



# **BUILDING SUSTAINABLE FOOD SYSTEMS IN CANADA: A ROLE FOR INVESTORS**

Written by:  
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This report was written by SHARE for the J.W. McConnell Family Foundation and the USC Foundation. The goal of this study is to contribute to a broader understanding of the challenges facing food systems in Canada and globally and to outline the range of opportunities available to investors to engage constructively with investee companies on sustainable food issues.

## AUTHOR

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Any errors or omissions are solely the responsibility of the author.

## FOREWARD

Our relationship with food is experienced daily and over the course of our lifetimes, in ways that are physical, emotional and cultural. Food brings families, friends and communities together and connects us to local and global networks of growers, manufacturers, distributors and retailers.

Moreover, the systems that produce our food have a profound impact on ecosystems, economies and livelihoods. These impacts include significant greenhouse gas emissions, water and soil depletion, and dramatic loss of biodiversity on both land and sea. Alongside food insecurity of certain populations, the incidence of obesity and other chronic food-related diseases is increasing rapidly - reducing length and quality of life and placing an unsustainable burden on our healthcare system. Climate change, chronic disease and food shortages are among the top risks identified by the World Economic Forum annual Global Risks Reports.

The J.W. McConnell Family Foundation's commitment to a Sustainable Food Systems initiative is now entering its fifth year. Through granting programs and impact investments, commissioned research, meetings, innovation labs and sustained partnerships with the private, public and community sectors, we aim to shift Canada's globally-integrated food system to greater sustainability and resilience.

This report speaks to our particular responsibility as institutional investors, and is part of an ongoing effort to better align the Foundation's investments with its mission and programs. The report focuses on risk management for investors and points to a range of areas in which they can engage.

We hope that the report will set the stage for a conversation among investors and investees concerned about the future of food, and the roles that we can all play in ensuring healthy, sustainably produced food for all.



**Beth Hunter**  
Program Director  
J.W. McConnell Family Foundation



**Stephen Huddart**  
President and CEO  
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A **sustainable food system** is one in which the ecological impacts are minimized; the fertility of the soil is maintained and improved; the availability and quality of water are protected and enhanced; biodiversity is protected; farmers, farm workers and all other actors in value chains have decent working conditions and liveable incomes; food is affordable, safe and healthy; the discharge of waste including greenhouse gas emissions is minimized; and sustainable businesses can thrive and are rewarded by investors and other capital providers.

*Adapted from the Sustainable Food Lab*

## INTRODUCTION

This paper outlines the social and environmental challenges facing Canada's food system and analyses these challenges from a responsible investment perspective. Responsible investors believe environmental, social and governance issues may affect the performance of portfolios over time and aim to better align their investment strategies with broader societal objectives.<sup>1</sup>

There is mounting evidence that the world's food systems are under immense stress. According to the United Nations, the food system will need to feed a global population of more than 9 billion by 2050.<sup>2</sup> Competition for land from biofuels and urban development as well as the loss of productive agricultural land to drought and other environmental disasters have resulted in rising food prices globally. There is a need to identify sustainable ways to feed a growing population without compounding the environmental impacts of expanding agricultural and animal production, including increased carbon emissions, extensive water use, fertilizer use, excessive food waste, loss of topsoil and deforestation. At the same time, sustainable food systems must address the multitude of challenges facing rural communities, farmers and farm workers. These include farm viability, human rights abuses, poor working conditions, land grabs and increasing pressures to produce food more cheaply.

In addition to the challenges associated with food production, there are equally pressing problems confronting consumers in accessing sufficient, affordable and nutritious food. Food insecurity exists in developed countries like Canada, evidenced by the widespread use of food banks. Food insecurity is also present in developing countries, where factors such as poverty, conflict and food commodity price fluctuations can lead to both acute and chronic food insecurity and, in the direst circumstances, famine.<sup>3</sup> At the same time, consumption of foods with high levels of fat and sugar is contributing to an alarming consumer health crisis with sky rocketing rates of obesity, diabetes and heart disease in many parts of the world.<sup>4</sup>

Within the context of an increasingly fragile food system, it is in the best interests of investors to analyse the risks they are exposed to and work with investee companies to advance innovative solutions across the food value chain. There are growing investment opportunities in the areas of organic agriculture, local food production and healthy food products, for instance, which investors can consider as part of their asset allocation strategies to expedite the transition to sustainable food systems. The proceeding discussion considers the implications of unsustainable corporate practices for the viability of global food systems and the subsequent risks for institutional investors. The paper also identifies opportunities for investors to engage in constructive dialogue with publicly listed Canadian companies to promote more sustainable corporate policies, practices and processes.






