

**Testimony of Ken Taylor  
Sales Director  
Marine Harvest USA**

Good afternoon. My name is Ken Taylor, and I am the Sales Director for whole fresh salmon for Marine Harvest USA. I have held this position for the last four years, and prior to that I was the North American sales director for PanFish for 10 years, before its acquisition of Marine Harvest. I have been involved with sales of farmed Atlantic salmon in the United States for some 21 years. I've been in the seafood industry virtually my entire working life, and started out as a commercial fisherman in Alaska while attending college.

Marine Harvest is the largest producer of farmed Atlantic salmon in the world, with farming operations in Norway, Canada, Chile, Scotland, Ireland, and the Faroe Islands. In Europe, we also produce salmon fillets and other value-added salmon products. Marine Harvest also has salmon processing facilities in the United States in Miami and Los Angeles. I am responsible for Marine Harvest's sales in the United States and Canada of whole fresh salmon that we produce in Canada, Scotland, the Faroe Islands, and Ireland.

I would like to speak to you today about the U.S. market, particularly about how whole fresh Atlantic salmon is sold, U.S. market segments, and pricing. Although Marine Harvest's salmon farming operations in Canada are located in British Columbia, we sell to all markets in the United States, including the east and west coasts. Although salmon ultimately is consumed in forms such as fillets, steaks, or portions, most farmed Atlantic salmon that we import into the United States from Canada is in whole form. Logistically, our Canadian operations (like other Canadian salmon farms) have a significant freight advantage in selling to the U.S., as there is not much further processing infrastructure in Canada. Most processing takes place in the United States after importation.

There are two broad segments of the U.S. market into which whole fresh Atlantic salmon is sold. The largest is what I would call the “retail” market. This is whole fresh Atlantic salmon that will ultimately be sold at retail supermarkets or by specialty fish retailers, primarily as fresh Atlantic salmon fillets. This market segment accounts for about 60 to 70 percent of whole fresh Atlantic salmon sold in the United States. This salmon is generally sold first to U.S. processing distributors that own their own equipment to process whole fresh salmon into fillets or other salmon cuts. These distributors then sell the salmon cuts to retailers, who sell to consumers. Some retailers, particularly smaller specialty fish retailers, may purchase and fillet the whole salmon themselves, but this is a relatively small volume. Whole fresh Atlantic salmon sold in the U.S. market for retail is generally less than twelve (12) pounds in size. This size fish is preferred for this segment because it converts into two to four pound fillets, which are the most desired for consumers. At Marine Harvest Canada, and I believe it is the same for other Canadian producers, we are targeting the production of sizes of salmon that are suitable for this very large processing /retail market. This is by far the largest segment of the market and is the most “commoditized”.

The second market segment has two parts. The first part is whole fresh salmon that is purchased by specialty seafood distributors, who fillet the fish and sell the fillets to restaurants, hotels, caterers, and institutions, (that is non-retail buyers of fillets who deliver the fish to the consumer in a cooked form). This market segment accounts for about 20 to 25 percent of whole fresh Atlantic salmon sold in the United States. Whole fresh salmon sold for this segment of the market is also generally less than twelve (12) pounds in size.

The second part of the non-retail segment for whole fresh salmon is the sushi and select “white table cloth” restaurant segment. These customers prefer sizes greater than 12 pounds, and

often prefer salmon above 14 pounds in size. Sushi restaurants do their own preparation, and they also want to assess the quality and freshness of the whole fish. In addition, purchasers of salmon for sushi are very particular when it comes to factors such as texture, fat content (which effects taste), and fat lines (which effects visual appeal). The larger fish tend to be better on these parameters, and to have the wider fat lines that makes the raw fish visually appealing. Certain “white table cloth” restaurants also prefer to purchase whole salmon and fillet it themselves.

