



## **Proxy Alert: Shareholder proposal on 1.5-degree-aligned greenhouse gas targets at METRO Inc.**

**Company:** METRO Inc.

**Ticker Symbol:** MRU (TSX)

**Annual Meeting Date:** 24 January 2023

**Proponent:** Régime de Retraite de l'Université de Montréal, supported by the Shareholder Association for Research and Education (SHARE)

### **RECOMMENDATION: Vote FOR Proposal #1 - Shareholder proposal on 1.5 degree-aligned greenhouse gas targets**

METRO Inc. (the "Company") currently lacks targets or a clear plan to reduce its greenhouse gas (GHG) emissions in alignment with the Paris Agreement's 1.5-degree Celsius goal, which exposes the Company to significant material risk and puts it well behind its competitors.

Proposal 1 in the 2022 Management Proxy Circular asks the Company to adopt 1.5 degree-aligned near- and long-term science-based GHG emissions reduction targets, inclusive of emissions from its full value chain, to achieve net-zero emissions by 2050 or sooner and to effectuate appropriate emissions reductions prior to 2030.

The Proponent believes taking such action would serve the long-term interests of the Company by mitigating potential supply chain, market, competitive, regulatory, and reputational risks. **As such, we urge a "Yes" vote on this proposal.**

**RESOLVED:** Shareholders request that METRO Inc. adopt near- and long-term science-based greenhouse gas emissions reduction targets, inclusive of Scope 3 emissions from its full value chain, which are aligned with the Paris Agreement's 1.5°C goal requiring net-zero emissions by 2050 or sooner and to effectuate appropriate emissions reductions prior to 2030. The targets should:

- Be publicly disclosed at least 180 days prior to the next annual shareholders meeting;
- Follow the guidance of advisory groups such as the Science-Based Targets Initiative;
- Be supported by an enterprise-wide climate action plan outlining the steps the Company will take to achieve net-zero emissions.

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## **RATIONALE FOR A “YES” VOTE**

The latest [IPCC report](#) states that the window for limiting global warming to 1.5 degrees, and thereby avoiding the most catastrophic impacts of climate change, is quickly narrowing and that immediate, sharp emissions reductions are required of all market sectors and industries. The operations and profitability of food retailers are based on the availability of agricultural commodities. The production of these commodities contributes to climate change and simultaneously is affected negatively by its impacts. Retailers that sell food and other agricultural commodities, including the Company, will remain exposed to material financial risk if climate change is not addressed sufficiently, including:

1. **Operational risk** – The environmental impacts of climate change can affect agricultural productivity, which could lead to supply chain disruptions and associated expenses.
2. **Competitive risk** – The Company lacks 1.5 degree-aligned near- and long-term, science-based GHG emission reduction targets covering its Scope 1, 2, and 3 emissions and is consequently ceding competitive advantage to its peers, which have set and are making progress toward science-based emissions reduction goals.
3. **Failure to meet investor expectations for climate risk mitigation** – Investors are expecting companies to set targets for mitigating climate risk, aligned with achieving net-zero emissions by 2050 and limiting warming to 1.5 degrees. The Company is not aligned with these expectations.
4. **Reputational risk** – Failure to adequately mitigate supply chain GHG emissions exposes the Company to numerous risks, including shifting consumer demand and public awareness campaigns targeting companies linked to negative environmental impacts.

## **PEER COMPARISON**

In January 2022, the Company announced Scope 1 and 2 GHG emissions reduction targets that neither put the Company on track to achieve net-zero emissions by 2050 nor align the Company with limiting warming to 1.5 degrees. In both respects, this makes the Company stand out as a laggard in comparison to its peer group.

In 2022, both [Loblaw Companies Ltd.](#) and [Empire Company Ltd.](#) announced commitments to achieve net-zero Scope 1 and 2 emissions by 2040 and net-zero Scope 3 emissions by 2050 in line with the Science Based Targets Initiative (SBTi).

|                              | Net-zero 2050 Commitment | 1.5°C -aligned Scope 1 target | 1.5°C -aligned Scope 2 target | Comprehensive Scope 3 target |
|------------------------------|--------------------------|-------------------------------|-------------------------------|------------------------------|
| <b>Empire Company Ltd.</b>   | ✓                        | ✓                             | ✓                             | ✓                            |
| <b>Loblaw Companies Ltd.</b> | ✓                        | ✓                             | ✓                             | ✓                            |
| <b>METRO Inc.</b>            | ✗                        | ✗                             | ✗                             | ✗                            |

## **ANALYSIS OF THE COMPANY'S CURRENT CLIMATE COMMITMENTS & PERFORMANCE**

### **The Company's GHG reduction goals and plan are not aligned with a 1.5-degree goal**

The Company's current targets correspond to a 2-degree warming future. In comparison, 1,600 companies have joined the "[Business Ambition for 1.5°C](#)" through the SBTi, committing to set net-zero GHG reduction targets in line with a 1.5-degree future. As of [July 2022](#), SBTi is no longer accepting 2-degree-aligned commitments, given the urgency for ambitious action in the face of slow progress toward Paris goals. According to SBTi guidelines, the Company's existing goal of Scope 1 and 2 emissions by 37.5% by 2035 does not meet 1.5-degree alignment standards on several fronts: a) a near-term target must be set for 2030 and seek to half emissions from the baseline year, b) the target must be paired with a 2050 net-zero emissions target, and c) the Company must set targets inclusive of comprehensive Scope 3 emissions.