## CAPITAL MARKETS AND CANADA'S FOOD SECTOR

Capital markets facilitate the allocation of money from savers to businesses and governments for productive purposes. The most common method for raising capital from public markets is issuing shares (equity) or bonds (debt). Such public market investments can be found across the food value chain from agricultural inputs to food processing and retail. Investor exposure to food-related businesses is partially determined by the kinds of enterprises that exist and whether or not the capital needs of these enterprises meet the risk adjusted return requirements of institutional investors.<sup>5</sup> Generally speaking, institutional investors tend to invest in relatively large and liquid firms along the food value chain because such companies are likely to make more efficient use of capital<sup>6</sup> and are considered to be a lower-risk investment.

In addition to equity ownership, institutional investors are increasing their exposure to food-related assets through direct purchases of farmland<sup>7</sup>, private placements in farmland funds<sup>8</sup> and participation in commodities markets. According to Oxfam, institutional investors expressed interest in 42 million hectares of agricultural land in 2009.<sup>9</sup> There are various reasons for increased interest in these asset classes. These include higher demand for biofuels, rising food and land prices, and attractive land purchasing terms. There are also varying expectations for these investments, ranging from speculative capital seeking to capitalize on short-term increases in land and/or food values to impact investments seeking to direct capital toward financially and socially productive uses in agriculture. Direct purchase of farmland and private placements in farmland funds derive returns by leasing the land to farmers, from the sale of agricultural products, and by selling farmland that has appreciated. Investors that participate in commodities markets, on the other hand, make bets on commodity prices in future markets and, for the most part, seek short-term returns. There is growing concern about the impacts of these speculative activities on food price volatility, leading some European financial institutions to cancel investment vehicles linked to food commodity speculation<sup>10</sup> while others have established guidelines to ensure responsible participation in farmland and food commodities markets.<sup>11</sup> Yet others are pooling investor capital to purchase farmland with the clear purpose of protecting it from development and/or speculation, preserving farmers' livelihoods as well as their autonomy and knowledge.<sup>12</sup>

Table 1 provides a description of Canada's food value chain, the types of enterprises, and the most widely held Canadian publicly listed companies that operate along the chain.

**Table 1: Canada's Food Value Chain Characteristics And Public Capital Markets**

FOOD VALUE CHAIN *		SECTOR CHARACTERISTICS	COMMONLY HELD PUBLICALLY LISTED CANADIAN COMPANIES
INPUTS		Three large-cap <sup>13</sup> agricultural input companies (Agrium, Potash and Fanning) and a number of smaller-cap fertilizer and agricultural machinery companies are traded on the Toronto Stock Exchange (TSX). US and global subsidiaries also play a big role in agricultural inputs in Canada including Dupont, Pioneer, Viterro (Glencore), Monsanto Canada, BASF, Bayer Crop Science and Syngenta.	<ul style="list-style-type: none"> <li>- Agrium Inc.</li> <li>- Fanning International Inc.</li> <li>- Potash Corporation of Saskatchewan</li> </ul>
PRODUCTION		Primary agricultural production in Canada is characterized by a large number of small, family-run enterprises with a few large dominant corporate firms. <sup>14</sup> There are currently no publicly traded pure agricultural production companies in Canada, although some processing companies may own and operate production facilities directly. The largest operators either remain family-owned, run as cooperatives or have been purchased by foreign companies.	
PROCESSING		This sector consists of companies ranging from small to large capitalisation of \$5 billion or more. The majority have strong family ties and in some cases families maintain majority share ownership.	<ul style="list-style-type: none"> <li>- ClearWater Seafoods Incorporated</li> <li>- Cott Corporation</li> <li>- Dominion Citrus</li> <li>- George Weston Limited</li> <li>- Highliner Foods Inc.</li> <li>- Maple Leaf Foods</li> <li>- Lassonde Industries</li> <li>- Legumex Walker Inc.</li> <li>- Rogers Sugar</li> <li>- Saputo Inc.</li> </ul>
STORAGE / DISTRIBUTION		A handful of storage and distribution companies are traded on the TSX. The industry is composed primarily of multinationals such as Sysco or Bunge and a number of unlisted Canadian companies such as Flanagan Foodservice.	<ul style="list-style-type: none"> <li>- AG Growth International Inc.</li> <li>- Algoma Central Corporation</li> <li>- Alliance Grain Traders Inc.</li> <li>- Vicwest Inc.</li> </ul>
RETAIL		Many large cap companies with capitalization between \$5 billion and \$16 billion are traded on the TSX. A few of these companies have a controlling shareholder (e.g. Loblaw and George Weston).	<ul style="list-style-type: none"> <li>- Alimentation Couche-Tard</li> <li>- A&amp;W Revenue Royalties Income Fund</li> <li>- Boston Pizza Royalties Income Fund</li> <li>- Empire Company Limited</li> <li>- Imvescor Restaurant Group</li> <li>- Jean Coutu Group</li> <li>- Keg Royalties Income Fund</li> <li>- Loblaw Companies Limited</li> <li>- Metro Inc.</li> <li>- MTY Food Group</li> <li>- North West Company Inc.</li> <li>- Pizza Pizza Royalty Corp.</li> <li>- Tim Hortons Inc.</li> </ul>

