

Will third party certification provide benefits to Australian domestic fisheries?

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Abstract

Some export fisheries in Australia have opted for third party certification to gain or maintain access to export markets. For domestic fisheries, the economic and management benefits of third party certification have yet to be fully demonstrated. However, as a response to community perceptions, competition with other users of the coastal zone and potential closure, many of the fisheries which supply domestic markets need to demonstrate they are, or are transitioning, to being sustainable and responsibly managed. This paper discusses the broader issues of the need for third party certification under a robust regulatory environment including the assessment of environmental performance of fisheries and promotion of ecologically sustainable fisheries management under the 1999 Environment and Biodiversity Protection and Conservation Act. To address these issues, research is currently being undertaken to assess whether existing third party certification schemes are appropriate for Australian domestic fisheries or whether there is a need for alternative approaches. Benefits would not only need to be demonstrated to all actors in the supply chain but in particular to the catching sector which often pays for fisheries management, including certification information needs, under either fully or partially cost recovery regimes.

INTRODUCTION

Over the last twenty years, there has been a move towards private regulation in fisheries through the development of voluntary third party standards. Proponents of third party voluntary schemes claim that the schemes create incentives for the fishing industry to improve their environmental performance and enable the consumer to differentiate seafood products based on their environmental attributes. In turn, it is argued that this will lead to price premiums for certified products and create economic incentives for participants in the scheme to ensure their fisheries are managed and operated, in a sustainable way [1].

Sceptics of voluntary third party schemes argue from a number of perspectives. Some environmental advocacy groups contend that some (or all) private third party standards are simply “greenwashing”[2]. Others, such as regulators and some industry stakeholders in countries with robust science based fisheries management, maintain that there is no need for the additional cost of third party certification as fisheries are already managed responsibly and/or sustainably [3]. Stakeholders in developing countries, such as seafood producers and exporters claim that certification under these third party schemes is a *de facto* non-tariff barrier to trade [4].

In Australia, there is similar debate concerning the need and benefits of third party certification for non-export, often small-scale fisheries which operate under a robust regulatory regime. This paper, which is based on an ongoing research project assessing the feasibility of a third party scheme for Australia¹, discusses the potential for such fisheries to benefit from third party certification.

CONTEXT

In Australia, there are around 140 managed fisheries with a Gross Value of Production (GVP) ranging from over AU\$100 million to a few hundred dollars [5]. Total wild fisheries catch ranges between 160,000-180,000 tonnes per annum with exports only contributing around 20-25% in volume (Figure 1) but around 75% in value (Figure 2) as they are comprised of mainly high value species such as rock

lobsters, prawns and southern Bluefin tuna. This leaves the lower value species available for the domestic market.

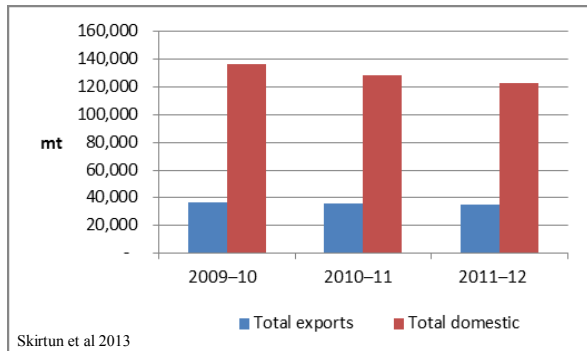


Figure 1 Catches of Australian wild caught fish (mt)

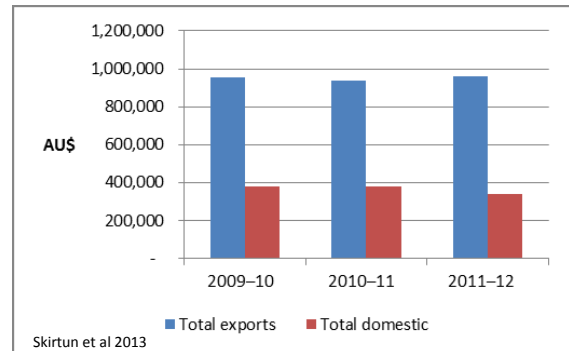


Figure 2 Value of catches of Australian wild caught fish (AUS)

Many of the fisheries selling into the domestic market come from inshore coastal small scale operations which are often in competition, and sometimes conflict, with other users of the coastal zone such as recreational fishing, port development and tourism. As the majority of Australia's 24 million people live in the coastal zone, this competition and conflict between coastal zone users is not surprising (Figure 3).

