

**Testimony of Daniel W. Klett  
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Fresh & Chilled Atlantic Salmon from Norway**

Good afternoon. My name is Daniel Klett. I am an economist with Capital Trade, Inc. testifying on behalf of respondents in this sunset review.

I will be addressing issues related to salmon supply in Norway and why whole fresh Atlantic salmon production in Norway is not likely to be exported to the United States in significant volumes or at injurious price levels should the order be revoked.

In the second sunset review five years ago, Norway's Atlantic salmon capacity and excess capacity was a hotly contested issue. In this sunset review, however, there is a general consensus on capacity and capacity utilization in Norway. In 2010, our calculations of Norwegian-wide capacity utilization for whole fresh Atlantic salmon are about 90 percent, as shown in Exhibit 17 of our brief. Cooke's estimate of capacity utilization for Norway in 2010 is 88 percent, as shown in Exhibit 7 of its brief. The capacity utilization from the aggregation of data from your foreign producers' questionnaires is 88 percent.

The key issue is whether this excess capacity will be targeted to the U.S. market, or if Norwegian salmon producers would have an economic incentive to divert exports from their non-U.S. markets to the United States, absent the order.

One factor relevant to this issue is the significant growth worldwide since the investigation period of farmed Atlantic salmon production, particularly in Canada and

Chile. As shown in **Slide 1**, in the investigation period the farmed Atlantic salmon industries in the United States, Canada, and Chile were virtually non-existent. In 1989, European sources accounted for over 94 percent of world supply, and the combined harvest volume for the United States, Canada, and Chile was just over 10,000 metric tons.

In 2008, before the collapse of Chilean salmon harvest which is now rebounding, farmed Atlantic salmon harvests in the United States, Canada, and Chile combined totaled over 500 thousand metric tons, and accounted for 24 percent of world harvests. Canada increased its harvest volume from 6 thousand metric tons in 1989 to over 104 thousand metric tons in 2008. As shown in **Slide 2**, the volume of imports from Canada into the United States increased significantly. Canada's share of the U.S. market for whole fresh Atlantic salmon increased from 14 percent in 1989 to 65 percent in 2010.

The Commission's affirmative determination at that time largely was that Norway's significant presence in the U.S. market had adverse price effects for a "young and emerging" U.S. industry, notwithstanding overselling that was attributable to Norwegian salmon's marketing, year-round availability, and dominant position in the U.S. market.

Canada now dominates the U.S. market. U.S. and Canadian producers have an inherent transportation cost advantage relative to Norway, which must ship its fresh whole Atlantic salmon to the U.S. by air. Because of its proximity, significant freight

advantage, and size, Canadian supply is the most important factor in setting the market price for whole fresh salmon in the United States.

Norway's high transportation costs to the United States is now a commercial disadvantage that did not exist in the investigation period, when Norway did not need to match or beat Canadian pricing. Proximity and transport costs are a significant competitive factor for sales of whole fresh Atlantic salmon for all suppliers. As shown in **Slide 3**, suppliers in Norway, Canada, and Chile concentrate their exports into their more proximate regional markets, where shipments can be made overland rather by air.

Norway's growth in salmon harvest cannot be viewed in isolation, as Petitioner would have you do. As shown in **Slide 4**, the average annual growth rate for salmon harvests worldwide was just over 4 percent from 2005 through 2011, with a projected average annual growth rate of 5.2 percent from 2005 to 2013. World salmon harvests declined in both 2009 and 2010 due to the significant reduction in salmon harvests in Chile associated with the ISA disease. Worldwide annual growth in salmon supply that supports stable price levels given underlying demand growth is about 6 to 7 percent, a number included by Cooke in its Prehearing Brief. The annual average harvest growth for Norway was just over 9 percent from 2005 to 2011, with an annual growth rate of 8 percent projected for 2005 to 2013. The harvest growth for Norway reflects decisions by the Norwegian industry to increase harvest levels to compensate for the harvest downturn in Chile, in addition to strong demand growth in its export markets. Norway's

projected harvest growth for 2012 is just 6 percent, with harvest growth in Chile largely responsible for world-wide harvest growth of 11.5 percent. From 2012 to 2013, projected harvest growth for Norway is about 2 percent, with harvest growth worldwide at 5.5 percent. Cooke's contention that the growth in Norway's harvest levels for Atlantic salmon during the review period, and projected for 2012 and 2013, is somehow an irresponsible oversupply to the world market that threatens the U.S. industry is not supported by the data.

Notwithstanding the fact that Norway may have some excess capacity to produce salmon, it is clear, as testified by Mr. Nerheim, that the associated MAB is a constraint on salmon harvest levels. As shown in **Slide 5**, the actual biomass growth in Norway is approaching the MAB. In addition, a smaller share of Norway's salmon harvest is being sold by Norwegian producers in whole form, with increasing investments in value-added capacity. Moreover, larger volumes of Norway's exports of whole fresh Atlantic salmon are to related-party processors in Europe, with the first arm's length sale being non-subject forms of salmon. In addition, a lower "production grade" of salmon, which accounts for 3 to 5 percent of Norwegian production, cannot be exported from Norway.

