

Mainstream / Cermaq's progress in contributing to sustainable salmon aquaculture in Chile

A follow-up study based on the joint statement by Cermaq ASA, Norwegian Society for the Conservation of Nature/Friends of the Earth Norway and Forum for Environment and Development (ForUM).

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PREFACE

In early 2009 the Norwegian Government launched its first white paper on Corporate Social Responsibility. At the launch the then Minister of Environment and Development Erik Solheim stated that Norwegian companies were international pioneers in responsible behavior and challenged civil society to name and shame Norwegian multinational companies that were not socially and environmentally responsible.

Cermaq's largest shareholder is the Norwegian state. By filing a complaint against one of the world's leading producers of farmed salmon for breaching the OECD Guidelines for Multinational Companies, we not only gave the minister what he was asking for, but also presented the Government with a challenge we expected it would do something about, to be coherent with the commitments expressed in the white paper.

In August 2011 Cermaq and ForUM/Friends of the Earth Norway signed an agreement (a joint statement) to conclude negotiations in the OECD National Contact Point Norway (NCP). The agreement was "give and take" for both parties; one of the points we were unable to gain acceptance for was a follow-up mechanism to monitor changes on the ground in Chile.

At the end of 2012, following an invitation to participate in discussions on the complaint in Chile, ForUM decided to examine to what extent the agreement had led to a change in conditions on the ground that had led to the original complaint. We wanted to see if the resources spent in preparing, filing and engaging in the mediation at the NCP was worthwhile, and could be recommended to other "watchdogs".

ForUM commissioned two Chilean consultants to conduct an independent study on the outcome of the joint declaration. The consultants met with employees, trade unionists, environmental groups, indigenous leaders, but were unable to secure an interview with Cermaq's subsidiary, Mainstream, during the two weeks the consultants had available for their work. This was despite repeated attempts, including an offer to conduct the interview by telephone.

For the first time, stakeholders that have been directly impacted by the company's operations have been given the opportunity to express their experiences and expectations. Cermaq's own comprehensive sustainability reports have not been translated into Spanish, despite the fact that three-quarters of the company's work force are in Chile.

Cermaq has commented on the findings in the study, and these are included as an annex. Several of the comments made by Cermaq, including Mainstream's readiness to take part in an interview, are disputed by the authors. Cermaq has recently bought the Peruvian company Copeinca, another company with a troubled environmental and social record. We doubt that our concerns about the company's social and environmental responsibilities are over.

*Andrew Preston,
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EXECUTIVE SUMMARY

To assess the effect of the Joint Statement signed by Cermaq ASA, Norwegian Society for the Conservation of Nature/Friends of the Earth Norway and Forum for Environment and Development (ForUM) in Norway in August 2011, regarding improvement of labor and environmental practices, as well as those concerning relations with indigenous peoples in Chile, the present study was carried out between 22nd October and 9th November 2012 through interviews with stakeholders and from secondary sources. The scope of the study was to look out for initiatives developed by the Cermaq subsidiary Mainstream Chile, its sustainability strategy and its communication with other stakeholders in areas of operation. The study was limited by the short period of time available and lack of direct information from Mainstream Chile, whom we were unable to interview despite several attempts to meet in person and interview by telephone. This study has also reviewed published information on the subject and the perception and experience of other stakeholders.

FOCUS AND MAIN FINDINGS

There are two main stakeholder groups affected by the activities of Mainstream: company workers affected by deficient working conditions and low wages, and indigenous groups and other local communities living in areas affected by the company's activities. In the environmental context, a number of activities along the entire production chain, including land-based hatcheries and smolt production, sanitation control procedures (antibiotics and pesticides) and the company's expansion strategy, are activities that imply significant impacts on the environment that could threaten marine life and the harvesting by of local natural resources by other stakeholders.

In regards to the commitments made in the "Joint Statement", the main issues are:

1. Environment (paras h, j, k)
2. Labor rights (paras l and n)
3. Indigenous Peoples' Rights (paras l and m):

In regards to Cermaq's Sustainability Report 2011, the main issue is:

4. Communication and dialogue with the community¹

Environment

As can be concluded from this report, the legal framework for the salmon industry in Chile has serious deficiencies, including the lack of legal enforcement of the regulations. In the *Joint Statement (h)*, Cermaq commits to "strive for excellence on environmental initiatives in its industry", implying that it recognizes that it is not enough to comply with the environmental regulations of Chile. The information provided in Cermaq's 2011 Sustainability Report provides stakeholders with significant information on these matters. For example, the numbers presented in the report indicate that Mainstream Chile uses far less antibiotics and pesticides than the average salmon farming company in Chile.

The *Joint Statement (j)* states that, based on the precautionary principle, "Cermaq will take additional measures to reduce the risk of serious damage to the local environment derived from company activities." Our assessment is that Cermaq has not complied with this ambition. There are still high levels of uncertainty related to the environmental impacts of the salmon industry in Chile.

¹ www.report2011.cermaq.com

First of all, since 2010 salmon production is again growing at an alarming rate. Nevertheless, there continue to be very justifiable doubts whether the improvements to the legal framework are adequate to prevent the same practices that led to the 2007 crisis. A related topic is the rapid expansion of the salmon industry southwards to Magallanes, a region where there is little experience and knowledge of the industry's possible negative impacts on the fragile local ecosystem. It is striking that no evidence has been found of Cermaq having done any thorough environmental risk assessments for its expansion to this region. In Norway, in November 2012, the company said it had contracted an international consultancy firm to conduct a human rights due diligence study that would address aspects related to the expansion to Magallanes. There was no indication that the study would include environmental issues.

Workers' rights

Aquaculture companies use a variety of contracts for outsourcing of services, as well as for the workers hired directly. The situation is in general characterized by low wages and precarious working conditions. The majority of workers are temporary employed or subcontracted (via small to medium size subsidiary enterprises), and the rate of unionization is very low. The accident rate amongst workers on the production lines and sites is uncertain. Our informers claim that incidents are excluded from the statistics in order to maintain the companies' insurance premiums, or cover up deficient sanitary conditions, and work-related illnesses and injuries that are not covered by insurance. The reluctance to improve conditions, according to those interviewed, is related to an authoritarian management culture, little dialogue between management level and workers, and a lack of real interest in improving occupational health and safety conditions. According to those interviewed, Mainstream scores no better than average for the sector in Chile regarding labor relations. There are large variations in salaries and contract conditions between the different plants and internally between employees. In regards to the recent acquisition of Cultivos Marinos Chiloé by Mainstream Chile (October 2012), the change of employer led to slightly worse conditions for workers, according to union leaders.

Indigenous Peoples

ILO Convention 169 and the Lafkenche Law are new legal instruments in Chile with great potential to strengthen the indigenous communities' ability to defend their rights in general, particularly those pertaining to the coastline. As to the company's relationship with indigenous peoples, its Sustainability Report 2011 states that there have not been any conflicts, nor any direct contact. In April 2012, the leader of an indigenous group filed a complaint to the authorities alleging illegal extraction of sand by Mainstream on an island that was home to a penguin colony and considered a tourist destination. Mainstream was subsequently fined for this infringement. As previously mentioned, the company is preparing a due diligence study of human rights in Magallanes, which we would expect will consider the possible impacts the activities of the company may have on indigenous communities in this region. There is reason to question why this study does not cover the regions where Mainstream has already established production, and where there are many more indigenous groups. Doing so could have created an opportunity for Cermaq to become more proactive in its relationship with indigenous groups, especially the Huilliches and Lafquenches.

Communication and dialogue with the community

Cermag is clearly amongst the best salmon companies in terms of reporting corporate social and environmental responsibilities. However, the continued reluctance of the company to establish a frank and constructive dialogue with other stakeholders is a major weakness, if there really is interest in establishing good relationships with the different key actors in Chile. Mainstream's operations in Chile were recently included on a list of the country's biggest socio-environmental

conflicts². Its greatest problem is the hesitation and lack of will or ability to address local disputes. This is made even worse by the fact that the relationship and communication with Chilean society at large goes solely through the business association Salmón Chile, resulting in a distant and biased relationship with most interest groups.

² Study performed by the consulting firm SIAE, published on November 16, 2012 in the magazine *Que Pasa*
<http://www.quepasa.cl/articulo/actualidad/2012/11/1-10532-9-inversion-en-jaque.shtm>

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1. INTRODUCTION

1.1. SCOPE AND OBJECTIVES OF THE STUDY

In August 2011 the Norwegian OECD national contact point for responsible business arranged the signing of the “Joint Statement by Cermaq ASA, Friends of the Earth Norway, and Norwegian Forum for Environment and Development (ForUM)”. The statement contained wording agreed to by the three parties after several years of dispute over the role of Mainstream, Cermaq’s 100% owned subsidiary in Chile. The statement raised the ambitions of the company to new levels when Cermaq stated that it would become the leading business in its sector in all relevant areas of corporate social responsibility, including the environment, labor rights, rights of local communities and indigenous peoples.

In order to compare progress made by the company with the level of ambition in the statement, the present study was commissioned by Forum for Environment and Development and carried out by the consultants in Chile between 22nd October and 9th November 2012. The study is based on interviews with key actors (interest groups) and studies from secondary sources; newspapers, magazines and specialized media; documentation from the complaint process at the Norwegian OECD National Contact Point; information from Sernapesca and Subpesca; studies and articles on the aquaculture sector in Chile; and information published by Cermaq, including the 2011 Sustainability Report. Among the limitations of this study was the short time span of the work, preventing more time for field visits and interviews. Time constraints contributed to the lack of direct information from Mainstream and we were not able to interview the industry association, Salmón Chile. The focus of this report is on Mainstream; the study does not address activities carried out by EWOS Chile.

