

## **STANDING FISH PRICE-SETTING PANEL**

### **CAPELIN FISHERY 2017**

The Standing Fish Price-Setting Panel, hereinafter referred to as “the Panel”, issued its Schedule of Hearings for 2017, on March 2, 2017. Pursuant to Section 19 of the *Fishing Industry Collective Bargaining Act*, hereinafter referred to as the “Act”, the Panel set Wednesday, June 7, 2017, as the date by which collective agreement(s) binding on all processors in the province that process capelin must be in effect.

The Panel also noted, at that time, that it had been advised by the Department of Fisheries and Land Resources that the Association of Seafood Producers, hereinafter referred to as “ASP”, represented processors that process the majority percentage of the species capelin. As a result, under Section 19(11) of the Act, should a hearing be required for capelin, 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 capelin was scheduled to take place at 10:00 a.m. on Thursday, June 8, 2017, at the Labour Relations Board Hearings Room, Beothuck Building, 20 Crosbie Place, St. John’s.

The Panel convened its hearing for the species capelin at 10:00 a.m. on Thursday, June 8, 2017, at the Labour Relations Board Hearings Room, Beothuck Building, 20 Crosbie Place, St. John’s. 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 one market report, provided by the Department of Fisheries and Land Resources, from AM Haram AS, referred to as “Haram”, as well as data on landings and export value provided by the Department of Fisheries and Land Resources. The Haram report provides information on product supply, primarily from Iceland and Norway, as well an analysis of the current market situation in Asia and Eastern Europe.

The FFAW takes the position that despite the price increase awarded harvesters in 2016, the sharing of market returns in the capelin fishery is still much lower than in other species such as halibut, crab and lobster. This is particularly true given the significant increase in capelin market returns in the past few years which allow processors to operate at margins well above the levels required to cover fixed costs. The value of the capelin industry has grown significantly but much of that value has gone to processors. Last year's increase was a good step, but it did not go far enough to correct sharing inequities. In addition, a large portion of the capelin landed, is sold outside the collective agreement, which sets prices only for Grade 'A' and 'B' capelin. There is limited or no knowledge of the value of the domestic market but there is considerable value accruing to processors which is not reflected in the sharing statistics.

The FFAW also believes the most recent market activity and the Haram report, point to a strong market outlook in 2017, particularly in the Asian markets, which they feel is the economic driver for the capelin industry. Foreign currencies are also marginally better than in 2016. In their view, they are seeking a modest increase in 2017 by asking for a 2¢ increase (from 22¢ in 2016) on Grade 'A' only which affects approximately 15% of the capelin landed.

The ASP takes a much different view. They feel the Panel was not correct in its rationale in 2016, in accepting the FFAW position and in hindsight the actual markets in 2016 did not support the increase. The result is that, all the increased export value in 2016 went to harvesters and this led to the harvesters' share of market returns being too high. Capelin is a low value species relative to crab, shrimp, halibut, etc. and therefore collection, shipping and labour costs which are volume based are much higher than other species relative to end product value. In retrospect, the ASP feels their price offer in 2016 was the right price.

The ASP also takes the position that the 2017 market outlook is uncertain and likely to result in lower returns. They point to a worsening male capelin market with few opportunities in Europe and more competition in the US market. They also feel the market for roe bearing capelin will weaken primarily due to increased supplies into China from Norway and Iceland and a stagnating market in Japan. They also noted that based upon the most recent DFO science information, the expectation for 2017 is a smaller size capelin which will be less valuable in the marketplace. In their view, there should be a reduction of 2¢/lb. for both Grade 'A' and 'B' capelin (from 22 and 14¢ in 2016).

At the hearing, and in subsequent deliberations, the Panel noted that the capelin industry is generally data poor in terms of the information available. This includes information with respect to the domestic market and the full value of the industry, market intelligence and market indices across all products and countries, percentages of landings that end up into the

various grades and product types and the cost structure of the industry in terms of collection, shipping, overhead and production costs and processing margins. Nevertheless, the Panel must use what information is available to assess the main factors of market outlook and appropriate sharing being argued by the parties.

The Panel feels that the size of the capelin expected to be landed in 2017, is not a key determinate in this decision. There is uncertainty as to the predictive capacity of the DFO scientific survey as it relates predicting size for all geographical areas and the entire fishery. As well, fish harvesters have some capacity to be selective in terms of which schools of capelin to target and land. More importantly, the pricing system allows processors to pay less for smaller run capelin. Should a smaller run materialize, there will be increasing percentages of catch that fall below the Grade 'A' and 'B' specifications allowing the fishers and processors to negotiate prices at the port market.

The Panel notes the disparate views of the parties on market outlook and sharing, as well as, the gap in positions. The FFAW are looking for a slight increase to the 2016 prices with an increase in the Grade 'A' price. The percentages of landings going into Grade 'A' are not precisely known, however, this suggests an overall increase in average landed price to harvesters in the range of 3.5% to 4.5% over 2016. On the other hand, the ASP proposal will result in a 2¢ decrease in both Grade 'A' and 'B' and an overall decrease in average landed price to harvesters in the range of 10% to 14% down from 2016. The question for the Panel is, which offer best fits the 2017 market outlook and its view on relative sharing of market returns.

With regard to market outlook, the Panel notes that the current currency positions in the major capelin markets are either neutral or favorable relative to 2016. Also, the collective agreement covers only Grade 'A' and 'B' capelin which are destined for roe bearing products. Therefore, the primary market driver for these products is Asia with a focus on China and Japan.

