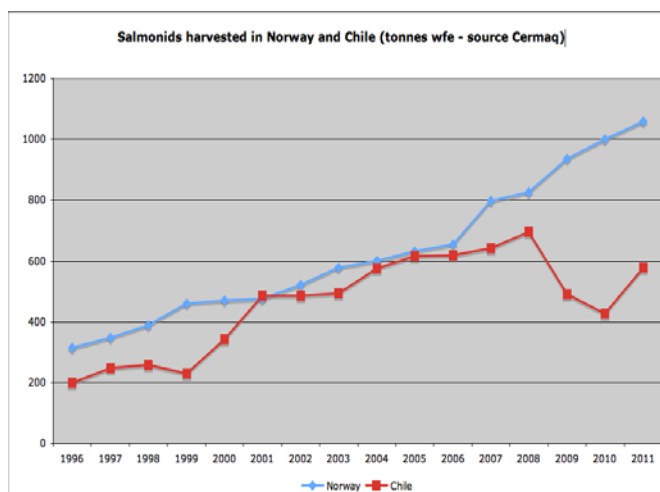


## I: Background

### I.1. 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 among the majors global producers of salmon and trout. In Chile's salmon exports reached 4-5% of 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.



Source: Cermaq annual report 2011

However, Chile maintains its position as the world's second largest producer of farmed salmonids (salmon and large trout).

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 places<sup>1</sup>. As far as employment is concerned, labor 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 with controlling the largest share of salmon farming licenses were in 2008 Marine Harvest, Mainstream, Aquachile, Camanchaca, Multiexport, Invertec y Ventisqueros<sup>2</sup>. As a result of the massive outbreak of the ISA disease, 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 situation<sup>3</sup>. Although the direct cause of the crisis was the arrival of the ISA virus to Chilean waters, several factors contributed to severity of the crisis.

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

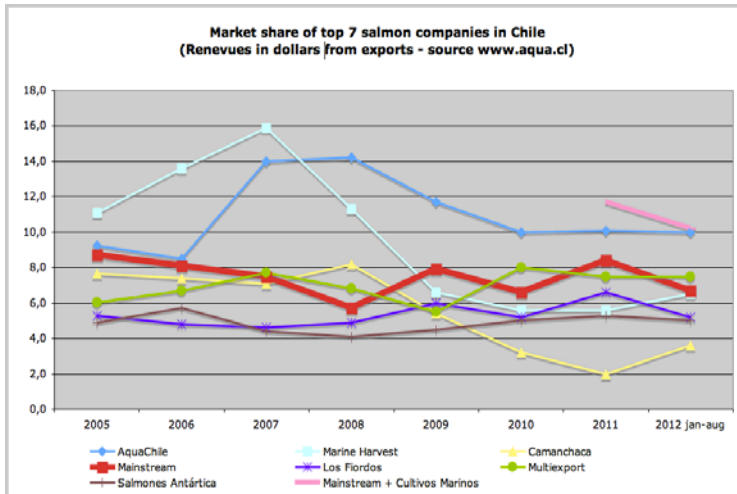
<sup>1</sup> Survey on Poverty Situation Casen 2003; Chilean Government.

<sup>2</sup> 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.

<sup>3</sup> Jun 2009 shows 11,4% of unemployment, above the 10,8% national level. Casen 2003

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 y 3.000 million dollars respectively.

## I.2. Cermaq in Chile



Source: webpage [www.aqua.cl](http://www.aqua.cl)

Cermaq entered heavily into the salmon business in 2000 with the acquiring the fish feed company EWOS<sup>4</sup>, 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 dollars<sup>5</sup>.

2011 was a good year for Mainstream Chile. Its operating profits<sup>6</sup> reached 76 million dollars (403,3 million NOK), equivalent to 28% of its revenues from exports. Hence, profits more than doubled with respect 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)<sup>7</sup>. According to the Norwegian online business newspaper HeggnerOnline Mainstreams losses amounted to more than one US dollar for each kg salmon produced during this period<sup>8</sup>.

### The expansion of Mainstream in Chile

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

<sup>4</sup> Cermaq bought the feed producers EWOS AS (Norway), EWOS Ltd (UK), EWOS Chile S.A. and EWOS Canada Ltd. From the Danish group Danisco.

<sup>5</sup> Cermaq annual report 2011 p 72

<sup>6</sup> Operating profits, o EBIT (Earnings before interest and taxes).

<sup>7</sup> After operatives earnings of 48,7 mill NOK in 1st quarter year 2012. Cifras de Cermaq Quarterly Reports.

