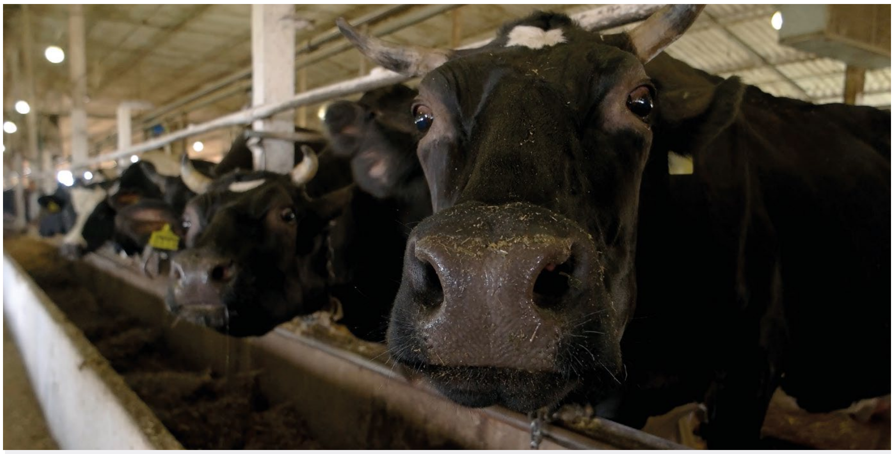

**Summary**
- Agriculture represents 11 per cent of global greenhouse gas emissions, 70 per cent of worldwide freshwater withdrawals, and accounts for 53 per cent of habitat destruction and species decline, making it just as important a sector as the fossil fuel industry in the fight against climate change.
- There are collaborative initiatives to help investors put pressure on food manufacturers to implement sustainable practices, through methods such as shareholder activism.
- The food industry has been slow to adapt, but new, more sustainable farming practices are emerging, and increased regulation, along with changing consumer attitudes and consumption habits, are expected to influence change.

# 'Cows are the new coal'

**In the fight against climate change, the focus remains on the energy sector, yet the significant environmental issues caused by food production is often overlooked by pension funds concerned about ESG issues, Laura Blows finds**

To feed the estimated 10 billion people on this planet in 2050, food production will need to increase by 56 per cent from 2010 levels. Ideally, this increase needs to be created with no net expansion to agriculture land, as without change, cropland and pastureland are projected to increase by nearly 600 million hectares (nearly twice the size of India) by 2050.

These figures from the World Resources Institute report, *Creating a sustainable food future,* from July 2019, are staggering, and within them lie further challenges.

**Food production's ESG challenges**

"Besides food security, the environmental challenges have not diminished; agriculture alone now represents 11 per cent of global greenhouse gas (GHG) emissions and 70 per cent of freshwater withdrawals worldwide," Aegon Asset Management senior responsible investment associate, Euan Ker, says.

Meanwhile, Farm Animal Investment Risk and Return (FAIRR) director of thematic research and corporate innovation, Jo Raven, highlights how industrial animal agriculture is the primary driver of habitat destruction and species decline, accounting for 53 per cent of all losses.

"To limit agriculture to its 'fair share' of total allowable emissions in a world where global temperatures have risen by two degrees Celsius, the sector must address the demand for 50 per cent more food while reducing emissions by two-thirds from 2010 levels", the World Resources Institute report finds.

It is little wonder then that BRCGS' (previously known as the British Retail Consortium) November 2021 article, *Why ESG is increasingly critical for the food industry,* stated that "over the coming months and years, we predict growing pressure for greater environmental, social and governance (ESG) performance and transparency in the food and drink industry", and that "food production will almost certainly come under the same levels of scrutiny as the oil industry – with companies experiencing ever-increasing pressure to improve their sustainability".

According to Raven, it is important for pension fund investors "to understand their individual exposure to the food and agriculture industry and learn about the important role food and agriculture has to play within the sustainability challenges".

