

# ELFA ESG Workshop Briefing Paper: Food & Beverages Sector

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## Inside this issue...

Borrowers note that the measurement of ESG data helps drive operational efficiency

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Existing international standards are often referenced in borrower policies and processes

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Due diligence-based approach for labour standards recommended

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# ELFA ESG Workshop Briefing Paper: Food & Beverages Sector

## Introduction

The European Leveraged Finance Association (ELFA) recently brought together sub-investment grade corporate borrowers, investors and credit rating agencies to discuss environmental, social and governance (ESG) topics relevant to the Food & Beverages Sector (see Table 1 for attendees). The event attracted close to 20 market participants, including 3 representatives from 2 sub-investment grade corporate borrowers, 11 credit investors and 2 rating agency analysts.

## The key findings from the Food & Beverages ESG Workshop are:

- Borrowers are finding that the measurement of ESG data helps them drive operational efficiency.
- Borrowers reference existing international standards in their policies and processes for the sustainable sourcing of raw materials and ingredients, such as the RSPO and FSC standards (described below).
- Monitoring labour standards across a borrower's supply chain is a complex and challenging task. Borrowers can take different approaches, including a due diligence-based approach, which is recommended by several international frameworks.

## Exhibit 1. Sector-specific considerations

### Key ESG Considerations include

- Breakdown of revenue-generating business activities e.g., % meat, % organic, % using genetically modified organisms (GMOs)
- Responsible and sustainable sourcing, and animal welfare. Reference to any international standards such as RSPO-certified palm oil and FSC-certified paper.
- Nutritious and sustainable diets (e.g., information on processed or sugar content)
- Climate change impact and product carbon footprint labelling
- Packaging
- Supply chain management and labour standards Labour management, e.g., turnover, training, working conditions, health & safety, and employee satisfaction levels – especially relevant for restaurants
- Product safety



## ESG Measurement Can Help Drive Business Efficiency

One of the borrowers at the workshop explained how the measurement and monitoring of ESG data helped them drive down costs and increase operational efficiency. They strive to be a low-waste or even zero-waste business, for example, as reducing waste saves money, according to the borrower.

The borrower believes that the reporting of ESG data has been advancing for some time now and that we will continue to see a rapid transformation in the next couple of years. Although the borrower mentions that the reporting burden on companies should not be underestimated, it views the company's enhanced ESG reporting as a valuable opportunity for the business enabling the company (and its stakeholders) to compare itself against competitors. Comparing companies on their ESG practises effectively will help investors understand which companies are performing better than others and will also encourage healthy competition between companies, said the borrower.

Another borrower highlighted the importance of ensuring that data comparison is made like-for-like. The borrower explains, for example, that their energy consumption grows each year as they are opening new stores regularly. Stakeholders may argue that any comparison should be presented on a per-store basis. However, the borrower highlights that as their new stores are increasingly larger than their old ones, making a store-by-store comparison would be challenging and possibly misleading.

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**“ESG information is important to us, too, as it helps us drive efficiency. All of these [environmental] metrics drive the bottom line as well as our environmental impact.”**  
**– Borrower**

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## Responsible and Sustainable Sourcing

Borrowers at the workshop spoke about their policies and processes surrounding the sourcing of raw materials and ingredients. Given the risks of deforestation, for example, one of the borrowers mentioned their strict policies on the sourcing of palm oil, paper and soya in particular.

Borrowers highlighted two industry standards on sustainable sourcing of raw materials and ingredients:

- The Roundtable on Sustainable Palm Oil (RSPO) standards, and
- The Forest Stewardship Council (FSC) standards

### The RSPO standards

#### Impact of palm oil farming on the environment

Palm oil requires less than half the land that other crops need to produce the same amount of oil and this makes palm oil the least expensive vegetable oil globally, driving its popularity.

In some regions, oil palm cultivation has caused – and continues to cause – deforestation. This means that land which was once predominantly covered by primary forest (forest that has never been touched by man) or which housed protected species and biodiversity, was cleared in order to be converted into palm oil plantations.

Likewise, some palm oil plantations were developed without consulting local communities over the use of their land. Some have even been responsible for forcibly displacing people from their land. Violations of workers' rights to fair payment and safe working conditions and other malpractices have also occurred.

