Please note comment from Dr Jaffa on the publication of this submission: *"I have no problem with this as long as it contains the statement that my comments are based solely on my observations within the supermarkets and these may or may not reflect the supermarkets own policies."*

21st July 2006

Mr Edwin James
Inquiry Secretary (Pan Fish/Marine Harvest inquiry)
Competition Commission
Victoria House,
Southampton Row,
London, WC1B 4AD.

Dear Mr James,

On 6th July 2006, the Office of Fair Trading issued the following statement: -

112/06 6 July 2006

The OFT today referred the proposed acquisition by Pan Fish ASA of Marine Harvest NV to the Competition Commission (CC).

The OFT has decided that the test for reference is met in relation to the supply of farmed Atlantic salmon in the European Economic Area (EEA).

Vincent Smith, OFT Director of Competition Enforcement said:

'The merger brings together the two largest suppliers of farmed Atlantic salmon in the EEA. The OFT has found that the loss of rivalry between these companies may cause an increase in the price of farmed Atlantic salmon, and thereby harm UK consumers. In addition to this, we found that any effects were likely to be felt more acutely amongst those consumers having a strong preference for Scottish salmon.'

With over 30 year's experience of the aquaculture industry of which the last 15 have been dedicated to the salmon market, we believe that Mr Smith's concerns to be inconsistent with the existing market situation. To help illustrate why this is we would like to refer to the previous investigation of the salmon industry conducted by the competition Commission. This is the December 2000 report on the then proposed merger of Nutreco Holdings and Hydro Seafood GSP. This raised many of the issues which no doubt will be considered again during this current investigation. Thus there must be some merit in reviewing the evidence presented then and compare it to the situation now.

The main focus of the previous investigation with regard to the marketplace was directed towards the issue of Scottish salmon.

In section 4.96, the Competition Commission felt it was necessary to determine whether Scottish farmed salmon is

a) part of a wider market
b) a single homogenous market
c) a single market with a number of segments
d) encompassing more than one market

They felt that the main issues for consideration were:

a) whether Scottish salmon can be regarded as a distinct market from other European farmed Atlantic salmon
b) whether other fish such as Pacific and wild salmon are part of the same market
c) whether the market for Scottish salmon encompasses different segments or more than one market

At the time, the Competition Commission concluded that the market is for 'farmed salmon' although they found that there is a small market segment for which Scottish salmon is a differentiated product (1.5). This still holds true today. As the new proposed company would have produced 46% of Scottish salmon, the Competition Commission considered that this was sufficient reason, together with others, to prohibit the merger.

It is probable that the Competition Commission will reach a similar conclusion in this case, but we do not believe that this merger will have a detrimental effect on the market for Scottish salmon and thus there is no reason to prohibit the merger on this occasion.

In section 4.97, the Competition Commission relate how several third parties stated that due to actual or perceived differences, Scottish salmon operates, at least in part, in a separate market from other European farmed salmon. They say in section 4.98 that a number of reasons were put forward to suggest that Scottish salmon is perceived as of a different and higher quality than other European produced salmon despite being of the same species.

They were told that Scottish salmon could be different in its taste and texture and particularly in its fat content due to differences in feeding regimes. This is true, but with careful management fish can be produced in different countries with near identical taste and texture. The Competition Commission failed to ascertain why Scottish salmon is perceived to be superior to other salmon. Certainly, this is a perception on which the salmon industry in Scotland has tried to capitalise as the following advertisement placed in the Grocer in 1996 by the then Scottish Salmon Board clearly shows.

So where does this perception of Scottish salmon being superior come from? It actually originated in London long before the ideas of salmon farming was actually conceived.

Around the turn of the twentieth century, there was a huge influx of immigrants into London from Eastern Europe who brought with them their traditions and cultures including a love of smoked salmon. In their homelands, they had smoked salmon caught from the Baltic and continued to import fish brought over in barrels of brine once they became established in London. A number of small smokehouses set up in business to continue smoking salmon, one of which still remains H Forman & sons, who began smoking salmon in 1905. The smokehouses used a much milder smoke than previously used in the UK and this became known as the London Smoke. Until very recently stores such as Selfridges sold their own brand smoked salmon labeled as made using the London smoke.

As demand for London smoked salmon grew, the smokehouses had to source their fish from elsewhere. Scottish salmon seemed to be the preserve of the wealthy upper classes through its association with sport fly fishing. Instead, the smokehouses turned to the far reaches of the British Empire and imported frozen Pacific salmon from Canada and subsequently Alaska. Pacific salmon was the mainstay of these smokehouses from many years and its use declined only with the rise of salmon farming.

