

## STANDING FISH PRICE-SETTING PANEL

### SNOW CRAB FISHERY 2022

The Standing Fish Price-Setting Panel, hereinafter referred to as “the Panel”, issued its Schedule of Hearings for 2022, on March 18, 2022. Pursuant to Section 19 of the *Fishing Industry Collective Bargaining Act*, hereinafter referred to as the “Act”, the Panel set Thursday, March 24, 2022, 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, Forestry and Agriculture, 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 Friday, March 25, 2022, at the Capital Hotel, 208 Kenmount Road, St. John’s, NL. At the hearing, a preliminary objection motion was raised by ASP. The Panel decided to hear briefs on this motion on Tuesday, March 29, 2022 via WebEX virtual meeting capabilities owing to Covid-19 protocols, and made its decision to reject the motion on Wednesday, March 30, 2022.

After consulting with the parties, the Panel convened the hearing for the species Snow Crab at 10:00 a.m. on Thursday, March 31, 2022, via WebEX virtual meeting capabilities. The parties appearing before the Panel were the FFAW and ASP. The parties having previously exchanged written submissions, supported their positions in argument and rebuttal.

The timing of the preliminary motion and the Panel’s need to deal with it to ensure an effective conclusion of the collective bargaining process under the Act, resulted in a tight timeframe for the Panel to hear and decide the final offers for Crab. Therefore, the Panel issued its decision in summary form on April 1, 2022, and, is now issuing a detailed report on its decision.

The parties and the Panel were provided with two market reports prepared by John Sackton Seafood Datasearch and Meros Consulting, as well as information provided by the Department of Fisheries, Forestry and Agriculture, including data on NL landings, production and export statistics, and recently published articles related to Snow Crab markets. The Meros report, relates exclusively to the Japanese market, while the Sackton report touches on the Japanese market, but primarily concerns itself with our largest market, the US.

Sackton's report spoke to the very high demand that existed in snow crab markets throughout 2021:

*"Based on IRI data, retail frozen sales of crab were 27% higher than for frozen raw shrimp. And the volume of crab at 111 million lbs nearly matched that of shrimp at 119 million pounds. This is a phenomenal shift in the retail seafood case, where frozen shrimp has long been the undisputed leader."* (Page 7)

*"The combination of continued retail demand plus foodservice demand is what continued to push snow crab prices to record levels, despite the increase in Canadian quotas and the increase in imports from Russia and Norway. In the second half of the year prices topped out, and this spring slowdown in sales appears to have arrived. There is significant crab inventory that is still unsold from last year."* (Page 6)

Sackton notes (Page 19) that unlike most years, when market prices have risen or been stable from January to March, wholesale prices have been declining over that period this year. He noted that in previous years when this January-to-March decline occurred, market prices tended to be more or less flat throughout the year.

*"Price signals in 2022 are indicating that this will be one of those infrequent years when prices do not rise over the course of the sales season."*

*"There is a very real explanation for this based on buyer behavior, which extends not just to crab but to frozen lobster and shrimp and other seafood commodities."*

*"The explanation is an inventory signal. When buyers have unsold inventory on hand, it means that they extend the time period their supplies on hand will last. This makes them reluctant to commit to new purchases until they exhaust their current inventory and can reprice replacement crab at a lower price, or they reduce volume so as to reduce their exposure to slow sales at current prices."*

Sackton said (Page 52) that while there is no formal measurement of overall Crab inventory, there are indicators in the current situation:

*“The first reason is that the level of interest in the start of this year’s Canadian crab season is very low, even though Alaskan production was almost nonexistent. Crab sellers report that in a normal year they begin to get inquiries from their customers about the upcoming season; what the supply situation may be, and when crab might be available. There have been few such inquiries this year.”*

Sackton also pointed to a price signal (Page 53):

*“The most effective way to determine when inventories are too high is when sellers begin discounting prices to move product. This is exactly what has happened to snow crab during the period from January to March, when the Urner Barry price of Newfoundland 5-8 crab sections has dropped every week for the past five weeks and is now 6.5% below its level in January.”*

Sackton noted that the price gap between 5-8 sections and more expensive 8-up sections expanded as prices rose in 2021 to reach record levels in excess of \$3.00 per lb., but this trend has reversed during the first months of 2022, with Urner Barry reporting a narrowing of the price gap. Such narrowing, he said, is *“typical in a declining market.”* (Page 63).

