



702 H Street NW Suite 300
 Washington DC 20001
 tel: 202.462.1177 fax: 202.462.4507
 greenpeace.org

Investor alert: significant market and supply chain risks in acquiring Bumble Bee Foods from Lion Capital

Dear Investors,

Recent market news¹ suggested that a company you invested in is interested in acquiring Bumble Bee Foods, a producer and marketer of shelf-stable seafood in North America, which is reported to be up for sale for about \$1.5 billion.²

As an organization familiar with the practices of tuna fisheries from boats to shelves, and a driver for seafood sustainability in the catch and retail sectors, Greenpeace believes there are significant risks in the Bumble Bee supply chains that investors need to be aware of.

Our insights on US seafood market trends and the associated risks of entering into the tuna longline industry follow.

Bumble Bee

Bumble Bee shares the US\$1.7 billion US canned tuna market with two other major brands. According to a Chicago-based market research firm IRI, Bumble Bee is the second largest brand with 25% of the market, after StarKist with 36% and in front of Chicken of the Sea with 13%.³ The other 26% of the market is shared amongst numerous private label brands.

Since the company does not have its own fishing fleet, it must heavily rely on supply from Asian tuna traders for its main product, albacore tuna (canned and sold as “white” tuna in the United States). Bumble Bee’s tuna operation is not vertically integrated, and thus much of its tuna is processed in countries like Thailand, Fiji, and other major tuna processing centers.

US canned tuna consumption has dropped 40% in 25 years

Per capita canned tuna consumption in the US has dropped from almost 4.0 pounds per year in 1990 to just around 2.4 pounds in 2012.⁴ Recent reports suggest this downward trend continues, with Bumble Bee’s own admission that for the 52 weeks ending March 2014, consumption of canned and pouch tuna was reported at 65.9% compared with 68.1% recorded during the same period of 2010.⁵

Roberto Ferdman from the Washington Post⁶ suspects that this trend will not be reversed, as Americans have ‘fallen out of love with canned tuna’ due to the many environmental and health concerns. For example, conservation organizations, like the Monterey Bay Aquarium Seafood Watch program, recommend that consumers avoid almost all albacore caught with longlines.⁷ There is also a growing interest in fresh, local and organic foods which has hit non-perishables, such as packaged, precooked tuna.



- 1 Bumble Bee said to draw bids from Thai Union, Mitsubishi. Bloomberg news. 14 October 2014. <http://www.bloomberg.com/news/2014-10-14/bumble-bee-said-to-draw-bids-from-thai-union-mitsubishi.html>
- 2 Exclusive: Canned tuna company Bumble Bee eyes \$1.5 billion sale - sources. Reuters. 27 June 2014. <http://www.reuters.com/article/2014/06/27/us-bumblebeefoods-sale-exclusive-idUSKBN0F22D320140627>
- 3 Tuna Firms Jostle for Uncle Sam’s Recognition. The Wall Street Journal. 17 February 2014. <http://online.wsj.com/news/articles/SB10001424052702303743604579352793666178318>
- 4 Per Capita Consumption. National Marine Fisheries Service, National Oceanic and Atmospheric Administration. http://www.st.nmfs.noaa.gov/Assets/commercial/fus/fus12/08_percapita2012.pdf
- 5 Tuna Market reports. FAO Globefish. September 2014. <http://globefish.org/tuna-september-2014.html>
- 6 How America fell out of love with canned tuna. The Washington Post blog. 18 August 2014. <http://www.washingtonpost.com/blogs/wonkblog/wp/2014/08/18/how-america-fell-out-of-love-with-canned-tuna/>
- 7 Tuna, Albacore. Monterey Bay Aquarium Seafood Watch. <http://www.seafoodwatch.org/seafood-recommendations/detail/174/tuna-albacore-longline-worldwide-except-hawaii-thunnus-alalunga?q=albacore&type=albacore>



