



ASIA RESEARCH
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Contact:
Ben McCarron

ben.mccarron
@asiareengage.com
+65 8299 6852

Seafood Sourcing Risk in Asia: 2016

November 2016

“Robeco regards seafood as one of the prime areas of growth in supplying protein to satisfy global demand for meat in the coming decades. However, the seafood industry is challenged by a myriad of environmental and social challenges such as overfishing, mangrove destruction, impact on seabed from trawling or modern day slavery. We continue to encourage seafood companies to improve their practices and contribute to feeding the world in a sustainable manner.”

Peter van der Werf, Engagement Specialist, **Robeco**

“Endemic overfishing has significantly reduced fish stocks, while the demand for food production has risen to cater for the world’s growing population. Beyond fish stocks there are multiple environmental and social risks that can damage profitability across seafood supply chains if left unmanaged.

We are working with other investors to encourage companies to formulate policy to respond to these challenges. A responsible seafood policy should demonstrate a commitment to continuous improvement and transparency, with ambitious targets for the future. Investors should also encourage supply chain companies to ensure producers avoid fish that are illegally caught; to support well- managed fisheries and fish farms that are certified to credible standards; to support the responsible management of aquaculture resources across regions; and to encourage fisheries that are trying to improve.”

Abigail Herron, Head of Engagement, **Aviva Investors**

“As a long-term investor, Sarasin & Partners considers materiality of environmental, social and governance (ESG) factors in all our equity investments. We are particularly concerned about the ESG risks in seafood sourcing, failure to manage which may disrupt supplies and damage a company’s reputation. Through sustainably sourcing seafood, retailers can contribute to improving the health of fish stocks and mitigating the environmental and social impacts that rising protein consumption will have.”

Ed Bailey, Co-Fund Manager Sarasin Food and Agriculture Opportunities Fund,
Sarasin & Partners

Author: Ben McCarron

Research: Pek Shibao, Sophie le Clue (ADM Capital Foundation)

Cover photo: Stan Shea

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Asia Research and Engagement (ARE) helps financial institutions, companies, and civil society organisations understand and communicate the financial relevance of sustainability and governance issues. ARE provides specialist research, consultancy and engagement services to help its clients achieve their goals.

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Overview

- **Seafood supply chains face multiple economic and reputational risks including falling seafood stocks and human rights challenges**
- **Leading Asian and international food retailers and hotels have already taken steps to address related concerns**
- **Investors and companies have an interest in disseminating best practice across the Asian seafood sector**

This briefing for investors and companies sets out the major categories of seafood sustainability risks. It then presents the results of a disclosure review of the steps that leading retailers and hotels from the Asia-Pacific, the EU, and North America are taking to address them.

The review finds a mixed policy response from Asia-Pacific retailers and hotels. Some companies have taken significant steps to address seafood sustainability risks. Others provided limited or no relevant details. There is a clear case for action for many of the companies reviewed in this briefing to take steps to address seafood sourcing risks.

Critical sourcing risks

Major economic and reputational risks in seafood sourcing include:

- Falling ocean stocks due to overfishing and destructive fishing methods
- Human rights abuse, such as trafficked labour, in some supply chains
- Illegal, unreported, and unregulated (IUU) seafood entering supply chains on a large scale
- Aquaculture concerns including pollution, over-use of chemicals, disease, feed sustainability, and release of hybrid species
- Consumers turning away from controversial products, such as shark fin and bluefin tuna
- Food safety risks from persistent organic pollutants and chemical use

Mitigation steps

Leading international retailers have developed a range of tools to mitigate sourcing risks, such as the following steps (see [Figure 5](#) for further details):

- Setting out types of fish the company will not sell
- Specifying preferred fishing methods
- Outlining acceptable types of certification
- Implementing mechanisms and standards for labelling and traceability

- Implementing initiatives to improve supply chain standards
- Setting out the responsibilities for implementing these steps

Reviewing the corporate policy response

The review found that in European and US markets leading food retailers took steps to address seafood sourcing risk. All five large global food retailers assessed disclosed sophisticated supplier policies that outlined specific actions the companies had taken to address seafood supply issues.

There was a mixed picture from leading Asia-Pacific food retailers. The research found that out of the ten Asia-Pacific retailers assessed, five provided seafood sourcing policies. These were typically not as detailed as the policies from European and North American companies. However, there has been an improvement in recent years. A similar survey conducted in 2011 found that only one of the same ten companies provided disclosure on seafood sourcing.

