

STANDING FISH PRICE-SETTING PANEL CAPELIN FISHERY 2020

The Standing Fish Price-Setting Panel, hereinafter referred to as “the Panel”, issued its Schedule of Hearings for 2019, on February 27, 2020. Pursuant to Section 19 of the *Fishing Industry Collective Bargaining Act*, hereinafter referred to as the “Act”, the Panel set Wednesday, June 10, 2020, 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 11, 2020. The Panel convened its hearing for the species Capelin at 10:00 a.m. on Thursday, June 11, 2020, via Microsoft Teams virtual meeting capabilities. 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 one market report, provided by the Department of Fisheries and Land Resources, from Meros Consulting, hereinafter referred to as “Meros”, as well as data on landings and export value also provided by the Department of Fisheries and Land Resources. The Meros report provides information on global product supply as well as analysis of the current market situation and potential market demand in Asia, particularly Japan.

Meros speaks extensively to how the market reacted to supply shortages in 2019. On page 12, he notes:

“The supply shortage in 2019 resulted in increased import prices. The expectation of some of the interviewees is that this year the import price is likely to increase further as the tight supply situation in Europe will continue”.

Meros further explains on page 15:

“In 2019, the average annual wholesale price at the Tokyo Tsukiji/Toyosu market was USD 7.25/Kg which was a record high and up 30% higher compared to the price levels in 2018”.

In terms of the outlook for 2020, Meros points to optimism with a potential downside. On page 19 of his report, he states that:

“The price will definitely go up. It’s hard to say how much. If you look at the market situation (no supply from Iceland or Norway this year), we will probably have to raise the price but there is a limit to how much you can increase the retail price. So, if it goes up too much, consumers will stop buying and the market will shrink”.

With respect to the COVID-19 pandemic, Meros explains on page 10:

“The COVID-19 pandemic did not have critical impact on the capelin market. But the tight supply volume had..... On the other hand, as people stayed and cooked at home, demand at retail - especially for cheaper food products, increased. Capelin is mainly consumed at home (an estimated 70% of the volume is sold at retail), so the pandemic situation had some impact mostly on capelin demand at retail”.

With reference to Inventory levels, Meros states on page 7:

“According to the industry, capelin inventories are reaching the bottom and the situation is becoming even tighter in 2020..... As a result, from the tight inventory, the price of the raw material was increased as well”.

To summarize the overall market outlook for 2020 and beyond, Meros states on page 20:

“The position of Canada in the next season will depend on two factors: 1) the purchasing price during the new season and 2) the acceptance of Canadian products in the Japanese processing and retail industry.... Since last year they started to accept more Canadian products and the expectation is for this trend to continue in 2020. In 2020, there is a chance for Canada to increase its presence in the Japanese market.... If Canada can establish itself in the market while Iceland

and Norway are gone, they will be able to keep some share even after these two countries come back.”

In its submission, the FFAW takes the position that the exceptionally strong market for Capelin in 2019 will continue in 2020, and prices will likely increase further. They feel the Meros report supports this and Japan is a leading indicator for the Asian markets. Global supply will be even less in 2020, with the continuing closure of the Icelandic and Barents Sea Capelin fisheries, and the fact that any carry-over inventory was fully used up in 2019. In 2020, Newfoundland will practically be the sole supplier to the global market.

The FFAW contend that Capelin is primarily a retail market and therefore the COVID-19 pandemic will not have a significant impact on food markets, which is the primary determinant of outcomes. The market for zoo food should also remain strong as in 2019. Capelin prices have been even higher in the first five months of 2020 and this trend will continue. The FFAW feels that, as stated by the Panel last year, the appropriate comparison of market returns to landed value is over the period 12-month period July to June. They claim that even with the price increase in 2019, the harvesters share did not keep pace with increased market returns (\$0.33 a pound for exports). Their final offer is for an increase of 20% over 2019 prices.

The ASP acknowledges that export market prices were significantly higher in 2019, but believes it is difficult to predict outcomes for 2020. The nature of the fishery is unknown year-to-year in terms of landing patterns, percentage females, size, etc. They claim that 2019 was a good year in terms of landings characteristics and coordination of the pace of the fishery between harvesters and processors. This resulted in a much-improved yield of exportable products per volume landed (additional 4,000 to 5,000 tonnes exported). Although the global supply is dramatically reduced, in the past a high percentage of the Capelin from other countries went into roe production which is not a market now open for Newfoundland producers. There are also challenging market realities due to the continuing global pandemic.

