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Inquiry Secretary (Pan Fish/Marine Harvest inquiry)  
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Dear Mr James

### **ANTICIPATED ACQUISITION BY PAN FISH ASA OF MARINE HARVEST NV**

The Highland Council is pleased to respond to the Competition Commission's call for evidence and views on the proposed acquisition of Marine Harvest by Pan Fish. The Council is grateful for the short extension to the response deadline granted by the Commission.

The Commission has asked for views on a number of issues relevant to the inquiry. These issues are addressed individually below.

#### *(i) The relevant market in relation to salmon, smolts and aquafeed*

Highland Council believes that the market for salmon in the European Economic Area will continue to grow as a consequence of the steadily increasing demand for seafood products and as a consequence of consumer recognition that particularly salmon and other oily fish provide additional health benefits as a source of Omega 3 fatty acids.

The Council's concerns lie mainly with the dominant position and great purchasing power that will fall to the merged organisation, which may be able to control its suppliers unfavourably, forcing prices down and potentially limiting employment and development opportunities in the supply sector. The merged organisation may also be able to tie its suppliers to restrictive contracts, tying them to itself and making it very difficult for those seeking to enter the salmon sector, either as industry suppliers or growers to do so successfully.

Difficult market conditions may force remaining independent operators to sell up in favour of the merged organisation and smaller suppliers providing indirect employment to close their operation. Some smaller, independent growers experiencing difficulty could find themselves unable to continue other than as contract growers for the merged organisation, in effect becoming a supplier facing some of the difficulties feared above.

The merged organisation should be required to retain diversity in its supply chains and should be prevented from implementing overly restrictive contractual agreements on its suppliers

#### *(ii) Information on who you consider to be competitors, customers and suppliers of the merging parties*

Highland Council considers competitors to be those seeking to enter the growing and processing industry, those smaller producers (including independents) that will remain following the proposed merger and producers of other seafood products. Customers of the merged organisation include the consumer, processors, retail and wholesale outlets, hotels and restaurants. Suppliers include those making up the labour force and those

indirectly employed in the service sector. The latter includes suppliers of nets, moorings systems, processing equipment, smolts, contract growers and suppliers of feeds. Wider stakeholders include local communities, local authorities and regulatory bodies.

Highland Council does not have details of the existing sourcing policies of Pan Fish and Marine Harvest but understands that both already exert considerable pressure on suppliers as a result of their dominant positions in the salmon production and processing sector. The Council understands that within each company agreements already exist with suppliers which ensure competitive prices via economies of scale. The Council welcomes the fact that efforts are made by both companies to source locally and that Marine Harvest processes salmon in a relatively new facility based in Fort William. However the Council fears that local sourcing and processing may be impacted by the proposed merger.

The Council would be extremely concerned if the merger process led to significant consolidation of local labour and local suppliers. Highland Councillors have already experienced reductions of up to 50% in employment in some areas since 1996. This is an area which will require close monitoring and a willingness for the new company to work with local authorities to ensure that any significant changes are minimised and introduced in a sensitive and appropriate manner. The merged organisation should be encouraged to work closely with local authorities to ensure best value to local communities and to discuss/brief local authorities on future plans/market strategy.

*(iii) Competition within the product and geographic markets identified in the terms of reference, and any other market definition you may consider relevant*

Highland Council understands that Pan Fish and Marine Harvest harvest and process salmon in different ways. Consequently at present they target different markets with differing degrees of value added processing. Direct competition between each organisation is therefore limited.

However the Council is concerned that the proposed merger may lead to increased rationalisation and a standardisation of production with the risk that local processing, technical and management skills may be lost.

If the merger proceeds the company should be encouraged to work with the Council to ensure that any potentially negative impacts are minimised and areas of opportunity are maximised.

*(iv) Barriers to entry to these markets*

It has been estimated that the merged organisation will control around 65% of farmed salmon production in Scotland. In the Highlands it is anticipated that a similar portion of production will be controlled. Remaining production in the Highlands is by a handful of smaller independent producers, some of which focus on higher value, niche market opportunities not the focus of the merged company. However the continued existence of the smaller companies depends on their being able to source supplies. This point is linked to (i) above.

Highland Council recognises the importance of a range of different sized operators in the market and understands the move towards rationalisation among the larger companies. However the Council is committed to promoting the diversity of the production sector in the Highlands and to maintaining a healthy independent sector. For this reason it is important to ensure that sites becoming vacant via rationalisation should be available to those wishing to enter the industry. The Council fears that the power of the merged organisation and resultant market conditions ((i) above) will limit opportunities for the take up of vacated sites by smaller/new organisations.

The merged organisation should be required to make relinquished sites available to potential new entrants. The company should not be permitted to hold onto surplus site in order to restrict new entrants to the salmon sector. They should relinquish sites for subsequent allocation by the CE/LA. It may be appropriate to limit the number of sites held by the merged organisation to those serving its purpose. It may also be appropriate to limit the length of time that sites could be retained undeveloped.

*(v) The effect of the proposed acquisition on customers*

The Council considers that the dominance of the merged company will increase prices to the consumer without any corresponding increase in quality. The Council believes that recent increases in the price of salmon is linked to Pan Fish acquisitions in addition to strong demand and predicts this trend will continue.

The Council is concerned that Pan Fish, via the large share of the market for salmon it will control, will effectively reduce the choice available to wholesalers and via them to customers. An aggressive pricing strategy combined with market dominance could provide the right conditions in which to artificially increase the price of salmon to wholesalers and so to customers. The lack of competitively priced fish alternatives means the customer will have no option but to pay the higher price if they want salmon.

*(vi) Level of prices and variety and quality of products*

Given the increasing demand for salmon prices should remain firm.

The Council is concerned that the “low cost” approach taken by Pan Fish means the company is likely to concentrate on volume production and will have less incentive to improve quality or choice available to the customer. As the low cost volume of salmon increases, the quality of salmon offered for sale may decline as the price continues to increase.

The Council recognises there may be a small indirect benefit for the independent sector in the above scenario in that independents focused on small and niche markets can continue with this policy unhindered. However the Council considers that the sector is too small, at around 15% of industry output for this benefit to be significant. In addition existing independents may be forced into contract growing for the merged organisation.

A further concern of the Councils is that the identity of Scottish salmon may become lost. The image has worked well for Scottish producers in the past. The merged organisation, which will control 65% of Scottish production may not be so concerned to maintain a distinctly Scottish image in the marketplace. Scottish salmon is increasingly being marketed as Atlantic Salmon.

Highland Council has long and actively supported the development and growth of the aquaculture industry in Scotland. The Council provides financial support for strategic development projects, business development loans, planning guidance for developers and is the non-statutory planning authority under the current Interim Scheme for the Authorisation of Marine Fish Farms in Scottish Waters. The Council recognises and values the employment contribution the industry makes in the Highlands and reluctantly accepts that some job losses are inevitable in some circumstances. The Council is also however fully committed to maximising the direct and indirect employment benefit the industry provides in important remote areas of the Highlands, in Lochaline, Kilchoan, Skye, Torridon and Scourie for example.

The Council would be pleased to develop any of the points raised in this response with the Competition Commission and offer to assist should it seek to visit the areas concerned and to gather oral evidence. The Council looks forward to hearing of progress with the Commission's investigation.

Highland Council has no objection to it's views being published on the Commission's website and attributed to the Highland Council.

Yours sincerely

George Hamilton  
Natural Resources Manager