Memorial Presents Fisheries Policy and Rural Revitalization, An Integrated Approach

March 28, 2006
Memorial Presents
Fisheries Policy and Rural Revitalization, An Integrated Approach

Eric Dunne
Acting Managing Director
Canadian Centre for Fisheries Innovation
Marine Institute, Memorial University

March 28, 2006
Three Challenges

1. Demographics
   - Aging, declining rural population

2. Public Sector Finances
   - Government battling:
     - Widespread infrastructure challenges
     - Unsatisfactory service levels in health and education programs
     - Serious debt problems

3. Fishery
   - Facing critical labour shortages & intense global competition
The Importance of our Rural Communities

According to the Royal Commission on Renewing and Strengthening our Place in Canada:

“...the most significant social and economic challenge facing the province today is the survival of rural Newfoundland and Labrador” (Our Place in Canada, p. 28).
One Practical Approach to
Meeting All Three Challenges

- Growth Centres - Based on the Fishery
  - To Make Rural Areas Viable Economically & Socially
  - To Help Put Province’s Fiscal House in Order
  - To Respond to the Fishery’s Structural Issues and the Global Competitive Environment
1. Rural Decline

- Population in decline:
  - Projection for 2018: 500,000

- Population aging:
  - By 2018: 54% will be age 45 or older (In 1991: less than 27% of larger population was in that age group)

- Rural areas affected the most
Population Change by Economic Zone 1991-2018
Medium Scenario

-22.7%
-18.3%
-8.9%
-4.8%
+13.3%
-22.7%
Population Change by Economic Zone
1991-2018, Medium Scenario, 1996-2018

Total Change, Newfoundland and Labrador: -14.2% (-82,266)
Population in Sample Census Districts

- Notre Dame Bay
- Northern Peninsula
- Bonavista Trinity
- Burin Peninsula
- South Coast

1996 vs 2001 population comparison
Population in Major Centres

* Includes Badgers Quay, Valleyfield, Pools Island, Brookfield, Pound Cove, Wesleyville Newtown, Cape Freels

* Includes Badgers Quay, Valleyfield, Pools Island, Brookfield, Pound Cove, Wesleyville Newtown, Cape Freels
Enrolment, All Grades
1948-49 to 2014-15

Source: Data from Departments of Education and Finance. Note: The provincial population, 1951: 361,416; July 1, 2005: 515,961
2. Government’s Fiscal Challenges

- Price Waterhouse Coopers’ Report, 2004:
  - $826.2 M accrual deficit in 2003-2004
  - Projection to 2007-08: Cash deficit of $710.8 M & net debt of $15.8 Billion (approximately $30,500 per person)
  - Health costs: 44.5% of program funding (11% higher than Canadian average)
  - School enrolment down by 26% since 95-96, funding up by 38.9% per student
  - 78% of transportation infrastructure amortized
Government’s Challenge

- 2005-2006 Budget (Mid-Year)
  The Good News
  - New Atlantic Accord Arrangement
  - Improvements to the Equalization Program
  - Higher Offshore Royalties
  - Expanded Canada Health Transfers
  - A Surplus for 2005-06 of $1.5 Million
  - Slight Improvement to Debt Load
Government’s Challenge

- The Bad News
  - Net Debt by End of Fiscal Year: $12 Billion
  - A Per Capita Debt at the end of 2005-06 of $23,280
  - Continuing and Growing Demands on the Public Purse
3. The Fishery:  
The Engine of Rural Economy

- Dramatic expansion since 1997
  - 5-year export growth of 157% to $937 million in 2002, three times Canadian average
  - 63% increase in Real GDP
  - 49% boost in processing employment
  - $300 million in private investment
Fish Landings by Species Group
Newfoundland and Labrador, 1989 - 2004

Source: DFA & DFO

- R = Revised
- f: forecast

Shellfish
Pelagic
Groundfish
Aquaculture Value
Total Value

$ million

0 100 200 300 400 500 600 700

'R000 tonnes

0 100 200 300 400 500 600

89 91 93 95 97 99 '01 '03 '05(f)
The Fishery’s Predicaments

- Human resource crisis
- Uncertain resource picture
- Over-capitalization
- Global competition
- Social dependency
- Subsidy/trade issues
Human Resource Crisis

- Plant workers’ incomes among lowest in country, despite high wage rates
- Increased reliance on EI
- Limited, short seasonal employment
- Employment marked by uncertainty
- Youth uninterested in processing industry
  - MI unable to offer processing programs for past nine years
Average Total Income of Fish Harvesters and Processing Workers

Source: Special Tabulation, Statistics Canada; Newfoundland Statistics Agency; DFA
Average Age of Plant Workers

Source: EI Data
Resource Uncertainty

- Crab & shrimp constitute 75% of value
- Probable decline in key crab resource
- No significant improvement in cod stocks
- Shrimp resource strong, but sector plagued by traditional structural problems, even though sector has developed since 1997
Landings of Inshore Shrimp

From: Report of the Inshore Shrimp Panel; Source: DFO; DFAIT
Shrimp Processing Capacity and Quotas

Source: DFO; Inshore Shrimp Panel

Note: Processing capacity is defined as plant rated daily throughput per 10 hour shift operating 2 shifts per day, 6.5 days per week for 33 weeks. Capacity has continued to increase as has the inshore quota which now stands at 144,000,000 lbs.
Competitive World Markets