<sup>8</sup> [www.hegner.no](http://www.hegner.no) October 23th 2012. "Overraskende underskudd fra Cermaq"

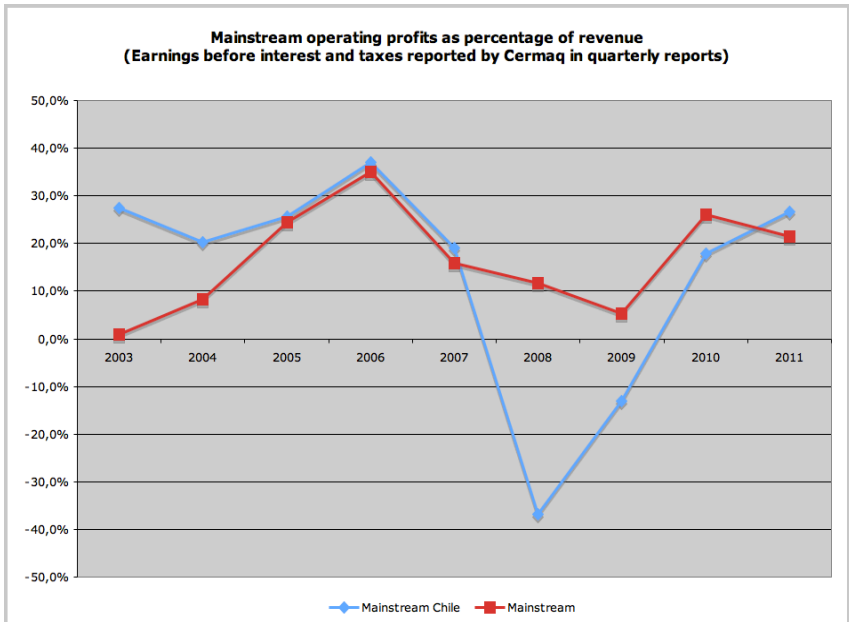
2009, however the company was able to in spite of report profits due to its activities in Norway, Canada and Scotland.

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 favorable 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.

By the end of September this year, Cermaq acquired the Chilean salmon producer Cultivos Marinos Chiloe paying around 110 million dollars. CEO of Mainstream Chile, Francisco Miranda, stated that this 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 an 55% increase in workers directly employed by Mainstream Chile (without information about the percentage of indefinite and temporal workers).

Mainstream Chile is also expanding southwards, and have 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 told El Financiero Newspaper that Mainstream will invest 25 million dollars in Magallanes, forecasting a production of 10.000 tons in the region<sup>9</sup>.



Source: Cermaq Quarterly Reports, years 2004-2011

<sup>9</sup> El Financiero Newspaper. March 28th, 2012 Salmoneras intensify request for Aysen and Magallanes waterlands concessions.

## II. IDENTIFYING MEASURES TAKEN AFTER JOIN STATEMENT.

### II.2. Main Findings from stakeholders

(In color those directly connected with Mainstream)

#### a) Trade Union Leader Workers

**Outsourcing and Unionization:** There are three categories of workers inside aquaculture; Direct workers, Contractors and Subcontractors. Among direct workers there are two kinds of contracts: unlimited and limited period (“temporaries”) which are re-hired each 3 months, losing labor benefits of the first ones. The third contract category, paying for work, lack of any benefit working on less protection and vulnerability situation (diver services, maquila, harvest transportation, processed, net cleaning, among others). They say that after the ISA crisis, salaries fell down almost a half and majority of direct workers became sub-contractors through small supply companies hired for half salaries.

Figures about Mainstream processing facilities: **Calbuco.** Estimated production 60ton- 400 workers/360 “temporaries”. Two trade unions with 20 members each. **Quemchi:** production 36 ton by month – 700 workers/387 “temporeros”. 1.120 union members, Sea Centers, working in different centers. Maintenance equipments workers are the more active ones because of their mobility. There is a union in fish farming and other in Colaco center. Before crisis 19% of unionization had been mentioned. At the present goes around 3 to 5%. Quemchi union negotiated in July 2012 before that they had the lowest salaries in the market place. Then, they reached the industry average. **Leader said that Mainstream doesn't interfere in worker's unionization. They don't foster dialogue space.**