The Haram report notes that on the supply side, 2017 catches to date are up significantly due to an expanded Icelandic fishery. The report notes that there is no Barents Sea fishery this year and that the Norwegian and Icelandic fisheries are likely finished for the year. A large portion of the Icelandic landings (probably as high as 200,000 tonnes) went into roe production. Haram notes on page 10: "*The wild card is whether the Icelanders have large volumes of Asian quality in storage but it seems credible that large volumes have gone to roe production*". Haram also notes on page 2: "*As regards to storage, Norwegian key exporters report in late May that they had no female roe bearing capelin, nor Asian quality capelin, in storage. They also report that demand is still good, particularly in China and Vietnam*".

Throughout, the Haram report makes references to markets and market demand that are strong, particularly in Asia, and market prices that are stable or increasing. Haram reports at page 1: *"In terms of market developments, the demand for female roe bearing capelin in Asia is strong ..."*

With respect to Iceland, Haram reports at page 1: *"Prices fell considerably in ISK and USD in January and February, whilst they picked up in March when the price in USD increased by about 16 percent at the same time as the exported volumes picked up".*

Referencing Japanese imports, Haram states at page 2: *"... volume decreased by 7 percent compared to last year, and that prices were higher all through the first quarter. In March, the price in Yen increased by 8 percent".* Haram also notes at page 8: *"The Japanese market for female roe bearing capelin is often referred to as stagnating".* However, this would appear to be at a high price level.

Haram also provides a number of tables that demonstrate strengthening prices in the first quarter of 2017. Table 5 shows that Norwegian export prices in 2017 for January, February and March have increased over the same months in 2016. Table 6 clearly shows that Icelandic export prices increased significantly in March over January and February prices and the latest price for March 2017 shows a 16.2% increase over the same month in 2016. Table 7 demonstrates that first quarter prices for Norwegian capelin exports to key markets, namely China, Japan and the Netherlands have all increased over the same period in 2016. The same can be said for Japanese import prices in Yen, as shown in Table 10.

At the end, Haram notes that *"if the fish is of the same quality as Norwegian fish, then the likely scenario .... is stable or increased prices"*. In the Panel's view, based upon the Haram report, there is no compelling evidence to suggest that market prices will fall in 2017 and not by a magnitude to support the price decreases put forward by the ASP.

The remaining issue to be considered is the relative sharing of market returns between harvesters and processors. The Panel sees logic in the FFAW position that the harvesters share should increase as market prices and returns increase beyond levels that are required to cover the fixed costs of processors. The challenge for the Panel is that without any production cost information it is not possible to bring any precision to this position in practice. The Panel is reliant on published government macro statistics to evaluate the percentage sharing changes over time. As well, accurate sharing percentages can only be calculated based upon the export value of the fishery since there is no data available as to the value of capelin sales within Canada, which in a given year can be significant.

The Panel is also not in a position to revise last year's decision or to question the rationale of the previous Panel. Given the nature of the final offer selection process, the Panel does not set the 'right' price but must accept the position which appears closest to the expected reality. In that regard, we must look at the relative sharing trends over the past number of years rather than focus on any single year (i.e. 2016).

The market for capelin has been steadily increasing since 2010. In 2010, the export value was only \$16.7M and \$1117 per tonne exported. In 2011, 2012 and 2013 the export value per tonne increased to \$1204, \$1238 and \$1246 per tonne, respectively. However, the largest increase has been over the past 3 years. Since 2013, the export price steadily increased to \$1970/tonne in 2016. In 2016, the export value reached \$36.7M.

During the period 2011 to 2016 the landed value to harvesters fluctuated annually, averaging 30.8% of export value over the 6 year period. The harvesters' share peaked in 2016 at 36.8% up from 30.5% and 32.9% in 2015 and 2014, respectively. This harvesters' share is a percentage share of the export market only as the value of domestic markets is not known. Factoring in the domestic sales value would reduce the harvesters' percentage share (could be by as much as 2% to 4% less).

Since 2013, the export value of Newfoundland capelin has increased by 76% or \$15.8M. Over these three years, the harvesters' share of this increase was \$7.5M with \$3.2M of this accruing to them in 2016. The processors received a share of \$8.3M of this increased export value since 2013. In addition they received the full increase in the value of the domestic market. While not fully quantifiable, the domestic gains would likely put the processors' increase above \$10M during this period or at 53% to 58% of the increase in total industry value. Almost all of this increase to processors accrued in 2015 and 2014 prior to last year's price increase. During these two years the processors' received a disproportionately high share of the increases (approximately 70%). This suggests that a price increase to harvesters was warranted last year.

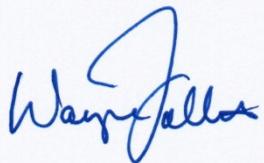
The balance of probabilities from the Haram report suggests that 2017 export prices could remain at or above 2016 levels. If this happens, we estimate that the ASP offer would see the harvesters' percentage share of the export value drop to about 32%-33%, or back to the 2014 percentage share (when the total export value was 24 % lower than 2016). On the other hand, the FFAW offer will see harvesters' share of exports increase to 38%, the highest ever. To determine whether either is an appropriate share, or, whether it should be some point in between, is difficult given the lack of industry data. However, the Panel feels that based upon the trends of recent years, the ASP offer is likely the furthest from the point of fair sharing in 2017.

In light of a review of the market report and the submissions of the parties, it is the decision of the Panel to accept the final offer of the FFAW. The prices for the species capelin will be:

- \$.24/lb. - Grade 'A'
- \$.14/lb. - Grade 'B'

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

Dated the 12<sup>th</sup> day of June, 2017.



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Wayne Follett



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Brendan Condon



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Bill Carter