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Memorial Presents Fisheries Policy and Rural Revitalization, An Integrated Approach

March 28, 2006

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Three Challenges

1. Demographics

- Aging, declining rural population

2. Public Sector Finances

- Government battling:
 - Widespread infrastructure challenges
 - Unsatisfactory service levels in health and education programs
 - Serious debt problems

3. Fishery

- Facing critical labour shortages & intense global competition

The Importance of our Rural Communities

- According to the Royal Commission on Renewing and Strengthening our Place in Canada:
“...the most significant social and economic challenge facing the province today is the survival of rural Newfoundland and Labrador”
(Our Place in Canada, p. 28).

One Practical Approach to Meeting All Three Challenges

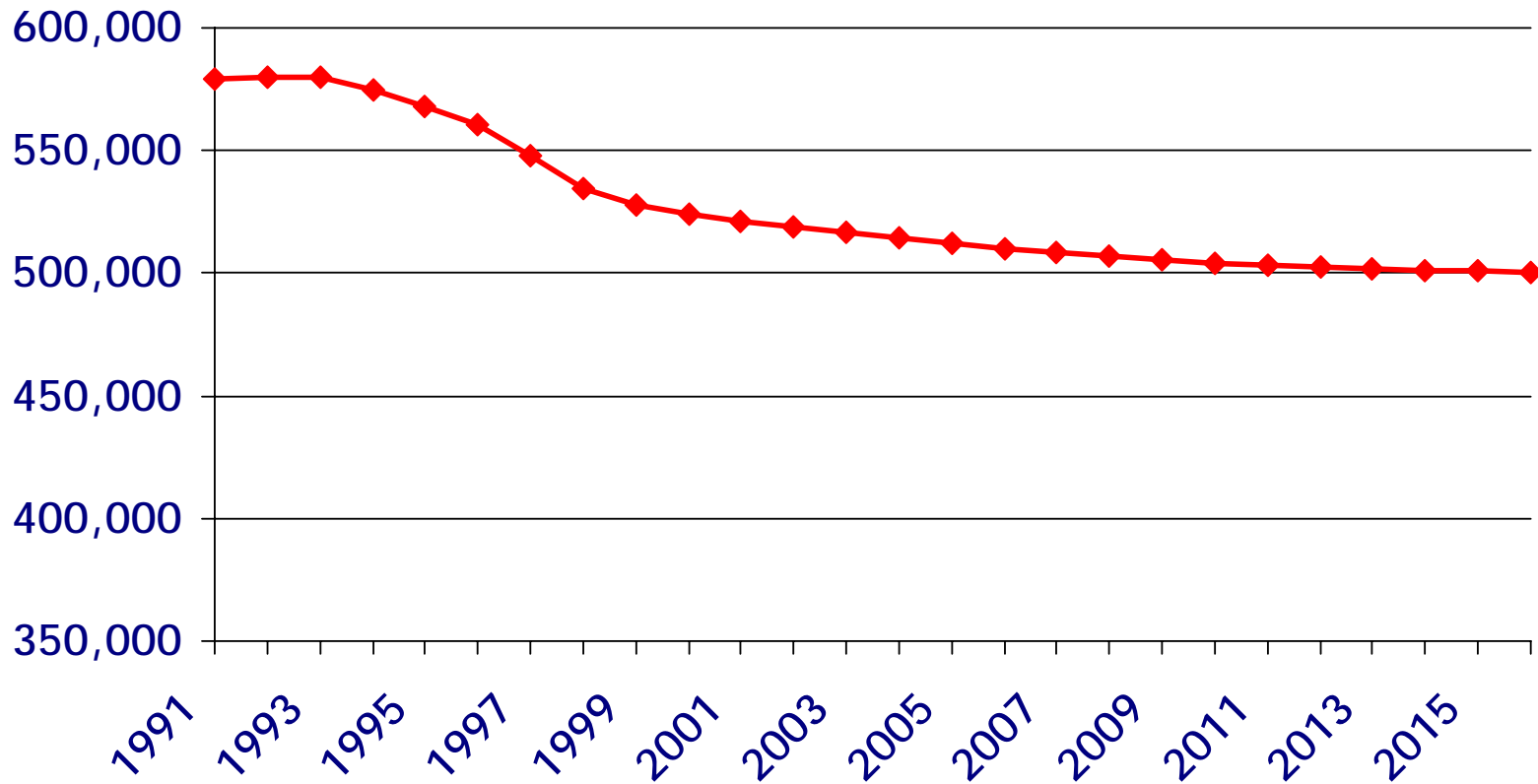
- Growth Centres - Based on the Fishery
 - To Make Rural Areas Viable Economically & Socially
 - To Help Put Province's Fiscal House in Order
 - To Respond to the Fishery's Structural Issues and the Global Competitive Environment

1. Rural Decline

- Population in decline:
 - Projection for 2018 : 500,000
- Population aging:
 - By 2018: 54% will be age 45 or older (In 1991: less than 27% of larger population was in that age group)
- Rural areas affected the most

