

# Investment Stewardship's approach to engagement with agribusiness companies on sustainable business practices

BlackRock has a fiduciary responsibility to help our clients protect and grow the value of their assets, and investment stewardship is an essential component of this effort. As we wrote in a letter to clients<sup>1</sup> in January 2020, our investment stewardship team is intensifying its focus and engagement with companies on sustainability-related risks. The BlackRock Investment Stewardship (BIS) team assesses a range of factors that can affect the long-term sustainability of the companies in which we invest on behalf of our clients. The BIS team engages companies to encourage the adoption of business practices that support the long-term value creation on which our clients depend to achieve their financial goals. Our [Global Corporate Governance & Engagement Principles](#) underscore our belief that sound corporate governance practices—including oversight of material environmental and social (“E&S”) factors—are essential to long-term performance. They signal operational excellence and high-quality management necessary to ensure that companies are financially sustainable and able to meet stakeholder expectations. E&S factors relevant to the long-term economic performance of companies are typically industry specific, though, in the current dynamic business environment, some E&S factors, such as some regulatory developments, can impact companies across industries.

As with other E&S issues, we note that companies face both challenges and opportunities in the operation of agribusinesses. The following describes how we assess and engage agribusiness companies to encourage corporate governance and business practices consistent with sustainable operations that benefit shareholders and other stakeholders over time.

## Sustainable agriculture as an investment issue

Modern society is dependent on sustainable agribusiness to ensure food security, quantity, quality, and safety. In many economies, the agricultural sector is credited with driving economic growth and addressing poverty. Expectations of the sector are likely to increase as more and more efficient agricultural production is needed to provide for a growing global population and improving social conditions<sup>2</sup>.

Sustainable agriculture practices aim<sup>3</sup> to mitigate the environmental, ecological, and social pressures that can be exerted by the agriculture system while ensuring the reliability, economic viability, and sustainability of future resources<sup>4</sup>.

However, poor practices in the agricultural sector can result in environmental degradation and social harm. A number of governmental, supranational organizations and others acknowledge the importance of a sustainable agricultural sector and closely scrutinize agribusiness practices. For example, among other agricultural policies<sup>5</sup>, the European Union<sup>6</sup> has placed investing in sustainable agriculture and food systems as a central topic of its International Development and Cooperation agenda with partner countries. The United Nations views sustainable agriculture as a critical component to advance its Sustainable Development Goals (SDGs), particularly the second SDG<sup>7</sup> to end hunger, achieve food security and improve nutrition. Societal expectations, changes in consumer preferences and demand are key drivers of change in the sector, and as we have seen in recent years, can have a profound effect on food companies and those that supply them. That said, ensuring high standards of practice in the agricultural sector depends, in part, on sound public policy and regulatory frameworks that are effectively enforced<sup>8</sup>.

These macro influences impact the long-term financial sustainability of companies in the agribusiness sector, and the companies in adjacent sectors that supply them with goods and services or rely on agriculture supply chains and products. While the possibility of regulatory measures and shifts in intermediary and consumer expectations may present risks, there are also opportunities for those agribusinesses that are efficient or the best operators to benefit from their ability to differentiate themselves.

However, there are challenges. Producers must balance sustainable land management with the need to increase production of agricultural products to feed growing populations of consumers demanding animal proteins<sup>9</sup> and safe, high quality, and affordable food. In some developed markets, consumers are also increasingly seeking plant-based protein alternatives<sup>10</sup>. Sustainable farming practices may generate lower yields at higher costs, and there is often a lack of demand, or willingness to pay for higher priced sustainably produced agricultural products.

The challenge to produce more with fewer inputs—e.g. land, water, raw materials—also provides opportunities to those companies that continue to invest in innovation, conduct their own R&D, and partner more effectively with their suppliers and consumers<sup>11</sup>. Similarly, active participation in industry initiatives can help companies contribute to sector-level improvements, such as storage and logistics, and advance practices through voluntary codes of conduct, such as those on deforestation<sup>12</sup> and human rights.

## **BlackRock's engagement with agribusiness**

Companies with agribusiness interests— either through direct operations or significant supply chain connectivity – are, as noted above, increasingly scrutinized for their practices and could face heightened regulatory, legal, operational and/or reputational risks if they fall short. Shifts in consumer demand also factor into the long-term sustainability of these companies and the returns that they provide to their shareholders.

BlackRock believes that companies with material E&S dependencies and impacts need to demonstrate high standards of operating practices. As we explain in our [Engagement Priorities](#), we expect companies to disclose how the material E&S risks and opportunities in their business model might affect their long-term strategy, capital expenditure, and operations and to explain how relevant risks are assessed, mitigated and managed. Comprehensive, consistent and decision-useful disclosures are critical in order to give investors, along with regulators, insurers, and the public, a clearer picture of how companies are managing sustainability-related business factors<sup>13</sup>.

BIS's areas of focus in engagement with agribusiness, and related sectors as relevant, on environmental factors include land use and management, climate risk, greenhouse gas emissions, illegal logging, biodiversity protection and waste and water management. Our areas of focus on social factors include protecting land rights—particularly those of indigenous peoples, workers' rights, health and safety as well as working conditions, bribery and corruption prevention, humane farming practices, product traceability, and antibiotics in animal raising.

In our engagement, our focus is on board oversight of management practices, operational resilience, and disclosures that help investors understand the risks and opportunities in the business that impact long-term sustainable performance. We aim to understand how the board ensures that management is incorporating sustainable agricultural practices into the business, especially amid changing consumer expectations, regulations, and market forces.