\*Although consumer food waste is an important food sustainability issue, we choose to limit our analysis of the food value chain, ending at the point of sale because of the limited opportunities to address the challenges of consumer food waste effectively from a shareholder engagement perspective.

## INDUSTRIALIZED FOOD SYSTEMS: IN PURSUIT OF ECONOMIES OF SCALE

The global industrialized food system is based on a production model that seeks to maximize efficiency in order to lower costs and increase overall production. One of the principal ways that companies across the food value chain have sought to achieve greater efficiency is by building economies of scale. This is accomplished through such strategies as consolidation, vertical integration, economic specialization, acquisitions and export-driven production. In the farm input sector, the drive to achieve greater economies of scale has led to high levels of concentration in seed, fertilizer and agrochemical industries with a small number of participants controlling the global market for key products. For example, in the fertilizer industry, just two marketing groups control over 60 percent of the global potash export market, including exports from Potash Corporation of Saskatchewan and Agrium Inc.<sup>15</sup> In addition, according to the ETC Group, four firms control 58.2 percent of seeds; 61.9 percent of agrochemicals; and 53.4 percent of animal pharmaceuticals, while six companies (Monsanto, DuPont, Syngenta, Bayer, Dow and BASF) control 75 percent of all private sector plant breeding research; 60 percent of the commercial seed market and 76 percent of global agrochemical sales.<sup>16</sup>

Generating economies of scale in agricultural production has led to concentration on fewer crops and expansion in order to make the most of expensive capital purchases. Although farming in Canada is still dominated by small-scale, family-owned farms, there has been a trend towards fewer and larger farms.<sup>17</sup> For food processors, generating economies of scale has incentivized major capital purchases to increase capacity, acquire competitors and concentrate on fewer food products. For example, one of the primary reasons behind the closing of the Heinz processing plant in Leamington, Ontario in 2013 was the desire of the company's new owners to consolidate production in more profitable factories in lower cost regions.<sup>18</sup> At a global level, consolidation has led to the top ten food and beverage companies controlling over 25 percent of the global market for packaged food products.<sup>19</sup> For food retailers, economies of scale are achieved through acquisitions, centralizing distribution and working with a smaller number of suppliers.

Efforts across the food value chain to realize greater economies of scale may bring superior short-term returns for shareholders but they can also have negative implications for food system sustainability. For example, consolidation in the global seed industry has had impacts on Canadian farmers, including higher prices, fewer options to choose from and less control over the seeds they use and the genetic characteristics of those seeds. Farmers also feel the pressure of consolidation with fewer buyers of their products, leading to greater dependency and less bargaining power. Consolidation in Canada's food retail sector has raised concerns that retailers with increased market power could establish unfair purchasing terms for their suppliers, putting even more downward pressure on the prices paid to farmers.<sup>20</sup>

## ENVIRONMENTAL AND SOCIAL IMPACTS: RISKS AND OPPORTUNITIES FOR INVESTORS

Industrialized food systems have been designed to increase production to meet the needs of a growing global population. In the process, however, this model has had environmental and social consequences that are threatening the viability of food systems. Here we describe five dimensions of these consequences and look at the implications for investors in terms of risks and opportunities. The five dimensions are: 1) Ecological Impacts; 2) Food Security; 3) Consumer Health; 4) Food Safety; and 5) Human and Labour Rights.

