



# Feeding the Future

2021 ANNUAL SUMMARY

– APPROVED FOR PUBLIC DISCLOSURE

## Feeding the Future Thematic Engagement

Ensuring a sustainable supply of food for the world's fast-growing population is a major challenge. As with other man-made activities, food production contributes to climate change, water scarcity, soil degradation and the destruction of biodiversity. It is estimated that by 2050 the world's population will reach 9.1 billion (34% higher than today), putting more pressure on already constrained resources. Food production will need to increase by 70% to feed the larger population<sup>1</sup>, meaning that more food will have to be produced using less land. In addition, energy and water will become limiting factors.

Sustainalytics' Feeding the Future Thematic Engagement aims to contribute to more sustainable food production by focusing on contingency planning, science-based scenario analysis, land stewardship, eliminating food waste and shifting consumer trends. It targets the entire value chain including companies from agriculture, agricultural chemicals, packaged foods, and food retailer sectors. This engagement was initiated in Q2 2021 and has just marked the first six months of engagement. Through this engagement, we expect to contribute to a sector-wide transition to more sustainable agriculture practices.

## Developments in 2021

Biodiversity is certainly an issue of increasing urgency, reinforcing the salience of this thematic engagement. The materiality of the biodiversity-related risks connected to food production are gaining a broader understanding, and we have seen interesting developments in the early stages of this engagement. All companies we have had dialogue with expressed a major interest in developing biodiversity-related commitments, accompanied by a frustration at the lack of cohesive standards on how to address this broad and complex topic. The development of the Taskforce for Nature-Related Financial Disclosure (TNFD) is eagerly anticipated, as it will provide a common framework helping companies to mitigate their exposure to nature-related risks.

At COP26, held in November 2021, ten global agricultural producers with major market shares in commodities such as soy, palm oil, cocoa and beef, signed a pledge to end deforestation and biodiversity loss associated with agricultural production<sup>2</sup>. Engagement companies Archer Daniels Midland (ADM) and Olam are among the signatories. In a similar vein, the European Union (EU) has just proposed a regulation preventing the import of goods linked to deforestation by requiring companies to prove their global supply chains are not contributing to the destruction of forests. The proposal sets mandatory due diligence requirements for importers into the EU of soy, beef, palm oil, cocoa, and coffee<sup>3</sup>.

## Engagement Update

During the first six months of engagement, Sustainalytics has reached out to all 20 companies that were initially selected, as well as three replacement companies. To date, ten companies have agreed to participate in this engagement representing all four sectors included. In the past six months, Sustainalytics conducted seven one-hour engagement calls with these companies. Furthermore, communications with companies in this period comprised seven scheduled introductory calls, 128 outgoing emails, and 63 incoming emails.

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<sup>1</sup> <https://www.eufic.org/en/food-production/article/food-production-3-3-a-sustainable-food-supply>

<sup>2</sup> <https://ukcop26.org/agricultural-commodity-companies-corporate-statement-of-purpose>

<sup>3</sup> [https://ec.europa.eu/commission/presscorner/detail/en/qanda\\_21\\_5919](https://ec.europa.eu/commission/presscorner/detail/en/qanda_21_5919)

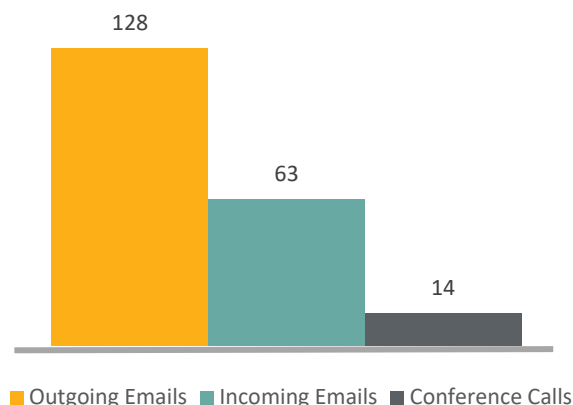
Although we have encountered challenges in engaging with some companies due to resource constraints on their part, we will continue efforts to bring the total number of participating companies to 20 in the next six months. We will also schedule further calls with companies that have already agreed to engage.

