

STANDING FISH PRICE-SETTING PANEL

COD FISHERY 2020

The Standing Fish Price-Setting Panel, hereinafter referred to as “the Panel”, issued its Schedule of Hearings for 2020, on February 27, 2020. Pursuant to Section 19 of the Fishing Industry Collective Bargaining Act, hereinafter referred to as “the Act”, the Panel initially set Wednesday, May 13, 2020 as the date by which collective agreement(s) binding on all processors in the province that process Cod 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”, represents processors that purchase the majority percentage of the species Cod. As a result, under Section 19(11) of the Act, should a hearing be required for Cod, 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 there to 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 collective bargaining must be obtained.

The hearing for Cod, if required, was scheduled to take place on Thursday, May 14, 2020. The Panel convened the hearing for the species Cod at 2:00 p.m. on Thursday, May 14, 2020, via Microsoft Teams virtual meeting capabilities. The parties appearing before the Panel were the FFAW and ASP. The parties having previously exchanged written submissions, copies attached, supported their positions in argument and rebuttal.

The Panel and the parties had been provided with reports prepared for the Department of Fisheries and Land Resources, including one report from Seafood Data Search, hereinafter referred to as “Sackton” and another from Sea Data Center of Reykjavik, Iceland, hereinafter referred to as “Sea Data”, as well as landings, production and export data and Urner Barry price information. Both market reports provide information on global Cod markets with emphasis on the primary markets for Newfoundland Cod which, in 2020, will be primarily in the US, but also developments in other European and twice frozen markets. The Sea Data report focuses more

on what the Coronavirus pandemic will mean specifically with respect to production shifts (i.e. from fresh to frozen) and exports from Iceland.

On page 4 of his report, Sackton begins on a positive note suggesting that:

"There are preliminary indications that the overall frozen Cod market is not being disrupted to the degree seen in Crab and Shrimp..... retail demand for frozen Cod has been very strong and has made up a portion of the volume lost at foodservice in both the US and Europe..... prices for frozen Cod have not seen the huge erosion that has happened with other commodities such as Crab, Shrimp, and Lobster. In general, Urner Barry quotes on most frozen Cod items have been relatively stable".

However, he goes on to say on page 5: *"But there has been a trend of declining prices since January based on import values for frozen Cod to the US from Norway, Russia and Canada"*. When referring to Urner Barry indices later in his report on page 31, Sackton notes that:

"taken together, these indexes show a downward trend in Cod prices from the fall of 2019 until the present, although not every index shows this. However, the moving average of the adjusted Canadian import price into the US market shows a downward trend since the start of this year."

He also notes on page 31, that the percentage fall in price has been around 9%.

Sackton explains that there is a heavy reliance on US markets for Newfoundland cod products. On page 9 of his report, Sackton states that:

"Canadian frozen Cod exports go primarily to the US and UK markets. However, in recent years, the proportion of frozen exports going to the UK declined, while the proportion going to the US increased. Since 2016, the US has been the more important export market by volume. This trend continued in 2019."

Further along, Sackton notes on page 10:

"The UK share of single frozen portions and fillets declined from 24% in 2018 to 10% in 2019, meaning that the US market was by far the most significant for this product."

On page 19, Sackton indicates that:

"The overall foodservice outlook for Cod was very good, prior to the upheaval caused by the global coronavirus pandemic. The measures presented here now

must be considered historical, as it is simply unknown how the foodservice landscape will change in the United States once the pandemic has receded."

Specifically, with respect to restaurants, Sackton states on page 21: "*Restaurant sentiment speaks for itself. In March sentiment fell to its lowest level ever, far surpassing the decline that occurred during the 2008 recession.*" On page 22, "*According to the National Restaurant Association, "Most restaurant operators do not expect their business to quickly return to normal during the next few months..... nearly three in four operators (74 percent) expect to have lower sales in six months."*"

With respect to the retail sector, Sackton notes on page 23:

"The overall retail situation is first, that frozen seafood demand is strong, and retailers are not reducing their prices. The reason is that frozen seafood has participated in the rush of Americans to stock up on meat and seafood items, so that they do not have to go out as often. But longer term, the outlook for seafood at retail is much more uncertain."