The Competition Commission recognised that Pacific salmon is a different fish (4.120), which it is. However, Pacific salmon is not only a different species to Atlantic salmon, but there are six different species of Pacific salmon five of which are found on the North American coast and all with different tastes and cost levels. The Competition Commission mention that most Pacific salmon is canned but most consumers are unaware that the different grades of colour association with canned salmon are in fact due to the salmon being a different fish. Thus, Red salmon is a different fish to Medium Red, which is different again to Pink. The various Pacific salmon include:

a) Chinnook or King salmon
b) Sockeye or Red salmon
c) Coho or Silver salmon
d) Pink or Humpback salmon
e) Chum or Keta salmon

More than one of these Pacific salmon species has been smoked in the London smokehouses.

Clearly, there was a significant difference between Scottish salmon (known then as Scotch salmon) and imported Pacific species and therefore it was not unexpected that the Scottish fish developed a reputation for having a much superior eating characteristic than imported fish. This was simply because they were different fish.

Naturally, when the pioneering companies began to farm salmon at the end of the 1960’s they selected salmon as their candidate species because it had an established reputation as a luxury, high quality product. These farmers believed that they could capitalise on this existing market image and make a lot of money.

At the same time, that these Scottish companies were putting the first fish to sea, other companies were doing exactly the same on the other side of the North Sea. Norwegian farmers also recognized that there was a potential to farm salmon and benefit from the high market prices.

Salmon prices were high because of the inherent rarity value of salmon in the wild. This is part was why salmon had a luxury market image but also because of its association the landed gentleman’s sport of fly fishing. Throughout the early days of the salmon farming industry, this image was maintained due to the low volumes of salmon produced. However, as the industry gathered pace, volumes increased and inevitably the price collapsed. Scottish farmers blamed imports of Norwegian farmed salmon for the price collapse which they claimed were inferior fish and were being sold off cheaply.

Whilst there was some justification for believing the Scottish salmon was superior to imported Pacific species, the case against imported Norwegian salmon had no basis at all. This was because Norwegian Atlantic salmon are exactly the same fish as Scottish Atlantic salmon. It would be extremely difficult for any consumer to identify whether a salmon came from Norway or Scotland unless it was labelled as such.

On the following page, we have pictured four portions of farmed Atlantic salmon bought randomly in British supermarkets. We would suggest that even the Competition Commisison would have some dificultly in identifying which portion was from a fish farmed in Scotland.

The historical perception that Scottish salmon is superior to any other is firmly fixed in the minds of many consumers even if they are not aware of why Scottish salmon has attained this reputation. It is not surprising that when British retailers ask their customers which salmon they prefer to buy, as detailed in sections 6.77 to 6.95, they select Scottish since it is the one which is home produced and would therefore be expected to be their first choice. In the same way, if you asked consumers whether they prefered Scottish beef to Norwegian beef, they would select Scottish as their first choice. We will return to this issue later.

1. 

2. 

3. 

4. 

The answer can be found on the following page.

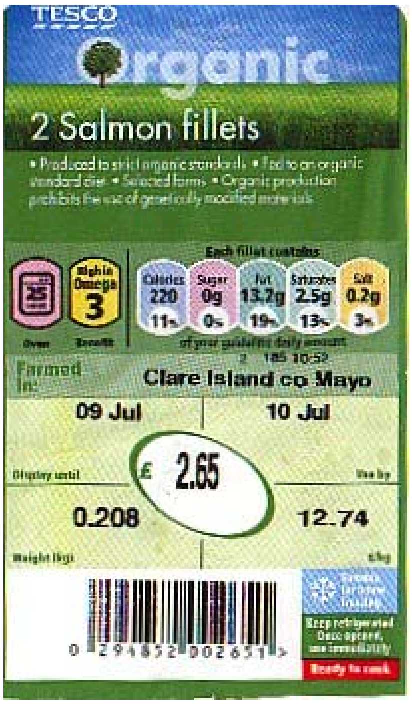
1. 

2. 

Chilean

Norwegian

3. 

4. 

Scottish

Irish

It is not just that consumers are visually unable to ascertain any difference between Scottish and imported salmon, they are also unable to identify any differences in taste. Asda told the Competition Commission that consumer and staff blind tastings failed to detect any difference between Scottish and Norwegian salmon (6.79) although M&S found through tastings that Scottish salmon was of better quality (6.84). We will discuss this difference later.

