

STANDING FISH PRICE-SETTING PANEL
CAPELIN FISHERY 2018

The Standing Fish Price-Setting Panel, hereinafter referred to as “the Panel”, issued its Schedule of Hearings for 2018, on March 1, 2018. Pursuant to Section 19 of the *Fishing Industry Collective Bargaining Act*, hereinafter referred to as the “Act”, the Panel set Wednesday, June 6, 2018, 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 7, 2018, at the Ramada Hotel, 102 Kenmount Road, St. John’s.

The Panel convened its hearing for the species Capelin at 10:00 a.m. on Thursday, June 7, 2018, at the Ramada Hotel, 102 Kenmount Road, 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 ASP takes the position that market prices for Capelin will decline significantly in 2018 due to a large increase in global Capelin supply. Capelin are likely to be small and of a similar run as last year, and it will be more difficult for Newfoundland processors to place that product in the

market this year (due to higher inventories in other countries). ASP contends that the domestic market holds no net value. The percentage share of the export market is a lagging indicator and not suitable for setting prices. The addendum price schedule negotiated between the parties last year for grades that fall outside Grade A and B will be needed again this year but the prices should be reduced. In 2017, 100% of the landings were purchased under the addendum price schedule.

The FFAW acknowledges that export market prices will be lower in 2018, but believes the reduction will not be to the full extent projected by ASP. They accept that the Capelin run will likely be similar to last year, but feel the markets in Asia still have strong demand for Newfoundland product. They maintain that the addendum price schedule in 2017 resulted in a much lower share of the industry value than should accrue to fish harvesters. As a result, even with the anticipated decline in export value, with a roll-over of 2017 prices the percentage share accruing to fish harvesters will revert to a more normal and appropriate level.

When queried by the Panel, both parties indicated they did not think currency exchange was a factor affecting the price decision in 2018.

In its submission, ASP focused attention on the issue of the value of domestic sales of Capelin which in 2017 accounted for approximately 28% of landings. Their contention is that these domestic volumes are either put into fish meal, sold at minimal prices, donated to local farmers, or lost to overpack, spoilage, etc. Consequently, domestic sales have little or no net value to processors, and should not be included in any discussion of the sharing of market value by fish harvesters. The Panel is persuaded by this assertion and determined that the best index of sharing is that measured as a share of export value.

In terms of market outlook, both parties agree that market prices will be lower in 2018 compared to last year. However, there is disagreement on the extent of the decline. In recent years, Newfoundland Capelin was exported to the US (30% of volume and 20% of value over the past four years) with the majority of the rest going to Asia. The primary Asian markets are China and Taiwan (57% of value over the past four years) with much of that being reprocessed for Japan. The Asian markets are for roe bearing females and are of much higher value than the US market which is for lower value products (i.e. zoo food). The Asian market therefore dominates total export value and the outcome for the year.

Newfoundland processors experienced a significant price reduction in US export prices in 2017 (by 16%). ASP believes the downward trend will continue in 2018 (further decline by 10% or more). There is little information available on the US market to assess this claim. However, Haram

suggests that in the face of increasing supplies, global markets for all Capelin including males and mixed Capelin will decline.

Haram notes on page 1: "Total Capelin catches in 2018 are close to 70% higher, or about 223 221 tonnes, compared to last year... In the case of Norway, the supply of Capelin from Norway to human consumption increased by close to 88%, or 46 444 tonnes compared to 2017."

Haram further reports on page 1: "All industry players highlight the big volumes-lower price scenario this season: buyers knew catches would increase and prices most likely decrease if they bought later in the season. In addition, most of them had satisfactory volumes of Capelin in storage from last year."

Asian market prices have been strong the last few years remaining favorable for Newfoundland processors in 2017 despite the small run of Capelin. However, ASP is concerned that with the increased global supplies, and inventories of food Capelin in Norway and Iceland, it will be a difficult year in 2018. ASP believes market prices will decline by 20% or more. The FFAW shares the market concern but feels declines will be in the 13% to 15% range. It is difficult for the Panel to arbitrate this difference given the market information available and without knowing how Newfoundland processors will be able to prioritize between more favorable spot markets or leverage long standing supply arrangements with buyers to support prices. On the other hand, unlike 2017, there may also be market challenges given the anticipated smaller run, particularly given the late timing of Newfoundland product into the market.

