

# Investing in green

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## Innovation Sustainable farming

Creating value from a change to more sustainable farming practices is something many are considering. Could understanding the Environmental, Social and Governance pressure on the supply chain — and how it may impact markets — help identify opportunities and facilitate change? *CPM* takes a closer look.

By Lucy de la Pasture

Agriculture is no longer just about growing crops. The role of farmers as custodians of the land and therefore its natural capital has rapidly been thrust into the limelight as policy makers confront global warming and a greater social conscience about the effects humans are having on the planet evolves.

As the industry is propelled into this brave new world, there are new concepts to get to grips with and understanding them may prove to be of benefit to farmers. One of these is Environmental, Social and

Governance (ESG), believes Hannah Senior, non-executive director at CHAP.

The road to net zero has given farmers a whole new set of terminology to grapple with, so what is the meaning behind this latest acronym?

“ESG is a collective term for three categories of ‘socially responsible’ characteristics that are used to assess investment opportunities. Agriculture should play a more active role within the ESG dialogue, particularly issues related to the environment,” she says.

### Global issues

“The finance world runs on potential risk and return from investment opportunities. But in tandem with this, investors are alert to wider global issues, for example, climate change and human rights concerns,” explains Hannah.

“Where capital is invested, it can change how things are done. So considering ESG characteristics when making investment decisions helps to create a positive difference, such as greater environmental gains or fairer labour practices.

“Broadly, the term is used when talking about wanting to make positive, non-financial impact when making investment choices, beyond just ‘money in, money out’. An example here might be investing in companies that develop renewable energy projects,” she says.

Understanding how ESG fits into

agriculture is something the industry should try to understand, believes Hannah. “For investors and many corporate brands and retailers the objectives are clear. Consumers are so much more aware of a company’s ‘green’ credentials and can boycott it if their values don’t align.”

She cites palm oil as an example of just this. “Many consumers are concerned about the use of unsustainably produced palm oil in food and beauty products or the use of unsustainably produced soy in animal feed. In both cases these crops are linked to serious problems with tropical deforestation and many people want to ensure their



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*Consumers are much more interested in where their food comes from.*

choice of chocolate bar or lipstick doesn't exacerbate this."

But the challenge doesn't stop here, it's not just overseas production that falls under the ESG spotlight, she says. "If big retailers and brand owners want to satisfy these consumer and investor demands for sustainability, it affects what is expected of farmers too. We have to improve understanding of what investors' pursuit of ESG criteria means for the stakeholders, right across the value chain and that includes farmers."

At the moment, the consequences for individual growers and farmers are not so distinct, she highlights. However, in UK agriculture many changes are occurring simultaneously, such as Brexit and ELMs.

"Times are already turbulent and the ESG agenda adds more pressure on top. One concern is that farming in a more environmentally friendly way — and proving it — will add cost to agricultural and horticultural production.

"How the cost of this will be shared is an important question. Some companies will want to keep their prices down, which might mean pushing the extra costs onto farmers to absorb. Alternatively, in an attempt to maintain prices, some companies may off-shore their supply chains to lower cost geographies."

And that's one of the things British farmers are very concerned about as free trade agreements are struck with countries producing food to different welfare and environmental standards.

"Some companies might be tempted to 'greenwash' and cut corners because they're fundamentally driving the environmental agenda for non-environmental reasons, for instance as a marketing and PR exercise. These misleading claims and a lack of transparency risk losing consumer trust in the whole idea of using their purchasing power to make a difference.

"So you can already see that the area is fraught with complexity, and it's important we get this right to try to minimise negative

unintended consequences."

Environmental accounting software is one of the newest additions being installed in farm offices or is being undertaken by consultancy firms across the country. "Similar to financial accounting standards, there is a lot of work going on to develop environmental accounting. This is really important so that we can compare companies on a like-for-like basis.

"Admittedly it's complicated," she adds. "How do you effectively measure variables in an industry as fragmented as ours? But in order to reward and reflect good practice we definitely require a universal approach, and this means agricultural expertise is necessary to contribute to the way those standards are set up.

## Environmental impact

"If we could offer a coordinated system that builds trust, both with investors who are engaging with the ESG focus and wider society, I think it would be a great place to start. We talked at length in the recent CHAP Advisory Group meeting about the idea, particularly that the key to this is making environmental data available for public good so that the transparency is there," she says.

Hannah believes that there has to be some flex in any system as different businesses will follow different paths for all sorts of valid reasons. "There should be discussion about how we measure and improve environmental impact in agriculture without fear of judgement or finger pointing.

"We all have learning to do, criticising one another doesn't help. It's also important to remember that almost every action has the potential of having a negative impact, so the goal is to reduce and mitigate this. Improving communication would allow peer learning to take place and opportunities to be harnessed proactively," she says.

Farmer to farmer learning is already gaining traction in UK agriculture, particularly in the nature-friendly farming community, but Hannah also believes more can be done to help those at an individual farm level.

"We have to think about what do 'good' ESG credentials mean on a practical, tangible level, and how can this information be used to aid decision-making? For instance, how does a farm business know what impact their particular practices have on the environment, what to do differently, and how to change?

"As a sector, we have to consider how to reduce the financial barriers to taking action. Can we reduce any risks associated with change and enable action by improving affordability? Without the financial capacity



*Understanding the Environmental, Social and Governance (ESG) pressure on supply chains may prove to be beneficial to farm businesses.*

to invest in change, many individual businesses probably can't make the transition to a more positive impact on the environment."

Change is inevitable, believes Hannah. "The environmental impact of our food system and climate change won't simply go away. It needs courage, but lots of factors are driving us towards change, and momentum is growing.

"Public perception plays a big role. Consumers are far more interested in how their food is produced so businesses, especially brands, will have to do the right thing to survive.

"The way big food companies and retailers respond to consumer and also investor pressure will affect what demands they place on their suppliers; this may mean that farmers and growers simply have to change the way they produce in order to have access to their usual markets.

"Company culture and the influence of strong leadership can also accelerate change as it enables aligned colleagues to take action. If a leader is invested in the sustainable agenda, it's likely that will be embedded across the whole business."

Showcasing relevant success stories as a means of inspiration will help to instil confidence, she adds. "As a network builder and collaborator, CHAP is ideally positioned to facilitate dialogue within this arena, with agriculture at the heart of it. I also believe that as an independent body, there's a role to play in assisting with data transparency and helping to coordinate access to that data.

"Agri-tech innovation should be used as a key to unlocking solutions that deliver positive change within food production. That message is firmly embedded within CHAP and also aligns with the ethos of ESG investing," she concludes. ■