

## **STANDING FISH PRICE-SETTING PANEL CRAB FISHERY 2017**

The Standing Fish Price-Setting Panel, hereinafter referred to as "the Panel", issued its Schedule of Hearings for 2017, on March 2, 2017. Pursuant to Section 19 of the Fishing Industry Collective Bargaining Act, hereinafter referred to as "the Act", the Panel set Wednesday, March 29, 2017 as the date by which collective agreement(s) binding on all processors in the province that process 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 crab, the parties appearing before the Panel would be the Fish, Food and Allied Workers, 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 the collective bargaining must be obtained. The hearing for snow crab, if required, was scheduled to take place at 10:00 a.m. on Thursday, March 30, 2017, at the Labour Relations Board Hearings Room, Beothuck Building, 20 Crosbie Place, St. John's.

The Panel convened the hearing for the species snow crab at 10:00 a.m. on March 30, 2017. 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 the benefit of two market reports prepared for the Department of Fisheries and Land Resources. The market reports were from Seafood.com, authored by Mr. John Sackton and Minato-Tsukiji.com, hereinafter referred to as "Sackton" and "Minato". Both reports are comprehensive, providing very detailed information as to the current market situation, supply and demand, competitive forces and economic factors that could influence the market and snow crab prices for the duration of the year. Their assessment of the current conditions in the snow crab markets were quite similar but the reports differed in that the Sackton report devoted considerably more time on different scenarios of what might happen in 2017, whereas, Minato tended to be more consistently factual.

The FFAW proposal purports that in 2017 snow crab should be significantly more valuable than in 2016 and uses its interpretation of the market reports to support that claim. The FFAW draws attention to last year's price negotiations and the fact market projections during negotiations were well below actual outcomes reducing the harvesters' share of industry value. Consequently, last year's minimum price should not be the starting point for this year. There are increasing amounts of value added products being produced but this additional value is not reflected in the minimum price. They may make the case that harvesters' share of the resource has been declining despite an upswing market.

The ASP proposal recognizes that current markets for snow crab are much higher than in 2016 but uses its interpretation of the market reports to suggest that it may not be sustainable. ASP identifies the risk that if the price is pushed too high the market may stall and this could lead to a precipitous decline in market prices. They cite the recent experience with shrimp as an example of how this can happen. The minimum price should be set to provide cover for processors while allowing the additional upside to processors and fish harvesters (bonuses) should the market perform stronger than expected.

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. This run up in market price began in the fall of 2015 and really gathered speed in part due to a reduction in global supply, particularly due to a significant quota reduction in Alaska. Urner Barry reports indicate that prices for Newfoundland snow crab 5-8 oz. (widely viewed as the benchmark product form) increased from \$5.34 USD in January, 2016 to \$7.95 in December, 2016.

The question for all parties is whether these high price levels are sustainable as the year progresses and the supplies from the other major fisheries hit the market. Will the buoyancy seen in 2016 remain in the market? It is stated on page 15 of the Minato report that:

"the upward tone is still continuing in 2017 season, even after the fishery in Alaska opened. As of the beginning of March 2017, the wholesale price in Boston hit USD 8.20-8.25/lbs. for 5-8 oz..."

As well, on page 4 of the Sackton, it notes that:

"I now believe the market will accept significantly higher prices than last year, despite the prospect of more crab in the Gulf".

One of the key factors affecting the market is supply. As noted earlier, global supply in 2016 declined by approximately 20,000 tonnes or 16%, due to steep quota reductions in Alaska and smaller reductions in Atlantic Canadian quotas. Minato notes on page 4, that at the end of 2016, "the inventory in the US is said to be depleted thanks to the strong demands".

In 2017, the global supply levels are expected to remain at the same level as 2016 and lower than the years 2012 to 2015. This is despite an expected doubling of quotas in the Gulf fisheries as this increase will be offset by significant reductions in Alaska and Newfoundland quotas. Although quotas have not been announced by DFO it is widely anticipated that Newfoundland quotas will decline by as much as 20% to 30% (by 10,000 tonnes or more). Newfoundland producers will have significantly less crab for which it has to find markets in 2017. Given the lower global supply relative to recent years, there should also be room for the increased production from the Gulf. Minato's review also indicated little or no concern that buyers would substitute other crab species for snow crab. They noted that king crab was too expensive and Bairdi supply will be down due to a lack of quotas in Alaska in 2017. They also concluded there appears to be no competitive impact from Dungeness crab to the snow crab market. On the demand side, most indicators are positive, Minato notes on page 1:

"In terms of demands, appetite remains strong in the US, China and South Korea, and it is reflected in market prices. Meanwhile, the demand is deteriorating in Japan due to the global high pricing".

