



## Rotary Club Luncheon Address

Monday, February 25, 2008

E. Derek Butler

Thank you, it is very kind of you to invite me to address you today. A lot of familiar faces, and some new ones. Some may know I actually am from Clarendville, grew up just down over the hill from here.

I actually bussed and waited on tables in this very business to pay my way through university. Good to be here, and again, I appreciate the invitation, and you can leave your tip on the table afterwards.

I heard something on the radio the other day that reminds me of what my Dad might have said – he didn't but he might very well have – when I told him I was invited to talk to the Clarendville Rotary club.

Talk, you're invited to talk? You?

You're overqualified.

Well, I'll try to keep it short, I'll try to keep it interesting, and if I prove overqualified, you can invite me back to watch the next time, and not talk.

When a baby was killed in a tragic airplane crash in 1989 by being ripped out its mother's arms by the force of impact and being sent hurtling through the cabin, a political "solution" was proposed by having a federal law requiring babies to be strapped into their own seats on airplanes.

Well, that sounds eminently reasonable, I think we could all agree on first blush. Let's see what happens.

...such a law, requiring parents to purchase an extra seat, would divert a portion of the traffic to cheaper alternative modes of transportation on the ground – most of which have higher mortality rates than airplanes. Over a period of a decade, there would be an estimated saving of one baby's life in airplane crashes, a loss of nine lives in alternative ground transportation, and an additional cost of \$3 billion.<sup>1</sup>

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<sup>1</sup> "An impact analysis of requiring child safety seats in air transportation," *Child Restraints Systems on Aircraft*, Hearing before the Subcommittee on Aviation of the Committee on Public Works and Transportation, House of Representatives, July 12, 1990, p.215.

The story illustrates, graphically, even dramatically, the consequence of public policy defined on the basis of good intent, emotion.

Most if not too much public policy is based on the intended consequence of that policy.

But you can only judge a policy by its actual outcomes, not by its intended consequence. The actual consequence is what counts. Sounds redundant, but it needs saying, and repeating.

Another obvious example is rent control. The intent is to restrict the cost of rental accommodations.

In San Francisco, the consequences of rent control were dramatic, in the opposite of the intended direction:

- new construction of multifamily housing dropped by 32 percent within a decade after the city's rent control law was passed in 1979.
- over the past 10 years, the number of rental units in the city has declined absolutely by 7,500.
- the vacancy rate is below one percent; and
- the average rent for a one-bedroom apartment in San Francisco is nearly \$2,000 a month.<sup>2</sup>

Again, to quote my favorite economist, Thomas Sowell, "...the purpose of any policy tells you absolutely nothing about what will actually happen under that policy."<sup>3</sup>

You can access much of his work online at [tsowell.com](http://tsowell.com), t-s-o-w-e-l-l "dot com."

The earlier example of child restraint on airplanes – which comes from his book *The Vision of the Anointed: Self-congratulations as a Basis for Social Policy* - leads to a new policy which a potential cost of billions, and more sadly, lives.

But that is how we too often approach things: with the intent, and often good motive, but without consideration of consequence, or outcome.

And I use it today, to illustrate a contention I've come to possess about how we manage and direct the fishery, in terms of public policy.

A fish plant closes?

Well, let's save that fish plant. Nobel goal, and in some sense, eminently feasible, certainly for a given period.

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<sup>2</sup> San Francisco Weekly, and T Sowell, online column.

<sup>3</sup> Sowell

A given number of actors – mayors, MHAs, ministers and union leaders – can bring the forces to bear to save a given plant.

Having spent some time either working in or observing the political process – the world's best spectator sport – I've come to see as a classical political problem from this side of my career: identify the wrong problem, and then fix it or implement a policy with one intended consequence, and get an altogether different result.

Plant closes? Then let's save the plant.

But why is the plant closing?

Is there enough resource to sustain it?

Is there a sufficient work force?

Does the plant have a procurement strategy? Is it overburdened with regulation? Does the plant have insufficient margins, squeezed between paying  $x$  for raw material, and only getting  $x$ -plus back from the market? Does it produce what the market wants, at the price point and in the quality form the market desires or requires?

We don't ask these important questions as much as we consider what might be the impacts on that particular plant closing on the local workforce and community.

Instead, we need to go back to the real business options, and there are just two, to maximize the value of the industry, to drive up incomes.

We can reduce our costs, and or we can increase our revenues.

The FFAW is on to the latter, as if that will solve all of our problems, but in a rather simplistic fashion.

Just get more money out of the market. Charge more for the product. Ask for more money from those who buy our seafood.

Well, as I've reminded them in collective bargaining on occasion, when they suggest that is the way to tackle our problems, it doesn't work that way.

GM did not lose \$38.7 billion dollars in 2007 simply because some guy on the lot forget to flip up a higher price. They didn't lose \$2 billion in 2006, because someone in accounting forget to add a bigger digit to an invoice.