Whilst consumers have been unable to identify any real differences in the appearance or the taste of Scottish salmon, the Scottish salmon industry have tried to differentiate their salmon in the market place through the use of quality labels. These are the Tartan Quality Mark and the French Label Rouge. The Competition Commission refer to the TQM as the Scottish Quality Salmon TQM but it was actually launched in 1991 by the Scottish Salmon Board, long before the creation of Scottish Quality Salmon.

The Competition Commission report mainly focuses on the French Label Rouge. The report simply mentions that salmon sold under the TQM can command a price premium in the UK (2.51). The PACEC report which the Competition Commission consults suggests that many British retailers recognise the benefits of the TQM and this is why they stock salmon carrying the mark. Unfortunately, PACEC simply relied on the Scottish Salmon Board to provide this information and failed to check whether it was actually valid. Callander McDowell conduct regular surveys of the retail sector and our findings did not concur with those from PACEC. This is because in common with a number of other surveys and investigations, PACEC relied on second hand information from which to draw their conclusions.

When in 1999, PACEC concluded that most British retailers then stocked TQM salmon there was little evidence from stores to support that conclusion. Of all the retailers, only Safeway stocked TQM salmon on a regular, but not exclusive, basis. Safeway told the Competition Commission that they had a Scottish only policy, which may have been true at the time of the investigation, but this policy did not last long. Safeway regularly stocked not only TQM Scottish salmon but also Scottish salmon, without the TQM as well as salmon from Norway as the following labels from that time confirm. All three differently labelled packs were sold at an identical price. Prior to Safeway's acquisition by Morrrison's Safeway rationalised its labelling and the TQM symbol was relegated to the back label, out of sight to customers whilst the packs were on display on the shelves.

Even in 1999, consumers would have found it difficult to identify salmon as being sold through the Tartan Quality Mark scheme. This was because most supermarkets did not stock salmon marked with the TQM. The explanation was simple; most consumers were not prepared to pay extra for salmon carrying the TQM because they found no benefit from doing so. This is why PACEC would have found only limited evidence of the TQM had they actually looked. Today, the TQM has effectively disappeared from the retail sector altogether. The exception can be found around the fresh fish counters in some Morrison's stores, which have a bunting made from TQM symbols hanging from the roof. This does not necessarily mean that the salmon is of TQM origin. Morrison's also sells a pack of Speyside smoked salmon which incorporates the TQM symbol. However, this symbol can be found on the back of pack, out of sight of consumers. This pack is a remnant of the Safeway acquisition.

The failure of the TQM at retail level is clear proof that whilst most British consumers say that they prefer Scottish salmon, they are not persuaded to actually buy it when they are faced in store with the actual choice to do so.

This view is supported by the findings of the first market survey of the International Salmon Farmers Association which placed country of origin near the bottom of the list of parameters influencing consumer's buying decisions. This is why most supermarkets have adopted a dual policy of buying both Scottish and Norwegian salmon. Those supermarkets which continue to buy only Scottish salmon do so for other reasons which will be discussed later.

The other mark used to differentiate Scottish salmon is the Label Rouge, which can be found on fish destined for sale in French retail outlets. Label Rouge has been much more of a success than the TQM and as the Competition Commission record in section 4.101, Label Rouge salmon does appear to command a premium price in French supermarkets. However, the Competition Commission questions whether this is because of the Scottishness of the product or the Label Rouge mark. We are of no doubt that it is due to the second of the two and that it is the presence of the Label Rouge that persuades French consumers to pay a higher price for this salmon.

However, Label Rouge is a small niche market. It is estimated that Scotland currently exports about 6-7,000 tonnes of Label Rouge salmon to France much of which seems to be destined for smoking companies rather than being sold fresh. Callander McDowell currently monitors 14 supermarket chains in France and have found that the presence of Scottish Label Rouge salmon is limited. Label Rouge salmon is primarily found in just one supermarket chain – Casino, although one or two others sometimes sell prepacks marketed under the Fregaline label.