All of the five leading Asian hotels provided information on seafood sourcing standards, up from only one in 2011. The depth and breadth of policies varied.

Figure 1: Sustainability, sourcing, and seafood policy disclosure

	Asia-Pacific Retailers	International Retailers	Asia-Pacific Hotels
Number of companies	10	5	5
Provided a sustainability report	7	5	5
Referred to seafood sourcing standards	5	5	5
Referred to seafood sourcing standards in 2011 disclosure¹	1	n/a	1

Source: Company websites, Responsible Research

Seafood sustainability risks

Seafood supply chains face multiple issues spanning social and environmental spheres. We have highlighted the major ones below.

Ocean stock levels

Globally, fish stocks have come under significant pressure due to overfishing. Stock levels in the South China Sea (SCS) illustrate the challenges. A November 2015 paper from British Columbia University, "Boom or Bust: The Future of Fish in the South China Sea," provided an assessment of fish stocks and set out the prospects for stocks and the industry under different scenarios. The paper found that marine resources in SCS have already fallen 70% to 95% from 1950s levels. This is due to a lack of fishery management, which has led to overfishing and habitat destruction. The paper estimated that in business-as-usual scenarios, the major fish and invertebrate groups will experience further declines of between 9% and 59% by 2045 and that 60% of species covered will generate less catch. While price increases will offset some of the decline, the study found that 55% of the species covered will generate less landed catch value.

Human rights

Thailand is facing significant issues concerning human rights in fishing. The US Department of State described reports of exploitation in commercial fishing and fishing-related industries in its "Trafficking in Persons Report 2015."² It states: "Traffickers, including labor brokers of Thai and foreign nationalities, bring foreign victims into Thailand. Brokers and employers reportedly continued to confiscate identification documents. Thai, Burmese, Cambodian, and Indonesian men are subjected to forced labor on Thai fishing boats; some men remain at sea for several years, are paid very little or irregularly, work as much as 18 to 20 hours per day for seven days a week, or are threatened and physically beaten. Some victims of trafficking in the fishing sector were unable to return home due to isolated workplaces, unpaid wages, and the lack of legitimate identity documents or safe means to travel back to their home country." The 2016 report noted that Thai authorities had taken a number of significant steps, however it went on to state "widespread forced labor in Thailand's seafood sector continued to occur".

The EU has also addressed sustainability issues in Thai seafood. It issued a yellow card to the country in 2015 and reaffirmed this in April 2016 due to the "inadequate fisheries legal framework and poor monitoring, control, and traceability systems".³ A red card would create a ban on EU imports of seafood from Thailand.

Illegal, Unreported and Unregulated (IUU) fishing

A major challenge for the seafood industry is that a significant component operates outside or in contravention of the law. This makes it more difficult to monitor species levels and put sound fisheries management plans in place. The report "Boom or Bust" states that reported catches in the South China Sea were around 10 million tonnes in 2010 and that incorporating estimates of unreported catch would increase this to 16.6 million tonnes.⁴

Destructive fishing methods

Fishing methods and/or gear are often problematic, for example:

- The use of dynamite and cyanide are extremely damaging to coral reefs and kill much more marine life than is used. This is an issue of concern notably in the South China Sea with reference to Live Reef Food Fish
- Long-lining has very high levels of associated waste when non-target species (such as sharks and turtles) are caught. Use of specific baits and hooks can help to precisely target species
- Purse-seining, particularly with Fish Aggregating Devices, leads to large levels of by-catch and waste
- Bottom trawling and dredging destroy the ocean floor and result in significant by-catch of non-targeted species and waste of marine resources

Aquaculture disease management

Where suppliers fail to manage disease risks in aquaculture, this can result in significant problems for supply over a large area. For example, Early Mortality Syndrome has had significant effects on Thai shrimp production. The disease hit farms in 2011, with effects over the next few years. Production fell from 540,000 tonnes in 2012 to 250,000 tonnes in 2013.⁵

There are also concerns about the management approach, adopted by many companies, of prophylactic antibiotic use. Some papers note that this is creating drug-resistant bacteria in the environment that could potentially infect humans.⁶

Aquaculture sustainability

Aquaculture can be used to increase seafood supply, but this does not necessarily reduce the burden on wild-catch fisheries. One major issue is the source and amount of feed required for the farmed fish. The relevant concept is the feed conversion ratio, which compares the weight of food in to the weight of food out. In the case of some fish species, including Live Reef Food Fish, the ratio can be as high as 10:1.⁷

Shark fin

One issue that is particularly prominent in Asia is shark fin used for soup. This practice is increasingly seen as damaging for the oceans, and consumers, particularly younger generations, are increasingly shifting away from ordering shark fin, even at Chinese weddings where it is traditional. The Hong Kong and Chinese governments have banned it at official functions, as have many leading banks.

