## Changing Appetites

*How can investors and businesses identify material challenges and opportunities in the big food system transition?*

Report of Business Forum Breakfast, 30th April 2019

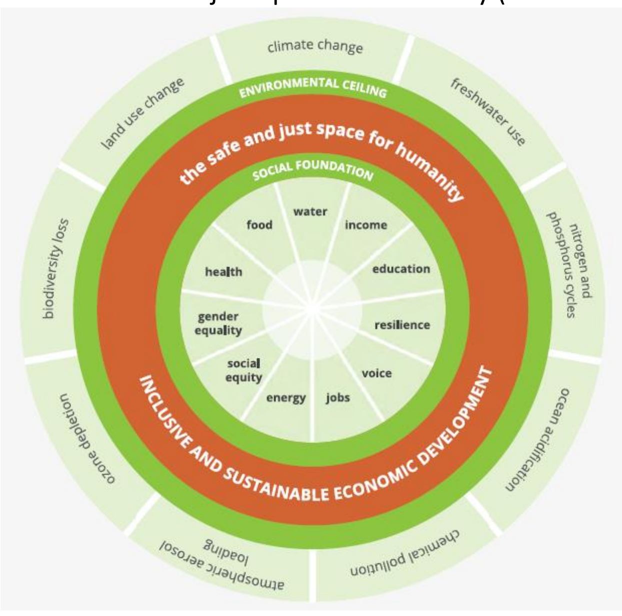
### Introduction

Food systems have huge impacts on the health and wellbeing of people, animals and the planet. A growing number of investors see long-term value in rewarding food businesses from all parts of the value chain that want to accelerate the shift to ‘better’ food systems. At the same time, there are growing calls for investors to actively engage with, or even divest from, the most harmful companies in agri-business, food and beverage manufacturing, retail and foodservice sectors.

What are the material risks and opportunities for food businesses and investors wanting to move to healthy, sustainable diets? What does better disclosure look like to enable that shift, and how should businesses and investors act on that? What else is needed to further strengthen investor and business cases – and the moral case – for transforming our food and farming systems? These are important questions to explore.

### Safe and just space for humanity

On a conceptual level, humanity is overshooting on several planetary boundaries, notably climate change, biodiversity loss, nitrogen and phosphorus loading and land conversion. At the same time, there is a failure to deliver a good equitable life for humanity. The research shows that production and consumption of food needs to radically change. The food sector needs to operate within a safe and just space for humanity (see below).




Source: TEEB, Measuring what matters in agriculture and food systems (2018), adapted from Raworth 2012

### Why is disclosure important?

There are a number of barriers to shifting to a fair, sustainable food system. These include insufficient understanding of, and disclosure of, what the relevant material challenges and opportunities really are. An increasing willingness for food companies to be transparent about their sustainability policies, processes and impacts is very welcome. However, disclosure should not be thought of as the end goal, rather the aim should be to have appropriate disclosure with a clear purpose. The *product* of disclosure can be important and be used by civil society and others to hold companies to account. The *process* of disclosure itself can be just as important, as it can spark productive dialogue within the company and/ or between companies and investors.

Should other countries follow the lead of Scotland’s Good Food Nation Bill, which could require companies to be asked what role they are playing towards the national food strategy? Could that kind of reporting mechanism be embedded within a policy framework, to increase disclosure and to drive a conversation about whether shifts are going in the right direction? In the EU, the Non-Financial Reporting Directive is an opportunity to influence the type of metrics companies across Europe are expected to report against.