Whilst Scottish Label Rouge salmon does sell at a premium, it is extremely difficult to calculate by how much. This is because it is rarely sold against competitive products. The salmon displayed on a Casino fresh fish counter may typically consist of whole Scottish Label Rouge salmon, Scottish Label Rouge salmon steaks but Norwegian salmon fillets. Fillets are the big sellers and are priced accordingly. It is unusually to find fillets of both Norwegian and Scottish Label Rouge being sold on the same counter. Equally, it has been some time since chilled prepacks of Norwegian sand Scottish Label Rouge fillets have been sold by the same store at the same time. Most French stores sell Norwegian salmon even though the Competition Commission were told that the French market appears to prefer Scottish salmon (4.103)

The Competition Commission's uncertainty as to whether the price premium comes from the 'Scottishness' of the product or the Label Rouge may soon be resolved. Marine Harvest has recently been granted Label Rouge status for their salmon grown in Norway. This was announced at this year's European Seafood Exposition in Brussels. The Competition Commission stated that as Norway does not have the equivalent scheme to SQS, they cannot gain Label Rouge approval. The Competition Commission were misinformed on this point. Individual farms or producers have always been able to apply for Label Rouge approval and farmers of several other fish species have done exactly that. SQS have always tried to give the impression that Label Rouge approval is something special. It is not. It is just a quality standard.

In section 4.103 an unnamed source told the Competition Commission that although generic Scottish salmon was still regarded as a better product than generic Norwegian salmon, the view was not as strongly held as it was five to ten years before. This is because most consumers have found that Norwegian salmon is just as good as Scottish salmon and offers the same if not better value for money. PACEC concluded (4.106) that there is a close substitution between Scottish and Norwegian salmon especially in the catering, cooked, economy and frozen sectors but at the time they were unable to say whether this was true for fresh and chilled salmon as salmon did not then have to be labelled with country of origin. This situation has changed as all fish must be now be labelled with country of origin and therefore it is much clearer as to where individual supermarkets source their salmon from.

Asda – At the time of the last Competition Commission investigation, Asda operated an open sourcing policy which depended on availability and price (6.77). Currently, Asda source their salmon from Scotland and Norway. The labels on fish sold from the fish counter state either ‘Farmed in Scotland’ or ‘Farmed in Norway’. It is unclear whether these actually reflect the volume of salmon sold or whether staff fail to change them as the source of the fish changes. Chilled prepacks are sourced from both Scotland and Norway. Scottish salmon is usually labelled as ‘Farmed in the UK’ as Scotland is not a recognised EU member state. Fillet prepacks are sold under the ‘Smartprice’ or Young’s own brand label.

Coop – The Coop sell salmon under the Young’s own brand label. Fish can be either farmed in Scotland (UK) or Norway.

Marks & Spencer’s – Marks & Spencer’s told the Competition Commission that they only bought salmon from Scotland (6.83). This is still true for traditional salmon fillets but organic fillet is sourced from Scotland and Ireland as Scottish farmers do not currently produce enough organic salmon to meet demand.

Morrison’s – Safeway told the Competition Commission that they operated a Scottish only buying policy (6.87). Safeway have now been acquired by Morrison’s who also remain loyal to Scottish salmon. When they launched organic salmon recently, the first supplies were sourced from Ireland but current supplies are now sourced from Shetland.

Sainsbury’s – The Competition Commission was told by Sainsbury’s (6.89) that they sourced most of their fish from Scotland but supplemented this with fish from Norway. Most of the salmon sold from the fish counter does appear to come from Scotland although at times of peak demand, some whole fish from Norway have also been sold from the fish counter. Salmon sold from the chiller cabinet is sold in four different presentations – value, traditional, premium and organic. The salmon in premium packs sold under the ‘Taste the Difference’ label and organic salmon are sourced from Scotland, whereas salmon sold in the other two presentations could come from Scotland or Norway. Sainsbury’s tend to continually promote salmon under their own or Young’s own brand label. Fish are typically labelled as being ‘Farmed in the UK’ or ‘Farmed in Norway’ unless they are packed in Scotland when they are labelled as Scottish (UK).

Somerfield – Somerfield told the Competition Commission that 95% of their salmon is sourced from Marine Harvest with the rest coming from Scotland (6.93). Currently, they continue to source salmon from both Scotland and Norway but observations suggest that the percentage of Scottish is now less than in 2000.

Tesco – Tesco source salmon from both Scotland and Norway. Fish sold from the fish counter states that salmon is farmed in either Scotland or Norway. Tesco sells salmon in prepacks in three different presentations, traditional, premium and organic. The organic salmon is mostly sourced from Ireland but is sometimes supplemented with fish from Scotland. The premium packs sold under the ‘Finest’ label are sourced from Shetland whereas the traditional packs are sourced from Norway and Scotland.

Tesco have opted to provide more information than required as to the origin of the salmon stocked. Packs of ‘Finest’ and organic salmon state the location of the farm whereas the traditional salmon is identified by the region. Thus packs could state ‘West Coast of Scotland’, ‘Western Isles’, ‘Shetland’ or ‘South West Norway’, ‘Mid West Norway’ or ‘Northern Norway’.

