Policy Brief 1

Rationalization of the Fishing Industry:
The Case of Change Islands, NL

KEY MESSAGE

When we asked fish harvesters of Change Islands to tell us what are the key issues facing the inshore fishery today, the term "rationalization" often came up. For Change Islanders the term represents a multifaceted effort to eradicate small-scale fish harvesters in favor of larger, corporate fishing enterprises. Not only are individual livelihoods at stake, but also the traditions that go along with them, the cultural heritage they represent, and even the survival of coastal communities in the province. This policy brief presents our analysis of the issue of rationalization, based on a review of government and other policy documents and various statistical sources, combined with our own field research carried out in the community of Change Islands from the summer of 2008 to winter 2010. Achieving a balance between the use and conservation of marine resources and sustaining vulnerable coastal communities over the long term is the aim of all stakeholders and our goal through these briefs is to provide clarity and suggestions for the future.

BACKGROUND

> Rationalization is defined as: *the application of efficiency or effectiveness measures to an organization. Rationalization can occur at the onset of a downturn in an organization's performance or results. It usually takes the form of cutbacks intended to bring the organization back to profitability and may involve layoffs, plant closures, and cutbacks in supplies and resources. It often involves changes in organization structure, particularly in the form of downsizing. The term is also used in a cynical way as a euphemism for mass layoffs* (http://dictionary.bnet.com).

Overcapacity has long been raised as an issue in the Atlantic fishery, including reference in the report of the Royal Commission on the Economic Prospects of Newfoundland and Labrador in 1969, a provincial study on the future of the fishery published in 1978 (Setting a Course), and the 1982 Kirby Task Force on the Atlantic Fisheries. Following the 1992 cod moratorium the Federal Task Force on Income and Adjustments in the Atlantic Fishery (1993) attributed the problems in the fishery to three issues: overdependence on the fishery, pressure on the resource, and industry overcapacity.

Key stakeholders agree that overcapacity remains a major structural challenge facing the fishing industry in the province, within both the harvesting and processing sectors. Yet there is no agreement between these stakeholders regarding how to address the overcapacity issue. Strategies used elsewhere to reduce capacity have included government-funded buy-back and retirement programs, and industry self-rationalization approaches such as enterprise combining and transferable quotas.

Comparing Statistics Canada Census data (Worker Type and Occupation) for Fogo Island and Change Islands to those for the province as a whole suggests that while the number of people employed in the harvesting and processing sector on the two Islands decreased by 21% (harvesters) and 27% (processors) from 1996 to 2006, in the province as a whole the decrease in the same period was only 1.3% for

processing workers and harvester employment increased by 2.8%. (Note: While Census figures are used due to comparability across these two scales, other sources show a decline in both sectors provincially as well over this period). Capacity reduction in these two locations has already occurred and statistics hide important differences occurring in smaller communities. Rationalization as *another word for mass layoffs* appears to be applied inequitably in these two rural island communities.

KEY CONCERNS RELATED TO RATIONALIZATION

Federal and Provincial Government Perspectives

> "*The goal of the Fishing Industry Renewal initiative is to develop an integrated "Ocean to Plate" policy framework and industry restructuring strategy to support the industry "to adapt to changing resource and market conditions; extract optimal value from world markets; provide an economic driver for communities in vibrant rural regions; provide attractive incomes to industry participants; and attract and retain skilled workers."* (Canada-Newfoundland Fishing Industry Renewal Strategy, announced April 12, 2007)

In October 2006, the federal and provincial governments released a discussion paper on Fishing Industry Renewal. The report outlines the external and internal challenges to the industry. External challenges included the increased value of the Canadian dollar; greater competition; unstable market prices; and tariffs and other market barriers. Among the internal or domestic challenges, the report highlighted problems with resource fluctuations and decline; the seasonality of employment; lack of dependability and the timing of supply; and marketing problems including distress selling. Overcapacity in the harvesting and processing sectors was also highlighted. Based on a consensus reached by the federal, provincial and industry representatives for the renewal initiative, four industry/government working committees were established:

- Harvesting – Policy Renewal and Self-Rationalization
- Processing – Policy Renewal and Restructuring
- Collaborative Marketing
- Technology and New Opportunities

No official report was published or available from these committees but in April 2007, a joint Ministerial press release from Federal Minister Loyola Hearn and Provincial Minister Tom Rideout announced a Fishing Industry Renewal Strategy with a number of policy changes and new investments for the industry.

