A Framework for Fisheries, Rural Development and Fiscal Responsibility: *Dealing with the Reality*

A paper prepared for the
Symposium on Growing the Economy of Newfoundland and Labrador
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PURPOSE

This paper responds to a Request for Proposals issued by Memorial University's Centre of Regional Development Studies (CORDS) and its Public Policy Research Centre (PPRC) in August 2004. These organizations have been commissioned by the Province of Newfoundland and Labrador to conduct a symposium on "Growing the Economy of Newfoundland and Labrador." An abstract outlining the Paper's content was prepared and is attached as Appendix A.

BACKGROUND

The steady decline of rural Newfoundland and Labrador has been the focus of much public debate and attention in recent years. The crisis has deepened with an increasing number of communities struggling to survive. The future does not look bright. Government's task is daunting: it must stop the steady out-migration of the population, increase employment opportunities and create an environment in rural Newfoundland and Labrador that will attract investment and foster the establishment of viable communities.

The economic strength of rural Newfoundland remains the fishery, and while it has been seriously threatened and challenged on all fronts, it has managed to survive and refashion itself over the last decade. With an ever-changing international market, however, the industry now faces threats from low-cost competitors in the Developing World, in particular China, and from the consolidation of the industry globally. On the home front, the fish-processing sector is confronted by a small and ever-diminishing labour pool, which is directly related to the decline of the rural communities that have supplied it. Industry must find a way to counter these two trends in order to remain globally competitive and continue to be an economic force in rural Newfoundland and Labrador.

This paper suggests that a plausible solution to the economic and fiscal challenges of rural Newfoundland can be an integrated revitalization plan for the rural economy that arrests the population decline, reverses the economic stagnation, responds to serious fiscal challenges facing the Province and strengthens the capacity of the fishing industry to meet internal human resource deficiencies and external market opportunities and challenges. This is not to suggest that adjustments will not be required or that the fishing industry should be used as an instrument of social policy. Most of the problems of the rural economy are chronic and structural. The remedies of the past consisting of public sector job creation, overexploitation of fisheries, generous subsidies from the central government and mounting debt burdens have clearly failed and, for the most part, are no longer available even as a palliative means of stemming the decline.

The concept advanced is predicated on the notions that our fiscal house must be put in order, that rural communities must be seen as viable by younger families, and that the threats to the longer term viability of the Province's seafood processing industry, the foundation of the rural economy, must be addressed. The intent is to identify the practical and beneficial merits of

integrating economic development, fisheries management and development, and public policy and program delivery as the key to the economic restoration of rural Newfoundland and Labrador and the full utilization and diversification of the Province's fishing industry.

FISCAL REALITIES AND HUMAN CONSEQUENCES

For the purposes of the symposium, the Province's Department of Finance is presenting an overview that more fully defines the scope of the fiscal and economic malaise and the impacts that can be expected from ongoing population decline and an aged population profile. This paper will outline a strategy for responding in part to the issues of deficits, debt and fiscal requirements and is not intended primarily to define the challenge. To set the stage, it is useful to note the findings of Price Waterhouse Coopers in their January 2004 *Special Review* of the Province's finances:

- The 2003-04 fiscal targets, i.e. the accrual deficit target of $665.9 million and the all entities cash deficit target of $286.6 million as outlined in the 2003-04 Budget, have to be revised upwards to $ 827.2 million and $506.6 million respectively;
- The cash deficit is projected to reach $710.8 million by 2007-08 and the Net Debt will climb to approximately $15.8 billion;
- Health services account for 44.5% of every program dollar, and health-related expenditures are 11 percent higher per capita than the Canadian average for 2002;
- Student enrolment is down by 26% since 1995-96, yet funding per student is up by 38.9% to $7,688;
- Eighty percent of the expenditure base for the Province is Health and Education and Public Debt;
- Much of the Province's transportation infrastructure is 78% amortized. Its economic life is almost fully utilized. For example, about 35% of the Province's paved roads are over 20 years old and need significant upgrading.

The financial situation described in this report is indeed foreboding. While there is a commitment from the Prime Minister that the Province will receive the full benefits of offshore oil and gas revenues, this alone cannot offset the situation described above. Depending on the projected production life of existing and planned offshore developments, it might be argued that these additional revenues can be used to defer some of the adjustments needed to address the projected deficits and debts noted above. This would not constitute a remedy and indeed could exacerbate the challenges now facing the Province.

Population projections demonstrate that remedial measures must be taken now if rural out migration is to be reversed. The Economics and Statistics Branch of the Department of Finance has projected the Province's population (its 'Medium Scenario') by 2018 at less than 500,000 people, almost 54% of whom are age 45 and older. By contrast, in 1991, less than 27% of a larger population of 579,518 were 45 and older. The projections also show that the share of this diminished population in rural areas will continue to decline. It is important to note that some of the most significant population declines are in key fishing regions such as coastal Labrador, the Great Northern Peninsula, the Southwest Coast, the Burin Peninsula and all of the Northeast

Coast, except the Northeast Avalon. As has been the case with the net loss to date of almost 60,000 residents, the projected loss of an added 20,000 people by 2018 will come primarily from rural Newfoundland and Labrador.

These circumstances led the Province's recent Royal Commission on Renewing and Strengthening our Place in Canada to conclude in their summary report *Our Place in Canada* that "the most significant social and economic challenge facing the province today is the survival of rural Newfoundland and Labrador" (p. 28).

REGIONALIZATION/RURAL DEVELOPMENT

Efforts to develop the Province's rural economy have been ongoing in a focussed way since the early 1970s. Following Smallwood's 'Develop or Perish' and 'Burn your Boats' philosophies, the seventies ushered in an era of development philosophies, policies and programs that embraced the values of lifestyle and economy inherent in rural areas of the Province. Both the federal and provincial governments supported Rural Development Associations, Councils, and more recently, Regional Development Boards as ways to facilitate economic and social development from the "grassroots," where rural residents would formulate and implement their own development initiatives. Diversification away from the fishery appears to have been a central theme as it became evident that the capacity of the fishing industry to sustain the employment and income needs of the Province fell short of requirements. During this time, the Province attempted diversification in a number of areas, including aquaculture. Unfortunately these developmental efforts have thus far failed to achieve the anticipated levels of growth. By 2003 aquaculture output in the Province had reached only $16 million, or roughly 1.5% of the value of the wild fishery. At the same time, the fishery was seriously oversubscribed to the point of inducing diminishing returns for its participants. In effect, the social needs of the populace induced resource utilization regimes that eventually lead to the demise of key groundfish stocks, most notably Northern Cod and turbot, Gulf Cod and redfish and the entire offshore groundfish industry that supported the South Coast of Newfoundland for centuries.

Over time, thought has been given to the creation and promotion of regional growth centres. Following the politically repulsive resettlement program of the 1960s, such ideas have been limited to the debates of bureaucrats and academics. Politically, any thought of intervening, however subtly, in the Province's settlement patterns has been unspeakable. However, perhaps one of the most significant and focussed analyses of the Province's economy, which was completed almost twenty-five years ago by the Economic Council of Canada, did not shy away from the centralization debate. The Council's 1980 report, *Newfoundland: From Dependency to Self-Reliance*, offered an insightful but painful recipe for dealing with the Province's economic problems. Many of the Council's recommendations were hard-hitting and politically sensitive. The first of its 25 recommendations reads: "We recommend that the Newfoundland government adopt a strategy for the island of Newfoundland that aims to provide services and employment opportunities within commuting distance of most outports on major peninsulas, so that rural people can participate in the market economy without giving up their homes and moving their families. Within each major peninsula, the services, infrastructure, and related employment opportunities should generally be located in one or two urban centres on, or very accessible to,

the Trans-Canada Highway." Beyond the creation of these centres, the Council advocated that no efforts be expended to force job creation in rural areas, nor should migration be encouraged or discouraged. One wonders today how the Province would have fared, particularly in the development of its fishery, the payment of its debt and the growth of its population, if this advice had been taken.

The Council's thinking on the creation of regional growth centres seems to reflect development thinking that evolved throughout the twentieth century. Concepts such as growth pole theory, agglomeration economics, infrastructure lead development and industrial and regional clusters abound in papers on development studies and strategies throughout Europe and the United States. While these concepts have been well documented, their efficacy as economic wealth generators seems inconclusive. Nevertheless, there is little question that concentration or urbanization is a powerful trend in most industrialized economies. Development efforts in rural Newfoundland and Labrador have not included concentration efforts, but indeed have been dissipated over many small communities. The Province's infrastructure programs such as roads, water and sewer and transportation facilities have responded to priorities other than those that would stem from a strategy to create growth centres. Similarly, location decisions for health and education facilities seem to have been approached in a fragmented manner with no clear strategy. One might argue that this reflects a lack of political leadership or the ad hoc nature of federally funded programs; it might also reflect a legitimate response to the demands of the populace who have maintained the right to live in small communities, with an expectation of acquiring urban standards of health, education and transportation services. Whatever the reasons, there is scant evidence to suggest anything other than the equitable treatment of all communities and regions as the philosophy behind public sector expenditures.

In the absence of any defined rural strategy, the Province attempts to provide the highest possible level of services and facilities to almost 600 communities scattered across some 405,700 square kilometres and approximately 17,542 kilometres of coastline. The task is daunting and the failed results of this approach are painfully clear. Equally clear is the reality that this approach to maintain the status quo cannot continue. It is demonstratively both ineffective and unaffordable.

