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Mr. Derek Butler
Association of Seafood Producers
10 Fort William Place
Suite 103, Baine Johnston Centre
St. John's, NL A1C 1K4

✓ Mr. Earle McCurdy
Fish, Food and Allied Workers
P.O. Box 10, Stn. C
St. John's, NL A1C 5H5

Dear Messrs. Butler and McCurdy:

I am writing to follow up on our meeting of March 7, 2011, as discussed. I fully recognize that the steering committee and working groups have put a tremendous amount of work into the Memorandum of Understanding (MOU) process. However, implementation of the proposals, as they are now written, call for an investment and/or financial exposure of some \$450 million, plus adjustment costs, in public funding which does not change the pace of the rationalization that is already taking place in the harvesting sector and threatens the demise of the fish processing sector in the province over the long term.

I recognize that the harvesting sector currently faces severe overcapacity. Your MOU proposal, as brought forward by the Fish, Food and Allied Workers, is seeking \$190 million in public funding to rationalize one-third of the industry over ten years. The *Report of the Independent Chair of the MOU Steering Committee* clearly indicates that the harvesting sector is already rationalizing at a rate of five per cent a year. The current rate of rationalization will achieve your proposed downsizing of the industry in five to seven years, at no cost to the taxpayers of Newfoundland and Labrador. In addition, your suggestion for license buy-out makes no provision for any displacement of crewmembers.

Your MOU proposal, as presented by the Association of Seafood Producers (ASP), is seeking to use public funding to buy out approximately one-third of the crab and shrimp processing capacity in rural Newfoundland and Labrador, with no provision to address the needs of displaced workers and communities that will be affected by these closures, other than government should pay. The ASP proposal is seeking a loan guarantee of \$80 million and an implied interest subsidy of a further \$80 million, based on a loan term of 30 years and an interest

rate of 2.5 per cent. While the subsidy is a given, the uncertainty of global markets and shellfish resources, in concert with a rather convoluted repayment scheme, means that a loan of this magnitude and duration would carry a very high risk for the taxpayers of this province. Beyond these concerns, a labour shortage is already emerging for seafood processors in that they cannot attract or retain plant workers at current income levels. With some 600 plant workers leaving the sector annually, your proposal will accelerate the labour shortage issues and could ultimately ensure that there is little or no onshore seafood processing carried out in the province in the years to come, at least not by Newfoundlanders and Labradorians.

The proposals have no suggestions regarding how to ensure that harvesting and processing capacity will not come back into the system after it has been bought out. This means that taxpayers may be asked to buy out the same licenses again at some future point. Unfortunately the fishing industry has a history of seeking buy-outs through public funding and then proceeding to lobby to have the licenses returned to the system, again creating and adding to overcapacity.

There are elements of the MOU report that I believe hold the potential to offer significant benefit to the industry. As discussed in our March 7 meeting, I believe that the marketing proposals brought forward do have potential merit, the elements of which are worthy of further consideration. Given industry's rejection of past efforts by government to support marketing initiatives, we are apprehensive about the industry's commitment to dealing with marketing issues; however, we are certainly prepared to explore the proposals further. There are also opportunities to bring the marketing proposals forward to the Federal Government for consideration under their seafood marketing programs and we would be happy to do so. Our government can also continue with efforts to pursue the access to capital for license combining with the province's Fisheries Loan Guarantee Program. However, I did receive the impression in our meeting that loan financing for license combining may not be of interest, nonetheless it was noted as one of the elements put forward in your proposal for consideration.

I note that Professor Clift has suggested that "many key industry participants appear unwilling or unable to contemplate more fundamental restructuring initiatives...what should be clear to all parties, as evidenced by those governments that have supported such activities in other jurisdictions, is that initiatives designed to support rationalization alone will be insufficient to allow industry and government to achieve the kind of meaningful restructuring that is necessary." However, the MOU proposals that you have presented seek a 'leap of faith' that a severe and costly rationalization of the industry will eventually lead to a better place, despite international evidence to the contrary.