They lost money for structural reasons, related to write downs, tax liabilities, pension funds, labour costs, and a myriad of issues.

And asking the consumer for more money for those costs is not the solution, because in a free market, something is worth what you are willing to pay for it.

That includes a room in this hotel, an apartment or house for rent, or even something less tangible, like membership in Rotary.

And same for our seafood. It is not worth what we invest into it, the cost of harvesting, or production, or inventory costs, or financing costs. It is worth what the market wants to pay, or more precisely, is willing to pay.

Same thing for every stitch of clothes on your back, and every meal you've ever eaten.

That's the economics and business reality of the world, and has been some time.

And let's not have any of that foolishness that it doesn't work. We are richer than 98% of the rest of the population of the earth. On almost every socio-economic score, we are ahead: we are healthy, well-fed, satisfied beyond belief materially.

On the real indicators that matter: caloric intake, infant mortality, maternal deaths, life expectancy, access to potable water, literacy, you name it, democracy and free markets deliver.

All this to underscore that the fishery is a business, and just like much else of what we do to make a dollar, it should be structured so as to perform in that context; we can't just ask the market to pay for our problems.

I am new to the fishery. I worked in, as the introduction noted, a completely different field, literally and geographically. This job is my first career employment in Newfoundland, which I started in 2004 when my wife and I moved home, like so many do, or want to.

I joke I am one of the few people who has come home to work in the fishery.

But work is a stretch. That's not to say people in my business, in processing or harvesting don't work hard when they work.

But we have million dollar boats, and two million dollar boats, and multi-million dollar fish plants that all work for months, if not mere weeks.

That's underutilization, or to look at it another way, overcapitalization.

If any airplane flew a mere 10 trips a year, and spent the rest of the time on the ground, we'd recognize we had a problem.

If Sobey's was open just a few months a year, we'd laugh at their chances of making a go of it.

If this hotel said our rooms are only for rent April 15 through end of Sept, and we have people sitting on the lawn waiting to get in in July, who might gladly take a room in October, but we close then, all our staff are on income support, we hope they're around again in the summer when we open, cuz we stay closed for the

winter, even though people are coming for the ski hills, we'd rather squeeze all our business into a few months...

...well, we'd call it the fishery.

Because we've done just that. And for too long it has been good enough.

Our problem is we have chosen to dissipate the wealth, with our structural inefficiencies, among as many participants as possible, to ensure we keep as many people working, spread it around, save this and that town, save this and that fish plant.

Well ask yourself: is it working?

Are our young people staying around because things are so good?

Towns repopulating because the fishery is such an opportunity?

Or have we instead asked too much of the fishery, for too long, and now we reap what we have sown: a social programme that has said \$10 or \$20000 each is enough – and now our young people are gone, and soon, an entirely new demographic will follow: people of my parents age, who want to see the grandchildren grow up... but have to go to Alberta and other places to do it.

My contention is the fishery of today is the fruit of 30 years of social engineering. Alberta's boom 'today' is one factor in people leaving the fishery, but so is 30 years of "this" is what the fishery will be, and not "this."

We're not living on the entrepreneurial merits of the fishery. We're living off the natural abundance and wealth of our location, groundfish in its day, pelagics, and shellfish today.

Despite ourselves, almost, we have made something of it.

We open the fishery, squeeze in all the product like we're drinking through a fire house, and pray to the heavens the market can choke it down just as fast.

The economist Michael Gardner addressed a recent gathering of industry at the coldwater shrimp conference in St. John's, which brought together industry players from across Canada, the US, Europe and elsewhere, to address challenges in our shrimp industry.

And he said something very stark, very true. "We are structured to underperform."

We have a billion dollar fishery, the production value of our fishery surpassed \$1 billion again last year. It was never more than half that in the past, but has hit the number or surpassed it several times in recent years.

We have a wealthy industry, or rather, an industry with potential for great wealth.

But as Gardner said, we are “structured to underperform.”

We have too much processing capacity.

We have too much harvesting capacity.

All designed and encouraged by different governments to ensure the money was spread around.

This is not a business model that can endure. We can struggle. We’ll make a go of it. If anyone can, it’s a Newfoundlander ...

The earlier example of airplane safety and child restraints illustrates the stark reality of every public policy choice we face. Every public policy is a trade off. There are consequences to every action.

The intended consequences don’t count for much.

A legislated increase in minimum wages might optimistically look like a generous government giving out money to people on insufficient incomes, to students and part-timers who are predominantly those on minimum wages.

But if the consequence is small businesses which account for 80% of new jobs, turning around and

- 1) not hiring that extra person, for lack of resources, and/or
- 2) passing on that cost in the increased cost

So it looks nice, but we can’t judge a public policy by its intent – the anointed do that. Rather, we have to judge it by its outcome.

