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TAX THAT FJORD!

North Western Norway is cold and windy. Extremely cold and windy, in fact. Particularly this is the case when autumn rolls around. I remember visiting with my father when I was a child, and remember the rough Norwegian nature with straits of narrow waters criss-crossing in between steep peaks and mountains. This type of nature was distinctly different from the flat lands of my native Denmark.

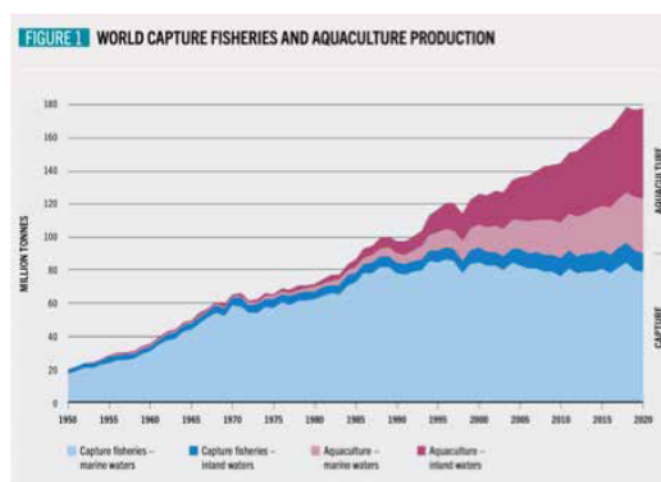
The Norwegian countryside also felt much less utilized by humans compared to the miles and miles of agriculture strewn across the landscape back home. What I did not realize at the time was that instead of searching for agriculture, I should instead have been searching for *aquaculture* if I wanted to understand how the abundant gifts of nature was utilized in my sister country to the North.

If you are unfamiliar with the term aquaculture, you should not be embarrassed. It can best be understood as the cultivation of, primarily, fish in a controlled environment for later harvesting. In essence, it is marine farming. It is also big business. It particular it is big business in a small Scandinavian country like Norway. In 2022 Norwegian exports of seafood amounted to 151.4 billion Kroner – that is over 11.5 billion Pound Sterling. Of that large figure 73 percent of those exports came from aquaculture, with Poland, Denmark and the US being the top importers of this fishy Norwegian commodity.

Even in the United Kingdom aquaculture is a burgeoning industry. It might not be big business compared to its Norwegian counterpart, but it is growing. According to seafish.org the United Kingdom farmed 217,000 tonnes of fish and shellfish in 2020, which amounted to 1 billion Pound Sterling the same year. In total, fish contends with chocolate and bakery goods to be the number one food export coming out of Britain today. Primarily the British fish farms are to be found in Scotland.

If you have visited both Norway and Scotland this particular fact will not be surprising to you, as some of the natural features of Norway can also be found in Scotland. The same can be said of countries with vast rugged coastlines like Canada, and even Chile. But the largest aquaculture producers in the world are to be found in Asia with China and Indonesia taking first and second place.

And if you might be of the understanding that when a fish hits a hot frying pan, or a cold sushi knife, somewhere in the world it will most likely have been made available for human consumption by a trusty old fisherman rather than a fish farmer, then think again. Actually it is equally likely that aquaculture rather than capture fishery of wild fish is the actual source according to *FAO*, the Food and Agriculture Organization of the United Nations. See graph below with the *red* tones constituting global aquaculture while the *blue* tones constitutes regular capture of fish globally:



However, when it comes to one particularly valuable species of fish, the Atlantic salmon, one nation reigns supreme. That country is Norway. This is the case both in terms of pure volume, and in terms of profits. In fact, the distance to the runner-up, Chile, looks slightly similar to the two countries' medal count in Olympic cross-country skiing.

As a reader of *Land & Liberty* you should care about the not-so-strange success of Norway's Atlantic salmon producers for one particular reason: The success has just about everything to do with the most basic contribution of all, the contribution of nature itself.

The truth is that Norway is ideal for this particular niche industry. Norwegian fjords are deep, clean and cold providing ideal conditions for salmon farming. The energy aspect is also worth pointing out. Aquaculture – in any country – is an energy-intensive process, requiring substantial amounts of energy for pumps, filters, and other equipment. In Norway, nature itself secures the aquaculture industry with ample amounts of energy. This is done via hydropower. The country's extraordinary geography, with abundant fjords, mountains, and freshwater rivers, makes it an ideal location for harnessing the electricity potential of water. Most Norwegian hydroelectric power plants are, in fact, located in the western part of the country, where the aquaculture sector is also located. Here the natural topography allows for the creation of large reservoirs and steep drops in elevation that can easily be utilized to generate electricity.

