

STANDING FISH PRICE-SETTING PANEL

SPRING SHRIMP 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, April 13, 2022, as the date by which collective agreement(s) binding on all processors in the province that process Spring Shrimp 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 Spring Shrimp. As a result, under Section 19(11) of the Act, should a hearing be required for Spring Shrimp, 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 Spring Shrimp was scheduled to take place on Thursday, April 14, 2022. The Panel convened its hearing for the species Spring Shrimp at 9:30 a.m. on Thursday, April 14, 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 had the benefit of a market report prepared by Gemba Seafood Consulting, hereinafter referred to as “Gemba”, as well as, information provided by the Department of Fisheries, Forestry and Agriculture, including data on Newfoundland and Labrador landings, production and export statistics and recent published articles related to Shrimp markets.

Gemba presents a relatively positive outlook for the Shrimp market in 2022. Regarding the UK market, on page 3 Gemba states:

“The over-all market prices in UK are in an upward tendency due to increasing energy prices, inflation and in some cases shortage of products – this trend seems also to impact the price levels on shrimp and the coming Easter season may fuel this upward tendency.”

In terms of the market in Denmark, Gemba notes on page 3:

“Stable and good demand for shrimp with a Christmas sale at a high level. Companies is bolstered for the easter sales that usually leads to great increase in demand.”

Gemba’s overall price outlook for cooked and peeled product during the Spring 2022 period is positive, as indicated on page 18:

“The 150-250 category is traded at a price level of around 65 DKK/kg in March 2022. This is an increase in price of 8% compared to the September reporting in 2021 and by 33% since March 2021. The main reason for the price increase since the last report in August 2021 was the re-opening of the food service industry in several European countries. The prices in the Christmas season were at high level and the inventories was reduced in the period.

The estimate for June 2022 is a price ranging between 69-71 DDK/kg. The market activities are at this point very low and is expected to take an upward shift when it begins based on low inventories, shortage of shrimp and the inflation in the market in general.”

With respect to inventory levels, Gemba states on page 11 that:

“In total the inventories are at very low level and the trade activities in the markets is non or very low.”

Although Gemba reports positive market and inventory situations, they note that exchange rates are somewhat less favorable (Page 3):

“The currency development in the first months of 2022 show decreasing values for the USD, EURO and GBP following increasing energy prices and inflation, while the CAD has increased in value.”

Gemba also indicates that inflation is causing a progressive increase in prices of goods and services in the economy, and this is also true in the Shrimp sector.

“The elevated and increasing inflation rate will also have an impact on the shrimp prices – in firsthand especially driven by the fuel cost to fishing and catch - where the inflation should be seen as an underlying premise that will be included in the shrimp prices to a much greater extent than in previous years.” (Page 15)

“The connected logistic costs associated with transportation of frozen or processed shrimp is one of the reasons to the increase in the inflation. According to interviews the logistics costs share of shrimp has usually been estimated to an approximately “extra” on 10% of the product cost, but interview suggests that with the increasing transportation costs the logistic cost share may reach up to an “extra” on 30% of the product cost.” (Page 16)

In terms of tariffs, Gemba notes on page 23, that Canada will likely maintain its favorable tariff trade advantage with the UK in 2022:

“In relation to the trade of CWS the UK has made trade deals with Canada, Iceland, and Norway wherein the inclusion of country specific tariff quotas on CWS products are included. Greenland, the US and Russia currently has no trade deal with the UK.”

The ASP offer is \$0.90/lb., which is 10% below the spring price of 2021. They contend that Gemba, has been inaccurate in its portrayal of the real market conditions, and that in fact, NL Shrimp processors have been unable to make money for the past three years. In their view, NL prices have not kept pace with Gemba reporting, and point to a graph showing Gemba prices tracking upwards during the fall of 2021 while NL export prices were tracking downwards. To support their argument, ASP put forward graphs, which they contend show that UK export prices dropped towards the end of 2021, and that overall, prices were similar to 2020.

ASP also believes, that the current pricing model is flawed, because in six of the past eight years, the raw material prices have increased from the spring, to summer, to fall period, even though it is generally acknowledged within the industry that the highest quality Shrimp which offers the best yields is landed in the spring. They contend that, an appropriate seasonal pricing model, taking into account raw material quality and yields, should have highest prices in the spring, and lowest in the summer.

ASP also pointed out, that the percentage of export market price, which has been paid for raw material prices for Shrimp, have been quite variable since 2019, ranging from 20% to nearly 30%.