### 1. Ecological Impacts

The industrialized global food system generates ecological impacts across the food value chain from the mining of farm inputs to agricultural and livestock production, food processing, transportation and distribution. Agricultural production, for instance, relies heavily on external inputs such as water, energy and pesticides, which has adverse impacts on natural systems including water resources, soil, forests and the atmosphere.<sup>21</sup> At the same time, industrialized practices such as monocropping and intensive livestock production also have significant ecological impacts. Evidence suggests that monocropping – growing single crops intensively on a very large scale – can undermine ecosystem resilience and increase crop vulnerability to changes in environmental variables such as the introduction of pests or changes to rainfall.<sup>22,23</sup> Monocropping can also deteriorate soils and lead to biodiversity loss. However, monocropping practices are often still favoured in the pursuit of potential yield benefits despite the risks of crop failure as a result of crop-specific insects and diseases as well as longer-term environmental damage.

Another characteristic of industrialized agriculture is the use of genetic modification. Genetically modified (GM) crops are considered the fastest adopted crop technology in the history of modern agriculture. Over 175.2 million hectares were planted with GM crops in 2013, representing a 100-fold increase since their commercialization in 1996.<sup>24</sup> While GM crops are designed to require less pesticide use, recent research has found the opposite to be true. Research conducted on three GM herbicide-tolerant crops in the United States found that the emergence and spread of glyphosate-resistant weeds have been accelerated by the overuse of GM crops leading farmers to increase herbicide application by approximately 25 percent per year.<sup>25</sup> Heavy pesticide use is linked to harmful environmental outcomes, including accumulation of toxic chemicals in water systems, weakening plant immune systems and the decline of beneficial species such as microorganisms, worms and pollinators.<sup>26</sup>

Companies and their shareholders face a multitude of short-, medium- and long-term risks associated with the ecological impacts of industrialized food systems. Perhaps the most significant risk for food processing and retail companies is the potential for disruption in the supply of key food products and ingredients. To manage these risks, it is important for shareholders to encourage companies to develop resilient supply chains, including promoting the adoption of sustainable agricultural practices.

In addition to *generating* ecological impacts, the global food system is extremely *vulnerable* to environmental shocks that threaten the natural capital upon which it depends. Key global trends, such as climate change and rising populations, are amplifying these risks with implications for farmers, rural communities, economies, as well as companies and their shareholders. For example, agribusiness and food company Bunge reported a \$56 million loss in its sugar



### Case Study 1: Investor Initiatives on Land Rights

OXFAM and members of the Interfaith Committee on Corporate Responsibility (ICCR) filed a shareholder resolution at PepsiCo, Inc. asking the company to produce a report focused on the issue of land rights along the company's supply chain. Specifically, the resolution asks the company to disclose its sources of sugar cane, palm oil and soy and whether the company and its suppliers have adopted a zero tolerance policy on land rights violations.

As a result of shareholder and civil society campaign efforts, Coca-Cola Company committed to a zero tolerance policy for land grabs in its supply chain. Coca-Cola also committed to conduct social and environmental assessments across its supply chain in order to disclose its biggest sugarcane suppliers. Since the resolution was filed, PepsiCo Inc. has also developed a land policy that commits the company to zero tolerance for land grabs.

#### For more information:

<http://www.onlineethicalinvestor.org/eidb/wc.dll?eidbproc~reso~11596>  
<http://politicsofpoverty.oxfamamerica.org/2014/03/pepsico-takes-stand-land-rights/>

and bioenergy segments in the fourth quarter of 2010 primarily due to the droughts suffered in its main growing areas of Brazil.<sup>27</sup> These droughts, which are expected to become more common in this region as a result of climate change, also threatened regional hydroelectric supplies, devastated Brazilian subsistence farmers, and reduced sugar cane production by 30 percent.<sup>28</sup> Shareholders have begun asking investee companies how they are managing these kinds of risks across their supply chains, particularly in the context of climate change where extreme weather events are likely to have a greater impact on agriculture and food production.