702 H Street NW Suite 300
 Washington DC 20001
 tel: 202.462.1177 fax: 202.462.4507
 greenpeace.org

Competition with other key brands and sustainable options

Over the past several years, we have witnessed a dramatic increase in the availability of more sustainable canned tuna options under the various private labels of numerous US grocers. Major retailers like Walmart, Costco and Safeway have introduced responsibly sourced private label canned tuna products that cater to growing consumer demand for sustainable seafood, and American consumers can now choose from nearly a dozen different FAD-free or pole-and-line tuna options under various private labels.⁸ Bumble Bee, however, does not offer any sustainable canned tuna that satisfy Greenpeace sustainability criteria under its flagship brand.⁹

This shift is in addition to the marked growth we are seeing among smaller boutique canned tuna producers that are also heavily focused on sustainable product. Further, there has been movement in the institutional food service sector, where earlier this year Compass Group announced that over half of its canned tuna would be sustainably sourced FAD-free skipjack,¹⁰ and Bon Appétit Management Company (the US food service provider) will only purchase FAD-free tuna starting January 2015.¹¹

Supply chain risk

Supply of albacore

The supply, and consequent price, of tuna is highly volatile, and entry into the catch sector is tightly regulated because of concerns about the sustainability of tuna stocks. Together with the drop of consumption of tuna in the US, this means any growth potential of the business based on an increase in volume is unlikely, if not impossible.

The Scientific Committee of the Western and Central Pacific Fisheries Commission (WCPFC)¹² has already raised concern about the impact of increased fishing rate and effort on albacore tuna in the South Pacific¹³, where Bumble Bee sources much of its tuna. Increased competition created by the entry of new distant water fleets has driven Pacific islands based domestic fisheries, many of which have historical ties with American tuna companies, into a loss.¹⁴ Continuing to fish Pacific albacore at the current rate will quickly deplete the stock, leading to a shortage of tuna supply and higher fish prices, which will reduce the profitability of Bumble Bee.

Environmental, social and governance (ESG) risks in supply chains

In general, the tuna fishing industry faces high environmental impacts and significant social risks in both purse seine and longline fishing. Greenpeace has produced a report detailing the prob-



8 More US retailers roll out pole and line tuna products. Undercurrent News. 14 May 2014. <http://www.undercurrentnews.com/2014/05/14/more-us-retailers-roll-out-pole-and-line-tuna-products/>

9 The 'Wild Selection' white tuna is marketed as a sustainable product by Bumble Bee; however, the tuna for this product comes from a mismanaged fishery in the South Pacific, where overfishing by distant-water fishing fleet is driving the collapse of the locally-based fishing companies. For details see: <http://www.undercurrentnews.com/2014/06/18/fishery-scientists-managers-to-address-albacore-overfishing-in-western-pacific/>

10 Compass Group. 100% sustainably sourced skipjack tuna by 2015. 12 August 2014. <http://compass-usa.com/pages/News-Release-Viewer.aspx?ReleaseID=353>

11 Bon Appétit requires tuna suppliers to give up fish aggregating devices. Press release 29 July 2014. <http://www.bamco.com/press-releases/fad-free-tuna/>

12 The Western and Central Pacific Fisheries Commission is the regional fisheries management organisation responsible of the establishment of rules (including catch limits, effort restrictions, gear restrictions, etc) governing the catches of tuna in the Western and Central Pacific Ocean.

13 Pilling, G.M., Harley, S.J., Williams, P., Hampton, J. & the WCPFC Secretariat. Trends in the south Pacific albacore longline and troll fisheries. WCPFC Scientific Committee. 6-14 August 2014. WCPFC-SC10-2014/SA-WP-07 Rev1. <https://www.wcpfc.int/node/19001>

14 Arita, S. & Pan, Minglin. Cost-earnings study of the American Samoa longline fishery based on vessel operations in 2009. WCPFC Scientific Committee. 6-14 August 2014. WCPFC-SC9/MI-WP-06. <https://www.wcpfc.int/system/files/MI-WP-06-Cost-Earnings-Am-Sam-LL.pdf>



