

# UNCOVERING THE STATE OF SUSTAINABILITY REPORTING

Insights from sustainability reporting in  
the Food & Agriculture industry



A INSIGHTS

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## What is ESG Reporting?

ESG is the acronym for **E**nvironment, **S**ocial, and **G**overnance. It's a way for companies to share information about their sustainability and ethical practices with investors and stakeholders. By reporting on these aspects, companies can promote transparency and accountability within their organization.

ESG reporting covers various topics, including:

- **Environment**, including climate change, pollution prevention, sustainable resource use, water usage, and biodiversity.
- **Social**, including respect for human rights, as well as hiring and working practices.
- **Governance**, including corporate governance, managing ESG risk, and preventing corruption.

As part of the Environmental aspect, sustainability reporting is a subset of ESG reporting. For our analysis, we specifically study CO<sub>2</sub>-eq emissions and use the term "sustainability reporting" to refer to this aspect of ESG reporting.

# INTRODUCTION

As the United Kingdom is rolling out mandatory sustainability reporting since April 2023, companies worldwide are becoming increasingly aware of the importance of this practice. Besides, the growing awareness of the impact of human activity on the planet has led to increasing demand from various parties, including:

1. **Stakeholders pressure.** Consumers, employees, and investors are increasingly requiring companies to align their sustainability impact to the urgency of the situation.
2. **Long-term business success.** Incorporating more than financial KPIs such as water reduction or energy use in long-term strategy plans is becoming more and more widespread knowledge.
3. **Increasing regulations.** Governments from around the world are slowly requiring companies to incorporate ESG reporting into their annual reports.

Sustainability reporting is therefore no longer just a nice-to-have; it's become a strategic imperative for organizations that want to reduce risks, meet stakeholders' demands, and create long-term value by improving the company's reputation or attracting new customers.

## Navigating new ESG regulations

As mandatory ESG reporting (see *left* for more details on the terminology) is set to be implemented, companies are faced with navigating the complex landscape of regulations. While many frameworks are available, most countries have based their regulations about sustainability reporting on the TCFD framework (see *here*). This set of standardized recommendations for companies focuses on four core elements: governance, strategy, risk management, and metrics and targets.

Standardized regulations are expected to facilitate comparability and accountability among companies. However, there is still variation in what is mandatory and voluntary. For example, companies can expect mandatory metrics to include greenhouse gas emissions, water use, and biodiversity impact. Voluntary metrics may include data on employee turnover, diversity, and human rights impacts.



### What is the TCFD framework?

The **T**ask Force on **C**limate-related **F**inancial **D**isclosure is a framework that guides companies and organizations to report on their global climate impact. It breaks down a company's climate-related risks into two main categories:

1. **Physical risks**, such as extreme or chronic weather events.
2. **Transitional risks**, such as greenhouse gas (GHG) emissions, carbon tax policies, or energy and fuel costs.

It's important to note that the timing and scope of these regulations vary significantly among countries, and the start of being required to report on these metrics is dependent on factors such as a company's size. Larger companies may be subject to more extensive reporting requirements. For a comprehensive overview of which companies are required to start filing ESG reports and when, consult our timeline here.

## Understanding the current state of sustainability reporting

In this report, we aim to provide you with a comprehensive overview of the current state of sustainability reporting. While sustainability reporting is adopted worldwide and by every sector, our analysis focuses on three geographical areas – namely the EU, US, and Oceania – with a deep dive into the Food & Agriculture sector and a focus on CO<sub>2</sub>-eq emissions.

Our report highlights the fragmented and inconsistent nature of current reporting practices, and provides valuable insights and recommendations for improving and understanding sustainability reporting practices. By reading this report, you will gain a better understanding of the challenges in setting targets and achieving comparability, as well as the importance of understanding the metrics used in sustainability reporting.

# Sustainability reporting is becoming mandatory. Discover the timeline for mandatory filing by companies in the EU, UK, and US.



