

UNITED STATES
INTERNATIONAL TRADE COMMISSION

In the Matter of:)
FRESH AND CHILLED ATLANTIC) Investigation Nos.:
SALMON FROM NORWAY) 701-TA-302 and
731-TA-454 (Third Review)

Pages: 1 through 302

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SALMON FROM NORWAY) 731-TA-454 (Third Review)

Wednesday,
November 30, 2011

Courtroom A
U.S. International
Trade Commission
500 E Street, S.W.
Washington, D.C.

The hearing commenced, pursuant to notice, at
9:33 a.m., before the Commissioners of the United States
International Trade Commission, the Honorable DEANNA
TANNER OKUN, Chairman, presiding.

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On behalf of the International Trade Commission:

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P R O C E E D I N G S

(9:33 a.m.)

CHAIRMAN OKUN: Good morning, and welcome to this hearing of the U.S. International Trade Commission. We are here for Investigation Nos. 701-TA-302 and 731-TA-454 (Third Review) involving Fresh and Chilled Atlantic Salmon From Norway.

I would note at the outset that, as our long-time practitioners who are here before us know, this is not the Commissioners' normal hearing room, so we might have some bumps along the way. I would remind everyone, first of all, to try to avoid tripping over all the wires that are out there.

Some day we will be wireless and none of these things will appear, but right now this hearing room, as you all know, is set up and works very well for our 337 investigations, but doesn't transfer quite as seamlessly into our Title VII hearings. So with apologies for appearance and some difficulties, we will proceed.

The purpose of these investigations is to determine whether revocation of the antidumping and countervailing duty orders covering fresh and chilled Atlantic salmon from Norway would be likely to lead to continuation or recurrence of material injury to an

1 industry in the United States within a reasonably
2 foreseeable time.

3 Schedules setting forth the presentation of
4 this hearing, notice of investigation and transcript
5 order forms are available at the public distribution
6 table. All prepared testimony should be given to the
7 Secretary. Please do not place testimony directly on
8 the public distribution table.

9 All witnesses must be sworn in by the
10 Secretary before presenting testimony. I understand
11 that parties are aware of the time allocations. Any
12 questions regarding the time allocations should be
13 directed to the Secretary.

14 Speakers are reminded not to refer in their
15 remarks or answers to questions to business
16 proprietary information. Please speak clearly into
17 the microphones and state your name for the record for
18 the benefit of the court reporter. If you will be
19 submitting documents that contain information you wish
20 classified as business confidential, your requests
21 should comply with Commission Rule 201.6.

22 Mr. Secretary, are there any preliminary
23 matters?

24 MR. BISHOP: No, Madam Chairman.

25 CHAIRMAN OKUN: Very well. Let us turn to

1 opening remarks.

2 MR. BISHOP: Opening remarks on behalf of
3 those in support of continuation of the orders will be
4 by Michael J. Coursey, Kelley Drye & Warren.

5 CHAIRMAN OKUN: Good morning, Mr. Coursey.

6 MR. COURSEY: Good morning.

7 CHAIRMAN OKUN: I don't think your
8 microphone is on.

9 MR. COURSEY: I wish this was the first
10 wrong thing I did today.

11 CHAIRMAN OKUN: Now it's on.

12 MR. COURSEY: Good morning. Madam Chairman
13 and members of the Commission, thank you. I am
14 Michael Coursey of Kelley Drye & Warren, counsel for
15 Cooke Aquaculture USA and American Gold Seafoods, the
16 American Gold Seafood Division of Icicle Seafood.
17 These two companies constitute the domestic Atlantic
18 salmon industry, and both companies strongly support
19 the continuation of the trade orders on fresh and
20 chilled Atlantic salmon from Norway.

21 These trade orders resulted from the
22 collapse of the U.S. fresh Atlantic salmon market in
23 1989 under the massive weight of unfairly traded
24 imports from Norway. In the intervening 20 years, the
25 Norwegian producers have not changed their trade

1 disrupting ways.

2 That the Norwegian producers will dump their
3 product in the U.S. market if not restrained by the
4 trade orders is confirmed by the consistent reports
5 since July 1 that the crushing amount of salmon the
6 Norwegian producers must harvest by year's end and
7 indeed through at least 2012 is forcing them to sell
8 their new production at break even or lower prices.

9 Two of the largest Norwegian producers,
10 including one appearing today, recently admitted
11 operating at a loss during the third quarter this
12 year. The Norwegian producers' current inability to
13 sell at a profit was caused by their own irrational
14 expansion of production during the past five years.

15 Norway will make over two billion pounds of
16 salmon this year, 50 percent more than in 2005, the
17 last year of the second sunset review period. The
18 Norwegian Respondents no doubt will offer many reasons
19 today why their breathtaking expansion poses no threat
20 to the domestic producers.

21 I urge the Commission to keep in mind the
22 claim of the Respondents' expert consultant in the
23 last sunset hearing that's at page 177 of the
24 transcript that "it is not likely that Norway's
25 production quantity or harvest can increase before mid

1 2008 at the earliest." In fact, the FAO reported that
2 Norway's production grew more than 25 percent from
3 2005 through 2007.

4 Norway's production expansion stems from its
5 ill-considered effort to capitalize on the temporary
6 retreat from the market of the Chilean Atlantic salmon
7 producers in the wake of the massive attack on their
8 stocks by the ISA virus. The withdrawal of Chile, the
9 world's second largest Atlantic salmon producer behind
10 Norway, significantly reduced the global supply of
11 farmed Atlantic salmon from 2008 through 2010, which
12 resulted in significantly higher prices for that
13 product during those years. This benefitted all
14 producers, including Cooke and American Gold.

15 But salmon producers everywhere knew that
16 Chile's withdrawal was only temporary and wisely
17 decided not to significantly increase their
18 production. Everywhere but Norway. Norway alone
19 substantially increased its plantings as if Chile had
20 left the market and would never return. Norway's
21 greatly increased harvest for the second half of this
22 year has combined with Chile's expected return to the
23 world market to drive global production far above
24 global demand, which has inevitably caused prices
25 everywhere to crash.

1 If the trade orders are revoked, the renewed
2 volume of Norway's shipments to the U.S. will be
3 massive. With one exception, Norway's export markets
4 are now saturated with its low-priced salmon. That
5 exception is the U.S. market where the dumping and
6 subsidy orders have afforded the domestic producers
7 substantial protection from Norway's overproduction.

8 Of course, this protection is not absolute,
9 and the negative effects of Norway's low prices in its
10 other markets have inevitably rippled into the U.S.
11 market and have contributed to the substantial fall in
12 prices here in the last half of this year.

13 But, as you will hear from our industry
14 witnesses, in the absence of the trade orders the U.S.
15 market right now would be flooded with below cost
16 Norwegian product, for that product has nowhere else
17 to go. The record also leaves no doubt that if the
18 orders are revoked the prices at which renewed
19 Norwegian imports will be sold will pull down the
20 prices for domestic salmon.

21 Norwegian product is already being sold in
22 other markets at below cost prices. There is no
23 reason this would not be the case for its renewed
24 sales here. Further, given the commodity nature of
25 the salmon, the Norwegian product would have to be

1 priced lower than the domestic product for the imports
2 to regain market share.

3 Finally, the record shows that the renewed
4 surge of low-priced Norwegian imports that would spawn
5 from the revocation of the trade orders would have a
6 devastating impact on the domestic industry. Now is
7 exactly the wrong time to unleash the Norwegian
8 juggernaut on the domestic farmed salmon industry.
9 Thank you.

10 CHAIRMAN OKUN: Thank you.

11 MR. BISHOP: Opening remarks on behalf of
12 those in opposition to continuation of the orders will
13 be by Valerie A. Slater, Akin Gump Strauss Hauer &
14 Feld.

15 CHAIRMAN OKUN: Good morning, Ms. Slater.

16 MS. SLATER: Good morning. There we go.
17 The light. Now I see why Mr. Coursey had trouble.

18 Good morning, Madam Chairman, members of the
19 Commission. It is a pleasure to once again appear
20 before you and to be here this morning on behalf of
21 the Norwegian salmon industry. It's also a pleasure
22 to see you all at the same level, which is not
23 something that I'm used to.

24 I'd like to start this morning by asking you
25 to think back to 1991, the year that these orders were

1 issued. In that year, the Soviet Union dissolved, the
2 United States Senate conducted, as you may recall, a
3 rather controversial hearing on the confirmation of
4 now Justice Clarence Thomas, Dances With Wolves won
5 the Academy Award, the hot TV shows at the time were
6 Cheers, LA Law and 30 Something, and the most
7 important event was that Pee-wee Herman was arrested
8 in Florida for -- well, you probably remember what
9 that was about.

10 It has indeed been a very long time since
11 1991. An entire generation has been born and raised
12 to adulthood. Many changes have taken place since
13 then, as I am reminded each time I look in the mirror,
14 but many of these changes have also taken place in the
15 global salmon industry, the salmon industry in Norway
16 and here in the United States.

17 Some of those changes have occurred even
18 since the last sunset review in this proceeding. We'd
19 like to discuss with you today, and our witnesses will
20 be very happy to do that, what these changes are and
21 why they should lead you to revoke these very old
22 orders.

23 Among the key changes that we hope you will
24 consider are the following: The global salmon
25 industry today, unlike 1991, has three very large

1 suppliers -- Norway, Canada and Chile -- and it has
2 become highly regionalized on a global basis.
3 Transportation cost advantages have led suppliers in
4 each of these countries to focus on serving their
5 proximate regions where they get the best returns on
6 their sales.

7 Norway's focus on Europe is not the result
8 of the orders, but of the fact that its most
9 attractive markets are those that it can serve more
10 efficiently than other global suppliers. The United
11 States is not one of those markets. The U.S. market
12 is in fact simply no longer attractive to Norwegian
13 exporters.

14 The U.S. whole salmon market is dominated
15 today by imports from Canada, its most proximate
16 supplier. Canadian producers have very low freight
17 cost to the market, and they supply whole fresh salmon
18 as a result of that advantage at prices that if
19 Norwegian exporters tried to match them would not
20 yield returns nearly as favorable as they can achieve
21 elsewhere. The record of this sunset review contains
22 abundant, even substantial evidence of that fact.

23 While the Petitioners today will and already
24 are beginning to focus on the large size and export
25 orientation of the Norwegian salmon industry, factors

1 which have not changed and are not likely to change,
2 size cannot be all that matters. Norway's growth over
3 the last six years has been accompanied by rising
4 prices and expanding markets. New and robust markets
5 such as Russia and Ukraine, which were nonexistent in
6 1991 and very limited even six years ago when you
7 examined this industry, have become voracious
8 consumers of Norwegian salmon with growth continuing
9 today.

10 The EU trade remedy measures that were a
11 central focus of the Petitioners' arguments for the
12 continuation of the orders in the last sunset review
13 are gone. Mr. Coursey told you in 2005 that his case
14 would present "a harder situation if we had a finding
15 by the EU that everything was fine if we've sunsetted
16 the order there." In fact, that has happened. It
17 happened in 2008. There's no longer any measure in
18 the EU, which is Norway's largest market today. Mr.
19 Coursey does I think have a much harder situation in
20 this sunset review.

21 Finally, we ask you to listen as you listen
22 to Petitioners' testimony this morning, to think back
23 to what Cooke Aquaculture asked you for in 2005 when
24 it requested continuation of the orders that were
25 already 15 years old. Cooke had just purchased its

1 facilities in Maine and told you that it needed time
2 to get its newly acquired facilities established. The
3 record indicates that that has happened, and the
4 operations are successful. According to Cooke's press
5 release, it has succeeded in rebuilding the sector to
6 be economically viable.

7 The industry as a whole today, 20 years
8 after the adoption of these orders, is no longer
9 vulnerable and competes well with the imports from
10 Canada and Chile that dominate its market. These
11 orders have done their job. It's time we let them
12 sunset. We look forward to exploring these issue with
13 you today. Thank you.

14 CHAIRMAN OKUN: Thank you.

15 MR. BISHOP: Would the first panel, those in
16 support of continuation of the antidumping and
17 countervailing duty orders, please come forward and be
18 seated?

19 Madam Chairman, all witnesses have been
20 sworn.

21 (Witnesses sworn.)

22 CHAIRMAN OKUN: Welcome to this panel. You
23 may proceed.

24 MR. COURSEY: Thank you again, Madam
25 Chairwoman. I'd like to introduce our first witness.

1 Mr. Glenn Cooke is the President of Cooke Aquaculture,
2 Inc. of Canada and Cooke Aquaculture, Inc. USA.
3 Glenn?

4 MR. COOKE: Good morning. I am Glenn Cooke,
5 the President and CEO of Cooke Aquaculture, Inc., a
6 family owned company based in St. George, New
7 Brunswick. My father, brother and I started our
8 company 25 years ago.

9 Cooke Aquaculture USA, formerly known as
10 Phoenix Salmon, is a domestic producer of Atlantic
11 salmon and a wholly owned subsidiary of Cooke. We
12 made the decision about eight years ago to invest in
13 salmon farming in the United States, specifically in
14 the State of Maine. We acquired three existing Maine
15 salmon producers -- Atlantic Salmon Maine, Heritage
16 Salmon and Stolt Sea Farm USA -- who were all
17 struggling at the time.

18 We undertook multi-million dollar
19 investments in those facilities to revigorate the
20 salmon production in Maine. Earlier this month we
21 consolidated these companies in Cooke Aquaculture USA.
22 We now employ about 180 workers in Maine and have 25
23 saltwater grow-out sites.

24 Over the years we have faced many challenges
25 in farmed salmon in Maine, although none so

1 potentially devastating as unfettered return of
2 imports from Norway. The aquaculture business is a
3 challenging one, even before unfair competition is
4 considered.

5 A salmon farm will not see a penny of profit
6 until three years after he makes his initial
7 investment because it takes three years to grow the
8 salmon to a harvestable weight. Once the salmon is
9 grown, we have a narrow window in which to harvest it
10 and even less time to sell it after harvest due to
11 their high perishability nature. We must invest
12 heavily in producing salmon for many years, not
13 knowing what the market price will be at the time of
14 sale or what competitive factors we will face.

15 When I testified in the last sunset review,
16 I described some of the challenges then facing our
17 U.S. production sites. We had suffered from the ISA
18 disease that caused the loss of a large part of our
19 stock, as well as superchill conditions that led to
20 additional mortalities.

21 These events, along with a requirement to
22 fill or leave empty saltwater grow sites for up to a
23 year following harvest, led to a substantial decline
24 in our production and profits. Since the last period
25 of review, we have been fortunate to avoid most of

1 these problems. We were able to sell at better prices
2 in recent years due largely to the temporary retreat
3 of imports from Chile through the first half of this
4 year.

5 Chile historically has been the second
6 largest producer of farmed salmon, just behind Norway,
7 and typically ships a substantial amount of salmon to
8 the U.S., mostly in cut or fillet form. From 2007 to
9 2010, Chile's production was ravished by the ISA
10 virus, which caused Chile's 2010 production to drop 68
11 percent from its high point in 2008.

12 As Chilean shipments to the U.S. declined,
13 our sales of dressed head-on product increased, as did
14 our prices. This led to improvement in our financial
15 condition through 2010. We knew the Chilean hiatus
16 wouldn't last, and the producers there turned the
17 corner on ISA last year. U.S. imports from Chile
18 started returning to their precrisis level several
19 months ago. This in turn has pushed down our prices.

20 But we expected the Chilean return to the
21 U.S. market and are dealing with that fact. What we
22 had no reason to expect this year was yet another
23 irrational and massive production increase from
24 Norway. On July 1, the processor gate prices paid to
25 Norwegian producers began to fall sharply, and by

1 October there was common agreement by the experts that
2 tracked seafood production that Norwegian producers
3 were selling at below cost prices.

4 These reports also noted that Norway had
5 harvested 10 percent or 20,000 metric tons more salmon
6 in the third quarter of 2011 than the third quarter of
7 2010. Further, at least two of Norway's largest
8 producers, Marine Harvest and Greek Seafoods, have
9 reported operating at a loss during this year's third
10 quarter.

11 The fact is that Norwegian salmon is now
12 being sold in all of its major export markets at huge
13 volumes and at below cost prices except for the U.S.
14 market, which thankfully is protected by the trade
15 orders under review here. There is no doubt that if
16 these orders were not now in place Cooke and American
17 Gold would be devastated by an ongoing tsunami of
18 dumped Norwegian imports.

19 Of course, the orders cannot protect the
20 domestic producer from the indirect ripple effect of
21 Norway's low-cost prices in its other markets for
22 dressed head-on products. Those sales have clearly
23 contributed to this recent significant drop in U.S.
24 prices, but again, without the orders, our industry
25 would now be on the ropes.

1 U.S. prices for large salmon fell from \$4.41
2 per pound in May of this year to \$2.55 per pound in
3 November, an unbelievable drop of almost \$2 per pound.
4 Our costs are not falling, so the huge decline is
5 severely damaging our profits this year.

6 We experienced another significant problem
7 in 2010 that has heavily impacted our production: Sea
8 lice. Sea lice are a common parasite that attach
9 themselves to salmon and that can ultimately kill the
10 fish. That happened to a large percentage of the
11 stock we had planted, so our production this year has
12 been substantially reduced.

13 The fish we're able to save through
14 treatment are severely weakened. We harvested some at
15 a reduced volume in much smaller weights than our
16 target weight, leading to reduced profits. Other fish
17 in the crop have been held over for the 2012 year for
18 harvest in order to increase their weight, but that
19 has led to greatly increased cost of those remaining
20 fish.

21 The combined effects of the sea lice
22 infestation and the plunge in U.S. salmon prices in
23 the second half of 2011 has led to a significant
24 degradation in our trade and financial conditions. We
25 are selling far fewer fish at higher costs, but at

1 lower prices. Given our present circumstances, an
2 influx of unfairly traded imports from Norway would be
3 devastating. I have no doubt that the U.S. market
4 would be flooded with dumped imports from Norway
5 absent these orders.

6 I have always been a proponent of steady
7 organic growth and have tried to expand Cooke's salmon
8 production incrementally so as not to overwhelm the
9 market. The Norwegian industry, on the other hand,
10 operates in a very omnibus and undisciplined manner
11 with growth surging by double digits in many years.

12 Six years ago, the Government of Norway's
13 expert testified at the sunset hearing that Norwegian
14 production would not increase from 2005 to 2008.
15 Well, as it turns out Norwegian production increased
16 more than 25 percent during this period. Indeed, from
17 2005 to 2010, Norwegian production increased
18 816 million pounds or a 65 percent increase. Further
19 increases are projected for 2011, 2012 and 2013.

20 No end to this Norwegian growth is in sight.
21 The Norwegian industry has a stated goal of ramping up
22 production to 2.5 million metric tons by 2020. That's
23 an increase of 1.5 million metric tons from 2010
24 levels. To achieve that target, large increases must
25 occur every year. Norway has only a limited home

1 market demand, so virtually all of its growth will be
2 exported.

3 The only question is where is the increased
4 production going to go? They have already increased
5 exports to Europe, their main export destination, and
6 do not really want to flood that market further in
7 fear of crashing prices further. Other export markets
8 are small or have entry barriers. If we remove the
9 orders here, the United States becomes a logical
10 dumping ground for the Norwegian product.

11 The Norwegian producers claim they will not
12 sell dressed head-on salmon here because they now have
13 value added processing to make cuts of salmon. Well,
14 in fact only a few of the large Norwegian producers
15 have processing added value capacity. The rest are
16 anxious to export dressed head-on salmon to any market
17 possible. Even the large producers have a strong
18 preference to exporting dressed head-on salmon to
19 avoid the high labor costs of processing the product
20 in Norway.

21 Their claim that they would supply this
22 market from Canadian affiliates is also wrong. Those
23 affiliates are limited in size compared to Norwegian
24 production and are struggling and are not likely to
25 increase export to the United States further. There

1 is no question in my mind that Norwegian producers
2 will be the source of future increased exports absent
3 the orders, not Canada.

4 I can't overstate the David and Goliath
5 nature of the U.S. market versus the Norwegian supply.
6 Norwegian production is massive compared to U.S.
7 demand. It would only take one producer in Norway to
8 dump its excess production on the United States for a
9 complete meltdown of the U.S. salmon farming industry.

10 If these imports are allowed to return to
11 this market we would be forced to curtail production
12 substantially, if not cease production in the State of
13 Maine immediately. While these orders have been in
14 effect for a number of years, the problem that led to
15 their imposition has not changed. In fact, it has
16 only intensified as Norwegian production has expanded.
17 On behalf of my company and our workers, I urge you to
18 leave these orders in place. Thank you.

19 MR. COURSEY: Our second witness today is
20 Dave Morang also of Cooke Aquaculture USA. Dave's
21 presentation is accompanied by slides.

22 MR. MORANG: Good morning, Commissioners and
23 Commissioners' staff. My name is David Morang, and
24 I'm the Cobscook Bay Area Manager of Cooke Aquaculture
25 USA. I am proud to be part of Cooke Aquaculture USA

1 and this industry, which is so important to the State
2 of Maine.

3 Mr. Cooke's commitment to the production of
4 fresh Atlantic salmon in Maine provides our workers an
5 enormous amount of hope for the future of the salmon
6 farming industry. In fact, when it looked as if
7 Heritage Salmon was going under in 2005, I was faced
8 with the prospect of having to leave the State of
9 Maine at the age of 50 and search for work.
10 Thankfully, Mr. Cooke took over the Heritage Salmon
11 operation, and many of the jobs along eastern Maine's
12 working waterfront were saved.

13 Today I would like to explain the three-year
14 production cycle of fresh Atlantic salmon that takes
15 place in our Maine operations. There are three phases
16 to fresh Atlantic salmon production: The freshwater
17 stage where salmon eggs are hatched and raised in
18 tanks into smolts; the saltwater stage where the smolt
19 is raised in the ocean pens to market size salmon; the
20 harvesting and processing stage where the salmon is
21 killed, bled, cleaned and gutted.

22 In general, it takes about three years for
23 an Atlantic salmon to grow from the egg stage to a
24 harvestable size salmon. For the initial production
25 stage, Cooke owns three hatcheries in Maine in

1 Oquossoc, Gardner Lake and Bingham. A salmon
2 producer's significant capital investment begins with
3 a freshwater hatchery facility. The fish are in their
4 freshwater stage between 12 and 18 months. This stage
5 mirrors a salmon's life cycle in the wild as closely
6 as possible.

7 Our Oquossoc hatchery here has one building
8 where the fish are kept during the egg and the very
9 early stages of its life. The other building contains
10 somewhat larger tanks where the fish are moved after
11 completion of the first stage. In the background you
12 can see 19 large, circular tanks with fish, which are
13 called fry. Once they are developed past initial life
14 stages, these fry will grow to baby salmon or smolt.

15 The next several slides show how the
16 production cycle begins. A producer will maintain a
17 slight group of male and female adult salmon referred
18 to as the broodstock nucleus. The broodstock members
19 are branded and kept separate from the production
20 stock. Each fish has an individual identification
21 number and is tracked in our computerized database.

22 The natural time for spawning in the
23 Northern Hemisphere is late November. In this slide
24 you can see the supply of eggs that have been
25 retrieved from the female. As you see here, the

1 identification of the broodstock is indicated on each
2 container. Here the technicians are shown with a male
3 broodstock salmon for the spawning process, and they
4 are removing the milk from the salmon. The milk is
5 then combined with the eggs obtained and collected
6 from the female broodstock to create fertilized eggs.

7 The slide also show the enormous size of the
8 broodstock fish. It weighs around 35 pounds. This
9 slide and the next one show newly fertilized eggs
10 being incubated into the hatchery laboratory. The
11 eggs are stored in this phase according to their
12 family group. They enter as fertilized eggs in
13 December or late November and depart for the saltwater
14 as smolts between October and the following May.

15 The fish progress rapidly during this period
16 through many developmental stages. There is constant,
17 high tech monitoring at all times. Abundant
18 freshwater is a basic requirement, and it must be
19 constantly flowing to simulate the current of the
20 stream or the river that the small fish would
21 experience in the wild.

22 In the next slide you will see the larger
23 tank where the fish are to move to further development
24 where they will remain for a couple of months. Each
25 tank has a sophisticated, computerized feeding system.

1 As the next slide shows, the fish are vaccinated
2 against various diseases at a relatively late stage in
3 the freshwater cycle.

4 The vaccination process is sophisticated,
5 expensive and is performed by salmon producers in
6 every country. The salmon that you see being
7 vaccinated have progressed to the smolt stage and are
8 ready to be placed into the ocean. After 12 to 18
9 months in freshwater, the fish are trucked from the
10 hatchery to saltwater sea cage sites located offshore
11 in protected, deep bays off the coastlines of Maine.

12 In the State of Maine, we have saltwater
13 grow-out sites in three distinct areas in Maine. Each
14 of these areas contain between 40 and 120 sea cages.
15 As you can see, the sea cages or pens are rather large
16 and are usually circular shaped. They are typically
17 grouped in sets of eight to 20 to form one grow-out
18 site. The pens and related equipment are very
19 expensive, and we are constantly upgrading equipment
20 in our effort to drive down our unit cost.

21 A goal of the salmon production is to get
22 the fish to gain weight as efficiently as possible.
23 You want to try to minimize feed waste. To do so, we
24 have a centralized automated feeding system with
25 in-pen cameras that ensures that the operator is

1 always feeding the fish property.

2 In the foreground of the picture on the left
3 with the 16 sea cages you will see a feed barge with
4 tubes extending from it. The next two slides show
5 closer views of the barge and feeding system. This
6 barge contains an automatic feed delivery system that
7 scatters small particles of feed across the surface of
8 the water.

9 The class of smolt placed in saltwater in
10 April will begin to yield market sized salmon by about
11 September of the following year. Roughly two and a
12 half years after the salmon of that class begins, the
13 cycle ends. The goal is to harvest each of the fish
14 at its optimal harvest weight over the next 12 months.

15 Once it is harvest time we send out our
16 harvest vessel to the actual sea cage sites. The
17 harvest is performed right next to our sea cages off
18 the coast of Maine in the United States. Fish can be
19 harvested seven days a week, 365 days a year. Our
20 harvest boat is a large vessel and includes equipment,
21 machinery, harvest technicians for harvesting stages,
22 including the killing/bleeding of the fish.

23 The fish are further processed by gutting,
24 cleaning and packing, which amounts to a small
25 percentage of the total cost of production. The time

1 and the expense required to produce fresh Atlantic
2 salmon from the initial stages to the sale are
3 significant.

4 Based on the three-year production cycle,
5 salmon aquaculture is a capital-intensive business.
6 If the orders against salmon from Norway are revoked,
7 the ability to generate a return to the capital
8 expenditures made by our company would be severely
9 undermined. More personally, my job, as well as the
10 jobs of numerous others in our community, would be in
11 jeopardy. Thank you.

12 MR. COURSEY: Our third witness today, also
13 of Cooke Aquaculture USA, is Mr. Chuck Papas.

14 MR. PAPAS: Good morning. My name is
15 Charles Papas, and I'm the Midwest Regional Sales
16 Manager for True North Salmon USA. True North is
17 located in Eastport, Maine, and as the midwest sales
18 manager I am based in northwest Indiana.

19 I have been selling fresh Atlantic salmon in
20 the U.S. market since 1998. I'm responsible for sales
21 to Ohio, Michigan, Indiana, Illinois, Wisconsin,
22 Minnesota, Texas, Tennessee and Missouri. We also
23 have other regional sales managers as well. Over the
24 past six months, we have seen a dramatically changing
25 market. We have never seen the U.S. salmon prices or

1 the prices offered for imports from Norway in other
2 markets drop by such a large percentage in such a
3 short amount of time.

4 As a sales manager, I meet and talk with
5 customers on a daily basis. I am constantly being
6 reminded of the low prices being offered in the U.S.
7 market. Norway has been the cause for lower prices of
8 dressed head-on salmon in other countries, and the
9 lower prices in the countries have in turn had a
10 ripple effect on the prices in the United States.
11 There is no other country that has increased
12 production as much as the Norwegians and has had to
13 move such large volumes of product.

14 This severe price decline for Norwegian
15 salmon has resulted in our inability to sell our
16 product at an acceptable margin. We know that Norway
17 is selling at or below its cost of production at these
18 price levels. If they are selling at below cost in
19 other markets, they will do the same thing here in the
20 United States.

21 In order for Norwegian salmon producers to
22 increase sales significantly, they sell at the lowest
23 possible price to capture the sales. As was true
24 before the orders were imposed and remains true today,
25 Norway has every intention of selling whole salmon in

1 the U.S. markets.

2 In recent months we have already heard of
3 offers to sell, of offers to our customers for
4 Norwegian salmon at prices lower than ours. In terms
5 of price effects of imports from Norway, perhaps of
6 the greatest concern is the huge volume we are likely
7 to see in this market. In the salmon market, prices
8 are heavily influenced by available supply. An
9 oversupply of salmon will rapidly bring down U.S.
10 market prices as we have already seen in the second
11 half of this year.

12 We do not have the luxury to inventory the
13 salmon and wait for prices in the market to increase
14 or supplies to diminish. Instead, we must sell the
15 fish within a narrow window of time at competitive
16 market prices. In today's market, with the increasing
17 supplies of salmon, that has meant extremely low and
18 constantly falling prices.

19 We keep hearing that there is an oversupply
20 of whole salmon in Norway that needs an outlet, and
21 the United States is the likely target. Marine
22 Harvest, for example, has even told customers in the
23 United States not to worry. Marine Harvest told
24 customers that if it does not have enough salmon
25 supply in Chile on any given day to meet U.S. consumer

1 needs it will bring in whole salmon from Norway
2 because there is such a huge supply.

3 It further said that it will sell that
4 Norwegian salmon at the same prices it would if the
5 salmon had been produced in Chile. Norway has such a
6 huge supply of excess volume that needs to be sold, so
7 it is already willing to sell the product at below
8 cost prices. I could only imagine the low prices it
9 will offer if the orders are to be removed.

10 While purchasers find quality important, the
11 quality of U.S. produced salmon is comparable to
12 salmon imported from Norway. Our customers agree that
13 the salmon produced in Norway is not better than
14 salmon produced in the United States. Sales that have
15 been lost -- that have been or will be lost -- to
16 Norway are not due to any quality issue, but instead
17 due to price.

18 It is also not true that the salmon imports
19 from Norway are sold to different customers or sold in
20 different sizes and compared to the product we sell.
21 Our customers represent the same amounts that are and
22 will be targeted by the Norwegian producers. Imports
23 from Norway compete for sales in the exact salmon
24 weights that we sell. There is not any size of salmon
25 that Norway sells in the U.S. market that we do not

1 sell, so we have to compete with them no matter what
2 size fish they bring into the United States.

3 It is also worth noting that most of the
4 sales take place on a spot basis. Our customers
5 contact several suppliers looking for the lowest price
6 on any given day. Given that both U.S. producers and
7 importers compete for sales of a commodity product
8 sold to the same customers, price is the factor that
9 ultimately determines who wins the sale.

10 For those of us who depend on the
11 livelihoods and the U.S. salmon industry, we are truly
12 concerned about our future. Unfair imports from
13 Norway will cause us to lose sales, profits and our
14 jobs. On behalf of my company's workers, I urge you
15 not to let another U.S. industry perish. Thank you
16 very much.

17 MR. COURSEY: Our fourth witness is Mr. Alan
18 Cook of Icicle Seafoods and American Gold Seafoods.
19 No relation, by the way, to Mr. Glenn Cooke.

20 MR. COOK: Good morning. I'm Alan Cook.
21 I'm testifying today on behalf of Icicle Seafoods,
22 which I am Vice President for Aquaculture, and
23 specifically with regard to American Gold Seafood,
24 which is the sole domestic producer of farmed Atlantic
25 salmon on the nation's west coast and which Icicle

1 purchased in 2008.

2 Icicle is one of the world's largest seafood
3 companies and each year harvests, processes and sells
4 about a half a billion dollars in a very wide range of
5 fish and shellfish products. Until recently, Icicle
6 obtained the bulk of its products from the Pacific
7 Ocean off the coast of Alaska through the use of
8 traditional wild capture procedures commonly referred
9 to as fishing.

10 Given aquaculture's crucial role in meeting
11 the ever growing need for seafood -- the world's ever
12 growing need for seafood; excuse me -- Icicle several
13 years ago decided to significantly increase its
14 production and sale of farm raised seafood. Icicle's
15 purchase of American Gold three years ago was and
16 remains a major part of that plan. My colleague at
17 Icicle, Chris Ruetters, will explain in his testimony
18 the strategic importance of that purchase and the
19 major threat to Icicle's investment posed by the
20 potential of the trade orders against Norway.

21 I want to address a claim made by Norwegian
22 producers that they would not resume substantial
23 shipments of dressed head-on Atlantic salmon to the
24 U.S. market if the trade orders were lifted. The
25 Norwegian producers claim that they have long served

1 the U.S. market without trade restrictions from
2 producers they own just across the border in Canada.
3 The Norwegian producers insist that if the trade
4 orders were revoked they would have no reason to begin
5 competing with their Canadian subsidies for sales in
6 the U.S. market.

7 That argument ignores the fact that the
8 increase in Norway's production slated for this year
9 and 2012 is enormous by any measure and must be
10 harvested and shipped to a market that is not already
11 saturated with low-priced Norwegian salmon, and the
12 U.S. is the only market that fits that bill. But the
13 Norwegian producers' claim is also based on incorrect
14 facts, for the Norwegian producers have a 20 year
15 history of destroying their own North American
16 subsidiaries through their reckless periodic bouts of
17 gross overproduction in Norway.

18 It is ironic that American Gold's production
19 facilities in Washington state were first put in place
20 23 years ago by what was then a major Norwegian farmed
21 salmon producer exporter called Stolt Sea Farms. By
22 the end of the 1980s, there were many new and
23 relatively small farmed salmon producers in North
24 America clustered in the waters off Washington state
25 and British Columbia on the Pacific coast and Maine

1 and New Brunswick on the Atlantic coast.

2 Many of these new producers were Norwegian
3 owned and financed. Indeed, Stolt Sea Farms itself
4 eventually had production subsidiaries in Maine,
5 British Columbia, New Brunswick, in addition to
6 Washington state. By 1989, investors had put tens of
7 millions of dollars into these fledgling North
8 American producers in hopes that they would repeat the
9 Norwegians' extended record of each year essentially
10 doubling their farmed salmon production and selling
11 their harvest at steady, above cost prices, thereby
12 making substantial profits for their owners.

13 Unfortunately, Norway's total production in
14 1989 for the first time surged past the supply/demand
15 tipping point and caused prices to crash in both the
16 EU and the U.S. markets to levels well below the cost
17 of production in Norway. Worse, prices could not
18 quickly recover because Norway, thanks to farmed
19 salmon's three year production cycle, had already
20 planted crops for 1990 and 1991 that would greatly
21 exceed its huge 1989 harvest.

22 The fledgling U.S. producers had no option
23 but to petition their government to impose offsetting
24 antidumping and countervailing duties on the tidal
25 wave of imports from Norway. The Norwegians

1 themselves admitted they were forced to sell their
2 excessive production at below cost prices. Today, no
3 one doubts that the U.S industry would have perished
4 but for the issuance of the trade orders.

5 When the original dumping and subsidy
6 position was filed by the fledgling domestic salmon
7 farmers, Stolt Sea Farm's subsidiary in Washington
8 state, American Gold's predecessor, was listed as a
9 supporting petitioner. That subsidiary had no doubt
10 that it was being injured by unfairly traded imports
11 from Norway, including those from its parent.

12 A few days later, Stolt Sea Farm ordered its
13 sub to formally withdraw its support for the
14 petitions, and the sub did as it was told, but to no
15 avail for the trade orders that saved the domestic
16 industry were soon issued. Over time, Stolt Sea Farm
17 abandoned all of its North American farmed salmon
18 activities, as did most of the other Norwegian
19 producers that at one time produced farmed salmon
20 here.

21 Today there are no Norwegian owned
22 facilities in the United States or in Canada's
23 Atlantic provinces. Three Norwegian producers --
24 Marine Harvest, Greek Seafoods and Mainstream --
25 continue to produce in British Columbia. The majority

1 of Norwegian producers, however, do not have Canadian
2 subsidiaries and cannot serve the U.S. market from
3 Canada; thus have no reason not to resume shipping to
4 the U.S. from Norway if trade orders are lifted.

5 Further evidence is mounting that these
6 producers are being hurt badly by Norway's new round
7 of overproduction. For example, Marine Harvest Canada
8 reported in late October that the increased global
9 supply of Atlantic salmon had resulted in
10 "significantly reduced prices" and had caused the
11 company to reduce its planned stocking levels for 2012
12 and 2013 by 30 percent and to lay off 12 percent of
13 its workforce.

14 Of course, the current global oversupply
15 that has caused Marine Harvest Canada to cut its
16 stocking levels for the next two years and lay off its
17 workers is the result of Norway's massive new
18 production. At the same time, Chile is returning to
19 markets with substantial volumes after its temporary
20 absence to deal with its ISA crisis.

21 The Norwegian producers must have known that
22 the Chileans would be returning because a number of
23 those producers also have production facilities in
24 Chile and thus are the very producers there that are
25 ramping up volumes just as their Norwegian parents are

1 doing the same.

2 In sum, no facts support the Norwegian
3 producers' claim that they will not resume substantial
4 shipments to the U.S. market if the trade orders are
5 lifted. On the contrary, Norwegian dressed head-on
6 salmon will return to the U.S. market en masse and at
7 the same below cost prices that the product is now
8 fetching in Norway's unprotected markets. This is
9 evidenced by their dominant presence in the U.S.
10 before the orders were issued and by the fact that
11 this is a large and growing market and all of Norway's
12 other viable markets are already saturated with their
13 low-priced product.

14 To regain their market share here, each
15 Norwegian producer would have no choice but to
16 undersell domestic and third country producers and
17 each other as well. The result would be a severe and
18 prolonged drop in Atlantic salmon prices from all
19 sources, which would lead to the demise of the U.S.
20 industry.

21 In conclusion, and as we reported to the
22 Commission staff, American Gold plans to increase
23 production over the next five years if market
24 conditions support doing so. I can assure you that if
25 the orders are revoked we would not be able to

1 implement that plan. Thank you very much.

2 MR. COURSEY: Our fifth witness is Chris
3 Ruettgers, also of Icicle Seafoods and American Gold
4 Seafoods. Chris?

5 MR. RUETTGER: Good morning. I'm Chris
6 Ruettgers. I'm currently Vice President of Business
7 Development and a member of the board of directors of
8 Icicle Seafoods, a job I took --

9 CHAIRMAN OKUN: I'm sorry. Mr. Ruettgers,
10 could you maybe move the mic closer and just check
11 that it's on?

12 MR. RUETTGER: Sure. Is this on?

13 CHAIRMAN OKUN: Yes.

14 MR. RUETTGER: Okay. Sorry. I'm Chris
15 Ruettgers. I'm currently Vice President of Business
16 Development and a member of the board of directors of
17 Icicle Seafoods, a job I took this past January.

18 Prior to that I was with Paine & Partners, a
19 private equity firm, where I was responsible for
20 analyzing potential seafood-related investments.
21 During that time I visited a wide range of seafood
22 companies all over the world. Paine acquired a
23 controlling interest in Icicle in 2007, and Icicle
24 purchased American Gold Seafoods in 2008. I was
25 heavily involved on Paine's side in both of these

1 acquisitions.

2 Let me explain why the U.S. trade orders on
3 Atlantic salmon imports from Norway were crucial to
4 Icicle's decision to purchase American Gold. In many
5 ways the purchase made strong operational strategic
6 sense for Icicle. First, farmed salmon is a very
7 popular, year round seafood product that was not then
8 included in Icicle's more seasonal product list, so
9 buying American Gold would fill that hole. Also,
10 Atlantic salmon is quite popular in the U.S. market,
11 which is Icicle's most important market and one in
12 which Icicle has considerable selling expertise.