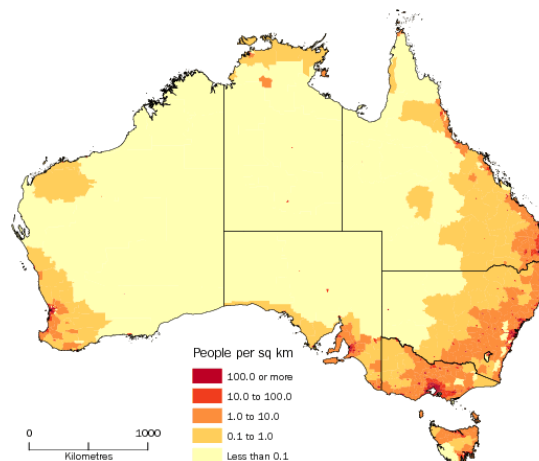


Figure 3 Population density of Australia 2013 (Australian Bureau of Statistics, 2013)

Fisheries management in Australia is generally regarded as being effective [6]. It is supported by robust science and regulatory frameworks. All marine fisheries in Australia are managed under federal or one of the seven State/Territory jurisdictions with considerable consistency in the institutional arrangements that form the fishery management frameworks. In very general terms, State/Territory laws apply to coastal waters (up to 3 nautical miles) and federal laws apply from those waters out to the limit of the Australian fishing zone (200 nautical miles). Across all these jurisdictions, the 2007 Guidelines for the Ecologically Sustainable Management of Fisheries (known as the "ESD guidelines") and associated reporting frameworks are applied to fisheries management. The ESD Guidelines set out methodologies for measuring and assessing the environmental implications of fisheries management, and are also used to satisfy assessment processes under the federal *Environmental Protection and Biodiversity Conservation (EPBC) Act 1999*.

The *EPBC Act* requires that all Commonwealth managed and state export fisheries undergo a strategic assessment to determine whether they are being managed in an ecologically sustainable way. The assessment process, a desktop analysis, is conducted independently from the fishery management

agency by the Commonwealth Department of Environment (soon to be devolved to state/territory government departments). To a large extent, it is based on information provided by the responsible fisheries management agency. Assessment considers the entire fishery, including target, by-product, bycatch (including protected species) and broader ecosystem impacts. They are usually conducted every three years for export fisheries (but can range from one to three years depending on the sustainability issues of the fishery) and five years for those declared as exempt. As part of the assessments, any sustainability issues identified for a particular species or assemblage is discussed and recommendations are made, or conditions imposed, on the management agency.

These recommendations and conditions are generally outcome based, providing the opportunity for the management agency to consider a variety of management options. Thus, the fishery assessment does not in itself confirm or establish the ecological sustainability of the fishery or any particular species taken in the fishery. Instead, it assesses the capacity of the management arrangements to ensure ecological sustainability [7].

The performance of fishery management agencies in implementing these recommendations is reviewed annually but there are no sanctions from failure to implement recommendations or meet conditions imposed during the period of the approval. Strategic assessment reports specific to each fishery are then subject to public consultation prior to being finalised.

Depending upon the cost recovery policies in each jurisdiction, costs of strategic assessments are partially or entirely covered from management levies paid only by fishers and not by any other actor along the supply chain.

Given the purchasing power of the major seafood wholesalers and retailers who may require third party certification for market reasons, fisheries management authorities may be put under increasing pressure to introduce any necessary changes to existing ESD assessment processes to incorporate additional certification driven requirements [8]. Whilst in many countries this would be paid out of public money, in Australia, these costs are often recovered from the catching sector, which in the absence of any foreseeable benefit, would be simply regarded an additional impost on their business.

Despite cost being of concern, third party certification is of growing interest in Australia. The Western Australian state government has addressed industry concern that benefits may not outweigh costs by subsidising the costs of third party certification. It has committed \$14.6 million over four years to cover application fees for all wild-capture fisheries to undergo Marine Stewardship Council pre-assessment, the initial full assessment and the initial audit for each fishery achieving full assessment. [9]. In New South Wales, a research project is currently underway to assess the feasibility of the Global Trust Responsible Fisheries Management Scheme and to assess the need for a national fisheries management standard focussing on fisheries supplying domestic markets. At the same time, arguments have been raised that EBPC assessments coupled with existing assessments under State/Territory legislation should be sufficient and that third party certification is both unnecessary and cost prohibitive [3].

