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

Symposium on Growing the Economy of Newfoundland and Labrador

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Alastair O’Rielly

Managing Director

Canadian Centre for Fisheries Innovation

Three Issues

1. Demographics

   Aging, declining rural population

2. Fishery

   Facing critical labour shortages & intense global competition

3. Public Sector Finances

   Government battling widespread infrastructure & serious deficit and debt problems

The Fishery's Predicaments

– Human resource crisis looming
– Uncertain resource outlook
– Increasingly stiff global competition
– Inability to accept public sector support due to trade consequences
– Continued social over-dependency on sector
– Over-capitalization in both harvesting & processing

As the Fishery Goes, So Goes the Province

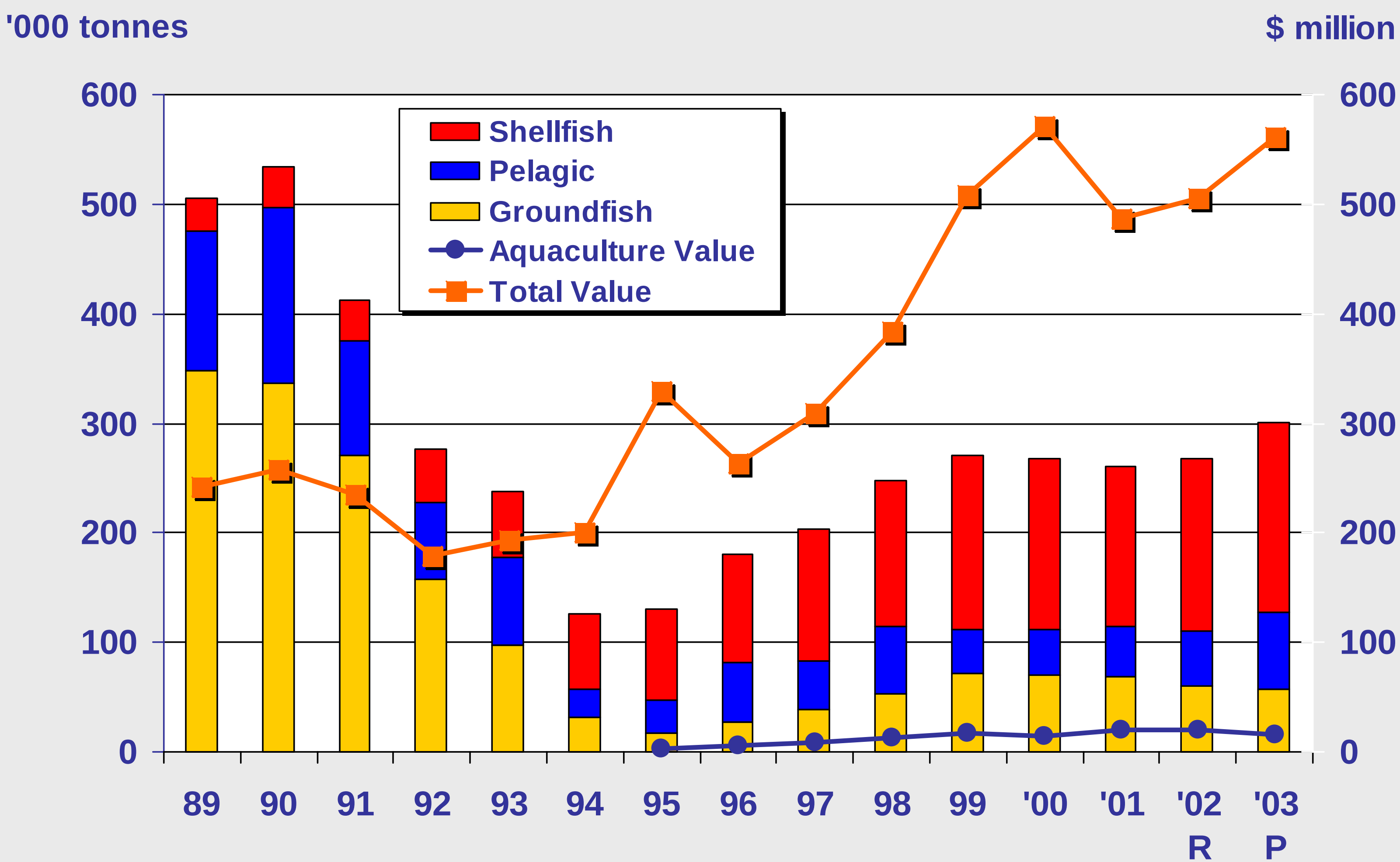
- A Practical Approach to Meet the Three Challenges
  - – A Plan Based on the Fishery
    - To Help Put Province's Fiscal House in Order
    - To Make Rural Areas Viable Economically & Socially
    - To Respond to the Fishery's Structural Issues and the Global Competitive Environment

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

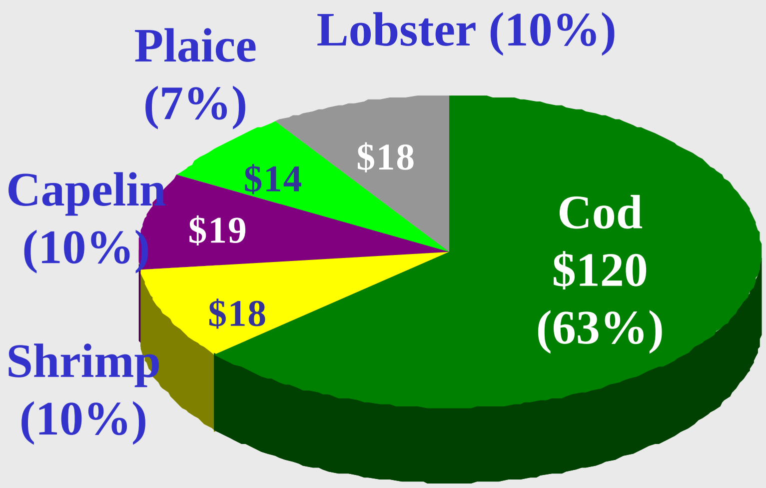
Fish Landings by Species Group
Newfoundland and Labrador, 1989 - 2003



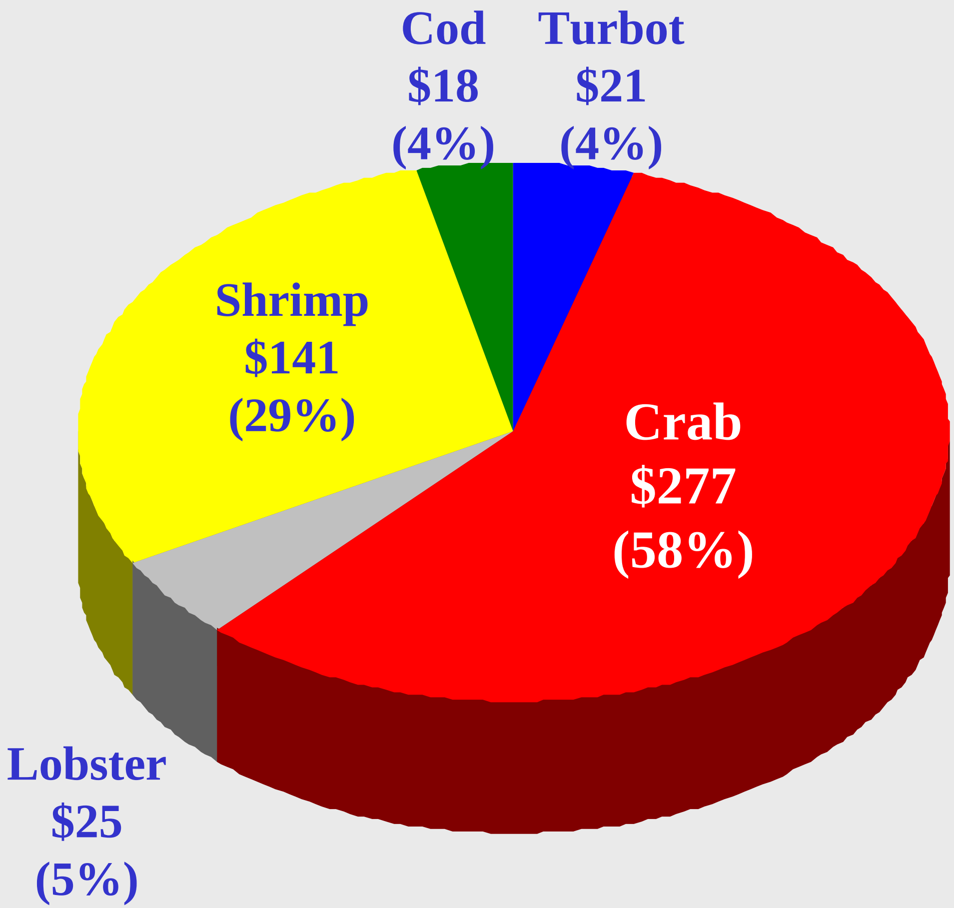
Source: DFA & DFO

P = Preliminary R = Revised

Top Species by Landed Value
($ Millions)