**Health and Security:** Low participation of joint committees (legal agreement mechanism for H&S). Some accidents are dealt in facilities first aid centers, used as a filter to avoid medical care centers; this reduced accident rate. **Labor diseases:** The company has set up healthy pauses to prevent this kind of diseases. The working accidents regulation doesn't include the sector situation and since 1969 it has been modified just for mining sector after San José mine accident in 2010. Work related diseases in aquaculture industry are not considered in laws. **Gender Discrimination:** Around 60% of processing plants' workers are women. It was mentioned that there were not new incidents with pregnant women neither fires of women with maternity benefit. Nevertheless, they remark a cultural situation that impact in the treat to women from middle management and supervisors. Those attitudes are not denounced. They perceive that there is a re-beginning for women discrimination when it comes to contracts. **Childhood Rights:** Some companies avoid hiring mothers with son/daughter less than two years children because the nursery warranty. They also mentioned a non denounced bad practice (there are not data about Mainstream in specific) of negotiations of a close \$70.000 bonus to pay nurseries (resource given at last resort by the law); mothers choose for the cash and children don't attend to nurseries, affecting their early stimulation, creating a vulnerability chain for children rights. **Salary structure:** is conformed by a low general base plus production bonus. The last can be lost in case of two fails. In the last period there are intentions to link bonus with accidentability. Bonus are around 35% of total salary. **Young Employment and Training:** An incentive place by law for young employment was mentioned. Majority of human resources (around 80%) are young people less than 25; young people, without or with basic qualifications, whose hiring give entrepreneurs an incentive bonus from the State. The lack of training of the younger people in the industry impacts in the vulnerability before crisis or productive cycles of the industry, because they don't have skills to be hired in other ambits.

## b) **Universities and Researcher Institutions**

### **Researcher from Instituto Pesquero, Universidad Austral**

The regulation of aquaculture industry is not enough and the main problem is the use of medications. 2007 crisis was not only caused by ISA virus, was because general bad practices. There are shared responsibilities, mainly at decision making and production ambit. Transnational enterprises have adapted to local practices and standards (Mainstream and Marine Harvest). Despite they are not the best, standards and practices are similar and Mainstream goes around the average.

The 2012 Rule for the sea lice control, establish that a cultivate center that shows more than nine parasitic per fish during nine weeks should be put out of production. According the professional, is declared less than nine lice instead the real 20 they have by each fish. That means that the regulation created more pollution because the pesticide using giving the fish an immune depression. The problem is the State role and its competencies. This doesn't mean just more fiscalization and more fines for companies. The shortage of people that know and is entitled to resolve the situations is an issue. Fishing in general and salmon production mean around 5 to 6% of Chilean GDP. The State is a key player in order to get a sustainable production.

***Southern expansion:*** The expansion to Magallanes, in order to increase the production and to solve part of the crisis problems is a wrong approach. Consequences may be very negatives because we are talking about a zone with a excellent water quality and a big diversity. ***Zonifications and Neighborhoods Production:*** It doesn't work because it doesn't consider currents and the neighborhoods operation is not balanced. ***Outsourcing of working force:*** After the crisis it has been created many categories of workers. The less of them are hired directly by companies.

***Initiatives identified:*** Mainstream hired a professional (from Universidad Austral) to develop a training plan in labor and environmental ambits. Mrs Bravo also participated in two opportunities as a trainer in this context.

### **Experto from Institute for Urban and Territorial Studies; Universidad Catolica de Chile**

The salmon industry has had a profound impact on local development in the X Region, and in particular on the Chiloé 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. Numerous 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 is a potential conflict between the salmon industry and small-scale fisheries on the island. But the local fishermen possessed skills that were 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 centers and processing plants were busy harvesting and processing salmon, in order to close down infected farming centers. [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) Grupos y Organizaciones Indígenas**  
**Asociación Indígena Identidad Lafkenche**

Last 10 the general institutional situation has changed in connection with the indigenous human rights. Inside the new frame have the most relevances 2 principals instruments; Law that created the Coastal Marine space for original people; well known as Lafkenche Law; approved in november 2007, that guarantee for indigenous people the participation and equity in exploitation of the see marine resources. And the other important resource is the ILO 169 OIT, which get into force on September the 15 in 2009 (after almost 20 years in tramitation in parliament) The DS 124 (previous consultation mechanism) about consultancy was approved without participation of the indigenous organizations, however, the interpretation must favor the international law of human rights in the light of the country's commitments to the ratification of international instruments.

