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Privatization, financialization and ocean grabbing in New Brunswick herring fisheries and salmon aquaculture

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ABSTRACT

The growing literature on individual transferable quotas (ITQs) and on intensive salmon aquaculture and its negative impacts on the environment and other users of related marine space has been little connected to the developing literature on financialization and to the literature on ocean grabbing within fisheries. This paper seeks to address this gap through a case study of the recent history of herring fisheries and intensive aquaculture in New Brunswick, Canada, exploring how specific neoliberal processes – including privatization and marketization (in herring fleet ITQs and aquaculture lease systems), (re)regulation, financialization and globalization – have interacted to support the reshaping of regional fisheries from mixed small-scale, family-based, petty commodity fisheries towards vertically-integrated, corporate, financialized fisheries characterized by ocean grabbing.

1. Introduction

This paper explores linked processes within neoliberalism including privatization, marketization, (re)regulation and increased and changing patterns of corporate control tied to financialization and ocean grabbing within Canadian fisheries and aquaculture. Research on neoliberalism and small-scale fisheries has been largely disconnected from the developing literature on financialization and from research on the dynamics of intensive salmon aquaculture and its consequences for capture fisheries and coastal communities. Financialization generally can be defined as speculative profit-making such as from trade in a company's assets and the company itself rather than from the company's operations. Ocean grabbing is a relatively new concept that draws on insights from agricultural research (land grabbing – see [1–3]) and is being applied to research on fisheries. Ocean grabbing, like land grabbing, is linked to neoliberalism and financialization but these linkages need more research within fisheries. Examining the relationship between financialization and ocean grabbing within particular historical contexts has the potential to contribute to our understanding of the contribution of neoliberalism to the vulnerability of small-scale fisheries, fishery workers and fishery-dependent regions. Drawing on insights from existing research and document analysis, the paper develops a case study of financialization and ocean grabbing within the linked herring and intensive salmon aquaculture industries in one region of New Brunswick, Canada.

The paper starts by linking the literature on neoliberalism within fisheries to the developing literature on financialization and its relationship with globalization. It shows that food industries tend to be attractive to organizations like private equity firms that play a key role in financialization and points to the growing interest among financial institutions in investment in the seafood sector. Case studies of the interconnected yet different financialization processes within two segments of the seafood industry including the herring fishery and processing industry and the aquaculture industry in one region of New Brunswick, Canada (NB) show why fisheries researchers interested in neoliberalism, small scale fisheries and ocean grabbing need to pay attention to financialization processes and their impacts.

2. Privatization, financialization and ocean grabbing

Neoliberalism is “a theory of political economic practices that proposes that human well-being can best be advanced by liberating individual entrepreneurial freedoms and skills within an institutional framework characterized by strong private property rights, free markets, and free trade” [4]. Research on neoliberalism within fisheries has focused primarily on capture fisheries and particularly the effects of privatization on small scale fisheries. Carothers and Chambers use the term privatization to signify a variety of processes that redefine access rights to open, common, or state-owned fisheries, including many processes that increase the level of private allocation of, and control

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over, public resources [5]. They point out that privatization of fishing rights often involves new processes of marketization, creating mechanisms for the monetary exchange or transfer of fishing rights or privileges between individuals, corporations, or other collectives, and relatedly, commodification, in the process reshaping the access rights to fish into objects that can be bought and sold [5]. Less well explored are ways privatization and particularly processes of marketization combined with other neoliberal initiatives can make capture fisheries and other components of seafood systems more open to financialization and its potentially negative effects on small producers, fishery workers and coastal communities.

Epstein defines financialization as "the increasing importance of financial markets, financial motives, financial institutions, and financial elites in the operation of the economy and its governing institutions, both at the national and international level" [6]. At the macro level, Sassen argues, "[t]his rise of finance is consequential for the larger economy. While traditional banking is about selling money that the bank has, finance is about selling something it does not have" [7]. Essentially, within any financial transaction, debt to financial institutions and increasingly, nonfinancial institutions accrued by corporations or individuals, carries the promise of future profit through speculation around its future value. However, financialization is about more than banks and speculation. As argued by Lapavitsas [8], it has three underlying tendencies: the financialization of monopoly capitals that are able to "finance the bulk of their investment without relying heavily on banks and mostly by drawing on retained profits," the restructuring of banks, and "the financialization of the personal revenue of workers and households across social classes" reflected in increased debt and reliance on investments [8]. Neoliberalism has been an important driver of these three tendencies but financialization entails historically specific processes and, at meso and micro-levels, "[t]he interaction between finance and the rest of the economy is mediated by a complex set of institutional structures that often reflect historical, political, customary and even cultural factors." [8]. This highlights the need for sectoral and regional case studies in order to understand financialization and how it operates. Furthermore, financialization and globalization need to be looked at together at the level of particular firms/sectors [9].