2. BACKGROUND

2.1. SALMON FARMING IN CHILE AND THE ROLE OF CERMAQ

Until the salmon production crisis in 2007, the sector had enjoyed decades of uninterrupted growth in Chile, and had become a world leader and one of the country's main export earners. Production was concentrated in the Xth and XIth coastal regions in the South – both sparsely populated, but with rich coastlines dominated by fisheries and indigenous populations. The sector offered salary opportunities that led to population concentration. Increasingly, larger companies dominated the sector, working closely with the government to maximize expansion through liberal laws and permissive government practices.

A massive outbreak of fish disease in 2007 (from a virus introduced from Norway) was caused by unsustainable production practices, and resulted in dramatic falls in production volumes and employment. This led to companies and government rethinking and redesigning sector governance (see Annex III for further details).

Mainstream Chile has, since its establishment in Chile in 2000, been among the three largest companies in the sector, with around 8% of the market. Due to diversity in the species farmed in Chile and Mainstream being a global firm, it was less affected by the 2007-2009 crisis than many other companies in Chile. Already in 2010 it was again showing healthy profits, while Chilean salmon farming companies continued to face serious economic challenges. This situation created expectations that there would be an increase in the ownership concentration in the sector. This was confirmed by Mainstream's purchase of the largest Chilean owned company, Cultivos Marinos, in October 2012. After this the company became the largest company in the sector (see Annex III).

2.2. THE LOCAL CONTEXT OF THE CRISIS

The lack of an adequate legal framework for the salmon industry, failed implementation of existing regulations and lax enforcement have had an impact on a number of vital areas in the south of Chile, such as employment, environment, indigenous peoples' rights, regional urban development and territorial expansion. Aquaculture's socio-environmental crisis that started in 2007 was not caused by the ISA virus epidemic alone, but was rather a consequence of permissive policies and lack of professional supervision needed to ensure compliance with existing weak laws and norms at that time.

Considering the rapid growth of the salmon industry in the last 10 years, there are important aspects that have still not been incorporated into the new and improved legislation. Regarding labor conditions, several important health and safety issues are not covered by the current norms. The low degree of unionization, often a result of contract outsourcing (a general tendency in all of Chile's production sectors), increases workers' physical and social vulnerability. The balance of the natural environment is also threatened due to the absence of a framework preventing pollution and over-exploitation of resources. Indigenous peoples continue to represent some of Chile's most vulnerable social groups, with the highest rates of poverty and discrimination. Hopefully the situation will improve as a result of the recently passed ILO Convention 169. However, indigenous organizations themselves remain doubtful of its implementation, and this may impede their efforts to exercise their rights.

In a recent study ranking Chile's top 100 socio-environmental conflicts³, Mainstream was listed among the top 10. In the last few years, Chile's business sector has been challenged by a growing civil society and more informed citizens. People are becoming more conscious and willing to defend their rights while national business culture has not yet embraced such an approach.

In this context, the Cermaq case, including the negotiated Joint Statement, is seen as a learning opportunity for all those involved. It is expected to establish precedence in terms of a change in business approach to sustainability strategy. Such an approach would have to balance the economic, social and environmental concerns and create a more open and inclusive communication. Cermaq has through the Joint Statement committed itself⁴ to improving its standards in harmony with those practiced in Norway, which would mean going substantially beyond what is required by Chilean regulations. It would mean going a step beyond traditional corporate social responsibility. A move like that could create fundamental changes at various levels, both cultural, productive, and in terms of communication.

3. MEASURES TAKEN BY MAINSTREAM CHILE AFTER THE JOINT STATEMENT

Civil society in Chile and Norway had since 2000 warned against the possible environmental and social consequences of the uncontrolled growth and expansion of the salmon farming sector in Chile. But it was the 2007 crisis and Cermaq's continued denial of any responsibility that led to Friends of the Earth Norway and Forum for Environment and Development (ForUM) filing a complaint at the OECD-complaint mechanism.

The aim of the complaint was to hold the company accountable and prevent further environmental damage and infringements of human and labour rights in the future. After a two year process, the parties agreed on a joint statement. Here the company accepted a share of responsibility for the crisis, and set out ambitions to prevent new violations of the OECD Guidelines. The statement did not, however, contain any follow-up mechanism to verify that the company had actually fulfilled their promises, and during the negotiations Cermaq objected to an independent evaluation of the outcome. This prompted ForUM to contract local consultants to carry out this brief follow-up study, looking at the activities of the company during the last year, comparing these with the ambitions given in the joint statement. The conclusions are to a large extent based on the information found in Annex IV.

From the Joint Statement (JS), para e *“Where government regulation does not ensure the sustainability of aquaculture, the industry should take its share of responsibility.”*

Since 2009, the Chilean Government has been active in the reactivation of the sector after the ISA virus crisis. Relevant initiatives have been the establishment of a Salmon Round Table, and the modification of the Law for Fish and Aquaculture in 2011 to improve the practices and sustainability of the industry (density of fish in cages, fallowing periods for sea sites, treatment of sea lice and fish diseases, rules for granting new licenses). On the other hand, some industry actors advocate self-regulation, while the environmental movement and researchers have pointed out the risks linked to the new rapid growth of the sector, particularly since the new legislation has serious flaws and sufficient means of enforcement are not in place. According to Sandra Bravo from the

³ <http://www.quepasa.cl/articulo/actualidad/2012/11/1-10532-9-inversion-en-jaque.shtm>

⁴ Complete text of Joint Agreement http://www.regjeringen.no/upload/UD/Vedlegg/ncp/joint_statement.pdf

Universidad Austral, the lack of expertise and limited economic resources have reduced the capacities of the government bodies Sernapesca and Subpesca to effectively supervise and control environmental and sanitary standards at the salmon farms and related installations. Supervision relies heavily on the information submitted to the authorities by the salmon producers themselves. In the case of an outbreak of a fish disease on a farm, the costs of the sanitary measures imposed by the authorities will often be far higher than the fine a company has to pay for not meeting the obligation to report. This is an incentive to keep crucial environmental information secret, and is a good example of the serious flaws in the actual regulatory framework.

Opinions on the legal framework for salmon farming in Chile differ substantially among actors. Cristián Gutiérrez, of the NGO Oceana, states that "what is happening today with salmon farming in Chile is a process of returning to what was occurring in the period of the ISA virus, related mainly to the increase in the production of salmonids. In the aftermath of 2008 and 2009 the salmon industry production increased dramatically once again. The lack of effective regulations of densities of salmonids in the cages, was a decisive factor in the spread of diseases⁵". Juan Carlos Cárdenas, director of the NGO Ecoceanos claims that "The salmon industry is still a sanitary and social time bomb in the coastal regions of southern Chile. (...) The stubborn reality is showing us that the new Chilean salmoniculture is nothing more than marketing and public relations⁶"

Other actors and experts have a more positive opinion of existing regulations. Cermaq claimed, in conversations with ForUM and Friends of the Earth Norway that regulations in Chile are good and improving, although should be further improved. The company shares the widespread view that lack of implementation and enforcement are the crucial problems. According to Victor Hugo Puchi, president of AquaChile, even Chilean banks have serious doubts regarding the sustainability of salmon farming in Chile. "In general, the banks are hesitant about the salmon industry. I think that until there are unambiguous signs that the industry has changed, the banks will not be active agents in the salmon industry. That's why it is of utmost importance to us to show substantial changes. Partial improvements are not enough⁷."

JS para f) *"There is a connection between the way aquaculture has been carried out in Chile and spread of fish diseases that led to the collapse of the industry in Chile in 2007. Sufficient account was not taken of the **precautionary principle**". See also para j).*

As was demonstrated by the collapse of the salmon industry in 2007, Mainstream and other actors in the Chilean salmon industry have economic incentives to improve environmental and sanitary practices. But, as stated by Francisco Miranda⁸, CEO of Mainstream Chile, the company's main strategy is diversification of sanitary risks, producing three species (Atlantic, Coho and Trout) in the regions in Chile (X, XI and XII). The basic premise behind this strategy is to reduce the risk of outbreaks of new diseases and sanitary crisis. If such incidents affect only one species in only one of the regions, they will only hit 1/9 of Mainstream's total production in Chile. Miranda admits this will increase production costs, but the diversification of sanitary risks means economic gains are likely to be greater than losses in the medium term.

Cermaq's Sustainability Report contains information relevant to the assessment of environmental risk. Nonetheless, Cermaq's own assessment of environmental risks related to their activities is

⁵ Radio Universidad de Chile - <http://radio.uchile.cl/noticias/175820/> - 17/10/2012 "Cuestionan condicion sanitaria en industria salmonera ante aparicion del "piojo del mar""

⁶ Radio del Mar, (www.radiodelmar.cl), 31/05/2012. "Masiva mortalidad de salmones genera temor de nueva crisis sanitaria en salmonicultura chilena",

⁷ Interview published in Diario Financiero, 11/10/2012. "Victor Hugo Puchi: Prácticamente no hay créditos a la industria"

⁸ Newspaper La Tercera (www.latercera.cl) 14/10/2012. "La estrategia del grupo noruego Cermaq, tras adquirir Cultivos Marinos Chiloe"

quite scarce. There is little mention of the company's *operational risk* when expanding to new and vulnerable areas in the South while most aspects of *financial risk* are thoroughly covered. Mainstream Chile's expansion of salmon farming to Region XII (Magallanes), where no previous experiences with salmon farming exists, requires a much better assessment of the environmental risks associated with this expansion in order to comply with the precautionary principle.

