

**STANDING FISH PRICE-SETTING PANEL
CAPELIN FISHERY 2019**

The Standing Fish Price-Setting Panel, hereinafter referred to as “the Panel”, issued its Schedule of Hearings for 2019, on February 5, 2019. Pursuant to Section 19 of the *Fishing Industry Collective Bargaining Act*, hereinafter referred to as the “Act”, the Panel set Wednesday, June 12, 2019, as the date by which collective agreement(s) binding on all processors in the province that process Capelin 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 Capelin. As a result, under Section 19(11) of the Act, should a hearing be required for Capelin, 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 Capelin was scheduled to take place at 10:00 a.m. on Thursday, June 13, 2019, at the Ramada Hotel, 102 Kenmount Road, St. John’s.

The Panel convened its hearing for the species Capelin at 10:00 a.m. on Thursday, June 13, 2019, 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, (copies attached) supported their submissions in main argument and rebuttal.

The parties and the Panel have the benefit of three market reports, provided by the Department of Fisheries and Land Resources, from Seafood.com, hereinafter referred to as “Sackton”, Meros Consulting, hereinafter referred to as “Meros” and TFC Inc., as well as data on landings and export value also provided by the Department of Fisheries and Land Resources.

The reports provide information on global product supply as well as an analysis of the current market situation in Asia and the US. The Sackton report focuses primarily on the market for male capelin in the United States, and the Meros report makes references to potential market demand in Asia, particularly Japan.

Sackton is quite specific in terms of the US Market for male Capelin:

“The US primarily buys male capelin that is not for human consumption. The volume has been very stable around 5000 tons per year since 2013”, page 5.

“The US market for male capelin is stable and there is no reason to expect significant changes from prior years”, page 15.

On page 6, Sackton states:

“This year is well-known there will be no capelin fishery in Iceland and little to none in Norway. As a result, there is likely to be more demand this year for capelin from Canada.”

On page 9, Sackton also notes:

“Given the expected reduction in Global capelin supplies for 2019 some of the markets that are primarily supplied by Iceland and Norway may represent opportunities for Canadian exporters.”

Meros speaks to the potential opportunity for Canadian product in Japan in light of the cessation of capelin fishing in Iceland and Norway.

On page 18, Meros notes:

“In general, Canada’s share fluctuates, with relatively low levels in years when Norway is dominating the market. Canada’s record share in Japan was in 2008 when it supplied 46% of the market”. (just prior to the end of the Norwegian fishing ban).

Meros summarized the current inventory situation in Japan noting that the general trend for industry has been to avoid keeping inventory for more than 6 months. Importers and processors don’t have enough inventory to last for an entire year. The significant current global supply decline and its potential impact on import selling prices is also addressed by Meros:

On page 22, Meros notes:

“Canada, which is the last to catch, often has to sell at low prices in order to be more competitive. In years when Norway was not in the market, however, Canada could sell at relatively high prices.

Another ongoing concern in the industry [in Japan] is that the increased capelin demand in China is likely to impact negatively the price in Japan.

On page 24, Meros notes:

“In 2019, from January to April, the price went up to 702 JPY/kg reflecting the fishing ban in Norway and anticipated tight supply situation in Iceland. According to one seafood news source, depending on the situation in Iceland, the price may increase further later this year.”

“As an example, one wholesaler shared that in the past 10 years, their wholesale price for middle-sized capelin (16-19g) was about 400 JPY/kg but in 2018, it went up to 600 JPY/kg and right now it is 700-800 JPY/kg.”

One of Meros’ key conclusions as stated on page 43, is that the 2019 supply season will be a challenge.

“2019 is described by the industry as an “unprecedented” situation in which two of the three key suppliers (Iceland and Norway) will not be able to catch and export capelin.”

In its submission, the FFAW takes the position that market prices for capelin will increase significantly in 2019 due to an unprecedented reduction in global capelin supply resulting from the simultaneous closers of the Icelandic and Barents Sea capelin fisheries. This will result in even greater price increases than have been seen in the past when global supply has been down. In their final offer, they are looking for an increase of approximately 46% over the 2018 price which were established based upon an expectation of a declining market (a decline did not materialize in 2018).

