indicates that recruitment is declining which may result in TAC adjustment in coming years.

The 4RS3Pn stock levels were well below the historical average in 2003. The fishery for this stock was placed under moratorium in April 2003 for one year, as science indicated that the stock may be further declining. The fishery reopened in 2004 with a 3,500 tonne TAC. The TAC was increased to 5,000 tonnes in 2005 as the stock is showing signs of growth.

Unit 2 Redfish

The range of this stock covers the South coast of Newfoundland and parts of the Laurentian Channel. Newfoundland and Labrador harvests between 35 to 40 percent of the redfish quota. The stock remains relatively stable but there is little sign of recruitment. The quota was reduced to 8,000 tonnes in 2001 and has remained at this level for the past four years.

NAFO-Managed Stocks

2+3LMNO Turbot

The TAC was set at 20,000 tonnes in 2004 down from 44,000 tonnes in 2002. This was in response to a dramatic decline in the stock and the establishment of a four-year rebuilding plan. The 2005 TAC under the rebuilding plan was 19,000 tonnes. Canada is allocated 36 percent of the TAC.

3LNO Yellowtail

This stock has experienced growth in the past number of years. The TAC was 13,000 tonnes in 2001 and 2002 and was increased to 14,500 tonnes for 2003 and 2004. The 2005 and 2006 TAC has been set at 15,000 tonnes as the stock continues to grow. These new quotas are approaching historical highs.

Other Groundfish

All other NAFO-managed straddling groundfish stocks remain under moratoria. These stocks are not showing signs of recovery and include 3NO cod, 3NO witch flounder, 3LNO American plaice and 3LN redfish.

Federal-Provincial Fisheries Policy Initiatives

The Department of Fisheries and Aquaculture participates in a range of provincial, Atlantic and national advisory committees, intergovernmental meetings and scientific assessments pertaining to the management of the province's fish stocks. Highlights for 2005 include: The Strategy for the Recovery and Management of Cod Stocks in Newfoundland and Labrador; the St. John's Conference on the Governance of High Seas Fisheries; and Phase One of Canada's Oceans Action Plan.

The Government of Canada and the Government of Newfoundland and Labrador established the Action Team for Cod Recovery. The team was mandated to prepare and implement a Cod Recovery Strategy aimed at assisting the recovery and sustainable management of Newfoundland and Labrador cod stocks (2GH, 2J3KL, 3Ps and 3Pn4RS). The action team worked with fishing industry stakeholders through an external advisory committee and the general public through a province-wide consultation process. The plan was released on November 23, 2005.

On May 1-5, 2005, the Government of Canada hosted a conference in St. John's on the Governance of High Seas Fisheries and the United Nations Fish Agreement, *Moving from Words to Action*. The province delivered its position on custodial management during the conference advising approximately 300 delegates that custodial management involves multi-lateral cooperation. Custodial management is not about extending Canada's sovereignty beyond the 200-mile Exclusive Economic Zone (EEZ), nor is it a

grab for fish resources. Custodial management is about protecting straddling fish stocks from foreign overfishing.

During the conference, a Ministerial Declaration recognizing the need to strengthen and modernize Regional Fisheries Management Organizations (RFMO) was signed. At the September 2005 Annual Meeting of the Northwest Atlantic Fisheries Organization (NAFO), the Ministerial Declaration formed the basis for the establishment of a working group on NAFO reform. The working group will be under the Chairmanship of Canada and the European Union. The report and recommendations of the working group will be submitted to the 2006 NAFO Annual Meeting for decision.

Outlook for 2006

Fisheries Outlook

The 2006 fishing season is expected to remain a challenging one for the shellfish and groundfish sectors. Unfavourable exchange rates, soft markets for key products and strong competition from Asian processors will contribute to a difficult operating environment for processors and may impact returns to harvesters. Landings could decline in response to lower quotas for certain species and the landed value for 2006 may be below 2005 levels.

Ongoing market challenges in the shellfish sector and resource declines of snow crab will further compromise sector margins. Market prices for snow crab appear to have stabilized relative to prices of last fall. Prices for crab will likely remain below 2003-2004 price levels.

Shrimp stocks remain stable. Ocean temperatures have been increasing and there is a general sense that, with the changing environmental conditions evident in the marine environment, the shrimp resource may have peaked. The global abundance of farmed warmwater shrimp and high production of coldwater shrimp, will likely continue the supply and demand imbalance evident over the past three years. The cooked and peeled sector will continue to face the greatest market difficulties. The likely outcome is the continuation of downward pressure on market prices that appear to be poised to keep prices near historical low levels. The tariffs on shrimp entering the European Union will continue to negatively impact the shrimp sector by lowering returns to local producers and increasing prices to consumers. On a positive note, with low inventory levels, the shell-on shrimp sector will continue to find markets for their product, though at price levels well below historical highs.

Groundfish producers face the same exchange rate pressures evident in other sectors, however, this has been compounded by stagnant or decreasing market prices for certain frozen groundfish products. In 2006, this will continue to push processors into the production of less frozen and more salted and fresh product. China has been dominating the frozen seafood sector and Newfoundland and Labrador producers have started to follow Norway and Iceland into product areas where they may have a competitive advantage.

Pelagic production is expected to remain on par with 2005 levels. With stable or increasing markets for herring and mackerel, resource availability will likely be the limiting factor for the industry in 2006.

Capelin landings will remain dependent on market forces as catch rates have been favourable in recent years.

A new price setting system will be introduced in 2006 that will likely temper the difficulties experienced in the past. Structural and market issues will continue to strain processor and harvester relations, however, all major fisheries are expected to start on time in 2006.