The Haram report concludes: "Prices for female roe bearing Capelin will depend on the size and the roe content of the fish as well as the ratio of male/female fish. Based on the above information, the prices in USD for female roe bearing Capelin from Newfoundland and Labrador will very likely be lower in the upcoming season compared to 2017."

However, Haram does not project the extent of the expected decline in prices for Newfoundland processors that supply 100% roe Capelin to Asia. The report also does not project the extent to which declines observed in the first quarter of 2018 will continue to worsen. The report offers mixed signals in that regard.

For instance, Haram states on page 1: "Some industry players report that demand is strong for shipments with more than 80% female roe bearing Capelin". They also report that demand is strong for this "Japan quality" product and that they would have been able to sell more if they had been able to source more". Haram goes on to say that: "Most industry players regard the

total demand situation as relatively good, and assess the price reductions as normal in view of the much larger Norwegian supply.”

In terms of the overall slide in prices, Haram makes the observation that “The price could therefore deviate from the main pattern for some Capelin segments, in particular if the shipment in question contains a very high proportion of female roe bearing Capelin”. Haram also notes: “There is an untapped potential for female roe bearing capelin in China, Vietnam, Taiwan and other Asian countries”.

In terms of observed price declines to date in 2018 Haram notes: “Prices went down to all markets in the first quarter of this year. On average the price decreased by close to 19%”. This decline was in NOK and is approximately 14% in USD which is the relevant currency for Newfoundland processors. In Table 8, the Haram report shows that in the first quarter of 2018 compared to the same period in 2017, Norwegian export prices in US dollars to China and Japan were down by 14% and 17%, respectively. Haram also notes: “In the first quarter of this year, Norway exported 15 024 tonnes of Capelin for human consumption, which is a decrease of close to 30% compared to the same period last year... ...In March, prices dropped by close to 22% in NOK and 16% in USD”.

In addition to market, the other key issue for the Panel to consider is the relative sharing of export market returns between fish harvesters and processors. Last year, due the smaller run of Capelin the parties negotiated, in season, an addendum price schedule for grades that fall outside Grade A and B pricing. In the past, the prices for these grades were negotiated at the wharf between the processor and harvester. In 2017, the share of export value accruing to harvesters was 27.7%. This was a significant reduction from a share of 36.8% in 2016 and much lower than the average share to harvesters in recent years (in the previous five years 2012 to 2016, the weighted average share to harvesters was 32.2%).

It is reasonable for harvesters to try to improve on the 2017 sharing outcome. They contend that any reduction in export value this year be absorbed by processors leading to improved sharing. The question for the Panel is at what level of market decline a rollover of prices would be justified.

The gap between the 2017 share to harvesters (27.7%) and the five year average (32.2%) is 4.5%. With a rollover of prices as proposed by the FFAW, a decline in export values by approximately 14% in 2018 would close this gap (assuming the same volumes of landings and a similar yield of exportable product in 2018 as was the case last year). At a 20% decline in export value, the percentage share to harvesters would be close to 35%, well above the recent average.

Depending upon the characteristics of Capelin landed in 2018, the ASP price offer will likely result in a reduction in average landed prices to fishers of between 10% and 13%. As a result, under the ASP offer, a 14% decline in export value in 2018 will result in a share of 28% to 29% to harvesters which would again be well below average. With a 20% decline in export value, the share would approximate 30% to 31%, still below but closer to the recent average.

As noted earlier (view of the market by the parties and Haram), it seems reasonable to consider a decline in the market in 2018 in the range of 14% and 20%. A market decline at 20% or more, would support the ASP position. A decline in the lower end of the range would favor the FFAW position on sharing. The reality is that the 'right' position is in between the two positions. The Panel asked the parties to consider a compromise of their positions before tendering its decision but the parties could not agree.

The difficult challenge for the Panel is predicting the level of market decline which will actually occur given all the considerations in play. However, the Panel is cognizant of the significant erosion of the harvesters' share of export value experienced last year under the new price addendum and the probability this will continue in 2018. In light of this, and 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 and the rollover of 2017 prices. The prices for the species Capelin will be:

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

These prices and the revised FFAW addendum for those grades that fall outside Grade A and B will form a collective agreement or part of a collective agreement binding on all processors that purchase the species Capelin.

Dated the 13th day of June, 2018.



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