



pure salmon campaign

RAISING THE STANDARDS FOR FARM-RAISED FISH

1200 18th street, nw, 5th floor, washington, dc 20036 • p (202)887-8800 • f (202)887-8889 • www.puresalmon.org

Date: 31 August 2006

To: John Doyle, UK Competition Commission

From: The Pure Salmon Campaign, National Environmental Trust

Re: **Pan Fish-Marine Harvest Merger**

In previous submission to the United Kingdom's Office of Fair Trading (OFT), we outlined the rise in farmed salmon prices during a time of significant consolidation in the salmon farming industry. This consolidation centers on the merger you are reviewing currently — the merger of Pan Fish and Marine Harvest.

Higher farmed salmon prices do not seem to stem from a general rise in seafood demand.¹ Witness no parallel rise in the price of other seafood commodities such as shrimp, for example. Nor is it obviously due to greater aggregate consumer demand for farmed salmon — witness no significant overall rise in sales volumes of farmed salmon. The price rise might be attributed to reduced supply, but this raises the question of whether the recent consolidation is related to this price reduction.

The market value of the combined Pan Fish-Marine Harvest — and additionally, Stolt and Fjord Seafood — amalgam is considerably higher than the sum of the market value of the individual firms before the mergers. This argues that investors see prices and profits remaining high for this new company.

Generally, it is axiomatic that Pan Fish wishes for relatively high prices for its product; it is also axiomatic that management will advantage opportunities to achieve this goal.

Following upon our subsequent conversations, this submission attempts to explore what vehicles Pan Fish could exploit to achieve higher prices, along with evidence of how Pan Fish or other companies may have already done so.

¹ 25th July 2006. Kontali Analyse. *Monthly Salmon Report*. Excerpt: “The price level for Atlantic salmon is still high in all markets. Currently, the market situation seems more stable in the USA than in Europe and Japan, where the demand appears to be stagnating because of the high price level. We now estimate a supply to the EU in July, which is reduced by 5-10 % compared with July 2005, while the wholesale prices surpass the 2004 level by 100 %. Retail prices for fresh fillet reached for the weeks 26 to 28 (last week of June and two first weeks in July) a level 46 % above the level of 2004 and were 22 % higher than in the same weeks in 2005. Therefore, it is quite natural to notice a falling demand in the EU. One should not forget that the Norwegian salmon farmer still gets between NOK 35 and 40 for his fresh salmon. So far, there is no need to fear for the earnings.”

Background

Consolidation in the salmon farming industry during the past year stems from essentially one investor. Ordinarily, one might have imagined an investor interested in the industry might purchase one company, perhaps the largest. A purchase of Marine Harvest would have established the investor with 20% of the market already. If an investor were new to the industry, he might wish to build slowly, learning from mistakes and advantaging opportunities. But, the fact that Norwegian billionaire and shipping mogul John Fredriksen purchased a controlling interest in four of the six largest salmon farming companies over one year and made a play for a fifth, demonstrates a clear interest in obtaining significant market share, not simply market participation.²

In 1999, the top ten producers accounted for 35% of total harvest quantity. By 2005, the top ten producers accounted for almost half of world production of salmon (by harvest quantity).³ And, in 2006, the top producer, Pan Fish, estimated that it will control 20% of global production alone.⁴ Pure Salmon, we hasten to add, believes Pan Fish's global market share (with Marine Harvest and Fjord Seafood) is considerably higher than 20% and we have documented this case in our previous submissions to the UK OFT (previous submissions attached).

A firm attempting to maximize market dominance might attempt to reduce prices as a means of driving weaker competition out of business. In the short term, at least, such a strategy benefits consumers who pay lower prices. Such a strategy, however, would not be effective in the farmed salmon industry in Scotland and Norway. That's because market share is limited by regulations on salmon farming licenses. Thus, even if Pan Fish was able to squeeze out competition through lower prices, it would be unable to acquire additional market share due to restrictions on the number of licenses (and biomass) it can control in these major markets. At some point, new firms other than Pan Fish would buy up any licenses made available by companies going out of business.

In Norway, for example, a firm is permitted to own up to 15% of salmon and trout licenses (for a set quantity of biomass), and can only increase its ownership up to 25% of all licenses if it obtains special permission from the regulator, the Ministry of Fisheries and Coastal Affairs.⁵ Chile also has limits on total allowed production annually by salmon companies. In June, Chile's National Environmental Commission (Conama) made a bold statement by sanctioning 13 salmon farms for "grossly surpassing their authorized production levels, which in some cases reached up to eleven times the levels authorized."⁶ Mainstream (owned by Norwegian-based company, Cermaq) was the first of these companies to receive fines for this overproduction.⁷

The OFT explained the difficulty of obtaining a Scottish salmon farming licenses:

An application for a new salmon production site in Scotland requires three separate permissions: a seabed lease from the Crown Estate; a Development Consent which is granted with the seabed lease (although this may soon be issued by Local Authorities); and an authorization to discharge trade effluent from SEPA. The application process takes approximately nine months. However, the entire development process can take from 18 months to two years, as consultation with regulators and other stakeholders is

² The fifth company Fredriksen bid for was Cermaq. Fjord Seafood, in which the investor had a major stake, bid for shares of Cermaq, but was rejected.