1989

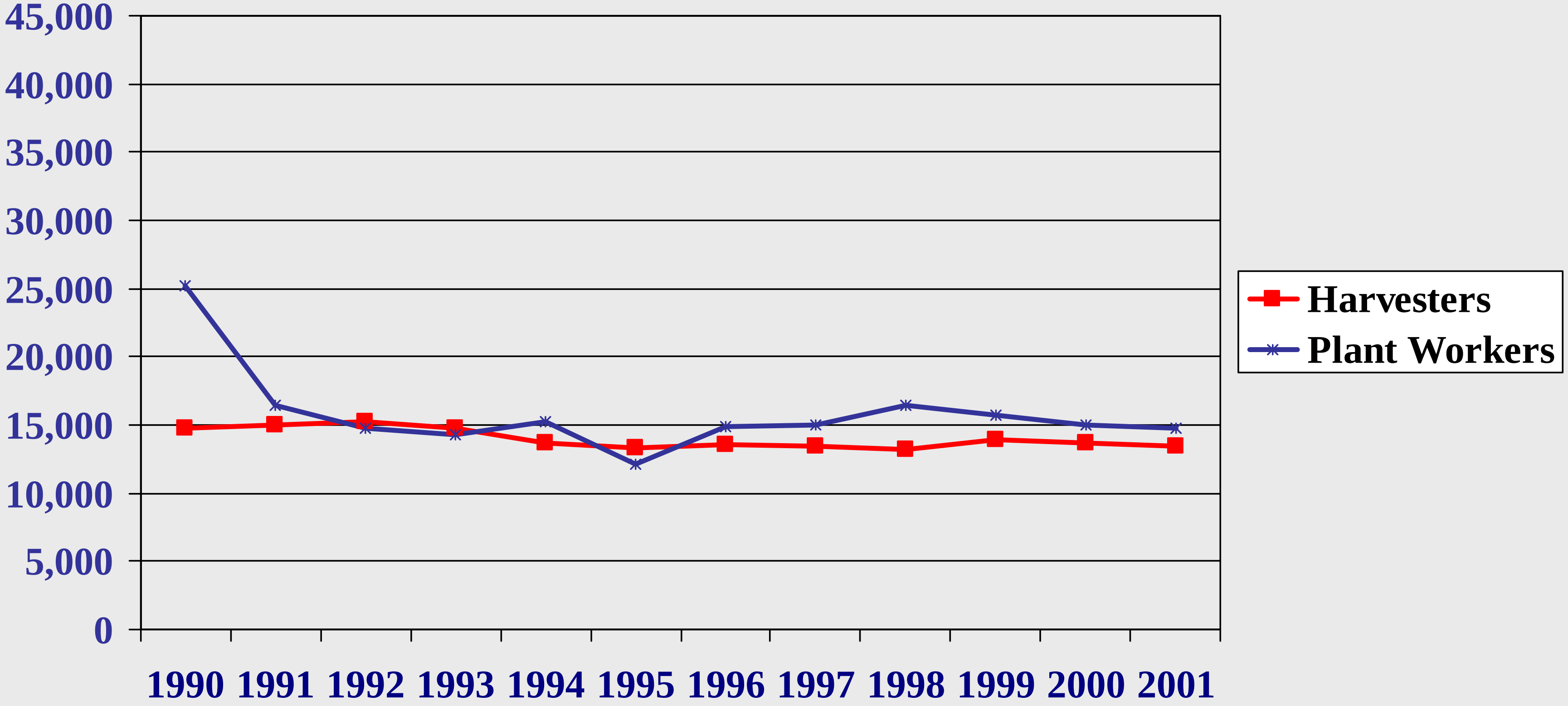


2003(preliminary)

Human Resource Crisis Looming

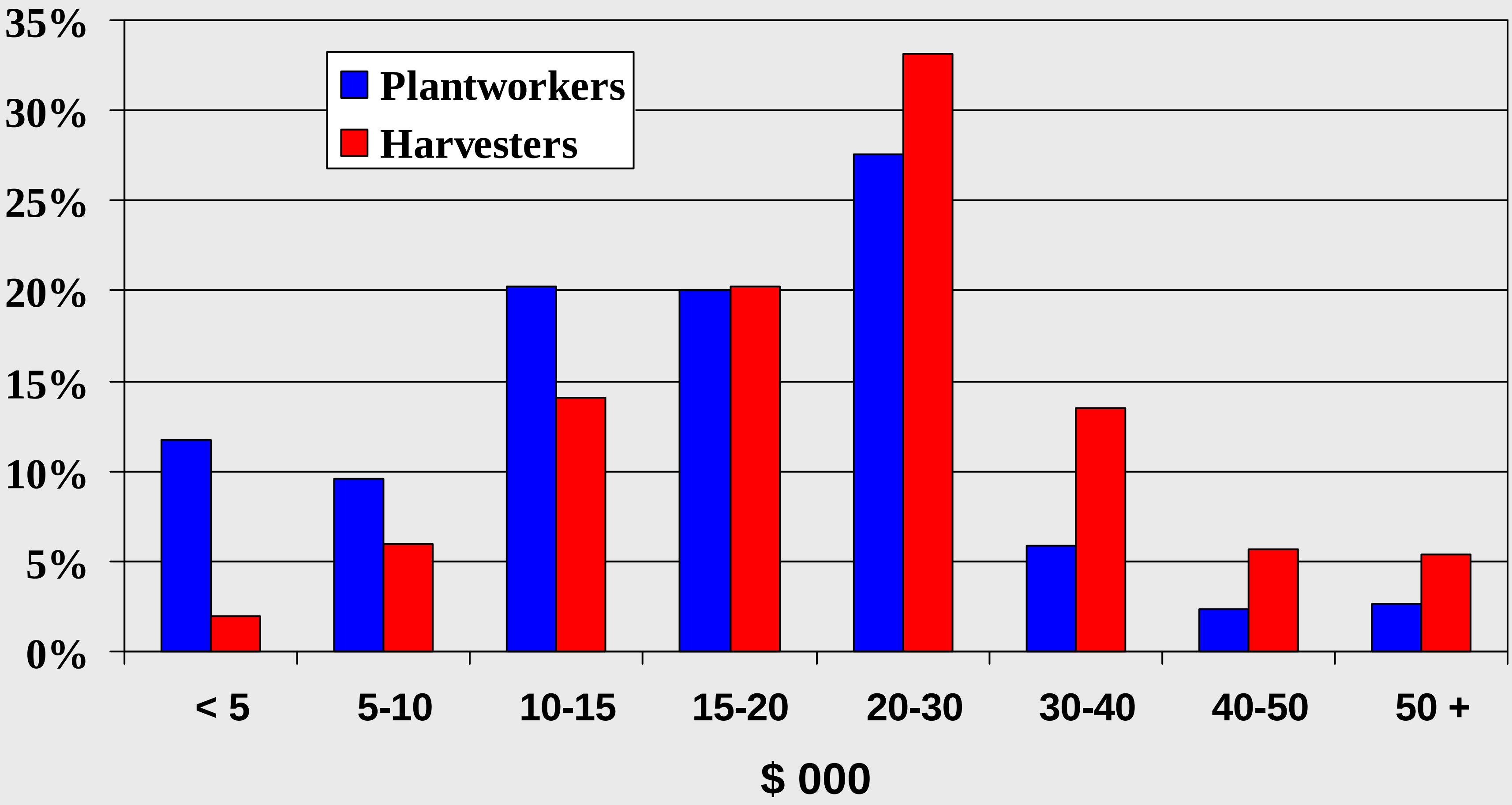
- Plant workers’ earnings among lowest in country
- Increased reliance on EI
- Limited, short seasonal employment
- Employment marked by uncertainty
- Youth uninterested in processing industry & MI unable to offer processing programs for past eight years

