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GLOBAL INVESTOR ENGAGEMENT ON MEAT SOURCING

Engaging QSRs on climate and water risks to protein supply chains

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Contents

Executive summary

The Global Investor Engagement on Meat Sourcing, initiated in 2019 by Ceres and the FAIRR Initiative, consists of dialogues between six of the largest quick-service restaurant (QSR) brands and institutional investors, with over $11 trillion in combined assets. Investors have urged the QSRs to analyse and reduce their vulnerability to the impacts of climate change, water scarcity, and pervasive threats to water quality driven by animal protein production.

Companies have made notable progress in addressing investor requests to analyse the climate impact of QSRs. All six target companies have now publicly stated they have already set, or will set, global GHG reduction targets approved by the Science-Based Targets initiative (SBTi). However, most companies do not report the GHG emissions or the water impacts derived from their animal protein supply chains.

As QSRs set science-based targets, they will have to accompany their climate ambitions with strong disclosure of their progress towards achieving their commitments, particularly in relation to Scope 3 emissions from animal agriculture, which remains an industry challenge.

While companies recognise the materiality of water to their business, none of these QSRs have set enterprise-level targets to measurably reduce water pollution or consumption across their supply chain. These water risks remain largely unmitigated across the industry.

To meet their climate and water ambitions, QSRs will have to address the challenges in animal agriculture supply chains. Companies will benefit from setting strong sourcing policies and engagement with meat and dairy suppliers to align suppliers with corporate targets.

90+
INVESTORS

$11.4tn
COMBINED ASSETS

COORDINATED BY

Ceres | FAIRR A COLLER INITIATIVE

FOCUS COMPANIES

Chipotle Mexican Grill · Domino's · McDonald's · rbi restaurant brands international · Wendy's · Yum!

The case for engagement

Since the start of this engagement in 2019, institutional investors have steadily increased pressure on quick service restaurants to address climate and water risks in their animal protein supply chains. Despite mounting scientific evidence of companies' vulnerability to water stress and climate risk, global meat and dairy production continues to expand.[1] With new guidance on reporting and risk management, companies must remain accountable to the commitments they have made to protect the sustainability of their agricultural supply chains.

In 2021 and into 2022, we saw an expansion of investor attention on climate risk disclosure through membership in climate-related task forces, and strengthened regulatory disclosure requirements from governments, including the United States. Further, new academic evidence highlights the severity of the water crisis and how companies and investors can be a greater part of addressing the urgency of global water risk from animal agricultural production.

Scientific research shows that animal agriculture remains highly vulnerable to climate change. The Intergovernmental Panel on Climate Change (IPCC) released its Sixth Assessment Report earlier this year detailing key impacts of climate change on ecosystems. At global warming levels of 2°C, freshwater availability, soil quality, and pollinator health are all at risk of continual depletion.[2] The livestock industry's reliance on pastures and feed makes it vulnerable to these impacts. Warming may increase operational costs and interrupt supply chains for those quick service restaurants not addressing risk to their animal protein production, especially if these restaurants continue to see increasing store locations and procurement volume.[3,4] Ranchers in North America and Australia have already been forced to reduce herd sizes in response to major droughts.[5,6]

The livestock industry remains a focus area for research on agricultural impacts on climate and water. Livestock production is the main agricultural emissions source, and intensifying production continues to degrade natural ecosystems.[7] A report released in April by Ceres and the Global Institute of Water Security at the University of Saskatchewan assessed the scientific evidence from the 1950s to present day and identified the food sector, and livestock production in particular, as a leading driver of water depletion and degradation.[8] The future stability of livestock production and consumption relies on improved practices within the supply chain to conserve water and reduce environmental harms.

Investors are responding to the growing scientific evidence of the impact of animal agriculture on water and climate risks by asking for expanded disclosure in meat supply chains. Institutional investors are focusing on new areas of water and climate risk mitigation and requesting more thorough reporting from companies. The Taskforce on Nature-related Financial Disclosures and Biodiversity Finance Initiative are recent additions to the growing landscape of finance-related climate initiatives encouraging deeper consideration of climate and water risks in the capital markets.