**2023**

Premium listed companies

**2024**

Wider scope of listed companies

Large listed companies

**2025**

NFRD (listed) companies

Other UK-authorized asset managers

Smaller listed companies

**2026**

Other large companies

Other occupational pension schemes

Scope 3 filing required

**2027**


Listed SMEs, small and non-complex credit institutions

**2028**

Non-EU undertakings with net turnovers > 150mio

## Sustainability frameworks

TCFD: EU, UK | Undetermined: US



# CHAPTER 1: CURRENT SUSTAINABILITY REPORTING IS COMPLEX AND FRAGMENTED

## From a marketing tool to a valuable business asset

Sustainability reporting is slowly becoming a norm for companies around the world. But its application differs wildly among countries and organizations. We can pinpoint two reasons for this:

- 1. Sustainability reporting standards are not set in stone.** Quite the opposite, as they either don't exist or are constantly evolving due to the need for improvement and understanding of current methodologies.
- 2. Sustainability reporting doesn't serve the same purpose for every company.** Whereas some companies integrate sustainability into their strategic plans and extensively report on it in their annual reports, others view sustainability reporting as a mere checkbox to tick off – a marketing tool. In these cases, the report may showcase a reduction of emissions without any context, providing little insight in the end.

On top of being fragmented, sustainability reporting is inconsequent. Some companies file sustainability reports in some years, but not in others. Some years, they may provide information on their total emissions, but neglect to report in other years, preventing internal and external parties from tracking progress.



### How do Greenhouse gas (GHG), CO<sub>2</sub>, and carbon relate to CO<sub>2</sub>-eq emissions?

Greenhouse gases, like carbon dioxide (CO<sub>2</sub>), trap heat in the Earth's atmosphere and cause climate change. **CO<sub>2</sub> is the main contributor, responsible for about 80% of total greenhouse gas emissions.** To compare the impact of other greenhouse gases with CO<sub>2</sub>, a standardized metric called CO<sub>2</sub>-eq (carbon dioxide equivalent) is used over a specific period. This metric allows for a more meaningful comparison of the impact of emissions from different greenhouse gases.


In addition to the first reason mentioned above, not every country or region bases their sustainability reporting on the same framework, causing variations in their reporting. For example, two comparable dairy companies – the **Danish cooperative Arla** and the **US-based cooperative Dairy Farmers of America** – show a wide difference in reporting. While Arla focuses on a wide variety of metrics and with great transparency, Dairy Farmer of America mainly reports on explaining its set targets.

## Bringing down CO<sub>2</sub>-eq emissions: a common but incomparable objective?

When it comes to sustainability reporting, companies often focus on one key objective: reducing CO<sub>2</sub>-eq emissions.

However, two essential aspects need to be considered to understand a company's approach to achieving this goal:

- 1. Industry-specific strategies.** The most effective methods for reducing emissions can vary depending on the sector. For example, dairy-processing companies may focus on establishing agreements with dairy farmers, while energy-intensive sectors like potato processing may prioritize reducing energy intensity within their operations.
- 2. Metrics and KPIs.** Merely comparing a company's CO<sub>2</sub>-eq emissions to its revenue (CO<sub>2</sub>-eq/revenue) provides an incomplete picture. This approach may be misleading, especially in the current inflationary environment, which can artificially boost revenues and allow companies to achieve their goals without necessarily reducing their CO<sub>2</sub>-eq emissions. A more comprehensive understanding of a company's metrics and KPIs is necessary to track its progress toward reducing emissions.



# CHAPTER 2: KEY FINDINGS FROM CURRENT SUSTAINABILITY REPORTING

We conducted a thorough analysis within the Food & Agriculture industry, specifically focusing on processors. To provide a comprehensive overview, we first mapped large producers in four industries: Fruit & Vegetable, Dairy, Potato, and Bakery. Our data gathering efforts primarily focused on companies in Europe, Oceania, and North America.

## Finding 1: Setting sound emission-reduction goals requires a deep understanding of the industry

- Understanding the sources of greenhouse gas emissions is crucial for companies looking to reduce their environmental impact. In the food and agriculture sector, **different producers have varying emissions intensity levels in different scopes (see here) and, therefore, different opportunities for emission reductions.**
  - For example, dairy producers like **Arla** and **FrieslandCampina** can make significant progress by focusing on their dairy farmers and purchased products, as these account for **over 65%** of the total emissions for these companies.
  - Potato producers, on the other hand, have lower emissions from animal agriculture but **greater energy usage per unit of product.**
- 



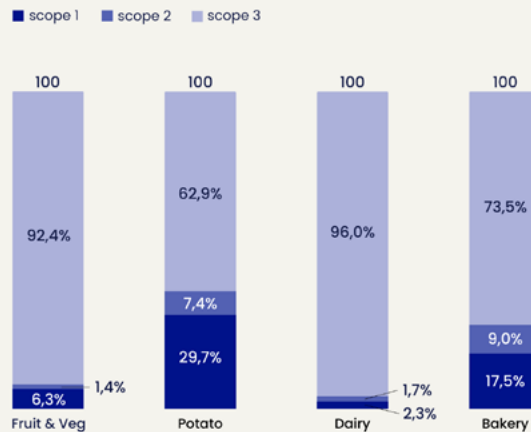


## Understanding Energy Intensity

Energy intensity is a way of measuring how much energy a company or industry uses to produce something. **Energy intensity is often measured in gigajoules (GJ) per tonne of product**, which means how much energy was used to make one tonne of product. For instance, if a company used 100,000 GJ of energy to make 1,000 tonnes of product, then the energy intensity of their operations would be 100 GJ/tonne.

