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

24th August 2006

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Dear Edwin,

Re: Pan Fish/Marine Harvest Merger Inquiry

Further to your letter dated 10th July, I am writing to provide information, which I feel may be relevant to this enquiry. I apologise for the late reply, but as explained both by e-mail and telephone to a number of your colleagues I have been out of the office on holiday and on international business.

As Skretting U.K. is a business involved predominantly in the supply of feed to the Scottish salmon farming industry, detailed knowledge of the relevant markets for salmon and salmon smolts and the impact of the proposed merger on competition within these UK and EEA markets is limited. However to the best of our knowledge we will cover each of the issues in turn.

Salmon Market

The relevant product market is for gutted and filleted farmed Atlantic salmon, with a geographic spread, which is at least as wide as the EEA, although the geographic spread is becoming increasingly more global, with regular imports into the UK from Chile and regular exports from the UK into the US and Japan. The following table highlights the relevant markets for farmed Atlantic salmon from each of the major producing regions (Source Kontali – Aug 2006) (date?)

Whilst certain UK retailers and food service companies may have a policy to source the majority of

| | Volume (kt) | Market (% of Production) | | | | |
|--------|-------------|--------------------------|-----|-----|-------|-------|
| | | Domestic | EU | US | Japan | Other |
| Norway | 608 | 4% | 73% | 1% | 5% | 16% |
| Chile | 399 | 3% | 20% | 53% | 5% | 18% |
| UK | 128 | 53% | 36% | 6% | 1% | 4% |
| Canada | 116 | 19% | 0% | 75% | 2% | 4% |

their salmon requirement from the UK this policy is price sensitive and imported salmon is an effective substitute. As a result we are increasingly seeing Norwegian and Chilean salmon in the UK marketplace, thus highlighting the global market place within which UK salmon producers are operating.

The main competitors for the merging parties will be the other major salmon producers, which include: -



Scottish Seafarms
Hjaltland Salmon
Mainstream/Aquascot
Lakeland Marine
Milburn Salmon
Loch Duart Salmon
Shetland Farmers
Wester Ross Salmon
Hebridean
West Minch Salmon
Orkney Seafarms

As already discussed these salmon producers are competing in a growing global marketplace for salmon and this competition has driven some industry driven differentiation in the UK such as the introduction of the Tartan Quality Mark (TQM) and Label Rouge standards, which have helped to maintain a price premium in some markets. However, as the premium for these is challenged due to increasing global competition there is a trend towards further differentiation into the organic and freedom food sectors as well as individual producer driven differentiated product concepts that enhance profitability and extend consumer choice. Indeed it is the smaller farming companies that are able to take advantage of these niche product opportunities, and the merging parties will have little impact other than to drive further profitable diversification.

The main customers for the merging parties are the secondary salmon processors who in turn supply the major UK and EEA retail multiples and food service companies. All strategic movements and the direction of the industry are predominantly driven by the salmon processing companies as the power moves along the value chain from the producers to the retailers. The secondary processors' ability to define demanding quality specifications and to provide a differentiated product portfolio has given them a strong position in the market place. These processors generally tend to multi-source their requirements to ensure continuity of supply but also negotiate terms on the basis of price and quality. This combined with a global supply base ensures it is unlikely that the merging parties will have any impact on competitive intensity

It is Skretting's view that the proposed merger will present no additional threat to the competition or the main customers due to the growing market size, the significant number of global competitors and the increasing opportunities for differentiated product concepts that exist within the local and wider global markets.

Salmon Smolts

The relevant market is for Atlantic salmon smolts, with the demand influenced primarily by the intended level of salmon production. Although some salmon producers are integrated with smolt production, there is no requirement for integration and some smolts are purchased from independent smolt producers. There is no market substitute for Atlantic salmon smolts and due to legal constraints to control the spread of disease the geographical market is restricted to the UK and Republic of Ireland.

The main smolt producers can be segregated into integrated and independent companies as follows: -

Integrated smolt producers: -

Marine Harvest
Scottish Seafarms
Pan Fish
Lakeland Marine
Mainstream/Aquascot
Loch Duart
Hebridean
Orkney Seafarms

Independent smolt producers: -

Landcatch
Lakeland Smolt
North Uist Fisheries
Hebridean Smolts
Kames

The main integrated producers produce smolts almost entirely for their own use, and it is more likely that they will purchase additional smolts from independent producers than compete in the smolt market. The integrated producers' ability to increase production is also limited due to the availability of freshwater sites and the capital investment required for tanks based re-circulation production facilities.

It is conceivable that the independent smolt producers would face increased competition following the proposed merger, but due to the production constraints already mentioned and the relative value of the smolt market compared to that of salmon, the current competitive intensity in the smolt market is unlikely to change.

Aquafeed

The relevant market is for extruded salmon feed, which is predominantly UK based, although there are some EEA imports of salmon feed into the UK mainly from the Faroes, Denmark and Norway. Salmon feed is also exported from the UK, with the main market being Norway and the Republic of Ireland

It is Skretting's view that other than EU imposed import tariffs and increased logistical costs there are no barriers to the expansion of imports into the UK salmon feed market.

The level of salmon production determines the market size, with the main salmon feed competitors in the UK being the UK producers Ewos, Biomar and Skretting. Other companies importing salmon feed into the UK include Havsbrun (a Faeroes company) and both Dana Feed and Aller Aqua from Denmark

It is our view that the merger will have no immediate impact on Skretting as a feed supplier as we currently have existing feed supply contracts with each of the merging parties. In the future, the independent combined businesses will undoubtedly have significant feed requirements. This would result in a drive for increased efficiency within the feed sector that will ultimately be to the benefit of the entire farming sector and the consumer.

In conclusion Skretting believe that the proposed merger will have no negative impact on the UK salmon, smolt or aquafeed markets. Indeed it could be conceived that the merger will result in increased competition, improvements in efficiency at each point in the value chain and improved consumer choice.

We hope that these brief comments meet with your approval, although should you require any further information or clarification do not hesitate to contact us.

Yours sincerely,

A handwritten signature in black ink that reads "John Williamson". The signature is written in a cursive style with a long horizontal flourish at the end.

John M Williamson
Commercial Manager – Skretting UK