FISHERY – A POTENTIAL CONDUIT TO STABILITY AND GROWTH

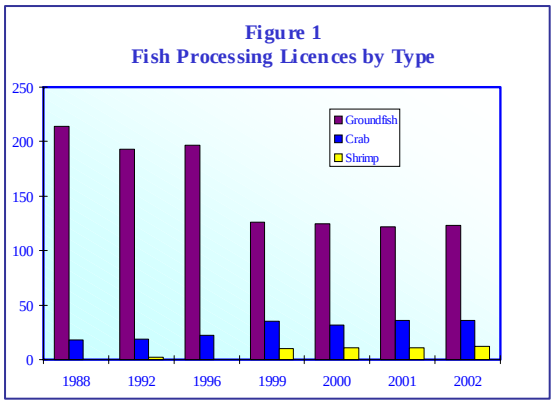
The Province's fishing industry is frequently the subject of studies and reviews of one kind or another. The industry has been highly volatile, even during the recent period of relative wellbeing. Instability pervades key aspects of the industry, particularly in relation to economic viability, employment duration and incomes, price setting for raw material, over-capitalization, high seasonality and the regional balance between resource availability and industry capacity. All these issues relate in a significant way to the licencing policies of the Province. The Province introduced its current processing policy framework in 1997 and has recently reviewed its policies in light of changing resource, market and employment circumstances. It is anticipated that the Province will soon make decisions on, and implement, a new licensing framework in response to Mr. Eric Dunne's recent exhaustive analysis of its licensing policies.

Seafood processing activity since 1997 has grown dramatically, due to increases in resource allocations, strong markets and favourable exchange rates. Seafood exports from Newfoundland and Labrador increased from $365 million in 1997 to over $1 billion in 2002, an increase of approximately 174%. By comparison, Canada's seafood exports grew by 56% over this period from $3.0 billion to $4.7 billion.

Crab and shrimp allocations and market values account for most of the growth in the seafood industry. Seafood processing experienced a 63% increase in Real GDP (1997 $) values and maintained close to 5% of the Goods Producing Sectors' GDP. This is particularly impressive when compared to the flat performance of Mining, Manufacturing, Forestry, Construction, Utilities and Agriculture. The oil and gas sector's 372% increase in GDP values represents a distorting influence on the Province's Goods Producing GDP and explains why the seafood processing sector is only maintaining its relative share of GDP, despite a 63% increase in value.

Similarly from an employment perspective, seafood processing shows a dramatically improved performance with average annual employment in 1997 of 5,300 increasing to 7,900 in 2002, a 49.1% increase. All other Goods Producing Sectors, including oil and gas, are relatively unchanged over this period such that seafood processing alone accounts for almost 89% of the entire sector's increased employment from 43,300 to 46,200. Seafood processing now represents 17.1% of the employment generated by the Goods Producing Sector.

Investment by the fishing industry over the 1997 to 2003 period is difficult to verify. Several reports, such as that of the Vardy Inshore Shrimp Panel, have estimated that the shrimp processing sector's investment in plants has approached $100 million. Crab processing plants have all been built, rebuilt or upgraded over this period. As well, several large groundfish plants have been upgraded. Combined, the processing sector has invested upwards of $200 million in new facilities and equipment over the period. This investment has been financed entirely by the private sector. At the insistence of the processing sector, there have been no government grants, loans, loan guarantees, interest subsidies, tax holidays or other forms of financial incentive or subsidies. Similarly, substantial private investment has been placed in new vessels, particularly by the larger inshore vessel owners, in gearing up for new shrimp harvesting opportunities. Shrimp harvesting alone has induced expenditures of approximately $100 million in vessel upgrades and conversions. There are now some 380 shrimp harvesting permits issued, over 300 of which have been issued since 1998.

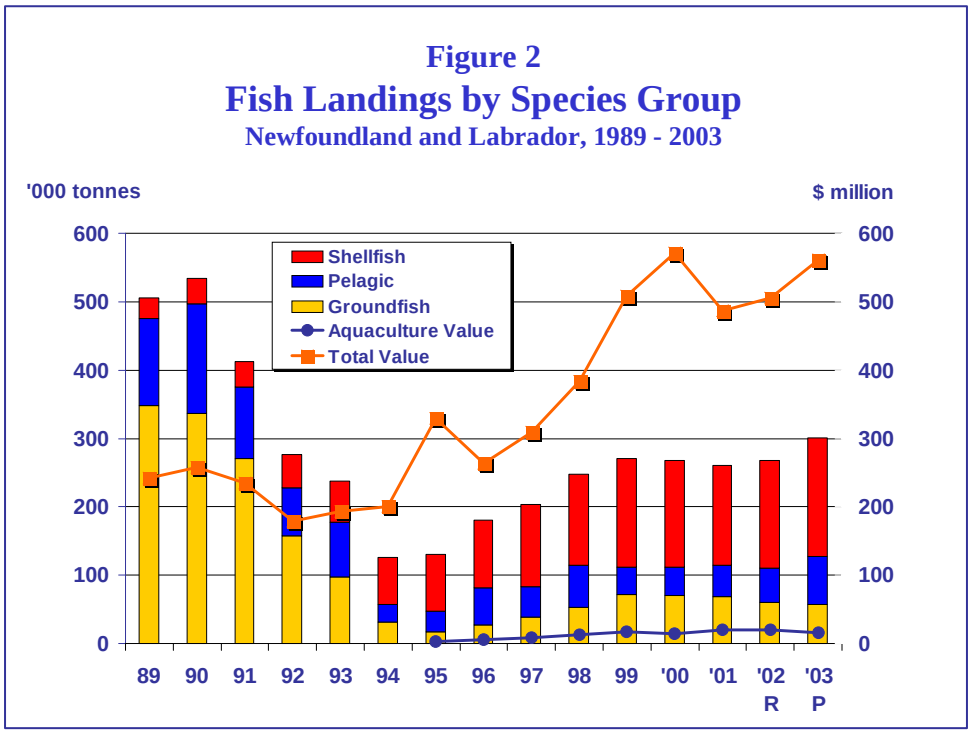


From 1997 to 2002, the number of processing licences, excluding aquaculture and secondary processing licences, has declined from about 240 to approximately 140. Primary processing licences have declined from 197 in 1996 to 123 in 2002. The breakdown of licences over time is shown in Figure 1. Crab processing licences increased from 19 to 42 over this period, 36 of which are currently active. Shrimp licences increased from 2 to 16 since the mid-nineties, with 13 active in 2004.

For groundfish, of the 144 licenses that were outstanding in 1996, 105 still remain today although only a few of these can be considered commercially active.

It is evident, from several exhaustive analyses, that the shrimp sector is now seriously overcapitalized and that it is operating at only 20% to 25% capacity utilization. The crab sector is similarly challenged, particularly in relation to providing adequate employment duration and income for its workforce. Groundfish production is even more seriously oversubscribed. With current quotas, it is clear that only a few plant operators are experiencing sufficient production to warrant continued operations and investment in new technology and products. Pelagic processing activities are a core activity for only a few plants and are seen as opportunistic pursuits by most licensed processors.

CURRENT INDUSTRY ENVIRONMENT

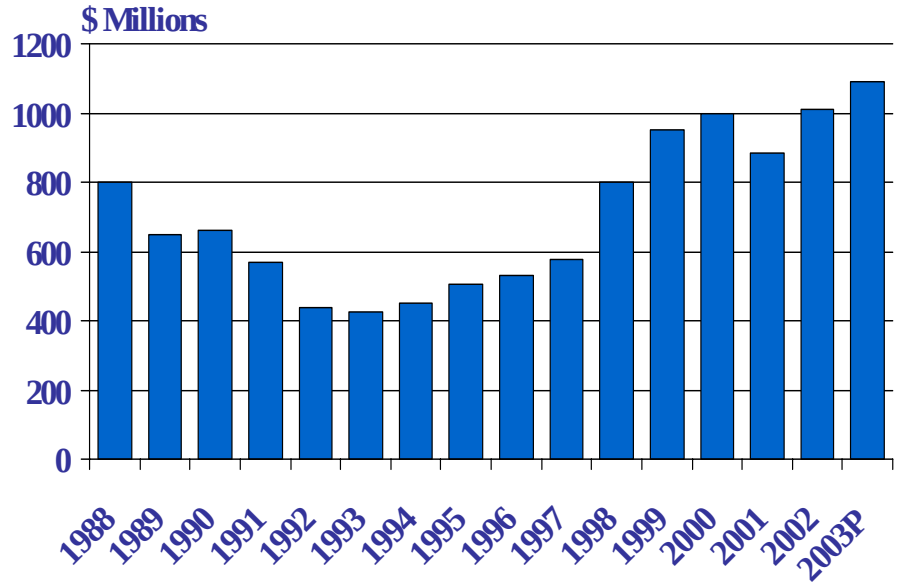


The Newfoundland and Labrador fishing industry now processes roughly half the volume of fish compared to the mid-late eighties. Shellfish, primarily crab and shrimp, have replaced cod and other groundfish as the industry's mainstay. This is illustrated in Figure 2, along with the fact that although the volume of fish has been halved, its landed value over the same time has doubled, reflecting the high relative value of shellfish species.