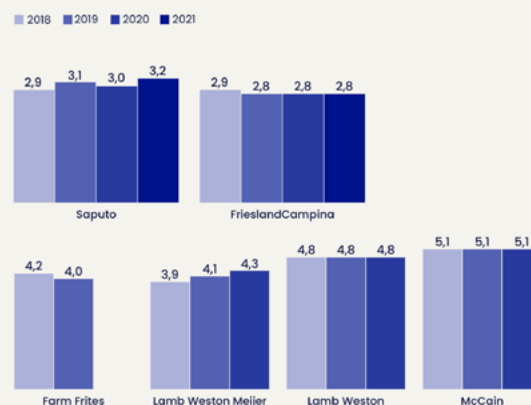
- **Companies must know the sources of their emissions.** Figure 1 reveals the variation among food and agriculture producers, and the areas where they can make the most progress, influencing the goals they set for cutting emissions.

Figure 1: Emission spread for processors in 2021 per industry (2021)



- All processors can benefit from a holistic view of goal-setting and collaborating with partners in their value chain to bring down scope 3 emissions. However, **processors in energy-intensive industries such as Bakery and Potato still have much to gain from reducing emissions in scopes 1 and 2.**
- **FrieslandCampina and Arla report over 95% of emissions in scope 3**, driven primarily by the emissions of their dairy farmers or purchased dairy. It makes sense for Arla to set a reduction target of its CO<sub>2</sub>-eq per kg of milk and whey of 30% by 2030 (compared to 2015).
- **Potato processors require more energy for processing than dairy processors** because of the washing, peeling, slicing, cooking, and freezing of potatoes. Dairy processing involves less energy-intensive steps, such as pasteurization and packaging. Figures 2 & 3 illustrate these differences in energy intensity.

Figures 2 & 3: Energy intensity (GJ/tonne product)



- **Companies in Europe tend to be more energy efficient due to increased regulations and monetary incentives**, as seen in the analyzed US and European entities for **Lamb Weston (US)** and **Lamb Weston Meijer (EU)** in Figures 2 & 3, highlighting a geographical divide on the question.



### Understanding Scopes 1, 2, and 3.

Scope 1, 2, and 3 are different types of emissions that organizations need to consider when measuring their environmental impact.

- **Scope 1 emissions** are direct emissions from sources that are owned or controlled by the organization, such as from fuel combustion in boilers or company-owned vehicles.
- **Scope 2 emissions** are indirect emissions from the generation of purchased energy, like electricity, heat, or steam that an organization uses.
- **Scope 3 emissions** are all other indirect emissions that occur in an organization's value chain, including emissions from the production of purchased goods and services, transportation of goods, and employee commuting. Scope 3 is usually divided into upstream emissions (the company's supply chain) and downstream emissions (the company's customers).

By tracking all three scopes, organizations can get a complete picture of their carbon footprint and work towards reducing their impact on the environment.

