To better understand how companies in the U.S. food and beverage sector are addressing the impacts of their agricultural supply chains, Ceres and Sustainalytics evaluated the 24 companies from the sector included in the Gaining Ground report. While the data in Gaining Ground indicate that food and beverage companies have improved their sustainability performance overall, a more focused look at how they are addressing agricultural sourcing highlights the need for more action by the sector.

### KEY FINDINGS

**Companies are just getting started:**
Corporate action on sustainable agriculture sourcing remains in the early stages of implementation with lots of opportunities for further action. For example, almost half of the companies (11 of 24) do not disclose any evidence of conducting risk assessments of their agricultural suppliers.

**Current goals and commitments are narrowly focused:**
Where goals and commitments to source more sustainably exist, companies focus primarily on agricultural inputs, such as coffee, soy, and palm oil, that are subject to third-party verification schemes. Companies generally lack specificity about their plans in the absence of external standards.

**Managerial oversight is weak:**
While some companies have high-level managerial oversight of key agricultural sourcing initiatives, the vast majority does not adequately disclose how these issues are managed internally. This raises concerns about the priority placed on addressing agricultural risks to the business.

**Disclosure of impact assessments, both for supplier risk and grower performance, is lacking:**
Across the board, companies are failing to effectively measure and disclose how their efforts are addressing sustainability risks, such as increased exposure to the adverse effects of climate change, and ultimately changing farmer practices.

Nearly half of the companies (11 of 24) do not disclose any evidence of conducting risk assessments of their agricultural suppliers.
The negative impacts of agriculture on both the environment and society are well documented. Food systems contribute between 19 and 29 percent of global annual greenhouse gas (GHG) emissions, with 80 to 89 percent of that impact from agricultural production.\(^1\) Agriculture is responsible for 75 percent of global deforestation,\(^2\) and croplands and pasture occupy half of the world’s vegetated lands. Globally, agriculture accounts for about 70 percent of all water consumption and the run-off of fertilizer, manure and pesticides are major sources of water pollution in most regions of the world. These factors are all subject to the increased pressure of a growing global population, and increased demand for higher impact agricultural ingredients, like beef.

For major food and beverage companies, developing systems to purchase agricultural products that are grown or produced sustainably is a critical step towards mitigating these risks and gaining more secure supply sources. Issues such as deforestation, water pollution and scarcity, climate change, and working conditions affect all companies operating globally, but are particularly relevant to those with supply chains stretching down to the farm level. These are not just environmental and social challenges, they also pose significant business risks, including: commodity price volatility; product quality and contamination issues; reputation and brand impacts; and uncertainty related to the long term availability of agricultural products. Stakeholders, including consumers, are taking an increased interest in corporate supply chain management, and expect more accountability and proof that a company’s sourcing practices have positive rather than negative environmental and social impacts.

To provide investors, companies and stakeholders with better information on how companies are tackling sustainability challenges associated with agriculture in their supply chains, Ceres and Sustainalytics assessed the sourcing practices of major U.S. food and beverage companies. The assessment builds from *Gaining Ground: Corporate Progress on the Ceres Roadmap for Sustainability*, Ceres’ evaluation of how well 613 of the largest, publicly traded U.S. companies are integrating sustainability into their business systems and decision-making. This assessment takes a closer look at how the 24 food and beverage companies included in *Gaining Ground* performed against a set of 14 indicators in the categories of 1) corporate policies and codes, 2) management systems and strategies, and 3) practices and performance. We gathered data for this work from publically available information accessed between December 2013 and February 2014.

### Ceres Sustainable Agriculture Expectation

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<tr>
<th>Policies &amp; Codes</th>
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<td>Impact Assessments on Grower Performance</td>
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Lots of Sustainable Sourcing Strategies, Little Connection to Risk

In order to develop effective strategies to procure sustainable agricultural inputs, companies must first understand the landscape of their supply chains. Supplier risk assessments represent a key starting point for identifying and quantifying risks at the supplier, regional and commodity level. These assessments are vital for prioritizing risk factors, such as exposure to the effects of climate change and the long-term availability of key ingredients, and developing strategies to mitigate these risks. Companies in the food and beverage sector demonstrated poor disclosure of supply chain risk assessments, with almost half (11 of 24 companies) failing to provide evidence that they conduct any sort of risk assessment. One company that has taken this step is General Mills. The company recently released a set of sustainable sourcing commitments, outlining a four-step strategy that begins with a robust risk assessment process undertaken in partnership with a third party. This approach led the company to prioritize addressing the sustainability risks of ten commodities, including oats, wheat and corn.