Consensus around the need for more focus on reducing emissions and managing climate risk in agriculture, forestry, and other land use (AFOLU) sectors has strengthened in the past year. At the 2021 UN Climate Summit (COP26), 137 countries committed to ending forest loss and land degradation by 2030 in the Glasgow Leaders' Declaration of Forests and Land Use. Country leaders emphasised the critical role of forests, biodiversity, and land use in enabling the world to adapt to climate change and meet the Paris Agreement goals.[9] The declaration was followed by various pledges to address deforestation tied to agricultural commodities, including commitments from financial institutions, but also global agricultural commodity companies with major market share in soy, palm oil, cocoa, and cattle.[10,11]

When it comes to climate, disclosure requirements are strengthening as governments around the world expand the scope and strength of climate commitments and reporting guidelines. The United Nations Race to Zero campaign[12] and the SBTi Business Ambition for 1.5°C campaign[13] exemplify how government, company, and investor efforts are strengthening their commitment to ambitious emissions reductions and, ultimately, net zero. Further, in 2021 and 2022, the European Union and the United States' Securities and Exchange Commission (SEC) proposed new mandatory reporting rules for publicly traded companies to disclose material climate-related risk.[14,15] These proposals could improve corporate transparency to investors and require companies to examine their response to climate risks.

Pressure to address the global water crisis is increasing. As the world faces an existential and multi-faceted threat to our global freshwater resources, the global community is responding. The United Nations is convening an international Water Conference in 2023 as a "midterm comprehensive review of the implementation of the International Decade for Action, 'Water for Sustainable Development', 2018-2028".[16] Under the auspices of the UN High Level Panel on Water, Ceres and the Government of the Netherlands partnered to launch the Valuing Water Finance Task Force to drive corporate action on water-related financial risks. The financial and scientific imperative for corporate water stewardship has never been stronger and investors are engaging companies with increasing sophistication.

Figure 1: Summary of food products industry freshwater impacts along the value chain

VALUE CHAIN	PRACTICES	EXTERNALITIES	FRESHWATER IMPACT	SELECTED HOTSPOTS
On-farm production	Irrigation	Water consumption, extraction	Water stress, groundwater depletion, social conflict	India, China, Bangladesh, USA, Middle-East, Kyrgyz Republic, Indonesia
		Canalisation	Streamflow alteration, water diversion	Europe, North America
	Tilling and land use	Sediment erosion, salinity	Suspended solids, ecotoxicity	Western Spain, Iran, USA, Australia, Argentina
	Fertiliser use	Nutrient runoff	Eutrophication, human health health impacts	USA, China, India, South East Asia, Spain
	Pesticide use	Pesticide runoff	Ecotoxicity, human health impacts	USA, Ecuador, Argentina, Australia
	Animal raising	Water consumption, extraction	Eutrophication	Australia, India, Iran
		Nutrient, organic matter, pathogen runoff	Eutrophication	
		Runoff of pharmaceuticals and hormones	Bioaccumulation in aquatic organisms, endocrine disruption	Taiwan, Switzerland, South Korea
		Fish feeding	Non-ingested fish feed, including metals and nutrients	Mediterranean, Philippines
		Use of plastic cages and netting	Plastic pollution	
Off-farm production	Packaging & processing	Water consumption, extraction	Water stress	Australia, New Zealand, Brazil
		Wastewater discharged	Eutrophication, ecotoxicity, human health impacts	Canada, Romania, Ethiopia
		Plastic pollution	Ecotoxicity, bioaccumulation	

Source: Ceres (2022) "The Global Assessment of Private Sector Impacts on Water"

Trends in company performance

Board oversight and ESG risk management capacity

2021 saw the milestone of all six target companies publicly acknowledging the materiality of climate and water risks to their supply chains, yet, progress in the area of board oversight has plateaued in the third year of this engagement. It is vital that QSRs elevate the oversight of the climate and water risks associated with animal protein supply chains to the board level and instate specific board roles and responsibilities to ensure appropriate action is taken.

While board oversight of sustainability topics is now common, there is limited disclosure on how frequently reports are made to the board on climate and water risk, and whether meat and dairy supply chains are discussed in these talks. With QSRs identifying up to 57% of total emissions deriving from animal agriculture products,[17] strong board oversight of climate and water risks specific to major commodities will help to ensure that efforts to address the physical/transition risks from climate change and water impacts in meat and dairy production permeate throughout corporate strategies effectively.

Table 1: Information reported to the Board on climate and water risk from commodity sourcing

	Frequency	General sustainability issues	Animal protein supply chain risks	Physical/ transition risks
Chipotle	Biannually	✓	⊗	✓
Domino's	⊗	✓	⊗	⊗
McDonald's	⊗	✓	⊗	⊗
RBI	Biannually	✓	⊗	⊗
Wendy's	⊗	✓	✓	✓
Yum! Brands	Annually	✓	For climate only	⊗

✓ Yes ⊗ Did not find

Source: Corporate disclosure; FAIRR Analysis

Yum! Brands is the only company that reports to the board on its efforts to address GHG emissions from meat and dairy supply chains, though it does not publicly describe the extent to which water risks or physical/transition risks assessments are overseen at the board level.[18]

McDonald's has made no progress in its disclosure around board oversight in the past year, despite repeated recommendations from investors in the Meat Sourcing engagement. The company does not report publicly whether or how frequently its executive team meets with the sustainability and corporate responsibility committee of its board or the board's oversight role related to climate and water risks of its major commodities.

