

# Sustainalytics' Opinion

## Thai Union Group Sustainability Linked Loan

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**Location of Borrower:** Thailand

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## Introduction

Thai Union Group Public Co. Ltd. ("Thai Union", the "Company", or the "Borrower") is a global seafood-based food products Company. The Company sells its products locally in Thailand, as well as in North America and Europe. The business categories are ambient seafood (tuna, salmon, sardine, mackerel), frozen and chilled seafood and related products (shrimp, lobster, salmon), pet care and value-added.

Thai Union is negotiating a Sustainability Linked Loan (SLL) where the interest rate of the loan is tied to Sustainability Performance Targets (SPTs) that include two Key Performance Indicators (KPIs) associated with the Company's material sustainability-related issues.

The Company has engaged Sustainalytics to review the SLL and provide an opinion on the alignment of the loan with the Sustainability Linked Loan Principles (SLLP).<sup>1</sup>

As part of this engagement, Sustainalytics held conversations with various members of the Company's management team to understand the SPTs and associated KPIs, the Company's sustainability strategy, as well as the processes that it has in place to verify its performance in relation to the SPTs. Sustainalytics also reviewed relevant public documents.

This document contains Sustainalytics' opinion of Thai Union's SLL, reviewed against the SLLP.

## Sustainalytics' Opinion

### Alignment with the Sustainability Linked Loan Principles 2020

The four core components of the Sustainability Linked Loan Principles are:

1. Relationship to Borrower's Overall Corporate Social Responsibility (CSR) Strategy
2. Target Setting – Measuring the Sustainability of the Borrower
3. Reporting
4. Review

Sustainalytics is of the opinion that the Thai Union SLL aligns to the four core components of the Sustainability Linked Loan Principles 2020.

### Section 1: Relationship to Thai Union's overall sustainability strategy

In its 2019 Sustainability Report, the Company provides disclosure of sustainability commitments.<sup>2</sup> In addition, SeaChange is the long-term sustainability strategy of the Company.<sup>3</sup> SeaChange aims at ensuring that seas are sustainable now and in the future and that Thai Union sources products from vessels that operate legally and responsibly.<sup>3</sup> In addition, SeaChange aims at ensuring that Thai Union's workers are safe and legally

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<sup>1</sup> The Sustainability Linked Loan Principles (SLLP) were launched by the Loan Markets Association in March 2019 and updated in May 2020. They are administered by the LMA and are available at: <https://www.lsta.org/content/sustainability-linked-loan-principles-sllp/>

<sup>2</sup> Thai Union, "Sustainability Report 2019", (2020), at: <https://www.thaiunion.com/en/sustainability/report>

<sup>3</sup> SeaChange, "About SeaChange", (2020), at: <https://seachangesustainability.org/about-seachange/>

employed.<sup>3</sup> Sustainalytics highlights the following key aspects of the Borrower’s sustainability strategy and performance that relate to Thai Union’s Sustainability Linked Loan:

- Thai Union has undertaken a materiality assessment, which analyzed its worldwide operations to identify and prioritize its main sustainability issues.<sup>2</sup> Thai Union’s SeaChange sustainability strategy arose from the aforementioned materiality assessment.<sup>2</sup> Within SeaChange, the Borrower has identified four strategic sustainability priorities, including safe & legal labor, responsible sourcing, responsible operations, and people & communities.<sup>3</sup>
- Thai Union has a performance target on its material ESG issue of carbon. This target is to reduce GHG emissions by 50% (total emitted per ton of production) in Thai Union factories by 2025 against a 2016 baseline. Sustainalytics notes that the first SPT will assist Thai Union in meeting this target as it focuses on Scope 1 and 2 emissions in manufacturing of Finished Goods.
- Thai Union intends to reduce its environmental impact and tackle climate change as part of its responsible sourcing and operations objectives.<sup>3</sup> In order to reduce its carbon footprint and GHG emissions, Thai Union intends to minimize its energy and natural resources consumption.<sup>2</sup> Between 2016 and 2019, the Borrower reduced the carbon intensity of its manufacturing operations, expressed in CO<sub>2</sub> equivalent per tonne of Finished Goods, by 18.39%.<sup>4</sup> In addition, Thai Union reduced its absolute energy consumption for four consecutive years, dropping by 17.35% between 2016 and 2019.<sup>5</sup> Sustainalytics notes that the first SPT of the SLL aligns with the Company’s commitment to reduce the carbon intensity of its manufacturing operations.
- Within its responsible sourcing objective, the Borrower plans to protect marine species and the coastal environment.<sup>3</sup> Furthermore, the Company is committed to sourcing transparency in its supply chains.<sup>2</sup> Thai Union has further committed to source tuna from vessels and suppliers that demonstrate Operational Best Practice by 2025, in order to prevent Illegal, Unreported and Unregulated (“IUU”) fishing and modern slavery.<sup>2</sup> The Borrower has defined milestones leading up to its 2025 target. By 2022, Thai Union seeks to achieve at least 90% of tuna sourced from fisheries that meet the Marine Stewardship Council (MSC) standard or are in a Fishery Improvement Project (“FIP”).<sup>6</sup> The 2025 target also aims at reaching 95% of Thai Union’s suppliers that use electronic monitoring or human observers.<sup>2</sup> Sustainalytics notes that the second SPT of the SLL aligns with Thai Union’s 2025 target for responsible sourcing and supply chain operations.
- Sustainalytics further notes that Thai Union’s Sustainability Committee meets on a biannual basis.<sup>2</sup> The Sustainability Committee includes Mr. Thiraphong Chansiri, President and CEO, with Dr. Darian McBain, Global Director of Corporate Affairs and Sustainability, as co-Chair.<sup>2</sup> To ensure that there is a direct link between sustainability and the Board, Dr. McBain also sits on the Global Leadership Team and the Risk Management Committee.<sup>2</sup>

