

## **STANDING FISH PRICE-SETTING PANEL COD 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 Thursday, May 10, 2018, 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, it had been advised by the Department of Fisheries and Land Resources, there was no majority processor or processors’ organization identified for the species Cod. Accordingly, in the event a collective agreement binding on all processors in the province that process Cod had not been achieved by Thursday, May 10, 2018, the Panel will hold hearings on the scheduled hearing date, at which time it will hear presentations regarding price and conditions of sale. As a result, under Section 19(11) of the Act, should a hearing be required for Cod, the parties before the Panel may include a processor, a processors’ organization and the Fish, Food and Allied Workers Union, hereinafter referred to as “FFAW”. Presentations will be accepted by the Panel from a processor, processors’ organization and FFAW representatives at the hearing. The Panel shall decide on all matters in dispute between the parties relating to price and conditions of sale for the fish species, and the decision of the Panel is final and binding on the parties and all other processors that process that species of fish to which the Panel’s decision relates and constitutes a collective agreement or part of a collective agreement between them. The hearing for Cod, if required, was scheduled to take place at 10:00 a.m. on Thursday, May 10, 2018, at the Ramada Hotel, 102 Kenmount Road, St. John’s.

Subsequent to the setting of the initial schedule of hearings, the Panel was advised by the Association of Seafood Producers, hereinafter referred to as “ASP” that a major Cod producer, Icewater Seafoods Inc., had joined their Association and they now represent processors that process the majority percentage of the species Cod. On May 3, 2018, it was confirmed by the Department of Fisheries and Land Resources, that with Icewater Seafoods Inc. becoming a member of ASP, their Association now represents the majority of Cod production in the province.

The Panel convened its hearing for the species Cod at 10:00 a.m. on Thursday, May 10, 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, supported their submissions in main argument and rebuttal.

The parties and the Panel have the benefit of two market reports, provided by the Department of Fisheries and Land Resources. The market reports are from Seafood.com, authored by Mr. John Sackton, hereinafter referred to as "Sackton", and another from Sea Data Center of Reykjavik, Iceland, hereinafter referred to as "Sea Data", as well as data on landings and export value provided by the Department of Fisheries and Land Resources. Both reports provide information on global Cod markets with emphasis on the primary markets for Newfoundland Cod in the US and UK, but also developments in other European markets and the twice frozen market in China. The reports for the most part, appear consistent suggesting strong markets for Cod in the face of strong demand and declining global supplies. Both reports also address exchange rate impacts noting that both of the key currencies, the USD and Pound Sterling, have depreciated somewhat vis-a-vis the Canadian dollar, reducing Canadian dollar returns from the market.

In their proposal, the FFAW purports that global Cod markets are stronger and Cod prices of frozen HOG, twice frozen fillets in the US and saltfish in Spain and Portugal are up. The prices for Newfoundland produced products will get pulled along by the increasing prices generally in the market. The quality of Cod landed in Newfoundland has significantly improved due to the efforts of fish harvesters, and they should see returns beyond that afforded by the quality grading pricing system. They also maintain that Newfoundland production has become more diversified than traditional frozen fillet production with increasing volumes going to the saltfish markets and into the domestic market.

The ASP proposal contends that since the establishment of the quality grading differential pricing, and seasonal prices in 2015, the weighted average prices to fish harvesters have increased significantly and faster than the returns obtained by processors from the market. They provided a number of analyzes to support this claim. The percentage of Cod landed as Grade A, has increased from 64% in 2015 to 82% in 2017. The increased returns to fish harvesters reflect increased returns for the improved quality as well as minimum price increases in each of the past two years. However, the lack of comparable returns in the export market has resulted in an erosion of margins to processors. In effect, by proposing a rollover of 2017 prices, the processors are using a possible incremental gain in the 2018 market prices to close this gap. They maintain the pricing information available (i.e. frozen HOG and twice frozen fillets) in the market reports do not relate to the once frozen products uniquely produced by Newfoundland processors for niche markets. These products are already priced at a premium based upon more stable market relationships with buyers. They also point to fact there has been negative currency impacts since last year. With the expected quota reductions in 2018 there will be cost increases to processors, particularly in respect of fish collection costs.

In respect of overall Cod markets, both reports indicate that Cod markets are strengthening due to some reduction in supply of Atlantic Cod and Pacific Cod. In respect of the UK market, 2017 prices in Canadian dollars are on par with previous years with some slight increase possible in 2018. Sea Data states on page 70: *"The overall outlook for both Atlantic and Pacific Cod prices in 2018 points to an increase in prices due to lower supply"*. However, it also states on page 70: *"The reduction of supply has been foreseen and the market should already have adjusted to the expectations of lower supplies and higher prices"*. Limited data is available for Canadian products in the UK market. Sea Data suggests on page 8, that the markets for Cod from Norway and Iceland are the best indicators for Canadian products. On page 61 of its report, Sea Data shows that the export price, in Canadian dollars, of frozen fillets/portions to the UK from these countries has been level for the past few years. Sackton states on page 15 of its report: *"As of January, the Canadian dollar value of all UK Cod imports has simply returned to where it was in April of 2017"*.