High levels of carbon emissions are emitted as a result of deforestation, fertilizer production and use, livestock management, food storage and transportation, retail operations and food waste. The way that food systems are organized and supply chains managed can either augment or reduce these emissions. For example, the concentration of food processing and centralized distribution hubs are likely associated with higher carbon emissions from longer transportation routes. However, longer food miles could be offset by efficiencies elsewhere along the chain such as shorter storage periods.<sup>29</sup> There is also a significant amount of waste across the food value chain, leading to lost inputs in production and transportation as well as carbon and methane emissions generated from burgeoning landfills.<sup>30</sup> Shareholders have the opportunity to engage with companies to understand the strategies they have in place to reduce their carbon footprints across their operations and supply chains. Companies that do not take sufficient steps to address ecological impacts could be punished by consumers and suffer from reputational damage and sales losses in certain markets.<sup>31</sup> At the same time, companies that are proactive in addressing ecological impacts and meeting certain industry standards for high-impact products, such as palm oil and soy, could gain greater access to certain markets particularly in Europe where regulatory authorities and consumers have growing expectations for food company performance in these areas.<sup>32</sup>

In addition to risks from investor exposure to individual companies, institutional investors need to account for the systemic risks that emerge as a result of the ecological pressures facing the world's food systems. For example, variability in food production as a result of degraded soils, diminished water supplies and extreme weather events has contributed to price volatility and growing food insecurity globally, which have fueled social and political turmoil in many parts of the world.<sup>33</sup> Institutional investors, as a result of their exposure across the economy, are vulnerable to system-level impacts and therefore need to take steps to mitigate these types of risks. One way that investors can achieve this is to engage with portfolio companies and encourage efforts that will help build more sustainable food production practices and contribute to supply chain resilience and availability of key food products in both the short- and long-term.<sup>34</sup>

## 2. Food Security

There are many challenges that exacerbate global food security, including competition for arable land, climate change, soil erosion, droughts, disease and rising food prices. The growing need for food banks in Canadian urban centres and escalating food prices in remote communities such as Canada's North suggest that food security, in particular access to food, is not only a problem for poor countries, but also an increasing global concern. Activities being perpetuated by multinational firms, such as land grabs and shifting agricultural land use to the production of cash crops,<sup>35</sup> biofuels and animal raising as well as commodity speculation, all have negative implications for food security globally with particularly negative impacts on small-scale and subsistence farmers.

In order to contribute to more sustainable food systems, investors have the opportunity to consider the impacts of their portfolio companies' policies and practices on food security. There is an emerging consensus among international organizations, such as the United Nations Environment Programme (UNEP) and the International Fund for Agricultural Development (IFAD), on the importance of small-scale farmers for the transformation of agriculture towards greater sustainability and food security.<sup>36</sup> Companies implicated in land grabs risk becoming the target of civil society campaigns and experiencing the subsequent negative impacts on brand value.<sup>37</sup> For this reason, it is critical to identify corporate activities that potentially undermine the livelihoods, rights and power of small-scale farmers. Encouraging improved practices throughout the supply chain that establish environmental and social standards can help build more sustainable food systems that meet the nutrition needs of a growing population, while also protecting investors from the system level risks associated with food insecurity.

### **3. Consumer Health**

Consumer health has been at the forefront of debates on the unsustainable path of the global food system. Policy makers, health professionals and activists are increasingly concerned about the nutritional value and human health impacts of the products we consume. Unprecedented rates of obesity, diabetes and heart disease have been linked to increased consumption of highly processed foods and beverages that contain elevated levels of fat, sugar and sodium. Several initiatives have emerged to address these public health concerns, including taxes on sugar-sweetened beverages<sup>38</sup> as well as new regulations on marketing and labelling aimed to limit the consumption of unhealthy food and beverage products. In most cases it is still too early to measure the efficacy of these initiatives.

In order to mitigate the potential negative impacts on company product portfolios from these regulatory initiatives and to maintain a positive reputation, proactive companies are responding with actions such as changing product recipes, removing harmful ingredients, improving labelling and allocating resources towards the development of healthier product choices. For example, UK food retailer, Marks & Spencer decided to remove all trans fats from its private brand products in response to evidence of negative health impacts.<sup>39</sup> Investors can play an important role in supporting these initiatives.