In terms of currency exchange rates, ASP notes that the Canadian dollar has strengthened by 10% in comparison to the Danish Kroner, and 5.1% over the British Pound. A stronger dollar is unfavorable for Canadian exporters.

ASP also noted that inflationary pressures are impacting processors at all levels of the value chain. In addition to facing pressure to increase raw material prices, they also have to address additional packaging, freight, insurance and other logistical costs.

ASP developed a Spring 2022 Market Current Comparison Table, which indicated a 7.6% increase in the weighted average market price from spring 2021 to spring 2022. Based on the Spring 2021 raw material price of \$1.00/lb., this would suggest a price of \$1.08 for Spring 2022. However, ASP contends that the comparison table is only an indicator and not necessarily reflective of the true market situation. They contend that processors have been unable to make money over the past three years, which they believe shows that raw material prices were too high. Furthermore, they referenced a Government of Quebec study of the Shrimp sector which indicates that NL prices were consistently higher than Gulf Region prices during the 2016 to 2021 period. Based on these factors, ASP submits that the appropriate price for Spring Shrimp this year is \$0.90.

The FFAW offer is \$1.42/lb., which is a 42% increase over the 2021 Spring Shrimp price and a 9.2% over fall 2021 pricing. To support their offer, they point to the Gemba report, which suggests the market has improved substantially since last spring, with good demand, low inventories, and higher prices.

The FFAW cited several references from Gemba and *Undercurrent News*, which pointed to positive market indicators in the UK and Denmark, including an improvement in food service demand, as Covid-19 lockdowns ease and a trend towards higher seafood prices across a spectrum of products. The Union believes that this trend also applies to Shrimp.

The FFAW notes that, Gemba is reporting low inventory levels and low market activity, due to lack of raw material. They believe that if NL processors are still holding inventory, it is to take advantage of improving market prices. In addition, they note that Canada will continue to have a trade advantage in the UK market in 2022, as the US, Russia, and Greenland do not yet have trade deals in place.

The Union also expressed concern about the 32.7% yield figure, which has been included in price calculations for many years. They feel this figure does not reflect any technological improvements in shrimp processing, and are also, well below yield figures of 38-40% put forward informally by processors from other countries during international fora. They note that better yields would support a higher raw material price.

The Union noted in its presentation that inflationary pressures are impacting on the economics of Shrimp harvesters, particularly those who rely on the species as a mainstay of their enterprise. Notably, cost of fuel has risen significantly.

In terms of the seasonality of the Shrimp fishery and the pricing model, the FFAW agrees that the best Shrimp tends to be landed in the Spring, and that it is unfortunate that only a small proportion of overall landings have occurred during this period in recent years.

The FFAW developed a Spring 2022 Market Current Comparison Table which indicated a 19% increase in the weighted average market price from spring 2021 to spring 2022. They considered this market improvement and used yield figures of 35-38% to support their price offer of \$1.42/lb.

The Panel is obligated under Final Offer Selection, to choose one of the two minimum price offers presented by the parties. The offers are far apart. The Panel had to weigh risk and sharing implications in making its determination of which offer to select.

The parties disagreed about the trajectory of the market. The Gemba report indicates that the market has strengthened considerably over the past year, and further modest price increases are expected during this spring. The FFAW agrees with this assessment, and points to Gemba's credibility as shown by its longstanding track record of accurately assessing the market. On the other hand, ASP contends that Gemba has missed the mark over the past year or two, and is overstating the status of the market. The Panel notes the concerns expressed by ASP, but in the absence of alternative market information, accepts the Gemba assessment as a reasonable indicator of market trajectory.

Both parties appear to agree that Spring Shrimp tends to be the best raw material landed during the year. However, the bulk of landings occur during the summer. It is the Panel's view that an increase in fishing activity during the spring would be desirable and should be encouraged where practical.

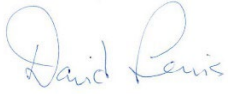
As noted previously, the current Shrimp market prices are well above levels seen this time last year. At that time, the Panel chose the ASP price of \$1.00, based on the prevailing market conditions. This year ASP has offered \$0.90, which would suggest a lower market than last spring, but this is not supported by the information provided to the parties and the Panel. In the current market, acceptance of the ASP offer would result in a significant erosion of share for harvesters.

In consideration of the factors outlined above and after a review of the submissions, it is the decision of the Panel to accept the offer of the FFAW. Effective immediately, the average price for the species Spring Shrimp, will be:

- \$1.42/lb. for Shrimp landed at the plant.
- \$1.39/lb. for trucked Shrimp.

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

Dated this 24th day of April, 2022.



David Lewis



Earle McCurdy



Bill Carter