



# Sustainability Accounting Standards Board

Standards Board Meeting, Quarter 1, 2020, Public Meeting

*Tuesday, February 25, 2020*

Feb. 25 2020 Standards Board Meeting

# Welcome & Agenda Overview

Feb. 25 2020 Standards Board Meeting



# Objectives for Today's Meeting

1. **New project proposals – seek Standards Board approval**
2. **Agenda planning & schedule**

Feb. 25 2020 Standards Board Meeting



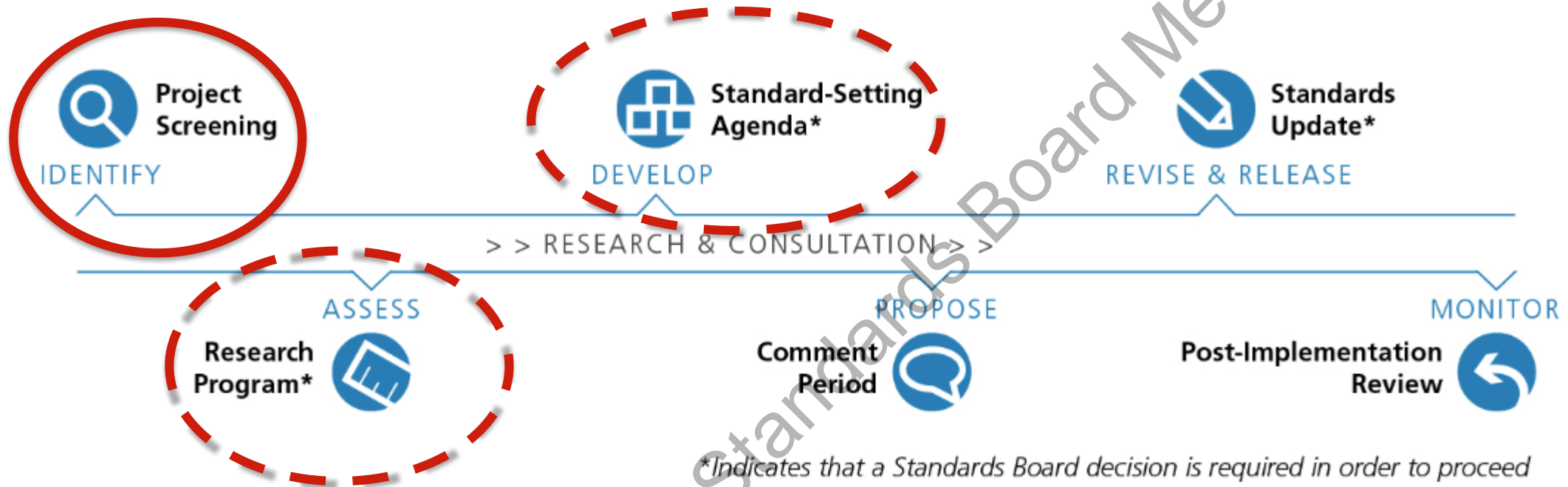
# Agenda

Public Meeting		
Time	Agenda Item	Discussion Leader
10:55am – 11:00am	<b>Welcome &amp; Agenda Overview</b>	Jeff Hales
11:00 – 12:15pm	<b>Standard-Setting Project Proposal*</b> <ul style="list-style-type: none"><li>– Measuring Performance on Raw Materials Sourcing in the Apparel, Accessories &amp; Footwear Industry</li><li>– Supply Chain Management in the Tobacco Industry</li></ul>	Taylor Reed, Lynn Xia
12:15pm – 12:45pm	<b>Break</b>	
12:45pm – 1:22pm	<b>Research Project Proposal*</b> <ul style="list-style-type: none"><li>– Alternative Meat &amp; Dairy</li></ul>	Devon Bonney & Lynn Xia
1:22pm – 2:00pm	<b>Agenda Planning</b>	David Parham

*\*Decision-making session*

For public meeting materials visit the [Standards Board Meeting Calendar & Archive](#) page. The meeting recording and outcomes will be posted on the same page after the meeting.

# Standard-Setting Process Overview



**Project screening** – input from:

- Market & public engagement
- Standards Advisory Group
- Standards Board
- Staff research

**2** **Research Program** – objective:

Conduct research and obtain market input to determine if standard setting should be pursued (meets four criteria)

**2** **Standard-Setting Agenda:**

- Project determined to meet four criteria
- Prioritization informed by agenda priorities (Sept. 2019 meeting)
- Initiates standard-setting process

# Criteria for Standard-Setting Projects (Agenda)

## Mission alignment

---

- ▶ Is there an opportunity to significantly improve communication by companies to investors of decision-useful sustainability information

## Feasibility

---

- ▶ What is the likelihood that there would be a proposed solution to put to the Board in a timely fashion.