"It is equally as important as the fossil fuel industry, and some would say even more so, as this ultimately is around food security as well," she states.

As her colleague, FAIRR founder, Jeremy Coller, states, "ESG considerations are vital to contain the material investment risks of feeding 80 billion animals for eight billion humans: from 'cows are the new coal' to the risks of class action and regulation changes of antimicrobials *[in the use of animals, which can generate antibiotic resistance in humans, known as AMR]* and polluting water".

Food production clearly has a major impact on all aspect of ESG matters. So, amidst the fight against climate change and the growing desire to implement sustainable investing, investors must be focusing on improving food production sustainability practices, just as much as they focus on the fossil fuel industry and the transition to renewable energy, right?

Wrong. The sustainability issues surrounding food production are being "drowned out" by other ESG concerns, such as "climate, tax avoidance and poverty wages", PensionBee chief engagement officer, Clare Reilly, states.

"Food health is as important as climate. It is just climate change has historically got a lot of the attention," she adds.

The reasons for this lack of attention on food production, despite the significant part it has to play within environmental change, are complex.

"Sustainability within the food industry is a very broad topic. Touching on health and nutrition, climate change, nature, and social equality. Sustainability expectations for the industry can therefore be conflicting. Because the ask would be for low cost, healthy products that have low environmental impacts and no human rights issues throughout the whole supply chain. And the definition of what those asks are is also often unclear. What is healthy? Does low environmental impact mean high yields to take pressure away from land-use change, or lower yield regenerative systems? Are ultra processed plant-based products better for the environment, but not our health?", Abrdn senior sustainability manager and DC Investment Forum (DCIF) member, Ann Meoni, explains.

In contrast, the path to renewable energy is easier to comprehend, Raven says.

"When you think of the energy industry and energy transition, we do have a pretty good idea of what we need to do to get there. We also know of the different technologies in place and there is an infrastructure system around efficiencies and renewable energies etc.

"But the food and agriculture system is incredibly complex. It is also very political and very personal. Therefore, there is such an unclear roadmap of what is it that we need to do manage the *[sustainability]* transition. There is a regional element, because it will look different for each region, which makes the conversation a lot harder. That has been why there has been less focus on this industry compared to others," she explains.

**Growing awareness**

However, recent global events have helped increase awareness of the sustainability issues within food production.

According to Wellington Management ESG analyst and DCIF member, Sean Caplice, "the food ecosystem has been undergoing changes for some time, but the Covid-19 pandemic really shone a light onto the opacity of supply chains".

**"Food production will almost certainly come under the same levels of scrutiny as the oil industry"**

Covid-19 also saw meat processing factories in the US and Europe become Covid-19 hotpots, Raven adds, also highlighting the tangible effect the Russia/Ukraine war has had on food supply chains.

This increased interest in the food sustainability has a regional slant, Meoni notes.

"In the US there has been more interest in AMR and animal welfare, while pollution – whether that is GHGs, pesticides or plastic – are more common themes in Europe. Expectations around frameworks such as the Taskforce on Nature-related Financial Disclosures (TNFD) are also more commonly picked up by European investors," she explains.

There are also collaborative initiatives to help investors put pressure on food manufacturers, such as ShareAction establishing the Long-term Investors in People's Health initiative, which notes that "poor diets are a key driver of ill-health, linked to one in five deaths globally, which exposes investors and many of the businesses they're invested in to elevated and preventable financial risk".

Operating since 2015, the FAIRR initiative is a collaborative investor network that raises awareness of the ESG risks and opportunities in the global food sector. Seven years ago, it had fewer than \$5 trillion in combined assets, Raven says, and now represents over \$70 trillion in combined assets, with over 400 members globally.

The majority of its members are asset managers, rather than asset owners, such as pension funds, Raven states, but their numbers are increasing, particularly over the past couple of years (she notes that Swedish pension funds have been active in this space for quite a few years).