**Figure 4: Example of a supply chain and respective scopes in the Dairy industry**

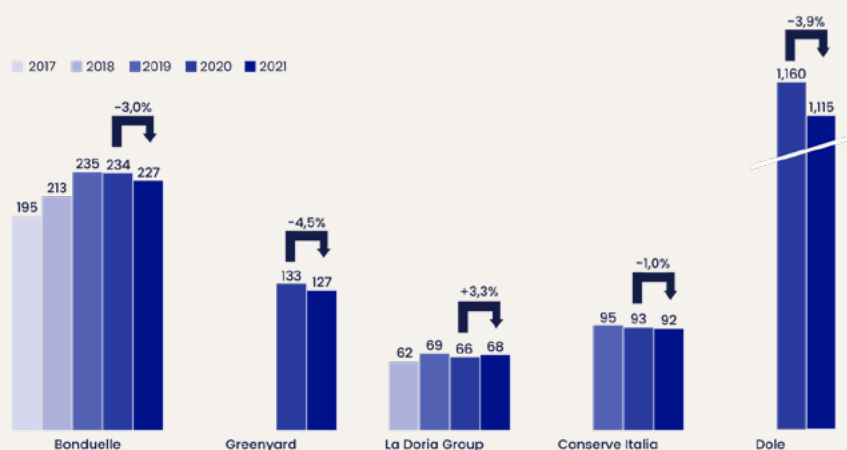


## Finding 2: Understanding the metrics is key to setting emission-reduction goals

### Reducing CO<sub>2</sub>-eq emissions over time

- Companies in the Fruit & Vegetable industry (but not limited to it) set different goals for reducing emissions, even when operating in the same sector. **To set effective emission-reduction targets, companies must understand metrics such as scope 1 and scope 2 emissions.** In this regard, we analyze these metrics for a few processors in the industry to gain a better understanding.
- Figure 5 shows **Greenyard** has reduced its emissions by the most compared to the year prior, with a decrease of 4.5%, while **La Doria Group**'s emissions have gone up by 3.3%. The company with the highest absolute emissions was **Dole**, with 1,115 tCO<sub>2</sub>-eq emissions, but they reported a reduction of 3.9%.

Figure 5: Total scopes 1 & 2 emissions from F&V players

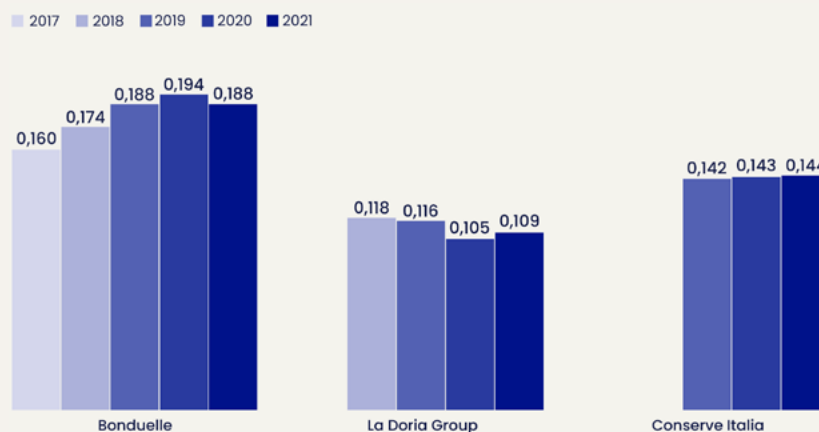


- However, **absolute emissions don't tell the whole story.** Without putting the emissions into context, we don't know if the changes are due to volumes, acquisitions, divestments, or genuine efforts to reduce emissions.

## Using volume as a benchmark for emissions comparison

- Companies sometimes use emissions relative to net sales (CO<sub>2</sub>/revenue) as a benchmark to track their progress. However, **this metric can be misleading during times of inflation, as it may appear that emissions are decreasing when in fact they are not.** This is because revenues can increase even if emissions stay the same or even rise. As a result, it's important to consider the impact of inflation on this metric when analyzing reported emissions.
- To understand the efficiency of related companies, it is better to compare their emissions to the volume of products they produce. Figure 6 shows CO<sub>2</sub>-eq emissions per tonne of produced product for F&A processors. **La Doria** had the lowest emissions per produced product in 2021 at 0.109 tCO<sub>2</sub>-eq per tonne, possibly because they produce fewer conserves than **Bonduelle** and **Conserve Italia**. Although Conserve Italia's total emissions decreased slightly (as in Figure 5), their emissions per product may have increased due to a drop in total product production.

Figure 6: Emission per produced product (tCO<sub>2</sub>-e/tonne produced product)



- It is important to note that emissions per produced product only help to benchmark companies, and do not provide information on waste or other sustainability goals. **It is crucial to understand the full context and production process of a company when benchmarking.**



### Market-based v.s. location-based and RECs:

There are two types of emissions: market-based and location-based.