In contrast to the lack of risk assessment practices, 75 percent (18 of 24 companies) outline at least a basic strategy to mitigate one or more supply chain risks. In other words, rather than developing a corporate-wide approach that is based on a broad assessment of supply chain risk, most companies appear to addressing these issues on an ad hoc or project-specific basis. Risk assessments are a critical component of prioritization, and companies should look to increase disclosure of these efforts to give stakeholders a better understanding of how the company plans to have impact.

A Gap in Executive Oversight

The Gaining Ground analysis provides evidence of the general relationship between strong governance and strong sustainability performance. As agriculture supply chains become more vulnerable to natural resource pressures, climate change, and reputational concerns such as child or forced labor, stakeholders expect that senior management will play a key role in overseeing agriculture sourcing programs and will lead efforts to build management systems and strategies that address the specific risks facing their agricultural supply chains.

Overall, 33 percent (8 of 24 companies) disclosed some evidence of board or senior-level managerial oversight and responsibility for sustainable agriculture sourcing. Among those, Campbell Soup takes the important step of having the Board of Directors and CEO provide direct oversight of the Sustainability Leadership Team, which has responsibility for supply chain and agriculture. As companies look to integrate sustainable sourcing practices throughout the business, a critical step is to fill this oversight and accountability gap to ensure coordinated approaches and demonstrate a commitment to driving improved performance.

A New Crop of Sustainable Sourcing Commitments

To measure progress effectively, companies need to share clear goals and commitments with their stakeholders. Building off of the assessment phase, these goals should prioritize agricultural inputs that are most important to the company according to their risk profile, and outline clear timelines and targets for progress. Thirty-three percent of the companies in this analysis (8 of 24 companies) describe at least one (?) time-bound goal for procuring sustainably produced ingredients to meet its needs. Hershey, for instance, has a goal to source all of its cocoa from certified sustainable sources by 2020, reflecting a focus on its top ingredient. General Mills used its risk assessment process to outline commitments for ten key ingredients.

KEY RECOMMENDATION

Develop management systems that effectively connect sustainability goals to procurement practices and provide sufficient oversight to ensure the connection is maintained.
Measurement: Sustainable According to Whom?

Ultimately, management systems need to measure progress and provide assurances that the sourcing strategy a company pursues is delivering the intended results. Ideally, progress should be benchmarked against a set of time-bound, measurable goals laid out as part of the overarching strategy, and publicly disclosed. While not part of this analysis, Unilever’s approach to sustainable sourcing sets the bar for measurement practices. In addition to laying out time-bound, measurable goals across key commodities, the company reports on the current percentage of verified product sourced in each area. This practice is not widespread, however, and among those companies assessed in this evaluation, only 29 percent (7 of 24 companies) provide some indication of the size of their sustainable agriculture buy. These instances of disclosure are largely limited to palm oil, coffee and sugar cane—commodities that all have third party verification schemes.

Third party verification schemes, such as Fair Trade, UTZ and Organic, play an important role in providing credible information on input sustainability. More than half of the companies in this analysis (15 of 24 companies) partner with a third party to source at least one, sustainably-produced agricultural input. The verification landscape is complicated, however, with stronger frameworks for some commodities than others. Coffee, for instance, has a fairly robust set of certifications that examine both environmental and social metrics. In cases where a commodity or agricultural product certification is weak, or non-existent, companies are left to pursue their own set of metrics and verification frameworks. Corn, the largest U.S. crop, is notable for its lack of a credible third party standard that companies can follow.

Commodity Specific Corporate Commitments

**General Mills:** 100 percent of the company’s dry milled corn will be sourced from growing regions that demonstrate continuous improvement against the Field-to-Market framework or comparable environmental metrics.

**Unilever:** By 2015, Unilever aims to source all of the tea for Lipton tea bags from Rainforest Alliance Certified™ estates. By 2020, 100 percent of Unilever’s tea, including loose tea, will be sustainably sourced.

- By the end of 2012, 75 percent of Lipton tea bag blends contained a proportion of Rainforest Alliance Certified™ tea.
- Overall, 39 percent of the tea purchased for all Unilever brands was sourced from Rainforest Alliance Certified™ farms.
Performance Pays, But Paying for Performance?
In order to address the verification gap effectively, companies are expected to take responsibility for the performance of their agricultural supply chain. Partnering with growers and producers to help accelerate the adoption of better and more responsible practices is a key step that companies can take to ensure impact at the ground level. Approaches that provide technical and financial assistance, communicate clear timelines for progress and help mitigate some of the risks to farmers, send signals to growers that they have the support needed to pursue new approaches. Some companies are developing capacity-building programs for farmers, with efforts commonly focused along commodity-specific supply chains. Mondelez reports on several programs and initiatives aimed at improving social, environmental and economic conditions in the cocoa supply chain. Molson Coors set up the Molson Coors Growers Group in the United Kingdom to help ensure a regular supply of high-quality barley that aligns with the company’s long-term sustainability strategy, and to spur innovation in the supply chain through best practice sharing. Overall, however, disclosure is lacking in some key metrics, including the scope of impact of the programs. For stakeholders to fully understand the impact of supply chain capacity-building programs, disclosure on the number of farmers engaged—and the production they represent—needs to be improved. This also presents a key opportunity to quantify impact beyond the company supply chain, and into communities and regions.

