THE FISHERY OF THE FUTURE
A Troubled History

BY ROBERT VERGE

THE TWENTY-FIRST IN A SERIES OF ARTICLES DEVELOPED FROM REGULAR PUBLIC FORUMS SPONSORED BY THE LESLIE HARRIS CENTRE OF REGIONAL POLICY AND DEVELOPMENT. MEMORIAL PRESENTS FEATURES SPEAKERS FROM MEMORIAL UNIVERSITY WHO ADDRESS ISSUES OF PUBLIC CONCERN IN THE PROVINCE.

Newfoundland and Labrador's fishing industry is in trouble. That is not new. The same statement could probably have been made in just about every year since John Cabot harvested cod in baskets off Cape Bonavista in 1497.

Just in the past 50 years, we have seen:

- the collapse of the saltfish industry in the 1960s;
- a dramatic decline in catch rates during the 1970s, due to overfishing;
- bankruptcy and restructuring of the large integrated harvesting and processing companies in the early 1980s – within four years of obtaining the 200-mile limit;
- imposition of moratoria on harvesting groundfish in the early 1990s;
- the breakup of Fishery Products International, the largest seafood company in Canada, and;
- ongoing struggles with excess capacity and industry viability since the moratoria, leading to the current Memorandum of Understanding (MOU) and yet another effort to restructure the industry.

The fishery was the reason people settled here. But over the past 25 years, practically all the assumptions on which our industry was built have changed dramatically. Anyone who listens to the *Fisheries Broadcast* on CBC radio hears an ongoing litany of complaints about the state of the industry and the difficulty of making a living in it. People who have worked in the industry most of their lives say they do not want their children to follow in their footsteps.

There are reasons for this ongoing tale of woe. The fishery is a very challenging industry and we have not done well in organizing it to take on the challenges. But it is possible to do better.

