

January 2024 Thematic Engagement Executive Summary Report
APPROVED for PUBLIC DISCLOSURE

Feeding the Future



THE ISSUE AT HAND

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 56% over a 2010 baseline to feed the larger population,¹ meaning that more food will have to be produced using less land. In addition, energy and water will become limiting factors.

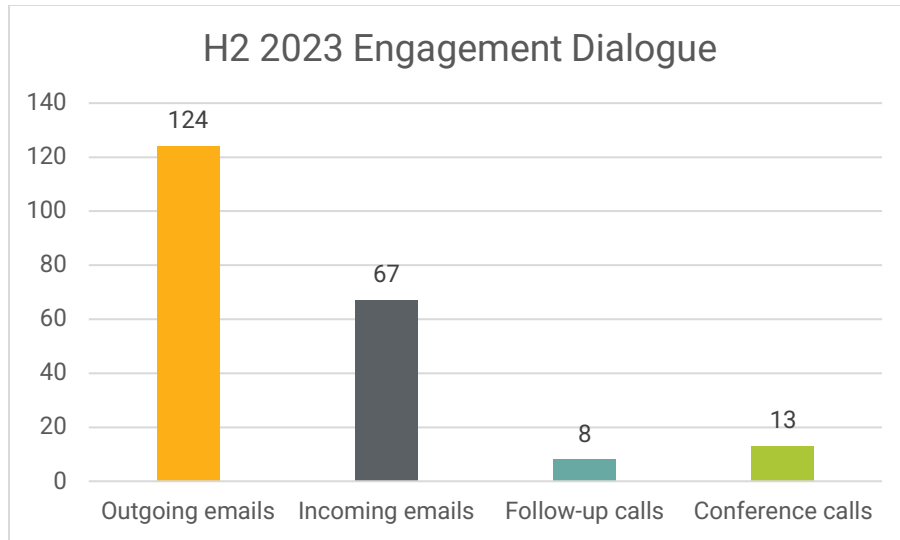
Morningstar Sustainalytics’ Feeding the Future Thematic Engagement aims to contribute to a more sustainable food system by focusing on contingency planning, science-based scenario analysis, land stewardship, eliminating food waste and shifting consumer trends. It targets the entire value chain including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

This is the executive summary report on the progress of this Thematic Engagement. The purpose of this document is to provide a concise summary of our engagement activities for (i) the period July 2023 to December 2023, and (ii) the entire year 2023.

ENGAGEMENT RESULTS

Since the publication of the July 2023 biannual report, Morningstar Sustainalytics has exchanged 191 emails with the engagement companies, made 8 follow-up telephone calls, and held 13 conference calls with the companies, as illustrated below:

¹ “How to Sustainably Feed 10 Billion People by 2050, in 21 Charts.” World Resources Institute, December 5, 2018. <https://www.wri.org/insights/how-sustainably-feed-10-billion-people-2050-21-charts>.



Recent Developments

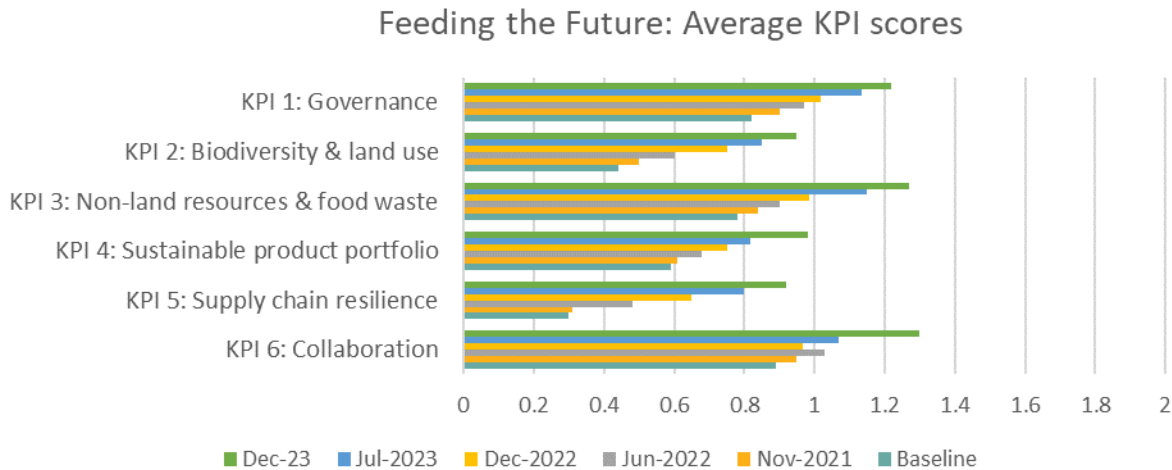
We would like to highlight these international policy and regulatory developments that have taken place since our last report and will shape the landscape of risks and opportunities faced by companies in our engagement.