Aquaculture Outlook

A comprehensive strategic sector review was completed in 2005 to guide the future direction of the industry. This review identified priority issues and opportunities to enable the industry to continue to expand over the next three to five years.

The salmonid sector has traditionally generated the majority of production and value for the aquaculture industry. This trend will continue in 2006. Atlantic salmon stocking levels are anticipated to stay on par with 2005 and steelhead stocking levels may increase by as much as 40 percent next year. From a financial perspective, the Aquaculture Working Capital Loan Guarantee Program is crucial to future production increases in this sector. Hatchery capacity and marine infrastructure are key issues that must be addressed to ensure sustainable industry development.

Continued expansion and growth of the mussel sector is expected for 2006. Markets for fresh and value-added mussels in North America have increased substantially. In addition, European markets represent significant opportunities for the mussel sector in the coming years. Existing growers are establishing new sites in a variety of locations around the province in response to this increased demand. The industry must also find better ways to handle the increased volumes while maintaining product quality.

Atlantic cod aquaculture is receiving increased attention in various aquaculture jurisdictions around the world. Considerable research and development successes in cod culture have occurred in the province in the last few years. The establishment of a cod aquaculture demonstration farm, with private and public sector investment, is the next step for the province. The success of this venture over the next three to four years will set the stage for the development of cod aquaculture in the province.

Department of Fisheries and Aquaculture Website

Please visit our site for detailed information on the Newfoundland and Labrador fishery.
URL: http://www.gov.nl.ca/fishaq/

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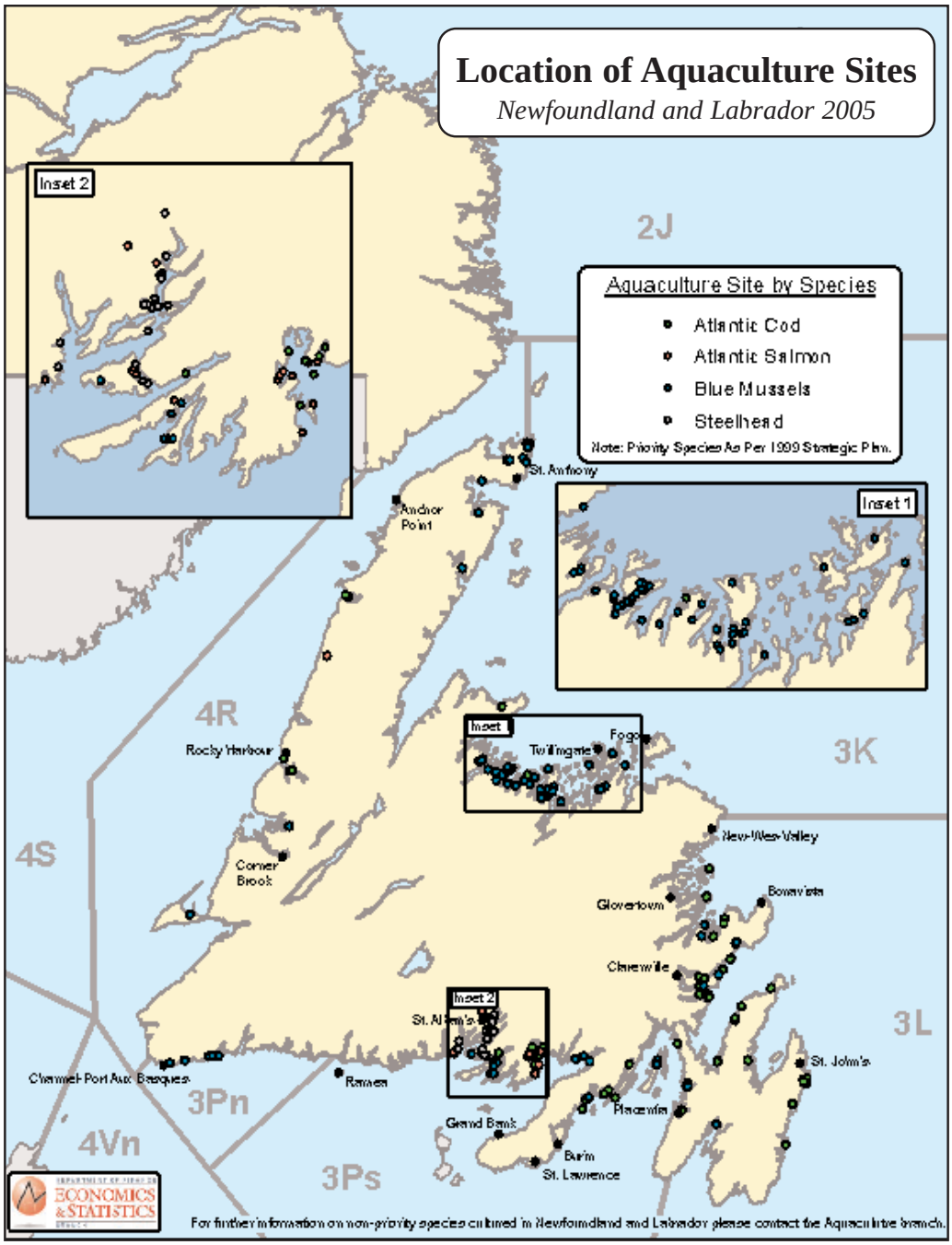
Licensed Fish Processing Plants 2005/06
Newfoundland and Labrador
Location of Plant
0 50 100 200
Kilometers
Black Tickle
Mary's Harbour
St. Anthony
Port aux Choix
Rocky Harbour
Twillingate
Fogo
Bonavista
St. John's
Channel - Port aux Basques
Grand Bank
St. Lawrence



Seafood Industry **2005** Year In Review

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