Total Provincial Population

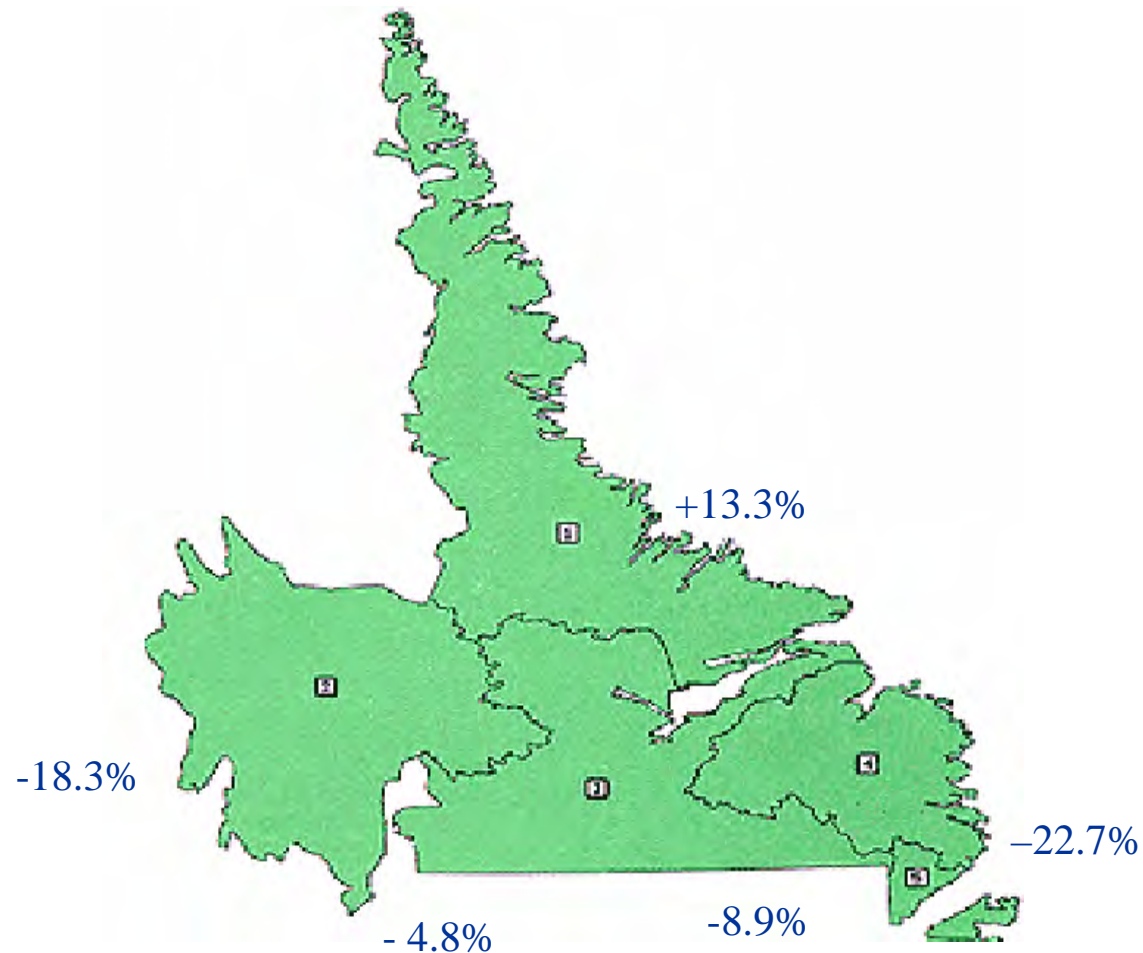
1991-2016



Source: Department of Finance.
Note: Based on Medium Forecast

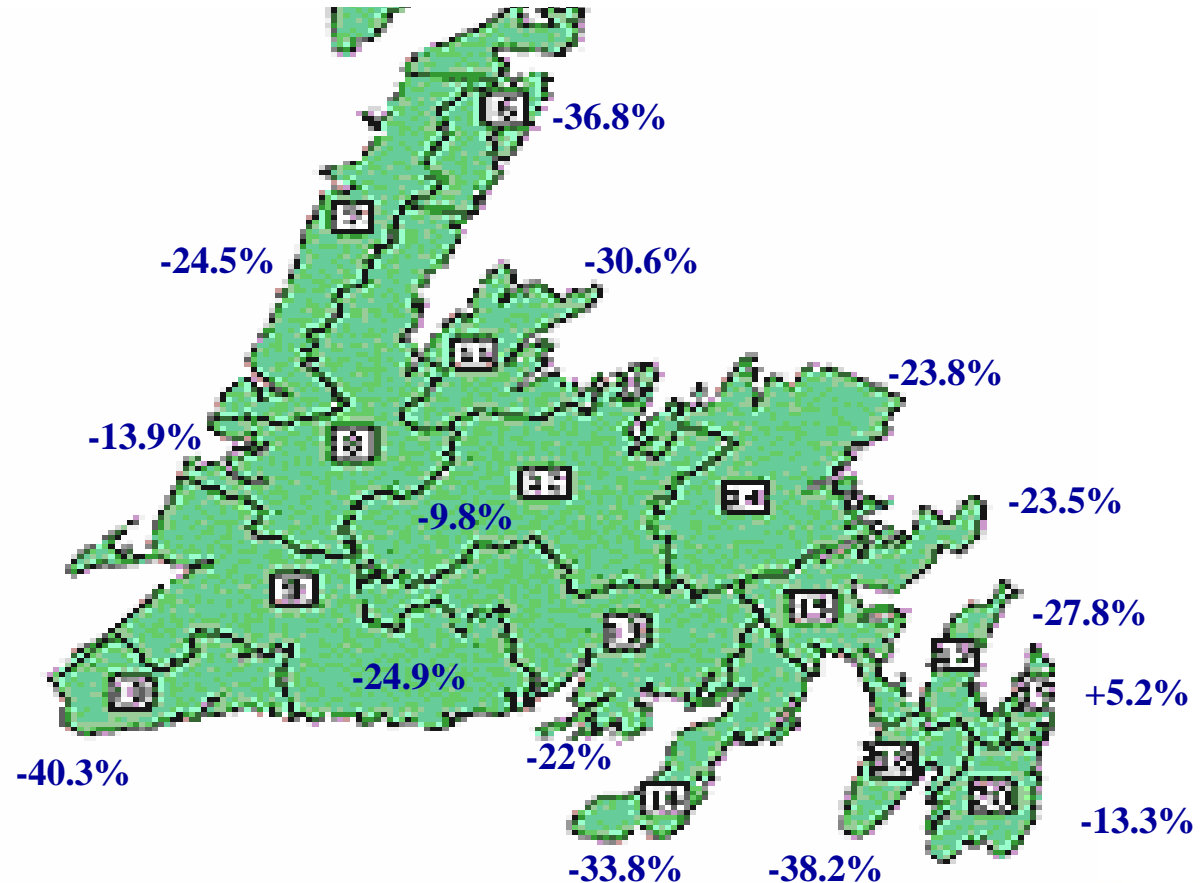
Prepared by: DFA

Population Change by Economic Zone 1991-2018 Medium Scenario

