



# Aquaculture in Atlantic Canada: a playbook for global companies

Five steps to launch in an emerging market

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# INTRODUCTION

When European explorers first arrived in Canada in the 1500s, they found a land mass bounded by three oceans: the Arctic to the north, the Atlantic to the east, and the Pacific to the west.

They also found fish. Those early seafood entrepreneurs generated profits from the sea, by exporting their catch back to dinner tables in their home countries.

Much remains the same since those early days. Fish and seafood are key drivers of Canada's economy—and key sources of export revenue.

But one change shapes the horizon for today's seafood entrepreneurs: aquaculture. The Canadian Aquaculture Industry Alliance estimates that production could almost double to 380,000 tonnes by 2028.<sup>1</sup>

While British Columbia, on the country's west coast, has long reigned as the single largest producer of aquaculture, other regions are stepping up production. Canada's east coast leads this surge, with a new generation of aquaculture entrepreneurs.

For international companies up and down the aquaculture supply chain, the four provinces of Atlantic Canada present an emerging market. Many of these companies have perfected techniques and technologies in their home markets. By coming to Atlantic Canada, they can expand—and partner with local companies to innovate for a sustainable future.

This guide looks at the aquaculture opportunity in Atlantic Canada for international companies. It takes a market-driven approach, focusing on not only specific areas of growth—but also on five next steps companies should explore. Like any other foreign market, Canada has a particular business culture, best practices and legislative requirements. Identifying opportunities and challenges at an early stage is crucial for downstream success.



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# CANADIAN AQUACULTURE:

By the numbers\*

**70%**  
salmon's  
share of total  
production<sup>4</sup>



**\$5.4  
billion**  
in economic  
activity<sup>2</sup>

**26,000**  
jobs<sup>3</sup>

**\$2.2  
billion**  
in GDP<sup>5</sup>

**96,608  
tonnes**  
in total  
production  
from British  
Columbia<sup>11</sup>

**20**  
shellfish  
species<sup>6</sup>

**103,000  
tonnes**  
of total exports<sup>7</sup>

**191,416  
tonnes**  
produced<sup>10</sup>

**27**  
finfish  
species<sup>9</sup>

**84,749  
tonnes**  
in total  
production  
from Atlantic  
Canada<sup>8</sup>



\* All figures reflect 2017 data

# 1. ASSESS THE MARKET

## Which opportunity makes sense for your organization?

To truly understand the current aquaculture opportunity in Newfoundland and Labrador, go back 25 years to the early 1990s—when Newfoundland's cod stocks crashed.

In response, the Canadian government shut down the commercial northern cod fishery. Tens of thousands of fish harvesters and plant workers lost their jobs. The crisis crushed the province's economy, as economic shockwaves spread to fishing communities across the island. While oil and gas and major construction projects have triggered a boom—and bust—in the Newfoundland and Labrador economy, aquaculture represents the promise of sustainable economic recovery.

Newfoundland and Labrador is not the only province in Atlantic Canada that offers aquaculture opportunities.

Moving westward, one can find an industry tech hub in Halifax, Nova Scotia, at the Centre for Ocean Ventures & Entrepreneurship, known as COVE. BDO Canada opened a permanent office there in 2019. North of Nova Scotia sits Prince Edward Island, the country's biggest source of mussels. Continuing west is New Brunswick, home to seafood giant Cooke Aquaculture Inc., which is expanding throughout Atlantic Canada.