*“The majority [of institutional investors] still just care about financial materiality, but we’re seeing it come more into the mainstream.”*

### Current ‘ecosystem of initiatives’

There exist many international, regional and national frameworks, targets and standards e.g. SDGs, World Health Organisation, Codex, UN FAO. These cover a breadth of issues from nutrition to greenhouse gas emissions to water and beyond. Over the last 20 years or so, lots of initiatives and tools have been developed to try to measure companies’ delivery against such international standards and frameworks. These can be loosely grouped into the following categories:

1. Proprietary sustainability ratings and indexes e.g. Sustainalytics, MSCI, FTSE4Good, Dow Jones Sustainability Index
2. Single-issue-focused independent measurement systems and benchmarks e.g. Access to Nutrition Index, FAIRR, Business Benchmark on Animal Welfare, Carbon Disclosure Project
3. Reporting frameworks of voluntary industry associations e.g. World Business Council on Sustainable Development, Courtauld Commitment 2025, Consumer Goods Forum
4. Global reporting frameworks e.g. GRI, Sustainability Accounting Standards Board and new Impact-led frameworks e.g. Future Fit

A new category emerging is groups of investors putting out investor expectations for what companies should do on issues like sugar or lobbying on climate change. If investors are asking about what companies are doing, then it is likely investors will want benchmarks to assess whether companies are doing that or not.

The initiatives and tools mentioned above are built on hundreds of environmental, social and governance ('ESG') metrics, which overlap but are not well aligned. There has been a growth in corporate disclosure on non-financial measures. With a 'what gets measured gets managed' approach, the logic is that capital will be increasingly allocated to companies that align to international SDGs and targets. However, this process is becoming increasingly complex and resource intensive, with initiatives broadly wanting the same direction of travel, but seemingly competing with each other. It is becoming increasingly difficult for companies to know which initiatives to respond to.

### The need for consolidation and alignment

It was argued that a more effective approach would be to consolidate the existing plethora of health, environmental, animal welfare and social metrics into higher-level tools e.g. World Benchmarking Alliance Indexes and Plating Up Progress. There has to be a concerted effort to come together to determine the (fewer) metrics that it is critical for corporates to report on – avoiding metrics overload. Planetary boundaries and doughnut economics provide an explicit and strong framework in which to concede these kinds of benchmarks and try to align them more closely. If done well, this has potential to reduce the 'box-ticking' burden for food companies, farmers and investors.

*"I'd rather my farmer was a farmer, not a form filler"*

### Metrics for food industry and investors to use

The 'Plating Up Progress' initiative is trying to collectively scope out a set of metrics or key performance indicators. The idea is that the food industry will be able to use these to evidence where they are on the transitional curve to sustainable and healthy food systems. These should also be valuable for other stakeholders, particularly investors. This work is asking where and how it may be possible to build a consensus around metrics and KPIs, how is that practical to do and what is disclosable and meaningful?

### Beyond large corporates

What might sustainable business models be for food businesses in the future - and how many of those are going to be small and medium-sized enterprises ('SMEs')? It is perhaps easier for investors to talk to a small number of major global companies with existing reporting mechanisms that are listed on the stock exchange. It is on the face of it much harder to engage with hundreds of millions of smallholder farmers. However, there are ways investors can engage with SMEs e.g. via bank lending, which is much more of an issue for SMEs than for most multinationals.

It is important to step back and ask if there is a collective vision that everyone is working towards (often there will not be). Will the emphasis in future be on large robot farms or on small businesses? Will actions taken preserve or enhance diversity in the system? Will there be a rich ecosystem of food and farming businesses in the future or will there be a homogenised global system?

### What role for the public?

Public support for issues is often driven by media e.g. the 'Blue Planet effect' with single-use plastics, and such interest can sometimes be transient, as people move onto the next issue. This can be a challenge for food businesses and investors trying to focus on the most material issues for their business, but at the same time trying to take their customers on a journey. There is sometimes a disconnect between measurement tools and what the public wants. An example was given of one benchmark, where for a food business to improve on its customer engagement score, it has to communicate about slaughter standards, but the company felt its customers do not want to know that.

The public often have an expectation that food businesses and retailers will make the right choices for them on issues like animal welfare. The dynamic between businesses and the general public is not one-way. The old mantra of 'Consumer is king (or queen)' no longer stands up. The onus should not be solely on the individual. Food businesses have a huge role in shaping the food environment and how customer behave. If someone buys a car, it is surely reasonable to expect that the brakes are going to work. In a food context, food companies should provide safe, healthy and sustainable products – and not just wait for 'consumer demand' to drive change.

