

## STANDING FISH PRICE-SETTING PANEL

### CAPELIN FISHERY – 2022

The Standing Fish Price-Setting Panel, hereinafter referred to as “the Panel”, issued its Schedule of Hearings for 2022, on March 18, 2022. Pursuant to Section 19 of the *Fishing Industry Collective Bargaining Act*, hereinafter referred to as the “Act”, the Panel set Wednesday, June 8, 2022, 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, Forestry and Agriculture, 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 9, 2022. The Panel convened its hearing for the species Capelin at 10:00 a.m. on Thursday, June 9, 2022, via WebEX 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, supported their submissions in main argument and rebuttal.

The parties and the Panel have the benefit of one market report, provided by the Department of Fisheries, Forestry and Agriculture, from Meros Consulting, hereinafter referred to as “Meros”, as well as data on landings and export value also provided by the Department of Fisheries, Forestry and Agriculture. The Meros report provides information and analysis of the current market situation and potential market demand in Japan.

Meros indicates that the Japanese market started to slowly return to pre-pandemic levels in 2021:

*“In 2021 both Iceland and Norway were back in the market after a two-year capelin catching ban in the Barents Sea. As a result, the market slowly started to return to “normal” pre-ban levels.”* (page 6)

*“In 2021, the Japanese capelin market totaled 15,342 MT which is a 76% increase from the very low levels in 2020, but still 30% lower than the levels before the ban.” (page 21)*

Meros notes that with the reopening of the Capelin fishery in Iceland after a two-year closure, that country has regained its position as the dominant supplier to Japan:

*“In 2021, Iceland is back as the key supplier to the market with 46% share, followed by Norway with 34% and Canada with 19%.” (page 7)*

In terms of industry preference, Meros indicates that Japanese buyers tend to prefer Icelandic and Norwegian product to Canadian product due to quality:

*“The increased volumes of Canada imported back in 2020 were “an emergency purchase” due to the fishing ban and the market gap. The industry switched back to Iceland and Norway in 2021.” (page 7)*

*“The Japanese industry’s assessment of Canadian Capelin is having lower quality (mainly in terms of freshness) compared to the other two suppliers, due to smaller fishing vessels, freezing taking place at factories and shipping occurring during the summer months.” (page 7)*

Nevertheless, Meros noted that Canadian Capelin does have one advantage over its competitors in that it can supply female-only product:

*“An advantage of Canada is their supply of female only capelin of boxes of 11kg each. Reportedly, this product is acclaimed not only in Japan, but in other markets such as Taiwan.” (page 7)*

In terms of pricing, Meros indicates that 2021 saw price fluctuations, and to date in 2022 prices have increased for Icelandic and Norwegian product although the price for Canadian product has declined:

*“Import prices fluctuated in 2021: Iceland decreased its price compared to 2020, but Norway and Canada’s prices increased. The average CIF price decreased by 5% compared to 2020.” (page 11)*

*“In 2021, Canada had the highest price of USD 5.38/Kg. Reportedly, Canadian price was up due to an increased demand in China last year.” (page 11)*

*“In the first months of 2022, the industry expected prices to go down, considering the comeback of Iceland and Norway, but instead import prices increased” [for Icelandic and Norwegian Capelin]. (page 11)*

Meros notes that wholesale prices have been increasing to date in 2022 but as supply increases, a decline at the retail price level is anticipated (page 15):

*“In 2021, the average annual wholesale price at the Tokyo Tsukiji/Toyosu market was USD 6.49/Kg which was nearly 20% decrease compared to 2020.”*

*“However, in the first quarter of 2022, capelin wholesale prices increased up to USD 8.74/Kg.”*

*“Regardless of the lower wholesale prices in 2021, the trend of the increasing retail prices continued. This trend can be explained with the overall increase in costs that is offset at retail price level.”*

*“The industry expects that the retail prices will settle down around the summer as there will be more supply this year. And once processors start to negotiate with retailers, prices are expected to go down.”*