The ASP acknowledges that export market prices will be significantly higher in 2019 but believes the increases will not be to the full extent projected by the FFAW. They purport that producers will moderate their price demands in the interest of maintaining long established relationships with buyers. They point to the 2018 export statistics as evidence of the harvesters’ share having significantly increased in 2018 to 41.9%. They also claim that export volumes indicate a high level of low value and discarded capelin. Their final offer is for an increase of approximately 25% over 2018 prices.

At the hearing, both Parties acknowledged the unprecedented global supply shortfall and that significant prices increases can be expected as a result. The challenge for the Panel is deciding what range of increases can reasonably be projected. The Panel must also examine the issue of fair sharing in terms of the incremental market gains and how best to calculate historical shares as a reference point. With respect to currency, the impacts are positive but not a major impact. The US dollar has strengthened slightly year over year, which is positive for prices denoted in USD. Similarly, the Yen has strengthened slightly against the USD and Canadian dollar improving the Japanese buying power.

In terms of sharing, the Panel is of the view that the use of annual export data on a calendar year basis can lead to distortion in the calculation of harvesters’ share for a given fishing year. The capelin landings are all paid for during the short season, providing a full accounting of the annual return to

fish harvesters in the calendar year. However, that same capelin when processed is often not fully exported in the same calendar year. In most years, inventory is carried over and sold during the months leading up to the opening of the new fishery in June or July.

The export sales reported thus far in 2019 (for the period January to March) are at \$3.5 million dollars. This is from inventory processed in 2018. Based upon the pattern of the past number of years, further export sales will be reported before the 2019 fishery commences. In the first five months of 2018 (January to May), export sales amounted to \$550,000. In 2017 and 2016, they amounted to \$4.3 million and \$3.5 million respectively, for the same five-month period. The appropriate period of export sales in the share calculation, is the 12-month period based upon the timing of the start of each year's fishery. Using the monthly export data for the period June 1st the previous year to May 31st of the following year provides for a more accurate calculation. Using this approach, the harvesters' share in the 2015, 2016 and 2017 fisheries was 30.1%, 36% and 32.6% respectively. Depending upon the volume of additional exports in April and May 2019 (not yet reported) the harvesters' share in 2018 was in the order of 35% to 37%. The weighted average harvesters' share over the past 4 years was approximately 34%.

In terms of markets for Newfoundland capelin, there are two primary outlets; domestic sales and exports to the US and to Asia. In past submissions, ASP's contention is that domestic volumes are either put into fish meal, sold at minimal prices, donated to local farmers, or lost to overpack, spoilage, etc. They maintain that domestic sales have little or no net value to processors and should not be included in any discussion of the sharing of market value by fish harvesters. The Panel has been persuaded by this assertion and finds the best index of sharing is that measured as a share of export value.

In recent years, Newfoundland Capelin was exported to the US (30% of volume and 20% of value) with most of the rest going to Asia. The primary Asian markets, in order of relative value, are China, Taiwan and Japan. These Asian markets are for roe bearing females and are of much higher value than the US market. The Asian market therefore dominates total export value and the outcome for the year.

The Sackton report identifies a stable market in the US of about 5000 tonnes annually with lower value product destined primarily as feed for zoos and aquariums. Demand is finite and consistent year over year. Sackton makes the point that the US buyers are constrained by budgets and volumes. Therefore, no significant price increases can be forecasted in 2019 despite the global supply shortages (unless there are extreme market forces that come into play in other countries). The Panel acknowledges this but feels that in the current climate there will be upward pressure on prices and some increase in prices in the US remains a possibility. Export data shows that prices to the US were favorable in 2018, increasing by approximately 20% over 2017.

The difficult challenge for the Panel is predicting the level of market increase in the Asian markets given all the considerations in play. The Asian countries all differ in price, product preferences, demand, etc. Therefore, the only reasonable assumption is to assume they will each be affected by supply shortages and see price increases of similar magnitude. The current circumstances with the dramatic global supply shortages is beyond anything experienced in the past. Iceland and Norway have been the largest suppliers of capelin and first to market in a given year, with Newfoundland producers selling into a residual or specialized market.