Urner Barry, in their recent COVID-19 update, said "*we don't see how prices, at least in the near to medium term can hold, despite a strong retail sector which can only take (a) certain degree of demand spilled over from foodservice.*" They expect price volatility to increase as "*seafood sellers fight for limited space in the retail sector and a considerably shrunken foodservice sector.*"

Sackton refers to a 'multi-year depression' on page 24, but narrows in further saying on page 26 that "*... the medium-term outlook, in six to twelve months, is highly uncertain. This is primarily because the outlook for the US economy is so dark.*" In terms of inventories, Sackton briefly mentions on page 35 that: "*Inventories are adequate for global Cod production..... However, the pandemic has created huge amounts of inventory stress that has yet to be reflected in frozen Cod pricing.*"

Due to restrictions on air transport because of the pandemic, shipments of significant volumes of fresh product from Iceland, as has been normal in previous years, will almost be non-existent. In light of the turbulent market situation in most Cod markets, Sea Data Center indicates that: "*Icelandic exporters have managed the circumstances well..... This has been done by altering the production and product mix*". As a result, Icelandic processing plants have had to switch their product pack mix to include more frozen and this will be competing directly with Cod from NL in US markets.

At the hearing, the ASP put forward a proposal to reduce the price to fish harvesters by approximately 11% (i.e. grade A price from \$0.90 per pound in 2019 to \$0.80 per pound in 2020).

They contend that while the markets for Cod will not be as drastically affected as those for shellfish, the market reality is that the pandemic will likely further dampen prices in 2020. They point to the fact foodservice markets in the UK, France, and USA are severely affected.

The ASP claims that because of a lack of air transport, the fresh Cod industry will be severely impacted. There will be increased competition in frozen markets as large volume competitors like Iceland switch to frozen production. They claim that Newfoundland processors have considerable inventory stalled in the market and orders for product were cancelled in March 2020. Price indices for several Cod products show a material decline since Jan 2020, which is indicative of a worsening market sentiment during these times.

The ASP also contends that the key currencies went against them last fall after they agreed to an increase in the landed prices. Collection costs are rising on small volumes distributed around the province and there has been a further significant reduction in the 3PS quota. They claim that Newfoundland processors cannot significantly switch, on short notice, to production for the fresh market in the US. In any case, they feel that during the pandemic the fresh market will not work since the restaurant segment is not there to buy fresh products.

The ASP believes that significant Cod volumes are sold by harvesters directly to local markets. They also contend that value added by the further processing of Newfoundland saltfish in Nova Scotia accrues to Nova Scotian processors and not those in Newfoundland. The FFAW agreed to the landed prices in four of the past six years including in 2019, and therefore, have no basis for asking for a recalibration from these price levels. They feel the FFAW have not acknowledged market reality and it is inexplicable to ask for an increase in 2020 in the face of the COVID-19 impact on the US economy.

The FFAW's position is that fairness in sharing market returns needs to be addressed despite the pandemic. Its offer is for a 9% increase in price (i.e. grade A price from \$0.90 per pound in 2019 to \$0.98 per pound in 2020). They maintain that Sackton is consistently conservative in his market forecasts and the Panel accepted Sackton's outlook in 2018 which did not materialize. They contend that the increased prices to harvesters have not kept abreast of the increased processors' returns from the market in recent years and there needs to be a recalibration of sharing this year.

The FFAW contend that most of the recent increase in landed value to harvesters is due to quality improvement, at a significant cost to their fishing enterprises. In addition, they believe that the significant gap between Newfoundland Cod landings and recorded exports is the result of saltfish being shipped to Nova Scotia for onward export to the US. Value is added to this saltfish and Newfoundland harvesters are not getting a share of it. They feel that while other countries will be limited in fresh markets by the lack of air transport, Newfoundland processors could truck

fresh products to the US. Currencies are favourable and will partially offset lower market prices. They accept that Cod markets will likely be down this year but maintain the ASP submission is based upon fear and not evidence.