13 Further, half of the world's seafood is now
14 produced through aquaculture or fish farming, and
15 Atlantic salmon is one of the most popular seafood
16 products produced by farming, especially for the U.S.
17 market. By acquiring American Gold, Icicle, which at
18 the time had little experience with aquaculture, would
19 gain valuable experience with this important form of
20 seafood production.

21 Finally, American Gold was a rare find
22 because it is one of only two producers located within
23 the U.S. market, the only one on the west coast, and
24 happened to be located literally in our backyard in
25 the Puget Sound of Washington state.

1 One potential negative that could have
2 scuttled the deal: Norway's entrenched habit of
3 periodically expanding its production beyond the point
4 where it can be sold at above cost. Because Norway
5 accounts for half of the world's production of farmed
6 salmon and the overwhelming majority of the production
7 increases, its mistakes in overproduction are
8 devastating for salmon producers everywhere.

9 The following are the facts of life for the
10 business of producing and selling farmed Atlantic
11 salmon. First, price is supply driven. Too little
12 supply and buyers will bid up the product's per unit
13 sales price. Too much supply and buyers will bid this
14 price down. Way too much supply will drive prices
15 below cost of production where they currently exist
16 today. I'm quite sure that our Norwegian colleagues
17 were wishing this hearing occurred six months ago.

18 Second, the production cycle for farmed
19 salmon is about three years, which is the point at
20 which the fish typically reach optimal market value.
21 This means that a producer from day one must continue
22 to pour money into his salmon for three years before
23 realizing a penny of revenue.

24 Third, once a fish reaches its optimal
25 market size the producer has limited ability to hold

1 the fish in the water in the hopes that the low market
2 prices will rise, and for the extra time it holds the
3 fish the producer continues to incur costs such as for
4 feed. Thus, a producer will tend to sell its market
5 size fish sooner rather than later, regardless of the
6 market price.

7 Fourth, Norway generally accounts for about
8 half of the world's supply of farmed Atlantic salmon.
9 This means that producers in every other country are
10 at the mercy of Norway's decisions on the volume of
11 salmon it will place into production each year because
12 this dictates the amount of salmon Norway will bring
13 into the market in three years. It is thus very
14 important that Norway not produce more salmon than it
15 can sell at above cost prices.

16 Norway bringing to the market in a new year
17 10 percent more than it brought the previous year
18 without there being an increase in demand will have
19 disastrous consequences for all producers, not just
20 those in Norway, for this will cause the price for all
21 salmon to drop.

22 In 2008, Icicle was well aware of Norway's
23 history of periodically causing salmon prices to crash
24 by greatly increasing its production without also
25 increasing demand. In fact, Paine and Icicle had

1 looked at salmon opportunities for Norwegian and
2 European producers. However, we were also well aware
3 that the U.S. trade orders protected American Gold
4 from a flood of below cost imports from Norway.
5 Without these orders, Icicle would probably not have
6 purchased American Gold.

7 Norway's most recent misadventure in
8 overproduction is happening right now. Today there is
9 an agreement among the professionals who track this
10 information that the global supply of salmon has
11 increased significantly in the last half of 2011 and
12 will do so again in 2012, but demand for this
13 increased product has not and will not materialize.

14 Norway is responsible for the current
15 oversupply because it greatly increased its production
16 to take advantage of Chile's temporary withdrawal from
17 the market without accounting for the fact that Chile
18 would soon return with its traditional volumes.
19 Norway is now forced to bring its increased production
20 to market, but in the absence of sufficient demand
21 this has caused the prices paid to Norwegian producers
22 to fall below the break-even point.

23 Finally, Norway is desperate to ship its
24 excess product to any market it can. The U.S. trade
25 orders on salmon imports from Norway is right now

1 affording American Gold substantial protection from
2 the current follies of the Norwegian producers. If
3 the orders are revoked, we will be defenseless against
4 the effects of Norway's overproduction. Norwegian
5 salmon will be sucked into the U.S. market at low-cost
6 prices like air into a vacuum. Thank you.

7 MR. COURSEY: Our next witness is Gina Beck
8 of Georgetown Economic Services. Gina?

9 MS. BECK: Good morning, Commissioners and
10 staff. My name is Gina Beck of Georgetown Economic
11 Services. This morning I will address several factors
12 indicating that a large volume of low-priced product
13 from Norway will return to the U.S. market if the
14 orders are revoked, as well as the vulnerable
15 condition of the domestic salmon industry.

16 As you can see in the first chart in your
17 packet, data from multiple sources show that
18 production for the entire Norwegian salmon industry
19 rose significantly from 2005 to 2010. The Norwegian
20 producers' expert at the last hearing said that
21 production would not increase until mid 2008 at the
22 earliest.

23 In contrast to this prediction, however,
24 Norwegian production increased from 1.3 billion pounds
25 in 2005 to 1.6 billion pounds in 2008 and further to

1 1.9 billion pounds in 2009 based on public data.
2 Other sources show even greater increases over the
3 2005 to 2010 period.

4 Salmon production in Norway is projected to
5 increase further in every year from 2011 to 2013, as
6 you can see in Charts 1 and 2. A public source shows
7 projected growth to 2.3 billion pounds in 2012,
8 despite the fact that Norway is already overwhelmed
9 with a huge excess supply of salmon.

10 Based on the few foreign producers who
11 responded to the Commission's questionnaire,
12 production grew by significant levels during each year
13 of the POR, but was still highly understated when
14 compared to the total Norwegian industry as shown in
15 Chart 2. Respondent producers only represented 44.5
16 percent of total fresh Atlantic salmon production in
17 Norway, as stated in the Commission's staff report.

18 As shown in Chart 3, capacity has shown
19 tremendous growth over the POR despite the capacity
20 constraints noted by the Norwegian producers at the
21 last hearing and in their prehearing brief. Even on
22 the basis of only reporting producers, capacity more
23 than doubled over the POR to 1.03 billion pounds in
24 2010. The capacity questionnaire data show further
25 growth in the first half of 2011 as compared to the

1 first half of 2010 with an annualized 2011 capacity
2 level of 1.05 billion pounds.

3 Chart 4 shows Norwegian total capacity
4 calculated on the basis of the average capacity per
5 license as published by Marine Harvest. The number of
6 licenses in Norway actually rose to 981 in 2008 and
7 2009. Using these data, the maximum in achievable
8 capacity was 2.6 billion and 2.2 billion pounds
9 respectively, representing an even higher level of
10 total Norwegian capacity than other sources.

11 Regardless of the data source, Norwegian
12 producers clearly display huge and growing capacity in
13 production, as well as a high volume of excess
14 capacity to produce fresh Atlantic salmon. Norwegian
15 producers also have admitted that they are export
16 oriented.

17 Given the capacity and production increases
18 in Norway, Norwegian producers are constantly seeking
19 new outlets for their expanded capacity. As Ms.
20 Cannon will describe, recent developments in
21 traditional markets, including the EU, Russia and
22 China, are forcing Norway to look for markets to
23 export their salmon, even if they must do so below
24 cost.

25 The United States is an open and attractive

1 outlet for Norwegian producers. Norway's export AUV
2 to the United States was higher than all other third
3 country markets during January through September 2011,
4 showing that Norway is selling at higher prices in the
5 United States than other markets. Norway's export AUV
6 was \$3.69 per pound, whereas Norway's AUV to its
7 principal export markets of France, the EU and Russia
8 were \$2.73 to \$2.88 per pound.

9 AUVs of U.S. imports from Norway are
10 currently available through September 2011 and have
11 declined all the way down to \$2.40 per pound. This
12 AUV is significantly higher than prices of salmon in
13 Norway in recent months in 2011, providing an
14 incentive for Norway to increase exports to the United
15 States.

16 Grieg and Marine Harvest's own public
17 statements show that they are showing losses
18 demonstrating that Norwegian producers will sell at
19 whatever pricing level it takes to move their product.
20 Already during the past six months U.S. prices of
21 salmon displayed constant and dramatic declines as a
22 result of the ripple effect of low Norwegian prices in
23 other markets.

24 From June 2011 to July 2011, in one month
25 alone U.S. prices dropped by 80 cents per pound and

1 are reaching record lows in fourth quarter 2011. U.S.
2 prices have fallen so much that price differences no
3 longer exist between 10 to 12 pound and 12 to 14 pound
4 salmon as shown in recent Urner Barry pricing data.
5 As you have heard from industry witnesses this
6 morning, U.S. producers do not know how they would
7 have survived without the orders in place,
8 particularly in recent months, and are in an extremely
9 vulnerable position.

10 As Mr. Cooke mentioned this morning, the
11 production of fresh Atlantic salmon has a number of
12 inherent challenges, including sea lice, following
13 requirements and environmental regulations. Domestic
14 salmon producers' financial performance can shift
15 quickly from profits to losses. At a time when there
16 are numerous signs of concern for the future of the
17 U.S. salmon industry, it would be devastating for
18 large volumes of unfair imports from Norway to return
19 to the U.S. market.

20 The recent and substantial deterioration in
21 pricing and financial performance for third quarter
22 and fourth quarters 2011, which are on the record,
23 provide strong evidence of U.S. producers' sensitivity
24 to imports from Norway. Although these orders have
25 been in effect for many years, they are still

1 desperately needed by the U.S. industry.

2 Thank you for your attention, and that
3 concludes my testimony.

4 MR. COURSEY: Our last witness this morning
5 is my partner, Kathy Cannon. Kathy?

6 MS. CANNON: Good morning. For the record,
7 I am Kathleen Cannon of Kelley Drye. I will conclude
8 our testimony by addressing a few of the issues
9 Respondents have raised in their brief.

10 First, like product. Respondents agree with
11 us that the like product should be defined as whole
12 salmon as it has been throughout this proceeding.
13 They also say that the Commission should take into
14 account the relationship between whole salmon and cuts
15 of salmon as a condition of competition in the market.
16 We agree.

17 Sales of salmon cuts, while not part of the
18 like product here, do have an effect on sales and
19 prices of whole salmon as well. When Chile increases
20 the volume and lowers the prices of cut salmon, it has
21 a ripple effect on the market for whole salmon sales
22 too. In fact, the increased imports of both whole and
23 cut salmon from Chile in recent months has been a
24 large factor leading to the plunge in U.S. whole
25 salmon prices. This condition of competition

1 increases the vulnerability of the domestic industry
2 to the return of dumped and subsidized imports from
3 Norway.

4 Second, the Norwegians concede, as they
5 must, that Norwegian production is massive, is
6 continuing to increase significantly over the review
7 period and is predominantly for export. They present
8 several arguments, however, as to why those massive
9 exports should not be of concern to U.S. producers.
10 Initially they contend that the supply of salmon is
11 equal to demand and that their growing production is
12 merely serving increasing demand. That is not true.
13 As the data in our brief indicate, increased global
14 production over the next two years, led by Norway, is
15 outpacing demand growth.

16 While increased Norwegian production was not
17 a problem globally for the past few years because of
18 the downturn in Chilean production and exports, that
19 has now changed. Chilean sales are increasing, along
20 with continued increases in Norwegian supply. The
21 result has been a huge decline in prices for Norwegian
22 salmon, as well as an increased inability of U.S.
23 producers to sell their product, as Mr. Papas
24 testified.

25 Respondents next assert that Norwegian

1 licensing policies limit further increases in
2 Norwegian supply. That also is not true. Even in the
3 absence of issuing new licenses between 2003 and 2009,
4 Norwegian production grew steadily and significantly.
5 Based on Marine Harvest's own report, Norway's license
6 capacity is still underutilized.

7 Continued significant production growth is
8 not only possible, but will unquestionably occur based
9 on fish already in the water in Norway today. As
10 Chart 1 that Ms. Beck circulated shows, all
11 independent sources reviewed are projecting continued
12 significant production increases in Norway whether or
13 not new licenses are issued.

14 Other constraints Respondents identify as
15 purportedly limiting capacity such as product mix,
16 weather, pen rotation, yield and mortality are simply
17 conditions of competition that all producers face.
18 They have not limited production growth in Norway over
19 the review period, and they are not projected to do so
20 in the next few years by any independent source.

21 Next, Respondents claim that they won't ship
22 whole salmon to the U.S market because of
23 transportation cost. While this argument is common in
24 sunset reviews, the Commission typically rejects it if
25 the foreign producer is exporting to other distant

1 countries or is exporting similar nonsubject product
2 to the United States. Here we have both.

3 Norway continues to export whole salmon to a
4 wide variety of Asian countries, despite high
5 transportation cost. Norway also exports salmon in
6 whole and cut forms to the U.S. market and showed the
7 ability in 2007 to rapidly increase those exports when
8 market conditions warranted, despite transportation
9 costs. With growing production in Norway and globally
10 and especially once the duties are removed,
11 transportation costs would not impede exports from
12 Norway.

13 Respondents then try to point to other third
14 countries to which they export as the focus of any
15 increased exports from Norway. There is no
16 indication, however, that those countries will be able
17 to absorb the Norwegians' huge supply growth, which is
18 already causing prices in Europe and other countries
19 to decline.

20 According to recent reports, demand in the
21 EU is declining. In addition, an increased wild
22 salmon catch in Russia is reducing Russia's reliance
23 on Norwegian imports, while China has imposed new
24 controls on Norwegian salmon that have already led to
25 volume declines to that market. The U.S. market has

1 no such barriers, and numerous U.S. purchasers and
2 importers reported to the Commission that it is likely
3 they will buy or import Norwegian salmon if the duties
4 are removed.

5 Failing to demonstrate a lack of adverse
6 volume effects, Respondents say that even if they
7 export whole salmon to the United States there will be
8 no adverse price effects. They cite both evidence of
9 overselling by Norway during the review period, as
10 well as purported sales of a niche product to a higher
11 priced market segment.

12 That Norway oversold U.S. producers while
13 paying substantial duties, it's not surprising nor
14 indicative of their pricing behavior without the
15 orders. Moreover, this year Norwegian producers are
16 already undercutting U.S. prices and costing the U.S.
17 industry sales even with duties in place. Their claim
18 that they will sell a niche or premium product was
19 rejected by the Commission in the last review and
20 should continue to be rejected here.

21 Farmed Atlantic salmon is a commodity
22 product, and there is no difference between the U.S.
23 and the Norwegian product. Domestic producers sell
24 all sizes of salmon and compete with the imports
25 across the board. As the Urner Barry pricing series

1 data show, while prices for larger fish are higher
2 than prices for smaller fish, those prices rise and
3 fall in tandem, and right now they are falling.
4 Regardless of the size of product Norway sells -- and
5 absent the order they will sell all sizes as they did
6 before -- it will not be to a niche or premium priced
7 segment.

8 Finally, the main adverse price effect of
9 the Norwegian product will result from the large
10 volumes of imports. As Respondents concede, prices
11 for salmon in the U.S. market and globally are heavily
12 influenced by supply. When supplies increase, prices
13 decline as they have in recent months. A surge in
14 volume of Norwegian salmon based on unused, as well as
15 increased capacity, will displace U.S. producer sales
16 and cause already low U.S. prices to decline even
17 further.

18 It is this volume related price effect from
19 the influx of imports from Norway that most terrifies
20 U.S. producers. In a market in which prices are
21 already plummeting, U.S. producers can ill afford a
22 return of the large volumes of unfairly traded imports
23 from Norway that would inevitably result and still
24 hope to remain in business. Thank you.

25 MR. COURSEY: That completes our

1 presentation. We'd be happy to respond to any
2 questions the Commissioners may have.

3 CHAIRMAN OKUN: Thank you. Before we begin
4 our questions, let me take this opportunity to thank
5 all the witnesses, in particular those industry
6 witnesses who have taken the time to be with us today.
7 We very much appreciate your willingness to come here
8 and tell us about your industry and to answer our
9 questions.

10 I will begin the questions this morning.
11 Let me start with asking both our industry witnesses,
12 but also counsel, to respond to the argument that
13 what's really the relevant issue here is the large
14 volume of nonsubject imports and that Canada's
15 dominance of the U.S. market means that lifting the
16 order really only affects Canada, not the U.S.

17 MR. COOKE: Canada is not increasing its
18 volume. I mean, there's no extra volume coming out of
19 British Columbia. And realistically if you look at
20 the past growth and what's come through Canada since
21 2005, there's no growth that's come through Canada of
22 any large degree at all. The growth compared to
23 Norway is -- you know, Canada is just a very blip.

24 If you look at the world's three largest
25 producers, you have Norway, Chile and Scotland, and

1 Canada is quite a ways farther down that list, so the
2 volume for Canada to increase their production is not
3 there. The risk is obviously for the domestic
4 industry and the price effect that would have on that
5 industry.

6 CHAIRMAN OKUN: Can I ask other industry
7 witnesses to respond? And if you would also just
8 respond to the argument that part of the argument, as
9 I understand, from the Respondents is that if you look
10 at what information we have on the record that the
11 market share that the Norwegians would take would be
12 from the Canadians?

13 Because again the entire U.S. market is
14 dominated by nonsubject imports so Norwegians would
15 simply take nonsubject market share, as opposed to
16 take market share from the domestic industry.

17 MR. COOKE: If you look at it, we don't
18 believe that. I mean, obviously we have not disputed
19 this relationship between fillets and cuts and dressed
20 head-on, but the flooding of the U.S. --

21 CHAIRMAN OKUN: Mr. Cooke, if you could just
22 put your microphone down? I'm having a little trouble
23 hearing you.

24 MR. COOKE: Sorry. Is that better?

25 CHAIRMAN OKUN: Yes. Thank you.

1 MR. COOKE: The flooding of the U.S. market
2 from dressed head-on would flood into the cutters and
3 into other people in the marketplace who actually --
4 so it would bring down the value. The concept that it
5 would just hurt Canada is the cost in the U.S. is a
6 high cost and we're going through our own production
7 issues, but Canada is also fielding a significant
8 amount of its production so it's not directly
9 competing necessarily with that.

10 So it's the flood of Norway, that just huge
11 volume, I mean, if you look at the very little volume
12 that comes from Canada compared to what Norway has
13 produced. I mean, you've got 20,000 tons in the last
14 quarter alone extra increase.

15 CHAIRMAN OKUN: The other Mr. Cook?

16 MR. COOK: I wonder. Could you rephrase the
17 question just so I'm sure I'm answering your question?

18 CHAIRMAN OKUN: Sure. Just give your
19 understanding of the role of the large amount of
20 Canadian product in the market and how it would react
21 if Norwegian product were coming in.

22 The argument from the Respondents would be
23 that there are regional producers out there and that
24 Canada has become the U.S. supplier and Norway now has
25 an open market in the EU, has other traditional

1 markets. It would continue to do those. What imports
2 it does send into the U.S. would displace Canadian
3 product coming in and not U.S. product being sold in
4 the U.S. market.

5 And again, if you can talk at all about
6 pricing between Canadians and Norwegians that might be
7 relevant as well. And I'll ask Ms. Beck to comment on
8 that later, but it's that argument, the argument that
9 it's really all about the Canadians and the Norwegians
10 and the U.S. won't be impacted by that in this global
11 commodity market.

12 MR. COOK: Well, on a global scale -- I'm
13 sorry. Can you hear me? On a global scale, American
14 Gold Seafoods is not a world ranked producer, so in
15 the grand scheme of 2,000 metric tons of farmed salmon
16 produced here nationally we're only 8,000 of that
17 volume. But our customers buy Canadian and American
18 salmon interchangeably and so I think there's no
19 question the Canadian producers will be hurt if the
20 orders are lifted, but that's kind of I guess
21 irrelevant to this proceeding.

22 The real issue is that we feel that our
23 salmon will compete directly with Norwegian farmed
24 salmon when it comes into the market, and that
25 production that is produced by our 65 direct farming

1 employees and related processing employees will be
2 really at jeopardy to that.

3 CHAIRMAN OKUN: Okay. Let me turn to Ms.
4 Beck and Ms. Cannon or Mr. Coursey to talk about how
5 you evaluate the role of nonsubjects and what would
6 happen if the order were lifted. If you could talk
7 about pricing, that would be helpful as well.

8 MS. CANNON: Let me begin. The Canadian
9 product and other nonsubject imports have
10 traditionally been a part of this market, and that's
11 not an uncommon situation that the Commission faces.
12 The issue here is that this is a commodity product.
13 There's no reason to think that when the Norwegian
14 product floods in it would displace only Canada. It
15 would displace everything.

16 More importantly, what it will do is crash
17 prices. I think the principal issue you need to focus
18 on is the nonsubject imports that are currently in the
19 market from Canada and other sources are not as
20 low-priced as what we would see with Norway coming in
21 with the dumped and the unfairly traded product.

22 The Canadian prices have not been low. They
23 have not hurt the U.S. industry. That's why the U.S.
24 industry has done as well as it has over the review
25 period because of the order's protection. If that

1 were removed, that would change things dramatically
2 and so I think it's this price effect as well that you
3 have to recognize that's going to affect the U.S.
4 industry, as well as a displacement of all production,
5 U.S. as well as Canadian and others that would occur.

6 CHAIRMAN OKUN: Go ahead, Ms. Beck, but I
7 also meant to ask that please comment as well on
8 Chilean prices.

9 MS. BECK: In the market currently and over
10 the past few years the producers have felt that the
11 pricing of Canada in particular has not been at a
12 point that has been harmful. Also the Chileans.

13 They agree what's going to happen though
14 with Norway is that because of the volume it's going
15 to just squeeze down the price so much further because
16 of the volume and the low prices coming in it will
17 have a significant effect, whereas the other countries
18 now have not been harming U.S. producers.

19 CHAIRMAN OKUN: Okay. Mr. Coursey, let me
20 turn to you. Ms. Slater in her opening remarks had
21 noted that in the second review the presence of EU
22 restrictions on Norwegian product was an important
23 consideration, and those restrictions have since been
24 lifted. Tell me the significance of the EU market at
25 this point with no restrictions in place.

1 MR. COURSEY: That was an interesting point
2 that Ms. Slater raised. The restrictions have been
3 lifted in the European market. What we intend to do
4 for our posthearing brief is investigate what is
5 actually going on over there.

6 My understanding is that there is only one
7 producer in Scotland and Ireland that is not owned by
8 a Norwegian interest. If that is the case, you have
9 basically a captured situation where there is a
10 somewhat different process that the EU goes through in
11 terms of dumping analysis and that sort of thing. I'm
12 not exactly sure what they would do in standing.

13 But Mr. Alan Cooke described what the
14 Norwegian parents did with their subsidiaries on this
15 continent. They in essence have captured their EU
16 competitors. All of those are in Scotland and
17 Ireland. To the extent that they do that they
18 basically have no dumping problem to handle.

19 We do know that the prices right now that
20 are being charged or being paid by these major
21 customers of Norway in Europe are at break even or
22 lower prices. You can't open a seafood periodical, a
23 daily. You know, there's two articles a week in
24 IntraFish about below cost prices and how there's no
25 way out of this thing.

1 So the fact of the matter is whether there's
2 a dumping order or not there are really extremely low,
3 below-cost prices coming out of Norway into the EU,
4 and there's no reason to believe that that wouldn't
5 happen here if the orders were revoked.

6 CHAIRMAN OKUN: All right. My red light has
7 come on, so I'll come back to some questions.

8 Vice Chairman Williamson?

9 VICE CHAIRMAN WILLIAMSON: Thank you, Madam
10 Chairman. I too want to express my appreciation to
11 the witnesses for coming today.

12 Just following up on that last question
13 about the Norwegian production, do we have data on the
14 smolts? What's going to happen say in the next 18
15 months? Are the Norwegians cutting back already on
16 what they're doing?

17 MS. BECK: No, Commissioner Williamson.
18 Actually if I could direct you in fact to Chart 1,
19 what you'll see because of the three year grow-out
20 cycle, 2011 is already predicted to increase, 2012 a
21 further increase and an even further increase in 2013.

22 So given that the fish were already in place
23 in prior months, you are now seeing the effect of what
24 had already been in place so that within the next
25 couple of years we will continue to see a growth in

1 production in Norway.

2 VICE CHAIRMAN WILLIAMSON: Any indication
3 what might happen after that or any data?

4 MS. BECK: Well, the productions to 2020
5 also show huge growth, as Mr. Cooke mentioned in his
6 testimony. It's continued growth.

7 MR. COURSEY: If I could comment? Again,
8 I'd reflect back to the last sunset review. The
9 Norwegian approach to this question of increased
10 production and capacity is a bit of a shell game.
11 They have six different ways they come out and say,
12 and the summary is, the bottom line, no growth, right?

13 That's what you heard last time. There were
14 six ways to Tuesday of no growth. We got growth out
15 our eyeballs. All of the common sense indicators, the
16 experts who follow the trends, the Kontali reports,
17 will tell you the numbers are right there. That's
18 what's in the chart that Ms. Beck has circulated. The
19 growth is there.

20 What happens is when you start putting money
21 in this product at an early stage maybe there's an
22 early point you could turn back, but as you get deeper
23 into it you've got money into it and so it doesn't
24 make sense to suddenly kill your investment. You
25 never see that happening really. Then all of a sudden

1 you've got two and a half, three years. You've got
2 market product and it's got to get out of the water
3 and go somewhere.

4 VICE CHAIRMAN WILLIAMSON: Industry, do you
5 have anything to say about Norwegian growth?

6 MR. COOKE: We've heard for years that their
7 biomass limits in the sites are getting maxed and all
8 that type of thing, but we also understand every time
9 that gets near the government works with them and
10 increases the biomass capacity of the sites.
11 Obviously the new capacity in northern Norway we keep
12 hearing about.

13 You know, huge investment has gone into
14 Norway in the last few years as far as increasing
15 their smolt capacity and their site capacities and
16 well capacities and major, major processing plants are
17 being built. There's certainly no sign of any limited
18 growth coming from Norway.

19 VICE CHAIRMAN WILLIAMSON: I'm just curious.
20 With all the economic data and analysis around, why
21 don't they get it?

22 MR. COOKE: Well, it's very irrational. We
23 can't understand it. Like there's just no serious --
24 you know, everyone knew that Chile was coming back.
25 Chile went through a stage where their production was

1 kind of wiped out with ISA, but it was well known.
2 They have companies in Chile, some of the public
3 Norwegian companies, and so they knew that production
4 was coming back but they just kept on increasing it.

5 It was just like this big snowball coming
6 down a hill and they just ignored it. That's what
7 they do every time. They just ignore it. It's all
8 production driven. It's not market driven. It's a
9 production driven industry, and it's just irrational.

10 VICE CHAIRMAN WILLIAMSON: Okay. I'm still
11 having trouble with it, but let's leave it and I'll
12 come up with something later.

13 MR. RUETTIGERS: Yes. Sorry. Greed. Greed.
14 I mean, if you look back 12 months they saw what
15 prices were then. They saw a huge opportunity. They
16 knew if they could do 10 percent more of what they
17 were doing, and I'm just talking about an individual
18 company in Norway.

19 I can do 10 percent more. I will make all
20 this money and completely ignore the fact that
21 everyone else in Norway was going to do the same
22 thing. They all did the same thing, and then they're
23 shocked that their neighbors did it. It's happened
24 time and time again, but it's greed.

25 They're not looking at the long-term

1 picture. They're not looking at global supply.
2 They're simply looking at I can make more money. I'm
3 making money now. I can make another 10 percent more
4 on the current market, and they do it every time.

5 VICE CHAIRMAN WILLIAMSON: Okay. I've heard
6 that word before, so thank you.

7 MR. RUETTIGERS: Yes.

8 VICE CHAIRMAN WILLIAMSON: Good. Okay. But
9 going back to the question of biomass, I think you
10 state in your brief that while licenses in Norway are
11 set at a maximum allowable biomass of 780 metric tons,
12 the average harvest per license as reported by Marine
13 Harvest is much higher. I was just wondering. How is
14 this possible?

15 MR. COOKE: Part of it we understand is
16 they'll stock their sites with say, for example, 100
17 fish, and as those fish get -- it's a lot more than
18 that obviously, but once those fish get towards market
19 size they'll take some fish off the site in order to
20 allow the other ones to grow further and keep doing
21 that process so that through the year they actually
22 take more tonnage.

23 I think it's a standing biomass number, the
24 maximum biomass you're allowed at one given time at a
25 site, so by kind of creaming the top off the cages

1 every time they can increase a lot more production
2 through those sites.

3 VICE CHAIRMAN WILLIAMSON: So I take it
4 these licensing limits are not really monitored or the
5 compliance with them?

6 MR. COOKE: I think they are, but by
7 creaming off the crop when they're trying to grow the
8 fish faster and playing around with new feeds and
9 everything else it just increases the production
10 through the system.

11 We found every time they get up against
12 these max biomass limits the government increases
13 them. You know, there's nothing stating the
14 government won't say okay, instead of 780 you're
15 allowed 1,000 or whatever the number is, so that's the
16 other issue of what we've seen happen in previous
17 years.

18 VICE CHAIRMAN WILLIAMSON: Okay. Thank you.

19 MR. COURSEY: If I could add, Commissioner
20 Williamson, on the reporting aspect I believe we put
21 in our prehearing brief and probably will put in our
22 posthearing brief a news article that explains one of
23 the things that's going on in Norway is the government
24 goes around on a monthly basis to check the biomass.

25 Everyone knows they're going to come let's

1 say the end of the month, once a month, so you want to
2 have your biomass be in compliance at that point so
3 you will harvest as that day gets closer, pull fish
4 out so you won't get fined or penalized, whatever
5 might happen, regardless of whether the market is
6 there or not.

7 So once it's out you send it to the market,
8 and the markets start whipsawing back and forth. It's
9 higher prices at the beginning of the month when
10 they're not pulling out for biomass, and then as the
11 end of the month comes and a mini panic sets in they
12 pull it out.

13 VICE CHAIRMAN WILLIAMSON: Okay. Thank you.
14 To what extent do you face competition from Pacific
15 salmon, and do end users such as restaurant patrons
16 and supermarket shoppers generally distinguish between
17 the two or are they just looking for the lowest price?

18 MR. COOK: We sell both Pacific and Atlantic
19 salmon at Icicle Seafoods, and they're somewhat
20 different markets. I think there's a competition in
21 the fresh market at certain times of the year, but
22 generally speaking our customers buy both Atlantic and
23 Pacific fish throughout the year.

24 And they use those in different ways. The
25 Pacific tends to go more into frozen products,

1 prepared meals, and the Atlantic salmon is much more
2 of a sort of a fresh stream that goes into different
3 kind of restaurant chains.

4 VICE CHAIRMAN WILLIAMSON: Is there a reason
5 for that difference? I mean, I've seen it in my own
6 shopping habits, but I was wondering.

7 MR. COOK: Some customers prefer Pacific
8 salmon. Some prefer a fresh farmed Atlantic salmon.
9 I don't know if I've answered your question, but --

10 VICE CHAIRMAN WILLIAMSON: I was just
11 wondering whether -- so it's just really customer
12 preference?

13 MR. COOK: It's customer preference. You
14 know, the Atlantic salmon tends to be -- if you are
15 reprocessing, turning it into fillets or portions or
16 something else yields tend to be higher on Atlantic
17 salmon because it's generally a larger size fish than
18 Pacifics. You know, it has a different sort of flesh
19 quality. So there are some industrial differences,
20 but a lot of it is driven by customer preference.

21 VICE CHAIRMAN WILLIAMSON: Okay. But if the
22 Atlantic is larger you would see that more in the cuts
23 for frozen cuts or further processed?

24 MR. COOK: I'm not an expert in that, but
25 that's probably true that we would see more Atlantic

1 in the value added production.

2 MR. COOKE: I think one of the big things is
3 that you can get Atlantics fresh for a 12 month basis
4 where you can't get that for the wild Pacific, so I
5 think that distinguishes the difference.

6 I think you'll see like retailers come in
7 with lots of wild salmon fresh when the production is
8 on, but 12 months a year is the Atlantic so that's
9 kind of the base. I think the same thing with a lot
10 of some of the wild stuff goes into canned products
11 like particularly the pinks and the chum. So it's
12 just alternate markets and what --

13 VICE CHAIRMAN WILLIAMSON: Okay.

14 MR. COOKE: You know, the premium sockeye is
15 very good for smoking products. A lot of that goes to
16 Europe and Japan. So there's just alternate markets
17 for a lot of it.

18 VICE CHAIRMAN WILLIAMSON: Okay. My time
19 has expired, so I thank for you that.

20 CHAIRMAN OKUN: Commissioner Lane?

21 COMMISSIONER LANE: Good morning, and thank
22 you for coming today. Is the country of origin
23 clearly evident to consumers purchasing fresh Salmon?

24 MR. RUETTIGERS: I think what you find -- can
25 you hear me?

1 COMMISSIONER LANE: No.

2 MR. RUETTIGERS: Now?

3 COMMISSIONER LANE: Yes.

4 MR. RUETTIGERS: I think what you find is in
5 -- it's all over the board. In a retail setting
6 there's often labeling applied to Salmon. In a food
7 service, which is arguably the much larger market,
8 there's not any form of standardized labeling that's
9 required. You'll often see Salmon, Atlantic Salmon,
10 but you won't see Atlantic Salmon produced in U.S.
11 species.

12 COMMISSIONER LANE: So there's no
13 requirement that the country of origin be on the
14 product?

15 MR. RUETTIGERS: Not in food service. In
16 retail there are some requirements that you'll find.
17 So major supermarket, you'll likely have country of
18 origin, but in the larger food service market there is
19 not.

20 COMMISSIONER LANE: Okay. Thank you. What
21 conditions are required in the United States to
22 increase capacity by setting up new pens, et cetera,
23 and are there any legal or regulatory barriers to
24 capacity expansion?

25 MR. COOKE: Speaking for Cooke, we've

1 actually expanded in May this year. We got a new site
2 approved. The big expansion hurdle in Maine is the
3 approval of new sea water sites, and it takes upwards
4 of a three year process to get sites approved. We
5 have other sites in the process for growth in the
6 pipeline to come through, and so, but it's just the
7 timeline. It's a number of different agencies,
8 federal and state, you have to have approval for to
9 get those sites. So it just takes a long time, and
10 it's a tough process to get that all through and it
11 takes a long time.

12 MR. COOK: Commissioner, in Washington State
13 there is definitely some legal and procedural barriers
14 to getting new sites. In fact, there hasn't been a
15 new site granted in Washington State in more than 20
16 years. There's been some expansions, a few
17 modifications to leases, but nothing new. In
18 Washington State's case the primary issue is that
19 between federal, state and county regulators there's
20 not a common understanding of how to handle the
21 request for aqua culture permits. We're certainly in
22 the process of applying for, or beginning the process
23 of applying for new sites, but at this point it's just
24 not clear how that's to move forward.

25 COMMISSIONER LANE: Do you have any idea as

1 to what price levels you would have to have in order
2 to make new production feasible?

3 MR. COOKE: Yes, and we can certainly live
4 with existing price in the marketplace, not what
5 Norway is selling in Europe because the prices that
6 Norway is currently selling in Europe are at very,
7 very low pricing. The current pricing in the U.S. we
8 can achieve, we're okay with. I'm not sure that's
9 exactly the same case, but current pricing we can live
10 with.

11 COMMISSIONER LANE: Do any of you foresee
12 that if the orders are not revoked, that there would
13 be an increase in the U.S. industry?

14 MR. COOKE: Well, for sure there's going to
15 be an increase. We have increases, you know, we have
16 our new site we put in this year, we have future sites
17 coming through the pipeline, and we believe we, you
18 know, there's need and there's a big future for
19 growth. We've got very positive state government to
20 do that, and, you know, it's the just the process
21 takes longer than other places in the world, but we
22 certainly are growing in Maine.

23 COMMISSIONER LANE: Mr. Coursey?

24 MR. COURSEY: Yes. Commissioner Lane, if I
25 could just comment. We have argued, and I think the

1 Commission has found in past reviews, that the cost of
2 regulatory compliance is, in essence, a condition of
3 competition in the United States. Here's a good
4 example. Chile just went through a horrible
5 experience with ISA. It nearly wiped out the whole --
6 it did wipe, you know, wipe out virtually their couple
7 of classes that they had there. Maine and the federal
8 government have put high compliance requirements on
9 Cooke, for example, but those requirements go very far
10 to ensuring that ISA will not be such a problem.
11 That's very obviously a cost of doing business.
12 People looked at Chile for 10 years and said they're
13 crazy what they're doing down there. They're crazy
14 what they're doing to their lakes, it's going to come
15 back, it's going to get them, and it did. So we've
16 got a very cautious regulatory environment here, and
17 we have two companies who are wholly engaged in the
18 process of expanding.

19 COMMISSIONER LANE: What about Norway? Does
20 Norway have similar type of safeguards as the United
21 States?

22 MR. COOKE: I believe the time for approvals
23 in -- if you look at the growth that's taken place in
24 Norway compared to the growth that's taken place in
25 the U.S., they obviously have a fast-tracked way of

1 increasing either capacity or new sites. That
2 certainly couldn't have happened, that growth curve
3 isn't what happened in the United States. So they
4 certainly have, you know, I'm not totally familiar
5 with all the regulatory side of things, but certainly
6 our understanding is Maine is probably the most highly
7 regulated place in the world to farm fish. Mr. Alan
8 may argue it's Washington State, but, you know, I
9 think the U.S. is a very highly-regulated place to
10 grow Salmon compared to other countries in the world.

11 COMMISSIONER LANE: Okay. Let me stay with
12 you, Mr. Cooke. You report that Salmon demand growth
13 in the United States has been slow since 2005. How
14 much of this can be attributed to the almost doubling
15 of the prices of Salmon, and how much of it is due to
16 the economic downturn?

17 MR. COOKE: If you look at the price of
18 Salmon is the price of Salmon for that whole period
19 has not been a high price. Really, if you're only
20 talking 12 months to 18 months maximum, in that period
21 the prices have actually been up. No question, when
22 prices go up, I mean supply and demand, let's face it,
23 has some pressure on that, but I think for sure the
24 recession and the economic downturn that's going in
25 through that period has had a dramatic effect on the

1 consumption of Salmon, like in food service, for
2 instance, and in retail. So again, you know, like you
3 look like 2006, those price years were not
4 dramatically high years, you know? We have had a 12
5 to 18 month period where Chile's been out of the
6 marketplace.

7 COMMISSIONER LANE: Okay. Thank you. I
8 would like for some of you to discuss the EU financial
9 problems, and if they result in a contraction in the
10 EU economy, would that increase the attractiveness of
11 the U.S. market for subject Salmon and the likelihood
12 that subject Salmon would return to the United States
13 market in significant quantities if the orders were
14 revoked?

15 MR. COOKE: I think there's no question. I
16 mean, if you look at the flood of Norwegian Salmon in
17 Europe today, I mean the price has just crashed in
18 Europe, much further lower than it is here. They have
19 to find new markets for these products. With the
20 economic crisis going on, obviously that's going to
21 hurt the consumer spend, and, you know, those fish are
22 going to go somewhere, and that's why they're here
23 today. They want those fish to come to the United
24 States.

25 COMMISSIONER LANE: Okay. Thank you.

1 According to the price data collected by the
2 Commission, prices of Norwegian Salmon tend to be
3 higher than that for U.S. product in all but one
4 quarter. Can you explain this? Why are purchasers
5 willing to pay more for Norwegian Salmon even for
6 smaller sizes? Now, I think you've testified that
7 that has changed in the last six months, and so I'm
8 assuming that posthearing you can provide that new
9 data to us so that we can see if the prices are
10 trending down, but how do you explain the high prices
11 that we had in the record?

12 MS. BECK: Well, I think, Commissioner Lane,
13 a lot of that has to do with the order currently being
14 in place so that the prices have been artificially
15 higher because they're subject to the duty, but we do
16 have recent pricing data, and this is something new to
17 the market, and this is why the U.S. industry is
18 particularly scared, is that the prices now that
19 they're seeing are even lower than the U.S. prices.
20 We'll be happy to submit that for posthearing.

