Seafood industry

Corporate capers

A takeover bid by a Canadian seafood company underlines the need for clear public policy on critical industries

In recent years, the fishing industry of Newfoundland and Labrador, Canada's newest and most easterly province and one that has a traditional dependence on the fishery, has seen market forces being relegated to second place by the organized strength of coastal people.

It all began with a bid by a new consortium called NEOS Seafoods Inc. for a hostile takeover of Newfoundland's (and indeed North America's) largest seafood company, Fishery Products International (FPI), a publicly traded company.

Eighty per cent of the equity of NEOS is divided equally between the company's Newfoundland and Nova Scotia partners, the seafood companies known as the Barry Group and Clearwater Fine Foods respectively, and the remainder 20 per cent is owned by the Icelandic seafood trading company, Icelandic Freezing Plants Corp.

FPI is a seafood company which was formed in the mid-1980s out of the ashes of a virtually bankrupt Newfoundland deep-sea fishing sector. To avoid massive job loss, the federal and provincial governments of the day poured hundreds of millions of dollars into the restructuring of the deep-sea sector.

A number of virtually bankrupt companies operating in Newfoundland were combined into FPI, a company in which both levels of government took an equity position. Provincial legislation included a requirement that the company maintain its head office within the province and have majority of Newfoundlanders on the Board of Directors. In addition, the legislation contained a share restriction that limited to 15 per cent the proportion of FPI shares that could be held by any one individual or association of individuals acting in consort.

After highly profitable years in the mid- to late-1980s, FPI bought out the government shares, privatized the company and restructured itself into a company traded on the stock exchange. It obtained raw material both from offshore company ITQs and by buying from independent inshore and midshore harvesters.

The collapse of the key groundfish stocks in Atlantic Canada by 1992-93 created another crisis for FPI, which lost 95 per cent of its groundfish allocations. Once again, the company went back to the drawing board, shifting its emphasis to international seafood trading.

The company made this transition successfully, enjoying modest profitability by 1998, and in the acquisitive mindset of the market, was seen to be "ripe for the picking". The first potential cherry picker was NEOS, a company created for that very purpose. On 5 November 1999, NEOS offered Can$9 a share for FPI shares, up from the then current rate of about Can$7.20. But it was a highly conditional offer, contingent upon, among other things, removal of the legislated 15 per cent share restriction as well as a similar provision in the FPI byelaws, and also upon the presumptuous condition that there be no review of the matter by Canada's Competition Bureau.

More concentration

This latter condition was significant in that the takeover, if successful, would lead to an extremely high degree of concentration in the Newfoundland fishery, one that had set off alarm bells among Newfoundland's 10,000-strong inshore / midshore fish harvesting sector, as well as among fish plant workers.

The Fish, Food and Allied Workers (FFAW / CAW) Union represents both fish harvesters and fish processing plant workers, including about 3,000 plant workers and 300 trawlermen employed by FPI. Even during the darkest years of the groundfish crisis of the 1990s, the union had negotiated wage increases for plant workers in every year but one, and labour relations with FPI were positive and constructive.

Normally, shareholders could not care less what a union thinks about a share offering, but the 15 per cent share restriction made the takeover bid a political issue as well as a financial one. Without the approval of the Newfoundland and Labrador governments, the bid would fail.

The governments' position was that they would be convinced to lift the legislation only if the people of the province were convinced. Suddenly, the union was in a highly influential position, as were the municipal councils in towns with FPI plants.

FFAW / CAW were first off the mark in developing a position on the takeover bid. A week after the bid was announced, the union executive board, together with the elected union leadership of the FPI plants and CAW National President, Buzz Hargrove, met first with the NEOS principals then with FPI management. The union then arrived at a position and moved to an adjoining meeting room to advise a press conference that it would be asking the provincial government to maintain the 15 per cent share restriction.

The union's position was based on three main considerations:

1. The financial vulnerability of FPI arising from the conversion of Can$150-Can$200 million of shareholder equity into debt, as proposed by NEOS.

2. The high level of corporate concentration that would have resulted in the fishery in Newfoundland and Labrador, particularly detrimental to fish harvesters as a result of significant lessening of competitive forces in the buying of raw material.

3. The positive labour relations history between FPI and its unionized workforce, in contrast with the pronounced, high-profile, anti-union background of at least one of the partners in NEOS.

Election-style campaign

NEOS expressed disappointment in the union's position, and immediately launched an election-style campaign, including highly publicized visits by the

NEOS principals to several towns in which FPI operates. NEOS announced plans to rebuild FPI's oldest plant, at a cost of Can$10 million, and also promised new facilities in two additional locations. It also promised year-round work in plants which had been limited to seasonal work by raw material constraints.

The reaction of the workforce and the communities was one of scepticism. Plant workers turned out in large numbers at membership meetings to oppose the NEOS plan. One by one, municipal councils in towns with FPI plants followed the union's lead in opposing the lifting of the share restrictions. The social democratic New Democratic Party had come out early opposing the takeover, and once it became clear that public opinion was strongly against the takeover, the opposition Progressive Conservative party took a similar position.

Having promised initially to respect public opinion, the provincial government advised NEOS, on 7 December 1999, that it would not lift the share restriction. The next day, NEOS withdrew its bid, less than five weeks after it had first been announced.

Fundamentally, the NEOS bid failed because its proponents had developed their plan in isolation from organized labour, and failed to convince anyone that their plan would enhance and strengthen the Newfoundland and Labrador fishing industry generally and the prospects and job security of FPI employees and fish harvesters in particular. The whole experience underlines the importance of government legislation to stabilize and set ground rules for public policy for critical industries.

Pressure to remove the restrictions will continue, from FPI's management and Board of Directors as well, because the financial world prefers that only its rules apply. But, as we enter the new century, the same vigilance that FPI workers, fish harvesters and their union displayed through five crucial weeks at the end of the 20th century will be needed even more as workers respond to global pressures for unrestricted and untrammelled corporate rights.

This article is by Earle McCurdy, President of FFAW/CAW, Newfoundland, Canada (email: tpretty@ffaw.nfld.net)