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script
SOFT COMMODITY RISK PLATFORM

Financial institution guidance: Sustainable seafood production

Comments and queries

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About SCRIPT

SCRIPT (Soft Commodity Risk Platform, available at www.script.finance) is a new freely-available system to help financial institutions understand and mitigate the business risks associated with financing companies in soft commodity supply chains. The platform provides tools and guidance for financial institutions to establish a robust sustainable financing policy and screen their portfolios to determine the companies and issue areas that pose the greatest risk to their institution.

About Global Canopy

Global Canopy is an innovative environmental organisation that targets the market forces destroying tropical forests. Since 2001, we have been testing new approaches to tackling deforestation, and guiding companies, investors and governments worldwide to think differently about our planet's forests.

About WWF

For nearly 60 years, WWF has been protecting the future of nature. The world's leading conservation organization, WWF works in 100 countries and is supported by more than one million members in the United States and close to five million globally. WWF's unique way of working combines global reach with a foundation in science, involves action at every level from local to global, and ensures the delivery of innovative solutions that meet the needs of both people and nature.

Funding

This work is part of the Conservation and Financial Markets Initiative, a collaboration among Ceres, the World Business Council for Sustainable Development, World Wildlife Fund and the Gordon and Betty Moore Foundation that seeks to leverage the power of mainstream financial markets in order to help drive the food sector away from practices that degrade natural ecosystems, particularly the production of commodities such as beef, soy, and farmed and wild-caught seafood that contributes to the loss of forests, grasslands, oceans, mangroves, and other habitats. The initiative is developing mechanisms and incentives that help companies and financial markets make better informed business and capital allocation decisions. For more information see www.moore.org.

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Introduction

This document lays out the scientific and business cases for why and how companies should act to minimise the environmental and social impacts associated with the production of seafood[1]. These expectations are intended to assist financial institutions to engage companies around the potentially negative impacts of fishing and aquaculture. The expectations are aimed at the boards of companies producing or procuring seafood, and are a starting point for discussion between financial institutions and companies on these issues. The expectations are relevant for all companies involved in seafood supply chains, acknowledging that some expectations are more relevant for certain parts of the supply chain.

Relevance

The continued production of seafood through fishing and farming is key to meeting the growing global demand for food, supporting millions of jobs and livelihoods and meeting the Sustainable Development Goals. However, as with the production of many global commodities, unsustainable production of seafood can lead to negative environmental and social impacts. These include the loss or degradation of natural habitats such as mangroves or reef systems, pollution, over-exploitation of natural resources, capture of endangered species, slave labour, and the loss or decline of coastal livelihoods.

As consumer and government awareness of impacts takes hold, companies face an increasingly risky business landscape. For example, companies are already facing restricted access to markets that require seafood to be sustainably produced and certified[2]. Furthermore, continued overfishing and unsustainable aquaculture practices can lead to lower or more volatile yields. For example, overfishing has contributed to a decline in average catch rates along the Thailand coast from 300 kg in 1961 to 20kg in 2010[3]. In turn this can lead to lower returns on investment for financial institutions providing capital to companies in seafood supply chains.

[1]For the purposes of this document: 'Fishing/Fisheries' refers to wild-caught fish and other aquatic animals, 'Aquaculture' refers to the farming of aquatic animals, 'Seafood' encompasses both wild-caught and farmed.
[2]FAO (2018) Seafood certification and developing countries: focus on Asia, available from: http://www.fao.org/3/I8018EN/i8018en.pdf
[3]https://asia.nikkei.com/Politics/International-Relations/EU-remains-unconvinced-by-Thai-seafood-industry-reforms

RISKS TO FINANCIAL INSTITUTIONS

Seafood supply chain risks can have an impact on standard financial metrics such as revenue, asset valuation or costs. In turn, these can affect the credit worthiness of clients or the market value of investee companies.

Non-performing loans

Clients may be unable to continue to service debt obligations in full and on time.

Asset values

Assets may become stranded if market conditions change, requiring de-coupling of production from impacts, or preventing production in certain areas.

Revenue/profitability

Market value may deteriorate as revenue and profits are impacted.

SEAFOOD SUPPLY CHAIN RISKS

Sustainability issues in seafood supply chains can lead to a variety of material risks for businesses, which in turn can affect investors and lenders.

Operational

Overfishing or disease can reduce the productivity of fisheries or aquaculture operations and threaten security of supply.

Regulatory

Environmental or social breaches, as well as lack of preparedness for compliance with regulatory change can lead to products being banned from certain markets, or fines being levied against individual companies.

Legal

Companies that fail to manage environmental and social risks in their activities may be exposed to legal liabilities, such as from illegal fishing or labour abuses in the supply chain.

Market

Structural change in societal preferences away from products that negatively impact coastal or marine ecosystems and people, can restrict market access for unsustainably produced seafood.

Reputational

Companies may be targeted by NGO or media campaigns if they fail to mitigate environmental and social impacts associated with their production or procurement of seafood.