Number of Harvesters and Processing Workers



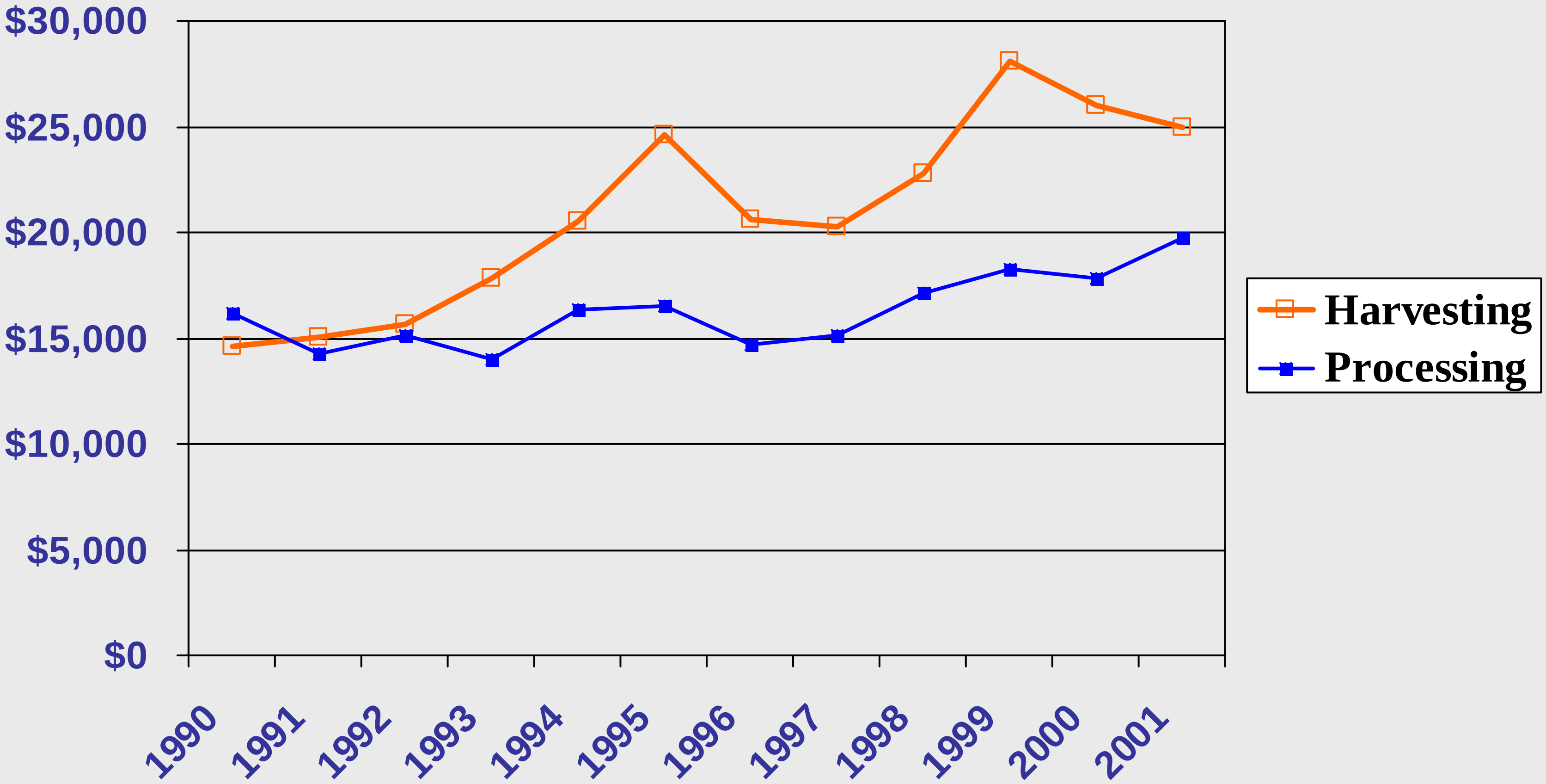
Source: Special Tabulation, Statistics Canada; Newfoundland Statistics Agency; DFA

Distribution of Plant Workers and Harvesters By Total Income Range, 2001



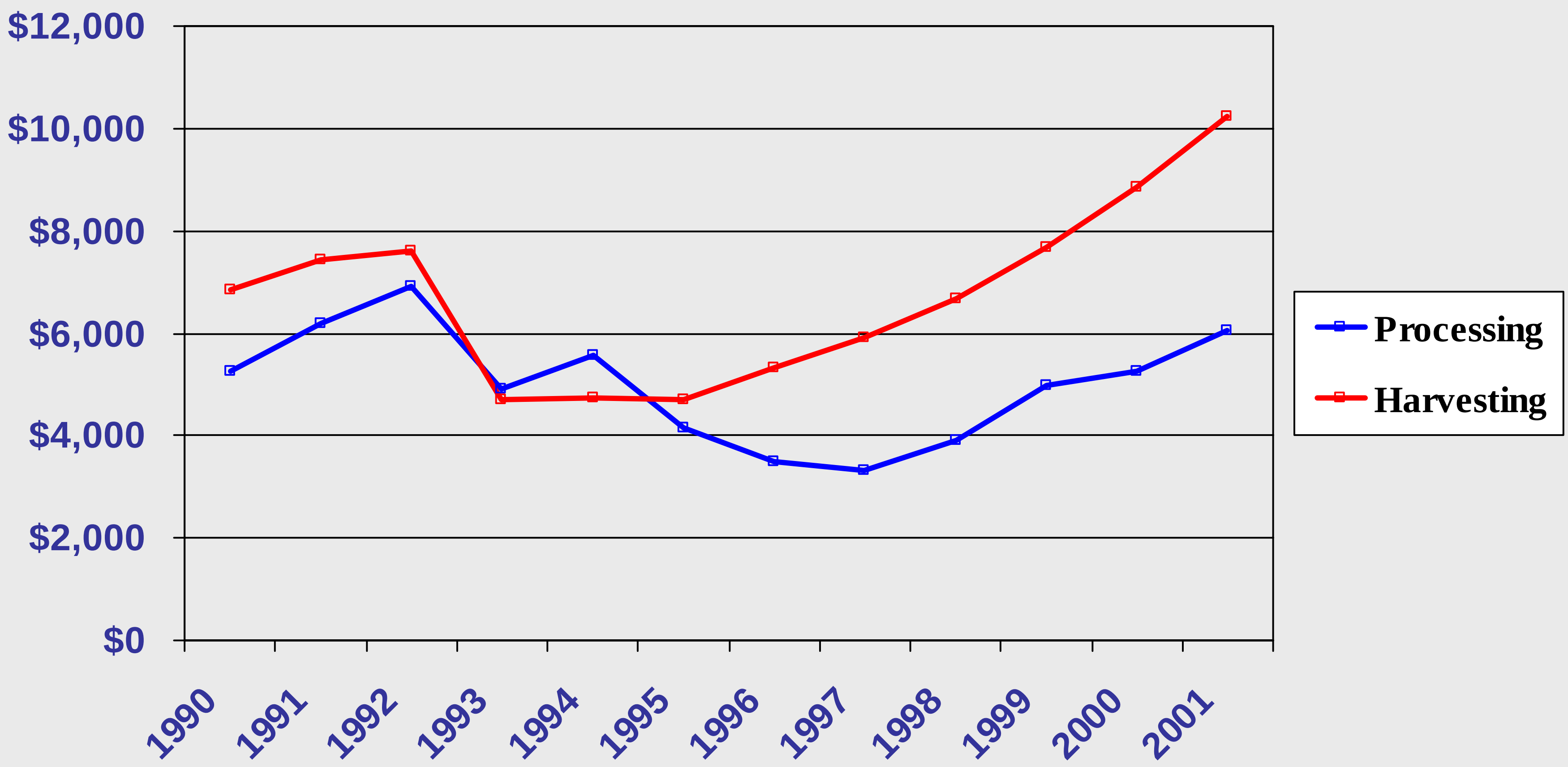
Source: Special Tabulation, Statistics Canada; Newfoundland Statistics Agency; DFA