Waitrose – Waitrose have adopted a Scotland only policy although when supplies of organic were in short supply, they also sourced fish from Ireland.

(Our view of how salmon is sold in the supermarkets is based on our own observations. This view may conflict from evidence submitted by the supermarkets themselves but we have only reported what we have seen and recorded.)

It would appear that little has changed in the supermarket sector with regard to their policy on sourcing salmon. What has changed is that their customers have better access to information on the origin of the salmon they buy. This improved access appears to have made little difference to buying patterns and most consumers are equally happy to buy salmon from Norway as they are from Scotland. Origin is not, nor has ever been, the main driver of salmon purchases. This is actually price.

Although it is clear that in the intervening six years since the last Competition Commission investigation, consumers have continued to show a willingness to buy any salmon irrespective of origin, the idea persists that Scottish salmon is not only preferred but that consumers will pay more to buy it.

During 2005, the Scottish Executive asked Highlands & Islands Enterprise to commission a review of trends within the Scottish salmon industry. The commission was given to Ernst & Young who reported in November. A summary is available through HIE or SSPO websites but the main report remains unpublished as it is deemed confidential.

The executive summary states that “UK consumers are favourably disposed towards salmon sourced in Scotland and in most cases are prepared to pay a premium for Scottish product according to the retailers, processors and producers whom we interviewed.”

This brief statement raises a number of issues. Clearly, our observations over several years have found no evidence that UK consumers are prepared to pay a premium for Scottish salmon. When Scottish Quality Salmon, the predecessor to Scottish Salmon Producers Organisation, were asked to provide even one example of this premium pricing, they could only refer to Label Rouge which is in France, not the UK. When Ernst and Young were asked the same question, they mentioned Marks & Spencer’s as one example. It is important to recognise that Ernst and Young used interviews to gather information rather than seek evidence themselves. Their claims are therefore made on third party statements alone.

Marks and Spencer’s are an interesting example because their salmon is certainly sold at a much higher price than similar salmon sold in other supermarkets. It is natural to believe that Marks and Spencer must be in receipt of a premium price for their fish. This is not the case at all.

The following table compares the price of salmon (prior to the latest price increases) against identical presentations of cod. It can be clearly seen that salmon prices are in line with those for cod sold in the same store. Thus, whilst there is a huge price differential between the price of salmon in Marks and Spencer's and Tesco, the pricing is at a level of expectation for that store group. Marks and Spencer's customers expect their food purchases to cost more than in other supermarkets and it does. Equally, customers in Asda, expect to pay much less than in Marks and Spencer's or even Sainsbury's. Marks and Spencer's are not an example of premium pricing for salmon. Such pricing simply does not happen in the UK retail sector.

Table: Price comparison of cod/salmon and salmon/Alaskan salmon

	cod	**salmon**	**Alaskan salmon**
Asda			
Fresh	6.98	6.27	x
Chilled	6.97	5.98	x
M&S			
Chilled	15.99	16.94	18.99
Morrisons			
Fresh	7.49	6.99	14.99
Sainsburys			
Fresh	9.49	9.99	16.99
Chilled	7.45	6.29	20.79
Somerfield			
Chilled	7.99	16.64	x
Tesco			
Fresh	6.94	6.27	11.99
Chilled	6.97	6.48	12.71
Waitrose			
Fresh	10.99	10.99	16.99
Chilled	14.99	15.30	x

This does not mean that there are not examples of premium pricing for Scottish salmon, it is just they do not occur at retail level. Instead, it is some Scottish farmers themselves that manage to obtain a premium on farm gate sales. However, when the salmon pass down the supply chain, the small extra premium obtained by the farmer appears to be completely absorbed and disappear.