The need and benefit/cost of third party certification for the harvesting sector supplying the domestic market is subject to ongoing discourse in the country.

BENEFITS OF THIRD PARTY CERTIFICATION

In Australia, there are three potential benefits of voluntary third party certification (i) market benefits; (ii) corporate reputational risk insurance and (iii) social licence to operate.

Market benefits may not simply be a price premium, but may also include improved market access to key or premium markets, expanded market share in existing markets and greater ability to have a favourable position in the market with competitors [10].

To date, the Australian market has not required third party certification as a condition of access, evidenced by the fact that only two domestic fisheries have chosen this pathⁱⁱ. There are two reasons for this. Firstly, research suggests that whilst Australian consumers prefer fresh fish and are willing to pay a premium for domestically sourced fish these products are in strong competition with imported products which are substantially cheaper [11]. As around 70% of all seafood consumed in Australia is imported [12], there is likely to be a limit to the price premium available for locally sourced product; certification adds an extra cost with no guarantee that this could be recovered from buyers who can source similar product from imports.

Secondly, many Australian seafood consumers do not appear to be concerned about the sustainability credentials of locally sourced product. A 2013 online survey of a nationally representative sample of randomly selected adult Australians [13] showed that the majority of frequent and regular seafood consumers believe, or are hopeful and confident, that domestically sourced fish come from sustainable sources (Table I). The findings of the survey support other international research which indicates that attributes *associated* with consumers ideas about sustainability, such as country of origin or the way fish are caught may be more relevant than having third party certification than a sustainability certification [14].

Table I: Responses to the question: Is Australia's fishing industry sustainable?

	Frequent eaters	Regular eaters	Occasional/non eaters
n	487	347	182
Is sustainable	44 %	46%	28%
Hopeful and confident	22%	16%	20%
Hopeful but not confident	28%	27%	31%
Don't think it can ever be sustainable	2%	2%	1%
Not sure/don't know	4%	9%	19%

Source: Sparks, M. 2013 Community perceptions of the sustainability of the fishing industry in Australia. Fisheries Research and Development Corporation.

At this stage, a push for third party certification is unlikely to come from seafood consumers. However wholesalers and retailers are more likely to see the benefit of certification. Research has found that certification programs are driven primarily by environmental non-governmental organisations (NGOs) targeting retailers and resulting retailer demand for certified products, rather than consumer demand [15]. To some extent, this has occurred in Australia, but perhaps it could be argued that in the absence of strong consumer demand for certification, these NGO campaigns have been less effective than in other countries. For example, the two largest supermarket chains have committed to sourcing both imported and local fish from sustainable/responsibly managed sources which *includes* third party certified fish but does not exclude other product, provided they have gone through the company's own sustainability due diligence processesⁱⁱⁱ. Such work has been contracted to

NGOs with whom they have partnered. The approach of undertaking internal sustainability due diligence is also increasingly common amongst major Australian specialist seafood retailers (e.g. Joto, De Costi) using publicly available information and research on domestic stocks, partially or wholly funded by government and industry.^{iv}

For fisheries supplying the domestic market, provided such publicly available information continues to be comprehensive, credible and easily accessible to those wishing to assess Australian fisheries, it is unlikely that the benefits of third party certification with regard to domestic market access outweigh the costs of certification. Credibility is related to whether there is a high level of trust in the information being provided by governments and research institutions. A recently completed research project found that the level of trust in both government and industry was relatively low. Almost a third of respondents (n= 444) thought that they could not rely on government to manage fisheries for either sustainable fish stocks or viable fishing communities[16]. Nearly half of respondents were unsure. Also, thirty-seven percent of respondents did not agree that the Industry could be relied on to reduce harm to marine animals or sustain fish stocks for future generations. Close to half of respondents (45%) were unsure about trusting the fishing industry.

The second potential area of benefit of third party certification schemes concerns reputational risk management [17]. The literature often conflates reputational risk management with social licence to operate [18],[19]. In this paper reputational risk is differentiated from a fishery's social licence to operate. Here it is assumed that reputational risk management forms part of a company's social licence to operate strategy, where the "community" the company seeks social licence from can span countries and continents and include both their buyers and their suppliers [20]. On the other hand, a fishery's social licence to operate, concerns a number of competing businesses operating in a fishery where the "community" may be a broader network of stakeholders whom affect or are affected by the fishery in question.