Financialization processes are associated with increased debt, stagnating wages, and increased corporate capital control [10]. Stockhammer links the spread of financialization to post-Keynesian, neoliberal, managerial changes that saw managers become shareholders, and to related shifts in investment priorities away from supporting expanded production towards generating profits from buying and selling assets [10,12,13]. Financialization contributes to the redistribution of social power towards financial investors and towards monopoly capitals with the capacity to finance acquisitions and growth through internal mechanisms, and away from wage labour, small producers and competitive capital. Consequently, financialization also has real ramifications at the micro level including for regions', communities' and labour's access to resources and good jobs. This is because, as finance becomes the focal point for profit and investment becomes more fluid and mobile, companies become less invested in production, in labour forces, and in communities at the local level [11].

The effects of financialization are being explored in research on agricultural food systems [12–15]. For example, Isakson [13] argues that economic restructuring in North America, fuelled in part by neoliberal economic ideologies, has played a vital role in the rise of financialization within the food sector, consolidating the wealth and power of financial elites at the expense of agricultural producers. According to Isakson, financialization has: (a) blurred the line between finance and food provisioning with financial actors taking a growing interest in food and agriculture and agro-food enterprises increasingly involved in financial activities; (b) enhanced the position of food retailers as the dominant actors within the agro-food system, subject in large part to the dictates of finance capital; (c) intensified the exploitation of food workers and the precariousness of their employment; and (d) hit small-scale farmers particularly hard by enhancing the uncertainty in their lives and eroding their market power vis-à-vis other actors in the agro-food chain. The overall result of these changes, he argues, has been increased fragility in the global industrial food system [13].

An important contributor to the fragility of industrial food systems is the substantial role private equity firms and hedge funds now play in parts of the food retail sector [16]. Private equity firms are private firms that are run by a management group (general partners) who bring in private investors (institutional investors or wealthy individuals) as limited partners in a fund and who pool their capital to acquire companies or subsidiaries [17]. Similarly, hedge funds are composed of a group of private investors, but differ in that they do not usually gain complete control of corporations, nor do they invest in companies for as long as private equity firms do [17].

Since the late 1990s, private equity firms have increasingly been used to restructure business organizations, thereby transforming corporate power [18–20]. Private equity firms' main objective is to return a profit and repay investors (usually large banks) who finance the takeovers [21]. Harvey explains that private equity firms, "typically take over public firms (i.e., publicly traded), reorganize them, asset strip them and lay off workers before selling them back into the public domain at a hefty profit" [22]. They do not hold the companies for any length of time with, on average, three to seven year turnover rates [23,24].

Food industries are attractive to private equity companies because they are usually mature, underperforming, and provide stable cash flows to finance debt [24]. As explained by Vander Stichele:

> [h]edge funds' and private equity funds' involvement illustrate the high pressure to make profits. To finance an operation, the funds tend to rely mostly on debt (with hedge funds using very high leverage ratios) as well as on rich investors attracted by the promise of high profits. The funds typically sell the land and financial assets after six to eight years—a short period of time compared with the lifetime investments that farmers put into their farms. High profits are needed to repay the loans and the investors, in addition to paying the typically high bonuses of fund managers. The emphasis on short-term financial gains results in practices that can easily lead to breaches in the rights of local communities and farmers, and provides few incentives to invest in long-term environmentally sustainable agricultural production [25].

The private equity model of profit, or value accumulation, erodes connections between profit generation and particular products, resources, communities and workers because of its lack of focus on improving production as a source of profit and the short-term vision of the investors.

The intersecting effects of privatization and financialization within seafood systems (encompassing capture and aquaculture) are not well studied. In the case of capture fisheries, the introduction of Individual Transferable Quotas (ITQs) has been shown to contribute to the removal of ownership and control of fisheries from harvesters and from communities, and to deeper social and economic divisions between quota owners and those who harvest the fish, facilitated in part by leasing arrangements [26,27]. Research has also documented the role of intensive salmon aquaculture in privatizing ocean spaces and its negative impacts on the environment and other users and/or inhabitants of the marine space [27–44]. Bennett et al. define ocean grabbing as, "dispossession or appropriation of use, control or access to ocean space or resources from prior resource users, rights holders or inhabitants" [1]. They argue that not all reallocations of marine space or resources constitute ocean grabbing. Ocean grabbing situations must fit specific criteria including: inadequate governance, a reduction of both human security and livelihoods, as well as the erosion of the

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