The basis for sustainable aquaculture

From Joint Statement: "*Cermaq, (...) has endorsed the OECD Guidelines for Multinational Enterprises. Cermaq's guideline of Ethics and Social Responsibility provides that the company has a responsibility for people, communities and environment affected by its activities...*" **See also para h)**

The available information did not allow for an evaluation of the impact of Corporate Social Responsibility policies on local development. The Sustainability Report mentions that Mainstream is strongly committed to a governmental project to eradicate poverty, and is, in this context, supporting social initiatives such as "Essences of Calen" (microenterprises for women on perfumes and cosmetic products). Some other social initiatives were identified as a part of SalmonChile's promotion of CSR, but the value added in terms of poverty reduction is so far uncertain. The Sustainability Report 2011 could be improved regarding the total number of the local workforce, including contractors and other forms of outsourced labour. This would give valuable information about Mainstream's contribution to local employment and local development.⁹

JS para h).- Cermaq will strive for excellence on environmental initiatives in its industry, including by contributing to the development and use of environmentally friendly technology. See also paragraphs i), j) and k).

The resurgence of salmon production in 2011 and 2012 has coincided with an increase in environmental and sanitary problems. Mortality rates of Coho salmon more than doubled in 2012, increasing from 8.63% in 2011 to 19.72%. Mortality rates for Atlantic Salmon also increased considerably (2011: 9.37%, 2012: 14.76%), while decreasing for trout (2011: 16.63%, 2012: 10.4%)¹⁰. Cermaq's sustainability report does not contain fish mortality indicators for each country separately, and does not relate mortality to number of fish in the fish farm¹¹. Thus, comparison with average mortality in Chilean salmon farming is not possible.

Sea lice: according to the Under-secretary for fisheries, Pablo Galilea, the recent increase in sea lice is currently the most urgent concern. Early in 2012 an average number of 21.7 sea lice per fish was reported in one Group of Farming Licences (ACS) in Aysén¹². Recently Sernapesca did a series of unannounced inspections, discovering much higher rates of sea lice per fish in several farms. In total, 12 farms were fined for non-compliance¹³. The average number of sea lice per fish in Mainstream's operations in Chile during 2011 was much higher than in its operations in Norway and Canada, but still below an action level of 6 lice per fish established by Chilean authorities (Sustainability report 2011, CEQ 02).

⁹ This could be done through the inclusion of the following GRI-indicators: EC6. Policy, practices, and proportion of spending on locally-based suppliers at significant locations of operation. EC9. Understanding and describing significant indirect economic impacts, including the extent of impacts.

¹⁰ Financial newspaper: Estrategia May 5th 2012 "Aumento de mortalidad de salmones es por mayor producción". The article refers to annualized mortality rates. Average monthly mortality rates in Chile during the first four months of 2012 fluctuated between 1,08% and 1,67%, according to Sernapesca: Situación Sanitaria Salmonicultura Centros Marinos, Enero – Abril 2012.

¹¹ This indicator will be improved in the 2012 report, according to the 2011 report.

¹² Situación Sanitaria Salmonicultura Centros Marinos, Enero – Abril 2012. Sernapesca. Page 13.

¹³ Source: <http://www.aqua.cl/noticias/index.php?doc=54717>, published 19/10/2012. "Cuestionan condición sanitaria en industria salmonicultura ante el caligus"

Medicine use: one of the most damaging environmental effects of salmon farming use of medicines, in particular antibiotics and different pesticides. Figures presented in Cermaq's sustainability report (CEQ 03) indicate that Mainstream performs much better in this area than the average Chilean salmon producer. According to estimates by Sandra Bravo, the use of antibiotics in Chile in 2011 reached 460 gram API (Active Pharmaceutical Ingredient) per tonne of harvested salmon¹⁴. Cermaq reports using 10.8 grams of antibiotics (API) per tonne of live fish produced, which is only 2.3% of average antibiotics use in Chile¹⁵. On this point Cermaq should certainly be commended.

Pesticides are used mainly to limit the presence of sea lice. In 2011 the Chilean salmon industry used 3.245 kg of pesticides, amounting to 7.205 gram per tonne of salmon produced¹⁶. In comparison, Mainstream Chile's use of pesticides per tonne of salmon produced is reported to be 0.34 gram in bath treatment and 0.02 in feed (measured in grams of Active Pharmaceutical Ingredient), equivalent to 5% of the Chilean average.

According to the 2011 Sustainability Report, the company's laboratory in Colaco has 7 qualified researchers, working to improve technologies for a more environmentally friendly and sustainable production.

JS para m) *"Cermaq respects indigenous rights in line with ILO Convention 169 and the UN Declaration of Indigenous Peoples (UNDRIP). (...) Cermaq will seek to enter into mutually beneficial agreements with indigenous peoples in all areas where their rights are affected by Cermaq's operations, including in Chile."* **See also para l).**

According to our information, indigenous communities in Chiloe, mainly Mapuche Huilliche, are not organized at regional level and have not been consulted by the company. Their organisational structure mainly functions locally. This complicates contact with ethnic Huilliche ("man of the South"). On the other hand the Lafkenche ("man of the water") communities have for more than 20 years built strong organizations. They participate in national and international networks. The organization of the Lafkenche has a network of spokespersons throughout the coastal territory, from 8th Region of Bío Bío to far in the South. Their organization is strongest in the in the 9th Region, where Mainstream has areas for egg and smolt cultivation. Lafkenche leaders have had, as far as we were able to discern, no contact with Mainstream in recent years.

It is positive that Mainstream has hired a Consultancy to conduct a human rights due diligence, to improve the analysis and understanding of human rights in the region of Magallanes (ref. meeting between Cermaq and Friends of the Earth/ForUM in Oslo, November 2nd, 2012). It would however, have given the company more credibility if the study had included all regions where Mainstream operates. It is in these other regions that we find the majority of the indigenous populations and territories: Kaweskar, Mapuche Huilliche and Mapuche Lafkenche. They all have different levels of organization, but coordinate on a regular basis and would have been able to contribute substantially to such a study. After the ratification of ILO Convention 169 in Chile in 2009, the indigenous peoples have better legal protection of their rights.

JS para n) *Cermaq respects and promotes worker rights in foreign countries as in Norway, as embodied in the eight ILO core conventions of the "Declaration of Fundamental Principles and*

¹⁴ Sandra Bravo "¿Qué pasa con la salmonicultura 2.0 en Chile? In Magazine: Mundo Acuícola y Pesquero June 2012

¹⁵ Since only final numbers are available, neither methodology nor detailed information on measuring units, the comparisons between Chilean average and Mainstream regarding use of antibiotics and pesticides could be based on errors. According to Cermaq (in a recent meeting with ForUM and Friends of the Earth) they use 1/5 of average antibiotics dose in Chile, while this comparison indicates Mainstream uses only about 1/50.

¹⁶ Sandra Bravo "Estrategias para controlar el piojo del mar". In Magazine: Mundo Acuícola y Pesquero

Rights at Work", including the right to freedom of association and collective bargaining. Cermaq will continue to participate in round table conferences organized by the Observatorio Laboral y Ambiental de Chiloé (Olach).

None of the informants considered Mainstream to be significantly better than the average salmon enterprise in terms of wages and working conditions.

35% of the salaries in Mainstream's processing plants are production bonuses, which often make the difference from a minimum salary (which equals Chilean poverty levels). This creates pressure on the workers to comply with production goals that often negatively affect working conditions, such as health and safety measures. In the collective bargaining between labour unions at Quemchi plant and Mainstream in 2012, the company offered a proposal linking production bonuses to the absence of reported work injuries. This would have created unhealthy incentives to avoid reporting injuries among workers, and the proposal was rejected by the labour union.

According to the labour unions, one of the main problems with Mainstream's labour policy is the considerable differences in salaries and working conditions at the different plants within the company. Even among workers with the same position on the same "assembly line", there are large variations in salaries. It is difficult to see how this practice contributes to economic efficiency. However, the discretionary power exercised by the management over worker's salaries can be used to discipline workers. Another example is the huge difference between the processing plants in Quemchi and Calbuco in the use of part-time contracts. Although both plants employed about 300 part-time workers, the Quemchi plant had over 350 workers employed on a permanent basis, while less than 50 workers were employed on a permanent basis at the Calbuco plant.

In a letter sent to the chair of the Norwegian National Contact Point, Hans Petter Graver, signed by social organizations, including four labour unions at Mainstream, the situation for workers was summarized as "low and uneven wage levels within the company, scarce recognition and appreciation of labour unions and failure to comply with security measures"¹⁷.

