Ceres | FAIRR
A COLLER INITIATIVE

GLOBAL INVESTOR ENGAGEMENT ON MEAT SOURCING

PROGRESS BRIEFING • JANUARY 2020

Executive summary

Growing global demand for meat and dairy products continues to place unsustainable burdens on our planet's limited resources. Animal agriculture is linked to nearly 15% of global greenhouse gas (GHG) emissions and is a significant driver of both water scarcity and land-use change. As one of the largest buyers and sellers of meat and dairy products, the $570 billion global fast-food sector is increasingly vulnerable to the impacts of a warming planet on these animal protein supply chains. Multiple analyses from Ceres, FAIRR, and others have found that many prominent protein suppliers are not adequately managing these risks.

In response, global investors representing more than $6.5 trillion in assets called on six of the largest fast-food companies in 2019 to act urgently to mitigate the climate and water risks in their meat and dairy supply chains.

To ensure resilient commodity supply chains, investors have requested that companies develop strong supplier policies on climate and water risks, set science-based targets to curb GHG emissions and improve water use, and perform climate-related scenario analyses to understand the risks and opportunities for their businesses.

One year after launching this investor engagement, Ceres and FAIRR are excited to announce the second phase, which will continue dialogues with all six companies, with the added support of an expanded coalition of over 90 investors, amounting to a total of $11.4 trillion in combined assets under management.

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!

Trends in company performance

Over the last year, investors completed an initial round of dialogues with each of these six companies. While the companies are at different stages in addressing these risks, there are some general trends that emerged from these conversations, which are listed on page 3 and 4.

Investors have been encouraged by the level of company engagement, including a growing recognition of the materiality of climate and water risks in meat and dairy supply chains. However, it remains clear that companies in this sector must accelerate their efforts to set quantitative, time-bound targets and to strengthen the environmental requirements that they apply to their meat and dairy suppliers. These companies have yet to conduct scenario analyses in line with the Task Force on Climate-related Financial Disclosures (TCFD) recommendations to assess the resilience of their animal protein commodity sourcing strategies against various warming scenarios.

Board oversight and management responsibilities

- Boards and management have demonstrated growing awareness of the financial materiality of sustainability risks and opportunities. All six companies are undertaking efforts to strengthen board oversight of sustainability generally.
- The extent to which these efforts will result in formalized oversight over climate and water risks specific to protein supply chains remains uncertain.
- Investment in staff sustainability capacity and expertise varies widely among the six companies. A lack of internal infrastructure focused on sustainability has hampered the scale of efforts to mitigate climate and water risks from protein supply chains.

Risk assessment/ Scenario analysis

- None of the six companies have completed climate-related scenario analyses as recommended by the Task Force on Climate-related Financial Disclosures (TCFD); McDonald's is the only company that has begun this work.
- Only McDonald's has conducted a water risk assessment of its meat and dairy value chains, though it has not publicly disclosed the findings of the assessment. RBI, however, plans to conduct a life-cycle assessment, which will include water risks for 8 high-impact categories covering over 80% of procurement spend.

Supplier policy

- Several companies are communicating environmental expectations to their protein suppliers informally, but have not yet codified these expectations in policies which include specific climate and water requirements, verification mechanisms or non-compliance protocols.
- Existing requirements generally remain limited to suppliers' regulatory compliance, food safety, and animal welfare, with less emphasis on suppliers' emissions, water and land use footprints.
- Companies are engaging with industry-collaboration groups such as the Global and U.S. Roundtables on Sustainable Beef, the U.S. Roundtable on Sustainable Poultry, the Round Table on Responsible Soy and the Dairy Sustainability Alliance. While these groups have provided companies with valuable context and resources, participation in these groups has yet to catalyze the adoption of strong supplier policies or science-based emissions reduction targets from a majority of the six companies.

Targets

- McDonald's is the only company that has already set a science-based emissions reduction target, though Yum! Brands has committed to setting one.
- Chipotle has stated its intention to set emissions reduction targets for its full carbon footprint.
- No other company has disclosed emissions reduction targets for its supply chain, though RBI has committed to setting a target for its restaurants in Canada and the US.
- None of the companies have set time-bound targets explicitly addressing the water use and pollution impacts of their animal protein supply chains.