While he pointed to the inventory situation as a challenge heading into the 2022 Crab fishing season, Sackton said the surge in retail seafood buying in 2020 and 2021 *“...was driven by both increases in purchases by heavy users and by about 30% new buyers who had not been purchasing retail seafood before. All segments learned to cook and prepare seafood at home. Retailers expect these changes are long lasting.”*

Normally, a significant increase in Canadian Crab quotas, such as both NL and the Gulf are experiencing in 2022, is seen as having negative consequences in the market, but Sackton put an interesting spin on it (Page 72):

*“The strong forecast for both the Gulf and Newfoundland is very good news for the market. It reassures customers that crab will be widely available despite the cut off of Russian production. These increases will help the market stabilize, rather than scare customers who believe crab will be unobtainable at prices they can afford.”*

Meros, meanwhile, reported that Canadian Snow Crab shipments to Japan increased to 4,200 mt from 3,500 in 2020. Some of the Crab imported into Japan comes directly from producing countries, including Canada, while a portion of it comes in the form of Crab meat extracted at processing facilities in third party countries in Asia. Meros estimated the total Japanese import in 2021 as 20,837 mt (section equivalent), with Canada being the largest supplier at about 8,600 mt in both 2020 and 2021.

In light of the sharp decline in Alaskan Crab quotas and the uncertainty surrounding the Russian supply as a result of the war with Ukraine, Meros expects that Japan's overall imports will decline, but that imports from Canada are likely to increase. But it is a price-sensitive market, and Meros provides this outlook of the market heading into the 2022 NL fishery (Page 23):

*“Since Japanese importers are expected to have large inventories as of February 2022, Japan’s frozen snow crab purchases in 2022 will likely be lower unless prices drop significantly in the meantime...It is likely that many importers will reduce their import volume in the coming season. However, demand in the US is reported to be weakening since last winter, which could lead to lower snow crab prices this year. If prices fall, Japanese importers may increase their snow crab purchases.”*

The FFAW takes the position that 2022 will be a much different year. Two of the main competitor nations, Alaska and Russia, will have little Snow Crab for two of the most important markets, the US and Japan.

The FFAW believes that the current market is better than where it was when the \$7.60 price was established last year, noting that, at the time of reconsideration, the market for NL Snow Crab was somewhere between \$12.05 and \$12.15. They maintain that the market now is above \$14.00 USD, and more than \$2.00 ahead of the 2021 reconsideration level. They believe the market is correcting and that the FFAW's price reflects that. They claim we are still dealing with a market that has adjusted to this new high price range, has far fewer Snow Crab options and less supply. They also maintain that harvesters should receive at least 50% of the NL export price, consistent with the sharing in 2021, noting that 2020 was a year when unanticipated market returns resulted in an imbalance in sharing heavily in favour of processors.

The FFAW also repeated its assertion that harvesters have never fully benefited from yield improvements due to technological advancements over the past several years. They believe it is a fundamental component to achieving a fair price and a fair share of the market for harvesters.

With respect to inventory, the FFAW acknowledges that inventories of Canadian Snow Crab and Russian Snow Crab still exist from the 2021 season. They believe that inventories are, however,

a guessing game and that if they do exist, they are certainly not significant or large and that the market is not full.

The FFAW maintains that the global supply of Snow Crab will shift greatly from traditional supply patterns in 2022. Major contributors to the global Snow Crab market, Alaska and Russia, are effectively out of the United States and Japanese markets for 2022. Alaska's 2022 quota was significantly reduced (by 88%) and Russian Snow Crab will not enter the US market like in 2021 due to sanctions. There is a significant opportunity for Canada to at least partially accommodate this shortfall with 2022 increases in quota.