Figure 3 illustrates that total production values have also increased, as shellfish, especially crab, has become more dominant.

Although the industry has performed well in recent years, with high landed and production values, it faces several challenges for the future, including a plant worker human resource crisis, increasing competition, an inability to accept public sector support primarily due to trade consequences, an uncertain resource outlook, severe over-capacity (financial and physical) and a continued social over-dependency on the sector.

Figure 3
Total Fisheries Production by Year
Newfoundland and Labrador



Pending HR Crisis

Processing sector employment is now at half the 1980s level with employment equal to 7,000 to 8,000 person-years annually. Figure 4 shows total average incomes since 1990. These incomes are even lower than 1980s levels when inflation is considered. Despite the longstanding efforts of government and industry to improve employment stability, seafood-processing workers are now more reliant on EI benefits than at any time in the past. As a result, it is no longer possible to attract workers to the industry such that the average age of the workforce increases yearly. Some of the longer established and larger plants have workforces whose average age exceeds 50 years. In most plants, hardly any of the workers are below the age of 40. Figure 5 presents the average age for processing workers since 1990. Seafood processing is not seen as a desirable or stable career choice for the Province's youth. The Marine Institute, arguably one of the world's premier fisheries training institutions, has not offered a course in seafood processing for the past eight years, as the Institute has been unable to find 12 to 15

Figure 4
Average Total Income of Processing Workers

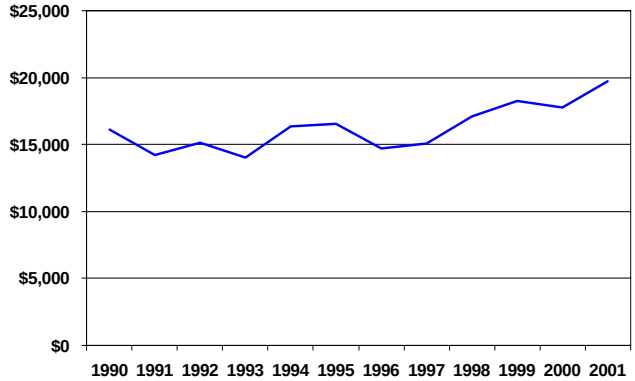
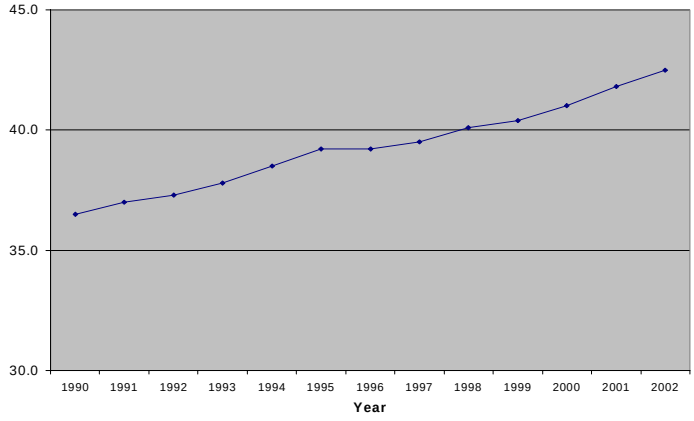


Figure 5
Average Age



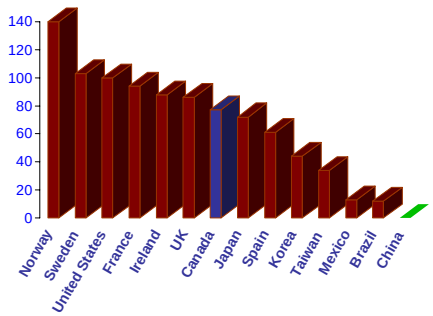
individuals wishing to pursue this course of study. A major human resource crisis is looming for the seafood processing sector. It is expected that within the next five to ten years it may be necessary to consider using migrant labour to satisfy the industry's workforce requirements. This has become the practice in other jurisdictions including Norway, Iceland and Ireland. In some respects, this phenomenon is already evident in the Atlantic Canadian industry. Hundreds of older workers from Newfoundland, displaced due to the groundfish crisis, migrate to plants throughout Atlantic Canada each summer seeking sufficient work to achieve EI qualification.

Besides the challenge of attracting and retaining workers, seasonality in the industry is such that productivity continues to be a challenge, as seasonal work patterns do not foster the development or maintenance of the skill sets needed to meet the exacting requirements of today's global seafood market.

Intense Competition

The Canadian seafood processing industry is facing intense competition from developing nations, particularly China. Chinese companies are becoming well established as suppliers to European, American and Japanese seafood markets. Their productivity levels are high, their knowledge of sanitation requirements is growing, and their wage rates, at $0.25 U.S. an hour, are a small fraction of the wage costs incurred by Canadian producers (See Figure 6). The challenge, and opportunity, for Canadian producers is to provide the most discerning consumers with high quality seafood, continuity of supply, and assurance of resource sustainability, food safety and security, including full product traceability. By offering impeccable quality and technological superiority, it is possible for the Newfoundland industry to maintain a competitive position in the upper echelons of the global marketplace. To do this, however, the industry needs to attract and retain a motivated, competent and well-compensated workforce. There is little, if any, opportunity to maintain our historic market position as suppliers of

Figure 6
Hourly Compensation,
Food, Beverages & Tobacco, 2002



basic commodity products, given our cost structures and our resource outlook. Indeed, notwithstanding the challenges of international markets and industry economics, it is imperative, from a number of perspectives, that the industry continue to reposition itself toward more upscale and profitable market positions.

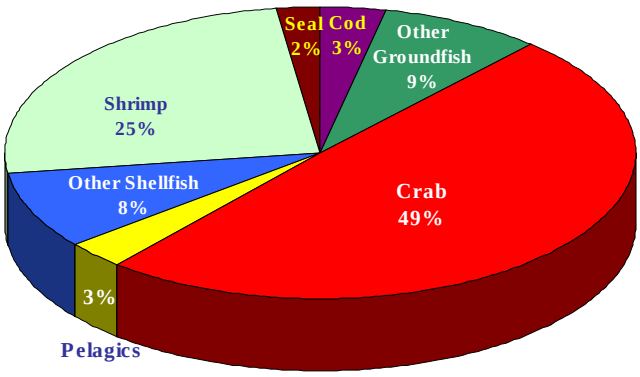
The Problem with Public Sector Support

It is important to acknowledge that the public sector cannot assist the seafood industry to overcome its competitive challenges through subsidization. It is clear that subsidization produces unwanted side-effects, by creating inefficiencies and added demands on resources, suppressing incomes and generating underemployment. For these reasons, there is domestic resistance to subsidization. In addition, the world's trading regimes would quickly impose disciplinary measures in the form of countervail and antidumping tariffs, if subsidization in the seafood sector resumed. Moreover, the marketplace is very concerned about resource sustainability issues, and subsidies are seen as contributing to excessive industry participation, unsustainable quota levels and irresponsible harvesting practices.

Resource Uncertainty

Many industry participants and observers, resource managers and scientists believe that the sustainability of the seafood resources that are currently harvested is highly uncertain. In the case of cod, as well as other groundfish resources, it is unlikely that significant recovery will be realized in the foreseeable future. While there remains hope that groundfish stocks will improve slightly over the next few years, the overall outlook is for a continuance of moratoria on key groundfish stocks and stability at low levels for most others. Crab resources appear to have peaked and there is concern that this critically important resource may be showing signs of decline. Fishing results show declining catch rates in NAFO areas 3Ps, 2J and 3K. In addition, some localized areas within 3L have shown reduced catch rates. Shrimp resources, at historically high levels, appear to be stable and there is an expectation that this resource will continue to show strength and perhaps even further growth over the next few years. Most other resource opportunities can be described as highly sporadic and opportunistic. Pelagic resources, such as herring and capelin, are being fished at

Figure 7
Landings by Species



relatively low levels and are expected to continue to present challenges, given overall predation levels and environmental circumstances.

The industry of the past five or six years has depended primarily on crab and shrimp. These two species have accounted for almost three-quarters of the industry's total landed value, as shown in Figure 7. With the re-imposition of a moratorium on Northern Cod, and further reductions in crab quotas anticipated, the industry will be challenged to maintain current production volumes and values over the next five years.

Resource Management and Service Costs

One of the challenges faced by the Department of Fisheries and Oceans is the monitoring of landings. An incidental, though not insignificant, matter is the maintenance of wharf infrastructure. DFO is challenged, as is the industry, to cope with the highly seasonal and dispersed landing patterns of the fishery. Crab is landed at more than 200 landing stations while cod landings are even more widespread; in 2001 fishers landed only 38 million pounds of the species at no fewer than 323 sites. Average landings at these sites amounted to only 540 pounds. This level of geographic dispersion and seasonal concentration creates logistical problems that are compounded by the inadequacy of the facilities at these sites. Over the past few years, DFO, in collaboration with the Province's Department of Fisheries and Aquaculture and representatives of the fishing industry, has developed a Fish Landing Station Protocol that sets out criteria for recognition and authorized use of "Recognized Fish Landing Stations". These criteria include physical attributes related to structural integrity, adequate lighting, approved water for washing vessels and transport equipment, washroom facilities, lack of obstructions to monitoring activity and minimum volume thresholds.