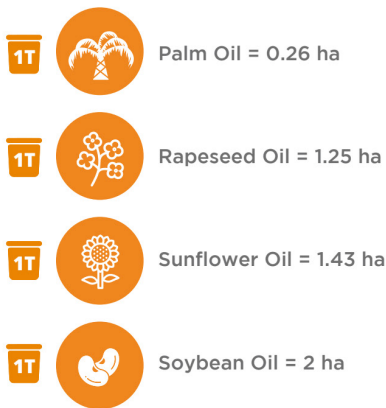
#### Global standards

The RSPO is a not-for-profit organisation, promoting the growth and use of sustainable palm oil by developing and implementing international standards. It unites stakeholders operating in the palm oil industry, such as oil palm producers, processors and traders; consumer goods manufacturers; retailers; banks; investors; and environmental and social NGOs.

The RSPO has developed a set of environmental and social criteria that companies must comply with to produce Certified Sustainable Palm Oil (CSPO). These criteria can help to minimise the negative impact of palm oil cultivation on the environment and communities in palm oil-producing regions.<sup>1</sup>

## WHY IS PALM OIL SO POPULAR?

Land required to produce 1 tonne of major types of oil



Source: RSPO

## 2018 PRINCIPLES AND CRITERIA

### 7 PRINCIPLES

for growers to be RSPO certified

- 01 Behave ethically and transparently
- 02 Operate legally and respect rights
- 03 Optimise productivity, efficiency, positive impacts and resilience
- 04 Respect community and human rights and deliver benefits
- 05 Support smallholder inclusion
- 06 Respect workers' rights and conditions
- 07 Protect, conserve and enhance ecosystems and the environment



### RSPO

Roundtable on Sustainable Palm Oil

- No deforestation
- No new planting on peat
- No use of fire
- Protection of labour and human rights
- Decent living wage

Source: RSPO

<sup>1</sup> Source: [www.rspo.org](http://www.rspo.org)

## FSC standards

### Impact of forest products on the environment

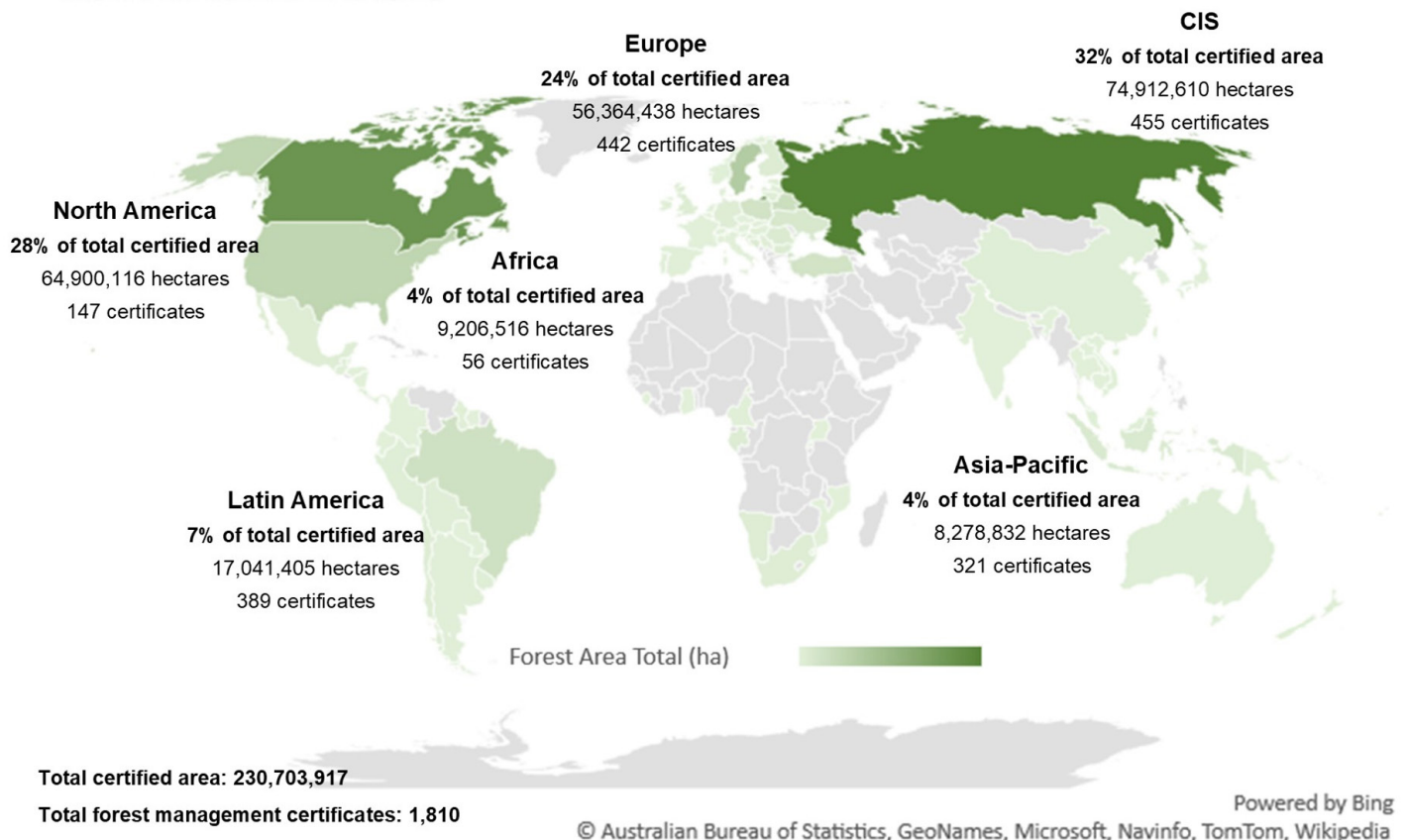
Deforestation and forest degradation are the biggest threats to forests worldwide. Deforestation occurs when forests are converted to non-forest uses, such as agriculture and road construction. Forest degradation occurs when forest ecosystems lose their capacity to provide essential goods and services to people and nature. Deforestation and forest degradation increase greenhouse gas emissions, disrupt water cycles, increase soil erosion and disrupt livelihoods.