Every statement that our government has made on the MOU process has clearly noted that our expectations included a plan to address the long-term structural issues in the province's fishing industry. This includes the first joint statement on July 14, 2009, when our respective organizations together announced this process. The MOU report states in section one that the parties, "...commit to seeking solutions to the current and long-standing problems in the industry." There was recognition in the MOU report that the problems in the industry relate to a host of structural, resource, market and policy issues. Your organizations approved the Work

Plans of the Harvesting and Processing Working Groups, the MOU document itself and the statement to release it, all of which referenced the need for long-term structural change, yet you have proposed no measures to address these issues, other than downsizing.

My message on long-term restructuring of the industry has been consistent since my arrival in the Department of Fisheries and Aquaculture. I have also been consistent in my message on government's inability to entertain multi-million dollar proposals. As the report of the independent chair clearly demonstrates that the industry is rationalizing itself, it is extremely difficult to ask the taxpayers to fund a rationalization process that is already taking place.

The MOU report clearly states that the process would be a continuation of the Fishing Industry Renewal Strategy. The goals of that strategy have been clearly stated since April 2007. They were developed following one of the most extensive consultations with the fishing industry in the history of the province. As our government stated at that time, it was envisioned that the strategy would result in a sustainable, economically viable, internationally competitive and regionally balanced industry that is able 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.

Unfortunately, the proposals that were brought forward by your respective organizations do little, if anything, to enable our province to achieve these results. It is unclear how there will be any real improvement in seasonal employment and capacity utilization.

You have asked me to outline what I mean by restructuring and what my expectations are for a proposed course of action that can attract public sector support at the provincial and hopefully the federal level. We urge you to explore a more joint approach to the chronic challenges facing the fishing industry. As minister, I would be happy to advance proposals that include long-term and enduring solutions. You have taken the view that the industry as currently structured cannot or need not be changed. You appear to see no opportunity to improve the chronic seasonality challenge. May I suggest you consider the following illustrative questions:

- What are the alternatives to government funded buy-outs such as licensing policy changes and/or improved access to capital?
- Could various fleet sectors fish at different times?
- Could fishing seasons for different species be scheduled in sequence so as to extend vessel and plant operations and employment?
- Could the rules around combining and buddy-up be made more flexible, as is the wish of a large number of harvesters?
- Should plants be multi-species in nature in order to extend operating seasons and employment?

- Can we reduce the costs of collecting fish and transporting it around the province?
- Could harvesters and processors form or formalize long-term supply and market relationships for multi-year terms to provide real partnerships for mutual benefits in common harvesting, processing and marketing activities?
- Can you find ways to cut operating costs, improve revenues and pursue more attractive markets?
- Could resource management plans be revised to produce better economic returns without compromising conservation? Should more expanded use of Individual Quotas or Individual Transferable Quotas be considered for some fisheries?

Government, as I outlined in our meeting, certainly does not have all the answers. I reminded you that our track record in leading industry change provides strong evidence of the need for industry-based solutions. You need to engage each other and of course your respective memberships in the development of an industry structure that can meet the objectives which we have all agreed to in recent years. I can accept that it may take some time to reach an ultimate solution. I simply cannot see how these short-term and costly measures as outlined in the MOU report will contribute to the creation of a fishing industry that can be a self-reliant, vibrant economic driver for coastal Newfoundland and Labrador.

I look forward to hearing from your respective organizations at your earliest convenience. Thank you again for your participation in the MOU process. I am sure that our respective organizations share the same long-term goals for the province's fishing industry. I hope that we can agree on an approach that can achieve and sustain the desired outcomes for all the people of the province and the communities that depend on the fishing industry.

Sincerely,

A handwritten signature in black ink that reads "Clyde Jackman". The signature is written in a cursive, flowing style.

CLYDE JACKMAN, M.H.A.
Burin-Placentia West
Minister