- In July 2023 in Rome, countries convened at the UN Food Systems Summit +2 Stocktaking Moment (UNFSS+2)² to review progress on food-related SDGs. Governments underlined their commitment to updating their national pathways to achieve the relevant SDGs.³
- In September 2023, the Taskforce on Climate-Related Financial Disclosures (TNFD) [released](#) its final recommendations, after two years of development through an ‘open innovation’ process. The publication included 14 recommended disclosures, structured around four recommendation pillars of governance, strategy, risk and impact management and metrics and targets. In December 2023, TNFD [published](#) draft additional guidance to help organizations with business models or value chains in the food and agriculture sector apply the LEAP approach (Locate, Evaluate, Assess, Prepare) to their context.
- In November 2023, at the COP 28 summit in Dubai, over 130 countries issued a [Declaration on Sustainable Agriculture, Resilient Food Systems and Climate Action](#). This commits the signatories to the aims of scaling up adaptation to reduce the vulnerability of farmers, promoting food security and nutrition, strengthening the integrated management of water in agriculture and food systems, and maximizing the climate and environmental benefits associated with agriculture and food systems.

² <https://www.unep.org/un-food-systems-summit>

³ <https://planet-tracker.org/the-un-discusses-food-systems-key-takeaways/>

Dialogue with Companies



The chart above shows the progress in each KPI for our engagement group since June 2021, with the highest-scoring indicators overall being governance (1), management of non-land resources (carbon, water) and food waste (3) and collaboration (6). Meanwhile, KPI 5 on supply chain resilience remains one of the lowest-scoring KPIs on average but is the most improved from the baseline. We have observed certain themes in the latest period that contribute to this overall picture.

We have seen various measures by companies to reduce production waste and food waste. For example, a fresh produce company has conducted a project involving citrus farms, combining waste material from two business units to create compost, which has the added benefit of improving soil health across the farms. On other side of the value chain, a packaged food company has launched an online tool which enables customers and consumers to model the potential benefits of food waste reduction through shelf-life extension.

We have also observed significant efforts by retailers and packaged food companies to engage with their supply chains to promote and safeguard sustainability. One aspect of this is the use of broad-based system for oversight of suppliers. For instance, one retailing platform has adopted a Supplier Code of Conduct, which sets environmental and social criteria for supplier selection, as well as monitoring based on self-assessment and auditing.

A key plank of companies’ supply chain resilience strategies is the avoidance of deforestation. As part of its assessment of biodiversity-related impacts and dependencies, another retailer has looked at three regions in Brazil and Bolivia as a matter of priority and considered how to de-risk those areas, bearing in mind its own demand for certain commodities associated with land conversion.

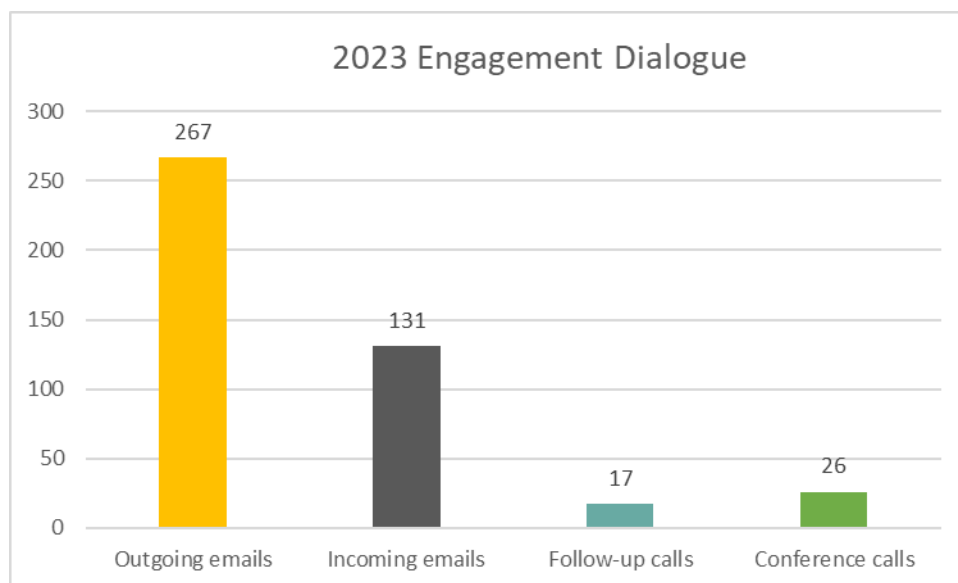
As we enter the final six months of the Feeding the Future Thematic Engagement, we are paying close attention not only to companies’ own operational practices, but their efforts to collaborate with stakeholders both within their value chains and in their broader government, civil society and academic networks. These efforts are mirrored in KPI 6 above. For example, during dialogue, an agricultural

company focused on oil palm explained that it is an active member of a local industry association in relation to land fire prevention and mitigation, certification training for farmers and mangrove rehabilitation.

December 2022 to December 2023 Annual Summary

As we passed the halfway mark of our engagement at the start of 2023, our strategy shifted from building our understanding of companies’ public disclosure to identifying specific opportunities for improvement and achieving tangible impact, where possible leveraging existing multi-stakeholder initiatives.

In 2023, as displayed in the chart below, Morningstar Sustainalytics exchanged 398 emails, made 17 follow-up telephone calls and held 26 conferences calls with engagement companies.