³ Kontali Analyse. *Salmon World 2006*. Page 40.

⁴ See 22 May 2006 submission to the UK OFT that suggests this Pan Fish figure is an underestimate of global market share.

⁵ On the 8th May 2006, Pan Fish was approved by the Ministry of Fisheries to hold 25 percent of licenses in Norway.

⁶ 1st June 2006. FishUpdate.com. Chile: 13 salmon farms under fire for overproduction. Available at: <http://www.fishupdate.com/news/fullstory.php/aid/4609/Chile: 13 salmon farms under fire for overproduction.html>

⁷ Available at: http://www.centroacuicola.cl/noticia_destacada.php

recommended, and an Environmental Impact Assessment and other surveys need to be carried out.⁸

Given restraints on salmon farming licenses, the only strategy that is still available to a company interested in maintaining its dominant position is to establish pricing discipline. In other words, in this market, it can be more profitable to sell a lower volume of salmon at higher prices rather than to sell a higher volume at lower prices.

Prior to consolidation, the salmon farming industry was plagued by overproduction and low prices.⁹ Within the past year, however, production in some of the major producing regions decreased for the first time in years. In Scotland, for example, where production (tonnes) has increased for the most part since 1988 (except for a small decrease between 1991 and 1992), production declined by 7% in 2004 and by an estimated 14% to 24% in 2005.¹⁰ This past year, salmon prices increased rapidly, and reached a 15-year high this spring 2006.

Given the state of the industry prior to the consolidation, it is difficult to dismiss the theory that the recent consolidation of the industry is designed to establish pricing discipline. In our 22 May 2006 letter to the OFT (attached), we detailed our concern that Pan Fish may have intentionally minimized its market share figures provided to the OFT precisely because of the pricing control goal.¹¹ We discussed other possible factors that might lead to the price rise aside from the concentration achieved by Pan Fish through John Fredriksen and attempted to highlight the weakness of these explanations.

Control Over the Retail Sector

The chart below demonstrates the share of 2004 Scottish salmon production by salmon farming companies operating in Scotland. Together, Marine Harvest Scotland and Pan Fish produced close to 45% of all Scottish salmon in 2004. In 2005, "Pan Fish-Marine Harvest" estimated that it would have 48% market share,¹² though others have suggested as much as 65% Scottish market share by the Pan Fish amalgamation.

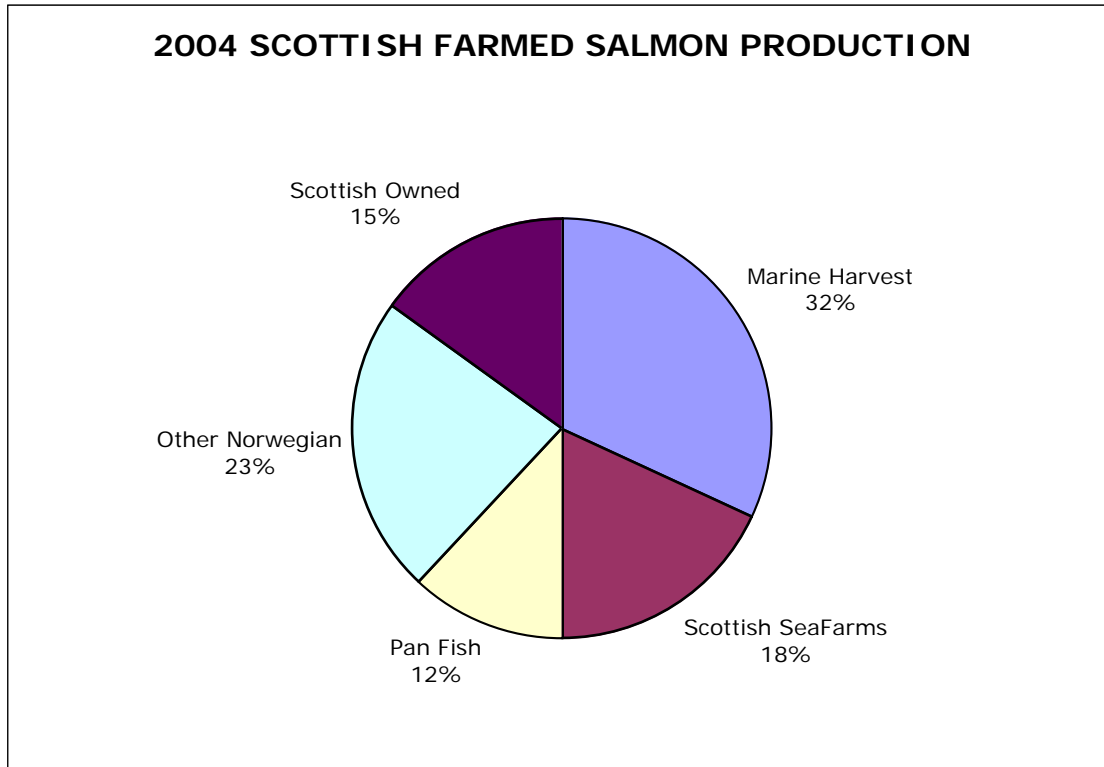
⁸25 July 2006. Page 17. Office of Fair Trading. Anticipated acquisition by Pan Fish ASA of Marine Harvest N.V.