At the same time, consumer unease about potential human health risks from genetically modified (GM) foods, antibiotic use in livestock farming and nanomaterials<sup>40</sup> in food products is mounting. Although there is limited scientific evidence that these foods can harm human health, many scientists point out that they have been introduced into our food system without adequate testing of the long-term health consequences of producing and consuming these foods. For example, imprudent use of antibiotics in livestock production can contribute to the emergence, persistence and spread of resistant bacteria, which can be transmitted to humans through the food supply.<sup>41</sup> In addition, evidence of escalating pesticide use on GM crops also carries human health risks from water, food supply and broader environmental contamination. A study in the Eastern Townships of Quebec, for instance, revealed the presence of pesticides associated to genetically modified foods in maternal, fetal and non-pregnant women's blood.<sup>42</sup>

The uncertainty of the human health implications of emerging food technologies and the perceived lack of sufficient safety testing by food and health authorities have magnified consumer concern. In relation to genetically modified foods, a public opinion poll of 1,512 Canadians conducted in 2012 found that 79

## Case Study 2: Access to Nutrition Index Investor Statement

The Access to Nutrition Index (ATNI) is a global initiative that evaluates food and beverage manufacturers on their policies, practices and performance related to obesity and under nutrition. By providing companies with a tool for benchmarking their nutrition practices and serving as an impartial source of information for interested stakeholders, ATNI aims to encourage companies to increase consumer access to nutritious products and responsibly exercise their influence on consumer choice and behaviour. In March 2013, 39 investment management firms signed an investment statement supporting the ATNI, recognizing that health and nutrition are among the most important drivers of future growth in the food and beverage sector and that those manufacturers that are responding to these factors will be better positioned to deliver superior and sustained financial performance over time.

### More information:

<http://www.accesstonutrition.org/media/atni-investor-statement-released>

percent of respondents felt they did not have sufficient information about GM foods to make informed decisions with 91 percent of respondents agreeing that the Canadian government should make genetically modified food labeling mandatory.<sup>43</sup> In response to growing consumer concern, some U.S. companies have taken steps to change product ingredients and to establish labeling policies. For example, Unilever's subsidiary and ice cream manufacturer Ben and Jerry's developed a set of non-GMO standards and are currently transitioning to exclusively sourcing non-GMO ingredients for their products.<sup>44</sup> Additionally, food retailer Whole Foods Market recently committed to having all of their food products labeled to indicate if they contain GMOs by 2018.<sup>45</sup>

## 4. Food Safety

There has been mounting public concern about food safety as result of growing awareness of the dangers of microbial contamination, and highly publicized food safety incidents. These incidents have also illustrated that complicated supply chains can amplify the risks to companies due to the difficulty in tracing ingredient origins. For example, in 2007 when 150,000 people in North America became ill from salmonella, it took over five months to identify a ConAgra meat processing plant as the source of the contamination. The specific ingredient that carried the salmonella contamination was never identified.<sup>46</sup> Greater supply chain transparency is an important management strategy to build greater resilience to these kinds of food safety shocks. Appropriate food safety regimes are required to mediate contamination risks in the context of complex global supply chains while also ensuring that such standards do not erect unnecessary barriers for small-scale producers and processors. In order to meet consumer demand for safe food products and to mitigate the risks associated with food safety, investors can encourage companies to adopt stronger supply management practices, including traceability of ingredients, as well as initiatives to build longer-term relationships with suppliers.

## 5. Human and Labour Rights





The industrialized food system has negative implications for workers, farmers and communities. These include low pay and poor working conditions for farm workers, occupational health and safety risks in food manufacturing, and the inability of farmers to maintain livelihoods because of the declining farm share of food dollars. These trends present an enormous threat to the sustainability of the global food system. In Canada, the use of migrant farm workers and the expansion of the temporary foreign worker program have made workers across the food value chain increasingly vulnerable to mistreatment. For example, actions have been taken against Tim Hortons Inc. at two separate locations in British Columbia over allegedly abusive practices of temporary foreign workers, including claims of sub-standard housing and failure to pay overtime.<sup>47</sup> Incidents of workplace accidents and poor occupational health and safety performance in food processing plants have also emerged as problems.<sup>48</sup>

At the same time, in Canada and around the world, it is becoming increasingly difficult for farmers to sustain themselves due to the growing discrepancy between prices paid to farmers and the world market prices for foods. According to the United Nations, this gap doubled over the twenty-year period between 1974 and 1994.<sup>49</sup> Investors can work with individual portfolio companies to improve working conditions and ensure farmers receive a fair share of the consumer price of food products. Value chains with stronger labour standards and viable farming livelihoods will contribute to greater food system sustainability and help mitigate risks such as disruption in production and reputational damage.