Recently there are legal backgrounds of conflict resolutions that have been based on the ILO 169, and some of them in recent years has to do with salmon farming activities in areas of Mapuche communities. Among the priorities of the Lafkenche people's struggle for 2012 has been marked by the lobby in Parliament for changes in fisheries law requesting the harmonization with the Lafkenche Law and ILO 169. The lafkenches claim 733,000 hectares of coast between Arauco and Chiloe. Leader said, if within Chilean law cannot reach consensus, they ***will attend to international mechanism and organizational networks*** to pressure and lobby for respect the collective rights and modify it within the national stage for the distribution of resources and demand for sustainable exploitation mechanisms. [The leadership of the organization Identidad Lafkenche mentioned that has not had any approach directly with the company Mainstream or another company aquaculture sector to date.](#)

**d) National and local NGOs**  
**El Canelo de Nos**

In 2006, together with other NGO's were part of the Chiloe's Labor Observatory Project. They supported the creation of the Salmon Union Confederation –CONATRASAL, which associated workers come from Puerto Montt, Chiloe, Aysen and Tierra del Fuego. In the Salmon Table they supported the union's steering committee. In that opportunity, entrepreneurs conditioned the meeting to get off the table the salary discussion. They have accompanied and supported the workers during the entire crisis process. Because that, the participation of this NGO was prohibited (veto), together with the press and union directives, during the Norwegian union LO visit to the Quemchi plant. For the second LO visit organized by the company, they said that the diversity of contacts were not required, so the outcomes was not reliable. [Both representatives remark that Mainstream has attended in activities arranged by El Canelo \(OLACH\), but there has been signal for dialogue. 2010 seemed to bring a change in communication with the company when the new manager visited OLACH, but since then there has not been any approach or invitation.](#)

***Law changes***, respecting the salmon production mode, does not solve sustainability challenges. The law was modified but it doesn't have the rules to put it in force. At a labor level, ***current regulations*** do not cover the specific complexity of the salmon workers. That is the reason because they have proposed new rules for the sector. They include contract modifications, long distances displacements, housing standards for workers coming from long distances away, direct hiring v/s outsourcing, among others. Safe work contradicts productivity demands.

**Ecoceanos**

That the sanitary alert in the sector persists. Pointed out that the apparent recovery of production in the sector, not be possible if there has been expansion process, on the one hand and on the othe, that not all centers are in production so estimated that it can be inferred that can be over population of

fish by are. In July of this year the Undersecretary of fisheries warned about contamination with caligus in some neighborhoods. In the last month there has been a permanent appeal to be responsible. [Think that the self-regulation requested by entrepreneurs is not feasible.](#)

Rising sea lice and falling international prices is a bad mix for the sector. In the last time there is a ***new player in the salmon, creditor banks*** lending to the sector's recovery (mainly companies with national capital), they are also concerned that companies do not increase their risk indicators. It states that if there is a new crisis in addition to the social consequences, it would also face a scenario conducive to concentration of ownership in the industry; companies are bought up on the values of loans made by banks. ***Expansion to the South:*** Magellan is an area privileged environmentally. The Government even dismissed the initials 1,600 concessions and you cut them in half. However, this expansion must necessarily be accompanied by a study responsible for impacts and environmental sustainability strategies. ***Model NCP for Chile:*** expected that Cermaq process can contribute to the National Contact Point Chile, with a model that could be inclusive and open, which will lead to the participation and the constructive dialogue between the actors in the pursuit of sustainability.

#### e) **Public Institutions**

##### **Directora Regional del Trabajo; Región de Los Lagos**

The formal industry meets; the problem is the outsourcing. There are 380 existing unions in the region. The rate of unionization is low. CONATRASAL was restructured and a table was organized to discuss the Labour Statute of Aquaculture; Regulation of diving; Environment. They regretted the non-attendance of some companies, nor Salmonchile. There are companies with higher disposition to the dialogue than others; stands (benchmark) in the sector; Marine Harvest with initiatives that are considered to contribute to the monitoring of contractors and subcontractors such as agreements and standards that govern the entire value chain.

***Tasks pending:*** Occupational health and safety (Decree 594) on administration and standards of toilets and water to workers on farms. Lack innovation to solve problems. (Baths, thermal suits, diving technologies and material (internal systems and subcontracts). Lack of investment in safety; lack dialogue with workers, more trainings. They are first aid centers because it solves the problem of mutual's costs; since if they increase accident rates increase insurance premiums. [The recent initiative of certification of divers, developed through Salmon Chile has been very positively received by the workers; It is a "good initiative that has happier workers" and recognized.](#)

[There is a relatively even standard business practices in the sector in labour, and within that framework the Mainstream Company is not different from the majority of the companies; they comply with the law. In general feels that from businessmen still there is a lack recognition to the community, more CSR, and more dialogue with the workers are the main task. The leaders of CONATRASAL are positively valued by the Executive of the Labour Regional Office.](#)