JS, para o) *"Cermaq will continue reporting against sustainability indicators, which are anchored at the level of its board, based on Global Reporting Initiative (GRI) and customized indicators specifically designed for the business of aquaculture. Cermaq intends to continue the practice of external verification by an independent third party. In the further development of its qualitative and quantitative indicators, Cermaq will draw on feedback from both internal and external sources, including groups who may be affected by the business"¹⁸.*

While Cermaq has two-thirds of its total number of employees in Chile and is the country's largest actor in fish feed and salmon farming, the company does not report in Spanish. Nor does it have a section of its website presenting its activities in Chile to a Spanish speaking public. The Joint Statement between the company and the Norwegian NGOs, Friends of the Earth Norway and Forum for Environment and Development (ForUM) is published in Spanish at the Norwegian government's web site www.regjeringen.no, but not on Cermaq's own web site. It is difficult to find any attempts by Cermaq to share its initiatives on corporate social responsibility with relevant Chilean stakeholders. Mainstream's labour union leaders did not know that Cermaq publishes an

¹⁷ The letter is available in Spanish at Olach's website, www.olach.cl; original quote in Spanish: "bajos y disímiles niveles remuneracionales al interior de la misma empresa; existe poco reconocimiento y valoración de la organización sindical e incumplimiento de exigencias de seguridad."

¹⁸ In 2012 Cermaq received three awards for its reporting and external information: top score in Seafood Intelligence's benchmark survey of sustainability reporting 2012, the Stockman Award 2012 and the silver prize in the Farmland contest 2012. In Seafood Intelligence's survey only 3 of 35 salmon companies were rated "very good" on their Corporate, Social & Environmental Responsibility reporting in English, while 20 companies were rated as "poor" or "extremely poor".

annual Sustainability Report, containing information on wages, injury rates, employment contracts, percentage of employees covered by collective bargaining and training of employees.

Despite this, Cermaq stated in the Stakeholder Engagement chapter in its 2011 report that “*We remain open to dialogue with stakeholders who are directly involved with or impacted by our industry or who constructively engage in seeking industry improvements.*” (p. 34) Furthermore the company defines its policy of “constructive dialogue based on respect and transparency” as the main component of communication with direct stakeholders at local, national and international levels. Stakeholders mentioned were employees, shareholders, suppliers, customers, indigenous peoples, authorities, local communities, sector industry associations, NGOs, and the general public.

The same report states that “In Chile, Mainstream has focused especially on dialogues with NGOs in the Chiloe area where Olach¹⁹ plays an active role.” (p 34). This view is not shared by Canelo de Nos, an NGO that has been central in running Olach (Chiloé’s Labor Observatory). According to Canelo de Nos, there was no direct contact with Mainstream during 2011. The only contact was through the organization’s support to Mainstream’s labour unions during collective bargaining (Annex II contains detailed information on stakeholders and Mainstream’s communication strategies, comparing the information with those in the Sustainability Report).

Mainstream’s relationship with stakeholders has two channels: a direct one with workers and providers and an indirect one through SalmonChile. In SalmonChile, Mainstream participates with other associated companies, addressing training requirements, sustainability considerations, and CSR initiatives. Information about these activities can be found on SalmonChile’s website. However, SalmonChile ignores to a large extent social organizations, communities and indigenous groups that are impacted, directly or indirectly, by the activities of the company.

¹⁹ Olach was formed by Canelo de Nos, Cenda, Oxfam and Fundación Terram. Of these organizations Canelo de Nos is the only one with permanent presence on the island.

4. ANNEXES

ANNEX I - BIBLIOGRAPHY AND WEBSITE REFERENCES

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ANNEX II LIST OF STAKEHOLDERS INTERVIEWED

Internal Stakeholder	
Workers	Meeting with 4 trade union leaders Confederation of salmon workers-CONATRASAL; Mainstream Processing facilities; Former Cultivos Marinos company and the President of Ancud United Workers Confederation-CUT.
External Stakeholders	
Universities and Researcher Institutions	Meeting with Sandra Bravo, Expert in Salmon culture; Master in Aquaculture, University Postgraduate Teacher and Researcher from Instituto Pesquero, Universidad Austral de Chile Meeting with Alvaro Román, Dr sociologist and Ph.D. student at Institute for Urban and Territorial Studies. Universidad Catolica de Chile.
Community; Grupos y Organizaciones Indígenas	Conference call with Iván Carilao, Concelor of Indigenous Development Council- Conadi and Lafkenche indigenous central leader. Lafkenche are part of the Mapuche`s etnia and live along the coastal area from the VIII to the XI regions. Identidad Lafkenche is a relevant indigenous organisation in the areas that Mainstream develops its work.
National and local NGOs	NGO El Canelo de Nos Corporation, develops its work supporting the improvement of the labor standards in the aquaculture sector; beside the labor organisations and channelling initiatives with governmental authorities. Meeting in Santiago with Alejandro Salinas, Executive Director. Meeting in Ancud office with Patricio Peñaloza, Project Coordinator OLACH.
Public Institutions	Active environmental NGO EOCEANOS. Meeting with Juan Carlos Cárdenas, Executive Director and Mapuexpress collaborator. Camila Jordán, Head of the Regional Labor Office of the Region de Los Lagos; placed in Puerto Montt. Former and present PNC Chile; Ministry of Foreign Affairs; about role in follow up and other topics, but both interviewed persons stated that they didn't have relevant information after the Signature of Joint Statement.

The following interviews were not able to be conducted during the period of the assessment: WWF, SalmonChile, local development authorities in Quemchi Municipality, and General Manager of Mainstream.

ANNEX III. STAKEHOLDER ENGAGEMENT

COMPARING THE 2011 SUSTAINABLE REPORT WITH INFORMATION FROM LOCAL SOURCES

From the Sustainability Report 2011	From local sources
<p>“Dialogue with our employees is continuous, through well-established local management structures and practices. The competence, engagement and efforts of all our employees are crucial to the success of our business.”</p>	<p>Mainstream’s trade union leaders feel high levels of frustration because of the company’s lack of recognition towards unions and workers. Unionization in Chile is below the level stated in the report (p 27).</p>
<p>“In 2011 Cermaq updated its ethical and corporate responsibility guidelines related to supplier requirements...”</p>	<p>Code of Conduct, alongside a training programme, could be a good opportunity to roll out the sustainable strategy through the entire value chain in Chile. The report mentions that, in Chile, EWOS has adopted it, but there is no mention of Mainstream.</p>
<p>“Cermaq has been in dialogue with various Norwegian advocates of wild salmon, and continued open dialogue with WWF, Bellona and others. In Chile Mainstream has focused especially on dialogues with NGOs in the Chiloe area where Olach plays an active role.... NGOs that constructively seek industry improvements can give valuable input to Cermaq.”</p>	<p>Differences among the communication policy in Norway and in Chile are evident. Reports mention a dialogue with Olach in Chiloé. However, El Canelo (which is acting as OLACH) consider that they have not had any open dialogue with Mainstream Chile. Chilean NGOs interviewed declared that they are ready to give inputs to Mainstream in order to improve sustainability in the social, economic and environmental area.</p>
<p>“Local communities are important to ensure acceptance for our local operations”</p>	<p>Contribution and communication channel with the local communities identified (CSR initiative) seems to be promoted from Salmon Chile.</p>
<p>“Dialogue and transparent reporting are key elements for our engagement with the general public. We seek to be proactive in being the source of information about our operations and to correct misinformation.”</p>	<p>Among the main challenges is the need to establish a clearer picture about the contributions of the company to development (added value, CSR initiatives), at the local and national level in Chile; Spanish version of the yearly Sustainability Report is needed for Chilean stakeholders.</p>

ANNEX IV – BACKGROUND ON THE SECTOR AND CERMAQ/MAINSTREAM

Salmon farming in Chile

Previous to the outbreak of the ISA virus crisis in 2007, the salmon industry in Chile had experienced almost 30 years of uninterrupted growth, and the country had established itself among the major global producers of salmon and trout. Chile's salmon exports reached 4-5% of the total exports, only surpassed by copper and cellulose. Before the crisis in 2007 Chilean salmon farming was harvesting almost 40% of global production of farmed salmonids, closing the gap to Norway as the world largest producer. As a consequence of the crisis, in 2010 Norway produced twice as much salmon as Chile. However, Chile maintains its position as the world's second largest producer of farmed salmonids (salmon and large trout).



Source: Cermaq's Annual Sustainability Report 2011

The salmon industry impacted on the territorial development in the Xth and XIth Region, causing internal migration and population growth in urban centers such as Puerto Montt and Coyhaique. An improvement above the national average regarding poverty and indicators of welfare were registered in these places²⁰. As far as employment is concerned, labour force (mainly women and young people) were transferred from subsistence agriculture to salmon production. For the inhabitants of the Chiloe Island the salmon industry became the main source of family income.

The growth of the salmon industry coincided with transformations in the business structure. Small and medium sized national firms were ceding ground to larger companies with international capital investment, leading to a concentration of marked shares. In 2008 the top 5 companies controlled 53% of the fishing licenses and 73% the total salmon farming area. The main companies controlling the largest share of salmon farming licenses were in 2008 Marine Harvest, Mainstream, Aquachile, Camanchaca, Multiexport, Invertec y Ventisqueros²¹.

As a result of the massive outbreak of the ISA disease in 2007, 60% of salmon farming centers were left inactive by 2009. In the same year unemployment in Chiloe and Palena was above the national average, leaving the coastal population in the regions X and XI in a vulnerable situation²². Although the direct cause of the crisis was the arrival of the ISA virus to Chilean waters from Norway, several factors contributed to severity of the crisis.