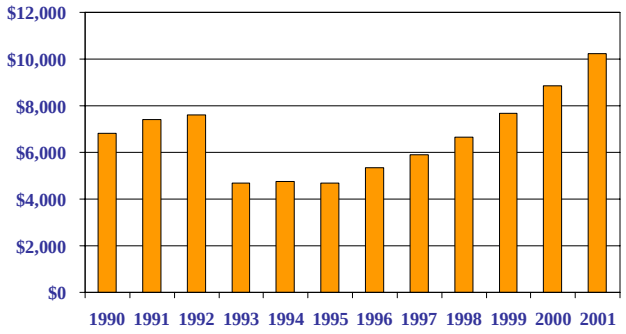
When this protocol is implemented, it will have the effect of reducing the number of shellfish landing sites, excluding those that handle very low volumes, which are insufficient to warrant the investment needed to meet standards necessary to enhance the competitiveness of the industry. (It is intended to grandfather groundfish landing sites.)

Because of the high number of landing sites and the purchasing arrangements in the fishing industry there is an excessive amount of trucking which adds to raw material expense, reduces quality and disrupts scheduling. The capital cost for infrastructure is unsustainable. The problems associated with trucking are well documented in the Vardy Inshore Shrimp Panel report. In addition, trucking of fish has been identified as a nuisance factor for highway travellers.

For resource management and industry viability reasons, the number of landing sites must be reduced and the quality of the remaining facilities substantially improved.

Social Dependency

Figure 8
Average EI/UI Income of Fish Harvesters



Seafood harvesting and processing still represent the principal and, in most cases, the only source of employment in the rural economy. A high level of dependency on the fishing industry and the ongoing demand for increased access to processing and resource opportunities creates an insatiable need for employment that plagues industry's policy makers and practitioners alike.

Employment Insurance (EI) Benefits to harvesters over the period 1990 to 2001 are depicted in Figure 8. The graph shows a dramatic decline in EI dependency during the initial years following the imposition of the groundfish moratoria, followed by a significant increase in payments since then. Figure 9 shows a similar pattern with respect to the number of claims allowed. For plant workers, the pattern is different. (See Figures 10, 11 & 12) Firstly, the average weeks of benefit have declined, particularly following reform of the UI program in the mid-nineties. The other point to note is the shift in the source of income for plant workers, with EI benefits now accounting for less than half the total income. What is instructive to note, however, is that the total incomes have not changed much, despite the sharp increase in the value of the industry. Plant workers' total earnings have improved by less than 10 percent since the early 1990s.

Figure 9
Harvesters' Claims Allowed

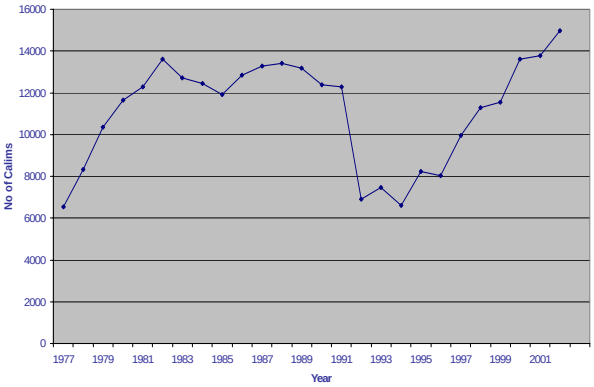
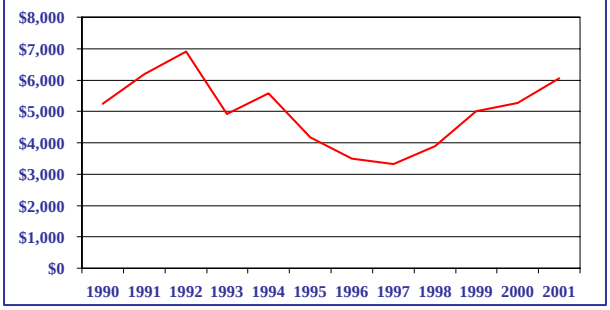
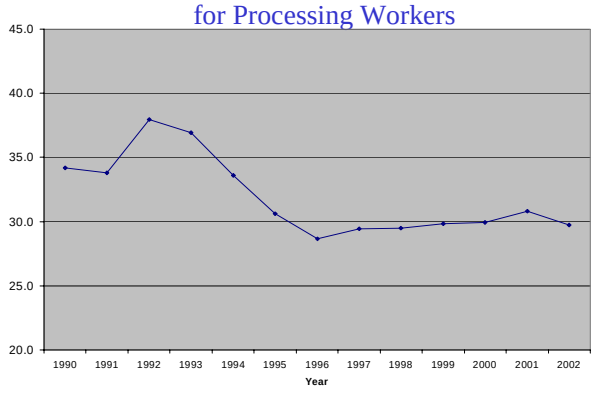


Figure 10
Average EI/UI Income for Workers With Processing Income



The principal culprit is the industry's seasonality and its serious overcapitalization. Changes in technologies and market preferences have also had a significant impact. Figure 14 shows the seasonality pattern of harvesting for the key shrimp, crab and cod fisheries for 2001. In fact, the landings by month have become even more concentrated than during the 1980s, when it was then thought that the fishery was too seasonal, and the industry was characterized as "the employer of last resort." See Figure 15 below.

Figure 11
Average Number of Weeks of EI/UI Benefits for Processing Workers



One can only conclude that the objective of "stamping up" as many people as possible constitutes a de facto primary strategy by both levels of Government. The industry's human resource profile shows that the number of processing workers has stabilized at roughly 15,000, that their incomes have stagnated, that there is no recruitment to the sector and that the average age is increasing. The number of fish harvesters has also stabilized at roughly 14,000 individuals, but the income profile is markedly better than that of plant workers. See Figure 13. In 2001, almost 60% of harvesters had incomes in excess of $20,000 per year whereas less than 40% of plant workers achieved this income level. Further, there is virtually no recruitment of new, younger workers to the processing sector. For an exhaustive analysis of incomes and income supports in the harvesting and processing sectors of the fishery, see the Dunne Report.

Figure 12
Average Earnings for Plant Workers by Source

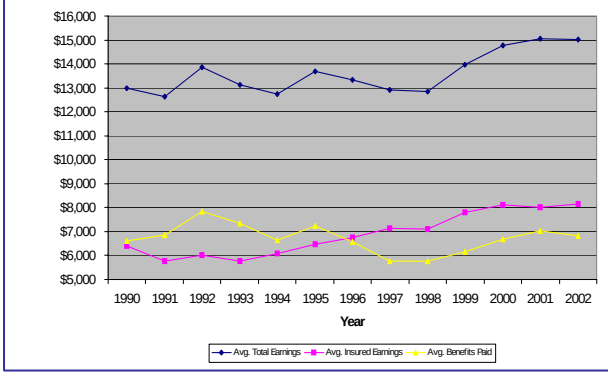
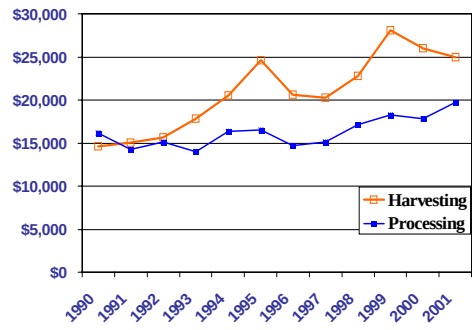
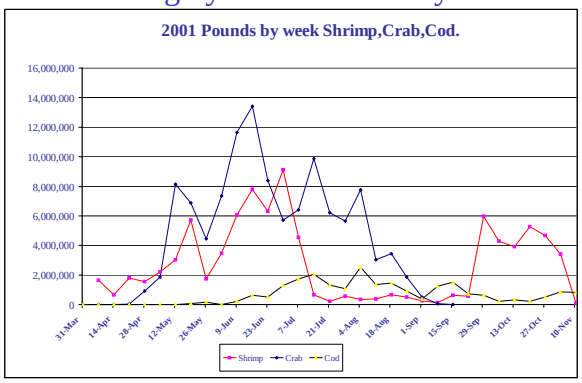


Figure 13
Average Total Income of Processing Workers and Harvesters



Overview - Fishing Industry Circumstances

Figure 14
Highly Seasonal Fishery



The overall environment facing the industry for the coming years is marked by an uncertain resource base, intensive competition within global markets, challenges in attracting and maintaining a competitive workforce, regulatory and business pressures to consolidate landing facilities and reduce trucking, strong public pressure for sustained socio-economic benefits and virtually no public sector financial support, either desired by industry or tolerable under international trade laws and market sensitivities. In this environment, the industry must find a policy and operational framework that will allow for improved stability, responsiveness to changing environmental conditions, reduced operating costs, improved product values, better capital utilization and extended employment. Unless structural changes occur in the industry, it will be necessary to choose between selling raw material to Third-World producers, using migrant Third-World labour in provincial plants, adopting greater automation, processing at sea or some combination thereof. All of these alternatives will only further increase rural out-migration. Certain market, technological and economic forces cannot be ignored. They can be managed, however, in a manner that ensures optimum results for the seafood processing industry and its stakeholder communities.

