Committing to measurable ESG initiatives in the Food & Beverage Sector

DOING WELL BY DOING GOOD

DLA PIPER

Contents

> *"Our starting point for ESG is to identify the areas that are important to society and to us as a company, and take action on these... for the start of any initiative, we seek to apply the best available methodology, such as science-based targets on carbon emissions."*
>
> **Simon Boas Hoffmeyer**, Senior Director, Sustainability – Carlsberg

INTRODUCTION:

Route to a sustainable food and drink sector

In October 2021, just ahead of the UN Climate Change Conference of the Parties (COP26) in Glasgow, the Food & Drink Federation in the UK announced its ambition that the country's food and drink manufacturing sector should reach net zero emissions by 2040. This was an important pledge, given that the global food system contributes to over a quarter of global greenhouse gas (GHG) emissions.

Worryingly, the World Benchmarking Alliance (WBA) reported in its *Food and Agriculture Benchmark* in September 2021 that the industry is not on track for its transition to a sustainable food system. While 73% of the world's largest companies in this industry have a sustainable development target, only a quarter of these are setting time-bound targets and the remaining 27% have no sustainability strategy, according to the WBA. The industry has a long way to go before it can claim it is setting GHG emission reduction targets that align with the 2015 Paris Agreement.

DLA Piper has partnered with Fitch Solutions to produce this paper. The report will look at how food and drink companies are performing on sustainability issues and how they need to build an ESG framework to meet the challenges ahead. As part of this paper DLA Piper and Fitch Solutions interviewed several companies in the sector about their experiences. Selected quotes from these case studies have been included. The report also features the results of a survey of 300 senior executives from the food and drink industry in US, Europe and APAC.

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ESG: Doing good and doing well

It is easy when thinking about ESG to focus solely on the environmental part of the equation, as this receives the greatest coverage. However, social responsibility and corporate governance are every bit as important if companies are to implement a truly three-dimensional ESG plan. Business resilience is at the heart of a sustainable business operation, and an effective ESG strategy will not only help enforce that resilience but can also ensure commercial success.

Until a few years ago, large multinationals talked about their corporate social responsibility (CSR) aims, which served as an insight into a company's identity and culture and to its accountability to the wider community. Typically, examples of CSR displayed stories of individual companies doing good, often in a very effective way.

ESG is rather different. Its focus is on performance-based quantitative indicators helping investors, consumers, employees, or a company's suppliers make decisions about the ethics of a company, in the broader context of the climate emergency. This represents a major shift in values. Doing good is no longer an optional extra – it's a must. But doing good is also an ingredient of doing well. For this reason, companies – and those in the food and drink sector are no different – are increasingly placing sustainability at the heart of their business activities and embedding ESG considerations into their operational strategies.

It makes sense to do so: the potential legal and reputational risks of not having a well-devised and well-implemented ESG plan are plentiful. But having a good ESG strategy is not just a mechanism to counter risk: it makes business sense. Just think about the things a company could miss out on:

Operational efficiencies via, as an example, the introduction of better waste management processes, which can also result in new revenue streams (e.g. removing waste from a manufacturing process and selling to others what is seen as waste, but could be an input into their production);

Innovation via the introduction of a new relevant business model inspired by the transition to a global low-carbon economy;

Building resilience by putting the necessary plans in action to mitigate against issues such as future climate risks, water shortages or supply chain weakness; and

Attracting talent at a time when employees increasingly want to be part of a business that is not just doing well, but also doing good.

ESG needs to be at the heart of how a company deals with its operational challenges, but also about how it considers its identity and its future strategy and business model. An ESG policy should make a positive contribution to a business looking to enhance its operational productivity, ensure its relevance to customers and retain and attract the very best talent.

DLA PIPER INSIGHT

"Risk management is only one part of the ESG conversation. More importantly, it's about values, shared values and building value – growing businesses that people feel proud to be part of and support. Businesses that continue to treat ESG as an opportunity and not a cost are the ones that will thrive in 2022."

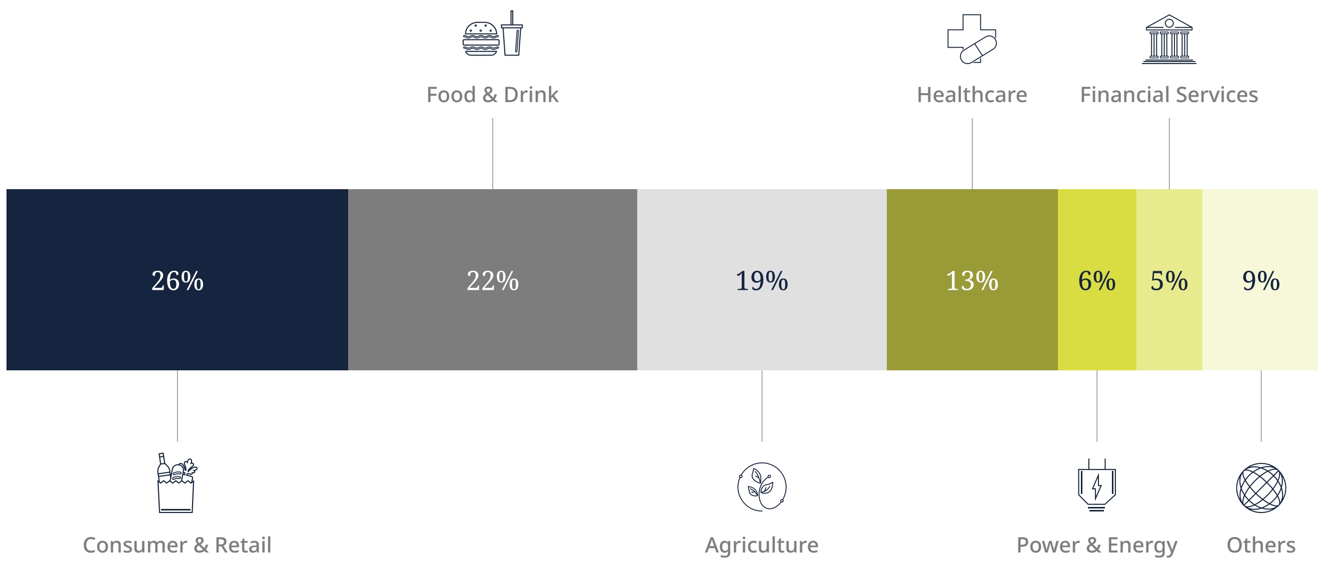
Jessie Buchan, Partner, Intellectual Property and Technology – DLA Piper, Australia

How are food and drink companies performing?

If one asks stakeholders in the industry itself, the answer often is: rather well.

Working with Fitch Solutions, DLA Piper commissioned a survey of 300 food and drink companies, split evenly between the United States, Europe (France, Germany, Italy, Spain, UK) and APAC (Australia, China, Hong Kong, Japan, New Zealand). One in five senior executives surveyed confidently told us that the food and drink industry has the second most developed ESG policies of all industries, only behind Consumer and Retail.

Percentage of respondents selecting the industry that has the most developed ESG policies



Source: DLA Piper/Fitch Solutions ESG Food & Drink Survey

This assessment is fairly consistent with Bloomberg's ESG disclosure scores, which monitor more than 11,500 companies across over 80 countries on the extent to which businesses disclose their environmental, social and governance performance. According to those scores, the food and drink industry finishes third, but behind the basic materials and utilities sectors. However, in a tougher assessment, a *Wall Street Journal* survey in 2020 evaluated 5,500 publicly traded companies on their ESG metrics. Just one food company made it into the Top 100.

Using data from our survey, we evaluated which food and drink sub-sectors performed the best in terms of committing to, measuring and disclosing their ESG performance (*see diagram opposite*).

In terms of making specific ESG pledges, manufacturers of alcoholic drinks and confectionery outperform all the other sub-sectors, which is an interesting result given that these two types of food and drink companies are perhaps under closer scrutiny than any other, given the pressure they face to show their commitment to such issues as responsible advertising, encouraging healthier nutrition, environmentally sound sourcing of ingredients, and water stewardship. Indeed, it is in their commitment to demonstrate their ESG credentials that the alcoholic drinks and confectionery manufacturers score highest, although both sectors also rank fairly high in terms of measuring performance and disclosing success.

COMMIT

% of respondents from each sub-sector that had made certain ESG pledges: published threshold pledges; created ESG board position/steering group for ESG policies; implemented employee training for ESG; published an annual ESG report; liaised with supply chain on ESG.

MEASURE

How well businesses from each sub-sector are doing in tracking ESG performance.

DISCLOSE

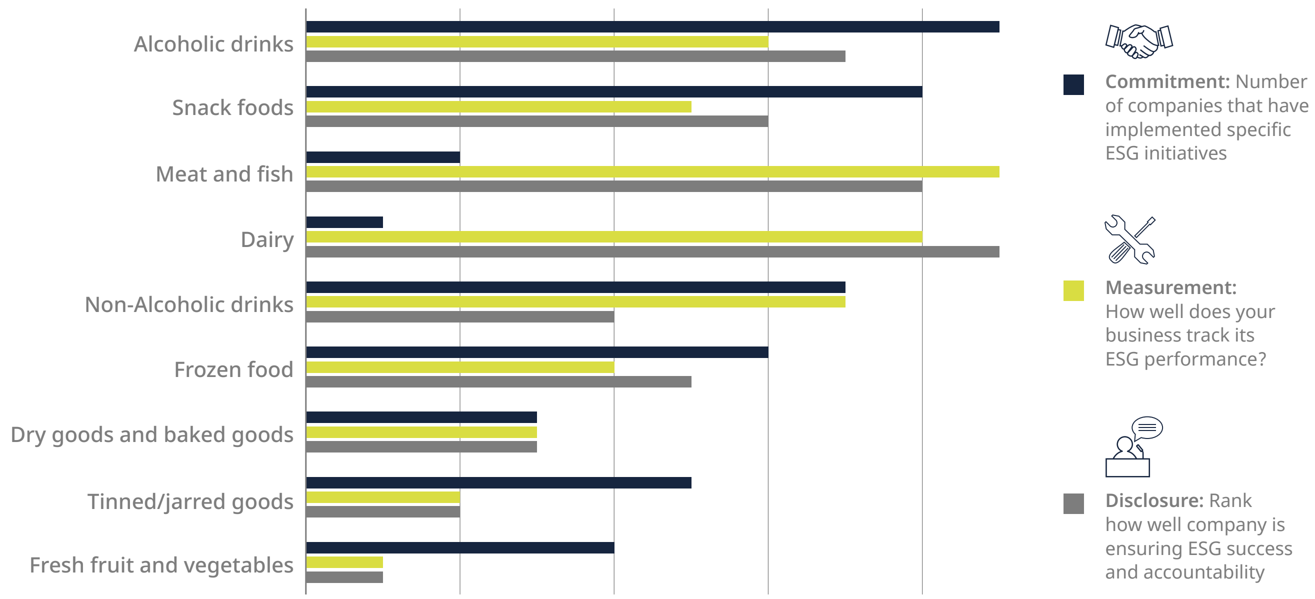
How well businesses from each sub-sector are doing in ensuring ESG success and accountability.