# BUILDING SUSTAINABLE FOOD SYSTEMS: THE ROLE OF SHAREHOLDER ENGAGEMENT

The following table provides an overview of the opportunities for constructive shareholder engagement with companies across the food value chain. The purpose of this section is to provide investors with a range of topics and approaches that could be taken to promote changes to corporate practices and contribute to more sustainable food systems in Canada and globally.

**Table 2: Shareholder Engagement Opportunities**

FOOD VALUE CHAIN		ENGAGEMENT APPROACH
<b>INPUTS</b>		<ul style="list-style-type: none"> <li>- Seek commitments regarding the social and environmental impacts of phosphate mining<sup>50</sup></li> <li>- Request information on the management of ecological impacts (soil, water, climate change) of product portfolio and commitments to reduce these impacts</li> <li>- Ask companies to devise and disclose long-term strategies in the face of rapidly declining phosphate rock supplies</li> <li>- Seek improvements in overall occupational health and safety performance including mine safety practices<sup>51</sup></li> </ul>
<b>PRODUCTION</b>		<p>Seek company commitments to establishing supply chain standards related to:</p> <ul style="list-style-type: none"> <li>- Animal welfare in livestock production;</li> <li>- Seafood sourcing;</li> <li>- Pesticide use in agricultural production;</li> <li>- Food waste;</li> <li>- Wages and working conditions;</li> <li>- Supplier prices;</li> <li>- Land rights;</li> <li>- Supplier contract terms;</li> <li>- Supply chain transparency;</li> <li>- Ingredient traceability;</li> <li>- Antibiotic and hormone use;</li> <li>- Multi-stakeholder sustainability initiatives.<sup>52</sup></li> </ul>
<b>PROCESSING</b>		<ul style="list-style-type: none"> <li>- Engage with companies on improved product labelling, particularly of GMOs, nanomaterials and antibiotics;</li> <li>- Ask for information on each company's approach to public health concerns and how this relates to its product portfolio;</li> <li>- Seek commitments to reduce sodium, sugar and fat content of products and/or to shift overall product portfolio to healthier choices;</li> <li>- Engage with companies on performance against the Access to Nutrition Index (ATNI)</li> <li>- Ask companies to conduct supply chain risks assessments particularly in the context of supply chain resilience and climate risk;</li> <li>- See box above for engagement options related to the supply chain; and</li> <li>- Identify the benefits of linking sustainability performance to executive compensation packages.</li> </ul>
<b>RETAIL</b>		<ul style="list-style-type: none"> <li>- Encourage retail companies at the "top" of the food value chain to make commitments to sustainable food and establish policies and practices to effectively influence their supply chains (see above for possible approaches);</li> <li>- Seek commitments to embed sustainability criteria into strategic business decisions such as purchasing;</li> <li>- Improve in-house brands through ingredient editing, clear labelling and commitments to consumer health;</li> <li>- Reduce the "footprint" of in-house brands (from farm to table);</li> <li>- Work with retail companies to identify effective strategies to reduce food waste;</li> <li>- Seek commitments from retailers to increase their procurement of local and sustainably produced foods; and</li> <li>- Engage with companies on the benefits of linking sustainability performance to executive compensation packages.</li> </ul>



## CONCLUSION

This paper has outlined the environmental and social challenges facing our food system and the implications for investors from declining agricultural production, the loss of key environmental goods and services, accelerating climate change, food insecurity, poor public health outcomes and poverty. It is in companies' best interests to work with stakeholders to identify innovative solutions that will accelerate sustainability in the food system. There is an opportunity for investors to actively engage with companies and promote changes to corporate policies and practices that will help to incentivize the shift to more sustainable food systems in Canada and globally.

