For directors of companies that issue securities on public markets. Capital at risk.

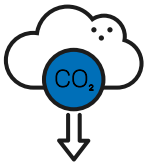
LGIM

Net-zero: Food

25% of human-caused greenhouse gas emissions come from agriculture, forestry, and other land use[1]

What does the **food sector** need to do to reach net-zero?

LGIM will vote and implement investment sanctions against companies falling short of our climate expectations. LGIM expects companies' boards to oversee and publicly disclose answers to the following:



Net-zero commitment

- Does the company have a comprehensive target for net-zero by 2050 or earlier, covering scopes 1, 2 and material scope 3 emissions?[2]
- Has the company made a commitment to certify/certified this target with the SBTi or other external independent parties as it develops?
- Does the company have a net-zero transition plan that includes short- and medium-term targets?[3]

Strategy

- What are the actions and investments involved in the company's plan to reach net-zero, and what is the contribution of each action towards meeting its targets?[4]
- Does the company integrate or promote regenerative agriculture practices within its operations or sourcing?
- Has the company disclosed how much revenue is derived from forest-risk commodities (i.e. cattle, soy, palm oil, timber, rubber, cocoa, coffee) and the % that might be linked to deforestation?
- What strategies are being adopted to influence and promote consumer uptake of low emission/alternative protein product?
- Is executive remuneration aligned with the company's short- and/or medium-term emissions targets, as set out in the net-zero transition plan?
- Does the company's net-zero strategy integrate an assessment of related-nature risk and opportunities, impacts and dependencies – for example, in relation to land use?

Resilience

- Has the company analysed the physical climate risks to its assets, operations, and value chain, including potential financial impacts, and evidenced measures to mitigate or adapt to them?

Targets

- Does the company have targets to reduce or eliminate food loss or waste?
- Does the company have targets to reduce methane and nitrous oxide, and to phase out hydrofluorocarbons (HFCs) from refrigeration along the supply chain?

Collaboration

- How is the company working collaboratively across its value chain to reduce emissions (e.g. with customers, suppliers, strategic R&D partnerships, sector initiatives etc)?
- Is the company advocating meaningful policy action, including from regulators, to meet global net-zero targets (e.g. with carbon pricing)?

Red lines

- Does the company have a public comprehensive zero-deforestation policy including no-land-conversion principles, covering material commodities?
- Does the company disclose its climate-related lobbying/advocacy activities, including trade association memberships, and explain the action it will take if these are not aligned with a 1.5°C scenario?

*The applicability of the expectations varies depending on companies' business models

1. IPCC (2018).
2. Aiming to cover all segments of the business, as articulated within the GHG protocol guidance.
3. Short-term refers to 2022-2025, medium-term 2026-2035 and long-term 2036-2050.
4. E.g., investing in innovation and product development of plant-based and alternative proteins, introduction of technologies to reduce food waste.

Further areas for company consideration

Nature expectations

Why? The climate and nature crises are inextricably linked.[5] Climate change is one of the five direct drivers of nature change. Net-zero requires both emission avoidance and sequestration. Therefore, the inter-dependencies between climate and nature are a critical factor in the transition.

LGIM's expectations: As part of a climate transition plan, companies should integrate an assessment of the related nature risks and opportunities, impacts and dependencies, and appropriate mitigation actions.[6]

Sector-specific considerations: The global food system is the primary driver of biodiversity loss. Impacts could result from habitat clearance for farmland, soil degradation, monoculture environments, overexploitation of species, and widespread pollution.

Company levers

- Lowering animal protein production and promoting plant-based alternatives to reduce land, water and emissions footprint
- Regenerative agriculture
- Lower emission farming practices
- Supply chain monitoring and traceability
- Waste management (animal waste, water, packaging)
- Natural refrigerants
- Consumer education

Government policies

- Farming standards
- Subsidy reform
- Soil restoration
- No deforestation
- Mandatory supply chain certification and traceability
- Local supply chain
- Waste reduction
- Taxation (including carbon pricing)

Challenges

Increasing production without additional land

Crop yield slowdown and soil loss, while reducing fertiliser use

Methane emissions

Lack of supply chain transparency

Dietary shifts

Food and packaging waste and food loss

Opportunities

Growing market for alternative proteins and healthy food options

Cost savings from low-carbon equipment

Reducing public health risks

Improved productivity

What is needed?

Company leadership

Investments in new products and tackling emissions across supply chain, with clear commitments to net-zero

Research and innovation

Protein alternatives

Packaging and waste

Regenerative agricultural practices

Consumer behaviour

Consumers adopting plant-based alternatives

5. UN IPCC-IPEBS, Biodiversity and Climate Change workshop report (2021)
6. LGIM's Nature Framework can be accessed here

Sources of emissions

'Scope 3' Upstream

Indirect GHG emissions from a company's supply chain, including deforestation, land use change and farming practices

'Scope 1'

Direct GHG emissions from operations including fossil fuels used for buildings, machinery, refrigeration, preparation and transport

'Scope 2'

Indirect GHG emissions from purchased energy

'Scope 3' Downstream

Indirect GHG emissions from food preparation, packaging, deliveries and waste

Sources: IPCC (2018)

'Just Transition' considerations

The potential implications for employees, the supply chain, customers and communities from the transition to a lower-carbon business model

Alternatives to fertilisers/plastics may raise costs of food and other key commodities

Physical risk impacts

Disruption to global food supply

Weather-caused accidents (leaks, fires, explosions)

Water scarcity

For more information and to see how companies are rated

LGIM Climate Impact Pledge score

LGIM Climate Impact Pledge

Important information
Source: LGIM as at October 2024. The value of an investment and any income taken from it is not guaranteed and can go down as well as up, and the investor may get back less than the original amount invested. The above information does not constitute a recommendation to buy or sell any security.