

James Barr

PRIVATE & CONFIDENTIAL

**THE CROWN ESTATE
FIN FISH FARM LEASES
RENT REVIEW AT 1 JANUARY 2012**

REPORT WITH RECOMMENDATIONS AUGUST 2011

PREPARED BY JAMES BARR LIMITED AND PROFESSOR GRAEME DEAR
(AQUACULTURE CONSULTANT)

SGP/PM/Crown Estate Review 2012

226 West George Street, Glasgow, G2 2LN

tel: +44 (0)141 300 8000

fax: +44 (0)141 300 8001

e: enquiries@jamesbarr.co.uk

www.jamesbarr.co.uk

Private & Confidential

Alex Adrian
Aquaculture Operations Manager
The Crown Estate
6 Bell's Brae
EDINBURGH
EH4 3BJ

September 2011

Dear Sir

**THE CROWN ESTATE
FIN FISH FARM LEASES
RENT REVIEW - 1 JANUARY 2012**

We refer to your instructions and our agreed Terms of Engagement under which we have been asked to consider the option which is available to the Crown Estate Commissioners to review the level of rents charged in respect of Fin Fish Farm leases. Having had an opportunity to complete our investigations and consult with various parties, we have pleasure in submitting our Report for your consideration.

As part of the instruction given to us, we were encouraged to liaise / consult with tenants of the Crown Estate. As part of this report, we have brought forward observations made during this process, particularly where we view these as relevant in our assessment of the level of rent which may be appropriate to adopt from the effective date of review.

Our report comments on the instructions given, the methodology adopted and conclusions reached in arriving at our recommendations which we trust are of assistance in taking forward the forthcoming rent review process.

We would take this opportunity to acknowledge the support and assistance given by Professor Graeme Dear in completing this exercise.

Yours faithfully

For and on behalf of JAMES BARR LIMITED



Stephen G Pollock BSc FRICS - Director

Direct Dial: 0141 3008025
Mobile: 07879 668186
E-mail: spollock@jamesbarr.co.uk

CONTENTS

	<u>Page</u>
1.0 INTRODUCTION / BACKGROUND	1
2.0 METHODOLOGY	2
3.0 STANDARD LEASE AGREEMENT	3-5
4.0 INDUSTRY OVERVIEW	6-10
5.0 RECOMMENDATIONS ON RENT REVIEW	11-14
6.0 SUMMARY / CONCLUSIONS	15-16

APPENDICES

Appendix 1 - Introductory Letter issued to Crown Estate Tenants

Appendix 2 - Fin Fish Farm Lease Template (Salmon)

1.0 INTRODUCTION / BACKGROUND

- 1.1 The Crown Estate has a significant involvement in the Aquaculture industry through its ownership of Foreshore and Seabed areas. The sector has developed over a number of years and provides a significant contribution to the economy particularly in rural areas. There is a broad distinction drawn between shellfish and fin fish farming activities and in the management of the Crown Estate landholdings, standard lease agreement styles have been prepared covering each in support of the use of marine assets by tenants.
- 1.2 In 2006, the Crown Estate, working with representatives of the industry, established an Expert Panel to review the style of lease applying historically for fin fish farms and come forward with recommendations in terms of changes in this regard, including advising on the basis of rental charge as appropriate. The recommendations made by the Panel were subsequently adopted and a revised lease template brought into use, including a changed rent charging structure which applied from January 2007.
- 1.3 A similar exercise was commissioned in 2009 for the shellfish sector with consultants again examining the lease style, basis and levels of rent payable for the use of marine assets with, again, the recommendations brought forward applying with effect from 2010.
- 1.4 Under the revised Fin Fish lease, an opportunity is available to the Crown Estate Commissioners to review the rent applying under such agreements effective from 1 January 2012. The Crown Estate have initiated this process and have decided to take forward a similar model of consultancy approach commissioning a report to specifically advise and make recommendations on the level of rent which may be relevant at the review date under the standard lease for fin fish farms.
- 1.5 James Barr Chartered Surveyors and, in particular, Stephen Pollock, was involved in the previous remits in 2006 and 2009 and has led the current exercise working with an Aquaculture Specialist, Professor Graeme Dear.
- 1.6 Having now had an opportunity to complete our investigations and consider relevant matters, we have pleasure in submitting our report with recommendations as follows.

2.0 METHODOLOGY

- 2.1 In taking forward this remit, we have adopted an approach which is consistent with previous work undertaken and a desire on the part of the Crown Estate for an opportunity to be given to relevant parties to liaise with the consultants appointed. Consultations in this respect have been taken forward together with analysis of information gathered from various sources. This has assisted in appraising what we consider to be the key issues in respect of the current remit and allowed us to arrive at our conclusions and recommendations.
- 2.2 To assist, we have examined material from the initial 2006 exercise which formed the basis of recommendations made at that time leading to the style of lease now applying. In addition, the Crown Estate have provided a copy of the new lease template and also made available contact details for fin fish farm tenants.
- 2.3 This allowed a consultation exercise to be taken forward and a letter confirming commencement of the process was issued to the parties identified on 15 February 2011 inviting observations and comments. A copy of the template used in this respect is enclosed at *Appendix 1* and this was issued to all tenants based on the details provided by the Crown Estate. Limited response was, however, received to this.
- 2.4 Against this background, we thereafter made direct contact with a number of parties as a consequence of which we had the opportunity to meet with five companies with operations spread across various geographic areas in which the sector is represented and also within salmon, trout and halibut farming sectors. These meetings were useful in allowing us to take observations on the current state of the industry as a whole and also identify differences between various sectors. It highlighted matters which are relevant to the recommendations made on rent but also brought forward other issues which although not having a direct bearing on the current remit, have been raised as issues for the industry moving forward. Where appropriate, these have been referred to within this report.
- 2.5 The recommendations and conclusions arrived at reflect the methodology as set out and a blend of research and analysis work undertaken together with output from the consultation process with the industry.

3.0 STANDARD LEASE AGREEMENT

3.1 In contrast with the previous two remits, the current exercise is focussed on the forthcoming rent review provided for under the standard lease given that its style and terms were reviewed / considered in 2006.

3.2 To assist, the Crown Estate have provided a copy of the current template and this is enclosed at *Appendix 2*. The example given is specifically identified as relating to the salmon industry. We have, however, proceeded on the assumption that a similar style would be adopted in respect of other species' farms (but excluding primary shellfish operations).

3.3 We would comment on the standard terms, as follows.

- The parties to the lease are the Crown Estate Commissioners acting in terms of their relevant powers and named tenant bodies;
- Clause 1 includes a number of definitions with the date of entry and duration to be confirmed (standard lease term is understood to be 25 years). The rent is identified as being the total of the Species rent and the Other Fish Rent, both as defined. Total production is identified as the weight in kilograms of the species farmed by the tenant, either for their own business, third parties or from stock lost as a result of actions or omissions by third parties where compensation for such loss is secured by the tenant. Weight is defined as the "natural gutted fish weight of the Species subject only to any blood loss".
- Clause 2 includes an option available for the tenant to break the lease annually on 31 December provided that 6 months prior notice is given.
- Section 3 sets out use provisions for the area covered by the lease agreement with this relating to the rearing and cultivation of the Species specifically referred to in the definition preamble using equipment and ancillary items again as defined in the lease.
- At Clause 5 there is a resumption right held by the Commissioners on giving 3 months notice exercisable under specific scenarios and subject to compensation being paid to the tenant for losses resulting as defined.
- Clause 6 obliges the tenant to pay rent on the rent payment dates.
- Tenants obligations are contained within Clause 7. This includes a prohibition on assignation and sub-letting in part and a similar restriction on sub-letting in whole. Assignation in whole is permitted subject to securing the prior consent of the Commissioners which is not to be unreasonably withheld in the case of a substantial and respectable assignee deemed capable of meeting the tenant's obligations under the lease. The tenants are also bound to

keep relevant accounting and production records and return appropriate information to the Commissioners and to meet outgoings such as taxes and VAT. In addition, there is provision requiring the tenant to take forward the establishment of farming operations within 2 years of the date of entry (unless varied by the Commissioners) and in the event of this timetable not being adhered to or if the tenant ceases operations for a period longer than 12 months (again, without consent), the Commissioners have the ability to serve notice, requiring the breach to be remedied failing which they can take back the lease.

- Clause 9 contains irritancy provisions.
- Schedule Part 1 attached to the lease sets out the detail of the rent calculation.
- Schedule Part 2 specifically identifies the lease subjects with Parts 3 and 4 allowing for the inclusion of specific terms, where relevant, relating to special conditions and the renunciation of previous agreements.

3.4 Of specific relevance to the current remit is the detail of the rent calculations as set out in Part 1 of the Lease Schedule. This is formatted to provide an initial narrative including specific definitions of relevant items and is then split into three sections, as follows:

Part A : Calculation and payment of rent
Part B : Other fish rent
Part C : Rent payment provisions

3.5 The rent to be paid under the lease comprises the total of figures assessed under Part A and Part B and in this respect the following definitions are relevant:-

“European Salmon Selling Price” - the selling price for 4 to 5 kilogram fresh Atlantic salmon on the French Rungis Market as published daily by Intrafish Media (or any other substitute publisher).

Other Fish” - smolt, shellfish or other marine species (whether by products or not) sold off the fish farm or farms operated within the Subjects or cultivated or reared on the fish farm or farms operated within the Subjects and delivered from it to any third party under any contracts or agreements with such third party.

“Other Fish Rent” - the rent calculated in accordance with Part B of Part 1 of the Schedule.

“Outer Islands” - the Islands of Orkney, Shetland and the Outer Hebrides.

“Species Rent” - the rent calculated in accordance with Part A of Part 1 of the Schedule.