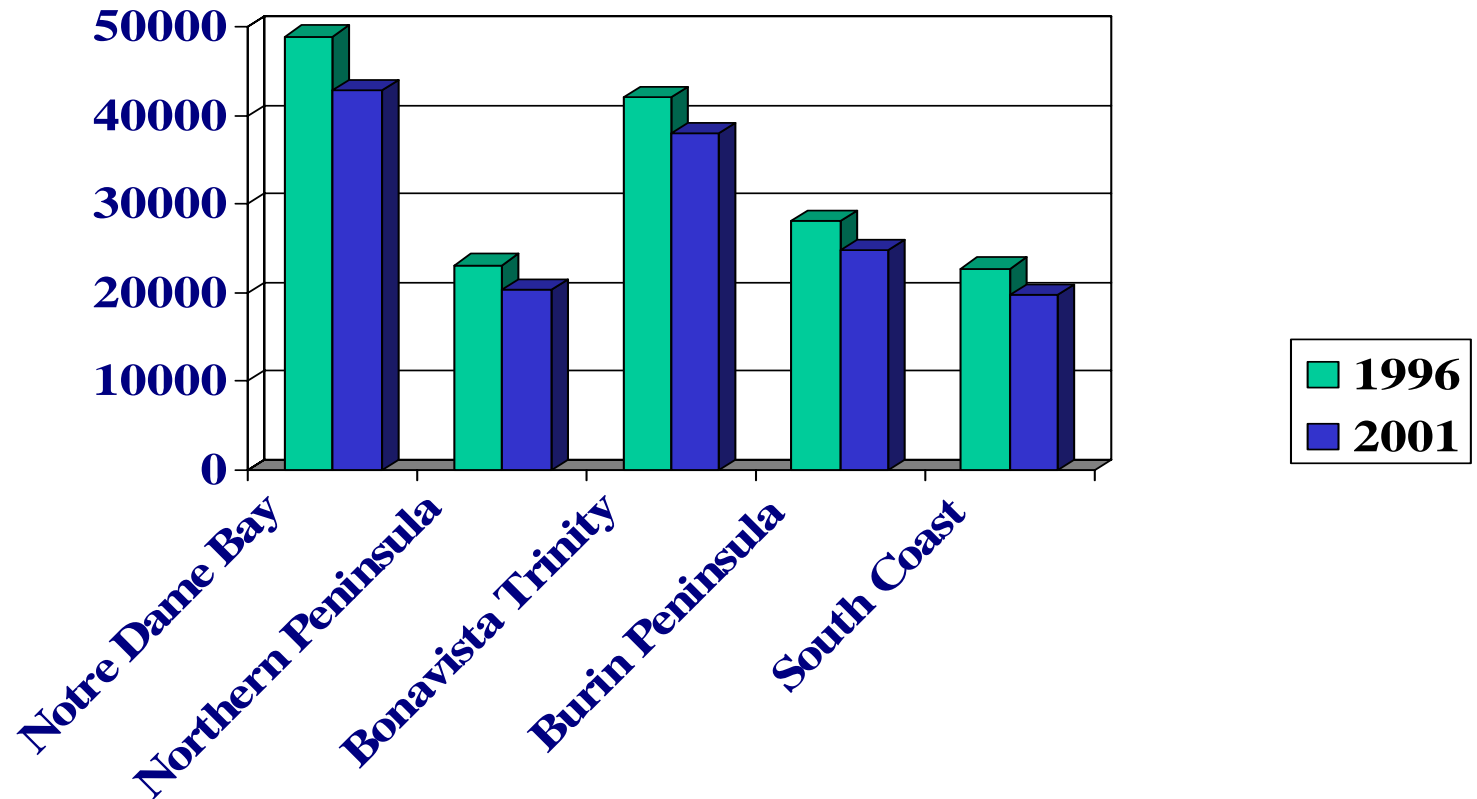


Population Change by Economic Zone 1991-2018, Medium Scenario, 1996-2018

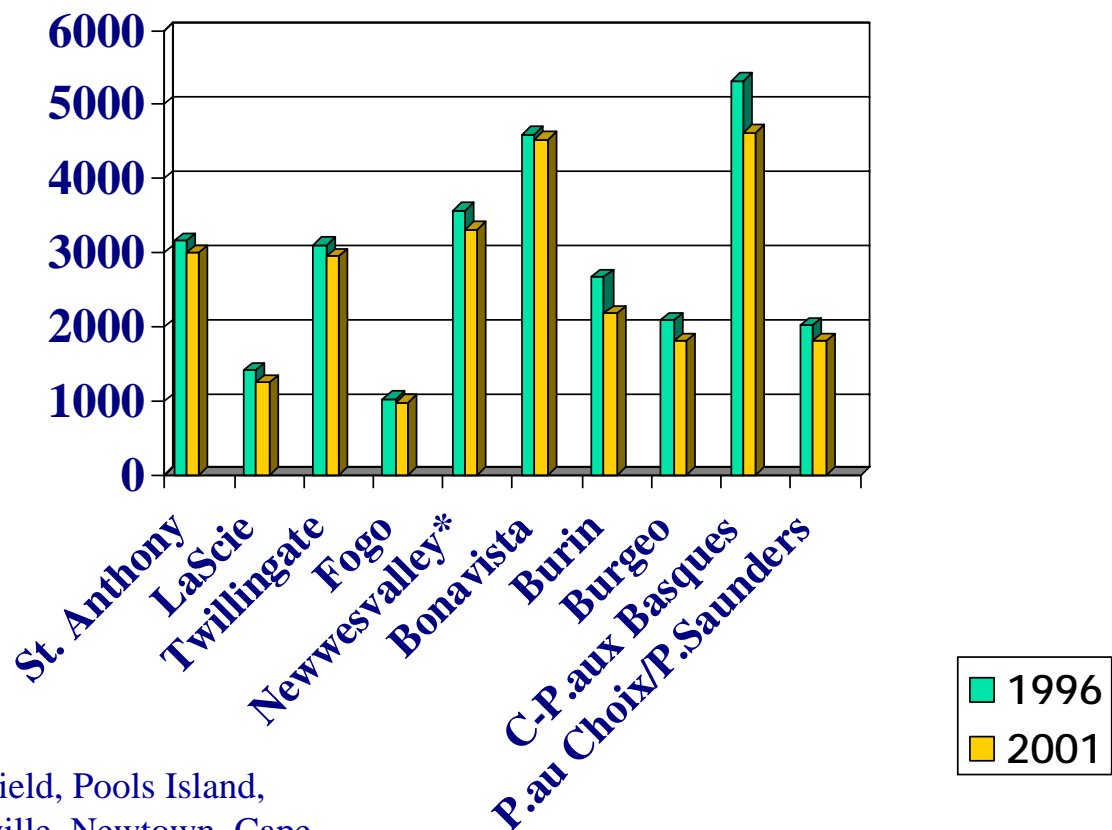
Total Change, Newfoundland and Labrador: -14.2% (-82,266)