## Scope/prevalence

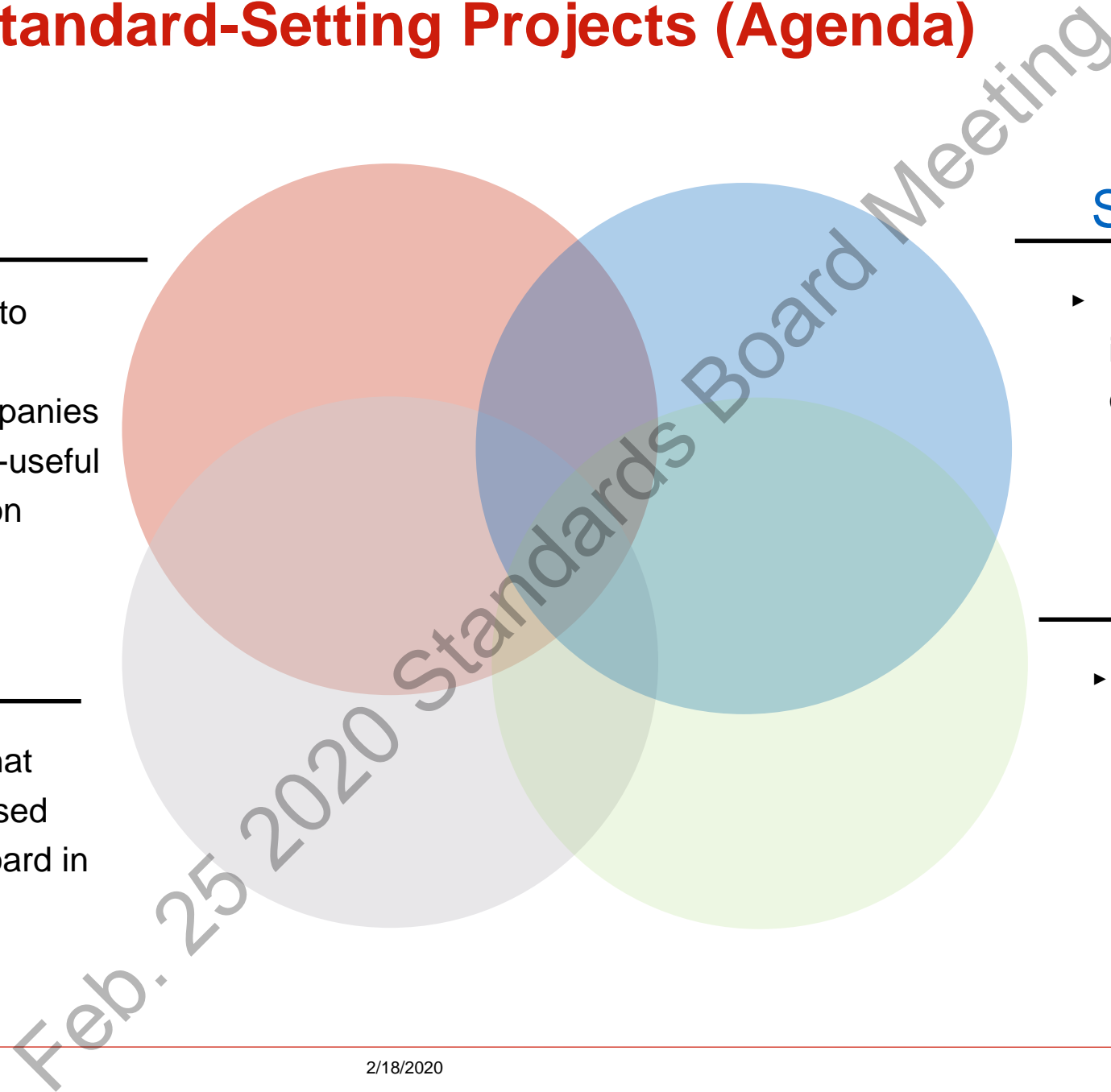
---

- ▶ Is the issue pervasive, including scope of industries or geographies impacted.












## Capacity

---

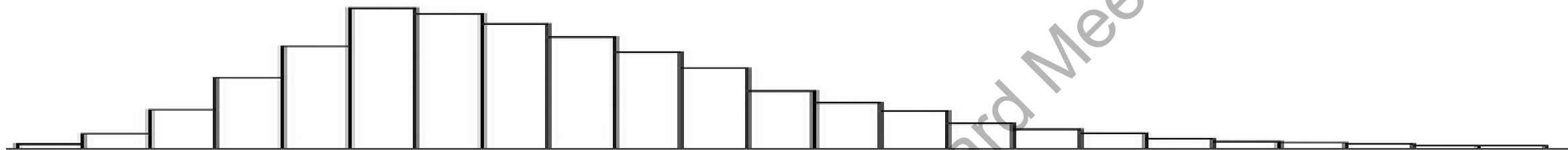
- ▶ Does Staff (and the Board) have sufficient capacity to formally address the issue; and does the issue warrant prioritization of resources over alternatives.