#### f) **Requested Interviews and not achieved:**

**SALMONCHILE A.G.:** The Mainstream Company is part of the directory of this Guild, on the one hand and on the other hand, develops projects with its partners in qualification of workers and Social Responsibility initiatives<sup>10</sup>. "Labor competences project" (started with State franchise

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<sup>10</sup> The initiatives in detail are not exposed on the website; but it can be inferred by the news that the scope of training are limited in connection to the mass of workers from its partners (direct and indirect) and the initiatives of CSR are also exposed and the magnitude of the contributions is not known.

SENCE in 2011) addressed to workers of its partners<sup>11</sup>, according to document ChileValora and the website of the Organization, in connection with this project would have constituted a body consisting of: Salmon Chile, Mainstream, Marine Harvest, Cultivos Marinos, CONATRASAL and SERNAPESCA, to regulate the development of the project. Skills covered are 3, initiated in mid-2012. [There was no meeting or telephone interview with this trade association the information was lifted from electronic media.](#)

Mainstream Company: There was no response, but the possibility of interview by phone or internet was open to. [There was no meeting or remote interview.](#)

Quemchi Municipality: Requested by telephone contact with SECPLAC, and Productive Foment Office. Questionnaire was asked in writing and sent, with a list of 7 questions with topics relating to the contribution of acquiring local development. [Meeting would be granted by skype for answers but not be performed due to incompatibility of time staff members, nor reply was received by email.](#)

### III. Summary of Findings: Facing the Joint Statement Compromises.

#### The aquaculture industry in Chile

**From the Joint Statement (JS):** Point e).-“... regulation does not ensure the sustainability of aquaculture...”

Since 2009, the Chilean Government has been active in the reactivation of the sector after ISA virus. Initiatives relevant have been implemented as Salmon Round Table, and the Law for Fish and Aquaculture was modified in 2011 to face the different challenges to rehabilitate the industry (density by m<sup>3</sup>, rest and rehabilitation of water lands by sector, treatment of water slices and pest control, expansion for new licenses). By the other hand the industry claim for self regulation and ambientalist movement and researchers have pointed out the risk that still pending on the measures defined for a more sustainable way of making salmon business (barrios, and expansion to the southern areas of Chile. Opinions on the legal framework for salmon farming in Chile substantially differ among actors.

The Undersecretary of Sernapesca has requested for more responsible production to the companies, reduce the density and responsible management to avoid the increase of sea slice; warning to increase of supervision, and declare if the situation remain the list of penalties for company will be published. But the situation mentioned by Sandra Bravo, the need to improve capacities of the public workers of the regulation system, is still a debt.

[Cermaq declare in recent conversations with ForUM and ATN, that regulation in Chile are good and improving. They share the common view that enforcement of the regulations is the crucial problem. Furthermore, Government is more active in taking more regulation and also in been transferring more funds to the fiscalizations systems. According to the news paper the last month, the sea slices is still a problem and there have been hidden information from the industry, while the amounts of the calligis has increased.](#)

**JS- Point f).**- “...connection between the way aquaculture... the collapse of the industry in Chile in 2007...Sufficient account was not taken of the **precautionary principle**. ...*more sustainable framework for the industry.*”

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<sup>11</sup> <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 Chiloé; 100 to Mainstream Chile; 50 Camanchaca; 20-Troutlodge Chile and 110 to Ventisqueros.



Mainstream and other actors in the Chilean salmon industry have economic incentives to improve environmental and sanitary practices. But, as stated by Francisco Miranda, CEO of Mainstream Chile, the company's main strategy is a 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 that the risk of outbreaks of new diseases and sanitary crisis is considerable, but if such incidents affect only one species in one region, 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. Cermaq's Sustainability Report contains very valuable information relevant to the assessment of environmental risk. Nonetheless, Cermaq's own assessment of environmental risks related to their activities is quite scarce. Less than a **100 words** is used to assess the company's *Operational risk*, while the evaluation of *financial risk* gets **more than a 1.000** words in the report, in addition to a Note 24 covering five pages<sup>12</sup>. Mainstream Chile's expansion of salmon farming to the Region XII, where no previous experiences with salmon farming exists, would require a much better assessment of the environmental risks associated with this expansion in order to comply with the precautionary approach of Article 15 of the Rio Principles.