The commitment to the preservation the inshore fishery of both Ministers responsible led to the implementation of measures such as enterprise combining, allowances for larger vessel length, workforce adjustment measures, improved access to financing and capital gains exemptions allowed the fleet to rationalize itself. This led to the exit of 400 fishing enterprises or 5% of the total fleet. Other measures targeted the elimination of trust agreements to enhance the independence of the inshore fleet. The provincial government also set up a special review to consider ways in which a seafood marketing council could help address the key marketing challenges faced by the fishing industry (aquaculture excluded). The

Seafood Marketing Review Panel Report of the Chair, released in February 2008, recommended the establishment of a Newfoundland and Labrador Seafood Marketing Council since there were too many processors, too much dependence on brokers, inadequate promotion and positioning of the products and insufficient collaboration and integration in the industry. After an industry vote rejected the proposal the province chose not to act unilaterally on the recommendation.

In July of 2009, in response to a price dispute in the shrimp fishery and concerns about the economic viability of the fishery as whole, the province signed a Memorandum of Understanding (MOU) with the Fish Food and Allied Workers' union (FFAW) and the Association of Seafood Producers of Newfoundland and Labrador (ASP) regarding the long-term development of the fishing industry in the province. In referring to the MOU, the provincial Minister of Fisheries and Aquaculture (DFA) stated:

> "*This MOU builds significantly on the work that we started with the Fishing Industry Renewal Strategy. A great deal of work has already been done and a lot of investment has been made. A number of good policy initiatives have been put in place. However, we also need the Federal Government to step up and address fishing industry restructuring as much of this industry is in their area of jurisdiction.*" (DFA News Release, 14 July 2010)

A steering committee was set up consisting of two representatives from the FFAW, the ASP, and DFA. Thomas Clift, Associate Dean (Academic) at the Faculty of Business Administration, Memorial University was appointed as an independent chair, and a facilitator from the Department of Fisheries and Oceans (DFO) provided assistance to the committee. The federal government was not a partner in the MOU but was an observer in the process.

The Newfoundland and Labrador Fishing Industry Rationalization and Restructuring report ("the MOU report") released in February 2011 states that, based on financial analysis, only "between one-third and two-thirds of the fish harvesting operations currently operating in NL are viable" highlighting that the nearshore (mid-sized) enterprises with larger boats (≥40') appear to be more viable compared to inshore fleets (with vessels <40'), although with higher debt levels. The Committee's recommended solution was to reduce the size of the inshore fleet by 30 to 80 percent, with the greatest reductions concentrated on the northeast and west coasts of Newfoundland and southern Labrador. Additional recommendations included rationalization of the processing sector, particularly in crab and shrimp plants, by 30% and the establishment of sales consortia and a seafood marketing council. As of July 2011 only the seafood marketing-related proposals have been accepted by the Province, with the remaining recommendation being rejected.

At the federal level, the Fisheries Renewal Strategy states the department will support new policies, tools and mechanisms that sustain a diverse fisheries sector. Measures announced in the 2007 joint Ministerial Press Release referred to above (such as, enterprise combining and vessel length) provide the federal government with the tools to further reduce or rationalize the industry. However, an integrated

agreement for rationalizing the harvesting and the processing sectors remains lacking. Further, despite reference to the need for "regional balance" little agreement exists on the meaning of this concept or how it may be put into action, particularly under the current self-rationalization approach.