According to an internal study by ADMCF, in Hong Kong, over 60% of five-star hotel chains had either taken shark fin off restaurant menus or banned it completely by 2014. There is also a movement to ban the carriage of shark fin within the transport sector. In April 2016 a WWF report found that 16 of the top 20 global container/ liner operators no longer transport shark fin,⁸ while ADMCF research found that 32 airlines have stopped carrying shark fin since 2012, with a further two restricting carriage to only sustainable fins. As there is no realistic source of sustainable fins, these airlines have also effectively banned the carriage of shark fin.

Environmental pollution causing food safety problems

Increasing industrial and agricultural pollution across Asia as a consequence of rapid economic development has also raised the risk of contaminants in seafood. A January 2016 report released by Scripps looked at this phenomenon globally and found high variability in the presence of Persistent Organic Pollutants (POP) in fish.⁹

Policy disclosure

We reviewed public disclosure to understand the extent to which Asia Pacific retailers, international retailers, and Asian hotels address seafood sustainability risks.

All five international retailers disclosed relevant policy, and in some cases, the documents were highly detailed and spanned multiple pages. As shown in Figure 2, of the Asia Pacific retailers that provided a policy in relation to suppliers in 2016, five out of eight referred to seafood. This showed an improvement in disclosure from 2011 when a similar study reviewed the same companies and found only one company referred to seafood out of five companies that provided policy in relation to suppliers.

The Asia-Pacific retailers tended to have less sophisticated policies than the global groups. Coles, the supermarket division of Wesfarmers, was notable for providing a video on its website outlining its commitment to sustainable seafood.¹⁰ The extract from Aeon's Environmental and Social Report 2015 presented below also highlighted fuller disclosure on seafood sustainability.

Figure 2: Survey results for leading Asia-Pacific retailers

Company	Is there a sustainability/CSR report?	Does supplier policy cover seafood?	Did supplier policy cover seafood in 2011? ¹¹
Aeon Co.	Yes	Yes	Yes
Big C Supercenter	Yes	Yes	-
CP ALL plc	Yes	No	No
Dairy Farm International	No	-	-
E-Mart Co Ltd	No	-	-
Hero Supermarket	Yes	No	-
Seven & I Holdings	Yes	Yes	No
Universal Robina	No	No	-
Wesfarmers Ltd	Yes	Yes	No
Woolworths Ltd	Yes	Yes	No

Source: Company websites and reports

The research found that all of the five leading Asian hotels reviewed provided information on seafood sourcing standards, up from only one in 2011 – see Figure 3. There was variation between the levels of policy that the businesses applied across their operations. Mandarin Oriental International's policy referred only to banning shark fin, although the company also included sourcing initiatives at individual hotels. Other hotels had a broader suite of standards. Notably, Hong Kong and Shanghai Hotels mentioned undertaking sustainability assessments of over 800 seafood items.

Figure 3: Survey results for leading Asian hotel chains

Company	Is there a sustainability/CSR report?	Does supplier policy cover seafood?	Did supplier policy cover seafood in 2011? ¹²
Hong Kong and Shanghai Hotels	Yes	Yes	Yes
Mandarin Oriental International	Yes	Shark's fin only	No
Minor International	Yes	Shark's fin, bluefin tuna	No
Shangri-La Asia	Yes	Yes	No
Sino Hotels	Yes	Shark's fin, WWF guidelines	No

Source: Company reports

Figure 4: Extracts from Aeon's seafood policy

Aeon Sustainable Seafood Procurement Policy

Carry out regular risk assessments from a resource depletion prevention and biodiversity conservation perspective. Also, in order to mitigate risks, review feasible countermeasures and strive to procure sustainable seafood.

Specific Measures

Aeon is constantly devising and implementing measures to shift from endangered seafood to seafood with a sustainable backing into the future.