About the expansion southward, Mainstream is producing fish in XII Region (started december 2011) in Palena. It has been repeated by several experts and denounced by environmentalists the risk of expansion if the model of exploitation is not changed. The high quality of the waters and the richness of the diversity in the area are privileged attributes that attracts industrial and mannish local organizations in Aysén and Punta Arenas. The movement for the development of the southern zone in Chile was one of the protagonists more strong in recent years and is likely to increase pressures for a sustainable development of the aquaculture. As well as Cermaq has deployed the incident of removal of sands of tourism sectors (Oslo meeting 2012/11/2) by employees and declares the will to prevent new episodes of bad practices, it is unclear whether Mainstream will include (or not) in the Due Dilligence other strategic dimensions related to the expansion to the South. Environmental considerations to develop a Risk Management are a key as the harmonization of social, environment and economic bottom lines of the business practices.

### **The basis for sustainable aquaculture**

**From JS** "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..."

CSR and contribution to local development was not possible to place exactly without direct information. The Sustainable Report mentioned that Mainstream is strongly committed with a governmental project to eradicate the poverty and inside this is supporting social initiatives as "Essences of Calen" (microenterprise for women on perfumes and cosmetic products). Some other social initiatives were identified as a part of the Salmon Chile promotion of CSR, but what is uncertain is the amount of value distributed in local development. Also from the Report 2011 is not possible clarify the total incidence in local workforce; which is also part of the local development contribution.

**JS Points h)**- ... *Cermaq will aim for leadership in social responsibility in the aquaculture industry...y contributing to the development and use of environmentally friendly technology.* Point **j)**- "...line with the precautionary principle *Point k)*- new and important knowledge on the fish disease infectious salmon anemia (ISA) *through projects to internal and external researchers, and through the establishment of a new research laboratory in Chile.*

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<sup>12</sup> Cermaq's Annual report, pages 49-51, Note 24 on pages 89-94.

The resurgence of salmon production in 2011 and 2012 has coincided with the reappearance of 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%)<sup>13</sup>. Cermaq's sustainability report doesn't contain fish mortality indicators for each country separately, and doesn't relate mortality to number of fish in sea. Thus, comparison with average mortality in Chilean salmon farming is not possible.

**Sea lice:** According to the subsecretary of 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 from one Group of Farming Licences (ACS) in Aysén<sup>14</sup>. Recently Sernapesca did a series of unannounced inspections, discovering very high rates of sea lice per fish in several farms. In total, 12 farms were fined for non-compliance. 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). However, the average number of sea lice per fish in all operations in Chile is an incomplete indicator. **Medicine use:** One of the most damaging environmental effects of salmon farming is medicine use, in particular antibiotics and different pesticides. Numbers presented in Cermaq's sustainability report (CEQ 03) indicates that Mainstream is performing a lot 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 salmon. Cermaq reports using 10,8 grams of antibiotics (API) per tonne of live weight fish produced, that only 2,3% of average antibiotics use in Chile<sup>15</sup>. **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 produced<sup>16</sup>. In comparison Mainstream Chile's use of pesticides per tonne 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 with the information placed in the Sustainable Report 2011, the company has fully implemented a laboratory in Colaco, which has 7 qualified researchers, working improving technologies for more friendly and sustainable production.

**JS Point i).**- *"... approach to the exchange of knowledge and best practice between companies..."*

Mainstream is active in the salmon industry association Salmon Chile; through this space in active in different initiatives, to improve qualification of the local workforce and to improve standards and qualification for sustainable development in salmon aquaculture (Project WWF/Rabobank-SalmonChile).

**JS Point l).**- ...integrated human rights in the company's guidelines for social responsibility and respects *human rights in line with OECD Guidelines Chap. II, 10-12 and Chap. IV, ..* **Point m).**- "respects indigenous rights in line with ILO Convention 169 and the UN Declaration of

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<sup>13</sup> 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.

<sup>14</sup> Situación Sanitaria Salmonicultura Centros Marinos, Enero – Abril 2012. Sernapesca. Page 13.

<sup>15</sup> Since only final numbers are available, not methodology nor detailed information on measuring units, the comparisons presented on 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 it uses only about 1/50.

<sup>16</sup> Sandra Bravo: Strategies to control sea lice.

