Agribusiness

ESG Evaluation
Key Sustainability Factors

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Approach

Our key sustainability factors identify the most material environmental and social risks assessed in our ESG Evaluation. We assess the materiality of those risks across the industry’s value chain and reflect them in the weighting of our environmental and social factors. We also provide the quantitative indicators used to assess a company’s performance relative to its industry peers on each of those factors. For further information, please refer to our “Environmental, Social, And Governance Evaluation: Analytical Approach.”

Scope

The agribusiness sector covers a wide variety of companies operating across animal agriculture, arable agriculture, aquaculture, and wild-capture fisheries. Companies in this sector include soft commodity traders, meat and food processors, and fishing companies.

Material Environmental Risks

Agribusiness companies are directly exposed to material environmental risks across their value chain:

- **Greenhouse gas emissions**: Agribusiness is, according to the Intergovernmental Panel on Climate Change, responsible for around 24% of annual anthropogenic greenhouse gas (GHG) emissions. As such, the sector could be prone to potential climate-related regulation, such as carbon pricing. The production of biofuels from virgin feedstocks can lead to increased GHG emissions when land use impact is considered, potentially impacting decarbonization strategies for the sector. Regenerative agriculture, the targeted application of organic fertilizers, technologies and feed additives to reduce methane from cattle, and a transition to alternative proteins, such as plant-based and cultured meats, are other avenues being explored to decarbonize the sector.

- **Air and water pollution**: Agricultural air emissions, such as ammonia from animal waste and the application of artificial fertilizers, is a leading cause of deaths attributable to air pollution, world-wide. Agriculture, resulting from, among other sources, the use of fertilizers, also undermines water quality and, in many countries, is the largest source of water pollution. The impact of agribusiness on air and water emissions compared to other sectors could see it exposed to regulatory changes in the near term, with litigation also a risk.

- **Land and water use impacts**: Agribusiness is, according to the Food and Agriculture Organization of the UN, responsible for 70% of freshwater consumption. The World Economic Forum estimates that half of all habitable land is used for agriculture. Increasing demand for water could lead to pricing impacts or water shortages, which could in turn affect some agribusinesses as well as heavily irrigated crops, such as cotton and potatoes. Though gene editing may create more drought-tolerant crop species, agribusiness' demand for water will likely persist. Agribusiness is also a key driver of deforestation, chiefly the production of soy, palm oil, and beef. The direct ties of agribusiness to deforestation, and its inherent impact on biodiversity, could see the sector constrained by policy interventions to curb the loss of primary forests and to protect nature. Equally, the impact of pesticides on biodiversity—such as the threat neonicotinoids pose to bees—could lead to enhanced regulations, limiting their availability.

- **Animal welfare**: The significant use of antimicrobials as preventives in animal agriculture has material implications for public health. Intensively-reared animals are likely to be administered antimicrobials to combat illness, which in turn can lead to drug resistance in them and also in humans. Regulatory actions to mitigate these risks—by moving to extensive animal rearing and away from intensive, as per the EU announcement to end the caging of all farm animals by 2027—could impact the current business models of many agribusiness companies.

- **Physical climate risks**: Chronic shifts in temperature and precipitation patterns, as well as impacts from acute events (flooding, heat waves, and storms) directly (through changes in yields, crop damage and/or plant and animal productivity) and indirectly (through changes in water availability and quality, as well as new pests and diseases), impact the agribusiness sector. While the locations/timing of opportunities that climate change will bring remain unclear, warmer winters and average temperatures will bring some benefits, including extending the growing season and enabling the growth of new crops.
**Environmental Factors: Weighting And KPIs**

We apply an equal weighting to the four environmental factors to reflect the sizable impact agribusiness has across all the factors we assess in our ESG Evaluation.

In our ESG Evaluation, we use qualitative and quantitative indicators to inform our opinion of an entity’s management of its environmental impacts relative to industry peers. Examples of qualitative indicators include an entity’s policies and commitments to ensure sustainable agriculture practices in its supply chain. The main quantitative performance indicators are listed in the table below.

<table>
<thead>
<tr>
<th>Factor</th>
<th>Weight</th>
<th>Key performance indicators</th>
<th>Other performance indicators</th>
</tr>
</thead>
<tbody>
<tr>
<td>Greenhouse gas emissions</td>
<td>25%</td>
<td>− Scope 3 emissions (absolute and intensity)</td>
<td>− % of primary raw materials sourced per region</td>
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<tr>
<td></td>
<td></td>
<td>− Scope 1 &amp; 2 emissions (absolute and intensity)</td>
<td></td>
</tr>
<tr>
<td>Waste and pollution</td>
<td>25%</td>
<td>− Total waste generated (metric tonnes)</td>
<td>− % of waste that is recycled/reused/recovered</td>
</tr>
<tr>
<td></td>
<td></td>
<td>− % of waste that is recycled/reused/recovered</td>
<td>− % certified crops, and quality of certification</td>
</tr>
<tr>
<td>Water</td>
<td>25%</td>
<td>− Volume of water intake per unit of production (m3/ton of output)</td>
<td>− % of water reused</td>
</tr>
<tr>
<td></td>
<td></td>
<td>− Operations exposed to water-stressed regions (as % of cost of goods sold, and plant locations)</td>
<td></td>
</tr>
<tr>
<td>Land use and biodiversity</td>
<td>25%</td>
<td>% of suppliers/farms visited each year</td>
<td>− % of supply chain monitored for land use change</td>
</tr>
<tr>
<td></td>
<td></td>
<td>− % animal and plant products from certified sources, and quality of certification</td>
<td></td>
</tr>
</tbody>
</table>
Material Social Risks

Agribusiness companies are exposed to material social risks across their value chain.