702 H Street NW Suite 300
 Washington DC 20001
 tel: 202.462.1177 fax: 202.462.4507
 greenpeace.org

lems in tuna longline fisheries.¹⁵ The report highlights issues that are endemic to this industry, such as fishery depletion, high levels of bycatch (including threatened sharks, turtle and seabird species), high incidence of illegal, unregulated and unreported fishing, and cases of horrific labour standards and slave-like conditions for crew members.¹⁶

An estimated 100 million sharks are killed by fishing fleets annually, and tuna vessels are among the worst offenders.¹⁷ Despite growing opposition and the rise of anti-shark finning regulations, including bans in the US and Taiwan, tuna fleets continue to be instrumental to the shark fin trade. Tuna longliners, the method that supplies the bulk of Bumble Bee's tuna, continue to use methods such as wire leaders and shark lines deliberately aimed at catching sharks.

Recent examples of illegal fishing and shark-finning links to Bumble Bee include Sea Bounty, a US fishing vessel from the South Pacific Tuna Corporation (SPTC) fleet¹⁸, which settled out of court for US\$125,000 after being charged with illegal fishing and shark-finning in the Marshall Islands Majuro Lagoon.¹⁹ In another incident, five SPTC purse seiners were charged with five counts of setting their nets on whales, which is a violation of the Marine Mammal Protection Act, and twelve counts of violation of the Western and Central Pacific Fisheries Convention Implementation Act. The owners, operators and fishing masters were fined US\$953,054 in August 2013.²⁰ SPTC is a Bumble Bee supplier²¹, and as of 2009 Bumble Bee's CEO, Chris Lischewski, owned a minority stake in the 12 vessels managed by SPTC.²²

Such ESG risks are material liabilities to the company, as potential sanctions and penalties can affect profitability. The reputational damage to the brand value is also not to be underestimated.²³

Labor/human-rights abuse issues in longline fisheries

The very nature of longline tuna fisheries, often operating far from their country of origin and far out at sea, creates opportunities for the routine abuse of employees away from public scrutiny or regulation. Working conditions on fishing vessels are among the worst in the world, with reports ranging from dire working and living conditions to crew-members who have been taken and kept on board as victims of human trafficking and modern-day slavery.²⁴ Bumble Bee's weak chain of custody and reliance on promises from suppliers²⁵ operating out of countries with weak labor protections expose the company to considerable risk from human rights violations.²⁶ The repercussions felt by investors from the recent Thai slave labour case in the prawn industry demonstrate the importance of investors understanding social risks in supply chains.²⁷



15 Greenpeace International. 2013. Out of line – the failure of the global tuna longline fishery. <http://www.greenpeace.org/international/Global/international/publications/oceans/2013/459-OutOfLineReport-DEF-LR.pdf>

16 See for example: Ordeal of 75 Indonesian fishermen forced into 'slavery at sea'. South China Morning Post. 2 December 2013. <http://www.scmp.com/news/world/article/1370351/ordeal-75-indonesian-fishermen-forced-slavery-sea>

17 Worm et al. 2013. Global catches, exploitation rates, and rebuilding options for sharks. Marine Policy. Vol. 40, pp 194-204. DOI: 10.1016/j.marpol.2012.12.034

18 Our Fleet. South Pacific Tuna Corporation. <http://www.sopactuna.com/portfolio/>

19 Sea Bounty pays \$125K. The Marshall Islands Journal, 1 August 2014.

20 Penalties for Purse Seine Fishing violations total more than \$1.5 million. NOAA Fisheries press release. 4 September 2013. http://www.nmfs.noaa.gov/ole/newsroom/stories/13/04_090413_purse_seine_fad_case.html

21 About. Who are we. South Pacific Tuna Corporation. <http://www.sopactuna.com/about/>

22 Legislative Hearing before the Subcommittee on insular Affairs, Oceans and Wildlife of the Committee on Natural Resources, US House of Representatives. 111th Congress. 4 November 2009. Serial No. 111-40. <http://www.gpo.gov/fdsys/pkg/CHRG-111hhrg53252/html/CHRG-111hhrg53252.htm>

23 Deloitte. 2012. Drivers of long-term business value - Stakeholders, stats, and strategy. http://www.deloitte.com/assets/Dcom-UnitedStates/Local%20Assets/Documents/IMOs/Corporate%20Responsibility%20and%20Sustainability/us_scc_Drivers%20of%20Long_Term%20Value_061312.pdf

