

Rationalization of the Harvesting Sector

An Investment in Rural Newfoundland and Labrador

Presentation to Honourable Clyde Jackman,
Minister of Fisheries & Aquaculture

Presented by
Fish, Food & Allied Workers

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Provincial government, ASP and FFAW/CAW sign MOU to restructure fishery.

Mandate of Harvesting Rationalization Work Group:

“...to develop a voluntary, cost-shared fleet rationalization program and a strategy to continue to pursue federal participation.”

Landed Value 2007 – 2009 <65'

2007 \$356.7 million

2008 \$366.4 million

2009 \$270.8 million

Some believe “rationalization” is synonymous with “downsizing”. Not so.

Oxford Dictionary definition of “rationalize”:

“To make changes to a business, system, etc. in order to make it more efficient, especially by spending less money.”

The Free Dictionary:

“Rationalization is intended to improve a company’s profitability.”

When we look at rationalization options, we look at downsizing options but also at other ways to improve profitability.

More quota for an individual enterprise does not necessarily mean greater profitability.

Rationalization is not a goal in itself. Rationalization can be a means to increasing incomes and providing a stable basis for the future of fishing enterprises and fishing communities, including sufficient economic returns for Owner/Operators to reinvest in their enterprises.

The Fishing Population

- Those who have combined;
- Those who may be interested in combining;
- Holders of single (uncombined) enterprises;
- Potential new entrants.

Total number of core licence holders: 3,755

Age 50 and over: 2,244 (60%)

Age 55 and over: 1,448 (39%)

Age 60 and over: 718 (19%)

Total Number of Registered Professional Fish Harvesters: 11,323

Under 40: 2,943 (26%)

Under 45: 4,383 (39%)

Key elements of the MOU related to Fleet Rationalization

- ***“The Working Group will be mandated to develop a strategy to ensure that fishing enterprises acquiring additional quota through rationalization are able to minimize the risk associated with using their existing enterprise assets as collateral against the incremental quota/access.” (B-9)***
- ***“Any rationalization program developed would be retroactive to the FIR announcement on April 12, 2007, to ensure eligibility for any enterprises that have already combined.” (B-10)***

- *“The Working Group would be mandated to ensure that any rationalization program is designed in such a manner that any Government funding improves the viability of those who will remain in the industry, best efforts will be made to design a program that does not inflate the cost of acquiring licenses/quotas.” (B-12)*

A revitalized marketing strategy is a critical element of rationalization of the harvesting sector.

What is a rationalized fleet?

One which is economical to operate. A business in which Owner/Operators have enough revenue to recruit and retain qualified crew members, and reinvest in their enterprises.

The single biggest factor in achieving this outcome is the price of raw material. More quota doesn't help someone who can't afford to fish the quota he already has.

Example: Shrimp – 70 million pounds left in the water. Individual operators of combined enterprises left as much as 900,000 pounds in the water.

These people don't need more fish, they need better prices.

Self-Rationalization or Self-Destruction?

Combining hasn't worked.

In nearly 3 years, only 121 <40' enterprises and 93 >40' enterprises have combined.

Only 14 combining transactions since July 1, 2009.

Self-rationalization will not lay the groundwork for a stable fish harvesting sector. The cost sharing agreed to in the MOU is a must for any meaningful restructuring of the harvesting sector.

Implication of Fleet Reduction for the Processing Sector.

Fewer boats  Reduced peak landings  Reduced peak workforce requirements  Better distribution of landings during operating season  More work for core workforce.

“Logical sequence” – harvesting rationalization comes first. Any processing sector rationalization that preceded harvesting sector rationalization would be a form of anti-rationalization for the harvesting sector.

For harvesters, key element of a rationalized fishery is ready and timely access to a market for their raw material and a competitive port market.

Even without processing sector rationalization, some harvesters have no market – e.g., fixed gear on Northern Peninsula.

Policy Considerations

Bank Loan Guarantee Program.

- Increase maximum loan to \$2 million ✓
- Cover refinancing ✓
- Cover financing of quotas/licenses?

Intangible assets (licenses and quotas) represent the enduring value in fishing enterprises. BLGP needs to be available to finance these assets.

Minimum Processing Requirements/Ban on Outside Buyers.

MOU identifies importance of competitive port market, but policy restricts competition.

Not reasonable to expect harvesters to bear the cost of measures intended to protect processing jobs.

Quebec and New Brunswick governments have implemented *quid pro quo* for their shrimp fleets.

NL policy needs to be reviewed on species-by-species basis to ensure competitive port market.

The Economics of Fishing

Inadequate raw material prices are the single biggest problem confronting harvesters.

Revitalized marketing structure is one element of dealing with this.

We have to change the expectation that harvesters will fish even if it is uneconomical to do so.

Instead of fighting among ourselves, we need a strategy to withdraw from markets when pricing is uneconomical.

A Made in Newfoundland Solution

Major problem – Ottawa MIA. They have jurisdiction over harvesting.

We can't give the Harper Government a veto over the revitalization of rural NL.

The harvesting sector is willing to invest in the future of rural NL. We challenge the two levels of government to join us.

Fishing enterprises are small businesses overwhelmingly based in rural NL. An investment in these enterprises is an investment in the future of rural NL.

Premier's Letter to Prime Minister:

“There is an urgent need for the Provincial and Federal Governments to take a proactive and co-operative approach to assisting the fishing industry and individuals affected by resource declines, exchange rate pressures and increasing global competition. Your government's industry rationalization scheme for the harvesting sector is displacing crewmembers and plant workers and precluding the renewal of the workforce with younger workers. Structural industry change must not ignore these key stakeholders. We have repeatedly committed to participating in an early retirement and license buyout program that would be cost-shared on a 70/30 federal/provincial basis.”

Key Elements of Harvesting Restructuring Plan

- Broad principles applicable to all sectors, but details of implementation could vary by fleet
- Government/Industry cost-sharing
- Measures to benefit combined and non-combined enterprises
- Accommodation of next generation of Owner/Operators
- Interest relief on tangible and intangible assets

- Government guarantee incremental fishing access acquired through combining
- Retroactivity to April 12, 2007
- Implementation of MOU commitment to “fundamental structural change in the marketing of our seafood products”
- Steps to ensure competitive port market
- Continued joint efforts to pursue federal participation.

Fleet “Right-Sizing” Options

- Best and most straight forward approach: apply Government money to Enterprise buyout
- “Quota Bank” option: Provincial Government buy quota from retiring enterprise owners and re-issue on “lease to buy” arrangements. No charge to harvesters below threshold prices and quota levels.
- Modified combining. Cost-shared. Same percentages as lobster proposal – 50% federal, 21.43% provincial (30% of total government contribution), 28.57% industry funding.

Details to be designed to enhance viability of those who remain in the fishery without inflating the cost of licenses.

None of these options would replace current combining policy, but would be additional option.

Interest Support on Loans

Enhance FLGP to provide capital at 3% interest for tangible and intangible assets (boats and equipment as well as licenses and quotas).

Payable for qualified new entrants as well as those acquiring additional access through combining.

15 year amortization period.

Government guarantee of loans for combining transactions, so only the additional quota/license being acquired would be required as collateral.