Innovation

- Some companies are piloting innovations to support emissions reduction goals. These vary from on-farm techniques (such as regenerative agriculture) to product diversification (such as plant-based menu options).
- The majority of these efforts, however, appear to be in the early stages and do not constitute a robust approach to mitigate risks and capture opportunities.

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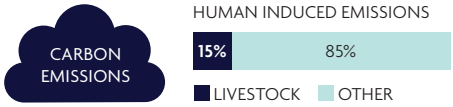
The case for engagement

The fast-food sector plays a dominant role in feeding billions worldwide. In the U.S. alone, on any given day around 84.8 million adults (nearly one third of the population) consume fast food.[1] A significant portion of this consumption is linked to food items that wholly or partially involve meat and/or dairy products. The sector continues to expand rapidly in developing and emerging markets, especially in China where the sector is expected to experience double-digit growth up to 2025.[2]

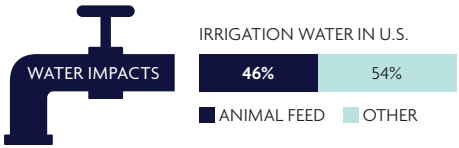
Across three key areas – GHG emissions, water, and land use – animal proteins have a significant environmental footprint. This footprint creates increasingly material reputational, operational and market risks for companies buying animal protein-based products. Agriculture and land use constitute 23% of total net anthropogenic GHG emissions, and meat and dairy suppliers are among the biggest drivers of tropical deforestation. Producing feed for livestock uses approximately one-third of total annual global water withdrawals.

The livestock sector is also particularly vulnerable to impacts linked to climate change. Two recent IPCC reports, "Special Report on Global Warming of 1.5°C"[3] and "Climate Change and Land"[4] detail the multiple ways in which climate change will directly affect animal agriculture. The impacts will include disruption through changes in feed/forage quantity and quality, poor animal health outcomes (e.g., persistent heat stress and higher incidence of disease), lower productivity (e.g., reduced milk yields and reproductive inefficiency), higher mortality and reduced water availability. The latter study is stark in its pronouncement: an average global warming of 2°C would result in a decline in livestock of 7–10%, with associated economic losses of between $9.7 and $12.6 billion.



Meat processors remain behind the curve on understanding and managing these risks. The 2019 Coller FAIRR Protein Producer Index assesses 60 of the world's largest meat, dairy and farmed fish suppliers on climate, water and deforestation risk management, finding that most fast-food suppliers have taken limited action to mitigate these risks (e.g., by setting targets or decreasing emissions). The vast majority of suppliers provide no disclosure on how they manage water use and only a few companies have sustainable agriculture policies that address water scarcity in feed farming. A large proportion provide little detail on how livestock manure is managed, and the predominant approach is to use manure as either fertilizer or feedstock for biogas production. Poor manure management not only increases global methane emissions, it also leads to significant impairment of local water resources.[5]

Furthermore, analysis of companies that produce agricultural products, beverages, meat and packaged food found that the meat industry in particular lags considerably behind the other three in its efforts to manage risks associated with water scarcity and pollution. Meat companies are doing far less than other benchmarked companies to establish board and executive oversight of these risks, assess risks within their operations and supply chains, and ensure supply chain resilience to droughts, floods and rising temperatures.[6]



i. IPPC Special Report on Climate Change and Land

Investor requests

The investors who began engaging these companies last year structured their requests around four specific areas:

Develop a supplier policy addressing the environmental impacts of animal protein sourcing

Set quantitative, time-bound targets to reduce the impacts of a company's animal protein supply chain

Undertake scenario analysis/risk assessment in line with TCFD recommendations

Commit to disclosing progress towards these targets on an annual basis

Evaluation framework to assess risk management

Over the last year, each company was evaluated against the following framework developed by Ceres and FAIRR:

Dimension	Indicator	Question
Board oversight	Board briefings	Is the board briefed at least once a year by management on the company's strategies for mitigating environmental risks associated with its meat and dairy supply chains?
	Risk management	Have company representatives communicated the physical/transition risks from climate change and water on commodity sourcing to the board?
Supplier policy	**Overall expectations**	
	Issue coverage	Does the company have a publicly available supplier policy that has clear requirements on the climate, deforestation, water use and quality impacts of its commodity suppliers?
	Supplier assurance	Does the company have a supplier monitoring and verification system that ensures that direct and indirect suppliers meet the company's environmental requirements?
	Non-compliance protocol	Does the policy include a non-compliance protocol with specific criteria (e.g., violations of no-deforestation pledges or major pollution incidents) that would trigger the suspension or termination of contracts and that facilitates the development of time-bound action plans for suppliers to return to compliance?

Dimension	Indicator	Question
Supplier policy (continued)	**Specific requirements**	
	Climate	
	Major sources: Includes emissions from manure, enteric fermentation, fertilizers and land use change	Does the supplier policy specify that suppliers will 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? Does the supplier policy ask direct suppliers to measure, report and reduce the GHG emissions associated with their direct operations and agricultural supply chains?
	Water	
	Major sources: Includes pollution and waste in feed, farming, CAFOs & processing	Does the supplier policy specify that supplier will 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?
	Report	Does the supplier 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?
	Context-based water targets	Does the supplier policy encourage suppliers to set context-based water targets?
	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 and Scope 2 GHG emissions? Is it a science-based target?
	Scope 3 target	Has the company set a time-bound, quantitative emissions reduction target that explicitly addresses Scope 3 emissions? Is it a science-based target?
	Water	
	Direct operations	Has the company set time-bound quantitative targets to reduce water use in direct operations?
	Suppliers	Has the company set a time-bound target that explicitly addresses water impacts in its feed and animal farming supply chain?
Risk assessment and 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 of major commodities?
	Scenario analysis/TCFD	
	Committed to conducting	Has the company committed to undertaking and publishing a climate scenario analysis in line with TCFD recommendations?

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	PARTIAL	DNF	PARTIAL	DNF	PARTIAL	PARTIAL
	Risk management	YES	DNF	PARTIAL	DNF	PARTIAL	PARTIAL
Supplier policy	**Overall expectations**						
	Issue coverage	PARTIAL	DNF	PARTIAL	PARTIAL	PARTIAL	DNF
	Supplier assurance	YES	DNF	PARTIAL	PLANNED	PARTIAL	PARTIAL
	Non-compliance protocol	PARTIAL	DNF	PARTIAL	PLANNED	PARTIAL	PARTIAL
	Specific requirements						
	Climate						
	Major sources	DNF	DNF	DNF	DNF	PARTIAL	DNF
	Report	DNF	DNF	PARTIAL	DNF	DNF	DNF
	Water						
	Major sources	DNF	DNF	PARTIAL	DNF	DNF	DNF
	Context-based water targets	DNF	DNF	PARTIAL	DNF	DNF	DNF
	Report	DNF	DNF	PARTIAL	DNF	DNF	DNF
	Forests	DNF	PARTIAL	PARTIAL	YES	PARTIAL	PARTIAL
Targets	**Climate**						
	Scope 1 + 2 target	PLANNED	DNF	YES	PLANNED	DNF	PARTIAL
	Scope 3 target	PLANNED	DNF	YES	PLANNED	DNF	PLANNED
	Water						
	Direct operations	DNF	DNF	DNF	DNF	PARTIAL	PARTIAL
	Suppliers	DNF	DNF	DNF	DNF	DNF	DNF
Risk assessment and scenario analysis	**Water risk assessments**						
	Direct operations	PARTIAL	DNF	YES	DNF	DNF	YES
	Suppliers	DNF	DNF	YES	PLANNED	DNF	PARTIAL
	Scenario analysis/TCFD						
	Committed to conducting	DNF	DNF	YES	DNF	DNF	DNF

DNF = Did Not Find

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

Trends in company performance

Over the last year, investors have completed two dialogues with each of these six companies. While the companies are at different stages in addressing these risks, these are the general trends that have emerged from these conversations::

Board oversight and management responsibilities

- Boards and management have demonstrated growing awareness of the financial materiality of sustainability risks and opportunities. All six companies are undertaking efforts to strengthen board oversight of sustainability generally.
- The extent to which these efforts will result in formalized oversight over climate and water risks specific to protein supply chains remains uncertain.
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Next steps for the investor coalition

Investors have been encouraged by companies' responsiveness, their increasing recognition of climate and water risks in meat and dairy supply chains, and by meaningful efforts to mitigate such risks (disclosed throughout the dialogues). However, notable gaps in the sector's risk management strategies remain, particularly around assessing supply chain resilience to various warming scenarios, and setting time-bound, quantitative targets addressing supply chain emissions, water use, and water pollution.