The ASP believes that, despite the Panel’s expressed view, the calendar year export numbers are the appropriate metrics to use to compare the value of exports to landed values. They maintain that, on a calendar year basis, the year-over-year price increase was only 18.9%. They also contend that zoos in the US will substitute other species for Capelin if the prices get too high. They maintain that the Meros market report only covers Japan which accounts for a small percentage (7.2%) of direct Capelin exports from Newfoundland. Therefore, the report’s findings cannot be extrapolated to the full market for Newfoundland female Capelin. The ASP final offer is for an increase of 7% over 2019 prices.

At the hearing, both parties acknowledged the unprecedented global supply shortfall and that Newfoundland Capelin is well positioned in the marketplace. The Icelandic and Norwegian Capelin exports originate from two large fisheries, one prosecuted on the Icelandic stock and another on the Barents Sea stock. As was detailed in last year's Panel decision, 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. These fisheries are now closed. Over the same period, the average annual Canadian landings from Newfoundland and Gulf stocks was only 31,000 tonnes.

Last year, Newfoundland harvesters landed approximately 28,000 tonnes while approximately 12,000 tonnes of Capelin was supplied from 2018 carry over inventory from Iceland and Norway. In 2020, there is a 15% quota reduction in the Newfoundland fishery and no inventory carry-over from competitor countries. Therefore, Newfoundland processors will have an even greater leverage on global markets. This should support maintaining the record prices received in 2019 and makes it reasonable to foresee some further price increases. 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 remains strong against the USD and Canadian dollar improving the Japanese buying power.

In terms of sharing, the Panel remains 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, these same Capelin, while processed during the same summer period, are not fully exported and sold in the same calendar year. This was especially true for the first 5 months of 2020 when approximately \$7.0 to \$8.0 million dollars of Capelin produced in 2019 was exported. This was double the value of 2018 Capelin exported during the same January to May period in 2019. The result in an under-estimate by ASP of the year-over-year value and price increase in the 2019 fishery resulting from the global supply shock.

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 of shares. Using this approach, the harvesters' share in the 2015, 2016, 2017 and 2018 fisheries was 30.1%, 36%, 32.6% and 36.9%, respectively. The volume of additional exports in May 2020 is not yet reported, however the harvesters' share in 2019 was in the same order as 2018 at approximately 37%.

The value of exports from 2019 landings approximated \$44.8 million, which is an increase of approximately \$16.4 million over the previous year. The landed value to harvesters increased approximately \$6.1 million or 37% of the increase. The Panel is persuaded that sharing of the extra returns in 2019 was tilted in favour of the processors. Given that most of the increase in 2019 export value is price driven, there is minimal additional processing cost to achieve it. The result is much improved returns for processors.

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, the Panel has been persuaded by ASP's contention that the domestic market is of limited value and the best index of sharing is that measured as a share of export value. In recent years, Newfoundland Capelin were exported to the US (up to 30% of volume and 20% of value) with most of the rest going to Asia. Export data shows that prices to the US, mostly male Capelin for zoo food, increased in 2019 by approximately 27% over 2018. 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 challenge for the Panel is predicting the Asian markets given all the considerations in play. 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 each year, with Newfoundland producers selling into a residual or specialized market. The Asian countries all differ in price, product preferences, demand, etc. It was evident last year they were all affected by supply shortages which led to record market prices. The only reasonable assumption is that this will continue this year. Given that supply will be further constrained this year, it is also reasonable to foresee additional price increases in 2020 as Asian countries compete for the limited supplies that are only available from Newfoundland producers. As Meros reports, the effect of the pandemic is somewhat muted given that female Capelin is consumed mainly at home which increases the dominate retail market for Capelin.

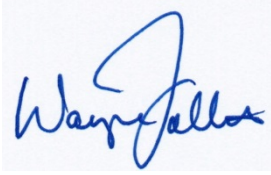
In light of the above, and a review of the market reports and the submissions of the parties, it is the decision of the Panel to accept the final offer of the FFAW. The prices for the species Capelin will be:

- \$.42/lb. - Grade A

The prices on the Capelin price table will be increased by the 20%, as is the case for 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 16th day of June, 2020 at St. John's, NL.



Wayne Follett



Bill Carter



Brendan Condon