# Agenda Prioritization

-  1. Governance Documents
-  2. Thematic Issue – materiality
-  3. Thematic Issue – measurement
-  4. Industry Standard: reevaluating existing content – materiality
-  5. Industry Standard: reevaluating existing content – measurement
-  6. Industry Standard: evaluating new or emerging issues
-  7. Industry scope and structure issues, including new industry standards
-  8. Globalization
-  9. Technical Protocol Issues
-  10. Standards Application Guidance
-  11. Alignment

# Agenda Prioritization



**Alignment theme**

**8. Globalization**

**11. Alignment**

Conceptual

Practical

Presentation

Legal

Technical

- 1. Governance Documents
- 2. Thematic Issue – materiality
- 4. Industry Standard: reevaluating existing content – materiality
- 6. Industry Standard: evaluating new or emerging issues

- 7. Industry scope and structure issues, including new industry standards
- 10. Standards Application Guidance

- 10. Standards Application Guidance

- 10. Standards Application Guidance

- 3. Thematic Issue – measurement
- 5. Industry Standard: reevaluating existing content – measurement
- 9. Technical Protocol Issues



# Standard-Setting Project Proposals



- Measuring Performance on Raw Materials Sourcing in the Apparel, Accessories & Footwear Industry
- Supply Chain Management in the Tobacco Industry

Feb. 25 2020 Standards Board Meeting

Measuring Performance on Raw Materials Sourcing  
in the Apparel, Accessories & Footwear Industry



Feb. 25 2020 Standards Board Meeting

# Measuring Performance on Raw Materials Sourcing in the Apparel, Accessories & Footwear Industry

Standard-Setting Project Proposal

## Problem Statement

Market input and internal review suggest that the two metrics associated with the Raw Materials Sourcing disclosure topic provide insufficient guidance that may result in inconsistent calculations and noncomparable disclosures. In addition, market input suggests that improvements to the completeness in which the metrics measure performance on the topic, along with further alignment with existing industry approaches should be considered.

## Proposed Project Scope & Anticipated Course of Action

Staff recommends that the Standards Board approve a standard-setting project to revise, clarify, and consider improvements to the following metrics (or at a minimum, the technical protocols for each metric):

- CG-AA-440a.1: Description of environmental and social risks associated with sourcing priority raw materials
- CG-AA-440a.2: Percentage of raw materials third-party certified to an environmental and/or social sustainability standard, by standard

## Criteria for Standard-Setting Project

- ✓ **Mission Alignment** – Is there an opportunity to significantly improve communication by companies to investors of decision-useful sustainability information?
- ✓ **Scope / Prevalence** – Is the issue pervasive, including scope of industries or geographies impacted?
- ✓ **Capacity** – Does Staff (and the Board) have sufficient capacity to formally address the issue; and does the issue warrant prioritization of resources over alternatives.
- ✓ **Feasibility** – What is the likelihood that there would be a proposed solution to put to the Board in a timely fashion.

# Research Agenda Prioritization

- ↑ 1. Governance Documents
- ↑ 2. Thematic Issue – materiality
- 3. Thematic Issue – measurement
- 4. Industry Standard: reevaluating existing content – materiality
- ↓ 5. Industry Standard: reevaluating existing content – measurement
- ↑ 6. Industry Standard: evaluating new or emerging issues
- 7. Industry scope and structure issues, including new industry standards
- ↑ 8. Globalization
- ↓ 9. Technical Protocol Issues
- ↓ 10. Standards Application Guidance
- ↑ 11. Alignment

# Why Now? Industry Coalesces Around Sustainable Materials



- The Year Ahead: Welcome to the Materials Revolution, January 2, 2020, Business of Fashion
- More than Half of Polyester in Adidas' Sneakers Will Be in Recycled This Year, January 21, 2020, Yahoo News

ZARA

- Zara clothes to be made by 100% sustainable fabrics by 2025, July 17, 2019, The Guardian



- Gap commits to 100% sustainable cotton sourcing, June 7, 2019, Supply Chain Dive

ATHLETA

- 60 Percent of Athleta's Materials Are Now Made from Sustainable Fibers, April 18, 2019, Gap Inc. webpage



- Walmart to use 100% sustainable cotton by 2025, April 17, 2019, fibre2fashion.com



- H&M pledges 100% Sustainable Cotton by 2020, April 1, 2019, Supply Chain Dive

## The following companies have made commitments related to sustainable material use:

- |                  |          |           |                     |
|------------------|----------|-----------|---------------------|
| ▪ H&M            | ▪ LVMH   | ▪ Kering  | ▪ Tapestry          |
| ▪ Inditex        | ▪ PVH    | ▪ VF Corp | ▪ Lululemon         |
| ▪ Fast Retailing | ▪ Gap    | ▪ Walmart | ▪ Ralph Lauren      |
| ▪ Nike           | ▪ Adidas | ▪ Target  | ▪ Zalando (Germany) |

**TOTAL MARKET CAP  
REPRESENTED:**

**\$1.2T**

# Current SASB Disclosures on Raw Materials Sourcing

## TOPIC: Raw Materials Sourcing

ACCOUNTING METRIC: Percentage of raw materials third-party certified to an environmental and/or social sustainability standard, by standard



In 2017 we sourced 17% of our cotton (Conventional, organic, recycled) as Better Cotton. In 2018, we are estimating that we sourced 33% of our cotton as Better Cotton. This was calculated using the BCCU's sourced in 2018 and assuming a 3% growth rate in PVH total cotton consumption year over year. We also require that down used in our products be certified by the Textile Exchange's Responsible Down Standard (RDS) to ensure it has been sourced responsibly