The FFAW believes that both retail and food service market segments will be strong in 2022, and that the surge in retail since the pandemic will be long lasting. They point to market data that indicates retail prices have grown dramatically in the past year and remain strong. With respect to food service, both cruise and airline data support a much-improved 2022 economic outlook and air travel is up significantly from 2021 levels. They reference the Sackton report which indicates that foodservice sales in February recovered to their 2019 level and overall sales growth will bring the foodservice industry over their 2019 level.

With respect to Japan, the FFAW acknowledges that the Japanese market has not been as important to NL processors in the past few years. They believe that with the uncertainty in Russia, Japan will have to focus on Canadian supplies. They believe Japanese buyers will be active in Newfoundland and Labrador this year.

The market is unsettled, but it is not in freefall. For the upcoming season, the FFAW is basing its price on a \$14.25 US market and that is the price for the season, not necessarily the price for the first week of the fishery. They indicate harvesters in the Gulf are receiving between \$8.50 and \$11.00 per pound. The FFAW is seeking an increase of \$1.45; 19.1% over 2021 raw material prices.

ASP takes the position that 2022 presents a unique challenge in determining what the market will be for Newfoundland Snow Crab this year. In a declining market, risk is real, particularly for the processing sector. The current market supply forecast is lower with a supply reduction from Alaska and the cessation of supply from Russia. Despite these events, markets are falling quickly. In a market that might be considered short, prices are falling and remaining inventories are pushing prices down.

The primary concern is that Newfoundland and Labrador producers will be buying raw material on a market premise that does not hold, at great expense, and selling a week or more later, at a lower reality or placing in inventory because the market is not buying. They claim that, in 2021,

the market reality was not at the level that Urner Barry reported later in the year and the Urner Barry index, which is based on smaller-lot sales is known to be above Newfoundland wholesale pricing.

ASP continues to dispute suggestions by the FFAW that pricing in Newfoundland should be premised on events taking place in the Maritimes. ASP maintains that Maritimes Crab have different characteristics than Newfoundland Crab. They submit that Crab landed in the Maritimes is much larger and cleaner (less barnacles), with higher yields and market prices. They claim that, during negotiations, there appeared to be consensus that the price being paid to harvesters for snow crab in the Maritimes was \$8.50/lb.

With respect to assessing demand, ASP believes that the most effective signal that exists is price. Falling prices point to reducing demand. Rising prices point to increasing demand. In that regard, the demand signal is clear. Demand is falling. They claim that the Urner Barry price for 5-8 oz. and larger sizes have both fallen. This is a clear signal that the market is not stable.

ASP says it is apparent that inventories exist, which is remarkable given the falling supply that the market has been aware of since early October 2021, with the Alaska cuts, compounded by the Russian seafood import ban into the US more recently. Those supply reductions have not resulted in the market stabilizing, but the market index has instead fallen and continues to fall. There have been few enquiries from customers who say sales have slowed down and that they have extra inventory on hand. With respect to Japan, they reference Meros who reported that Japanese importers are expected to have large inventories and frozen Snow Crab purchases in 2022 will likely be lower unless prices drop significantly.

ASP maintains that Snow Crab is now overpriced in relation to the demand. Prices are coming down, because the market is not willing to pay the high prices of last fall. They are seeking a rollover in price from last year based on expected export pricing similar to 2021.

The Panel found itself in a difficult position in light of the volume of raw material involved, the enormous gap in the respective price positions of the parties and the market information available. Key factors which weighed into the Panel's decision include:

1. The US Federal Reserve has recently indicated that the war in Ukraine and rising oil prices are resulting in lowered expectations for US and global economic growth. While the labour market and aggregate demand are still strong, projected real GDP growth in the US has been lowered to 2.8% for 2022, down from 5.5% growth in 2021. The Federal Reserve has a long-term inflationary goal of 2% annually but acknowledges that current inflation is well above this target. The Russian invasion of Ukraine and the resulting

sanctions imposed by many nations, including the United States, have created an environment of uncertainty which is impacting on consumer behaviour. Inflationary pressures, particularly in relation to the price of petroleum products and food, is causing some consumers to re-evaluate their priorities in terms of expenditures. The end of stimulus spending in the US, will have a further dampening effect on consumer spending. Overall, consumer confidence is said to be at its lowest level in a decade. In the view of the Panel, these economic factors are having a dampening effect on seafood demand, although the extent of this likely impact is currently unclear.