### Global standards

The FSC is an international, non-governmental organisation dedicated to promoting responsible management of the world's forests.

FSC forest management certification confirms that the forest is being managed in a way that preserves biological diversity and benefits the lives of local people and workers, while ensuring it sustains economic viability. FSC-certified forests are managed to strict environmental, social and economic standards. There are [ten principles](#) that any forest operation must adhere to before it can receive FSC forest management certification. These principles cover a broad range of issues, from maintaining high conservation values to community relations and workers' rights and monitoring the environmental and social impacts of forest management.<sup>2</sup>

### Global FSC-certified forest area



Figures correct as of 01/01/2022 <https://fsc.org/en/facts-figures>

Source: FSC

<sup>2</sup> Source: <https://uk.fsc.org>, <https://fsc.org/en>

## Human Rights Across the Supply Chain

One borrower explained how it approaches the complex task of monitoring labour standards across its supply chain and how it has adopted a due diligence-based approach, recommended by many frameworks, such as the UN Guiding Principles on Business and Human Rights (UNGPs)<sup>3</sup>. For example, the borrower has implemented policy requirements for its suppliers, requires raw material certifications (as mentioned previously) and conducts certification checks.

The UNGPs are a set of guidelines for governments and companies to prevent, address and remedy human rights abuses within business operations. The UNGPs refer to internationally recognised human rights standards, for example, at a minimum, the International Bill of Human Rights and the principles concerning fundamental rights set out in the International Labour Organization's Declaration on Fundamental Principles and Rights at Work.

Borrowers at the event also highlighted how the right partnerships with external organisations help them to drive human rights due diligence even further. For example, one borrower is a member of the [Consumer Goods Forum \(CGF\) collaboration on human rights in palm oil supply chains](#). There are many indicators of forced labour associated with

the sourcing of palm oil, including debt bondage, passport retention, recruitment fees, and restricted worker movement, and there are regional hotspots where more focused action is required.<sup>4</sup> As part of this collaboration, CGF members are working with selected suppliers to develop and employ HRDD coverage within their supply chains, from refinery to plantation level.

The borrower also explained that they run active grievance channels, including through their NGO partners, such as [The Earthworm Foundation](#), which acts as a collator of the most serious issues which help the borrower triage incidents.