- Chinese aggressively entering the markets of Japan, United States and Europe
- Low-cost competition
  - Wage rates in Asia: $ .25 (US) per hour
- Global food industry consolidation in US and Europe
- Aquaculture’s Growing Share of Market
- Global Consumer Concerns
  - Health
  - Sustainability
  - Quality
  - Traceability
- Exchange Rates
  - Strengthening Canadian dollar
The Chinese Advantage

- Their Labour Force Advantage:
  - Wage rates extremely low
  - Labour supply seemingly inexhaustible
  - Highly motivated, skilled, competent workers
  - Fully aware of market issues

- Lax or non-existent regulatory regime
  - Labour standards
  - Environmental protection laws

- Low interest state loans
- Undervalued currency
Global Consolidation
Fish and Food Industries

- Consolidation in Europe, United States and Japan
  - Wal Mart
  - Sysco
  - Club Stores - Price Club, Sam’s
  - Nippon Suisan
  - Young’s Bluecrest
  - AKER Group
  - Icelandic Group

- Achieving a Balance in Purchasing/Supply Relationships
Present Structure Will Not Last

- Fishery based on historical seasonal pattern
- Catching/processing at wrong time for best quality & value
- No biological/economic/market reason why fishery cannot be significantly extended
- Industry structure maintained for social reasons
- This path will lead to the demise of the industry
  - Cod and shrimp processing currently marginal;
  - Industry dependence on crab will not continue much longer
- Fishery’s role as “Employer of Last Resort” is over:
  - Rural youth made that judgment a while ago.
Solution: Growth Centres
Based on the Fishery

- The Three Main Challenges
  - Demographic Decline in Rural Areas
  - Public Sector’s Escalating Debt & Mounting Pressures
  - Fishery’s Human Resource & Global Competitiveness Issues

- Fishery Growth Centres
  - Social & Economic Revitalization of Communities
  - Regional Concentration of Government Services
  - Industry Consolidation Benefits
Community Revitalization

- Viable Communities
  - Schooling
  - Health & social services
  - Improved community infrastructure

- Retention of Youth
  - Better educational facilities
  - Diverse, enhanced social opportunities
  - Better career options
  - Potential for future growth
  - Recreational choices
Public Sector Benefits

- Reduced EI cost
- Reduced Health, Education and Community Costs
- Reduction of costs and facilitation of resource management or improved services
- Establishment of a tax base
- Provides a platform for diversified economic growth
Fishing Industry Viability

- Attract young workers
- Target high end of market & compete successfully
  - Superior-quality product
  - Continuity of supply
  - Resource sustainability
  - Food safety and security assurance
  - Niche product & markets
- Improve prices to harvesters
Implementation

- Relocation at discretion of individuals
- Existing service centres independent of process (e.g., Clarenville, Gander, etc.)
- Consideration for aquaculture industry development
- Inclusive, transparent process
- Plant Production Quota System
- Implementation of joint management system
Inclusive Transparent Process

“The people of the province must become engaged in an informed public dialogue on the future of rural Newfoundland and Labrador as preparation for the development of a rural strategy.”

The Royal Commission on Renewing and Strengthening our Place in Canada
Plant Production Quota System

- To Facilitate and Manage Industry’s Consolidation
  - Shares allocated for major species groups
  - Transfers and consolidations subject to public sector approval to ensure regional balance and concentration in growth areas
  - Significant cost reduction, improved incomes and business development prospects for industry
  - Key consideration is finding acceptable program structure that encourages consolidation of seafood processing in regionally designated growth centres
Private Sector
Benefits/Responsibilities

Upon attainment of appropriate price resolution process:

- Harvesting sector:
  - Orientation redirected to resource sustainability & optimizing quality & value of the catch

- Plant workers:
  - Security of employment, extended periods of employment & increased incomes

- Processors:
  - Competitive focus redirected from resource procurement to global market opportunities, through product & process innovations

A more stable & predictable business environment with enhanced ability to compete globally
Joint Fisheries Management

- The Royal Commission stated:
  - “The provincial government must have direct participation in the management of its most important resource. The Commission recommends the negotiation of a new fisheries-management relationship between the two governments, leading to the development of mechanisms for joint management of the fishery, integrated policy development and implementation. Achieving joint management does not require constitutional amendment, and could follow the same route that led to the current joint management regime for offshore oil and gas.”
Bridging the Jurisdictional Divide in Fisheries Management and Development

- A joint Federal-Provincial plan for fisheries resource management and development
  - Stable foundation for resource management & industry investment
  - Fisheries policy incorporated in broader economic and social plans
  - Potential removed for arbitrary or inconsistent fishery management decisions
  - Achieves a management plan that matches vessel size, numbers of vessels, landing locations & plant locations with a publicly designated ‘Growth Centres’ strategy
Further Considerations
Next Steps

- Analysis of costs and benefits
- Time to establish: 5 - 10 years
- Full fishing industry participation
- A comprehensive ‘Marshall Plan’ with federal, provincial & municipal participation
Non-intervention = Benign Neglect

- Tacit acknowledgement of the irreparable decline of rural economy and social structure
- Probable adaptation by the fishing industry
  - Growth in on-board processing
  - Exports of raw material for processing elsewhere
  - Employment of migrant workers
  - Less value-added production
- Debt burden grows while we continue pursuit of economic diversification
Any decision in this direction must be taken by rural Newfoundlanders & Labradarians

After

An extensive period of analysis, consultation and consensus building
Fisheries-based Growth Centres

- Retain Traditional Economic Strengths & Improve Diversification Prospects
- Safeguard Cultural Values
- Maintain Lifestyle in a Unique Natural Environment