RBI's, **Domino's**, and **Chipotle's** reporting on board oversight of ESG issues has also not changed since 2021. However, it is notable that Domino's Board has made the decision to retain oversight and support of the implementation of the company's ESG goals, rather than to utilise a separate sub-committee for this. RBI released its first public CDP Climate Change report for 2021, in which it acknowledges acute and chronic physical risks in its climate-related assessments, but does not state whether these are presented to the board. Wendy's also released a CDP Climate Change report for the first time in 2021, wherein it discloses that its board hears reports from its audit committee and CSR committee on climate-related risks and sustainable sourcing matters, although it does not specify whether the animal agriculture supply chain is included in these discussions.

CASE STUDY ESG METRICS AND EXECUTIVE PAY

An emerging trend is the linking of executive remuneration to ESG metrics to incentivise executive teams to prioritise sustainability in their corporate strategies[19]. Much of the push towards the more widespread adoption of this practice comes from investor demand.[20] This demand is having a direct impact on the companies in this engagement. In 2021, Chipotle announced that by the end of 2021 it will tie 10% of its executive leadership team's annual incentive bonuses to the achievement of the company's ESG goals,[21] including regenerative agriculture and plans to measure its Scope 3 emissions. In the same year, McDonald's shareholders called for the company to report on how its executives' pay is linked to ESG metrics[22]. While the company has since disclosed that it now links executive compensation to diversity and inclusion in its workforce following this investor pressure[23], it does not show evidence of a link to environmental metrics at present.

Emissions reduction targets

Acting with urgency to address emissions reduction in livestock supply chains is imperative for QSRs, as emissions inventories show that purchased meat and dairy products are the main source of emissions. Of the four QSRs that report on Scope 3 emissions, two disclose a breakdown of the proportion of GHG emissions that come from animal agriculture commodities. This disclosure indicates that animal agriculture commodities emissions represent more than half of total emissions for both companies.

Standardised guidance available for companies to account for emissions from livestock production and land use change is under way. In June 2022, the SBTi is expected to finalise its Target Setting Guidance for the forest, land and agriculture sectors (SBTi FLAG) [24], and in early 2023 the GHG Protocol is expected to launch a draft new guidance on accounting for land sector activities and CO2 removals.[25] It is yet to be seen how the new SBTi FLAG and GHG Protocol guidance might impact current QSR climate targets and strategies. It is clear, however, that companies with FLAG-related emissions contributing to more than 20% of total emissions will be required (from around April 2023) to set FLAG targets under the upcoming SBTi guidance, **and the QSRs in this engagement will fall into this category**.

Of the companies in this engagement, McDonald's is a member of the FLAG Consultative Group,[26] and McDonald's, Wendy's, RBI, Domino's, and Yum! Brands are all part of the SBTi Business Ambition, although it is key to note here that Wendy's has yet to commit to setting a net zero target.

Companies continue to advance in setting science-based targets and defining their climate transition plans, which will have to be accompanied by robust reporting on progress where Scope 3 and animal agriculture supply chains will remain a key area. In 2021, four of the six companies had set SBTs, with the remaining two (Domino's and Wendy's) having committed to do so. It is important to note that the SBTi has altered its standards to dictate that all targets must align with a 1.5°C scenario rather than 2°C. To this end, McDonald's has committed to update its 2°C target to align with the 1.5°C scenario.[27]

McDonald's has led the group in the SBT setting process, having published its targets in 2018. In 2021, the company reported emissions reductions since 2018 against a 2015 baseline, including 8.5% decrease[28] of absolute emissions of restaurant and offices, and a 5.9% decrease in supply chain emissions intensity. These reductions represent progress on about 23.6% of the company's Scope 1 and 2 targets and 19% of Scope 3. The company does not break down its Scope 3 emissions or the sources of reductions, limiting visibility of potential opportunities to reduce emissions derived from animal products. Further, it is unclear how much these reductions will represent when targets are adjusted to a 1.5°C scenario.

In April 2021, **Yum! Brands** announced its SBT aligned with a 1.5°C pathway, as well as a commitment to reach net zero emissions by 2050. The company will reduce absolute Scope 1 and 2 emissions by 46% by 2030 and has set an intensity-based reduction target for its Scope 3 emissions. The company has yet to report its progress towards its target.

In April 2021, **Wendy's** stated that it is developing a lifecycle assessment of its Scope 3 emissions and committed in April 2021 to submitting targets to the SBTi, inclusive of Scope 3 emissions, and to having them approved by the end of 2023[29].