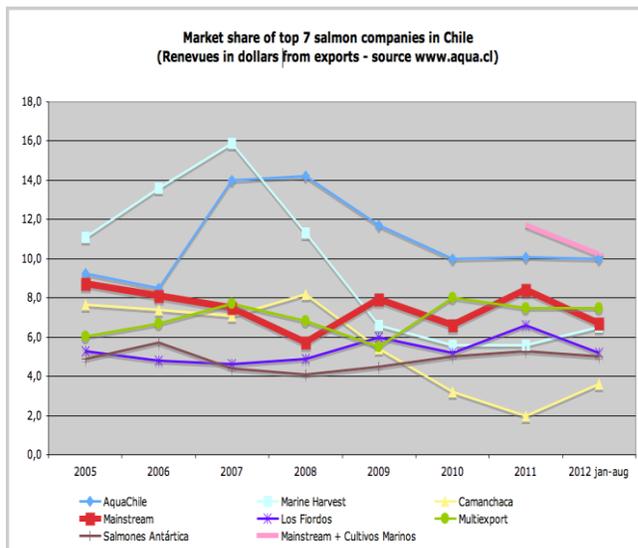
²⁰ Survey on Poverty Situation Casen 2003; Chilean Government.

²¹ Sernapesca, 2008 – in Katz, Jorge & others; Growing based on natural resources, “Tragedies of the commons” and the future for the salmon industry; series Productive development; CEPAL 2011.

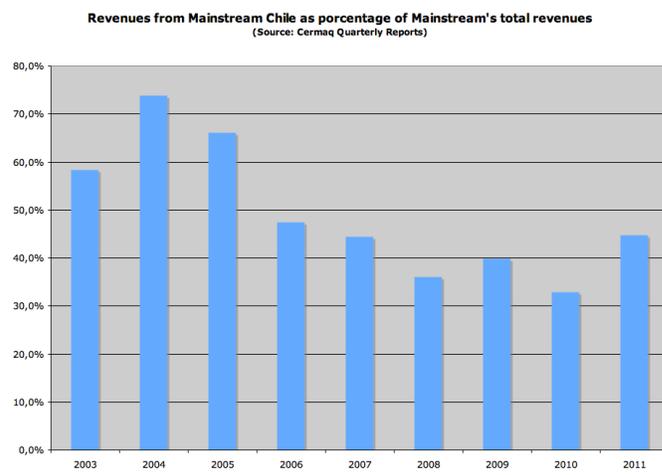
²² Jun 2009 shows 11,4% of unemployment, above the 10,8% national level. Casen 2003

Among these factors were the environmental practices of the salmon farming companies (including high densities of salmon in cages, elevated numbers of sea lice and excessive use of antibiotics and pesticides), and the lack of an robust institutional framework, able to prevent the excessive exploitation of natural resources and promote a sustainable production pattern taking the local communities into account. In 2011 the production of salmonids in Chile resurged, reaching 2.926 million dollars in exports, equivalent to 1,2% of Chile's GDP (248.593 million). To give an impression of the economic importance of salmon farming in the southern regions of Chile it is relevant to mention that the regional GDP of Regions X, XI and XII in 2011 were 11.000, 1.500 and 3.000 million dollars respectively compare to the value of total export of salmon from Chile.

Cermaq in Chile



Source: webpage www.aqua.cl



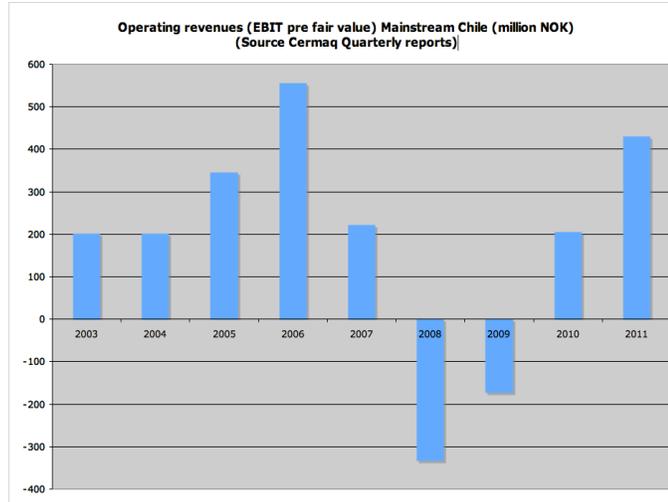
Cermaq entered heavily into the salmon business in 2000 when it bought the fish feed company EWOS²³, and salmon farming companies in Canada, Chile and Scotland. In Chile, Cermaq bought Mainstream Salmons and Food S.A., the third largest salmon producer, spending around 150 million dollars. As the graph shows, while AquaChile and Marine Harvest expanded heavily prior to the crisis, the market share of Mainstream Chile stayed relatively stable. Between 2005 and 2011 the market share of Mainstream Chile fluctuated between 6 and 9%.

In 2011 Cermaq had 63 fish farming licenses in Chile with a total estimated value of 128 million dollars (715 million NOK). Cermaq valued its total assets in Chile (tangible and intangible, Mainstream and EWOS) to 738 million dollars²⁴.

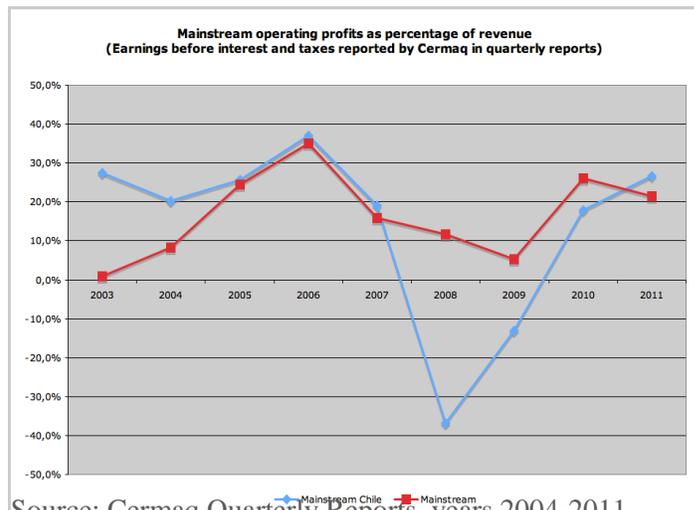
²³ Cermaq bought the feed producers EWOS AS (Norway), EWOS Ltd (UK), EWOS Chile S.A. and EWOS Canada Ltd. From the Danish group Danisco.

²⁴ Cermaq Annual Sustainability Report 2011 pg. 72

2011 was a good year for Mainstream Chile. Its operating profits²⁵ reached 76 million dollars (403,3 million NOK), equivalent to 28% of its revenues from exports. Hence, profits more than doubled compared to 2010. 2012 doesn't look very promising, since Mainstream Chile registered losses of 9,9 million dollars during the third quarter of 2012 (57 millions NOK)²⁶. According to the Norwegian online business newspaper HeggnerOnline Mainstream's losses amounted to more than one US dollar for each kg salmon produced during this period²⁷.



I.3 The expansion of Mainstream in Chile



Source: Cermaq Quarterly Reports, years 2004-2011

The salmon farming companies operating only in Chile were hit very hard economically by the 2007 crisis. Although Mainstream's operations in the country reported huge losses in 2008 and 2009, the company was able to report profits due to its activities in Norway, Canada and Scotland.

In the aftermath of the crisis the Chilean government issued a bank guarantee, allowing salmon companies to postpone the payments of their debts until 2013.

Many Chilean owned salmon companies continue to face

considerable financial problems, creating a favourable context for expansion for companies with better access to capital, such as Mainstream. It is not unlikely that several Chilean owned salmon farming companies in 2013 will face problems of indebtedness that will force them to sell salmon farming licenses and equity, allowing for a further concentration of the salmon industry. The "Estrategia", Chilean business newspaper, considers that by the end of 2013 there will be a concentration process that will reduce the number of salmon companies operating in Chile by 50%.²⁸

By the end of September this year, Cermaq acquired the Chilean salmon producer Cultivos Marinos Chiloe for 110 million dollars. The CEO of Mainstream Chile, Francisco Miranda, stated that this

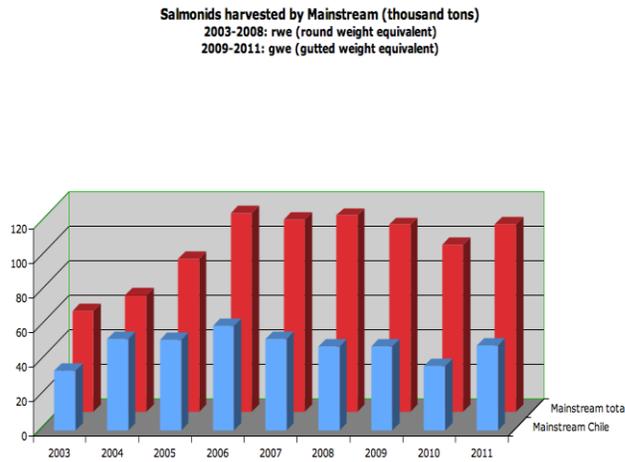
²⁵ Operating profits, o EBIT (Earnings before interest and taxes).

²⁶ After operatives earnings of 48,7 mill NOK in 1st quarter year 2012. Figures from Cermaq Quarterly Reports.

²⁷ www.hegner.no October 23th 2012. "Overraskende underskudd fra Cermaq"

²⁸ Source: www.aqua.cl 18/07/2012 "In two years numbers of salmon farms could decrease to the half because sector consolidation."

takeover will put Mainstream Chile in a position to increase its production volume by 40%. This means that Mainstream Chile will contribute between 50 y 60% of Cermaq's total production of salmonids.

