



The Norwegian Institute of Food, Fisheries and Aquaculture Research



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**Social contracts placed upon the North-Norwegian fillet processing industry with trawlers challenged by globalization**

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## How do we define social contract.

A social contract is the sum of expectations and requirements that apply to a sector, including how conflicting interests should be balanced against each other. Such a contract is seldom a formal and signed document. It is a social institution. As such, the social contract is constituted partly by formal laws and regulations, partly by cultural and normative elements embodied in the dominant organizational forms, technologies and practices in the sector. The social contract sums and determines the set of mutual expectations, terms and trade-offs between conflicting interests between the sector and the community were it is located.

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# Plans for rationalization triggered turmoil

- An intended reduction in numbers of filet production plants triggered a turmoil in North-Norwegian coastal communities at the beginning of 2014.
- Structural rationalization in industries is normal and regarded as a necessity to ensure productivity and competitiveness, so why this reaction?
- Probably complex explanations:
  - A heavy involvement by the state in financing and facilitating the build up of the filet processing industry followed by continuous support
  - A more liberal economic policy, but still within the Nordic economic model
  - Ambiguous policy signals and divergent instruments.
  - Globalization combined with high domestic cost level reduces profitability
  - Continuous loss of jobs and decline in population in the past 3 - 4 decades.

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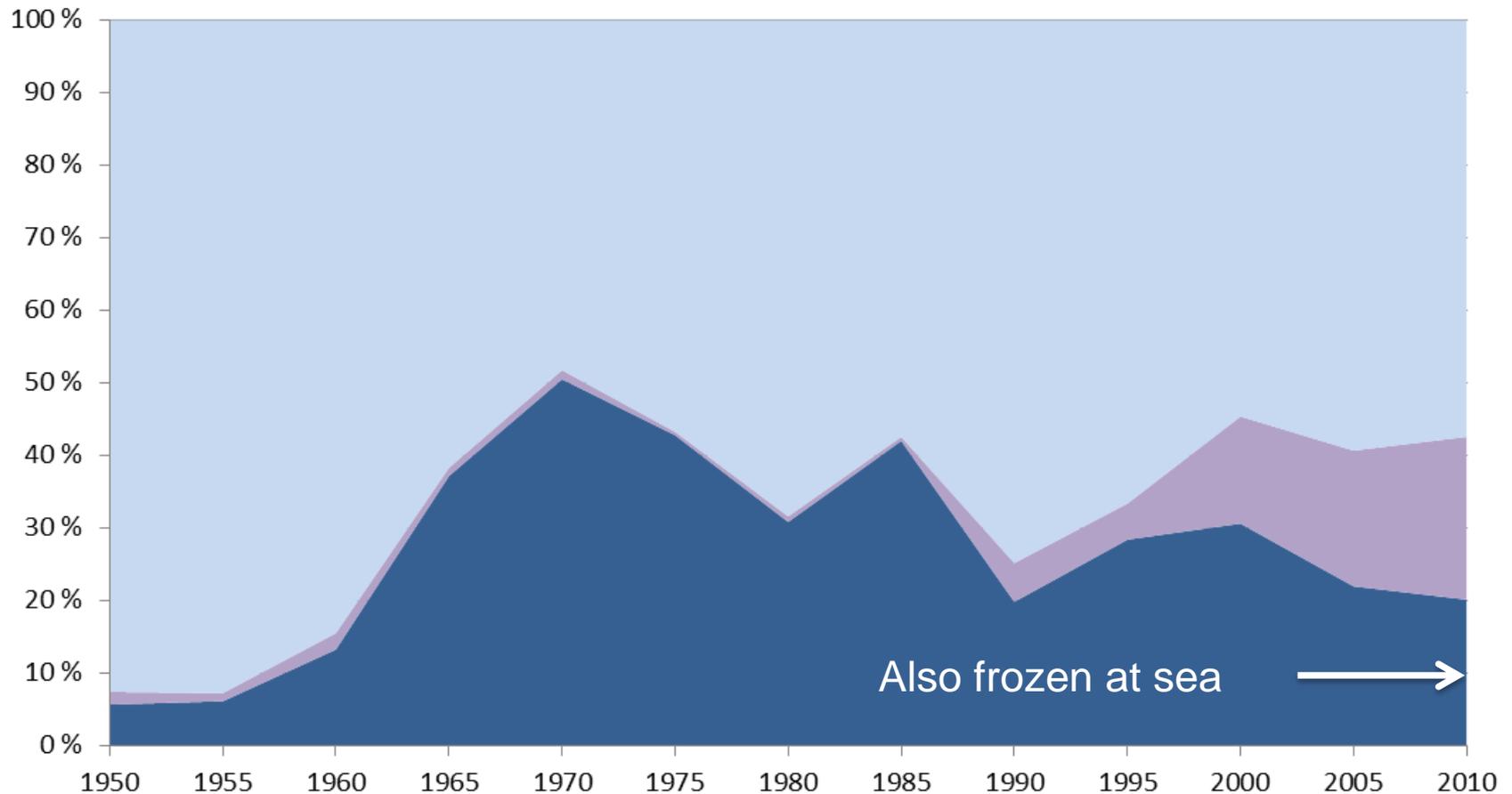
## Build up of a fillet processing industry – an instrument for modernization of Northern Norway