Conversely, both the meat and fish and the dairy sectors score poorly in terms of demonstrating their commitment to ESG. Both of these sectors score highest, however, in terms of tracking ESG performance and in disclosing their successes. This highlights that while the meat, fish and dairy sectors have only tentatively started committing to ESG, they are ensuring that these initial commitments are clearly measured and widely disclosed. Making a commitment is the first step and it seems that these industries need to do more on this front, but they have started following up on the pledges they have made, in terms of tracking and disclosing performance.

So, what challenges do food and drink companies face today, and how should ESG policy meet these challenges? What ESG issues are most important to food and drink companies, and what commitment pledges are they making? These are some of the questions we asked in the DLA Piper/Fitch Solutions ESG Food & Drink Survey, which was answered in September 2021 by 300 senior food and drink executives across the United States, Europe and APAC.

There was a good representation of respondents in this survey with 1 in 4 describing themselves as ESG or Sustainability directors and 1 in 5 as C-level executives. All who answered this survey were senior managers and 86% said they were part of a committee that covered ESG matters as a part of its remit.

Sub-sector assessment of commitment, measurement and disclosure of ESG performance



Note: the length of each bar reflects how respondents have answered questions in the survey about their commitment to ESG initiatives, the extent to which ESG performance is tracked and how well they have ensured ESG success and accountability. Source: DLA Piper/Fitch Solutions ESG Food & Drink Survey

DLA PIPER INSIGHT

"We have reached a point in the evolution of ESG when actions that are 'good for the world' are perhaps one of the most valuable branding tools given the consumer demand for respect for the environment and community. This heightened alignment has created opportunity for a return on investment in innovation, efficiency, and branding in the context of ownership and responsibility."

Stefanie Fogel, Global Co-Chair, Consumer Goods, Food and Retail Sector (US)

DLA PIPER INSIGHT

"We increasingly see food and beverage clients using their ESG credentials (particularly in the areas of sustainability and societal demands) as a competitive advantage when communicating with consumers. Certifications as well as partnerships with environmental and other groups are a key part of messaging ESG leadership positions being adopted to consumers."

Micheál Mulvey, Legal Director, Corporate – DLA Piper, Ireland

SURVEY ANALYSIS:

ESG policies can ease reputation concerns

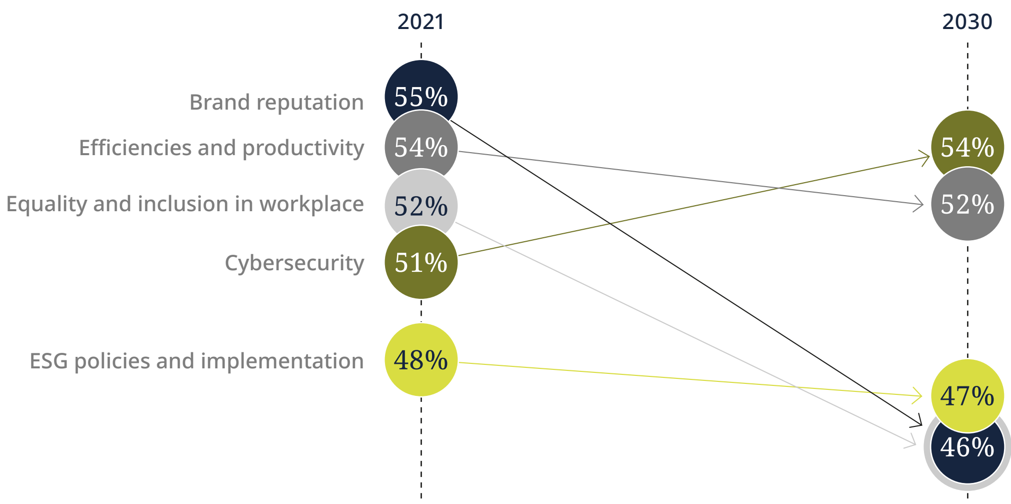
More than 1 in 3 food and drink companies (38%) think that brand reputation is the single most important operational issue affecting its business today, well ahead of cybersecurity on 25%, and efficiencies and productivity on 9%.

Over half the companies point to brand reputation, efficiencies and productivity, and equality and inclusion in the workplace and cybersecurity as one of the five most important issues their business face today. It is interesting to note that brand reputation is seen as being likely to be less of an important issue in 2030 – perhaps because as a result of its ESG policies, many companies will have worked on protecting their brands. Cybersecurity, however, is likely to remain a major issue for businesses in 2030 (*see below*).

In all, 48% of companies said ESG policies and implementation were one of the five most important operational issues for them; in APAC this figure grows significantly to over 60%, while in the US it stands at just 36%. Many companies in APAC need to catch up on forming ESG policy, which is why this figure is relatively high.

When asked to identify specific ESG challenges facing food and drink companies, over 40% called out consumer health and wellness as being the single biggest ESG challenge. This helps to explain why brand reputation is so important, and suggests there is a growing concern at the link between product, health and reputation. Indeed, respondents from confectionery and alcoholic beverage companies are the most likely to see brand reputation as an important issue, with over 40% of executives citing this as the single most relevant operational issue facing them today. Meanwhile, about 4 in 5 respondents also cite responsible sourcing of products, the use of plastics in packaging and carbon emissions as either their largest or second largest ESG challenge.

Percentage of respondents selecting the following issues as one of the five most important facing their business today and 2030



Note: The % numbers reflect the respondents that chose each of these issues as one of the five biggest issues facing them in 2021 and 2030. The arrows in the middle show how the %s have changed from 2021 to 2030. Source: DLA Piper/Fitch Solutions ESG Food & Drink Survey

SURVEY ANALYSIS:

ESG strategy can act as a talent magnet

There are a number of benefits to having a well-devised ESG program. Over 60% of food and drink companies thought that an efficient and well-managed supply chain is one of the main benefits of implementing a successful ESG program, one that focuses on responsible local sourcing, reduces wasteful plastic and cuts carbon emissions.

Top three **benefits** of implementing a successful ESG policy		Major three **concerns** of not implementing a successful ESG policy	
62%	Efficient and well-managed supply chain	53%	Lack of talent inclusion
42%	Productive and motivated workforce	43%	Legal proceedings vs inadequate ESG structure
37%	Diverse and inclusive management and workforce	42%	Lack of transparency on governance

Source: DLA Piper/Fitch Solutions ESG Food & Drink Survey

DLA PIPER INSIGHT

"Companies are increasingly realizing that their employees are one of their key stakeholder groups and that employees will vote with their feet if their expectations around how a company should treat and value its people are not met. Companies are having to challenge their traditional ways of engaging with employees to ensure that employee expectations are correctly identified rather than being assumed, and that those expectations are met rather than simply given lip service."

Helen Colquhoun, Partner, Employment – DLA Piper, Hong Kong

DLA PIPER INSIGHT

"A focus on ESG not only makes business sense but also legal sense. If appropriate ESG policies are not adopted and implemented, licenses and permits may be refused, suspended or withdrawn as a result of the failure to comply with regulatory requirements. Legal liability may also flow against corporate entities or their directors who breach duties in relation to ESG obligations."

Kirsty Simpson, Partner, Litigation and Regulatory – DLA Piper, Africa

What is also evident from the survey is the important role ESG can play in the recruitment and retention of talent. Over 40% called out a productive and motivated workforce as being one of the three main benefits of a successful ESG policy and 37% cited a diverse and inclusive management and workforce as being an important benefit. The notion of talent, be it acquisition or retention, as a benefit of ESG is particularly so in Europe and North America, while only 1 in 3 think this in APAC. In the US, the number of respondents that see diversity and inclusivity as being an important benefit of a successful ESG policy climbs to 45%. Indeed, in the US over 60% of respondents nominated equality and inclusion in the workplace as one of the five most important operational issues facing their business. On the other side of the coin, 53% said that a lack of talent inclusion was a major concern of theirs in not having a clear ESG policy (and this climbs to 58% in the US).

Talent acquisition or retention emerges from the results of this survey as a potential major gain for those companies that have a successful ESG program. It is therefore vital that ESG initiatives represent the concerns of their employees and that businesses engage with their employees about ESG issues. Core to this is governance, which creates the identity of a company's commitments and ensures that a business takes into account the concerns of employees and reports the success of initiatives within the business as well as beyond.

Meanwhile, a separate major concern of companies not being able to implement a successful ESG policy is facing the risk of legal proceedings against an inadequate ESG structure. This fear is heavily skewed geographically, as while as many as 52% see this as a major concern in APAC, this falls to just 33% in the US, compared to the overall figure of 43%. It is also noteworthy that those most likely to be concerned with legal issues emerging are dairies and meat and fish companies. It is particularly important in these cases therefore that there is a strong level of trust throughout these companies' supply chains.

SURVEY ANALYSIS:

ESG issues that matter most to food and drink companies

Respondents were asked to rank 15 issues (*see below*) in terms of the level of their importance to the business with five issues each for environment, social and governance components. The issue that the largest number of companies ranked as being very important was one of governance, namely reporting that all ESG issues are monitored and audited. This is interesting because it takes us back to the importance of measuring ESG targets and is the element that differentiates an ESG policy from a CSR program. The element of science-based targets is very important to food and drink companies.