In September 2021, **RBI** announced that it had set an SBTi-approved absolute target to reduce its Scope 1 and 2 emissions by 50% by 2030 and an intensity-based Scope 3 target from a 2019 base year. The company's targets are aligned to a 1.5°C scenario.

In November 2021, **Chipotle** announced that it had set an SBTi-approved absolute target to reduce Scope 1, 2, and 3 GHG emissions by 50% by 2030 from a 2019 base year.[30]

Domino's states in its public reporting that it will reduce its Scope 1 and 2 emissions by 67% by 2035, aligned with 1.5°C warming, and its Scope 3 emissions by 40% by 2035, aligned to 2°C. In 2021, the company committed to submitting these targets to the SBTi for approval along with a 2050 net zero target.[31]

Table 2: Comparison of Scope 3 targets and Scope 3 emissions from animal agriculture

			Scope 1 & 2				Scope 3				Net Zero	
Company	Emissions Categorised as Scope 3 (%)	Total Emissions Derived from Animal Agriculture (%)	SBTi Approval	Target Year	Baseline Year	Reduction Target	SBTi Approval	Target Year	Baseline Year	Reduction Target	SBTi Approval	Target Year
Chipotle	93%		✓	2030	2019	50%	✓	2030	2019	50%	–	–
Domino's	>95%		Committed	2035	2019	67%	Committed	2035	2019	40%	Committed	2050
McDonald's	99%		✓	2030	2015	36%	✓	2030	2015	31%	Committed	2050
RBI	99.8%	57%	✓	2030	2019	50%	✓	2030	2019	50% per MT food and per franchise restaurant	Committed	2050
Wendy's*			Committed	–	–	–	Committed	–	–	–	–	–
Yum! Brands	99.5%	51%	✓	2030	2019	46%	✓	2030	2019	46% per restaurant and per metric ton of beef, poultry, dairy and packaging	Committed	2050

*Wendy's is developing a lifecycle assessment of its Scope 3 emissions

Sources: Corporate disclosure; FAIRR analysis

Risk assessment and scenario analysis

With such high exposure to both climate and water risk in direct operations and supply chains, it is vital that QSRs conduct risk assessments and scenario analysis to inform robust mitigation strategies across the value chain. Some QSRs are starting to conduct a climate risk assessment aligned with the Task Force on Climate-related Financial Disclosures (TCFD), and most have conducted or have planned some level of water risk assessments. However, company efforts do not currently meet the risk level faced by the industry in climate and water.

We are beginning to see some companies align their reporting and scenario analysis with TCFD guidelines. In 2021, for the first time, two companies delivered on their commitment to conduct a scenario analysis aligned with TCFD guidance, though the full results are not public and three of the remaining companies have yet to set time-bound commitments to this kind of alignment.

In 2021, **McDonald's** and **Yum! Brands** reported having conducted TCFD-aligned scenario analyses. Both companies state they are using this analysis to inform their climate strategies, though full results of these analyses have not been made public.

In 2021, **RBI** stated its commitment to align its disclosure with TCFD guidance, including scenario-based analysis of risk and opportunities, and risk management/mitigation paths.[32] The company has not provided a timeline for this initiative.

In 2022 **Chipotle** publicly stated its intention to consider aligning its disclosure with the TCFD framework.[33]

Wendy's and **Domino's** lag behind their peers in this area, as they have never addressed TCFD in their disclosures and, as of yet, have not committed to conducting TCFD-aligned scenario analysis.

CASE STUDY — CLIMATE AND WATER IMPACTS ON US CATTLE SUPPLY CHAINS

Changing temperatures and availability of water resources due to climate change are already causing major shifts in animal protein supply chains.[34] Due to the interdependent nature of the animal agriculture supply chain, climate risks in feed and cattle production trickle downstream to processors, ultimately impacting the ability of QSRs and consumer-facing retailers and manufacturers to source their ingredients in the way that they do now.

Droughts are a key climate change impact that has direct effects on cattle production. In the US where pastures in the Great Plains are drying up, herds do not have enough grass to graze.[35] In 2021, the Western US states and High Plains faced severe to exceptional levels of drought.[36] As a result of these conditions, ranchers had to sell off large sections of their herds which they cannot feed or send them to slaughter.[37]

Droughts are expected to have medium-to long-term impacts and will continue to worsen. The experience of US droughts in 2012 and 2013 suggest that cattle herd shrinkage will have an impact down the supply chain. In those years, the US cattle herd was at its lowest level since 1952, resulting in reduced supply and reduced output of meat products.[38,39] Given the heavy reliance of these companies on animal protein ingredients, it is clear that the impacts of such climate effects will be felt acutely.