Amongst other things, we ask companies to disclose any initiatives and externally developed codes of conduct, e.g. committing to deforestation-free supply chains, to which they adhere and to report on outcomes, ideally with some level of independent review. In addition, we ask companies to disclose medium- and long-term targets relevant to their business practices that enable shareholders, and others, to assess operational standards, monitor progress and inform engagements.

## Questions asked in an engagement may cover, but are not limited to, the following topics:

- The board's collective expertise and experience on business relevant E&S issues
- How board members stay abreast of emerging trends and innovative practices, regulatory developments, changing consumer demand and societal expectations, amongst other things, including how frequently they visit farms, ranches, and production locations or processing facilities
- How a company assesses its practices as sustainable, how it mitigates and manages the E&S risks within its business, and how it takes the opportunities to differentiate the company, its products and supply chain management
- The key performance indicators (KPIs) that the board reviews in order to assess the implementation of management's sustainability practices<sup>14</sup>
- How the company assesses and mitigates the environmental, social, regulatory, legal, and reputational risks relating to issues that can arise from unsustainable agricultural practices
- The policies and monitoring systems that are in place to prevent poor practices and breaches of company operating standards, e.g. bribery and corruption, and how any breaches are reported to the board and addressed to limit the risk of recurrence
- Whether the company has considered adhering to any relevant international, market- or sector-level standards on sustainable and responsible business conduct in which it does not currently participate
- How employee, contractor, contingent worker, and community health and safety are supported, measured, and monitored
- How the company's supply chain is managed and monitored, including the supply chains of its suppliers to the extent possible, and how the company deals with breaches in policies or standards of practice in its supply chain, including subsidiaries, joint-ventures and foreign investments
- The company's investment in technology, how it anticipates changes resulting from technological advances, such as product traceability, impacting its business, and the changes in long-term strategic direction as a result

We recognize that sustainable agriculture is an extensive and complex issue, with many interwoven dependencies. The ownership structure of many of the companies in the sector, which have a single or small group of affiliated shareholders that control a majority of the shares, also limits the impact of engagement by a minority shareholder like BlackRock. The need for government standards and enforcement cannot be underestimated. Nonetheless, BIS will continue to engage to better understand and promote a company's sustainable agricultural practices as described in this commentary. Moreover, given the groundwork BIS has already laid engaging on sustainability-related risks, opportunities and disclosures, we will be increasingly disposed to vote against the reelection of relevant board directors when companies have not made sufficient progress.

## Contact BlackRock Investment Stewardship at [contactstewardship@blackrock.com](mailto:contactstewardship@blackrock.com)

1. See the letter BlackRock published to clients, "Sustainability as BlackRock's new Standard for Investing", <https://www.blackrock.com/corporate/investor-relations/blackrock-client-letter>.
2. See "The Global Risks Report 2016", World Economic Forum, [http://www3.weforum.org/docs/GRR/WEF\\_GRR16.pdf](http://www3.weforum.org/docs/GRR/WEF_GRR16.pdf).
3. See "What is sustainable agriculture", UC Davis, <https://asi.ucdavis.edu/programs/ucsarep/about/what-is-sustainable-agriculture>.
4. See "Sustainable Agriculture", United States Department of Agriculture, <https://nifa.usda.gov/topic/sustainable-agriculture>.
5. The European Commission's Common Agriculture Policy (CAP) has evolved to better serve sustainability purposes and goals, and the European Commission has also advanced several related initiatives such as its Biodiversity Strategy. The CAP is available at <https://ec.europa.eu/environment/agriculture/index.htm> and the Biodiversity Strategy is available at [https://ec.europa.eu/environment/nature/biodiversity/strategy/index\\_en.htm](https://ec.europa.eu/environment/nature/biodiversity/strategy/index_en.htm).
6. See "Investing in sustainable agriculture and food systems", International Cooperation and Development, European Commission, [https://ec.europa.eu/international-partnerships/topics/investing-sustainable-agriculture-and-food-systems\\_en](https://ec.europa.eu/international-partnerships/topics/investing-sustainable-agriculture-and-food-systems_en).
7. See Sustainable Development Goals, "Goal 2: Zero Hunger", the United Nations, <https://www.un.org/sustainabledevelopment/hunger/>.
8. See the International Institute for Sustainable Development (<https://www.iisd.org/>) for an example of the impact of public policy on the sector in emerging markets, particularly the report: "Agricultural Bias in Focus", available at <https://www.iisd.org/sites/default/files/publications/agricultural-bias-in-focus.pdf>.
9. See "Global meat-eating is on the rise, bringing surprising benefits", the Economist, <https://www.economist.com/international/2019/05/04/global-meat-eating-is-on-the-rise-bringing-surprising-benefits>.
10. See "Carving up the alternative meat market", Barclays, <https://www.investmentbank.barclays.com/our-insights/carving-up-the-alternative-meat-market.html>.
11. See "Agriculture must take a smarter approach to raw materials", Rabobank, <https://www.rabobank.com/en/about-rabobank/background-stories/food-agribusiness/20150617-agriculture-must-take-a-smarter-approach-to-raw-materials.html>.
12. See "Out on a Limb: The State of Corporate No-Deforestation Commitments & Reporting Indicators that Count", Ceres, <https://www.ceres.org/resources/reports/out-on-a-limb>.
13. As Larry Fink, CEO of BlackRock Inc., mentions in his annual letter to CEOs, <https://www.blackrock.com/corporate/investor-relations/larry-fink-ceo-letter>.
14. BIS recommends reviewing the Sustainability Accounting Standards Board Materiality Map as a basis for this analysis and target setting. See <https://materiality.sasb.org/>.