Industry Players – Association of Seafood Producers and Seafood Producers Association of Newfoundland and Labrador

The Association of Seafood Producers (ASP) is a not-for-profit corporation established in 2004 that represents the interests of many seafood producers in the province. ASP includes over 70% of the provinces' 110 processing plants and 100% of the inshore shrimp production, 90% plus of the crab production and almost half of the cod production. The Seafood Producers of Newfoundland and Labrador (SPNL) came into existence in 2005 and represents 25 small processing plants, buyers and brokers mainly on the west coast of the Island.

Both ASP and SPNL are concerned about the fish price collective bargaining and the Standing Fish Price Setting Panel. The processor organizations feel the process creates confrontation and ignores market realities in setting prices for raw material. In 2010, for example, Derek Butler, the Executive Director of ASP claimed that a price of $1.35 (for crab over 4" carapace) was not feasible for the processing sector given the rise in the Canadian dollar and decrease in US crab prices ($1.10 in Alaska). Despite their agreement that change is needed in the price setting process, SPANL and ASP differ on other issues and have each offered contrasting proposals for rationalization in the processing sector. While ASP participated fully in the MOU process and advocates 30% rationalization through industry controlled, government supported buy-outs, SPNL recommends a "hands-off" approach and has expressed concern that the MOU report recommendations favour large corporate interests versus small processors with multi-species licences and small coastal communities.

Fish Food and Allied Workers Union (FFAW)

> *"For the first time in a long time, we seem to have at least some collective vision for what needs to be done if the fishery is going to continue to fuel the economic fortunes of Newfoundland and Labrador… One of the key points in the plan is the restructuring facet, which will look to address the need to rationalize the fishery in the province."* (Dave Decker, The Union Forum, Fall 2009)

The FFAW represents approximately 10,000 harvesters and an equal number of processor workers employed in the fishing industry (about 1000 other members are in related manufacturing, retail, food, and hospitality sectors). The union has three sectors and each has its own specific interests and affiliations:

- Inshore - boat owners, operators and crew members who work in boats under 65';
- Offshore - deep-sea harvesters employed on boats over 65 feet as well as crew members on a variety of offshore vessels; and

- Industrial/retail - fish processing workers, as well as workers employed in the brewing, manufacturing, hotel, hospitality and other retail workplaces.

The union actively participates in discussions on all issues related to the fishing industry. In a presentation to the Provincial Minister of Fisheries and Aquaculture, President Earle McCurdy clarified that for the union rationalizing means not only downsizing but also other ways to improve profitability in the industry.

As a representative of both harvesters and processing workers, the union is often in conflict. Pushing for higher prices for harvesters may in turn involve processing reductions but if prices are not above cost recovery levels harvesters will not be able to operate. Recommending that the harvesters be allowed to sell their unprocessed product out of the province puts processing workers in jeopardy and violates a long-standing provincial policy to build up the processing sector. FFAW argues that fleet rationalization is a win-win that will allow for longer fishing and processing seasons and improved incomes for those who remain in both sectors of the fishery.

Change Islands Perspectives

> *"I think they are trying to force people out of the fishery .I lost one of my crew to Alberta. It is hard to make a living as a fisherman – we are kept at poverty level. I am 40 years old and the last generation of fishers…Coastal communities are coming to an end.*" (Core fisherman, Change Islands, August 2009)

Interviews suggest that an announcement of rationalization, renewal or restructuring, (interchangeable terms for harvesters) of the fishing industry to improve its efficiency is rarely a positive one for the fisherpeople of Change Islands. It signals another measure designed to frustrate and eventually get rid of them. Most felt that renewal not only implies more downsizing efforts on the part of governments but also a plot to destroy their communities. Further, fish harvesters felt that each new policy or regulation is tagged onto previous ones without any vision of the future of the fishery and fishing communities. As of the summer of 2009, there were 35 fish harvesters in Change Islands, primarily core enterprise holders. Most fishing enterprises operate inshore and fish harvesters on the Islands' three mid-sized, nearshore vessels consider themselves part of the inshore fishery since they live in and fish from the community. The 2011 year saw a reduction in crab fishing effort, largely due to soft shell, and the number of harvesters fell to 30-32 as fishers left the fishery to seek employment elsewhere. After being leased to Seabay Fisheries for the period 2008-2011 (with limited operations in 2009), the Change Islands Fisheries Improvement Committee and the Fogo Island Co-op reached an agreement in February 2012 to jointly operate the Change Islands local fish processing plant.

