

Sustainable Blue Economy Corporate Engagement

BNP Paribas Easy ECPI Global ESG's Blue Economy exchange-traded fund (ETF) has initiated a dedicated engagement strategy whereby its Sustainability Centre uses its stewardship capabilities to engage with selected constituents of the Blue Economy ETF to improve their sustainability practices, track their progress and report back to stakeholders.

As highlighted in the UN Environmental Programme Finance Initiative's [Rising Tide report](#), insurers and investors have a major role to play in financing the transition to a Sustainable Blue Economy. This engagement initiative is aligned with the [Sustainable Blue Economy Finance Principles](#), with a particular focus on the 'Cooperative', 'Transparent' and 'Partnering' principles.

Key facts:

- **Blue economy sectors targeted:** Seafood, aiming for maritime transportation as the next targeted sector
- **Project:** Sustainable Blue Economy Corporate Engagement
- **Timeline of the project:** Q1 2021 onwards
- **Geography:** Japan
- **Key words:** reporting; alignment; biodiversity; animal welfare; coastal and marine habitats; risks and opportunities

Who?

BNP Paribas Asset Management (BNPP AM); Asia Research & Engagement (ARE); Nichirei Corporation; Toyo Suisan Kaisha

What?

The project was set to engage with selected constituents of the Blue Economy ETF to improve their sustainability practices, track their progress and report back.

How?

The first step in designing the engagement programme for this ETF was to select the relevant companies. The ECPI Global ESG Blue Economy index has five main investment clusters covering Coastal Livelihoods, Energy & Resources, Fish & Seafood, Pollution Reduction and Shipping Lanes. Fish & Seafood has been set as a priority segment therein, taking into consideration that engagement can drive significant positive impacts when companies strengthen sustainability standards in seafood sourcing.

BNP AM partnered with ARE, a Singapore-based engagement specialist, to support on this engagement process. At the time of the constituents' selection, there were eight seafood companies in the index. Five of these were headquartered in Europe, and an initial inspection of these showed that they had relatively good disclosure practices. The other three were listed in Japan, a country in which the seafood industry is in the early stages of addressing sustainable sourcing. Consequently, two players were selected for engagement from this list: Nichirei Corporation¹ and Toyo Suisan Kaisha².

¹¹ Nichirei Corporation is historically associated with seafood and was ranked #1 frozen food manufacturer in Japan for FY 2020 with net sales of JPY 229.6 billion. Its marine products division accounted for more than 11% of revenue in 2021 and more seafood ingredients are sold as part of the frozen food division. Seafood is sourced from domestic and global seas, and from aquaculture. It is sold to Japanese restaurants and homes as well as internationally to buyers in Canada, Russia, Europe, China and elsewhere in Asia.

² Toyo Suisan, originally known for its seafood, is now one of the leading instant noodle companies in Japan. Today, its seafood segment sources globally and processes fresh and frozen seafood products for sale domestically and internationally to China. The company also manufactures and sells in the US, Mexico and Brazil. Seafood revenue

Both Japanese companies chosen for engagement were part of a mini benchmark of six seafood companies that BNPP AM set up to understand companies' sustainability practices. This benchmark included Maruha Nichiro, Grieg Seafood, Leroy Seafood Group and Koninklijke DSM. The benchmarking exercise provided a simple way to compare how the target companies were responding to major seafood sourcing issues against their domestic peers and overseas competitors. Results showed that the two target companies had yet to meet changing investor and consumer expectations on seafood sustainability compared to European companies.

The following step started formally the engagement process:

(i) Nichirei Corporation

BNPP AM and ARE held a first meeting with the company in 2021. This meeting covered discussions regarding: (a) opportunities with domestic sourcing, the evolution of the company's reporting and policy, and challenges with declining profits associated with global seafood sourcing; (b) the importance of a comprehensive management approach and related disclosure addressing every species, sourcing type (farming or fishing), and location; (c) how standards can be introduced where certification is not yet possible, and (d) how reporting on interim steps can provide assurance to investors and stakeholders, and is recommended by sustainability experts. The company was willing to engage and participate in a journey to improve their sustainability and disclosure.

To assist evaluating a baseline for sustainable seafood sourcing, and clarifying the challenges and areas for assistance, BNPP AM developed a baseline tool for sustainable seafood

disclosure and management. This includes detailed environmental and broad social indicators covering sourcing policy, governance, and future innovation including alternative proteins. The indicators were partly adapted from the [World Benchmark Alliance Seafood Stewardship Index](#). Following the company's response to the tool, the plan is to discuss throughout 2022 the company's response and plans to enhance its certification and sustainable sourcing standards.

(ii) Toyo Suisan

BNPP AM and ARE held a first meeting with the company in 2021. There was a constructive discussion covering the motivation for improving sustainability standards in seafood sourcing. As a mid-stream business, the company is client-led, but also considers seafood a significant part of its history, which motivates it to improve. BNPP AM and ARE encouraged in this meeting implementing stronger sustainability disclosure and standards. The company committed to take this into consideration as it develops its approach to material sustainability issues over the next year.

BNPP AM and ARE further shared a range of resources to illustrate the case for enhanced traceability, including the results of the benchmarking efforts; reports on the seafood sourcing efforts of Aeon, a major Japanese food retailer; the Ocean Disclosure Project (a global effort to improve disclosure of company links to fisheries); and excerpts of recent reports by Planet Tracker on how traceability can add brand value and sustainability linked economic indicators. As with Nichirei Corporation, BNPP AM plans to continue engaging with the company on sustainable sourcing in 2022.

Looking back...

"It is still early in the engagement process and too soon to judge its effectiveness. However, we

represented just over 6% of its total revenues in FY 2020, which was JPY 417.5 billion. Seafood is also a raw material for other business segments.

learned a lot as we progressed through our engagement process. The first lesson was the importance of careful preparation and developing a solid understanding of the issues and how these relate to the company we engage with. Often, the first meeting is just an introduction, the start of a longer relationship, which may involve a range of managers from the target company. So far, the approach of providing useful resources to support the discussion and illustrate market trends has helped create a productive tone for our engagement with companies.

In 2022, we will seek to expand our engagement efforts. In addition to continuing the dialogue with Nichirei and Toyo Suisan, we will target companies that are involved in Shipping Lanes, another one of the ECPI Global ESG Blue Economy index's investment clusters. There are 12 relevant companies in this index cluster, many of which provide technologies or services to the shipping industry. We will start by addressing port services and shipping companies, which have direct impacts on the marine environment. We will again start our engagement efforts in Asia, where corporate responsibility efforts are particularly important because of the level of potential biodiversity impacts and the relatively lax and under-enforced regulation in parts of the region."

- Robert-Alexandre Poujade, ESG analyst, Biodiversity Lead, BNPP AM