Just to illustrate that point, I’ve done some rough numbers, and a 50 cent per hour increase for 18,300 workers in Newfoundland and Labrador on minimum wage at a given point (based on half of those working half time - students, half-time jobs - and the other half fulltime) would cost \$5.5 million dollars.

Are we all better off for driving up costs of produce, services, and the like – for all consumers, including those who will receive the increase in minimum wage - by this amount, pushing inflation (the general cost of everything) which in turn hurts those on low fixed incomes...again, the very people we meant to help? Would they not be better off if we addressed it via our tax policy, with some reduction or incentive?

Just like in this example, in the fishery, poor public policy works that way. It identifies the wrong problem, or proposes a solution that isn’t a solution at all.

For the groundfish and pelagics, it lead to the Michael Harris book, “Lament for an Ocean.”

Some once said "Some people embrace change, some choose to fight it. The ones who embrace and adapt, win." – Unknown

We in Newfoundland and Labrador must change our approach to the fishery, fundamentally, philosophically, from 30,000 feet.

Otherwise, we risk another reality, captured by the following words:

"If you dislike change, you're going to dislike irrelevance even more." Eric Shinseki

We need change, and it needs to start with the full acknowledgement that the fishery is a business, for the sake of harvesters in it, who are losing crew now to better opportunities in Alberta and elsewhere, plant workers for whom 10 or 15 weeks work is not enough.

An article in the Report on Business asked a penetrating question re. the forestry industry in the country recently: "Does Canada have the nerve to fix the forestry?"

And I took the time to write to the Globe - and they were gracious enough to publish it – some thoughts on the fishery.

And I said capacity – or excess capacity, to be more precise – is a long standing problem in the fishery. Inefficient capacity was identified in the Newfoundland government report "Managing All Our Resources" in 1980. Senator Michael Kirby wrote about it in his 1982 report "Navigating Troubled Waters: A New Policy for the Atlantic Fisheries." A Newfoundland Royal Commission in 1986 talked about subsidization and political expediency in the industry.

And on it goes, culminating in the 2003 Fish Processing Policy Review which summed it up well: "...the basic problems of the sector remain rooted in excess capacity with the associated results of seasonal operations, unsatisfactory levels of income, instability and volatility, and less-than-optimum total returns from seafood production."

Government's primary role should be to serve as a catalyst to let the fishery modernize. Government should adopt as its primary focus putting the fishery on a sound economic footing, by letting it operate as a business, by letting it rationalize as a public policy. That will entail either active or benign support for rationalization; for example, a total freeze on new plants.

Because is it not conceivable that we are talking about a crisis in the fishery when in recent years it has reached historic high in terms of landed value.

We have not worked to restructure, modernize or renew the fishery fundamentally. Its structures remain dated: too many fishers in too many boats catching too few fish for too many plants processing for too little time. Well, with one correction: there aren't too few fish (instead, given out-migration and declining fertility rates, we'll soon have too few workers). The resource has changed - shellfish in the place of ground fish - and the landed values are historically high. In spite of that, we have kept processing and harvesting capacity too high, such that the value created is spread too thin.

We have built the industry on a deck of cards. We have marginalized incomes, tried to save fish plant after fish plant, increased harvesting capacity, and what do we have at the end of the day? Mediocrity as an industry. And every intervention leads to the Hayekian conundrum: once a government does intervene, the logic of intervention forces them to keep at it, to fix the last intervention. Can any government resist that (and after what damage is done?) so that instead we might make the industry a more sustainable contributor to Newfoundland & Labrador?

Industry – harvesters and processors – both know that we must adapt to face the new realities of a more competitive China, higher fuel prices and the stronger dollar. Instead, we have gone about things as of old, and expected a different result. That's, as the saying goes, the definition of insanity. That challenge includes requiring a fresh look at the price setting mechanisms in the industry, unique in the world (Joey Smallwood's last piece of legislation in 1972). We have a collective bargaining structure for what is essentially a business to business relationship.

Are there bright spots out there? Yes, if one takes hope from the government-led renewal initiative last year (though of merit, it was not all industry had hoped for).

Some light on the harvesting side, with rationalization, combining. It needs to happen – some how, though it is a hard nut to crack – on the processing side.

And the resource remains strong, more good news.

And the industry is tackling new challenges like eco-labelling with the pending Marine Stewardship Council certification for northern shrimp, showing our coldwater shrimp comes from a sustainable, well-managed fishery. We will soon be the world's largest shrimp fishery so certified to be a sound, and consumers have the right to that assurance. It will be a proud legacy of my time in the industry.

But the same can't be said for the economic viability of the industry itself, in either harvesting or processing. It may be that the challenges of industry renewal are truly intractable political problems. Fair enough, but if it's confession time, no one is on their knees - except in terms of the economics.

I have to think, we can do better. I hope you do to.

Thank you for listening.