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For these Nordic salmon farmers, it’s niche-ly done



15 October 2018 Jason Holland



## Prioritizing quality and provenance over volume, Iceland and the Faroe Islands are plowing a rich furrow in the sector



Iceland is focused on the quality of its salmon over the scale of its output, predominantly servicing the uppermost sales channels in the United States and Europe. Photo courtesy of ArcticFish.

When it comes to meeting the global demand for Atlantic salmon, the four production giants – Norway, Chile, Scotland and Canada – have long had most markets' needs covered. And yet, as the Faroe Islands and Iceland are demonstrating, with the right business strategy, it's still possible to crash the party.

The Faroese are far from being salmon-farming newbies. Indeed, the self-governing Danish islands have been in the game since the early 1980s, but as Niels Winther, points out, today's salmon sector is very different from that of three decades ago.

Winther, advisor at the Faroe Fish Farmers Association, said that at one stage, the islands had 69 salmon producing companies, but such an intense concentration in such a small area ultimately proved unsustainable, and a series of disease outbreaks, including infectious salmon anaemia (ISA), took the industry to the brink of collapse at the turn of the century.

Radical changes were made in the years after this. In particular, there was a complete reform of the veterinary system through the "Faroese Veterinarian Act on Aquaculture," which is still regarded as one of the world's most stringent regulatory regime. Through this, just one company can operate in any given fjord. An "all in, all out" system was also introduced with each location only allowed to support one generation of salmon, and once these fish are harvested the area must lay fallow for a certain period. Additionally, closed well boats were made mandatory and waiting cages were prohibited.

Considerable consolidation of the sector has also taken place, whereby today just three producers remain – Bakkafrost, Marine Harvest Faroes and Hiddenfjord.

"Those changes have really transformed the sector. It's completely different from what it was at turn of the century and we have very good numbers when it comes to disease," said Winther.

There has also been rapid growth in terms of the harvest size. The sector produced around 13,000 metric tons (MT) of salmon in 2006, but the trio's combined output has stood at between 80,000 and 85,000 MT of salmon annually for the last four years.

While this is some way off the 1.3 million MT harvest achieved by neighboring Norway, it's still a creditable volume considering the islands' size, said Winther.

"There are three things that make the Faroes good for salmon farming," he added. "First, we have ideal, stable sea temperatures. Still, the natural environment is not enough, as we have learned from experience, so secondly, we have suitable veterinary mechanisms that we are constantly improving. The third is a very dedicated, flexible workforce that has a high sense of duty and a high work ethic. Success has come from this combination."



In the Faroe Islands, there are just three producers – Bakkafrøst, Marine Harvest Faroes and Hiddenfjord. Photo courtesy of Bakkafrøst.

## Future growth streams

The Faroes' static production over the last few years is attributed to the fact that most of the fjords that are suitable for salmon production are just now being put to use. Nevertheless, there could soon be an upturn in output thanks to a shared strategy.

"To increase the total volume, all three farming companies in the Faroe Islands have now started building infrastructure on land in order to grow bigger smolt, reducing biological risk and the time in sea. This should increase the total production in the coming years," said Poul Andrias Jacobsen, marketing manager at Bakkafrøst.

Within the next five years, the company is expecting its annual production to reach 75,000 MT, which would be 20,000 MT more than last year's harvest.

"Also, in the coming years, the inclusion of the broodstock program hopefully will make the value chain even longer and give Bakkafrøst a self-supply of eggs for our entire farming program," added Jacobsen. "Furthermore, the broodstock program will ensure that we can keep a high-quality level throughout the farming process."

There is certainly plenty of demand for its product: Bakkafrøst sells into more than 30 countries across three continents.

"We are currently seeing a growth mainly in the U.S. and Chinese markets. These markets recognize and quote the exceptional quality of Bakkafrøst salmon that is derived from the special feed, the perfect natural conditions and the vast experience of the company and its dedicated employees," said Jacobsen.

The “special feed” used by the company contains a high level of sustainable marine ingredients, he explained. This elevates the omega-3 fatty acid content – a mean of 2.2 grams per 100 grams of salmon fillet.

Winther confirmed that, generally speaking, the Faroes’ main market is the EU, but over the last decade, the United States and Russia have proven to be the main growth markets, with China creeping closely behind more recently.

“The three salmon farming companies have differences in how they market themselves and the products that they produce, but overall, their customers appreciate the high, stable quality of Faroese salmon and also the special taste that we think it has. I think the customers also appreciate that we don’t use antibiotics,” said Winther.

Further down the line, there is also the possibility that closed containment and offshore farming could boost the islands’ salmon supply, he added.

“We are a small producer in a big market. If I can compare it to something else maybe it’s the way that the French market champagne – a high-quality product that may not be for everyone,” said Winther. “Essentially, we’re just focused on the sustainable development of the sector, and to deliver a great product that the market wants. At the moment, the market is willing to pay a premium for Faroese salmon so we are probably doing something right.”