- In the post war period the old processing methods (dried-, salted- or klippfish) were considered outdated by government planners.
- Instead frozen products, and frozen fillets in particular, were considered to be the future winners and the basis of a new modern industry.
- Also an anticipation that markets in wealthy western countries would be more profitable than in poorer South-European, African and American countries.
- Some critical voices, but a broad support also amongst fishermen to a heavy public support to build up the industry
  - Strong financial support
  - Adaptions in the legislation to allow the processing industry to own trawlers
- But the expectations of picking the market winner proved to be wrong – old methods and old markets have over time proved been more profitable
- Lasting public financial support were used to compensate the marked trends
- Left the companies and the government with a social contract:
  - The government as a guarantor for employment and settlement in some rural societies
  - The fillet industry with their trawlers became both instruments and symbols

# Development in export of product categories of cod

Share of export value

■ Filets   ■ HG fresh and forzen   ■ Traditional



Also frozen at sea



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## Liberalization of the economic policy, within the Nordic economic model

- WTO and EEA lead to liberalization of international trade and division of labor
  - Limitations on all kinds of subsidies or other measures with effect on competition.
- As a general rule - the old corporative model set aside.
- The dominant social contract - The Nordic Economic model
  - Three party cooperation (labor- and business organizations and government) to ensure that public and private wealth are financed by a productive public and private sector
  - Open to innovations and international competition with the private sectors subject to international competition fronting centralized wage-negotiations
  - Compression of wages within and across sectors. Unprofitable businesses or sectors are not able to lower wages and are supposed to loose in the competition for labor and capital
- A thorough mapping of the latest white-papers (Stortingsmeldinger) on industrial-, regional- and fisheries policy offers only one exception to the general policy: The fish processing industry allowed to own trawlers.

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# Implementing the Nordic model

- Liberalization, globalization and a very high threshold for government interference when companies are downsizing or in danger of being closed down.
  - Also when the activity is vital to settlement or regional development.
  - Reduction of paper mills, energy-intensive industries, solar cell production
    - Strong, but in vain, local political initiatives for governmental rescue operations
- *“Closing of factories very often gets more attention than deserved because downsizing affects a specific group of people at an actual time period, but the advantages come later and appears as abstract.”* ( A study of the effects of the electricity market reform: Bye & Hope 2006).
- No specific tools in the government’s toolbox to save businesses or will to impose certain practices, but a strong will to support and increase labor productivity
- Active public policy aimed at labor force mobility: Education and financial help to resettle.
- Allocation of the labor force to productive and profitable sectors of the economy is the main concern and the core of the Nordic model.

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## **In contrary to the Nordic model – policy to prevent rationalization of the fillet industry allowed to own trawlers.**

- Global competition and a high level of production costs in the fillet processing industry levees the industry unprofitable and makes rationalization necessary.
  - Pressure from the oil sector
- However rationalization results in fewer jobs, reduction in number of processing plants and eventually reduced settlements in rural communities.
  - Considered to be a breach of (social) contract
- In contrary to the general policy applied to other businesses the Department of Fisheries in 2012 and in 2013 sent out on public hearing suggestions to reinforce old measures for the fillet processing industry
  - Ambitions to override production planning and even politically decide the product portfolio. Jobs - not profitability had priority
  - Strongly supported by the North-Norwegian political establishment
  - Heavy protests from the industry lead to that the suggestions were never implemented.
- I can not find any other present (or recent) examples of corporative governmental interference in any industries.

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## A renewed social contract?

- In any business supposed to manage and survive in global competition needs flexibility to adjust to the market situation.
- Our examinations suggest that ambitions to use businesses as regional political measures increases financial risk and decreases degrees for freedom needed to adapt to technological and market changes.
  - Fulfillment of the old social contract most likely results in bankruptcy
  - Subsidies not allowed
- The food processing industry is not a high margin business anyway, so the reasonable ambition for the fish processing industry should be profitable businesses.
- In this case the social contract is already defined by the Nordic model
  - High productivity in order to pay high wages and high taxes
  - Organizing the sector to realize resource rent and tax it

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**Thank you for your attention!**