Population in Sample Census Districts



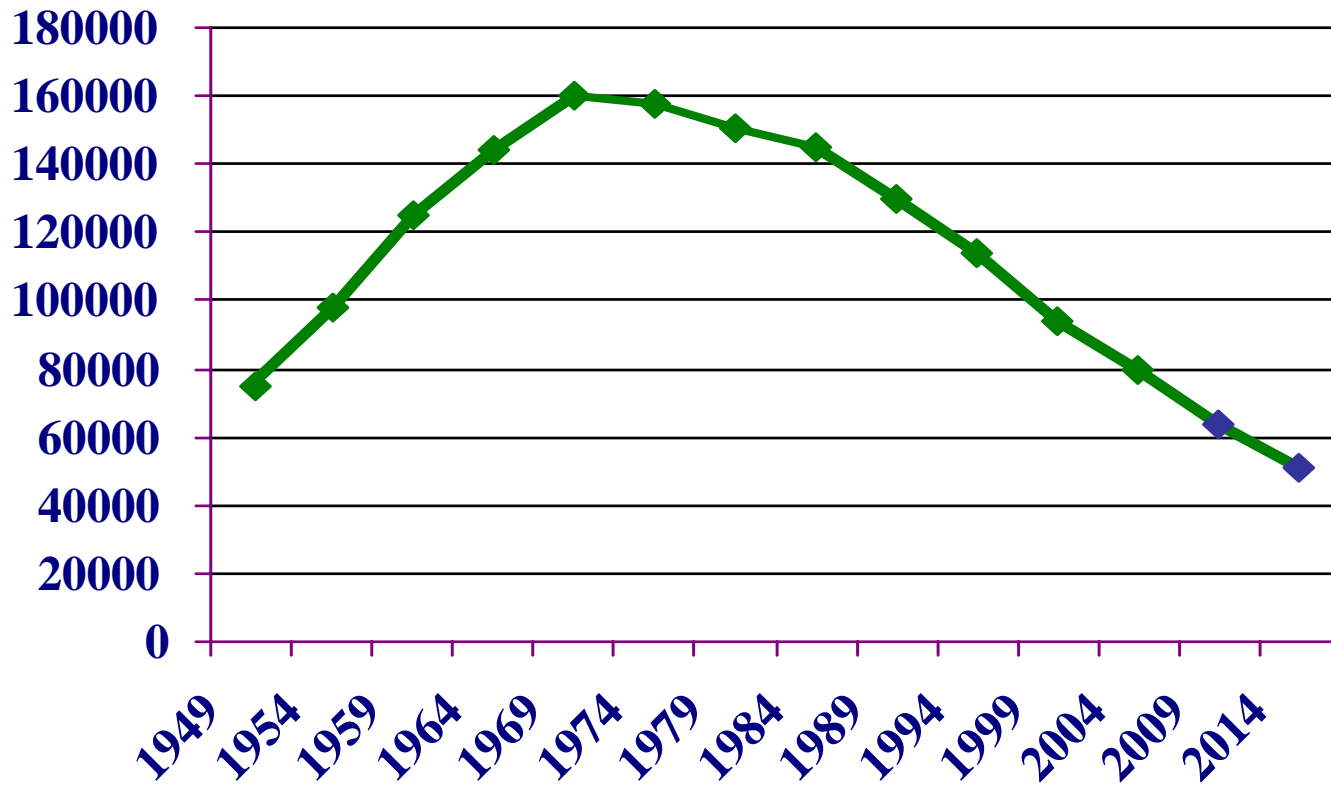
Population in Major Centres



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

Enrolment, All Grades

1948-49 to 2014-15



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

2. Government's Fiscal Challenges

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

Government's Challenge

- 2005-2006 Budget (Mid-Year)

The Good News

- New Atlantic Accord Arrangement
- Improvements to the Equalization Program
- Higher Offshore Royalties
- Expanded Canada Health Transfers
- A Surplus for 2005-06 of \$1.5 Million
- Slight Improvement to Debt Load

Government's Challenge

■ The Bad News

- Net Debt by End of Fiscal Year: \$12 Billion
- A Per Capita Debt at the end of 2005-06 of \$23,280
- Continuing and Growing Demands on the Public Purse