Figure 1: Risks facing companies and financial institutions associated with the unsustainable production of seafood.

In 2017, 10 of the largest seafood companies came together to issue a statement of intent to remove a number of environmental and social impacts from their supply chains[4]. By making this commitment, these companies acknowledged the potential impact that sustainability issues, if left unresolved, could have on their businesses. Yet, despite such commitments, a significant market shift is still required to ensure that sustainable seafood policies are put in place and upheld. For example, a recent assessment of US seafood retailers suggested that many companies are struggling to uphold labour and human rights, and their business practices continue to be associated with significant environmental impacts[5].

Given the ubiquity of operational, reputational, and regulatory risks across the supply chain, it is imperative that companies address their exposure to risks associated with seafood by developing and implementing robust sustainability strategies. Financial institutions can protect their investments or financing by engaging with companies to understand their existing business strategy and encourage them to produce and procure seafood that is free from environmental and social impacts.

Guidance for company engagement

To ensure robust and resilient business strategies, and to encourage a smooth transition to a more sustainable seafood sector, we have set out expectations and guiding questions for financial institutions to raise in their discussions with the board and management teams of companies in seafood supply chains. These expectations are intended as parameters under which to 'stress test' company strategies to manage seafood supply chain risks. The majority of these expectations apply to all companies regardless of whether they are sourcing wild caught or farmed seafood. Where the expectations are specific to a production type, this is noted.

1. Transparency and disclosure

Companies should be transparent about the questions raised in this document so that financial institutions can use this information to identify how environmental and social impacts may affect companies' economic performance and prospects. Financial institutions and third parties can use this information to hold companies accountable for the impacts of their business practices and ensure that they have an appropriate strategy to transition to a more sustainable business model.

[4]Stockholm Resilience Centre (2018) Global leaders in seafood step up their actions for ocean stewardship, available from: https://www.stockholmresilience.org/news--events/general-news/2018-09-06-global-leaders-in-seafood-step-up-their-actions-for-ocean-stewardship.html
[5]Greenpeace USA (2018) Carting away the oceans, Washington, United States of America.

Expectation of companies:

Companies should have a reporting framework in place that robustly measures progress towards achieving their stated commitments and policies (see section 3) and enables public reporting on an annual, or more frequent, basis. This reporting can be through a company's annual report and website or through any other available public platforms.

Questions for financial institutions to ask the board:

• **Reporting progress** - Is there a clear framework in place that allows progress towards achieving policies? If so, how often is the policy reported against and are reports publicly available?
• **Strategy adaptation** - Does the company adapt their approach to managing risks and opportunities based on up-to-date data and company best practices? Does the company publicly communicate these changes?
• **Subsidiary disclosure** - Does the company disclose all the subsidiaries that it owns or partially owns that produce or procure seafood, including farms and fishing vessels? Does this include vessel name, flag, IMO number, and information on fishing rights and sourcing of fish (e.g. area of operation, licenses, and quotas and catch data)?
• **Complaints** - Does the company report active social conflicts or complaints registered against them, including fishing rights, labour and human rights disputes?

2. Board oversight and management of risk and opportunity

Companies should be able to demonstrate that their internal processes are adequate to identify and respond to seafood related risks and opportunities. Financial institutions can use his information to determine whether there is sufficient board level oversight of the core issues that have the potential to impact company costs and revenues.

Expectation of companies:

Companies should ensure that the board and management have oversight of the risks and opportunities associated with seafood supply chains. Clear processes should be in place that ensure that risks and opportunities are identified and that their management has been integrated into the business strategy. The business strategy should not only account for current business risks, but also to changing operational, regulatory, and reputational risks associated with the transition to a sustainable seafood sector.

Questions for financial institutions to ask the board:

• **Understand dependencies** - What processes does the board employ to ensure it fully comprehends the environmental and social impacts of its production or procurement of seafood? Does the board assess whether these impacts undermine the future

production of seafood?
• **Identifying risks** - What processes does the board have in place to identify business risks associated with sourcing unsustainable seafood? How does the company prioritise the risks identified?
• **Board oversight** - Does the company's board have a committee that is formally focused on sustainability issues, and if so, does the committee charter reference environmental and social impacts or risks associated with seafood? Does the company link executive compensation to sustainability metrics?
• **Adjusting company strategy to changing externalities** - What processes does the board have in place to ensure the company's strategy adapts to changes in business risks and opportunities associated with seafood?
• **Sustainable seafood strategy** - Does the company have an overarching strategy for addressing environmental and social impacts associated with its production or procurement of seafood?

3. Company policies and strength of mitigation strategy

Once a company has fully understood the implications of the risks and opportunities affecting their business, they are able to put in place effective policy measures to promote future resilience. The questions below aim to build a better understanding of the policy measures that companies have put in place to mitigate their business risks, including how far the company has embedded seafood sustainability into their business strategy and planning. Questions that apply to both aquaculture and fisheries appear in the 'all seafood' section. Those questions that are more appropriate for one or other of aquaculture and fisheries only appear in the relevant sections.