The reason for this growth is clear. "If you are looking to make long term, value creating decisions for your beneficiaries, and looking at the resiliency of your portfolio, the reality is the food and agriculture are at risk from climate and nature impacts. They are at risk from changing regulations due to AMR and from an increased focus on people's health, so there is a real steer towards looking at the negative externalities that the industry relies on and has not been priced into their business model, and that is starting to change," Raven says.

She gives the example of FAIRR's climate scenario tool finding that climate-driven impacts would lead to an accumulative loss of about \$1.3 trillion by 2030 for the 40 largest livestock companies.

Meanwhile, Caplice highlights the importance of the traceability within food supply chains when evaluating and investing in companies.

"Traceability not only helps ensure operational continuity but allows companies to manage systemic risks related to child labour and deforestation much more proactively," he explains.

Meoni highlights the recent investor support of a biodiversity proposal for PepsiCo. The proposal asked the food and drink giant to report on risks related to biodiversity and nature loss. "We supported this vote because PepsiCo operates in a sector with heightened biodiversity risks. While PepsiCo do have goals on several nature themes, a broader materiality assessment of nature focused impacts would enable shareholders to evaluate the company's management of material risks," she explains.

Meanwhile, Tumelo CEO, Georgia Stewart, notes that Nestle came under investor pressure this season after it was revealed that some products, like baby food, had much lower sugar content in the UK versus Thailand (and other less developed countries). "Shareholders called for the company to align its global product standards with those in Europe and to reduce added sugars uniformly across all markets," she says. "Although the proposal didn't pass, it was proof of greater investor scrutiny and a good example of the importance of transparent disclosure for investor decision-making," Stweart adds.

These shareholder votes "aren't about doing the right thing", Stewart says. "Our pension funds and other institutional investors believe there is opportunity and/or risk to the companies in their portfolios that is going unaddressed. Through its practices, Nestle perhaps exposes itself to reputational damage or to regulatory risk of a sugar tax. More generally, though, obesity-related disease costs UK business £27 billion per year, while 73 per cent of consumers are willing to pay more for health products, so it's no surprise some investors are acting on this," she explains.

"Separately, AMR from over-use of antibiotics in the food supply chain (such as on intensive farms) is also a crucial topic as investors increasingly look to address systemic risk. Most large pension funds, for example, are highly diversified investors who want to protect their whole portfolio from the risk of another crash-causing pandemic.

"For all of this shareholder activity, I want to stress how critical it is that asset owners (such as pension funds) have a voice – a vote – in the boardrooms of these companies. Some fund managers, such as LGIM, offer their clients the ability to vote in pooled funds. This 'pass-through voting' is a key enabler for more pension funds – who, with the best interests of beneficiaries in mind, are usually the most supportive of these issues – to participate in voting," Stewart adds.

**"The drive to find solutions to climate change is providing numerous investment opportunities… for pension funds, allowing them to combine financial returns with benefits to society"**

Asset managers and asset owners are not the only ones increasing their focus on the ESG issues within food production; pension fund members themselves are also expressing concern. For instance, PensionBee's 2024 survey of its members found respondents placed 'public health, and food and beverage companies harming people's health with their products' sixth on their list of concerns.

PensionBee's members also felt strongly about the use of shareholder resolutions to affect change within the food sector.

For instance, 88 per cent of its members agreed with the 2023 shareholder resolution for Mondelez (the parent company of Cadbury) to adopt targets and publicly report quantitative metrics to assess whether the company is on course to eradicate child labour and forced labour in all forms from the company's cocoa supply chain by 2025.

In contrast, the actual voting result of that resolution at the company's AGM was 20 per cent in favour, and 80 per cent against.

It was a similar story with the 2023 shareholder resolution asking McDonald's to comply with the World Health Organization (WHO) guidelines on the use of medically important antimicrobials in food-producing animals throughout its supply chains. Eighty-three per cent of PensionBee members agreed with this, yet the actual voting result at the AGM had just 18 per cent vote for it.