Average Total Income of Fish Harvesters and Processing Workers



Source: Special Tabulation, Statistics Canada; Newfoundland Statistics Agency; DFA

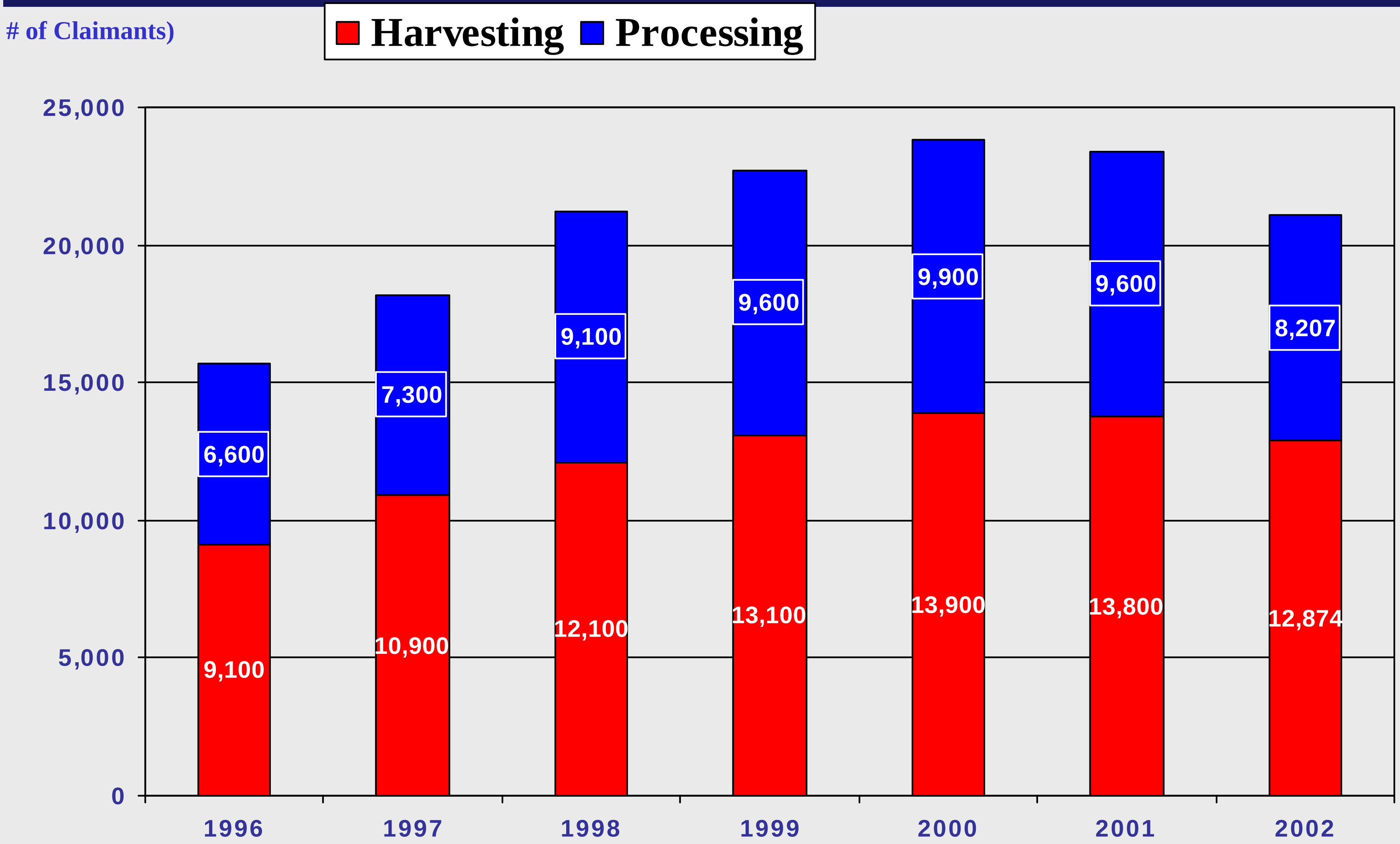
Average EI/UI Income for Workers in Processing and Harvesting



Source: Special Tabulation, Statistics Canada; Newfoundland Statistics Agency; DFA