- 3.6 The Species Rent is defined in Part A as being 1.7p per kilogram of total production of Species for the rent assessment year (1 January to 31 December). For sites situated in the Outer Islands, a weighting of 90% is applied to the figure identified.
- 3.7 Clause 3 of Part A (Schedule Part 1) provides that the Commissioners are entitled to review the rate used to calculate the rent per kilogram for Species Rent on the 5th anniversary of 1 January 2007, or 5 years from the previous review and, in addition, the rent can also be reviewed in the event of the European Salmon Selling Price as defined falling below 2.80 Euros per kilogram, or rising above 7.00 Euros per kilogram, each for a period of longer than 6 consecutive months. In the event of there being no production, a vacant rent is applicable (Part A, Clause 5) set at a rate of £500 per annum for four consecutive years with this figure effectively doubling thereafter on a 2 year cycle. The vacant rent is also subject to review by the Commissioners at 1 January 2012.
- 3.8 The Other Fish Rent is identified in Part B of the Schedule as comprising a sum to be determined by the Valuation Office acting as Independent Expert and affording an opportunity for both the landlord and tenant to make representations in this respect. The sums set by the Valuation Office are subject to review on a frequency either to be agreed between the parties or, again, as determined by the Valuation Office acting as Independent Expert.
- 3.9 The work taken forward in terms of the current remit is accordingly focussed on the provisions set out in Schedule Part 1, Part A of the standard lease template which affords an opportunity to the Commissioners to review the current Species Rent figure of 1.7p per kilogram and also the level of vacant rent payment.

4.0 INDUSTRY OVERVIEW

- 4.1 In considering the question of potential movement in the current rent payment, it is relevant to consider both the current state of the industry and trends evident over the period since the current Species Rent was last set. Observations made by Crown Estate tenants have been helpful in this regard.
- 4.2 As touched on earlier, the fin fish sector is largely comprised of farms involved in salmon, trout and halibut production. Salmon farming dominates and each sector has its own specific characteristics.
- 4.3 Fundamentally, the success of farming operations will be dependent upon production capacity, sale prices for harvested stock and operating costs. Clearly, changes in each of these variables will ultimately impact on the underlying level of profitability and the degree to which the strength of the industry is underpinned and investment in future growth maintained, or indeed, increased.
- 4.4 In terms of production trends, Marine Scotland Science, part of the Scottish Government produce an annual Scottish Fish Farm Production Survey. The most recent survey document dates from 2010 and gives production figures up to 2009. The report is based on details returned to the Government Body by producers and is viewed as an authoritative source for such information. Over a 5 year period, up to 2009, production figures are identified in this, as follows.

YEAR	RAINBOW TROUT (TONNES)	OTHER SPECIES * (TONNES)	ATLANTIC SALMON (TONNES)
2005	6989	-	129588
2006	7492	1046.5	131847
2007	7414	1388.5	129930
2008	7670	2339.9	128606
2009	6766	386.6	144247

* This is shown as being Arctic Charr, Brown / Sea Trout, Cod and Halibut.

- 4.5 In the case of rainbow trout, the production numbers identified comprise a mixture of fresh water and sea water production with the relationship between these sources being approximately 60% to 40%.
- 4.6 The figures for other species include returns in respect of Arctic Charr, Brown Trout / Sea Trout, Cod and Halibut. Production of Cod dominated these figures between 2006 and 2008 but effectively fell to zero in 2009 with the withdrawal of the major producer from the market. The production survey has a projection for 2010 figures under this category totalling 242 tonnes with

Halibut representing 163 tonnes, Brown trout / Sea trout being 77 tonnes and Arctic Charr having an estimate of 2 tonnes. The figures shown for Brown Trout / Sea Trout show a significant fall in recent years and, again, this is understood to be reflective of supply difficulties which are discussed subsequently.

- 4.7 In terms of Salmon production, the figure shows a healthy growth in 2009 and the projected figure for 2010 identified in the Survey Report maintains this trend with an expectation that the figure will be 150,004 tonnes. This production is spread across the Country and in terms of the Crown Estate broadly splits equally between farms which would attract the Outer Island concession to rent calculation and those which do not.
- 4.8 We have had an opportunity to discuss various issues in terms of the current market with Salmon, Trout and Halibut producers and would summarise observations made as follows.
- 4.9 As can be seen from the table above, Salmon production dominates the Fin Fish Sector and we initially comment on this area.
- 4.10 The industry has seen structural change over the reference period with consolidation achieved through a number of mergers and take-overs. This has reduced the number of companies operating within the sector and these now tend to be more substantial in scale with in part connections to international corporate bodies.
- 4.11 The trend of increased production is clearly positive, however, there are a number of structural issues which require to be managed in order to allow this growth to be maintained into the future. This in part reflects the nature of the industry where harvested stock require to be laid down a number of years in advance. As a result, it can be difficult to respond in short timescales to specific opportunities.
- 4.12 Industry information held on the Scottish Government website identifies Scotland as one of the three largest producers of farmed Atlantic salmon with the others being Norway and Chile. The Chilean industry has suffered in recent years with disease problems as a result of which production was significantly curtailed. Whilst Scottish, Canadian and Norwegian production has to a degree been able to replace this globally, especially in the USA market, it is felt that overall Scottish production volumes have not grown specifically as a result of this but that greater advantage was secured by the "home" industry through a lack of overall supply fuelling higher prices for end product.
- 4.13 The Government identifies a number of potential constraints to further growth in production within Scotland which include various environmental issues, a lack of available farming sites and potential conflict with other marine users.

- 4.14 Research is currently ongoing in terms of the viability of establishing farms further offshore which will assist with a number of the identified constraints amongst these being the current biomass ceiling which SEPA applies of 2,500 tonnes. The characteristic of consolidation within the industry has introduced opportunities to secure cost savings through economies of scale, however, by comparison with other producing countries, the current SEPA limit restricts the capacity for growth in farm sizes. The 2009 production survey identifies that the increased production figure for that year came from fewer producing sites and that 77.5% of production now comes from sites with a capacity of over 1,000 tonnes.
- 4.15 The industry is, however, confident towards the future with the SSPO Scottish Salmon Farming Industry Research Report 2010, including observations by its Chief Executive that in the last four years, there has been a 55% increase in direct value to communities and that the figure for 2009 saw the first production increase in 5 years. In this report, the SSPO comments that 90% of its members are confident of future demand with two thirds planning to expand. It identifies that there is a global under supply of 190,000 tonnes of Atlantic salmon and that capital investment by the industry was £29.5M in 2009, taking the total over a 4 year period to £113.5M. In addition, it identifies that the value of farmed salmon increased from £275M in 2005 to £392M in 2010. Separately, the SSPO annual report makes reference to the draft Scotland National Marine Plan as part of which there is a target for average growth in production of 4% per annum to arrive at an annual figure of 210,000 tonnes by 2020. However, there are indications that such prices are unlikely to be maintained over the next 2-5 years, unless Chile has a relapse in production. That said, there were also indications that the high market prices were beginning to have a negative impact on market demand. The comments made by the SSPO are encouraging and indeed potentially realistic at 4% growth. The challenge will be whether the ownership structure of the industry supports further investment in Scotland. Anything that can be done to encourage that would likely be welcomed by the Scottish industry with, as an additional benefit, increased income to the Crown Estate.
- 4.16 The strength of production in recent years has coincided with a period of increasing prices for harvested stock. Prior to lease restructuring, the Crown Estate rent was calculated on the basis of a variable formula related to market prices. During the period between 2000 and 2006, this ranged between approximately £17.00 and £22.00 per tonne. When the existing rent was set, this was taken at a rate which reflected a notional price level of £17.00 per tonne. To examine price movements in the period since we have sourced export price data for Norwegian salmon with Norway being the dominant supplier over the period. Prices in this respect have been sourced from Feedinfo Services. Weekly figures are available which we have analysed for 2007 to 2010 and they show the following on an annual average basis:-

2007	-	26.68 Norwegian Kroner per kilogram
2008	-	27.02 Norwegian Kroner per kilogram
2009	-	30.96 Norwegian Kroner per kilogram
2010	-	37.21 Norwegian Kroner per kilogram

For the first six months of 2011, the figure increases to 39.55 Norwegian Kroner per kilogram; however, over recent months, prices have fallen back sharply and at mid September, the 2011 average is at 36.51 Norwegian Kroner.

- 4.17 If these prices are converted using midyear exchange rate factors, they give Sterling equivalents as follows:-

YEAR	PRICE PER TONNE £	PRICE PER KILO £	PRICE PER TONNE EURO	PRICE PER KILO EURO
2007	2,250	2.25	3,340	3.34
2008	2,660	2.66	3,360	3.36
2009	2,920	2.92	3,430	3.43
2010	3,820	3.82	4,670	4.67
2011 (part to mid September)	4,240	4.24	4,690	4.69

- 4.18 This clearly shows strong growth in prices; however, as touched on earlier, there is a sense that this trend partly reflects the withdrawal of supply from Chile. Observations made from our consultations and recent press comment suggest that as product from Chile returns to the market, this is likely to result in a period of falling prices. Commentators observe that whilst prices earlier this year were reaching £5.00 per kilo, most recent evidence is that these have fallen back below £4.00 per kilo. Whilst this is identified as partly due to traditional seasonal factors, this may have been compounded by the increasing availability of product from Chile and the wider economic climate which is perceived to be potentially impacting on salmon as consumers look for lower cost food options. An observation made by one of the main Norwegian producers is that market characteristics have seen a decline in Norwegian exports to the US, with the recovery of Chilean salmon production. This has also resulted in price pressures, as Chilean product tends to have a cost advantage and, in addition, Norwegian salmon is perceived as a "high price" product by US consumers against the background of the current economic climate.
- 4.19 The third variable which is important to consider is trends in production costs. In this industry, operating costs are largely impacted by expenditure on labour, feed material and transport / fuel costs. Measures in this respect are not readily available on an industry specific basis, however, general trends can be sourced via information held on the Government Office for National Statistics website and ancillary database. These show labour costs within the agricultural and fishing sector to have moved over a 5 year period up to 2010 by approximately 15%. Most recent figures show a sharp fall under this cost head, which again may reflect the broader economic climate. Over a similar period, fuel costs have moved by circa 80% and agricultural feed by 60%. In discussion with fish farmers, aquaculture feeds, which historically

cost in the region of £600/tonne are now in the region of £900-1000/tonne (pers comm.) which is broadly in line with other feed industries.