Environmental

1. Decreasing plastic use in packaging
2. Commitment to limit deforestation and soil degradation
3. Commitment to recycling initiatives
4. Carbon labelling initiative
5. Commitment to reduce carbon emissions

Social

6. Reducing obesity of consumers
7. Meeting the demand for sustainable eating habits
8. Diversity and inclusion commitments in the workplace
9. Ensuring fair working practices throughout supply chain
10. Playing a role in ensuring poorest households have access to healthy foods

Governance

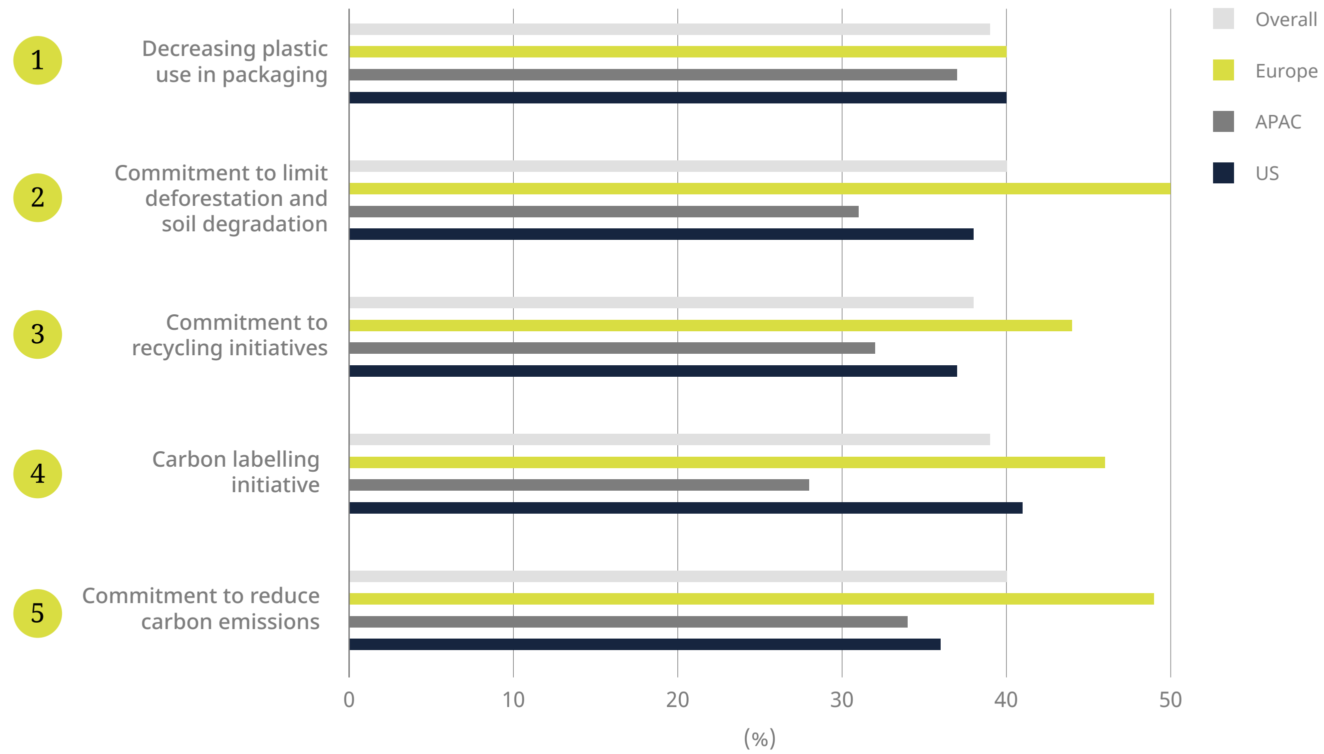
11. Ensuring a fair and transparent governance
12. Reporting that all ESG issues are being monitored and audited
13. Supply chain management from raw material to consumer
14. Linking executive compensation to ESG implementation
15. Measuring climate change transition to Paris Agreement Objectives

Environment: European companies most likely to be concerned at environmental issues

The results are very close for which environmental issues are most important to companies, with 40% selecting commitments to reduce carbon emissions and to limit deforestation. There is greater disparity, however, when we assess how European and Asian companies responded to these options. In Europe, for example, as many as 50% thought limiting deforestation was very important, while in Asia, fewer than 30% felt that carbon labelling initiatives were very important to their business. In general, European food and drink companies are far more likely to think environmental issues are very important than their Asian counterparts, and in some cases US companies, where interestingly just 36% felt a commitment to reduce carbon emissions was a very important business issue.

The other interesting disparity with these results is that as many as 56% of alcoholic drinks companies agreed that a commitment to limit deforestation and soil degradation is very important to their business. Pledges to decrease deforestation stemmed from the meat sector, multinational food players and confectionery companies (understandably, as these sectors' needs for grazing pasture and the production of soy and palm oil are largely what is driving deforestation). Alcoholic drinks majors, while less exposed to deforestation from the sourcing of their products, are still exposed to deforestation via their packaging needs (especially as more companies move away from plastic packaging and into packaging derived from the paper and pulping sector). This finding suggests that alcoholic drinks majors will increasingly look to their deforestation exposure and develop pledges or sign up to commitments, such as the Consumer Goods Forum's (CGF) Forest Positive Coalition.

Percentage of respondents ranking **environmental** issues as very important to their business



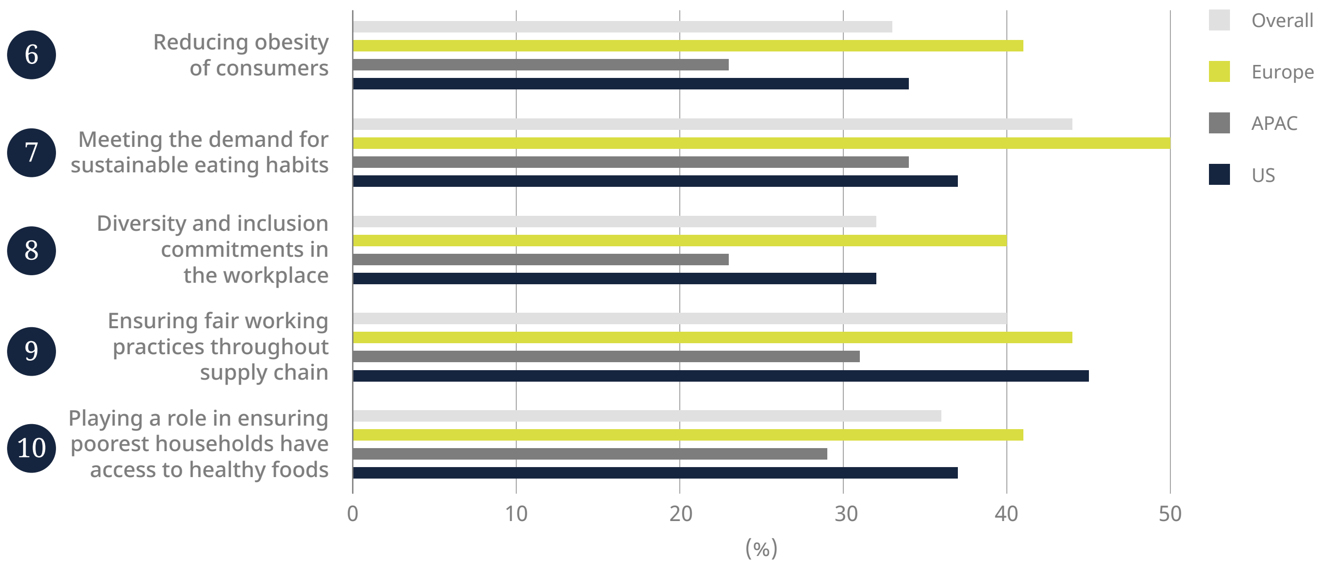
Source: DLA Piper/Fitch Solutions ESG Food & Drink Survey

Social: Meeting consumer demand and ensuring fair working practices most important

There is a clearer sense of which social issues are most important to all food and drink companies, whatever their geography, although there are some notable differences here as well. The single biggest issue revolves around making sure food and drink companies meet the needs of sustainable eating habits – for example, by promoting alternative protein. Compared to the 44% of food and drink companies that thought this issue was very important, it is notable that over 50% of meat and fish companies and dairies thought this to be the case.

There are some big disparities by geography: whereas fewer than 1 in 4 companies in APAC ranked either creating diversity and inclusion in the workplace or reducing consumer obesity via ingredient reformulation as very important, this percentage increased to 40% and 41% in Europe. Ensuring fair working practices across the supply chain was particularly important to US companies, not a surprise given their focus on ensuring good brand reputation. Indeed, 89% of respondents from the US said they had implemented a scheme to ensure fair working practices across their supply chain.

Percentage of respondents ranking **social** issues as very important to their business



Source: DLA Piper/Fitch Solutions ESG Food & Drink Survey

DLA PIPER INSIGHT

"The demand for plant-based meat alternatives is high and there has been increasing M&A activity in recent years as the market continues to grow. However, businesses active in this space need to remain aware of the complex regulatory landscape in which they operate – from nutritional and environmental labelling to food law and gene technology regulations."

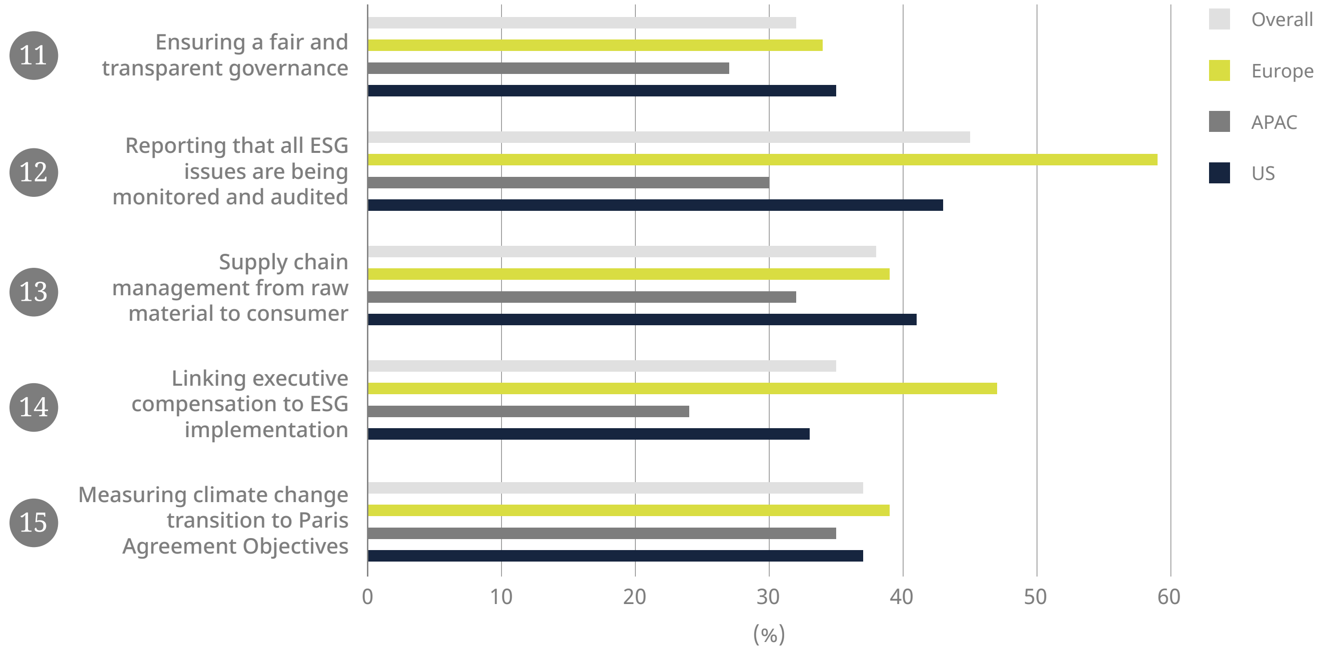
Jessie Buchan, Partner, Intellectual Property and Technology – DLA Piper, Australia

Governance: Monitoring and auditing ESG targets key to success

European food and drink companies are adamant on the importance of reporting that all ESG issues are being monitored and audited – 6 out of 10 companies thought this was extremely important. In a further show of the role governance can play in ensuring a good ESG strategy, close to 50% of Europe's food companies felt linking executive compensation to ESG implementation was very important, compared to 33% in the US and just 24% in APAC.

