

STANDING FISH PRICE-SETTING PANEL

SHRIMP (SUMMER) 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 May 2, 2022, as the date by which collective agreement(s) binding on all processors in the province that process Shrimp must be in effect.

The Panel also noted, at the time of setting the Schedule of Hearings, 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 Summer Shrimp. As a result, under Section 19(11) of the Act, should a hearing be required for Summer 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 Summer Shrimp was scheduled to take place on Thursday, June 16, 2022. The Panel convened its hearing for the species Summer Shrimp at 10:00 a.m. on Thursday, June 16, 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 one market report and an April to June market update report, provided by the Department of Fisheries, Forestry and Agriculture, from Gemba Seafood International. The Department also provided data on landings and export value, and recently published articles related to shrimp markets.

In its market update report, Gemba takes a generally positive view of the market and anticipates price increases during the coming months:

“The shrimp prices in June 2022 shows that the 150-250 pcs/lbs. are traded around 67-68 DKK/kg. The price is expected to increase in the coming months to around 72-73 DKK/kg.” (page 6)

However, Gemba notes that inflationary pressures are a contributing factor:

“Information from the market state that the price increase is not driven fully by the shrimp market itself, but by the general upside on prices from suppliers and logistic costs based on expected inflation rates in the society in general.” (page 6)

Gemba cautions that the level of general inflation has become significant and could potentially result in some product substitution in the UK sandwich market:

“... the inflation rate has increased from approx. 0.5% in February 2021 to 8 % (EU27) and 9% (UK) in April 2022 which shows that an added cost is put on the general goods prices, also including shrimp.” (page 11)

“The price increase has hit the prices on shrimp in the end-user segment. Some operators in the market are aware of the possibility or risk for substitution in the shrimp sandwich market. This may interrupt the positive development in the “Grab and Go” market after the Covid-19 issues is cleared. As shrimp is a premium priced protein source the substitution from shrimp to chicken or vegan products may be paced by the price increase.” (page 12)

The Gemba report also points out that the Canadian dollar has strengthened in 2022 to date, which could make Canadian shrimp slightly less competitive in European markets:

“Since January 2022 the USD and EUR gains exchange rate in the first months but at the end of the period sketched out here, there is a net loss of two percentage point on the USD and seven percentage point on the EUR. The GBP follows the CAD for most of the period but loses terrain from March to May 2022 and ends up with an exchange loss of approx. seven percentage point over the period. The long-term and short-term figures illustrates that the strengthening of the CAD against GBP and EUR is significant in March to May of 2022 and is connected to the strong oil export from Canada that strengthens the CAD against these two currencies. The USD, however, is more stable compared to the CAD in these months.” (page 10)

“The strengthening of the CAD means that if you were to buy Canadian shrimp for 100 EUR in January 2022 you would need to pay 105 EUR by May 2022. From a Canadian export perspective, the strengthening of the CAD means that it becomes slightly more difficult to sell the shrimp leading to slightly weakened competitiveness for Canadian shrimp exporters.” (page 9)

In terms of inventory, Gemba indicates that inventory levels are generally low with a roughly three to four month capacity from 2021 remaining. However, they caution that the closure of the Russian shell-on market may create some downward pressure on the cooked and peeled shrimp market in Europe:

"A price reducing component could be the expected impact from the closed export of shell on to the Russian market. Market informant indicate this extra amount will hit the market in Europe." (page 6)

The ASP offer is \$0.90/lb., which is a 18.2% reduction from the minimum price of \$1.10/lb. in summer 2021. They point out that prior to 2015, shrimp prices closely tracked the prices in the Gulf of St. Lawrence and Quebec, but since 2015, the NL prices have almost consistently been the highest of the three, often by a significant margin. They note that this situation was not the result of Panel decisions, as in most cases during the 2015 to 2021 period, the NL price was the result of either agreements between the parties or a Panel decision favoring ASP. Nevertheless, they contend that a serious imbalance has developed which is rendering the shrimp processing sector in NL to be non-viable. Therefore, their proposed price is consistent with the belief that a recalibration of shrimp prices is necessary.

ASP also maintains that the Gemba report has inaccurately portrayed the market in Denmark and the UK over the past several years. They point out that the Gemba report is primarily focused on the Danish market, with an attempt to capture UK trends through conversion of Danish data. In particular they note that NL processors have fundamentally changed their sales focus, especially in 2021, such that the Danish market is now quite a small part of their overall market (down from over 40% to less than 10%) while direct sales to the UK have doubled, from roughly 40% to more than 80% of total sales. In this context, Gemba reports that the Danish market is up nearly 40%, which ASP contends is not credible.