Number of EI Beneficiaries

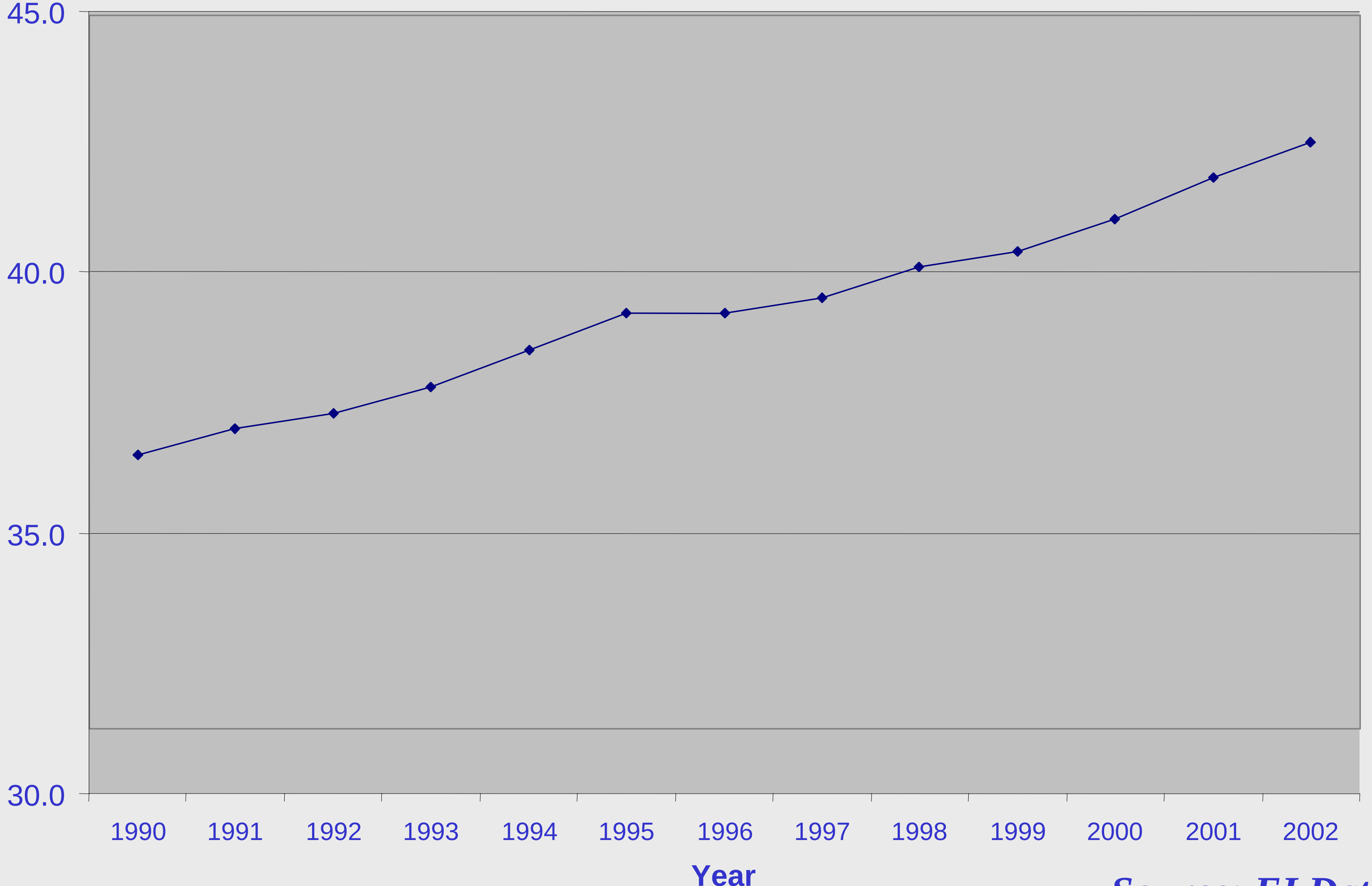
Newfoundland and Labrador,1996-2002



Source: Special Tabulation, Newfoundland Statistics Agency

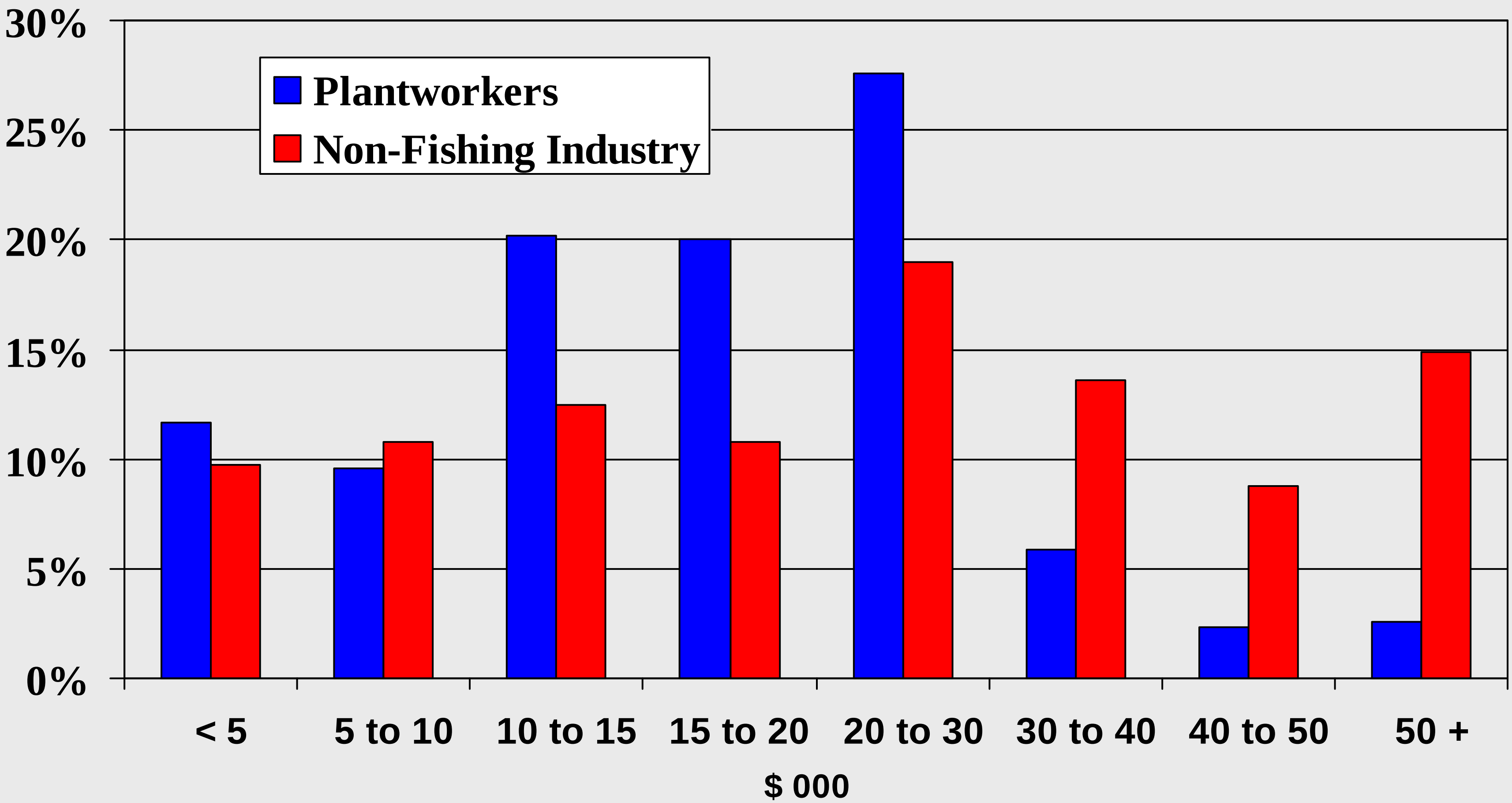
Note: Beneficiaries are based as either those classified as harvesters (Type 6 Claim) or occupational classification of plant worker

Average Age of Plant Workers



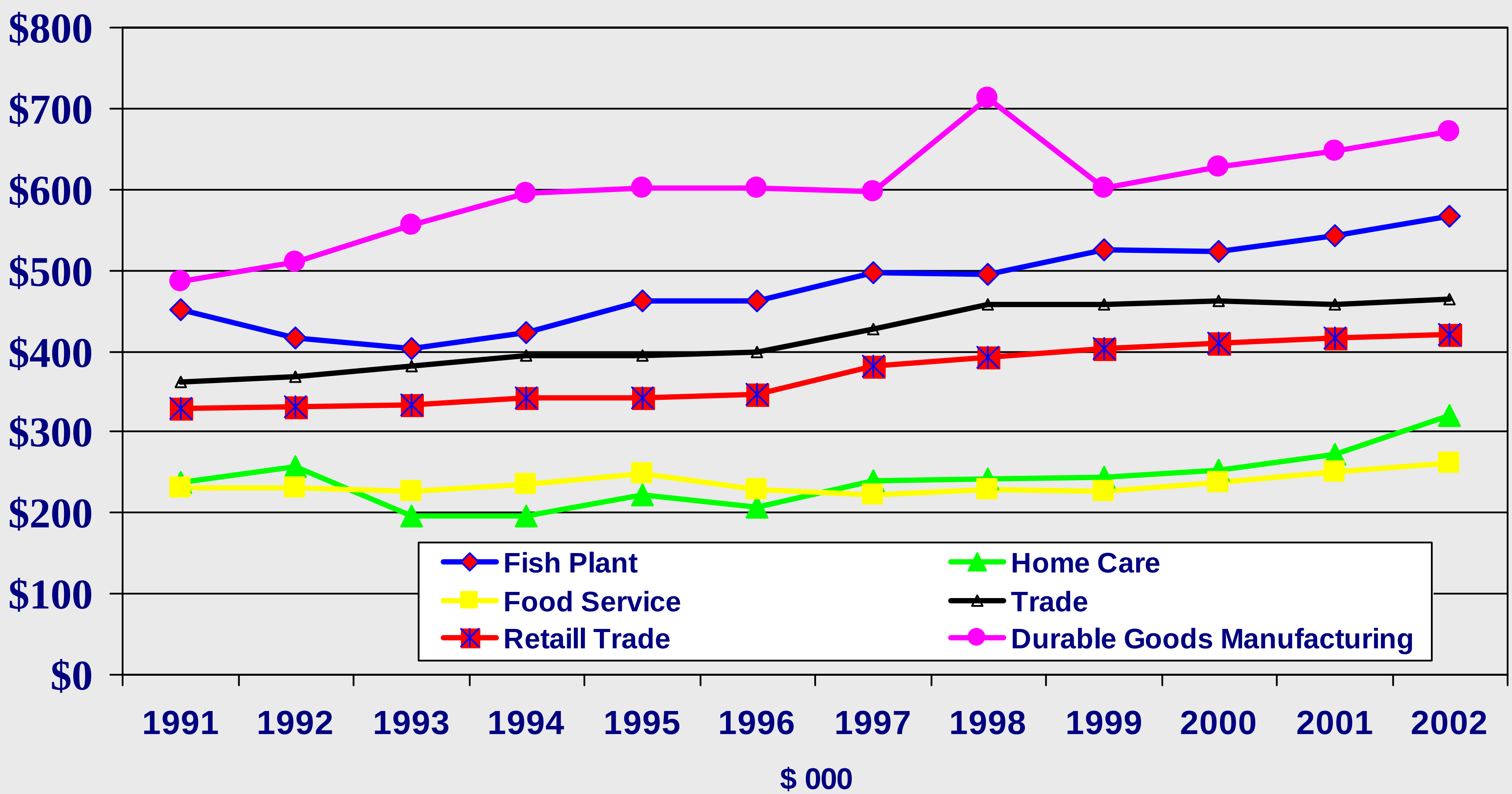
Source: EI Data

Distribution of Plant Workers and Other Non-Fishing Employed Tax-filers By Total Income Range, 2001



