

Inshore Shrimp Fishery – Fall 2012

The Fish Food and Allied Workers, hereinafter referred to as the “FFAW” and the Association of Seafood Producers, hereinafter referred to as the “ASP” concluded a collective agreement on shrimp prices for the Spring Shrimp Fishery in 2012. The prices paid to harvesters for shrimp purchased are to apply in three different seasons in the year: spring, summer and fall. By the agreement of the parties, if they are unable to reach agreement on the price and conditions of sale for the summer or fall Shrimp Fishery, the Panel will decide the issue.

The Panel had earlier been advised by the Department of Fisheries & Aquaculture that the ASP represented processors that process the majority percentage of the species shrimp. Accordingly, under Section 19 (11) of the Act, should a hearing be required for shrimp, the parties appearing before the Panel would be the FFAW and ASP. Under the provisions of Section 19.11 (1) of the Act and the regulations, made pursuant thereto, the Panel’s decision 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 collective agreement between the parties conforms with the provisions of the legislation with respect to the obligations and duties of the Panel.

In the absence of a binding agreement being in effect for fall shrimp prices, the parties were advised that the Panel would conduct a hearing at 2:00pm on September 6th, 2012. Having previously exchanged their submissions (copies attached) the Panel convened its hearing on fall shrimp prices at 2:00pm on September 6th, at the Battery Hotel in St. John’s. Appearing before the Panel were representatives for the FFAW and ASP who supported their submissions by oral representation in main argument and rebuttal.

The parties and the Panel had the benefit of an update on the cooked and peeled shrimp markets provided by Seafood.com, Patrick Wood and Gemba Seafood Consulting. (copies attached) The reports were compiled for and provided by the Department of Fisheries & Aquaculture.

In the absence of agreement, the Panel decided the issue of prices for the Spring Shrimp Fishery in 2012, by its decision dated the 13th day of April 2012. Following a period of ever increasing market returns in 2011, the consensus from the marketing reports at the time, was that prices had peaked and were stable with smaller volume sales. The principle reason for the price rises in 2011 was attributed to decline in the supplies of cooked and peeled cold water shrimp in the traditional markets.

The rise in market prices was reflected in the prices paid to harvesters in 2011: starting with a spring price of 65¢/lb, a summer price of 70.5¢/lb, and a fall price of 73¢/lb. The fall price was the result of a negotiated settlement between the parties. Normally, the summer prices are less than the spring and fall prices, and the fall prices are less than the spring price.

It seemed clear to the Panel that market returns had peaked at the end of 2011, and while the market reports concluded that prices would be stable, there was no prospect of an increase in market returns, at least not until the latter part of 2012.

It was obvious at the time that the market was somewhat fragile and that product was moving more slowly. The Panel was of the opinion that there was nothing in the market reports to warrant a price increase to harvesters in the spring fishery of 2012 higher than the fall price in 2011. However, it was compelled to choose the position submitted by the FFAW because, in its opinion, the position submitted by ASP was significantly out of line with the market price reports and could not be justified. As a result, the spring price moved to 76¢/lb.

The methodology employed in the determination of changes in the price paid to harvesters has been consistent throughout the Panel's involvement. As stated at p. 2 of the Panels report of April 13, 2012:

"The other important fact to note at this point, is that both parties have agreed in previous hearings on shrimp, that prices are to be determined by comparing the weighted average market price of the previous year, in each of the fisheries, spring, summer or fall. This avoids having to deal with issues related to change in yields in different fisheries. It has been the most consistent approach in the determination of shrimp prices by the Panel."

While the Panel was not pleased with the result, it could not accept the ASP proposed price reduction based on the differing prices set out in the market reports.

The parties negotiated the settlement of the summer shrimp prices, just as the Panel was about to hear the issue. Prices were reduced to an average 64¢/lb. This reflected the fact that while there was no appreciable change in market prices reported at that time, product movement was slow and inventories were rising.

The 2012 fishery has been quite successful and the total quota will likely be landed with only approximately eight million lbs left of the 116 million in the quota, after September 8th. The fall fishery for shrimp will be a limited affair.

The parties are however, very far apart on prices for the fall fishery. ASP makes little reference to the current market returns. Their main point is that product is not moving, with an earlier filling of the ATRQ, sales of cooked and peeled coldwater shrimp in the European markets are virtually at a standstill. It is not expected that inventories will move until the new year when the ATRQ for 2013 comes into effect. There may be a new ATRQ in 2013 and there is some uncertainty as to what precisely it will be. ASP contends that they are at risk, and any further production will be subject to market returns in 2013. As a result, they propose a significant drop in the price to harvesters for the fall shrimp fishery to 57.25¢/lb.

The market reports are clear, that while inventories are building up and sales are declining, the prices are holding. There is nothing in the market reports to indicate that prices will drop or by how much. All three market reports are very clear on this point. There is however, some uncertainty related to 2013, and what may happen with the ATRQ. On a positive note, landings by our competitors in the market are continuing to decline. If that were not the case, we would be in a more difficult situation.