− **Public safety:** Though agribusiness provides sustenance for the world, it is also a key driver of both infectious and noncommunicable diseases such as cancer, type II diabetes, and respiratory illnesses. The direct impact of food-borne zoonoses, like Salmonella or Campylobacter, could have immediate and direct financial implications for an agribusiness company. Similarly, as awareness of infectious and noncommunicable disease risk heightens, changing consumer preferences could also financially impact some agribusiness companies.

− **Working conditions:** Agribusiness is highly manual and so can have high rates of workplace safety incidents. As the outbreaks of COVID-19 in some meat plants in 2020 and 2021 showed, litigation risk and reputational damage can lead to material impacts for agribusiness companies. Moreover, meat processing workers are often employed via temporary agencies or, if employed directly, are not unionized. In soft commodities and wild-capture fisheries, in particular, incidents of child and forced labor are well documented.

− **Communities:** In emerging economies, agriculture is often a key source of employment and GDP. Tobacco and cocoa agribusinesses, among others, are increasingly supporting local communities by paying living wages to farmers and providing grants to the areas where produce is grown.

Social Factors: Weighting And KPIs

We apply an equal weighting to the four social factors to reflect the sizable social impact agribusiness has across all the factors we assess in our ESG Evaluation.

In our ESG Evaluation, we use qualitative and quantitative indicators to inform our opinion of an entity’s management of its social impacts relative to industry peers. Examples of qualitative indicators include the quality and effectiveness of an entity’s policies on responsible advertising and transparent labelling. The main quantitative performance indicators are listed in the table below.

<table>
<thead>
<tr>
<th>Factor</th>
<th>Weight</th>
<th>Key Performance Indicators</th>
<th>Other performance indicators</th>
</tr>
</thead>
<tbody>
<tr>
<td>Safety management</td>
<td>25%</td>
<td>− LTIFR (Lost Time Injury Frequency Rate)</td>
<td>− % employees provided PPE</td>
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<tr>
<td></td>
<td></td>
<td>− Number of fatalities</td>
<td>− OIFR (Occupational Injury Frequency Rate)</td>
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<tr>
<td></td>
<td></td>
<td>− Number and cost of product recalls as % of annual revenues</td>
<td></td>
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<tr>
<td>Communities</td>
<td>25%</td>
<td>− % of own operations, Tier 1 suppliers, and JV assessed for human rights issues</td>
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<tr>
<td></td>
<td></td>
<td>− Sustainable sourcing of main raw materials (third-party certification)</td>
<td></td>
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<tr>
<td></td>
<td></td>
<td>− Number of farmers who have direct contracts with the company</td>
<td></td>
</tr>
<tr>
<td>Workforce and diversity</td>
<td>25%</td>
<td>− Voluntary/involuntary turnover rate (%)</td>
<td>− % of employees with benefits</td>
</tr>
<tr>
<td></td>
<td></td>
<td>− % of employees paid above minimum wage</td>
<td>− % of employees in collective bargaining schemes</td>
</tr>
<tr>
<td></td>
<td></td>
<td>− % of suppliers paid a living wage</td>
<td>− % of suppliers assessed for forced and/or child labor activities</td>
</tr>
<tr>
<td>Customer engagement</td>
<td>25%</td>
<td>− % revenue from alternative proteins</td>
<td>− % distributors who have formal training by the company on quality</td>
</tr>
<tr>
<td></td>
<td></td>
<td>− R&amp;D spending as % of revenues</td>
<td></td>
</tr>
</tbody>
</table>
Submit Feedback

You can submit your feedback online or by email.

Please specify which sector you are commenting on when submitting feedback.

We would particularly like to hear from you regarding:

1. Which risks are missing or not relevant?
2. Which KPIs are missing, could be enhanced, or are not relevant?
3. What views do you have on the suggested factor weights for the environmental and social analysis?
4. Do you have additional feedback(s) on this document?

Endnotes

¹ Events and issues are material for the ESG Evaluation when in our view they could meaningfully affect the entity’s business operations, cash flows, legal or regulatory liabilities, access to capital, reputation, or relationships with key stakeholders and society more generally, either directly or through its value chain (upstream or downstream).

² We are mindful that some may be produced using different methodologies and scopes.

Related Research


Analytical Contacts

Maurice Bryson
Sustainable Finance
Dublin
+ 353-872-777-628
maurice.bryson@spglobal.com

Bruno Bastit
Sustainable Finance
Madrid
+ 34-682-672-259
bruno.bastit@spglobal.com

Beth Burks
Sustainable Finance
London
+ 44-20-7176-9829
beth.burks@spglobal.com

Chris Johnson, CFA
Ratings
New York
+ 1-212-438-1433
chris.johnson@spglobal.com

Florence Devevey
Sustainable Finance
Paris
+33-1-4075-2501
florence.devevey@spglobal.com

Noemie de la Gorce
Sustainable Finance
London
+ 44-20-7176-9836
noemie.delagorce@spglobal.com

Patrice Cochelin
Sustainable Finance
Paris
+ 33-1-44-207-325
patrice.cochelin@spglobal.com

Paul Munday
Sustainable Finance
London
+44-20-7176-0511
paul.munday@spglobal.com

Henrik Cotran
Sustainable Finance
San Francisco
+1-415-371-5018
henrik.cotran@spglobal.com

Bernard de Longevialle
Sustainable Finance
Paris
+33-1-40-75-25-17
bernard.delongevialle@spglobal.com

Hans Wright
Sustainable Finance
London
+44-20-7176-7015
hans.wright@spglobal.com