17 MAY 2022

FOOD & BEVERAGE

AGRICULTURAL PRODUCTS

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Industry Sustainability Best Practices

SASB GUIDELINES

AGRICULTURE PRODUCTS

The Agricultural Products industry is engaged in processing, trading, and distributing vegetables and fruits, and producing and milling agricultural commodities such as grains, sugar, consumable oils, maize, soybeans, and animal feed. Agricultural products are sold directly to consumers and to businesses for use in consumer and industrial products. Companies in the industry typically purchase agricultural products from entities that grow such products (either directly or indirectly) to then conduct value-adding activities (e.g., processing, trading, distributing, and milling). Agricultural products companies are also involved in wholesale and distribution. Companies in the industry may source a substantial portion of agricultural commodities from third-party growers in various countries. Therefore, managing sustainability risks within the supply chain is critical to securing a reliable supply of raw materials and reducing the risk of price increases and volatility over the long term.

DIFFERENT SUSTAINABILITY RISKS AND OPPORTUNITIES DIMENSIONS

Greenhouse Gas Emissions

Companies in the Agricultural Products industry generate direct greenhouse gas (GHG) emissions from the processing and transportation of goods via land and sea freight operations. Emissions regulations may increase the cost of capital, operational costs, and affect the operational efficiency of companies that do not have strategies in place to manage GHG emissions. Employing innovative technologies that use alternative fuels and energy inputs—including biomass waste generated from internal processes—and improving fuel efficiency are ways companies can limit exposure to volatile fuel pricing, supply

disruptions, future regulatory costs, and other potential consequences of GHG emissions.

Energy Management

Processing and milling agricultural products requires substantial energy input. While some agricultural products companies generate energy on-site through the direct combustion of fossil fuels and/or biomass, most energy is procured from the electrical grid. Energy consumption contributes to environmental impacts, including climate change and pollution. Energy management affects current and future costs of operation. Climate regulation and other sustainability factors could result in higher and/or more volatile electricity and fuel prices, increasing operating costs for agricultural products companies. Therefore, energy efficiency gained through process improvements can lower operating costs. The tradeoff between on-site versus grid-sourced electricity as well as the use of alternative energy can play important roles in influencing both the long-term cost and reliability of a company's energy supply and the extent of regulatory impact from direct versus indirect emissions.

Water Management

The Agricultural Products industry relies on water for processing activities, and companies in the industry also typically generate wastewater, or effluent. The availability of water, due to physical availability and/or regulatory access, directly impacts the industry's ability to efficiently operate processing facilities. Companies in the industry are increasingly exposed to water-related risks and regulations, which may increase capital expenditure costs, operating costs, remediation costs, and/or potential fines. Companies can manage water-related risks and opportunities and mitigate long-term costs through capital investments and assessment of facility locations relative to water scarcity risks,

improvements to operational efficiency, and work with regulators and communities on issues related to water access and effluent.

Food Safety

Agricultural products are either sold directly to consumers in raw form or are further processed before reaching consumers. Maintaining product quality and safety is critical, as contamination by pathogens, chemicals, or spoilage presents serious human and animal health risks. Contamination may result from poor farming, transport, storage, or handling practices. Food quality and safety issues can lead to consumer-driven demand changes and regulatory action. Product recalls can harm brand reputation, reduce revenues, and lead to costly fines. Obtaining food safety certifications or ensuring suppliers meet food safety guidelines may help companies in the industry safeguard against product safety risks and communicate the quality of their products to buyers.

Workforce Health & Safety

Industrial processes used in the Agricultural Products industry present significant occupational hazards. Employees are engaged in many labor-intensive activities. Common hazards include falls, transportation accidents, equipment-related accidents, and heat-related illness or injury, among others. Violations of health and safety standards could result in monetary penalties and costs for corrective actions. High injury rates, particularly fatality rates, may indicate a weak governance structure and a weak workplace safety culture, as well as lead to significant reputational harm. Strong performance on managing workforce health and safety can help build brand image while promoting worker morale, which may lead to increased productivity, reduced worker turnover, and enhanced community relations.

Environmental & Social Impacts of Ingredient Supply Chain

Agricultural products companies source agricultural inputs from a large number of suppliers. How companies in the industry screen, monitor, and engage with suppliers on environmental and social topics may impact consumer demand, reputational risks, and the ability of companies to effectively manage their crop supply and respond to price fluctuations. Supply chain management issues related to labor, environmental practices, ethics, or corruption may result in regulatory fines and/or increased long-term operational costs for companies. Similarly, agricultural products companies may face reputational damage if their suppliers perform poorly on environmental or social issues. Companies can mitigate these risks and potentially increase consumer demand or capture new market opportunities by engaging with key suppliers to implement sustainable agricultural practices or source from certified suppliers.

GMO Management

Agricultural products developed using genetically modified organism (GMO) technology have gained increasing consumer interest. While GMO technology has, in many cases, enabled improvements in crop yield through development of disease or drought resistant traits in plants, there is increasing consumer concern on the perceived health, environmental, and/or social impacts related to the cultivation and consumption of GMOs. Certain countries and geographic regions have also enacted regulations that ban the usage or cultivation of GMOs. Food and beverage companies along the food supply chain, including companies in this industry, are seeking effective means to assess GMO-related risks and opportunities, and communicate with consumers on the

topic. Agricultural products companies that are able to meet changing consumer trends and regulatory changes through their product mix or effective communications may reduce potential reputational risks and revenue loss as well as capture new market share opportunities.

Ingredient Sourcing

Agricultural products companies source a wide variety of commodities and ingredients from farmers and/or intermediary distributors. The industry's ability to reliably source ingredients at desired price points fluctuates with crop yield, which may be affected by climate change, water scarcity, land management, and other resource scarcity considerations. Companies that source more productive and less resource-intensive crops, or those that work closely with suppliers to increase their adaptability to climate change and other resource scarcity risks, will be better protected from volatility in crop prices and from disruptions in crop supplies. Additionally, companies may improve their brand reputation and develop new market opportunities. Failure to effectively manage sourcing risks can lead to higher costs of capital, reduced margins, and constrained revenue growth.