

STANDING FISH PRICE-SETTING PANEL

COD 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 13, 2021, as the date by which collective agreement(s) binding on all processors in the province that process Cod 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 Cod. As a result, under Section 19(11) of the Act, should a hearing be required for Cod, 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 Cod was scheduled to take place at 10:00 a.m. on Thursday, May 13, 2021. The Panel convened its hearing for the species Cod at 10:00 a.m. on Thursday, May 13, 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.

The parties and the Panel had the benefit of two market reports prepared by Seafood Datasearch Market Consulting, hereinafter referred to as “Sackton” and Sea Data Center, as well as information provided by the Department of Fisheries, Forestry and Agriculture, including data on NL landings, production and export statistics and recent published articles related to Cod markets.

A common theme evolving throughout both reports is that Cod markets appear relatively stable. Sea Data also felt it possible there would be a slight decline.

Sackton states on page 5 that; *“Overall price trends for frozen cod fillets have been stable”*. On page 30, he explains that; *“The overall direction of the cod market has been one of general stability, with some declines in pricing on some items, and spot shortages making for price volatility on other items”*. In his summary on page 51, Sackton states that; *“The cod market has shown more stability over the course of the pandemic than many other seafood products.”*

More specifically, when comparing twice frozen product to single frozen product produced in Newfoundland, Sackton notes on page 15; *“..... the overall price picture for single frozen fillets is quite stable.”*

When speaking to the special case of NL cod, Sackton explains on page 40 that;

“.... the single frozen cod production that dominates in Newfoundland is a specialty product.... Newfoundland produces a high quality single frozen loin and portion. Because this product goes to very specific customers, it tends to have more price stability than the larger volume and more widely distributed products”.

Sackton further explains on page 18 that;

“Finally, cod consumption and sales have a lot of stability in the US. The net impact of these factors was that the cod market did not suffer any dramatic price decline or price rise, unlike Newfoundland shellfish products such as crab, shrimp and lobster.”

Again, in terms of price stability, Sackton states on page 27 that;

“.... cod became a more preferred retail promotional item during the first four months of this year. One reason could be that the relative price stability of cod compared to other retail seafood could be making it a more attractive promotional opportunity.”

On, page 28, Sackton continues to state that;

“Frozen cod fillets and portions have declined in price, while shrimp and snow crab, two mainstays of retail seafood, have both risen in price over the prior six months. Because of continued price stability cod may see increased retail interest over the course of this year.”

Both Sackton and Sea Data note the increase in supply expected in 2021. On page 46, Sackton states that; *“Projections are for the global supply of cod to continue to increase in 2021 after several years of decline”*. Sea Date explains on page 5 that; *“The supply and price forecast for 2021 suggests that the total supply will increase by around 11 % compared to 2020, and that this effect in itself will drive prices down with 2-3 %.”*

With respect to the current US market, Sackton states on page 21 that; *“The US foodservice reopening has been on an upward trajectory with a few weeks of setbacks. Overall, the sentiment in the US is very positive. Currently restaurant traffic is only 20% below its pre-pandemic level”*.

As for the UK, Sackton states on page 22 that;

“The UK experienced another lockdown this winter and began reopening in March. Since then restaurant and pub visits have recovered to a point about 40% below their pre-pandemic level.”

Sackton explains on page 30 that;

“There is widespread optimism in Europe among company financial officers that a recovery is underway, but many think it will take until the end of 2021 or even into 2022 before they exceed their economic levels prior to the pandemic.”

As Sackton explains, currency is an important factor in sales both to the US and the Europe. On page 50, Sackton notes; *“For 2021, we have entered an extended period where there are changes in exchange rates due to the varying economic fortunes in particular countries..... The Canadian dollar has strengthened around 13%. A \$4.00 US price last April would have returned \$5.60 Canadian. Today that same price would return \$4.91 Canadian. This is a problem for exporters as they see lower returns due to a stronger Canadian dollar and a weaker US dollar.”*

At the hearing, the ASP put forward a proposal to rollover the 2020 price to fish harvesters. They contend that a rollover in price is a concession made considering the Final Offer Selection process. ASP feels that the market reports point to stable and declining Cod markets while the Canadian dollar has strengthened significantly in comparison to the past few years. They maintain that given the negative currency adjustment, the ASP rollover offer will increase harvesters' share in 2021.

The ASP claims that the FFAW suggested increase represents significant risk to Cod processors given the tight margins in Cod, particularly for Cod only producers. There is no data or evidence to support such an increase. They feel the FFAW offer is predicated upon the 2020 export

statistics which are not accurate. They point to the fact there is missing data for several export Codes in the US and UK markets and the inflated price for the product Code for minced Cod clearly shows an error. They also contend that in 2020 the exports include a large volume of reprocessed imported Barents Sea Cod (1359 MT) which inflates the export value of Cod exports derived from inshore landings. They contend that Icewater Seafoods Inc. markets this frozen-at-sea product in its premium niche market which accords it higher values than the large volume of twice frozen product out of China. They also point to the fact that the Province of Newfoundland and Labrador noted errors in the export data as third party validation of their claim that it is incorrect.