Water Risk Assessment

QSRs would benefit from a stronger uptake of water risk assessments to inform water stewardship strategies, especially given their reported exposure to high water stress areas. Four of the six companies have conducted a water risk assessment in direct operations; McDonald's is the only company that included its supply chain in the water risk assessment. Domino's found that, in 2019, approximately 33% of its total water consumption in direct operations was in areas defined as "high" or "extremely high" water stress[40], and in the same year, Yum! Brands identified that 17% of its locations are in areas considered "high risk"[41].

Water risk assessments from the companies engaged do not consistently include supply chains, and the level of public disclosure of such assessments is disparate.

In 2022, **Domino's** released the results of a water risk assessments for its direct operations through SASB reporting guidelines for the first time. However, the company's water risk assessment does not extend to its suppliers and major commodities, and the company acknowledges its current supply chain data on water risk is not robust. In future reporting, Domino's plans to provide insight into its key suppliers who have the greatest water impacts.

McDonald's has conducted a water risk analysis on its US market and "many" other operating markets for its direct operations, although these other markets are not specified. McDonald's has conducted a water risk assessment with WRI spanning its full value chain, and is in the process of conducting a physical risk scenario analysis to inform mitigation methods specific to locations and commodities. Again, none of the results from this analysis are currently publicly disclosed.

Chipotle's 2021 Sustainability Report details its plan to conduct a comprehensive water risk assessment in 2022. The company will measure its restaurant, ingredient, and supply chain water use, develop a future scenario risk assessment, update ingredient sourcing strategies to decrease supply chain water risk, and complete a water risk mitigation actions roadmap all by the end of Q4 2022.[42]

Since Phase 2 of this engagement, **Wendy's** has disclosed that it is in the process of developing a responsible sourcing programme which includes deepening supplier engagement and launching a data collection process to evaluate baseline performance against ingredient-specific metrics, one of which is water.[43]

Yum! Brands conducted a water risk assessment of its restaurant locations in 2019 but this does not cover its supply chain. Yum! Brands has improved their water risk assessment disclosure since the last phase of this engagement.

RBI's company website states that it is working to reduce water use in its restaurants and offices globally, however, it does not disclose having conducted a direct operations water risk assessment. While the company has conducted a global lifecycle assessment that includes water impacts designed to inform its sourcing strategy, marking an improvement from the last phase of this engagement, the extent of this assessment is unclear and results are not made public.

Value chain water use and quality

Efforts to mitigate risks related to water scarcity and pollution from meat supply chains have stagnated over the past year. None of the companies have improved their disclosure on water quality and use targets covering their direct operations and supply chains. The development of water quality targets for direct operations and water impacts in supply chains are the worst performing areas of this engagement, with no companies providing disclosure of progress in this area.

Overall, companies recognise the materiality of water to their business but have yet to implement robust risk management practices to mitigate the water related externalities of their animal protein supply chains. Changing supply chain practices to eliminate externalities, such as polluted farm runoff or eliminating wastewater discharge at meat processing plants, has typically been viewed as cost prohibitive. However, a new analysis from Ceres found that meat suppliers Hormel, BRF S.A., and Tyson Foods could eliminate the water impacts from their operations and supply chains by spending just over 1% of their revenue annually.[44] This would be a small price to pay for QSRs, especially when the cost of inaction could be up to five times higher.[45]

Companies have released studies that demonstrate the significant water footprint of their business, but robust risk analysis and target setting at the supply chain level has stalled. While some companies have begun setting targets for their owned operations, investors continue to stress that targets focused exclusively on owned operations fail to meaningfully address the larger risks in the agricultural supply chain.

Several of the focus companies disclosed efforts to analyse their water footprint and promote sustainable agricultural practices that can address emissions, water availability, and water quality simultaneously:

Chipotle committed to conducting a comprehensive water risk assessment of its agricultural supply chain by the end of this year and plans to use this assessment to develop water targets.[46]

Domino's: Sustainable sourcing, including water specifically, emerged as a leading stewardship topic in Domino's 2020 Materiality Assessment. In 2021, Domino's released the findings of a water footprint assessment, indicating that ingredient production accounted for approximately 88% of the company's overall corporate water consumption. This was driven primarily by irrigation of commodity crops and liquid products (including sauces and dressings).[47]

McDonald's is conducting a physical risk scenario analysis around water, covering the entire supply chain, including key agricultural commodities, with the time horizon of 2030 for its restaurants and 2040 for its supply chain. No results are currently disclosed, but the company states that this analysis will inform how it determines further analysis and mitigation methods for risks in specific locations and commodities.[48]

Yum! Brand's recent TCFD climate analysis, which covered restaurants and suppliers, found that 12.6% of global suppliers are at risk of impacts from climate change, such as drought and water stress. The company found that this did not reach the threshold of concern due to its self-described agile nature, however, the company simultaneously states that it does not globally track supplier sustainability initiatives in a systematic way.[49]

These examples demonstrate the materiality of water-related risks to companies and their initial efforts to understand the nature and extent of their impacts and reliance on freshwater supplies. Yet, no company has set enterprise level targets to measurably reduce water pollution or consumption across its supply chain. While companies have initiated projects to implement agricultural practices known to reduce water use and pollution, these activities fall dramatically short of meaningfully reducing the externalities caused by animal protein supply chains and are not likely to sufficiently mitigate physical risks to the meat supply chain from droughts, flooding, and regulatory and reputational risks related to water pollution.