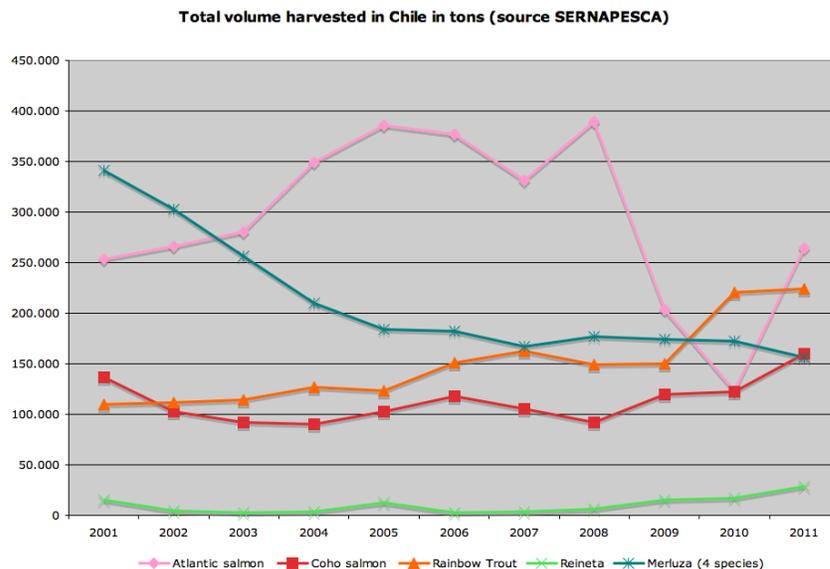


Cultivos Marinos Chiloe employed by September 2012 1.500 workers. Consequently the acquisition implies a 55% increase of workers directly employed by Mainstream Chile (we have no information about the percentage of indefinite and temporal workers).

Mainstream Chile is also expanding southwards, and has been producing fish in the XII Region since December 2011. By March 2012 the government had granted 18 fish licenses in the XII region to three salmon companies; Mainstream, Nova Austral and Salmones Magallanes.

During the three first months of 2012 the authorities received 44 applications for fish licenses in the same region.

Francisco Miranda, General Manager of Mainstream, told to El Financiero Newspaper that Mainstream will invest 25 million dollars in Magallanes, forecasting a production of 10.000 tons in the region²⁹.



²⁹ El Financiero Newspaper. March 28th, 2012 Salmon companies intensify request for Aysen and Magallanes waterlands concessions.

ANNEX V – STAKEHOLDER INTERVIEWS

a) Labour Union Leaders

Outsourcing and Unionization: Employment in the salmon sector can be divided into three categories.

1. Workers directly employed by the salmon companies, 2. employed by contractors and 3. employed by subcontractors. Within the first category there are three subcategories depending on the contract of employment. 1. Stable employment, 2. Temporary (or fixed term) employment, normally limited to three months. When one three month's period ends, the worker can be employed once again on the same conditions. A significant number of workers are in practice employed on a permanent basis, but on temporary contracts with inferior rights and working conditions. 3. Workers employed on contracts for services, which for the workers implies higher vulnerability and less rights. According to the labour union leaders and the NGO Canelo de Nos³⁰ the employment situation at Mainstream's processing plants in Quemchi and Calbuco was as follows:

Calbuco. Estimated production 60 tonnes per month. 400 workers, of which 360 had temporary contracts, and 40 had permanent contracts. Two trade unions with about 20 members each.

Quemchi: production 36 tonnes per month. 700 workers. Around 350 worker with permanent employment, and approximately 300 on fixed term contracts. Close to 100% union membership among workers with permanent employment.

There is a labour union for workers at Mainstreams farming centres³¹, with about 120 members. Maintenance workers play an important role in the labour unions at farming centres, since they mobilize between different centres. Before the crisis in 2007 unionization was estimated to 19%, but some recent estimates suggest unionization after the crisis could be as low as 3 to 5%. Before the collective bargaining in July 2012, workers at Mainstream's plant in Quemchi had wages significantly below average salaries in the sector. After the negotiations their salaries reached a middle range in the sector.

The union leaders at Cultivo Marinos Chiloé (CMCh), the company recently acquired by Mainstream, informed that working conditions at CMCh were somewhat better than in Mainstream. As an example, temporal workers received the same production bonuses as permanent employees in CMCh, and only 70% in Mainstream. However, Mainstream recognized and extended the collective agreement reached between Cultivos Marinos and the labour union, and thus the Mainstream takeover has not led to lower labour standards. Then again, the union leaders stated that administrative measures were imposed on workers by the management of Mainstream without any explanation or dialogue with workers. As was the case with the introduction of a strict rationing of gloves and aprons used by the workers in the processing plant, affecting working conditions adversely.

Union leaders said that Mainstream doesn't interfere in worker's unionization, neither to hinder nor to promote unions. The Company shows a lack of interest in fostering dialogue with unions.

³⁰ The NGOs Canelo de Nos was part of the Chiloé's Labor Observatory acting-OLACH, since the ISA crisis up to now, supporting the workers organisations, and also been active promoting new legal frame for aquaculture labor standards among the governmental authorities

³¹ The present assesment was not able to achieve the total centres that mainstream have in operation because it is not open information in the public governmental sources. It was possible to know the total licenses that the company has but it can be more than one centre by license.

Health and Security: The establishment of Joint committees at each company that has more than 25 workers are part of the legal framework in Chile, with the purpose of coordination and participation of workers on health and safety measures. Union leaders said their participation in the joint committees was low. Some accidents are dealt with in the different facilities' first aid centres, workers claim these are used as a filter to avoid treatment at medical care centres. Thus the official injury rate is reduced, and accordingly the costs of insurance against injuries paid to the Mutual de Seguridad-system. Workers accept this, since it allows them to continue working and avoid losses in the production bonuses. **Work related diseases:** The Company has set up healthy pauses (15 minutes of gym exercises) to prevent this kind of diseases. The regulations of security at the workplace, doesn't address the situation for worker in the salmon industry properly. Since 1969 it has been modified only once, addressing the mining sector after San José mine accident in 2010. Hence, current law does not include diseases and injuries related to work in aquaculture, which tend to produce relatively high rates of temporary inability to work and permanent inability in some cases, (such as lumbagos, tendinitis and diseases related to working conditions as static work and cold weather; off shore and on lands plants).

Gender Discrimination: Around 60% of processing plants' workers are women. The respondents said that there had not been any recent incidents with pregnant women related to mistreat and disrespect of their labour rights (claiming they had been unlawful fired or denied maternity benefits). Nevertheless, they stated that there was a culture of gender discrimination among middle management and supervisors. This kind of discrimination is in general not denounced. Their impression is that discrimination of women regarding employment contracts is increasing.

Childhood Rights: Some companies avoid hiring mothers with children below two years of age, as the law demands that the company provide day care for those children. Although not directly with reference to Mainstream, this was said to be a common practice in the sector. The respondents also mentioned a practice of paying a 70.000 pesos bonus to mothers of children younger than two years, to cover day care. This is not sufficient for a nursery, but some mothers do prefer cash payment because of their social conditions. Thus the children don't attend nurseries, which often affect their early stimulation and creating a situation of vulnerability. **Salary structure:** is composed by a low general base, plus a production bonus, which amounts to around 35% of total salary. In the last period there have been attempts from Mainstream to link the production bonus with the injury rate.

Young Employment and Training: An incentive created by the government to increase employment among young people was mentioned. The majority of workers in the salmon industry (around 80%) are young people less than 25, and the companies receive a subsidy from the government for hiring them. The lack of training of young people in the industry generates vulnerability for them in case of crisis or productive cycles in the industry, because young people they don't have skills to be hired in other productive areas.

b) Universities and Research Institutions

Interview to Sandra Bravo: Expert in aquaculture, Academic and Researcher from Instituto de Acuicultura, Universidad Austral

According to the researcher, the regulation of the aquaculture industry is insufficient. The 2007 crisis was not caused exclusively by the ISA virus, bad practices contributed heavily. There are shared responsibilities, mainly at decision-making and production level. Transnational enterprises, such as Mainstream and Marine Harvest, arrived Chile with higher environmental standards, but soon adapted to local practices and standards. Standards and practices are similar within the salmon industry. The 2012 Rule for the sea lice control, confirms that a farming centre that shows more than nine parasites per fish during nine weeks should be put out of production. According to the researcher, in some cases there have been 20 sea lice per fish in average, but only 9 sea lice per fish have been reported to the authorities. With high doses of pesticides the companies try to reduce the sea lice level, adversely affecting fish health and the surrounding environment. The reluctance of the State to interfere with, and lack of competences to monitor, in relation to the salmon industry are important problems to face. What is needed is not only more supervision and bigger fines for

infringement, but also is needed to increase the specialized competence in the state bureaucracy. The State is a key player in order to achieve a sustainable production.

Southern expansion: The researcher also claimed that expansion to Magallanes, in order to increase the production and to solve the problems that produced the crisis in 2007 will be a wrong approach. Consequences may be very negative in a vulnerable environment with an excellent water quality and a great biological diversity. ***Zonings and Neighbourhoods for Production:*** The researcher believed the suggested model for zonings and densities will work poorly, since excludes important factors such as sea currents.

Initiatives identified: Mainstream hired a professional (from Universidad Austral) to develop a training plan in labour and environmental issues. The researcher had also participated in two opportunities as a trainer in this context.