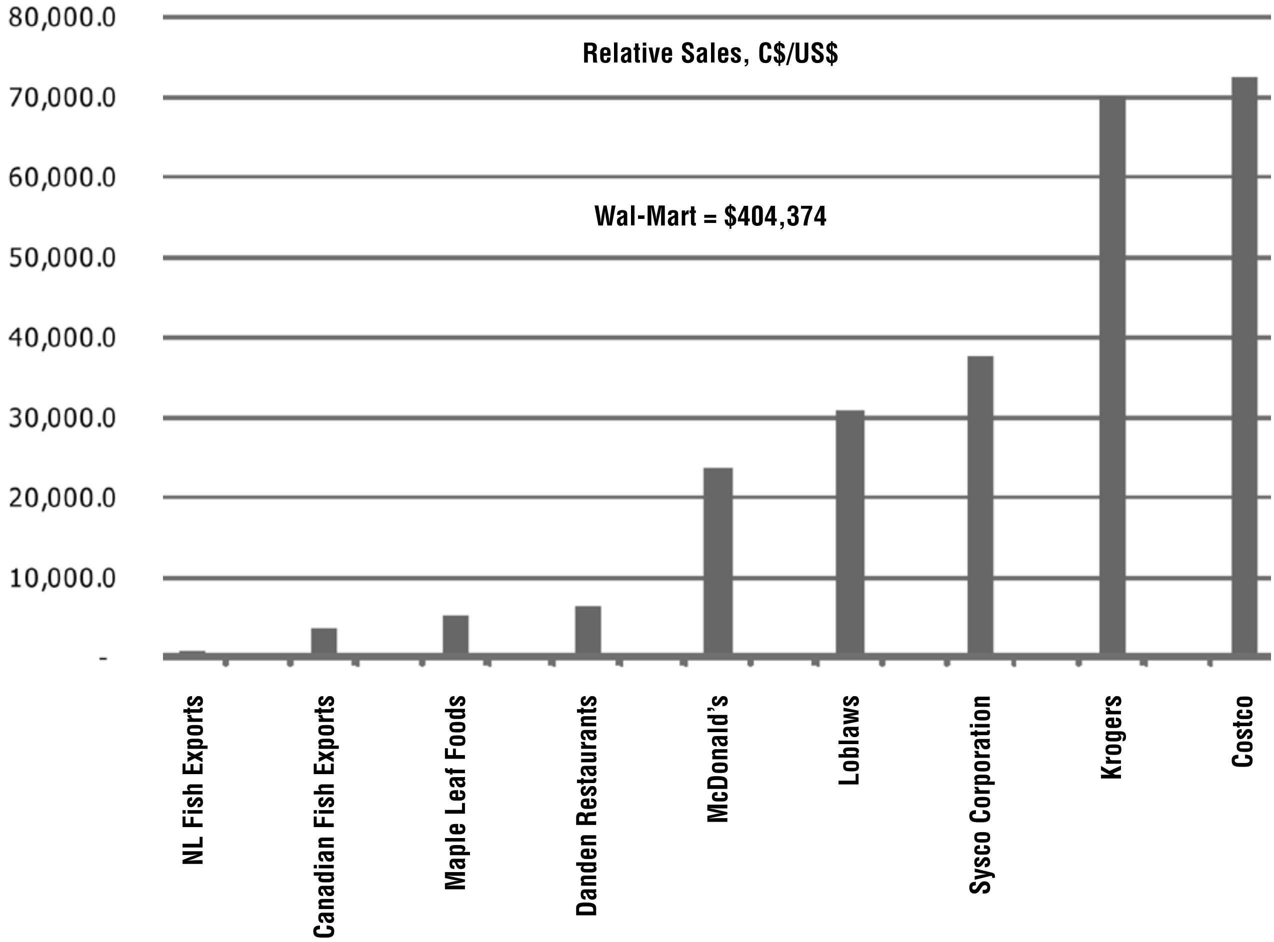
The Challenge

The fishery is challenging partly because it is the last major food industry based on hunting and capturing. It is subject to fluctuations in resource abundance and environmental conditions. Different fish species live in different habitats and come in many different shapes and sizes, requiring different technologies to catch and process them. Finding and catching fish are very energy-intensive, a significant problem as energy prices continue ever upward.

Global market demand for seafood has been increasing and is expected to increase even more, because of population growth and changes in lifestyles. However, the hunt-and-capture fishery cannot increase output, because resources are limited and either fully exploited or over-exploited. To satisfy the market, a large aquaculture industry has developed that now supplies about half the demand.

Our seafood products are nearly all sold in very competitive export markets. Currency exchange rates can vary a lot, making sales in particular markets more or less attractive at any given time. In recent years, the Canadian dollar has risen in value relative to the US dollar, making sales to the United States less lucrative than they were before.

25 years ago, we sold mostly groundfish products to the United States and competed mainly with other industrialized North Atlantic countries that had high labour costs. Today, we sell mostly shellfish, along with some groundfish and pelagic species to the United States, Europe, and Asia. We still compete with industrialized countries but we also increasingly compete with China and other low-wage countries, as well.



Because seafood comprises many different species and products with very different characteristics, it is more complicated for distributors and consumers than beef, pork, or poultry. Fish are also highly perishable, deteriorating quickly in quality if they are not handled properly. North American consumers have long had concerns about their ability to buy good quality seafood and prepare it, so most prefer to eat it in restaurants or buy it at retail as prepared products, making it a relatively expensive purchase.

The logistics of taking fish out of the water, processing them, and delivering a diverse mix of products to export markets can be both complex and expensive. For relatively small producers, selling seafood has become even more challenging because food distribution and retailing have consolidated a lot over the past thirty years. There are now fewer potential buyers and they are much larger than before, giving them a lot of bargaining power, as is illustrated above.

To complicate things further, consumers and environmental activists have pushed retailers and other purveyors of seafood to offer only products that come from sustainable fisheries. That has led to a whole new "eco-certification" industry, which is increasingly becoming a gateway for access to markets.