COMMONALITY OF ISSUES/OPPORTUNITIES

The previous sections of this report outline the severity of the fiscal problems facing the Province, the trend and impacts of rural de-population and the competitive challenges and human resource issues evident in the Province's fishing industry. All of these issues would appear to benefit from an integrated and comprehensive response. The common thread is the people of rural Newfoundland.

Any strategy for rural Newfoundland must recognize and incorporate the primary economic engine of the Province's rural society, the fishing industry, with its 29,000 direct participants in harvesting and processing. Ancillary service sector employment is also substantial in gear manufacturing, packaging, containers and equipment manufacture, sales and servicing.

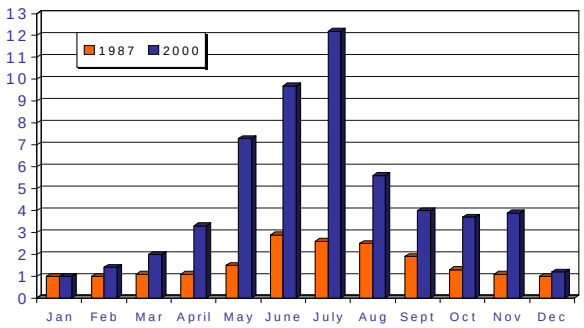
It is clear that the mounting provincial deficits and debt are symptomatic of an economy that is not self-sustaining, and the aged and diminished rural population is positive proof that these circumstances are unacceptable to today's youth. The youth of rural Newfoundland and Labrador are unwilling to accept the uncertainty of employment, the inadequacy of income and the absence of sufficient public sector services and programs for health, education, recreation, transportation and communications. How does the Province reduce its costs for service delivery in health and education, provide appropriate infrastructure and at the same time induce the youth to choose rural Newfoundland and Labrador as locations to raise families? While affordability is a huge issue, what is of equal or greater importance is the establishment of an acceptable rural strategy. The Province's current rural residents must be willing to embrace change and to work toward a vision that can stabilize and sustain rural communities.

The incentive to act and the timing of a strategy for the Province is opportune. As the youth vote with their feet, those who remain are confronted with immense social and economic challenges. Further population losses and reduced services are anticipated. Furthermore, the fishing industry's volatility combined with the competitive environment and the amplified effects of an aging workforce will soon force the issue within the fishery, making change there inevitable. The commonality of opportunities lies in the consolidation of rural centres, not unlike that advocated by the Economic Council of Canada in 1980.

Consolidation of health and education facilities and services in strategic locations accessible by regional communities within reasonable distances and times can be expected to dramatically reduce the service costs now being incurred. While this action would help to address government's fiscal woes, would this action induce the youth to stay in these regions, simply knowing that certain communities had been designated as growth centres? The opportunity for reasonable lifestyles is fundamentally one of employment prospects as well as access to appropriate education, health and recreational opportunities.

If such a strategy were to be followed, it would be possible to choose locations that are predicated on the fishing industry, thus affording the industry with the opportunity to attract and retain a qualified workforce, capable of meeting the challenges of demanding global markets and Third-World competition. With the exception of communities such as Corner Brook, Deer Lake, Gander, Goose Bay, Labrador City/Wabush and Clarenville, coastal communities, mostly in the headland areas, would logically be considered for designation as regional centres. These communities would possess established health and education facilities, transportation and communication infrastructure and marine service facilities capable of facilitating a large portion of regional landings. It is likely that these communities already contain active seafood processing businesses.

Figure 15
Landings by Month Relative to January of Each year
Newfoundland and Labrador, 1987, 2000



An inclusive process for defining the criteria for selecting the designated growth centres would be imperative, given the experience of the past with resettlement. On this point, *Our Place in Canada* recommended that, "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." As the Royal Commission noted, "there are many possible models of citizen engagement that can be used by the provincial government to bring about informed public debate." A big part of this challenge is to facilitate debate and consensus seeking without inducing gridlock as many communities may see such an exercise as a 'fight to the death,' either because they see themselves as contenders for designation as one of the growth centres or because they do not. The presentation of the concept must be seen as a positive opportunity for surrounding communities. This is not about, nor can it be perceived to be about, a forced or de facto resettlement program. It is important that the process is perceived to be fair, transparent, inclusive and timely. The decision process must produce a definitive result in terms of designating a finite number of growth centres. This process must be designed so that governments, communities and other stakeholder/partner groups can accept outcomes, without a protracted and divisive recourse process. The opportunity for dialogue and input must come in the selection of criteria, processes and participants. Such an initiative is unlikely to produce desired results if the target audience, the Province's rural youth, do not see tangible evidence of commitment, as demonstrated by timely actions, on the part of the public sector.

Fishing Industry Restructuring

The industry, particularly the processing sector, is at risk in terms of its competitive position with other seafood producers globally. Its greatest challenge is its inability to attract younger workers with the skills and training needed to offer comparative advantage over Third-World producers of standard commodity seafood products. The seafood sector is also challenged in its ability to cope with the consolidation of the food and seafood industries throughout the United States and the European Union. Buyers are consolidating in all regions and exercising significant, if not oppressive, market power. The position of the Newfoundland and Labrador seafood industry as a seasonal producer of basic commodities is seriously jeopardized. The industry must change or find its position in the market further eroded. In recent years, raw material costs have escalated with changes in markets and in product forms. Part of the response to the global market influences has been the production of products that require less processing or, through automation, less labour inputs.

Whether to counteract market forces or to cope with Third-World producers, the seafood industry exists as a function of its human resources. Without a replenishment option that entails attracting a more technologically and scientifically competent workforce, the industry's days are numbered. It is also important to note that the harvesting sector, which has enjoyed higher prices, especially for crab, in recent years cannot be expected to offer its catch to domestic processors at values lower than those paid elsewhere. Plant worker incomes are already much lower than can be sustained. The industry has to compete based on domestic cost structures.

In recent years, the seafood-processing sector has advocated the establishment of a Plant Production Quota regime many times. The concept of assigning production quotas to processing plants was first raised in a discussion paper prepared by the Tripartite Committee in December 1992. This Committee consisted of a group of three seafood associations and representatives of both the federal and provincial fisheries departments. The Committee explored the use of Production Quotas, as a means of regulating capacity, rather than the more conventional thinking of restricting, authorizing and monitoring the amount of physical plant and equipment used. The Committee stated, on page 83 "In the case of the processing sector, past production (i.e. performance) could be used to establish the initial share each plant would be authorized to process. This amount could be adjusted proportionately to changes in resource availability such that a balance could eventually be struck between productive capacity and resource availability."

Since then, the concept of the Plant Production Quotas has been brought forward on a regular basis as a means to reorganize the industry in a viable way. The Fishing Industry Renewal board (FIRB), an entity with both federal and provincial mandates, which evolved from the regional Harvesting Adjustments Boards to administer licence buyouts, advanced the concept and elaborated substantially on it. The industry itself proposed the idea in 1999, 2001, 2002, 2003, and again in 2004, when a fledgling variant of the idea was applied to the shrimp sector. In 2003, Mr. David Jones and Mr. Eric Dunne undertook two major reviews of price setting and licensing policy in the seafood-processing sector, respectively, for the Province. Both reviews examined the concept of production quotas and recommended pilot project implementation initiatives.

In the words of the FIRB, chaired by Mr. Richard Cashin, former head of the FFAW/CAW and Chair of the 1993 Task Force on Incomes and Adjustment in the Atlantic Fishery, the Production Quota option would have the following benefits:

1) It would clearly mean less government regulation of the industry;
2) It would result in continuity of supply, which should enhance quality and give better market returns;
3) It would facilitate the realignment of processing sector capacity;
4) It would maintain a resource-industry capacity balance into the fishery;
5) A zonal approach would ensure regional balance;
6) It would facilitate optimal operating seasons of plants such that workers receive an adequate living from plant earnings;
7) The approach would be predictable and transparent;
8) It provides the opportunity to integrate the resource monitoring system in the harvesting sector with the production quota monitoring system in the processing sector".

A description of the Production Quota concept and some of the key issues surrounding its application is attached as Appendix B.

While the fishing industry continues to struggle with the implementation of a sharing regime for the processing sector, the Province is favourably considering the recommendations of the Dunne Report and seems to be moving carefully so as to avoid the confrontational impediments of past

efforts to achieve a rational management structure for the industry. The use of the Plant Production Quota system would form one key part of the strategy to rebuild the rural economy. It would effectively allow the industry to rationalize its capacity and production scheduling so that longer term, more lucrative employment for workers could be created and more innovation and R&D could be implemented as a means toward competing globally. Should the related policy, often proposed, of promoting processing activity in strategic areas be adopted, further improvements could be anticipated, including the creation of a more powerful draw for younger workers, since the plants would be located in areas with concentrations of health, education, social and recreational services. It would also cut down on raw material transport, thus improving the quality and value of the product.

In developing this strategy, it is important to reflect on the issue of whether the management structure for the fish-processing sector can be further broadened to incorporate other strategic public policy objectives in fisheries such as Joint Federal-Provincial Management and in social and economic development such as Rural Revitalization.