Indigenous Peoples (UNDRIP). ...enter into *mutually beneficial agreements with indigenous people in all areas where their rights are affected by Cermaq's operations...*”

According to the obtained information, indigenous communities in Chiloe, mainly Mapuche Huilliche, are not attached to any regional or national organization and is mainly operating as community. This has affected that contact with ethnic huilliche (man of the South) is sparse and most well appears only from specific problems. In contrast the lafkenches' communities (man of the water) that has more than 20 years of reorganization process facing common issues and participating in national and international networks and has demonstrated greater capabilities when making incidence and lobby. They were author for lafkenche law and that was approved by absolute unanimity in 2007. The Organization Lakenche have spokesperson network throughout the coastal territory since the 8th Region of Bío Bío to the extreme southern; are present in the 9th. Region where the Mainstream company has areas of production of ovas and smolts and they declare they did not have contacts with the company.

Is positive that the Company has hired a Consultancy to implement the Human Rights Due Dilligence to have a better analysis and understanding from the issue in the larger territorial from the 9<sup>th</sup> Region to Magallanes.(information from Oslo meeting with Friends of the Earth/ForUM on 2012/11/2). The indigenous nationalities that have presence in those territories; Kaweskar, Mapuche Huilliche and Mapuche Lafkenche; have a different levels of organization, further that they have a frame that is prevailing for the respect of their rights. It is important to have clear understanding to include the issues related to indigenous to avoid increasing the indigenous conflict in Chile.

**JS Point 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 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 on wages and working conditions. There was a consensus that variations in labor standards among salmon enterprises in Chile are rather small. Although differences in labor conditions among companies are relatively small. Ventisqueros and Frio Sur paid wages above the average before the crisis, but are now leveling their wages with the average of the salmon sector. One union leader working at Mainstream considered AquaChile as the company offering the best conditions for workers. Patricio Peñalosa at 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 labor rights and working conditions.

**o) Cermaq will continue reporting against sustainability indicators, which are anchored at the level of its board, based on Global Reporting Initiative...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*.**

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". Hence Cermaq can claim to have achieved its goal to be a leader on CSER reporting.

Nevertheless, considering Cermaq's position as possibly the largest actor in Chile in both fish feed and salmon farming, the company's reporting has at least to weak pot; the first is partial reporting on Chilean figures and the Spanish language to achive the local stakeholders in the country.

Mainstream does not have any web page or section presenting its activities in Chile to a Spanish speaking public. 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) is published in Spanish at the Norwegian government's web site [www.regjeringen.no](http://www.regjeringen.no), but not on Cermaq's own web site. It seems like the efforts made by Cermaq to disseminate its initiatives on Corporate Social Responsibility among relevant Chilean stakeholders has been scarce. Mainstream labor union leaders did not know that Cermaq is reporting information on wages, injury rates and other indicator related labor standards and practices in its Sustainability Report.

## ANEXX I.- Stakeholders interviewed

<b>Internal Stakeholder</b>	
<b>Workers</b>	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.
<b>External Stakeholders</b>	
<b>Universities and Researcher Institutions</b>	Meeting with Sandra Bravo, Master in Aquaculture, 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.
<b>Community; Grupos y Organizaciones Indígenas</b>	Conference call with Iván Carilao, Conadi and Lafkenche indigenous central leader
<b>National and local NGOs</b>	NGO El Canelo de Nos Corporation. Meeting with Alejandro Salinas, Executive Director. Meeting in Ancud office with Patricio Peñaloza, project coordinator. NGO EOCEANOS, Meeting with Juan Carlos Cárdenas, Executive Director and Mapuexpress collaborator.
<b>Public Institutions</b>	Regional Labor Office Director; Región de Los lagos 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.

## **ANEXO II. BIBLIOGRAFIA AND WEBS visited**

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### **Sitios Web visitados:**

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Diario Financiero (business newspaper): [www.df.cl/](http://www.df.cl/)

Ecoocéanos News: [www.ecoceanos.cl/](http://www.ecoceanos.cl/)

El ciudadano: (weekly news publication): [www.elciudadano.cl](http://www.elciudadano.cl)

Estrategia (business newspaper): [www.estrategia.cl](http://www.estrategia.cl)

La Tercera (newspaper): [www.latercera.cl](http://www.latercera.cl)

Mundo Acuicola – Pesquero (fishing and aquaculture publication): [www.mundoacuicola.cl](http://www.mundoacuicola.cl)