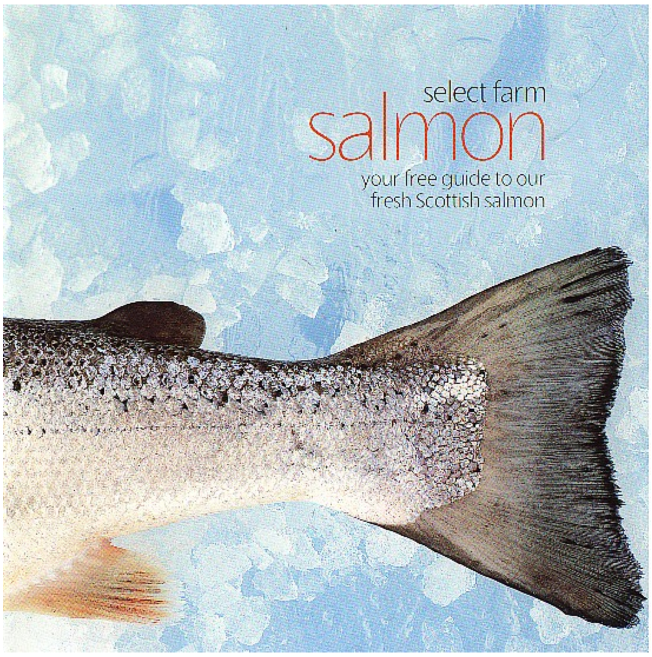
Section 4.104 states that even if the market is wider than Scottish salmon, certain processors require Scottish salmon in order to fit their product specification and marketing. Young's Bluecrest said that there was a strong UK demand for Scottish product from some British retailers and this product can only be sourced from Scottish producers. Marks and Spencer's and Waitrose are two such retailers. These are both at the top end of the retail market and both stock only Scottish salmon.

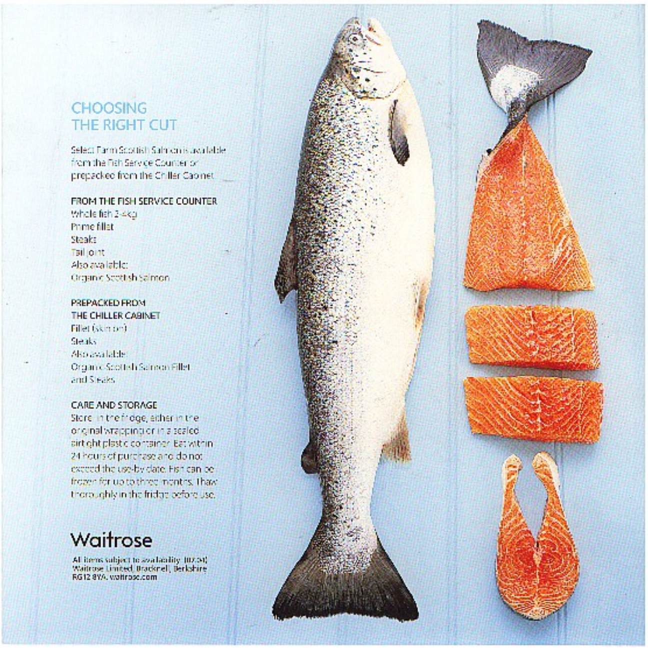
However, both store groups have gone one step further than simply sourcing Scottish salmon. They have both created their own standards for their salmon, which they have separately and independently named 'Select Farms'.

Waitrose state '*Our Select Farm salmon from the cold clear waters of the Scottish islands are the wildest farmed salmon you can buy. Salmon thrive in highly oxygenated fast-flowing currents and the deep tidal waters around the Orkney and Shetland Islands are perfect for producing fish in peak condition.*

We work closely with a select group of specialist fish farmers who have been rearing salmon around the Orkney and Shetland islands for many years. Waitrose Select Farm Scottish salmon comes from this source. The latest technology ensures consistent care for the fish and their surroundings and all our salmon can be traced back to the farm where they were reared. The farms are independently inspected to ensure that they conform to stringent standards.

Whether you are serving salmon as a healthy option or simply for the pleasure of eating it, you can expect Waitrose to provide you with fish that is of the best quality.'





Marks and Spencer's had told the Competition Commission (6.84) that they only bought salmon from producers who were on their approved list; that is they were expected to comply with the M&S code of practice. Although M&S did not visit the sites to check standards, it expected the processor to do so and reviewed the list annually. Products had to meet agreed specifications including number of days since harvest, fat content, quality, texture and colour.

Today, Marks and Spencer's now state (on their website): '*At M&S, we've set standards to cover every aspect of farming salmon from selecting the sites and choosing the feed, to veterinary care and husbandry. Auditing our Select Farms helps us rank growers, so we're purchasing from the best.*

Amongst the things we check for in our Select Farm salmon scheme:

- *Evidence of improving fish welfare and health wherever possible*
- *Fast flowing water*
- *Water depth the reduces the impact on the seabed*
- *Evidence of cooperation with other farms to prevent sea lice*
- *Evidence of reducing environmental impact*
- *Staff training programmes*
- *Fish have room to swim*
- *Systems to prevent overfeeding*
- *Use of expert vets*
- *Evidence of reducing disease and the use of medicines.*

Here's what two of our salmon farmers have to say; 'Marks and Spencer's goes into every detail of how salmon is grown and what it is fed working with us to raise standards of farming'. – Stuart Grey from Arkaig.