Third party certification can be embedded in a company's broader reputational risk management strategy with the motivation coming from a number of, not mutually exclusive, sources [20]. Firstly, a company's reputation and brand may benefit from an association with a certification scheme regarded as industry best practice thus assuring stakeholders that it is operating responsibly. Secondly, certification may be a cost effective way for a company to differentiate themselves from uncertified competitors in the global seafood market in order to gain a higher reputational status. Thirdly, undertaking certification can also be a preventative action, motivated by the anticipation that certain products or practices may attract the attention of particular advocacy groups. Marine Stewardship Council certification acquired by Australian companies fishing in the sub-Antarctic fisheries for Patagonian toothfish fishery would be a good example, as there were threats of a consumer boycott due to overfishing, concerns about illegal fishing as well as fears about fishing in an environmentally sensitive area.^v Those that sought certification wanted to differentiate themselves from companies that were fishing illegally or had poor fishing practices. As third party certification may require additional information which is usually provided by the management agency, it could be argued that seafood buyers (retailers and wholesalers) are pushing the costs of managing their reputation and commercial risk onto public agencies and/or the harvesting sector[8].

Certification may also provide first-mover advantages for companies in relation to other companies enabling them to define the nature and scope of evolving industry standards [21],[22]. Finally, certification may be a strategy to secure access for a company to a resource. For example, white-owned trawler fleets sought certification as a way to prevent the reallocation of quotas to uncertified black-owned smaller-scale South African hake fisheries [23].

In the Australian domestic fishery context, many inshore fisheries are dominated by owner operated businesses whom are price takers in local markets. With some exceptions, there is little branding of product from a specific enterprise. With limited corporatization and branding, the need to manage corporate reputational for these individual businesses is small; with costs (for a business or group of businesses) likely to outweigh the benefits.

However, for these same fisheries, the need to maintain their fishery's social licence in the face of opposition from competing resource users and advocacy groups, may be an increasingly important driver for third party certification. The challenge is that requirements are different for every fishery and may vary considerably between fisheries. Ultimately, maintaining social licence will be based on who the stakeholders are and the beliefs, perceptions and opinions held about the fishery in question [24]. It will also depend on the ability of participants in the fishery to be organized enough to work together and, should third party certification be part of the strategy, to resource it. In addition, certification would only be beneficial if the "community" from which social licence is being requested perceived the certification scheme as legitimate.

One fishery in South Australia has chosen third party certification as part of maintaining their social licence to operate. The Lakes and Coorong Fishery includes freshwater, estuarine and marine habitats. Situated at the mouth of the river Murray, production levels are primarily driven by variation in natural environmental conditions, in particular the frequency of flooding and the extent of drought. The commercial fishery operates inside a national park which includes a Ramsar wetland of international importance. Resource competition from the recreational fishing sector, especially for mulloway, has been an ongoing issue. There are a small number of licence holders in the fishery, most of whom are members of an active association. In the mid-1990s, there was a risk of closure due to adverse environmental conditions. As a step to maintain social licence, the fishery developed an Environmental Management Plan, with a series of goals including ridding the Lakes and Coorong of introduced species, imposing a moratorium on catching endangered fish, reducing pollution and adopting fishing methods that minimise fish stress and pain.^{vi}

"One of the biggest threats to small community-based fisheries is arbitrary closure. We knew we needed independent quantitative evidence that the fishery is well managed and sustainable. This also meant debunking false information about our practices, such as the 'walls of death' perceptions of gill nets."^{vii}

The need to maintain social licence and explore export opportunities through MSC certification coincided with the MSC desire to include small scale fisheries in their portfolio of certified fisheries. WWF funded the AU\$13,000 pre-assessment of four species in the Lakes and Coorong Fishery. Full assessment proceeded at a cost of AU\$210,000, sourced from WWF, the US Packard Foundation and Environment Australia. An additional AU\$100,000 was an in-kind payment from the industry association applying for certification. Initiated in 1999, the process took 10 years. Part of this can be attributed to meeting the data requirements of the MSC standard, which in the LCF case required additional research to be undertaken.^{viii}

In total, the assessment cost around AU\$350,000 (excluding research costs) for four species in a fishery with a total estimated annual GVP for those species of around \$3.2 - \$3.5 million over the period 1999-2002 or around 10% of GVP [25].