⁹ In 2002, for instance, Pan Fish carried out a new share issue, forced by "low salmon prices and falling profitability in the fish farming industry." In 2003 and two times thereafter (the last one in August 2004), Pan Fish refinanced in order to continue operations. Even in 2004, Pan Fish was experiencing financial difficulty with a negative net profit (TNOK) of -235,336,000 and earnings per share at -0.47. Pan Fish Annual Report 2004.

¹⁰ These figures are calculated from Scottish Executive and Kontali Analyse, *Salmon World 2006*. Kontali figures suggest 2005 production was 119,600 tonnes; Scottish Executive estimate for 2005 was 136,056 tonnes).

¹¹ "A little inaccuracy saves a world of explanation," observed C.E. Ayers.

¹² Pan Fish 7 March 2006 report can be downloaded at: <http://hugin.info/209/R/1037987/168337.pdf>



Source: Ernst and Young. "Review of Current Trends in the Scottish Salmon Farming Industry."

Of note, many of the largest salmon producers operating in Scotland are Norwegian-controlled. This includes Pan Fish, Fjord Seafood, Scottish Sea Farms (owned by the Norwegian company, Leroy) and Cermaq. In 2004, Norwegian and Dutch-owned companies (Marine Harvest is Dutch-owned) controlled 85% of Scottish production, while the percentage of UK-owned companies dropped below 15%.¹³

Upon the announcement of the Pan Fish-Marine Harvest -Fjord Seafood merger, many local groups publicly expressed concerns regarding the takeover of Scottish salmon farming by Norwegian companies. The Pure Salmon Campaign recited many of these concerns in its 22 May 2006 submission to the UK OFT (attached). We understand that two groups, Highland Council and Western Isles Council, have also submitted their concerns to the Competition Commission to consider during its review of this merger.

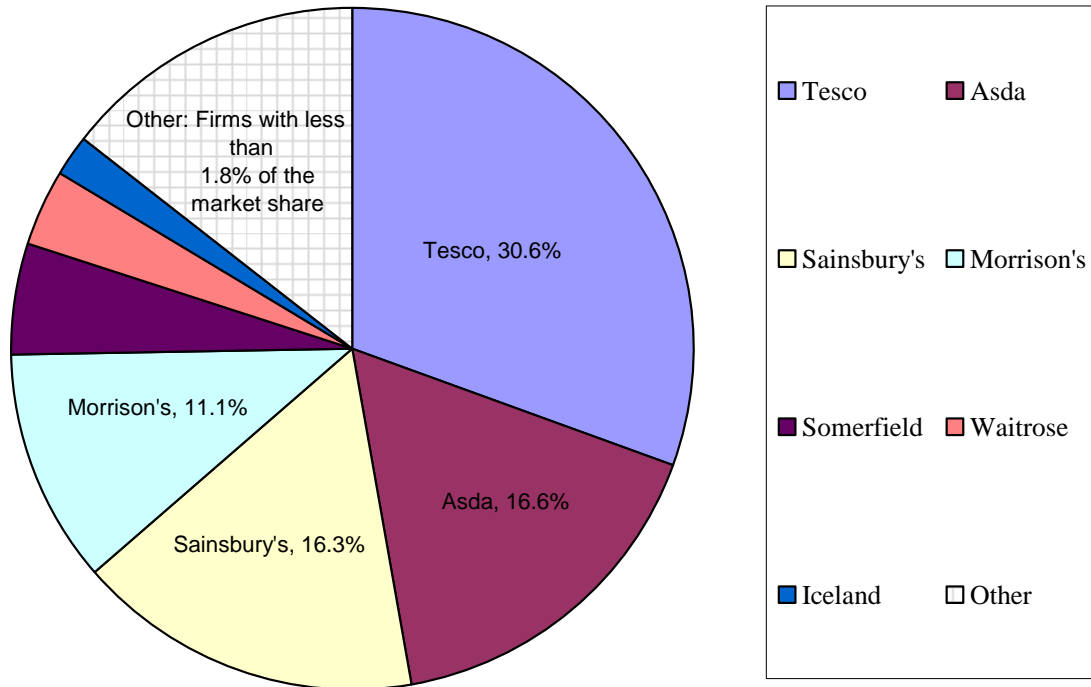
On the purchasing side, most (63%) salmon farmed in the UK is sold domestically. Of this, the food retail sales channel accounts for 75%, according to a 2004 report by Ernst & Young.¹⁴ As the OFT explores in its decision on the Pan Fish-Marine Harvest merger, the heavy concentration of UK retailers presents opportunities for Pan Fish.

The chart below provides a breakdown of market share among UK retailers. The market is largely dominated by four food retailers — Tesco, Asda, Sainsbury's, and Morrison's. Together these four companies control close to 75% of the UK retail food market.

¹³ 23 December 2005. Ernst & Young LLP. Commissioned by Highlands and Islands Enterprise. "Review of Current Trends in the Scottish Salmon Farming Industry."