Harvesters suggested that government policy favours larger vessels. A disproportionate reduction in the number of inshore fisherpeople, without measures to restrict further capitalization among those remaining, may have significant impacts on employment and the viability of fishery-dependent coastal communities. Various studies of rationalization policies and programs demonstrate that the equity implications are often not taken into account, highlighting the importance of

considering how different groups will be affected (i.e. who wins and who loses) by rationalization policies and measures in Newfoundland and Labrador.

Harvesters interviewed were also concerned about the union. Many felt that it no longer represented the inshore fisherpeople and that FFAW's interests are now focused on fish harvesters in larger vessels and the "big time" processors. The inshore fisherpeople who gave life to the union, they suggest, no longer have a voice within it. The youngest core fish harvesters on Change Islands are 40 years of age and see themselves as the end of the line. Without changes that improve this outlook, this leaves the future of the community and local inshore fishery threatened and uncertain.

POLICY SUGGESTIONS

(1) **Develop a vision for the fishery of the future** – It has been nearly two decades since the Northern Cod moratorium. If all parties involved do not develop a common vision for the industry's future, demographics and market-driven self-rationalization will reduce the number of enterprises and individuals in the fishery, but the result may not be consistent with a fishery that takes into account social, ecological and economic considerations. Whether the fishery of the future is industrial, small scale, commercial, or subsistence, managed through total allowable catches or days at sea, individual transferable or community based quotas, a discussion and presentation of the framework in which the fishery is managed is also needed to ensure management objectives support the vision.

(2) **Inclusive process** – Mechanisms must be put in place to ensure that stakeholders at all levels are involved in envisioning and creating the fishery of the future. It is difficult to see how the process can be successful without federal and provincial government participation but also the voice of coastal communities, independent processors and inshore fisherpeople. If there is to be a future for the fishery, youth participation is also critical

(3) **Co-management mechanisms** – DFO has been criticized for its top-down management style. Its commitment to co-management is clearly stated but what this means in practice is far from clear. If harvesters want to play an active role in how the fishery is managed, how can this be done while respecting the vision chosen for the future fishery? It is time that DFO passed some of its responsibilities and authority to people involved in the local industry as well as the rural communities who depend on it. Scientific contributions regarding species status and conservation measures are critical and must remain the foundation for a future management framework, requiring a collaborative approach.

(4) **Regional balance** – Consistent with the concerns of Change Islands' fisherpeople, studies have shown that the equity implications of rationalization policies and programs are often underestimated or even ignored. Any efforts to downsize should balance the demographics of those in the fishery, including harvesters and processing workers and

plants with due concern for regional equity. The provincial government recognizes the notion of regional balance but has not presented a statement of how to put this principle into action. Assessment of intergenerational and geographic equity considerations is required together with dialogue with community leaders regarding the implications of rationalization options. Concepts such as regional fish plants and regional quotas such as the St. Anthony Basin Resources Inc. (SABRI) should be further examined as mechanisms for operationalizing the regional balance principle.

(5) Innovation – Rules and regulations are inflexible and allow little room for innovation. More collaboration and creativity within both the inshore/community fishery and the offshore fishery are needed. Increased local involvement would permit the fishery to evolve and adapt to local conditions. There will be some mistakes associated with new management approaches but there may also be new ideas that enable the fishery to have a future. This may be the last opportunity to redefine a fishery that respects not only its attachment to place but also the chance for a livelihood for those who remain in the industry. The fishery remains critical to the survival and resilience of much of outport Newfoundland and Labrador.

ADDITIONAL READINGS (Organized by publication source)

FFAW www.ffaw.nl.ca

Decker, Dave 'Finding a silver lining' in The Union Forum Fall 2009, 5.
Union Accuses ASP of Union Busting. Press Release, Febuary 24, 2010.
Rationalization of the Harvesting Sector: An Investment in Rural Newfoundland and Labrador. Presentation to Honorable Clyde Jackman by the FFAW, Jan. 2010.

