

From: Lance Forman
Sent: 19 July 2006
To: Edwin James
Subject: Anticipated Acquisition by Pan Fish ASA of Marine Harvest NV

Dear Mr James,

NON-SENSITIVE VERSION BELOW for publication on your website

Dear Mr James

I would like to address our serious concerns about the proposed above-mentioned merger.

Since the date of the proposed merger until the end of June 2006, when it became clear that the OFT had referred their Inquiry to yourselves, the price of raw Scottish salmon rose by some 65 per cent. We have never known the price of farmed salmon to change so fast in the thirty years we have purchased farmed Scottish salmon. The speed of the growth in prices was so dramatic we can only attribute this to the proposed merger rather than shifts in demand or supply which we would expect to take much longer to filter through. There was no sudden disaster in the farmed salmon industry restricting supplies, nor was there a sudden marketing campaign encouraging consumers to shift suddenly to farmed salmon in droves.

The first time during recent months in which salmon prices stabilised and then dipped was within a couple of days of the OFT's announcement, further evidencing our view that the recent price movements are driven by merger talks rather than supply and demand. Perhaps, worried by the OFT's concerns about consumer prices rising, the parties to the merger eased prices to demonstrate that prices will not necessarily rise. If this is the case, this further concerns us that they have monopolistic control over pricing, whether up or down, rather than being driven by competition.

In recent months salmon processing companies, like ourselves, have been suffering heavily from the monopolistic pricing, and have not been able to pass on costs as quickly as we have suffered them, if at all.

When we questioned Marine Harvest in recent months about the reason for the price increases, they advised us that these were both supply and demand driven and that there were massive shortages of fish. On the supply side they said that due to bad publicity for farmed salmon two years ago, the salmon farms took an incorrect knee-jerk decision and put far fewer fish into breeding, as they were concerned long-term demand would drop. Now that demand hasn't dropped and given the two-year gestation period, there is a supply shortage.

On the demand side, they argue that salmon sales in UK supermarkets, in China and India have also resulted in shortages. As said, we do not accept these arguments. We believe these trends could easily have been forecast and would not result in such a dramatic price change.

To some extent, in our view, the problem has been caused by the artificial EU tariff on Norwegian salmon coming into the EU. After what we believe was years of lobbying by Scottish salmon farmers, a tariff was introduced in 2005 on Norwegian salmon being sold into the EU. This allowed Scottish salmon farmers to increase their prices by some 20 per cent, which they did, making them profitable. Only since they have become profitable, have the Norwegians, ie Pan Fish showed an interest in buying them out. Perhaps if the merger is allowed to go through, then the EU should remove the tariff making the European market for salmon more competitive.

This still does not resolve the problem for us. We specialise in selling Scottish salmon and indeed are the oldest smokers of Scottish salmon in the world, to our knowledge. As far as we are concerned, quality, when it comes to fish, depends on the freshness and whilst Norwegian fish may be as good as Scottish, by the time it arrives here in the UK it is two days less fresh than Scottish fish. This makes an enormous qualitative difference to the product, both as a fresh fish, as raw fish being eaten for sushi, or for smoking. We make a point of the benefits of Scottish salmon and do not have the option of looking elsewhere as our whole business is based on this principle.

Scottish salmon has a reputation of being the best in the world and we export it around the world too. Exports account for approximately 25% of our trade. Even before the merger talks the tariff caused us problems to some extent, because our costs of raw salmon increased by 20% and we struggled to pass these on to our biggest export market, namely the USA, when they can still purchase Norwegian fish some 20% cheaper. There's only so much our customers will pay a premium for quality. With further price increases now due to the merger, our export trade in the USA is very shaky and we are having to weather the storm with vastly reduced margins into loss making positions, until we await the outcome of your Inquiry.

It is our view that if the Inquiry prevents the merger proceeding, this will be beneficial for the end consumer and for fish processing companies currently struggling to cope with the dramatic cost increase. It will be healthier for the industry too, promoting competition which not only reveals itself in lower prices, but in innovation, better farming methods, and greater attention to consumer concerns and requirements for improved fish welfare.

Yours sincerely,

Lance Forman MA (Cantab)
Managing Director