¹⁴ <http://www.scotland.gov.uk/Publications/2004/03/19038/34138>

UK RETAILER MARKET SHARE



Source: BBC News. Available at: <http://news.bbc.co.uk/1/hi/business/4694974.stm>

If Scottish farmed salmon is sold proportionate to the market share of these companies, it is essentially impossible for each of the four largest firms to source Scottish salmon from a firm other than the Pan Fish conglomerate. Hypothetically, if Tesco and Asda sourced exclusively from producers other than Pan Fish, then every other grocery chain in the UK would be forced to source Scottish salmon from Pan Fish and only Pan Fish.

The OFT in its merger decision, stated that:

[I]t may be the case that by virtue of their size (and thus efficiency and ability to meet round year demand), relative to other suppliers, the parties are each other's strongest competitors, especially in relation to the supply for larger customers.¹⁵

In addition, the OFT explained that the:

[M]ajor concern, raised by several of the parties' largest customers (amongst others), was that switching away from the merged entity would not be possible as smaller suppliers would be unable to cope with the demand. For large customers, switching away from Pan Fish may necessarily involve switching to a portfolio of smaller suppliers (which may itself involve additional costs).¹⁶

Of further note on Scottish salmon, the OFT found that many UK consumers, including retailers, award a premium to Scottish salmon. Indeed, some of the higher end retailers adopt innovative

¹⁵ 25 July 2006. Office of Fair Trading. Anticipated Acquisition by Pan Fish ASA of Marine Harvest N.V.

¹⁶ 25 July 2006. Office of Fair Trading. Anticipated Acquisition by Pan Fish ASA of Marine Harvest N.V.

marketing strategies to highlight Scotland production, even going as far as inventing lochs. High-end retailer, Marks & Spencer is apparently branding its salmon by using a name that “sounds Scottish.” The Lochmuir brand, according to an M&S fish expert, was “chosen by a panel of consumers because it had the most Scottish resonance.”¹⁷ And, even though UK consumers, on average, pay a premium for Scottish salmon, most still consume Scottish salmon. Indeed, the UK only imported roughly 20 million kg of salmon from Norway in 2005, for instance.¹⁸ Hence, given this preference, it may be unlikely that UK food retailers would make a large switch to farmed salmon sources outside Scotland.

In addition, larger grocers thrive on maintaining level quality, one of the cornerstones of any major chain or franchise. Consequently, they need to maintain level quality among their suppliers. Larger producers are arguably better equipped to meet higher standards than are smaller producers. Retailer demand for quality and traceability is noted in several industry analyses.¹⁹ For instance, in a Competition Commission review of the Nutreco-Norsk Hydro merger acquisition, we note that Somerfield said it sourced exclusively from Nutreco’s Marine Harvest.²⁰

Morrisons, for example, subscribes to EUREPGAP, a European retailer association that certifies producers of farmed salmon based on numerous quality standards.²¹ Currently, the committee that is establishing standards is dominated by Pan Fish, which accounts for five of the seven supplier representatives on a committee of 11 members.²² The one non-Pan Fish member producing salmon is from Scottish Salmon Producers Organization, which itself includes Fjord, Pan Fish and Marine Harvest membership.²³ At the very least, this suggests that smaller producers lack the staffing to participate in such quality assurance schemes, and may lack the capacity to comply once the schemes are implemented.

The 37% of UK production that is exported constitutes some potential relief to UK retailers if this is redirected domestically. However, Pan Fish may choose not to redirect the exports to the UK if this reduces price. Moreover, it seems unlikely that small producers make up a large part of these export sales since exporting often involves greater sophistication. Therefore, we suspect there would be less potential relief from smaller Scottish producers redirecting sales domestically.

With its market share, Pan Fish is positioned to reward loyalty. Pan Fish can reward a buyer by increasing availability or reducing price. If it supplies all of Tesco’s needs, then Asda and the others are forced to use multiple, smaller suppliers.

A report of the Scottish Executive, Environmental and Rural Affairs Department, also argues that smaller firms suffer a disadvantage for numerous scale reasons.²⁴ As measured by labor, the greater the production, the greater the output per person. Since the trend of output per person has risen, this suggests that large producers may still be able to increase production and still realize even greater productivity.

¹⁷ 20th August 2006. *The Sunday Times*. “M&S fakes loch to launch salmon.” By Jason Allardyce.

¹⁸ IntraFish. <http://www.intrafish.no/global/news/article112246.ece>

¹⁹ “Demands of the market have made it virtually impossible for small producers to survive due to demand for traceability, quality...” Available at: http://www.agecon.msstate.edu/Aquaculture/pubs/Salmon_Industry_Profile.pdf

²⁰ Competition Commission website. Available at: http://www.competition-commission.org.uk/rep_pub/reports/2000/fulltext/451c6.pdf

²¹ See www.eurepgap.org for more information on this standard

²² EUREPGAP website. Available at: <http://www.eurepgap.org/fish/committees.html>

²³ Scottish Salmon Producers Organization website. Available online at: <http://www.scottishsalmon.co.uk/aboutus/members.asp>

²⁴ Scottish Executive. Available at: <http://www.scotland.gov.uk/Publications/2004/03/19038/34138>

The larger producers enjoy a sales force, as well. Until this merger, these sales representatives competed against each other. It is not clear that the smaller Scottish companies have such competing sales agents. It appears that some actually sell to brokers or consolidators, such as Coast, which, in turn, sells to retailers for smaller producers. Naturally, the introduction of an intermediary adds cost to the chain of custody. (See Appendix 1 for a comparison of employment and sales staff across salmon farming companies operating in Scotland).