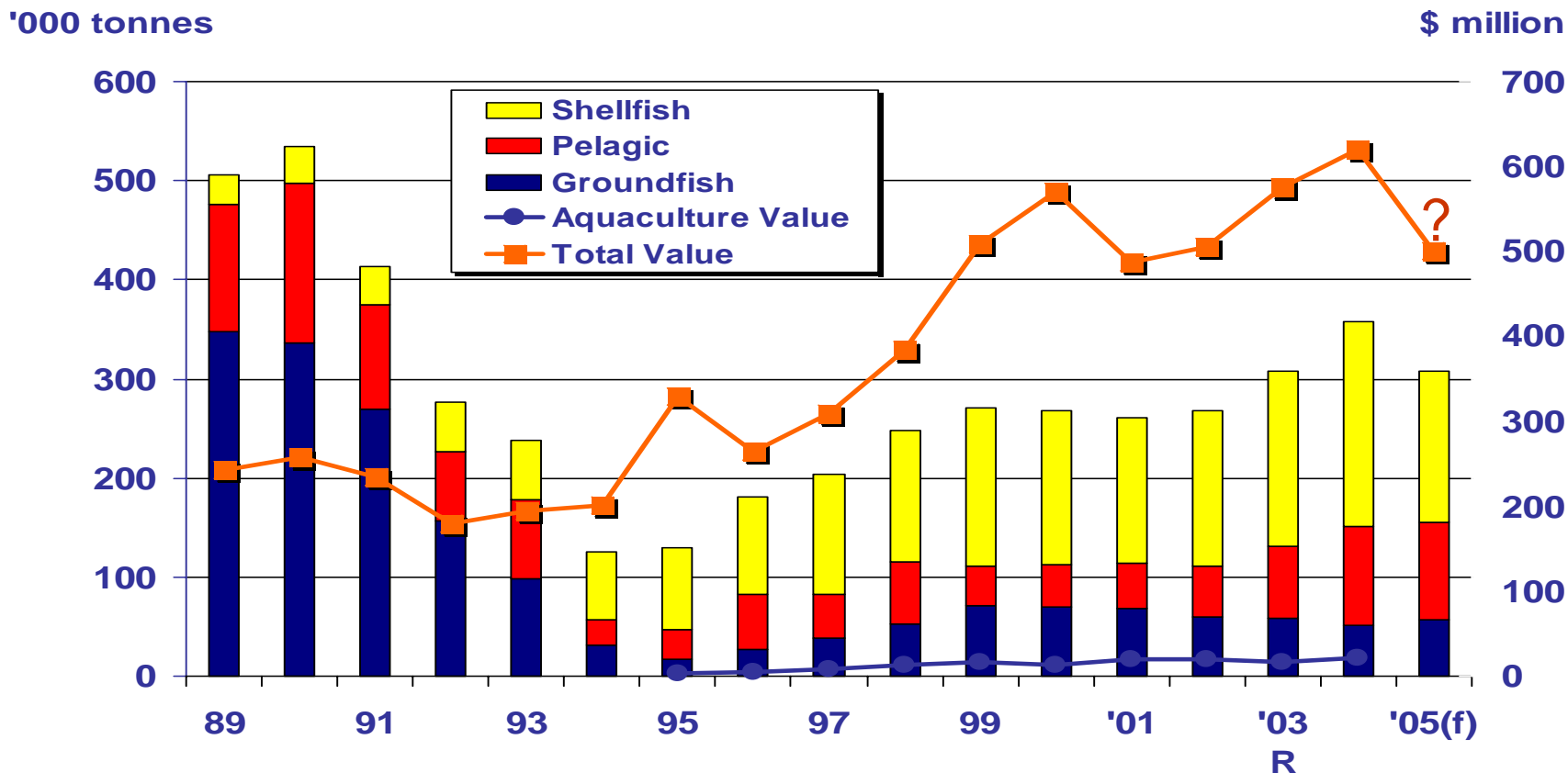
3. The Fishery:

The Engine of Rural Economy

- Dramatic expansion since 1997
 - 5-year export growth of 157% to \$937 million in 2002, three times Canadian average
 - 63% increase in Real GDP
 - 49% boost in processing employment
 - \$300 million in private investment