QSR companies are in the early stages of understanding the water risk exposure of their animal protein supply chains and investors continue urging them for more robust measurement, target setting, and reporting. Building resilient agricultural supply chains and integrating water into everyday decision-making are necessary for companies to manage water risks and for investors to create long-term investment value.

Supplier policies

QSRs are not aligning supplier policies with their corporate climate and water commitments. Though there have been marginal improvements, many of the QSR companies have not updated their supplier policies to align with organisational goals on climate and water. Supplier requirements in the QSRs' public policies continue to focus on animal welfare, deforestation, food safety, labour rights, and regulatory compliance, with little or no emphasis on suppliers' emissions, water, and land use footprints. Overall, the current environmental requirements of supplier policies are not fit for purpose to deliver the GHG emissions reductions and water-related risk mitigation measures urgently needed in agricultural supply chains.

Companies have improved their questionnaires and conversations with key suppliers, but all leave room for improvement. McDonald's now requires its top 131 suppliers to respond to CDP's climate change and forests questionnaires. The company also has a code of conduct where it describes the expectations the company has for suppliers and practices on environmental management practices. However, the language specific to GHG emissions reductions and water use in the guidance is focused on manufacturing facilities and does not explicitly extend to agricultural supply chains.[50] McDonald's states that it has a global sustainable sourcing guide for suppliers containing requirements for climate action and water stewardship, but this guide is not publicly available, which severely limits the ability of investors and other stakeholders to understand supplier requirements.[51]

It is time for the QSRs to update their supplier policies to better reflect their commitments around climate and water stewardship. Clear and robust supplier policies can not only help companies mitigate risk and ensure quality service and product delivery, they can also lead to opportunities for innovation, partnership, and collaboration. One QSR privately disclosed that it will begin supporting suppliers in taking courses on climate accounting and target setting with the intention to build the capacity of its suppliers ahead of terminating contracts. This investment in supplier capacity building could lead to benefits for this QSR, as well as other companies in the supplier's value chain.

Language in supplier policies is largely that of encouragement over requirement with respect to climate and water risks.

McDonald's supplier policy and supporting documents do not require or explicitly mention that suppliers must address all major sources of water pollution and waste. That said, the company does expect suppliers to demonstrate leadership on water quality through wastewater management and groundwater pollution prevention.

Vendors of **RBI** are "encouraged" rather than required to manage, measure, and reduce environmental impacts including GHG emissions and water. While the company reports to CDP Climate that it plans to collect supplier data to engage with suppliers on decreasing their footprint, and the company plans to increase its partnership with "low-footprint" suppliers, this disclosure lacks specificity on what metrics are considered part of a supplier's "footprint".

Yum! Brands' supplier code of conduct has not been updated to reflect the company's SBTi-approved targets. The policy contains a general expectation for suppliers to develop environmental management systems but the policy lacks specificity and quantifiable targets for suppliers.

Wendy's supplier policy has no clear expectations for suppliers to manage climate and water risks. The policy simply encourages suppliers to "consider developing and deploying an environmental management system".

Domino's supplier code of conduct similarly focuses on general expectations to minimise environmental impact but does not provide specific requirements for water or climate.

Chipotle's supplier code of conduct does not include expectations for suppliers that go beyond regulatory compliance. The company has not updated the code since 2019 and it therefore does not include its Scope 3 target, although Chipotle identifies the food supply chain as a point of focus for this emissions reduction target.