Approximately 40% of survey respondents were very satisfied as to how they had implemented ESG policies for environment and governance issues. There was slightly less satisfaction on social issues, with 1 in 3 expressing complete satisfaction. Social issues tend to be less measurable, which may be why just 20% of companies in APAC were very satisfied with implementation of their social programs.

Percentage of respondents ranking **governance** issues as very important to their business



Source: DLA Piper/Fitch Solutions ESG Food & Drink Survey

DLA PIPER INSIGHT

"An integral part of any ESG strategy is committing to measurable ESG initiatives. We are seeing a dramatic growth in renewable energy investment, as companies look to measure and reduce their carbon footprint, and it will be vital to engage with customers and suppliers to ensure that any commitments made are achievable and, of course, measurable."

Natasha Luther-Jones, International Head, Sustainability and ESG – DLA Piper

SURVEY ANALYSIS:

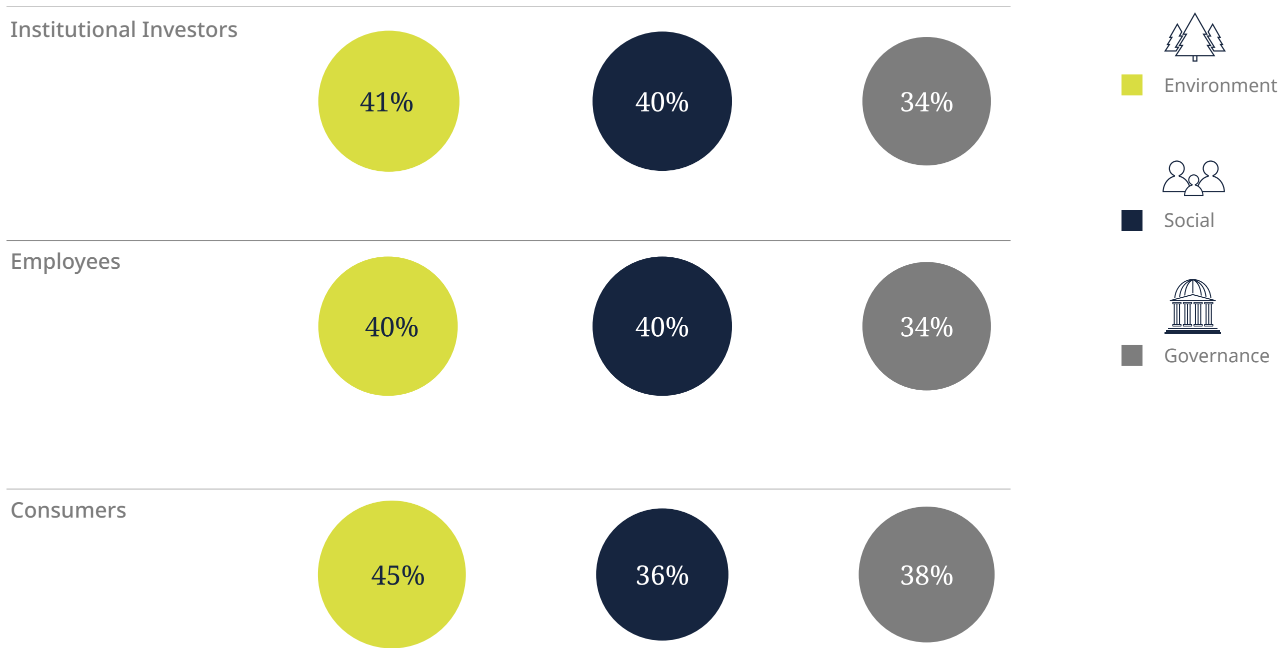
Customers are a major driver for setting the right ESG program

There are three main stakeholder groups that companies are trying to reach out to with their ESG programs: institutional investors, employees and consumers.

All are important but 45% of survey respondents feel that to consumers, a strong environment program is extremely important, much more so than a social program (36%), which is interesting, as many of these issues are aimed at trying to meet the perceived demands of consumers. In the opinion of 38% of respondents, governance is very important to consumers – they need to understand the company is acting with transparency, more so apparently than institutional investors and employees (both 34%).

When asked to rank the importance of drivers for implementing a strong ESG program, 46% agreed very strongly that it is an expectation from their consumers, well ahead of meeting the demands of their employees (37%, just 24% in APAC) or investors (36%, just 26% in APAC). As many as 40% felt a strong driver for setting up an ESG program was to capture the opportunity to improve operational efficiencies. This finding suggests companies are using ESG to do good, but also to do well. This is the right way of thinking, and is particularly the case amongst European food companies, with 50% viewing operational efficiencies as a very important driver for their ESG program.

Importance of ESG program by stakeholder groups



Source: DLA Piper/Fitch Solutions ESG Food & Drink Survey

of European food companies view operational efficiencies as a very important driver for their ESG program

DLA PIPER INSIGHT

"The integration of technology from Blockchain to AI in the sourcing, tracking, manufacture and delivery of food is perhaps one of the fastest growing means of meeting ESG goals, maintaining efficiency and economic viability, and meeting consumer demand in a greatly modified supply chain in a post Covid environment."

Stefanie Fogel, Global Co-Chair, Consumer Goods, Food and Retail Sector (US)

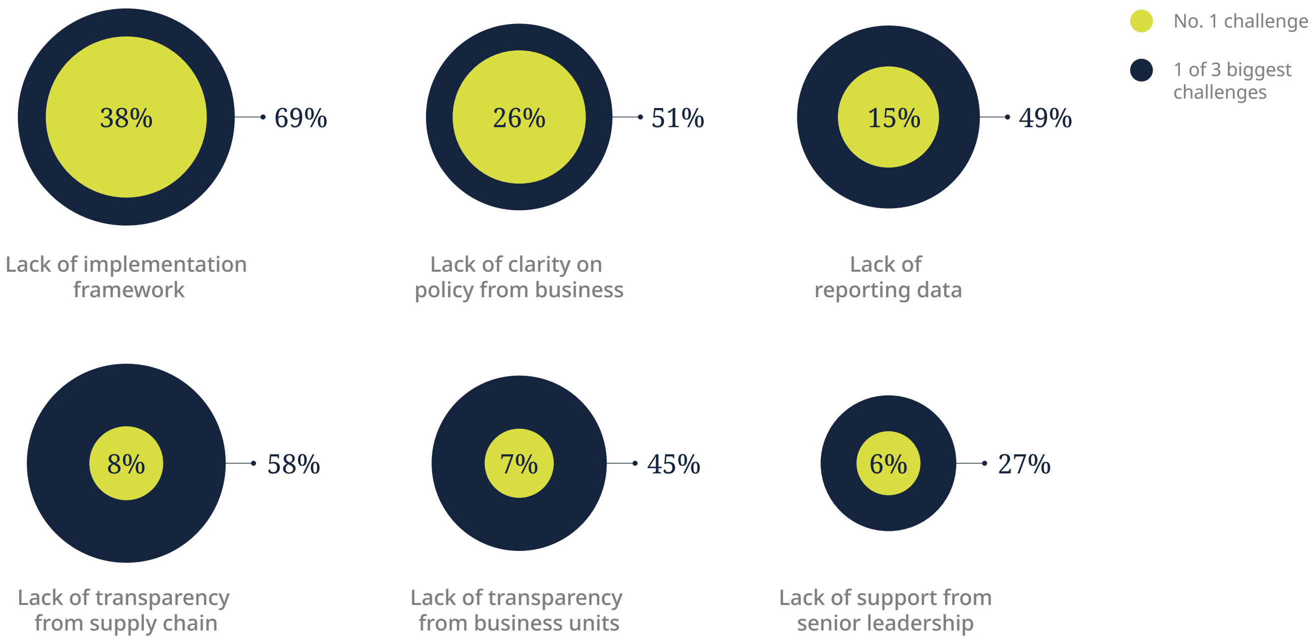
SURVEY ANALYSIS:

Tracking performance is an important requirement for an ESG program

If companies view their ESG programs as needing to be seen to achieve science-based targets, tracking performance is very important. Just over 30% of companies think they manage to track ESG very well, although this drops to 25% in APAC.

What appears to be most lacking in a company's structure to ensure performance tracking is an implementation framework. This seems to be a process issue: by and large, businesses are telling us that they do have data and the cooperation of business units to report the data required. Only 27% of those surveyed responded that lack of support from senior leadership was one of the three biggest challenges around tracking ESG performance. But, given the importance of measuring performance, businesses need to get better at setting up frameworks and policies in order to collect the data they require. It is also worrying that about 6 out of 10 thought their supply chain was not contributing effectively in tracking performance. Given the concerns of bad brand reputation, it is important that companies feel able to get a clearer understanding on ESG performance across their supply chain. This is especially important at a time when companies are under growing pressure to look beyond their direct operations and make Scope 3 commitments throughout their supply chain. Scope 3 pledges revolve around how companies can reach net zero targets across their whole supply chain by 2030.

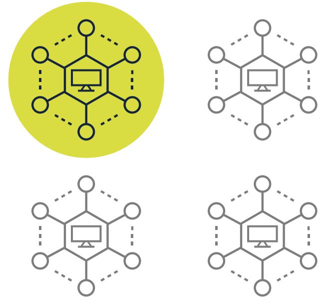
Percentage of respondents selecting these challenges as the single biggest to track ESG performance or one of the three biggest challenges



Source: DLA Piper/Fitch Solutions ESG Food & Drink Survey

When asked what companies specifically are doing well in ensuring their ESG success and accountability, approximately 40% point to improving their board representation, investing in technology to enable better performance (e.g. blockchain, automation) and collecting data across their supply chain (*see below*). There are some notable geographical disparities among these results, with companies in Europe and the US the most likely to be doing well in improving board representation. Meanwhile, investment in technology is far more likely in Europe (48% in Europe say they are making significant investments compared to 30% in APAC), while US food and drink companies are performing best at collecting reliable ESG data from within their supply chain (47% say they are doing very well compared to 28% in APAC). This accords with other parts of the survey that suggest US companies understand the importance of keeping one's supply chain aligned to a central ESG strategy. Companies in APAC, however, are well behind those in Europe in ensuring ESG success and accountability with just 1 in 4 saying they are doing well in collecting reliable and informative data, increasing budgets for specific initiatives or training employees about their ESG program.