There are other fisheries in Australia which are now facing threats to their social licence to operate such as beach seine, estuarine trawl and inshore shark fisheries. Third party certification may be of

benefit to them but the characteristics of many of Australia's domestic fisheries do not fit well with current schemes. Many of these other fisheries are multispecies, data poor, poorly organized with low profitability; conditions not dissimilar to many developing country fisheries except that fisheries management frameworks are generally more robust. Without external assistance, many of these fisheries would not be able to afford certification. Additionally, as with the Lakes and Coorong fishery, further research may need to be undertaken to address data needs and by the time this has been completed, it may be too late with regard to social licence. In some senses the Lakes And Coorong fishery is unique, rather than typical, as it had already taken initiatives to improve its environmental performance, if the fishers were well organized and it came at the right time for MSC.

For these fisheries, alternative, potentially more cost-effective ways to demonstrate the sustainability credentials to maintain social licence to operate are currently being explored. This includes an investigation of the feasibility of developing an Australian fisheries management standard where management frameworks and ESD assessments, rather than specific species or fisheries, can be audited by third parties to determine whether they are being responsibly managed.

CONCLUSIONS

Only seven of around 140 managed wild caught fisheries in Australia are currently certified under a third party certification scheme. Of these, five are predominantly export fisheries and one hopes to expand into European export markets. In addition, all fisheries in Western Australia are undergoing government funded Marine Stewardship Council pre-assessment and initial assessment. Another research project is investigating the feasibility of the Global Trust Responsible Fisheries Management Scheme as well as the development of a national fisheries management standard. However, the economic benefits of third party certification for many of Australia's domestic fisheries have yet to be proved, and given the relatively low value of many of these fisheries any costs of certification would require external financial assistance. The oft stated benefits of market access and management of reputational risk are not obvious to a sector dominated by independent owner operators who tend to be price takers and who, in most jurisdictions, are already paying for government assessment of their fishery under national ESD guidelines. The disconnect between those that pay for EPBC strategic assessments and/or third party certification (the catching sector) and those that may benefit from these processes (the wholesalers and retailers) remains. Furthermore, many of the benefits of certification may not accrue to producers but to wholesalers and retailers who do not pay fishery management costs. Where third party certification may offer benefits to domestic fisheries is in situations where the social licence to operate of the fishery is at risk and there is a need to demonstrate sustainability credentials to the community. The proviso here is that the scheme must be regarded as legitimate by stakeholders.

Alternative cost effective methods to assure seafood buyers that Australian domestic fisheries are being managed responsibly and sustainably may be the way forward. Research is ongoing to explore alternative fisheries management assurance pathways suited to the Australian domestic fisheries context.

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ENDNOTES

ⁱ Preliminary Investigation of Internationally Recognised Responsible Fisheries Management Certification. Fisheries Research and Development Corporation 2012/746.

ⁱⁱ Of the seven fisheries in Australia which have already undergone voluntary third party certification, five are export oriented many selling to markets that require third party certification: the Northern Prawn Fishery (NPF), Mackerel Icefish, HIMI Toothfish, Macquarie Island Toothfish, and the Western Rock Lobster. One of the remaining two MSC certified fisheries, the Spencer Gulf Prawn fishery is a domestic oriented fishery which chose to enter into third party certification in order to access European markets.

ⁱⁱⁱ <http://woolworths.com.au/wps/wcm/connect/422a3b3f-fba9-493c-8cb9-4ce41e738175/Woolworths+Sustainable+Seafood+Policy.pdf?MOD=AJPERES&Sustainable%20Seafood%20Sourcing%20Policy>;

<http://www.coles.com.au/portals/0/content/images/About-Coles/Sustainability/Seafood%20Sustainability/WWFColesseafoodcharter.pdf>

^{iv} <http://www.cleanfishaustralia.com.au/sustainable-fish-practices>

^v <http://passionatefoodie.blogspot.com.au/2014/03/sena14-chilean-sea-bass-back-from-brink.html>

^{vi} <http://www.coretext.com.au/feature-story-1/>

^{vii} <http://www.abc.net.au/landline/stories/s215261.htm>

^{viii} *op cit* note vi