Fish Landings by Species Group

Newfoundland and Labrador, 1989 - 2004



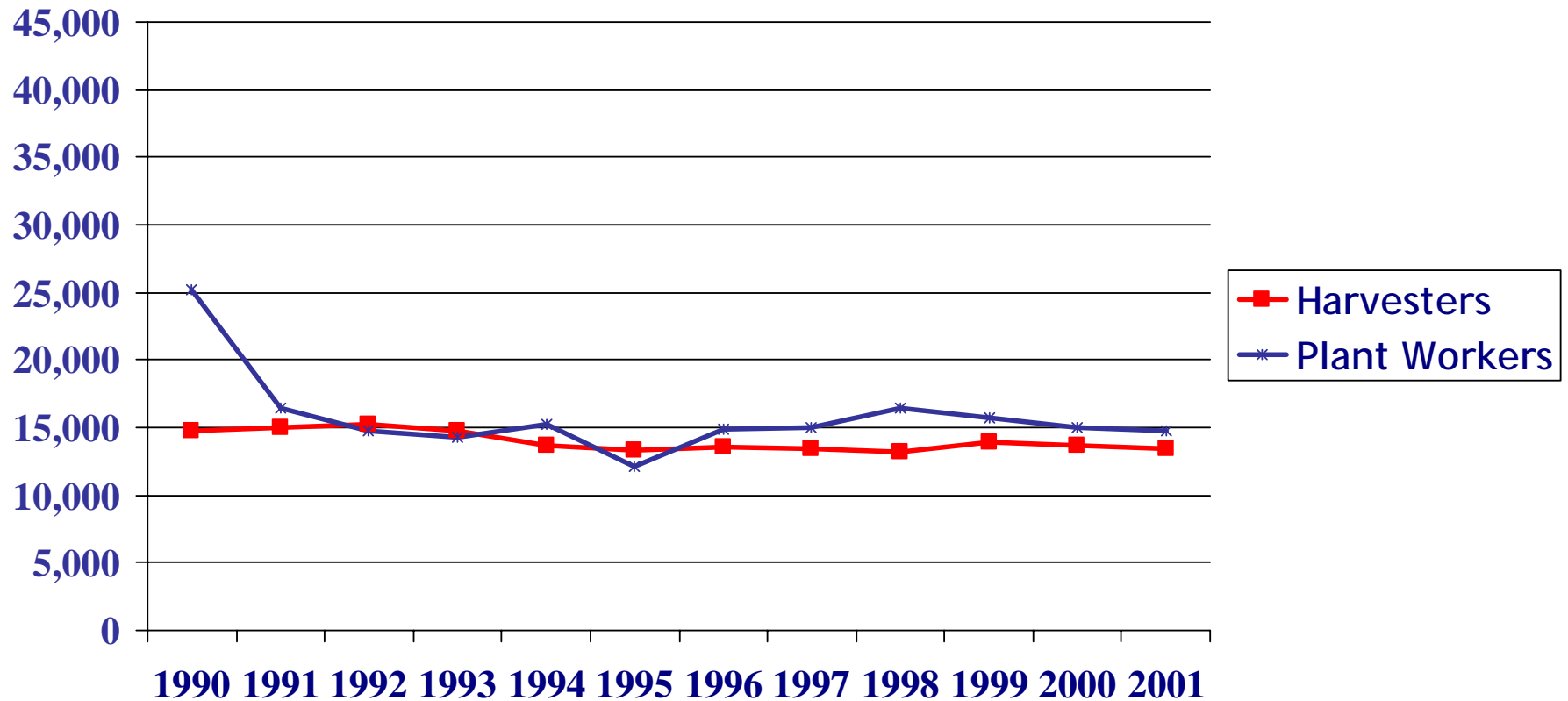
The Fishery's Predicaments

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

Human Resource Crisis

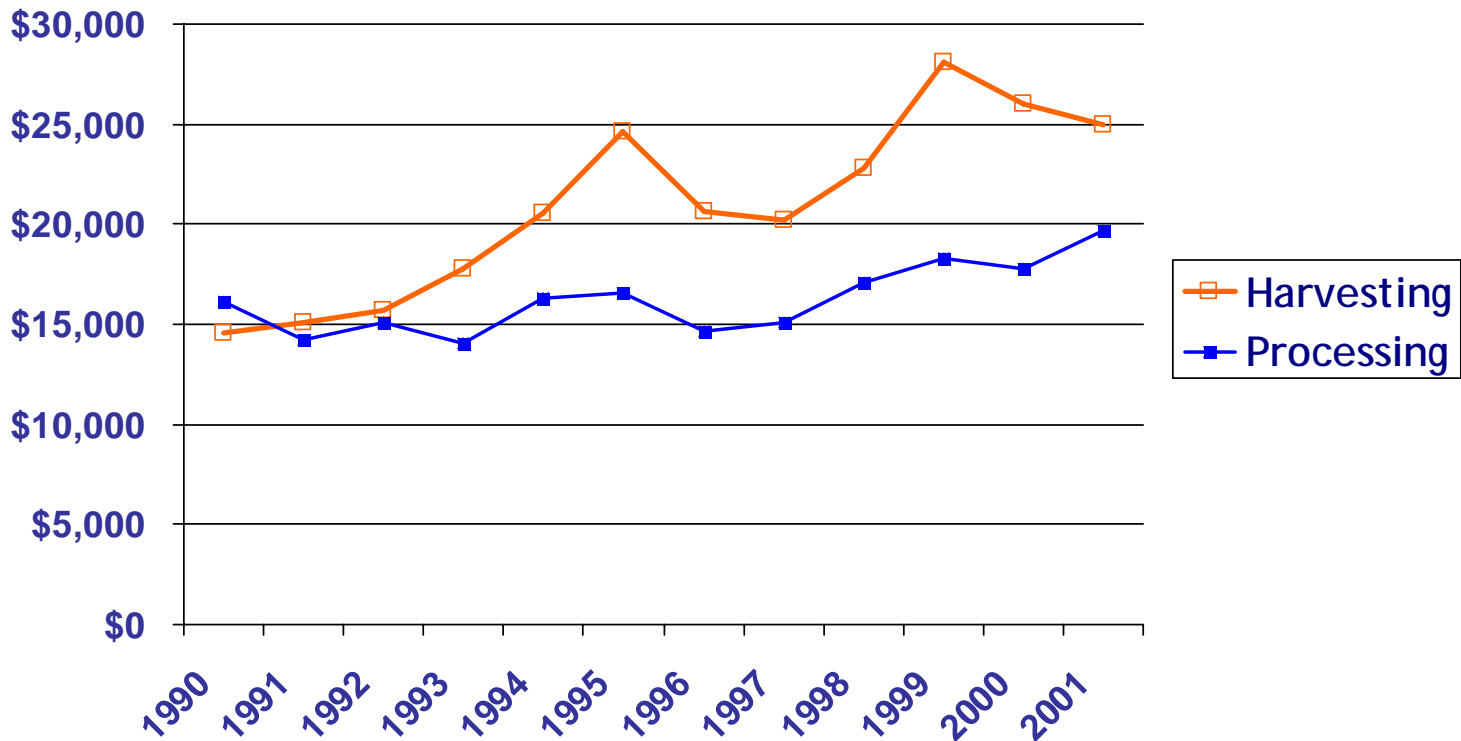
- Plant workers' incomes among lowest in country, despite high wage rates
- Increased reliance on EI
- Limited, short seasonal employment
- Employment marked by uncertainty
- Youth uninterested in processing industry
 - MI unable to offer processing programs for past nine years

