

Change in Norwegian taxation of Salmon farmers and its effect on salmon markets:

On September 28th, the Norwegian government proposed to implement a special resource taxation on the farming of salmon adding a tax of 40% on top of corporate taxation rate at 22%. The proposed taxation by the government will be effective from 1.1.2023. However, amendments still possible and the actual tax regime will not be finalized until Q2 2023.

In the preproposal taxation will be based on actual cost and on norm price (NASDAQ). The NASDAQ price is a weekly price index set on spot prices for superior quality fish (fish no defects), in styrofoam boxes (boxes used for European customers, not airfreight) with freight and duties calculated in Oslo, and with no special certifications (ASC, Organic. Label rouge etc). The taxation baseline will therefore only cover part of the salmon sold from Norway.

Although there is no extra taxation on value added activities, the taxation creates major challenges for salmon farmers involved in processing as well. There is need for fixed price contracts for value added activities, because salmon prices are highly volatile and hard to predict because supply is dependent on biological conditions. With the new taxation, some salmon farmers will face problems to do value added activities in Norway. An example might help illustrate the farmers dilemma:

In November last year, (common period to do fixed price contract) the contract prices for 2022 was at a level of 62.75 NOK for a for a fixed price contract with equal volume each month in 2022. The actual spot price (NASDAQ/Norm price) which would be used in the proposed taxation system is year to date at 82.96 NOK which is unexpectedly high. If we assume cost of 45 NOK (close to actual cost in Norway) the government will demand a tax of 23.53 NOK which yields an actual tax rate of 132%. Salmon spot prices are very volatile and with the proposed system farmers are not able to do value added activities.

The suggested tax is highly likely to be implemented as government (Labour party 48 seats, Center party 28 seats) have support by the red communist party (8 seats), the left socialist party (13 seats) and the green sustainability party (3 seats) creating a large majority 100/169 seats. Also, the government will increase taxation on privately owned farmers by increasing dividend tax and wealth tax further, which will decrease incentives and ability to invest in salmon farming.

The taxation also has effect on the supply of salmon. Because of resource taxation, value of salmon licenses fell and as a result not all new capacity was sold in the auction of salmon licenses in October. Moreover, the licenses auctioned were sold to farmers with lower productivity in terms of MAB utilization, and also several new players that do not have permits to produce or infrastructure in place which yield very gradual utilization of licenses. Furthermore, investments important to accommodate growth have been set on hold such as smolt facilities and treatment capacity.

In the market we believe this will result in lower supply growth both on short term and long term.

Taxation effect for Villa Seafood Group

For Villa Seafood Group the new taxation does not impact our taxation rate. Villa Seafood was very fortunate to have negotiated and signed a major fixed price contract between a supermarket chain in USA backed with fixed price contract with an industrial fish farmer in Norway before the resource taxation proposal was launched.

The taxation has made barriers to entry to become a salmon farmer in Norway much lower. This is due to the fact that the price of licenses now are lower while there is a threshold of 5000 tons MAB that in exemption of the resource tax.

We currently face a challenge to secure downgraded fish at semi fixed price contracts for 2023. Such contracts are normally made as a derivative of NASDAQ with a price cap. As of now, farmers are unwilling to accept price caps as it is not clear how the resource taxation system will handle downgraded fish and fish sold on contract. There is a discrepancy between the written proposal on how to implement the taxes based on prices and on the oral communication by the minister of finance and the minister of fisheries which has created uncertainty in the market.

It is however important to note that the Villa Seafood business model is well developed to operate in an environment without possibility to do fixed prices with salmon farmers. We believe these issues to be resolved in the amended proposal in Q2 2023.

Several farmers have laid off hundreds of workers on Norwegian VAP facilities from 2023. This will be a golden opportunity for the VAP companies able to operate in such a chaotic environment. We believe the Villa Way of operation will work especially good in such uncertainty, as this is a very agile way to work. To cite the racing driver Ayerton Senna; "you cannot overtake 15 cars in sunny weather, but you can when its raining".