Furthermore, the Norwegian fjords offer the additional advantage of relatively strong currents moving the water mass naturally, which should not be underestimated. It has been described to me when I was researching for this article that the Atlantic salmon happens to be a bit of a diva. Robust natural water currents in the Norwegian fjords provide a water environment that can satisfy the particularly needs of the Atlantic salmon in an aquaculture setting. The diva status also can be attributed to the Atlantic salmon being famously prone to disease, parasites and similar outbreaks. Notably, in the wild infestations and parasites are found at a significantly lower level. Again, the water quality is essential to keeping the salmon stock healthy. The Norwegian waters provide a high degree of water exchange caused by the water currents, however the overall sustainability of the salmon industry in terms of animal welfare and general maritime environmental impact has been called into question in recent years.

ENVIRONMENTAL CONCERNS

British media has also highlighted the broader environmental concerns related to the aquaculture industry. In September 2020 *The Guardian* published a long read article aptly named *Net loss: the high price of salmon farming*. Written by journalist Mark Kurlansky, the article is absolutely worth your attention, and can be easily found on the paper's website. The article points out the enormous amount of pollution a single pen containing 200,000 fish will inevitably produce.

Again, as I point out above, the strong natural water currents and deep waters of Norway is in itself a solution to this particular environmental issue as the pollution can be moved away much more easily. In contrast, Chile struggles with shallow water and slower water, comparatively, but is still the home of many salmon farms, leading to plenty of relevant environmental objections from groups such as Greenpeace.

The Guardian article also points out the concerning issue of escaping fish. The escaped farmed salmon will eventually mix and breed with the wild salmon stock. On the surface this might not sound like a particular cause for concern. But farmed salmon lacks the survival skills of the wild salmon, while still being able to reproduce in large enough numbers that the genome of farmed salmon is found in wild fish around the globe today. The article perfectly explains the consequence:

"A salmon living in the wild that has a farmed parent or even grandparent is much less likely to survive at sea, and, in fact, sea survival has declined in places with farming".

The simple fact that farmed Atlantic salmon is famous for being prone to disease and parasites, as described earlier, represents an environmental concern in itself. Parasites and diseases, many of them viruses and bacteria – but it can also be fungi – will transmit relatively quickly among the crowded salmon in aquaculture facilities, and can then transmit to the wild salmon population living close to these facilities.

Not all types of disease can be easily and effectively managed by the salmon farmers. In particular viral diseases remain a cause for concern in terms of potential spreading, but equally in terms of the risk of antimicrobial resistance and even immunity, presents itself as a particular risk for both fish and humans as the aquaculture industry keeps expanding.

A TAX ON NATURAL RESOURCES

And, yes, this industry is expanding. Very much so, in fact. This is also the case in Norway. For years the Norwegian aquaculture have been growing, and so have the companies, partially helped along by sector consolidation. The decades-long expansion has been limited primarily by stricter and stricter environmental, food safety and animal welfare legislation combined with a fairly effective licensing and permit practice conducted by the Norwegian Directorate of Fisheries, and other authorities all the way down to the local county council level. Still, the promise of new employment opportunities in the thousands created directly and indirectly by the aquaculture industry has proved rather difficult to ignore in these Western rural parts of Norway, where the salmon industry operates with such tremendous and triumphant success.

The success has also been seen on the Oslo stock exchange where most of the largest Salmon companies are found. Stocks prices have been humming along. But on one otherwise normal September day in 2022 the entire sector and its many investors could watch the value of their stocks fall significantly. Sector giants MOWI, SALMAR and Lerøy Seafood Group found their stocks down 18,9 percent, 30,3 percent and 27,5 percent, respectively, as trading reached the afternoon on September 28th 2022. Other significant salmon industry firms like Grieg Seafood, Austevoll Seafood and Norway Royal Salmon saw their stocks stumble 26,6 percent, 21,7 percent and 22,9 percent, respectively.

This one-day mini crash in stock prices was directly caused by a new policy proposal from the Norwegian government. The proposal was for a new "grunnrenteskatt" levied on aquaculture operations, and – to a lesser extend – on wind power. The initial policy proposal was estimated to add a yearly income of 33 billion Kroner to the Norwegian treasury.

The entire salmon industry was shocked, and so was the stock market.



For those readers of *Land & Liberty* whose Norwegian language-skills have become a bit rusty lately, *grunnrenteskatt* translates directly into “ground rent tax”. And so, the Norwegian government was well-aware that a bit of informative communication was needed to explain logical basis foundation of such significant and noteworthy changes to the tax scheme in the already highly-taxed Scandinavian country.

