

# Resource tax: an end to the political wrangling?

## Market commentary / 31.05.2023

**With the announcement of a breakthrough in negotiations on the salmon farming resource tax, the political tragedy in Norway seems to have come to a temporary halt. For more than eight months, the Norwegian government has been unsettling its self-proclaimed industry of the future, which in some cases has already led to bankruptcies and layoffs. At a reduced tax rate of 25%, the bill achieved a narrow majority in the current parliament. Polling numbers for the next elections in 2025 hold out hope that a better model could be implemented sooner or later. Salmon company valuations remain attractive for patient investors.**

### Months of uncertainty

Described by some as the "darkest day" in the history of the Norwegian salmon industry, the Norwegian government's proposal on 28 September 2022 to introduce a resource tax wreaked instant economic havoc that will nevertheless have long-term repercussions (read more [here](#)). What followed was a blundering public debate in which members of the government spilled the beans in local newspapers and scattered news like confetti, some of which had an effect on the stock market. At no point did the ruling minority manage to regain control of the political process. By proposing a minimal adjustment to the tax rate at the end of March 2023, it even heroically missed the chance to take on board the well-founded feedback from a range of stakeholders in the affected industries and municipalities. To this day, some politicians still deny that the great uncertainty unleashed by these events caused economic investments to grind to a halt. They claim that shelved investments of more than NOK 40 billion (EUR 3.5 billion) in salmon aquaculture in Norway, which have already led to bankruptcies and layoffs, are part of a deliberate campaign by opponents of the tax. This lack of understanding is at least having an effect on polling numbers, with the more pro-business opposition party continuing to gain substantially support in the run-up to the next elections in 2025.

### Tax rate reduced from 40% to 25%

After several delays, on 25 May 2023 the parties of the minority government sent out a press release announcing a breakthrough in negotiations on the resource tax. Together with two other minority parties, they achieved a slim majority of 85 of the 169 seats in the Norwegian parliament. The compromise includes a reduction of the tax rate from the initial proposal of 40% to 25% on any added value that takes place in Norwegian waters. The government also made small concessions in other areas which are insignificant for foreign investors. Originally, the government had announced that it would strive for a broad consensus across the parties. However, the conservative and liberal parties, opposed to such high taxation, withdrew from the negotiations at an early stage. The bill was finally approved in the Storting (Norwegian parliament) on 31 May 2023, by a vote of 93 to 76, meaning that the tax in its current version will be introduced retroactively as of 1 January 2023 with a modest majority. The vote was again preceded by a bitter exchange of blows between the parties lasting several hours. The end result is equivalent to the confiscation ("expropriation without compensation") of future profits. Companies will not be compensated retroactively for the investments they have made. Over the past 30 years, aquaculture pioneers on the one hand have invested heavily in marketing to create an attractive demand market for farmed salmon and on the other by perfecting their farming methods to produce a high-quality protein at the lowest possible costs and with minimal environmental footprint.

### The future and stock market valuations

Now that participants in the stock market have certainty about the tax burden, at least in the short term, earnings estimates will begin to converge with reality. And reality now looks better than many feared: the fact that the Norwegian Seafood Index (in EUR terms) is currently trading around 25% below its September 2022 value is more the result of coincidence than efficient pricing. It is true that company profits will be reduced by 25% due to the new resource tax, but only on activities in Norway and, even then, only on the farming phase in which the salmon is in seawater. Some uncertainties remain as to how much "transfer pricing" the integrated companies can effectively engage in. Even making some rather conservative assumptions, total tax rates are likely to increase by around just 15% rather than the full 25%. It has been somewhat forgotten that, within the macro environment for salmon, supply growth will remain limited for the next five years. Consumers will have to dig deeper into their pockets and pay higher prices for farmed salmon. Looking at earnings estimates for the world's largest salmon farmer, Mowi, this brightening of the macro environment has actually more than offset the additional tax costs. Shares, on the other hand, are trading at 11x P/E, noticeably lower than a year ago. Last but not least, the resource tax issue offers more opportunities than risks for shareholders in the medium to long term. Norway's opposition party has set itself the goal of improving the model and the tax rate if it wins the 2025 elections, in order to ensure that the Scandinavian country retains its status as technology leader in aquaculture. Given the noticeable shift in the polls on Norway's streets, after a few agonising months we can now look to the future with a positive mindset.