Sustainalytics is of the opinion that Thai Union’s sustainability strategy, management systems, and actions demonstrate the Company’s commitment to improving its sustainability performance. The Company’s SPTs and KPIs are aligned with the Company’s sustainability strategy. Given this alignment and Thai Union’s approach to sustainability, Sustainalytics is of the view that the SLL will help to advance the Company’s overall sustainability strategy.

## Section 2: Target Setting

The Sustainability Linked Loan Principles state that appropriate SPTs should be negotiated and set between the borrower and lender for each loan transaction. As outlined in the SLLP, a borrower may elect to tie the interest rate of the loan to improved performance on KPIs associated with the Company’s material sustainability-related issues. Sustainalytics’ ESG Risk Rating<sup>7</sup> identifies Carbon – Own Operations, and Land Use and Biodiversity – Supply Chain as material issues for the Packaged Food subindustry. Thai Union’s SPTs are based on the following KPIs:

SPT	KPI	KPI definition	Baseline Date
Reduction of Thai Union’s scope 1 and 2 manufacturing operations’ emission	Carbon Intensity of Finished Goods	The KPI covers the emission intensity of scope 1 and 2 of Thai Union’s manufacturing operations. The KPI is expressed in CO <sub>2</sub> equivalent per tonne of Finished Goods.	2019

<sup>4</sup> Data covers factories in Thailand, Vietnam, France, Portugal, Poland, Ghana, the Seychelles, and the US.

<sup>5</sup> Thai Union, “2019 Performance of Key Economic Environmental Social Indicators”, (2020), at: <https://www.thaiunion.com/en/sustainability/report>

<sup>6</sup> Information provided by the borrower as part of their SeaChange 2025 targets (currently being finalized and not public at this time)

<sup>7</sup> See Appendix for ESG Risk Rating methodology

intensity by 3% annually, between 2019 and 2025.	(TonCO <sub>2</sub> eq/TonFG)		
100% Monitoring at Sea by electronic and/or human observers in Thai Union's wild caught tuna supply chain as soon as practicable, and no later than 2025, to ensure adequate science data collection and to monitor adherence to environmental and social sustainability measures.	% of vessels with EM system or human observers on board	Percentage of the number of tuna vessels fishing in international waters supplying to Thai Union with EM installed or human observers onboard/the total number of tuna vessels fishing in international waters supplying to Thai Union.	2020

The seafood industry has become increasingly important, with fish being the most traded commodity worldwide.<sup>8</sup> Each step of the industry's supply chain generates GHG emissions, including travel for capture, transportation, refrigeration, and seafood products manufacturing.<sup>9</sup> As a result, seafood has a substantial carbon footprint.<sup>9</sup> The main contributor to the carbon footprint of tuna fisheries is the fleet fuel consumption, while cold storage has a minor contribution.<sup>10</sup> In addition, seafood industry emissions may contribute to an adverse positive feedback loop.<sup>9</sup>

Sustainalytics notes that the carbon footprint of seafood is only one of several material sustainability issues for the seafood industry. IUU fishing remains a substantial threat to marine ecosystems and biodiversity.<sup>11</sup> Estimations indicate that IUU fishing made up one-third of the world's reported catch in 2011.<sup>12</sup> IUU fishing is responsible for undermining efforts to manage fisheries responsibly, especially in developing countries that lack the capacity and resources for effective monitoring, control, and surveillance.<sup>11</sup> In addition, IUU fishing exacerbates the accidental capture of non-target species, or bycatch, given that vessels often use prohibited gear that catches non-target species.<sup>13</sup> Bycatch accounts for approximately 40% of the global catch, often impacting species considered to be vulnerable to extinction.<sup>13</sup> Sustainalytics notes that the second KPI could further prevent Thai Union to be involved in IUU tuna fishing through its supply chain. Furthermore, the initiative is expected to drive the Borrower's competitors to follow such requirements, especially given the credibility of the partnership established with The Nature Conservancy ("TNC").

The SLLP specifies that targets should be based on recent measurements of selected KPI performance. Sustainalytics notes that Thai Union's baseline performance for the first KPI was validated by an independent auditor and reported in the Company's 2019 Sustainability Report,<sup>2</sup> which falls within the SLLP's suggested time period of the previous 6-12 months. In addition, Sustainalytics notes that the baseline for the second KPI is 2020 and will be calculated as part of Thai Union's partnership with TNC and validated by TNC in 2021.