Joint Management/Joint Development - Partnerships

A critical element of this strategy lies in the creation of partnerships between the Province and the federal government. The Province's White Paper on Joint Management constitutes an effective starting point for such a process. The paper itself is the culmination of many years of federal – provincial debate and squabbling over the management of the Province's fishery resources. It attempts to deal with the seriously fragmented nature of fisheries policies and programs, which have evolved primarily by virtue of Canada's constitutional structure, where the federal government's responsibilities and authorities for quota setting and resource allocation often conflict with the Province's regional development interests and social policies. At the same time, the Province holds jurisdictional responsibility for regulating the processing sector. Policy and program responses often run counter to each other. The White Paper advocating joint management notes:

" Joint management would seek to eliminate policy duplication and contradictions, and provide for a more balanced approach to the management of fish stocks adjacent to provinces while still maintaining national interests….

Integration of federal and provincial fisheries responsibilities through a jointly-managed Canada/Newfoundland and Labrador Fisheries Management Board would reduce federal-provincial conflict over fisheries policy, provide a stable framework for resource management and industry investment, allow the province to incorporate consistent fisheries policy into its broader economic and social plans, and remove the potential for arbitrary or inconsistent fisheries management decisions."

In its chapter 'Last Chance for the Fishery,' the Royal Commission's *Our Place in Canada* recommends: "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."

Integration of the Province's rural development strategy, its fiscal and budgetary policies and its fishery management policies and programs would be greatly enhanced by a joint federal-provincial management initiative. The ongoing rancour between both orders of government on fisheries management and development matters frequently detracts from optimizing benefits from the fishery and ensuring the most effective and efficient resource management effort. Of greater significance to the Province and the Government of Canada is the opportunity to effectively deal with the ongoing and failing efforts to create sustainable economic development in rural Newfoundland and Labrador. An integrated approach to regional development, economic self-reliance and balanced budgets is an ambitious, and desperately needed, undertaking that would require and warrant the full participation of the Government of Canada. The potential benefits to the Government of Canada are comparable with those that can be realized by the Province in terms of reduced Health Care and Education support program expenses, reduced or eliminated equalization payments and better, more cost effective fisheries management. These are mutually beneficial goals to be realized through a joint federal-provincial approach to break the cycle of dependency and growing despondency within the rural regions of the Province. It may even be that this approach could be adapted to other regions of Canada experiencing chronic unemployment and underemployment, thus making a Newfoundland and Labrador rural restructuring program a national pilot program.

It is also the case that municipalities need to be an integral component of a partnership that seeks to achieve consolidation of services, predicated on a fisheries-derived economic base. The Federation of Mayors and Municipalities can be a strong force in focusing debate and developing/validating criteria to be used in selecting designated growth centres. Their involvement would need to become regional in scope. Municipal leaders may not wish to be seen as participants in selecting among each other in a competitive process that may be perceived as detrimental to their communities' interests. The Federation ought to have the capacity to engage as partners in this process and support the resulting choices. Their right to participate and influence the process may be contingent on their commitment to accept the outcome. Certain municipalities that have resisted amalgamation to date may wish to revisit this matter as a means of enhancing their prospects for selection and/or to avoid a potentially divisive outcome.

Implementation Considerations

The concept of pursuing rural revitalization based on a growth centre model, centred on the fishing industry, will require extensive thought and analysis. The concept must be analyzed as to its benefits and costs, its prospects for timely implementation and most importantly, the design of

the process that would be used to consult with the rural populace, to involve them in the design and execution of the program and to foster/formalize the partnerships required with other orders of government and with the fishing industry, in particular. All of this can be expected to take months to achieve, perhaps one full year. The process will need to be iterative. Following public information/ consultation processes, the difficult but critical process of selecting the designated growth centres must be undertaken. Due process and transparency are of the utmost importance at this point. Implementation, in terms of public sector investment and consolidations, should be a focussed and demonstrative process that yields tangible results quickly. Private sector decisions will be more difficult to manage and schedule; however, the regulatory frameworks of the federal, provincial and municipal governments should offer facilitative support. Market forces must remain as the main drivers of investment decisions. Given the competitive environment globally and the pending labour challenges, one expects that location and investment decisions will not be delayed.

Full implementation can be expected to take anywhere from five to ten years. This 'Marshall Plan' will require strong political conviction and adequate financial resources. It must become the guiding force for all public sector investment decisions and all policy and program developments. Providing the supportive and facilitative federal, provincial and municipal regulatory regime for the fishing industry over this period is imperative. The potential exists to attain the benefits envisaged in the original resettlement program, without the acrimony and dislocation impacts. Indeed, the approach would substantially alleviate the debilitating and degenerative malady now permeating the Province's rural society. It is not, however, a mere palliative response. This model can work; an example of its applicability and benefit can be seen at Arnold's Cove. This community was formed in the mid- to late sixties, primarily by families resettled from the islands of Placentia Bay. Today, its habitants enjoy a very high standard of community services and infrastructure, low debt, high levels of employment, a stable and youthful population and an extraordinarily high level of earned income relative to total income. The year round operations of the seafood processing plant with its over 400 employees is a defining and central force in the communities success. Similar community profiles can be found and emulated elsewhere as well.

Alternatives to the approach advocated have not yet been developed, despite the gargantuan efforts expended by federal, provincial and municipal governments since Confederation. Choosing not to intervene is tantamount to 'benign neglect'. It is effectively being interpreted by the Province's rural youth as a tacit acknowledgement that the decline and eventual demise of all of rural Newfoundland and Labrador is irreparable. Without intervention, the fishing industry will evolve and adapt to changing resource and market opportunities, technological change and diminished human resource availability. It can be expected to engage in more onboard processing, less value added activity and export of raw material feedstock for other seafood processing regions of the world. In other Western seafood processing regions, notable Norway, Iceland and Ireland, the response to similar circumstances has been to utilize migrant labour from Third-World regions. The fishing industry's structure in this Province has shaped settlement patterns and sustained the populace for centuries. Its structure will be very different if those it originally and currently serves are no longer present. In the absence of other economic activity in the rural economy, utilization of migrant labour would be an impractical and unwarranted response measure.

Growth centre theory sometimes seems analogous to the old dictum “Build it and They will come”. The regionalization of the Province’s rural society based on a fishing industry platform is more one of “ Fix it and They will Stay”.

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APPENDIX "A"

ABSTRACT

AS THE FISHERY GOES, SO GOES THE PROVINCE

OBJECTIVES
The Province of Newfoundland and Labrador needs to act quickly to spur and revive its rural economy so that it becomes a viable, self-sustaining, and vital force. This paper will identify the practical and mutually beneficial merits of integrating economic development, fisheries management and development and public policy and program delivery as the key to economic restoration of rural Newfoundland and the full utilization and diversification of the Province's fishing industry.

BACKGROUND
The decline of rural Newfoundland and Labrador has been the focus of much public debate, attention and intervention in recent years. Despite best efforts, the crisis has deepened with an increasing number of communities struggling just to survive. Government's task is daunting; it must stem the steady out-migration of the younger population, reduce unemployment and create an environment in rural Newfoundland and Labrador that will attract investment and foster the establishment of viable communities. It also must find the means to maintain and enhance public sector infrastructure and services in the face of reduced fiscal capacity and a mounting debt burden.

The backbone and strength of rural Newfoundland has always been the fishery, and while it has been seriously threatened and challenged on all fronts, it continues to survive and refashion itself to avail of resource abundance and access and global market opportunities. With a changing international market, however, the industry now faces new threats from low-cost competitors in the developing world, in particular China. On the home front, the fish-processing sector is confronted by an older and ever-diminishing labour pool, which is directly related to the decline of the rural communities that have supplied it. The fishing industry, particularly the processing sector, must find a way to counter these two trends in order to remain an economic force in the province.

DISCUSSION
As the single source of employment in the vast majority of rural communities, the fishery's fate is intricately intertwined with that of rural Newfoundland. While it remains labour-intensive, the work provided, particularly on land, is not very challenging, does not pay well and is very unstable. In most communities, the industry barely provides sufficient employment duration to achieve minimal earnings and qualification for Employment Insurance benefits. When urban centres elsewhere and in the Province provide more enriching, relatively stable and well-paying careers, the result is a natural out-migration, particularly of younger people.

As long as the fishery, which is the dominant industry in the province's rural areas, continues to operate in this fashion, this painful attrition will continue. But, for two reasons, the fishery cannot continue along this traditional track. Competition from the rest of the world will effectively crush the province's industry as it is structured today. The geographically scattered facilities and the labour-intensive operations create costs that the Third World competition does not incur. Further, while the competition chomps away at the industry's margins, the increasingly difficult task of finding labour to run the plants and man the vessels will force harvesters and processors to find new ways of operating that are likely to see less value added activity. The deadline for a solution is fast approaching, as the existing labour force grows older and retires.

So, how does the Province manage this situation? Government resources are already stretched in trying to provide a minimum of services and maintain a weakened infrastructure in its sparsely populated regions. If the drama plays out on its own, we can be sure of this: the rural communities we know today cannot be sustained beyond the next ten to fifteen years. As people leave, there is a complicated ripple effect: the young population declines, schools close, churches move elsewhere, the service sector moves out, and municipal governments, no longer able to collect sufficient taxes, stop providing services. At the same time, demand for public sector social support programs can be expected to increase. As this happens, the remaining inhabitants naturally look for other more attractive areas to live and the migration runs its course.

Within the confluence of these trends a solution is possible. Actually the fishery is faced with few alternatives to pursue. Fierce competition from China is laying siege to traditional United States markets and action on that front will not wait. Meanwhile, markets in Europe and the United States are demanding high quality, safety-assured product in a steady reliable supply. There exist market segments that can best be supplied by a revitalized industry providing value added (versus secondary processed) products offering standards of safety, quality and sophistication that can be achieved by the fishing industry of Newfoundland and Labrador.