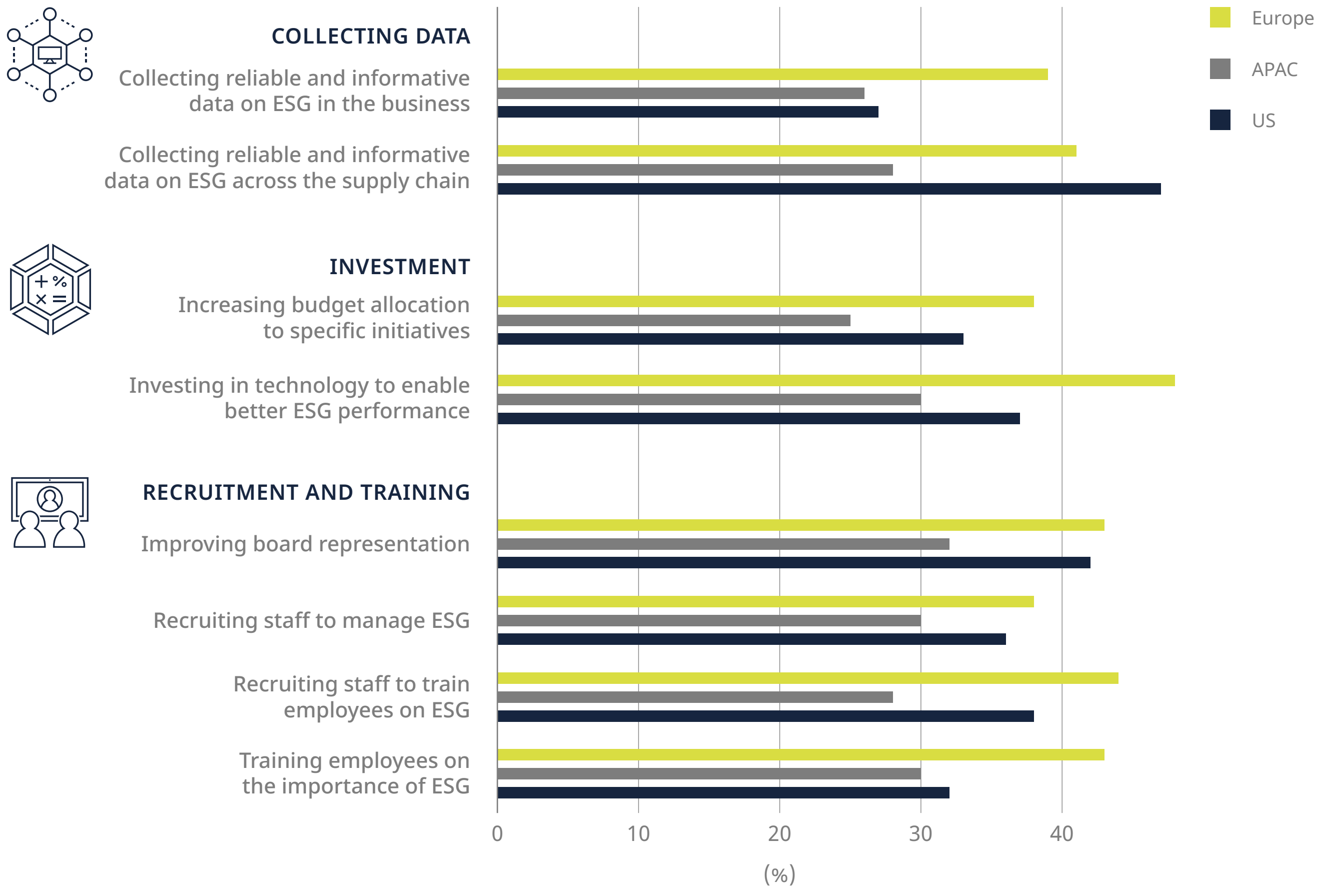
Perhaps what businesses need is tighter regulation. This may ensure that more businesses track their ESG performance. Sixty European companies worth, between them, US$10 trillion have released an open letter calling on the European Commission to support the IFRS Foundation's launch of the International Sustainability Standards Board. A reliance on international supply chains, they argue, makes it more important than ever for worldwide reporting standards to be introduced that will enable consistent, reliable evaluation of sustainability performance.



1 in 4

companies in APAC say they are doing well at collecting reliable and informative data

Percentage doing the following very well in ensuring ESG success and accountability



Source: DLA Piper/Fitch Solutions ESG Food & Drink Survey

How have companies showed their commitment to their ESG programs?

Over half of the companies surveyed have created a steering group to develop ESG policies and are implementing internal training so that the employees understand the role of ESG in the business.

This suggests businesses understand the importance of engaging with their own employees around an ESG strategy. In Europe over 50% of companies have created an ESG board position to ensure ESG gets a voice at the top table, something that has only happened in the case of 38% of companies surveyed in APAC. Interestingly, companies in APAC, however, are more likely than businesses in Europe or the US to have released an ESG report, perhaps aimed at investors, although the publication of these reports should also support brand reputation.

Tracking and measuring ESG pledges have to be at the heart of a program. It is therefore a little concerning that fewer than 30% of companies in APAC have created thresholds by which ESG pledges can be tracked. There is a risk that without setting these thresholds it will be very hard to define and measure the results of any ESG program. However, the survey reveals one more even more worrying finding. Just 1 in 5 companies have liaised with businesses in their supply chain so that they can support each company's ESG policies and pledges. This leaves companies exposed to poor practice and given the fact that brand reputation is such an important issue to businesses, this needs a correction. In the US, just 15% said they have been working with companies in their supply chain on ESG policy. This is a major surprise given the general acceptance from companies that a lack of transparency in the supply chain does represent a major challenge in tracking ESG performance.

What has your company done to demonstrate its ESG commitment?

	OVERALL	EUROPE	APAC	US
Created a committee/steering group for the development of ESG policies	● (Successful)	● (Successful)	● (Successful)	● (Successful)
Implemented internal training relevant to ESG	● (Successful)	● (Started)	● (Successful)	● (Successful)
Created an ESG board position	● (Started)	● (Successful)	● (Started)	● (Started)
Released an annual report on ESG	● (Started)	● (Started)	● (Started)	● (Started)
Created thresholds by which the company's ESG pledges can be externally tracked	● (Started)	● (Successful)	● (Not yet underway)	● (Successful)
Liaised with supply chain to support the company's ESG policies and pledges	● (Not yet underway)	● (Not yet underway)	● (Not yet underway)	● (Not yet underway)

● = Successful implementation
● = Started implementation
● = Implementation not yet underway

Source: DLA Piper/Fitch Solutions ESG Food & Drink Survey

1 in 5

companies have liaised with businesses in their supply chain so that they can support ESG policies and pledges

The results from the survey are very consistent:

BRAND REPUTATION IS A MAJOR OPERATIONAL ISSUE
A poorly devised and badly marketed ESG strategy can lead to consumer distrust in a business. Engaging with and understanding evolving consumer demand, tastes and expectations is vital within any ESG strategy, and can build the reputation of a relevant business.

RETAINING AND ACQUIRING TALENT IS HUGELY IMPORTANT TO BUSINESSES
A consistent ESG program can allow employees to feel a closer link to their employer, thereby increasing the likelihood of retention. An awareness of diversity and inclusion in the boardroom should also encourage the best talent. Engaging with employees is therefore a vital element in any ESG plan.

THE WEAKEST POTENTIAL PART OF AN ESG PROGRAM IS THE SUPPLY CHAIN
If a supplier fails to implement the ESG program of a business or is guilty of unfair working practices, that business will suffer in terms of reputation and could suffer legal consequences. It is therefore very important that companies work with their suppliers on their ESG direction. Working closely with the supply chain should offer protection against any potential ESG misalignment but also provides operational and efficiency gains, in terms of improving processes.

Building an ESG framework

ESG frameworks are starting to develop around the three pillars that have emerged from the results of the DLA Piper/Fitch Solutions survey:

1. **Consumer ESG framework:** to engage and update consumers on a company's ESG challenges, pledges and progress. This aims to enhance the consumer-brand relationship and better protect food and drink companies from reputational damage.

2. **Employee ESG framework:** to aid in attracting and retaining talent, as employees seek to work for companies that are making a difference and taking ownership of their ESG challenges. The development of governance to initiate ESG strategies and ensure accountability is key within this framework, but so too is employee participation within a company's ESG strategy.

3. **Supply chain ESG framework:** to date, company ESG initiatives have focused on challenges within their own operations (manufacturing and product/packaging). Increasingly, companies are starting to look along their full supply chain and this theme will develop further, as companies commit to Scope 3 pledges and initiatives. The need to support existing partners and seek new sustainable partnerships, within their value chain, will be a dominant focus for the food and drink sector, but the rewards of greater operational efficiency, via a more sustainable supply chain are already starting to emerge.