The proposal in question reflects investor expectations for climate action. In response to this need for robust corporate decarbonization action, the Climate Action 100+ initiative, a coalition of 700 investors with over \$68 trillion in assets, developed the Net Zero Company Benchmark outlining metrics of climate accountability, including: 1) a net-zero goal; 2) short, medium, and long term GHG reduction targets aligned with the Paris Agreement and net-zero goals; and 3) a transition action plan, among other indicators. This proposal will provide the Company with the direction needed to align the Company with this leading benchmark.

### **The Company is not taking action on full Scope 3 emissions**

The Company has not disclosed a time-bound plan to measure and set reduction targets for its full value chain. With Scope 3 (particularly category one, purchased goods and services) representing such a substantial amount of food companies' emissions (as high as [90 per cent or more](#) according to recent studies), and given the considerable influence retailers and producers can have with their suppliers, this is an essential area for the Company to focus efforts to address climate-related risks. The SBTi requires companies to set Scope 3 targets when Scope 3 emissions are 40 per cent or more of total Scope 1, 2, and 3 emissions. The Company's Scope 3 emissions are likely more than double that threshold. The following peers have all either set, or have committed to set, Scope 3 targets: Loblaw, Empire, Walmart, Costco, Kroger Co.

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Climate Action 100+'s [Global Sector Strategies: Recommended investor expectations for food and beverage](#) states that Scope 3 emissions must be covered by company targets and that companies covering only cover Scope 1 and 2 emissions, "will not meet the global ambition expected for corporate GHG emissions reductions, and will be increasingly exposed to climate risk".

### **The Company's absolute Scope 1 and 2 emissions are increasing**

Since the Company has yet to disclose comprehensive Scope 3 emissions, it is unclear whether or not these emissions, representing the bulk of the Company's footprint, are increasing or decreasing. Although the Company highlights that it has reduced its Scope 1 and 2 GHG emissions intensity by 14% between 2015 and 2020, this obfuscates the fact that the Company's absolute emissions have actually *increased* in recent years – rising by 20 per cent (49,008 metric tonnes of carbon dioxide equivalent (tCO<sub>2</sub>e)) from 2020 to 2021.<sup>1</sup> Since it will ultimately be the rise in absolute emissions emitted from human activity that will exhaust the planet's carbon budget, absolute GHG emissions is a crucial measure in understanding emissions performance for assessing a company's contribution to global warming. Setting 1.5-aligned targets, alongside a robust climate action plan, will provide the Company with the tools necessary to most effectively address and reduce its carbon footprint.

### **RESPONSE TO THE BOARD AND MANAGEMENT'S STATEMENT IN OPPOSITION**

The Company's current GHG reduction targets, opposition statement, and [recent public announcement](#) raise concern that the Company is not committed to action at the scale and pace required to meet the challenges posed by climate change and to align with the Paris Agreement.

- The Company states its targets are aligned with a 2-degree warming scenario. As explored above, targets meeting a 2-degree warming scenario are not accepted by SBTi, the global advisory body setting the standard for admissible climate commitments.
- On 18 October 2022 the Company [announced](#) its "support for the Task Force on Climate-related Financial Disclosure (TCFD)" and asserted that in doing so, it is "the first Canadian food and pharmacy retailer to make this public commitment". "[Supporting](#)" the TCFD is a broad commitment to work toward TCFD implementation, and is not to be confused with a time-bound commitment to release a TCFD aligned report, something the Company's peers have already made or executed on.<sup>2</sup> What's more, TCFD-aligned reporting, while laudable, should not be confused as any new or updated commitments to real-world emissions reductions.

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<sup>1</sup> As per METRO's [2022](#) and [2021](#) CDP Climate Change reports.

<sup>2</sup> Empire Company Ltd. has made this commitment and Loblaw Companies Ltd. has already released TCFD-aligned reporting.

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- The Company asserts that it is, “committed to rigorously assessing the feasibility and costs of achieving the net-zero targets of the Science Based Targets initiative”, describing this as a “preliminary step to a *possible* commitment to a SBTi target”. Previous Company messaging suggests there is little internal consideration of such a commitment. In [January 2022](#), the Company indicated that such a 1.5 degree-aligned target, “corresponds to an average GHG emissions reduction of 4.2% per year, an ambitious goal that is currently not within the Company’s capacity to achieve.” Likewise, in its [2022 CDP Climate Change](#) Questionnaire, the Company states that it does not anticipate setting a science-based target in the next two years.<sup>3</sup>

The Company’s current GHG reduction targets are inadequate and incomplete. Given that the physical and financial risks posed by climate change to long-term investors are systemic, portfolio-wide, unhedgeable and undiversifiable, **we urge shareholders to vote FOR this Proposal.**

**Recommendation: Vote FOR Proposal #1, shareholder proposal on 1.5 degree-aligned greenhouse gas targets at METRO Inc.’s Annual Meeting 10:00am EST on January 24, 2023.**

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<sup>3</sup> METRO’s [2022 CDP Climate Change](#) Questionnaire, C4.1a.

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