The Scottish and Faroese salmon that Marine Harvests sells in the United States are of a size and quality favored for sushi and these select “white table cloth” restaurants. Canadian production certainly brings some large fish to market, and into this segment, however Canada cannot consistently provide enough big fish to meet this demand. Normal production constraints in Canada, and limited U.S. production, means that the supply of salmon 12 pounds and above, and especially 14 pounds and above, is limited. In addition, the production cycle in Canada means that there are periods of time when larger fish will be particularly in short supply. However, customers in this segment need and will pay for a consistent supply of large high quality fish. This market segment accounts for 10 to 15 percent of whole fresh Atlantic salmon consumption. This has been the U.S. market segment with the strongest growth over the last five years. In fact, in recent years there has been a proliferation of specialty distributors principally serving the sushi segment, and demanding the larger fish.

Each of these segments also display pricing differences correlated with size. Our smaller whole fresh Atlantic salmon is generally lower-priced than larger salmon. You can see this from Urner Barry pricing data. In Seattle, the price of 10-12 lb. whole fresh Atlantic salmon averaged \$2.42/lb. in October of this year, compared to \$2.83/lb. for 16-18 lb. salmon, a 17 percent

difference. There are periods during the year when this differential can be larger or smaller, depending on supply availability by weight-band of salmon. For example, in November—this month—for a short time there were greater supplies of larger-size salmon, and the premium for large salmon over small salmon was significantly less. This happens on occasion, but it is the exception rather than the rule, and, in general, larger-sized salmon commands a price premium in the U.S. market.

Marine Harvest serves the U.S. market with whole fresh salmon from our operations in Canada. We produce approximately 33,000 metric tons per year in Canada, with approximately 70% going to the U.S. market, and most of the remainder is sold in Canada. When we import Scottish and Faroese whole fresh salmon into the U.S. market, we are primarily serving the sushi and select “white table cloth” restaurant segment of the market. About 90 percent of the salmon that Marine Harvest exported to the United States from the Faroe Islands and Scotland in 2010 was over 6 kg.KG in size, that is, about 13 pounds or larger. We just don’t import smaller sizes from Europe. There are no restrictions on Scottish or Faroese salmon—the market is just not attractive outside of this higher priced segment. For Norway, which has higher freight costs to the U.S. than does Scotland or the Faroe Islands, shipping whole fresh salmon into the market dominated by Canadian suppliers would make less sense than shipping Scottish or Faroese whole salmon.

Finally, while I know that this case is about whole salmon, I want to call to your attention to the recent experience of Norwegian salmon in the fresh salmon fillet market here, to help you understand that Norwegian producers are simply not attracted to the U.S. absent prices that offset transportation costs. Chile has been for many years the primary supplier to the U.S. market for fresh salmon fillets, accounting for about 90 percent of all fresh fillets imports into the United

States prior to 2009. In 2009, Chile's fillet exports to the United States plummeted due to an outbreak of ISA that devastated Chile's industry. Before that time, Norwegian fillets had a very small portion of the U.S. market. In 2008, for example, Norway accounted for only about 2.5 percent of imports. Norwegian fillets were always higher priced, but given Chilean supply and pricing (which reflected Chile's lower processing cost and freight advantages to the U.S. market), Norway was never able to sell much volume at a high enough price to make the market attractive. In 2009, with Chile's withdrawal from the U.S. fillet market, Norwegian fillet imports, including from my company, increased substantially for the first time, but prices remained strong and well above the pricing point that had been set by Chilean fillets. In 2011, as Chilean volumes began to ramp up and as prices were expected to and then did fall, Norway quickly reduced its fillet shipments to the United States. There are no restrictions imposed on Norwegian salmon fillets. Norway's limited participation in the U.S. fillet market prior to 2009 and after early 2011 was a result of the same factors that make the U.S. unattractive for Norwegian whole salmon: other suppliers have a competitive advantage and set the market price at a level that leaves Norwegian producers better off shipping to the markets where it can make better returns. Thank you.