## ENDNOTES

- 1 See <http://www.unpri.org/about-pri/the-six-principles/>
- 2 See <https://www.un.org/en/development/desa/news/population/un-report-world-population-projected-to-reach-9-6-billion-by-2050.html>
- 3 According to the Food Banks Canada Hunger Count Report, over 833,000 people used food banks in 2013, which is 23% higher than in 2008. See <http://www.foodbankscanada.ca/FoodBanks/MediaLibrary/HungerCount/HungerCount2013.pdf>
- 4 For example, according to the International Diabetes Federation in 2011, 366 million people had diabetes and another 280 million were at high risk of developing diabetes see: [http://www.idf.org/sites/default/files/Global\\_Diabetes\\_Plan\\_Final.pdf](http://www.idf.org/sites/default/files/Global_Diabetes_Plan_Final.pdf). Also, the 2010 Global Disease Report found that obesity is a bigger health crisis globally than hunger and the leading cause of disabilities. The report found an increase in obesity rates since 1990 of 82%. See <http://edition.cnn.com/2012/12/13/health/global-burden-report/>
- 5 The risk-adjusted rate of return determines an investment's return by measuring how much risk is involved in producing that return.
- 6 Conference Board of Canada, 2013, Funding Food: Food and Capital Markets in Canada.
- 7 See for example the Canada Pension Plan Investment Board's purchase of Saskatchewan Farmland, <http://www.theglobeandmail.com/report-on-business/cppib-buys-saskatchewan-farms-in-128-million-deal/article15910970/>
- 8 See for example, <http://www.farmlandinvestmentpartnership.com/>
- 9 L. Wegner and G. Zwart, 2011, "Who will feed the world: the production challenge," Oxfam.
- 10 For example, five European banks including Deutsche Bank, discontinued investment funds linked to food commodities in 2012 due to reputational concerns. See Financial Times, Banks withdraw food commodity funds (August 14, 2012) at: <http://www.ft.com/cms/s/0/17a816f4-e62f-11e1-ac5f-00144feab49a.html#axzz2xwZUrTPt>
- 11 For example, see the ICCR's "Guidelines for Responsible Investing in Commodities," (May 2012), online at: <http://www.iccr.org/guidelines-responsible-investing-food-commodities>.
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- 13 Large cap companies are defined as a company with over \$5 billion in market capitalization. Mid-cap companies have between \$1 billion and \$5 billion in market capitalization and small cap companies have less than \$1 billion in market capitalization
- 14 Statistics Canada reports that more than half of the 173,080 farms in Canada have less than \$100,000 in operating revenue and close to 70% of farms are categorized as micro-enterprises based on the number of employees. However, approximately 70 percent of the operating revenue from primary agriculture is concentrated in the largest 15 percent of farms
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- 16 ETC Group, "Putting the Cartel Before the Horse... and Farm, Seeds, Soil, Peasants etc." Communiqué No. 111 (September 2013), p. 3 at: <http://www.etcgroup.org/sites/www.etcgroup.org/files/CartelBeforeHorse11Sep2013.pdf>
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- 31 For example, Greenpeace International's consumer campaign against Nestle for its sourcing of palm oil from Indonesia where palm oil production is causing massive deforestation: <http://www.greenpeace.org/international/en/news/features/Sweet-success-for-Kit-Kat-campaign/>
- 32 For example, the European Commission created the Renewable Energy Directive that regulates imports of raw materials such as soy in to the European Union for biofuel production. The established standards are related to requirements concerning changes in the use of land and greenhouse gas emissions calculations and traceability and they determine if these raw materials may be considered sustainable or not. See: <http://www.responsiblesoy.org/certificacion/tipos-de-certificacion/produccion/?lang=en>
- 33 For example, a report by the Centre for American Progress, the Center for Climate and Security and the Stimson Centre found that the effects of climate change on rain, crops, food prices and migration acted as stressors and contributed to the social instability leading up to the Middle East's upheaval during 2010 and 2011. See: <http://www.scientificamerican.com/article/climate-change-and-rising-food-prices-heightened-arab-spring/>
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- 37 See Oxfam's petition targeting PepsiCo and Associated British Foods at: [www.behindthebrands.org/actnow](http://www.behindthebrands.org/actnow)
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- 50 SHARE is currently engaging with Agrium Inc. and Potash Corporation of Saskatchewan on their human rights obligations in the Western Sahara and the legal implications for the company as a result of its operations in the non-self governing territory of Western Sahara.
- 51 Particularly in light of the recent fire in Agrium's potash mine near Saskatoon. See: <http://www.thestarphoenix.com/business/Half+Agrium+mine+still+closed+after+fire/9523878/story.html>
- 52 For example, see the Roundtable on Responsible Soy Association ([www.responsiblesoy.org](http://www.responsiblesoy.org)); and the Roundtable on Sustainable Palm Oil ([www.rspo.org](http://www.rspo.org)).





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