

STANDING FISH PRICE-SETTING PANEL SNOW CRAB 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, March 29, 2018, as the date by which collective agreement(s) binding on all processors in the province that process Snow Crab 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 Snow Crab. As a result, under Section 19(11) of the Act, should a hearing be required for Snow Crab, 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 Snow Crab was scheduled to take place at 10:00 a.m. on Thursday, March 29, 2018, at the Ramada Hotel, 102 Kenmount Road, St. John's.

The Panel convened its hearing for the species Snow Crab at 10:00 a.m. on Thursday, March 29, 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 were from Seafood.com, authored by Mr. John Sackton, referred to as "Sackton", and another from The Daily Minato, referred to as "Minato", as well as data on landings and export value provided by the Department of Fisheries and Land Resources. Both reports provide information on Snow Crab markets primarily in the US and Japan but also possible new and increasing markets in China and South Korea. The reports, for the most part, appear consistent suggesting strong (record) opening prices followed by stability with some possibility of a decrease later in the year.

In terms of the outlook for the coming year, Sackton notes: "For 2018, the outlook is mixed. Crab landings will be reduced and Japanese buying will continue to be strong. However, US buyers are backing away from Snow Crab due to high prices". He further states that: "2018 may be a difficult year for crab sellers. That is not because the price will go down, but rather after two seasons in which prices started out lower in May and then rose, this year prices set in May are more likely to remain flat, or even decrease later in the year".

Referencing price expectations, Minato states: "Opilio market price remained at a high level of over USD 8.00/lb. mark during 2017 in the US market. With an expected supply cut during 2018, the price will not drop sharply this year". In addition Minato states: "In 2018, the Alaskan opilio price offered by local packers was quoted at USD 8.35/lb. on C & F, flat from a year before. The NF opilio price is usually set lower than the Alaskan product...." He also notes: "In terms of demands, appetite remains strong in the US, China, and South Korea, and it is reflected on market prices. In Japan, the market has shrunk due to continuous high pricing, but a certain amount of demand stays stable".

With prices expected to remain high, both market reports note a risk that cheaper substitutes such as Dungeness and red crab may be sought by buyers. Minato states: "Retailers tend to cut back sales promotions of expensive items such as salmon and Snow Crab... Some casino buffets and restaurants also reduce their Snow Crab servings while competing species such as Dungeness crabs or shrimps come into a table with more reasonable pricing. The trend is expected to continue in 2018...". With reference to the Japanese restaurant situation, Minato indicates: "Crab buffet restaurants and online stores are still seeing robust demands for crabs, but their serving has been away from Snow Crabs and shifting into other crab species such as red Snow Crab."

With respect to use of substitutes by retailers, Sackton reports: "In 2017, they began cutting back usage in the face of high prices and the competition from Japanese buyers. In the 4th quarter of 2017, the retail retreat away from Snow Crab was pronounced". Sackton also writes: "A second reason for caution is the price of substitutes... Dungeness prices are now lower than Snow Crab prices and there was heavy production of Dungeness this year. This will likely continue the trend of some buyers switching to Dungeness crab where they can, again reducing demand for Snow Crab".

The global supply levels of Snow Crab are expected to decline in 2018. Minato notes an expectation of a 15% reduction year over year. This is due primarily to cutbacks in Newfoundland and Gulf of St. Laurence quotas and the significant reduction in illegal catches in Russia. Also,

while the "Snow Crab quota in Russia has been increasing in 6 straight years, frozen production is decreasing year-by-year due to strong live-crab demands in China and South Korea." (Minato)

Another important consideration in assessing market demand and price for 2018 is the potential impact of the Northern Right Whale in the Gulf. Sackton focuses on this several times in his report and suggest that it 'may be disruptive in unknown ways'. He writes: "One possibility is for a surge of early crab landings to try and finish the season several weeks earlier than normal. This may depress prices in the US market. Conversely, there is a real possibility that the DFO could institute sudden area gear closures, and that the Gulf crab quota might not be caught. That would have the opposite effect on the US crab market".