At the end of the day, if Pan Fish raises prices (and smaller producers follow), a buyer can elect not to pay a higher price by declining to purchase Scottish salmon at all.

But, can a producer actually profit by sacrificing a sale (not accepting a lower price)? Since salmon producers cannot respond by reducing production (it takes roughly two years to grow a salmon to harvest size), they would be left with unsold salmon.

Through the rest of this submission, we explore ways in which Pan Fish may be able to control supply in the short-run as a means of maintaining higher prices.

Possible Vehicles of Control

Reducing Smolt Production or the Number of Smolts Put to Sea

One of the simplest ways to control harvest quantity is to alter the number of smolts put to sea about 18 to 24 months prior to harvest. If Pan Fish desired, for instance, to reduce its supply in 2006 or 2007, it would likely decrease the number of smolts in put to sea in 2004 and 2005.

According to Kontali Analyse figures, between 2004 and 2005, the only nation that did not have an increased the number of smolts put to sea was the United Kingdom (see chart below). In the past two years, Norway and Chile increased smolts put to sea by ~ 20%.

SMOLTS PUT TO SEA (In 1000 CAD)			
	2003	2004	2005
Norway	134,500	152,000	162,000
Chile	112,000	124,000	135,000
UK	45,000	42,000	42,000
Canada	31,000	36,000	36,000
USA	4,700	4,500	4,500
Faroese	8,000	1,900	3,500
Ireland	5,000	4,700	7,500

Source: Kontali Analyse. Salmon World 2004/2005, Salmon World 2006.

Smolts put to sea in the UK declined, however, from 45,000 in 2003 to 42,000 in 2004. The ability to reduce smolts put to sea may be intensified by this merger.

The Scottish Fisheries Research Service, which maintains smolt production statistics for Scotland (latest figures available are 2004), provides data showing a decline in number of smolts produced (different than smolts put to sea). In 2004, the UK salmon industry produced 39,999,000 smolts in 2004 — a decrease of 4.4 million or 9.9% compared to 2003. (Full data available in Appendix 3)

Between 1999 and 2004, the number of companies producing smolts in Scotland also decreased from 65 to 48 companies.²⁵ In 2004, a total of 276 freshwater sites were registered, of which 93 sites were “inactive” — suggesting an underutilization of smolt production sites by producers.²⁶

Stock-piling Salmon in Sea Cages

Atlantic salmon is the preferred salmon species to farm because it grows more quickly and to a larger size than other species. Farming has the added advantage over wild fisheries of yielding uniformly sized fish, making for ease of processing. At the same time, there is no magic day when farmed fish must be harvested (although Pan Fish explains in its submission to the OFT that at some point fish begin to lose firmness and desired coloration).

Would it be a profitable strategy for Pan Fish to keep salmon in its sea cages longer than average as a means of reducing market supply in the short-run?

According to one news account, “Norwegian Seafood Export Council (NSEC) statistics from July indicate a ‘stock-piling’ of salmon in sea cages along the Norwegian coast.” This conclusion was based on the fact that “slaughter volumes are down as much as 9 percent, while feed sales have risen 8 percent in the last four weeks. This tends to indicate there is a lot of fish in cages, combined with good conditions for growth.”²⁷

Observations of biomass volumes in UK sea cages could indicate whether or not salmon producers are keeping salmon in the cages longer. Biomass, a term used to quantify the inventory of live fish in the sea, would increase if more fish and bigger fish are kept in the sea (for example, if harvest is delayed).

Biomass data for 2003-2005, for all major producing countries — except Faroes, which experienced a severe disease outbreak — shows an increase in biomass during this time period (see chart below). Last year, Norway’s biomass increased 9.5%, UK increased 6.2%, and Ireland increased 30.8% [Note: Canada and USA biomass data not provided by this source].²⁸

When questioned by the OFT regarding the ability to keep inventory in sea cages, Pan Fish explained that national regulations restrict the level of biomass in sea cages at one time. The OFT responded, however, that there is a certain degree of usable spare capacity in the salmon market, so there still may be an opportunity to increase biomass without exceeding national regulations.

The Pure Salmon Campaign was unable to obtain data that would indicate the length of time Pan Fish is currently holding salmon in sea cages. The Competition Commission may be interested in requesting a comparison of production times (from smolt to harvest) over the past few years, to determine whether salmon are being kept in their cages longer than average.

Exporting Salmon to Other Regions

As noted, roughly a third of UK production is currently exported. We are unsure if UK producers receive the same price from international consumers as they do from UK consumers. Even if

²⁵ Scottish Fisheries Research Service. Page 11.

²⁶ Scottish Fisheries Research Service. Page 11.

²⁷ 14th August 2006. *IntraFish Media*. “Market Figures show Norwegian salmon stocks piling up.”

²⁸ Kontali Analyse. *Salmon World 2004/2005* and *Salmon World 2006*.

prices are consistent, however, UK producers may nevertheless be motivated to remove inventory from Scotland by selling elsewhere to defend the premium price in Scotland.

