CDP workshop for Food and Beverage Producers on *Disclosing and handling water risk in agricultural supply chains*, hosted by Norges Bank Investment Management

In June 2018 CDP invited key investors and companies in the Food and Beverage sectors to come together for a half-day workshop, hosted by NBIM. The workshop was an in-person event at NBIM's London and New York offices, connected via videolink. The aim was to help companies in the food and beverage sector build knowledge and exchange experiences to better understand and handle water risks in their agricultural supply chains. This was achieved through contributions from leading investors and F&B companies followed by a moderated conversation between the participants. The event was held under the Chatham House Rule, and included representatives from AB InBev, Brown-Forman Corporation, Bunge, Campbell Soup, Coca-Cola, Danone, Hermes Investment Management, Mars, Pernod Ricard, PRI, and Schroders. In this document we provide a summary of the key messages discussed in each portion of the workshop.

Three key topics of discussion which are further detailed in this document are:

- A broad recognition from all participants of the **high-level work that's needed to manage and mitigate water risk in supply chains**. This includes the collective action of working with stakeholders when facing water issues in the same river basin; corporates engaging to support better water policies and laws at the federal and local level; and distinctively for Food and Beverage supply chains, tackling water issues under the broader umbrella of sustainable agriculture.
- **Investors and corporates shared their perspectives on water risks and transparency.** Investor participants shared real-world examples, such as how in certain cases they weight companies with sound water management practices more highly than peers in investment recommendations. The corporate participants were glad to hear if and how their data was used, but also urged caution due to the lack of comparable metrics for agricultural supply chains. They also noted concerns about being transparent about risk when it could negatively impact their attractiveness as an investment.
- **Moving beyond the high-level work initially discussed, a deeper conversation on more tangible ways forward touched on building trust, metrics, and innovation**. This included suggestions on building trust between investors and companies on ESG issues to encourage companies that disclosing risk data is viewed favorably by most investors. A discussion of better metrics led to topics such as Context-Based Water Targets and "water made available" to communicate the contribution of any one intervention to the health of a river basin. Opportunities and innovation are also front of mind, with participants discussing the role of synthetic meat and feed for meat.

Opening Presentation

Gemma James, Senior Manager, Environmental Issues at UNPRI started the day with key findings from PRI's recent report, Investor guide on water risks in agricultural supply chains.

Discussion:

- Why should investors expect companies to influence water governance? How can companies influence the relationship between water stress and water policies at a local or federal level?

- There is wide recognition among participants that worsening water security is a symptom of poor water governance in most geographies. As a result, companies are facing a range of political and regulatory risks stemming from either a lack of or changing regulation. In order to fundamentally address water risks, companies will need to be aware of this landscape and engage in legitimate and transparent ways to support better governance outcomes.
- Some companies have intervened in positive ways in California, leading to more robust groundwater policies.

- There is a need for local collective action to address water risks. Companies acting alone risk becoming clean fish in dirty ponds. What have been the experiences of this around the table?
  - Some companies are trying to work with peers when tackling water issues in the same river basin. This sort of collaboration works best when companies are not in direct competition with each other – i.e. from across a range of sectors. In some sectors, staff are actively incentivized to outperform their peers in competitor companies. Collaborating on water therefore requires a cultural shift and a consideration of new incentives for local staff.
  - Even where collaboration is possible, the water challenges are not always the same, nor the location of each factory – basin vs sub basin. For example, the challenge upstream in a basin may be water scarcity, whereas downstream the larger challenge is water quality due to pollutant discharge locations in the middle.

<u>Conversation 1 | Investor expectations and data needs</u>
Wilhelm Mohn, Head of Sustainability Initiatives, Corporate Governance, NBIM
Elly Irving, ESG Analyst, Schroders

<u>Discussion:</u>
- How are investors using the data, and what difference does all this disclosure and benchmarking make?
  - A range of real world examples were provided by the investor participants, including engagement and weighting companies with sound water management practices more highly than peers in investment recommendations. Another example was of investment analysis that looks for potential red flags using CDP data. For example, using the capex data to identify laggards: companies not investing in water-related projects now may have to invest more in the future.
  - Tools exist that enable an investor to establish corporate water risk exposure without any primary corporate data. In other words, analysis of company exposure and performance is happening with or without company primary data. Better to disclose and have the conclusions that investors reach about companies based on sound data.
  - One on one conversations with individual investors that build upon what's been disclosed have been very helpful for some companies to find out what issues they're very concerned about.
  - The current challenge is a lack of meaningful metrics which provide context and insight for investors related to the management of water risks in agricultural supply chains. The institutional investor perspective is that not only more data is required

but more of the right data. Companies discussed a variety of potential metrics to better understand impact in the third conversation.