ASP prepared a weighted average market price report comparing the 2021 Summer Shrimp price to the current 2022 market. Based on their standard yield factor of 32.7% and changing the weighting to reflect the actual market shares of the US, UK and Northern Europe in 2021, they generated a summer 2022 price of \$1.19/lb., which they indicated would not be viable for their operations as it would continue the price setting practice which has created an imbalance with the price paid by Canadian competitors and which they claim has resulted in losses in recent years. They also note that the price for smaller shrimp in Oregon, which is a well-established substitute product in the UK, is \$0.76/lb. CAD, compared with a NL price for similar sized shrimp of \$0.99/lb.

The FFAW offer is \$1.365, a 24.1% increase from the 2021 Summer Shrimp price. They note that the Canadian Ministry of International Trade (CMIT) export data shows that prices increased considerably in 2021 versus 2020. They also point out that the Gemba report indicates favorable market conditions for 2022, with prices expected to strengthen during the year. Undercurrent articles are also referenced which suggest that ongoing sanctions against Russia and the continued UK tariffs against Greenlandic product bode well for other producers, including Canada.

In terms of a recent price agreement between harvesters and processors in Quebec, the FFAW estimates that the average price in 2022 will be \$1.40/lb., a 16.7% increase over the 2021 average

price of \$1.20/lb. The FFAW prepared a weighted average market price schedule which compares summer 2021 prices with the current 2022 market situation, using commonly agreed market shares of 15% US, 42.5% UK and 42.5% Northern Europe; this schedule, using a 35% yield factor, produces a suggested 2022 price of between \$1.40/lb. and \$1.45/lb. Although the yield factor was set at 35%, the Union suggests based on informal commentary heard at industry fora that the real yield could be as high as 38-40%.

The FFAW also commented on the inflationary pressures facing harvesters and pointed out that costs have increased significantly, particularly for fuel and insurance. In addition, many harvesters have invested heavily in acquisition of additional quotas, which have resulted in considerable additional debt servicing costs.

The Panel finds itself in a challenging position in weighing the offers of the two parties and making its decision to choose one of the offers presented. The submissions and the commentary of the parties at the hearing suggest that neither of the two positions presented may result in a fishery this summer. The ASP price appears likely to be below the threshold at which harvesters will fish, and the FFAW price appears likely to be above the price at which processors would be prepared to buy to ensure a fishery. The Panel believes it has been presented with a choice between two offers which may not result in a fishery. The Panel notes that during the past several years, Summer Shrimp prices have usually been set by agreement between the parties or by the Panel choosing one of two offers which were relatively close together. In situations like the current one, where the price spread is wide, it would be desirable for the parties to continue bargaining to close the distance between offers so the Panel is presented with two options which are more likely to result in a fishery. Nevertheless, the Panel realizes its mandate is to choose one of the offers which best reflects the available information regarding market conditions, regardless of its implications for the conduct of the fishery.

With respect to the Gemba report, the Panel notes that this company appears to have a good knowledge of the Danish market for Shrimp, but less so for the UK market. The Panel's assessment is that the Gemba prices tend to be inconsistent with the CMIT data related to Newfoundland and Labrador exports of shrimp. To illustrate, Gemba is recording a continuing upward trend in prices in Denmark from December 2020 to June 2022, whereas the CMIT data is showing strong growth in NL exports to Denmark during 2021, but a year to date drop in prices of 12% in 2022. Conversion of the Danish prices from Kroner to Canadian dollars and comparing to the CMIT prices suggests the Gemba prices overstate the market. In terms of Gemba's statement of UK prices, they report that prices were more or less stable during 2020, but trended upwards during 2021 to end the year, some 20% higher. However, CMIT data for NL exports to the UK during 2021 show that on average, prices were roughly equal to those attained during 2020.

The Panel notes that there was a major shift in sales of shrimp from NL directly to the UK in 2021. In the years leading up to 2021 the split of total sales between Denmark and the UK was relatively equal at roughly 40% to each market. In 2021 the sales to the UK exceeded 80% with sales to Denmark

falling below 10%. This may be due to the favorable tariff treatment Canada has with the UK vis a vis the post-Brexit tariffs which the UK levies on Danish shrimp products, and if so, will be likely to persist in 2022. In any case, the Panel believes that additional direct market information on the UK market, the principal market for NL shrimp, would be very beneficial to the parties and the Panel in future collective bargaining.