- 4.20 The existing lease structure provides for a discount of 10% in rent charges applied to farms which occupy "outer islands" locations and this is defined as Orkney, Shetland and the Outer Hebrides. This discount has been in place for some time and was maintained when the lease structure was reviewed to acknowledge that production costs in the outer island locations have tended to be in excess of other areas. During our consultations, we had the opportunity to meet with producers operating on Shetland and there would appear to be no change in the circumstances against which the outer island discount was applied. With ongoing inflation in cost areas such as transportation, the historic trend of higher production costs in these locations is likely to be maintained.
- 4.21 Finally, fish performance is a key driver in terms of industry profitability and while there have been some local difficulties in some areas associated with Infectious Salmon Anaemia and sea lice management, the salmon industry has generally reported a period of good biological performance in terms of growth, FCR and survival. There are no indications that this will change markedly over the next lease review period although pressure will be maintained to improve sea lice control.
- 4.22 Placed in the context of prices increasing between 2007 and 2010 by circa two thirds, overall profitability within the industry is likely to have been healthy and this is no doubt reflected in the figures identified by the SSPO for capital investment over this period. There may, however, be a degree of caution moving forward and whilst it may be possible to achieve increased and growing production figures, profits may be squeezed by a combination of falling prices and continued cost pressures, particularly in terms of feed and fuel costs.
- 4.23 Our discussions with contacts within the industry identified the following as areas which were relevant to current / future operations:-
- Availability of sites for future growth.
 - Difficulties in growing / adapting existing sites in terms of licence discharge consents and planning approvals.
 - Control of disease and ancillary use of chemical products.
 - Consultations required as part of new planning regime.
- 4.24 Moving to the other species, representations made by farmers within the Halibut sector focused on the degree to which production remains experimental in nature. There is again confidence around the viability of this area and prospects for future growth once a number of technical and practical issues are resolved, including for example strengthening of procedures to achieve all female breeding stock and consistent supply of good quality juveniles. Production is predominantly onshore in tanks with the Crown Estate lease potentially being restricted to

ancillary equipment (such as pipelines). The margin between production costs and sale values is relatively tight and will likely remain so until volumes can be increased to a level that would allow the further expansion and development of established markets.

- 4.25 In terms of Trout, there is a mixture of fresh water and sea water production and as identified above, trends over recent years have seen falling production from levels achieved 2 / 3 years ago. This, we understand, partly reflects issues surrounding the availability of supply from a main producer and this has arguably had a detrimental effect on the confidence of the end market. There is, however, again an expectation that with changes in the production base allowing increased volumes, this will lead to restored confidence in key markets, allowing investment in marketing to promote trout to the consumer. The production process has many similarities with the salmon sector, including fallowing where possible and margins being exposed to movements in labour, feed and fuel costs. Similarly there are issues around the availability of sites for future growth with observations made that the Crown Estate may be able to assist in this respect through greater use of the powers which they have to take back sites in appropriate circumstances which are not in production. Availability of additional sites would help the sector to achieve improved site fallowing, local area management and production development.
- 4.26 In conclusion, the salmon farming industry has experienced a period of strong growth in recent years, underpinned by price increases and confidence within the sector as reported by the SSPO is high. There is an expectation towards future growth in production levels, however, most recently a trend of increasing prices has been broken partly reflecting the general economic downturn and in part the return of Chilean product to the market.
- 4.27 Farmers in other species sectors have different experiences over recent years with Halibut producers continuing to develop this sector on a gradual basis and with trout producers potentially having lost exposure to the wider market following supply problems. As a result, prices have been broadly flat in relation to increases in costs.

5.0 RECOMMENDATIONS ON RENT REVIEW

- 5.1 Having had an opportunity to liaise with representatives of Companies operating in the industry and complete our research and analysis work, we set out our thoughts on the issue raised for consideration which is guidance on the review of the Species Rent in terms of the standard lease template.
- 5.2 The current rate of 1.7p per kilo refers back to recommendations made in the 2006 consultancy report. The remit issued by the Crown Estate Commissioners at that time included a review of lease terms prevailing. Rent at that point was based on a formula relating production output to specific market pricing details. This was replaced by the current provision which was in part viewed as an approach which would be more readily applicable. Alternative methods of calculating rent were considered (such as an equipment basis), however, the conclusion reached was that a production based charge was likely to be the most equitable and in the absence of other details, give a result which in part could acknowledge potential profitability.
- 5.3 The analysis completed in arriving at the rate recommended at that time included consideration of similar "turnover" rents both within the Marine Estate and onshore and also reflected rental income taken from the sector over previous years. This led to the conclusion that a rent which broadly equated to 1% of turnover was an appropriate balance between the industry and the Crown Estate reflecting the statutory requirement which the latter is obliged to work with in terms of obtaining the best commercial rent disregarding any monopoly element.
- 5.4 As part of the revised lease template, rents are fixed for a five year period. This is a departure from the previous model which allowed variations up and down annually. An element of "certainty" to both sides has therefore been provided. Outwith the five year window provided for reviews, the parties do however have some "comfort" in the event of significant changes in market pricing through the additional rent review which can be triggered in the event of prices moving below or above defined thresholds for a continual period of 6 months. Price movements over the recent period have not triggered such action.
- 5.5 We have initially given consideration specifically to the salmon farming sector which as mentioned is the dominant area covered by this remit, both in terms of production volumes and rental income to the Crown. As a first step in our analysis we have brought forward the production volumes from the Fish Farm Production Survey 2009 and the price information sourced and referred to above. This allows a high level calculation to be undertaken of the notional value of production from the industry and an equivalent rental charge applying the existing Species Rent of 1.7p per kilo. We have not attempted to refine this calculation to reflect income which may come from Vacant Rents and we have also not adjusted headline numbers to take account of the Outer Isle discount. We would observe, however, that the production survey figures suggest that approximately 50% of annual production comes from

these areas and this would accordingly have the effect of reducing the overall rental total shown by approximately 5%. On this basis, this analysis shows the following:-

YEAR	PRODUCTION (TONNES)	PRICE PER TONNE	EQUIVALENT SPECIES RENT (£17.00 PER TONNE)	GROSS VALUE	RENT AS PERCENTAGE OF GROSS VALUE
2007	129930	£2,250	£2.209M	£292.52M	0.76%
2008	128606	£2,660	£2.186M	£342.48M	0.64%
2009	144247	£2,920	£2.452M	£421.43M	0.58%
2010	150004 *	£3,820	£2.550M	£573.64M	0.44%

- Projected figure.

5.6 From the above, the average price over the four year period shown is £2,912 per tonne (£2.91 per kilo) and the average rent percentage is circa 0.6% which is clearly below the indicative measure used as a benchmark for the 2006 report.

5.7 Against this background, it is then relevant to consider whether the overall state of the industry has weakened over the reference period to the extent that a decrease in rental as a proportion of overall notional turnover is appropriate. The general picture, however, is one of strength and underlying confidence. There are clearly challenges to be met in terms of production growth and these may in part be potentially resolved through ongoing investment by the industry in new technology and farming methods. It is to the benefit of both parties that rents paid under leases are not set at a level which would discourage such investment in terms of maximising the use of the Crown Estate and in support of rural economies.

5.8 Recent trends show significant price increases over the period identified and, indeed, figures for the first part of this year maintain that pattern with a move towards a figure which would be close to £5,000 per tonne. As indicated, however, prices have recently fallen back below the £4,000 level and may continue to come under downward pressure reflecting the wider economic backdrop and assuming increased global supply into the market. The industry also does face cost pressures and in certain key areas such as feed supplies and energy / fuel, these are well in excess of general inflationary trends and will be likely to impact on profit margins. Notwithstanding, we are of the opinion that an increase in the Species Rent figure can be supported.

5.9 The figure applying at 1 January 2012 will not be retrospective and once again set for a period of 5 years. Given this and an expectation that price levels may fall from the heights seen in early 2011, we have placed weight on the average figure shown from the details set out above reflecting the last four years which is circa £2,900 per tonne or £2.90 per kilo. If a 1% level was taken as a base from this, this would suggest an increase in the Species Rent from 1.7p to 2.9p per kilo. When the initial rate was set, however, the figure was brought back from the full 1%

level to in part acknowledge the fixed nature of the rent for a five year period (other than if disturbed by the special "price" review terms) and the corresponding removal of annual changes (up or down). We are of the opinion that this principle should again be brought forward.

- 5.10 In addition, it is also relevant to acknowledge the pressure which is currently being placed on prices for end product. As mentioned, this may in part flow from the increase in supply of harvested stock returning to the market from Chile and may also more generally be influenced by the wider economic downturn. On the assumption that production from Chile can continue to be re-established in a sustainable manner, this will work towards in some way closing the gap identified by the SSPO between global demand and supply. In addition, the prospects for return of future economic growth in Countries which form major markets for the industry continue to be limited in the short to medium term. These factors can therefore be seen as issues which may influence pricing on an ongoing basis in the immediate future and in setting a revised level of Species Rent, should be taken into consideration. It should also be stated that the underlying economic situation across the UK and Europe (the key market for Scottish salmon) may put pressure on consumer attitudes towards the relative cost of protein sources and extent of non-home consumption (dining out).
- 5.11 Whilst acknowledging the potential downward movement in prices, it is, however, also relevant to appreciate that by taking an average figure between 2007 and 2010, this already reflects a significant discount on the levels seen at the height of the recent market trend.
- 5.12 In deciding on the figure which may be appropriate for Species Rent moving forward, we have also considered the observations made that further pressure may continue to be placed on the industry in terms of production prices with, in particular, strong growth in feed and energy costs. Input prices for commodities within this sector continue to show growth despite the economic downturn and are widely viewed as being likely to continue to exhibit upward movements.
- 5.13 In overall terms we would suggest that the current rate of 1.7p per kilo for Species Rent should be reviewed to 2.25p per kilo. This is an increase of one third and against the background of the strong progress made within the industry in recent years and expectations for future growth is a level which we view as fair and reasonable.
- 5.14 As commented on elsewhere within this report, the existing lease includes a discount of 10% applied to the species rent in respect of farms operating in outer island locations of Shetland, Orkney and the Outer Hebrides. Previous trends of increased production costs in these locations are likely to continue and against this background, we would recommend that the discount be brought forward and applied to the new species rent on the same basis as set out in the existing lease template.