The Faroe Islands’ success, producers say, is attributed to its quality waters, its experience and its dedicated work force. Photo courtesy of Bakkafrost.

## Provenance over volume

Thenewer kid on the block, Iceland, is also focused on the quality of its salmon over the scale of its output, predominantly servicing the uppermost sales channels in the United States and Europe. There are also high hopes for the country’s free trade agreement (FTA) with China that was finalized in 2013.

“While it has taken a long time to put that into practice, we are hoping that by the end of this year or early next year we will see an agreement between Iceland and the Chinese authorities which will enable us to export our salmon and other agricultural products to China tariff-free,” said Einar Gudfinnsson, chairman of the Icelandic Aquaculture Association (IAA). “From our point of view, it could be a very valuable agreement. At the very least, it will give us a temporary advantage in the market because there are very few countries with FTAs in place with China.”

Alongside 400 MT of rainbow trout and 3,400 MT of arctic char, the country’s producers are expected to harvest 16,000 MT of salmon this year, which while modest in size is “still quite a big jump” from last year’s 10,000 MT, said Gudfinnsson.

“Our production for next year should be about 26,000 MT, and looking further ahead, our hope is that we will see around 40,000 MT in 2020,” he said. “Percentage wise, it’s a good rise but if you look at the overall figures, the 40,000 MT we are trying to reach in two years is still only 50 percent of the production of the Faroese. However, we have certainly made an impact.”

## Industry investment

One of the companies that will contribute to Iceland's growth is ArcticFish, which a few years ago became part-owned by Norway Royal Salmon. NRS itself produces around 30,000 MT of salmon annually, mainly in the north of Norway.

ArcticFish was founded seven years ago to capitalize on Iceland's natural fish farming conditions for the delivery of high-value salmonids through an integrated model – from hatchery to processing. It started with trout and Arctic char, but today the focus is solely on Atlantic salmon, having harvested its last trout in 2016.

It will harvest its first salmon later this year.

With the support of NRS, the company has been busy finalizing its new *recirculating aquaculture* system (RAS) hatchery in Iceland's Westfjords, said Sigurdur Petursson, business development manager at ArcticFish.

"This summer, we put out salmon smolts that were initially raised in our old facilities but finalized in the new RAS hatchery, and next summer all of our smolts will come from the new hatchery. This currently has a capacity of more than 4 million smolts, which will not be fully utilized until 2019, but there are [already] plans to further expand it," he said.

Petursson explained that one of the main challenges affecting Iceland's new salmon farming industry is that many producers continue to face difficulties in securing licenses.

"This is not an issue for our company as we started the process early and we have been developing our operations since 2011, but we still have to pay special attention to this part of our operations," he said. "We recently got new licenses in Patreks and Talknafjordur for 6,800 MT and an extension of our current main location in Dyrafjordur to give us 4,200 MT of salmon licenses in that fjord too. We intend to at least double our production and licenses in the coming years."

Within the next five years, Bakkafröst is expecting its annual production to reach 75,000 MT, which would be 20,000 MT more than last year's harvest. Photo courtesy of Bakkafröst.

## Long-term optimism

Despite a complicated licensing system providing the biggest barrier to the Icelandic salmon sector's growth, the hope remains to eventually exceed 70,000 MT, with 50,000 MT produced in the Westfjords and 20,000 MT in the Eastfjords.

"This is a relatively new industry and authorities have needed to establish a regulatory framework, but in the short-term getting new licenses to meet the growth potential that we have has been our greatest challenge," Gudfinnsson acknowledged. "As has been the case with other producer countries, we have met some resistance from pressure groups. But the authorities have also said that fish farming, particularly salmon farming, is here to stay."

Fish farming production, Gudfinnsson predicted, will soon exceed that of pelagic fisheries in Iceland.

"It has great potential and has already been very valuable for the coastal areas concerned in terms of growth and increased populations. In that sense, people are welcoming fish farming," he said. "There have also been studies that have said if we want to continue the increase in living standards that we have enjoyed in recent years, the only solution is to increase our export value. And fish farming or aquaculture certainly has the potential to play a major role when it comes to achieving this."

Gudfinnsson stressed that he is therefore "very optimistic" about the long-term prospect for the salmon value chain in Iceland.

"There are not many countries that can produce Atlantic salmon through fish farming, so we have great potential," he said. "We are also extremely experienced when it comes to fisheries and processing and in that we have a lot of potential that we could [exploit] when the production volume has increased. I'm also sure that we will see some new spin-off industries emerging that capitalize on the [sector's] growth."

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Jason Holland is a London-based writer for the international seafood, aquaculture and fisheries sectors. Jason has accrued more than 25 years of experience as a B2B journalist, editor and communications consultant – a career that has taken him all over the world. He believes he found his true professional calling in 2004 when he started documenting the many facets of the international seafood industry, and particularly those enterprises and individuals bringing change to it.

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