The growth in Norwegian salmon harvests during the review period has not had an adverse effect on price levels. **Slide 6** shows trends in Norway's whole fresh Atlantic salmon export volumes to non-U.S. markets, and average prices. There have been, and there always will be, cyclical ups and downs in prices for salmon, which is normal for this

sector, and for livestock generally. However, on average both harvest volumes and prices have increased, reflecting strong demand for Norwegian salmon exports.

Although Western Europe is and will remain Norway's largest export market, demand growth has been particularly strong for exports to Russia and Ukraine, and to Asia, as shown in **Slide 7**.

The harvest volume increases in Norway--as well as in Chile where Cooke has operations--have contributed to price declines since May 2011, but these recent price declines must be put in context. **Slide 8** reflects the cyclical nature of Norway's whole fresh Atlantic salmon prices to non-U.S. export markets, and also shows that, on average, Norway's sales prices were higher during the current review period as compared to the second review period.

**Slide 9** shows U.S. price trends from 1995 through October 2011 from Urner Barry data for a representative size of whole fresh Atlantic salmon in the U.S. Northeast market. You also see price volatility, but on average prices were higher in the current review period than in each of the prior two review periods. For the U.S. market, it is well understood that the significant decline in salmon imports from Chile earlier in the current review period, contributed to strong prices in 2009 and 2010, and weaker prices since about mid 2011.

One important factor the Commission always considers in determining the attractiveness of the U.S. market are prices in U.S. and non-U.S. markets. These prices,

of course, must be examined on a net-back basis--that is, the net price an exporter of Norwegian salmon can obtain in non-U.S. markets, and what it could attain in the U.S. market. We have conducted a detailed analysis, which is contained in Exhibit 14 of our Prehearing Brief.

U.S. prices for whole fresh Atlantic salmon are published by Urner Barry, and are well-accepted reference prices in the industry. The analysis should not use, as Petitioner did in its Prehearing brief, average unit values or prices associated with the small volume of whole fresh Atlantic salmon imported into the United States from Norway, which consistently oversold U.S. producers, and which serves higher-priced market segments such as best-practice salmon to Whole Foods. The Commission recognized in the last sunset review that for Norwegian salmon to compete in the U.S. market in any significant commercial volumes, it would have to *undersell* prevailing U.S. price levels.

Two different sets of data for prices to Norway's non-U.S. markets. First, Norway's prices to non-U.S. markets from an internal survey of major Norwegian exporters who provided export volumes, values and unit values by salmon-size, and by export market. Second, prices from NOS Clearing, which publishes spot-market prices for six size-categories of whole fresh Atlantic salmon. These prices are from a survey of exporters for the actual spot market prices they pay to unrelated fish farmers, delivered

to Oslo, and do not include an exporter's margin. The industry widely relies on these prices as a market indicator.

**Slide 10** summarizes the calculation methodology. Adjustments to U.S. price to arrive at a net-back price to the Norwegian exporter are U.S. handling, a significant cost for air transport from Norway to the United States, and inland transport costs in Norway. All prices and costs are converted to Kroner to arrive at a per kilogram net-back price to the packing plant in Norway.

Fewer changes are required to adjust NOS Clearing to a net-back to plant basis in Norway. These include inland freight in Norway, somewhat higher packing costs to ship by air to the United States as opposed to shipping by truck or rail to major markets in Europe, and an exporters' mark-up. Prices and adjustments are reported in Norwegian Kroner, so any exchange rate effects for sales in non-Norwegian currencies, such as in Euros, have already been accounted for.

As explained by Mr. Vike, sales decisions on where to export are based on net-back prices in Kroner terms. His company and other exporters in Norway conduct their export destination decisions based on just this type of comparative analysis of net-back prices.

**Slide 11** summarizes the comparative net-back analysis for three large-volume sizes of whole fresh Atlantic salmon. These comparisons show that over the review period, Norwegian producers have been able to achieve significantly higher prices on a

net-back basis in non-U.S. markets than they could have achieved by exporting to the United States. There have been brief instances where the U.S. net-back would have been higher, but these have been transitory, and largely reflecting short-term timing differences in price declines for Norway to non-U.S. markets, and price declines in the United States.

In 2011 we have the advantage of evaluating net-back price comparisons when prices were relatively high and when they have been lower. There have been short periods when the net-back price to the United States may have been favorable as compared to non-U.S. markets. This occurred twice during 2011 when U.S. price declines lagged price declines in Norway's non-U.S. export markets. However, these periods have been followed by a return to higher net-back prices for Norway for exports to non-U.S. export markets.

Exchange rate effects are built in to the analysis, but it also is useful to examine exchange rate trends, because as a foreign currency becomes weaker relative to the Norwegian Kroner, markets for sales in that currency become less attractive on a Kroner/kg. net-back basis. As shown in **Slide 12**, the U.S. dollar has depreciated the most relative to the Norwegian Kroner. The Euro has depreciated as well--and Euro-zone countries are Norway's largest volume export markets--but by not nearly as much. The Japanese yen has actually appreciated relative to the Kroner.