In 2020, Ceres and FAIRR will work with investors to continue dialogues with all six companies with the support of over 90 investors with more than $11.4 trillion in combined assets under management.

In addition to the overarching engagement requests, investors will focus on specific steps that companies can take in the near-term to continue to build the resiliency of their meat and dairy supply chains:

McDonald's

- Accelerate climate scenario analysis
- Clarify supplier non-compliance policy in case of violations
- Account for land-use change emissions in current GHG emissions reduction target

Yum!

- Increase emphasis on protein supply risks in board discussions
- Include specific environmental requirements in the company's Sustainable Animal Protein Principles
- Develop specific plans for water pollution
- Complete its science-based target setting process and disclose progress on implementation

rbi restaurant brands international

- Formalize existing board oversight of sustainability risks, including those in protein supply chains
- Public reporting of planned life-cycle assessment results
- Commitment to setting emissions reduction targets for protein supply chains

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Chipotle Mexican Grill

- Formalize existing board oversight of sustainability risks, including in protein supply chains
- Clarify environmental expectations of major protein suppliers
- Conduct a water risk assessment of the agricultural supply chain and disclose findings
- Expedite collection of Scope 3 emissions data

Domino's

- Develop internal sustainability capacity and expertise
- Undertake a materiality assessment
- Clarify climate and water requirements for meat and dairy suppliers
- Disclose plans to engage and support dairy farmers' sustainability efforts

Wendy's

- Develop internal sustainability capacity and expertise
- Public reporting of materiality assessment
- Disclose progress towards meeting the standards and goals set out in the US Beef Industry Sustainability Framework, and assess the water risks to the company's beef suppliers

Endnotes

1 Fryar CD, Hughes JP, Herrick KA, Ahluwalia, N. Fast food consumption among adults in the United States, 2013–2016 (2018) NCHS Data Brief, no 322. Hyattsville, MD: National Center for Health Statistics: https://www.cdc.gov/nchs/data/databriefs/db322-h.pdf

2 Fast Food Industry Forecasts – China Focus (2019): https://www.researchandmarkets.com/research/jtzdgs/fast_food?w=4

3 IPCC 1.5°C report: https://www.ipcc.ch/site/assets/uploads/sites/2/2019/05/SR15_SPM_version_report_HR.pdf

4 IPCC Climate change and land report: https://www.ipcc.ch/site/assets/uploads/2019/08/4.-SPM_Approved_Microsite_FINAL.pdf

5 The Guardian (2019): What they put on the fields contaminates our water': Iowa's pollution problem: https://www.theguardian.com/environment/2019/sep/26/nitrate-problem-iowa-dont-use-the-tap-water-for-babies

6 Ceres Feeding Ourselves Thirsty 2019: https://feedingourselves-thirsty.ceres.org/

FAIRR
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Established by the Jeremy Coller Foundation, the FAIRR Initiative is a collaborative investor network that raises awareness of the material ESG risks and opportunities caused by intensive animal production. FAIRR helps investors to identify and prioritise these factors through cutting-edge research which investors can then integrate into their investment decision-making and active stewardship processes. FAIRR also runs collaborative investor engagements with global food companies to improve performance on selected ESG issues in intensive animal production.

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Ceres

Ceres is a sustainability nonprofit organization working with the most influential investors and companies to build leadership and drive solutions throughout the economy. Through powerful networks and advocacy, Ceres tackles the world's biggest sustainability challenges, including climate change, water scarcity and pollution, and inequitable workplaces. Ceres is transforming the economy to build a sustainable future for people and the planet. Learn more at www.ceres.org.

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