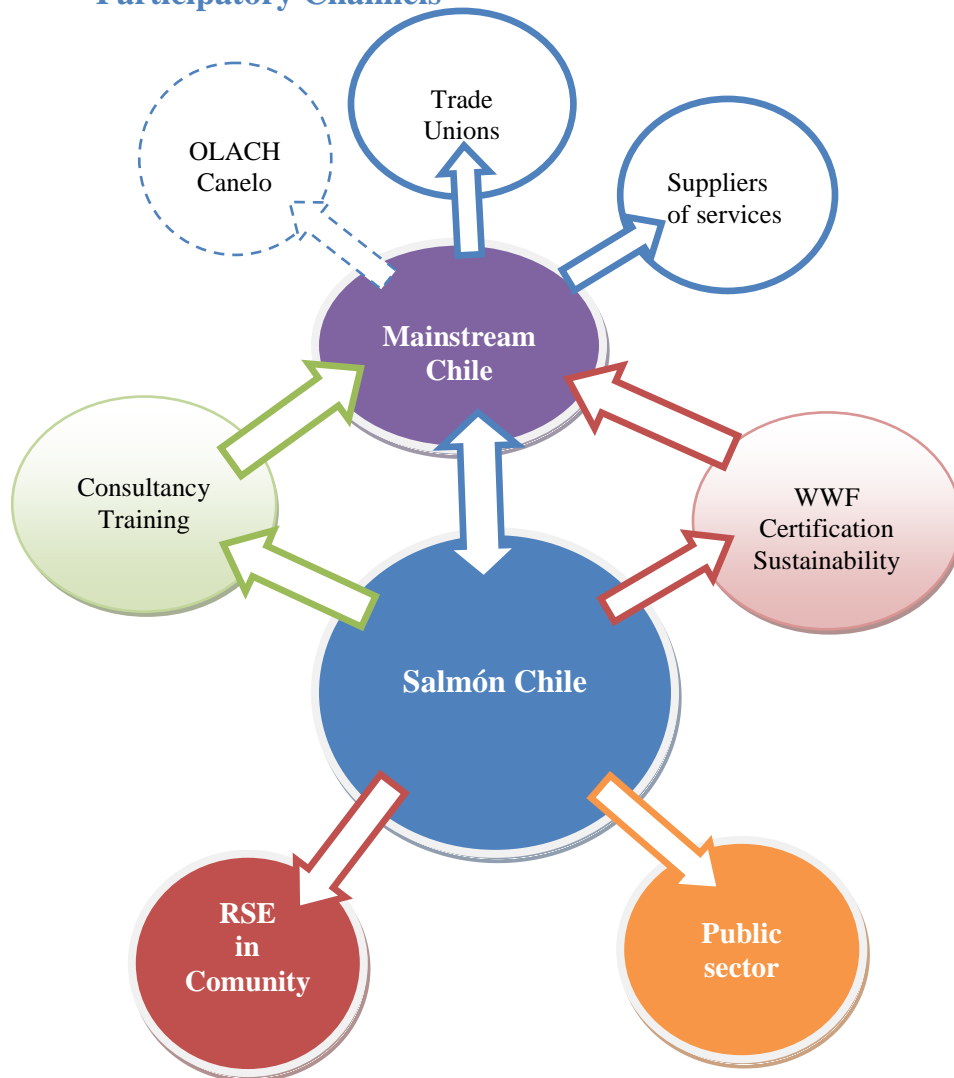
Radio del Mar: [WWW.radiodelmar.cl](http://WWW.radiodelmar.cl)

Radio Universidad de Chile: <http://radio.uchile.cl>

Consultora en Acuicultura; [www.adolfoalvial.cl](http://www.adolfoalvial.cl)

Asociación Gremial Salmón Chile [www.salmonchile.cl](http://www.salmonchile.cl)

## ANEXO III. Stakeholder Engagement; Communication Strategy and Participatory Channels



According to the information in documents, websites and by interviews, the Mainstream relationship with stakeholders in Chile is mainly through Salmón Chile, a guild which is part of the directory. Through projects coordinated by Salmón Chile, the company participates in collective initiatives and addresses the requirements of workload training, sustainability consultants and seems to collaborate with other member companies in initiatives of CSR which are disseminated on the web page of Salmón Chile. This strategy of relationship leaves out a large part of social organizations, communities and indigenous groups that are impacted directly or indirectly by the activities of the company, environmental NGOs who generate opinion and which make impact in the field of sustainability and public policies and related groups or involved in the value chain. The company incorporates OLACH, relationship, which is reported through its Sustainability Report (SR) and assists in the activities organized by the NGO Canelo (part of the project OLACH). The NGO estimated that there was no real approach of the company and that assistance to very specific activities does not mean relationship; there is no dialogue. Trade unions have a low level of unionization, which means that they do not represent the universe of workers and do not report the generation of indirect work through contractors and subcontractors.