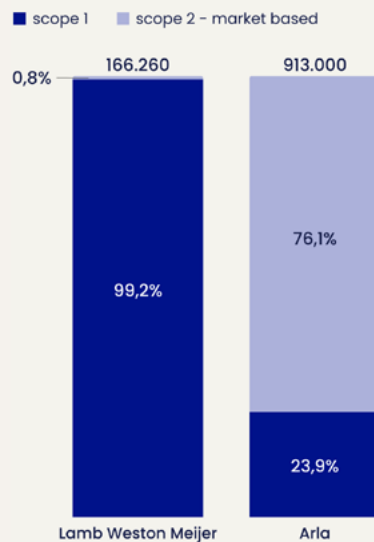
- **Market-based emissions** are based on the emissions factors of the specific electricity generation sources from which an organization has purchased renewable energy certificates (RECs) or carbon offsets.
- **Location-based emissions** are based on the average emissions factor of the electricity grid in the location where the organization operates.

In short, Market-based emissions incentivize the development of renewable energy projects, while location-based emissions measure an organization's impact on the local environment.

## Comparing emissions: market-based vs. location-based approaches

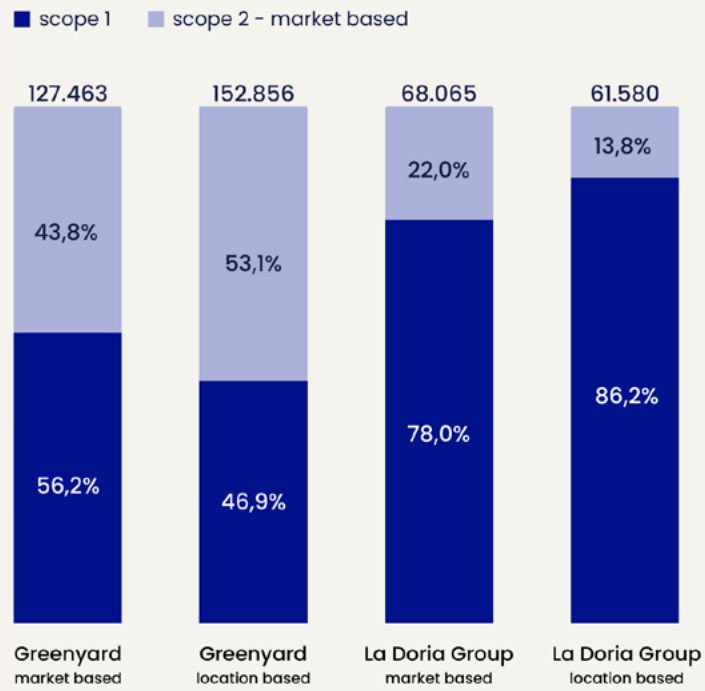
- When it comes to bringing down reported emissions, **Lamb Weston Meijer** and **Arla** take different approaches, as shown in Figure 7. While Lamb Weston Meijer uses RECs (Renewable Energy Certificates) to bring down their emissions to almost zero, Arla chooses not to use this strategy. It's important to keep in mind that **without understanding their different strategies, one might assume that Arla is doing worse than Lamb Weston Meijer in reducing their emissions.**

Figure 7: Lamb Weston Meijer & Arla scopes 1 and 2 emissions



- The difference between market-based and location-based emissions highlights the importance of understanding these metrics. Figure 8 shows that a company can report two different CO<sub>2</sub>-eq emissions in the same year. **It is difficult to say which metric is better to look at, as a company can have a higher location-based emission due to a factory's location or lower market-based emissions with the use of REC's.** Factors such as the factory's history and transportation also contribute to emissions down the line.

Figure 8: Location-based versus market-based emissions (2021)



## The key insights

- **Sustainability reporting standards are constantly evolving**, and the purpose of sustainability reporting differs from company to company.
- **Sustainability reporting is often fragmented and inconsequential**, and since not every region uses the same reporting framework, comparability is a challenge. However, as regulations are implemented, the practice may become more standardized and comparable.
- While many companies strive to reduce CO<sub>2</sub>-eq emissions, **it is essential to consider industry-specific dynamics and metrics** to truly assess progress towards achieving this goal.
- **Understanding the sources of greenhouse gas emissions is crucial for companies looking to reduce their environmental impact** in the food and agriculture sector, as different producers have varying emissions intensity levels and, therefore, different opportunities for emission reductions.
- **Companies must take a holistic view of goal-setting and collaborating with partners in their value chain to bring down scope 3 emissions**, and processors in energy-intensive industries such as Bakery and Potato still have much to gain from reducing emissions in scopes 1 and 2.
- **Comparing emissions relative to net sales or amount of product produced** can provide a more accurate picture of a company's efficiency in reducing emissions.
- **It is important to understand the full context and production process of a company when benchmarking emissions** and to consider differences in reporting strategies and metrics such as market-based and location-based emissions.

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