*"This needs to be co-created if we're going to be successful with industry, investors, public policy people, everybody helping to… [grasp] the opportunity to deliver a more sustainable future for all of us…. We are all citizens and we're active participants. Let's not forget our role in all this."*

## The opportunity of regulation

Is there a regulatory gap in the food sector, especially in Europe? Food businesses on their own can not tackle the range of challenges facing the food system. Some kind of overarching regulatory intervention is surely needed to ensure there is a level playing field, that food and farming sectors have to account for the externalities they are creating and to encourage the transition to fair food systems.

Beyond specific fiscal measures such as a meat tax, there is the regulatory space around disclosure itself. There is an important role for government policy in setting national metrics or targets against which major food system actors have to report (e.g. to Parliament). How can metrics be used effectively to drive change through a more formal policy structure?

Investors – and even major food businesses – are not involved as much as they could be in trying to positively influence the reform of major policies like the Common Agricultural Policy in Europe. It was noted that there is a lack of private sector engagement in agricultural or environmental policy spheres – and that the same can be said about a lack of agricultural or environmental engagement in financial policy spheres.

## From scrutineer to scrutinised

Investor scrutiny in the ESG performance and long-term sustainability credentials of major food businesses is growing. One element missing is indexes, indicators and regulations for investors *themselves* in this area. Is the next stage for institutional investors to move from being the scrutineers to the scrutinised? If that is the case, institutional investors will have to report the progress (or not) they themselves are making towards a more sustainable future, including contributing to fair, sustainable food systems.

> *"How are …[investors] tilting their portfolios [and] loan books to support the transition to a more sustainable, ethical future that we're all keen to secure as swiftly as possible, long before 2050?"*

## Concluding comments

- There has been movement in what investors look for, which is welcome, but there remains a huge amount of untapped potential for the investor lever to drive positive change in food and farming.
- Disclosure and metrics have a vital role to play. However, to be effective and to cut through the complexity, further consolidation and alignment of ESG rating initiatives, indexes and metrics is needed. This will require careful choreography and coordination from those organisations involved.
- Too strong a focus on metrics might drive homogeneity when what is surely needed for a fair, resilient food system is greater diversity.
- Reaching broad consensus on metrics that will not drive perverse outcomes is vitally important.
- It is important for both food businesses and investors to keep ears and eyes open for opportunities to positively influence the regulators, within the food system agenda, but also in other areas beyond the sector that still have important cross-over impacts.

### What next?

**Key questions to consider, and to act on, include:**

- How can organisations involved consolidate metrics effectively without losing nuance and without creating perverse outcomes?
- What metrics in key food issue areas e.g. relating to childhood obesity might be equivalent to 'zero deforestation'?
- How can food businesses and investors lobby regulators in a co-ordinated way to accelerate progress towards fair, sustainable food systems?
- How can investors be held to account on the sustainability performance of the food (and food-related) businesses in their investment portfolios?

### Further resources

1. Plating Up Progress
2. Food Ethics Council and WWF-UK - Catering for Sustainability: *Making the case for sustainable diets in foodservice*
3. **Other relevant Business Forum reports:** Fair share-holders: *How can investors help us drive fair, sustainable & humane food systems?*

This is a report of the Business Forum breakfast meeting on 30th April 2019. We are grateful to our speakers, **Rachel Crossley**, Senior Advisor, Access to Nutrition Foundation and **Will Nicholson**, Co-ordinator of 'Plating Up Progress' (a joint initiative between Food Foundation and Food Climate Research Network). **Pete Ritchie**, Director of Nourish Scotland and Trustee of the Food Ethics Council, chaired the meeting.
The views expressed in this report do not necessarily represent those of the Food Ethics Council, nor its members.
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