### Materials (FY18)



<b>Rubber</b>	92% environmentally preferred	<b>Polyester</b>	19% recycled		
<b>Cotton</b>	8% certified organic 50% Better Cotton Initiative <1% recycled	<b>Corrugate /Paper</b>	84% recycled	<b>EVA Foam</b>	<1% recycled



<b>Fiber Type</b>	<b>% of Fiber Type</b>		
<b>Natural Fibers</b>		<b>Synthetics</b>	
Organic Cotton	0.2% of cotton	Recycled Nylon	0.3% of nylon
BCI Cotton	40% of cotton	Recycled Polyester	0.7% of polyester
Recycled Wool	3.5% of wool	<b>Man-Made Cellulosics</b>	
RWS Wool	01.% of wool	Lenzing Modal	3.9% of rayon
		TENCEL	6.1% of rayon

# Market Input Highlights Three Key Concerns

SASB has received the following feedback from a company and an industry-focused NGO on metric CG-AA-440a.1:

1. Feedback that the **definition of industry terms**, such as “priority raw materials,” are not aligned with industry accepted terms, and don’t account for materials that may not be used in large quantities but may still represent critical risks/opportunities to companies

*Excerpt from the Apparel, Accessories & Footwear industry standard:*

## **CG-AA-440a.1. Description of environmental and social risks associated with sourcing priority raw materials**

- 1 The entity shall discuss its strategic approach to managing environmental and social risks that arise from sourcing priority raw materials (disclosure corresponds to the Sustainable Apparel Coalition’s Higg Brand & Retail Module (BRM)).
  - 1.1 Priority raw materials are defined as those that are essential to the entity’s principal products, where principal products are those that accounted for 10 percent or more of consolidated revenue in any of the last three fiscal years, consistent with 17 CFR 229.101.

## **ANTICIPATED RESEARCH**

- Research textile industry standards intended to guide companies in their identification of “priority raw materials”
- Interview companies on internal processes for identifying “priority raw materials”

## **ANTICIPATED OUTCOME**

- Determination on whether revisions to terms, such as “priority raw materials,” are necessary to improve completeness
- Determination on whether further alignment with an external standard may improve the completeness and comparability of SASB disclosures, as well as the cost-effectiveness of the standard

# Market Input Highlights Three Key Concerns

SASB has received feedback from two companies and a third-party assurance provider on metric CG-AA-440a.2:

- 2.** Feedback that **technical protocol provides guidance that is inconsistent** with the metric title

*Excerpt from the Apparel, Accessories & Footwear industry standard:*

**CG-AA-440a.2. Percentage of raw materials third-party certified to an environmental and/or social sustainability standard, by standard**

1.2 Environmental and social sustainability standards include, but are not limited to:

1.2.5 Better Cotton Initiative

1.2.9 STeP by OEKO-TEX®

## ANTICIPATED RESEARCH

- Research environmental and social sustainability standards for raw material certification in the textile industry

## ANTICIPATED OUTCOME

- Revisions to technical protocol that cite certifications that are consistent with the metric title and facilitate comparable SASB disclosures.



# Market Input Highlights Three Key Concerns

SASB has received feedback from two companies and a third-party assurance provider on metric CG-AA-440a.2:

**3.**

Feedback that the **technical protocol does not provide complete guidance on the calculation of the metric**, specifically, regarding integration of a waste factor, and measuring the weight of finished products

*Excerpt from the Apparel, Accessories & Footwear industry standard:*

1.3 The entity shall calculate the percentage as the weight of raw materials third-party certified to an environmental and/or social standard divided by the total weight of raw materials that compose the entity's finished products.

## ANTICIPATED RESEARCH

- Research on industry standards intended to calculate sustainable material usage in the textile industry, such as the Corporate Fiber & Materials Benchmark program.

## ANTICIPATED OUTCOME

- Determination on whether further guidance is needed on:
  - 1) Integrating a waste factor or loss rate into the metric calculation;
  - 2) Measuring fiber weight in finished products; and
- Determination on whether further alignment with an external standard may improve the measurability of technical protocol, completeness and comparability of SASB disclosures, and the cost-effectiveness of the standard.

# Proposed Project Characteristics

## TIMELINE

- Estimated project timeline is 6-12 months
- Key phases:
  - Research on the aforementioned topics
  - Company, investor & SME consultations
  - Development of exposure draft
  - Public comment period
  - Subsequent revisions
  - Final proposal to the Standards Board

## RESOURCES

- Consumer Goods Sector Lead
- Regular engagements with the Sector Committee (and full Board to a certain extent) throughout the project lifetime

# Measuring Sustainable Material Use in the Apparel, Accessories & Footwear Industry

Standard-setting Project Proposal

## Recommendation

### Problem Statement

*Market input and internal review suggest that the two metrics associated with the Raw Materials Sourcing disclosure topic provide insufficient guidance that may result in inconsistent calculations and noncomparable disclosures. In addition, market input suggests that improvements to the completeness in which the metrics measure performance on the topic, along with further alignment with existing industry approaches should be considered.*