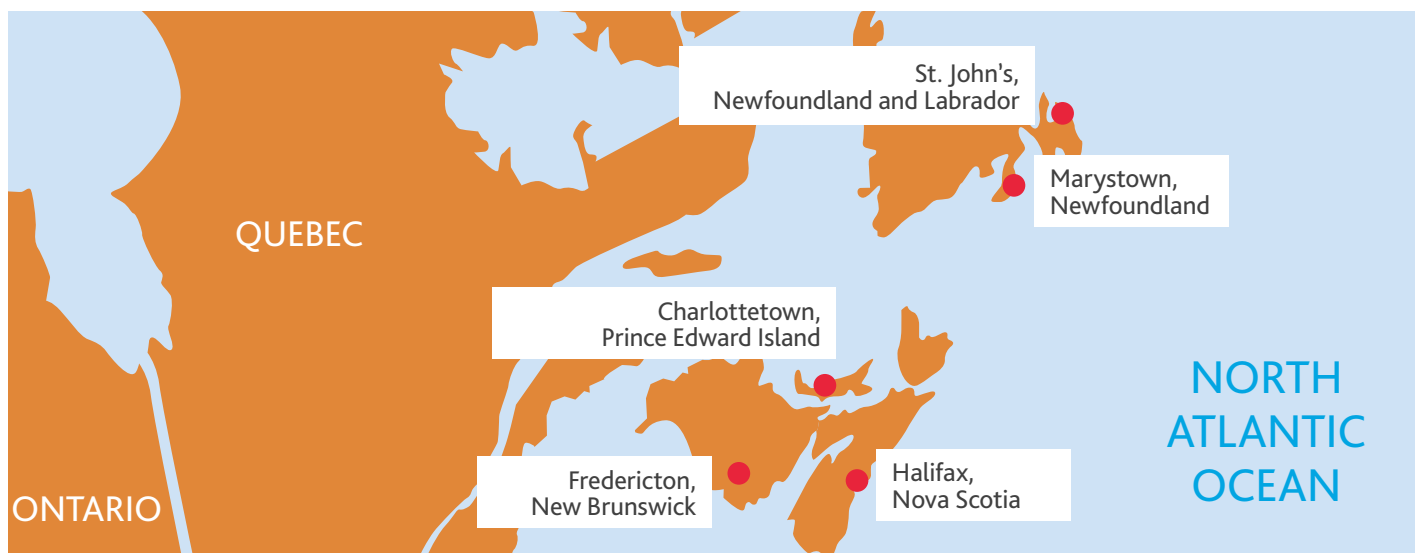
### Marystown: a new aquaculture hub

Yet Newfoundland may represent the region's biggest opportunity. Hopes centre on Marystown, a city of about 5300 residents nestled at the edge of Placentia Bay, atop the island's Burin Peninsula. The city is a 300-kilometre drive from the province's financial and government capital, St. John's.

Marystown once hosted a busy shipyard and fish plant. It is now shuttered—a casualty of cod's collapse. But the town's prospects have grown since Grieg Seafood launched a \$250 million aquaculture project in the area.

The Grieg project is slated to include a hatchery and production facilities. It is expected to include 72 cages across 11 sites in the area, and produce 33,000 tonnes of salmon.<sup>12</sup> Grieg expects to harvest its first salmon in 2022 or 2023. Industry insiders predict the project will spur the economy throughout the peninsula as related companies rise to meet the demand up and down the supply chain.

Many international companies scoping out Marystown specialize in equipment and supply—from barges to vaccination to robotics. They often feature an innovative bent and are small or mid-sized. Whether they manufacture underwater camera or robotics or provide equipment to factories, they are discovering that aquaculture companies in the region share their appetite for innovative solutions.



## How to penetrate local networks

The biggest challenge companies face is navigating a new business environment. Newfoundland's aquaculture ecosystem thrives on relationships. Its business community is close-knit. Government officials mingle with marketing agency representatives, who mix with industry association leaders who talk to aquaculture businesses of all sizes.

As a result, companies often find that partnering with local talent maximizes their investment both in the short and long term. These relationships help international companies cut time and effort during the first crucial stages of research.

## How has Atlantic Canada aquaculture fared during COVID-19?



Aquaculture companies in Atlantic Canada have faced many of the challenges shared by their industry counterparts worldwide. Profits have dipped in the short-term, as global demand has decreased and with it the price for product—particularly salmon.

Yet the industry has managed through the pandemic. Companies implemented safety protocols to respond to government regulation. Sales and marketing departments shifted part of their focus from restaurants to retail. Leadership has adjusted to disruptions in supply chains.

Industry observers predict salmon prices will rebound gradually in the short- to mid-term. This reflects trends showing global growth in consumption.

### Regional notes from the pandemic

- ▶ **Government support.** Responding to the general downturn, federal and provincial governments either created new programs to fund the industry or adapted existing programs to COVID-19 realities. The federal government stepped in with its \$62.5 million Canadian Seafood Stabilization Fund.
- ▶ **New investment in ocean innovation.** The region's Ocean Supercluster launched a project to monitor fish health, fish movement, and the environment. The project, valued at \$29 million, underlines the sector's approach to innovation to promote sustainable growth. It is the second tech-focused initiative funded by the supercluster, which aims to contribute \$14 billion to the economy over 10 years.
- ▶ **Low number of cases.** The four Atlantic provinces have recorded an extraordinarily low number of COVID-19 cases. To support this success, governments in the four provinces created a shared travel 'bubble.' People may travel between the four provinces; anyone entering from outside the bubble must self-isolate for 14 days.