The Icelandic and Norwegian capelin exports originate from two large fisheries, one prosecuted on the Icelandic stock and another on the Barents Sea stock. According to ICES data (The International Council for the Exploration of the Sea) over the 10-year period 2008 to 2018 the average annual landings by Iceland was 230,000 tonnes and by Norway 180,000 tonnes. This resulted in combined average landings from these two countries of over 400,000 tonnes annually. The highest year in the 10-year time series was 850,000 tonnes in 2012. The lowest year was at 160,000 tonnes in 2014. Over the same period, the average annual Canadian landings from Newfoundland and Gulf stocks was 31,000 tonnes. Last year Iceland landed 186,000 tonnes and Norway 203,000 tonnes. Newfoundland landed approximately 29,000 tonnes.

As mentioned, this year both the Icelandic and Barents Sea fisheries are closed resulting in no exports from Iceland and Norway into Asian markets. This leaves Newfoundland as the only supplier. By any measure, this is a major supply shock and it can be anticipated that competition for the Newfoundland product will be intense. In past years, there have been supply shocks when either the Norwegian or Icelandic fisheries was down. In these years of significant supply change prices likewise have often changed significantly. As an example, the Meros report on page 22, provides annual prices by the key suppliers in the Japanese market for the period 2001 to 2018. It shows that in some years, with significant supply reductions, the prices for Icelandic or Norwegian product increased by as much as 25% to 39%. In 2017, the Canadian prices increased by 30% as Norwegian landings were low in both 2016 and 2017. It is difficult to draw conclusions from the limited data, but it does support the notion that supply shocks can drive significant price adjustments and that the loss of both fisheries at the same time will be quite impactful. As mentioned earlier, the Meros report has documented that prices in Japan in 2019 have already increased significantly.

A further challenge for the Panel is in determining how an incremental increase in market returns should be shared between harvesters and producers. The previous Panel wrestled with this question in its 2016 decision, when markets were also expected to increase. Unlike in other species such as lobster and halibut where the sharing increases significantly as prices climb (as high as 80/20 in favor of harvesters) there is no such agreement in capelin. Capelin sharing is arguably more complex. However, there is some justification for the view that as returns from the market increase, the harvester should receive a proportionately higher share of that return. In the absence of an agreement on the principles to be applied, the Panel is left to examine sharing scenarios and to

arbitrarily judge fair sharing of the incremental value. This is particularly true in anticipation of potentially significantly higher prices in 2019.

In 2018, the landed value to harvesters totaled \$10.5 million. The export value (adjusted for carry over sales in the first 5 months of 2019) will approximate \$28 million (possibly as high as \$29.5 million). Assuming the same volumes and characteristics (i.e. size, % females) in 2019, similar production volumes would be expected. If market prices increased by 25% in 2019 this would result in additional export value to producers of \$7.0 million. A 30% increase would mean increased value of \$8.4 million, 35% is \$9.8 million and 40% is \$11.2 million. With an arbitrary sharing of this incremental value on a 50-50 basis, the harvesters would receive increases in the range of \$3.5 to \$5.6 million. This would amount to an increase in landed price of 33% to 54%. With sharing at 60-40 in favour of harvesters, the increase in landed price would be 40% to 64%.

ASP has proposed a 25% increase in prices to harvesters. Using the above illustration, the export value would need to increase by 19% with sharing on 50-50 basis to support that increase. On a 60-40 basis the export value would need to increase by only 16%. The FFAW proposed increase of 46% would necessitate an increase of 34% on a 50-50 sharing and 29% on a 60-40 basis. While the Panel cannot predict prices in 2019, it would appear reasonable to suggest that increases will be more in line with the FFAW offer than the ASP offer.

In summary, the Panel has carefully considered past market adjustments and feels there will be a significant increase in market prices in 2019, as Asian countries compete for the limited supplies that are only available from Newfoundland producers. We have also considered the issue of fair sharing of these increases. In light of this and 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.

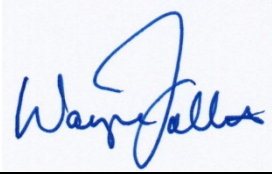
The prices for the species Capelin will be:

- \$.35/lb. - Grade A
- \$.21/lb. - Grade B

The 2018 prices in the addendum for those grades that fall outside Grade A and B will be updated in accordance with the percentage increase of the Grade "A" price.

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

Dated the 19th day of June 2019.



Wayne Follett



Brendan Condon



Bill Carter