

STANDING FISH PRICE-SETTING PANEL

SEA CUCUMBER FISHERY 2021

The Standing Fish Price-Setting Panel, hereinafter referred to as “the Panel”, issued its Schedule of Hearings for 2021, on February 25, 2021. Pursuant to Section 19 of the *Fishing Industry Collective Bargaining Act*, hereinafter referred to as the “Act”, the Panel set Thursday, May 27, 2021, as the date by which collective agreement(s) binding on all processors in the province that process Sea Cucumber must be in effect.

The Panel also noted, at that time, that it had been advised by the Department of Fisheries, Forestry and Agriculture that the Association of Seafood Producers, hereinafter referred to as “ASP”, represented processors that process the majority percentage of the species Sea Cucumber. As a result, under Section 19(11) of the Act, should a hearing be required for Sea Cucumber, the parties appearing before the Panel would be the Fish, Food and Allied Workers’ Union, hereinafter referred to as the “FFAW”, and ASP. Section 19.11(1) of the Act, and regulations made pursuant thereto, require that the decision of the Panel must be in accordance with one of the positions on price and conditions of sale submitted to the Panel by the parties at the hearing. The Panel further advised that no other positions would be accepted by the Panel and should other representatives of this species wish to attend the hearing, concurrence from both parties to the collective bargaining must be obtained.

The hearing, if required, for Sea Cucumber was scheduled to take place at 10:00 a.m. on Friday, May 28, 2021. The Panel convened its hearing for the species Sea Cucumber at 10:00 a.m. on Friday May 28, 2021, via Microsoft Teams virtual meeting capabilities. Appearing before the Panel were the FFAW and ASP. The parties, having previously exchanged their final offer submissions, and filed copies with the Panel, (copies attached) supported their submissions in main argument and rebuttal.

This is the first time in the history of the Sea Cucumber fishery that prices and conditions of sale are subject to a hearing and a collective agreement between the parties. There are no market studies available. However, the Panel and the parties had the benefit of information provided by the Department of Fisheries, Forestry and Agriculture, including limited data on production and export statistics and a few recent published articles related to Sea Cucumber markets.

At the hearing, the FFAW put forward a proposal to return landed prices to those paid in 2019. Its offer is for a 33% increase in price from \$0.60/lb. in 2020 to \$0.80/lb. in 2021. They believe that the lower price paid by processors in 2020 is no longer warranted as markets have not significantly deteriorated due to the pandemic and any effect of the pandemic should be reversed in 2021. The processors paid \$0.80 in 2019 (without a collective agreement) and should pay the same in 2021. They point to the increasing volume of Newfoundland production going into higher priced dried products as evidence that the Sea Cucumber business is producing higher returns to processors. They believe there is an emerging product segment of higher value powder and capsules which is not being accounted for. They also believe there is a domestic market in Canada for Sea Cucumber which is not well understood or accounted for in the ASP market analysis. In terms of market outlook, they feel that the Chinese market will not be materially affected by the pandemic in 2021. The FFAW included a number of articles that demonstrate the market and business dynamics of Sea Cucumber which they feel point to a positive outlook.

The FFAW also contends that inventory carry-over is not as significant as claimed by ASP. They believe that the gap in 2020 production volume versus exports can partly be explained by the selling of Sea Cucumber product to Nova Scotian producers for further processing and export. They also maintain there is a 15 to 1 recovery rate (yield) of dried products to landed weight. The higher level of dried production in 2020 accounts for most of the landed weight of Sea Cucumber in 2020 and is evidence there is not much inventory.

The ASP put forward a proposal to rollover the 2020 price to fish harvesters of \$0.60. They contend that a rollover in price is necessary since Sea Cucumber markets are weak and significant inventories are being carried over from the 2020 fishery, resulting in additional marketing challenges in 2021. The ASP also proposed a Sea Cucumber schedule containing conditions of sale which govern the grading and handling of landings and procedures for the determination of net weight of landings for payment of the new minimum price. They contend that with Sea Cucumber now being subject to collective bargaining, codification of conditions is necessary for the industry to mature.