Both market reports examined the economic fundamentals that might affect demand in 2018 in the US and Japan. The economies in both Japan and the US are experiencing growth and low unemployment, which helps support the higher priced products like Snow Crab. On the tariff front, the news is positive in that China has reduced the import tariff on frozen crab from 10% to 5% and EU tariffs, have been eliminated under CETA, although again this year, neither will have an immediate impact (i.e. 2018 prices). Exchange rates are slightly favorable for the yen versus the USD which helps offset the higher prices for Japanese buyers which are denoted in USD. However, year over year, the Canadian dollar has strengthened against the USD which reduces the prices realized by Newfoundland processor (off by approximately 3.5%). The parties have agreed on a currency provision again for 2018, which sees adjustments in the minimum price to fish harvesters should there be material change in the CAN/US exchange rate. This effectively eliminates any further risk in terms of sharing gains or losses on exchange once the minimum price is set.

Both parties share the view that the market for crab in 2018 is strong and prices will again be at an all-time high. This is reflected in their final positions of \$4.55 for ASP and \$4.80 for the FFAW, which represents an 11% and 9.3% increase, respectively, from their 2017 final positions. Factoring in the US currency decline, this represents an effective increase in positions of approximately 14% and 12%, respectively. Where the parties disagree is on the extent the market prices will grow in 2018 and how that compares to the perceived market levels last year when the positions were submitted and upon which the panel made its decision. In its submission, the FFAW also submits that further progress needs to be made on sharing and that past sharing was based upon yields that have since improved. It references a small yield study completed during the fall 2017 by the Marine Institute as evidence of that fact.

In making its decision last year, the Panel took a positive outlook of the 2017 crab markets and rejected the notion of “red line”. In doing so, some of the market gains observed in 2018 were accounted for at the time of our decision and we are pleased to have seen this positive outlook play out.

In our decision report last year, the Panel observed that “both market reports noted that Snow Crab market prices are at unprecedented high levels with a number of prices quoted at or slightly above \$8.00 USD. We also observed that “Urner Barry reports indicated that prices for Newfoundland Snow Crab 5-8 oz. increased from \$5.34 USD in January, 2016 to \$7.95 in December, 2016. In line with Minato, the Panel expressed the view that it was reasonable to expect some adjustment in market prices from the current prices quoted at or slightly above \$8.00 USD (\$10.69 CAD). We further stated there was a lack of evidence and certainty to plan for a negative scenario to occur. While we noted a contract quote of \$6.95 FOB Newfoundland, it was clearly not our only reference point.

The Panel is again of the view that crab prices will be higher in 2018 and expects opening prices to be higher than at the start of the fishery last year. However, we are not able to forecast a significant price increase throughout the year, as occurred in 2017. A climate of stable higher prices, at current levels, appears to be the most reasonable projection. Demand is strong in the face of reduced global supplies but there are risks associated with price resistance as crab becomes very expensive leading to possible product substitutions or the dropping of crab by certain sectors of the market.

In respect to sharing, the Panel is of the view that the 2017 minimum price of \$4.39 significantly improved sharing for fish harvesters. Also, we are encouraged by efforts to better understand current yields and fully support the parties undertaking further study in this regard. However, we find that the Marine Institute fall 2017 yield study was not sufficient in terms of its scope, time of year and agreement on methodology to allow meaningful consideration in our deliberations.

There is also the unknown associated with the Northern Right whale issue in the Gulf of St. Lawrence. The Panel recognizes it could be a significant factor in either direction depending upon how events unfold and the market reaction. However, we are not in a position to predict an outcome either directionally or in magnitude. Nevertheless, should a material impact on prices be the result, at the request of either party the Panel is available to review the impact and reconsider its position.

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. Also, as explained in the previous decisions, the Panel cannot consider other wharf (bonus) payments in its decision.

In light of the strengthened USD and the level of market price improvement reasonably projected, and following a review of the market reports and the submissions of the parties, it is the decision of the Panel to accept the final offer of the ASP. The prices for the species crab will be:

- \$4.55/lb. — 4" carapace and up.
- \$4.25/lb. — for legal size under 4".

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

Dated the 4th day of April, 2018.

Wayne Follett

Rosalind Walsh

Bill Carter