France and Spain have strong appetites for seafood. And, in recent years, Russia and Asia have become notable markets for farmed salmon. Kontali Analyse states that while the US market for farmed salmon began to stagnate in 2004, Russia, Japan and a series of other Asian markets showed large growth potential.²⁹ Among the new markets for Atlantic salmon is Poland, which increased imports 27% in 2005 over 2004.³⁰

Despite Russia's ban of imports of fresh Norwegian salmon on 1 January 2006, some fresh Norwegian salmon still finds its way to Russia through re-labeling, according to news reports. In one case, the Russian Federal Veterinary Phytosanitary Control Service (Rosselkhoznadzor) claimed that Norwegian salmon was labeled as Icelandic.³¹

Selling to less developed countries well below the premium, even below cost, may still be rational and something that we urge the Competition Commission to explore further.

Warehousing Salmon (Extending its Shelf-Life)

While farmed salmon requires roughly two years from smolt to harvest, it needn't be sold immediately. Freezing, smoking, and canning are all options for producers that would want to 'warehouse' salmon as a means of reducing the short-term supply of salmon on the market [until actual production levels can be reduced].

Pan Fish's goal would be served so long as the premium price it defended was greater than cost of capital plus the price of warehousing. For example, if Pan Fish were defending a price of £4/kg when the market would clear the product for £3/kg, then warehousing plus capital interest for the period must be less than £1/kg for this strategy to be advantageous.

A variation of this strategy could exploit the price premium for fresh fish by flash-freezing. Flash freezing is said to result in salmon quality that is equivalent, or at least similar, to fresh salmon. Flash freezing involves freezing the fish immediately after harvest to super cold temperatures (-30c) and then sealing. In the United States, such fish is often marketed as "fresh," although UK law requires any fish that has ever been frozen to be labeled as such.

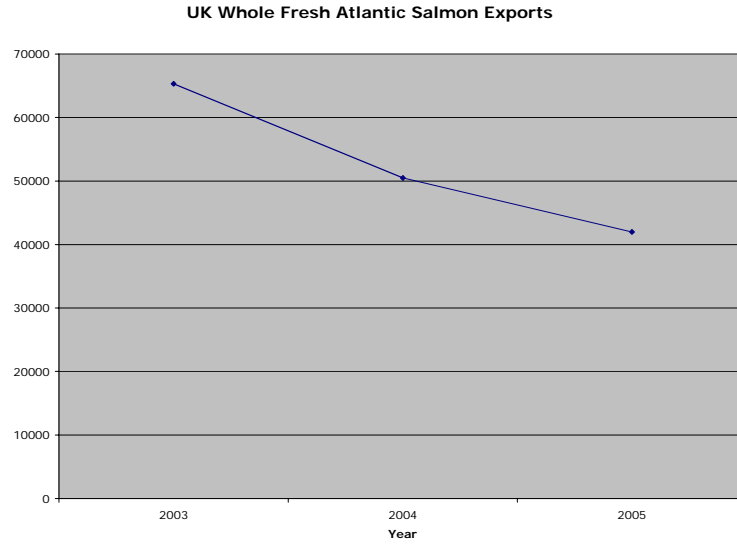
Data for UK Atlantic salmon exports in 2003-2005 support the case that Scottish producers have increased canned and frozen production, at least for exports. The data we could gather, however, is imperfect, as it does not include 2006 figures. Still, it demonstrates current trends in the UK market and suggests that this strategy of shifting from fresh product to frozen/canned/smoked could be profitable.

While whole fresh salmon is still the major Atlantic salmon export for Scottish salmon, between 2004 and 2005 whole fresh salmon exports decreased by approximately 17 percent. Whole frozen exports increased by 250% in 2005 (albeit by a much smaller quantity than fresh exports).

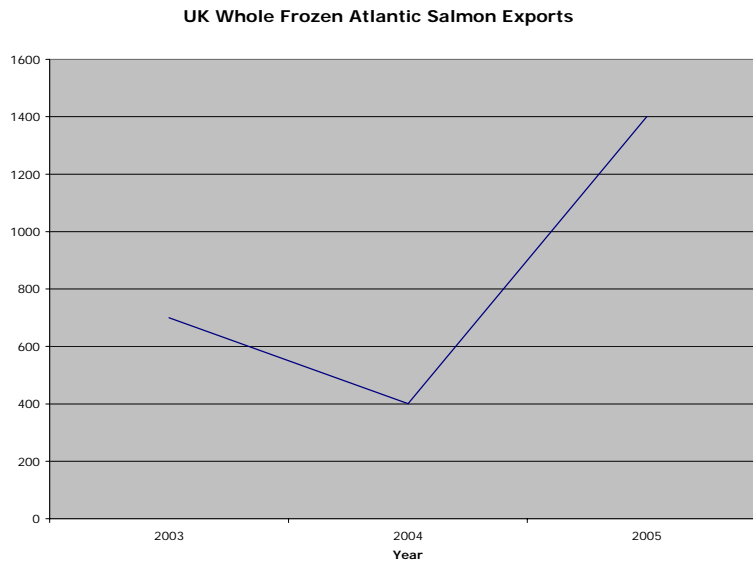
²⁹ Kontali Analyse. *Salmon World 2004/2005*.