### Interim steps during COVID-19

While aquaculture leaders continue to grow their companies' footprint in Atlantic Canada, some may tread lightly in these uncertain times. If you want to move forward with your expansion yet remain cautious, consider these steps to prepare your company:

1. Assess your corporate structure to proactively prepare for expansion
2. Explore financing, including government incentives
3. Prepare timely cash flow models to analyze your current and future financial outlook during and post COVID-19 including running sensitivity analysis for various scenarios

## 2. FINANCE WITH GOVERNMENT FUNDING

### Discover world-class support for aquaculture development

Companies coming to Canada have generally tasted success in their home country. They are familiar with the myriad financing options available to entrepreneurs—from private banking to government funding. Yet even they are sometimes surprised by the robustness of Canadian government support.

These programs can be organized into two buckets: federal and provincial. In Atlantic Canada, the Canadian government and all four provinces offer support.

The funding offered by governments reflects a mandate to boost economic development. Supported by tax dollars, the programs require that applicants meet strict requirements and document their activities. Some require that an international company partner with a local business.

#### Scientific research and experimental development credit

The brightest star of Canada's government funding constellation is the federal government's scientific research and experimental development program (SR&ED).

Under SR&ED, businesses can earn a tax credit for qualifying activities. The federal tax credit amount can be first applied against taxes owing and the remainder refunded or carried forward to apply against future taxes. The credit can reach up to 43% of eligible labour for foreign companies and is higher for Canadian-controlled corporations.

Despite the name of the credit, SR&ED has broad application.

In aquaculture, these include items as diverse as research to characterize fish pathogens or new sub-species for culturing, development of new harvesting and process equipment, genomic selection for breed improvement, and development and characterization of new feeds or nutrient sources. They may also include adapting machinery to a new climate.

To obtain the SR&ED credit, businesses need comprehensive documentation to demonstrate the research was performed in a scientific manner. A SR&ED consultant helps ensure claims are submitted effectively to meet the requirements of the Canada Revenue Agency. They also help a business defend its claim against an audit.



## Selected aquaculture funding programs

### Federal

- ▶ Atlantic Fisheries Fund
- ▶ Atlantic Innovation Fund
- ▶ Fisheries and Aquaculture Clean Technology Adoption Program

### New Brunswick

- ▶ Aquaculture Loans and Loan Guarantees

### Newfoundland and Labrador

- ▶ Aquaculture Capital Equity Program
- ▶ Aquaculture Working Capital Guarantee Program

### Nova Scotia

- ▶ Aquaculture Loan Program

### Prince Edward Island

- ▶ PEI Fisheries and Aquaculture Research, Innovation and Growth Program

### 3. LET FINANCIAL DATA DRIVE YOUR DECISIONS

Bookkeeping and accounting do more than keep you compliant. They could boost your profitability.

Matthew Galgay has seen the situation repeat itself time after time: An international company lands in Canada and struggles to find a trusted provider of business services. The challenge extends to nuts-and-bolts needs like accounting and bookkeeping.

"It can be difficult for a company that's just starting out to find the right accountant to do the work," says Galgay, BDO's National Industry Leader for Fishing & Aquaculture. "It can be much better to outsource that service to a professional firm that knows the industry and adds more value than just debits and credits."

The bookkeeping, payroll and accounting environment in a company's home country often differs from the rules and regulations in Canada. Whether the company is expanding from Norway, Scotland, Chile or other aquaculture nations, it will require local expertise to set up its operations.

The needs go beyond books and accounting. If the company hires workers in Canada, it needs to handle payroll and payroll tax, payments to employment insurance and the Canada Pension Plan, workers' compensation and income tax.

Companies that do not locate a reliable provider can experience compliance issues with the Canada Revenue Agency or financing challenges with a local bank that expects financial statements to align with Canadian assurance standards.

As the business grows in Canada, the company typically turns to the same advisor for larger needs: regular reporting on past performance and, even more valuable, forecasting and budgeting for the future. At this point companies decide whether to hire a CFO to manage the Canadian financial operations or to manage the function remotely and create an outsourced finance team. This outsourced team can be scaled up and down as the needs dictate. By selecting a provider such as BDO's Outsourcing services, the company can gain access to a cloud-based solution featuring a secure global portal.

Financial data is especially valuable for business leaders managing operations remotely. Separated from the site by geography and time zones, they need timely insight on the business to make quick decisions. Financial data fills this role—providing information on granular elements such as vessel performance. They can then use these detailed metrics to improve productivity, adjust strategy, and spur profitability.

