

[To: CEO, CC: Head of Sustainability]

January 25th, 2019

Dear [CEO name],

Subject: **Managing Animal Protein Sourcing Risks**

We are writing to you as investors with more than \$6.5 trillion in combined assets regarding the possible environmental risks associated with [company's] meat and dairy supply chains.

Over the past decade, [company] has seen phenomenal global growth, and currently has over XX restaurants worldwide. With operations in over XX countries, [company] has an extensive global footprint.

Nearly all this growth is linked to the widespread popularity of food items that wholly or partially involve animal protein products sold through the company's outlets. We are keen to see the company take a leadership role in decoupling this growth from the mounting environmental impacts and risks linked to the production of animal protein products, which can threaten [company's] long-term sustainability.

Intensive animal agriculture presents risks to companies and investors

Across three key areas – greenhouse gas (GHG) emissions, water and land – animal proteins have a significant environmental footprint. These impacts in turn are associated with increasingly material reputational, operational and market risks for the companies buying and selling animal protein-based products.

- **Climate risk: livestock farming is responsible for 14.5% of global GHG emissions.** On a commodity basis, beef and dairy cattle are responsible for a significant portion of total emissions, contributing 65% of the sector's overall GHG outputs. These are followed by pork (9% of emissions) and poultry and eggs (8%). Feed production is the dominant driver of GHG emissions across all commodities¹. The livestock sector is also subject to growing risks linked to the physical impacts of climate change², such as regulatory and litigation risks due to the flooding of animal waste lagoons during storms, or operational risks due to price volatility for animal feed as a result of more frequent and prolonged droughts.
- **Water use and pollution:** Agriculture is responsible for more than 70% of global water use, and livestock production accounts for nearly one-third of that use. For example, the water footprint of beef (on a per pound of protein basis) is six times that of pulses. Nearly 98% of this water goes towards the irrigation of grain for animal feed³, the production of which can also result in large-scale water pollution due to the excessive application of fertilizers. Manure can be an important soil nutrient, but the scale of intensive farming today produces quantities in significant excess of what can be absorbed by the surrounding environment.

¹ FAO, 2013. 'Key facts and findings'. <http://www.fao.org/news/story/en/item/197623/icode/>

² <https://www.citizen-times.com/story/news/local/2018/09/26/agricultural-losses-become-clearer-eastern-north-carolina-recovers-hurricane-florence/1410031002/>

³ <http://waterfootprint.org/en/water-footprint/product-water-footprint/water-footprint-crop-and-animal-products/>

Across markets, areas with a large concentration of livestock production have repeatedly seen the impairment of local waterways, leading to reputational risk, litigation and community protests, including in multiple states in the US^{4,5}.

- **Land use change:** Livestock production is one of the most significant drivers of deforestation and biodiversity loss worldwide. Around 80% of deforestation globally is due to agriculture, and more than 375 million hectares of forest have been converted to livestock production in the last 50 years – equivalent to the combined area of India and Morocco⁶.

Commodity suppliers are not managing these risks sufficiently

Multiple analyses from FAIRR, Ceres and others have found that even the most prominent commodity suppliers, including those in your own supply chain, are not managing these risks sufficiently. We've highlighted the examples below to illustrate the general lack of management and disclosure on impacts within this sector:

- The meat sector was the lowest performing industry in Ceres' 2017 Feeding Ourselves Thirsty ranking, an analysis of water management practices by food companies across their operations and their supply chain, with U.S. meat companies receiving an average of only 15 points on a scale of 1-100.
- **Pilgrim's Pride:** The 2018 Collier FAIRR Protein Producer Index ranked Pilgrim's Pride as 'high risk' for management and disclosure on risks such as climate emissions, deforestation and water management. The company did not discuss deforestation in relation to feed ingredients and does not disclose a supplier code on deforestation. On GHGs, Pilgrim's Pride fails to address Scope 3 emissions. In company disclosures, Pilgrim's Pride also does not discuss responsible animal waste management and prevention of environmental pollution for owned and contract operations.
- **Tyson Foods:** This beef, pork and poultry producer was ranked as 'high risk' for deforestation and biodiversity in the 2018 Collier FAIRR Protein Producer Index. Its supplier Code of Conduct does not address deforestation related to their soy feed supply chain. In 2018, a report found that Tyson Foods owns the most plants (26) with water pollution permit violations last year⁷.
- **Great Wall Enterprises:** Great Wall is a large Chinese meat supplier to some of the world's biggest food brands. The Collier FAIRR Index ranked the company as high risk due to poor disclosure on its environmental performance, including on climate risk, deforestation and water scarcity.

The importance of managing the impacts of animal protein supply chains

[Company] is seeking to open restaurants around the world and this is contributing to strong profitability and revenue growth. In 2017, the company increased its net restaurant count by XX. We recognize that [company] has [taken XX action] to manage and mitigate environmental impacts. However, the [XX action] lacks [YY elements] related to climate or water impacts with the sourcing of meat and dairy.

⁴ <https://www.newsobserver.com/news/business/article209927914.html>

⁵ <https://www.wsj.com/articles/farms-more-productive-than-ever-are-poisoning-drinking-water-in-rural-america-11547826031>

⁶ https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/65505/6316-drivers-deforestation-report.pdf

⁷ <https://www.environmentalintegrity.org/news/slaughterhouses-violate-water-pollution-permits/>

In our view, the scale of the company's animal protein sourcing necessitates a deeper and more strategic approach to de-risking these supply chains. Without a clear sustainability strategy and a more forward-looking approach, we believe [company] will endanger not only its own supply security and financial growth, but also global food security.

To that end, we respectfully ask [company] to adopt the following measures:

- **Supplier policy on animal protein sourcing:**

Ensure that the company develops a supplier policy or code for animal protein commodities that has clear requirements for direct and indirect suppliers to measure, report and reduce GHG emissions and freshwater impacts from the company's agricultural supply chains.

- **Targets and metrics:**

Publish quantitative, time-bound targets and associated metrics to reduce the impacts of [company's] animal protein supply chains, with a specific focus on freshwater impacts and GHG emissions. These targets should address the largest sources of relevant GHG emissions and water use and pollution in the company's animal protein supply chains, including animal farming, slaughtering and processing, manure management and fertilizer use for growing feed. We encourage this to be supported by adopting a supplier engagement target that determines a minimum threshold for actively engaging with key suppliers on these issues.

- **Disclosure:**

Commit to publicly disclosing on progress towards these targets on an annual basis, in company reports and/or through other public reporting platforms such as CDP.

- **Scenario analysis/risk assessment:**

Commit to undertaking and publishing a scenario analysis in line with TCFD recommendations to assess the resilience of your organization's animal protein (meat, dairy, eggs, fish) commodity sourcing strategy against alternative warming scenarios, including, at a minimum, a 2°Celsius (2°C) scenario over the medium to long term.

We would like a response from your executive team detailing how the company plans to address the above points with key milestones. The attached addendum, developed by FAIRR and Ceres, can provide guidance as you develop your plans.

We would appreciate it if you could send this response to Iman Effendi (iman.effendi@faiirr.org) by **March 1st, 2019**. We hope to follow up on your response with an investor dialogue to discuss your plans and progress on these issues.

Yours sincerely,
Investor list