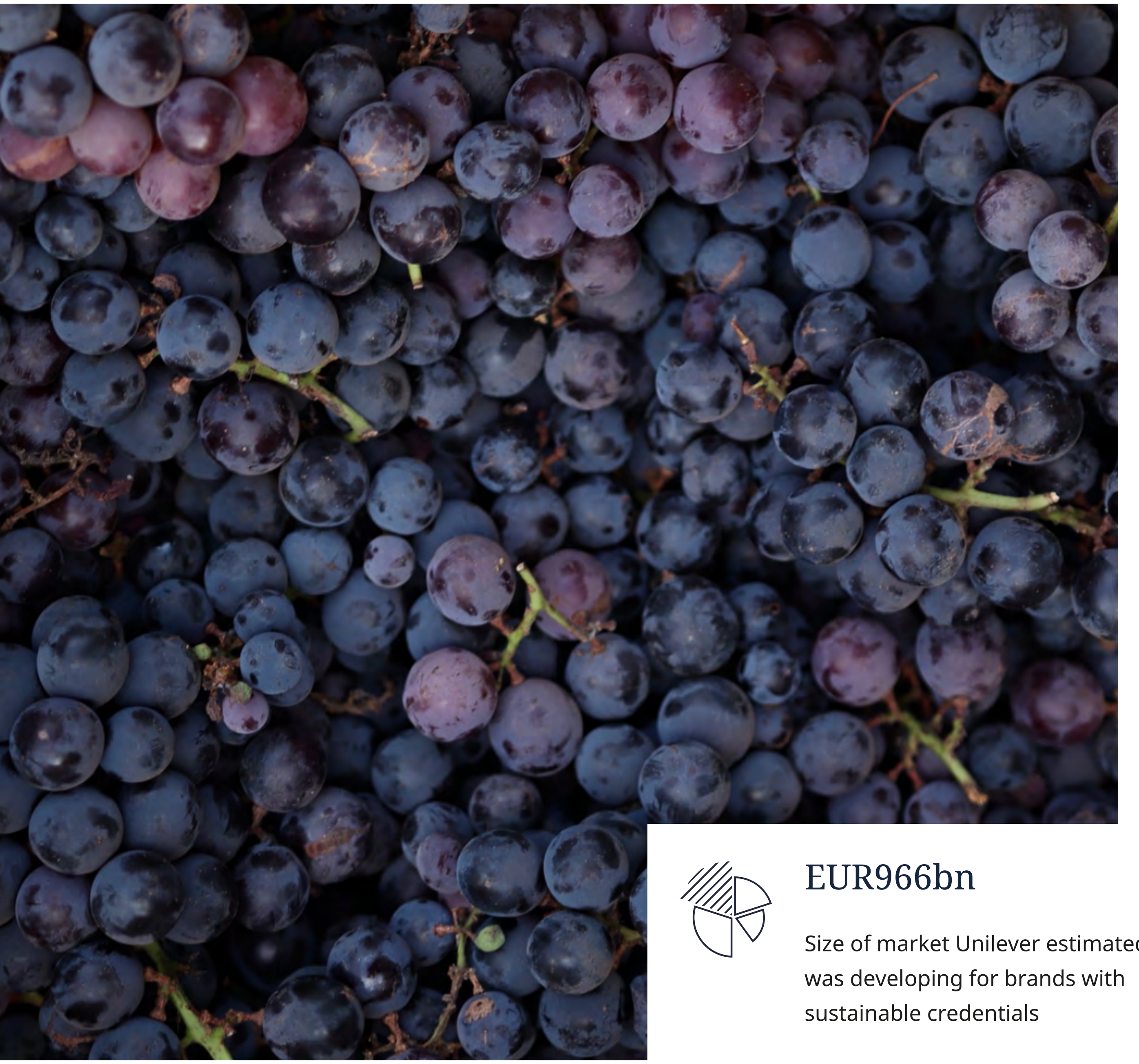
Developing a three-pillar ESG framework

	1	2	3
PILLARS	ESG CONSUMER FRAMEWORK	ESG EMPLOYEE FRAMEWORK	ESG SUPPLY CHAIN FRAMEWORK
INITIATIVES	**Align** a company's ESG polices and pledges around consumers' environmental and societal concerns.	**Identify** the creation of an ESG strategy that resonates with employees and creates a company reflective of society.	**Support** partners within your supply chain to become more sustainable and develop their environmental commitments that align with current priorities.
	Advertise the ESG strategy to consumers especially the pledges, how they are tracked and your successes. Consumers wish to understand the progress being made.	**Participate** with the workforce, not just management or specific ESG officers, via ESG Networks and volunteer programs.	**Engage** and offer guidance and insight to supply chain partners. Look for new sustainable partnerships within your supply chain.
OBJECTIVES	Lead and reflect **consumer trends**. Strengthen **brand-consumer engagement**. Protect against brand **reputational damage**.	Attract and retain **talent**. Create an **engaged culture** across management and workforce. **Transparent governance** to highlight how a company is doing through ESG reporting. **Motivate workforce** by involving them in ESG implementation.	**Operational efficiencies** via full supply chain ESG strategy. Realization of full **circular economy**. **Future proofing** with the development of Scope 3 objectives.

Source: Fitch Solutions

1. ESG consumer framework

According to the survey, brand reputation dominates as an operational concern for food and drink companies and highlights the importance of engaging with consumers. From our further research and conversations with the industry, we note two ESG Consumer Framework themes developing: **align** and **advertise**. Both are essential to engaging with consumers.



EUR966bn

Size of market Unilever estimated was developing for brands with sustainable credentials

Aligning with consumers' sustainable and societal demands

The rise of social media has enabled consumers to connect directly with companies and vice versa. It has also meant consumers have developed their own power of advocacy. If companies are able to display how they address the environmental and societal concerns of the public (e.g. a brand's impact on the environment, the use of sustainable resources, or commitments to support a more diverse workforce), consumers will not only engage with businesses by choosing to buy their products over their competitors, but will also act as advocates for a specific brand.

Stronger consumer alignment with product offerings and ESG policy pledges was an opportunity Unilever was early to recognize and action. In 2020, GlobeScans' survey of experts listed Unilever as topping its sustainability ranking, for the 10th consecutive year. As early as 2017, when ESG was first making its way into the corporate lexicon, Unilever was commissioning surveys that were finding a third of consumers were starting to make their purchasing decisions based on a brand's social and environmental impact. Unilever estimated a EUR966bn market was developing for brands with sustainable credentials. In 2020, Unilever celebrated its tenth year of the Unilever Sustainable Living Plan (USLP). Over this period, they developed 28 Sustainable Living Brands, which "consistently outperformed the average growth rate" of the rest of the company's portfolio. This is just one example that highlights how companies have adapted to align their products with consumers' evolving purchasing habits, which increasingly favor more sustainable brands.

Consumers, like investors, are seeking transparency and tangible, measurable results, concerning a food and drink company's ESG pledges and successes. Increasingly, the tools are becoming available for consumers to track and compare companies' environmental and societal credentials, further highlighting the importance and need for businesses to follow an ESG consumer-specific framework.

Consumers seeking greater ESG insight: Emerging trends

PRODUCT ESG LABELLING
Carbon labelling is on some government radars for legislation, but being led by the food and drink sector currently. In June 2021, several large food and drink companies and mass grocery retailers (MGR) joined forces with The Foundation Earth to launch a trial of a traffic-light environmental labeling system for food products.

BRAND/COMPANY ESG RATING/RANKING
There is an emergence of ratings and rankings for consumers, not dissimilar to what is available within the finance sector around ESG Ratings. The fashion segment has its Good On You directory (which produces sustainable and ethical ratings on the fashion brands).

ESG PAYMENT/CREDIT TOOLS
Longer term, on the payment side, there is the potential for carbon cards/apps, with the Swedish fintech company Doconomy already offering a credit card that monitors customers' carbon footprint via their purchases and cuts off when they hit their carbon limit.

Source: Fitch Solutions

In terms of sustainable product and brand pledge alignment meeting consumers' shifting purchasing habits, we highlight the ESG progress already being accomplished by alcoholic beverage and confectionery companies. These segments outperform the other sub-sectors within food and drink, in terms of their commitment to the measurement and disclosure of their ESG performance, according to our survey. We also note the alignment undertaken by the meat and the wider packaged foods segment in navigating consumers' moves away from traditional meat.

While the development of alternative protein is in part driven by consumers' environmental concerns, health is also a factor, as it is for the confectionery sector's sugar reduction drive. Health and wellbeing also feature as a driver of consumers' desires for low and no alcoholic beverages. This further highlights the view that the while the environmental part of the ESG equation receives the greatest media coverage, social responsibility and corporate governance are vital for companies to ensure they implement a three-dimensional ESG plan.

ALCOHOLIC BEVERAGES: SOCIAL/HEALTH FOCUS ON RESPONSIBLE DRINKING
Drinking responsibly and not drinking and driving have been long-running consumer engagement campaigns initiated by the alcohol industry. Companies have moved beyond the guidance stage and into product offerings, with alcohol majors rapidly developing and expanding their low and no alcohol ranges, while also seeking to retain the taste and presentation of their traditional offerings across this product class.

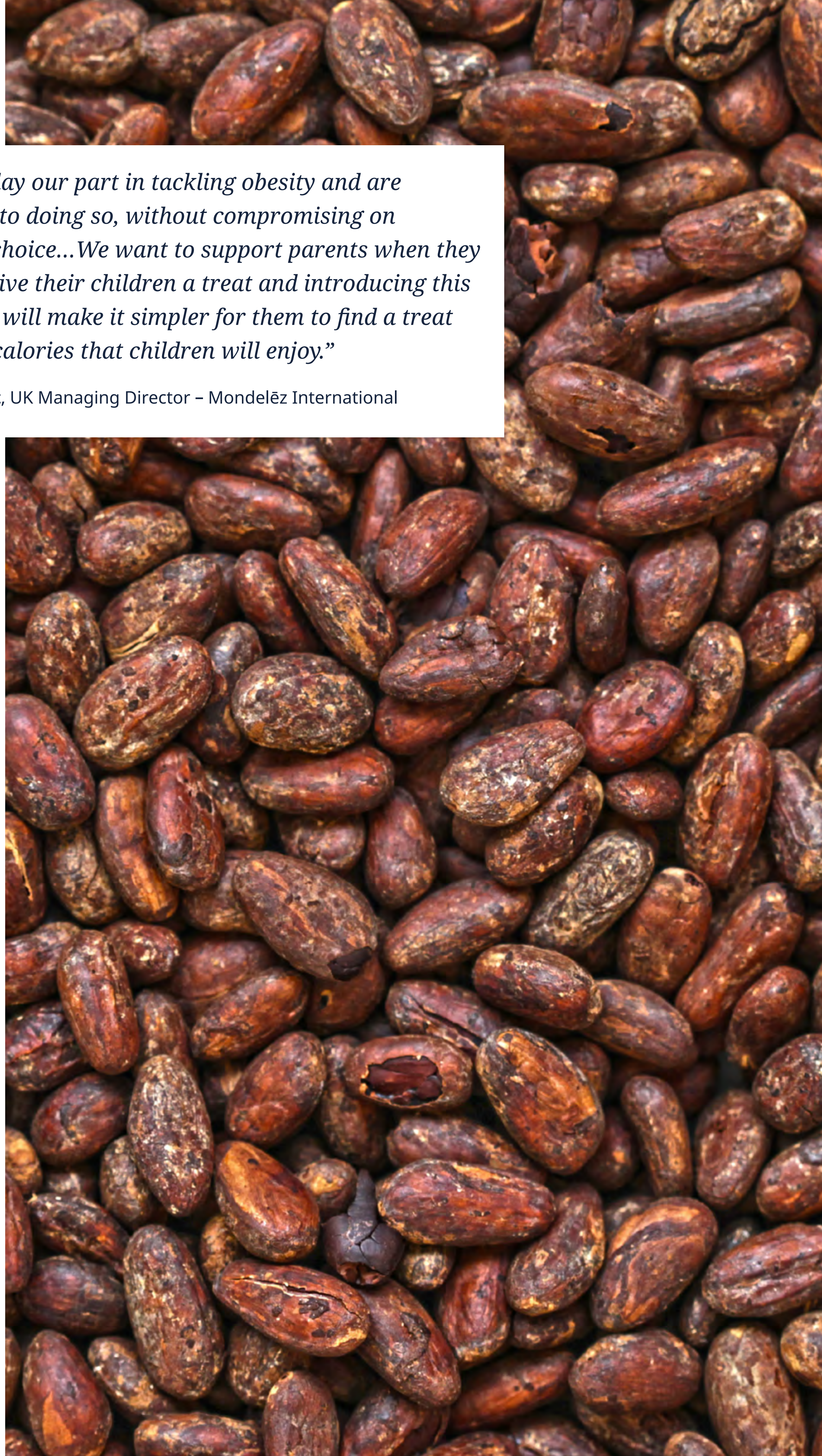
CASE STUDY – HEINEKEN

The third pillar of Heineken's global Brew a Better World sustainability strategy is centred around responsible consumption. Heineken invests at least 10% of its Heineken® brand media spend on promoting responsible consumption with its consumers through global campaigns such as 'When You Drive, Never Drink.' In the UK, this media spend was over 20% in 2021, and Heineken UK continues to partner with its retail customers on the promotion of its low and no alcohol brands. At the end of 2021, Heineken announced that it would be rolling out Heineken® 0.0 on draught in pubs and bars up and down the UK, increasing the availability of no alcohol alternatives for its consumers. Heineken understands that harmful drinking is a complex societal issue without simple solutions or a one-size-fits-all approach. In the UK, Heineken works with a number of industry associations to tackle harmful consumption and to further promote responsible drinking.