### Seeking the Board's Approval on the Recommendation:

*Staff recommends that the Standards Board approve a standard-setting project to revise, clarify, and consider improvements to the following metrics (or at a minimum, the technical protocols for each metric):*

- *CG-AA-440a.1: Description of environmental and social risks associated with sourcing priority raw materials*
- *CG-AA-440a.2: Percentage of raw materials third-party certified to an environmental and/or social sustainability standard, by standard*

Appendix

Feb. 25 2020 Standards Board Meeting



# Key Areas of Research & the Path Forward

## KEY AREAS OF RESEARCH

- Research environmental and social sustainability standards for raw material certification
- Research the impact of loss rate on measuring raw materials, and methodologies for measuring raw materials in finished goods
- Research industry standards aimed at calculating sustainable material usage in the textile industry
  - Research the potential alignment between SASB metrics and the Textile Exchange's Corporate Fiber & Materials Benchmark Program

## A POSSIBLE PATH FORWARD

**Textile Exchange launches revamped Material Change Index tracking industry progress toward more sustainable materials sourcing**

January 20, 2020

The Material Change Index (MCI) produced by the nonprofit [Textile Exchange](#), is part of that organization's [Corporate Fiber & Materials Benchmark](#) program, which enables participating companies to measure, manage and integrate a preferred fiber and materials strategy into their business. The index was created in part through the voluntary participation of more than 170 companies, including major brands such as Adidas, C&A, Gucci, IKEA, Inditex, Nike, Patagonia and Tchibo.

## POTENTIAL BENEFITS OF ALIGNING WITH CFMB PROGRAM

- Already widely used by apparel companies (170), could alleviate reporting burden and improve cost-effectiveness
- CFMB's requested metrics align closely with the SASB standard
- CFMB provides technical guidance that may improve comparability (i.e., waste factor integration and fiber uptake calculator)

# Supply Chain Management in the Tobacco Industry



Feb. 25 2020 Standards Board Meeting

# Supply Chain Management in the Tobacco Industry

## Executive Summary

Standard-Setting Project Proposal

### Problem Statement

Tobacco cultivation results in environmental and social externalities. Tobacco manufacturers monitor and engage with their suppliers on these issues, and investors have indicated interest in disclosures on tobacco supply chain management. The Tobacco Industry Standard does not currently include any topics or metrics on supply chain management and material sourcing.

### Proposed Project Scope & Anticipated Course of Action

Staff seeks Standards Board approval of a standard-setting project to reevaluate adding supply chain management and/or material sourcing topic(s) and metric(s) to the Tobacco Industry Standard.

### Criteria for Standard-Setting Project

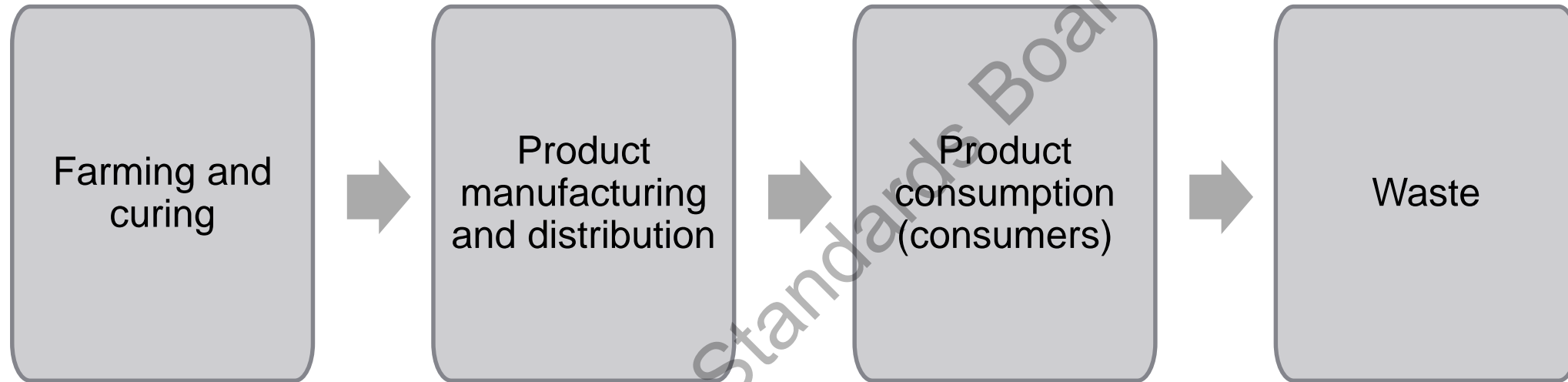
- ✓ **Mission Alignment** - *Is there an opportunity to significantly improve communication by companies to investors of decision-useful sustainability information?*
- ✓ **Scope / Prevalence** – *Is the issue pervasive, including scope of industries or geographies impacted?*
- ✓ **Capacity** – *Does Staff (and the Board) have sufficient capacity to formally address the issue; and does the issue warrant prioritization of resources over alternatives.*
- ✓ **Feasibility:** *What is the likelihood that there would be a proposed solution to put to the Board in a timely fashion.*