## Company Performance

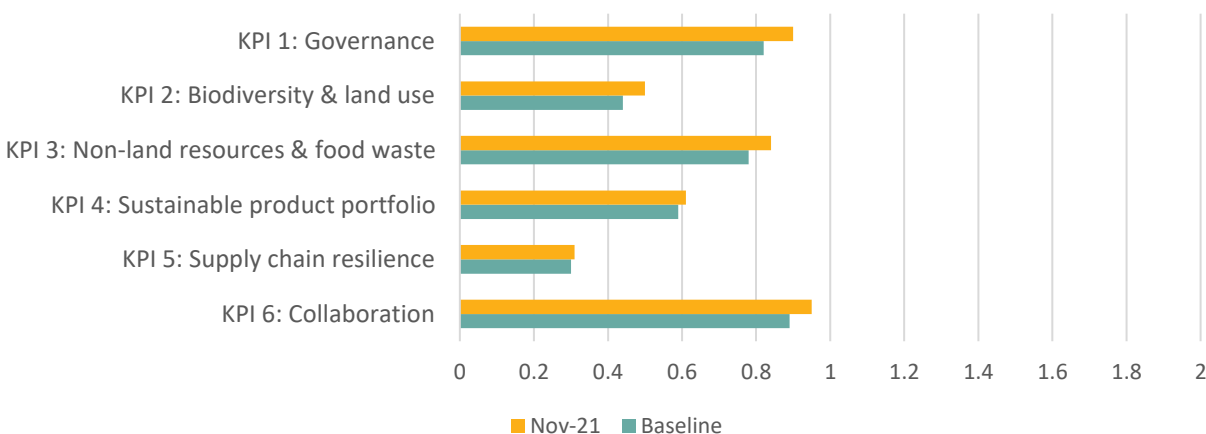
Reflections from each sub-industry based on dialogues held so far:

- Being at the very start of the food production value chain, agricultural producers have an important responsibility to set the tone for sustainable production standards. Based on our first calls with agricultural companies, this is challenging as their supply chain is often complex with both direct and indirect suppliers and small-scale producers across the globe. Land use and deforestation are critical issues for the sector, so it is encouraging to note that most companies in the engagement have commitments in place.
- Agricultural chemicals play a vital role in assuring food production worldwide, and pesticides and fertilizers are valuable inputs to increase land productivity. However, limiting their negative impacts on the environment and human health remains a challenge. Dialogue with agrochemical companies show a strong awareness of the need to tackle material ESG issues related to pesticides and fertilizers and impacts such as toxic emissions and carbon footprint.
- Packaged foods and food retailers rely on a wide variety of agricultural goods for their products, hence facing the same ESG risks as the companies producing these commodities. Having strong responsible sourcing criteria in place is key, as is promoting sustainable agriculture practices among suppliers, and pushing industry standards by expanding the offer of environmentally friendly products.

## Engagement Dialogues 2021



## Average KPI scores



Most of the companies in the engagement (all but four) demonstrate some level of commitment to sustainable food production. However, gaps in performance are evident and many of them are yet to formalize it into a policy, conduct science-based planning, and incorporate all material environmental topics into both their own operations and the supply chain. Companies score higher on average on KPIs 1, 3 and 6 (governance, non-land resources & food waste, and collaboration). KPI 5 on supply chain resilience has the lowest score and hence appears to be less of a priority, in line with a general observation that companies usually focus on their own operations first.

## Case study

A packaged-foods company was added to the engagement in October 2021. The company offers a plant-based product portfolio presented as an environmentally friendly option but does not publicly disclose any relevant information on ESG management such as the amount of greenhouse gas emissions from its operations, supply chains or consumer waste. They also do not disclose the effects of their operations on forests or how much water they use, meaning the company scores very poorly in the benchmark despite its sustainable branding. Without this information it's not possible to say that it is a sustainable option or fundamentally different from other traditional food producing companies.

The company has not responded to any of Sustainalytics' several contact attempts, raising questions about how it views the importance of stakeholder engagement and transparency which seems to contradict its public commitment to sustainability. However, it is a very interesting engagement candidate, and the next step is to send a co-signed investor letter to further push it to participate.

Sustainalytics has also established dialogue with an international company in the packaged food sector. The company has made a commitment to be carbon neutral by 2050, with interim targets aligned with a 1.5 degree scenario for the next five and ten years. On a call in November 2021, it informed Sustainalytics that it has recently started strengthening its biodiversity-related work. It is part of a TNFD working group and is in the process of calculating its land-based footprint to build a baseline for a future biodiversity strategy. Earlier in the year, the company had published a forestry strategy, building on a decade of work to end deforestation in its supply chain. Indeed, it has committed to a deforestation-free supply chain by 2022 for palm oil, sugar, pulp and paper (the current level is 90%) and by 2025 it aims to do the same for coffee and cocoa supply chains. To drive regenerative agriculture the company has pledged to provide financial assistance to help its supply chain adopt more sustainable practices, including supporting farmers while phasing out certain fertilizers and introducing more traditional practices. Following the publication of the 2022 sustainability report, we will further explore topics such as the development of the biodiversity commitment and reducing pesticide use in the supply chain.



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