Interview to Alvaro Román: Development Specialist, Dr © sociologist and Ph.D. student at Institute for Urban and Territorial Studies. Universidad Catolica de Chile

The salmon industry has had huge impact on local development in the X Region, and in particular on the Chiloe Island. Before the surge of salmon farming and processing on the island, temporary work migration to Argentina was a way for many families to make ends meet, with the effect of splitting up families. Due to the creation of local jobs, the attitude towards the salmon industry among the inhabitants is mainly positive. Many small enterprises providing services to the salmon companies have generated opportunities for social mobility for some inhabitants and precarious jobs with poor working conditions for others

There are potential conflicts between the salmon industry and small-scale fisheries on the island. But the local fishermen possesses skills that are demanded by the salmon companies, such as diving, navigating boats and other offshore activities, providing them with an extra source of income. Thus most local fishermen work during some periods of the year for the salmon industry and during other periods in fishing. This mutual interdependence has abated, but not eliminated the conflict of interests between local fisheries and salmon farming.

Concealment and lack of dialogue with local actors is a problem related to the modus operandi of salmon companies. In 2008, in the midst of the fish health crisis both farming centres and processing plants were busy harvesting and processing salmon, in order to close down infected farming centres. The salmon companies did not inform the local administrations on the island about this situation, and when the massive lay-offs started the municipalities were caught by surprise. A more open and transparent attitude by the salmon companies would have enabled to municipalities to prepare and mitigate the severe rise in unemployment and related social problems.

c) Indigenous Organisations

Interview to Ivan Carilao: Counselor of the Consejo de Desarrollo Indígena-CONADI VIII Region, leader of the organisation Identidad Lafkenche

During the last ten years the general institutional situation regarding indigenous rights has changed in Chile. In the new legal framework there are two relevant instruments. A national law to secure rights over the coastal areas to indigenous people; also known as the Lafkenche Law; enacted in November 2007 that guarantee the participation and equity in exploitation of the marine resources for indigenous organizations. The second important instrument is the ILO 169 convention, which got into force on September the 15 in 2009 (after almost 20 years in parliament). The Decree (DS 124) that establishes mechanisms for participation was approved without participation of the indigenous organizations. In spite of strong resistance to enhanced rights for the indigenous people among some business groups, especially exporters of raw materials, the operative mechanism and interpretation must favour the international law of human rights in the light of the country's commitments to the ratification of international instruments.

Recently legal conflicts have been resolved in favour of indigenous people, based on the ILO 169 Convention. Among the priorities of the Lafkenche people in 2012 were the changes to be enacted by Parliament in the fisheries law. They request the harmonization with the Lafkenche Law and

ILO 169. The Lafkenches are also claiming 733,000 hectares of coastal areas between Arauco and Chiloe. The Lafkenche leader interviewed said that if a consensus cannot be reached within Chilean law, they *would attend to international mechanism and organizational networks* to pressure and lobby for collective indigenous rights in Chile. The leadership of the organization Identidad Lafkenche mentioned that they did not have any contact directly with neither Mainstream nor other salmon companies recently. However, the organization was informed of ongoing conflicts with salmon companies and monitored potential future conflicts.

d) National and local NGOs

Interviews to Alejandro Salinas, Executive Director of El Canelo de Nos and Patricio Peñaloza, Project Coordinator in Chiloé, who Works close to the aquaculture workers leaders and Mainstream's workers leaders.

Canelo de Nos formed the NGO network Chiloe's Labour Observatory Project (OLACH) in 2006, together with Cenda, Oxfam and Fundacion Terram. They supported the creation of the Confederation of Labour Unions in the Salmon Sector (CONATRASAL), with associated workers from Puerto Montt, Chiloe, Aysen and Tierra del Fuego. They also supported the participation of labour unions in the Salmon Round Table. The business representatives agreed that the Labour Union could participate in the Round Table on the condition that salaries would not be discussed. The NGO Canelo de Nos accompanied and supported the workers during the entire ISA virus crisis, but Mainstream did not allow Canelo to meet with the delegation from LO (the Norwegian Confederation of Trade Unions) during its visit to the Quemchi plant organized by Mainstream. Canelo de Nos believe that due to this LO did not get the necessary inputs for a full picture of the situation.

According to Canelo de Nos, Mainstream is not characterized by openness to dialogue, and they do not have regular contact with the company. The new CEO since 2008 visited Canelo de Nos, signalling a more open attitude. However, since then the NGO has not seen substantial improvements in the communication with Mainstream. Canelo de Nos, with a thorough knowledge of working conditions in the salmon industry, considered Mainstream to be in the middle range among salmon enterprises in the area of labour rights and working conditions.

About the Legal context. The current labour legislation doesn't consider the complexities of the salmon industry. To improve the labor standards situation Canelo de Nos and CONATRASAL (Confederación Nacional de los Trabajadores del Salmòn) worked, together with government representatives, in 2009 and 2010 on the redaction of a Labour Statute for Aquaculture This Statute has not been implemented due to the lack of support for the initiative from the current. Ministry of Labour.

Interview to Juan Carlos Cárdenas; Executive Director of the ambientalist NGO Ecoceanos

The sanitary situation in the salmon industry is a time bomb, according to Juan Carlos Cardenas. He pointed out that the relation between the growth of salmon production in 2011 and 2012, and the number of licenses officially producing salmon do not add up very well. This could mean that densities in the cages are far higher than reported, or that the official statistics have other flaws. In July this year the Undersecretary of fisheries, Pablo Galilea, warned about high levels of sea lice detected in some neighbourhoods. He has repeatedly appealed to salmon companies to be responsible. The director of Ecoceanos thinks that the self-regulation requested by the companies is not feasible.

Rising sea lice and falling international prices is a bad mix for the sector. Recently, the banks play a role of increasing importance in the salmon sector, since the Chilean companies owe large unpaid debt to the banks. Banks are concerned about the risks associated with the sector. A new crisis in the sector would most likely lead to a concentration of ownership in the sector, in a process where the banks will play a crucial role. ***Expansion to the South:*** Magellan is an area with unique environmental conditions. The Government has turned down half of the 1.600 applications for

farming licenses in this region. The expansion southwards must necessarily be based on detailed studies of impacts and risks.

Model NCP for Chile: Ecooceanos believes that the complaint against Cermaq can contribute to the development of the National Contact Point Chile, towards a model that could be inclusive and open, and lead to participation and a constructive dialogue between the actors in the pursuit of sustainability.

e) Public Institution

Camila Jordán, Regional Authority for Labor Office; Head for Región de Los Lagos.

In general the salmon companies do comply with existing labour regulations. The most important problem is the high number of outsourced workers. There are 380 existing labour unions on the workplaces in the region. Confederacion Nacional de Trabajadores del Salmon- CONATRASAL was restructured in 2012 and a “Negotiation Table” was organized to discuss the Labour Statute for Aquaculture. They regretted the absence of SalmonChile and some other salmon companies in this process. There are companies with higher disposition to the dialogue than others. A Marine Harvest initiative that is considered to contribute to the monitoring of contractors and subcontractors, such as agreements and standards that govern the entire value chain was mentioned as a positive example.

Pending Tasks: Occupational health and safety standards (Act 594 regulating administration and standards on sanitary implementation and water availability for workers on farms). There is a lack of innovation among salmon companies to solve safety and sanitary problems in the sector. (Examples mentioned were toilet solutions for farming centres; thermal suits, diving technologies, taking care health and safety condition for workers among others). According to the local Executive, there is a need for more open dialogue with workers, and a change of attitude towards the workers’ situations and problems. Another relevant issue mentioned was the need to improve regulations on safety and prevention of accidents. There are first aid centres in some processing plant, which are important for the companies in order to solve the small accidents inside the workplace to maintain lower accident rates before the Insurance Company to maintain the insurance costs. Injuries treated at the first aid centres are not registered as working injuries, and lowering registered injuries means lower insurance costs within the Chilean institutional labour’s security system (mutualismo de seguridad). This means that it is difficult to know the real injury rate.

The recent initiative of certification for divers, developed through Salmon Chile has been very positively received by the workers. It is a "good initiative that produced happier workers" and contributed to social recognition. There is a relatively even standard of labour practices in the sector, and within this context Mainstream is not different from the majority of the companies; they comply with the law. In general, she thinks there is a lack consideration for local communities among the salmon companies. Thus, more CSR policies and practices , and more dialogue with the workers are among the main challenges for the companies. The leaders of CONATRASAL are positively valued by the Head of the Labour Direction’s Regional Office.

f) Other relevant contacts that could not be interviewed directly

Guild Aquaculture Association

SALMONCHILE A.G.: Mainstream Chile has a seat in the Directory of this business association. Salmon Chile develops projects with its partners in qualification of workers, and promotes some Social Responsibility initiatives³². "Labour competences project" (started with State franchise

³² The initiatives in detail are not explained on the website; but it can be inferred by the news that the scope of the training is limited, considering the mass of workers from its partners (direct and indirect). Initiatives of CSR are also exposed on the web but are not possible to know the magnitude of the contributions.

SENCE in 2011) addressed to workers of its partners³³. A board consisting of Salmon Chile, Mainstream, Marine Harvest, Cultivos Marinos, CONATRASAL and SERNAPESCA, was created to implement and monitor the project. There was no meeting or telephone interview with Salmon Chile, since their representatives didn't manage to fit a meeting into their time schedules.