24 International Transport Workers Federation. 2006. Out of Sight, Out of Mind: Seafarers, Fishers and Human Rights. ITF, London. <http://www.itfseafarers.org/files/extranet/-1/2259/HumanRights.pdf>

25 Bumble Bee Supplier Code of Conduct. <http://www.bumblebee.com/about-us/thriving-workplace/supplier-code-of-conduct/>

26 Slaves in the food chain: when compliance isn't enough. Institute for Human Rights and Business. <http://www.ihrb.org/commentary/slaves-in-the-food-chain-when-compliance-isnt-enough.html>

27 Thai slave labour story prompts call for pension schemes to ask more questions. The Guardian. 12 June

GREENPEACE

702 H Street NW Suite 300
 Washington DC 20001
 tel: 202.462.1177 fax: 202.462.4507
 greenpeace.org

Highly leveraged and inability to reduce debt

Moody's Investors Service has been following the finance situation of Bumble Bee since 2009, providing ratings on the corporate family rating and its various debts instruments. Moody's has downgraded Bumble Bee's ratings for two consecutive years, to B1 in 2011 and subsequently to B3 in 2013.²⁸ The company is considered to be highly leveraged, with Bumble Bee's various holding companies carrying a combined debt of \$918 million as of April 2014.²⁹

Instead of reducing its debt, Bumble Bee is planning extra expenditure on investment in a processing plant in Samoa.³⁰ Also, in an attempt to diversify, Bumble Bee set up an exclusive partnership with Sapmer to provide sashimi-quality products to North America.³¹ This choice of partner is somewhat dubious with Sapmer reporting a 3.8 million EUR net loss in 2014 H1.³²

Material environment and social risks with limited future growth prospects

In our view, Bumble Bee has failed to take the long-term viability of its business into account. It continues to exploit a resource that is currently 'near threatened' due to inadequate regulation and enforcement to manage the stocks, and has questionable social standards for the supply of its main product. These contribute to significant environmental, social and governance risks in its supply chain.

Investors should consider whether the US\$1.5 billion asking price is a fair value that reflects the future prospect of the business, especially during a time when the US canned seafood market shows a clear downward trend. There has been no indication of a brand value increase over the four years under Lion Capital's ownership, and yet, Lion Capital is demanding almost 1.5 times its acquisition price for Bumble Bee.

Greenpeace would be happy to provide more information regarding the tuna industry and its supply chain risks to any responsible investors. Should you have any questions, please do not hesitate to contact me or my colleague at elsa.lee@greenpeace.org.

Disclaimer:

This document does not constitute investment advice. It is solely intended for the purposes of information sharing and reference, environmental protection and public interests, and does not constitute any recommendation, representation, warranty or guarantee of performance.

Sincerely,



John Hocevar

2014. <http://www.theguardian.com/global-development/2014/jun/12/ethical-money-investmentfunds>
 28 Moody's Investor Service. Research and ratings on Bumble Bee Holdings Inc. Accessed 21 October 2014. <https://www.moodys.com/credit-ratings/Bumble-Bee-Holdings-Inc-credit-rating-822369184>
 29 Moody's Investors Service. Global Credit Research. Credit Opinion: Bumble Bee Holdings, Inc. 11 April 2014.
 30 Bumble Bee tuna cannery in Samoa moves forward. Samoa News. 6 June 2014. <http://sa-moanews.com/content/en/bumble-bee-tuna-cannery-samoa-moves-forward>
 31 Bumble Bee Foods announces exclusive partnership with Sapmer. 3 March 2014. <http://www.businesswire.com/news/home/20140303005220/en/Bumble-Bee-Foods-Announces-Exclusive-Partnership-Sapmer>
 32 Brief - Sapmer reports H1 net loss of 3.8 mln euros versus income of 3.2 mln euros in H1 2013. Reuters Africa. 17 September 2014. <http://af.reuters.com/article/commoditiesNews/idAFFWNORG02A20140917>