21 COMMISSIONER LANE: Okay. Thank you.

22 MR. COURSEY: Commissioner Lane, if I could
23 just add.

24 COMMISSIONER LANE: Yes.

25 MR. COURSEY: The volume we're talking about

1 is quite small of Norwegian products. I mean one
2 thing you have to look at is what's coming in on a
3 monthly basis has been, we're talking about dressed
4 head-on now, the subject merchandise, which it's, you
5 know, my sense is that it's too small of a sample to
6 make, to draw any conclusions of. When you look, this
7 is basically data collected over a month and gross,
8 small amounts compared to other imports in even U.S.
9 sales. The fact that prices are equal or slightly
10 higher in most quarters, I just don't see, given the
11 conditions of having the order in place, that you can
12 make a valid conclusion based on that data.

13 COMMISSIONER LANE: Okay. Thank you.

14 CHAIRMAN OKUN: Commissioner Pearson?

15 COMMISSIONER PEARSON: Thank you, Madam
16 Chairman. Permit me to extend my greetings to all
17 panelists. I actually have good memories of a trip
18 that we took a number of year's ago -- I see Gina Beck
19 smiling yes -- that Cooke Aquaculture arranged and we
20 were in Maine. We had a chance to look at the
21 industry then, and that did a lot to inform my
22 understanding of the business, and so I appreciate
23 that still. Let me start by asking, I'm trying to
24 figure out why Norway produces so many Salmon, and so
25 it's the economist in me. Is it possible that

1 Norway's climate, coastline, tides and water
2 temperatures give it a comparative advantage in the
3 production of Salmon relative to other countries in
4 the world?

5 MR. COOKE: That's correct. They have a
6 long coastline with probably good water for growing
7 fish, or good water temperatures. The other thing is
8 the government has always pushed the development
9 because it's in rural Norway. If you look at the
10 industry, the country there, it's very oil-based, so,
11 you know, it helps the rural population to have rural
12 jobs. So it's always been a promoted industry within
13 the country as well.

14 COMMISSIONER PEARSON: Okay. So do you have
15 a sense of how much better it might be, just in terms
16 of the natural factors, how much better it is to
17 produce Salmon in Norway than in Maine, or is that not
18 the right way to ask the question?

19 MR. COOKE: You know, it's the water
20 temperature in the winter is better, the, you know, I
21 think, you know, obviously they have more size in the
22 coastline so, you know, so because the water
23 temperature is better, you know, they can grow a fish
24 three or four months faster than we can grow a fish,
25 so that means a lot in sea water.

1 MR. COURSEY: Commissioner Pearson, what I
2 would add is Petitioners never had any claim, or made
3 any claim, that the product produced in Norway is
4 inferior in any respect or that their procedures, that
5 they don't have good conditions. What this gets back
6 to, I think, as a follow-up to a question Commissioner
7 Lane asked, is if you go on that basis, they should
8 have three times as much Salmon, three times as many
9 farms. There is no rational connection, or little
10 rational connection, between is the demand out there
11 for this? What's going to happen with this nice
12 Salmon produced in fairly efficient manner? Is it
13 going to be flung out there in a situation like we
14 have now in Europe where demand just isn't there for
15 it?

16 What effects is that going to have on
17 production in other countries, like the United States,
18 that may have higher regulatory costs, may have
19 similar coastlines and produce a good product, but yet
20 has to basically live with decisions of, in a country
21 where basically this is a full employment plan? You
22 know, there's not a whole lot to do there. That's one
23 of the things that's always driven the granting of
24 licenses. They have a natural resource in unemployed
25 fishermen who fish out the Atlantic Ocean. It's now

1 illegal to catch Atlantic Salmon in the wild. So it
2 only goes so far. I think the superiority or the
3 attractiveness only takes you so far with respect to
4 comparison of resources.

5 COMMISSIONER PEARSON: Right, but if it's
6 Norwegian government policies driving the increase, I
7 would note that Commerce found only a two percent CVD
8 margin, which is not very large, so that would suggest
9 to me that the Norwegian policies in totality aren't
10 having a big effect on the expansion that we've seen
11 in the production of Salmon in Norway.

12 MR. COURSEY: Let me finish. The Commerce
13 Department actually found over three percent to begin
14 with. They have been talked, jaw bone down basically,
15 into some programs being eliminated.

16 COMMISSIONER PEARSON: You can look behind
17 Commerce's margins and guess about that. I won't. Go
18 ahead.

19 MR. COURSEY: The Norwegian government has
20 never in 20 years requested an administrative review,
21 you know, for all the claims that there are no
22 subsidies. No Norwegian producer has ever made a
23 request, the government has never made a request.
24 They wait for the sunset reviews and then they come in
25 and jaw bone and say let's get rid of this thing here,

1 look at all the stuff we've done, and Commerce
2 basically sort of is why are you doing this, why don't
3 you file, request an administrative review? So from
4 our point of view, we don't know. Who knows what's
5 going on with the Norwegian government at this point.
6 There hasn't been a review, a regular review that
7 would air what's going on now.

8 COMMISSIONER PEARSON: Mr. Cooke?

9 MR. COOKE: The other thing is that you've
10 got to remember the noneconomic benefit the government
11 is, well, it's a noncash benefit that it's given the
12 industry, is the approval to expand with its new sites
13 and grow their sites. That is where the government is
14 promoted as well, right? They've promoted the growth
15 by issuing the sites and issuing the biomass
16 increases, which, you know, it's a harder regulatory
17 environment here, in the U.S., to achieve.

18 COMMISSIONER PEARSON: Okay. But the
19 impression that I have from the staff report is that
20 Norway, and perhaps the Faroe Islands, have increased
21 their output most during this period of review, and so
22 I'm just trying to understand a little bit more about
23 why that's the case. If they have natural advantages,
24 and if they actually are able to produce Salmon at a
25 somewhat lower cost than elsewhere in the world, then

1 maybe it's not as surprising that we have seen the
2 increase in those locations.

3 MR. RUETTIGERS: Sure. I really, firmly
4 believe that much of this -- can you hear me?

5 COMMISSIONER PEARSON: I can hear you. I'm
6 not sure whether your mic is on.

7 MR. RUETTIGERS: Is it on? Okay. So I
8 believe that there, if you look at cost production
9 numbers over a long period of time, there's not major
10 differences. I think if you look at BCBC tends to be
11 higher from a cost production, a lot of that has to do
12 with regulatory as much as it does restrictions, as
13 much as it does to growing environment. All different
14 growing environments, I think, if you look at Norway,
15 Chile, Canada. If you want to look at a great growing
16 environment is the State of Alaska where prohibited
17 from having any aqua culture activities as it relates
18 to Finn fish in Alaska. There's no difference. You
19 know, we have fjords, we have coastline, water
20 temperature is very similar.

21 COMMISSIONER PEARSON: Is that an Alaskan
22 state regulation?

23 MR. RUETTIGERS: Alaskan state regulation
24 because of the wild industry. So I think that if you
25 look at, and if you look at our own ability to expand

1 because regulatory restrictions, it's quite limited,
2 as well as the fact that I think most growing areas
3 have been somewhat conservative because of what they
4 see. You know, I mean you can see these things
5 happening before they're happening. You get the smolt
6 input numbers. I mean we've been preparing for this,
7 I know Glenn has been preparing this, you know, for 12
8 months despite all the record high prices because you
9 knew these fish were coming and it just didn't make
10 sense to produce this level of growth, but you knew it
11 was going to happen, and so I think that we have been
12 focused on reducing our cost and on improving quality,
13 not increasing our production because we knew that we
14 were heading into a very difficult environment.

15 COMMISSIONER PEARSON: Mr. Cooke?

16 MR. COOKE: I'm not here to compete with
17 anyone with our Maine Salmon as long as it's fairly
18 traded. I think my cost delivered to my market is
19 competitive with anyone. The problem is evidence in
20 the past and evidence in Europe today is Norway
21 doesn't play fair trade, and that is the problem. And
22 that's why absent this order they're just going to
23 flood the market. It doesn't matter what you compete
24 because they'll still dump their product in the United
25 States and charge the guys the European prices.

1 That's what they've done in the past.

2 COMMISSIONER PEARSON: A question for both
3 Mr. Cooks. Does it cost more to raise Salmon in the
4 United States than in Canada or is it about the same?
5 Give me some sense of what the cost is.

6 MR. COOKE: It's very similar in Canada
7 versus U.S. I mean, our understanding is you've seen,
8 you're facing a raw cost between the U.S. and Canada
9 and between Maine and New Brunswick, so it's very,
10 very similar cost. The regulatory environment in the
11 U.S. is heavier. I will say that.

12 MR. COOK: Yes. I would agree it's similar
13 on the West Coast as well, the production cost between
14 Canada and the U.S.

15 COMMISSIONER PEARSON: Okay. Thank you.
16 Mr. Cooke, with an *E*, in the previous review Cooke
17 Aquaculture led me to believe that if the industry in
18 Maine was profitable, that we would see a reopening of
19 one or more production facilities in the state. Has
20 that happened?

21 MR. COOKE: Yes, it has. We now have 100
22 jobs in the Machiasport plant, so that has happened.

23 COMMISSIONER PEARSON: Okay. Has that been
24 running now for several years?

25 MR. COOKE: Yes. I think I was told -- I

1 was checking on the date last night. I think it was
2 2008 it's been running since.

3 COMMISSIONER PEARSON: Okay. And so that
4 would be a large percentage of all U.S. employment in
5 the Salmon industry occurring in that processing
6 facility?

7 MR. COOKE: A lot. There's, you know, I
8 mean close to 100 jobs, so out of our 180 that would
9 be there.

10 COMMISSIONER PEARSON: Okay. Thank you.
11 Madam Chairman, my time has expired.

12 CHAIRMAN OKUN: Commissioner Aranoff?

13 COMMISSIONER ARANOFF: I want to join my
14 colleagues in welcoming all of the witnesses in this
15 morning's panel. Thank you for being with us today.
16 Just following up on the question that Commissioner
17 Pearson was asking, in the reopened plant in Maine,
18 can you tell us what they're producing in that plant?
19 Is it the subject product or is it something else?

20 MR. COOKE: We do some primary processing
21 there. Then we do some of the primary processing in
22 blocks out of New Brunswick. Then we do added value,
23 we do filet and portion cuts and stuff as well in that
24 plant.

25 COMMISSIONER ARANOFF: Okay. Also, you were

1 talking with Commissioner Pearson about the relevant
2 costs of production in Canada versus the United States
3 and you made some reference to perhaps regulatory
4 differences, but I wanted to ask the question more
5 broadly. Why is the Canadian industry bigger than the
6 U.S. industry? Is it the climate? Is it the
7 regulatory environment? Is it something else?

8 MR. COOKE: Certainly, the industry in Maine
9 could be a lot larger. It could be. I think a lot of
10 it's the regulatory environment. I think the
11 production in Maine certainly could be as big as what
12 the Atlantic Canadian production would be, but it's a
13 slower process. We are making gains and ground on
14 that and I don't want to say -- it's just like a
15 roadblock -- it has. We're working through and
16 working with state and the federal departments to make
17 that growth occur, but it's slower.

18 COMMISSIONER ARANOFF: If it's easier to get
19 licenses and expand in New Brunswick, why invest in
20 Maine at all?

21 MR. COOKE: Well, New Brunswick, for
22 instance, is basically maxed out as well for growth.
23 There's not a big pile of growth coming from Atlantic
24 Canada. What there would be would be from like a
25 province. Like Newfoundland there would be some

1 increased production, but not huge by any means. From
2 us is, understand is, you know, I live on a boat area
3 and the commerce that happens between the U.S. and
4 Maine and New Brunswick has gone, goes back 200 years
5 of, you know, even before there was Customs officers
6 at the border. It's a natural extension of operation,
7 to me, and we're very close. It's been this way.
8 They have good water and they have good people, you
9 know, and we have an incredible, good staff in Maine,
10 and so it's a natural extension of what we do.

11 COMMISSIONER ARANOFF: With respect to the
12 West Coast, did you consider investing in facilities
13 in Canada rather than in Washington State?

14 MR. COOK: The climate for getting new
15 farming concessions in British Columbia is pretty
16 challenging, probably equally as challenging as Puget
17 Sound, so I think our best opportunity to leverage
18 synergies and have access to market is to look at
19 further sites in Puget Sound. There's no, you know,
20 the path of least resistance doesn't take us to B.C.
21 It's pretty similar to Puget Sound in terms of
22 approval for new -- I don't think there's been a new
23 farming concession approved in B.C. in several years.
24 So does that answer your question?

25 COMMISSIONER ARANOFF: Well, yes. I mean

1 I'm still trying to figure out why the Canadian
2 industry is so much bigger than the U.S. industry and
3 I'm not sure I fundamentally understand that, except
4 that they have more cold water coastline maybe.

5 MR. COOK: Certainly on the West Coast that
6 is the case. B.C. has much more terrain. Absent any
7 ability to operate in Alaska, B.C. certainly has much
8 more real estate available for fish farming than Puget
9 Sound would. It's a much larger body of water.

10 COMMISSIONER ARANOFF: Okay.

11 MR. COOKE: You know, again, our goal is to
12 grow the Maine production, and, you know, part of it's
13 -- the history of how the regulatory framework built
14 up in Maine, there was a very few difficult years
15 there. There were some legal challenges that caused
16 the industry to downturn. So from our beginning from
17 when we bought the operation to today, we've grown it,
18 we're investing heavily into Maine and we continue to
19 invest heavily going forward.

20 COMMISSIONER ARANOFF: Okay. Let me move on
21 to something else. Let's see. This was also
22 discussed in some of the direct testimony, but during
23 the prior period of review, so the period leading up
24 to our 2005 review, a number of Norwegian producers
25 sold their holdings in U.S. production assets. I

1 guess my question is it looks like several Norwegian
2 companies made that decision at about the same period
3 of time. Is there any explanation exactly for why
4 that happened?

5 MR. COOKE: The parent companies I think
6 were losing money in Norway. I think they were trying
7 to retract and trying to rebuild. Again, it's one of
8 those periods of overproduction, you know, those
9 years, and so they were drawing back. We actually
10 bought, you know, two of the Norwegian-based companies
11 out and was happy to do so and rebuild those
12 companies.

13 COMMISSIONER ARANOFF: Has that also
14 happened with respect to Norwegian investments in
15 other producing countries?

16 MR. COOKE: It certainly has happened in New
17 Brunswick. You know, we bought the Norwegian producer
18 out there and, you know, in B.C. I think it's gone the
19 other way. I think, you know, the Norwegian producers
20 have bought more, but they are actually, you know,
21 there's news articles out now that they're actually
22 reducing some production. One of the major companies
23 there, Norwegian-based companies, is reducing
24 production in B.C. because they think they can produce
25 cheaper in Norway, and talk about the oversupply in

1 the marketplace.

2 COMMISSIONER ARANOFF: Okay. So we've heard
3 this morning that there's a global oversupply right
4 now of Salmon and I know a number of you testified to
5 the idea that once the Salmon is marketable, you've
6 got to take it out and you've got to sell it. I guess
7 my question is do you ever get to the point where you
8 take it out and you don't sell it, where you dispose
9 of it in some way? Does it get to that point?

10 MR. COOKE: What happens at that point, they
11 dump it any price because anything can achieve is
12 better than burying it. We've seen that in the past.
13 Again, that's our biggest fear in the United States is
14 is that they'll try to keep the price up in Europe by
15 dumping in the U.S. if this order is lifted.

16 MR. COURSEY: I can add something from the
17 original investigation in the first years of the
18 1990s. As I mentioned in my, well, I don't think it
19 was my testimony, but it was mentioned there was, you
20 know, a period of years of double growth in Norway.
21 In 1989 it went past the tipping point of demand, but
22 it continued in '90 and '91. Even though there were
23 orders in the EU and orders in the U.S., they had so
24 much product they, a lot of it went to what was called
25 the mountain of Salmon. It was frozen. They

1 basically took over ever freezer locker in Norway,
2 froze it, talked about what's going to happen to the
3 Salmon, is it going to go anywhere? It was one way of
4 getting it off the market.

5 I've seen in some of the articles that have
6 been out recently about the below break even prices
7 that one of the complications is the freezer capacity
8 right now is not available in Norway, so they can't
9 immediately repeat this mountain of Salmon deal. That
10 was around for two or three years in the early 1990s.
11 There was questions about giving it away to the newly
12 independent Soviet states, you know, and it was the
13 source of some amusement if it weren't so serious, I
14 guess, and it sort of showed, you know, this is what
15 happens when you basically are supply driven.

16 COMMISSIONER ARANOFF: Okay. So in the U.S.
17 market, you know, if there is this oversupply of
18 Salmon and the price goes down, does demand go up and
19 eat all the Salmon? Because meat's very expensive
20 right now.

21 MR. COOKE: It is. There's always a lag
22 between the time price either goes up and demand drops
23 or goes down and demand drops. To me, the only thing
24 you've got to -- there would be some demand increase,
25 but if you're selling below cost, and think of it, six

1 or eight months, like you're not in business. That's
2 the problem is is that it's just -- and the mountain
3 load. Just to understand how much Salmon they're
4 producing, like 20,000 extra tons this last quarter,
5 that's 40 million, 44 million pounds. It's a huge,
6 huge volume of extra production that's coming out of
7 Norway.

8 COMMISSIONER ARANOFF: Okay. Well, I
9 appreciate those answers. My time is almost up. I
10 want to assure you that my children are doing their
11 part to eat the global supply of Salmon. Thank you,
12 Madam Chairman.

13 CHAIRMAN OKUN: Commissioner Pinkert?

14 COMMISSIONER PINKERT: Thank you, Madam
15 Chairman. I join my colleagues in thanking all of you
16 for being here today. Is my mic on? Okay. Thank
17 you. I want to begin with some questions about whole
18 Salmon versus cut Salmon, and to begin with ask the
19 producers on the panel, do your purchasers purchase
20 both whole and cut Salmon?

21 MR. COOKE: Yes, they do. Most customers
22 would purchase some of each.

23 COMMISSIONER PINKERT: And given what you've
24 testified about oversupply of product in Norway, are
25 they flooding the U.S. market with cut Salmon right

1 now?

2 MR. COURSEY: The import stats, one of the
3 things that happened when Chile withdrew is Norway saw
4 an entry point. The Chileans had, as things worked
5 out, focused a lot of their production on shipping
6 cuts to the U.S. market. They also shipped whole
7 product, but they were more pronounced in the cut
8 area. And the Norwegians, if you go back a few years,
9 were very low on both dressed head-on and cut, and the
10 reason has to do with differences in, well, two
11 things. Differences in labor costs. Labor costs are
12 much higher in Norway and that they are in Chile, and
13 they're lower in Chile than in the U.S. and Canada as
14 well. So Chile was able to basically bring filets to
15 the U.S. market on a more efficient or a cost-
16 effective basis than the Norwegians.

17 When the Chileans withdrew, the filet
18 shipments from Norway went up significantly. And
19 again, if you look at the press, the IntraFish, you
20 know, the weekly stories that come out, early in this
21 year when the Chileans started their comeback, the
22 Norwegians pulled back quite a bit. I would have to
23 look again at the statistics to say, you know,
24 whether, how much it is, but certainly much more, many
25 more, much more cuts are coming in from Norway than

1 dressed head-on. It's one of the things we pointed
2 to, and would point to, saying the Norwegians say
3 we're not interested in the U.S. market. Well, of
4 course they're interested. They do ship a lot of cuts
5 to this market. You know, as Ms. Cannon discussed,
6 and I think it's as the Commissioners have recognized
7 in the past, there is a ripple effect. I mean there
8 is some effect over, in terms of price in those areas.
9 I don't know if that answers your question.

10 MR. COOKE: There's limited capacity as
11 well.

12 COMMISSIONER PINKERT: Well, perhaps we can
13 look at the data for purposes of the posthearing, but
14 I would like Mr. Cooke, or Mr. Cook, or one of the
15 other people on the panel to tell me whether currently
16 you're experiencing a flood of the cut product.

17 MR. COOKE: Currently, we're not
18 experiencing a flood of cut product. Part of the
19 thing is to understand, too, is there's very limited
20 capacity for added value sitting in Norway. Most of
21 Norwegian production that's added value is actually
22 added value in places like Poland, and, you know,
23 Belgium and places in the marketplace. Their labor
24 costs are very, very high. When you start filleting
25 fish, the cost just becomes enormous. So understand

1 is is if they're losing money, you know, the cut fish
2 add more costs into their fish. They'd just be losing
3 more on top of it. So most of the Norwegian industry
4 don't even have the capabilities for added value.
5 There would be limited few companies who have that
6 capability.

7 COMMISSIONER PINKERT: Thank you.

8 MR. COOK: I would agree. I mean it's hard
9 to define what a flood might constitute, but we're not
10 seeing an overwhelming presence of Norwegian filets in
11 the market.

12 COMMISSIONER PINKERT: Thank you. I want to
13 ask some questions about other conditions of
14 competition in the U.S. market, and in particular ask
15 you about Char, Steelhead and Coho. What's happening
16 in terms of the supply of those products in the U.S.
17 market, and what's happening to consumer demand for
18 those products in the U.S. market?

19 MR. COOKE: Those product pricing have
20 dropped as well. Char I'm not as familiar with. It's
21 just a lower production particularly coming into the
22 U.S., Canada and Iceland, but certainly probably still
23 at a much higher level, I think, than Steelhead or
24 Coho. Steelhead price we've seen historically is
25 really related to the price of Atlantic Salmon. When

1 the price of Atlantic Salmon drops, historically,
2 Steelhead prices drop. Coho, the only farmed Coho, I
3 don't think there's any more in Canada. Basically,
4 all the farmed Coho takes place out of Chile, and
5 obviously you have the wild production in Alaska. The
6 Coho prices actually stayed up quite high, and the
7 reason for that was because most of the destination
8 for the Coho is actually Japan, and obviously with the
9 disaster that occurred in Japan, a lot of their fleet
10 is gone and some of their farming which was Coho is
11 gone, so Coho prices have actually stayed up quite a
12 bit higher.

13 COMMISSIONER PINKERT: Any other comments on
14 the panel on those three products?

15 MR. RUETTIGERS: Yes. I think the only
16 comment I would make is the volumes of those are, I
17 would not view as material in respect to the Atlantic
18 Salmon.

19 COMMISSIONER PINKERT: That brings me to the
20 wild caught. Is there a shifting preference with
21 respect to wild caught versus farmed Salmon, and, in
22 particular, is there a sense that demand driven by
23 health-related issues might be causing a shift toward
24 the wild caught?

25 MR. RUETTIGERS: I certainly feel that wild

1 Alaskan Salmon is the greatest protein in the world.
2 That said, as a supplier of both, I think they are
3 different markets. The difference with the wild
4 resources, we can't produce more of it, you know? We
5 harvest what comes back to us and what the scientists
6 say is allowed to harvest, so supply there is
7 relatively fixed and stagnant. The supply increases
8 you see come from the farm side, and frankly, globally
9 come from Norway Atlantic production. So while I
10 think there are very strong arguments for the health
11 benefits of wild Alaskan Salmon relative to other
12 proteins in general and even, you could argue,
13 Atlantic Salmon, we can't make more of it, so we sell
14 what we sell at the end of the day regardless.

15 MR. COOK: I think, also, one of the things
16 that we've seen is that the fresh market for wild
17 Salmon has really grown in the United States and the
18 credit for that largely goes to the Atlantic Salmon
19 business which has introduced into people's diets the
20 presence of red flesh fish year round, and I think
21 that's really translated into an evolving and very
22 high-margin market for U.S. wild Salmon producers.

23 MR. RUETTIGERS: You know, I think it's a
24 complicated subject. I'd love to talk to you about it
25 for hours, but very little production, a lot of it

1 goes into can, which is the shelf staple product form,
2 much of it can go to Asia. It's seasonal in nature.
3 It only occurs over an eight or a nine week period,
4 really, for the overwhelming majority of the fresh
5 production, so it's a very different product than the
6 Atlantic Salmon that's available year round in the
7 store, fresh.

8 MR. COOKE: Both are very healthy, by the
9 way.

10 MR. RUETTIGERS: Yes.

11 COMMISSIONER PINKERT: I'll ask a more
12 specific question, then, about that. There was a
13 reference in the Respondent's brief to the demand for
14 Omega 3 fatty acids. Is that substance found at
15 comparable levels in the wild caught and in the farm
16 raised?

17 MR. COOKE: Absolutely. Both are incredibly
18 good, healthy, U.S.-based products.

19 COMMISSIONER PINKERT: Thank you. Thank
20 you, Madam Chairman.

21 CHAIRMAN OKUN: Thank you. Of course I very
22 much appreciated that last exchange having worked for
23 an Alaskan Senator. Spent a lot of time on this issue
24 and actually is quite fascinating to me, the ability
25 of the Alaskan industry to have differentiated the

1 wild product as well, including the price differential
2 that you see, and we still eat a lot of it at our
3 house. But it's been interesting because we have
4 other seafood products, shrimp comes to mind, where
5 industries have not been able to differentiate wild
6 versus farm, and some has to do with, you know, fish
7 swimming and shrimp don't do the same I guess in terms
8 of making them taste better. I don't know. I still
9 can't quite believe that one. But anyway, not to run
10 on, but an interesting point and I think enough was
11 said about it in terms of, Mr. Ruetters, your
12 comments on how long it's in the market and why you
13 associate it different. I did want to ask a question
14 because I think in, I think it was in your domestic
15 industry brief there was a reference to Russian wild
16 caught Salmon impacting Norwegian imports into the
17 Russian market, so I did want to ask for a response on
18 that because, you know, again, if there's
19 differentiation, is that really impacting Norwegian
20 imports into the Russian market? Mr. Cooke?

21 MR. COOKE: I think part of that is is
22 Russia's a developing market, and so I don't think the
23 distinguishing between Salmon and Salmon is as much
24 because they also take a lot of Steelhead Trout, for
25 instance, into Russia. So I think that's part of its

1 developing market. Certainly with, the amount of
2 catch was quite huge in Russia this year. I think it
3 impacts somewhat on the -- but I think if you look and
4 compare that to the North American market,
5 particularly the U.S., as you mentioned, I think it's
6 a developed market where there's a big distinguishing
7 between wild and farmed.

8 CHAIRMAN OKUN: Okay. The other Mr. Cook.

9 MR. COOK: On that same topic, we have a
10 Chilean affiliate that produces Coho and Trout. One
11 of the things that happened last year, we exported to
12 Russia and the fish, the Coho we shipped to Russia
13 magically turned into trout when it arrived in Russia.
14 So there's really, you know, that level of
15 sophistication is just not present there.

16 CHAIRMAN OKUN: Okay. Very helpful. Could
17 you also just comment more generally, though, on the
18 market in Russia and the Ukraine? I mean you're
19 talking about it being a developed market. The
20 Russians are developing and I guess increasing their
21 share of their own market. Respondents have raised
22 the Norwegian and Ukrainian market as being something
23 that has grown as a source of Norwegian imports.
24 Slightly different than during our second review. Can
25 you comment on that, and where you see demand in those

1 markets in the reasonably foreseeable future.

2 MR. COOKE: I think demand is growing in
3 some of these alternate markets. For instance, Norway
4 has just been blocked recently from China, you know,
5 which started taking huge volume in Norwegian Salmon.
6 Now they're not able to ship to China. So again,
7 where does that fish go? That's part of the challenge
8 is as they develop these alternate markets, you know,
9 Russian can -- the regulatory environment in Russia,
10 approving plants and who can sell to Russia, the
11 Norwegian producers off and on for the last two years
12 have been shut off for a while from shipping to
13 Russia, and then they're back on, then they're shut
14 back off again, so some of these markets, you know,
15 through these inspections and the plants' approvals to
16 go into Russia, it's not a straightforward developing
17 market. You can begin to compete at certain volumes
18 on a certain weekly basis. Certainly, being locked
19 out of China has been a huge, huge, huge blow for
20 their increased production.

21 CHAIRMAN OKUN: On the China question, and I
22 had read that and I meant to go back and look at it,
23 are the Chinese being selective in who they're
24 blocking or do they block anyone?

25 MR. COOKE: We understand it's blocking the

1 whole country.

2 CHAIRMAN OKUN: But how about Chilean or
3 other --

4 MR. COOKE: Not Chilean or --

5 MR. RUETTIGERS: The strong rumor in the
6 press is it's related to a Nobel Prize issued to a
7 Chinese dissident.

8 CHAIRMAN OKUN: Maybe that's something, but
9 okay.

10 MR. RUETTIGERS: But, you know, I think, I
11 mean I would just make the point, and I don't want it
12 to come across gloat, but, you know, if that market is
13 so attractive, if transport costs are so high to the
14 U.S., then why are we all here?

15 CHAIRMAN OKUN: Okay. So that goes with the
16 transportation and costs. So do you think that has
17 changed since the second review? Again, one of the
18 arguments made by Respondents is, you know, that there
19 has been some regionalization in the markets. Take
20 the China point that if it was attractive. That shows
21 that it's not. I'm not familiar with, or I'm not sure
22 what's on the record with respect to the
23 transportation cost to the different regions of
24 whether it's changed dramatically since the second
25 review. Do you have any information about that? Mr.

1 Cooke?

2 MR. COOKE: Well, it's a whole localized
3 thing if you look at it. One of the arguments is
4 they're arguing that Chile is localized to North
5 America, which is absolutely false. I mean Chile is
6 shipping fish to Europe, shipping fish to Russia, you
7 know, shipping fish to Nalva, China. If you look at
8 the freight component, the freight fish to Asia from
9 Norway is very close to the same expense what it would
10 be to ship fish to the U.S., so the barrier of freight
11 that they're talking about, the problem is it's just,
12 I'll keep going back to this, the vast production and
13 massive production they've now, they've got to have a
14 home for it. It's got to go somewhere below cost.
15 When you start dumping, freight becomes a non, you
16 know, they're just trying to recover -- they've
17 already posted losses. You know, if you look at all
18 the analysts going forward, it's all doom and gloom.
19 They've got all this production, they've got new
20 production coming on in 2012 and there's no home for
21 it. That's, you know, a lot in the end.

22 CHAIRMAN OKUN: Okay. I will come back to
23 some of the questions that Respondents raised about in
24 the press, but I wanted to go back to the EU question,
25 and I'll direct this question to counsel. Obviously

1 we operate under different statutory environments, so
2 I'm not trying to make the argument that I would adopt
3 what the EU does, but in terms of factors that the EU
4 looked at in lifting the restrictions, and usually I
5 go back and review everything, but I didn't have the
6 opportunity, so I'm going to be relying on
7 Respondents' briefs for what they said the EU found,
8 and so if there's a difference in that, you can
9 correct that posthearing. One of them that I thought
10 was interesting was the EU saying the changes to the
11 Norwegian industry, which has become highly profitable
12 and traded on the stock exchange, made recurrence of
13 dumping practices in the foreseeable future unlikely.
14 Is that something we should consider?

15 MR. COURSEY: I would say no. There's a
16 mechanism in place with the U.S. dumping orders where
17 that question could be addressed. The situation
18 changes dramatically from year to year. For example,
19 that finding -- I guess it's from 2008. Okay. Three
20 years ago. At that point Chile was just, people were
21 just starting to realize the extensiveness of the
22 damage to Chile from the ISA disease, okay? We have a
23 whole different world now. If this agency were
24 looking, if you had a home, you know, a bona fide EU
25 industry that filed a new dumping case they'd look at

1 the situation now, as it exists now. What they would
2 find is there's -- they wouldn't necessarily find what
3 they found in 2008. They may find, well, we were
4 wrong, you know.

5 They told it, you know, we looked at it and
6 they told us that it had changed and there had been
7 consolidation. These are the same arguments that were
8 made in 2005 by the Norwegians, including the claim
9 that there will be no growth for a three year period
10 from 2005 to 2008. Time showed that is not true. You
11 couldn't rely on that finding from three years ago
12 from another agency in a different jurisdiction as to
13 what the industry is likely to do based on
14 consolidations, for example. You know, you can read
15 the quarterly reports yourself. These are big
16 companies that are now operating at a loss.
17 Oftentimes these statements are very sort of up front
18 about what's going on with supply and demand, other
19 times they're like public companies.

20 They say this is great, you know? We've got
21 a lot of product, now we're going to sell it for cheap
22 and that's going to drive demand up, you know? That
23 really doesn't say, give you anything, you know,
24 intelligent there because that just doesn't happen in
25 the market. People don't, you know, they may buy

1 Salmon if it goes down cheap, but they won't
2 necessarily buy it when it goes back up at a high
3 price. I think that's the issue here is what is --
4 it's this production, investment in production for
5 production sake without a recognition that they may
6 not be able to sell this production at prices that
7 will recover their cost of production. This happens
8 on a cyclic basis. It's an every four or five year
9 basis. So on the EU point, I would just say that
10 that's really fairly irrelevant at this point.

11 CHAIRMAN OKUN: And what about, and I don't
12 think this is on our record, and maybe you mentioned
13 before that you would look at this and see if you can
14 put it in hearing, what about if we looked at the
15 volume and prices of imports of Norwegian product into
16 Europe after they lifted the restrictions? So into
17 another developing market, maybe knowing what the
18 demand patterns are. Would that give any indication
19 of what you think would happen in the U.S. market were
20 the order lifted?

21 MR. COURSEY: Well, for how long a period?
22 For a year after they lifted the order for --

23 CHAIRMAN OKUN: Well, from 2008, if we had
24 three years of data, it might show something. I don't
25 know. I mean, again, I'm just posing. I'm just

1 asking. I don't know.

2 MR. COURSEY: Well, here's the situation.
3 Again, you had Chile, which was a significant supplier
4 to the EU, go through this crisis, so you have a
5 different supply situation, a greatly different supply
6 situation. It's not surprising that -- everyone made
7 money when Chile went down, okay? The problem is
8 everyone saw Chile was going to come back. Norway saw
9 it but they didn't pay attention or whatever, you
10 know? They just kept pushing their demand in. Now
11 things have changed dramatically. You have Chile back
12 and saying I'm back, and you've got Norway with this
13 -- it's a different situation now. It's basically,
14 it's dynamic. Everyone made money during that period
15 and so I wouldn't be surprised to find that money was
16 made. I think one of the arguments of the Respondents
17 is that, hey, the domestic industry is good, they've
18 had, you know, so many years of profits. We are
19 basically saying, look, that's true, there were good
20 prices, but look what's happening right now. Look
21 what's happening right now to the market.

22 CHAIRMAN OKUN: All right. My red light's
23 been on for some time so I will come back if I need
24 to. I will turn to Vice Chairman Williamson. Thank
25 you for those responses.

1 VICE CHAIRMAN WILLIAMSON: Thank you, Madam
2 Chairman. See, the dumping order on Chile was
3 resolved after five years due to the domestic
4 industry's lack of interest in continuing the order.
5 Can you elaborate on why this decision was made?

6 MR. COURSEY: You know, there's a record, a
7 public record on this that goes back a while. We
8 represented the domestic industry in that case. I
9 would say, without, you know, speaking for my then
10 clients, an observation that can be made was that, you
11 know, there were significant margins found at one
12 point, there were administrative reviews that the
13 Chileans, you know, engaged in, and the sort of, the
14 Chileans do have a significant advantage with respect
15 to labor. I don't know, you know, what you can draw
16 out of the fact that there was a case, there was an
17 order issued and ultimately the industry decided that
18 they were not interested in maintaining it. In some
19 ways you could say that's basically an observation for
20 the industry that dumping has ceased, that there isn't
21 a problem there. Instead of having a sunset review,
22 in the Chilean case you had the industry -- and this
23 happens. We've had other clients who basically have
24 looked -- you know, the notice comes around, it's time
25 for the sunset review and they say, guess what, we

1 don't need this order, okay, we can go on without it.
2 I would say that's in essence what happened in the
3 Chilean case. That's not what's happened with the
4 Norwegian case. You know, Chile is not to be confused
5 with Norway.

6 VICE CHAIRMAN WILLIAMSON: Okay. Fine.
7 Okay. Thank you for that response. I have to read
8 between the lines, but I think I can read between the
9 lines.

10 MR. COURSEY: But that does happen.

11 VICE CHAIRMAN WILLIAMSON: Okay. No, I
12 understand it happens, and you're offering the various
13 reasons why it happens, and I was just trying to
14 figure out which one happened to you. Thank you. Let
15 me move on because I want to -- okay. The Respondents
16 provided calculations of Norwegian producers' net back
17 prices for various export markets showing that the net
18 U.S. prices are almost always lower. I was wondering,
19 what is your response to these calculations?

20 MS. BECK: With regard to the net back price
21 examples that were given by Respondents, I think they
22 are several inherent problems: 1) One of the examples
23 that Respondents showcase happens to be 2010 example
24 which is highly not representative of what's going on
25 in the market in 2011. There are some examples only

1 through May of 2011, and, in fact, some of those do
2 show that the non-U.S. price would have, in fact, been
3 lower than the average U.S. price. We will submit in
4 posthearing some examples, very current examples, and
5 you will see very different results. Also, just as a
6 basic matter, the transportation costs that were
7 presented are not representative, and, in fact, I know
8 Mr. Cooke just recently saw some examples of rock
9 bottom air freight costs, so basically the Norwegian
10 producers are in a situation already where they're
11 selling below cost so they need to sell wherever they
12 can. In fact, the U.S. is turning out to be a more
13 profitable market.

14 MS. CANNON: Commissioner Williamson?

15 VICE CHAIRMAN WILLIAMSON: Yes?

16 MS. CANNON: Could I supplement that,
17 please?

18 VICE CHAIRMAN WILLIAMSON: Sure.

19 MS. CANNON: I just wanted to add as well
20 that the, when the Commission looks at varying
21 relative prices in cases generally that we have before
22 you, such as in steel cases, you typically look at
23 independent sources such as CRU, or steel benchmarker,
24 or sources of that type, and just compare the prices
25 in the market. You don't go through a complicated

1 analysis of the type Respondents have presented where
2 you adjust for all types of different factors,
3 including, I believe one of their factors was a profit
4 allocation as well. So I think even just backing up
5 from the facts that Ms. Beck pointed out as being
6 problematic, the approach is problematic because this
7 is not consistent with the way that the Commission is
8 typically trying to examine these various prices and
9 relative prices in different markets. It takes, you
10 know, a more basic view of just looking at what price
11 might be attractive to get an importer interested or a
12 foreign producer interested to selling into a market.

13 VICE CHAIRMAN WILLIAMSON: Okay. Thank you.
14 Anything you can elaborate on in posthearing would
15 also be appreciated, particularly with the more recent
16 examples.

17 MR. COURSEY: Could I just make one comment?

18 VICE CHAIRMAN WILLIAMSON: Yes.

19 MR. COURSEY: The sort of common sense
20 response is they are more than willing to supply
21 filets to this market when the Chileans withdraw. You
22 know, why does that -- have they decided that they can
23 make money in the filet market in the U.S. but not in
24 the dressed head-on market? It's just sort of they,
25 you know, claim they have other markets, like China,

1 that are, you know, I don't know if they're part of
2 the net back analysis, but --

3 VICE CHAIRMAN WILLIAMSON: Okay. Let me ask
4 some questions. For the whole Salmon, you know, the
5 subject Salmon, is all of it air freighted from Norway
6 here?

7 MR. COOKE: Yes, all the fresh Salmon would
8 be air freighted here.

9 VICE CHAIRMAN WILLIAMSON: All fresh would
10 be air freighted. Are the filets, do they usually
11 come in frozen or are they coming in fresh, too?

12 MR. COOKE: They would have come fresh as
13 well.

14 VICE CHAIRMAN WILLIAMSON: Okay. So I was
15 wondering if, you know, you did the processing in
16 Norway and then froze it and shipped it, would that
17 difference in price, because I assume it's cheaper to
18 ship, you know, a frozen container, I mean frozen on
19 ocean than air freight, would that make up the
20 additional difference in the processing cost of, you
21 know, investing in the processing facilities in
22 Norway. It's kind of a speculative question, but --

23 MR. COOKE: Yes, but there's two distinct
24 markets, the fresh and frozen market as well. You
25 know, I think most of the domestic supply goes fresh

1 into the marketplace, not frozen into the marketplace,
2 so I think --

3 VICE CHAIRMAN WILLIAMSON: In other words,
4 you don't see previously frozen, or that doesn't work.

5 MR. COOKE: Well, not as much. No.

6 MR. RUETTIGERS: It's not as attractive. I
7 mean literally, it sells for a lower price. It's
8 viewed as an inferior product, the previously frozen
9 product.

