

Testimony of Magnor Nerheim
Director General
Norwegian Ministry of Fisheries and Coastal Affairs

Good afternoon Madam Chairman and members of the Commission. My name is Magnor Nerheim. I am Director General in Norway's Ministry of Fisheries and Coastal Affairs, where I oversee the Department of Aquaculture, Seafood and Markets. I have been in my present position for 16 years, and have spent more than 35 years working in the Ministry. My Department is responsible for the administration of the regulatory frameworks applicable to Norway's aquaculture industry. Among other jobs, we are also responsible for trade policy and market access issues related to seafood from Norway, including aquaculture products.

Today I will address three topics:

- First, I will give you an overview of the current system of licensing and the biomass limits associated with salmon farming in Norway.
- Second, I will discuss the issue of capacity increases and the decision made in November of 2010 not to consider any new capacity until sometime in 2012.
- Finally, I wish to briefly address the issues of Norway's exports of fresh salmon to Russia and to China.

Let me first turn to our licensing system. As was the case six years ago, Norwegian salmon farmers must hold a Government-issued license to be able to farm Atlantic salmon. Licenses are granted for production in a particular region and may be used to produce either salmon or trout. Presently, we have issued 946 licenses for commercial production of salmon and trout and an additional 66 licenses that may be used to produce salmon for broodstock (the fish used for production of eggs) or for R&D

purposes. While our basic licensing system has not changed, there have been important developments since the previous sunset review.

Between 1996 and 2005, Norway effectively limited its farmed salmon production through the use of feed quotas. In 2005, the feed quotas were eliminated, and the effective constraint on salmon production in Norway has since been the number of licenses and the Maximum Allowable Biomass, or “MAB,” associated with those licenses.

The MAB, is the maximum allowable quantity of biomass -- meaning the total weight of live fish -- that may be in the water in the growing pens at any point in time. The biomass in the water will be made up of the fish at all stages of growth, and is therefore constantly changing; with

- the introduction of new young fish (the smolt),
- the growth of the fish in the pens and
- the harvesting of some portion of the grown fish.

The farmer has the responsibility to ensure that he does not exceed his maximum allowable biomass. A farmer who exceeds the biomass limits, is subject to very significant financial penalties. Most licenses have a limit of 780 MT, and licenses in the most northern regions have a limit of 945 MT.

The MAB limits are designed to ensure that the biomass in the water remains at levels that will keep Norwegian aquaculture operations environmentally sustainable. The recent devastation of the Chilean farmed salmon industry, which suffered due to low levels of biosecurity, has reminded us of the importance of such limits.

To understand the MAB system, you should be aware that the actual biomass levels follow a clear seasonal pattern, and, in many months of the year, the growing conditions give lower biomass. Even in the peak months – typically October and November – when biomass is highest, some farmers’ biomass does not reach the MAB level. The number of licenses and the MAB limits, therefore, represent something of a maximum theoretical capacity for salmon and trout production in Norway. In a manufacturing industry, you might call this a “nameplate” capacity.

I will end my first topic by stating that the Norwegian system for controlling capacity, by licensing and MAB, is effective and enforced.

My second topic is capacity increase. The Norwegian government has not rapidly expanded the number of licenses for salmon production, and very few have been added in recent years: none in 2010 and only 4 came into effect this year – when we reached our total of 946 commercial licenses. In late 2010 we abandoned a planned MAB increase of 5 percent that had been announced for 2010 – because of concerns about sea lice, and we only raised the MAB limits in the two most Northern regions from 900 to 945 metric tons. This increase represented a 1 percent increase in the national MAB.

The Norwegian Government has limited the number of licenses it grants, because it is very important for Norway to have both a profitable and healthy farmed salmon industry. Two factors are important criteria for granting additional licenses:

- expected demand growth in the markets
- impact of additional licenses on the sustainability of our aquaculture industries.

As our Fisheries Minister indicated in explaining the Strategy for an Environmentally Sustainable Norwegian Aquaculture Industry that was adopted in 2009,

“Growth in the aquaculture industry cannot be determined solely by market demand; it must occur within the limits that the environment can tolerate.”

In 2010 we also made a decision that we would not even consider the possibility of new capacity for salmon and trout farming until 2012. That assessment and decision will be made by the Cabinet and will not be made until late next year. However, given our policy for sustainability and responsible growth, the Cabinet will only grant new licenses if this is both considered consistent with our strategy for sustainability and with observed and expected market growth. I do not expect that there will be any dramatic or significant change in Norwegian capacity. Also, if any new capacity were to be added, which is not certain, the implementation of that decision would not occur until 2013.

Finally, I would like to address the arguments that have been made concerning Norway’s access to the Russian and Chinese markets.

With respect to Russia, I believe that the data tell this story very well. Russia has been a very important and growing market for Norwegian salmon. From the one metric ton that was exported to Russia in 1993, Norway has grown its exports to over 75 000 metric tons in 2010. This year, we are on pace to exceed that record level by 25 percent and Russia is now our second biggest export market for whole fresh salmon after France. The regulatory regime that Russia instituted in 2006 requires inspection and pre-approval of Norwegian processing plants by the Russian Veterinary Service as a condition for importing into Russia. The regime has not been any obstacle to tremendous export growth.

In China, the testing and quarantine procedures that were instituted in December of 2010 have resulted in a decline in Norway’s exports to China. We are working through

the WTO SPS Committee process to address China's policies, which we believe to be contrary to China's WTO obligations. We will continue to make every effort to encourage China to change its policies. However, it is important to look at the figures and volumes. China has never accounted for more than 1.6 percent of total Norwegian exports. In addition, our exporters are re-routing salmon to other Asian markets, and this shift has resulted in the volumes of exports to Asia remaining unaffected.

I thank you for your time and attention, and I look forward to answering questions.