'We take extra care in raising our fish and know that Marks and Spencer's is getting the best salmon we produce'. - Kenny Gordon from Linnhe.

We're committed to investing in the future of fish stock as we've funded a project to restock Scottish rivers with wild salmon, and soon hope to offer 'farmed from the wild' fish to our customers.'

Marks and Spencer's had told the Competition Commission (6.84) that 'the company preferred to buy domestically wherever possible even if the fish were more expensive. Most importantly, M&S believed that it could form a better relationship with Scottish producers due to their proximity'. This is the key to Select Farms. Both Marks and Spencer's and Waitrose are able to form a better relationship with their producers because they are local. The fact that their customers perceive Scottish salmon to be their preferred choice is only of secondary importance. This is why Select Farm may be willing to pay a slight premium at farm gate to maintain the relationship and their supplies.

It is unlikely that this relationship will be harmed even if there was just one producer operating in Scotland for however much power the farmer can wield, the retailer can wield more since we do not believe that any loyalty to Scottish salmon is irrevocable since customers will trust their retailer to supply he best even if it means buying from Norway or Chile.

In section 4.120 the Competition Commission considered whether species other than farmed Atlantic are potentially in the same market. In 2000, Pacific salmon account for around half the world total salmon production but the Competition Commission dismissed Pacific salmon as being a close substitute for fresh salmon as most Pacific salmon is canned or imported frozen. Marks and Spencer's said that they sold fresh Pacific salmon from time to time but viewed it as a different product to Atlantic salmon rather than a direct substitute.

Since the last Competition Commission investigation, the market for Pacific salmon in the UK has changed dramatically. Salmon farming has received a great deal of negative publicity from the environmental groups. They argue that farming is not sustainable since it depletes the oceans of fish used for fishmeal. As most fishmeal is used in terrestrial farming, this argument is not valid but their message is reaching the consumer. The environmental groups advise consumers to buy fish which is approved by the Marine Stewardship Council. Alaskan Pacific salmon is one such fish despite the huge number of food miles accumulated in its distribution.

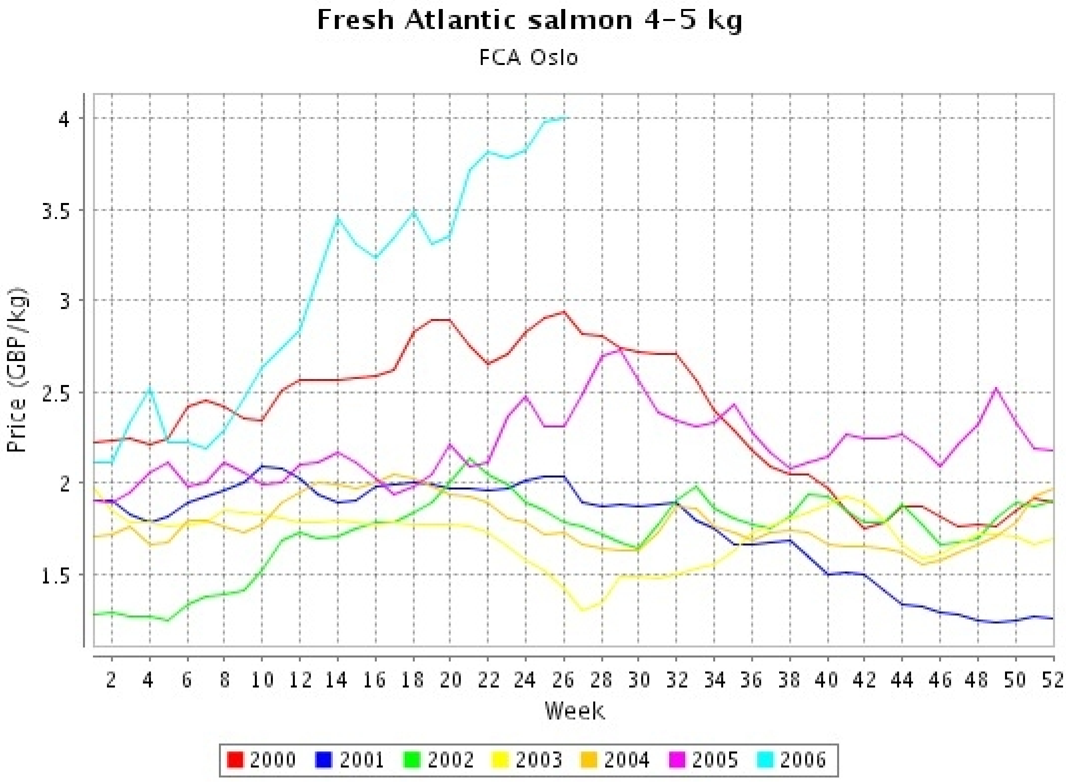
Although this advice has not affected the wider market for farmed salmon, it has had a significant influence on the top end of the market. This is the exact same premium market which Scottish salmon producers have sought to fill. The Competition Commission noted that fresh Pacific salmon is more expensive than farmed Scottish fish which it is as can be seen in the previous table. Fresh Pacific salmon has now filled the niche for premium salmon and this has affected the Scottish premium market. Pacific salmon has replaced not substituted Scottish salmon in this sector. Even Morrison’s, a value for money supermarket now stocks fresh Pacific salmon on their fish counter.