Sustainalytics is of the opinion that the KPIs selected by Thai Union are relevant and material. However, Sustainalytics notes that the KPI on Scope 1 and 2 GHG emissions intensity does not capture the overall carbon footprint of the Borrower. Although the Borrower has communicated that this KPI represents more than 98% of its total Scope 1 and 2 emissions, there remains uncertainty around the absolute (and relative proportion of) Scope 3 emissions associated with the Company's supply chain that may significantly contribute to its overall GHG emissions. Due to such uncertainty, Sustainalytics believes that the positive outcome of improving performance on such KPI will be limited, and should be complemented with emissions reduction from other sources within Company's operations, and particularly from its supply chain, that are excluded from the coverage within this KPI. Nevertheless, the KPIs are linked to the identified issue, and improvements in performance on these KPIs by Thai Union can be expected to lower the carbon intensity of its manufacturing operations, help to prevent it from sourcing IUU tuna fishing, and enhance its sustainability more generally. Therefore, on this basis, Sustainalytics is of the opinion that linking performance improvements to its loan is meaningful and appropriate and will contribute to mitigating material environmental risk associated with the Company's core business.

<sup>8</sup> Smith, D., M., et al., (2010), "Sustainability and Global Seafood", Science, at: <https://science.sciencemag.org/content/327/5967/784>

<sup>9</sup> Elizabeth, M.P., et al., (2015), "Incorporating carbon footprints into seagood sustainability certification and eco-labels", Marine Policy, at: <https://www.sciencedirect.com/science/article/pii/S0308597X15000585>

<sup>10</sup> Tam, Raymond R., et al., (2009), "Estimating the Carbon Footprint of Tuna Fisheries", at: [https://wwfeu.awsassets.panda.org/downloads/estimating\\_the\\_carbon\\_footprint\\_of\\_tuna\\_fisheries\\_9may2009.pdf](https://wwfeu.awsassets.panda.org/downloads/estimating_the_carbon_footprint_of_tuna_fisheries_9may2009.pdf)

<sup>11</sup> FAO, "Illegal, Unreported and Unregulated (IUU) fishing", at: <http://www.fao.org/iuu-fishing/en/>

<sup>12</sup> IPBES, "The global assessment report biodiversity and ecosystem services", (2019), at: [https://ipbes.net/sites/default/files/inline/files/ipbes\\_global\\_assessment\\_report\\_summary\\_for\\_policymakers.pdf](https://ipbes.net/sites/default/files/inline/files/ipbes_global_assessment_report_summary_for_policymakers.pdf)

<sup>13</sup> IUU Watch, "Illegal, Unreported and Unregulated Fishing and the European Green Deal", (2020), at: [https://wwfeu.awsassets.panda.org/downloads/eu\\_iuu\\_coalition\\_biodiversity\\_policy\\_brief\\_final\\_1.pdf](https://wwfeu.awsassets.panda.org/downloads/eu_iuu_coalition_biodiversity_policy_brief_final_1.pdf)

### **Section 3: Reporting**

The SLLP recommends that borrowers make and keep readily available up-to-date information relating to their SPTs. Thai Union is demonstrating good practice by publicly disclosing its KPIs (achieved and targeted) through its annual Sustainability Report, which will include an annually audited statement specifying the realized score for each KPI. Sustainalytics considers this reporting to be aligned with the SLLP.

### **Section 4: Review**

Thai Union will use cross functional teams to collect data, which is then collated and sense checked by a central team within the sustainability function. The first KPI will be verified by Lloyds Register. The second KPI will be verified by TNC.

Sustainalytics believes that Thai Union's external assurance practices, along with the involvement of a cross-functional team for data extraction and internal validation, enhance credibility and transparency of underlying information linked to the Company's SPT.

## **Conclusion**

Sustainalytics is of the opinion that Thai Union's SLL will support the Company's overall sustainability strategy and efforts to contribute to lower the carbon intensity of its manufacturing operations and help to prevent it from sourcing IUU tuna fishing. In addition, the use of KPIs associated with the Company's sustainability-related issues as a basis for target-setting is aligned with the Sustainability-Linked Loan Principles, and the borrower has committed to disclosing progress against their SPT on an annual basis. Based on the above considerations, Sustainalytics is of the opinion that Thai Union's SLL is aligned with the SLLP.

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## Appendix 1: About the Sustainalytics ESG Risk Rating

With a clear focus on financial materiality, Sustainalytics' ESG Risk Ratings measure the degree to which a company's enterprise value is exposed to material ESG issues. Specifically, the ratings measure a company's exposure to industry-specific material ESG risks and how well a company is managing those risks. This multi-dimensional way of measuring ESG risk combines the concepts of management and exposure to arrive at an assessment of unmanaged ESG risk. The ESG Risk Rating for a company is a quantitative score based on a scale from 0-100 and is categorized between five levels of risk: negligible, low, medium, high and severe. The numerical assessments represent units of unmanaged ESG risk, with lower scores representing less unmanaged ESG risk. The risk assessments are absolute, meaning that a high-risk assessment reflects a comparable degree of unmanaged ESG risk relative to any other company in the research universe.

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