**"It can be difficult for a company that's just starting out to find the right accountant ... It can be much better to outsource to a professional firm that knows the industry and adds more value than just debits and credits."**

- Matthew Galgay, BDO's National Industry Leader for Fishing & Aquaculture



## 4. TACKLE TAXES

### Explore Canada's patchwork of tax jurisdictions—and how it impacts your business

Taxes don't always sit on the first level of priorities for aquaculture companies coming into Canada. This is understandable. While tax represents an important part of any business initiative, it should inform the go-to-market strategy—not dictate it.

That being said, many international business leaders have regretted acting without first considering Canadian tax law.

One example: non-residents of Canada are subject to income tax on taxable income earned from carrying on business in the country. While tax treaties shield many foreign companies from these taxes, companies lose that protection when they establish a fixed place of business. The challenge is that establishing a fixed place of business doesn't just mean having a physical presence—it can include basic activities such as concluding a contract in Canada. Tax practitioners can help companies structure their operations for effective tax planning.

When an international aquaculture company does set up operations in Canada, it will become subject to a slew of taxes. Income and sales tax are most visible, but companies may also face payroll taxes and various withholding taxes.

In addition, moving across borders triggers a bucket of international tax concerns. Moving employees to Canada—or from Canada to the U.S. if the company then expands south of the border—brings expatriate tax challenges. And moving money back to head office could raise transfer pricing issues.

#### The fundamentals

Canada's tax regime can at times seem like a patchwork even to local business leaders, all the more so to newcomers. Tax for corporations operates along two fronts—federal, and provincial or territorial. The Canada Revenue Agency administers federal

taxes, and also many provincial taxes. Some provinces and territories also levy their own taxes.

#### Income tax

Corporate income tax rates vary by type of income and by jurisdiction. For federal tax purposes, business income is taxed at 15%. Provinces and territories also levy corporate taxes. Overall corporate income taxes on active business income range from about 23% to 31% in 2020, depending on the province or territory.

#### Sales tax

Sales taxes in Canada are levied on most goods and services and at all stages of the aquaculture supply chain. They are structured in a few different ways throughout the country—varying by amount and federal-provincial composition.

The four Atlantic provinces all levy a harmonized sales tax, or HST. This tax combines the federal and provincial tax into one amount of 15%.

GST/HST applies on importations into Canada and is paid by the importer of record. In fact, it can apply twice—once on the sale and again on the importation. However, it can be avoided with proper planning.

#### The international company in Canada

The suite of tax issues for international companies depends on their situation. In addition to standard Canadian tax concerns, they need to cover points specific to international companies. These range from deciding their corporate structure to applying international tax treaties to navigating customs and tariffs.

## 5. PURSUE EXPORTING FROM CANADA

### The end game is here. How and where will you get to market?

Canada's aquaculture industry depends on exports. In 2017, about 70% of the country's farmed seafood product was exported—a total value of \$897 million.

This figure is expected to grow in the coming years, to meet the global demand for seafood among a burgeoning middle class. Salmon in particular has gained popularity as a sustainable, healthy, environmentally food alternative to beef.

#### Canada-U.S. trade ties

The U.S. is the top destination for Canadian aquaculture by a large margin. Speaking of fish and seafood generally, as of 2018, trade from Canada to the U.S. amounted to 62% of all exports.<sup>13</sup> Next in line was China (11%)—based on 2015 numbers—followed by the European Union (10%), Japan (4%), and Hong Kong (2%).<sup>14</sup>

Despite recent trade tensions with the Trump administration, economic ties between the two countries remain close. Canada, the U.S., and Mexico agreed to a new free trade deal, the Canada-United States-Mexico Agreement—CUSMA—which entered into force in 2020. For aquaculture producers in Canada, the U.S. market of almost 330 million people will remain the top export destination.

CUSMA built on the 25-year legacy of its predecessor, the historic North American Free Trade Agreement—or NAFTA. Entering into force in 1994, NAFTA created the world's largest free trade zone by opening borders among Canada, the U.S., and Mexico.

The close ties to the U.S. are not expected to change. The two countries share a border, language, and business culture. However, Canadian leaders have diversified the country's trade relationships in recent years.