10 VICE CHAIRMAN WILLIAMSON: Okay. Are the
11 Chileans air freighting up here, too?

12 MR. RUETTIGERS: Air freighting as well.

13 VICE CHAIRMAN WILLIAMSON: Okay. Because
14 that's just --

15 MR. COURSEY: Feature of the product is
16 freshness and getting it to, you know, the consumer in
17 a fresh form, so there's a premium on shipping.
18 There's an imperative to ship it by air. If something
19 comes in by ship, you know it's going to be frozen, if
20 not canned.

21 VICE CHAIRMAN WILLIAMSON: Okay. I used to
22 work for the Port Authority of New York and New
23 Jersey. Of course, they had both the port and the
24 airport so they always made out, but, you know, they
25 also competed.

1 MS. KIM: Vice Chairman Williamson?

2 VICE CHAIRMAN WILLIAMSON: Yes?

3 MS. KIM: I'd just like to add that we have
4 on the record here --

5 VICE CHAIRMAN WILLIAMSON: I'm sorry. Could
6 you identify yourself so they can --

7 MS. KIM: Yes. It's Grace Kim.

8 VICE CHAIRMAN WILLIAMSON: Okay. Thanks.

9 MS. KIM: We have some of the Norwegian
10 producers here already selling the cut products, and
11 we have on the record in the public staff report that
12 some of the Norwegian producers and processors that
13 already sell in the United States the cut product,
14 they say that if the orders are revoked that they
15 could become a one stop shop and that would outweigh
16 any of the transportation cost disadvantage there.

17 VICE CHAIRMAN WILLIAMSON: Oh, you're
18 talking about the distributor or the purchaser in the
19 U.S.?

20 MS. KIM: Right. They already sell in the
21 U.S. the product, and for them to become a one-stop
22 shop by allowing them to sell the whole fresh salmon
23 here, that that benefit would outweigh any of the
24 transportation cost disadvantage that they are
25 alleging.

1 VICE CHAIRMAN WILLIAMSON: So you're saying
2 that a major distributor might want to deal with one
3 source.

4 MS. KIM: Exactly, uh-huh.

5 VICE CHAIRMAN WILLIAMSON: Okay. Because I
6 assume there is also some advantage of selling the cut
7 here. You've got less to ship per pounds.

8 MS. KIM: Uh-huh.

9 VICE CHAIRMAN WILLIAMSON: Okay. Well,
10 thanks for those clarifications. Respondent's argue
11 that the overwhelming presence of non-subject exports,
12 especially from Canada and Chile, will prevent large
13 increases in Norwegian imports. And how do you
14 respond to that? And I only have a minute left. I'm
15 sorry. Of course, you may have already addressed it.

16 MS. CANNON: I mean, we pointed out that the
17 Canadian imports and some other imports have been
18 present in this market historically. But the big
19 difference is the price at which they're selling.
20 They're selling at the same prices as U.S. producers.
21 They're not clashing prices in this market. And if
22 the non-subject imports come back, they're going to
23 displace the Canadian product. They're going to
24 displace the U.S. product, and they're going to
25 undercut all the products by virtue of the large

1 supply and drive prices down. And that's going to be
2 the problem that results here.

3 That's why we're concerned about the
4 Norwegian, with the huge capacity and supply. And in
5 the absence of a dumping order that restrains their
6 prices, the problems will be severe to everyone that's
7 participating in this market.

8 VICE CHAIRMAN WILLIAMSON: Okay. Thank you.
9 Okay. My time has expired, so Commissioner Lane.

10 COMMISSIONER LANE: My first question is for
11 Ms. Beck. Would you discuss the price elasticity of
12 the domestic industry?

13 MS. BECK: I can say that we agree with what
14 was presented in the staff report.

15 COMMISSIONER LANE: Could you go closer to
16 your mike, please?

17 MS. BECK: Sorry. We agree with the figures
18 that were presented in the staff report. I mean,
19 typically, as supply in the market increases, the
20 price would go down. What has happened recently is --
21 or that will be happening more recently is that now as
22 prices in other markets have gone down, it has already
23 pushed pricing down in the United States. We don't
24 expect that the demand is going to go back up or the
25 supply to go down. So there would be an extended

1 period of price decline in the future, even out into
2 the next year or so.

3 COMMISSIONER LANE: What happens if --
4 assuming the prices do go up, is there a point at
5 which customers no longer will buy the product and
6 switch to something else?

7 MS. BECK: Well, there really aren't
8 substitutes for salmon. I mean, people buy salmon for
9 very distinct reasons, whether it's the health
10 benefits, the taste. Those that don't eat meat, for
11 example, there are very distinct reasons why people
12 eat, and they'll continue, I believe, to purchase and
13 to eat the salmon.

14 COMMISSIONER LANE: Okay. Thank you. What
15 is your estimate of cost-price elasticity for fresh
16 fillets and whole fresh salmon?

17 MS. BECK: There are -- even though some of
18 the customers do overlap between the two, the prices
19 do run relatively in tandem. So if you see certain
20 trends in cuts, you'll see similar trends in fillets
21 as well.

22 COMMISSIONER LANE: Okay. And how does that
23 compare to the cost-price elasticity for frozen
24 fillets and whole fresh salmon?

25 MS. BECK: In other words, if -- I guess

1 could you repeat the question?

2 COMMISSIONER LANE: How does the estimate
3 that you gave me on the cost-price elasticity for
4 fresh fillets and whole fresh salmon, how does that
5 compare to the cost-price elasticity for frozen
6 fillets and whole fresh salmon?

7 MS. BECK: Well, I don't know. Perhaps
8 someone in the market -- or like Mr. Ruetters could
9 attest to it, too.

10 MR. RUETTIGERS: I don't have precise
11 numbers, but the correlation is lower.

12 VOICE: Microphone.

13 MR. RUETTIGERS: Sure. I don't have a
14 precise number off the top of my head, but the
15 correlation would be lower because again the fresh
16 products are viewed as a fundamentally different
17 product than frozen.

18 COMMISSIONER LANE: Okay. Could some of you
19 in the industry tell me how long, if you buy fresh
20 salmon, how long does it stay good before you have to
21 eat or, or it goes bad?

22 MR. RUETTIGERS: Do you really want to know?

23 COMMISSIONER LANE: Just --

24 MR. COOK: The shelf-life is typically two
25 weeks.

1 COMMISSIONER LANE: Two weeks?

2 MR. COOK: Under good storage conditions,
3 you can stretch that to three, but two is kind of a
4 standard.

5 VOICE: From slaughter.

6 MR. COOK: From slaughter. That's the
7 question, right? Post-harvest, how much time do you
8 have?

9 COMMISSIONER LANE: Well, if I bought it in
10 the store fresh, how long can I keep it before I have
11 to eat it?

12 MR. COOK: Oh, it depends on your
13 refrigerator, for one thing, and how well it's
14 functioning, you know, how often the doors are left
15 open, et cetera. You know, a week is pretty -- one of
16 the good things about salmon is if it's not fit to
17 eat, it has an odor that's easily identifiable. If it
18 smells good, eat it.

19 COMMISSIONER LANE: Okay. Thank you. Now,
20 the Petitioners assert that U.S. salmon prices are
21 plunging, driven by oversupply from Norwegian salmon
22 producers who have been harvesting and exporting
23 surplus salmon as rapidly as possible in recent
24 months. Where in the record do we see these plunging
25 prices and oversupply from Norwegian salmon producers?

1 MS. BECK: I can direct you, Commissioner
2 Lane, to some information that is already on the
3 record in our prehearing brief, and we will supply
4 some updates. Exhibit 20 provides information on
5 monthly prices in Norway, which show tremendous
6 declines. They're updated through October. If you
7 compare those to the average unit values of imports of
8 whole salmon from Norway, you'll see that they're
9 significantly lower. And also, the prior exhibit of
10 Urner Barry pricing data, in fact the Norway prices,
11 which also are representative of what Norway is
12 selling in the European market, they're actually lower
13 than U.S. prices published by Urner Barry in recent
14 months.

15 COMMISSIONER LANE: Okay. Thank you.

16 MS. BECK: And in Exhibit 1, there are also
17 examples of integral price drops and kind of the
18 freehold in the level to which the prices are falling
19 to.

20 COMMISSIONER LANE: Okay. Thank you.

21 MS. KIM: Commissioner Lane, may I just add,
22 Moon Harvest recently issued a third quarter
23 presentation of their financials, and I noticed in
24 there that with the price declines in all of the
25 various markets, it noted that the spot market price

1 decline was lower in the U.S. market than elsewhere.

2 COMMISSIONER LANE: Okay. Thank you. And
3 is that in the record?

4 MS. KIM: That particular presentation is
5 not in the record, but we would be happy to put it in
6 our post-hearing brief.

7 COMMISSIONER LANE: Okay. Thank you. What
8 types of restaurants would use fresh Atlantic salmon?

9 MR. COOKE: I would say kind of from mid-
10 level restaurants up that would use the fresh, like,
11 you know, certainly Legal Seafoods, for instance. And
12 I'm trying to think of all the Darden Restaurants, the
13 Red Lobsters, the Cheesecake Factories. All of those
14 would be all fresh salmon.

15 COMMISSIONER LANE: What kind would use
16 frozen?

17 MR. COOKE: I guess -- and I'm not sure they
18 do, but like a Friendly's or that type of -- you know,
19 I guess a restaurant that would -- or a restaurant
20 chain that maybe -- you know, or more of an isolated
21 regional chain or somewhere that would have a hard job
22 of getting it fresh.

23 MR. RUETTIGERS: Yes. I would even say more
24 some industrial or hospital applications, where you
25 would find the frozen product form. It's not a huge

1 component of the market.

2 MR. COOKE: Or the little independents, you
3 know, that you're not getting connected to a fresh
4 supply.

5 COMMISSIONER LANE: Can salmon that has been
6 frozen be used to make sushi or eaten raw?

7 MR. COOKE: You can, but it wouldn't be good
8 sushi. You know, I mean, sushi obviously is a
9 product, the fresher the better.

10 COMMISSIONER LANE: Okay. What share of the
11 fresh Atlantic salmon consumed in the United States is
12 consumed raw?

13 MR. RUETTIGERS: It's low. I mean, I don't
14 have a precise number, but it's not a huge component
15 of the market.

16 COMMISSIONER LANE: I'm sorry?

17 MR. RUETTIGERS: It's not a large component
18 of the market.

19 COMMISSIONER LANE: Has it been increasing
20 since 2005?

21 MR. RUETTIGERS: Certainly there is an
22 increase in sushi consumption, but again, in terms of
23 materiality, I would argue that it's likely not
24 meaningful.

25 COMMISSIONER LANE: With that, I don't have

1 any further questions. Thank you.

2 VICE CHAIRMAN WILLIAMSON: Thank you.
3 Commissioner Pearson.

4 COMMISSIONER PEARSON: Thank you, Mr. Vice
5 Chairman. You've gotten me convinced that this is a
6 commodity market. So I then try to understand it in
7 the context of other commodity markets about which I
8 know something. And just if we were to take oil as an
9 example, produced in lots of countries around the
10 world, traded widely, when the market gets out of
11 balance, then the price changes.

12 We had a recession here not so very long ago
13 that caused the price of oil to drop significantly,
14 causing some injury to U.S. producers of oil, frankly.
15 And they didn't do this, but it would have been
16 plausible for them to come and argue that there should
17 be an antidumping duty order against Saudi Arabian
18 oil, for instance. But if they had done that, I would
19 assume that would have given them relatively little
20 protection or relief because oil still could have come
21 in from Mexico or Canada or any other place.

22 Now we're talking about salmon. And in a
23 commodity market like this, is there any way to
24 protect producers anywhere in the world from excessive
25 expansion somewhere else in the world? I mean,

1 something is happening in this market with the
2 increase in production in Norway. I understand that.
3 But with or without an order, can there be protection
4 for the industry in the United States?

5 MR. COURSEY: You know, I think that one
6 could argue that the dumping law is best suited for
7 commodity products. I guess I would question the
8 similarity of oil to salmon. I mean, basically --

9 COMMISSIONER PEARSON: We could use corn or
10 soybeans, but carry on.

11 MR. COURSEY: I mean, traditionally, you
12 look at mineral products, fertilizers. And there are
13 dislocations quite frequently where even the
14 economists in the room say there is something wrong
15 here. There is too much of this product coming out of
16 this country. It is coming out at below-cost prices,
17 and those who are doing it ought not to be able to
18 visit damage on those who aren't.

19 COMMISSIONER PEARSON: Right. But I
20 understood from the testimony that that damage already
21 is being visited in the United States because of the
22 low price that was cited, particularly in this third
23 quarter of 2011.

24 MR. COURSEY: Right.

25 COMMISSIONER PEARSON: So we see the damage

1 coming.

2 MR. COURSEY: No. But there are two
3 different types of damage, okay?

4 COMMISSIONER PEARSON: Okay.

5 MR. COURSEY: Because the dumping order is
6 in place, the industry is saved from annihilation,
7 okay, right now. I mean, in other words, it is not in
8 the position where they are going to -- like Marine
9 Harvest Canada announced, we're cutting production 30
10 percent. We're laying off 12 percent of our
11 employees.

12 But there are ripple effects over. Because
13 of the commodity nature, you can't basically wall out
14 the sort of intangible effects. That's not to say the
15 dumping order is useless. On the contrary, it's all
16 the more needed in a situation like that, particularly
17 where you have Norway as -- you have such a dominant
18 player.

19 COMMISSIONER PEARSON: Well, I'm just trying
20 to understand here because Norway has increased
21 output. The world price has come down in conjunction
22 with the Chilean product coming back onto the market,
23 okay? So I assume that price -- non-subject
24 production, regardless of where it is coming from,
25 would enter the United States at a lower price because

1 of the misdeeds of the Norwegians, if you will. I
2 mean, the Norwegians are producing excess supply. The
3 global market price comes down. Any product coming
4 into the United States is thus coming in at a
5 relatively lower price, even if it's not Norwegian
6 product.

7 MR. COURSEY: Ultimately, if that product
8 comes in -- if below-cost, it goes that farther as a
9 remedy in the dumping law there, okay? We haven't
10 gotten to that point yet. In other words, if the U.K.
11 is all of a sudden -- what you're positing is, well,
12 the U.K. is a big supplier. Their price is being
13 forced down by the Norwegians. They're going to truck
14 their product over here.

15 Once the U.K. price goes down --

16 COMMISSIONER PEARSON: But I take your point
17 there.

18 MR. COURSEY: Once it goes below their cost
19 of production, they are -- you know, they then -- it's
20 causing injury, okay? In other words --

21 COMMISSIONER PEARSON: No, no, no, no. It's
22 only causing injury if it's injuring the domestic
23 industry.

24 MR. COURSEY: Right.

25 COMMISSIONER PEARSON: And the fact that it

1 may be below their cost of production. It's not
2 necessarily causation of injury. But I hear what
3 you're saying. But I didn't think you stated quite as
4 you had intended.

5 MR. COURSEY: I hardly state anything well.
6 So in other words, of course the domestic industry
7 knows what is going on with other imports. What we
8 can see at this point is that they are not -- they are
9 -- your question might be what -- are you below your
10 costs now, domestic industry. What is going on there?
11 And I think if you ask the question, you'll find that
12 there are some margins still. You know, prices have
13 come down, but they were recognizing that Chile was
14 gone. They were higher than normal.

15 But clearly, if the situation gets so bad --
16 and we've seen this in other dumping cases. I think
17 that's why you get cumulated cases, frankly, that
18 other producers are, you know, forced down below their
19 cost of production. Well, the dumping law is there to
20 provide a remedy.

21 Maybe that's where I'm not -- I'm sort of --

22 COMMISSIONER PEARSON: Yes. Let me ask it
23 this way. How does this order as it's now structured
24 provide any insulation or protection against what is
25 happening more broadly in the world market with prices

1 coming down? I mean, because the testimony was that
2 prices also are coming down in the United States. So
3 I'm not observing a margin of protection from this
4 dumping order that is giving assistance to the
5 domestic industry. And if it's there, I need to
6 understand it.

7 MR. COURSEY: Okay. The prices haven't gone
8 down as low as they're going down in other Norwegian
9 markets. And I don't know if you want to talk to
10 that, Gina? Have we had some evidence of that?

11 MR. COOKE: The price in the E.U. from
12 Norway is a lot lower than the current market price in
13 the United States. So basically, if there was no
14 order in place in the United States, they would take
15 excess production and roll into the United States at
16 below cost the same as what they're doing in Europe,
17 which would take our costs below cost.

18 COMMISSIONER PEARSON: But wouldn't they
19 putting that into the United States at the expense of
20 what they're bringing from the Faroe Islands, for
21 instance?

22 MR. COOKE: But there has been some
23 alternate moves in the world production, particularly
24 because of China. There is a lot more Faroe's and
25 U.K. salmon now going to China, for instance, because

1 Norway is banned from that country. So that's taking
2 some of that pressure off as well. So there is some
3 other connections to the cooling. But there is no
4 question, if there was no duty today, the natural
5 thing for it to be is Norway to take their excess
6 production and flow to the United States, causing the
7 prices to go below our cost because they're selling
8 below their cost and our cost in Europe today.

9 COMMISSIONER PEARSON: I have to explain
10 just on the side that having lived and died in
11 commodity markets over time, I'm very accustomed to
12 sometimes having to sell below cost because sometimes
13 that's what the market is for everybody, you know.
14 You have too much stuff, and the price goes down. So
15 to me, that's not inherently sinful. It's sometimes
16 just what the market is doing to everybody.

17 MR. COOKE: But it is -- but I think in that
18 situation, if you had to do that for two or three
19 years, that would be a different story than selling
20 once in a while below cost. And that's what the
21 dilemma that's coming from Norway today is. The
22 production they have now will increase coming in for
23 2012, and they have actually built capacity for 2013.
24 So there is no signs of Norway slowing their
25 production.

1 You know, there has been a history of
2 bankruptcies and banks getting involved in the
3 business and refloating the companies publicly. There
4 is a history of disaster in the Norwegian industry.
5 And, you know, the success and the rebuilding of the
6 main industry is because of this order. And we can
7 fairly trade against Chile and the U.K. and everything
8 else. But when you have an onslaught of massive
9 production, that's on a continuous basis, not that
10 little blip as you suggested, that's the problem.

11 COMMISSIONER PEARSON: In this
12 investigation, as in all of our reviews, we have to
13 consider whether revocation of the order would be more
14 likely than not to lead to continuation or recurrence
15 of injury to the domestic industry. And that's why I
16 have been trying to understand whether your industry
17 is getting some benefit from the order now because if
18 we can't see a benefit, then revoking the order would
19 not increase the probability of injury in the future.

20 So that's why I'm wanting to understand more
21 clearly how you're getting some help from this at the
22 moment.

23 MR. COOKE: Today we are getting big benefit
24 because our price in the United States is a lot higher
25 than what it is in Europe. And that's the key to

1 that, is basically we're seeing the full benefit today
2 of this order.

3 I mean, there was a period when Chile was
4 out of the marketplace that the order -- you know, to
5 be honest, the prices were too high. We had this --
6 there was only -- it was a very blip in the overall
7 scheme of the order.

8 MR. RUETTIGERS: Yes. I would point to a
9 classic example in this industry of if you look at the
10 Australian market, that's a relatively closed market.
11 They have seen an increase in supply. What they have
12 done is they have taken and continued to hold their
13 local market price high. They have dumped product
14 into Japan, and frankly below their cost. But they're
15 doing that. They're not moving at all into domestic
16 because they don't want to drop the domestic market.

17 The market that is important to the
18 Norwegian producers is the European market. As an
19 economist, I think you would understand if you have a
20 billion-ton or close to a billion-ton market, and you
21 have a 200,000-ton market, if you can dump product
22 into the 200,000-ton market and maintain your pricing
23 level in the billion-ton market, you are suited to do
24 so. You are going to do so. And that's what we are
25 scared to death of because we are already struggling.

1 They clearly have shown these practices of
2 increasing production above levels of support. And if
3 this order is repealed, then they are going to have an
4 outlet that will allow them to take pressure off that
5 European market, which is the market that really
6 matters to them from an economic profit standpoint,
7 and they're going to put that product on us, and it
8 will put us out of business. That's what I'm worried
9 about.

10 COMMISSIONER PEARSON: Well, I'm way beyond
11 my time here. But what I'm trying to understand is in
12 this fungible market, with surplus salmon sloshing
13 around the world, all of it getting eaten within three
14 weeks of when it gets slaughtered, somehow the market
15 is likely to level out such that it's very difficult
16 to maintain a higher price over time in the United
17 States. But for post-hearing --

18 MR. COOKE: This is a record that we can
19 probably produce then, speaking for my -- we didn't
20 actually show you previous years where that actually
21 is not the case.

22 COMMISSIONER PEARSON: Yes. And with the
23 help from Ms. Beck, I'd very much like to see that in
24 the post-hearing because I don't think I see it
25 clearly in the staff report that we have in front of

1 us now. If it's there, help me to understand how it's
2 there. And with that, Madame Chairman, I apologize
3 for running way, way over.

4 CHAIRMAN OKUN: Commissioner Aranoff.

5 COMMISSIONER ARANOFF: Thank you, Madame
6 Chairman. On page 87 of the Respondent's prehearing
7 brief, they argue that a meaningful portion of cooked
8 aquaculture's domestic production is shielded from
9 competition with subject imports. And I can't go into
10 why because it's bracketed in the brief. But I would
11 ask -- I mean, if you can respond to it now, that's
12 great. If not, I'd ask that you respond to it in the
13 post-hearing brief.

14 MR. COURSEY: We'll respond in a post-
15 hearing brief.

16 COMMISSIONER ARANOFF: Thank you. I want to
17 go back to some of the discussion that was going on
18 with my colleagues about the Russian market. In the
19 prior review, the Commission found that actions by the
20 government of Russia to suspend salmon imports from a
21 number of Norwegian farms was likely to reduce
22 Norwegian sales to Russia and force Norwegian
23 producers to seek alternative export markets.

24 But the record in the current review shows
25 that in fact rather than falling, Norwegian exports to

1 Russia have grown. So now we have a new situation
2 where certain Norwegian producers are having trouble
3 accessing the Russian market. And my question is, is
4 there any information that you can provide to suggest
5 that unlike the prior measures, the current measures
6 might actually stop or reverse the growth of Norwegian
7 salmon exports to Russia?

8 MS. CANNON: I mean, the information we
9 have, Commissioner Aranoff, is what we have put in the
10 brief, which is the new occurrence with the wild
11 salmon and what is going on there that is affecting
12 their purchases in conjunction with the limitations
13 that they periodically seem to impose on certain
14 Norwegian producers, as Mr. Cooke described, that come
15 and go that seemed to limit exports into that market.
16 That's the new development that we've identified.

17 COMMISSIONER ARANOFF: Okay. There was
18 discussion back earlier today during the direct
19 testimony about Norwegian production and capacity and
20 how to look at licenses relative to production
21 capacity. My understanding -- and I just want this to
22 be clear on the record -- is that when you have a
23 license in Norway, you can use it for either salmon or
24 trout. And if that's true, do we have any data in the
25 record that would permit us to separate out how the

1 capacity is being used for either salmon or trout?

2 MR. RUETTIGERS: That data certain exists.
3 That data certainly exists, and what you're seeing is
4 trout being replaced with the Atlantic salmon
5 production, broadly speaking.

6 COMMISSIONER ARANOFF: Okay. I think it
7 would be helpful to have on the record anything that
8 we could have that would tell us whether that capacity
9 -- what that capacity is being used for and if there
10 has been any changes.

11 MR. RUETTIGERS: Yes. I mean, but the trout
12 production in Norway, I mean, is de minimis relative
13 to Atlantic production.

14 COMMISSIONER ARANOFF: Okay. And given the
15 current situation of over-production, would they have
16 any incentive to shift production from salmon into
17 trout?

18 MR. RUETTIGERS: Well, trout has followed. I
19 mean, they are relatively comparable products, and
20 trout has followed the decline in Atlantic salmon
21 pricing, and it's not as -- you feel like just because
22 of the economics of trout, I want to be mindful of
23 time, but it's not as attractive on a per-unit
24 economic basis as Atlantic salmon because you have to
25 grow one fish, and it grows to a smaller size. So all

1 the fixed costs, et cetera.

2 So fundamentally, you're inclined to grow
3 Atlantics if you can choose between the two. And
4 given the decline in the market for Atlantics, trout
5 has come down as well. And so I don't think you're
6 going to see a wholesale changing. You saw some of
7 that in Chile, interestingly enough, when you just
8 couldn't grow Atlantics. They've moved to trout. But
9 then they've all moved back into Atlantics, and trout
10 has come down there as well somewhat.

11 COMMISSIONER ARANOFF: Thank you. That's
12 very helpful. I read in the Respondent's brief that
13 you saw a lot of grow-out cages in Norway have to be
14 left fallow for -- I think they said two months at the
15 end of each growing cycle. That doesn't sound as
16 stringent as the fallowing requirements that U.S.
17 producers need to follow. Can we have each of the
18 producers compare what they're doing to what it
19 appears that Norwegian producers are required to do,
20 and how that affects you competitively?

21 MR. COOKE: I'm not sure exactly the total
22 time zone of Norway. But in the U.S., just depending,
23 we actually fallow whole bay areas, just not sites.
24 And I think they're more talking about sites. And our
25 whole bay area has to be fallowed a minimum of four

1 months. But realistically, sites within that bay are
2 fallowed way more than a year. So that's the type of
3 fallowing that's required.

4 Part of that is because, as you remember in
5 our last sunset review, we talked about the ISA virus,
6 and that's part of the break the cycle of the ISA
7 virus.

8 COMMISSIONER ARANOFF: Okay. And on the
9 West Coast, is it the same?

10 MR. COOK: No. On the West Coast, we were
11 using more like the Norwegian two-month standard
12 between cycles.

13 COMMISSIONER ARANOFF: Okay. Skipping to a
14 different topic, on page 45 of the Respondent's
15 prehearing brief, they present four different measures
16 of capacity utilization for Norwegian producers, all
17 of which they argue support their contention that
18 they're close to some kind of ceiling. And I would
19 ask you for post-hearing if you would comment on the
20 four different measures and whether you agree that any
21 or all of them are reliable and deserve weight in the
22 Commission's analysis.

23 MS. BECK: Commissioner Aranoff, we'll be
24 happy to do that. If I could just add, though, now, I
25 think the important thing to see regardless of the

1 methodology used, there is in fact excess capacity.
2 And if you just look at it based on a capacity
3 utilization rate, you do see some variation. But when
4 you apply that to what the capacity is, the unused
5 capacity is a huge volume.

6 COMMISSIONER ARANOFF: Okay. And we will
7 take that into account. In the prior review, the
8 Commission found that because prices in the United
9 States for whole salmon from Norway were on average
10 higher than those in the E.U. or other Norwegian
11 export markets that subject imports would be able to
12 undersell the domestic like product while still
13 earning prices higher than they could obtain in
14 alternate markets.

15 Is that still an accurate way to view
16 current market conditions, or given the state of
17 oversupply, are you making a different kind of a
18 pricing argument now?

19 MR. COOK: Yes, that's correct. In the
20 weekly *Kontali Analyse Bulletin* that was put out for
21 week 46, salmon was trading at about 25 NOK, which at
22 5.8 NOK to the dollar translate to about \$1.87 U.S.
23 And in that same period, the U.S. market was more like
24 \$2.50, \$2.60, and so substantially higher than
25 European market.

1 COMMISSIONER ARANOFF: Okay.

2 MR. COURSEY: We'll address that in our
3 post-hearing brief, make it clearer and put that data
4 in.

5 COMMISSIONER ARANOFF: Okay.

6 MR. COURSEY: The *Kontali Weekly Report* is a
7 very good real-time, near real-time, analysis of what
8 is going on everywhere with respect to Norwegian
9 salmon.

10 COMMISSIONER ARANOFF: So the price injury
11 theory is still basically the same that it was in the
12 last review.

13 MR. COURSEY: Yes.

14 COMMISSIONER ARANOFF: Okay. In the last
15 review, the Commission rejected Respondent's argument
16 that exchange rates would limit Norwegian exports to
17 the United States in the event of revocation. And in
18 particular, the Commission noted that the information
19 about current exchange rates at the time was not the
20 same as having reliable projections about future
21 exchange rates.

22 In the current review, Respondents have
23 provided information about likely future exchange
24 rates. What weight should the Commission give that
25 information?

1 MS. CANNON: I would say very little. I
2 would encourage you to reach the same conclusion you
3 did last time. Projecting exchange rates, especially
4 in the economy we're in today, I think, is an
5 extremely speculative exercise.

6 MR. COURSEY: What is going on in Norway is
7 you have a large number of exporters. Some of the
8 exporters, many of the exporters, are larger. Some
9 are publicly held. And perhaps it is appropriate to
10 attribute some sort of deliberation in areas like
11 exchange rate calculations to them.

12 In a situation like this, you have a huge
13 number of smaller producers who are not particularly
14 sophisticated, and they're faced with a situation of
15 where are we going to send this salmon. We've got to
16 pull it out. We've got to send it somewhere, and
17 we've got to get something for it. That's the
18 context, I think, that this needs to be viewed in. It
19 is, I think, in the Respondent's interest to sort of
20 portray this as all a sort of scientific laboratory
21 exercise. But this is chaos. I mean, this is near
22 chaos. This is what is going on over there, is you
23 have got people who have lots of money sunk in their
24 backyards, and they've got to get some of it back
25 somehow.

1 COMMISSIONER ARANOFF: Okay. Thank you very
2 much. I appreciate those answers. Thank you, Madame
3 Chairman.

4 CHAIRMAN OKUN: Commissioner Pinkert.

5 COMMISSIONER PINKERT: Thank you, Madame
6 Chairman. I just have a few follow-up questions.
7 First of all, you may want to address this first one
8 in the post-hearing, but how would we see that
9 Norwegian pricing in other export markets is having a
10 ripple effect in the U.S. market?

11 MS. BECK: I would say, Commissioner
12 Pinkert, just to start, one example is the drop just
13 in a month or two earlier, basically spring into fall
14 of this year. I mean, it's a drop that the domestic
15 industry has not seen to that magnitude in that short
16 of amount of time. I mean, I don't know if Mr. Cooke
17 wants to go into more detail, but it's a drop that has
18 not -- it's an unusual situation that we're in now
19 that there has to be -- it's an effect of what is
20 going on in Europe.

21 COMMISSIONER PINKERT: Didn't apparent
22 consumption drop during that same time frame?

23 MS. BECK: Well, since June, the data in the
24 staff report that goes through June, there has been
25 some drop. From what the industry is seeing, the

1 demand is continuing to be either stable and maybe
2 potentially some slight drop, too. But to that degree
3 of a price decline, it just hasn't been seen over the
4 period. It wouldn't just be attributable to the
5 demand.

6 MR. COURSEY: Commissioner Pinkert, it
7 sounded to me like you were looking for some sort of
8 follow or like, you know, follow the dots. The
9 Norwegian price goes down, that results in U.K. price
10 of imports into the U.S. coming down, and that sort of
11 thing. I guess I didn't understand the question.

12 COMMISSIONER PINKERT: Well, I don't have a
13 clear idea of how you would show this. That's why I'm
14 asking.

15 MR. COURSEY: Well, one way you could --

16 COMMISSIONER PINKERT: You talked about the
17 ripple effect.

18 MR. COURSEY: Sure.

19 COMMISSIONER PINKERT: And I was wondering
20 how we would actually see that in the data.

21 MR. COURSEY: One way you might see that is
22 looking at monthly import stats because there are a
23 fair number of imports in the market over time, you
24 know, past six months, that might show a pushing down
25 of everybody from somewhere. What is going on is

1 everyone sees this, and you have the people that the
2 press turn to, which are analysts. You have the --
3 some of these are stock analyst reports on what to do
4 with the stock of Grieg or so forth, basically saying,
5 and this -- prices are coming down, and it's being
6 caused by Norway.

7 The first thing is it's global over-
8 production, is the first term that's used. Then it's
9 let's look at who is producing more. Well, you've got
10 Chile, you know, because they're back. And then
11 you've got Norway. Hey, surprise, you know, second
12 half of the year, much bigger production. When did
13 this happen?

14 You know, they're suddenly on a month-to-
15 month basis producing, you know, 10 percent more a
16 month than they were a year previously. There is a
17 certain amount of, geez, we didn't see this, didn't
18 see that it was going to happen this way. But we'll
19 take a look at the data and see what it -- you know,
20 if it can be explained that way.

21 MS. KIM: Commissioner Pinker, may I just
22 jump in here? An example of the ripple effect is
23 you've got the European market being one of the
24 largest markets for the Norwegians, and demand is
25 declining there. And price -- you know, you've heard

1 this morning about the prices being at break-even or
2 below cost in the E.U. market, and you've got this
3 excess supply of Norwegian -- of whole salmon. And as
4 it was explained to me yesterday -- and Mr. Cooke, if
5 he wants to jump in if I don't explain it correctly.

6 The way I understand it is you've got this
7 huge volume in Europe, and that's the most important
8 market for the Norwegian producers. So they're
9 dealing with their low prices there. And one way to
10 get the prices back up in the European market is to
11 ship the excess supply to other markets. And so when
12 they ship that excess supply to the U.S. market, then
13 the prices in the U.S. go down.

14 Do you want to jump in, Mr. Cooke?

15 MR. COOKE: So if you think of it as they
16 want to protect their vast market -- your home market
17 is the European market, obviously. So if they can
18 take 10 or 15 or 20 percent of their production, sell
19 it below cost to the United States, they could still
20 -- you know, they can get the cost, their price in
21 Europe back to making money again. And that's the
22 biggest danger. This is what had happened in previous
23 -- recently in the case against Norway. So there is a
24 history of doing that.

25 COMMISSIONER PINKERT: Thank you. Now, is

1 there a preference for large salmon in the U.S.
2 market?

3 MR. COOKE: No. There is all sizes of fish
4 in the market. Sometimes you'll get -- big fish will
5 get more money than little fish at certain times. It
6 just depends where that market ends up. Like a lot of
7 the six- to ten-sized fish, a lot of those end up in
8 the retail. A lot of the bigger fish will end up cut
9 or moved or sold whole in the food service. So it
10 just depends on -- but, you know, I've seen I go
11 either way. Like, you know, the price of big fish can
12 be high one time. It's whatever producers have more
13 of will be lower. And if you have less big fish, then
14 you're going to get more money for your big fish.

15 And, you know, I've heard in Norway, you
16 know, we ship their big fish to the United States.
17 Well, that obviously doesn't make any more sense than,
18 you know, like the market -- you know, you take a
19 whole range of fish into the marketplace. There is
20 just not one segment of the market is just going to
21 take all their big fish. They bring their big fish
22 here, that price is just going to crash like
23 ridiculously. So that just doesn't hold water.

24 COMMISSIONER PINKERT: Do the other
25 panelists agree that there is not a particular

1 preference for large?

2 MR. COOK: Yes, that's correct. Some
3 customers prefer smaller fish, but generally,
4 everybody takes the full range.

5 MR. RUETTIGERS: Yes. I mean, I think there
6 is a -- I think maybe they get there because there is
7 slightly higher pricing on the large fish, but that's
8 because there is just not as many of it, just from the
9 nature of the production pattern. There is no kind
10 of, oh, we need these large fish. There is some
11 premium on it.

12 MR. COOKE: Once you exceed 14 pounds as
13 well, they're very hard to sell. There are very few
14 homes for that size fish. So, you know, like 12 to
15 14s are okay in the marketplace. If you get above 14,
16 it gets very hard and hard to sell. So the larger you
17 get your fish, it just becomes very -- and from a
18 producer, you want to raise large fish because it's
19 lower cost to raise bigger fish.

20 MS. BECK: Commissioner Pinkert, Mr. Papas
21 is in the market every day dealing with his customers,
22 so I think he would like to add something, too.

23 MR. PAPAS: Yes. The full range of fish
24 sizes sells. There is a customer for every size fish
25 basically. There is a demand in retail for your

1 smaller sized fish. Your medium-sized fish produce a
2 fillet, cutting for particular needs for your fine
3 dining where you want a certain size portion, plate
4 coverage. You've got your sushi restaurants and
5 people of that nature who are looking for the larger
6 fish. So they're all consumed. They're all used.
7 There is a demand for all sizes, pretty much.

8 COMMISSIONER PINKERT: Thank you. Thank
9 you, Madame Chairman.

10 CHAIRMAN OKUN: Vice Chairman Williamson.

11 VICE CHAIRMAN WILLIAMSON: Thank you. I
12 just have a few more questions. So the Respondents
13 argue that a substantial share of Norway's production
14 is of value-added, non-subject products, and that a
15 portion of its exports of whole fish are to affiliated
16 value-added producers. And I was wondering, how do
17 you respond to that?

18 MR. COOKE: Very little of the Norwegian
19 production is added value in Norway, very little of
20 the overall production. I'm sure that number can be
21 provided, but it's a very low percentage of the
22 population or the number. So then they have some of
23 them, some of them, very few. And my understanding is
24 a huge -- you've got four or five public companies in
25 Norway, and then you have a vast amount of these

1 independent, medium-sized players. And those
2 independent, medium-sized players don't have any added
3 value of production. They don't have very serious
4 marketing -- in the market. And hopefully it's to cut
5 the fish.

6 There is a few of these large public
7 companies that we have in Europe, affiliates that
8 would cut the fish in the marketplace. But again,
9 it's not something that would float the overall
10 Norwegian industry.

11 VICE CHAIRMAN WILLIAMSON: Okay. So to the
12 extent that they do have affiliates, it's more likely
13 to be in the large volume market like Europe?

14 MR. COOKE: No. This is for European
15 consumption, though, not for -- I know of no
16 affiliates here in the U.S. that they would ship whole
17 fish to be filled. And I don't know that -- to my
18 knowledge, there is none in the U.S. In Europe, there
19 is, in Poland and I think Belgium and some of these
20 other countries, particularly with Marine Harvest.

21 VICE CHAIRMAN WILLIAMSON: Is this something
22 that might be developing in Russia or China, or is
23 it --

24 MR. COOKE: I would doubt that. I mean,
25 they're kind of blocked out of China, and Russia is a

1 very closed shop. I would very doubt that would
2 occur.

3 VICE CHAIRMAN WILLIAMSON: Okay, good.

4 MR. RUETTIGERS: In terms of the value-added
5 production capabilities?

6 VICE CHAIRMAN WILLIAMSON: Right.

7 MR. RUETTIGERS: Huge growth in the global
8 seafood industry. In farmed salmon, none, because of
9 the freshness issue. It has got to be fresh. And so
10 to send it to a reprocessing facility in China just
11 doesn't work.

12 VICE CHAIRMAN WILLIAMSON: Okay.

13 MR. RUETTIGERS: We send huge amounts of
14 frozen product there, but on this specific product,
15 it's not applicable.

16 VICE CHAIRMAN WILLIAMSON: Okay. Thank you
17 for that clarification. To what extent -- I guess
18 Phoenix's -- I know it has a new name -- operations
19 integrated with Cooke Canadian's operations, and does
20 this integration help insulate Phoenix from the
21 effects of subject imports?

22 MR. COOKE: The Cooke you ask was basically
23 taken. We had three entities in the U.S., and we made
24 them into one entity. That's basically as a name
25 change, basically. There is no structural -- it's a

1 complete separate entity in the United States.

2 MR. COURSEY: In the last couple of years of
3 the last sunset review period, 2004, 2005, Cooke
4 Canada was acquiring operations in Maine, and these
5 were owned and operated by Cooke. And it just has
6 taken time to work out the corporate side so that
7 they're all under one name now in the U.S. So there
8 is basically two Cookes. One is Cooke Aquaculture,
9 Inc., in Canada, and a Cooke Aquaculture USA, Inc., in
10 the United States.

11 And so all of the main operations are now
12 operating under this corporate entity. And --

13 VICE CHAIRMAN WILLIAMSON: I guess the other
14 question was I assume this integration has made the
15 company stronger. And I was wondering, has that
16 insulated the U.S. operation in any way from the
17 effects of subject imports?