The Panel reviewed in detail the submissions of the parties and the market reports and information available. It appears that frozen Cod markets have been up during the last few years. Saltfish markets were rising but dipped last year. The 2020 market outlook points to an unsettled situation with downward pressure due to the global pandemic and the bleak economic outlook in the US. However, a Cod market collapse is not anticipated as is the case with other species. Sackton does note however, that there is a downward trend in Cod prices from the fall of 2019 until the present. There is a broad agreement that markets will be under pressure and the food service segment is down significantly. The CAD/US currency is favourable and the market for Newfoundland Cod products will primarily be in the US this year.

For the Panel, there are several considerations at play. Increased competition is likely in the frozen market as fresh fish processors in competitor countries turn to frozen production. There is also the uncertainty given the poor economic outlook in the US. The Panel must choose a price knowing that most Newfoundland cod will not be landed and sold until late summer or fall. Sackton points to a 9% decline thus far in 2020 and that:

"In this environment, comparison to historical price trends loses some of its validity. We just do not know what the future holds for the value of various fish products. For that reason, there is much more uncertainty than normal in terms of what markets will be like six or nine months from now."

The FFAW position is built on its call for a recalibration of Cod pricing in 2020. The Panel notes that prices to harvesters have risen gradually since 2015 both in real terms and as a percentage of the overall per pound export value of Newfoundland Cod products. In 2018, the price was held at 2017 levels by a Panel decision while markets that year turned out to be more favourable than anticipated. The FFAW and ASP then agreed on an 8 % increase in price in 2019 which improved harvesters share given that export values subsequently dipped slightly in that year.

2019 landed prices were approximately 24% of overall export prices per pound up from the low of 20.5% in 2018. On average over the past 5 years, landed prices have been approximately 23% of overall export prices per pound. Assuming 90% Grade A as in 2019, the FFAW price offer would put harvesters' share at 26% if export pricing remained at the same level in 2020 as last year. Should export prices drop by 5% or 10%, the harvesters share would rise to 27.8% and 29.2%, respectively. This would mean a significant increase in harvesters' share (16% to 22%) in 2020 depending upon the extent market prices decline. The question for the Panel is whether such a

significant recalibration is warranted, especially considering the negative influence of the pandemic on market outlook in 2020.

The Panel notes that in six of the last eight years, the FFAW and ASP agreed on prices to harvesters. Only in 2015 and 2018 did the Panel need to select a price position. The 2018 position reduced harvesters' share but this recovered in 2019. There is no compelling argument that Panel decisions have distorted shares over the long term. The FFAW may have conceded somewhat on past pricing agreements in the interest of avoiding arbitration. However, that in part, reflects the dynamics of the current system for setting prices and it applies to both parties to a negotiation. Their current offer represents a significant adjustment to sharing. In the Panel's view, the magnitude of price recalibration requested by the FFAW is too great, especially considering the headwinds of 2020 (COVID-19, competitors' impacts on markets, and the bleak economic outlook).

Under Final Offer Selection, the Panel can only select one offer and cannot take a compromise position. As has been widely accepted, there is much uncertainty ahead in 2020 in fish markets and a poor economic outlook is predicted. There are 2-3 months left before the late summer/fall fishery and time for reconsideration should Cod markets or currency considerations improve over that period to warrant it. On the balance of probabilities, the market will be somewhat lower in 2020. The parties agree on this point.

Considering the above, it is the decision of the Panel to accept the final offer of the ASP. The prices for the species Cod in 2020 will be:

	Summer	Fall
Grade A	\$0.73	\$0.80
Grade B	\$0.38	\$0.40
Grade C	\$0.20	\$0.20

Fall prices to come into effect as of August 3, 2020.

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

Dated the 20th day of May, 2020 at St. John's, NL.



Wayne Follett



Bill Carter



Brendan Condon