In terms of the overall market outlook for Summer Shrimp in 2022, there are indications that some positive price growth may occur. To date in 2022 the average price of NL sales to Denmark has declined by approximately 12%, but the average sales price to the UK has risen by 11%. Gemba is projecting anticipated price increases but notes that this will not be fully from the dynamics of the shrimp market, but also from reflection of general inflationary trends which are currently running at 8-9% in the EU and UK. Gemba notes that there could be market resistance, particularly in the UK “grab and go” sandwich market, which could see substitution for alternative proteins. It is also noted that exchange rate shifts, which have been unfavorable to the UK and Denmark vis a vis the Canadian dollar (i.e., a roughly 7% slide from March to May, 2022) could impact the shrimp market as well.

In their price submissions, both parties presented schedules which developed notional Summer Shrimp prices by using the Weighted Average Market Prices of the three key markets (US, UK, and Northern Europe), and applying yield and sharing percentages to calculate 2022 prices based on changes from the 2021 price. The Panel examined and considered these schedules. Several weaknesses were identified which the parties may wish to consider in future submissions. Most notable, the input numbers were inconsistent, particularly with respect to the UK market. The market prices inputted for the UK market were different for each of the parties, not only for summer 2022 but also for summer 2021. It is the view of the Panel that the parties should make every effort to at least be consistent on prior-year figures. In addition, it would be beneficial for the parties to discuss whether the change in relative share for each of the three markets, which has shifted in favour of the UK market, is of a temporary or permanent nature, and whether this shift should be addressed in the development of pricing schedules. A consideration of yield factors would also be beneficial, including the extent to which yields for shrimp vary by season.

The Panel notes that harvesters and processors in Quebec recently submitted price offers for shrimp to the Regie des marches agricole et aliments du Quebec (the Regie) for an expedited decision by final offer selection.

The processors put forward an offer for a roll-over of the 2021 price schedule. Taking into account the typical NL size distribution which both the ASP and FFAW included in their submissions (10.19% for 0-150 count; 23.29% for 151-170 count; 65.9% for 171-200 count), the Quebec processor price offer would amount to an average price of approximately \$1.05/lb. It is possible that a deduction for “tail costs” (4R premium, license fees, offloading, transportation, Workers Compensation, and EI premiums) which are paid in NL but not in the Maritimes would further reduce the comparative price in relation to NL conditions of sale, although it is not clear whether certain NL restrictive policies (e.g.,

trip limits; delayed sailing) might result in at least a partial offset of costs. ASP indicated that “tail costs” would amount to \$0.16-0.17/lb.; the FFAW suggested that there would be offsets against these costs to compensate for more restrictive policies in NL but did not quantify these factors. The Quebec harvesters put forward a price offer which would equate, based on the above size distribution, to a NL price of \$1.44 before possible offsets for “tail” costs. The Regie selected the price offer of the Quebec processors.

Shortly following the Regie decision, the Quebec industry concluded that the price would not be adequate to enable a fishery. Consequently, the harvesters and processors negotiated a compromise agreement, which would equate to a NL price of approximately \$1.30 before possible offsets for “tail” costs.

Under final offer selection, the Panel may only choose one of the two offers to set the minimum price for Summer Shrimp. As the parties are aware, processors/buyers may pay more than the minimum price, but not less. The Panel is strongly of the view that the appropriate price for Summer Shrimp in 2022 is between the price offers of the parties.

Having reviewed the submissions and considered the available market information, it is the decision of the Panel to accept the ASP offer. This decision was a challenging one and, for the first time this year, the decision was not unanimous.

The Panel notes that this decision should not be construed as a declaration on recalibration of Summer Shrimp pricing or of overall sharing going forward, but rather is a decision to choose one of two disparate offers. The Panel has been unable to find adequate evidence that a 24% price increase is warranted, especially in light of the growing threat of recession as well as the significant trend downwards in the value of UK and Danish currencies in relation to the Canadian dollar.

Effective midnight on June 27, 2022, the average minimum price for the species Summer Shrimp, based upon 2022 summer size distribution, will be:

- \$0.90/lb. for shrimp landed at the plant.
- \$0.87/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 Summer Shrimp.

Dated at St. John's, NL, this 27th day of June, 2022.



David Lewis



Bill Carter