Source: Special Tabulation, Statistics Canada; Newfoundland Statistics Agency; DFA

Average Weekly Earnings For Selected Occupations, 1991-2002

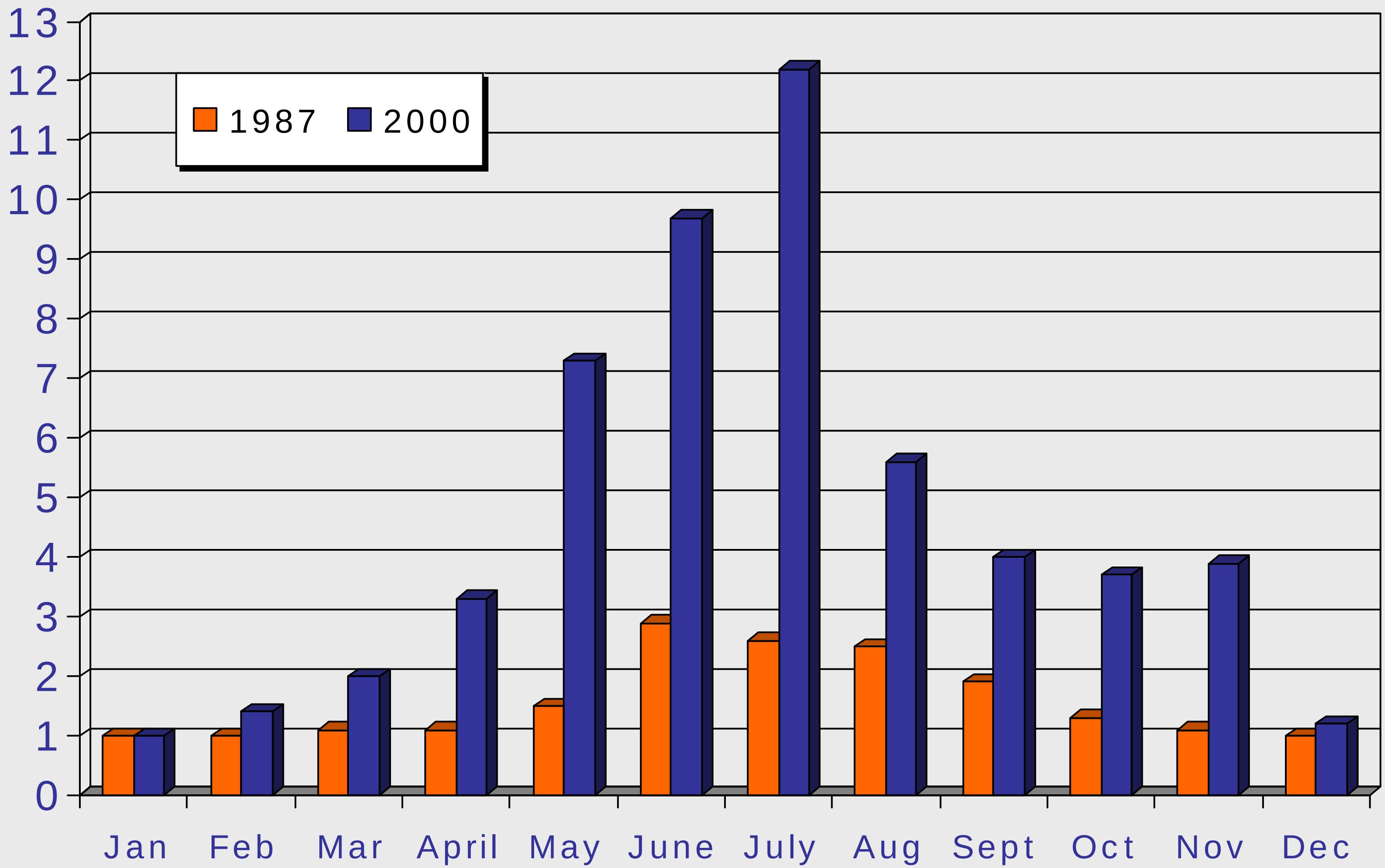


Source: Statistics Canada, Annual Estimates of Employment, Earnings and Hours
Prepared by: DFA

Resource Uncertainty

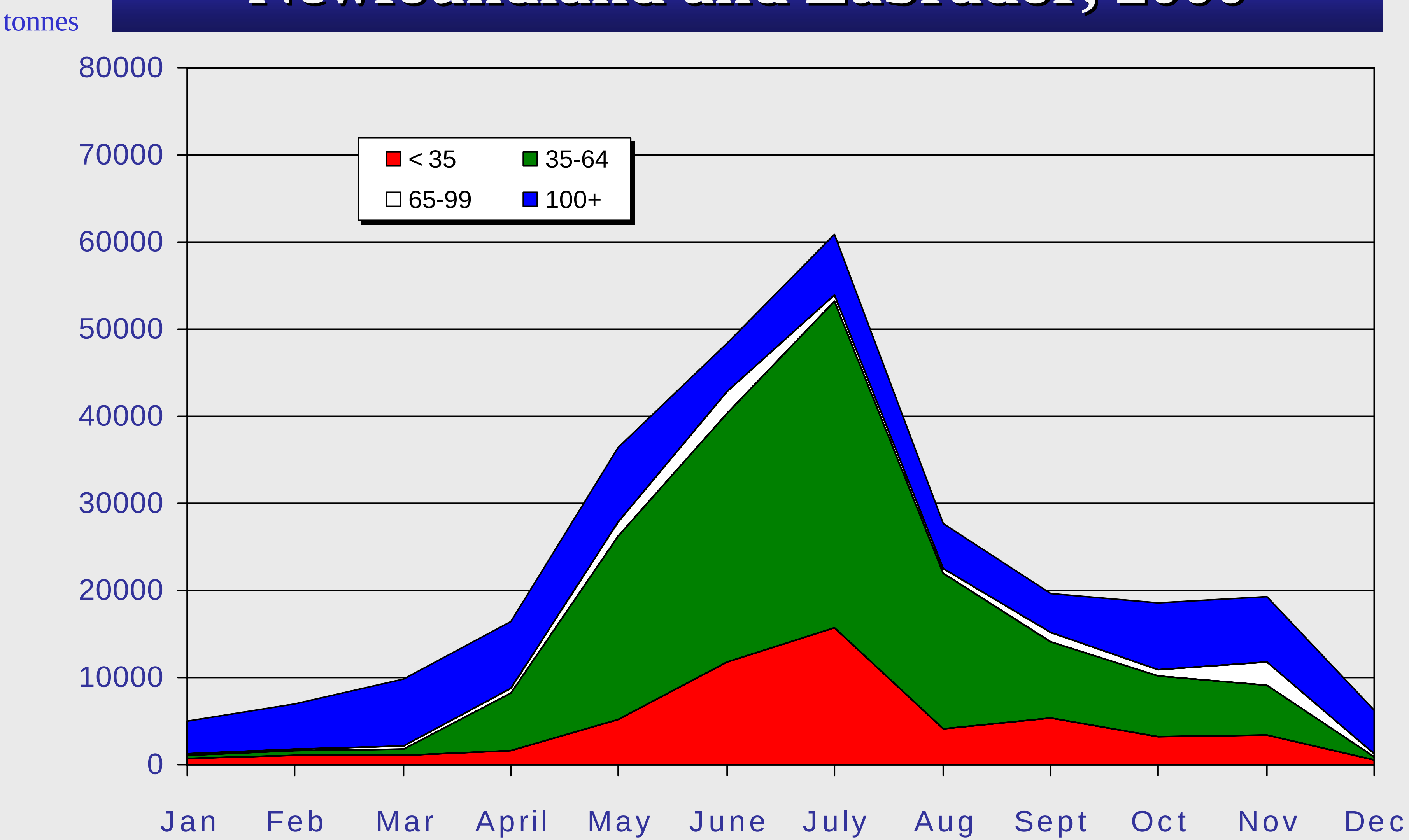
- Crab, Shrimp & Cod constitute over 80% of value
- Probable decline in key crab resource
- No significant improvement in cod stocks
- Shrimp resource strong, but sector plagued by *<u>traditional</u>* structural problems, even though sector has developed since 1997