18 MR. COOKE: No. To me, there is no way to
19 -- there is no insulation extra. If you look at the
20 farming side, in Maine we do the hatching. You know,
21 we do the farming. You know, we do the boat repair.
22 Everything is in Maine. The harvesting, everything is
23 all -- and processing. So like there is no -- you
24 know, certainly from, you know, a management
25 perspective, I'd hope it makes the overall management

1 team stronger because we have U.S., and branding and
2 that type of thing maybe.

3 But understand, to insulate us from what
4 happens in Norway, I mean, you know, if you look at
5 what Marine Harvest and Grieg and these companies have
6 done themselves, or big companies in Norway, and then
7 all of the smallest integration, and they're selling
8 below cost and they're reporting losses. So if that
9 supply that's in Europe today that is causing losses
10 for them and their own selves, come to the United
11 States. We're in loss situations. And it will come.
12 I mean, they have too much production. They don't get
13 it.

14 VICE CHAIRMAN WILLIAMSON: Okay. Thank you.
15 You already talked about Chile's recovery from the ISA
16 virus. Are there any other conditions in the Chilean
17 industry we should be aware of? Are they expanding
18 apart from that recovery?

19 MR. COOKE: You know, I think there is
20 expansion capability, but they're recovering right
21 now, and I think, you know, they're still not to their
22 -- they're pretty well getting to a level where --
23 their pre-ISA levels. So, I mean, I think everything
24 is stable, but they grow with that level and, you
25 know, I think they plan on growth going forward as

1 well. But, you know, they will keep more up with the
2 market percentage than what Norway has done.

3 VICE CHAIRMAN WILLIAMSON: Okay, good.

4 MR. COURSEY: If I could just add, what
5 happened in Chile with the ISA virus, that is a very
6 serious, negative thing. But it has happened in
7 Norway. It has happened in Maine. It's happened on
8 the West Coast, in Scotland. There are other things.
9 Sea lice are a problem everywhere. There is something
10 I've learned about recently that's going on in B.C.
11 What's that called again? Kadella.

12 You know, these are things that are -- it's
13 just like any animal husbandry thing. You know,
14 you're raising herds of cow. It's like there are
15 these dangerous things that have to be monitored and
16 guarded against, and they're going to flare up from
17 time to time.

18 So I think there is sort of an impression
19 though that Chile has been -- this is the first really
20 big -- this was a really big deal. It took them down
21 way low. And for awhile, there was a question about
22 are they going to come back. You know, how are they
23 going to do it? And there sort of seems to be an
24 attitude of, well, there is a different orientation
25 now. They learned a little bit of a lesson.

1 That remains to be seen. But they are, you
2 know, predicting -- they're doing these things that
3 everyone else does of sort of saying, hey, we're back.
4 We're going to be back in the market. We've got --
5 we've planted this much here. We have this many
6 smolts. So they are returning.

7 VICE CHAIRMAN WILLIAMSON: Thank you. Just
8 one last question. You've kind of touched on this
9 already. You've noted that the pricing managed almost
10 entirely overselling by subject imports. And I know
11 this is with the order in place, but we usually see a
12 more mixed picture in sunset reviews. And I was
13 wondering, what should we conclude from these pricing
14 comparisons?

15 MR. COOKE: I don't think you can conclude a
16 lot because there is a very low percentage coming in
17 from Norway of the overall market. And when you have
18 a low percentage of anything, you know you can niche
19 market, you can -- when we talk about them coming back
20 in, this is not niche marketing. This is major
21 volumes coming in exchange.

22 It's very hard to take a very little -- you
23 invited something, a very little of something, and you
24 can go niche market at restaurants or whatever else.
25 You're going to get a higher price. That's natural.

1 But when you have a flood of product coming in, and
2 it's hands barred that you're going to be back in the
3 United States market, that's a whole different story
4 that you have got to look at a whole different
5 picture.

6 VICE CHAIRMAN WILLIAMSON: Okay. Thank you.
7 And with that, I'll thank the witnesses for their
8 testimony.

9 CHAIRMAN OKUN: Commissioner Aranoff.

10 COMMISSIONER ARANOFF: Thank you, Madame
11 Chairman. I just want to -- this is to do with
12 shipping costs again and the competitive effect of
13 shipping costs. And I just want to work through this
14 a little bit more. The Respondents are arguing that
15 it wouldn't be rational for Norwegian producers to
16 ship salmon to the United States unless they could
17 recoup their shipping costs and make a profit. And if
18 I understand it, your argument is nobody is going to
19 make a profit. They just want to sell for something
20 more than zero. Well, that's part of the argument,
21 right.

22 And I guess my question is, you know, if
23 you're a Norwegian producer and you've got all this
24 salmon, and you have to do something with it because
25 it's at the point where you have to harvest it, would

1 it really make economic sense? You're already losing
2 money because the price is below your cost of
3 production. Do you then spend money on transportation
4 rather than just disposing of the product? Why does
5 that make sense.

6 MR. COOKE: Think of it this way, though.
7 If they could take 15 or 20 percent of their
8 production and sell it at below cost in the United
9 States, and allow their European market to recover so
10 they're making 3-4 percent profit or something in
11 Europe, their overall -- because that's where the
12 major -- 80 percent or 90 percent of their production
13 is going, they're going to remain profitable because
14 10 percent is at or below -- 20 percent is below cost.
15 And that's the normal thing that happens in a dumping
16 situation. And they did that before. That's exactly
17 what happened when this order was put in the first
18 time.

19 MR. COURSEY: You know, I think when you're
20 -- let me give a rough example. You have a producer
21 that has sunk two dollars a kilogram in swimming
22 inventory. It knows it can sell this product at a
23 dollar. It knows it is going to ship at 40 cents. It
24 costs 40 cents to ship. It's still going to make 60
25 cents. If you take it out and dispose of it, you make

1 nothing.

2 That's the economic -- they have -- they're
3 starting saying, I paid two dollars. I don't have
4 anything to show for it. And if that equation works
5 out to putting anything in their pocket, they're going
6 to ship it because just disposing it -- well, you
7 start talking about disposal costs to begin with.
8 There are more costs there. And this is a real --
9 when this happened in the early nineties, it was a
10 huge problem. What do you do with all this flesh, you
11 know, that is hanging around there?

12 You know, I come back to the same point of
13 look at the import statistics for fillets. No. There
14 is not a flood of fillets, but there is a healthy
15 trade of Norwegian fillets coming into this market.
16 Where does the net back go there? You know, is it
17 that it just doesn't wash?

18 COMMISSIONER ARANOFF: Okay. All right.
19 That's helpful. I think I'm following that.
20 Respondent's also, they make a claim that -- because
21 there is a lot of emphasis in your brief about falls
22 in prices during 2011. And the Respondents make the
23 point that some of this reflects seasonality in -- I
24 guess maybe it's the second quarter of the year
25 because of the availability of wild Alaskan salmon

1 affecting the price for farmed salmon.

2 And from the data that we do have on the
3 record, they do show that there is kind of a cyclical
4 price variability through the year, including lower
5 second quarter prices for certain products in certain
6 years. Does anybody want to comment on that?

7 MR. COOKE: You certainly get cycles through
8 the year. I mean, certainly going into Christmas,
9 volumes are up, and there is a different periods. But
10 never have we seen this percentage drop this quick.
11 And we understand as soon as they got into the --
12 started hitting their biomassing, they just started
13 creaming the crop off, as we discussed earlier, and
14 the price just plummeted very dramatically.

15 I mean, yes, through the year there is
16 higher pricings, and, yes, maybe July, August, but
17 usually September, October, prices strengthen. We
18 haven't seen that kind of strengthening.

19 MS. BECK: And, Commissioner Aranoff,
20 Respondents also argue that, yes, it's typical in that
21 any time now we'll be seeing an uptick in pricing
22 again, which is clearly not the case if you ask any of
23 the producers here. They are seeing a long-term trend
24 in the low pricing.

25 COMMISSIONER ARANOFF: Okay. Because we

1 have to balance that against the fact that the prices
2 were historically very high during the period of time
3 that Chile was out of the market. So you're seeing a
4 very big drop, but you're seeing a very big drop from
5 a point that's not typical.

6 MS. BECK: I would say even if you look at
7 not from the high point view, even just look from one
8 month to another, say in the midpoint of the year, you
9 will see a much more significant drop than seen in the
10 past.

11 MR. COOKE: We've got to remember, Norway is
12 losing money selling to the E.U. today. They're done
13 to -- they just got back up to 25 NOK. We understand
14 they were as low as 19 NOK for a few weeks there. So
15 basically, they're selling at below cost today in
16 Europe. That's a very big, important -- they haven't
17 done that in the past number of years, a kind of
18 seasonality thing. This is below cost.

19 MR. RUETTIGERS: Yes. I would also argue,
20 you know, look at how we behaved during that period.
21 I mean, we knew this was going to happen. We focused
22 on our cost structure. We focused on improving our
23 quality. Over those three periods, the Norwegians
24 decided to produce 250,000 tons more of production,
25 which is double what is in the entirety produced in

1 North America. And that's why we're in the situation
2 today. It has absolutely nothing to do with wild
3 Alaskan salmon production in the summer, in my
4 opinion.

5 COMMISSIONER ARANOFF: Okay. All right. I
6 appreciate that. I have one last question, and that is
7 you all discussed the fact that in your view some of
8 the over-production that's going on in Norway is due
9 to sort of individually rational but kind of in a
10 group basis not very rational planning about seeing a
11 market opportunity, and then it turns out that
12 everyone is pursuing the same opportunity, and you've
13 hit over-production.

14 And so I wanted to ask for each of the U.S.
15 producers, when you're deciding three years in advance
16 how much salmon you think you want to produce, and you
17 know that there are all these hazards of diseases and
18 weather and other things that can happen in the
19 meantime, do you decide how much you want to produce
20 and that's, you know, how many you start with, or
21 assuming a certain yield loss that, you know, I know
22 you can estimate? Or do you kind of try to over-
23 produce on the chance that some bad thing is going to
24 come along and make your yield lower than you expect,
25 which obviously is going to mean that in some years

1 there is going to be bumper crops for somebody that is
2 going to mess up the market?

3 I'm trying to figure out how producers think
4 about this when they have to think so far in advance.
5 Do you try to produce -- you know, put in too much,
6 figuring some of it's not going to make it, or do you
7 put in what you think you need, and then end up short,
8 and figure out that then prices will go up, so you'll
9 be okay?

10 MR. COOKE: We've -- normally you have to
11 -- obviously, there is a -- you want to call it a
12 yield loss or mortality. So that's a natural
13 calculation in your numbers. You put whatever your
14 crop in. We have always said we were not going to
15 grow above what the market growth normally is. And,
16 you know, we've always planted a 3 percent growth on
17 that. And in some years, it's actually been lower
18 than that, and because to me it is you can kind of
19 understand reasonably what the market growth -- the
20 market growth is not going to grow by 12 or 10 or 11
21 percent, the kind of growth that you're seeing from
22 Norway. You know that's not going to happen. But you
23 presume that there is going to be a 2 or 3 percent
24 growth in the market, and that would be kind of the
25 growth plan that we would grow organically, which is

1 more of a reasonable number than these double digits
2 that we're seeing out of Norway.

3 COMMISSIONER ARANOFF: Okay. Let me ask the
4 other Mr. Cook.

5 MR. COOK: We maintain a certain amount of
6 insurance biomass in our freshwater system, so we'll
7 run extra smolts through certain periods in the event
8 that we have a larger than expected mortality in
9 seawater. But when it comes to seawater, we put in
10 the fish that we believe we can sustainably raise to
11 harvest size, and we don't overstock by, you know, any
12 significant margin because there is some biological
13 limits that will push back very hard on an operation
14 if you try to exceed those, if you overstock your
15 pens, for example.

16 The fish don't like it. If they don't like
17 it, they don't do well. So there is some real kind of
18 biologically induced barriers to overproducing. And
19 we just don't have the space either.

20 COMMISSIONER ARANOFF: Okay. Mr. Coursey?

21 MR. COURSEY: There is an old joke that you
22 never meet a farmer who had a good year because, you
23 know, either they produced too much and couldn't get
24 enough price, or the price went up, and they produced
25 too little. When you see the regions in 2005 saying,

1 their experts saying, there is going to be no growth
2 for the next three years, we don't look back and say,
3 oh, they were lying. You know, somebody believed
4 there was going to be no growth, and believed it
5 pretty hard to get up, you know, at a group of
6 Respondents and before the Commission and say this is
7 not going to happen.

8 It happened. It's really not that
9 difficult. What makes it more complicated -- I mean,
10 it's sort of the hog cycle, going back to the old pork
11 and swine cases. It happens in almost every
12 commodity. What makes it complicated here is you've
13 got three years. It's not just season to season.
14 It's like I'm going to make decisions now, and I'm not
15 going to not just get paid for a year. I'm not going
16 to get paid for two and a half or three years. And
17 you're dealing with a whole new world when that third
18 year comes around. And did you -- I'll leave it at
19 that. Thanks.

20 COMMISSIONER ARANOFF: Thank you very much
21 for all those answers. I appreciate everything that
22 the witnesses have been able to provide today. Thank
23 you, Madame Chairman.

24 CHAIRMAN OKUN: No other questions from the
25 commissioners. Let me see if the staff has questions

1 for this panel.

2 MR. McCLURE: Am I on? Jim McClure, Office
3 of Investigations. Madame Chairman, the staff has no
4 questions.

5 CHAIRMAN OKUN: Let me turn to counsel for
6 those in opposition to continuation of the orders to
7 see if they have questions for this panel.

8 MS. SLATER: No questions. Thank you.

9 CHAIRMAN OKUN: Okay. Well, then I think
10 this would be a good time for us to thank this panel
11 again for all of your answers this morning and this
12 afternoon. I very much appreciate your presence here.
13 And it's an excellent time to take lunch. I'll remind
14 everyone before we adjourn that the room is not
15 secure, so please take any confidential information
16 with you. And we will resume at 2:05.

17 (Whereupon, at 1:04 p.m., the hearing in the
18 above-entitled matter was recessed, to reconvene at
19 2:05 p.m. this same day, Wednesday, November 30,
20 2011.)

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1 Mr. Sundheim on my left is the Director for
2 Market Information and Market Access of the Norwegian
3 Seafood Export Council. Sitting behind me is Mr.
4 Dynefors-Hallberg, who is also the counsel for the
5 Norwegian Seafood Export Council. And also behind me
6 is Mr. Soraa, who is the President and CEO of Coast
7 Seafood. Mr. Soraa will not be presenting testimony,
8 but he is a major -- his company is a major exporter
9 of Norwegian salmon, so he'll also be available to
10 answer questions.

11 To my right is Mr. Ken Taylor, the sales
12 director for Marine Harvest USA, and next to him is
13 Mr. Morten Vike, who is the CEO of Grieg Seafood. I'm
14 sorry. Mr. Klett, who you recognize -- I didn't mean
15 to skip you -- is between them, of course.

16 I will mention at the outset that
17 unfortunately, Mr. Vike has another engagement that
18 was unexpected, and he is going to have to leave here
19 to catch a plane at about 4:30. So we'll get through
20 our testimony as quickly as we can so you'll be able
21 to pepper him with as many questions as you would
22 like.

23 I'd like to start by asking Mr. Nerheim to
24 give you his statement. Thank you.

25 MR. NERHEIM: Am I on? Okay. And good

1 afternoon, Madame Chairman and members of the
2 Commission. My name is Magnore Nerheim. I am
3 Director General in Norway's Ministry of Fisheries and
4 Coastal Affairs, where I oversee the Department of
5 Aquaculture, Seafood, and Markets.

6 I have been in my present position for 16
7 years, and have spent more than 35 years working in
8 the ministry. My department is responsible for the
9 administration of the regulatory frameworks applicable
10 to Norway's aquaculture industry. Among other jobs,
11 we are responsible for trade policy and market access
12 issues related to seafood from Norway, including
13 aquaculture products.

14 Today I will address three topics. First, I
15 will give you an overview of the current system of
16 licensing and the biomass limits associated with
17 salmon farming in Norway. Second, I will discuss the
18 capacity increases and the decision made in November
19 of 2010 not to consider any new capacity until
20 sometime in 2012. And finally, I wish to briefly
21 address the issues of Norway's exports of fresh salmon
22 to Russia and to China.

23 Let me first turn to our licensing system.
24 As was the case six years ago, Norwegian salmon
25 farmers must hold a government-issued license to be

1 able to farm Atlantic salmon. Licenses are granted
2 for production in a particular region and may be used
3 to produce either salmon or trout. Presently, we have
4 issued 946 licenses for commercial production of
5 salmon and trout, and an additional 66 licenses that
6 may be used to produce salmon from brood stocks --
7 that is the fish used for production of eggs -- or for
8 R&D purposes.

9 While our basic licensing system has not
10 changed, there have been important developments since
11 the previous sunset review. Between 1996 and 2005,
12 Norway effectively limited its salmon farming
13 production through the use of trade quotas. In 2005,
14 the trade quotas were eliminated, and the effective
15 constraint on salmon production has since been the
16 number of licenses and the maximum allowable biomass,
17 or MAB, associated with those licenses.

18 The MAB is the maximum allowable quantity of
19 biomass, meaning the total weight of live fish that
20 may be in the water in the growing pens at any point
21 in time. The biomass in the water will be made up of
22 the fish at all stages of growth, and is therefore
23 constantly changing with the introduction of new young
24 fish, the smolt, the growth of the fish in the pens,
25 and the harvesting of some portion of the grown fish.

1 The farmer has the responsibility to ensure
2 that he does not exceed his maximum allowable biomass.
3 The farmer who exceeds the biomass limits is subject
4 to very significant financial penalties. Most
5 licenses have a limit of 780 metric tons, and licenses
6 in the most northern regions have a limit of 945
7 metric tons.

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

15 To understand the MAB system, you should be
16 aware that the actual biomass levels follow a clear
17 seasonal pattern, and in many months of the year, the
18 growing conditions give lower biomass. Even in the
19 peak month, typically October and November, when
20 biomass is highest, some farmers' biomass does not
21 reach the MAB levels, while many during these months
22 actually do reach the levels, and therefore have to
23 slaughter fish, as Mr. Glen Cooke and Mr. Coursey said
24 this morning.

25 The number of licenses and the MAB limits

1 therefore represent something of a maximum theoretical
2 capacity for salmon and trout production in Norway.
3 And in the manufacturing industry, you might call this
4 a nameplate capacity.

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

8 My second topic is capacity increase. The
9 Norwegian government has not rapidly expanded the
10 number of licenses for salmon production, and very few
11 have been added in recent years, none in 2010, and
12 only 4 came into effect this year when we reached our
13 total of 946 commercial licenses.

14 In late 2010, we abandoned a planned MAB
15 increase of 5 percent that had been announced for
16 2010. The reason for this was increasing concerns
17 about the development of sea lice along the coast and
18 fjords in Norway, and we only raised the MAB limits in
19 the two most northern regions from 900 to 945 metric
20 tons. This increase represented a 1 percent increase
21 in the national MAB.

22 The Norwegian government has limited the
23 number of licenses it grants because it is very
24 important for Norway to have both a profitable and a
25 healthy farming salmon industry. Two factors are

1 important criteria for granting additional licenses,
2 the one being expected demand growth in the market,
3 and the other would be the impact of additional
4 licenses on sustainability of our aquaculture
5 industries.

6 As our fisheries minister indicated in
7 explaining the strategy for an environmentally
8 sustainable Norwegian aquaculture industry that was
9 adopted in 2009, quote, "Growth in the aquaculture
10 industry cannot be determined solely by market
11 demands. It must occur within the limits that the
12 environment can tolerate," unquote.

13 In 2010, we also made a decision that we
14 would not even consider the possibility of new
15 capacity for salmon and trout farming until 2012.
16 That assessment and decision will be made by the
17 cabinet, and will not be made until late next year.
18 However, given our policy for sustainability and
19 responsible growth, the cabinet will only grant new
20 licenses if both considered consistent with our
21 strategy for sustainability and with observed and
22 expected market growth.

23 I do not expect that there will be any
24 dramatic or significant change in Norwegian capacity.
25 Also, if any new capacity were to be added, which is

1 not certain, the implementation of that decision would
2 not occur until 2013.

3 Finally, I would like to address the
4 arguments that have been made concerning Norway's
5 access to Russian and Chinese markets. With respect
6 to Russia, I believe that the data tells the story
7 very well. Russia has been a very important and
8 growing market for Norwegian salmon. From the 1
9 metric ton that was exported to Russia in 1993, Norway
10 has grown its export to over 75,000 metric tons in
11 2010.

12 This year, we are on a pace to exceed that
13 record level by 25 percent. And Russia is now our
14 second biggest market for whole fish salmon after
15 France. The regulatory regime that Russia instituted
16 in 2006 requires inspection and preapproval of
17 Norwegian processing plants by the Russian Veterinary
18 Service as a condition for importing to Russia. The
19 regime has not been any obstacle to tremendous export
20 growth.

21 In China, as was also touched upon during
22 this morning's session, the testing and quarantine
23 procedures that were instituted in December of 2010
24 have resulted in a decline in Norway's export to
25 China. We are, however, through the WTO SPS Committee

1 process to address -- we are there working to address
2 China's policies, which we believe to be contrary to
3 China's WTO obligations. We will continue to make
4 every effort to encourage China to change its
5 policies.

6 However, it is important to look at the
7 figures and volumes. China has never accounted for
8 more than 1.6 percent of total Norwegian exports. In
9 addition, our exporters are railroading salmon to
10 other Asian markets, and this shift has resulted in
11 the volumes of export to Asia remaining unaffected.

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

14 MS. SLATER: Thank you. We're now going to
15 hear from Mr. Ken Taylor of Marine Harvest USA.

16 MR. TAYLOR: Good afternoon, Madame Chairman
17 and members of the Commission. My name is Ken Taylor,
18 and I'm the sales director of whole fresh salmon for
19 Marine Harvest USA. I have held this position for the
20 last four years, and prior to that, I was the North
21 American sales director for pan fish for 10 years
22 before its acquisition of Marine Harvest.

23 I have been involved with the sales of
24 farmed Atlantic salmon in the United States for some
25 21 years. I've been in the seafood industry virtually

1 my entire working life, and started out as a
2 commercial fisherman in Alaska while attending
3 college.

4 Marine Harvest is the largest producer of
5 farmed Atlantic salmon in the world, with farming
6 operations in Norway, Canada, Chile, Scotland,
7 Ireland, and the Faroe Islands. In Europe, we also
8 produce salmon fillets and other value-added salmon
9 products. Marine Harvest also has salmon processing
10 facilities in the United States, in Miami and Los
11 Angeles.

12 I am responsible for Marine Harvest sales in
13 the United States and Canada of whole salmon that we
14 produce in Canada, Scotland, Faroe Islands, and
15 Ireland. I would like to speak to you today about the
16 U.S. market, particularly about how whole fresh
17 Atlantic salmon is sold, the U.S. market segments, and
18 pricing.

19 Although Marine Harvest salmon farming
20 operations in Canada are located in British Columbia,
21 we sell to all markets in the United States, including
22 the East and West Coast. Although salmon ultimately
23 is consumed in forms such as fillets, steaks,
24 portions, most farmed Atlantic salmon that we import
25 into the United States from Canada is in the whole

1 form. Logistically, our Canadian operations, like
2 other Canadian salmon farms, have a significant
3 freight advantage in selling to the U.S., as there is
4 not much further processing infrastructure in Canada.

5 Most processing takes place in the United
6 States after importation. There are two broad
7 segments of the U.S. market into which whole fresh
8 Atlantic salmon are sold. The largest is what I'd
9 like to call the retail market. This is whole fresh
10 Atlantic salmon that will ultimately be sold at retail
11 supermarkets or specialty fish retailers, primarily as
12 fresh Atlantic salmon fillets.

13 This market segment accounts for 60 to 70
14 percent of the whole fresh Atlantic salmon sold in the
15 United States. This salmon is generally sold first to
16 U.S. processing distributors that own their own
17 equipment to process whole fresh Atlantic salmon into
18 fillets and other salmon cuts. These distributors
19 then sell the salmon cuts to retailers, who in turn
20 sell to consumers.

21 Some retailers, particularly smaller
22 specialty fish retailers, may purchase and fillet the
23 whole salmon themselves, but this is a relatively
24 small volume. Whole fresh Atlantic salmon sold in the
25 U.S. market for retail is generally less than 12

1 pounds in size. This fish is preferred for this
2 segment because it converts into two- to four-pound
3 fillets, which are the most desired by the consumers.

4 At Marine Harvest Canada -- and I believe it
5 is the same for other Canadian producers -- we are
6 targeting the production sizes of salmon that are
7 suitable for this very large processing retail market.
8 This is by far the largest segment of the market, and
9 it is the most commoditized.

10 The second market segment has two parts.
11 The first part is whole fresh salmon that is purchased
12 by specialty seafood distributors who fillet the fish
13 and sell the fillets to restaurants, hotels, caterers,
14 institutions. That is a non-retail buyer of fillets
15 who deliver the fish to the consumer in a cooked form.
16 This market segment accounts for 20 to 25 percent of
17 whole fresh Atlantic salmon sold in the United States.
18 Whole fresh salmon sold for this segment of the market
19 is also generally less than 12 pounds in size.

20 The second part of this non-retail segment
21 for whole fresh salmon is the sushi and select white
22 tablecloth restaurant segment. These customers prefer
23 sizes greater than 12 pounds, and often prefer salmon
24 above 14 pounds in size. Sushi restaurants do their
25 own preparation, and they also want to assess the

1 quality and freshness of the whole fish. In addition,
2 purchasers of salmon for sushi are very particular
3 when it comes to factors such as texture, fat content,
4 which affects the taste, and fat lines, which affects
5 the visual appeal.

6 Larger fish tend to be better on these
7 parameters and to have the whiter fat lines that make
8 the raw fish visually appealing. Certain white
9 tablecloth restaurants also prefer to purchase whole
10 salmon and fillet themselves. The Scottish and
11 Faroese salmon that Marine Harvest sells in the United
12 States are of a size and quality favored for sushi and
13 these select white tablecloth restaurants.

14 Canadian production certainly brings some
15 large fish to the market and into this segment.
16 However, Canada cannot consistently provide enough big
17 fish to meet this demand. Normal production
18 constraints in Canada and limited U.S. production
19 means the supply of salmon 12 pounds and above, and
20 especially the 14 pounds and above, is limited.

21 In addition, the production cycle in Canada
22 means that there are periods of time when larger fish
23 will be particularly in short supply. However,
24 customers in this segment need and will pay for a
25 consistent supply of large quality fish. This market

1 segment accounts for 10 to 15 percent of the whole
2 fresh Atlantic consumption. This has been the U.S.
3 market segment with the strongest growth over the last
4 five years. In fact, in recent years, there has been
5 a proliferation of specialty distributors principally
6 serving the sushi segment, and are demanding the
7 larger fish.

8 Each of these segments also display pricing
9 differences correlated with size. Our smaller whole
10 fresh Atlantic salmon is generally lower priced than
11 the larger salmon. We can see this from Urner Barry
12 pricing data. In Seattle, the price of 10-12s for
13 fresh whole Atlantic salmon averaged 2.42 a pound in
14 October of this year, compared to 2.83 for the 16-18
15 pound salmon, a 17 percent difference.

16 There are periods during the year when this
17 differential is larger or smaller depending on supply
18 availability by weight band of salmon. For example,
19 in November of this month, for a short period of time,
20 there was greater supplies of large salmon. And the
21 premium for large salmon over small salmon was
22 significantly less. This happens on occasion, but it
23 is the exception rather than the rule. And in
24 general, larger size salmon commands a price premium
25 in the U.S. market.

1 Marine Harvest serves the U.S. market with
2 whole fresh salmon from our operations in Canada. We
3 produce approximately 33,000 metric tons per year in
4 Canada, with approximately 70 percent going to the
5 U.S. market, and most of the remainder sold in Canada.
6 When we import Scottish and Faroese whole fresh salmon
7 into the U.S. market, we are primarily serving this
8 sushi and select white tablecloth restaurant segment
9 of the market.

10 At 90 percent of the salmon that Marine
11 Harvest exported to the United States from the Faroes
12 and Scotland in 2010, was six kilos in size -- that's
13 13 pounds or larger. We just don't import smaller
14 sizes from Europe. There are no restrictions on
15 Scottish or Faroese salmon. The market is just not
16 attractive outside this higher price segment for us.

17 For Norway, which has the higher freight
18 cost to the U.S. than does Scotland or the Faroe
19 Islands, shipping whole fresh salmon into the market
20 dominated by Canadian suppliers would make less sense
21 than shipping Scottish or Faroese whole salmon.

22 Finally, while I know this case is about
23 whole salmon, I want to call your attention to the
24 recent experience of Norwegian salmon in the fresh
25 salmon fillet market here, to help you understand that

1 Norwegian producers are simply not attracted to the
2 U.S. absent prices that offset the transportation
3 costs.

4 Chile has been for many years the primary
5 supplier to the U.S. for fresh salmon fillets,
6 accounting for about 90 percent of all fresh fillet
7 imports into the United States prior to 2009. In
8 2009, Chile's fillet exports to the United States
9 plummeted, due to the outbreak of ISA that devastated
10 Chile's industry. For that time, Norwegian fillets
11 had a small portion of the U.S. market.

12 In 2008, for example, Norway accounted for
13 only 2.5 percent of the imports. Norwegian fillets
14 were always higher priced, but given Chilean supply
15 and pricing, which reflected Chile's lower processing
16 costs and freight advantages of the U.S. market,
17 Norway was never able to sell much volume at a high
18 enough price to make the market attractive.

19 In 2009, with Chile's withdrawal from the
20 U.S. fillet market, Norway fillet imports, including
21 from my company, increased substantially for the first
22 time. But prices remained strong and well above the
23 pricing point that had been set by the Chilean
24 fillets.

25 In 2011, as Chilean volumes began to ramp

1 up, and as prices were expected to and then did fall,
2 Norway quickly reduced its fillet shipments into the
3 United States. There are no restrictions imposed on
4 Norwegian salmon fillets. Norway's limited
5 participation in the U.S. fillet market prior to 2009
6 and after early 2011 was a result of the same factors
7 that make the U.S. unattractive for Norwegian whole
8 salmon.

9 Other suppliers have a competitive advantage
10 and set the market prices at a level that leaves
11 Norwegian producers better off shipping to the markets
12 where it can make better returns. Thank you.

13 MS. SLATER: You're now going to hear from
14 Mr. Vike from Grieg.

15 MR. VIKE: Good afternoon. My name is
16 Morten Vike. I'm the CEO of Grieg Seafood. I'm
17 pleased to be here today to tell you about our company
18 and to explain how we make our selling decisions at
19 Grieg, and how Grieg sees the whole fresh salmon
20 market today.

21 Grieg is one of the world's leading fish
22 farming companies. We produce Atlantic salmon in two
23 regions in Norway, in British Columbia in Canada, and
24 in the Shetland Islands in Scotland in the United
25 Kingdom. Our total annual production of Atlantic

1 salmon is approximately 63,000 metric tons, gutted
2 weight, about half of which is in Norway.

3 Even though Norway's production has grown
4 over the last six years, this growth has been in
5 response to strong demands, and as a result, our
6 prices have also increased. Grieg's Norwegian
7 production of fresh whole Atlantic salmon has grown
8 substantially from 2005 to 2010. But at the same
9 time, average value for whole fresh Atlantic salmon
10 sales during that period increased by almost 40
11 percent on average.

12 Grieg's export to Russia went from
13 absolutely nothing in 2005 to a volume that made
14 Russia our second largest export market last year, and
15 has continued to grow in 2011. The development of the
16 Russian market has been particularly important. We
17 have production in two regions in Norway. Our
18 production in Finnmark in the northernmost part of
19 Norway is particularly well situated to serve the
20 neighboring Russian market, to which some is
21 transported by truck, and mostly picked up by our
22 Russian buyers themselves.

23 Most of Grieg's projected harvest growth in
24 2012 will be in Finnmark and will be directed to the
25 Russian markets. Our Asian exports have also

1 increased substantially. In that regard, I want to
2 explain to you how it is that we at Grieg make our
3 sales decision concerning our Norwegian salmon and why
4 exporting whole fish to the U.S. market from Norway
5 makes no sense for us, or for any other Norwegian
6 suppliers.

7 In making our sales decision, we actually
8 compute what our best return will be given prevailing
9 prices in alternative export markets, taking into
10 account packing cost, transportation costs, and extra
11 freight differences. We do this through the use of a
12 computer program that tells us each week where we will
13 earn the best return on our salmon.

14 I have reviewed the analysis that was
15 presented in our prehearing brief, and this analysis
16 very much reflects the actual process we go through in
17 deciding where to sell our whole fresh salmon. Our
18 starting point will be the prices that our sales
19 affiliates quote us, and from this we calculate what
20 our net return would be for each market.

21 Of course, we do also take into account
22 longstanding customer relationships and the importance
23 of our core markets, meaning that the small change in
24 the relative returns for a short period of time will
25 not see us shifting a large of supply from one market

1 to the other.

2 Because we actually look for the best return
3 in selling our whole fresh salmon, exporting our
4 Norwegian salmon to the U.S. market makes no sense.
5 Sending whole fresh salmon from Norway to the United
6 States cost approximately 900 ton Norwegian *kroner*
7 more than it cost Canadian suppliers to ship whole
8 fresh salmon here.

9 This represents about 20 to 30 percent of
10 the average export price from Norway in 2011. Given
11 price levels in the U.S., which in fact are set by us
12 Canadian suppliers, who account for about 70 percent
13 of the U.S. whole fresh salmon market as well as the
14 supply of salmon fillets from Chile, selling to the
15 United States is almost never a better option for us
16 from Norway. We can almost always set a better price
17 by selling our Norwegian product to Europe or Russia.

18 I'll give you an example. Today, to send a
19 whole fresh salmon by air to the U.S. from our
20 processing plant in Rogaland, which is in southern
21 Norway, would cost an average of about 13 NOK a kilo,
22 including freight to the airport, packing costs for
23 air freight, and the air freight to the United States.
24 Our cost from Finnmark in northern Norway would be
25 higher.

1 The U.S. price for an industrial sized
2 salmon, say eight to ten pounds, the size used for
3 processing into fillets, is now at \$2.45 a pound.
4 This converts at current exchange rates to 30.50 NOK
5 per kilo, yielding us a return of NOK 17.50 a kilo
6 after deducting the 13 NOK a kilo in transportation
7 cost.

8 The average export price for this time
9 period to non-U.S. markets, that is, primarily Europe,
10 was NOK 22.47 per kilo delivered at Oslo based on the
11 north clearing data. Freight from our packing plant
12 to Oslo is about 1 NOK a kilo, so the average net
13 return from exporting to a non-U.S. market is about
14 NOK 21.47 a kilo, which is a much better return than
15 the NOK 17.50 we would have got if we exported to the
16 United States.

17 If we were to ship to the U.S. market, we,
18 and I believe also other Norwegian exporters, would
19 have to explain to our shareholders why we are
20 choosing to sell to a market that is less profitable.
21 It would not be a rational business decision, and we
22 would simply not do that.

23 It also does not make business sense to do
24 so given the substantial investments we have made to
25 supply the U.S. market from our operations in Canada.

1 You can see that the U.S. market is not very
2 attractive for Norwegian salmon exports by considering
3 what has happened with fillets. Norwegian fillets
4 have just not made their way to the U.S. despite the
5 absence of any restrictions. Exporters prefer the
6 higher returns in Europe and elsewhere.

7 There was an exception briefly when Chile
8 exited the U.S. fillet market in 2009 and 2010, but
9 that situation did not last long. At Grieg, we have
10 many inquiries from U.S. buyers seeking to replace
11 Chilean fillets. We evaluated the opportunities, but
12 did not find them as profitable as other options. The
13 same is true for whole fresh salmon.

14 It was precisely because production in
15 Norway and Scotland is not well positioned to serve
16 the U.S. market that Grieg, like a number of other
17 larger Norwegian salmon producers, had established
18 salmon farms in Canada. We have been there since
19 2002, and we produce currently approximately 13,000
20 metric tons of Atlantic salmon in British Columbia
21 every year, and almost all of it is exported to the
22 U.S. market in the form of whole fresh salmon.

23 I do wish to note at the same time that my
24 company has supplied a limited quantity of whole fresh
25 salmon to the U.S. from our Scottish production.

1 Given what I've just told you, this may seem not to
2 make any sense. But what we have found is there is a
3 small segment of the U.S. market that wants and will
4 pay a higher price for large fish from Scotland. The
5 price is sometimes, although not always, high enough
6 to make the U.S. more attractive for those sizes than
7 the price in other markets.

8 This has never been the case for smaller
9 sizes. You can see in your import data that the price
10 of whole salmon imported from Scotland is higher, for
11 example, than prices from Canada. Why would a buyer
12 purchase the more expensive Scottish salmon when
13 Canadian and perhaps a small quantity of U.S. salmon
14 as well are available at lower prices? The reason for
15 this is that there is typically not enough of the very
16 large fish from Canadian suppliers to satisfy the
17 growing demand for this large fish.

18 This mostly goes to the increasing sushi
19 segments and to some white table cloth restaurants
20 that prefer larger salmon. Of course, there are
21 points in time that many larger fish may be available
22 to the market, and the size premium may disappear
23 briefly. But in general, it is the larger fish which
24 commands the high price that sometimes attracts
25 Scottish salmon in the U.S. market.

1 Some larger Norwegian fish may also be
2 attractive here by higher prices, but even for its
3 large size salmon, Norway has a more proximate and
4 attractive market. The Russian market, which
5 Norwegian suppliers can serve more competitively than
6 Scotland, has a relatively higher demand for larger
7 sizes of fish. Asian buyers also have a very strong
8 preference for large fish, about 12 pounds.

9 Finally, I'd like to address the current
10 market situation that we heard so much about this
11 morning. It is important to recognize that our
12 industry does experience cycles. Over time, we have
13 price increases and price declines. Most recently,
14 the very high pricing that we saw in 2010 was due to
15 the loss of almost all Chilean production in 2009,
16 coupled with very rapid demand growth globally.

17 This very tight supply demand balance
18 resulted in the very strong pricing levels. However,
19 also very high prices in turn resulted in some demand
20 destruction, as consumers turned to lower price
21 seafood and other proteins, and as some restaurants
22 and retailers moved away from Atlantic salmon.

23 Subsequently, prices declined beginning in
24 the summer of 2011, and still a return to the market
25 much more quickly than anyone had anticipated. Most

1 analysts had expected that Chile would not resume
2 significant levels of production until 2013 or even
3 2014. The increasing supply coupled with a price-
4 related demand softening in Europe and elsewhere has
5 caused a price decline. This type of price drop
6 following a peak is not unusual. And just a few key
7 points about that.

8 Firstly, in this industry, as prices drop,
9 demand for Atlantic salmon increases. This process
10 normally takes a few months, as lower prices filter
11 down through the supply chain to the consumer, and as
12 contract pricing reflects changes in market
13 conditions. However, we have already seen significant
14 increases in demand in Russia, where price changes
15 flow through much more quickly, and we are also
16 already seeing increases in Europe.

17 Secondly, in the increases in Norwegian
18 harvest that we saw in the third quarter of this year
19 as compared to the third quarter of last year were
20 largely the result of unusual or unusually good
21 growing conditions during the third quarter, and also
22 the fact that harvest levels early in the year were
23 below expectations.

24 Year-end year, Norway's production growth in
25 2011 will be 5 percent. Moreover, the production

1 plans that most Norwegian producers made for 2011 and
2 also for 2012 were actually made back in 2008 and
3 2009. These decisions took into account the rapid
4 growth in demand that we have actually also seen as
5 well as the expectation that Chilean production would
6 be down.

7 To somehow point a finger and to suggest
8 that Norwegian production this year was irresponsible
9 or disconnected from the market is, in my view, simply
10 incorrect. Production decision must be viewed in
11 terms of the market expectations at the time they are
12 made.