Number of Harvesters and Processing Workers



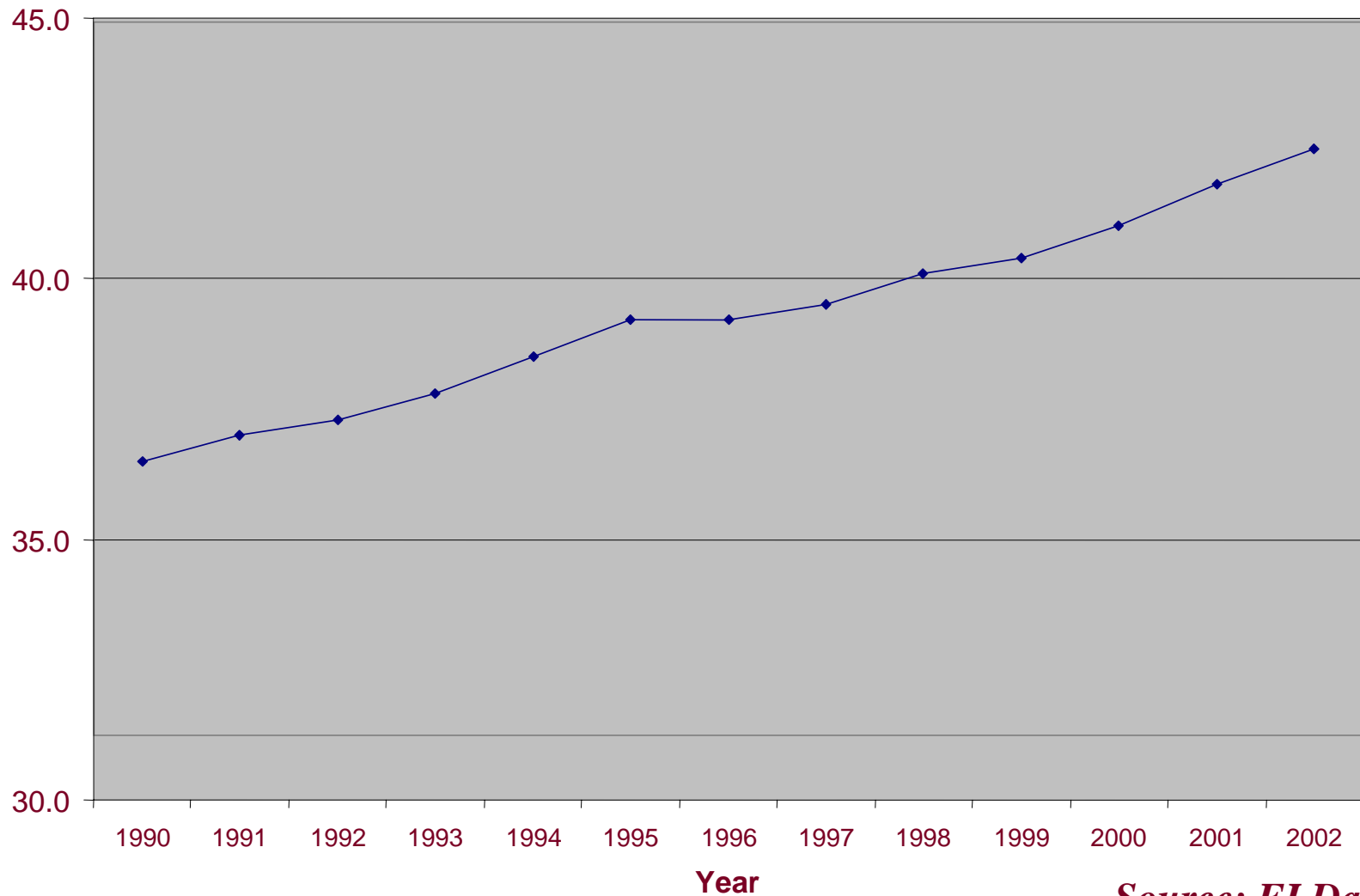
Source: Special Tabulation, Statistics Canada; Newfoundland Statistics Agency; DFA