In addition to the policy and regulatory developments that took place in the second half of the year (see above), we would like to underscore these changes that occurred in or around the first half of 2023.

- The outcome of the United Nations Biodiversity Conference ([COP15](#)) in December 2022 was the Kunming-Montreal Global Biodiversity Framework, which set out 23 targets, among which was to halve global food waste by 2030. As this agreement is likely to be mirrored in national policies around the world, it may already, at this stage, incentivize companies in relevant sectors, like food retail, to bolster their initiatives in this area.
- The Science-Based Targets Network (SBTN) issued guidance in May 2023 for companies in setting SBTs for Nature. It comprises a five-stage process: assess; interpret & prioritize; measure, set & disclose targets; act; track. SBTN has provided a list of the most common environmental impacts associated with the production of major commodities. This guidance should make it easier for agricultural producers to initiate the process of setting appropriate SBTs for Nature.

- At the end of 2022, the European Commission approved the EU deforestation-free regulation, requiring the European supply chains of six food commodities (cocoa, coffee, soy, palm oil and cattle) to prepare for closer due diligence. It will require any company importing these commodities into or exporting them out of the EU to prove that they are deforestation-free.

Our engagement dialogues during the same period tapped into the broader discussion of the sustainability issues driving these legal and guidance documents. Furthermore, most of the engaged companies published sustainability reports in the first half of 2023, giving us a rich seam of fresh information to tap into, augmented by direct dialogue with eleven companies. Climate change once again emerged as a priority issue, not only on its own merits, but also because of its connection with other issues, such as soil health, water stewardship, forestry management and biodiversity. Many engagement companies have published emissions reduction targets (as well as measures to achieve them) and some have had their targets approved by the Science-Based Targets Initiative (SBTi).

Companies at different stages of the food value chain are developing and applying digital systems to strengthen their environmental stewardship. For example, one agricultural chemicals company has created a geospatial mapping system, currently available in three European countries, to help farmers detect and limit the runoff of agricultural chemicals into watercourses.

CASE STUDY

Since June 2021, Morningstar Sustainalytics has been in dialogue as part of this engagement with an integrated producer, marketer and distributor of fruit and vegetables. At the start of the engagement, we noted that it had launched a responsible farming program to improve healthy soils and minimize the use of pesticides and had a strong water management programme. However, it had not disclosed a commitment to avoiding deforestation and provided limited disclosure related to carbon emissions. This meant that the company was rated low overall in our June 2021 baseline assessment.

However, since our first call in September 2021, we have held three calls with the Chief Sustainability Officer, covering a range of topics, including sustainability governance, biodiversity protection and regenerative agriculture priorities. This has yielded valuable information about its approach to multiple sustainability issues, leading to a steady improvement in our KPI-based evaluation.

In 2021, the business established six working groups based on critical sustainability issues, such as climate action, food waste, supply chain management, sustainable farming and water. On the latter two topics, the company has advised that before starting to operate on new land, it applies a science-based risk identification and pre-feasibility analysis to ensure land proposed for new agricultural development has adequate land and water resources to operate sustainably over time. Furthermore, the company has informed us that it does indeed have a formal commitment to no deforestation. Nearly 30% of land owned by the company is set aside to preserve biodiversity and protect wildlife based on selection criteria including soil fertility, soil topography and land location. As a company policy, it ensures that 100% of the containerboard sourced for boxes comes from forests that are certified as responsibly managed by third parties such as the Forest Stewardship Council. Further, the business is committed to reforestation, with a goal of planting and donating 2.5 million trees by 2025. It has also integrated its forestry management into product development and marketing. Last year, the company started offering

a line of fruit grown in a specific location which are certified as sustainably grown and certified as carbon neutral on the basis of carbon insetting.

As a result of these and other developments, the company’s rating on KPIs 5 and 6, on supply chain resilience and stakeholder collaboration, has improved from low to high over the last two-and-a-half years and its overall KPI score is now in the high band. The company advised in March 2023 that it had been studying the TNFD but was mindful that the framework would require a lot of resources. Accordingly, we have proposed a further call in Q1 2024 on its response to the final TNFD recommendations of September 2023 and the COP28 Leaders Declaration on Sustainable Agriculture, Resilient Food Systems and Climate Action declaration.

THE NEXT SIX MONTHS

Given the complexity of the value chains that comprise the food system, we consider that partnership—between peers, between customer and vendors and between businesses and their broader community—is essential to manage the pervasive sustainability risks that the system faces. Accordingly, it will remain a keynote of our dialogues in the final reporting period.

Over the last six months of the engagement, we will:

- Explore ways for companies to catalyze progress on the food system or sector level through stakeholder collaboration
- Facilitate peer-to-peer collaboration among engagement companies via a virtual roundtable
- Arrange additional one-to-one calls in ongoing dialogues where appropriate
- Explore options for a field trip in Europe centred around sustainable and regenerative agriculture
- Incorporate suitable good practice examples aligned with engagement KPIs into a ‘repository’ of good practice to leverage during dialogues with peer companies
- Prepare the final report for release in July 2024

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