Meros concludes that the Japanese market will continue to return to normal levels and that Canadian supply will decline to typical levels in the face of increased supply from Iceland and Norway (page 22):

*“The dominating opinion is that the market will slowly go back to the pre-ban level of 20,000MT per year. However, factors such as catch size and demand in China must be taken into account as well.”*

*“Canadian supply is expected to be within typical year’s range. While there are processors which value the higher egg content of Canadian products, the majority are already switching back to Iceland and Norway.”*

Global Capelin production varies greatly from year to year depending primarily on quotas in Iceland and Norway. Over the past decade, total production has been as high as one million tonnes (2012) when both Iceland and Norway had very high quotas, and as low as 36,000 tonnes (2020) when the Icelandic and Norwegian fisheries were suspended. Throughout this period Canadian production, which is almost entirely Newfoundland production, has been relatively stable at between 22,000 tonnes and 37,000 tonnes.

NL’s production is comprised of two key products: frozen roe-bearing female Capelin of various size categories; and, frozen “male” Capelin which includes males and females that are unsuitable for a female-only pack. Frozen female-only packs are of relatively high value, and the principal markets are China, Taiwan and Japan. Male packs represent a residual value from production, and are sold to the US, mainly for zoo food, and to Eastern Europe for human consumption. Three-quarters or more of the total value of production comes from the female-only packs. The total value of NL Capelin exports, including products listed as being exported from Nova Scotia, was \$56.8 million in 2021, a decline of 28% from 2020. The average price of these exports in 2021 amounted to approximately \$3350/tonne.

The ASP submission argues that the Capelin market in 2022 will decline precipitously due to several factors. With the reopening of fisheries in Iceland and Norway, world supply of Capelin will return to the highest level since 2013. Meanwhile, key markets are facing challenges which could impact their demand for Capelin. The war between Russia and Ukraine is having a significant impact on Eastern

European markets for male Capelin. The “zero Covid” policy in China is continuing to force mass lockdowns of major cities, notably Shanghai. Japan is shifting back to supply from Iceland and Norway and has reduced its price to Canada by 33% to date in 2022. Due to high prices, the zoo food market in the US is reducing its purchases of Canadian Capelin in favour of alternative products such as sardines and small herring, as well as taking Capelin from Iceland.

In light of the above factors, ASP concludes that Atlantic Canada’s Capelin export prices will fall from approximately \$3350/tonne in 2021 to, at most, \$1500/tonne in 2022, and in all likelihood the decline will be even greater. Their price offer for 2022 is \$0.18/lb. for the top category (Grade A; ocean run; count of 45 or less per pound; 80% or more usable females). The price in 2021 was \$0.465/lb. ASP also introduced a new price schedule for higher counts and lower female percentages, which is based on absolute reductions on a cents per pound basis rather than the percentage-based reductions which are used in the 2021 schedule.

The FFAW acknowledges there are challenges in the Capelin market in 2022 and believes they will result in price declines overall, but the declines will be much more modest than those foreseen by ASP. They note that the relationship between global Capelin supply and NL export prices has historically been very weak, with a varying percentage of the world catch going to reduction fisheries (fish meal and oil). They point out that the total export value of NL Capelin is greater than previously thought because the Canadian exports from Nova Scotia are actually NL product which was held in NS prior to export; therefore, the exports from both provinces must be added together to arrive at the true export value of NL Capelin.

In terms of markets, the FFAW contends that while the Meros Report indicates that the Japanese market will return to pre-pandemic levels, there is nothing to indicate that there will be a major price decline. They point out that to date in 2022, prices for Icelandic and Norwegian product in Japan have risen from 2021 levels and note that the decline in price for Canadian product has been based on a small volume of product left over from the 2021 fishery. In terms of China, they believe that despite periodic lockdowns of some large cities, the Chinese market is resilient and continues to demand Capelin, as is the case with a number of our other seafood products. They acknowledge the war in Ukraine is creating market uncertainty but point to Undercurrent articles which suggest that trade is continuing in Eastern Europe and that prices are high. In terms of the US market, they note that the price to date in 2022 is actually higher than the 2021 price (\$1.15/lb. vs \$1.05/lb.).