CONFECTIONERY: HEATH FOCUS WITH REFORMULATION TO DECREASE SUGAR CONTENT
The detrimental health impact of overconsumption of sugar is a key driver behind the confectionery sector's plans around reformulation (to cut sugar content in their products), the launching of sugar free/low sugar offerings and also a desire to offer consumers greater transparency via labeling (so shoppers can make informed consumption choices).

CASE STUDY – MONDELĒZ

As part of its 'Right Moment' Portion Control initiative, Cadbury is reviewing the size of its product offerings. In the UK, for example, the company has decreased the calorie count of its chocolate bars (sold in multipacks). Cadbury's parent company Mondelēz has pledged to achieve 20% of its global snack's net revenue from portion control snacks by 2025 and in 2020 had already achieved 16% of this target.



"We must play our part in tackling obesity and are committed to doing so, without compromising on consumer choice...We want to support parents when they choose to give their children a treat and introducing this calorie cap will make it simpler for them to find a treat under 100 calories that children will enjoy."

Louise Stigant, UK Managing Director – Mondelēz International

DLA PIPER INSIGHT

"The alternative protein trends have certainly been met with significant opposition by strong meat and dairy lobbies and challenges presented by a current regulatory structure that is not immediately accepting of innovative food standards of identity. As these products evolve, they are also faced with their own ESG concerns such as heavy metals found inherently in the soil and pesticide prevalence throughout the agricultural community. The food and beverage world has come to learn that all food sources, including alternative proteins, must identify and mitigate ESG concerns."

Stefanie Fogel, Global Co-Chair, Consumer Goods, Food and Retail Sector (US)

"Marketing with a sustainability-angle is all about creating an additional angle for your brands and creating a meaningful engagement with your consumers, on topics they are interested in."

Simon Boas Hoffmeyer, Senior Director, Sustainability – Carlsberg

MEAT/PACKAGED FOOD: ENVIRONMENT AND HEALTH FOCUS ON ALTERNATIVE PROTEIN

Alternative protein is increasingly being positioned as an environmentally friendly and potentially healthier substitute to traditional meats. Carbon emissions and the land requirements associated with traditional livestock farming are receiving greater focus and consumers are seeking to diversify their protein intake. The development of alternative protein currently focuses on plant-based alternatives, with startups initially leading the trend, but quickly followed by established meat producers and the wider packaged food industry launching their own product offerings. Next steps within this trend are the development of lab-grown meat and the potential for insects to play a greater role in protein intake. In December 2020, Singapore became the first country to approve the sale of lab-grown meat with US firm Eat Just being permitted to sell lab-grown chicken in the country. Meanwhile, snack offerings featuring insects are becoming increasingly prevalent in shops in Europe and the US.

Messaging ESG achievements to consumers

Successes around ESG policies are already starting to materialise. Although net zero pledges and stronger societal representation in workforces and at board level, have been set for the 2025-2030 time period, the tracking around these commitments, and so achievements to date, are already starting to be become apparent. At Bacardi, for example, a goal of achieving at least 45% of a female workforce by 2022 has already been achieved and bettered, with the company recording a 47% female workforce in the US in 2019.

But do consumers know these ESG goals have been set and are steadily being reached? Food and drinks companies are implementing two strategies when it comes to advertising around ESG. The first is responsible marketing, aligning advertising initiatives around environmental or social concerns, and the second is ensuring that what companies are doing on tackling environmental and social concerns is being messaged to consumers.

Responsible advertising has been a key area of focus for alcoholic beverage and confectionery companies in particular. Heineken, for example, commits 10% of its marketing budget toward responsible drinking campaigns. The confectionery sector is actively embracing self-regulation advertising initiatives including not advertising their products to children, such as in the Children's Confection Advertising Initiative (CCIA) in the US.

Carlsberg's latest UK advertisements are a good example of 'getting the message out' to consumers, who will probably be unaware of company ESG agendas and what successes they are recording.

CASE STUDY – CARLSBERG

The company's latest UK television adverts feature a seal and a turtle. The seal highlights Carlsberg's partnership with WWF to plant seagrass along the UK coastline, with seagrass able to absorb carbon 35 times faster than a rainforest. The turtle advert shows the creature swimming through the sea and encountering plastic rings (a key environmental concern for brewers), which Carlsberg has ceased using, in favour of holding its beer packs together with Snap Pack technology.

2. ESG employee framework

From the survey's findings, recruitment and retention of talent emerges as a major opportunity for those food and drink companies boasting a successful ESG program. Two core principles emerge as food and drink companies develop an employee- focused ESG framework: **identity** and **participation**.

Companies are creating ESG initiatives that represent employees' concerns, develop a company that employees are proud of and wish to work for and vitally, involving employees across environmental, social and governance issues.

ESG employee framework checklist

CREATING AN ESG COMPANY IDENTITY

- Creation of ESG management structure
- Development of policies to drive a workforce representative of society (e.g. review of hiring and management structure)
- Tracking and reporting (e.g. pay gap, management make up)
- Internal messaging around challenges, commitments, tracking and successes of ESG policy (e.g. ESG report creation, ESG blogs on intranet, Sustainability Town Halls)
- Partnerships and sponsorships with environmental and social NGOs
- Participating in external providers ESG awards/ measurement schemes

EMPLOYEE PARTICIPATION IN ESG

- Creation of focus groups and surveys to understand employee ESG concerns and feedback on policies
- Employee networks (e.g. women, BIPOC)
- Volunteer programs with environmental or social objectives (e.g. river cleanups or literacy tutoring in schools in the community)

Source: Company interviews, Fitch Solutions

The DLA Piper/Fitch Solutions Survey findings on the relationship between ESG and employees are in accord with other surveys. Deloitte's decade-long Millennial and Gen-Z survey series, perhaps one of the most famous, highlights how the employees of today prioritize climate change and the environment. Among this survey's findings is that Millennials rank climate change and the environment as their third greatest concern (after healthcare and disease prevention and unemployment), and Gen-Z continued to rank it in first place in 2021. How companies they work for tackle the environment and other societal concerns is key for Millennials and Gen-Z and as they move higher within companies' managerial structures, the need for a company to have an identity developed around ESG will become even more pertinent and indeed will be driven from within.

Messaging environmental successes to employees

Traditionally, a company's employees are also its consumers. Communicating corporate ESG challenges, pledges and achievements internally is as important as externally messaging what a company is doing to tackle environmental and social issues to consumers. Every food and drink company faces environmental risk exposure, from global carbon emissions and plastic use, to deforestation, water waste and palm oil usage concerns. Highlighting these challenges, creating a strategy to tackle them, measuring progress and recording achievements is where a company's Consumer and Employee frameworks can overlap.

Where a company's ESG employee framework will differ is in encouraging employee participation within a firm's environmental commitments. Volunteer programs, which may already be well established under corporate responsibility, are an important element for the development of specific employee participation initiatives.

CASE STUDY – INTERNATIONAL BEER COMPANY

Via the Environment Think Tank initiative, where employees of the brewer can volunteer to work on sustainability projects outside their current role, the company's strategy not only engages the employees with other teams, driving collaboration, but also enables employees to witness and participate in the firm's sustainability drive across the company's supply chain.

Networks can drive employee social engagement

The impact that a company's operations have on society is a component of the social pillar within the ESG agenda. A company that has a strong ESG employee framework can showcase how it is tackling not just its own role in society but wider societal challenges. Employees want to work for fair and representative companies and management, and, according to our survey, there is a recognition that a failure to include the best talent in this regard is a major concern for the industry.

As with environmental pledges, measurement and tracking are important when developing a social component within an ESG employee framework. While, compared to environmental pledges, social commitments may have been slower to emerge, these are now steadily being rolled out, with tangible objectives and trackable metrics.

CASE STUDY – MONDELĒZ

In 2020 Mondelēz outlined a commitment to double Black representation in its US management by 2024. To enable it to reach this goal the company has set objectives that range from increasing the presence of underrepresented candidates on interview slates, doubling investment in early career programs, including with Historically Black Colleges and Universities, to establishing new mentoring and leadership development schemes for people of color.

The act of supporting and promoting diverse and inclusive networks (e.g. women, BIPOC, Pride) has for many companies been a first step in encouraging employee engagement when developing a workforce culture that is more representative of society. Increasingly, companies are implementing training schemes around social challenges and seeking greater participation from employees on advising leadership.

CASE STUDY – HEINEKEN

In its journey to create a more inclusive, fairer and more equitable company and society, Heineken has set out ambitions for inclusion and diversity (I&D) and fairer, safer workplaces. The brewer believes that embracing I&D is not only the right thing to do for its people, but also essential to be successful as a business – a diverse workforce brings diverse viewpoints and perspectives, leading to better decision making, and better represents the consumer base it serves. The I&D commitments focus on employee engagement, gender balance across senior management and rolling out inclusive leadership training. As it aims to become a truly inclusive organisation, Heineken UK has set-up five colleague-led I&D task forces; LGBTQ+, Gender Equality, Age Inclusion, Disability Inclusion and Race & Ethnicity, supported by a network of hundreds of ambassadors. To create a fairer and safer workplace, Heineken carries out assessments on fair and equal pay for its colleagues, as well as fair living and working standards for 3rd party employees, and is building its leadership capability to ensure zero serious accidents and injuries in its breweries, offices and for field-based colleagues.

Strong governance provides company identity for employees

Governance acts as a display to the investment community about a company's ESG commitments, but it also is a tool for building accountability. As noted earlier from the survey, many companies believe governance is vital in creating the right image externally to consumers, but also internally to employees.

Governance sets the tone for a company's commitments. It is the infrastructure from which companies can undertake specific initiatives and report successes. Governance is a company's ESG identity. In terms of how employee participation can impact governance, we note the above example of Heineken's ESG ambassadors, but also highlight that the creation of governance positions within ESG offers opportunities for existing employees. The development of employee networks offers companies an existing pool of talent, who understand the company, but are also, as members of networks, committed to actioning and aiding a company's ESG strategy.

DLA PIPER INSIGHT

"Engaging employees in discussions at every stage around what the company's ESG strategy should look like and how it should be implemented can be key in ensuring meaningful engagement and buy-in to the company's ultimate strategy. Employees at every level can make the difference in terms of whether a strategy is successful or not."

Helen Colquhoun, Partner, Employment –
DLA Piper, Hong Kong

3. ESG supply chain framework

The development of ESG programs offers companies the opportunity to create operational efficiencies across their supply chains. Greater oversight and specific policies that cover ESG across a company's supply chain also offer firms better protection from legal complications that might arise and so have the potential to damage a company's brand. From the development of global supply chain strategies to the more specific local initiatives the themes of **support** and **engagement** emerge.

Initially, company partnerships with their supply chain partners around ESG may focus on their environmental risk exposure or the identity of their partner's pledges. It will be important to assess the carbon emission pledges of partners as food and drink companies evaluate how its carbon footprint can be contained across the whole supply chain.