³⁰ IntraFish. <http://www.intrafish.no/global/news/article112246.ece>

³¹ 22nd June 2006. IntraFish. <http://www.intrafish.no/global/news/article108487.ece>

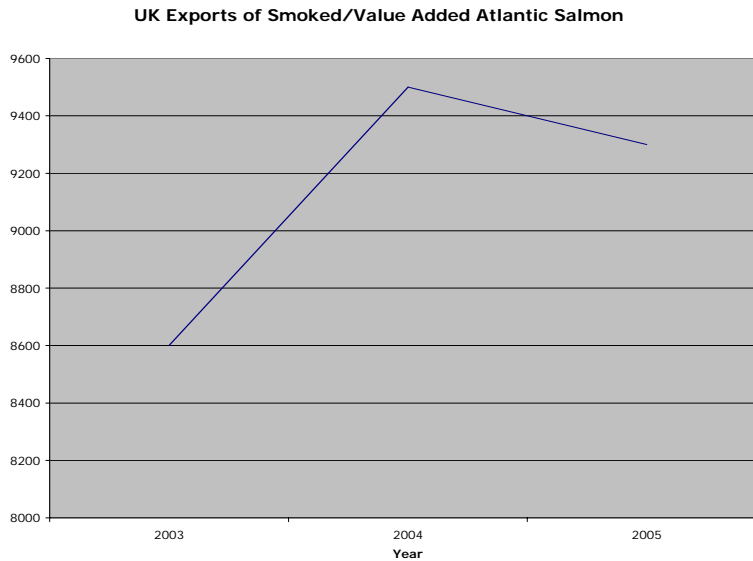


Source: Kontali Analyse. *Salmon World 2004/2005, Salmon World 2006.*



Source: Kontali Analyse. *Salmon World 2004/2005, Salmon World 2006.*

Other methods of extending the shelf life of salmon beyond freezing are smoking or canning product. Overall, UK exports of smoked and value added Atlantic salmon have increased substantially over the past two years.



Source: Kontali Analyse. Salmon World 2004/2005, Salmon World 2006.

Destroying Inventory

Would it ever be profitable to destroy inventory rather than sell below a certain price?
Arithmetically, yes.³²

The OFT asked this question of Pan Fish, regarding potential to control supply. Pan Fish argued that the cost of these options — either withholding production or destroying fish would not be profitable due to reduced salability of the fish, regulations limiting biomass, cost of increased inventory, and the cost of actually destroying fish.

The OFT concluded, however: “Despite the arguments made by the parties, restricting supply would still appear to be an economically rational decision if it results in sufficiently high prices.” And parallel to the concerns raised by Pure Salmon, the OFT stated that “parties would be expected to maximize profits according to their marginal costs and revenues.” Furthermore, the OFT stated that the, “parties do not appear to have considered the possibility that the destroyed fish could be sold for lower value purposes and thus recover some of the costs involved.”

Presumably, inventory destruction could be implemented under the cover of disease control.

Each year, Scottish government figures show that between 10% to 30% of biomass is destroyed because of reported disease. Specifically, mortalities for 2002, the most recent year was 23.3%. This compares with 18.4% in 2001; 22.9% in 2000; 19.4% in 1999; and 30.9% in 1998.³³

We have no specific information that would indicate that Pan Fish has intentionally destroyed inventory so as to reduce supply. We leave it to the Competition Commission to explore further.³⁴

³² Consider 10 m kg produced at a cost of 20 m GBP. It is more profitable to sell 9 m kg at 3.4 GBP than all 10 m kg at 3 GBP. There may be less drastic methods.

³³ <http://www.marlab.ac.uk/FRS.Web/Uploads/Documents/survey2004.pdf>

Branding Salmon

Firms in the industry have attempted to brand with little success to date. By nature, small firms unable to service a large or distant market wouldn't waste the expense of branding there.³⁵ A firm the size of Pan Fish, however, could afford the advertising/marketing resources to embark on such an effort. If successful, this would result in a pricing advantage over smaller firms.

Consumer Concerns About the Environment

These aforementioned factors, alone, should be of concern to the Competitions Commission. Why, however, is an environmental group engaged with such a question?

The Pure Salmon Campaign believes there is a growing consumer concern for environmental externalities including the impact of fish farming on the health of the oceans. As such, producers should naturally be attuned to this consumer concern, and adopt appropriate operations. We are concerned that an industry dominated by a large player may be less prone to competition, and therefore, less attuned or responsive to consumer concerns.

Research conducted by the Seafood Choices Alliance in 2005 showed that European consumers would be more likely to buy seafood labeled as environmentally responsible and "40 percent of European consumers are willing to pay up to 10 percent more for eco-friendly seafood."³⁶ Among seafood professionals, "effects of overfishing, bycatch and bad farming practices are broadly known, and most express worry about continued threats to the ocean."³⁷

This concern among Europeans regarding seafood sustainability is evidenced by recent efforts and commitments by retailers such as Marks & Spencer, Wal-Mart, ASDA, Metro Group, Morrison's to source seafood that is fished or farmed in an environmentally sustainable manner. Consumers are responding. It was reported last week that Citigroup analyst stated that Marks & Spencer's ethical marketing campaign, "had achieved a more positive impact on the M&S brand than any other previous ad campaign." Citigroup announced that Marks & Spencer's was enjoying "at least a six-month lead over main rivals, such as Tesco, Waitrose and Asda, in persuading shoppers it is the most ethical place to shop."³⁸ This month, Waitrose also announced its new policy to source farmed salmon only from producers that use sustainable fish feed.