The fishery's survival depends on its ability to meet these forces head on. With its current structure, it cannot compete effectively. Costs are high, supply is seasonal and its technological condition is not equal to the task that lies ahead. The Province's fishing industry is currently a provider of standard commodity products that are more efficiently produced elsewhere. However, consolidation and concentration of the fisheries' capabilities can create the necessary economies of scale for pulling the industry out of its current dead end trap and providing competitively priced, high quality product on a steady, year-round basis. Further, the transformation of operations through technology and automation will meet both the looming labour shortage at home and withstand the competitive squeeze from the Third World. In other words, consolidation and technological renovation will facilitate the creation of a rational and viable industry capable of operating throughout the year.

Obviously, this new industrial structure would not continue to provide employment on the same scale as that of recent decades. In any event, the labour force of today is not drawn to that kind of temporary, unstable employment. On the other hand, adopting high-tech applications within processing plants and onboard vessels will provide fewer but more challenging careers and long-

term, stable employment for individuals who are trained in computer applications, food science and technology, engineering and other occupations.

Geographic concentration of the industry and its associated service sector will be necessary for the new structure to work well. Harvesting and processing must be consolidated, along with discharge facilities, vessel servicing and marine engineering and equipment services. As those services congregate, and the population expands, a variety of business and general services would be needed.

Aside from the creation of a viable, sustainable industry in rural Newfoundland, the government could directly benefit from the creation of these "smart-growth communities." With the potential of redirecting a good portion of the province's emigration to areas within the province, these new communities could help government in its task of reducing the costs associated with maintaining infrastructure and providing improved services. Most importantly, communities offering meaningful employment and appropriate social support infrastructure will become attractive alternatives to families.

IMPLEMENTATION

This integrated approach to Fisheries Development and Rural Revitalization will not occur on its own. Its success will depend on the implementation of a plan that will integrate public policy with private investment. Guiding principles in such a plan would include regional balance and the consolidation of regional growth. In the end, a finite number of "smart-growth communities" would result, situated in areas where the traditional fishery has been at its strongest, where there is known or predictable resource availability and where public sector services and infrastructure now exist or are best located. Encouraging industry, especially the fishing industry, to consolidate or relocate to these areas would be an integral component of the plan. Encouraging the rural populace to consolidate and relocate is not necessary; the approach advocated offers an attractive alternative to present relocation decisions.

The plan will also depend on the partnership of the federal government. Bringing them alongside would be facilitated by a demonstration of the costs, the timelines, the bridging mechanisms, and of course the ultimate benefits, including

Reductions in long-term support and equalization payments
Reductions in program delivery and infrastructure costs
Elimination of costly palliative remediation from out-migration
Coordination of jurisdictional responsibilities and joint management of the fisheries
Development of the fisheries in ways that are supportive of rural revitalization

CONCLUSION

Debates on rural revitalization are not new and solutions such as regional consolidation have never been palatable to the population. However, the population has in effect rejected the status quo and has begun a mass exodus from the rural areas of this province. The task before the province now is to stem the out-migration, avoid the demise of the fish-processing sector and take a proactive stance in redesigning the rural landscape so that economically and socially viable communities can flourish. And for the first time in decades, the province can switch its

concentration on internal rural weaknesses to meeting the opportunities that await in the vibrant and ever changing world marketplace.

APPENDIX "B"

Production Quota Concept

In a production quota system, each processor receives a production share based primarily on historic production. History must be determined by formula. Formulae can be applied for a series of periods and calculations (i.e., three, four or five years, best years', best two out of three, three of five, etc.). An independent analysis/arbitration process that seeks to limit extraordinary gains or losses for most processors can best determine the choice of the applicable formula. Beyond history, a minimum production share per processor could be established to take into account recent entrants and exceptional circumstances. While shares would be derived primarily from historic production, they would be applied to raw material purchases to facilitate efficient and effective monitoring and implementation. It is important to note that the application of this concept would not interfere or negatively impact the business relationships that currently exist between harvesters and processors. Harvesters would still be free to sell to whomever they chose; processors purchasing more than their authorized share would be required to ship the surplus to firms in a deficit position, with procedural rules that would ensure equity as to product quality, average size, etc. The salient feature of production quotas is the security that processors achieve in having a known share of available raw material, thus providing the opportunity to maximize returns from this share to the benefit of the business, its shareholders, employees and suppliers.

The production shares of this system can be transferred to other quota holders in a transparent process that is subject to public sector authorization. The decision process on transfers would be based on known and predictable criteria related to public policy issues such as regional balance and corporate concentration. Transfers provide an exit strategy for those wishing to leave the industry either for corporate reasons or due to economic/resource circumstances. Conversely, they also allow those wishing to remain in the industry to increase their share within the bounds of government policy. Access to the industry would remain available to any investor, including foreign interests.

Stakeholder Benefits

The application of production quotas to the inshore fishery can be expected to have tangible benefits to all industry stakeholders, including the general public. Production quotas offer a means for harvesters and processors to optimize the returns from the marketplace by taking an integrated approach to the business while maintaining corporate independence.

Processors stand to achieve operational efficiencies in procurement, production planning and scheduling, cash flow management, improved quality and more orderly marketing, all of which would lead to an improved investment climate. The management efforts of the Province's seafood processing sector are now almost totally devoted to procurement and retention of raw material supply. This inordinate level of procurement effort detracts from other business management functions to the detriment of the individual firms and the industry as a whole. Consider the beneficial effects of an industry environment where seafood processors direct their

entrepreneurial energies toward other critical business functions such as production management, technology development, quality control, product development, financing and financial control, planning and marketing. There can be little doubt that a redirection of management efforts beyond sourcing raw material can improve industry viability in both the short and longer term. Price competition among processors, arising from the industry's operating environment, is counter-productive in several ways. It rarely leads to improved access to raw material and it usually causes the processor to compromise on important issues such as quality, choice of landing port and efficient production planning and scheduling. Finding a way to stem the economic leakage associated with the landing, purchase, grading, collection and transport of species such as crab, shrimp and cod would generate improvement in quality and cost reduction. That would enable the industry to improve shore prices for raw material to a level that would at least offset the average total prices, including bonuses, currently paid to the inshore fleet.

Plant workers can benefit from a production quota regime in a number of ways. Firstly, the quantity of work available is known and can be planned and executed in an orderly manner to optimize earnings and provide for a more reasonable, safer and more productive workplace environment. With more opportunity to pursue value added and product diversification opportunities, employment duration can be extended, significantly improving incomes. While production quotas can be expected to lead to some planned level of industry consolidation over time, workers that may be displaced can be provided with transition support including relocation or early retirement. Workers that have been or will be displaced under current licencing policy have no recourse or opportunity to avail of meaningful adjustment programs. On this latter point, it is painfully evident that the seafood processing sector needs a human resource strategy to sustain the existing workforce through training and extended employment measures and, concurrently, to restructure the industry so as to create an attractive work environment for the industry's future workforce.

The harvesting sector has expressed strong reservations about the merits of production quotas from their perspective. The industry has evolved in a confrontational manner whereby harvesters and processors often tend to see each other as adversaries, rather than partners in an intensely competitive global seafood business. Collective bargaining for fish prices seems to have exacerbated the divisiveness within the industry. The collective bargaining framework, which was completely overhauled in 1998, following a protracted period of conflict and industry disruption, has recently been reviewed. The review by Mr. David Jones *entitled A Review of The Fishing Industry Collective Bargaining Act* was completed in October 2003 and awaits government's response to its recommendations.

At present, the pricing regime establishes a minimum price through collective effort, followed by an ongoing process of individual negotiations between independent harvesters and processors. This latter round of negotiation is especially difficult for all involved. Harvesters have exclusive access to a given quantity of raw material and complete flexibility (within the bounds of resource availability and weather conditions) as to when it is harvested, where it is landed and to whom it is sold. Processors normally engage in cutthroat competition for access to raw material during this process. The problem lies in the reality that the premiums or bonuses achieved during this second round of negotiations are highly irregular. Harvesters operating in the same fleet sector and in the same geographic region are known to experience very different price settlements, even when dealing with the same processor. The settlement depends on business issues such as volume, to a lesser extent quality, harvesting season, ancillary financing considerations (both short and long term), negotiating skills and, oftentimes, retaliatory moves against the predatory behaviour of other processors.

The difficulty for industry is that this environment always leads to marginal businesses, as the opportunity for profit or even contribution to overheads is forfeited. For harvesters, there is great resentment among individuals and more especially, between fleet sectors, given that the larger vessels holding larger quotas are known to achieve the highest premiums or bonuses. It is also well known in the industry that, in many cases, these additional payments are either not shared or not fully shared with crewmembers, another perennial source of frustration and resentment within the industry. Production quotas would substantially improve the relevance and value of collective bargaining, improve the prices paid to harvesters under the regime and ensure that incentives to improve industry quality and reduce costs would be developed and utilized, thus increasing the returns to the industry for all participants. Prices would be higher and opportunities to achieve higher returns would be transparent and tangible.