13 Thirdly, the market is already beginning to
14 correct itself. As demand grows in response to lower
15 prices, the situation is improving. In fact, as I
16 just noted, we are already seeing positive reaction in
17 demand, and prices are improving. It should also be
18 noted that as Chilean supply returns to global
19 markets, Norwegian producers are able to and in many
20 cases are reacting appropriately.

21 My company, for example, has already decided
22 that we will not increase the number of smolt we'll
23 put into sea in the next year, and a number of other
24 larger producers have also made similar decisions.
25 However, we do expect demand to continue to grow, as

1 it has over the last six years, especially in emerging
2 markets such as Russia and in the Asian and European
3 market.

4 Finally, it is important to realize that
5 this latest market dip does not indicate that a U.S.
6 market will somehow become more attracted to Norwegian
7 suppliers. Given the lower prices, the choice of
8 markets with the best net pricing becomes particularly
9 important. Because prices have declined everywhere,
10 the U.S. market remains as relatively unattractive as
11 it was at the top of the cycle.

12 Thank you, and I look forward to answering
13 your questions.

14 MS. SLATER: You're going to hear from Mr.
15 Sundheim from the Norwegian Seafood Export Council.

16 MR. SUNDHEIM: Good afternoon,
17 Commissioners. My name is Egil Sundheim, and I'm the
18 Director of Market Information at the Norwegian
19 Seafood Export Council, or NSEC. One of the primary
20 responsibilities of NSEC is to promote worldwide
21 demand for Norwegian seafood. In this respect, we
22 also work on monitoring and analyzing the demand for
23 salmon in the main salmon markets.

24 There are two issues I would like to
25 discuss. First, I will address the market demand for

1 Norwegian salmon, and as a part of this, where there
2 is Norwegian exports and why. Second, I will discuss
3 the relationship between price changes for Norwegian
4 salmon and demand.

5 The NSEC is continuously investing in the
6 promotion of Norwegian salmon, particularly to
7 consumers in our national export markets in Europe,
8 where Norwegian salmon is shipped by truck or train.
9 These markets include E.U., Russia, and Ukraine, which
10 have accounted for about 90 percent of the growing
11 whole fresh Atlantic salmon exports from Norway over
12 the last five years.

13 Let me tell you why. Although Norway is
14 located on the northwestern edge of Europe, we are
15 within the trucking distance for fresh seafood to
16 roughly 750 million consumers. Bordering Russia,
17 Norway is well positioned geographically to supply one
18 of the world's fastest growing consumer markets with
19 fresh whole Atlantic salmon.

20 The vast majority of Russian population is
21 based in the western regions. Currently, it is the
22 demand for Norwegian fresh whole salmon in the two
23 largest cities, Moscow and St. Petersburg, that is the
24 basis for establishing Russia as the second largest
25 market in terms of volume.

1 Russia is still yet to be fully developed as
2 a market, as distribution continues to develop, making
3 it possible to offer fresh Norwegian salmon to new
4 consumer groups in western Russia outside the two
5 largest urban areas.

6 For exports to other European countries,
7 most salmon is shipped by truck to Sweden, Denmark,
8 and Finland. Some fresh seafood is also shipped by
9 train. It is common for trucks to utilize the
10 extensive freight system in Scandinavia, both
11 eastbound and southbound, to bring the fresh seafood
12 to the market in an efficient manner.

13 Slide one shows the long-term trends in
14 Norway's growth of its whole fresh Atlantic salmon
15 exports. You can see that all of Norway's export
16 markets have been growing, but the category other
17 Europe, which includes Russia, has shown a
18 particularly strong growth. You can also see that
19 Norway exports to Asia, which is by air freight.

20 Fresh whole Atlantic salmon is exported to
21 Asia because here it doesn't face competition from
22 suppliers with the logistical freight advantage,
23 unlike the situation in the United States, where
24 Norwegian salmon would have to compete with local
25 product from the U.S. and Canadian supply. In fact,

1 Norway might have an advantage when it comes to
2 freight cost compared to its competition in the Asian
3 markets.

4 There was another discussion this morning
5 about the recent price decreases for fresh whole
6 Atlantic salmon. The NSEC hosted a conference in Oslo
7 last week where I made a presentation on the
8 relationship between price changes and demand for
9 Norwegian salmon. I want to share some of our
10 findings with you.

11 First, as has been discussed earlier, prices
12 for fresh whole Atlantic salmon are cyclical and can
13 rise and fall significantly within a relatively short
14 period of time. The price declines we have seen since
15 this summer, both for Norway's markets as well as in
16 the United States markets, are not unusual for salmon.
17 Indeed, as discussed this morning, this cyclical
18 pattern is typical for all types of livestock, as you
19 may be familiar with the well-established term, pork
20 cycle, in agricultural economics.

21 However, because consumer demand is
22 sensitive to price, there is typically some self-
23 correction to cyclical price peaks and troughs. When
24 consumer prices are high, the volume of salmon
25 consumption declines, and conversely, low prices

1 generate an increase in salmon consumption. As an
2 example, in 2006, there was a period of cyclical high
3 prices for salmon in Norway's largest export market,
4 France. As the consumer prices rose, the number of
5 households purchasing salmon declined with an almost
6 perfect inverse relationship.

7 Those who couldn't afford a product or had
8 not become stable consumers abandoned salmon for
9 substitute products. Subsequently, when consumer
10 prices fell again, the demand for salmon increased as
11 the last households found salmon attractively priced
12 in their stores. When consumer prices for salmon
13 again increased in 2010 through about mid-2011, the
14 number of households purchasing salmon in France
15 immediately declined. The trend stopped in May, and
16 in October we started to see an increase in demand as
17 the consumer price for salmon started to decline.

18 All our analyses show that there is a 12- to
19 14-week time lag between the declines in wholesale
20 spot price and price declines at retail in France.
21 The consumers I know immediately responded to lower
22 salmon prices. The volume of fresh salmon sold for
23 home consumption in France rose by 23 percent from
24 October to November.

25 The current purchase is over 40 percent

1 higher than it was a year ago. We would also see an
2 increase in household purchase for fresh salmon in the
3 U.K., in Germany, and in Spain.

4 I will be happy to share with you some of
5 the specific data showing these relationships. Salmon
6 consumption is sensitive to changes in price because
7 it must compete with other fish and other proteins
8 such as pork, chicken, or beef. This occurs at retail
9 as well as choices made by restaurants and
10 institutions on what to include on their menus.

11 All our analysis shows that the gap between
12 salmon prices and prices for other seafood items
13 started early in 2010. According to FAO data, the
14 same occurred for salmon prices relative to other
15 meats. This resulted in a reduction in Norway's
16 export growth for salmon, particularly in the last
17 half of 2010 and first half of 2011, when prices
18 reached their peaks.

19 The price decline for salmon that started
20 earlier this year is now more fully apparent at the
21 consumer level and will become increasingly so through
22 the rest of this year and into 2012. This is already
23 resulting in increasing demand for Norwegian salmon
24 and higher prices.

25 Thank you for your attention.

1 MS. SLATER: Mr. Klett.

2 MR. KLETT: Good afternoon. My name is
3 Daniel Klett. I'm an economist with Capital Trade,
4 Incorporated, testifying on behalf of Respondents in
5 the sunset review.

6 I will be addressing issues related to
7 salmon supply in Norway and why whole fresh Atlantic
8 salmon production in Norway is not likely to be
9 exported to the U.S. in significant volumes or at
10 injurious price levels should the order be revoked.

11 In the second sunset review five years ago,
12 Norway's Atlantic salmon capacity and excess capacity
13 was a hotly contested issue. In this sunset review,
14 however, there is a general consensus on capacity and
15 capacity utilization in Norway. In 2010, we calculate
16 Norwegian-wide capacity utilization for whole fresh
17 Atlantic salmon to be about 90 percent, as shown in
18 Exhibit 17 of our brief.

19 Cooke estimates capacity utilization for
20 Norway in 2010 to be 88 percent, as shown in Exhibit 7
21 of its brief. The capacity utilization from the
22 aggregation of data from your foreign producer
23 questionnaires is 88 percent. The key issue is
24 whether this excess capacity will be targeted to the
25 U.S. market, or if Norwegian salmon producers would

1 have an economic incentive to divert exports from
2 their non-U.S. markets to the United States absent the
3 order.

4 One factor relevant to this issue is the
5 significant growth worldwide since the investigation
6 period of farmed Atlantic salmon, particularly in
7 Canada and Chile. As shown in slide one, in 1989, the
8 farmed Atlantic salmon industries in the U.S., Canada,
9 and Chile, were virtually nonexistent, with combined
10 harvest volumes of just over 10,000 metric tons.
11 European sources accounted for 94 percent of world
12 supply.

13 In 2008, before the collapse of Chilean
14 salmon harvest, which is now rebounding, farmed
15 Atlantic salmon harvest in the U.S., Canada, and Chile
16 combined totaled over 500,000 metric tons and
17 accounted for 24 percent of world harvest. Canada
18 increased its harvest volume from 6,000 metric tons in
19 1989 to over 104,000 metric tons in 2008. As shown in
20 slide two, the volume of imports from Canada into the
21 United States increased significantly.

22 Canada's share of the U.S. market for whole
23 fresh Atlantic salmon increased from 14 percent in
24 1989 to 64 percent in 2010. The Commission's
25 affirmative determination at that time largely was

1 that Norway's significant presence in the U.S. market
2 had adverse price effects for a young and emerging
3 U.S. industry, notwithstanding overselling that was
4 attributable to Norwegian salmon's marketing, year-
5 round availability, and dominant position in the U.S.
6 market.

7 Canada now dominates the U.S. market. U.S.
8 and Canadian producers have an inherent transportation
9 cost advantage relative to Norway, which must ship its
10 fresh whole Atlantic salmon to the U.S. by air.
11 Because of its proximity, significant freight
12 advantage, and size, Canadian supply is the most
13 important factor in setting the market price for whole
14 fresh salmon in the United States.

15 Norway's high transportation costs to the
16 U.S. is now a commercial disadvantage that did not
17 exist in the investigation period, when Norway did not
18 need to match or beat Canadian pricing. Proximity and
19 transport costs are a significant competitive factor
20 for sales of whole fresh Atlantic salmon for all
21 suppliers. As shown in slide three, suppliers in
22 Norway, Canada, and Chile concentrate their exports
23 into their more proximate regional markets, where
24 shipments can be made overland rather than by air.

25 Norway's growth in salmon harvest cannot be

1 viewed in isolation, as Petitioner would have you do.
2 As shown in slide four, the average annual growth rate
3 for salmon harvest worldwide was just over 4 percent
4 from 2005 through 2011, with a projected average
5 annual growth rate of 5.2 percent from 2005 to 2013.

6 World salmon harvest declined in both 2009
7 and 2010 due to the significant reduction in salmon
8 harvest in Chile associated with the ISA disease.
9 Worldwide annual growth in salmon supply that support
10 stable price levels given underlying demand growth is
11 about 6 to 7 percent annually, a number included by
12 Cooke in its prehearing brief.

13 The annual average harvest growth for Norway
14 was just over 9 percent from 2005 to 2011, with an
15 annual average growth rate of 8 percent projected from
16 2005 to 2013. The harvest growth for Norway reflects
17 decisions made by the Norwegian industry to increase
18 harvest levels to compensate for the harvest downturn
19 in Chile, in addition to strong demand growth in its
20 export markets.

21 Norway's projected harvest growth for 2012
22 is just 6 percent, with harvest growth in Chile
23 largely responsible for the worldwide harvest growth
24 of 11.5 percent. From 2012 to 2013, projected harvest
25 growth for Norway is about 2 percent, with harvest

1 growth worldwide at 5.5 percent.

2 Cooke's contention that the growth in
3 Norway's harvest levels for Atlantic salmon during the
4 review period and projected for 2012 and 2013 is
5 somehow an irresponsible oversupply to the world
6 market that threatens the U.S. industry is not
7 supported by the data.

8 Notwithstanding the fact that Norway may
9 have some excess capacity to produce salmon, it is
10 clear, as testified by Mr. Nerheim, that the
11 associated MAB is a constraint on salmon harvest
12 levels. And as shown in slide five, actual biomass
13 growth in Norway is approaching the MAB. In addition,
14 a smaller share of Norway's salmon harvest is being
15 sold by Norwegian producers in whole form, with
16 increasing investments in value-added capacity.

17 We heard this morning that value-added
18 capacity was small, but you can look at the export
19 statistics, and it represents about 25 percent of
20 Norway's salmon exports. So it's not insignificant,
21 and it's a growing part of Norwegian salmon supply.

22 Moreover, large volumes of Norway's exports
23 of whole fresh Atlantic salmon are to related party
24 processors in Europe, with the first arm's length sale
25 being non-subject forms of salmon. In addition, the

1 lower production grade of salmon, which accounts for 3
2 to 5 percent of Norwegian production, cannot be
3 exported from Norway.

4 The growth of Norwegian salmon harvest
5 during the review period has not had any adverse
6 effect on price levels. Slide six shows trends in
7 Norway's whole fresh Atlantic salmon exports to non-
8 U.S. markets and average prices. There have been and
9 there always will be cyclical ups and downs in prices
10 for salmon, which is normal for this sector, as for
11 livestock generally.

12 However, on average, both harvest volumes
13 and prices have increased, reflecting strong demand
14 for Norwegian salmon exports. Although western Europe
15 is and will remain Norway's largest export market,
16 demand growth has been particularly strong for exports
17 to Russia and Ukraine, and to Asia, as shown in slide
18 seven.

19 The harvest volume increases in Norway, as
20 well as in Chile, where Cooke has operations, have
21 contributed to price declines since May 2011. But
22 these recent price declines must be in context. Slide
23 eight reflects the cyclicity of Norway's whole fresh
24 Atlantic salmon prices to non-U.S. export markets, and
25 also shows that on average, Norway's sales prices were

1 higher during the current review period as compared to
2 the second review period.

3 Slide nine shows U.S. prices from 1995
4 through October 2011 from Urner Barry data for a
5 representative size of whole fresh Atlantic salmon in
6 the U.S. northeast market. You also see price
7 volatility. But on average, prices were higher in the
8 current review period than in each of the two earlier
9 review periods.

10 For the U.S. market, it is well understood
11 that the significant decline in salmon imports from
12 Chile earlier in the current review period contributed
13 to strong prices in 2009 and 2010, and weaker prices
14 since about mid-2011.

15 One important factor the Commission always
16 considers in determining the attractiveness of the
17 U.S. market are prices in U.S. and non-U.S. markets.
18 These prices must be established on a net-back basis,
19 the net price an exporter of Norwegian salmon can
20 obtain in non-U.S. markets and what it could obtain in
21 the U.S. market. A detailed analysis is contained in
22 Exhibit 14 of our prehearing brief.

23 U.S. prices for whole fresh Atlantic salmon
24 are published by Urner Barry and are a well accepted
25 reference of prices for the industry. The analysis

1 should not use, as Petitioner did in its prehearing
2 brief, average unit values or prices associated with
3 the small volume of whole fresh Atlantic salmon
4 imported into the United States from Norway, which
5 consistently oversold U.S. producers and in which
6 there was higher price market segments such as best-
7 practice salmon sold to Whole Foods.

8 The Commission recognized in the last sunset
9 review that for Norwegian salmon to compete in the
10 U.S. market in any significant commercial volumes, it
11 would have to undersell prevailing U.S. price levels.
12 Two different sets of data for prices to Norway --
13 I've used two different sets of prices for Norway's
14 non-U.S. export markets. First, Norway's prices to
15 non-U.S. markets from an internal survey of major
16 Norwegian exporters who provided export volumes,
17 values, and unit values by salmon size and by export
18 market.

19 Second, prices from NOS Clearing, which
20 publishes spot market prices for six size categories
21 of whole fresh Atlantic salmon. NOS prices are from a
22 survey of exporters for the actual export prices they
23 pay to unrelated fish farmers delivered to Oslo and do
24 not include an exporter's markup. The industry widely
25 relies on these prices as an market indicator.

1 Slide ten summarizes the calculation
2 methodology, adjustments to U.S. price to arrive at a
3 net-back price to the Norwegian exporter or U.S.
4 handling, a significant cost for air transport from
5 Norway to the U.S., and interim transportation costs
6 to Norway. All prices and costs are converted to
7 *kroner* to arrive at a per-unit gram net price to the
8 packing plant in Norway. And as you can see, based on
9 that calculation, the net-back price to the U.S. would
10 be just over 35 NOK per kilogram.

11 Fewer changes are required to adjust NOS
12 Clearing to a net-back plant basis in Norway. These
13 include inland freight in Norway, somewhat higher
14 packing costs to ship by air to the U.S. as opposed to
15 shipping by truck or rail to major markets in Europe,
16 and an exporter's markup. Prices and adjustments are
17 reported in Norwegian *kroner* so any exchange rate
18 effect for sales in non-Norwegian currencies, such as
19 in euros, have already been accounted for. And you
20 can see based on that calculation the price to non-
21 U.S. markets would be just over 38 NOK per kilo. And
22 these are average prices for 2010.

23 Slide 11 summarizes the comparative net-back
24 analysis for three large volume sizes of whole fresh
25 Atlantic salmon. These comparisons show that over the

1 review period, Norwegian producers have been able to
2 achieve significantly higher prices on a net-back
3 basis to non-U.S. markets than they could have
4 achieved by exporting to the United States. On
5 average, non-U.S. markets have been consistently more
6 attractive than the U.S. market would have been absent
7 an order.

8 In 2011, we have the advantage of evaluating
9 net-back price comparisons when prices were relatively
10 high, and when they have been lower. There have been
11 short periods when the net-back price to the U.S. may
12 have been favorable as compared to non-U.S. markets.
13 This occurred twice during 2011, when U.S. price
14 declines lagged price declines in Norway's non-U.S.
15 export markets.

16 However, these periods have been followed by
17 a return to higher net-back prices for Norway for its
18 exports to its non-U.S. export markets.

19 Exchange rate effects are built into the
20 analysis, but it is also useful to examine exchange
21 rate trends because as a foreign currency becomes
22 weaker relative to the Norwegian *kroner*, markets for
23 sales in that currency become less attractive on a
24 *kroner* per kilogram net-back basis. As shown in slide
25 12, the U.S. dollar has depreciated the most relative

1 to the Norwegian *kroner*.

2 The euro has depreciated as well, and euro-
3 zone countries are Norway's largest export volume
4 market. But the depreciation has not been at nearly
5 as much. The Japanese yen has actually appreciate
6 relative to the *kroner*, making that market that much
7 more attractive on a Norwegian *kroner* basis.

8 Thank you very much.

9 MS. SLATER: Thank you. Can I ask for a
10 time check, please?

11 MR. KLETT: You have six minutes remaining.

12 MS. SLATER: Oh, my goodness. I will just
13 use maybe one or two of those minutes, and then let's
14 get to questions before we lose Mr. Vike. We've heard
15 some very interesting arguments this morning, and I
16 wanted to just take a couple of minutes at the end of
17 this testimony to ask the Commission to focus on a few
18 really key points here.

19 One is I think you need to be very mindful
20 as you're hearing arguments and assessing them from
21 both sides about whether we're talking about fresh
22 whole salmon, whether we're talking about salmon
23 overall, whether we're talking about fillets. There
24 has been quite a bit of mixing and matching in what we
25 talked about today.

1 When we talk about the market for fresh
2 whole salmon, we are talking about a global market
3 which is highly regionalized. And I heard Mr. Cooke
4 this morning say, no, no, no, that's not true. You've
5 got salmon going from Chile to Europe. And if you
6 look at fresh salmon, what you see is, in the slide
7 that Mr. Klett just put up, which I think is very
8 helpful to look at, an extremely high percentage --
9 look at slide number three -- an extremely high
10 percentage of the fresh whole salmon that is produced
11 in Norway goes to Europe and Russia. It's actually
12 this blue line.

13 Chile exports to the Americas its fresh
14 whole salmon. Not here. The fresh whole is not
15 coming here. It's going to the Latin countries, which
16 are proximate to it and very quickly deliverable. And
17 Canada's exports are more than 93, almost 94, percent
18 into Canada. This is whole fresh salmon. There is an
19 extreme regionality to that trade, which has developed
20 because of the importance of freshness and proximity,
21 being able to move things quickly and with the least
22 amount of expense because freight is a significant
23 component, particularly when you get out of the
24 trucking.

25 So keep that in mind, and make sure when we

1 think about this, we're thinking about fresh.

2 For Norway, Europe and Russia are the key
3 markets. And we'll talk about a little bit in your
4 questions about why that is.

5 Another thing I'd really like to ask the
6 Commission to focus on today and not to be confused
7 about is the transportation argument. This is not
8 really a transportation argument. This is thinking
9 about where it is that producers can make the most
10 money. A rational producer, particularly for a
11 commodity product, will send its product to the place
12 where it can make the best return. I think everybody
13 agrees with that.

14 The issue is not the per se difference in
15 transportation cost. You can have equal
16 transportation cost. If it cost you, for example,
17 eight dollars to send -- I'm making up numbers here --
18 eight dollars to send a salmon to China, and let's say
19 eight dollars to go to the United States, if the price
20 in the United States is seven dollars, but the price
21 in China is twenty dollars for that salmon, you might
22 make very different choices, despite the fact that the
23 transportation costs are the same. It's your net
24 return. It's what you can make in the end after
25 taking into account all the costs that's important.

1 So we want to be really careful not to do
2 what I think I heard the Petitioner's counsel suggest
3 this morning, which is just to, A, compare absolute
4 prices; or B, simply compare transportation costs. We
5 cannot say prices in the U.S. are higher than Europe,
6 so they're going to be attractive. It's whether the
7 prices net back to the suppliers, what the suppliers
8 can get in the end after all of their costs are
9 incurred, right, the net return that's important.

10 It's not whether the transportation cost is
11 higher to one market than the other per se. It's the
12 transportation cost relative to the pricing.

13 So let me just stop there because I know you
14 have lots of questions, and reserve the rest of my
15 time for rebuttal. Thank you.

16 CHAIRMAN OKUN: Thank you. And before we
17 begin with our questions, let me take this opportunity
18 to thank this panel very much for your presentation
19 and for your willingness to answer our questions, and
20 for those who have traveled a great distance to be
21 with us, we particularly appreciate your efforts to
22 join us at the hearing.

23 I will just remind witnesses, if you can
24 just repeat your name, since we can't see everybody's
25 name in front of them, for the court reporter when you

1 respond to questions. And Vice Chairman Williamson
2 will start us off this afternoon.

3 VICE CHAIRMAN WILLIAMSON: Thank you, Madame
4 Chairman. I do want to express my appreciation to the
5 witnesses for their testimony, and for having written
6 text; it's very helpful.

7 Just to follow Ms. Slater's last point about
8 the transportation argument. I was also wondering,
9 what about transportation infrastructure? When salmon
10 is flown, are there special containers? Or do you
11 just use the same old containers, and then wash them
12 out? In other words, how important is the
13 infrastructure for serving a particular market?

14 MS. SLATER: Do you mean in terms of the
15 aircraft or the containers themselves, Commissioner?
16 Are you thinking --

17 VICE CHAIRMAN WILLIAMSON: I'm just
18 thinking, when you talk about the overall, the net
19 costs, but it's also, you know. When you're flying
20 the fresh stuff, is it the regularity of the flights?

21 MS. SLATER: Absolutely.

22 VICE CHAIRMAN WILLIAMSON: Do you have
23 special containers? What do you put in those
24 containers when they go back the other way? In other
25 words, there seems to me there are additional

1 considerations than just the flat charge to fly
2 something.

3 MR. VIKE: We can try to answer that
4 question. The primary packaging is different. That's
5 why the box that we send it in is at a different cost,
6 and that's part of that calculation.

7 I think in terms of limitation on the
8 infrastructure is actually the available number of
9 aircrafts going from Europe. If you take from Norway,
10 for instance, the, unfortunately, the number of
11 flights from Norway to the U.S. are limited. So we
12 actually transport it either to, to London or to
13 Frankfurt. And we have to draw on the two airports
14 that are having a higher frequency of flights to the
15 U.S.

16 So actually, the number of aircrafts, it's
17 the true limitation. And there needs to be a regular
18 schedule, right. You can't have a transport airplane
19 go from Norway to the U.S., and then fly back empty.
20 That would just make it impossible, not make it
21 viable. So you have to use a regular schedule. So
22 that's a limitation on the flights.

23 VICE CHAIRMAN WILLIAMSON: Okay. So until
24 they would be packed in boxes that would then go into,
25 say, the container that the airline uses? Or

1 something like --

2 MR. VIKE: Yes.

3 VICE CHAIRMAN WILLIAMSON: Okay. And again,
4 that would be true no matter where you're shipping it.

5 MR. VIKE: Yes, absolutely.

6 VICE CHAIRMAN WILLIAMSON: Okay. I was
7 also, you also were talking about the regional factor,
8 and the factor where whole salmon is shipped. What
9 about if you're including cut, cut salmon, you know,
10 that's been cut up or put into fillets and stuff?
11 Would that distribution pattern look very different?

12 MS. SLATER: I'm so glad you've asked that
13 question. The distribution pattern, now for fresh,
14 and let's keep fresh separate from frozen, because
15 there's --

16 VICE CHAIRMAN WILLIAMSON: Yes, I understand
17 that, okay.

18 MS. SLATER: -- significant differences when
19 you're shipping frozen fish, obviously. But let me
20 start, and maybe others would like to jump in here.

21 For salmon fillets, there certainly are some
22 of the same considerations. But the freight component
23 there becomes less, because you're actually shipping
24 more useable weight of the fish; you're not shipping a
25 lot of skin and bone. So the value, the value is

1 higher that's associated with the same per-kilogram
2 transportation cost.

3 So it actually, these regional
4 considerations are there, but they're not quite as --
5 it would be easier to ship fillets, to some extent.
6 You would expect fillets to be less sensitive to this.
7 I wonder if anybody else would like to add to that.

8 MR. KLETT: Chile is a good example. And if
9 you look at the Chile export statistics, they, a
10 relatively high share of their fresh fillets are
11 exported to the U.S.; whereas only a very limited
12 share of their whole fresh is exported to the U.S. I
13 mean, basically less than eight percent, so, for
14 fillets. And Chile is probably the biggest producer
15 in the world of fresh fillets, so it's a good example
16 of the logistics for fresh fillets.

17 When you get to frozen, it's a completely
18 different story. That's shipped by, by sea, and there
19 the transport costs are very low. And I think you'll
20 see much less regionality in trade when you get to
21 frozen. In fact, Chile exports frozen salmon to
22 Europe.

23 VICE CHAIRMAN WILLIAMSON: In terms of the,
24 you had 92 percent of the fresh whole salmon going to
25 the Americas, but outside the U.S. and Canada. If you

1 combine the fresh, I mean the fresh cut, what would
2 that percentage be, roughly? Do you have any idea?

3 MR. KLETT: I don't have the number; I'd
4 have to look. I know that with regard for the fresh
5 fillets individually from Chile, a fairly high percent
6 is exported to the U.S. I think it's over 50 percent,
7 but I'd have to double-check that number. But it's a
8 lot higher than the percentage here, in terms of what
9 goes to the U.S.

10 In terms of a weighted average cuts and
11 fresh, I mean, I can do that calculation, but I don't
12 have that number off the top of my head.

13 MS. SLATER: We can give you a combined
14 whole and fillet post-hearing, if that would be
15 helpful.

16 VICE CHAIRMAN WILLIAMSON: Okay, it would be
17 interesting, because it sort of says how strong is
18 this regional argument, really.

19 MS. SLATER: No, and I think you see, with
20 fresh fish you definitely see that regionality much
21 more than, say, with frozen. And we'll be glad to
22 give you the combined numbers; that's definitely the
23 case.

24 VICE CHAIRMAN WILLIAMSON: Okay. And also,
25 to what extent is vacuum; do they do vacuum packing of

1 the fresh cuts or not? Like the meat producers do?
2 I'm just asking if that's a factor in shelf life and
3 things like that.

4 MS. SLATER: Can you ship it further if you
5 have some kind of vacuum packing of fresh?

6 VICE CHAIRMAN WILLIAMSON: Right, exactly.
7 It may not be, it may be so insignificant that it
8 doesn't matter, but --

9 MR. TAYLOR: Ken Taylor here. Legally here
10 in the U.S., we're not able to vacuum pack fresh
11 product and ship it due to constraints from FDA.
12 They're worried about bacteria growth in a sealed
13 container, so it's not allowed.

14 VICE CHAIRMAN WILLIAMSON: Okay. Okay,
15 thank you. I meant to ask these questions of the
16 domestic industry this morning, so if they want to add
17 anything post-hearing on the questions or any
18 conclusions that might be drawn from what has been
19 said, I'll appreciate that. Thank you.

20 Mr. Nerheim, I was wondering if you could
21 sort of elaborate on the decision-making process used
22 by the Government of Norway in granting licenses, and
23 increasing the MABs under existing licenses? You did
24 address that in your testimony.

25 Let me put it this way. In this world, when

1 everybody -- you've probably seen the World Bank ads
2 about the farmer and the Ivory Coast and someplace,
3 having your cell phone and keeping track of market
4 prices. So clearly, fish farmers in Norway I'm sure
5 are keeping track of prices. So I'm thinking about
6 that in the context particularly of what we're hearing
7 this morning about grade, but you sort of gave me a
8 slightly different picture about how the decisions are
9 made in terms of production.

10 MR. NERHEIM: Did I understand your question
11 right, that you wanted to know the process, decision-
12 making process that we have when it comes to
13 increasing capacity, issuing new licenses, or --

14 VICE CHAIRMAN WILLIAMSON: Things like, yes.

15 MR. NERHEIM: Yes. As I said, there are two
16 elements in our basic assessment. That is, what does
17 the market look like, are the prices high or low
18 globally in salmon. But increasingly over the last
19 few years, since 2007/2008, the environmental concerns
20 in Norway have been increasing.

21 So in these type of processes, in Norway
22 these days, we would have the industry on the one
23 side, and we would increasingly so have the
24 environmental NGOs on the other side. So they are,
25 our government have a very strong commitment to strict

1 regulations. And we have the buyer security issues,
2 the fish disease, to avoid fish disease development.
3 And also, the environmental concerns, going to
4 biodiversity.

5 The wild salmon, Norway still has a lot of
6 wild salmon in many, many rivers. And also the
7 pollution, all these elements will be part of the
8 assessment. And we will then base our processing of
9 our decision-making on advice from various research
10 institutions and agencies being responsible for their
11 respective responsibilities.

12 And in the final analysis, this will be a
13 decision-making process in the cabinet. And also, if
14 I might add, since, from 2002 in Norway we have new
15 licenses issued, come at a fee. So the fish farmer
16 will have to pay the government the certain amount, a
17 million of kroner. So this will also then be taken
18 into the state budget decided by the Parliament. So
19 it is a big and long process.

20 VICE CHAIRMAN WILLIAMSON: You actually
21 collect fees.

22 MR. NERHEIM: Yes, oh, yes. Because this is
23 a very important but profitable industry for Norway.
24 So since there are demand for new licenses, the
25 government has a policy on having a fee on new

1 licenses.

2 MS. SLATER: I venture to clarify, I think
3 the reason that Mr. Nerheim mentions that is that this
4 is also a parliamentary budget process. So that the
5 process of deciding on new license involves not just
6 the agencies, but it also becomes a parliamentary
7 process through the budget approval.

8 VICE CHAIRMAN WILLIAMSON: Parliamentary
9 committees and oversight. Okay, my time has expired.
10 Thank you for those answers.

11 CHAIRMAN OKUN: Commissioner Pearson.

12 COMMISSIONER PEARSON: Thank you, Madame
13 Chairman. Welcome to all of you, it's good to have
14 you here this afternoon.

15 Some of you may recall that in the previous
16 review, I attempted to speak just a little bit of
17 Norwegian. I want to reassure my fellow
18 Commissioners, I'm not going to try to do that today.
19 It has now been 14 years since my grandmother has
20 died, and since then I've had no one to practice with.
21 This is probably not the right occasion to practice.

22 You had mentioned that the northern
23 counties, Nordland, Kunst, and Finnmark, that they
24 have a higher MAB limit of 945. What's the reason for
25 that? Is the environment less sensitive in the north?

1 MR. NERHEIM: Commissioner, there are two
2 explanations behind 945. Because when we introduced
3 the MAB system in 2005, it's only the two most
4 northern counties, Finnmark and Kunst. And that had
5 to do with when we changed the system from feed quotas
6 to the MAB, in these two counties they are far to the
7 north quite a ways. And it's almost, the further you
8 get north and to the east, the harder it is to
9 actually make a nice profit. So that's why we
10 consider that it would be fairer to give the province
11 there a larger MAB, based on the same basic license.

12 So in 2005 the figure was set at 900 tons.
13 So when we had the process in 2010, when we had a
14 planned increase in MAB, all of the countries five
15 percent, and that was abandoned because of the sea
16 lions development.

17 These two most northern country, where we
18 carried out the planned MAB there, because the
19 environmental situation is not as it is further south
20 and on the west coast. So that's why we actually
21 allowed those two, the farmers in those two countries
22 to increase their capacity. Because there was, the
23 environmental situation was considered sufficiently
24 good, so that that would be acceptable.

25 Yes, so it is, and the sea lions doesn't,

1 all this has to do with nature. The sea lions, it's
2 more difficult for the sea lions to live through the
3 winter in the high north.

4 VICE CHAIRMAN WILLIAMSON: And does the
5 government regulate the location of fish farms, such
6 that instead of having many in one fjord, they would
7 be spread across several fjords?

8 MR. NERHEIM: If I may just, the system is
9 that we have, the system is sort of a two-layer
10 system; that you have the license with the MAB that
11 can be used in a given region. But in addition to
12 that, the fish farmer needs to have a number of
13 locations or sites, and these sites have to be
14 approved by the appropriate government agencies.

15 And they have to be a certain number of
16 kilometers apart. So all this is taken care of by the
17 actually license agencies when it comes to locations.
18 So these two systems work together in order to make
19 sure that the overall biomass in an area is not
20 exceeded; and also, that the biomass on each location
21 is within the limit of what this location is able, the
22 carrying capacity of the location.

23 VICE CHAIRMAN WILLIAMSON: Okay, so that
24 explains why I sense there is more coastline per
25 person in the north, it's possible to have a higher

1 MAB, and yet not so many facilities. And so the
2 effect on the environment is not harmful.

3 MR. NERHEIM: Yes, that's as we see it.

4 VICE CHAIRMAN WILLIAMSON: Now, some of you
5 have been making the case that the U.S. market is not
6 terribly attractive for Norwegian salmon most of the
7 time. If that's the case, why have you put such an
8 impressive effort into persuading us to revoke this
9 order? These orders?

10 MS. SLATER: Let me just answer, I think
11 maybe I should answer a question with a question. If
12 no one came, would the order go away? But maybe I'll
13 let some of the industry people speak to that, if
14 anybody would.

15 MR. VIKE: Yes, I can comment on that from
16 our side. I honestly think for us, as a Norwegian and
17 Canadian farmer, that this order has no relevance.
18 The protection that we get, we get from the freight
19 costs; and luckily, there is no sunset review for the
20 freight costs. That will stay in place forever.

21 And so the reason why I'm here is that I was
22 asked to come here, and I think it's probably for the
23 greater good. And since I'm the most, or the least
24 useful guy in the company, the rest have to stay back
25 home in Norway and work.

1 VICE CHAIRMAN WILLIAMSON: That's an
2 interesting observation from the CEO, a position of
3 great humility.

4 MR. NERHEIM: Excuse me, Commissioner, if I
5 just might add to that. From the government point of
6 view, for us, this is a quite important matter of
7 principle. Because we feel that this 20-year-old case
8 is unfair. On the other side, we hope that it's
9 possible, through a new review and fresh arguments,
10 that it will be possible to actually do something
11 about it when it has been in place for 20 years.

12 VICE CHAIRMAN WILLIAMSON: Okay, thank you
13 for those responses. Let me ask some more details of
14 the air shipment. We have air cargo, express delivery
15 companies that could take a package from here to
16 Trumso in, I don't know, 36 or 48 hours, I'm not sure
17 just what the time is. Are those same carriers the
18 ones who are bringing salmon to market?

19 MR. SORAA: This is Sverre Soraa speaking.
20 The carriers that brings the salmon needs to be wide-
21 body carriers. And you have to, as Morten Vike said,
22 we have limited capacity on that.

23 Yes, it can be, for instance Federal Express
24 can have these carriers that can take some salmon.
25 But normally, it is their regular airlines that brings

1 the salmon over to the market.

2 VICE CHAIRMAN WILLIAMSON: Okay. And so you
3 have, you don't have many largebody aircraft flying
4 into coastal Norway.

5 MR. SORAA: Absolutely not.

6 VICE CHAIRMAN WILLIAMSON: So that's why
7 there's a need to take the fish to a larger airport,
8 and then you can have perhaps competition among
9 several carriers to obtain a reasonable rate to bring
10 the salmon to Moscow or to Beijing or to New York.

11 MR. SORAA: Yes, that is, it's correct, that
12 there might be a competition in that. But the key
13 question is whether they manage to bring goods also
14 back to Europe. So they need goods in both directions
15 for managing to have a good logistic system for all
16 goods.

17 VICE CHAIRMAN WILLIAMSON: In that case, I
18 hope that the dispute with China is resolved quickly.
19 Because my observation has been that they have many
20 goods to ship to Norway and to all other countries.
21 The back, the back freight should be no problem, in
22 that case.

23 MS. SLATER: Just to clarify one thing. I
24 know you mentioned Moscow, but Moscow is a market
25 that's served from Norway by truck.

1 VICE CHAIRMAN WILLIAMSON: Or by truck.

2 MS. SLATER: I, for one, had to look at the
3 map to understand that. But all of those shipments go
4 by truck, many of which the truck's coming from
5 Russia.

6 VICE CHAIRMAN WILLIAMSON: Okay, thank you
7 for that clarification. Mr. Klett, I had a
8 conversation this morning with the domestic industry
9 on the basic question of whether the order can provide
10 some degree of benefit to the domestic producers in a
11 global commodity market. Have you thought about that?
12 How would you assess that issue?

13 MR. KLETT: Well, I mean, I have thought
14 about it. And I think Commissioner Pinkert also had
15 some questions about the linkage of prices among
16 markets, and you know, maybe if you see a correlation,
17 you know, why do you see that correlation. Because if
18 you look at the numbers, you do see U.S. prices and
19 prices in Europe kind of move up and down together.

20 And so, at least in terms of the mechanisms
21 for why you see prices move up and down in the U.S.
22 correlated with Europe, even with the order in place,
23 you know, one explanation -- let's just take Chile for
24 example. Chile, when their supply was down, their
25 exports of whole fresh to the U.S. went down, which

1 put upward pressure on price. Chile also exports
2 frozen to Europe, so basically the frozen exports of
3 salmon, the frozen salmon exports to Europe also went
4 down. So basically, you had supply factors affecting
5 both markets simultaneously because of the ISA
6 outbreak in Chile.

7 You know, another dimension is that when
8 prices went up in the U.S. for fillets, Norway
9 exported more fillets to the U.S., so there was less
10 supply in Europe. So that also put upward pressure on
11 Norwegian prices.

12 So that's just one example for why prices
13 are linked around the world, because it is a global
14 market in that sense. And so, given that kind of
15 mechanism, you know, the order does have less of an
16 effect, you know, absent having a global market.

17 VICE CHAIRMAN WILLIAMSON: Okay. My light
18 has turned red, but if, for purposes of the post-
19 hearing, or maybe we can go back to it in the next
20 round. If you had a compelling argument, a compelling
21 way of demonstrating that there was no real benefit to
22 the U.S. industry from the order, I'd be interested to
23 see that. Because of course, I offered them the
24 opportunity to explain that there is a real benefit.
25 Because it's just not obvious to me, in this

1 marketplace, what's the actual situation. Thank you.