As the foregoing indicates, the fishery is a very complex environment in which to operate a business. Despite the initial optimism that came with obtaining the 200-mile limit in 1977, Newfoundland and Labrador's fishing industry has been in continual retreat since then. Capacity expanded but capabilities shrank. For many years, our crab industry extracted meat from the shells. Now we send shell-on sections to China for meat to be extracted there. A few harvesting and processing enterprises seem to do reasonably well but most struggle to survive.

The consistent pattern of failure over the past 50 years has created a negative aura around the industry. It provides a very strong indication we need to do things differently.

The Underlying Problem

These outcomes did not just happen. They flow from a public policy framework and an industry structure created by decisions made in both the public and private sectors.

Although catching, processing, and marketing fish present many challenges in themselves, the fishery has been forced to carry an even bigger burden. For a long time – but especially over the past 30 years – it has been expected to provide income for more people, revenue for more harvesting and processing enterprises, and an economic base for more communities than could be supplied by the quantity and value of fish available to be caught. No other industry has been expected to fulfill the hopes and dreams of so many people in so many places.

Baby boomers demanded jobs in their home communities. Fishing and processing licences were means for providing them. And people got what they wanted, often despite scientific and economic advice to the contrary.

Because revenue from fish could not provide enough income for everyone, Employment Insurance became the principal source of income and fish became the means for obtaining it. That became the main driver of fisheries policy and it distorted business decisions. Like a drug, it has become something the industry cannot do without but is ultimately debilitating.

Maximizing seasonal employment and annual income required very substantial excess capacity. Licences may have provided opportunities but they did not provide assurance there were enough fish for everyone to make a living. Issuing them was possible only because fish were managed as common property resources – a management regime that has long been known to lead to over-exploitation. If licences had conferred property rights – similar to those issued for forestry, mining, or oil exploration – it could not have been done.

The licensing regime led to intense, locally-focused competition. In the harvesting sector, the excess capacity and lack of property rights created ongoing battles over fishing quotas and allocations to particular fleet sectors and pressure to maximize the total allowable catch. Because processing capacity was even greater than harvesting capacity, plant operators competed more for raw material than for markets. Most harvesting and processing enterprises were able to survive but few could prosper.

A short-term focus and marginal profitability over a long period of time have meant the industry has not invested enough in adapting to change or preparing for the future. It has not changed as much as its resource base, customers, competitors, or operating environment. Although some enterprises have coped better than others, the industry as a whole has fallen behind customers and competitors in its business processes and its use of technology.

Essentially, we got what we asked for – an industry that maximizes the number of fishers and plant workers able to earn seasonal incomes and supplement them by qualifying for EI. But it came at a cost. Achieving that goal was inconsistent with creating an industry that was market focused, internationally competitive, economically viable, and built on sustainable resources.

Instead of positioning our industry for long-term success in a highly competitive international market, we continually make decisions about the industry based on short-term needs of the local participants. It has not been a formula for success, because it defies the logic of how successful businesses are organized and operate. Nevertheless, the same pattern of decision-making has contributed to every crisis over the past 50 years. We keep doing the same things and expecting different results.

The Future

Global fish production is over 140 million metric tonnes annually and growing. In 2008, Newfoundland and Labrador harvested 338,000 tonnes, less than 0.25% of the total. If we disappeared from the face of the earth, the market would hardly notice. When our groundfish industry collapsed, it had a big impact locally but the market merely blinked and moved on to other sources of seafood, as consumption continued to grow.

On the other hand, such a large and growing market offers tremendous opportunities. International trade in seafood was valued at over US$102 billion in 2008. Newfoundland and Labrador's output value was about C$800 million, less than 0.8% of the total.

Markets, not producers, give fish value. In a highly competitive environment, they are not willing to pay more because we have saddled ourselves with excess capacity and a high cost structure. The costs of inefficiency must be borne by industry participants – harvesters, processors, marketers, investors, and/or taxpayers – leading to low incomes, poor returns on investment, and higher taxes.