Average Total Income of Fish Harvesters and Processing Workers



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

Average Age of Plant Workers

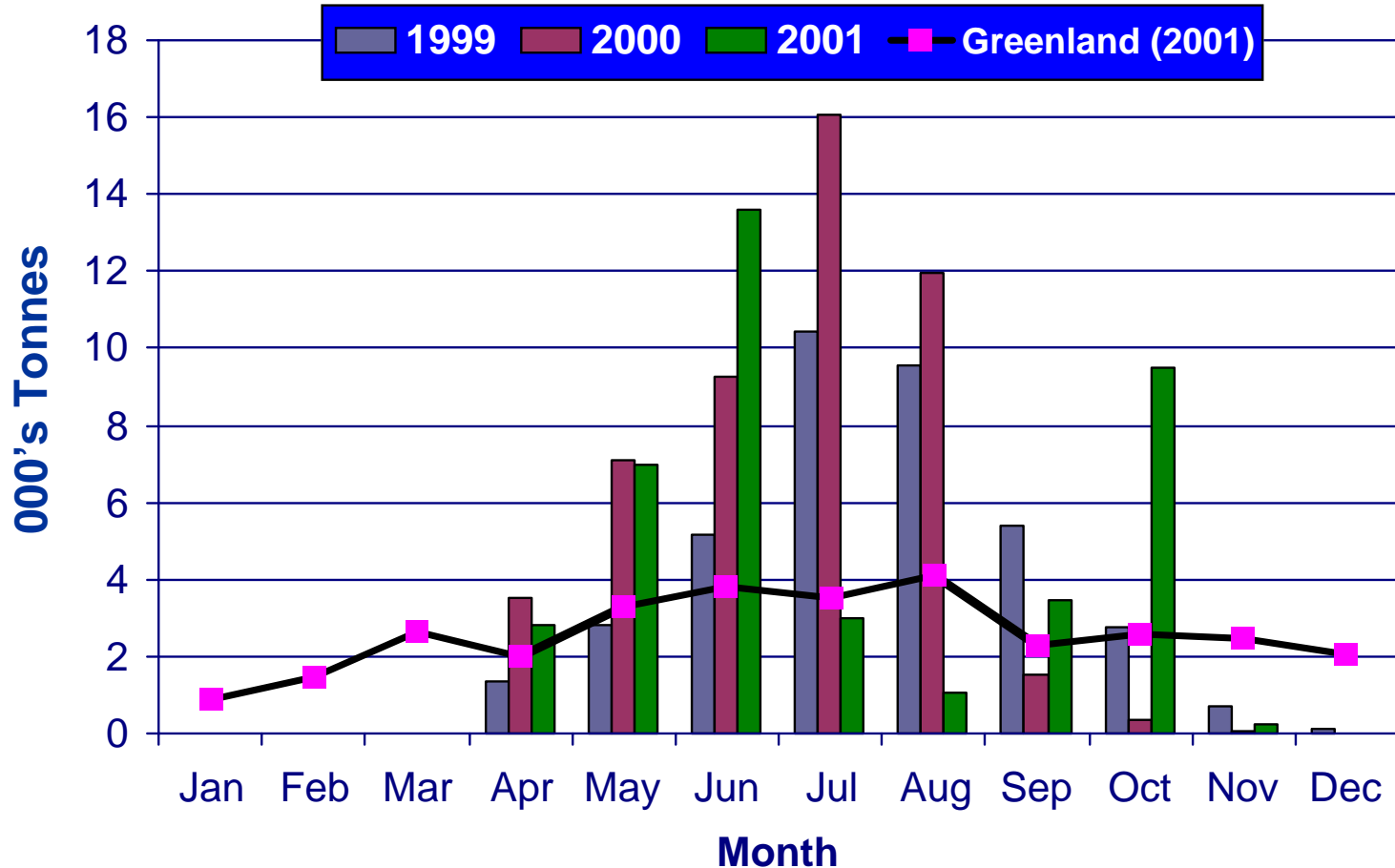


Source: EI Data

Resource Uncertainty

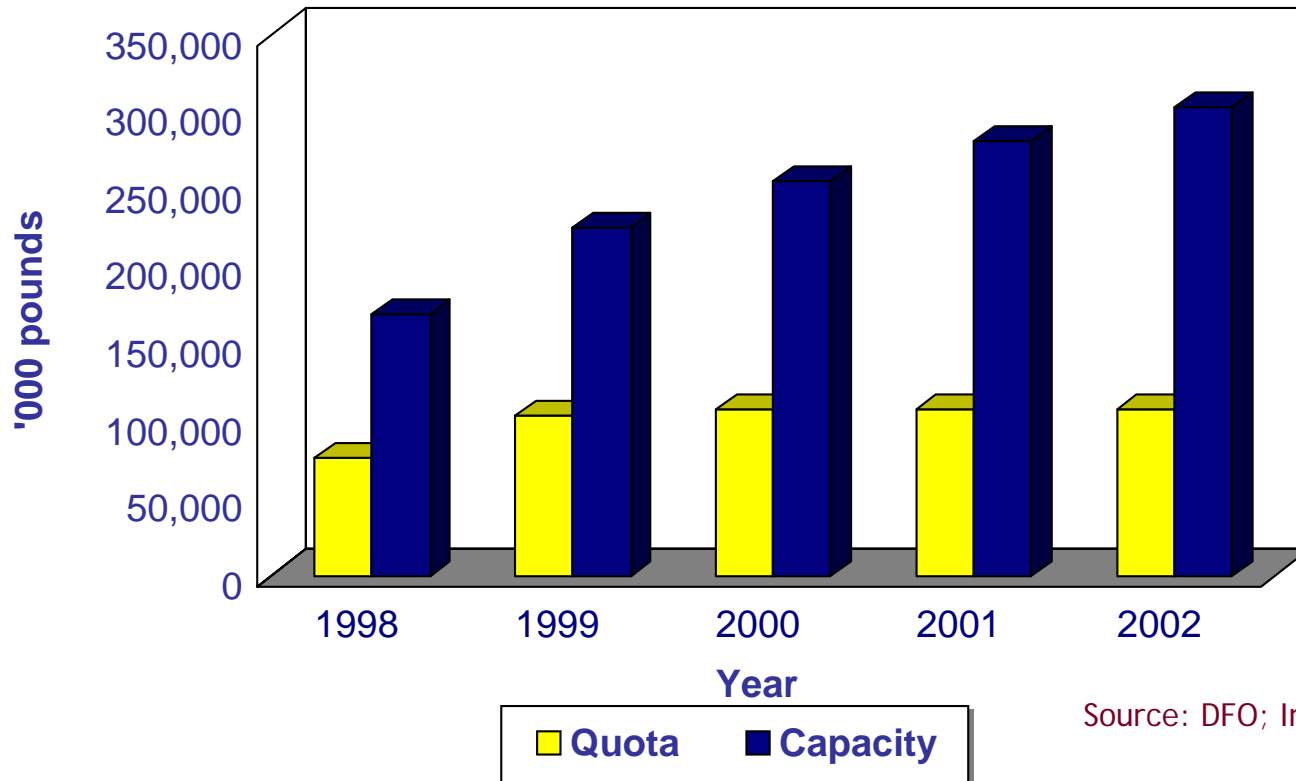
- Crab & shrimp constitute 75% of value
- Probable decline in key crab resource
- No significant improvement in cod stocks
- Shrimp resource strong, but sector plagued by traditional structural problems, even though sector has developed since 1997

Landings of Inshore Shrimp



From: *Report of the Inshore Shrimp Panel*; Source: DFO; DFAIT

Shrimp Processing Capacity and Quotas



Source: DFO; Inshore Shrimp Panel

Note: Processing capacity is defined as plant rated daily throughput per 10 hour shift operating 2 shifts per day, 6.5 days per week for 33 weeks.

Capacity has continued to increase as has the inshore quota which now stands at 144,000,000 lbs.

Competitive World Markets

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

The Chinese Advantage

- Their Labour Force Advantage :
 - Wage rates extremely low
 - Labour supply seemingly inexhaustible
 - Highly motivated, skilled, competent workers
 - Fully aware of market issues
- Lax or non-existent regulatory regime
 - Labour standards
 - Environmental protection laws
- Low interest state loans
- Undervalued currency



Global Consolidation Fish and Food Industries

- Consolidation in Europe, United States and Japan
 - Wal Mart
 - Sysco
 - Club Stores - Price Club, Sam's
 - Nippon Suisan
 - Young's Bluecrest
 - AKER Group
 - Icelandic Group
- Achieving a Balance in Purchasing/Supply Relationships

Present Structure Will Not Last

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

Solution: Growth Centres Based on the Fishery

- The Three Main Challenges
 - Demographic Decline in Rural Areas
 - Public Sector's Escalating Debt & Mounting Pressures
 - Fishery's Human Resource & Global Competitiveness Issues
- Fishery Growth Centres
 - Social & Economic Revitalization of Communities
 - Regional Concentration of Government Services
 - Industry Consolidation Benefits

Community Revitalization

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

Public Sector Benefits

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

Fishing Industry Viability

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

Implementation

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

Inclusive Transparent Process

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

The Royal Commission on Renewing and Strengthening our Place in Canada

Plant Production Quota System

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

Private Sector Benefits/Responsibilities

Upon attainment of appropriate price resolution process:

- Harvesting sector:
 - Orientation redirected to resource sustainability & optimizing quality & value of the catch
- Plant workers:
 - Security of employment, extended periods of employment & increased incomes
- Processors:
 - Competitive focus redirected from resource procurement to global market opportunities, through product & process innovations

**A more stable & predictable business environment
with enhanced ability to compete globally**

Joint Fisheries Management

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

Bridging the Jurisdictional Divide in Fisheries Management and Development

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

Further Considerations

Next Steps

- Analysis of costs and benefits
- Time to establish: 5 - 10 years
- Full fishing industry participation
- A comprehensive 'Marshall Plan' with federal, provincial & municipal participation

Non-intervention = Benign Neglect

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

Any decision in this direction must be
taken by rural
Newfoundlanders & Labradorians

After

An extensive period of analysis,
consultation and consensus building

Fisheries-based Growth Centres

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