The FFAW price offer is \$0.35/lb. (Grade A; ocean run; count of 45 or less per pound; 80% or more usable females) which they believe reflects a more realistic outlook for the expected decline in Capelin market prices this year. Their offer includes a price schedule based on the same percentage-based reductions included in the 2021 schedule.

The parties agree that the market for NL Capelin is going to decline in 2022 due mainly to the resurgence of the Icelandic and Norwegian fisheries and the unrest in Eastern Europe due to the Russian invasion of Ukraine. However, they disagree about the degree to which these factors will result in price declines for NL products this year.

The ASP offer of \$0.18/lb. is a 61% reduction from the \$0.465 price of 2021. However, examination of the proposed new price schedule proposed by ASP indicates that on average the new schedule would reduce the actual blended price the harvester would receive based on the actual grading of landed product by a further one cent or more per pound. On this basis, the ASP price offer represents an approximate 63% reduction in price. A 63% reduction in export price would equate to an overall export price in 2022 of approximately \$1240/tonne, compared with the export value of \$3350/tonne in 2021.

The FFAW offer of \$0.35/lb. represents a 25% reduction in price from 2021 and is based on the current price schedule. This level of reduction would equate to an overall export price of \$2510/tonne in 2022, compared with the export value of \$3350/tonne in 2021.

The Panel agrees that the market for Capelin is likely to decline this year and has deliberated on the question of the probable extent of this decline. The price to date in Japan has declined by one-third for Canadian product, based on very low volume sales of remaining 2021 product. The prices have increased for Icelandic and Norwegian product. Prices appear to be in decline in China as well, although according to Meros, China has growing demand for Canadian product and is less concerned about the quality of product which we can produce. The price to date in the US has increased somewhat, although the volume of Capelin sold may decline this year due to product substitution and purchases from Icelandic competitors. There are indications that the market in Eastern Europe is reasonably strong despite the war, although further supply from Nordic producers can be expected. The question is whether these factors point to market price decline which will see a precipitous drop of nearly two-thirds, or a more moderate decline in value of roughly one-quarter.

A review of previous Panel decisions on Capelin highlights the complexities of determining a reasonable share of the proceeds from the Capelin fishery that should accrue to harvesters. Amongst the challenges are the short duration of the NL fishery in summer and the subsequent export of product over a year or more thereafter, resulting in annual (January to December) data not matching the actual period of export from a particular fishery. To some extent this can be addressed by compiling data on a June-to-May period. Another significant complicating factor is that the run of Capelin can vary significantly from year to year, in terms of fish size and roe content, which can significantly affect the overall graded price that harvesters receive from a fishery. Consequently, the discussion of sharing has, to date, always been unsatisfactory and no specific share for harvesters has been settled. Nevertheless, a review of total landed value versus total export value (NL and NS exports) shows that shares to harvesters have ranged from 15% to 30% over the past six years, averaging approximately 23.6%.

As always, the Panel must weigh the positions of the parties and choose one of the final price offers presented by the parties. The Panel has reviewed the market reports and the submissions of the parties. While the market information available is less comprehensive than the Panel would like, the Panel does not see compelling evidence that would warrant such a large decline in market prices as that put forward by ASP. It is the decision of the Panel to accept the final offer of the FFAW.

The prices for the species Capelin will be: \$0.35/lb. for Grade A Capelin of 45 count or less per pound, with a usable female percentage of at least 80%. The prices on the Capelin price schedule will be reduced accordingly, as per the table contained in the FFAW's final offer.

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

Dated at St. John's, NL, this 15<sup>th</sup> day of June, 2022.



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David Lewis



Earle McCurdy



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Bill Carter