1. Provision of Sustainable Products
2. Elimination of Illegal Trade
3. Establishment of Traceability Measures
4. Regular Risk Assessments

Since we began selling products with MSC (Marine Stewardship Council) certification in 2006, Aeon has been progressively increasing the number of products it handles. As of March 2015, we sold 23 items from 13 categories, which is the highest number in the Japanese retail industry. In addition, we began selling products with ASC certification (Aquaculture Stewardship Council) for seafood produced through responsible aquaculture for the first time in Asia in 2014. As of March 2015, we handled seven items in two categories. (see p.49)

In June 2015, we began initiatives such as selling 100% aqua-farmed tuna that does not depend on natural tuna resources. (see p.50)

Source: Aeon Environmental and Social Report 2015

Figure 5: Policies of selected leading international retailers

Company	Relevant extracts from sustainability reports	Other notes
Carrefour S.A.	<p>“Deep-sea fishing: Carrefour will gradually discontinue its sales of cutlassfish, grenadier and cusk between now and June 2014. Between 2007 and 2013, Carrefour stopped selling blue ling cod and emperor fish and reduced its sales of cutlassfish, grenadier and cusk by 75%. Carrefour is stepping up its commitment to sustainable fishing by discontinuing all sales of these fish by June 2014, as its commitments to its suppliers expire.”</p>	<p>Press release includes targets for number of MSC certified products.</p> <p>All salmon is 100% traceable.</p>
Marks & Spencer	<p>“Implementation of sourcing principles: M&S seafood products are sourced from around the world and may be from either wild stocks or farmed. Regardless of the sources, every seafood product must be obtained from reputable producers approved by M&S.</p> <p>All seafood across all our own-brand food product ranges complies with our Seafood Sourcing Policy.</p> <p>This document summarises our ‘work with the best, avoid the worst and invest in the rest’ approach to seafood sourcing. We have also highlighted our 11 policy principles and statements on specific seafood sustainability and environmental issues that matter to us. We are committed to implementing these sourcing policies and our suppliers are required to implement the best practices of individual principles to demonstrate their compliance with our policy.”</p>	<p>The 11 principles are described over 5 pages and include: full traceability; preventing IUU; evaluating seafood sustainability; conserving habitats; transparency; advocacy; avoiding threatened species; appropriate gear and by-catch reduction; responsible farming; animal welfare; and responsible feed sourcing.</p>

<p>Metro Ag</p>	<p>“As part of this procurement policy, METRO GROUP has set the following long-range goals:</p> <ul style="list-style-type: none"> • Guaranteeing and expanding an environmentally sustainable range of fish that meets customer demand • Developing and promoting uniform, internationally recognised and sustainable environmental and social standards and labels along the entire value chain of fish (e.g. MSC Label, Global G.A.P Standard, BSCI, etc.) • Encouraging sustainable fisheries and aquaculture • Optimising fishing methods • Optimising the traceability and labelling of fish products • Optimising procurement and logistics operations • Working closely with suppliers and producers • Conducting a regular dialogue with the scientific and political communities.” 	<p>The policy on seafood sourcing stretches to 11 sides. It covers various topics, including: excluded fish; preferred fishing methods; types of certification; labelling and traceability; initiatives to improve supply chain standards; and how Metro assigns responsibility for implementation.</p>
<p>Tesco PLC</p>	<p>“1. All our seafood will be sourced from responsibly managed fisheries and farms where fishing and farming practices are managed to ensure fish stocks and marine eco-systems are maintained and protected for future generations.</p> <p>2. Our customers are able to make responsible seafood choices based on the information and ranges we offer.</p> <p>3. We work with industry bodies, government and other expert stakeholders to help us deliver our policy and achieve our goal of ensuring fish stocks and marine ecosystems are maintained and protected for future generations.”</p>	<p>The policy provides further details over several pages relating to each clause in the policy. This includes specifics about several of the species and several initiatives, such as around labelling.</p>
<p>Walmart Stores Inc</p>	<p>“Fresh and Frozen Seafood</p> <p>Walmart U.S., Sam’s Club, ASDA, and Walmart Canada require all fresh and frozen, farmed, and wild seafood suppliers to source from fisheries who are:</p> <ul style="list-style-type: none"> • Third-party certified as sustainable using Marine Stewardship Council (MSC), Best Aquaculture Practices (BAP), OR • Managing a program in accordance with the Principles of Credible Sustainability Programs developed by The Sustainability Consortium. (Third party review must be commissioned and provided upon request), OR • Actively working toward certification or involved in a Fisheries Improvement Project (FIP) or an Aquaculture Improvement Project (AIP).” 	<p>There are similar statements related to sourcing for canned tuna.</p> <p>Walmart Foundation is supporting approaches to monitoring human rights in Thailand, including in seafood.</p>