- 5.15 As outlined above, the current lease has provision for a review of the Species Rent to be triggered by certain price movements. There would appear to be no direct mechanism for the structure of this "extraordinary" review to be revisited as part of the wider Species Review procedure. We would, however, observe that if this provision is brought forward unaltered, the range which is referred to in terms of the definition of the "European Salmon Selling Price" appears to still be relevant to current market circumstances in respect of the lower "floor" level of 2.80 Euros. Given however the strong period which the industry experienced up to early 2011, the upper threshold for the extraordinary review of 7.00 Euros was not triggered and indeed prices remained some way below this level. This mechanism, therefore, still provides a degree of comfort to tenants of the Crown that in the event of market prices moving significantly downward in the period up to the next scheduled rent review, a safeguard is in place which can allow the interim measure to be triggered. The upper threshold may arguably require to be revised to provide an opportunity for the Crown to share in an extended period of high pricing. Looking at price movements between 2007 and 2011, the upper threshold limit could reasonably fall to 6.0 Euro and, at this level, still only trip in the event of significant upward price movements.
- 5.16 Turning to the vacant rent, this was initially set at a figure of £500 which applies for a period of four years, broadly the equivalent of two production cycles. This acknowledges that sites may be left without production for good management reasons and such vacant rents should not act as a disincentive to good practice such as fallowing. There was, however, strong feedback from the consultations made that there is a desire to see the Crown become more proactive in terms of reinforcement of lease renunciations where sites are held on a long term basis with no production. Such "dead" sites are viewed by various parties as a limiting factor in the future growth of the industry towards meeting its defined production targets.
- 5.17 Against this background, we have concluded that a greater percentage increase should be considered for the vacant rent and that the base figure should move from the current level of £500 to £1,000 per annum. As provided for in the standard lease, this would apply for a 4 year period after which this figure would double every 2 years thereafter. An alternative, or combined strategy, could be adopted whereby when such sites are 'left fallow' to create a disease firebreak, an independent expert's view be sought on a case by case basis to determine whether such a claim is reasonable. If shown to be the case against established scientific criteria, then consideration should be given to the formal cancellation of the lease and removal of the location for aquaculture (perhaps after x years of vacancy subject to the enhanced charges recommended above), unless circumstances change and its role as a firebreak is no longer required (again reviewed as part of the lease re-application). In the event that the expert's view was that the lease did not form a firebreak function then the powers to remove the lease from a non-developer already exist for the Crown to use. These actions would allow greater transparency and clarity on the viability or not of vacant and 'dead' sites and support the industry's development and potentially remove areas of conflict between competing sectors.

- 5.18 Moving to the other species, we would not suggest any change in the current rental level applying to both halibut and trout farms. The halibut sector is viewed as remaining in the character of an experimental area. By carrying forward the existing structure of payments to the Crown, this will hopefully assist towards producers' aims of achieving future success in expanding this sector further.
- 5.19 Likewise, in terms of trout farming, this part of the aquaculture industry has encountered difficulties in recent years in terms of market penetration in part as a result of supply problems. Producers remain confident that there is demand for their final product and against this background, the existing level of charging can be brought forward as support towards the future growth and expansion of this area.
- 5.20 As the markets for other species are refined and developed, this will lead to longer term benefits for both landlord and tenant.

6.0 SUMMARY / CONCLUSIONS

6.1 We would summarise the conclusions reached from the work undertaken as follows:-

- Since the Species Rent was last set in 2007, Salmon Farms in the aquaculture sector have experienced positive trends whilst other species have been challenged.
- The Salmon Farming industry has gone through a period of consolidation reflecting a number of mergers and takeovers. This has trended towards production from larger sites albeit with certain limitations on size reflecting statutory consents and other matters.
- Salmon production moved positively forward in 2009 with this trend projected to continue in 2010. The SSPO has identified confidence within its members and expectations in terms of future plans for ongoing growth towards production targets of 210,000 tonnes by 2020.
- Market prices have moved strongly forward through to mid 2011 but there are some signs of fallback more recently. Increased prices are likely to partly reflect a lack of global supply with the withdrawal of Chilean product which is now returning to the market. Moving forward, this may continue to drive prices lower together with the wider global economic downturn.
- Future growth in the sector may in part require strategic issues to be resolved including the availability of sites and potentially a move to larger farms, possibly further offshore, to allow SEPA consents to increase above current limits.
- Halibut aquaculture is broadly viewed as continuing to be experimental in character with limited supplies being brought to the market. Producers are confident of their ability to bring quality product to the market and continue to work to this end. In the meantime, the limited nature of this sector will restrict market exposure / demand to specialist areas.
- Trout farming has been through a challenging period since the Species Rent was last set and the Marine Scotland production survey shows falling numbers in recent years. This is understood to reflect issues around the supply of product and there are concerns that this has potentially impacted on the confidence of end users. The industry is working towards maintaining and improving supply levels which it is hoped will in turn lead to enhanced demand for a product which they again have confidence can be successfully placed with the end consumer.
- Given the levels of production achieved and the movement in prices for salmon, an increase in the Species Rent from the levels set in 2007 can be supported.
- The revised figure should reflect the potential challenges which the industry may face moving forward and not be seen as an obstacle to ongoing investment.

- Our recommendation is that the Species Rent be revised with effect from 1 January 2012 from 1.7p per kilo to 2.25p per kilo.
- We recommend that the existing outer islands discount is brought forward at the current level of 10% applying to the species rent for sites located in Orkney, Shetland and the Outer Hebrides.
- In part reflecting concerns around the lack of available sites and restrictions on future growth, we recommend that the vacant rent be doubled from the current threshold level of £500 per annum to £1,000 per annum with the mechanism for this figure to increase every second year as set out in the lease brought forward.
- In terms of other species, given the current state of this part of the industry, we would suggest no change in current rents applied.
- Again, reflecting the issues raised regarding future growth, we would recommend that the Commissioners give consideration to a more proactive approach around a policy which would take back sites which are left out of production without appropriate justification.
- It would also be appropriate for the Commissioners to consider any support which can be given for the future growth of the industry and in resolving issues identified as causing concern. This may involve assisting with research into larger farms in more remote offshore locations and assisting, for example, with the ongoing wrasse research work which may provide an alternative to the use of chemicals in sea lice treatment.

6.2 We trust the comments set out above fully meet the instructions given to us.

APPENDIX 1

SGP/PM/0802sgpelec.doc

15 February 2011

Dear Sirs

**THE CROWN ESTATE
FIN FISH FARM RENT REVIEW**

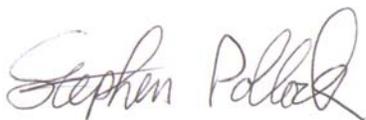
As you will be aware, rents payable under the Crown Estate standard lease for the above are due for review at 1 January 2012. As advised by Alex Adrian, the Crown Estate have appointed James Barr to prepare a report with recommendations in this respect, working alongside Graeme Dear.

In taking this matter forward, we have been asked to consult as considered appropriate with the industry and in this respect would like to extend an invitation for any comments or observations either in writing or by e-mail. We would be happy to receive any thoughts which you have on issues which are considered relevant to the rent review process such as historic and anticipated future trends in production and prices, together with any issues which are viewed as relevant to the industry going forward, either in respect of your own specific operations or as wider features.

We are working towards completing the remit in early Summer and in this regard it would be helpful to have any observations which you would wish to make by mid March.

I look forward to hearing from you and please do not hesitate to call me should you wish to discuss any point.

Yours faithfully



Stephen G Pollock BSc FRICS - Director

Direct Dial: 0141 3008025
Mobile: 07879 668186
E-mail: spollock@jamesbarr.co.uk

APPENDIX 2

Document Title	Salmon Lease Agreement
Document Description	Lease Agreement for Salmon Cultivation in Scotland (with Local Authority Planning Consent)

Department	Marine Aquaculture
Document Owner	Alex Adrian
Document Controller	Charlene McPake

Version No	Version Date	Status
0.1	01/03/10	Draft
1.0	15/03/10	Approved
1.2	26/05/10	Updated – Signature Lines added

File Number: ■

LEASE

between

THE CROWN ESTATE COMMISSIONERS acting in exercise of the powers of the Crown Estate Act, 1961 on behalf of the Queen's most Excellent Majesty (who acting as aforesaid are hereinafter called " the Commissioners ")
OF THE FIRST PART

and

■ (Registered Number ■) incorporated under the Companies Acts and having its registered office at ■ (who and his successors in the right of occupancy of the Lease afterdefined are hereafter referred to as "the Tenant")
OF THE SECOND PART

The Parties have agreed and do hereby agree as follows:-

Definitions and Interpretation

1. In this deed the following expressions have the meanings as follows:-

"Additional Ancillary Equipment" means the equipment (if any) listed in Part 2(c) of the Schedule.

" Ancillaries " - such works, facilities or equipment as have been approved in writing by the Commissioners, for installation on or over or adjacent to the Subjects or part thereof, being ancillary and in addition to the Equipment (the Ancillaries (if any) at the Date of Entry being as described in Part 2(b) of the Schedule.)

" Date of Entry " – ■

" Duration " - the period of ■ years from and including the Date of Entry.

" Equipment " - the primary equipment, approved in writing by the Commissioners for anchoring to the Subjects in or on which the Species are to be reared or cultivated or stocked, (the Equipment at the Date of Entry being as described in Part 2(a) of the Schedule).

“ Lease “ - this Lease and any variation to the terms of this Lease.

“ Management Agreement “ - any agreement, the terms of which can be seen to be reasonable, either between or with other fish farm operators who have fish farming operations in the vicinity of the Subjects which is intended to assist in the co-ordination of husbandry to sustain the production capacity of the sea in the said vicinity and the efficiency of the operators.

”Rent” – the total of (a) the Species Rent as calculated in accordance with Part A of Part 1 of the Schedule and (b) the Other Fish Rent as calculated in accordance with Part B of Part 1 of the Schedule..

“ Rent Assessment Year “ - as defined in Part 1 of the Schedule.

“ Schedule “ - the Schedule annexed and executed as relative hereto.

“ Site “ - each or any of the fish farm sites comprised or included in the Subjects and “ Site “ and “ Sites “ shall be interpreted accordingly.