Although our wild fish resources may fluctuate in abundance, they will continue to provide raw materials that can be turned into marketable products. Much of our output is now sold in semi-processed form. There are many things we can do to obtain more value from our resources through better understanding of consumers' needs and wants, targeted niche marketing, product development, technological innovation, and improvements in logistics. But it is up to us to seize the opportunities and make something of them. We will need a more productive and valuable fishery once the oil revenue runs out.

The question is – can we do better in building an industry capable of taking advantage of the opportunities? Can we make a transition from extracting value from our resources in the form of EI contributed by Canadian taxpayers to extracting more value from customers in international markets for our seafood products? Can we build strong enterprises willing and able to invest in the industry of the future that can employ people for most of the year at good wages? As a society, do we want to?

Charles Darwin once said, "It is not the strongest of species that survive, nor the most intelligent, but the ones most responsive to change." Similarly, every industry and every business must adapt to change. Our industry has not adapted well in the past, so it will be challenged to make even greater changes in the future to catch up.

Our fishery is now at a critical point. Regardless of what we do, our industry will change drastically over the next five years, due to aquaculture, international competition, changes in technology and currency exchange rates, increasing energy costs, retirement of the baby boomers, and inability to replace aging vessels, plants, and equipment. There may also be some changes in the ecosystem and the resource base. Fisheries are being restructured in other parts of the world, for the same reasons.

The imminent retirement of the baby boom generation is particularly significant, because the need for change is becoming aligned with the possibility of change. There are fewer people in the generation that follows and they are unlikely to be attracted to work in the fishery because their parents are advising them against it and they have more options available to them. The amount of EI brought into the province through fish will diminish and the pressure to use the industry as a generator of EI will also decrease. That presents an opportunity – and a need – to reorganize the fishery and allow it to operate on an economic model, similar to other industries. But it will likely require a new generation of entrepreneurs with the drive to make it happen, because most owners of harvesting and processing enterprises are also baby boomers.

We can let nature take its course, in which case it seems inevitable the industry will diminish in size. Alternatively, we can try to manage the change. If we do, the track record shows that repeating the patterns of the past will make the situation worse.

The industry has many stakeholders, so there is no shortage of opinion about what should be done. Debate is already underway about the future of the industry and it is too early to predict the outcome. However, the debate currently seems to be centred around preserving the status quo versus reducing capacity, the number of people employed, and the number of communities with fish plants. Given that choice, it is highly likely people will want to preserve the status quo. But that is a false premise. The status quo is not sustainable, for the reasons outlined above. The industry is going to change.

Some people do accept the idea that the industry needs to change. But they don't want the changes to affect them personally, their enterprises, or their communities.

People cannot let go of what they have now, because the alternative seems worse. But the current effort to reduce capacity is really just dealing with the problems of the past. It is not addressing the opportunities and needs of the future. Clinging to the past means the industry will be poorly positioned for the future. And the future will likely be much worse than the present, unless we are better prepared for it.

As events unfold over the next few years, decision makers in both the public and private sectors will be faced with some difficult choices. How they make those choices will determine the shape and success of the industry for many years to come.

What is currently lacking is a shared vision of what the industry could be in the future. Without such a vision, we have nothing to work toward, no consensus on how to get there, and no guidelines for decision making.

We need to reduce capacity but we also need to improve our capabilities to meet growing demand, supply markets with higher-value products, operate efficiently, and ensure our resources are sustainable. To be competitive internationally and replace a diminishing work force, we need to make greater use of technology. That will require new capital investment. But the capital will not be available unless there is a reasonable prospect of earning a return, something the industry has not been good at providing.

In my opinion, the only way to create a better future is by finding an appropriate balance among the objectives of international competitiveness, viability of harvesting and processing enterprises, and ecological and economic sustainability. Achieving one at the expense of the others simply will not work.

But pursuing those objectives represents a significant departure from decision making in the past. It will affect people, enterprises, and communities differently – some for better and some for worse. And it will test our collective willingness to let go of the past and seize the opportunities of the future. NQ

Robert Verge is the Executive Director of the Canadian Centre for Fisheries Innovation at Memorial University's Fishery and Marine Institute.