In itself it is worth noting that the Norwegian government could have chosen several other names or monikers for their tax proposal but chose to stick with the rather technical, and clearly unsexy, *grunnrenteskatt*.

The accompanying political communication was also directly linked to the commercial “use of natural resources”, while the Norwegian finance minister, Trygve Slagsvold Vedum, could be quoted saying that the new “salmon tax” would be “levelling differences among Norwegian citizens”. It was also clear that regular corporation and capital gain taxes will not be replaced by the new tax measures, and thus, would stay in place. The Norwegian media did also – for the most part – convey the message in a fair and reasonable manner. For instance, the Norwegian newspaper most focused on food production, *E24*, explained to its readers that the proposed ground rent tax should be understood as a “type of property tax” to the state “for the use of scarce, national natural resources”.

Equally interesting was the Norwegian media’s interviews with academics in the days and weeks immediately following the government’s tax policy proposal. On November 4th economics professor Øystein Thøgersen from the largest business school in Norway, *Norges Handelshøyskole* - or simply *NHH* - said that “ground rent taxes come directly from economics text books” adding that “it is the best tax, as long as it is designed in the right way”.

Another professor in economics named Karen Helene Ulltveit-Moe from the University of Oslo echoed this sentiment directly in an interview in *E24* on September 28th, the day of the government’s proposal. In the paper professor Ulltveit-Moe pronounced it a “joyous day for the Norwegian society”. She added that “the tax planning proposed by the government reduces the need for other taxes much more harmful in nature” and went as far as calling the new ground rent tax “a very legitimate tax”. To *E24* she explained: “The (fish farming industry) has been utilizing their aquaculture licenses fundamentally for free. It is reasonable that society as a whole is compensated for sharing its natural resources with this industry”.

It is worth noting that professor Ulltveit-Moe led a government commission analyzing existing and potential future tax schemes in the Norwegian aquaculture industry. The eventual government policy proposal can only be described as relying heavily on this work.

As could be expected the entire salmon industry launched a rather unforgiving lobby campaign against the proposed ground rent tax. On November 9th 2022 Lerøy Seafood Group terminated the contracts of 339 employees and directly blamed the Norwegian government’s tax proposal as the reason.

Five days later, on November 14th, another salmon industry giant SALMAR upped the ante by terminating the contracts of 851 employees; also using the opportunity to “primarily” blame the newly proposed ground rent tax for the layoffs.

The director of the principal interest group for the salmon industry, Robert Eriksson, did not hold back either as he expounded that the salmon companies saw the situation as “dramatic” while calling the proposed ground rent tax “a blow below the belt” when he was interviewed by the large Norwegian TV station and media outlet, *TV2*.

Despite the plentiful misgivings coming from the industry the tax proposal eventually become law earlier this year as the Norwegian parliament in Oslo, *Stortinget*, voted on a revised version on May 31st. However, a slightly lower percentage tax rate and other notable changes, were eventually made to the legislation, that was voted on. In fact, in terms of pure tax percentages, the initially proposal mentioned a 40 percent tax rate, while the eventual legislation presented only a 25 percent tax rate. A provision providing a tax-relief for smaller produced was also introduced.

The changes came about partly as a result of a momentous lobby campaign set in motion by the salmon industry. *E24* reported that answers to the formal legislative hearings amounted to “record numbers”.

In the end 93 Norwegian parliamentarians voted *for* the ground rent tax; with 76 votes *against*. The Norwegian government made it known that their hopes for a much broader coalition behind the legislation had been unrealistic. In itself a broad coalition would provide the needed long-term security and perceived permanence for the ground rent tax. Such security would also provide the salmon industry much needed clarity, making it easier to financially plan with the knowledge that the new tax and its corresponding tax rate is here to stay.

Indeed, the story of the Norwegian ground rent tax is an interesting one, and the last word is yet to be written in this story. The tax percentage can go up in future years, or the tax could eventually disappear entirely as numerous political pressures could mount with employment interests in the rural Western parts of Norway being tightly connected to the industry. In addition, the Norwegian salmon corporations all compete in an international market place with their many international competitors not being taxed in the same way.

The salmon industry in Norway is only about 50 years old. In 1971 the brothers Grøntvedt harvested the first generation of successfully farmed salmon. That the industry would grow to the billion Kroner industry it is today is almost impossible to wrap your head around.

As the old saying goes, give a man a fish, and you feed him for a day. Give a man an untaxed license to farm Atlantic salmon in a Norwegian fjord, and you will feed him for a century. What could be learned in the autumn of 2022 the political solution remains a straightforward one: *Tax that fjord!* 🇳🇴