Despite these examples of shareholder resolutions not passing, investor interaction is starting to make a positive impact. For instance, Raven highlights how FAIRR has been engaging with meat processing companies in the UK, US, Brazil and Asia to improve working conditions. "We have seen over the past couple of years a real improvement with companies disclosing more information around grievance channels and mechanisms, for their employee base to voice concerns and be represented," she says.

**Food industry's response**

But how is the food industry responding to the increased focus on its ESG credentials?

"Despite an increased focus on the sustainability challenges that the industry faces and the many corporate pledges that have followed… the food industry has not made wholesale changes to address these problems," Ker says.

"Investor pressure will only go so far; you also need regulatory change; but that's an issue that policy makers find hard to swallow. We have recently seen in the EU how unpopular policy reform is in the agriculture sector for example," he adds.

According to accounting firm

BDO's April 2022 online post, "food is the connection between practically every major sustainability challenge … consequently, the industry should have been an obvious focus for ESG-related research and development; it should have been leading from the front".

It also referenced a Wall Street Journal survey on ESG metrics, published in February 2021, which showed that, out of 5,500 companies studied, only one food business scored in the top 100.

Meanwhile, the BCRG's 2021 article highlighted Canopy Holding's (a food and agriculture holding company) findings that there is a lack of ESG data in the food sector, particularly in social and governance areas.

Yet, the Food and Drink Federation's 2021 report on the impact of ESG on the UK food and drink sector noted that, since 2020, businesses are feeling the pressure more from investors around actioning ESG. It also emphasised the significance of a clear net-zero roadmap for the food and drink industry and in March 2021 announced its plans to reach net zero by 2040.

Putting such plans into practice, Caplice says Wellington Management recently spoke to a food manufacturer that has conducted a full footprint analysis "and the work done on supply chain traceability has allowed them to improve practices around regenerative agriculture *[and help meet]*, regulatory requirements such as the EU Regulation on Deforestation Free Products".

Elsewhere, Ker notes the emergence of 'vertical farming'. "This new technology-enabled farming means crops can be grown reliably, often built in urban areas and other agri-challenged places, running 24/7, growing crops regardless of the changing climate, with some studies suggesting a 516 times higher yield per vertical layer than in conventional field farming," Ker explains.

Baillie Gifford investment specialist and DCIF member, Alasdair McHugh, also highlights 'precision farming', as used by the agriculture expert John Deere, who uses technology to target crops more effectively to reduce pesticide use, to develop autonomous tractors, which "save farmers time and money and, crucially, increase food yields".

"The drive to find solutions to climate change is providing numerous investment opportunities like Deere for pension funds, allowing them to combine financial returns with benefits to society," he states.

**Driving change**

Pension funds can help drive change in the food sector through engagement, stewardship and joining collaborative initiatives, Raven says.

"Asset owners and the pension fund industry has such an important role to play, as they sit at the top of the food chain. They do set the tone for a lot of the asset management community. This will trickle down and could help accelerate change at a quicker pace than what we have seen before," she suggests.

The current pace of change certainly seems slow, with Ker noting that "while there is certainly more awareness and increased disclosures of ESG topics from the food industry, it remains a very complicated and multi-decade problem to solve. It will take a mixture of investor pressure, political will, and consumer habits to change".

However, change is starting to occur, particularly with regulatory pressure increasing, such as the TNFD framework and the European Commission's 'farm to fork' strategy, which aims to make "food systems fair, healthy and environmentally friendly". Also, in September, the UN General Assembly will convene a high-level meeting on AMR for the second time (the first being in 2016), for world leaders to "collectively address the looming threat AMR poses to global health, food security, and achieving the 2030 Sustainable Development Goals".

Consumers themselves also have a role to play with instigating change. "Growing consumer demand for healthier products may well influence where investors place their funds and how food manufacturers choose to innovate within their product range," Pinsent Masons partner, Zoe Betts, says.

As Caplice says, "it's important to remember that investors are just one stakeholder. Food companies are ultimately serving a customer and feeding the world and society".

**Written by Laura Blows**