2. The Sackton report outlines how the change in consumer behaviour arising from the Covid-19 pandemic, notably the precipitous decline in foodservice visits/sales, spurred tremendous growth of retail seafood sales as consumers, 30% of whom were new to the retail seafood market, bought product for home consumption. While this retail growth was tempered somewhat in 2021 due in large measure to price increases, it is expected that some of the overall greater interest in this sector will carry over.
3. The foodservice sector is anticipating growth in 2022 as the further relaxing of Covid restrictions results in travel increases within the US and in the cruise trade. Restaurant sentiment has improved and increased dine-in traffic is anticipated. In addition, take out and delivery options are expected to remain popular. On the other hand, the latter months of 2021 saw some retrenching of restaurant visitations after significant improvements earlier in the new-year, due to the increased prevalence of the Covid-19 Delta variant. Currently there are considerable regional differences in the willingness of consumers to visit restaurants, and overall, one quarter of Americans are still not willing to go into a sit-down restaurant.
4. Snow Crab quotas in Alaska have declined 88% for 2022, and due to sanctions imposed on Russia, Russian supply will be virtually eliminated from the US market this year. However, Snow Crab supply from Canada will increase significantly from 2021 levels due to quota increases in the Gulf (36%) and Newfoundland and Labrador (32%). Nevertheless, Canadian supply will be insufficient to offset losses from Alaska and Russia, resulting in somewhat less overall production going to the US this year.
5. A major source of uncertainty in the US marketplace this spring is the level of inventory currently available. Both parties acknowledge that there is unsold inventory this year, unlike in 2020 and 2021, but disagree on the amount of this inventory and the implications for demand and price related to our upcoming fishery. In the Panel's view, this is a significant challenge to determining which price offer is the most appropriate to

the circumstances. Unfortunately, as Sackton points out in his report, there is no specific data set on inventories, so inventory reports are based on feedback from US distributors, who are indicating that many of their customers still have plenty of Crab on hand for the level of sales being experienced. Furthermore, it is known that the US imported a record amount of Snow Crab in 2021, and that sales and prices appear to have slowed recently. Price shifts are also a good indicator of whether the market is currently oversupplied for existing level of demand. In this context, the Urner Barry weekly price report for Snow Crab sales has shown a continuous price drop week over week, each week since late January, 2022. Additionally, the reports show that price declines have been greater for more expensive packs (8+) compared with packs containing smaller sections (5-8). Such price compression is indicative of a market which has met resistance at current price levels and is seeking ways to serve customers at a lower price point through substitution of less expensive packs.

6. Regarding Japan, it appears that this market is also experiencing inventory carryover due to high prices and lagging demand in all segments of the marketplace. In 2022, Japan will also have significant restrictions on its supply in that its two largest suppliers, Alaska and Russia will be largely removed from the market, the former due to quota declines and the latter due to sanctions and logistical impediments. Therefore, the Japanese may be more interested in Canadian Crab this year, but there will likely be a degree of price sensitivity given the current inventory and sales levels at current prices. Consequently, Japan may provide some additional sales opportunity for our processors this year but will likely require lower prices.

The Panel's decision is premised on the highly unsettled nature of the market, and the difficulty of quantifying inventory levels. The continuous nature of the decline in the Urner Barry index right up to the date of the Panel hearing was a significant factor in the Panel's decision. The market may continue this downward trajectory until a balance between supply and demand is realized.

Of course, the reconsideration option under the Act will be available to the parties, as required. Should the reconsideration clause be activated, the Panel urges the parties to make every effort to bring their offers as close together as possible.

Considering the review of the market information available 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 Snow Crab will be:

- \$7.60/lb. — 4" carapace and greater.
- \$7.30/lb. — for legal size less than 4" carapace.

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

Dated this 6<sup>th</sup> day of April, 2022.



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David Lewis



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Bill Carter



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Earle McCurdy