Sackton focuses primarily on the US market, the leading indicators and how they relate to Newfoundland product. He points to the fact Canadian Cod volumes are very limited and inconsequential to the overall market supply. On page 3 he states: *"... Canadian Cod represents less than 1% of global output, and Newfoundland produces only a portion of Canadian Cod landings"*. He also states on page 3, *"... supply from Newfoundland will be smaller and more erratic this coming year. Given the narrow range of Cod products, and the small volume, Newfoundland is a price taker"*.

Sackton also points to the fact that no market data exists for once frozen fillets which account for a majority of the Newfoundland exports to the US. On page 3 he states: *"We know that the price series that are available are for double frozen loins, not single frozen; for shatterpack; and for fresh Cod fillets, and frozen H&G Cod. None of these actually represent the Newfoundland Cod products as they are sold"*. He also states on page 3: *"Newfoundland Cod was already priced at a premium compared to other frozen Cod, so the head-room available to prices to increase is less than it would be if there had not been a price premium already in the product"*. On page 19 he states: *"... Newfoundland Cod is a special case. Most Cod sold in the US is twice frozen Cod processed in China. Newfoundland produces a high quality single frozen loin and portion. Because this product goes to very specific customers, it tends to have more price stability..... sales to the US customers have not changed prices since last year, according to discussions at the Boston Seafood Show"*.

With respect to the importance of the US market, Sackton notes there has been a shift of Newfoundland Cod exports to the US. On page 4 he states: *"... exports to the US have continued to grow, while exports to the UK have remained flat for the past several years. The result is that now most Canadian frozen Cod fillet exports go to the US market"*.

He notes that there have been price increases for twice frozen fillet and significant price increases for frozen HOG. This is related to production of twice frozen product in China which is shipped into the US. On page 7 he states: "*The weighted average price for all frozen fillet products was \$4.58 in 2016 and \$4.85 in 2017*". He notes that prices on twice frozen fillets from China have further increased with Urner Barry reporting current US prices of \$3.80 versus \$3.45 in 2017. However, he further notes during Lent this year Cod sales were down. On page 12 he states: "*There was a significant erosion of Cod sales at retail during Lent in 2018*". On page 13 he also states: "*... it does appear that retail sales of Cod have definitely hit some kind of negative pressure during the first months of 2018*".

Cod production in Newfoundland is shared amongst a number of companies and is diversified in product form. In recent years, the percentage of Cod landings going into saltfish production has increased significantly to a high of about 25% in 2017. This is in part due to the increased volume of Cod landings in 2017 and the limited filleting and freezing capacity of some processors who are getting back into Cod production. It may also be related to some processors having preference for saltfish in terms of better financial returns. Based upon recent science assessments, there is an expected significant reduction in the Northern Cod quota in 2018. With lower volumes to buy, the percentage going into salt may retreat to more normal levels (i.e. below 20%). In any case, limited market data exists on saltfish prices or product forms. Some is sold in Spain and Portugal but a significant percentage is sold domestically.

Other than saltfish, the majority of Newfoundland Cod is produced into fillet packs (i.e. loins, tails, block) with the majority of that being a frozen product. The majority of frozen production is by a small number of companies with Icewater Seafoods Inc. being the dominate player as has been the case for many years. The percentage of Cod landings going into frozen, fillet markets declined to its lowest level in 2017 to around 50%. With the expected reduced landings in 2018, the percentage going into frozen fillet production could again increase, probably in the range of 60% or higher. The challenge for the Panel is that its decision on price applies to all producers no matter what product forms and markets are targeted. This will mean different outcomes for different processors. However, the Panel is cognizant that the Cod market is heavily weighted toward once frozen fillet production and toward export markets. We are encouraged that the percentage of landings going into Grade A has improved significantly. The premium, niche markets for once frozen Cod fillet is totally reliant on premium quality.

As is always the case, the Panel must choose one of two positions that on the balance of probabilities it feels is closer to the expected reality. In doing so, the Panel recognizes that the 'right' price might be somewhere in between the two positions. The FFAW are seeking a price

increase from \$0.83 for Fall Grade A in 2017 to \$0.90 in 2018. The Panel is of the view that Cod market prices may improve somewhat in 2018, but the question is by how much for Newfoundland products. The judgement is whether the price increase proposed by the FFAW is justified in the current climate of declining quotas, weakened currencies, limited information on product prices for Newfoundland saltfish and the uniqueness of the niche markets for premium once frozen fillet. There is also the ASP assertion that some processors need to close the gap on eroding margins since the new pricing system has come into effect. The Panel is also aware there are a number of months yet before the majority of Cod is to be landed and sold in the late summer and fall. Currency and pricing may change significantly by that time and point to a more obvious directional outcome. Should that be the case we are available to reconsider our decision. In light of the many uncertainties, it is the decision of the Panel to accept the final offer of the ASP and to rollover 2017 Cod prices. The prices for the species Cod will be:

	<b>Summer</b>	<b>Fall (Effective July 29, 2018)</b>
Grade A	\$0.75	\$0.83
Grade B	\$0.38	\$0.40
Grade C	\$0.20	\$0.20

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

Dated the 18th day of May, 2018.



Wayne Follett



Bill Carter



Brendan Condon