The general public in Newfoundland and Labrador, particularly rural residents have a long-standing and legitimate interest in the management and operations of the Province's fishing industry. For most of the Province, the fishing industry is the only private sector economic engine. Coastal communities owe their very existence to and are almost totally reliant on the fortunes of the fishery. Of chief concern to most communities is the degree to which their regions are receiving fair access to the employment and income generating benefits associated with seafood processing. Regions must see that processing activities are balanced and congruent with adjacent resources. There is also a strong interest in knowing that the fish resources in adjacent

areas are being fully exploited as to economic opportunity. This means that the industry must produce the optimum value from the resource in terms of high quality, value-added products that are produced for the most discerning customers. It is also important that the capitalization in the industry is at requisite levels and not consuming a disproportionate or unwarranted share of the industry's wealth. Production quotas hold the real potential to respond to these public policy objectives to a much greater degree than any past licencing policies or other licencing options known to the industry. There is also great value to the public sector from attainment of a stable business environment in the seafood processing sector where the focus is on creating and retaining value in the economy and/or enterprise, rather than the ongoing rancour evident from the current operating environment. A positive investment climate, stable employment and a transparent and fair policy environment would do much to enhance rural revitalization efforts.

Challenges Associated with Production Quotas

Price Setting - In the analyses and debates of the Production Quota concept that have taken place among industry participants over the past few years, the challenges and reservations concerning production quotas have mostly focussed on the contentious issue of price setting. The FIRB report of 1996 contemplated this issue in its consultations with the harvesting sector and suggested that the implementation of Individual Quotas for harvesters and an effective and binding means of price arbitration were likely prerequisites to implementing production quotas. As both of these requirements have since been fully met, it would appear that there are no longer any structural impediments to moving forward with such a regime. Yet there are philosophical impediments, entrenched thinking, mistrust and legitimate apprehension as to the downstream effects of such a licencing regime on raw material prices. There is also a measure of vested interest whereby those harvesters not fully sharing the additional payments with their crews may not benefit from a more transparent process. Notwithstanding this concern about pricing impacts, there is no real debate within the industry regarding the potential, which exists, to both improve market returns and to reduce costs. The debate therefore is one of how to share the benefits, not whether such benefits can be realized. Surely, this is not sufficient reason to further defer significant economic benefits for the industry and the Province as a whole. Having the benefit of a well proven dispute settlement mechanism in collective bargaining, the wherewithal to ensure that the respective parties are equipped to arrive at a fair distribution of the increased returns from production quotas is readily at hand.

Administration - Many recent assessments of licencing policy including the 1987 LINK Study, the 1996 FIRB report, the 2002 Inshore Shrimp Panel and the most recent Commission report, Fish Processing Policy Review, have all advocated an independent licencing regime that would serve to de-politicize licencing decisions. The implementation of a production quota regime, as would any effective licencing framework, necessitates the application of a transparent, open, predictable and accountable administrative structure. Besides the practical merits of an independent licencing authority, it is useful to note that licencing authority in a political environment carries a high level of liability. All positive licencing decisions are endorsed by a few and resisted or opposed by all other interests. Negative decisions

are strongly resented by those firms and communities affected but rarely endorsed by other stakeholders, at least in a public sense.

Corporate/Geographic Concentration - It is a concern that a production quota regime could furnish the means for a few firms to acquire a large share of available processing rights and induce an unhealthy or unacceptable degree of ownership or geographic concentration. These are understandable concerns that are more easily managed and controlled in a production quota environment than in any current or past licencing structure. It is a simple, though perhaps arbitrary process, to specify the degree of corporate ownership that is seen as acceptable by the public sector. Regional balance can be attained by facilitating alignment of processing activity comparable or equivalent to what would be achieved if adjacent commercial fish resources were processed in adjacent plants. A clear advantage of this approach is equity, transparency and predictability on issues such as licence consolidations and transfers. In this way, unlike current and past licencing structures, the decisions would not be arbitrary and subject to allegations of political bias, a hallmark of virtually all past licencing decisions.

Application - Production quotas have greatest applicability to fisheries that have had some measure of stability and are likely to remain relatively stable for the foreseeable future. It is likely problematic to develop and apply production quotas to highly migratory species such as squid, mackerel and large pelagic species such as tunas, sharks and swordfish. It is also likely that applying the concept to roe fisheries such as capelin and lumpfish would also prove difficult given the seasonal intensity of these fisheries and their historical volatility with respect to both supply and price. However, crab, shrimp and cod account for approximately eighty percent of the value of the Province's commercial fishery and all three species are well suited to the application of production quotas. The industry views the difficult issue of setting initial shares for crab and shrimp as easily attainable, given development efforts of industry over the past couple of years. Cod is much more of a challenge because of its recent volatility and the closure of the fishery in the Gulf and along the Northeast coast. It is probable that production quotas would be phased in over a two- to three-year time frame to ensure that the regime generates the least disruption to industry operations. Crab and shrimp are closely related economic sectors in the industry as most of these shellfish resources are harvested by the same fleet sectors. Economically and operationally, crab and shrimp are inextricably linked such that it would be most difficult to implement one without inducing prejudicial operational effects in the industry. Cod is much more discrete, especially since only the South coast fishery in NAFO area 3Ps and a small inshore fishery along the West Coast in NAFO Area 3Pn4RS are operating.

SUMMARY

Despite the major crisis in the groundfish industry of the early to mid-nineties, the Newfoundland and Labrador fishing industry has enjoyed a renaissance through growth in valuable shellfish resources. Industry volumes are only half pre-moratoria levels but values are much higher and landed values have more than doubled. The industry has attracted new private sector capital and has been self sustaining from a financial perspective, primarily by those harvesters and processors enjoying access to

crab and shrimp. Groundfish resources remain extremely weak and recovery is not yet underway along the Northwest and Northeast Coasts. In many respects, the post-moratoria experience has been much better than had been anticipated. Despite fortuitous market and resource circumstances, the industry has not achieved the level of stability and balance needed to maximize its economic and income generating opportunities. There is a considerable imbalance within the processing sector of the industry, both corporately and regionally, as to which firms, workers and communities are benefiting from the industry's returns. While there are similar issues within certain regions and fleet sectors for harvesters, the doubling of landed values, in concert with reduced costs and fewer licenced participants, has dramatically improved the operating environment for most harvesters.

A combination of licensing policy and collective bargaining structures has placed the processing sector in an intense and destructive competitive circumstance where the industry focus is almost solely dedicated to sourcing raw material, even to the point where quality, scheduling and operational efficiencies are often compromised. Plant workers' incomes are even lower than those experienced before the moratorium. Most workers' total annual incomes are well below the recognized poverty level. Licensing policies have played a major role in creating the competitive imbalance and diluting incomes for plant workers. The current licensing regime has failed to pare down groundfish licences to anything approaching a sustainable level of operations. Crab licences have more than doubled and shrimp licences were issued to such an extent that they now seriously jeopardize the viability of this new processing sector, even though the Province enjoys access to the world's most prolific coldwater shrimp resource.

The Collective Bargaining regime of the past six years has successfully facilitated early starts to the fishery and allowed price settlements to be expeditiously resolved. However, this new regime, based on Final Offer Selection, only sets the minimum price and triggers a continuous round of acrimony among all industry participants, but primarily between harvesters and processors. Past licencing studies, including the LINK Study in the eighties and the Fishing Industry Renewal Board exercise of the nineties failed, in the final analysis, to achieve the development of a licensing policy that went much beyond the attainment of a 'closed shop' regime where the Minister of Fisheries and Aquaculture has the only key which is used only to add participants. The FIRB initiative went some distance to develop an integrated approach to licensing that would see harvesters and processors collaborating to maximize industry revenues and reduce costs. This innovative approach to the circumstances of the inshore fishery did not take hold between policy makers and industry participants of the day. Several issues were prominent in achieving implementation of the concept. The Board noted that the regime likely needed the establishment of Individual Quota regimes for inshore harvesters and the application of an innovative, binding means of settling price disputes. The recent Jones and Dunne reports set forth prescriptions for price setting and licencing policy that are under active consideration by government. The results are likely to be forthcoming during the upcoming Fall and Winter.

The key challenge for government is to seek the identification and implementation of a regime that can permit the Province's seafood industry to take a co-ordinated and collaborative approach to responding to the vagaries of an uncertain resource base and the volatility of global seafood markets. The regime must also respond to the public

sector requirements of industry stability, optimization of economic returns and corporate and regional balance in terms of sharing the benefits among the Province's rural society.

The processing sector has debated and contemplated the Production Quota recommendations of the FIRB's April 1996 report extensively over the past few years and endorses the immediate implementation of production quotas for crab and shrimp. This licensing framework holds the potential to optimize the returns from seafood processing, to make the pie larger, and to confer substantial benefits on all industry stakeholders including harvesters, plant workers and regional economic interests, and, at the same time, manage the risks of geographic and corporate concentration, well beyond that which can be attained within existing or past licencing regimes. Legitimate concerns of harvesters with respect to price setting and corporate concentration must be addressed in an acceptable way to that sector. The implementation of this concept would necessitate considerable work among all industry stakeholders but must be pursued if the industry is ever to achieve its full potential value and a fair and equitable sharing of its returns. The requirements to proceed are rooted in the need for confidence in the industry and associated public sector structures. The alternative is some variant of the current policies which have repeatedly demonstrated their futility in assuring industry viability and a fair distribution of benefits.

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