2 CHAIRMAN OKUN: Commissioner Aranoff.

3 COMMISSIONER ARANOFF: Thank you, Madame
4 Chairman. And I join my colleagues in welcoming this
5 afternoon's panel.

6 This morning, the witnesses, as I
7 understood, were making the point that the kind of
8 netback analysis that this afternoon's witnesses are
9 discussing, where you can choose which market you want
10 to send your product to based on the best return,
11 doesn't apply in the market right now because there is
12 such a glut of production, particularly coming out of
13 Norway, that there's enough fish to sell into every
14 single market, the best ones and the worst. And I
15 wanted to give you an opportunity to respond to that
16 view of the market.

17 Let me perhaps ask the industry witnesses to
18 address that first. And Morten, did you want to
19 start?

20 MR. VIKE: Yes, I have a big problem seeing
21 why we'd not do that. I think there was a picture of
22 this being pretty similar to the oil market, and I
23 think unfortunately that's a pretty precise
24 description of the market.

25 Now, we would always allocate where we get

1 the best prices, irrespective of these prices being
2 very good, as we've seen, very profitable, or they
3 could be unfortunately unprofitable, right. And the
4 same logic would apply. All the salmon that is
5 harvested gets sold at the price that is higher than
6 zero, much higher than zero, but still could be
7 unprofitable. And within that, would still want to
8 sell that product at say even 20 NOK in the EU than
9 selling it at eight NOK to the U.S. I mean, that
10 follows just the logic that we want to make money, or
11 even reduce losses if we're in a loss-making position.

12 And so that would be exactly the same. And
13 the price, there is not enough goods to make that
14 price sell, to put it that way, luckily, and there
15 will never be. So there is enough market the price
16 has come down. But still, the same logic applies, and
17 we apply it every week when we do our sales
18 allocation. And I think, and I'm sure that everyone
19 else does it as well. We do that in Norway, we do
20 that in Scotland, and in Canada exactly the same way.
21 And I think every company in this industry would do it
22 exactly the same way as we do.

23 MS. SLATER: And I'd just maybe ask Mr. Vike
24 to expand on that. Because I think what I heard this
25 morning that was being posited was a notion that there

1 was, I mean we heard lots of superlative terms about
2 the notion that there was so much fish. We heard the
3 word "tsunami," we heard "flood." I stopped counting
4 at 15. But that there was so much fish out there,
5 that literally you couldn't find a market, so you
6 would either have to give it away.

7 I think it would be helpful, first of all,
8 to hear some discussion of do we, is that the
9 situation we have. Are we currently, are prices --

10 COMMISSIONER ARANOFF: And if it is the
11 situation, if every time you've got a situation, that
12 it's going to last a month, you know, two months, half
13 a year.

14 MS. SLATER: And is this a situation where
15 even today, are we still selling two parts, in terms
16 of the quantities; and second, are we selling below
17 cost.

18 MR. VIKE: Yes, the prices came down from a
19 price level that was very high, and we could very well
20 get used to that price level that we had through 2009
21 and 2010. Unfortunately, good things don't last
22 forever, and prices came down. And in the fall they
23 fell down seasonally, as we've seen. You would see
24 that from the seasonal price patterns, that prices hit
25 the rock bottom somewhere end of October, and before

1 it starts increasing. And it happened this year, as
2 well.

3 At that time we were selling, you know, at
4 cost, I think, the entire industry at spot prices.
5 Prices have come up from that level now. On
6 increasing as we are approaching a better season, and
7 we're not selling below, below cost levels. And there
8 will be, I guess, the prices will go up and down, as
9 it usually does. And we think that prices will, will
10 stay at the current level, so above, above cost level.
11 That's our projection. And it's also the projection
12 of the analysts, if they are right, but that's their
13 projection.

14 COMMISSIONER ARANOFF: Okay. Now, this
15 morning there was also a theory posited that if there
16 is a great deal of supply and prices are low, that it
17 might make sense to sell at very low prices, as much
18 as you could in the U.S. market, in order to keep
19 prices higher in Europe. Can you respond to that view
20 of the market?

21 MS. SLATER: Let me ask Mr. Vike to respond
22 to that, and then also perhaps we can hear from Coast
23 as well, from Sverre.

24 MR. VIKE: Yes, Morten Vike again. I think
25 if you would do that, I understand that we can

1 theoretically say that it would be possible. If we
2 would do that, we would have to have 40, 50 companies
3 act coordinated in the market, and that would be a
4 legal action at least. So it would put us in big
5 trouble, even if, even if it would work.

6 Now, I think, I think simply there will be
7 no coordinated action to do that. And as long as
8 there is not, we will go for the highest netback to
9 ourselves. Believing that if someone had to do that,
10 they would do that themselves. We will still go for
11 maximizing our profits. And that will be still to
12 sell at 25, instead of selling at 12.

13 So I can't see that work, unless we actually
14 made serious anti-trust violations.

15 MR. SORAA: This is Sverre Soraa speaking
16 again. What you have to remember is that this is a
17 global market, exactly as Commissioner Pearson said
18 earlier today. It's a global market. And when, if
19 Norway is trying to put in lower prices in the U.S.
20 market, that would hit Chile.

21 Chile has a big market share also in Europe.
22 So this will, this is a circle. So there is no way
23 that the U.S. market can stand at the higher level
24 compared to Europe. It will be the same equal
25 pricing, globally pricing for this product. So it

1 makes no sense to say that Norway can dump the fish
2 into the U.S. market, and keep the European market for
3 itself. It makes no sense.

4 COMMISSIONER ARANOFF: Well, I understand
5 what you're saying, although it is a little bit
6 inconsistent with the argument that trade in fresh
7 salmon is regional. The argument made, because I
8 think what I'm hearing now is if somehow you could
9 succeed in creating a big price differential between
10 two different regional markets, then product would be
11 diverted out of region, to another region.

12 MS. SLATER: Well, I think you have to, I
13 don't think it's inconsistent, first of all. I mean,
14 there certainly is some, as we've talked about,
15 there's fresh salmon, whole fresh salmon, that does go
16 in some quantities, for example, from Norway to China.
17 And it goes, or has gone to China; it goes to Asian
18 markets. And we'll talk about all the different Asian
19 markets it's serving.

20 But those markets are possible because it's
21 one of the spots in the world where the prices are
22 high enough to justify the freight costs. So the
23 regionality, which results in this kind of picture, is
24 the rule. But if you can find markets where the price
25 is so much higher to justify the further freight it

1 will have.

2 COMMISSIONER ARANOFF: Okay. And following
3 up on that, I wanted to follow up on the discussion
4 that my colleagues were having about freight costs to
5 U.S. markets that you're including in your definition
6 of Europe.

7 In particular, I know you talked about
8 shipping by truck into Russia, which I understand.
9 But Kiev is a lot further away. How are you shipping
10 down to Ukraine?

11 MR. SORAA: This is Mr. Sora again. We are
12 shipping by truck to Ukraine.

13 COMMISSIONER ARANOFF: How long does it take
14 a truckload of fish to get from Norway to Ukraine?

15 MR. SORAA: Approximately four, between four
16 to five days.

17 COMMISSIONER ARANOFF: Four to five days,
18 wow.

19 MS. SLATER: It's packed appropriately, so
20 you need not worry about the safety.

21 COMMISSIONER ARANOFF: All I known is the
22 next time that I'm flying back from Heathrow and the
23 food is bad on the plane, I'm going to ask them to
24 crack open the salmon in the hold.

25 (Laughter.)

1 COMMISSIONER ARANOFF: I'll come back on my
2 next round. Thank you, Madame Chairman.

3 CHAIRMAN OKUN: Commissioner Pinkert.

4 COMMISSIONER PINKERT: Thank you, Madame
5 Chairman. And I thank all of you for being here
6 today, those who came from far away, and those who
7 came from nearby.

8 I want to begin with a question that I know
9 Mr. Klett either can answer now, or will answer in the
10 post-hearing. And I'm interested to hear what he has
11 to say about it. But I'd also like to hear from the
12 other panelists.

13 And that is, about the argument we heard
14 earlier today, that one of the reasons why we don't
15 see a huge flood of, of salmon fillets from Norway
16 into the U.S. market currently is because of the labor
17 costs that would be associated with converting the
18 whole salmon into the cut salmon.

19 MR. KLETT: We actually spoke about this a
20 little bit at the lunch break. And I think part of
21 the argument was that there just isn't enough fillet
22 capacity in Norway, in part because of high labor
23 costs.

24 But when you look at the export statistics,
25 about 25 percent of exports from Norway are non, are

1 the value-added products, number one. So it's not
2 insignificant, and there actually is fillet capacity
3 in Norway. And the gentleman can confirm, this is
4 what I heard.

5 But also apparently the capacity for fillets
6 in Norway is highly automated. So that I'm not sure
7 that labor cost is a constraint for fillet capacity in
8 Norway that would act as a constraint for exporting to
9 the U.S. But perhaps the industry witnesses can
10 confirm that's what I heard.

11 MR. VIKE: Yes, Morten Vike here again. The
12 filleting is actually not very labor-intensive. It's
13 machinery with very few people, so labor cost has very
14 low relevance. So I can't really see that argument
15 being valid. Also, the capacity as we said, the
16 capacity is quite large. Most of the filleting
17 factories in Norway are operated only on one fifth,
18 hardly the whole week, and they can easily operate in
19 two shifts if it was profitable.

20 MS. SLATER: If I just might, Commissioner
21 Pinkert. If you have it, I don't know if you have our
22 prehearing brief, but in Exhibit 3 there is quite a
23 bit of U.S. import data. And there's a page in there
24 that shows U.S. imports of fresh fillets, I've learned
25 to say instead of fillets, fresh fillets into the U.S.

1 COMMISSIONER PINKERT: Either pronunciation
2 is acceptable.

3 MS. SLATER: Either way. You know, I just
4 looked at the dictionary; it's true.

5 (Laughter.)

6 MS. SLATER: It's just dangerous with this
7 computer. But if you look at that, the story is very
8 interesting. And I think the reason you heard about
9 labor cost this morning is that, is that the domestic
10 industry didn't want to use the two words, transport
11 disadvantages.

12 The story that you heard from Mr. Taylor,
13 and which you also heard from Mr. Vike, can be seen
14 very visually and nicely if you look at the import
15 data on fillets. Norway has been a tiny portion of
16 fillet supply always; this data goes back to 2004.
17 There are obviously no restrictions on fillets here.

18 Chile, you can see from that data, supplies
19 overwhelmingly the fresh salmon fillets to this
20 market. But when Chile disappeared, what happened
21 here was that the price that Norway was getting for
22 its small quantities could be obtained for all of it.
23 The Chilean prices are much lower, had been much
24 lower, you could see.

25 So with those higher prices, it drew in a

1 significant quantity of Norwegian fillets. Not enough
2 to make up for Chile, I might add. But you can see
3 that in the data. And what happened after that is
4 that it quickly disappeared. Why? Not so much that
5 we, I think the word "opportunistic" was used. It's
6 because at that point, it made economic sense for some
7 Norwegian suppliers to send the salmon here; the
8 netback was better. And as soon as it became not
9 better, it was gone.

10 So this is a story, I know Mr. Coursey was
11 urging you to look at it. We would, as well. Because
12 what happened with fillets is some very, it's very
13 good laboratory, if you will, for how Norway behaves
14 with respect to the U.S.

15 I would also encourage you to take a look at
16 imports from whole fish from Scotland and from the
17 Faro Islands, which are not subject to any orders. We
18 can talk about that separately; I don't want to use
19 all your time.

20 MR. KLETT: Commissioner Pinkert, just real
21 quickly. I mean, if you look at the monthly data on
22 the fillets, it's even more dramatic in terms of the
23 patterns, in terms of volume shifts and relative price
24 shifts, as between Norway and Chile. And we can
25 provide that, as well.

1 COMMISSIONER PINKERT: I would appreciate
2 that. And also, if you could give me some
3 quantification of the labor costs, even if it's an
4 average labor cost, to give me some idea of the labor
5 cost differential relative to some of the other
6 differentials that we're talking about in terms of
7 pricing between markets.

8 MR. KLETT: We will do that.

9 COMMISSIONER PINKERT: Thank you. Now,
10 returning to one of the questions that I asked much
11 earlier today. What is happening to, in the
12 marketplace, in terms of consumer preferences between
13 the wild-caught and the farm-raised product here in
14 the U.S. market?

15 MR. TAYLOR: Ken Taylor. There is, as this
16 morning you heard, especially during the summer months
17 when there is fresh supply coming from Alaska, there
18 is definitely a preference throughout the U.S. heavily
19 focused on the West Coast, since they feel they're
20 closer to the Pacific Ocean, and we're talking about
21 the Pacific species.

22 Because of that, though, we're really
23 looking at five different salmon species that are
24 caught in the summer, and the prized and heavy-volume
25 one being sockeye, that will make its way even out to

1 the East Coast and be featured in retail ads. It does
2 have preference. It's featured; it gets good retail
3 space with most supermarkets. But it is not a long-
4 period season. So it is something that I would have
5 to say not only the consumer, but retailers across the
6 country, look forward to featuring something new to
7 bring people in to buy salmon.

8 As a benefit to the aqua-culture industry,
9 we benefit from the high advertising that's being
10 pushed on wild. Because at the end of it, as I
11 mentioned earlier, salmon, whether wild or farmed, is
12 excellent protein for good health. But the thing is,
13 most consumers want to purchase fresh salmon, and
14 that's something you can't get on the wild salmon on a
15 year-round basis.

16 So the other species of Pacific that are
17 caught in the wild really don't get the attention,
18 except for the high-prized items at the beginning of
19 the year. Like you would hear about the Copper River
20 king salmon out of Alaska, which has a great marketing
21 campaign. But for the most part, there's not enough
22 supply of Chinook or king salmon available. And when
23 you go into Coho, it's even smaller supply; and pink
24 and chum salmon isn't something that most consumers
25 prefer to consume, unless it's in a can or frozen. I

1 hope that answers your question.

2 COMMISSIONER PINKERT: It does, thank you.
3 I recall from growing up in the Chicago area, that
4 there was a time that Coho salmon was brought into the
5 Great Lakes in order to deal with some other species
6 that was, I think it was the alewives that were
7 creating a problem.

8 Is there still Coho salmon in the Great
9 Lakes?

10 MR. TAYLOR: To be honest with you, I'm not
11 sure. I can't answer that, sorry.

12 COMMISSIONER PINKERT: Well, it's more of a
13 personal interest. Now, given the time that it takes
14 to raise salmon, what is -- and this is really more of
15 a legal question than anything else. What is the
16 reasonably foreseeable time that we should be looking
17 at, for purposes of this product?

18 MS. SLATER: In the past, Commissioner
19 Pinkert, the Commission has used a three-year window,
20 because that is the growing cycle. And we agree that
21 that's the appropriate period.

22 COMMISSIONER PINKERT: Thank you. Now,
23 we've talked a little bit, too, about the subject and
24 the non-subject merchandise. And I just want to ask a
25 very pointed question about the relationship between

1 non-subject and subject imports.

2 As you know, there was a very substantial
3 increase in non-subject-import penetration here in the
4 U.S. market after the order went into effect. Is
5 there, in fact, some kind of an inverse relationship
6 between the two? Where if the subjects go down, the
7 non-subjects go up, and vice-versa?

8 MR. KLETT: Commissioner Pinkert, this is
9 Dan Klett. I don't think that's likely to be the
10 case, and that is because of the transport cost issue.
11 In other words, the big increase in the non-subject
12 was Canada. I mean, they accounted for maybe 14
13 percent of the U.S. market in the original
14 investigation period; now they're about 65 percent of
15 the U.S. market.

16 And Canada has such a significant freight
17 advantage, relative to Norway, that I don't think it
18 would be -- I mean, if the order had not been in
19 place, I don't think you would have seen just shifting
20 between Norway and Canada. I think you would have
21 seen Canada pushing out Norway.

22 And a good example of that. Right after the
23 order was imposed, you actually saw a big increase in
24 whole fresh Atlantic salmon from Chile. And as Canada
25 came into the U.S. market, Chile exited the U.S.

1 market for whole fresh Atlantic salmon, and basically
2 substituted fillets. Because Chile had a comparative
3 advantage selling fillets to the U.S. because it's a
4 higher value, a lower relative freight cost. So it
5 can compete with Canada in the U.S. market with
6 fillets, whereas it cannot with the whole fresh
7 Atlantic salmon.

8 So Canada as a non-subject import pushed out
9 another non-subject import, and now pretty much
10 dominates the whole fresh Atlantic salmon market in
11 the U.S. Scotland and the UK are also in the U.S.,
12 but tend to be higher-priced and in some higher-priced
13 segments for large fish.

14 COMMISSIONER PINKERT: Thank you very much.
15 Thank you, Madame Chairman.

16 CHAIRMAN OKUN: Thank you. Mr. Vike, I just
17 want to make sure, you got up to get your coat, but
18 you're not leaving yet.

19 MR. VIKE: Oh, I hope that I am able to
20 calculate to know what time it is, it's a little bit
21 too much for me. So I was one hour early.

22 CHAIRMAN OKUN: You're one hour early, okay.
23 Well, at least we've had an opportunity to ask you
24 questions, so when it's time you can leave.

25 Let me continue with Mr. Klett along the

1 line you were just talking about with respect to if
2 the order were lifted. And again, I understand the
3 argument you're making about regional sales, and
4 therefore Canada has a trade advantage, and you don't
5 anticipate a displacement for Norwegian salmon even
6 though you saw what happened with Chile and Canada.
7 So Canada, as you explained it, pushes out Chile,
8 except for the fillets, or fillets.

9 What on the record supports that point with
10 respect to pricing? I'm just trying to understand,
11 does it all depend on the netback analysis to say that
12 lifting the order would not change pricing in the U.S.
13 market or market share? I mean, help me understand
14 the argument and what's most important to your
15 position.

16 MR. KLETT: I think you're right. I mean,
17 at the end of the day a lot of it does come back to
18 the netback pricing. And that is that, as Mr. Vike
19 explained and the other Norwegian companies, they make
20 their decisions on where to sell salmon regionally
21 based on where they can get the best netback price.

22 So if the U.S. price was sufficiently high
23 that the netback, after deducting transport, was, they
24 can get a better profit in the U.S. than they could
25 get for selling in Russia, they would export here.

1 And in fact, some Norwegian companies still do export
2 here. And one of the reasons you see overselling is
3 that there is a market in the U.S. that will pay a
4 higher price for Norwegian salmon and Scottish salmon
5 and Faroese salmon.

6 So that for those market segments -- for
7 example, Vila sells organic salmon, their Best
8 Practice salmon to Whole Foods. That's a Norwegian
9 company that can export here, even with the dumping
10 duty in place. And that's because it can get a
11 premium for its fish, and it's profitable to export
12 here relative to other export markets.

13 So conversely, at what we would call the
14 commodity part of the market, which is fish that goes
15 into retail, those are the prices that you see in the
16 Urner Berry pricing data, you see for prices in the
17 Northeast and in Seattle, which are much lower. When
18 you do a netback analysis at that commodity price
19 level, the U.S. market does not offer a sufficiently
20 high return relative to Russia or Europe, when you
21 factor out all the costs to get the price to a
22 packing-plant basis.

23 So I think the netback is the key for
24 understanding pricing in this market.

25 MS. SLATER: May I just add just a small bit

1 to that, Commissioner Okun? And that is, the other,
2 the other very strong evidence that you have that
3 there will be no impact is when you take a look at the
4 fish coming from Scotland. You heard Mr. Cooke say
5 this morning that really, Canada is not so big; they
6 said it's the three big producers are Scotland, Chile,
7 and Norway.

8 And if you look at Scottish production,
9 which certainly has plenty of fish of every size to
10 sell, and you look at the import data, what you see
11 coming here are very high-priced fish. And those
12 fish, and those producers have the same concerns, not
13 even as great, but they have the same concerns as do
14 Norwegian producers with transport cost differentials.
15 That, that type of European export behavior is a very
16 good proxy, I mean, when you take a look at what's
17 happening there.

18 CHAIRMAN OKUN: Ms. Slater, let me stay with
19 you. In looking at what has -- certainly, you level
20 the argument of it's a 20-year-old order and looks
21 much different than it did in 1991. And I understand
22 that.

23 In looking at what has or hasn't changed
24 since the second review, the one, one of the things
25 you pointed to was the lifting of the EU order. And

1 we had a chance to talk to the Petitioners about that
2 this morning.

3 So I want to go back to you on that, to ask
4 you to give some additional information on how you
5 think that's changed the market. Sort of what the
6 Petitioners were saying, as if you looked at what
7 happened with demand, it's not such a great market;
8 and combine that with, as they say, or as they allege,
9 having a huge production increase in a period when
10 they said they weren't going to increase production,
11 and you have a big disconnect, even with an order not
12 in place any longer.

13 So I'd like to hear from you, and also from
14 the industry and government if they'd like to respond
15 to that, as well.

16 MS. SLATER: I think, if I can break that
17 down, I think you had a lot of pieces in that
18 question. And part of it I think was sort of squaring
19 what you heard in the last review about not expecting
20 any, any production growth. And separately, there is
21 the lifting of the EU order. I'm not choked up, I'm
22 just eating some water.

23 But let me first maybe ask the industry, and
24 maybe, I don't know if whether Mr. Sundheim or Mr.
25 Nerheim would like to talk about the statements. I

1 mean, we were not witnesses last time, but I think we
2 have a pretty good idea for why it was that someone
3 was suggesting that there was not going to be any --
4 shall we start with that, perhaps? And then go to --

5 CHAIRMAN OKUN: Yes, please proceed.

6 MR. NERHEIM: Commissioner, my guess is
7 because during the period when the EU had the orders
8 against Norwegian salmon, the minimum price, the basis
9 for this was disputed by Norway. So we had Norway not
10 being a member of the EU, but partly having the EU as,
11 we are members of the internal market. So we had a
12 discussion with the European Commission, and the case
13 went to the WTO panel. So that was the history, from
14 your last sunset review and to when you lifted the
15 orders.

16 And that the panel had come to their
17 conclusions. And soon after the EU had a new review,
18 and came to the conclusions that have already been
19 referred here. And I think that what the Norwegian
20 industry did was that responding to the increasing
21 demand in greater Europe -- that is, EU and Russia --
22 and that was proscribing the growth in production
23 during that period.

24 MS. SLATER: Let me just go back to what I
25 heard from Mr. Nerheim earlier was that, in terms of

1 the projections that were coming about in 2005, there
2 was -- and anyone can jump in here. But at the time,
3 right at the time of the last sunset, the Commission's
4 feed quota, Norway's feed quota system was phasing out
5 and being replaced in terms of capacity limits with
6 the licensing and MAB system.

7 And we think, and we'll certainly follow up
8 on this post-hearing, but the projections that were
9 made at that time likely were based on the number of
10 smelt and the expected feed, which was projected based
11 on what had been typical. And I think the accelerated
12 growth that we saw in the, in those first few years
13 had to do with changes in feed rates, with the lifting
14 of the feed quota that I think hadn't been
15 anticipated. But we can certainly get you more
16 details on that.

17 In terms of the EU order, Mr. Klett has some
18 good data; I can maybe ask him to refer to the data.
19 And the industry perhaps would want to comment.

20 MR. KLETT: Well, I mean, actually Slide 1
21 to Mr. Sundheim's testimony has some bar charts
22 showing growth in Norway's exports, and the blue line
23 is the EU. So you can see the growth in Norway's
24 exports to the EU after 2008.

25 I mean, I think their argument was that the

1 lifting of the order really doesn't help, because
2 growth in the EU market is not strong, so it's not
3 absorbing the additional capacity. I mean, if you
4 look at the numbers, that's not the case. There has
5 been growth in exports to the EU. And some of the
6 other gentlemen maybe can talk about what's been
7 happening this year with the decline in price.

8 I mean, one of the reasons you saw the
9 flattening in growth to the EU was because of the high
10 prices. So actually lower prices, they're seeing
11 stronger growth now than they had during earlier this
12 year.

13 CHAIRMAN OKUN: Would anyone from the
14 industry like to comment on projections into the EU,
15 or current sales?

16 MR. SUNDHEIM: Commissioner, Egil Sundheim.
17 Just to add to that, what we see happening right now
18 this year is that there is a five-percent growth in
19 exports to the EU market, as we speak. There is also
20 25-percent growth in the exports to Russia as we
21 speak. So there is an underlying tremendous growth to
22 these markets for Norwegian salmon, for the product,
23 subject merchandise, so far this year.

24 And there is, what we experience is that
25 there is a potential for further growth, also. Like I

1 mention in my statement, we haven't seen yet the full
2 development of the potential in the Russian market.
3 As most of these major metropolitan cities are located
4 in the proximity of Norway. It's no on the eastern
5 side of Russia, it's on the western side of Russia.

6 So, and to the point that we will be
7 challenged by the, a lot of wild salmon from Russia,
8 that is not likely to happen. Those products are
9 10,000 kilometers away when it's caught, and it's not
10 fresh product that's going to facing Norwegian salmon
11 in the Russian market.

12 CHAIRMAN OKUN: Okay, thank you for adding
13 the point to go back on the Russian wild salmon, so I
14 appreciate that. And my time has expired, so I will
15 turn to Vice Chairman Williamson.

16 VICE CHAIRMAN WILLIAMSON: Thank you, Madame
17 Chairman. Mr. Vike, before you leave, I have one
18 question. On your testimony on page 6, you're talking
19 about the increase in the Norwegian harvest on the
20 third quarter of this year, as compared to the third
21 quarter of last year.

22 And you state that it's largely the result
23 of unusual growing conditions during the third
24 quarter, and also the fact that harvest levels earlier
25 in the year were below expectations. And this is, I

1 think you're saying this is why there was a big
2 increase this year. And I was wondering if you could
3 elaborate on that.

4 MR. VIKE: I can do that. It was expected
5 that there would be an increase in the second half in
6 the fourth quarter. But what happened was that in the
7 spring, and I think we misinterpreted the market, and
8 basically more or less everyone was exploiting
9 harvests. And that means that we're putting it in
10 front of us, and then it has to go out at a certain
11 time to follow the sites and enter new fish. So
12 that's part of that.

13 Also, we had the best growing conditions
14 ever in this industry, in Europe, in this, in this
15 fall. It's in the fall when we have most of the
16 growth. And it's been fantastic temperatures,
17 relatively low level of sea lions and disease
18 situation. That means we have had significant growth.

19 So actually the growth, the production we've
20 seen has been better than anyone would have expected,
21 and than we've seen before. And that also then, we
22 would have to harvest that out. So that's been also
23 putting pressure on that. This is part of the natural
24 variations we would see. We've seen in 2009 and 2010
25 after unusual cold winters that the opposite has

1 happened. So that's part of a natural variation. But
2 that put even more pressure on unexpected growth in
3 this fall. So that's what happened.

4 VICE CHAIRMAN WILLIAMSON: So what does that
5 mean in terms of near term production and prices?
6 There's already been some testimony that the prices
7 are beginning to come back again. Is this sort of
8 third-quarter blip going to maybe slow that down?

9 MR. VIKE: No. I think we will see
10 particular pressure on prices and on harvest in
11 September/October. And we saw the lowest level in end
12 of October this year, as we've seen in previous years.
13 So, at that time, the prices were push really low, and
14 after that they recovered. So they were down to 18
15 NOK a kilo, and it's up now to 25, 26, that's the
16 level we're selling at currently

17 So we're coming in now into a season where
18 seawater temperatures are falling, so the growth is
19 not that massive and it's easier to adapt that to the
20 market. That's how it works.

21 VICE CHAIRMAN WILLIAMSON: Okay. So what
22 does that say about the, shall we say the low prices
23 in the earlier period? That the effect of that is not
24 going to last that long?

25 MR. VIKE: No, I think this bottom level is

1 something that we will see every autumn unfortunately
2 because basically it follows the temperature profile.
3 So we'll see that every fall. Not that low as we've
4 seen now, but we will see a bottom every fall. And
5 before we get to the next fall, I think there is
6 limited reason to see prices coming down to that level
7 again.

8 VICE CHAIRMAN WILLIAMSON: Okay. Ms.
9 Slater.

10 MS. SLATER: And I think, just to rephrase
11 your question, Commissioner Williamson, are you asking
12 whether what we're seeing now is a long-term low price
13 or whether we're going to come back and see normal?

14 VICE CHAIRMAN WILLIAMSON: Well, the
15 Petitioners sort of painted a gloomy picture and
16 pointed to this very low price now as a reason for
17 thinking it's going to be gloomy going forward.

18 MS. SLATER: And I'm reminded of what
19 happened in the last sunset review where the period
20 during which the hearing was held happened to be a
21 particularly high-priced period. And there's some
22 wonderful quotes where they tell you to be very well
23 aware of how much prices can fluctuate and not to be
24 fooled because prices were then high because they
25 would soon drop.

1 We're looking at a situation where they were
2 happier this time because prices happened to be in a
3 very low period just prior to this hearing. They are
4 recovering already. I don't know, maybe our industry
5 witnesses can comment on, you know, what we expect
6 looking forward. I don't know how forward you can
7 look, but one or two quarters over a year. But if
8 you're not comfortable, please don't.

9 MR. VIKE: We should be careful in saying
10 what we -- at least we wouldn't guarantee anything.
11 But there is a forward market for salmon, financial
12 salmon, so forward contracts and financially -- the
13 current price level will be the bottom price level
14 that we'll see through 2012. Then, certainly, supply
15 will diminish in 2013 and that should support prices.
16 In 2014, we would see the effect of all the actions
17 we've now taken to reduce, so then we're back to a
18 boom market, for us that want an inside tip on the
19 stock market, so then we will see this market boom
20 again. That's the cyclicity of this business.

21 VICE CHAIRMAN WILLIAMSON: Okay, thank you.
22 Yes?

23 MR. SUNDHEIM: Commissioner, if I may? Egil
24 Sundheim. I'd like to point to the fact that the
25 consumer market is responding to declining salmon

1 prices and that's happening at the delay of like what
2 I mentioned 12 to 14 weeks. So what we see is that we
3 just right now are facing that the consumer is picking
4 up speed on consumption again and we expect that to
5 last as the consumer prices have been lowered and
6 we're entering the season of high consumption time
7 during Christmas time in Europe. And we expect that
8 consumption will continue to go on low prices to the
9 consumer.

10 That's not the case in the frozen market and
11 the smoked market, where price transmission takes on
12 very slowly because of a different structure in the
13 market. But for the fresh market, prices are now
14 being at a very attractive level for consumers and
15 consumption is picking up rapidly.

16 VICE CHAIRMAN WILLIAMSON: Okay. Thank you.
17 Thank you for those explanations. I do invite the
18 Petitioners to comment on, since they had, you know,
19 quite a different review this morning, at least
20 different perspectives.

21 To my understanding -- I was wondering, is
22 salmon farming in Russia increasing and is -- what
23 does that say about demand there?

24 MR. VIKE: Well, I can comment on that.
25 I've seen that Russians are expressing that they want

1 to be producing a little more up in the Murmansk area.
2 We're farming up in northern Norway, but on the west
3 coast where we still benefit from the Gulf stream and
4 the Gulf stream is still the reason why you can farm
5 salmon in Norway. Actually, it's the only reason why
6 you can live in Norway.

7 (Laughter.)

8 MR. VIKE: So that Gulf stream has limited
9 impact when you get further east. So the eastern most
10 part of Fenwick, the growing conditions are
11 significantly worse. And we know that because we've
12 had farms up there and we're actually moving them
13 further south now, as part of our production cuts,
14 because they will definitely be unprofitable going
15 forward. And the Russians, they think they will farm
16 that even further east. I think they will see
17 significant issues doing that.

18 So far, everyone has been farming -- almost
19 everyone -- there's still one company left, so I
20 should be careful -- but almost everyone that's been
21 farming the eastern most part of Norway, they went
22 bankrupt and we'll see how they will do that. I think
23 it's going to last for 20 years before they can reach
24 that, if possible at all. Simply, the environmental
25 conditions are not there for that.

1 VICE CHAIRMAN WILLIAMSON: Okay. So does
2 that mean -- we can't expect to see any great increase
3 in Russian domestic production for salmon unless it's
4 wild caught?

5 MR. VIKE: Not in that area. I know they do
6 some trout in some other areas and that's -- but, it's
7 fairly small. But, in that area, unfortunately, the
8 temperature is way too low.

9 VICE CHAIRMAN WILLIAMSON: Okay, thank you.

10 MS. SLATER: I just might also add that the
11 article that the Petitioners included from Intrafish,
12 there is also a Norwegian version of Intrafish, which
13 had an article in Norwegian basically commenting on
14 the comments of the Russian official. We can have
15 that translated and supply that to you, explaining why
16 these projections were political aspirations, but not
17 too realistic. So, we can give you that in
18 translation in the post-hearing, if you're interested.

19 VICE CHAIRMAN WILLIAMSON: Okay, thank you
20 for that.

21 MR. SUNDHEIM: If I just may add one point,
22 Commissioner. This is Egil Sundheim. It's also a
23 fact that there's a lot of Russian military activity
24 in that area and I'm not sure that the Russian Navy
25 would appreciate a lot of salmon farming in the area.

1 And that's also a point that's been made.

2 VICE CHAIRMAN WILLIAMSON: Okay, thank you.

3 MR. NERHEIM: This is Mr. Nerheim.

4 VICE CHAIRMAN WILLIAMSON: Yes.

5 MR. NERHEIM: Just adding on to this and on
6 a government level, we've in the dialogue with the
7 Russian authorities, they've told us about their
8 ambitions and we had -- just proud that we will be
9 helpful, if they need -- whatever they need. So, we
10 are willing to share our experience, if they want to
11 start out with salmon farming.

12 VICE CHAIRMAN WILLIAMSON: Don't teach them
13 too much, though. Okay, thank you. I was wondering
14 if you could describe in more detail the restrictions
15 that Russia and China have placed on Norwegian salmon
16 at various times.

17 MR. NERHEIM: This is Mr. Nerheim. What the
18 Russians have is a system they started doing, I think
19 it was Christmas 2005, and they wanted to enter into a
20 new regime organized by their veterinary service. And
21 what they did, they came inspecting our plants and
22 then in the end, it's the Russian veterinary service
23 that actually decides on which facilities that are
24 sufficiently acceptable when it comes to hygiene, et
25 cetera, to be allowed to -- for import into Russia.

1 And we learned at the time that this had been -- this
2 was something that they had done previously and that
3 was the time we learned about the fresh bush legs,
4 because this started when the American chicken
5 industry sold chicken legs to Russia and the Russians
6 came to inspect your facility.

7 But, the case is that we now have 35
8 approved facilities and these 35 facilities cover
9 about 80 percent of the Norwegian production capacity,
10 so that it seems to us that this system that is
11 established is fully acceptable and that it does not -
12 - it's not harmful. It's not the ideal system, as we
13 see it, but it's a system that is workable and
14 functioning for the current flow of salmon from Norway
15 to Russia.

16 When it comes to China, of course, we've had
17 good working relationship with the Chinese authorities
18 on food safety over many years. But from December
19 last year, as have already been mentioned, China has
20 introduced a new system, which is especially hitting
21 fresh salmon from Norway. So, we see that other
22 countries are -- other countries have been able to
23 increase their sales into China. But, there are --
24 the exports from Norway to Hong Kong has increased
25 during the same period.

1 VICE CHAIRMAN WILLIAMSON: Okay. Thank you,
2 very much. It's a wonderful world of SPS berries.
3 Thank you.

4 CHAIRMAN OKUN: Commissioner Pearson?

5 COMMISSIONER PEARSON: Thank you, Madam
6 Chairman. Following up on the questions about Russia,
7 if they wish to produce salmon, would it make more
8 sense for them to try to do it in the Pacific, off the
9 Kamchatka Peninsula, rather than around Murmansk?

10 MR. SUNDHEIM: Commissioner, this is Egil
11 Sundheim. I don't know enough about the possibility
12 of the farming conditions in the eastern part of
13 Russia; but from a market perspective, the market for
14 farmed Atlantic salmon in Russia is on the western
15 side. So, we're still going to be looking at a
16 distance of eight to 10,000 kilometers to bring that
17 product to the consumer that cherish Norwegian salmon
18 in Russia. So, I think that would be an obstacle.

19 COMMISSIONER PEARSON: That is a good point.
20 Perhaps, it would be her position to serve markets in
21 Korea or China than in Moscow. Okay.

22 Do you have any information on the cost of
23 producing salmon in the United States? And the reason
24 for asking is that I'm just curious to know whether we
25 should see the U.S. industry as basically being world

1 class competitive or does it have certain advantages
2 or disadvantages that we should keep in mind? Mr.
3 Vike, do you have any observations?

4 MR. VIKE: I would definitely be guessing if
5 I said something about that. I know the Canadian, the
6 BC cost site, which is higher than you'd find in Chile
7 and Norway or in the U.K., I would not be surprised to
8 see that the west coast cost, Washington cost would be
9 maybe at the same level. But, I don't know too much
10 about the east coast, to be honest.

11 COMMISSIONER PEARSON: Okay. I understand
12 there is speculation involved here. I'm just curious,
13 because it's always interesting to know as much as we
14 can about the relative competitiveness of industries
15 in different countries.

16 MS. SLATER: Commissioner, we can certainly
17 look and see if we have any information that compares,
18 because this is a very well papered industry, so it's
19 possible we could find something of interest to you
20 for the post-hearing on that topic.

21 COMMISSIONER PEARSON: Okay. Yes, if
22 there's been something published, that would be great
23 to include. Thank you.

24 So, at times when supplies are large and
25 prices are low, do we ever see a situation in which

1 salmon that you might have wished to sell as whole
2 fresh salmon would instead be converted to a frozen
3 use or canned or smoked, just to reduce the supply of
4 the whole fresh salmon? Or not just to reduce the
5 supply, but to make the best possible use of the
6 product in a challenging market condition.

7 MR. VIKE: I mean, you would certainly see
8 that the price of all the products would influence
9 whether it's converted into fillets or whether you
10 could smoke it, whether you freeze it, because there is
11 a certain -- that goes back to the same net back
12 pricing thinking that we've got. So if there are
13 opportunities, you would see that, but more as, you
14 know, where do we optimize and how do we optimize the
15 profitability, much more than doing that as a way to
16 try and remove the problem, because it won't go away,
17 even if you freeze the product. You can't move it
18 from one period to the next, to take off some of the
19 tops, and that happens. But, you can't really freeze
20 it for a long time. That was tried in Norway back
21 many, many years ago and didn't go very well. So,
22 that doesn't help.

23 COMMISSIONER PEARSON: Well, how about the
24 production of canned salmon? Is it only wild caught
25 salmon that is canned or is there some farm-raised

1 salmon that also is canned?

2 MR. TAYLOR: I can comment on that. Ken
3 Taylor. Us, Marine Harvest actually developed some
4 canned salmon product for a joint, I would say not
5 partnership, but relationship that we had with Costco
6 years ago and the utilization that we created for this
7 product was all byproduct from portions we were
8 creating for their frozen market that they had in
9 their stores. So for us, as an industry, to go and
10 put good quality or whole fish, not talking about a
11 byproduct, into a can, the price return would not even
12 be close to something we would consider.

13 The other point on that, and talking of
14 frozen, specifically, our operations in Canada, when
15 there is a time here and throughout the season where
16 the market does come down and it seems like, whoa,
17 it's tough to sell the product, should we look at
18 options going to the freezer, the infrastructure that
19 we have in BC isn't set up to where we could go to the
20 frozen market in a portion or filet form without
21 incurring a lot of costs. And then, in turn, looking
22 at the frozen marketplace, usually, the sales for that
23 product is far below the fresh market. So it's almost
24 a double-edged sword; you put more cost into it to
25 delay the losses that you'll probably have in three to

1 six months. I hope that helps a little bit.

2 COMMISSIONER PEARSON: Yes, that point is
3 well taken. So, as a practical matter, at a time of
4 oversupply, what you're really are doing is relying on
5 the lower price to build demand, as you've discussed,
6 and knowing that at some price level, people are happy
7 to eat all of that fresh fish at a lower price than
8 you would like, and the market will come back. Okay.
9 Mr. Nerheim?