The ASP also contends that collection costs continue to rise on small volumes distributed around the Province and there has been a further significant reduction in the 3PS quota. The ASP also believe that significant Cod volumes are sold by harvesters directly to local markets. They also contend that the value added by the further processing of Newfoundland salt-fish in Nova Scotia accrues to Nova Scotian processors and not those in Newfoundland. The ASP maintain that the period since 2015 is the best benchmark for establishing prices and points to the fact the parties agreed on prices in a number of these years.

The FFAW's position is that Cod prices to harvesters have not kept pace with increases in market returns and fairness in sharing market returns needs to be addressed. Its offer is for a 28% increase in price (i.e., grade A price from \$0.80/lb. in 2020 to \$1.03/lb. in 2021). They maintain that based upon export statistics, market returns were up 12% in 2020 over 2019.

The FFAW point to the fact only 42% of Cod production was exported in 2020 while maintaining that domestic sales, including sales to salt-fish producers in Nova Scotia, are more profitable. The FFAW feel that ASP members have the actual market data for these sales, and exports, but has not put it on the table. They also contend that while there may be issues between individual product Codes in the export data, in the aggregate, the export values are accurate. They also believe that exports of twice-frozen Barents Sea Cod would not be as valuable as single frozen Newfoundland Cod and does not inflate export values.

The FFAW contend that Cod market prices have been steady and the market outlook for 2021 is positive with the post pandemic economic growth expected in the US and other markets. They feel that Canadian Cod producers are best positioned to take advantage of this given their proximity to the US market and the continuing shipping logistical issues being experienced by competitors (i.e., China). They also point to the post Brexit trade agreement with the UK as a positive development. They contend that while the Canadian dollar has strengthened the

currency should be compared with the exchange rate at the latter half of 2020 when Cod products would have entered the market.

The Panel reviewed in detail the submissions of the parties and the market reports and information available. The key considerations relate to the lack of data on the full market, impact of currency changes 2021 market outlook and sharing.

It is difficult to fully assess market returns given the paucity of data and this is a concern for the Panel. Roughly only half of landings are processed for export. The remainder is either sold by harvesters directly to local markets, by processors to local markets or sold to processors in Nova Scotia for further processing, primarily salt-fish. There is no accurate accounting for how much is sold to these various domestic markets. Similarly, there is no information as to the value of domestic sales. Export statistics are suspect but appear to confirm an overall improvement in export values in 2020. The largest export market by far is the US in terms of exports directly from Newfoundland producers (primarily frozen loins and fillets) and in relation to the onward export of salt-fish through Nova Scotian producers. The UK market is also an important market for frozen production.

The market studies point to a long standing, stable Cod market. There have been logistical and other issues associated with the Covid-19 pandemic, however, the studies and Urner Barry data indicate that Cod market prices have been stable for the past three years. The market studies also indicate that the global Cod supply will increase in 2021 by 11% which may put some downward pressure on prices. On the positive side, Canadian producers may have a competitive opportunity in relation to the expanding post-pandemic economies particularly as it relates to shipping to the US market and the Brexit Agreement in the UK. The economic outlook in the US and UK is positive. Sackton suggests that the single-frozen niche market is likely already a premium market and subject to lessor annual fluctuations than experienced by the large volume Cod commodities. It would appear to the Panel that Cod market in 2021 will be stable and on balance there may be some improvement in market prices.

In respect of currency, the Panel notes that in recent months the Canadian dollar has appreciated significantly against the USD, and slightly against the Euro. It has not materially changed in relation to the British Pound. The USD/CAD exchange is the more significant consideration as it will reduce Canadian dollar market returns in 2021. 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 either directly to the US or through Nova Scotian producers. 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 they 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.

In that respect, the FFAW position appears to be built on its continuing call for a recalibration of Cod pricing. As was noted by the Panel last year, up to 2020, landed prices for Cod rose gradually both in real terms and as a percentage of export prices. The highest price and share to harvesters was in 2019 (\$0.90 for grade A) based upon an agreement between harvesters and processors. On average, over the past 5 years, landed prices have been approximately 22% of overall export prices per pound. The five years prior to 2020 produced an average of 23% of export value. Given the stable outlook for pricing in 2021, especially considering negative currency changes, the FFAW's current price offer of \$1.03 would likely put harvesters' share well above the average and the sharing of 2019. In that sense, the price offer appears to be based upon significantly improved sharing and is reliant on a more significant improvement in markets than forecasted. While the Panel feels some increase might be justified to keep sharing in line with previous years, the 28% increase requested by the FFAW does not appear warranted 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 uncertainty in Cod markets and a post-pandemic economic recovery. Most landings occur in the late summer and fall fishery. This is 2-3 months away providing time for re-consideration should Cod markets or currency considerations improve over that period to warrant it. On the balance of probabilities, the current forecast is for any improvement in market prices to be mostly dampened by the stronger Canadian dollar.

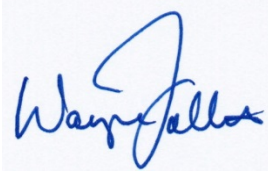
Considering the above, it is the decision of the Panel to accept the final offer of the ASP. The prices for the species Cod in 2021 will be:

	Summer	Fall
Grade A	\$0.73	\$0.80
Grade B	\$0.38	\$0.40
Grade C	\$0.20	\$0.20

Fall prices to come into effect as of August 1, 2021.

These prices will form a collective agreement or part of a collective agreement binding on all processors that purchase the species Cod.

Dated the 18th day of May 2021.



Wayne Follett



Bill Carter



Brendan Condon