The FFAW seizes on the fact that the market reports, in terms of market prices, do not support a drop in the price to harvesters as drastic as that proposed by ASP. The proposal is to continue the summer price for the fall shrimp fishery. This would represent a reduction from the fall price in 2011 of 7.2¢/lb. Given the relative small quota remaining this, in their view, would best accommodate the overall situation and avoid sending a large signal to the market of a significant drop in prices to harvesters, who are the largest supplier to the market.

The Panel must choose one of the two positions presented. There is no doubt we are in a fragile market situation and there are problems within the supply chain outlets. There will not be any significant volume movement of inventory until the new year. There is no certainty that market prices will decline, or decline precipitously in 2012. The majority of our quota for 2012 has already been harvested and will be subject to whatever the outcomes of 2013 are. Processors in agreeing to the summer shrimp price settlement, did so with the knowledge of inventory build up and an earlier filling of the ATRQ for 2012. Tens of millions of pounds of shrimp have been landed under that agreement, what remains will not materially effect the total situation.

The Panel could not justify the price reduction proposed by ASP, in relation to a change in the market prices. If the Panel were to move away from the criteria, what new criteria would it adopt in making its decision? The Panel is not oblivious to the circumstances or the situation and risk to which processors are exposed. However, it has no objective basis on which it can determine the price to harvesters other than the prices supplied in the marketing reports.

ASP, in its submission to the Panel on spring shrimp prices in 2012, under a heading "Season to Season Benchmarks for Price Setting" at p. 9 stated:

"ASP maintains – as it has in all arbitrations and negotiations to date - that the proper benchmark for comparison on which to base prices each season is the same season in the prior year. For Spring 2012, the appropriate benchmark is Spring 2011..."

Comparing weighted average market prices of 2012 with those of 2011 does not result in the prices proposed for fall 2012 by ASP. In its submission, ASP chose not to deal with the marketing reports on any determination of the weighted average market price for comparative purposes.

ASP contention is that product is not moving since the ATRQ was exhausted. As a result the claim in that product from the fall fishery will not be sold until 2013. They predict that there will be a market correction in 2013, but nothing as to the degree or extent of that correction. It should be stated that the ATRQ is always exhausted prior to the start of the fall fishery. The issue this year is that a larger volume is being held in inventory, and more by the processors. The Panel accepts the statement of ASP to that effect. That does not assist the Panel in determining with any precision what magnitude of the price drop to harvesters should be for the 2012 fall fishery. As noted, we have no market reports that provide anything to support the ASP figure.

The FFAW position results in a drop from 2011 prices of some 7¢/lb. ASP is proposing a drop of 17¢/lb, a decline of approximately 23%. This is a huge differential that is not supported by the market pricing reports. As Seafood.com stated in its report on p. 8:

"At some point in the future, demand will adjust to the current supply or new supplies will be available, at which point there will be a price adjustment... Prices will change again only when inventories rise to a level that is not sustainable for the level of demand, and discounting ensues. So far there is no indication of this happening."

The report notes that there have not been any change in market pricing for coldwater shrimp in the US or the EU over the past three months. It does point out that the risks of holding shrimp have increased due to pressure for price changes building from three sources: declining sales, currency, especially the decline in the Danish kroner to the Canadian dollar, and the uncertainty of a new ATRQ in 2013. The report states on p. 8:

"In conclusion, it is not market prices that have changed with this report, but instead the potential uncertainty involved in holding shrimp for sale several month from now."

The final paragraph of the report is worth repeating.

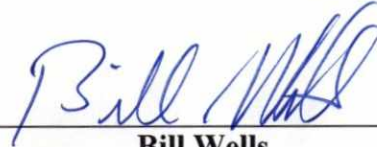
"However, the industry has always existed with uncertainty – it is not a new phenomenon. What is new is that the uncertainty exists when other seafood prices are declining, when European economies are weak, and when the Canadian dollar is strengthening. As a result, I would classify risks of holding shrimp (as is normally done every year) to be somewhat above the normal expectation this year."

The FFAW position appears to be the more reasonable of the two positions. Fall prices will not increase over the summer fishery and will be 7¢/lb less than fall 2011 prices. The risks already in play for processors in terms of the volume of inventory are not substantially altered by the quota remaining.

The Panel accepts the position of the FFAW. As a result, the attached price table (See Appendix A), is binding on all processors that process the species shrimp, and will form a

binding collective agreement or part of a collective agreement with the FFAW. The current collective agreement with the FFAW is confirmed in every other respect.

Dated at St. John's, this 7th day of September, 2012.



Bill Wells
(Acting Chair)



Max Short



Rosalind Walsh

APPENDIX A

Fall 2012 Shrimp Price Table

Size	Distribution	Price List	Plant
Categories	Fall 2011		Price
2 – 2.9	4.89	0.253	0.0124
3 – 3.9	11.76	0.428	0.0503
4 – 4.9	13.42	0.523	0.0702
5 – 5.9	14.42	0.619	0.0893
6 – 6.9	17.28	0.729	0.1260
7 – 7.9	15.78	0.782	0.1234
8 – 8.9	10.51	0.837	0.0880
9 – 9.9	5.73	0.918	0.0526
10+	6.20	0.972	0.0603
			0.672