10 MR. NERHEIM: Thank you, Commissioner. I'd
11 just like to add one point, but this is -- I do not
12 have any experience in salmon farming -- but, of
13 course, we know that it is also a possibility,
14 relating to your question, for a period slow down the
15 feeding -- I don't mean starving the salmon, but, of
16 course, the feeding can be done at certain levels, so
17 that the growth of the biomass would not be as large
18 as it would with full feeding; so, maybe, a low-fat
19 diet or I don't know.

20 COMMISSIONER PEARSON: So by feeding at a
21 somewhat lower rate, can one extend by a month the
22 time of harvest?

23 MR. VIKE: Yes. What it can do is that you
24 can feed six out of seven days or five out of seven
25 days and you can have -- because, we always have a

1 starvation period before harvest. That can be
2 extended. So, I think all of those things are
3 actually happening right now, that people don't want
4 to push this too far and so they're taking measures to
5 slow down feeding, extend the starvation period before
6 harvest to make sure that the fish does not grow too
7 large or too much. That is happening. That's at
8 least what I hear around that that's happening.

9 Also, we know that you could shift -- some
10 farmers have shifted to a lower energy diet, to get
11 lower growth rate and then also at the lower cost.
12 There is some difference in opinion whether that makes
13 sense or not, but that's -- some have done that.

14 COMMISSIONER PEARSON: Is it reasonable to
15 assume that salmon in Norway eat the same food that
16 they do in North America?

17 MR. VIKE: Well, actually, some of the
18 ingredients that are used in North America are not
19 legal to use in animal feeding in Europe. So, we use
20 a slightly different --

21 COMMISSIONER PEARSON: Would this be some
22 soybeans with a genetic --

23 MR. VIKE: Well, it's blood meal and feta
24 meal. That's what is not allowed to use in Europe.
25 But besides that, it's soya, it's fish meal, fish oil,

1 which is global commodities that we use. So it's
2 pretty much the same.

3 COMMISSIONER PEARSON: One other
4 miscellaneous question if I may. You talked about
5 byproducts that would go into canned salmon. Is there
6 a market for salmon cheeks? Do they end up being
7 harvested? Salmon cheek filets? Fillets? No.

8 MR. TAYLOR: Is the mic on? Ken Taylor.
9 From my knowledge, there's no product there to speak
10 of, neither on the aquaculture to the wild side that
11 has been a market developed for it, so, no.

12 COMMISSIONER PEARSON: Okay. Well --

13 MR. TAYLOR: Halibut, yes, but salmon, no.

14 COMMISSIONER PEARSON: Okay. So it's a
15 specifies specific thing?

16 MR. TAYLOR: Correct.

17 COMMISSIONER PEARSON: Because I'm quite
18 familiar with wall-eyed cheeks and that's why I was --

19 MR. TAYLOR: Yes. There are some seafood
20 species, like halibut, that is a great market for
21 cheeks.

22 COMMISSIONER PEARSON: Okay. Well, thank
23 you for that. That's probably enough of my
24 miscellaneous questions. The light is changing. So,
25 I have no further questions, I believe, for this

1 panel. I want to thank all of you, very much.

2 CHAIRMAN OKUN: Commissioner Aranoff?

3 COMMISSIONER ARANOFF: Thank you, Madam
4 Chairman. There were some questions that I asked to
5 the domestic producers earlier today and wanted to
6 give you an opportunity to comment on, as well.
7 During the prior period of review, being up to 2005,
8 the Commission's last review, a number of Norwegian
9 producers sold their holdings in U.S. production
10 assets. Is there an explanation for why several
11 companies made that decision around the same time and
12 has anything like that happened with respect to
13 Norwegian companies that hold production assets in
14 other countries?

15 MS. SLATER: I think, Commissioner Aranoff,
16 we'll have to look at that and get back to you. It's
17 just there's nobody with personal knowledge of that
18 here.

19 COMMISSIONER ARANOFF: Okay. Also, I had
20 asked this, this morning, especially to Cooke
21 Aquaculture, which produces in both Canada and the
22 U.S. and had asked them why has the Canadian industry
23 been so much more successful than the U.S. industry in
24 terms of growth. And I think we heard that maybe they
25 had a little bit more cold water coastline available

1 or maybe it's a little bit easier to get approval for
2 new production locations. But, I didn't know if
3 anyone on this panel has any knowledge and wanted to
4 comment on that issue.

5 MR. VIKE: Morten Vike. I think it's hard
6 to comment on that; but, I guess that the natural
7 environmental conditions would be the main reason for
8 that. I think, as we've experienced in BC, it's also
9 very, very hard to get new licenses. We've managed to
10 get some, but it's not simple. It's actually not easy
11 anywhere, not even in Norway these days. So, that's
12 hard everywhere.

13 COMMISSIONER ARANOFF: Okay. One of the
14 issues that came up in the last review was this issue
15 of whether there are certain customers that would be
16 willing to pay a premium for Norwegian product and, if
17 so, why. And I just wanted to confirm with you,
18 because what I'm hearing today is, it's not country of
19 origin. People aren't willing to pay premium because
20 it's from Norway. And it's not any kind of branding
21 that, to the extent that there might be a premium, it
22 would normally be based on size. Is that correct?

23 MR. TAYLOR: Ken Taylor, comment on that,
24 Commissioner. There are certain customers that do
25 prefer or differentiate country of origin when they're

1 selling the product and there's other customers that,
2 like you said, look at it strictly as a commodity and
3 most of the retail sector in the U.S. is looking at
4 Atlantic salmon as a commodity, aquacultured salmon,
5 Atlantic salmon. They're require to by law now to
6 list the product, country of origin, as they're
7 displaying it in the case. But, as we saw the
8 collapse of Chile a few years back, we, Marine
9 Harvest, were able to retain a lot of our customer
10 base by bringing in Norwegian filets and most of the
11 customers were grateful that we could keep salmon
12 coming to their door and keeping the product in
13 supply. But, now, as we've seen Chile come back into
14 place, they've switched gears just as easily to go
15 back and use Chilean supply.

16 There are specialty retailers, as well as
17 some restaurants that like to feature country of
18 origin specific, Faroe Island, Scottish. There's
19 Prince Edward Island salmon that we saw last night on
20 the menu. There are some specific areas that you'll
21 get that targeted. And Whole Foods is happy to put
22 Norwegian salmon in their case and put a
23 sustainability list behind it. So, you're going to
24 see a variety of each. But the major commodity volume
25 sold at retail in I would say the middle area food

1 service industry doesn't specifically look at it that
2 way.

3 COMMISSIONER ARANOFF: Okay.

4 MS. SLATER: This is Valerie Slater.
5 Commissioner Aranoff, your question about the
6 differentiation in the market, as Mr. Taylor
7 explained, there certainly are customers who do put a
8 premium on origin, particularly Norway being one.
9 But, I don't think for this Commission, particularly
10 given some of the difficulties we've had, I think
11 what's different in this sunset review for you, and I
12 really hope that you'll look at this, when you look at
13 your import statistics and you see the import prices
14 that consistently are assigned to imports from
15 Scotland and the Faroe Islands, these prices are
16 always, always, always above prices of imports from
17 Canada, from Chile, from wherever else you might have
18 whole fresh salmon. And you have to ask yourself,
19 what is that telling us, that we have these imports
20 now. It is not a large piece of the market, but it is
21 not insignificant, and these imports are constantly
22 priced significantly above what's coming in from
23 Canada, most of which, as Mr. Taylor was explaining,
24 are coming into the commodity piece of this market.

25 Those imports give you some indication that

1 there is a niche or a slice or a fillet in this
2 market, which takes higher priced salmon. And you,
3 also, see that the Norwegian salmon, which has been
4 coming in even under the orders, is also priced in
5 that range. So, this is something -- this is new
6 evidence, to some extent, because you really didn't
7 have these kinds of imports into that piece of the
8 market. And you have to ask yourself, if this is
9 strictly a commodity market, if everything is priced
10 the same, why are those imports priced higher? And
11 the answer is, in significant part, because those fish
12 tend to be, and you see it to some extent in your
13 questionnaire responses, you've heard it today from
14 Mr. Taylor, you've also heard it from Mr. Vike, what
15 is coming in from those sources are the bigger fish
16 that are sought, particularly in the sushi part of the
17 market. That's how it gets a higher price and that's
18 -- those are the places where Norway has been able to
19 sell even a small amount under the order.

20 So, it's not that there's no piece of the
21 market that isn't differentiated; but, it tends to be
22 based on size and it tends to be the European salmon
23 that has to have those prices in order to come here.

24 COMMISSIONER ARANOFF: Okay. Now, I just
25 want to make sure I understood you. Were you saying

1 that that segment of the market didn't exist at the
2 time of our prior review or it was smaller at the time
3 of our prior review?

4 MS. SLATER: You didn't have the significant
5 imports from Scotland and the Faroe Islands to look
6 at, as a control, if you will. These are also
7 countries, which, and Scotland, in particular, has a
8 substantial production of all sizes of fish. You
9 can't produce just large fish, not economically. So,
10 they've got all sizes of fish. What they're sending
11 here is that higher priced larger fish, which is the
12 same thing that you've been seeing coming from the few
13 Norwegian exporters who are here. And why is that?
14 It all comes to net back. That's because that little
15 piece of the market has a high enough price to
16 actually make it worthwhile. But, you can see, it's
17 not driven by the order because the Scottish and
18 Faroese fish are not subject to an order.

19 COMMISSIONER ARANOFF: Okay. Well, that
20 makes me feel better about the fact that I had to
21 actually look up where the Faroe Islands are when
22 preparing for today. So, maybe we didn't talk about
23 them so much the last time.

24 MS. SLATER: More, if you'd like.

25 (Laughter.)

1 COMMISSIONER ARANOFF: That's okay. I had a
2 really good time looking it up on the internet.

3 There was one thing I wanted to ask you to
4 respond to and you probably need to respond to this in
5 your brief. You've argued that the maximum allowable
6 biomass limits on Norwegian production are hard limits
7 that are enforced. But, on page 27 of the domestic
8 industry's pre-hearing brief, they put forward
9 evidence that they suggest shows that Norwegian
10 production routinely exceeds permitted amounts. And I
11 wanted to get your response to that.

12 MS. SLATER: Actually, this is -- we'll do
13 this post-hearing, but this is actually quite easy.
14 This is based on -- what they say here on page 27 is
15 based on, I think, a misunderstanding of the MAB
16 limits. The 780 metric tons per license isn't --
17 that's not what you are permitted to produce in a
18 year; it's what you can have in the water at any
19 period of time. So when they talk about a thousand or
20 eleven hundred metric tons, which -- or 1200 some say
21 as being the actual attainable amount, that's very
22 different from the MAB.

23 And let me just make sure we're all clear on
24 that. It would be better for us, actually, if the MAB
25 were the production amount, in terms of numbers, would

1 be way over capacity. The MAB limits how much fish
2 you can have in the water at a point in time. And as
3 Mr. Nerheim described, fish are constantly being
4 introduced, they're growing, and they're coming out.
5 And so the MAB is shifting day to day and day over
6 time; but all you can have in that water is the
7 maximum, let's say 780 for most licenses. That
8 doesn't mean that's all you can produce because this
9 is a constant process. So, you are actually taking
10 fish out of the water, right; putting new fish in; and
11 over the course of the year, you may be actually
12 harvesting much more than 780 because it's an ongoing
13 process. The 780 pertains just to any point in time.
14 I don't know if that's helpful or not. They were
15 mixing apples and oranges.

16 COMMISSIONER ARANOFF: Okay. That is
17 helpful. Mr. Nerheim, did you want --

18 MR. NERHEIM: Yes.

19 COMMISSIONER ARANOFF: -- to say something

20 MR. NERHEIM: -- if I may. Just also to
21 explain that within the MAB, these different
22 generations of fish would be placed on different sides
23 because when you slaughter, you have to fallow the
24 site for a certain period of time before you can
25 introduce new. So, it's not taking place -- as Val

1 Slater said, it's not taking place within the same
2 location, so you will have -- they would be allowed to
3 use the MAB on various locations. But, it is the
4 adding up of the biomass that is our major concern.

5 COMMISSIONER ARANOFF: Okay, thank you.
6 That's a very helpful clarification. And with that, I
7 don't have any further questions, but I do want to
8 thank everyone on this panel for your help this
9 afternoon. Thank you, Madam Chairman. Oh, she's not
10 here.

11 VICE CHAIRMAN WILLIAMSON: Commissioner
12 Pinkert?

13 COMMISSIONER PINKERT: Thank you. I just
14 have a few follow-up questions. Concerning the
15 testimony that Ms. Slater gave about the premium on
16 that large fish segment of the market, I just want to
17 clarify, are you saying that in the event of
18 revocation, that the Norwegian imports could continue
19 to focus only on that segment of the market?

20 MS. SLATER: Your know, that's the -- the
21 answer -- the short answer is yes. But, I don't like
22 to say focus on because I think that what we've been
23 hearing, and the industry can comment on this, as
24 well, even in that segment, for Norway, it's not as
25 attractive as it is for the Scottish because the cost

1 differential is greater and Norway has markets, such
2 as Russia, which are not as readily accessible to the
3 Scottish and Faroese. They can't get it there as
4 readily.

5 So, the reason that's important for you, I
6 think, is to see how European suppliers, substantial
7 sized European suppliers, who are not subject to the
8 order, participate in this market. It tells you
9 there's a reason they're not sending fish at the same
10 price and smaller fish. It gives validity, I think,
11 to the net back analysis that we're hoping you'll
12 study and look at.

13 To answer your question, will Norway send
14 fish into that segment? We don't know. We suspect
15 not very much. There hasn't been very much of it with
16 the order, even though suppliers that have a zero
17 margin haven't used it. But, if there were, that
18 would probably be the only place that it could make
19 any economic sense for them to go.

20 Let the record reflect that Mr. Sora says
21 that's true.

22 COMMISSIONER PINKERT: All right. Now,
23 turning to the issue of exchange rates, I want to ask
24 a hypothetical question and I don't want anybody to
25 suppose that I'm assuming that the hypothetical will

1 apply; but just bear with me, please. If the
2 participation in the Euro mechanism is not stable
3 going forward, what impact might that have on the
4 Krone-Euro exchange rate; and given that you've talked
5 a lot about exchange rates today, how might we take
6 that into account?

7 MS. SLATER: If anybody really knows the
8 answer to this, they won't be doing this much longer;
9 but, I don't know. Dan, do you want to --

10 MR. KLETT: Well, agree with Val. I mean, I
11 heard somebody ask that question a few days ago on the
12 radio and pretty much gave that same response. But, I
13 mean, I guess your question is, with the situation in
14 Europe, if the Krone relative to the Euro would
15 appreciate or the Euro relative to the Krone would
16 depreciate, given the problems that Euro countries are
17 having, you know, what would be the implication to
18 this case, I think one thing you have to consider in
19 looking at this little chart is that one of the
20 reasons the U.S. is less attractive is because the
21 U.S. has depreciated -- or the dollar has depreciated
22 against the Krone more than has the Euro. So,
23 hypothetically, if the Euro were to depreciate more
24 against the Krone than the U.S. dollar, that would
25 make, on a net back basis, maybe European markets less

1 attractive for Norway. So, at least on a
2 hypothetical, purely mathematical basis, that would be
3 the implication.

4 On the other hand, when you get to the U.S.,
5 we have kind of our own fiscal problems. So, in terms
6 of, you know, what the dollar is going to do relative
7 to the Euro, I mean, Martin Feldstein, which is the
8 article we put in, was fairly gloomy about the
9 prospects of the U.S. dollar exchange rate given the
10 fiscal problems we have. So, on a purely mathematical
11 basis, if the Euro were to crash relative to the NOK,
12 it would make Europe less attractive, all else being
13 equal on a NOK per kilogram basis.

14 COMMISSIONER PINKERT: For the post-hearing,
15 if you could supply us with anything extremely recent
16 on this issue of the Euro-Krone exchange rate. That
17 would be helpful.

18 MR. KLETT: I will do so.

19 COMMISSIONER PINKERT: Thank you. And,
20 finally, I do note that your brief made reference to
21 the Omega 3s and so I want to get an answer to a
22 question that has been in the back of my mind for a
23 long time, which is, does the presence of those fatty
24 acids hinge on the feed type or is it more related to
25 wild caught versus farm raised or some other factor?

1 MR. NERHEIM: I'm not an expert, but it has
2 to do with relative levels of Omega 3. But, the farm
3 salmon has, as Mr. Cooke said this morning, high
4 levels. And I'll just say that six years ago, in
5 December 2005, I visited Washington and here, there
6 was a conference, an international conference called
7 Seafood and Health. It was sponsored by NOAA. And
8 that was three whole days that were from different --
9 representatives from the psychiatry and all types of --
10 -- all these blessings of the Omega 3. But, the
11 conference didn't go through the actual advantage;
12 but, if you eat salmon or you take cod liver oil, you
13 get your daily doses. Thank you.

14 COMMISSIONER PINKERT: Thank you, very much.

15 MS. SLATER: Commissioner, we'll get you an
16 answer to the question of the source of the Omega 3,
17 whether it's in the feed for farm raised or where it
18 comes from.

19 COMMISSIONER PINKERT: There's lots of
20 rumors out there, so I'm just trying to establish what
21 the facts are.

22 MS. SLATER: We'll sort that one out with
23 pleasure.

24 COMMISSIONER PINKERT: Thank you. Thank
25 you, Madam Chairman. I thank the panel.

1 CHAIRMAN OKUN: All right. I think just one
2 last question that can be done post-hearing. I'm just
3 trying to make sure that I understand whether you have
4 different demand projections for the reasonably
5 foreseeable future, which I understand would be three
6 years here, for the markets in Russia and other -- you
7 and Russia being major export markets for your
8 product. I know that the Petitioners had commented on
9 where they saw demand increasing or declining and I
10 just wanted to make sure that the record we have is
11 complete on your projections for your markets, as
12 well.

13 MS. SLATER: We'll definitely do that post-
14 hearing.

15 CHAIRMAN OKUN: All right. Vice Chairman
16 Williamson does have additional questions.

17 VICE CHAIRMAN WILLIAMSON: Just a couple of
18 questions. We've already talked about the uncertainty
19 in exchange rates. In terms of economic performance
20 in the EU and any anticipated effects that might have
21 on demand --

22 MR. KLETT: I think I'm going to defer to --

23 VICE CHAIRMAN WILLIAMSON: -- if you've
24 already addressed it --

25 MR. KLETT: -- to Mr. Sundheim, because he's

1 actually done some analysis on that issue.

2 VICE CHAIRMAN WILLIAMSON: Okay.

3 MR. SUNDHEIM: This is Egil Sundheim. We've
4 been looking very closely at what's going on in the
5 consumer market in the EU and I'd like to go back to
6 when the financial crisis first hit. We went into
7 that situation looking at the seafood categories. One
8 of those categories that is what an American --
9 Nielsen called, one of the recession resistant
10 categories, consumer goods, together with beer, pasta,
11 pasta sauce, and sweets. And what we found during the
12 first round of the financial crisis was that actually
13 salmon was very well in a good position to with --
14 withhold its position into a recession. The
15 consumption were high and the consumer came back for
16 the products.

17 What's happening now when the prices went
18 down for salmon in the consumer markets, we see that
19 salmon is very well positioned facing a new decline in
20 the financial resources for the consumer. It is
21 priced right in the middle of the seafood category.
22 And we see that consumption is increasing. I was
23 referring to some numbers earlier today, both in
24 France and UK and Germany and Spain, and so we think
25 that salmon will be very well fit for a downturn in

1 the European consumer markets compared to other
2 seafood items and compared to other proteins. We,
3 also, see that the salmon category has become more
4 attractive compared to other proteins. Looking at the
5 FAO statistics, they have an index looking at how the
6 different proteins are compared price-wise out in the
7 markets and salmon has strengthened its position over
8 the past six months. So, we think that the market
9 looks quite right in that respect with Europe entering
10 financial turmoil.

11 VICE CHAIRMAN WILLIAMSON: Okay, thank you.
12 That was -- things go down, drink more salmon, okay.

13 We've already talked somewhat about the
14 MABs. And what the conclusion drawing from it is
15 basically, you really can't say that MABs are intended
16 to control production of salmon. I mean, it's sort of
17 an environmental thing. You don't want to have too
18 much in the water at the same time. But, it's not
19 really -- it has nothing really to do with the
20 production. It's almost incidentally has an impact on
21 overall production. Is that correct?

22 MR. NERHEIM: This is Mr. Nerheim. It is --
23 in our aquaculture legislation, it is the Aquaculture
24 Act, we have discretion to limit the number of
25 licenses and the size of the licenses. So, from the

1 government point of view, the purpose is to have a
2 limit on activity capacity. The current MAB system,
3 as you point out in your question, is indirectly way
4 of regulating production, because even if there's some
5 flexibility and some variations in how farmers are
6 able to utilize their MAB permit, in the end, they
7 will only to a certain degree increase production
8 within the limit. But, the concern is that we do it
9 because we are concerned that we don't want to
10 increase the biomass. But, it's both a system based
11 on environmental concerns and relations, and a system
12 that effectively limits the amount of production that
13 is possible in Norwegian aquaculture.

14 VICE CHAIRMAN WILLIAMSON: Okay. But, it's
15 not really kind of an economic -- it's not like some
16 of the other measure that used to limit the production
17 almost for like keeping balance in the market.

18 MR. NERHEIM: Since we -- through this
19 system with licenses and MAB, we actually limit the
20 possibility that the industry has to grow. And when
21 planning for 2009 licenses, we looked into the future
22 and we saw that there was demand and that there could
23 be increased capacity; but, in the end, the number of
24 licenses was -- the decision was based on the basis of
25 environmental concerns. So the answer to your

1 question is both -- it's both an environmental concern
2 and that's why we postpone the -- or abandon the
3 planned increase in 2010; but, at the same time, it is
4 a way of limiting the production capacity of the
5 Norwegian industry.

6 VICE CHAIRMAN WILLIAMSON: Okay, thank you.
7 Also, what are the considerations that a company takes
8 into account when it considers increasing capacity?
9 Clearly, this MAB and licensing is something, but what
10 other major considerations?

11 MS. SLATER: In terms of -- when you're
12 talking about increasing capacity, you mean applying
13 for new license possibly or --

14 VICE CHAIRMAN WILLIAMSON: Or just
15 increasing -- you know, you say, hey, I think I want
16 to increase my capacity, what are the -- you know,
17 what do you take into account and what are the major
18 barriers to doing that?

19 MS. SLATER: Our producer has left the
20 building.

21 VICE CHAIRMAN WILLIAMSON: Okay.

22 MS. SLATER: But, we would be happy to get
23 answers perhaps from several producers post-hearing
24 for you --

25 VICE CHAIRMAN WILLIAMSON: Okay.

1 MS. SLATER: -- writing for that, if you'd
2 like.

3 VICE CHAIRMAN WILLIAMSON: Good.

4 MS. SLATER: We'd be happy to do that.

5 VICE CHAIRMAN WILLIAMSON: Thank you and I
6 want to thank you for all -- answers to all of our
7 questions and for being here today. Thank you.

8 CHAIRMAN OKUN: There are no other questions
9 from Commissioners, let me turn to see if members of
10 the staff have questions for this panel.

11 MR. MCCLURE: Jim McClure, Office of
12 Investigations. Staff does not have any questions. I
13 would observe, I haven't heard as much discussion of
14 that yucky tasting cod liver oil in about 60 years,
15 when I tried to talk my mother out of taking a
16 teaspoonful every morning and I lost every morning.

17 CHAIRMAN OKUN: Let me turn to counsel for
18 those in support of continuation of the orders to see
19 if you have questions for this panel.

20 MR. COURSEY: Madam Chairman, we do not have
21 any questions.

22 CHAIRMAN OKUN: Okay. For the benefit of
23 the court reporter, no questions. Well, before we
24 turn to our rebuttal and closing, let me take this
25 opportunity to thank this panel of witnesses, very

1 much, for all the answers you've given us and for
2 traveling to be with us today. We very much
3 appreciate it. So, we'll take a couple of moments to
4 let these witnesses return to their chairs and let me
5 just go over the time remaining. Those in support of
6 continuation have a total of 13 minutes, eight minutes
7 for direct and five for closing; those in opposition
8 to continuation of the order have a total of seven,
9 with two for direct and five for closing. And if
10 there is no objection from counsel, we would combine
11 those times and go forward with both. Okay. So,
12 let's take a couple of minutes to change.

13 (Pause.)

14 CHAIRMAN OKUN: Okay. Mr. Coursey, it looks
15 like you may proceed.

16 MR. COURSEY: Madam Chairman, can I clarify?
17 I have 13 --

18 CHAIRMAN OKUN: You have a total of 13
19 minutes.

20 MR. COURSEY: Fourteen minutes?

21 CHAIRMAN OKUN: Thirteen. Okay, you might
22 need to check your mic again.

23 MR. COURSEY: Okay, thank you. For the
24 record, Mike Coursey on behalf of the domestic
25 producers. We have, in our pre-hearing brief, at

1 Exhibit 1, a lot of documents, a lot of news articles
2 that have been sort of glossed over by the Respondents
3 here. We have reports and so forth. I just want to
4 point out in today's Intrafish, which I strongly
5 suggest the staff get a subscription to or Kontali
6 reports, headline, "worse is still to come for
7 Norway's farmers." The story goes on to talk about
8 fourth quarter, it's going to be even worse than the
9 third quarter.

10 We heard mention of a Villa Organic here,
11 which allegedly has a zero rate under the dumping
12 order and is shipping to this country. That's news to
13 us. We follow it very closely. There are two
14 exporters who have zero rates at this point. However,
15 also, in today's Intrafish, there's a story on Villa
16 Organic posting a loss for its most recently completed
17 period. I point this out to just show there's a lot
18 of data out there that is hard and you can look at it.
19 We really hope that -- we'll put more of it in our
20 post-hearing brief, but the situation is not as
21 painted by the Norwegian Respondents.

22 Let me take a moment to address Minister
23 Nerheim's statements about the MABs. What I heard and
24 I know Ms. Slater said that we have a tendency to
25 misunderstand what has been said, the description of

1 these limitations, what I heard Minister Nerheim say
2 is that the feed limits were abandoned in 2005 and
3 replaced with these MABs. What we pointed out and
4 what is true, in December of 2006, the Norwegian's
5 expert economist testified that under the new
6 regulations, there was going to be no growth through
7 the middle of 2008. As we mentioned, in fact, there
8 was growth of 25 percent through 2007. There was
9 growth of 50 percent through 2011. The growth for
10 2012 is locked in.

11 Now, we heard the Minister say that his
12 ministry's intention in 2011 was to grant all
13 licensing throughout Norway a five percent increase.
14 Using Mr. Klett's numbers, that is an increase of 100
15 million pounds. Now, we, also, heard him say, because
16 a concern for lice came up, they decided to grant it
17 to only two. I point this out to emphasize the size
18 of these numbers; compare a 100 million pounds to what
19 the size of domestic consumption was in this country
20 last year and projected for this year. The fact
21 they're saying now there's going to be no new capacity
22 considered until 2012, which is, of course, next year,
23 which will allow for growth to come on line for 2014,
24 which, coincidentally, happens to be when they're
25 expecting prices to recover. It just has all the

1 sounds of a shell game. What is really hard here are
2 the numbers that are -- all of the experts agree and
3 there's five different sources, which show they
4 increased a lot through 2011. They're increasing more
5 in 2012. There's no reason to think that they're
6 going to cut back.

7 On this net back issue, we will submit in
8 our post-hearing brief our own example of the net back
9 analysis on recent -- on prices for January to
10 September 2011, comparing Norway's prices to northeast
11 U.S., back to Norway, which will show that they, under
12 their own analysis, would make a profit from -- or the
13 U.S. market is more attractive. They would have a
14 higher net back price coming this way.

15 Again, Mr. Klett testified that in his view,
16 the 2011 capacity was about 984,000 metric tons, which
17 is about two billion pounds, and that excess capacity
18 is about 10 percent. Again, that's 200 million
19 pounds. Again, take a look at that against what the
20 U.S. consumption is. This is what is hanging out
21 there. They have this much just in excess capacity.
22 It's a big number.

23 The regional argument, I think what I heard
24 was that there were some awfully big fishes being
25 shipped to the U.S. from the United Kingdom, Scotland,

1 apparently. But, that's all; there's really not much
2 of anything else. Well, imports of dressed head-on
3 fish from Scotland for 2010 were 23.3 million pounds.
4 Now, what region is the United Kingdom in, in Scotland
5 in? Is that going -- in the Respondent's
6 constellation of how the world is divided up, why are
7 they shipping to the U.S.? Shouldn't they be shipping
8 all to Europe? I think -- I forget which Commissioner
9 exactly caught this, but we, also, noticed that Mr.
10 Soraa of Seacoast Food happened to, you know, point
11 out that Chile has a big stake in the EU. What's that
12 all about? You know, we have these graphs and charts,
13 which are presented, but the fact is Chile has shipped
14 lots of product to the EU. They fought with Norway
15 over the years in the EU. They'll continue to do so.

16 Regarding Norway's regional markets in the
17 EU, it's sort of, I guess, spread naturally over
18 Eurasia, into Asia. Again, we really can't see how
19 the transportation costs are any less to Asia. Ms.
20 Slater stated that, well, you know, we get higher
21 prices in Asia. You know, Exhibit 16 of our brief
22 shows AVs to China and Japan for 2011. That's not --
23 it's just not true. They don't get high prices or
24 consistently higher prices to those countries. If
25 they're shipping to those countries, they can easily

1 ship to the U.S.

2 I would point out that in your last
3 decision, you addressed this issue on page 15, right
4 at the bottom of the page, in essence, saying there
5 wasn't really a demonstration of why transportation
6 costs would play any more of a role than they did in
7 the original investigation. There was a very large
8 amount of product shipped into this country,
9 relatively speaking, to the amount produced back then.
10 There still is real no basic explanation as to why
11 that analysis -- why they wouldn't ship here. This
12 net back strategy wouldn't result in them shipping
13 here if the orders are sent away.

14 A couple of points, the witnesses from
15 Marine Harvest and Grieg. We pointed out a couple of
16 things about Marine Harvest in our presentation. One
17 is that they reported a loss, as a corporate entity,
18 for third quarter of 2011. And Marine Harvest in
19 Canada, which is part of this constellation of the
20 Marine Harvest witness, apparently the sales
21 representative of every Marine Harvest entity, except
22 Norway. The Marine Harvest entity in Canada had a
23 press release -- we'll put it in our post-hearing
24 brief -- which said, because of the increase in global
25 demand, which has had an impact, negative impact on

1 price, we need to cut our production for the next two
2 years 30 percent and lay off 12 percent of our
3 workforce. These companies that are coming here and
4 saying -- and Grieg is the same way. Grieg reported a
5 loss for the third quarter and, meanwhile, the
6 representative is talking about profits, profitable
7 prices, everything is sunny, things are going up.
8 This article that I referred to, things -- you know,
9 the worse is yet to come, points out that Grieg is
10 expected at this point to report a loss for the fourth
11 quarter.

12 I guess I would close on this issue of
13 Norway filet shipments to the U.S. We, also, have
14 included in Exhibit 1 of our brief an article, dated
15 October 27, and it is headlined, "Norwegian salmon
16 overruns American," and the reference is to filets.
17 The story is pointing out how Norway big in filets, in
18 Chile's absence, through March suddenly disappears;
19 but, all of a sudden, is back in October with some --
20 according here, some of the buyers and sellers saying
21 Norwegian salmon has been flooding the market since
22 the beginning of October and that prices for filets
23 from Norway are now in line with fish coming from
24 Chile and elsewhere. Another quote, "Norway has
25 gotten very aggressive and is basically working at

1 prices comparable to Chile's."

2 If you look at the numbers, Chile has always
3 been interested in getting as much salmon into the
4 country as possible. It has been able to ship in
5 filets over the past 20-year period. It doesn't have
6 as good a cost structure as Chile, but it still has
7 always been able to bring product in. This is further
8 evidence that they're competing hard in an area where
9 they're saying, now, they're not cost competitive.
10 What does this mean for what they would do if the
11 order on dress head on salmon goes away?

12 There are a number of other issues I could
13 touch on, but I think we'll leave that for our post-
14 hearing brief. Thank you, very much.

15 CHAIRMAN OKUN: Thank you.

16 MS. SLATER: Good afternoon again. Mr.
17 Coursey left this chair not just warm but hot I have
18 to say. Just a few points -- just a few points, and I
19 think -- I think what's really important in this
20 review is to be careful to focus on what's important
21 and what's different. What we've heard a lot today is
22 about how big Norwegian production -- how big Norway's
23 production is, how big its potential growth is. And
24 six years ago, you spent a lot of time struggling with
25 what Norway's capacity really is. We really think

1 everybody is in pretty much agreement, there's no
2 question that Norway has grown significantly over the
3 past six years. I don't think anybody would sit here
4 with a straight face and tell you that hasn't been
5 true.

6 There's also some pretty good agreement, and
7 this is what's important for you, as to what the
8 growth will be over the next couple of years. I mean,
9 the analysts are all in agreement. We know what's in
10 the water. We know the range of growth that's
11 expected. And I think Mr. Klett had a nice chart that
12 we'll also give you post-hearing. I think everybody
13 is in agreement.

14 The issue is not how many words we can find
15 to use -- to describe big. The question is where
16 Norway's production and its additional capacity, its
17 additional production will go. That is the question.
18 And what we would like you to understand, which is the
19 truth, is that Norwegian producers will not have much
20 interest in sending their fresh whole salmon here.
21 Let's review quickly why that is.

22 The industry, which -- the industry
23 organization globally today, which I know Mr. Coursey
24 pooh-poohs, is quite regional when we talk about fresh
25 whole salmon and also fresh filets, to some extent.

1 Fresh whole salmon tends to be delivered to nearby
2 markets where those producers have an advantage. Ask
3 Mr. Cooke how much of his Canadian fresh whole salmon
4 goes elsewhere. He'll send some, but it will be
5 small. Most of his Canadian whole fresh salmon comes
6 to the United States market. Why? Because he has an
7 advantage and he's told you that. Last year, he told
8 you that. He has an advantage; he has an advantage in
9 sending it here. Chile has an advantage of sending
10 that whole fresh salmon to Latin America. Norway has
11 a tremendous advantage shipping to its markets where
12 it can ship by truck. So that's where the bulk of
13 that goes.

14 Now, Mr. Coursey says, well, we know they're
15 sending some of it to Asia. That's far away; so much
16 for regionality. Of course, it's far away. What's
17 the difference -- this is a like a riddle -- what's
18 the difference between Asia and the United States?
19 Lots. But the difference in terms of whole fresh
20 salmon is that there are no nearby, close competitors
21 who are advantaged. There's no producer in any of the
22 Asian countries or nearby to any of the Asian
23 countries. So, when Norway sends some whole fresh
24 salmon to Vietnam, which has actually grown in
25 response to the Chinese situation, or to Taiwan, or to

1 the other -- or to Hong Kong, when the salmon goes
2 there, they're not competing with a Cooke Aquaculture,
3 which simply has to put its fish in a truck. That
4 means the prices can be higher and the market can
5 reflect what it has to reflect to draw the product
6 there. This is not too hard a concept and it has the
7 absolute benefit of being true.

8 Why is this not the same as 1991? I think
9 Mr. Coursey three times said, they're going to do just
10 what they did in 1991. Let me explain to you and to
11 explain to Mike why that's not true. It's not true
12 because in 1991, the Canadian industry was very, very
13 small. You saw the slides that Mr. Klett showed you.
14 There was no Canadian industry setting the pricing
15 levels in the market, taking advantage, as it should,
16 of its substantial freight advantage for the delivery
17 of what is for most segments a commodity market. And
18 you know this; you know from your experience that in
19 commodity markets, what makes the difference between
20 competitiveness often, when products are equal, is the
21 freight.

22 So, I would encourage you to do two things.
23 One is, look at the difference in who was serving the
24 market in 1991 versus now and look at where fresh
25 whole salmon is going, and we'll give you that data

1 for filets. There's a big difference in Asia. It
2 doesn't mean product can't go there; it just means
3 we're not competing with somebody who is freight
4 advantaged.

5 Let me talk about the current market
6 situation. We've heard so much about it today. I
7 know that the Petitioners were just -- it was a little
8 gallows humor, I'm sure, but they were thrilled when
9 the market started to fall in the summer because,
10 otherwise, they would have had not too much to say to
11 you here. This happens in commodity markets. There
12 are cycles. You heard from Mr. Vike today about what
13 it is that has caused the large production in the
14 third quarter. A lot of what Petitioner is telling
15 you about production has to do with the third quarter
16 of this year versus the third quarter of last year.
17 This production year-on-year is about what it as
18 predicted to be in terms of growth. It happened to
19 hit much later in the year than it should have, at the
20 same time that Chile came on. It's not good. But,
21 these are fish; they are not widgets. We cannot
22 control other than within a relatively short period of
23 time, when they come to the market. We can't do it.
24 Cooke can't do it, unless they have some magic that
25 we'd like to share from them.

1 So, this is something that happens in the
2 normal cycles. Is the market going to be like this
3 forever? No, it's not going to be like this forever.
4 Is it fixed now? No, it's not fixed now. Is it
5 improving already? Yes, it is. Has Grieg reported
6 fourth quarter -- likely fourth quarter losses? We'll
7 take a look at what's there. Things are not good for
8 the fourth quarter. This is just the 30th of
9 November. Don't be caught in a time trap. The
10 Petitioners want you to look at the last three weeks
11 and think that this is how the market is going to be.

12 I think the last thing I would like to say
13 to you is that this is a case where you need to step
14 back and really examine closely what commercial
15 behavior ought to be. We think we've given you the
16 kind of detailed net back analysis that you can see
17 producers will actually do and we'd be happy to do
18 that on an updated basis, on any specific basis that
19 you'd like. This is how producers make their pricing
20 decisions. And, finally, take a look and see what
21 lessons you can gain, both from Norwegian's absence
22 from the filet market or fillet market here in the
23 U.S., with the exception of a short period of time
24 when prices came up, and see what you can make out of
25 the presence of Scottish salmon only in very high-

1 priced portions of the market.

2 Thank you so much for your time and
3 attention today and I'd love seeing all of you at this
4 level. This is just great. Thank you.

5 CHAIRMAN OKUN: Thank you. Post-hearing
6 briefs, statements responsive to questions, requests
7 of the Commission and corrections to the transcript
8 must be filed by December 9, 2011; the closing of the
9 record and final release of data to parties is January
10 13, 2012; and final comments are due January 17, 2012.
11 With no other business to come before the Commission,
12 this hearing is adjourned.

13 (Whereupon, at 5:07 p.m., the hearing in the
14 above-entitled matter was concluded.)

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CERTIFICATION OF TRANSCRIPTION**TITLE:** Fresh and Chilled Atlantic Salmon from Norway**INVESTIGATION NO.:** 701-TA-302, 731-TA-454**HEARING DATE:** November 30, 2011**LOCATION:** Washington, D.C.**NATURE OF HEARING:** Hearing

I hereby certify that the foregoing/attached transcript is a true, correct and complete record of the above-referenced proceeding(s) of the U.S. International Trade Commission.

DATE: November 30, 2011

SIGNED: LaShonne Robinson
Signature of the Contractor or the
Authorized Contractor's Representative
1220 L Street, N.W. - Suite 600
Washington, D.C. 20005

I hereby certify that I am not the Court Reporter and that I have proofread the above-referenced transcript of the proceeding(s) of the U.S. International Trade Commission, against the aforementioned Court Reporter's notes and recordings, for accuracy in transcription in the spelling, hyphenation, punctuation and speaker-identification, and did not make any changes of a substantive nature. The foregoing/attached transcript is a true, correct and complete transcription of the proceeding(s).

SIGNED: Rebecca McCrary
Signature of Proofreader

I hereby certify that I reported the above-referenced proceeding(s) of the U.S. International Trade Commission and caused to be prepared from my tapes and notes of the proceedings a true, correct and complete verbatim recording of the proceeding(s).

SIGNED: Gabriel Gheorghiu
Signature of Court Reporter