The UNGPs recommend businesses to have policies and processes in place, including:

1. a publicly available policy commitment to meet their responsibility to respect human rights throughout their operations and supply chains;
2. a human rights due diligence (HRDD) process to identify, prevent, mitigate and account for how businesses address their impacts on human rights; and
3. processes to enable the remediation of any adverse human rights impacts that businesses cause or to which they contribute.

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**“We would start by looking at where most material risks are in our supply chain and where those risks are the highest.”**  
**– Borrower**

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<sup>3</sup> [https://www.ohchr.org/sites/default/files/documents/publications/guidingprinciplesbusinesshr\\_en.pdf](https://www.ohchr.org/sites/default/files/documents/publications/guidingprinciplesbusinesshr_en.pdf)

<sup>4</sup> Source: <https://www.theconsumergoodsforum.com/social-sustainability/human-rights-ending-forced-labour/key-projects/palm-oil/>

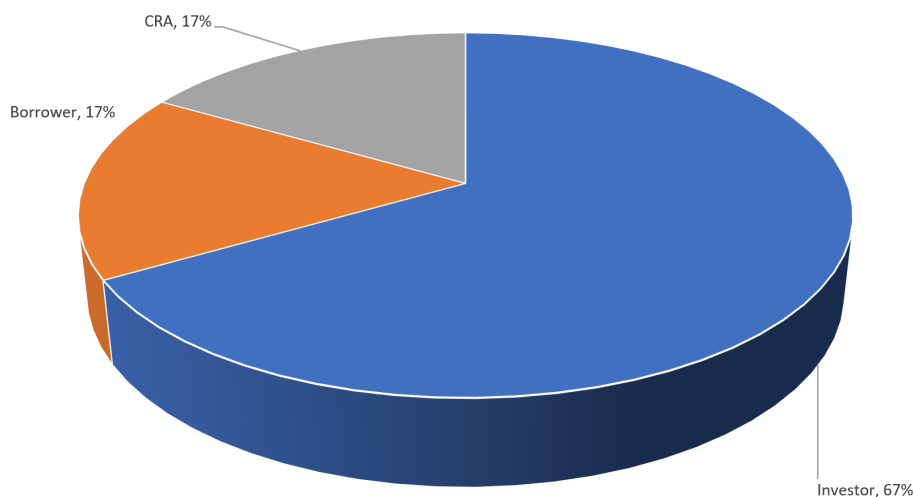
## Participating sub-investment grade borrowers

### Participating sub-investment grade borrowers – Food & Beverages Sector

Upfield, RB Iberia

This was the sixth ESG Workshop presented as part of our ESG Disclosure Initiative, designed to increase ESG disclosure and deepen engagement between corporate borrowers and lenders in the European leveraged finance market. ELFA incorporated feedback provided during the workshop to develop an ESG Fact Sheet for the Food & Beverages Sector. ELFA's ESG Fact Sheets are designed to support borrowers in preparing ESG disclosure and to facilitate engagement on important ESG topics between European leverage finance investors and the companies to which they lend.

Food & Beverage ESG Workshop Attendees by Company Type (%)



Source: ELFA

The recent event follows workshops held throughout 2020, 2021 and 2022. Each workshop has led to the publication of sector-specific ESG Fact Sheets and also a sector-agnostic General ESG Fact Sheet. These ESG resources, and a Guide for Company Advisers to ESG Disclosure in Leveraged Finance Transactions, are available for download [here](#).

We plan to host additional events for sub-investment grade corporate borrowers and credit analysts to incorporate additional sectors not currently covered by the existing ESG Fact Sheets. If you are a corporate borrower or a credit analyst and would like to propose a sector for inclusion in the ESG Disclosure Initiative or to participate in an event, please contact Sabrina Fox, CEO of ELFA, at [sfox@elfainvestors.com](mailto:sfox@elfainvestors.com).

### About ELFA:

ELFA is a professional trade association comprised of European leveraged finance investors from over 60 institutional fixed income managers, including investment advisors, insurance companies, and pension funds. The ELFA seeks to support the growth and resilience of the leveraged finance market while acting as the voice of its investor community by promoting transparency and facilitating engagement among European leveraged finance market participants. For more information please visit ELFA's website: [www.elfainvestors.com](http://www.elfainvestors.com).

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