Evaluation framework to assess risk management

DIMENSION	INDICATOR	QUESTION
Board oversight	*Board briefings*	Board briefings. Is the board briefed by management on the company's strategies for mitigating environmental risks associated with their meat and dairy supply chains on at least an annual basis?
	Risk management	Risk management. Have company representatives presented to the Board on physical/transition risks from climate change impacts on commodity sourcing?
Supplier policy	OVERALL EXPECTATIONS	
	Issue coverage	Issue coverage. Does the company have a publicly-available supplier policy that addresses the climate, deforestation, water use and quality impacts of its commodity suppliers?
	Supplier assurance	Supplier assurance. Does the company have supplier monitoring and verification system that ensures that direct and indirect suppliers meet the company's environmental requirements?
	Non-compliance protocol	Non-compliance protocol. Does the policy include a non-compliance protocol that specifies specific criteria (e.g. violation of no-deforestation pledge or major pollution incidents) that would trigger the suspension or termination of contracts and facilitates development of time-bound action plans for suppliers to return to compliance?
	SPECIFIC REQUIREMENTS	
	Climate	
	Major sources	Scope addresses all major sources of GHGs. Does the policy specify that suppliers address all major emissions sources, including those related to land use change and deforestation, enteric emissions from animals, and emissions from manure and chemical fertilizers?
	Suppliers measure, reduce & report	Suppliers measure, reduce & report. Does the policy ask direct suppliers to measure, report and reduce the greenhouse gas emissions associated with their direct operations and agricultural supply chains?
	Water	
	Major sources	Scope addresses all major sources of water pollution & waste. Does the policy specify that direct and indirect suppliers address all major sources of water pollution and waste in the animal protein supply chain, including slaughtering and processing activities, animal production (CAFOs), and feed production?
	Suppliers measure, reduce & report	Suppliers measure, reduce & report. Does the policy ask direct suppliers to measure, reduce (beyond regulatory compliance levels) and report on the water quantity and quality impacts of their direct operations and agricultural supply chains?
	SBT/CBWT	Science-based targets. Does the policy encourage suppliers to set science-based and/or context-based targets on water?
	Forests	
		Does the company have a time-bound and quantifiable zero-deforestation/conversion-free policy that covers the entire supply chain of soy, cattle and palm commodities?
Targets	**Climate**	
	Scope 1 + 2 target	Has the company set a time-bound, quantitative reduction target for Scope 1 + Scope 2 GHG emissions?
	Scope 3 target	Has the company set a time-bound, quantitative emissions reduction target that explicitly address Scope 3 emissions?
	Water	
	Direct operations (quantity)	Has the company set time-bound, quantitative targets to reduce water use in direct operations?
	Direct operations (quality)	Has the company set time-bound, quantitative targets to reduce water quality impacts in direct operations?
	Suppliers	Has the company set a time-bound, targets that explicitly address water use and quality impacts in the supply chain?
Risk assessment & scenario analysis	**Water risk assessment**	
	Direct operations	Has the company conducted a water risk assessment across its direct operations?
	Suppliers	Has the company conducted a water risk assessment of suppliers and major commodities?
	Scenario analysis/TCFD	
	Committed to conducting	TCFD – high-level commitment. Has the company committed to undertaking and publishing a scenario analysis in line with TCFD recommendations?

Note on Methodology: this year's evaluation framework added a water quality indicator that evaluates commitments to reduce water quality impacts in direct operations. Additionally, water quality impacts were added to the indicator evaluating supply chain water targets.

Company benchmarking

This evaluation is based primarily on public disclosures. During the dialogues, companies have privately disclosed various levels of improvement against this framework. These improvements, however, are not necessarily reflected in this evaluation due to the timing of public disclosures.

DIMENSION	INDICATOR	CMG	DPZ	MCD	QSR	WEN	YUM
Board oversight	Board briefings	YES	PARTIAL	PARTIAL	PARTIAL	YES	PARTIAL
	Risk management	YES	YES	PARTIAL	DNF	YES	PARTIAL
Supplier policy	OVERALL EXPECTATIONS						
	Issue coverage	DNF	PARTIAL	PARTIAL	PARTIAL	PARTIAL	PARTIAL
	Supplier assurance	DNF	PARTIAL	PARTIAL	PARTIAL	PARTIAL	PARTIAL
	Non-compliance protocol	PARTIAL	PARTIAL	PARTIAL	PARTIAL	PARTIAL	PARTIAL
	SPECIFIC REQUIREMENTS						
	Climate						
	Major sources	DNF	DNF	DNF	DNF	PARTIAL	DNF
	Report	PARTIAL	PARTIAL	PARTIAL	DNF	PARTIAL	DNF
	Water						
	Major sources	DNF	DNF	PARTIAL	DNF	PARTIAL	DNF
	Context-based water targets	DNF	DNF	PARTIAL	DNF	DNF	DNF
	Report	DNF	DNF	PARTIAL	DNF	DNF	DNF
	Forests						
	Deforestation conversion-free policy	DNF	PARTIAL	PARTIAL	YES	PARTIAL	PARTIAL
Targets	**Climate**						
	Scope 1 + 2 target	YES	YES	YES	YES	PLANNED	YES
	Scope 3 target	YES	YES	YES	YES	PLANNED	YES
	Water						
	Direct operations (quantity)	DNF	DNF	PARTIAL	DNF	YES	YES
	Direct operations (quality)	DNF	DNF	DNF	DNF	DNF	DNF
	Suppliers	DNF	DNF	DNF	DNF	DNF	DNF
Risk assessment & scenario analysis	**Water risk assessments**						
	Direct operations	PLANNED	YES	YES	DNF	YES	YES
	Suppliers	PLANNED	DNF	YES	PARTIAL	PLANNED	PARTIAL
	Scenario analysis/TCFD						
	Committed to conducting	DNF	DNF	YES	PARTIAL	DNF	YES