“ Special Conditions “ - the further conditions (if any) of this Lease as set out in Part 3 of the Schedule.

“ Species “ - salmon and fish of the salmon kind.

“ Subjects ” - as defined in Part 2(a) of the Schedule together with, if applicable, all those areas shown coloured green and or red on the Plan marked “Additional Ancillary Equipment Plan” annexed and signed as relative hereto if there is Additional Ancillary Equipment listed in Part 2(c) of the Schedule.

“ Total Production “ - means the weight in kilograms of the Species as farmed by the Tenant on the Subjects,

- (a) sold during the Rent Assessment Year by the Tenant as the Tenant's own,

- (b) not being the Tenant's own, sold by the Tenant during the Rent Assessment Year on behalf of a third party or delivered during the Rent Assessment Year to, or to any nominee of, a third party, or
- (c) lost, (including loss from death) damaged or destroyed (including damage from or destruction because of or necessitated by disease) during the Rent Assessment Year (and whether or not being the Tenant's own) as a consequence of the acts or omissions of any third party or parties but only when compensation in respect of such consequential loss, damage or destruction is or becomes recoverable by the Tenant or by the owner of the Species from any such third party or parties and irrespective of the fact that such compensation for loss, howsoever occasioned, sustained may not be received by the Tenant in the Rent Assessment Year, (and whether or not the Tenant or owner is able to sell any fish damaged or destroyed at less than normal market price);

Provided that the "weight " in this definition means the natural gutted fish weight of the Species subject only to any blood loss.

Declaring that:-

- (1) sales or deliveries of the Species as mentioned at (a) and (b) above are sales or deliveries thereof in a normal marketable condition (and not in a damaged diseased or other less than normal marketable condition), whether fully grown, or of plate size or of another partly grown size specially produced for the market whether alive or dead, and
- (2) any estimation or calculation of weight for the purposes of assessing the Total Production will be carried out fairly and reasonably and, if appropriate, in accordance with any formula for

or method of estimating or calculating agreed between the parties, or, failing such agreement, as determined by an arbiter appointed in terms of Clause 10 hereof.

In these presents clause and sub-clause headings do not form part of the Lease and will not be taken into account in the construction or interpretation of it and words importing the singular include the plural and vice versa and words importing one gender include all other genders and where there are two or more persons included in the expression " the Tenant " the obligations therein or herein expressed or implied to be made by the Tenant are made by such persons jointly and severally and where the Tenant is a firm or partnership the obligations of the Tenant hereunder shall be binding jointly and severally on all persons who are or become partners of the firm during the Duration or before any early termination of the Lease and on their respective executors and representatives whomsoever as well as on the firm and its whole stock, funds, assets and estate without the necessity of discussing them in their order and such obligations shall subsist and remain in full force and effect notwithstanding any change or changes which may take place in the firm whether by the assumption of a new partner or partners or by the retirement, bankruptcy or death of any individual partner.

Lease

2. The Commissioners in consideration of the Rent which the Tenant shall pay on each Rent Payment Date and other obligations hereinafter specified and subject as declared in Clause 5 and sub-Clause 7.17 hereof and subject otherwise as provided in terms of the Lease hereby let the Subjects to the Tenant for the Duration but subject to an option to the Tenant to terminate the Lease with effect on 31 December in any year provided that at least 6 months' prior written notice has been given to the Commissioners of the exercise of this option; declaring that (a) that with effect from the Date of Entry (notwithstanding the dates hereof) the Tenant hereby renounces (insofar as not already renounced) its whole right and interest in and to the lease or leases (if any) specified in

Part 4 of the Schedule which renunciation the Commissioners hereby accept but that without prejudice to the Tenant's whole obligations to the Commissioners thereunder insofar as such obligations remain unimplemented and (b) the Commissioners warrant this Lease from fact and deed only.

Purpose

3. The Subjects in so far as delineated and coloured pink on the Plan marked "Fish Farm Plan" annexed and signed as relative hereto are let for or in connection only with a fish farm or farms for the rearing and cultivation of the Species while using the Equipment, and the Ancillaries (if any), and for no other purpose under declaration that those areas marked in green and or red on the plan marked "Additional Ancillary Equipment Plan" annexed and signed as relative hereto only (if any) for the purpose permitted under and subject to the terms of Clause 14 of this Lease.

Reservations

4. There is excepted and reserved (a) to Her Majesty and Her Successors the whole mines, metals, minerals and fossils in so far as belonging to Her and Them within or under the Subjects, with full power and liberty to Her Majesty and Her Foresaids and to any person authorised by Her or Them to search for, work, win, raise, calcine and carry away the said mines and others and to do everything necessary for all or any of these purposes, subject to compensation being made to the Tenant for all loss or damage which the Tenant suffers as a result of the exercise of the said power and the amount of such compensation shall, failing agreement, be ascertained by reference to a single arbiter; and (b) full and free right for Her Majesty and Her Foresaids and for all persons by Her or Their permission and for all members of the public to exercise all rights to which they may be entitled and all privileges which they may enjoy from and over the Subjects including without prejudice to the foregoing generality such rights of navigation and fishing as exist.

Resumption

5. The Commissioners may at any time after the expiry of 3 months' written notice of their intention to do so resume possession of any part or parts or of the whole of the Subjects for any purpose which in the opinion of the Commissioners is of sufficient importance to justify such resumption, and which may without prejudice to that generality, include (One) meeting the statutory requirements of any statutory body or Harbour Authority; and (Two) the provision and enhancement or extension of any structures, navigational aids, defence requirements, navigation routes and others, but in no case for the purpose of letting for cultivation of the Species. Subject as hereinafter provided compensation will be made to the Tenant for all loss which the Tenant suffers as a result of such resumption and the amount of such compensation shall, failing agreement between the Commissioners and the Tenant or at the option of either of them after the lapse of 1 month following such resumption, be ascertained by reference to a single arbiter who, failing agreement between the Commissioners and the Tenant within 1 month as to who should be appointed, shall be appointed by the Chairman for the time being of the Royal Institution of Chartered Surveyors in Scotland but provided that such compensation (a) will not exceed the amount of any compensation which the Commissioners receive under statute or otherwise as a consequence of being obliged under statute or in law to resume possession as aforesaid and (b) will be ascertained while taking account of the fact that any appropriate reduction in rent consequent upon such resumption has been or will be determined as hereinafter declared.

Rent

6. The Tenant will pay the Rent to the Commissioners (if required by such form of direct bank transfer as the Commissioners may from time to time specify in writing) on each Rent Payment Date in the amounts stated or calculated as provided, and also subject to review as provided, in Part 1 of the Schedule within 28 days of demand and will do so

free from all deductions with interest thereon at 3% above Bank of Scotland Base Rate as such rate may vary from time to time from the due date or dates until payment is made or, at the option of the Commissioners or on any cessation of said Base Rate, at the rates prescribed by Treasury Regulations from time to time under the Land Compensation Acts or under any statutory re-enactments or amendments thereof or substitution therefor or at the rates prescribed under any future statute which in the opinion of the Commissioners shall apply;

Tenant's Obligations

7. The Tenant hereby undertakes:-

Assignment and Sub-Letting

7.1.1 not to assign the Lease in part nor to sub-let or otherwise part with or share possession or occupation of part only of the Subjects;

7.1.2 not to assign the Lease of the Subjects as a whole without first obtaining the written consent of the Commissioners which consent shall not be unreasonably withheld in the case of a substantial and respectable assignee who is of sound financial standing and is in the reasonable opinion of the Commissioners able to perform the Tenant's obligations under the Lease, but which consent, if granted, may be subject to such conditions as the Commissioners may impose including the condition that the Commissioners may require a guarantee or guarantees in respect of the obligations incumbent upon the Tenant hereunder and in considering any application for consent to assign the Commissioners will be entitled to have regard to the Assignee's interest in or intent to enter into a Management Agreement with other parties having an interest in any fish farm in reasonable proximity to the Subjects;

7.1.3 not to sub-let the whole of the Subjects nor to permit occupancy of the Subjects on any basis by any party other than the Tenant.

Accounting for Production

7.2 to keep fair comprehensive and clearly and properly detailed books of accounts throughout each Year as defined in Part 1 of the Schedule with correct entries, not only of all income, expenditure, assets and liabilities relative to the fish farm for which the Subjects are used, but also of the volume of stocks (including stock losses as mentioned in sub-Clause 7.6.2 hereof) and showing the Total Production of the Species sold off and delivered from said fish farm and (a) at all times when so required on reasonable notice to produce such books of account to the Commissioners and to permit them or their servants or any person nominated by them to take extracts therefrom and to give any explanation that may reasonably be required in relation to said books and the entries therein and (b) to deliver to the Commissioners a copy of the Tenant's annual (or other periodical) accounts of or relative to or including the accounts of the said fish farm, either in such form or forms as the Tenant is required by statute or otherwise (whether publicly or privately) by law to have them prepared or produced (and in any event in a fair and proper form appropriate to the Tenant's business) or, if the Tenant is under no such requirement, in said fair and proper form and in either case within 30 days of certification thereof by the Tenant's auditor following any audit or auditor's verification or, if the Tenant is under no obligation in law to have such accounts audited or independently verified, then within 6 months of the end of any Year as defined in Part 1 of the Schedule and to give to the Commissioners any explanation that may be reasonably required in relation to such accounts.