Local Government in Chiloe

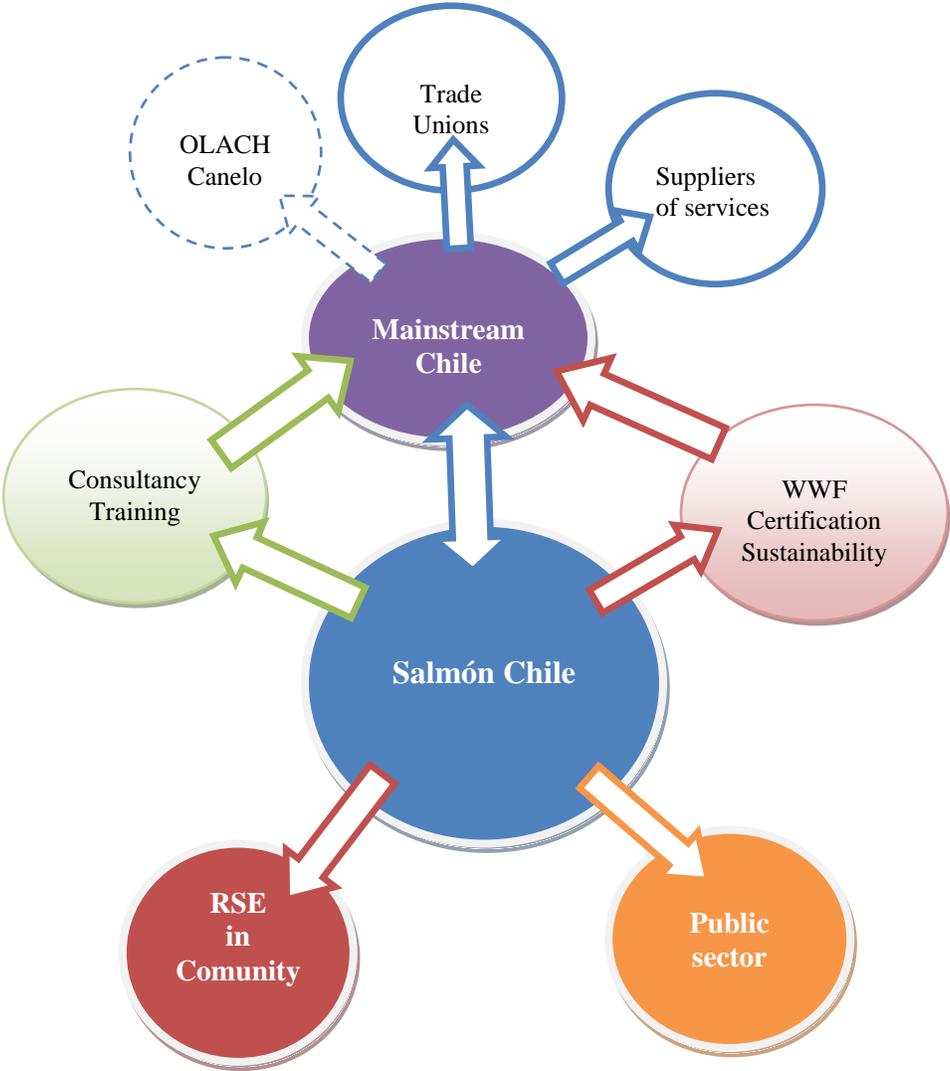
Quemchi Municipality: A set of written questions were sent the Office for Productive Promotion on their request. The Office didn't find time to respond the questions by e-mail or for an interview by phone.

Chilean CERMAQ`S Company

Mainstream Company: We asked for a meeting with Mainstream's CEO per email. The CEO could not meet us since he was abroad. We then asked for an interview with someone else who could meet us on behalf of the company. When the deadline closed for this report, we hadn't received any reply to that request.

³³ Sources: ChileValora and <http://www.salmonchile.cl/> Of the total of 400 workers certified 2011- coming from the regions of La Araucanía, Los Lagos and Aysén-, 20 belong to the Australis sea company; 46 to frozen Pacific; 54 to Cultivos Marinos Chiloe; 100 to Mainstream Chile; 50 Camanchaca; 20-Troutlodge Chile and 110 to Ventisqueros.

ANNEX VI - DIAGRAM ON COMMUNICATION CHANNELS IN THE FIELD



Sustainable salmon aquaculture in Chile

Cermaq's comments to report on Mainstream Chile operations

In May 2013, the Norwegian Society for the Conservation of Nature (NSCN)/Friends of the Earth Norway and the Forum for Environment and Development (ForUM) published the report '*Mainstream/Cermaq's progress in contributing to sustainable salmon aquaculture in Chile*'.

The report was commissioned by ForUM as a follow-up study based on the joint statement issued by the NSCN, ForUM and Cermaq in August 2011 closing a complaint filed in 2009 about alleged breaches of the OECD Guideline for Multinational Enterprises.

Cermaq's comments:

Cermaq welcomes all constructive criticism that can contribute to improvements in the way we manage our business and relationships with local communities. Regrettably, the follow-up study commissioned by ForUM has been finalized – and conclusions drawn – despite a deep lack of essential information from Mainstream Chile, a limitation also noted by the authors themselves in the study's chapter 1.1.

Cermaq was more than willing to share information and our thoughts with the authors during their research. To this extent, the CEO of Mainstream Chile offered both a meeting and a phone interview during the authors' stay in Chile. The authors never acted on the offer, nor did Cermaq or Mainstream Chile receive any request for additional information or data. This has resulted in a misinformed and partly erroneous picture of Mainstream Chile.

Essential facts and clarifications

For the interest of the readers of the study, Cermaq would like to offer some additional information to shed better factual light on our operations in Chile:

Environment:

Chilean regulations require an Environmental Impact Statement (DIA) before approving licenses for sea sites and processing plants. The DIA for Mainstream's nine licenses in Magallanes was presented to the Ambiental Evaluation Service (SEA) and analysed in depth by around 15 different institutions and organisations, including marine and conservation authorities, tourism organisations, municipalities, etc. Before the Magallanes expansion, Mainstream Chile also conducted a landscape study to assess the impacts on the natural scenery, and developed a plan for the protection of biodiversity and the marine fauna around the facilities, both voluntary projects.

In addition to the obligatory environmental monitoring two months before harvesting, Mainstream Chile conducts environmental assessments around its facilities several times during the production cycle. No irregular environmental impacts have been observed around the company's operations in Magallanes. The monitoring process includes parameters related to water quality, seabed conditions and others.

Fish health:

The ISA crisis in Chile spurred a more systematic approach to preventive fish health work throughout Cermaq, giving us better knowledge and more tools to forecast and prevent disease outbreaks. Key elements in our approach to safeguard fish health and welfare are screening programs for monitoring relevant pathogens, vaccines and functional feeds, which together have reduced the use of antibiotics and other treatments in Mainstream Chile compared to the industry average in Chile.

Fish mortality is one of Mainstream's most important key performance indicators. We monitor mortality on a daily basis and report on a twelve-month rolling average relative to the number of fish in sea. This provides our facilities with the best bases for managing farming operation.

Workers' rights

At the time of the study (November 2012), 40 % of the employees in Mainstream Chile were members of a union. This was above the industry average (33%) and the average for all of Chile (15%). Employees in Mainstream Chile were represented by altogether nine different unions, covering processing plants, seawater production and fresh water production.

A survey conducted among union leaders in Mainstream Chile in spring 2011 spoke of clear improvements in all areas covered, including the relationship between company and unions, communication with company management, health and safety measures as well as community relations.

In Mainstream Chile the top management meets with leaders of all unions on a regular basis, normally biannually. During the meetings, management and union leaders openly discuss company goals, performance and other relevant topics.

There is a significant number of seasonal employees in the processing plant in Chile during peak season (i.e. the Chilean summer). All workers are hired directly by Mainstream Chile.

In 2012, Cermaq completed a project to improve the quality of its health and safety data and harmonize reporting procedures across the company. Cermaq's performance indicators and reporting procedures for occupational health and safety have also been subject to audits by a third party (Ernst & Young) as part of the verification of the company's sustainability reporting.

Indigenous peoples

Mainstream Chile has never experienced any concerns reported or raised by indigenous peoples as a direct result of Mainstream's operations. Still, Cermaq is seeking better clarification of the safeguarding of indigenous peoples' rights in the areas in which the company operates.

Mainstream Chile, backed by Cermaq, has initiated an independent evaluation of its relationships with local stakeholders, including employees and unions, in Region X. The evaluation is on-going and conducted by Antonio Bernales Alvarado, head of the Peruvian NGO Futuro Sostenible.

Mainstream Chile was contacted by the NGO NomoGaia which wanted to do a Human Rights Impact Assessment project related to the company's expansion in Punta Arenas. NomoGaia has defined the scope of the project on an independent basis, and Mainstream Chile has welcomed the opportunity to learn from this study.

Communication and dialogue with the community

Chile is Cermaq's largest region in terms of employment. Yet, the company's external communication in Spanish has been, and still is, less than adequate. We are intensifying our efforts to improve communication with employees, unions and local communities, e.g. by translating key parts of our sustainability reporting to Spanish. Also, a new web site for Mainstream Chile (in Spanish) is in the pipeline and scheduled for launch in late 2013.

Please see Cermaq's [Annual Report 2012](#) for further details and performance data on most topics described above, including fish health and preventive measures, environmental performance, workforce composition, occupational health and safety along with examples of our cooperation with indigenous groups in Chile.

For further information, please contact:

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