# Research Agenda Prioritization

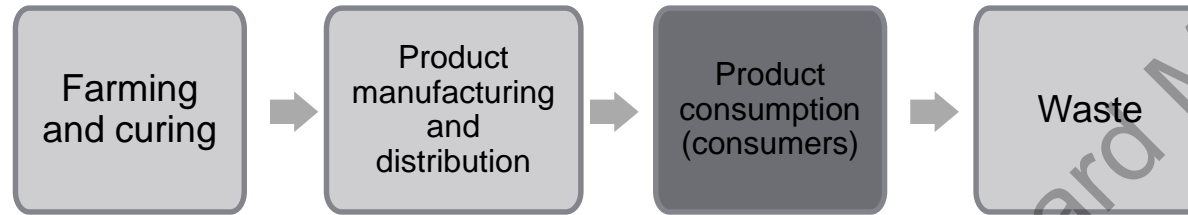
- ↑ 1. Governance Documents
- ↑ 2. Thematic Issue – materiality
- 3. Thematic Issue – measurement
- 4. Industry Standard: reevaluating existing content – materiality
- ↓ 5. Industry Standard: reevaluating existing content – measurement
- ↑ 6. Industry Standard: evaluating new or emerging issues
- 7. Industry scope and structure issues, including new industry standards
- ↑ 8. Globalization
- ↓ 9. Technical Protocol Issues
- ↓ 10. Standards Application Guidance
- ↑ 11. Alignment