To support their contention of a depressed market, the ASP points to lower export prices. They also produced correspondence from brokers that indicate there are high inventories throughout the distribution chain and that demand is weak. One ASP producer presented an overview of their experience since the pandemic. The producer maintains that in 2020 Chinese buyers were not prepared to absorb the market risk and did not commit to volume purchases as in previous years. They would only take small, sporadic shipments. The result is a significant buildup of inventory at their Newfoundland operation. The ASP also points to the significant gap in landings and export volumes as evidence of inventory build-up. They also maintained that no

Newfoundland producers are processing the value added powder or capsule products and little is shipped to Nova Scotia. They also noted that many Sea Cucumber articles cited by the FFAW are dated and mostly describes the Sea Cucumber business prior to the pandemic.

The Panel reviewed in detail the submissions of the parties and the limited information available. The key considerations relate to: (1) the lack of data on the industry and market; (2) impact of currency changes; (3) 2021 market outlook and (4) sharing.

The Panel is significantly challenged by the fact that this is the first year Sea Cucumber is being negotiated and subject to a minimum price and conditions of sale. The Panel has few historical references on the industry and notes that it is rapidly evolving considering the significantly expanded Sea Cucumber quotas in the past few years and the increasing number of processors involved. There is limited data on the industry, logistics, its products, and yields. Export statistics and product categories are general and offer few specific product characteristics. There is no market assessment from the Government or industry. The Department of Fisheries, Forestry and Agriculture is constrained by privacy legislation in providing much detailed information on product types or on the number of processors producing the various products. Processors have the best understanding of the industry and markets but have not offered sufficient information to convey this to the Panel.

There is no information on specific product mix, yields, production processes and costs that enable an analysis of the relative value of raw material and various product types. It is difficult to evaluate what constitutes a reasonable sharing of market returns. In terms of prices paid to harvesters in past years, the Panel can only assume that wharf competition between processors for raw material would have resulted in a reasonable return for harvesters. There is, however, no analysis to evaluate this assumption and how efficient the market has operated. The Panel notes that prices to harvesters increased significantly during the 2016 to 2019 period from \$0.50 in 2016 and 2017, \$0.70 in 2018 and to \$0.80 in 2019. This increasing price to harvesters likely reflects the maturation of the industry, increased quotas and the increased competitive buying activity by a larger number of Sea Cucumber processors. This indicates that competition exists in the port market.

A review of export data reveals that there are two primary product types exported by Newfoundland processors. These products are dried Sea Cucumbers and frozen whole Sea Cucumbers. The Department of Fisheries, Forestry and Agriculture have confirmed that there are no Newfoundland processors currently producing powder or capsules.

Prior to 2020, most of the Sea Cucumber went into frozen production for Asian markets, primarily to China. In 2019, 98% of Newfoundland exports (by value) were to China and 84% of exports were in the frozen product form. In 2020, this shifted significantly with dried product to the US dominating exports. Exports of dried product to the US accounted for 73% of the value of exports in 2020. The remainder of exports (27%) went to China primarily in the form of frozen product. This points to the dramatic switch by processors to the drying of Sea Cucumber in 2020. These products are sold at a significantly higher value per pound because of the significant weight loss due to drying (albeit the raw material flesh costs will also be much higher due to the much lower yield). The Panel has no understanding of the relative profitability of the dried and frozen products but there is likely some expectation of improved margins that motivated processors to invest in the drying processes. However, the abrupt switch to exporting dry products to the US likely reflects the logistical and other market challenges in the Chinese market in 2020.

The significant change of product mix in 2020 eliminates any utility in comparing year-over-year aggregate Newfoundland export values and export values per pound. Even if there was no change in market prices, a change in product form to a higher percentage of lightweight products will result in an increase in per pound aggregate export values. For this reason, the Panel has examined the prices of the main two export product categories to assess market trajectory. These being frozen product to China and dried product to the US. The Panel looked at Atlantic-wide export data and Newfoundland export values to assess market price trends.