Source: Company sustainability reports and policies

Conclusion

As outlined in this briefing the retailers, hotels, and restaurants selling seafood in Asia face multiple supply chain risks. These risks are both economic and reputational in nature. Many international retailers, hotels and restaurants have taken steps to address these risks, including setting minimum standards for their seafood and implementing the transparency and traceability systems necessary to monitor those standards.

This briefing, undertaken with input from leading institutional investors, assesses the steps that some of the largest Asian headquartered retailers and hotels have taken on seafood sourcing. In many cases the companies have not disclosed information on seafood supply risk management. Where disclosure was available, the steps taken were generally far weaker than the global peers.

There is a clear case for the retailers, hotels and restaurants operating in seafood supply across Asia to increase their focus on their supply chain risks and take steps necessary to manage them. This will create a better managed, more professional industry that will benefit all parties.

Notes

- 1 The report that undertook a similar survey in 2011, “The Future of Fish in Asia,” is available at http://www.longfinance.net/component/yuidt/index.php?option=com_content&view=article&id=489&Itemid=157 (accessed October 20, 2016).
- 2 The US Department of State Trafficking in Persons Reports are available at <http://www.state.gov/j/tip/rls/index.htm> (accessed October 20, 2016).
- 3 The EU commission press release is available at http://europa.eu/rapid/press-release_IP-16-1457_en.htm (accessed October 20, 2016).
- 4 The report “Boom or Bust: The Future of Fish in the South China Sea” is available at <http://www.admcf.org/resources/> (accessed October 20, 2016).
- 5 Figures are taken from the Reuters December 18, 2014 news article, “Thailand’s Shrimp Output Seen Recovering from Disease Woes in 2015” <http://www.reuters.com/article/thailand-shrimp-exports-idUSL3N0U22KB20141218> (accessed October 20, 2016).
- 6 See for example <http://onlinelibrary.wiley.com/doi/10.1111/j.1462-2920.2006.01054.x/full>, <https://cid.oxfordjournals.org/content/49/8/1248.full> and <http://scialert.net/fulltext/?doi=ajbs.2014.225.232&org=12> (accessed October 20, 2016).
- 7 Ratio taken from the report “Mostly Legal But Not Sustainable” <http://www.admcf.org/resources/> (accessed October 20, 2016).
- 8 Statistic taken from press release (accessed October 20, 2016) <http://www.wwf.org.hk/en/?15560/Press-release-Sixteen-Top-Global-Shipping-Companies-Have-Committed-to-Stop-Carrying-Shark-Fin-WWF-Hong-Kong-applauds-shipping-companies-effort-to-establish-and-implement-no-shark-fin-carriage-policies>
- 9 The report is called “Evaluation of the Global Impacts of Mitigation on Persistent, Bioaccumulative and Toxic Pollutants in Marine Fish” <https://scripps.ucsd.edu/news/study-finds-toxic-pollutants-fish-across-worlds-oceans> (accessed October 20, 2016).
- 10 Coles’s commitment to sustainable seafood video link: <http://sustainability.wesfarmers.com.au/case-studies/sourcing/coles-committed-to-sustainable-seafood/> (accessed May 11, 2016).
- 11 The report “The Future of Fish in Asia” undertook a similar survey in 2011, with retailers on page 103. The report is available at http://www.longfinance.net/component/yuidt/index.php?option=com_content&view=article&id=489&Itemid=157 (accessed October 20, 2016).
- 12 For Minor International and Sino Hotels, the 2011 assessment is on the basis of their 2011 CSR/ Sustainability reports. The information for other hotels is based on the report “Future of Fish in Asia,” which undertook a similar survey in 2011, with the hotels section starting on page 112. The report is available at http://www.longfinance.net/component/yuidt/index.php?option=com_content&view=article&id=48&Itemid=157 (accessed October 20, 2016).

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