# Key stages of tobacco product lifecycle

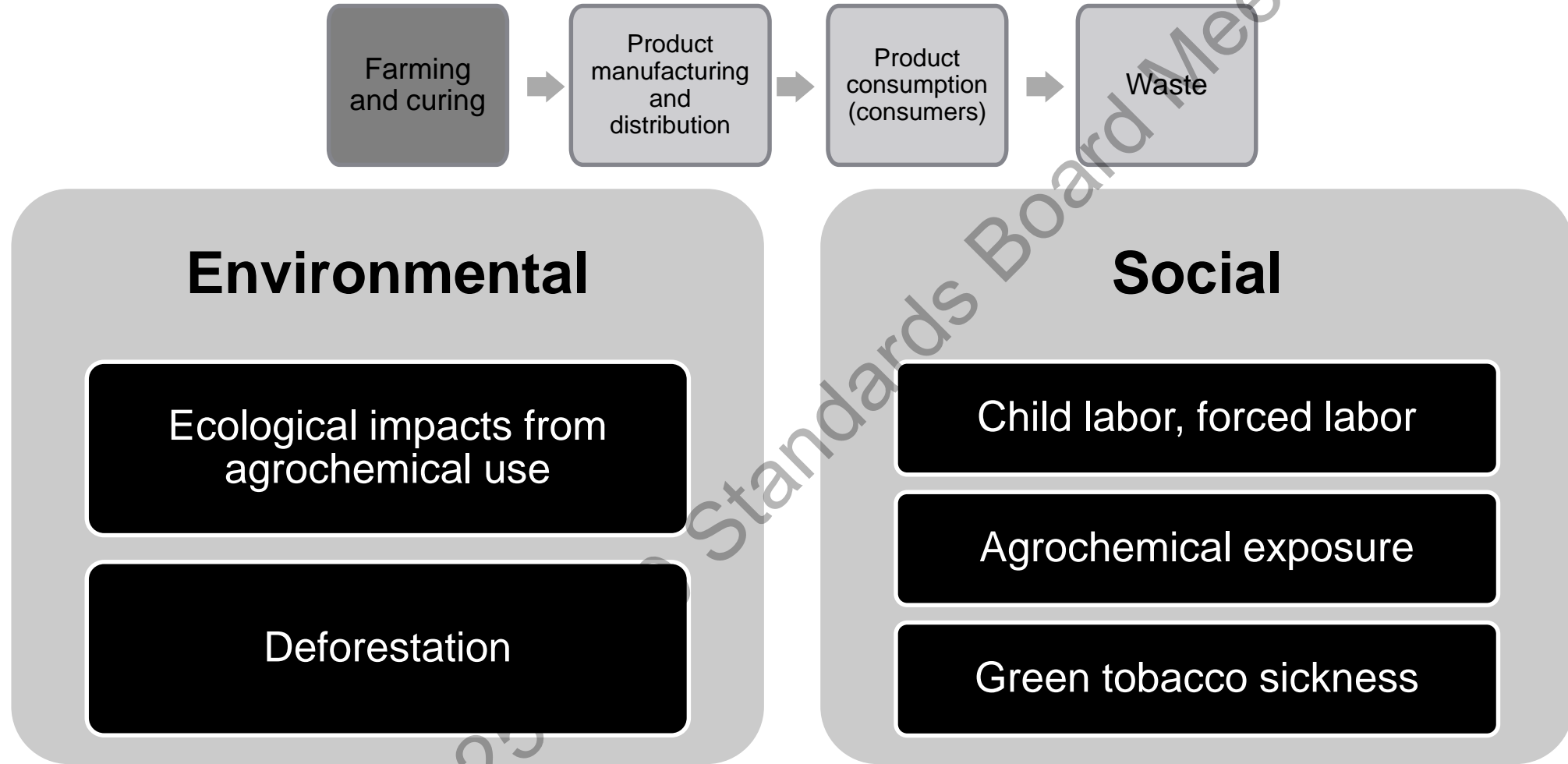


# Current Tobacco Industry Standard addresses consumption related ESG risks



TOPIC	ACCOUNTING METRIC	CATEGORY	UNIT OF MEASURE	CODE
Public Health	(1) Gross revenue and (2) revenue net of excise taxes from (a) non-tobacco nicotine products and (b) heated tobacco products	Quantitative	Reporting currency	FB-TB-260a.1
	Discussion of the process to assess risks and opportunities associated with "tobacco harm reduction" products	Discussion and Analysis	n/a	FB-TB-260a.2
Marketing Practices	Total amount of monetary losses as a result of legal proceedings associated with marketing, labeling, and/or advertising practices <sup>2</sup>	Quantitative	Reporting currency	FB-TB-270a.1
	Description of the company's marketing policy and relevant positions on Articles 11 and 13 of the World Health Organization Framework Convention on Tobacco Control (WHO FCTC)	Discussion and Analysis	n/a	FB-TB-270a.2

# Tobacco cultivation has recognized sustainability risks not reflected in the standard



Source: Lecours N, Almeida GEG, Abdallah JM, et al. "Environmental health impacts of tobacco farming: a review of the literature." *Tobacco Control* 2012;21:191-196; Boseley S. "Child labour rampant in tobacco industry." *The Guardian*. June 25, 2018. <https://www.theguardian.com/world/2018/jun/25/revealed-child-labor-rampant-in-tobacco-industry>; U.S. OSHA "Recommended Practices: Green Tobacco Sickness." 2015. <https://www.cdc.gov/niosh/docs/2015-104/pdfs/2015-104.pdf?id=10.26616/NIOSH PUB2015104>

# Global tobacco treaty requires action on cultivation practices

## The **WHO Framework Convention on Tobacco Control (WHO FCTC)**

is a global public health treaty adopted by 180+ parties covering over 90% of the world's population; component of SDG 3.



- ARTICLE 18 recognizes that Parties agree to have due regard to the **protection of the environment and to health with respect to tobacco cultivation and manufacture**
- ARTICLE 17 requires Parties to promote, as appropriate, economically viable alternatives for tobacco workers, growers, and possibly individual sellers.

# Global investors recognize tobacco supply chain risks as a material financial risk

## Investor Statement in Support of World No Tobacco Day

We, the undersigned investors, health systems, and pensions, representing US \$4.03 trillion in assets under management, are writing on the occasion of World No Tobacco Day to openly support the tobacco control measures being taken by governments around the world.

Every year, on May 31st, we highlight the threat of tobacco to our health, our economies, and our societies, and advocate for the tobacco control measures being taken by governments around the world.

According to the WHO, tobacco is a primary driver of disease and death, causing 8 million people per year in low and middle income countries. Unless urgent action is taken, an estimated 1 billion premature deaths are expected by 2030.

More than \$1 trillion a year, according to a 2017 joint study by the WHO and the U.S. National Cancer Institute, far outweighing global revenues from tobacco taxes<sup>1</sup>.

Governments and public health systems across the world are mobilizing to address this cost to development, society and humanity. Their resolve to implement effective tobacco-control measures is enshrined in the Sustainable Development Goals (SDGs) and the landmark WHO Framework Convention on Tobacco Control, an international treaty with 180 Parties (179 countries and the European Union), making it one of the most widely supported treaties in history. Today, more than half the world's countries, representing nearly 40% of the world's population (2.8 billion people) have implemented at least one of the Framework's measures.<sup>2</sup>

We in the investment community are becoming increasingly aware of the important role we can play in helping to address the health and societal impacts of tobacco. We strive within our own scope of action to support the ambition of the WHO, in line with our commitment to the positive role finance can play in sustainable development more broadly. It is for this reason we have come together for *World No Tobacco Day* to:

- Applaud the tobacco control measures already taken by governments around the world,
- Encourage them to continue their efforts, and
- Lend our support to global action against the tobacco epidemic and its significant cost to society and development.

<sup>1</sup> Which the WHO estimated at about \$269 billion in 2013-2014

<sup>2</sup> Data in this paragraph sourced from: <http://www.who.int/campaigns/no-tobacco-day/2017/event/en/>



## May 31, 2017: Investor Statement in Support of World No Tobacco Day

Undersigned investors, health systems, and pensions, representing US \$4.03T AUM

### *Press Release*

Managing director of the PRI, Fiona Reynolds, added: **“Aside from the obvious health issues, investors are increasingly becoming aware of the material financial risks around tobacco. These include regulatory, litigation, and supply chain risks.”**