In terms of frozen exports, the Canadian dollar per pound returns have been on a significant downward trajectory since 2017. Newfoundland export values for frozen was \$2.30/lb. in 2020 compared with \$3.21 in 2019, \$3.83 and \$4.43 in 2017 and 2018, respectively. Thus far to March 2021, the export price is \$1.79/lb. or Newfoundland and \$2.56/lb. for Atlantic-wide exports. This points to a weakening market for frozen products.

There is a much shorter time series for dried product exports since it only became a major export category in Newfoundland in 2020, and in Nova Scotia, since 2019. Atlantic wide exports in 2019 of dried products to the US was at \$43.84/lb. in 2019 and \$51.24/lb. in 2020. So far in 2021, the value has dropped to \$34.24/lb. The increased value in 2020 seems to also explain the major shift to that product form in 2020. The drop in value in the first three months of 2021 is difficult to interpret but it is in a downward direction. This may be a seasonal anomaly or may reflect the increased supply and inventory of these products from last year. This decline in price may or may not continue in 2021. It will become clearer in the next few months as more data becomes available. If there is significant inventory carry-over, exports should continue through the spring of 2021.

In terms of inventory carry-over, ASP claims that significant inventory exists at Newfoundland plants and in the supply chain. Given there is some gap in the 2020 production volume versus exports (difficult to quantify without yield information for the various product types), this may be the case. However, no detailed quantification of this inventory has been offered by ASP other than testimonials from brokers and an individual processor. A review of export data indicated that in previous years, exports of Sea Cucumber from Newfoundland declined in the new year and essentially stopped during the April to June period. While not conclusive, this suggests that any inventory carry over to the new year fishery is not normal.

In respect of currency, the Panel notes that in recent months the Canadian dollar has appreciated significantly against the USD, and slightly against the Chinese Yuan. Should the significant reliance on the US dried markets continue in 2021, the USD/CAD exchange rate is the more significant consideration as it will reduce Canadian dollar market returns. The Panel examined currencies in the July to March period for the past three years to assess this impact. This nine month period is when the majority of Newfoundland product is exported. Currently the USD/CAD exchange rate stands at \$1.21 and financial market analysts see this strengthening continuing. An exchange rate of \$1.21 is significantly lower than during the past couple years when exchange rates were in the range of \$1.32 to \$1.40. The exchange rate averaged \$1.32 during the months of peak exports. The currency impact could result in an 8% to 10% decline in Canadian market returns in the US. This will likely dampen any market price improvement due to post pandemic growth.

ASP has proposed a schedule which enumerates the conditions of sale and offers clarity as to the net weight against which their price offer is to be applied. It also incorporates quality and grading protocols to be administered by independent dockside graders. To the Panel, it appears reasonable and brings clarity to the process. The FFAW has not offered any complimentary or competing language or any definition of the landed weight against which their offer would be applied. It appears their assumption is that processors would pay the landed price based upon similar procedures for dockside determination of net weight that processors have independently used in the past, outside any collective agreement.

As discussed above, the Panel has been frustrated by the lack of information and its ability to evaluate fair sharing when setting the inaugural price for this species. It does appear that the market trajectory is downward, and the 2021 market will likely be lower than in 2019. While the Panel feels the 'right' price is likely in between the two offers, the significant 33% increase requested by the FFAW (back to 2019 levels) does not appear justified based upon current market and currency projections.

Under Final Offer Selection, the Panel can only select one offer and cannot take a compromise position. There remains some uncertainty in a post-pandemic economic recovery. The Panel is available for reconsideration of its decision should Sea Cucumber export market data or currency considerations improve in the coming weeks/months to warrant it.

Considering the above, it is the decision of the Panel to accept the final offer of the ASP. The prices for the species Sea Cucumber in 2021 will be \$0.60/lb. to be paid in accordance with the schedule proposed by ASP.

These prices and conditions of sale will form a collective agreement or part of a collective agreement binding on all processors that purchase the species Sea Cucumber.

Dated the 2nd day of June 2021.



Wayne Follett



Bill Carter



Brendan Condon