

**Testimony of Egil Ove Sundheim
Director, Norwegian Seafood Export Council, Inc.**

Good afternoon Commissioners.

My name is Egil Sundheim and I am Director of Market Information at the Norwegian Seafood Export Council, or NSEC. One of the primary responsibilities of NSEC is to promote worldwide demand for Norwegian seafood. In this respect, we also work on monitoring and analyzing the demand for salmon in the main salmon markets.

There are two issues I want to discuss.

- First, I will address the market demand for Norwegian salmon and, as a part of this, where Norway exports and why.
- Second, I will discuss the relationship between price changes for Norwegian salmon and demand.

NSEC is continuously investing in the promotion of Norwegian salmon particularly to consumers in our natural export markets in Europe where Norwegian salmon is shipped by truck or train. These markets include the EU, Russia, and Ukraine, which have accounted for about 90 percent of the growing whole fresh Atlantic salmon exports from Norway over the last five years.

Let me tell you why.

Although Norway is located on the northwestern edge of Europe, we are within trucking distance for fresh seafood to roughly 750 million consumers. Bordering Russia, Norway is well positioned geographically to supply one of the world's fastest growing consumer markets with fresh whole Atlantic salmon. The vast majority of the Russian population is based in the

western regions. Currently, it is the demand for Norwegian fresh whole salmon in the two largest cities, Moscow and St. Petersburg, that is the basis for establishing Russia as the second largest market in terms of volume. Russia is still yet to be fully developed as a market as distribution continues to develop making it possible to offer fresh Norwegian salmon to new consumer groups in western Russia outside the two largest urban cities

For exports to other European countries, most salmon is shipped by truck through Sweden, Denmark and Finland. Some fresh seafood is also shipped by train. It is common for trucks to utilize the extensive ferry system in Scandinavia, both eastbound and southbound, to bring the fresh seafood to the market in an efficient manner.

Slide 1 shows long term trends in Norway's growth of its whole fresh Atlantic salmon exports. You can see that all of Norway's export markets have been growing, but "Other Europe" which includes Russia, has shown particularly strong growth. You can also see that Norway exports to Asia, which is by air freight. Fresh whole Atlantic salmon is exported to Asia because here it doesn't face competition from suppliers with a logistical or freight advantage, unlike the situation in the United States where Norwegian salmon would have to compete with local product from U.S. and Canadian supply. In fact, Norway might have an advantage when it comes to freight cost compared to its competition in Asian markets.

There was a lot of discussion this morning about recent price decreases for whole fresh Atlantic salmon. NSEC hosted a conference in Oslo last week, where I made a presentation on the relationship between price changes and demand for Norwegian salmon. I want to share some of our findings with you.

First, as has been discussed earlier, prices for whole fresh Atlantic salmon are cyclical, and can rise and fall significantly within a relatively short period of time. The price declines we have seen since this summer, both for Norway's markets, as well as in the United States' markets, are not unusual for salmon. Indeed, this cyclical pattern is typical for all types of livestock as you may be familiar with the well-established term "pork cycle" in agricultural economics.

