New criteria for bank loans and stock exchange listings could protect ocean resources

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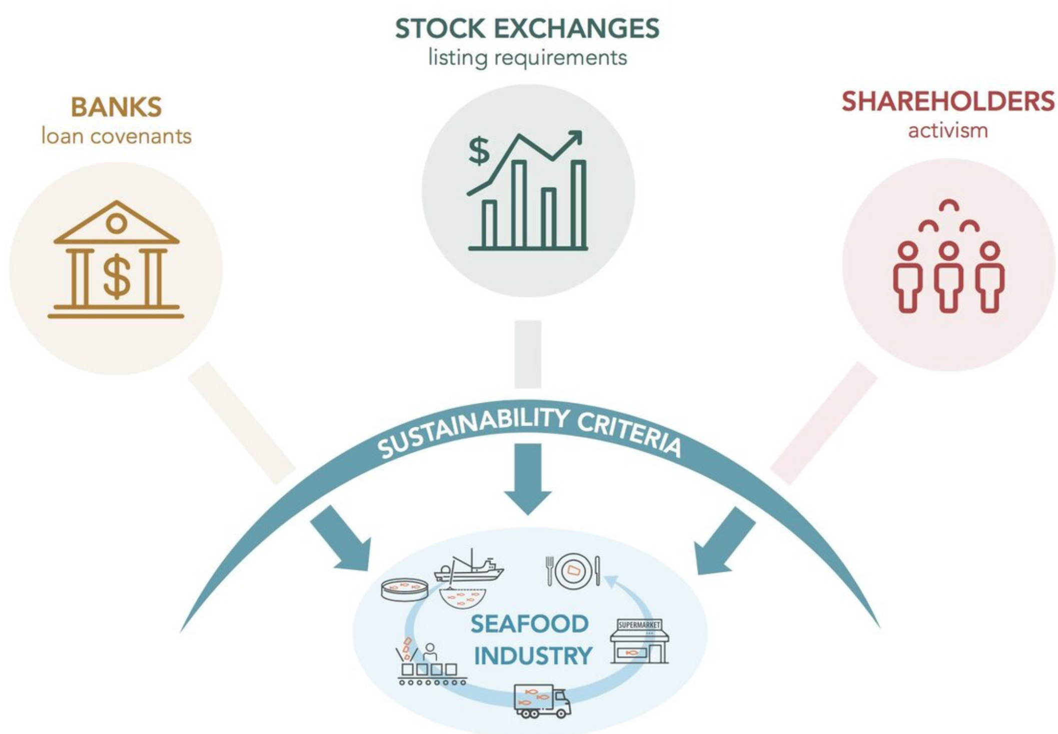

Stock exchanges, banks and shareholders are key to influencing sustainable behavior in the seafood industry. Credit: Jouffray et al. 2019

Two reforms in the finance sector have the potential to accelerate action towards a sustainable seafood industry, according to new research published in the journal *Science Advances*. Compiling data on 160 publicly listed seafood companies and 3000 shareholders, the researchers conclude that introducing sustainability criteria into bank loan agreements and stock exchange listing rules will significantly reduce pressure on seafood resources.

Lead author Jean Baptiste Jouffray from Stockholm Resilience Centre, Stockholm University, says, "Almost 90 percent of the worlds fisheries are fully exploited or overexploited, and demand for seafood is projected to grow 70 percent by 2050. Yet when we reviewed almost a decade of published information we could not find a single bank loan to the seafood industry that included sustainability criteria."

The authors note that while numerous green bonds and other impact investment tools have emerged in recent years, they represent less than 1 percent of global financial flows. As pressures on ecosystems mount, the researchers argue that what is needed are new norms and regulations that can redirect traditional financial services. The Principles for Responsible Banking, launched in New York City last week, show that the financial sector is waking up to its role in steering businesses towards sustainability, but operationalizing the six principles remains a challenge.

"Green finance initiatives are good, but what we really need is a green finance system. We propose a radical and deliberate transformation of how seafood sustainability is integrated into traditional financial services—either at their own initiative or via regulation. Recently, since our analysis, we see that some banks are beginning to adopt some sustainability criteria in their loan agreements," added Jouffray.

The power of banks

Bank loans are a main way seafood companies finance their operations, according to the research. Loans always come with loan covenants—agreements between a lender and borrower stipulating terms and forbidding the borrower from some behaviour.

"By incorporating sustainability criteria into loan covenant and binding companies to sustainable practices, banks could play a key role in promoting rapid transformation towards sustainable practices, not just in seafood but across all soft commodities" says Beatrice Crona, executive director of the Global Economic Dynamics and the Biosphere program at the Royal Swedish Academy of Sciences.

She adds that "the rapid growth of sustainability-linked loans proves this can be done, but such criteria need to become mainstream."

Stock exchanges as gatekeepers

The study also highlights that the majority of publicly listed companies among the world's 100 largest seafood companies, are listed on just a handful of stock exchanges. The Tokyo Stock Exchange alone concentrates 53 percent of the combined revenue of listed seafood companies, while the largest four (Tokyo, Oslo, Korea and Thailand) together account for 86 percent.

"More stringent sustainability criteria in the listing requirements is a key way by which stock exchanges can act as gatekeepers and promote sustainability" notes Emmy Wassénius, Ph.D. candidate at the Stockholm Resilience Centre at Stockholm University.

The paper illustrates such potential with an example from 2014, when a Chinese seafood company keen to expand tuna fishing in the Pacific, attempted to raise up to U.S.$200 million on the Hong Kong stock exchange. The share float was canceled when the risks to fish populations were discovered to have been understated, and therefore represented an undisclosed risk to investors.

Shareholder activism

Shareholder activism is a third lever the researchers investigated, but found its influence may have limitations in the seafood sector, even though it has been promoted as an important way to influence corporate governance. While the majority of large seafood companies are privately owned, the analysis shows that even for the publicly listed ones, no single investor has substantial shares across many different seafood companies. Shareholder activism therefore appears to currently hold limited leveraging power for financial institutions to encourage sustainable practices in the seafood realm.

Pressure from civil society organizations and the general public will be important to improve awareness and stimulate financial responses that can not only complement but also promote existing governmental, market-based and corporate efforts towards increased sustainability, the authors conclude.

More information: J.-B. Jouffray el al., "Leverage points in the financial sector for seafood sustainability," *Science Advances* (2019). advances.sciencemag.org/content/5/10/eaax3324

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