Production Returns

7.3 to deliver to the Commissioners at 6 Bell's Brae, Edinburgh, EH4 3BJ (or such other address as the Commissioners from time to time notify) on or before the

31st day of January first occurring after the Date of Entry and on the 31st day of January in each succeeding Year and at such other time or times as the Commissioners shall by notice in writing reasonably require a true and fair account in writing in such form as the Commissioners may from time to time direct containing full particulars of the Total Production of the Species and the total production of Other Fish (as defined in Part 1 of the Schedule) (calculated on the same basis as the Total Production but substituting for the word " Species " the words " Other Fish ") (including inter alia particulars of all relevant loss damage or destruction so that the Total Production may be calculated and also a record of stock input and output figures for each Year Class or Generation of fish on each and every Site) for the Year (or part Year during the first year of this Lease) ending on the immediately preceding 31st day of December such particulars being from time to time if required by the Commissioners verified in the Commissioners option by either a statutory declaration by the Tenant or by a certificate granted by the Tenant's auditor in such form as shall be satisfactory to the Commissioners; declaring that, in their discretion and upon the Commissioners stating in writing to the Tenant the reason for so doing, which in all circumstances shall be reasonable, the Commissioners may seek also to verify such particulars, independently of or supplemental to such declaration or certificate, with or through the Tenant's customers and others who have taken delivery of such production by requesting (directly or indirectly through the Commissioners' servants or nominees or through the Tenant's auditor) from them relevant information about the value and/or volume of such delivery and that the Tenant hereby agrees that the Commissioners may arrange to have such requests made and, subject as hereinafter provided, agrees to use all reasonable endeavours to ensure that such requests are fully met, and in no case to refuse

consent to or in any way to discourage the meeting of such request; provided that the strength and extent (if any) of the Tenant's obligation to use all reasonable endeavours as aforesaid in any particular case will depend on the nature of the personal, business and legal relationships between the Tenant and the particular customer or other so that (by way of examples only and without prejudice to the foregoing generality) the Tenant would be expected to use all such endeavours if the particular customer or other is a subsidiary company or otherwise owned or controlled by the Tenant but might not be expected to use such endeavours to the same extent if the particular customer is a third party at arms length from the Tenant;

Pay Taxes etc

7.4 to pay all present and future rates, taxes and assessments and outgoings whatsoever payable in respect of the Subjects, by whatever party or authority leviable and whether related to the landlord's interest or the Tenant's interest herein.

VAT

7.5.1 to pay to the Commissioners such amount of Value Added Tax at the rate for the time being in force as shall be legally payable in respect of all monies undertaken to be paid by the Tenant under the Lease and in every case in the Lease where the Tenant undertakes to pay an amount of money such amount shall be regarded as being exclusive of all Value Added Tax which may from time to time be legally payable thereon.

7.5.2 not to use or permit to be used the Subjects for any use or act or fail to act in any manner or do or fail to do or permit to be done anything which has the effect that a supply of the Subjects by the Commissioners to the Tenant is not a taxable supply notwithstanding that the Commissioners may have made an election to

waive exemption from Value Added Tax and to indemnify and keep indemnified the Commissioners from and against any failure or inability on the part of the Commissioners to recover input Value Added Tax and against all other claims, costs, demands, expenses, proceedings, actions, value added tax liabilities, other liabilities and losses (whether arising before or after the Date of Entry) of whatever nature but only insofar as any of the foregoing arise in any way directly or indirectly out of a breach or breaches of this provision.

Cultivation Method and Reports on Losses

- 7.6.1 to carry out all operations in accordance with the best and most up to date method of marine farming and to use best endeavours to keep the stock in good health and free of disease at all times.
- 7.6.2 to report to the Commissioners in writing, within 1 month of the event, any stock losses being either a single event as a result of which 25% or more, or at any time when the aggregate of 25% or more of a single generation of the Species is lost, such report to include the quantity, cause or causes, the nature of which could include natural and other disasters (including any form of third party negligence) as well as predators, theft, disease or algal or other blooms.

Special Conditions

- 7.7 to implement and observe the conditions (if any) specified in Part 3 of the Schedule.

Environmental Care

- 7.8 to use best endeavours to avoid any unnecessary damage to, interference with, or destruction of wildlife, flora and fauna and their natural habitat whether on land or at sea; including without prejudice to the foregoing generality to refrain from the use of any chemical, substance, commodity, liquid, treatment, or otherwise which may be proscribed by any

regulatory, statutory or other competent authority and not to do or omit to do or permit any substance to be used or discharged which may under statute or common law or by reason of any matter affecting the Subjects or any other property of the Commissioners (whether before or after the expiry of the Duration) cause the Commissioners or any other party to become liable to pay any penalty, fine, damages, compensation, costs, charges or expenses or incur expenditure; declaring further that in the event that the Tenant or anyone acting as his employee or agent shall be convicted of any offence or commit any act which in the sole opinion of the Commissioners constitutes a breach of the obligations imposed by this clause the Commissioners shall be entitled by notice in writing given to the Tenant, to terminate the Lease but reserving all rights to the Commissioners in respect of any antecedent breach by the Tenant.

Oysters and Mussels

7.9 if oyster beds or mussel scalps naturally exist or form on the Subjects or any part thereof, not to crop the same and to preserve the oysters and mussels.

Approval of Equipment

7.10 to submit to the Commissioners for the Commissioners' approval before installing the Equipment or the Ancillaries or any other equipment and others which are to be installed, fixed or anchored permanently or semi-permanently whether directly or indirectly (such Equipment and others being hereinafter called " the Equipment ") or the Additional Ancillary Equipment in the case of the Equipment or the Additional Ancillary Equipment on the Subjects such plans and/or specifications thereof as the Commissioners may require and once approved by the Commissioners, not to materially alter the Equipment or the Ancillaries or the Additional Ancillary Equipment nor to install or use any

additional works or others without the previous written consent of the Commissioners.

Maintenance

7.11 to maintain and keep the Equipment, the Ancillaries and Additional Ancillary Equipment in good, safe and substantial repair, order and condition.

Litter etc

7.12.1 to keep the Subjects in a clean and tidy condition and to take all reasonable steps to prevent any litter or detritus of any kind arising directly or indirectly from the Tenant's operations to be deposited on any neighbouring subjects by whomsoever owned including without prejudice to the foregoing generality the complete removal of any redundant equipment (and associated moorings) and not to do or permit any other act whether or not sui generis with the foregoing on the Subjects which may in the sole opinion of the Commissioners be or become a nuisance, annoyance or disturbance.

7.12.2 In that the Tenant has accepted the Subjects as suitable in all respects for the purposes permitted under this Lease and without prejudice to the terms of clause 7.12.1 hereof the Tenant shall at any time during the currency of the lease when necessary, to prevent injury or damage to any person or property, or at any time on request of the Commissioners during the currency of the Lease and in any event on termination of this Lease however effected take all reasonable steps to prevent any debris, litter or equipment of any description being deposited on or remaining on the Subjects (including for the avoidance of doubt any litter, debris or equipment as may have been present at the date of entry under this Lease as to which the Commissioners grant no warranty, the Tenant being deemed to have made all relevant enquiry) and all at the Tenant's cost and shall not permit anything which is or may be or become a danger to the public or any other party

in the opinion of the Commissioners, to remain upon or near the Subjects and generally to ensure that the Subjects are maintained in a clean and safe condition at all times and clear of all rubbish or old or abandoned equipment or matter of any description and are returned to the Commissioners upon termination of the Lease however effected in such condition.

Inspections and Repair

7.13 to permit the Commissioners and any person duly authorised by them from time to time and at all reasonable times to enter into and upon and inspect the Subjects and the state and condition thereof and if any want of repair or defect shall be found or appear in the Equipment, the Ancillaries or the Additional Ancillary Equipment on receiving notice to that effect the Tenant shall be bound to repair and amend the same within 3 months of the receipt of such notice.

Expenses and Inspections

7.14 to pay to the Commissioners all reasonable expenses incurred by the Commissioners and by any person duly authorised as aforesaid of and incidental to the superintendence or supervision of the execution of the repairs and amendments for which the Tenant is liable under a notice served in terms of Clause 7.13 of the Lease.

Exercise of Reserved Rights

7.15 not in any way to hinder or obstruct the due exercise and enjoyment of any rights or privileges hereby excepted and reserved.

Concurrent Rights

7.16 not to do or knowingly suffer to be done on the Subjects any act or thing whatsoever which shall in the sole opinion of the Commissioners in any way interfere with, interrupt, damage or diminish the concurrent rights of the Commissioners or other parties having rights as proprietors, tenants or operators

of fishings or (without prejudice to the Tenant's obligations in terms of sub-Clause 7.21 hereof) as cultivators or rearers of any other fish existing or to be granted in respect of the Subjects wherever said fishings, cultivation or rearing may be situated.

Effect of Delay in Starting Production

7.17 not to delay unreasonably in establishing the said rearing and cultivation and in laying or installing the Equipment and the Ancillaries after the Date of Entry; declaring (a) without prejudice to the Tenant's obligation not to delay as aforesaid that if the Tenant has not established the said rearing and cultivating in a proper and businesslike manner and is not stocking and rearing the Species using the Equipment and any Ancillaries all to the reasonable satisfaction of the Commissioners on each of the Sites within 2 years of the Date of Entry (unless the Commissioners shall have first agreed in writing that any of the Sites do not require to be established until a date later than 2 years from the Date of Entry such later date to be agreed by the Commissioners, the Commissioners' agreement to such matters or not as the case may be being at their sole discretion without any requirements to give reasons) or (b) that if at any time the Tenant ceases for a period longer than 12 months without the previous written consent of the Commissioners to rear and cultivate and stock the Species in a proper and businesslike manner using the Equipment and any Ancillaries all to the reasonable satisfaction of the Commissioners on all, some or any of the Sites, then in either such case the Commissioners, after giving written notice to the Tenant requiring the Tenant to fulfil his obligations under this sub-clause within such period being not less than 28 days as may be reasonably determined by the Commissioners, in the event of the failure of the Tenant so to fulfil his obligations, shall have the option by giving notice to the Tenant to that effect to

hold the rights hereby granted to the Tenant (and the Lease) as terminated but only insofar as relating to the Site or Sites specified in the said notice and the Lease insofar as relating to the Site or Sites specified in the said notice shall be terminated with effect from the date of termination stated in such notice, but without prejudice to the Commissioners' rights in respect of any antecedent breach of the Lease by the Tenant relative thereto, and for the avoidance of doubt, the Lease insofar as relating to the remainder of the Subjects (if any) in the event of such termination shall continue and the extent of the Subjects which are let by virtue of this Lease with effect from the said date of termination shall be varied to exclude the Sites in respect of which the Lease has been terminated and that part of the Subjects of which the Sites are situated as determined by the Commissioners who shall annex to the notice terminating the Lease in respect of part only of the Subjects a plan showing the Subjects as then comprised in the Lease with effect from the date of termination and the Commissioners and the Tenant shall forthwith thereafter at any time on demand of the Commissioners execute an agreement in a form to be determined by the Commissioners to record the variation of the Subjects and in respect of which the proper costs of the Commissioners (including legal fees and disbursements) shall be paid by the Tenant.