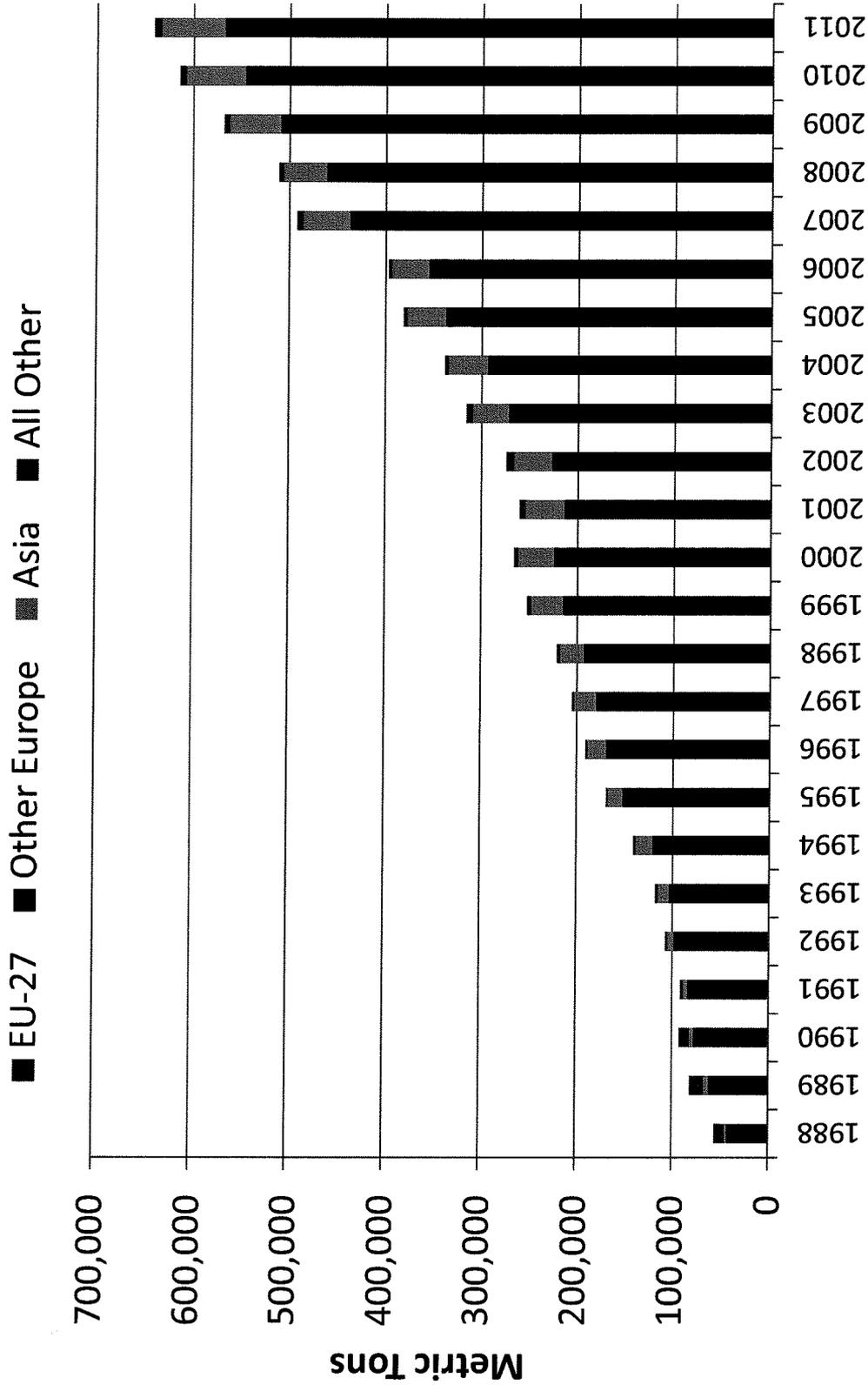
However, because consumer demand is sensitive to price, there is typically some "self-correction" to cyclical price peaks and troughs. When consumer prices are high, the volume of salmon consumption declines, and conversely low prices generate an increase in salmon consumption. As an example, in 2006 there was a period of cyclical high prices for salmon in Norway's largest export market, France. As the consumer price rose, the number of households purchasing salmon declined, with an almost perfect inverse relationship. Those who couldn't afford the product or had not become stable consumers, abandoned salmon for substitute products. Subsequently, when consumer prices fell again, the demand for salmon increased as the "lost" households found salmon attractively priced in their stores.

When consumer prices for salmon again increased in 2010 through about mid-2011, the number of households purchasing salmon in France immediately declined. The trend stopped in May, and in October we started to see an increase in demand as the consumer price for salmon started to decline. Our analysis shows that there is a 12-14 week time lag between the declines in wholesale spot price and price declines at retail in France. The consumers are now immediately responding to lower salmon prices. The volume of fresh salmon sold for home consumption in France rose by 23% from October to November. The current purchase is over

40% higher than it was a year ago. We also see an increase in household purchase of fresh salmon in the UK, Germany and Spain. I would be happy to share with you some of the specific data showing these relationships.

Salmon consumption is sensitive to changes in price because it must compete with other fish and other proteins such as pork, chicken, or beef. This occurs at retail, as well as choices made by restaurants and institutions on what to include on their menus. Our analysis shows that the gap between salmon prices and prices for other seafood widened starting in early 2010. According to FAO data, the same occurred for salmon prices relative to other meats. This resulted in a reduction in Norway's export growth for salmon, particularly in the last half of 2010 and first half of 2011 when prices reached their peaks. The price decline for salmon that started earlier this year are now more fully apparent at the consumer level, and will become increasingly so through the rest of this year and into 2012. This is already resulting in increasing demand for Norwegian salmon, and higher prices.

Norwegian WFAS Exports



* 2011 Jan-Oct volume annualized
 Source: Exhibit 6 of Respondents Prehearing brief.