DNF = Did Not Find

CMG = Chipotle Mexican Grill; DPZ = Domino's Pizza; MCD = McDonalds; QSR = Restaurant Brands International; WEN = Wendy's; YUM = Yum! Brands

Next steps for engagement

The Global Investor Engagement on Meat Sourcing was launched in 2019 with the ambition to engage with six of the world's biggest quick-service restaurant brands to address climate and water risk within their animal supply chains. Through the years, investors representing over $11 trillion in assets have called on companies to undertake climate risk scenario analysis, develop strong supplier policies on climate and water, set science-based targets, and publicly disclose progress against these targets. It is clear that investors' efforts have led to notable inroads with these companies.

While FAIRR, Ceres, and the investor coalition commend the progress made, continued investor engagement in these key areas is critical to mitigating risk and safeguarding shareholder value. There is a growing need for more rigorously tailored engagements. While all companies are moving towards GHG target implementation, none have set supply chain water targets or specific climate requirements for suppliers. Focusing on specific issues, such as supply chain water risk and climate implementation plans, will be a critical way to improve management practices and protect against physical, transition, and reputational risks.

Ceres and FAIRR are developing new engagement strategies to reflect the latest state of play and to escalate the pace and rigor of corporate action on these risks and opportunities.

- Ceres will continue its effort focusing on water risk through the Valuing Water Finance Initiative.
- FAIRR will deepen its work on climate in global meat supply chains through an upcoming engagement that will target QSR suppliers.

Investors plan to continue dialogues with these six companies. The lessons learned from these engagements will be built on during the next phases of work.

Next steps for companies

- **Companies build on their recognition of the climate and water risks associated with their meat and dairy supply chains and adopt strong board oversight in this area specifically**. QSRs disclose publicly on frequent and consistent reporting to their boards of these risks and efforts to address them.
- **Since all QSRs will have approved SBTs aligned with a 1.5°C warming scenario covering all scopes of emissions, including animal agriculture supply chains**, companies must put in place strong and detailed implementation plans for emissions reductions to meet their targets, including taking action to ensure that supplier codes of conduct and requirements strategically align with climate commitments.
- **Companies conduct comprehensive water risk assessments of their animal protein supply chains** – a foundational step in prioritising which vulnerabilities and regions should receive the most attention. Companies disclose the scope and timing of conducting such an assessment.
- **Set time bound and comprehensive enterprise level water targets in alignment with global standards and report progress regularly:**
  - Companies commit to reducing water use within direct and supplier operations by setting and meeting reduction targets informed by local water supply challenges by 2025, prioritising watersheds of high water stress and/or high water use. Companies will also set targets to achieve water balance in watersheds of high water stress by 2030.
  - Companies commit to eliminating the discharge of pollutants of concern into aquatic ecosystems in their own operations by 2025 and throughout the value chain by 2030.
- **Supplier policies are expanded to act as an extension of a company's climate and water commitments**. Companies operationalise their targets by developing robust supplier policies, as those that fail to do this are failing to operationalise their stated goals throughout the entirety of the value chain. Companies continue to engage with key suppliers and regularly audit their progress to ensure they have taken proactive steps to achieve water and emissions targets.
- As the QSRs begin to implement efforts to meet their emissions reduction targets, they have an opportunity to address water use and quality simultaneously. By promoting agricultural practices, such as cover cropping, reduced tillage, agroforestry, and fertiliser optimisation, the farmers that ultimately supply the QSRs can also improve the water retention of their soil, reducing nutrient runoff and enhancing their resilience to droughts and flooding.

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FAIRR
A COLLER INITIATIVE

The FAIRR Initiative is a collaborative investor network, founded by Jeremy Coller, with our members collectively representing $55 trillion assets under management. FAIRR works with institutional investors to define the material ESG issues linked to intensive livestock and fish farming systems and provide them with the tools necessary to integrate this information into their asset stewardship and investment decisions. This includes the Coller FAIRR Protein Producer Index, the world's first comprehensive assessment of the largest global animal protein companies on the most material ESG issues. Visit **www.fairr.org** and follow **@FAIRRInitiative**.

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