Statutory Consents

7.18 to obtain the consent of the Scottish Executive under Section 34 of the Coast Protection Act 1949 as amended by the Merchant Shipping Act 1988 and any other statutory or necessary consents including in particular but without prejudice to the foregoing generality (a) any necessary consent (including without prejudice to that generality consent from the relevant planning authority) for farming the Species on the Subjects and for installing the Equipment and Ancillaries and the

Additional Ancillary Equipment and for such associated onshore development before initiating development of the Subjects and (b) any consent from the Scottish Environment Protection Agency necessary in terms of Section 34 of the Control of Pollution Act 1974 as amended by Section 169 of the Water Act 1989 or otherwise and any other consent necessary for the use of the Subjects as permitted under the Lease. The Tenant shall be bound at all times throughout the Duration to comply with all statutory duties and requirements relating to the Subjects and/or the Equipment, any Ancillaries, Additional Ancillary Equipment or the purpose for which the Subjects are let.

Indemnity

- 7.19.1 to indemnify Her Majesty and Her Successors and the Commissioners now and in all time coming from and against all and any actions, proceedings, claims, demands, costs and expenses in consequence of the exercise by the Tenant of the let hereby granted howsoever said actions, proceedings, claims, demands, costs and expenses may arise and whether they arise at statute or common law and whether they are related to the Landlord's interest or the Tenant's interest herein which indemnity shall subsist after the expiry of the Duration; declaring expressly that said right of indemnity hereby conferred upon the Landlord shall not extend to indemnifying the Landlord from the consequences of any negligent act or omission of the Landlord which may give rise to any action, proceeding, claim, demand, costs or expenses whether at statute or common law, but declaring that the Commissioners shall have right to contest any such actions, proceedings, claims or demands (howsoever such actions, proceedings, claims or demands may arise) as they in their sole discretion may decide.
- 7.19.2 To maintain in force Public Liability Insurance in the sum of at least £5,000,000 pounds sterling (which sum shall be increased in each year by the amount by

which the General Index of Retail prices published by the Central Statistics Office last published prior to the anniversary of the Date of Entry, has increased over the preceding twelve month period, failing which Index by such increased amount as the Commissioners shall determine in their reasonable discretion) to include any liability of the Commissioners to pay damages, fines, costs, or other costs of any nature which may be capable of falling directly or indirectly on the Commissioners as a result of or in connection with the Tenants' occupation or use of the Subjects or the placing of equipment or the presence of any old or redundant equipment or structures upon or within the Subjects, and to provide the Commissioners annually or upon request evidence of such insurance and of the payment of the premium therefor.

Removals and Restoration

7.20 at the termination of this Lease to leave the Subjects (or in the case of partial termination of the Lease under Clause 7.17 thereof insofar as that part of the Subjects in respect of which the Lease has been terminated) clean and in good condition and without prejudice to the foregoing generality to remove all forms of detritus arising from the Tenant's operations from the seabed and to remove the Equipment (and associated moorings) and Ancillaries, the Additional Ancillary Equipment (and associated moorings) and any other old or abandoned equipment as debris or rubbish and generally to restore the Subjects (or part thereof as applicable) to a proper safe and clean condition all to the sole satisfaction of the Commissioners and also to the satisfaction of any statutory planning or regulating authority.

Management Agreement

7.21 to operate in accordance with the principles and procedures set out in any Management Agreement.

Suitability of Subjects

8. The Tenant will be deemed to have satisfied himself that the Subjects are suitable for the purposes mentioned in Clause 3 hereof and shall have no claim against Her Majesty or Her Successors or the Commissioners or their successors in respect of any loss or damage sustained by the Tenant as a result of the exercise by others of the public rights including those of navigation and fishing hereby reserved, or by the exercise of the rights by others of fishing for the Species.

Irritancy

9. If at any time while this Lease subsists:-
- (a) the Rent or any part thereof shall be in arrear and unpaid for 28 days, from the due date of payment (whether or not demanded) or (but only if later and then only if the Tenant has delivered relative full particulars of Total Production timeously all as provided in sub-clause 7.3 hereof) from the date of the Commissioners' invoice for rent;
 - (b) there shall be any breach by the Tenant of any of the obligations and conditions contained in the Lease; or
 - (c) the Tenant (being an individual or individuals or a partnership or unincorporated body) becomes apparently insolvent (or being a company) enters into insolvency (which includes suffering the appointment of an administrator or administrative receiver) or goes into liquidation (save for the purpose of amalgamation or reconstruction not involving insolvency and approved by the Commissioners) or (being any of these) enters into an arrangement or composition for the benefit of the Tenant's creditors, then and in any of the said cases, the Commissioners shall be entitled forthwith by written notice to terminate this Lease and treat this Lease and all transmissions thereof with all that has followed or can competently follow thereon as void and null and that without the necessity of any declarator,

process of removal, or other procedure at law and the Subjects shall thereupon revert to the Commissioners and it shall be lawful for the Commissioners or any person or persons duly authorised by the Commissioners in that behalf to enter upon possession of the Subjects or any part thereof in the name of the whole and to uplift rents, eject tenants and occupiers and thereafter to use, possess and enjoy the same free of all claims by the Tenant as if this Lease had never been granted, but all such rights are without prejudice to any right of action or remedy of the Commissioners in respect of the premature termination of this Lease or of any antecedent breach by the Tenant of any of the obligations and conditions contained in this Lease which irritancy is hereby declared to be pactional and not penal and shall not be purgeable at the Bar.

Arbitration

10. Disputes or questions which may arise between the Commissioners and the Tenant in relation only to assessment, estimation or calculation of Total Production whether during the currency or after the termination of this Lease are hereby referred to the amicable decision of an arbiter to be appointed by the parties or, if the parties are unable to agree on the appointment, by the Chairman for the time being of the Royal Institution of Chartered Surveyors in Scotland, the application hereto of Section 3 of the Administration of Justice (Scotland) Act 1972 and any statutory modification or re-enactment thereof being excluded and unless the parties otherwise agree, costs in respect of any such reference to an arbiter hereunder shall be determined by the arbiter.

Notices

11. All notices hereunder shall be in writing and if sent by post shall be sent by recorded delivery post and shall be deemed to be received at the same time of day 2 business days (Saturday, Sunday and public holidays being excluded) after posting. Notices by or on behalf of the Commissioners to either the Tenant or the Guarantor (if applicable) shall

be addressed to the registered office in the case of a corporate body and in the case of a Tenant or Guarantor (if applicable) who is not a corporate body to their address as given herein or to the last known private or business (as the case may be) address and if the Tenant or the Guarantor (if applicable) is more than one person to such address of any one of these persons.

Costs

12. The Tenant shall pay or reimburse to the Commissioners any charges made by the Valuation Office (as defined in Part 1 of the Schedule) or costs incurred by the Commissioners in respect of any reference made to the Valuation Office for determination of or in relation to the Rent, but only if such reference is made at the request of the Tenant.

Variations of Lease

13. No variations hereof shall be effective unless made in writing executed by the parties.

Additional Ancillary Equipment

14. The provisions of this Clause apply only if there is Additional Ancillary Equipment listed in Part 2(c) of the Schedule in which event:-
 - 14.1 Subject to the terms of Clause 14.2 the Tenant shall be entitled throughout the Duration to use those areas marked green and or red on the Plan marked "Additional Ancillary Equipment Plan" annexed but only for the purpose of mooring the Additional Ancillary Equipment and as approved by the Commissioners, and if applicable subject to the conditions contained in Part B of Part 3 of the Schedule.
 - 14.2 The whole terms of the Lease shall apply to the Additional Ancillary Equipment and to each of the areas marked green and or red on the said plan marked "Additional Ancillary Equipment Plan" annexed but with the proviso that the Landlord shall be entitled to terminate the right contained in this Clause 14 at any time, whether in respect of all or some of the areas marked green and or red as aforesaid, upon giving written notice to

the Tenant to that effect and upon such termination the provisions of this Lease applicable upon termination shall apply to the extent of any such areas for which the right is so terminated. For the avoidance of doubt no compensation shall be payable in respect of any termination under this Clause 14.

Application of Statute

15. For the avoidance of doubt, it is declared, and the parties hereby agree, that neither the grant of this Lease on behalf of Her Majesty, nor anything expressed or implied herein shall give or be interpreted to give any freedom or immunity from or relaxation of, the requirements of any legislation, regulation, order or instrument having the force of law in the United Kingdom, now or at any time during the subsistence of this Lease.

Law

16. The interpretation and meaning of these presents and of any documentation or agreement supplemental thereto, the rights and obligations of the parties and any questions arising at any time between the parties hereunder or thereunder, shall be determined in accordance with the Law of Scotland, and the parties hereto, if not otherwise subject to the jurisdiction of the Scottish Courts, hereby severally prorogate the jurisdiction of the Scottish Courts hereunder and thereunder.

Stamp Duty Land Tax

17. The Tenant shall make any return relating to Stamp Duty Land Tax and pay any Stamp Duty Land Tax to HM Revenue and Customs consequent upon this Lease.

Registration

18. The parties hereto consent to registration hereof for preservation and execution: IN WITNESS WHEREOF

TCE.....

DIR.....

TCE WIT.....

WIT.....

This is the SCHEDULE referred to in the foregoing LEASE between the CROWN ESTATE COMMISSIONERS and ■ for the sites known as ■

SCHEDULE

PART 1

The Rent payable in any Year in respect of the Species is calculated in accordance with Part A of this Part 1 of the Schedule.

The Rent for Other Fish is determined in accordance with Part B of this Part 1 of the Schedule; and

To ascertain the total Rent payable in any Year the Species Rent and the Other Fish Rent insofar as applicable will be added together.