Data comparability

- Company participants noted that it is not always appropriate for investors to compare companies to other companies, as a risk for one may not apply, or even be an opportunity, to another. Even when measuring metrics such as efficiency, it is difficult to provide a general figure as efficiency is different across products and the geographic context of efficiency matters.
- These comparisons can make companies nervous about sharing data with investors, particularly around risks. It is therefore important that investors show how the data is used in order to build trust and encourage more companies to disclose risk data.
- Delivering geographically specific data and outcomes is not always easy but investors felt that companies should be able to provide data associated with the way in which the supply chain functions and what the company is doing at an enterprise level to ensure resilience.

Risk

- A corporate participant stated that water risk is dependent on so many variables, and there are a variety of views of where risks and opportunities lie at each step of the supply chain. It was noted that CDP's ranking does not rank a company's risk exposure, but instead focuses on the management and governance responses to water.
- Investors are aware that risk exists–the world is a risky place–what they're really looking for are those companies unaware of risk exposure, coupled with those companies that have no water management plan in place. Being exposed to water risks is alright, not having a plan in place to address those risks is far from alright!

- Where does the investor community see its role beyond asking for more data in addressing better water stewardship? What are they doing?
    - We are now seeing bank lending practices that are incentivizing better sustainability outcomes – this is an interesting and exciting development for all.
    - CDP will be releasing a financial sector questionnaire in 2019 that will drive greater disclosure and action amongst institutional investors. The questionnaire will request data points such as bank lending practices.

<u>Conversation 2 | Current trends: water action in Food and Beverage companies</u>

Cate Lamb, Director of Water Security, CDP

<u>Discussion:</u>

Sustainable supply chains

- The key conversation around sustainable supply chains must deliver value and impact at the farmer level because water use is very much linked to good farming practices. Good farming practices are dependent on a number of factors under the umbrella of sustainable agriculture, *including* water management. There needs to be more collaboration between brands and farmers to create the enabling environment for farmers to use more sustainable farming practices.

- In order to galvanize action, a single company's supply chain efforts cannot be the only method. Standards, policies and certifications also need to be part of the conversation.
- It's important that the process of ensuring sustainable supply chains is also elevated – meaning, a sustainability team should be actively engaging with their procurement teams in order to embed water-related principles and incentives into the core business.
- Supplier engagement is very complex when companies do not have a vertically integrated supply chain. Companies in the middle of the value chain have an important role in navigating the complexity for their clients and are coming under increasing pressure to do so.
- When it comes to peer companies changing their strategy, they are primarily changing due to reputational drivers. Public commitments are a good step, but they may not always be aimed at the high-impact areas of the business.
- Other parts of the food industry, such as the private labels in retail stores and the meat processing industry, are also not as participatory as they should be.

Risk assessment and targets

- Not every company assesses risks and opportunities in the same way.
    - It would be helpful to understand the scope of what a "substantive" risk would be.
    - The issue is that there is no "GHG protocol" for water nor standardized water risk assessment process.
- Science-based targets and context-based water targets (CBWT) are potential tools to enable investors to determine how prepared a company is and how a company is contributing to solutions.
- The concept of a company contributing their "fair share" to the solution should be more clearly specified. Does "fair share" mean action within a company's operations? Or their supply chains?
- Water is also a temporal issue, so your "fair share" may not be the same next year.
- It was noted by CDP that the CBWT approach is under development, it avoids terms such as "fair share". It is currently being piloted and the lessons learned will influence the approach.

Conversation 3 | Responding to and disclosing water risks in agricultural supply chains

Ian Knight, Global Sustainability Senior Manager, Mars
Ulrike Sapiro, Senior Director, Water Stewardship & Agriculture, The Coca-Cola Company
Frances Way, Chief Strategy Officer, CDP

Discussion:

- There is progress on understanding impact, but not enough.
    - Potential new metric to understand impact is "water made available". This is a metric being developed by WRI that will enable a site to communicate the contribution of any one intervention to the health of a river basin.
    - A company suggested that will know when it has succeeded when the river basin and all dependent upon it are "water secure".

- One of the challenges is where to go forward with replenishment projects and tying it to outcomes, risks and opportunities. How do you know when you have done enough?
- The role of allocation can be based on location, and it can also be used as a political tool. The decisions around water allocation are rarely science-based, a la the move to science-based targets for carbon. This is the situation most companies are trying to avoid – the removal or reduction of their water allocation rights.
- Corporates noted they not only have to think about the impact of their main products but also of the ingredients and variables associated with that product. Visibility and traceability are still issues.

- What does the future hold for companies facing water challenges? What do the business models of the future look like?
  - Optimizing water use efficiency is first. When this has been exhausted and if problems persist, moving operations to a less water-stressed area may be an answer; however, the disadvantages in this are that a company may lose long established relationships in the original area or that the product cannot be grown anywhere else.
  - The future of food and other agricultural commodities is an exciting one. Innovation is needed if we are to meet demands and in the near future, the role of synthetic meats or synthetic feed for meat will likely rise.
  - Companies must not lose sight of their own business practices, procedures and governance decisions in building resilience.
  - Water security has to not only be a board priority, but also a community priority, if the area wants to see solutions.