Government of Canada

Fisheries and Oceans Canada, Task Force on Incomes and Adjustment in the Atlantic Fishery, 1993.
Charting a New Course: Towards the Fishery of the Future (Final Report). 2007
Communications Directorate, Ottawa, ON. Renewing the Newfoundland and Labrador Fishing Industry. News release, 12 April 2007.
Communications Directorate news releases and Ministerial Statements dating back to 2003 are available at: http://www.dfo-mpo.gc.ca/media/news-presse-eng.htm.
Annual statistics on the number of fishing licenses and species quotas, catches, and landed value for the commercial fishery: http://www.dfo-mpo.gc.ca/stats/commercial-eng.htm

Government of Newfoundland and Labrador

Fisheries and Aquaculture Numerous recent and archived reports and news releases published byDFA are available at http://www.fishaq.gov.nl.ca/publications/, including:
Report of the Independent Chair: MOU Steering Committee report (Clift, 2011)
Seafood Marketing Review Panel Report of the Chairman (Roche, 2008)
Canada - NL. Fishing Industry Renewal Initiative: A Discussion Paper (2006)
Report of the Chairman RMS Review Committee (Cashin, 2005)
Final Report of the Fish Processing Policy Review (Dunne, 2003)
Report of the Special Panel on Corporate Concentration in the Newfoundland and Labrador Fishing Industry (Dean, 2002)
New Beginnings: Bringing Stability and Structure to Price Determination in the Fishing Industry. Report of the Task Force on Fish/Crab Price Settlement Mechanisms in the Fishing Industry Collective Bargaining Act (1998)
Media Advisory: Ministers Hearn and Rideout to Announce Outcomes of the Fishing Industry Renewal Initiative, April 2007
Community Accounts http://www.communityaccounts.ca
This site includes various statistics on Newfoundland and Labrador communities.

Rationalization of the Fishing Industry:
The Case of Change Islands, NL

ABOUT THIS POLICY BRIEF

This policy brief on Rationalization of the Fishing Industry: the Case of Change Islands is part of a SSHRC funded project that aims to address resilience of Change Islands and other coastal fishing communities in Newfoundland and Labrador. The Principal Investigator Dr. Derek Smith (Carleton University) and Co-Investigators Dr. Maureen Woodrow (University of Ottawa) and Dr. Kelly Vodden (Memorial University) have been working with Change Islanders to build adaptive capacity for fishing livelihoods that are viable and resilient to global markets and uncertain futures. This initiative seeks to build upon community knowledge to mobilize and improve management measures for local inshore fisheries. This series of policy briefs is intended to provide policy inputs and knowledge dissemination on aspects of fisheries and coastal community viability outlined below. The briefs are based on a series of interviews and report-back meetings with Change Islands' harvesters, Fishermen's Improvement Committee members and municipal representatives, discussions with fishing industry stakeholders and a thorough review of relevant policy documents. The briefs are available through a project website designed to promote a distinct heritage and fishing culture that spans three centuries.

See web link at http://localknowledgechangeislands.ca

Policy Brief No. 1
Fisheries Rationalization

Policy Brief No. 2
Seafood Prices and Market Access

Policy Brief No. 3
Fisheries Regulations that Work

Policy Brief No. 4
The Viability of Coastal and Small Island Communities

For more information about this brief, please contact: Maureen Woodrow, Telfer School of Management, University of Ottawa (Woodrow@telfer.uottawa.ca) or Kelly Vodden, Dept. of Geography, Memorial University (kvodden@mun.ca).

Carleton UNIVERSITY
École de gestion TELFER School of Management
MEMORIAL UNIVERSITY
Newfoundland Labrador
OMRN·RRGO Ocean Management Research Network Réseau de recherche sur la gestion des océans
Social Sciences and Humanities Research Council of Canada
Conseil de recherches en sciences humaines du Canada