Definitions

In this Part 1 of the Schedule the following words or phrases shall have the following meanings:

“European Salmon Selling Price” means the selling price for 4 to 5 kilogram fresh Atlantic salmon on the French Rungis market as published daily by Intrafish Media (or any other substitute publisher);

“Other Fish” means smolt, shellfish or other marine species (whether by products or not) sold off the fish farm or farms operated within the Subjects or cultivated or reared on the fish farm or farms operated within the Subjects and delivered from it to any third party under any contracts or agreements with such third party;

“Other Fish Rent” means the Rent calculated in accordance with Part B of this Part 1 of the Schedule;

“Outer Islands” means the Islands of Orkney, Shetland and the Outer Hebrides;

“Quarterly Payment Dates” means 1st March, 1st June, 1st September and 1st December in each Year;

“Rent Assessment Year” means the period of 12 calendar months commencing on 1st January and ending on 31st December immediately preceding the Rent Payment Year save that the first Rent Assessment Year shall be the period from the Date of Entry until the 31st December first occurring after the Date of Entry (although less than 12 months);

“Rent” means the total of the Species Rent and Other Fish Rent;

“Rent Payment Year” means the Year 1st January to 31st December immediately following the expiry of the Rent Assessment Year;

“Species Rent” means the Rent calculated in accordance with Part A of this Part 1 of the Schedule;

“Valuation Office” means the Valuation Office Agency;

“Year” means for the purposes of this Part 1 of the Schedule the period of 12 months commencing on 1st January and ending on 31st December;

Part A

Calculation and Payment of Rent

1. The Species Rent for the Year shall be calculated as follows:
 - (a) If the Sites are not situated in the Outer Islands it shall be 1.7 pence per kilogram of Total Production of Species for the Year;
 - (b) If the Sites are situated in the Outer Islands it shall be 90% (Ninety per cent) of the value of 1.7 pence per kilogram of Total Production of Species for the Year.
2. The Tenant shall pay the Rent by dividing the total Rent payable for the Rent Payment Year into four equal quarters and paying one such quarter on each of the Quarterly Payment Dates.
3. The Commissioners shall be entitled to review the rate to be used to calculate the Rent per kilogram for Species Rent on each and any of the following events:
 - 3.1 a period of 5 Years shall have elapsed since 1st January 2007 or since the last 5 Yearly review of the Species Rent rate shall have taken place so that the Commissioners shall be entitled to review such Species Rent rate on 1st January 2012 and on every fifth anniversary of that date throughout the Duration; or
 - 3.2 the European Salmon Selling Price shall have fallen below €2.80 (euros) per kilogram for a period longer than 6 consecutive months or shall have risen above €7 (euros) per kilogram for a period longer than 6 consecutive months
4. If the Tenant has failed to provide the return of the Total Production information for the Rent Assessment Year in question by the 31st January in the Year in which the Rent is payable, then to calculate the Species Rent The Commissioners will use the average of the Total Production used to calculate the Species Rent for the 3 Years (or if the number of Years is less than 3 the actual number of Years) immediately preceding the Rent Assessment Year in respect of which no return of Total Production information has been

provided and the Species Rent will be calculated as above provided in this Part 1 of the Schedule.

5. The actual Rent payable on the Quarterly Payment Date for each Site for any Year shall be calculated as follows:

- (1) If there has been any production at all on the Site, the Rent shall be the total of the Species Rent and the Other Fish Rent as above; or
- (2) If there has been no production at all on the Site and a return of the Total Production has been made disclosing nil production, the Rent shall be the Vacant Rent.
- (3) For the avoidance of doubt, the Rent for the period from the Date of Entry until the 31st December first occurring after the Date of Entry (even although it is less than a full year) and payable quarterly on the Quarterly Payment Dates in the Year following the year in which the Date of Entry falls, shall be calculated on the basis of either (a) the total of the Species Rent and the other Fish Rent if there has been any production at all in such period, or (b) if there has been no production at all in such period, a return of Total Production shall be made for such period disclosing nil production, and the rent shall be the sum equivalent to the Vacant Rent for that Year.

The Vacant Rent for each Site for any Year shall be calculated as follows:

For each Year in which any Site is not in production for all or part of the Year, the Vacant Rent shall be:

- (a) £500 per annum exclusive of Value Added Tax for the first 4 consecutive Years in which the Site is not in production;
- (b) £1,000 per annum exclusive of Value Added Tax for the next 2 Years after the expiry of the first 4 Years in which the Site continues not in production; and

- (c) for so long as any Site remains not in production throughout the Duration other than the first 6 Years of being continuously not in production then the Vacant Rent shall increase every second Year by 100% of the immediately preceding Vacant Rent rate throughout the Duration or until production on such Site commences or resumes
- so that for example after the expiry of 8 Years with no production having taken place the Vacant Rent shall be £2,000 per annum exclusive of VAT and after 10 Years with no production having taken place the Vacant Rent shall be £4,000 per annum exclusive of VAT and so forth increasing every second Year.

With effect from 1st January 2012 and every fifth anniversary of that date throughout the Duration the Commissioners shall be entitled to review the rate per kilogram to be charged in respect of the Species Rents and also the Vacant Rent to such rate and sum as the Commissioners shall determine appropriate in the circumstances.

Part B

Other Fish Rent

The Other Fish Rent payable for a Year shall be an amount which failing agreement between the parties shall be determined by the Valuation Office acting as an independent expert after the parties have had an opportunity to make representations. Such amount if a fixed amount will be payable by equal quarters on the Quarterly Payment Dates. If the amount is to be paid as a function of the volume of production then the payments will be calculated and made on the same basis and process as for the Species Rent set out Part A of this Part 1 of the Schedule and payable on the same basis using the same rate and the same dates as the Species Rent.

The frequency of review and the basis of review of Other Fish Rent shall be agreed between the parties or failing agreement determined by the Valuation Office acting as an independent expert after the parties have had an opportunity to make representations.

Part C

Rent Payment Provisions

1. If the Species Rent or Other Fish Rent has not been reviewed by or on any review date the Rent (or the part of the Rent) payable on the Rent Payment Dates for the Year will be calculated on the basis set out in Part A and/or Part B of this Part 1 of the Schedule as an interim arrangement until the Rent Review is completed. Once completed the Tenant will pay to the Commissioners any shortfall in the Rent due to the Commissioners within 28 days after demand by the Commissioners or the Commissioners will refund to the Tenant any over-payment within 42 days in either case after agreement between the parties or determination of the Review Rent as the case may be.
2. The Tenant will pay to the Commissioners on demand interest at 3% above Bank of Scotland base rate (or if Bank of Scotland ceases to publish the base rate from time to time any base rate of another UK clearing bank nominated by the Commissioners failing which 3% above any rate prescribed from Treasury Regulation from time to time under Land Compensation Acts or other rate as the Commissioners shall deem appropriate) on any Rent which is not paid on the Rent Payment Date. If Rent is not paid on the Quarterly Payment Date because it has not been ascertained then interest at the rate aforementioned shall apply from the Quarterly Payment Date until paid.
3. The Tenant shall pay Rent to the Commissioners by Bankers Order or other means of direct or electronic transfer as the Commissioners shall from time to time require by written notice given to the Tenant specifying the method of payment.
4. In the last Year of this Lease or on termination of this Lease the whole of the Rent for the final Year of the Lease shall be paid on or by 31st December in that Year. The Tenant shall be required to give the information on Total Production from the Site or Sites for the last Year to the Commissioners not later than 15th December in that Year and the full amount of the Rent shall be payable by a single payment on or by 31st December in that

Year. Interest at the rate specified in Paragraph 2 above shall be applied in the event of late payment of such Rent.

On every occasion on which Rent is payable by the Tenant Rent shall be payable without deduction of any sort

TCE.....

DIR.....

TCE WIT.....

WIT.....

SCHEDULE

PART 2

Part (a)

The Subjects are ALL and WHOLE that piece or those pieces of seabed and/or foreshore situated at or near ■, and for the purpose of registration of writs in the County of ■ and which is or are delineated and coloured pink on the plan or plans marked “Fish Farm Plan” annexed and signed as relative hereto, and which comprises ■Site(s) being that, the approximate location or intended location of which, is shown marked Number(s) ■ on the said plan or plans and are known or to be known as follows:-

Site Number	Site Name (“ the Subjects “)	Equipment (“the Equipment “)
■	■	■

or such other equipment as may be permitted by the Commissioners

TCE.....

DIR.....

TCE.....

WIT.....

Part (b)

The ancillaries as referred to in Clause 1 of this Lease is or are:-

as colored green on the plan marked "Ancillary Equipment Plan" annexed and signed as relative hereto

or such other equipment as may be permitted by the Commissioners.

(" the Ancillaries ")

Part (c)

The Additional Ancillary Equipment is

as coloured green on the plan marked "Additional Ancillary Equipment Plan" annexed and signed as relative hereto

or such other equipment as may be permitted by the Commissioners

("the Additional Ancillary Equipment")

TCE.....

DIR.....

TCE WIT.....

WIT.....

SCHEDULE

PART 3

PART A

The following are the conditions referred to in sub-clause 7.7 of the foregoing Lease:-

Installations other than navigation markers should be dark matt grey in colour to reduce the effects on the landscape.

The sites included in this lease are deemed to be the areas approved for salmon farming in Planning Consent [Insert planning permission ref] [dated]. Modifications to the site will be subject to the agreement of the Crown Estate Commissioners.

The permitted installations in the leased areas will be confined to equipment required for the purpose of salmon farming, subject to any restrictions or conditions specified in the Planning Consent and agreed by the Crown Estate Commissioners.

If applicable the sites are to be operated in accordance with agreed fallowing and rotational policy.

PART B

The following conditions apply only to the Additional Ancillary Equipment:-

TCE.....

DIR.....

TCE WIT.....

WIT.....

SCHEDULE

PART 4

The lease or leases referred to in Clause 2 as being renounced by the Tenant are the lease or leases by the Commissioners in favour of the Tenant dated ■ relating to site(s) known as ■

TCE.....

DIR.....

TCE WIT.....

WIT.....



File Number: ■

LEASE
between
THE CROWN ESTATE COMMISSIONERS
and
■

Subjects: ■
Period: ■

ALAN S MENZIES W.S.,
1 Rutland Court
Edinburgh
FAS0208

James Barr Limited
226 West George Street
Glasgow
G2 2LN

Tel: +44 (0)141 300 8000

Fax: +44 (0)141 300 8001

www.jamesbarr.co.uk