That said, we are not entirely opposed to this merger. A large producer such as Pan Fish may have the resources and perhaps will adopt the necessary environmental standards. Pan Fish may wish to solidify its position, even though branding, as the environmentally responsible producer. We are aware of studies conducted in the United States that demonstrate U.S. consumers willingness to pay a premium for salmon farmed in an eco-friendly manner (no escapes, no spread of disease, reduced fish for feed, etc.), and believe that this premium would more than offset additional production costs of switching to an environmentally-friendly method, namely closed containment. We believe that there may be a similar premium in the UK.

³⁴ Information on disease regulations in the UK is available at: <http://www.marlab.ac.uk/Delivery/standalone.aspx?contentid=677>. Information on waste Disposal regulations in the UK is available at: <http://www.scotland.gov.uk/Publications/2005/03/20717/52862>

³⁵ Branding is the distinction of one's product over a substitute to a wide audience. The purpose of the distinction is to win either a pricing premium over the substitute, or greater sales volume.

³⁶ Seafood Choices Alliance website. Available at: www.seafoodchoices.org

³⁷ Two of six focus groups were held in London and about one-third of surveys conducted were in the United Kingdom.

³⁸ 23rd August 2006. IntraFish. Marks & Spencer's Ethical Marketing Campaign a Hit.

APPENDIX 1

Comparison of Total Employment and Sales Staff Among Scottish Salmon Producers

SCOTTISH SALMON PRODUCERS	NUMBER OF EMPLOYEES	"SALES" DIVISION
Loch Duart	40	Not found
Wester Ross Salmon Ltd.	60	Sales and administration activities take place at their Inverness Office . The exact number of sales employees is not available.
Hjaltland Seafarms UK, Ltd.	130	The sales division for the group is Shetland Products Ltd . The exact number of sales employees is not available.
Scottish Sea Farms	300	Sales take place at Scottish Sea Farms Sales, Ltd . The exact number of sales employees is not available.
Pan Fish Scotland	169	"Efficient sales and marketing team"
Pan Fish Norway	260	"Efficient sales and marketing team located in Ålesund, Norway."
Pan Fish Canada	220	"Sales organization in Edmonds, Washington State (USA)."
Pan Fish Japan	7	Not found

Further Employment Information

Marine Harvest

According to the Marine Harvest Website, it employs 6,000 people worldwide, but it does not break this figure down into locations. Regarding sales:

Our operations in Europe cover all the major markets and are organised from three sales offices, each of them managed by a Sales Director.

The office in Oslo, Norway, takes care of sales in North & East Europe, with a focus on Scandinavia, Germany, East Europe and Russia.

The office in Rennes, France, is responsible for sales in France. Sales in Spain and Portugal are taken care of by our Sales team in Spain.

Sales in the UK are taken care of by the Edinburgh sales office.

Together with sales in their region, each Sales Director co-ordinates a specific market sector to ensure Marine Harvest reliably meets the

appropriate product and service requirements. The sectors are retail, food service & processing, and trade.

Fjord

The Fjord Seafood website does not supply employment or sales figures, but rather it directs one to the Pan Fish corporate website. The Fjord website does, however, state the following:

The Division Europe is led by EVP Jo Dekeyzer and comprises processing and sales and marketing activities in Europe, in addition to farming activities in Scotland. The sales and marketing activities are concentrated in 3 different areas; Retail, Food service and Industry. Fresh and frozen processed seafood is produced in France, in particular in the companies Fjord Seafood Rolmer and Fjord Seafood Appéti'Marine.

The European centre for salmon filleting and portioning is located at Fjord Seafood LMB. Fjord Seafood Pieters in Belgium prepares products for retail and the food service market, for example fresh portion packages, ready-to-eat food and smoked salmon.

Relevant Sources

- <http://www.lochduart.com/ourcompany.htm>
- <http://www.wrs.co.uk/company-history.html>
- <http://www.coast.no/sea.global.uk.php>
- <http://www.scottishseafarms.com/Key-Facts.aspx>
- <http://www.panfish.no/newsread/news.asp?wce=index>
- <http://www.marineharvest.com/about-marine-harvest/company-profile.html>
- http://www.fjordseafood.com/index.php?current_page=24

APPENDIX 2

Smolt Production & Smolts Put To Sea

Source: Scottish Fisheries Research Service

Table 12: Number of companies and sites in smolt production during 1996 - 2004 (page 11)

Year	No. of companies	No. of sites
1999	65	189
2000	60	184
2001	56	169
2002	55	173
2003	48	176
2004	48	172

Table 13: Number (000s) of smolts produced...(page 11)

Year	Number (000s)
1999	39,763
2000	45,583
2001	47,546
2002	47,161
2003	44,414
2004	39,999