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



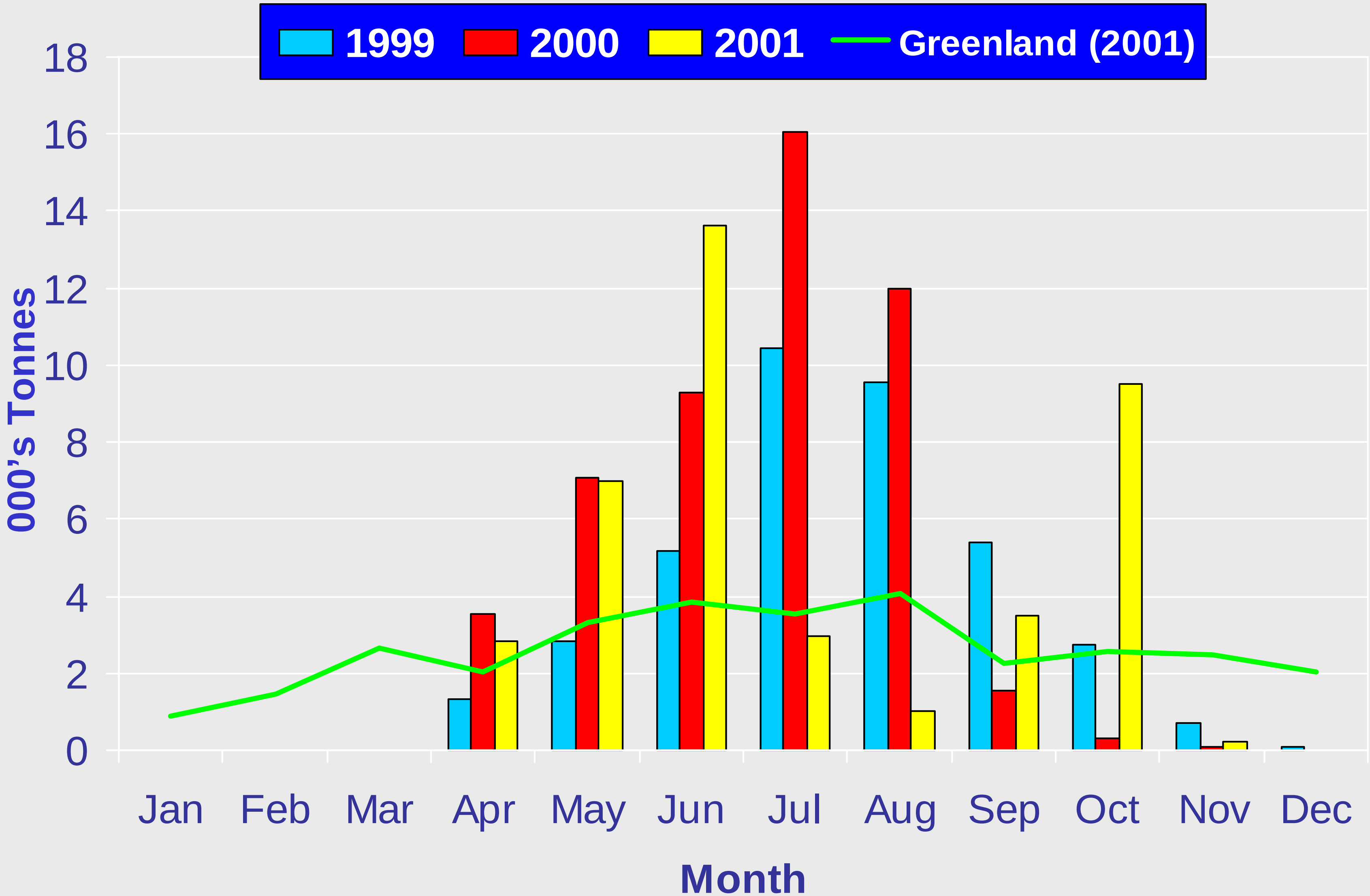
Source: Special Tabulation , DFO; DFA

Landings by Month and Fleet Sector
Newfoundland and Labrador, 2000



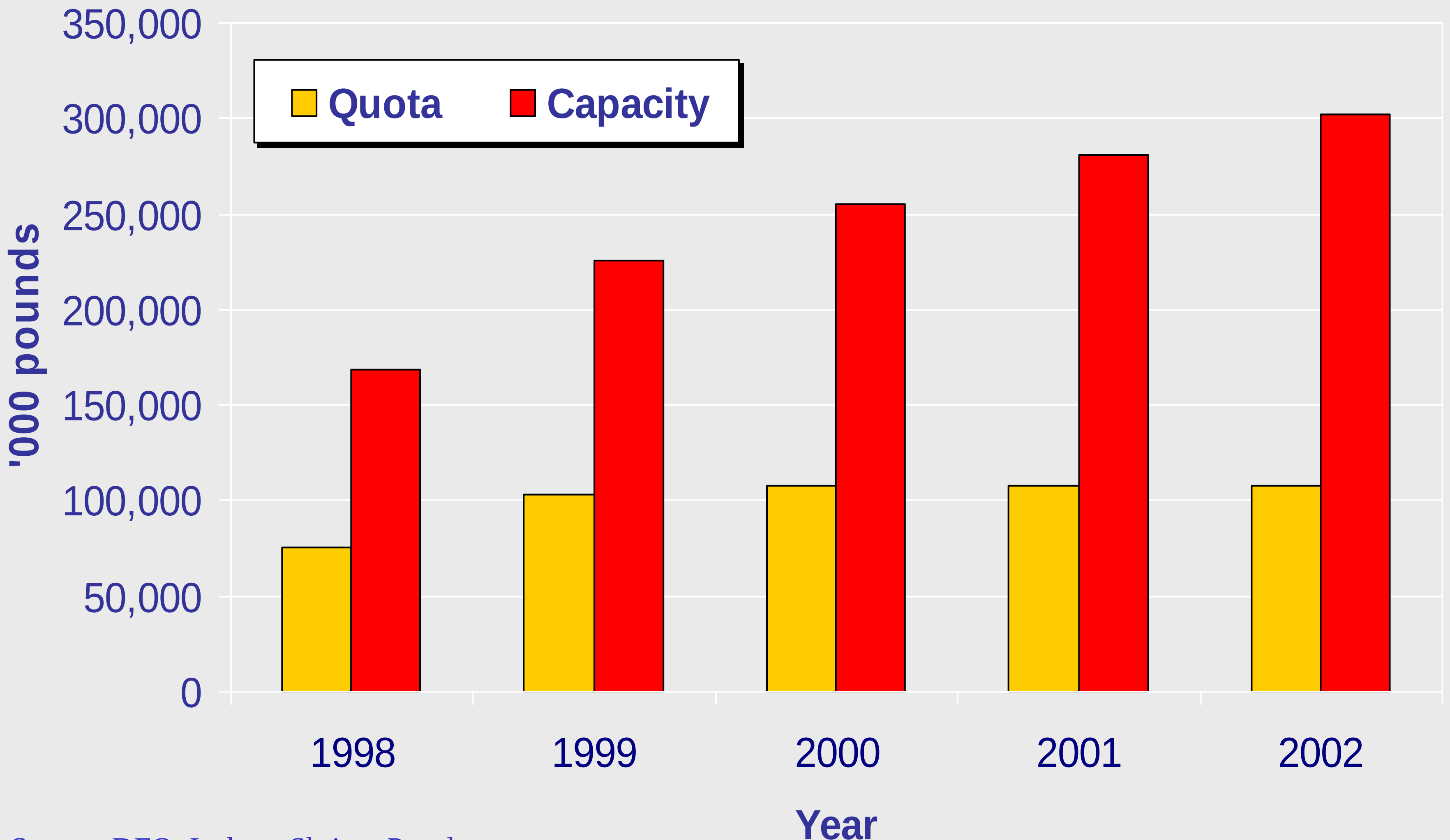
Source: Special Tabulation , DFO; DFA

Landings of Inshore Shrimp



Source: DFO; DFAIT

Shrimp Processing Capacity and Quotas



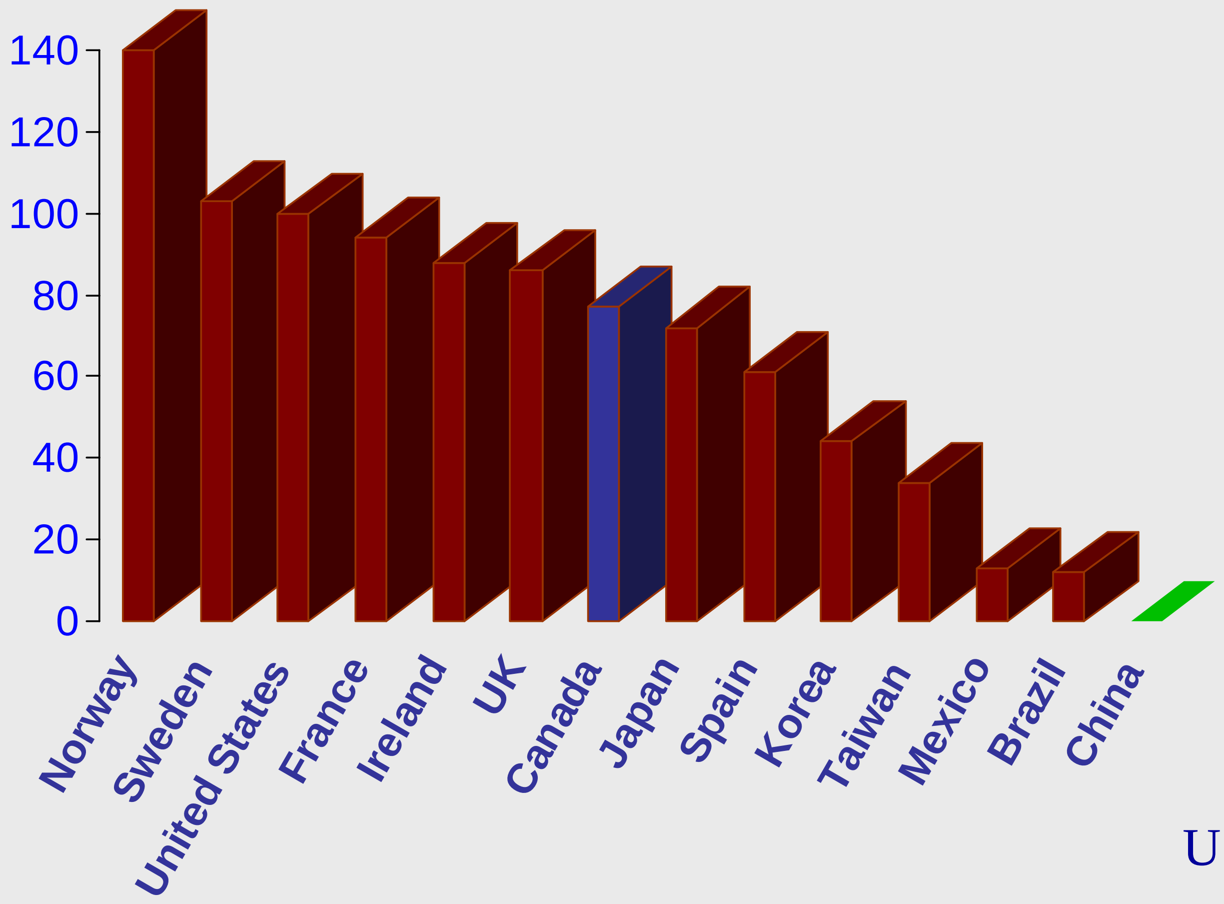
Source: DFO; Inshore Shrimp Panel

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.

Serious Competitive Threats

- Chinese aggressively entering the markets of Japan, United States and Europe
- Wage rates in Asia: $.25 per hour
- Global food industry consolidation in US and Europe

Hourly Compensation, Food, Beverages & Tobacco, 2002



USA = 100

Source: US Department of Labor & O'Rielly Pers. information

Present Structure Will Not Last

- Fishery continues to be based on historical inshore model, catching/processing fish at the wrong time. No biological/economic/market reasons why fishery cannot be significantly extended
- Current structure maintained for outdated social objectives
- Continuing on 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
- Fishing sector’s role as “Employers of Last Resort” is over: Already the judgment of rural youth

Resource Management Challenges

- Monitoring of Landings
  - 200 crab landing stations
  - 323 cod landing locations
  - Seasonal concentration
- Maintenance of Infrastructure
- Implementation of "Fish Landing Stations" Protocol by DFO & DFA

Solution: Consolidation of Designated Rural Centres

- Industry Consolidation
- Regional Concentration of Government Services
- Social Revitalization of Communities

Social Revitalization

- Viable Communities
  - Schooling
  - Health & social services
  - Improved community infrastructure
- Retention of Youth
  - Better educational facilities
  - Diverse, enhanced social opportunities
  - Better career opportunities
  - Opportunities for future growth
  - Recreational opportunities

Plan Enables Future 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

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 other diversified economic growth

Implementation

- Choice of centres based on fishing industry
- Relocation at discretion of individuals
- Inclusive Transparent Process
- Plant Production Quota System
- Implementation of Joint Management System

Plant Production Quota System