This is important because of the food and drink sector's commitments associated with the Greenhouse Gas (GHG) Protocol, which maps out how companies can develop carbon reduction pledges in their own operations and across their full supply chains (Scopes 1, 2 and 3). Food and drink company policies on carbon reduction, which are running to 2025 – 2030 are focusing on how a net zero target can be reached within their own operations (Scopes 1 and 2), but the next step (pledges beyond 2025 – 2030) will be commitments around how companies can reach a net zero target across their whole supply chain (Scope 3).

Reaching Net Zero

SCOPE 1

- Company facilities
- Company vehicles

SCOPE 2

- Purchased heat, electricity, steam and cooling for company use

SCOPE 3

- Purchased goods and services
- Transportation and distribution
- Leased and franchised assets
- Use of sold products
- Waste disposal of sold products
- Waste created during manufacturing
- Business travel and employee commuting

Source: GHG Protocol, Fitch Solutions

Meeting the Scope 3 challenge though supply chain support and engagement

Food and drink companies must now look beyond their direct operations (Scope 1 and 2) and start working on solutions within their wider supply chain in order to draft Scope 3 pledges and commitments. The survey highlighted the challenge ahead, with 6 out of 10 respondents noting that they thought their supply chain was not contributing effectively in tracking performance.

The emphasis on Scope 3 has become even more pertinent as the recent COP26 conference had a specific focus on carbon emission reduction. One of the UK sponsors, mass grocery retailer Sainsbury, used the spotlight of the conference to shorten the timeline for realizing its own net zero carbon commitments (2035) and outline trackable Scope 3 initiatives with a pledged 30% reduction in its Scope 3 carbon emissions by 2030.

Food and drink companies must follow retailers like Sainsbury's and explore how to develop Scope 3 commitments and how to align the need to improve the tracking and reporting of their partners. While the survey highlights just 1 in 5 companies have liaised with businesses in their supply chain on their ESG policies and pledges, some "best in class" ESG supply chain framework examples are already starting to emerge.

Highlighting the need to support existing partners is the work being undertaken to aid the farming communities at the beginning of the food and drink sector's supply chain in order to make their operations more sustainable and protect the environment. There is a specific focus on addressing farming practices, such as deforestation, a practice which is damaging carbon reduction plans.

CASE STUDY – MONDELĒZ

Of Mondelēz's registered Cocoa Life famers globally, 71% have now been mapped, in order to monitor deforestation, and the snack food company has distributed 2.2 million economic shade trees.

Engaging with new sustainable partners is also an important theme as companies focus on their Scope 3 pledges. Heineken, for example, has already outlined its plans to hit net zero within its own production line by 2030. Its next step is its wider supply chain, as it has a commitment to reach net zero across its full value chain, from "barley to bar," by 2040. The company is already starting to address this challenge by focusing on its supply chain's logistics exposure and has started to address this by engaging with partners that are offering carbon neutral transport solutions.

CASE STUDY – HEINEKEN

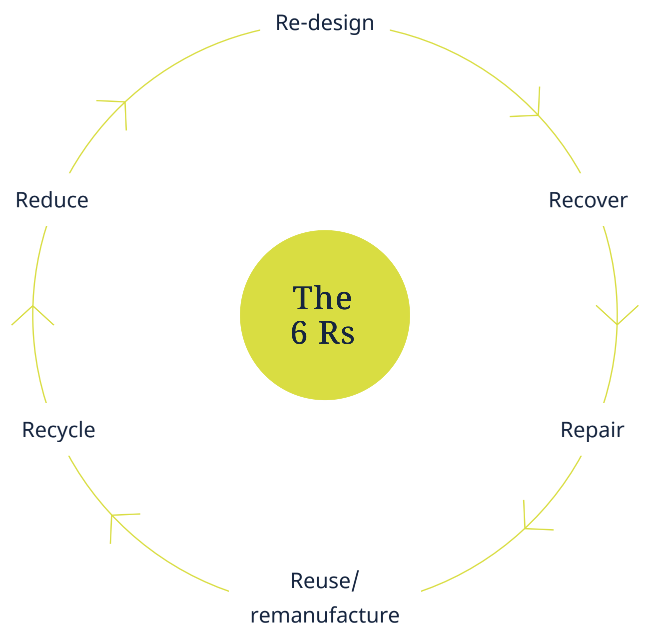
In April 2021, Heineken set out a series of ambitious sustainability commitments as part of its global Brew a Better World strategy. These commitments include reaching net zero within its own global production sites by 2030, and across its full global value chain, from 'barley to bar', by 2040. Within Heineken UK's value chain, the two areas which contribute the most carbon emissions are agriculture and packaging, and the brewer recently undertook a number of pilot projects within the UK to find more sustainable solutions. One trial looked at testing the concept of a low-carbon bottle and consisted of the production of 1.4 million green Heineken® bottles made from 100% recycled glass and low carbon biofuels, the trial resulted in a 95% reduction in the bottles' carbon footprint. And a second trial looked further into the supply chain to explore how one of the main ingredients of beer, barley, can be grown in a more sustainable way to help reduce CO_2 emissions. In the first year of the pilot, 10 UK farmers will be taking part and around 7,000 acres of barley will be grown, yielding up to 25,000 tonnes of grain, enough to brew almost 300 million pints of beer. The Brew a Better World strategy also provides a global framework to reduce waste to zero, to increase circularity of raw materials and to continue to reduce water usage in production as well as protesting watersheds.

Supply chain circular economy initiatives can drive operational efficiencies

While tackling the overarching environment theme of carbon emissions, both within their own operations and across their wider supply chain, food and drink companies also need to examine their environmental risk exposure beyond carbon. All food and drink companies face the global environmental risks associated with plastics (high carbon emissions for the creation of plastic and also the waste and pollution associated with plastic packaging).

A strategy of support and engagement within a company's supply chain is yielding results and the development of circular economy strategies. The 6Rs associated with the circular economy model offer companies, not only strategies for tackling environmental risks, but also the potential for creating operational efficiencies, with plastic waste having the potential to be reused/remanufactured into packaging.

The circular economy



Source: Fitch Solutions

CASE STUDY – BEER COMPANY

An international brewer launched an initiative for 100% utilization of plastic packaging that is reusable, recyclable or compostable by 2025 and is collaborating with its supply chain partners in order to hit this target. The brewer has joined forces with a sustainable waste management system to develop a plastic pelletising facility; these pellets will be used for creating packaging for the alcoholic beverage company's products. The brewer is also planning beyond plastic, examining the development of eco-friendly materials to utilize in the place of plastic containers.

"Climate change is global, but water is very local... we have water risk at 17 of our breweries, we are working to reduce water waste, and ensure water is protected for society, not just our brewing operations."

Simon Boas Hoffmeyer, Senior Director, Sustainability – Carlsberg

Going beyond global initiatives with a local and community focus

The environmental concerns of food and drink companies are also local. Each sub-sector has its own specific environmental risks – be it the use of palm oil in the confectionery sector or deforestation in the meat industry, or water management in the drinks manufacturing sector. Here, the support and engagement with a company's wider supply chain can yield results; for example, drinks companies may work with local water infrastructure firms to decrease water waste.

Local environmental initiatives, however, go beyond a company supporting or engaging with its supply chain to develop operational efficiencies. These local environmental concerns are often the ones that have the greatest impact on local communities. The development of local environmental strategies are therefore really important in supporting and engaging with communities, who ultimately are the workers of these companies and their consumers, creating another circular economy.

CASE STUDY – CARLSBERG

In Vietnam, Carlsberg is targeting its operations to reduce water to ensure people have access to clean water resources. In 2020, the company's Phu Bai brewery installed two new bottle washing facilities that have cut water use from 3.24 to 2.48 hl/hl of beer produced (saving the equivalent of 75 Olympic swimming pools per year).

Out in the community, Carlsberg has partnered with local authorities in Vietnam through the local Huda brand, for the construction of water infrastructure, which has enabled 20,000 people to now have access to clean tap water.

Concluding thoughts

An ESG program may well be a strategic priority, but food and drink businesses must make sure it is an operational priority as well. To do this, every ESG program has to be performance-based so that a company's stakeholders – employees, suppliers, customers or investors – can truly understand, recognize and demonstrate the values of that business. In order for this to happen, an ESG program must **commit** to specific pledges, and it has to be possible to **measure** these pledges, and then it is imperative that a company **discloses** the results of these measurements.

Companies have become very good at making public commitments, but must work much harder on measuring the results of these pledges and then disclosing the impact of ongoing ESG programs. This is especially important for food and drink companies, where there is such a close link between the product, public health and business reputation.

Creating a policy framework around an ESG program – such as the one illustrated in this paper – is a really significant step to ensuring companies act holistically in terms of the commitments they make, the measurements they take and their final disclosure to all stakeholders.

DLA PIPER INSIGHT

"There can be no doubt, now more than ever, that ESG is a strategic priority for the wider Food & Beverage sector where all relevant stakeholder groups of influence are placing greater emphasis – and increasingly informing their decisions upon – ESG imperatives. Long have we observed the shifting proxies for consumer loyalty. Within that mix, not only consumers but other key groups within that stakeholder matrix including investors and workers are choosing businesses, brands and employers based on trust, mutual values and ethical behaviours and are demanding transparency on key areas such as water and ingredient stewardship, land impact, carbon emissions and modern slavery. Growth can no longer be solely for growth's sake – it needs to be sustainable, inclusive and have long-lasting and long-ranging positive impacts on our planet and our people."

Noel Haywood, Global Co-Chair, Consumer Goods, Food and Retail Sector (International)

	Research findings	Impact
1/3	**Fewer than 1 in 3 companies responding to the survey thought they track ESG very well.** Approximately 40% told us that the single biggest obstacle to tracking ESG performance was the lack of an implementation framework.	**Food and drink companies must devise frameworks that set out their priority commitments and how they plan to measure and disclose these pledges.** An ESG program that is not tracked properly or disclosed effectively is worthless.
 38%	**Food and drink companies are very concerned at their brand reputation** – 38% said this is the single most important operational issue facing its business today.	There is a very real concern among food and drink companies about the power held by consumers in creating and then responding to any potential reputational damage. **A clear and transparent ESG policy will highlight a company's identity and business ethics.**
 1/2	Just over half of the food and drink companies responding to the survey think that **an effect of not implementing an ESG program is missing out on talent** and not having a diverse and inclusive workforce.	**ESG commitments can ensure the talent across a business is inclusive meaning the workforce and management truly represent society, which is especially important for the consumer-facing food and drink industry**. Employees also want to work for businesses that don't just do well, but also do good, both within the workforce and also in terms of serving local communities.
2/3	Around 2 in 3 food and drink companies see a **successful ESG policy leading to a more efficient supply chain**. Over 40% of companies are concerned at legal proceedings being taken against them for having an inadequate ESG structure.	The circular economy model allows companies to create operational efficiencies (e.g. reusing plastic waste by remanufacturing into packaging) within their supply chain. **The first line of defence against ESG legal proceedings is the company's supply chain. There needs to be a clear understanding of an ESG program's stated commitments throughout a company's supply chain.**