In section 4.120, the Competition Commission discuss the question of importing fresh Pacific salmon by airfreight. They suggest that the high costs of airfreight will mean that only small volumes of fresh salmon can be imported from such a distance. The same argument has been advanced with regard to imports of fresh Atlantic salmon from Chile. During the 1990’ the then Chief Executive of the now defunct Scottish Salmon Growers Association expressed the same view at the industry’s annual conference. He was unaware that in a store less than 2 miles from the venue, Somerfield stores were selling ‘fresh’ salmon from Chile. These sales only stopped when their supplier was acquired by another company.

The point is that whilst this salmon was sold as ‘fresh’ packs did clearly state that the product had been previously frozen and had been defrosted in such a way that the salmon could be refrozen, i.e. treated as fresh. This did not appear to deter consumers. What it means is that distribution costs do not have to prohibit the wider distribution of farmed salmon from outside Europe.

In addition to the Scottish issue, the OFT is concerned that the loss of rivalry between these companies may cause an increase in the price of farmed Atlantic salmon, and thereby harm UK consumers. Unfortunately, the OFT does not appear to have taken any note of what has happened in the market place before issuing its concerns. The following graph illustrates the movements in the price of salmon since the last Competition Commission investigation in 2000.

Graph – Salmon prices (IntraFish)



Of most concern is what has happened to salmon prices this year. Clearly, the price of salmon has risen sharply out of the zone in which prices have largely remained during the period since 2000. The cause of this sudden and very sharp movement is not the predicted loss of rivalry within the industry but the actions of a handful of small independent producers who instigated a dumping complaint in Brussels against the Norwegian salmon industry. The European Commission found Norway guilty of dumping even though the presence of dumping margins is not proof of dumping. They imposed certain trade measures against Norway which have led to a significant disruption of the market and a massive increase in price.

Whilst the independent salmon farmers submitted a dumping action, their main complaint was that cheap Norwegian salmon had undermined the market image of Scottish salmon. What they fail to realise is that all salmon farmers have contributed to the changing image of Scottish salmon because the sheer volume produced has undermined salmon's rarity value.

As a direct result of this dumping action salmon retail prices have risen. The most significant increases have only just occurred as the supermarkets wanted to insulate their customers from these rises as they recognised the importance of salmon in providing a value for money, but healthy eating meal choice. In Tesco, salmon fillet from the fish counter was £5.99/kg but the initial effects of the European measures raised the price to £6.27/kg. In the last two weeks, this was increased by Tesco to its current price of £9.87/kg, a substantial increase. Other supermarkets have also increased their salmon process by varying amounts but well above 2005 levels. The scale of these rises must affect the consumer and reports have suggested that sales have declined as a result. The Office of Fair Trading has not intervened to stop these current price rises but seems ready to do so to prevent potential smaller price rises which may never even happen.

Clearly, the level of price rise that the OFT might have envisaged as a result of any loss of rivalry caused by this merger would not have been on the same scale as the current price rises. The effects of the merger are therefore potential negligible by comparison.

The Office of Fair Trading's statement referring the merger to the Competition Commission highlights only concerns about market issues. Callander McDowell can demonstrate that these concerns are totally unjustified. This is because they reflect an outdated perception of the position of Scottish salmon market.

Yours sincerely,

Dr M R Jaffa

Callander McDowell,
website: www.callandermcdowell.co.uk