In respect of Japan, Sackton notes on page 24:

"The total volume will also decline in 2017", and that, "they held back from purchasing much in Alaska due to the high price, and hope to make up that shortfall with purchases from Canada".

The US market will remain the main market for Newfoundland snow crab and the likely driver of the global price.

Both market reports examined the economic fundamentals that might affect demand in 2017 in the US and Japan including; exchange rates, GDP growth and unemployment levels. Year over year, none of these factors have changed sufficiently to materially affect demand. 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 neither will have an immediate impact (i.e. 2017 prices). The Panel is also pleased to see that the parties have agreed on a currency provision for 2017 which see adjustments in the minimum price to fish harvesters should there be material change in the CAN/US exchange rate. This effectively eliminates risk in terms of sharing gains or losses on exchange.

As described above, the overall supply and demand is quite positive for 2017 snow crab markets. Both market reports confirm that current market prices are at unprecedented levels. However, there is some divergence between the two reports as to the likely sustainability of these high prices over the course of the year. Minato is quite positive and notes on page 1: "With strong global demands, it is not expected to see a huge price drop during the 2017

season, although there might be some adjustments". Sackton indicates that he believes the market will accept significantly higher prices than last year. However, he repeats a caution that price resistance (i.e. in retail) may set in, slowing sales and growing inventories. As a result, buyer perceptions and tactics may trigger downward pressure on price and this could take hold as a trend. This would be compounded if the Gulf producers build inventories and begin to chase the price down. Some softening of the US food service segment adds to this worry, however, he also notes that "the restaurant industry segment is improving in the US". While he cautions that this negative pattern could happen, it is not necessarily a forecasted outcome. In its proposal, ASP also makes the case that such a scenario could occur.

Both parties are in uncharted territory with the current record price levels and recognize the uncertainty. The Panel has also considered this and understands the concern that this negative pattern is a possible outcome. However, for the purpose of determining our position on minimum price, there is a lack of evidence and certainty to plan for such a scenario to occur. As in 2016, prices may defy conventional logic and increase further. Minato's view that there may be a downward adjustment that is not huge may also hold true.

Sackton notes that identifying the "red line" price that would trigger this, is difficult given the current climate. He indicates, that if processors succeed this year in finalizing Japanese contracts around a single price, it will help stabilize the market. The Panel is informed by the parties that a Newfoundland processor has recently established a contract with a Japanese buyer at a quoted price of \$6.95 USD which is FOB Newfoundland (without the shipping cost which would be added to the FOB Boston price).

The FFAW make the argument that, with the unforeseen sharp increase in 2016 market price, harvesters settled for a minimum price, which left a significant share of the 2016 market gain on the table. The Panel feels that this lagging of gains in an upswing market is to be expected. However, to now choose a minimum price based upon an uncertain scenario of collapse of market prices would be a form of double jeopardy to harvesters.

Given the current strong market prices and positive supply and demand conditions such a negative pattern, is only one of a number of possible outcomes. The Panel is also not convinced that the choice of minimum price will have any material impact on seller/buyer behaviors and whether market prices get bid up. Nevertheless, should a worst case scenario emerge, putting the health of the industry in jeopardy, the Panel will be promptly available to the parties to reconsider its decision as is provided for under the Act.

In line with Minato, the Panel is of the view that it is reasonable to expect some adjustment in market prices from the current prices quoted at or slightly above \$8.00 USD (\$10.69 CAD). This is exceptional by any previous standard and even compared to last year's record average export

value of \$7.71 CAD. This is confirmed by the fact the offers of both parties call for the setting of an unprecedented high minimum price for 2017. The choice for the Panel rests in a judgement of which offer provides for the most equitable sharing of the high market returns. The Panel was not provided any financial information of harvesters and processors so it is not possible to fully understand the impact of changing margins and volumes on the bottom line. Also, as explained in the 2015 written decision, the Panel cannot consider other wharf (bonus) payments in its decision.

In light of this 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 FFAW. The prices for the species crab will be:

- \$4.39/1b — 4" carapace and up.
- \$4.09/1b — 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 3<sup>rd</sup> day of April, 2017.




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Wayne Follett



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Rosalind Walsh



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Bill Carter