All seafood

Expectation of companies:
Companies should develop time-bound and publicly-available policies or commitments that account for the company's exposure to aquaculture and fishery related business practices and supply chains. These policies should account for the numerous environmental and social impacts associated with seafood production, and should promote the long-term sustainability of seafood production systems and the associated ecosystems.

Questions for financial institutions to ask the board:
• **Publicly available** - Are company policies publicly available, and easily accessible, to enable independent verification?
• **Cover all seafood** - Does the company policy cover all sourcing of seafood, including all species, and those sourced from wild and farmed sources?

• **Time-bound** - Does the company have a time-bound target for removing unsustainable seafood from its production and procurement? Are there interim milestones that enable progress to be monitored and reported against?
• **Whole business** - Does the company's policy apply to all of its business, including all subsidiaries, farms, vessels, and companies within the group?
• **Animal welfare** - Does the company have a commitment to protect the welfare of all wild caught and farmed seafood, and any other wildlife impacted?
• **Important ecological areas** - Does the company have a commitment to not produce or procure seafood from operations that are located in or impact important ecological areas.
• **Protects the rights and livelihoods of local communities** - Does the company have policies in place that ensure that the rights and livelihoods of local communities are protected, including comprehensive stakeholder engagement to achieve Free Prior Informed Consent and detailed policies on workers' rights (e.g. child labour, forced labour, freedom of association and other principles in ILO core conventions, the ILO 188 fishing convention, and the Universal Declaration of Human Rights)?
• **Gender equality** - Does the company commit to addressing gender related workers' rights? Does the company encourage the inclusion of women in fisheries and aquaculture?
• **Small businesses and farmers** - Does the company have policies for ensuring that small farms, fishing companies, and processors are not excluded from their supply chains?

Aquaculture specific

• **Responsible water management** - Does the company have a commitment to minimise water usage and wastewater associated with their own farms or processing facilities, as well as only sourcing from companies that manage their water responsibly?
• **Farm management** - Does the company have a commitment to only produce or procure from farms with appropriate management and reporting systems in place? Do these management systems have specific considerations for escapes of livestock, disease, and parasites?
• **Chemical pollution** - Does the company have a policy to only use legal and nationally-approved chemicals, antibiotics, and pesticides? Does the company minimise the use of these products unless absolutely necessary?
• **Sustainable feed** - Does the company only source feed from available sustainable sources that minimise or are free from environmental and social impacts?
• **Predator control** - Does the company commit to minimise lethal methods to control predators, and prohibit the use of lethal methods for any IUCN threatened species?

Fishery specific

• **Illegal, unreported, and unregulated (IUU) fishing** - Does the company have a policy in place relating to illegal, unreported and unregulated fishing? Does it have a system in place to track and trace vessels or products to ensure they are not operating illegally or sourcing IUU products?
• **Overfishing** - Does the company have a commitment to fish in sustainable fisheries or procure seafood from stocks that are not overfished?
• **Bycatch** - Does the company have a commitment to minimise bycatch associated with seafood that they produce or procure?
• **Protected species** - Does the company have a commitment to not fish or procure protected species?
• **Fishing methods** - Does the company have a commitment to not use methods or equipment that irreversibly damage coastal or marine ecosystems, or source from those that do?

4. Strategy implementation

Company policies demonstrate awareness and intent to mitigate environmental and social impacts. However, if these policies are not supported by robust implementation processes, the company will remain exposed to growing business risks. The questions below aim to build a better understanding of how the company is implementing their sustainable production or sourcing strategy. Companies will need to use a variety of techniques to ensure their business is free from environmental and social impacts depending on their business structure and role in seafood supply chains.

Expectation of companies:

Establish a clear process for identifying and engaging direct and indirect suppliers to ensure compliance with the company's policy. Supplier assurance should be achieved through regular monitoring that is tailored to the products being sourced, and their region of origin. When producing in, or sourcing from, high risk regions, third party due diligence should be required to ensure that suppliers continue to be in compliance with the policy.

Questions for financial institutions to ask the board:

• **Supplier selection** - Are sustainability credentials accounted for during the supplier selection process? Does the company enforce procurement standards that impact commodity sourcing?
• **Certification** - Does the company use third party certification as a way to make their business practices more sustainable? Does the company support suppliers to undertake Fishery Improvement Projects (FIPs) or Aquaculture Improvement Projects (AIPs) to meet certification standards if they are not yet

compliant?

• **Traceability -** Does the company have a strategy for increasing traceability back to the processing facility, and ultimately the source of production?

• **Production-site information** - Can the company provide information about all farms or fisheries in the supply chain? Does this include GPS coordinates, the production volume, and the species harvested?

• **Monitoring compliance** - What processes are in place to monitor compliance with the company policy and with local, national and international laws and regulations? How frequently is compliance checked?

• **Verifying compliance -** Does the company use third party verification and/or undertake internal audits to ensure policy compliance? What is the process if non-compliance is found?