Key Recommendation
Focus on impact.

Buyers Beware: Procurement Function Must Take The Lead
Where verification is weak, and capacity-building efforts are not yet well-developed, companies must have robust policies and codes that mobilize their procurement departments to account for key impacts of the ingredients that they source. For food and beverage producers, it is critical that these policies account for impacts beyond first tier suppliers, as agricultural inputs are often purchased through intermediaries. To evaluate corporate procurement policies, we looked at how corporate procurement policies referred to Good Agricultural Practices (GAP) for soil management, water management, animal production, health and welfare, working conditions, health and safety, public health, and biodiversity.

Of the 24 companies, only four have formal procurement programs in place that address any of the GAPs outlined for first tier suppliers, and only two have robust procurement policies that go beyond tier 1 suppliers. The Coca-Cola Company has a set of Sustainable Agricultural Guiding Principles that include clauses on soil management, water management, biodiversity. The company works with suppliers to educate them on these principles, and uses them as a framework for supplier assessments and future goal setting. While there is evidence that other companies are accounting for some of these issues in their procurement practices, none have publicly disclosed formal policies to implement best practices.

The More We Get Together: Broader Collaboration
The assessment also revealed that companies are increasingly working with partners towards broader solutions; 83 percent (20 of 24 companies) participate in at least one multi-stakeholder initiative focused on sustainable agriculture. The depth and impact of company participation in multi-stakeholder initiatives is difficult to assess, but ideally companies should be participating in forums that address each of their key agricultural inputs. Collaborations of this nature can speed up the development of sustainable agriculture practices, and corporate participation and investment is critical for this to happen. For example, Hershey finances cocoa genome research, and is part of the World Cocoa Foundation and the International Cocoa Initiative. Many of the companies included in this research participate in similar initiatives related to their specific impact areas.

Key Recommendations
Prepare to collaborate regionally and with the supply chain to build the incentives for improved farming practices.
You Are What You Measure

Measuring impact is a key aspect of any successful sustainability initiative, and for agriculture, efforts in this area remain limited. Among the three companies that undertake impact assessments, all fall below what would be considered best practice. Overall disclosure is limited to anecdotal references, with a notable absence of any measureable impact metrics. PepsiCo, through its Sustainable Farming Initiative (SFI) measures the environmental and local economic impacts associated with its agricultural supply chain; however, the company does not publicly communicate the data that describe these impacts.

Key Recommendations Going Forward

- **Set measureable, time-bound goals and targets to source key agricultural inputs sustainably:** Building off a robust risk assessment process, companies should set goals that prioritize agricultural inputs that are most important to the company according to their risk and impact profile, and outline clear timelines and targets for progress.

- **More action, better disclosure:** Overall, stakeholders are increasingly expecting more action from companies on sustainable agriculture sourcing, and better disclosure of those actions. If companies are in the beginning stages of this journey, it is important for stakeholders to know how sustainable agriculture sourcing is being considered.

- **Focus on impact:** It is critical for all company action to connect directly to actual changes in on-the-ground field level practices by agricultural producers, and it needs to be clear how this is achieved and measured.

- **Develop management systems that effectively connect sustainability goals to procurement practices and provide sufficient oversight to ensure the connection is maintained:** Internal management systems need to effectively integrate sustainable sourcing goals into long-term business planning, and should incentivize internal actors accordingly. A key piece of this strategy is high-level oversight of sustainable sourcing that allows for strong connection of business units.

- **Prepare to collaborate regionally and with the supply chain to build the incentives for improved farming practices:** Opportunities exist at the industry and multi-stakeholder level to work collaboratively within the supply chain to influence growing practices at the community and regional level. Companies need to leverage these opportunities, and contribute meaningful expertise and investment to these efforts.

Additional Resources

- **Great work is being done at the commodity level.** For an overview of these efforts, see the International Institute of Sustainable Development’s (IISD) report on the State of Sustainability Initiatives, which provides a comprehensive assessment of sustainability initiatives in key agricultural sectors.

- The World Wildlife Fund (WWF) 2050 Criteria provides useful guidance on how investor can access key agricultural resources.

- A recently published report by Ceres Water and Climate Risks facing U.S. Corn Production takes a focused look at the environmental challenges and opportunities presented by corn production in the U.S.

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4  http://wwf.panda.org/what_we_do/how_we_work/businesses/transforming_markets/solutions/commodity_financing/2050_criteria/

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