- To Facilitate and Manage the Industry’s Consolidation
  - Share allocated for major species groups
  - Transfers and consolidations subject to public sector approval to ensure regional balance and concentration in areas of growth and opportunity
  - Significant cost reduction, improved incomes and business development prospects for industry

Joint Management & Development

Coordinated, integrated & cost-effective approach to Fisheries Management and Development

- Eliminates policy duplication
- Balances management of adjacent fish stocks with provincial priorities
- Reduces federal-provincial conflict over fisheries
- Stable foundation for resource management & industry investment

Joint Management & Development

- Incorporates fisheries policy in broader economic and social plans
- Removes potential for arbitrary or inconsistent fishery management decisions
- Provincial participation in fisheries management
- Management plan to match vessel size, numbers of vessels, harvesting locations, plant locations with publicly designated ‘Growth Centres’ Strategy

Further Considerations

- Analysis of costs and benefits
- Time to establish: 5 – 10 years
- Based on inclusivity, due process & transparency
- Regulatory frameworks of governments to provide support
- Achieving federal/provincial & municipal participation, a ‘Marshall Plan’
- Fishing industry participation

Illustrative Example: Arnold’s Cove

- No decline in population
- Low average age of workforce
- Strong municipal infrastructure with low debt
- Extraordinary high proportion of total income from employment
  - Isthmus of Avalon region reports 71% of total income is “earned” at the plant

Private Sector Benefits/Responsibilities

- Processors’ competition refocused from resource procurement to global market opportunities
- Implementation of reporting requirements (E.B. Dunne report)
  - Market Diversification
  - Product Diversification
  - Research and Development
  - Human Resource Development & Training
  - New Technology Development
  - Resource Utilization

Alternatives

Non-intervention – Benign Neglect

- Acknowledgement of the irreparable decline of rural economy and social fabric
- Continued and accelerated rural out-migration
- Fishery adaptation
  - Growth in on-board processing
  - Exports of raw material for processing elsewhere
  - Employment of migrant workers
  - Less value-added production

Manage Change

Shape the Future

Grow the Economy!