#### Trade treaties with Europe and Asia

In 2017, the Comprehensive Economic and Trade Agreement between Canada and the European Union (CETA) came into effect. For the purposes of aquaculture exporters from Canada, this trade agreement removes tariffs on 96% of Canadian fish and seafood exports to the European Union.<sup>15</sup> Aquaculture producers in Canada's four Atlantic provinces are perhaps in the best position to benefit from CETA. European markets beckon from just across the Atlantic Ocean.

Canada also entered into a free trade agreement with South Korea, and 95% of Canadian exports that cross Korean borders are already duty-free. Once the agreement is fully implemented, almost all exports will be exempt from tariffs.<sup>16</sup>



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Looking to explore  
Canada's aquaculture  
opportunities?

# REFERENCES

## Introduction

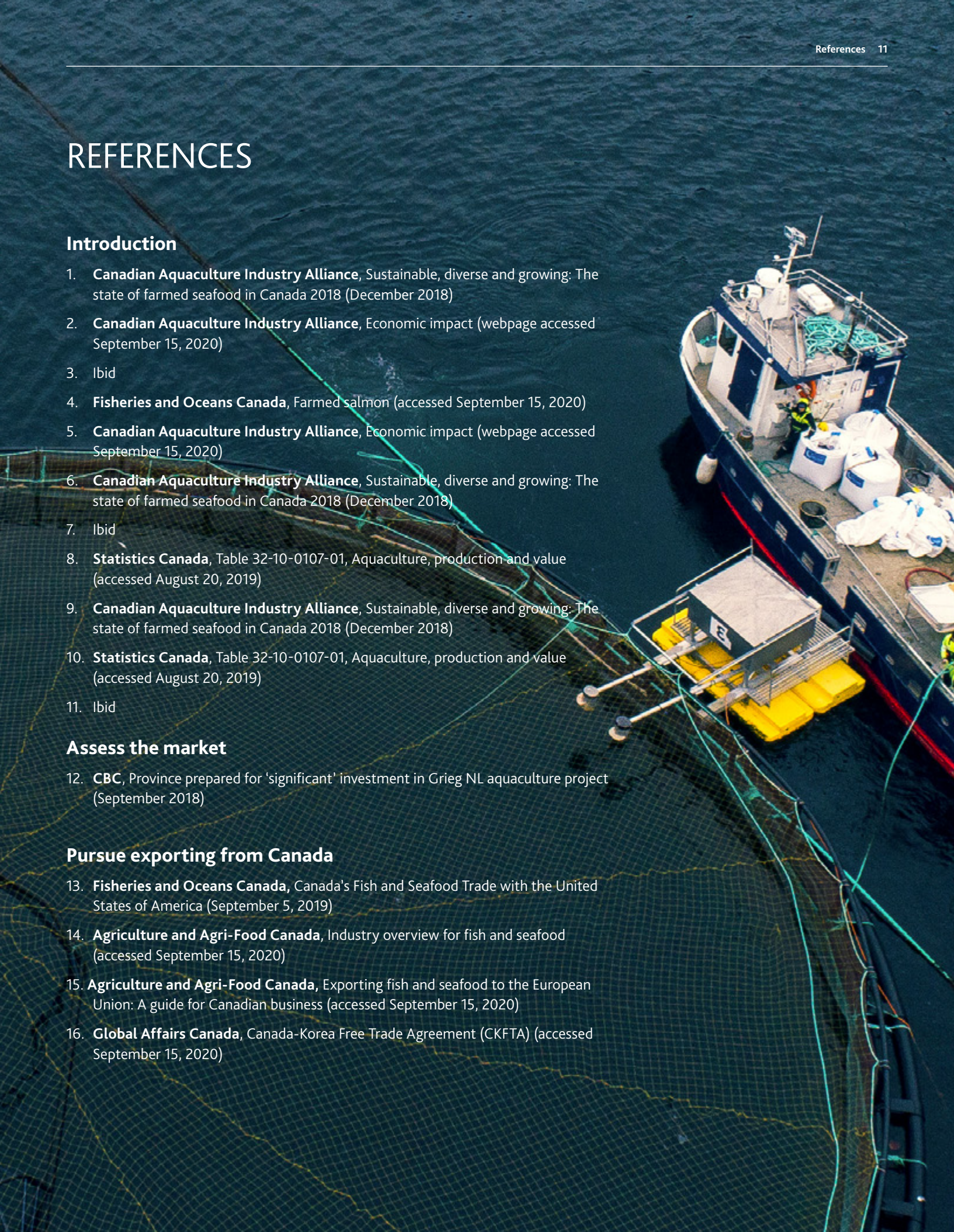
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