# Historical Consideration of the Topic



Feb. 25 2020 Standards Board Meeting

# Topic withdrawn from *Exposure Draft of the Provisional Standard*

Published January 2015

TOPIC	ACCOUNTING METRIC	CATEGORY	UNIT OF MEASURE	CODE
Public Health	Revenue from (1) smokeless tobacco products, (2) non-tobacco nicotine-delivery products, and (3) other "tobacco harm-reduction" products	Quantitative	U.S. Dollars (\$)	CN0302-01
	Description of the process to assess risks and opportunities associated with "tobacco harm-reduction" products	Discussion & Analysis	n/a	CN0302-02
Marketing Practices	Amount of legal and regulatory fines, settlements, and enforcement actions associated with marketing, labeling, and advertising <sup>6</sup>	Quantitative	U.S. Dollars (\$)	CN0302-03
	Description of alignment of marketing and labeling practices with Articles 11 and 13 of the WHO Framework Convention on Tobacco Control	Discussion & Analysis	n/a	CN0302-04
Environmental & Social Impacts of Supply Chains	Percentage of tobacco sourced from growers audited to U.S. Tobacco GAP Program guidelines or an equivalent code of conduct	Quantitative	Percentage by weight (%)	CN0302-05
	Suppliers' social and environmental responsibility audit compliance: (1) priority non-conformance rate and associated corrective action rate, and (2) other non-conformance rate and associated corrective action rate	Quantitative	Rate	CN0302-06

Mid-2015 *Response to Public Comments*

**“SASB has withdrawn the ‘Environmental & Social Impacts of Supply Chains’ topic** from the provisional standard for the Tobacco industry as additional research indicated that **this topic is not likely to constitute material information for most companies in the industry.**”

# Stakeholders expressed interest during consultations

Input for revisions to the Provisional Standard

## December 2016 – Consultation with asset manager

- **Companies should be disclosing broader social and environmental issues that are part of the tobacco supply chain.**
- Forced labor, agricultural practices, green tobacco illness noted as topics for consideration

## January 2017 – Consultation with Phillip Morris International

- **All tobacco companies should demonstrate that they have assessed Environmental and Social Impacts across their value chains**
- Should disclose their most significant impacts and the corresponding measurement and management approaches, including those due to labor practices in supply chains (e.g. child labor, forced labor)

## March 2017 – Consultation with investment analysts broadly on agriculture industry

- **“Origin and transparency” for any agricultural supply chain** is a helpful, key theme for investors.
- Specifically noted issues of pesticide and changing climate and water stress for tobacco



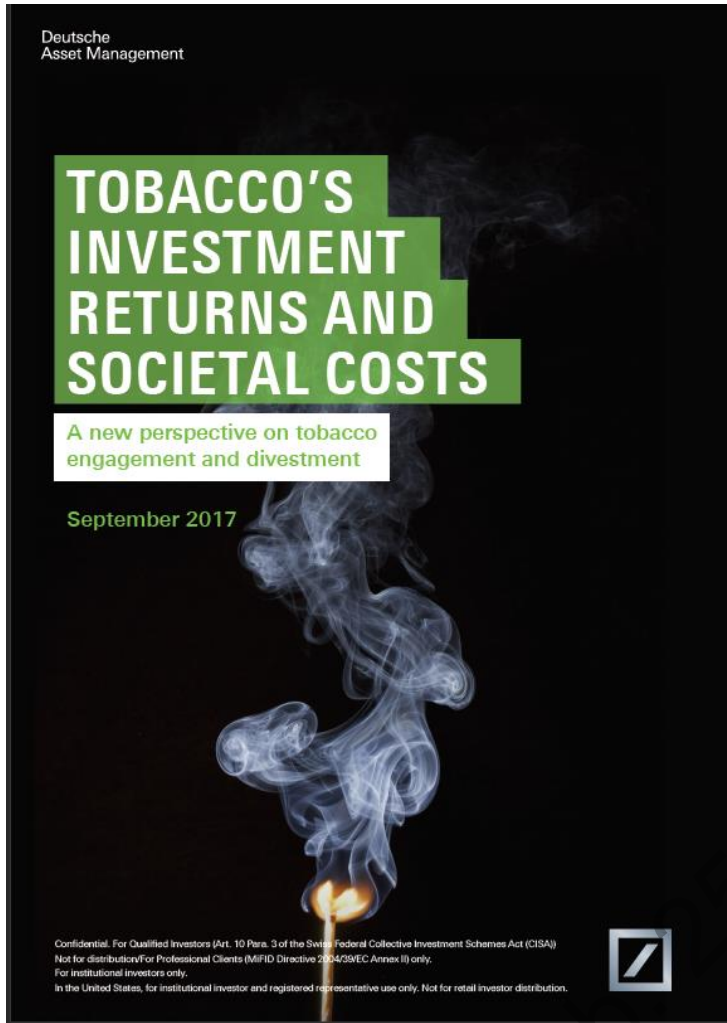
# Topic proposed as Technical Agenda Item for Codified Standard

Proposed May 2017

“Add supply chain topic to the Tobacco industry standard. The suggested metrics for this topic relate to labor practices in supply chains (e.g. child labor, forced labor), organizational carbon footprint, and product waste”

# Stakeholders continue to express interest in the topic

September 2017 – Deutsche Asset Management Tobacco Industry Report



January 2018 – Deutsche Asset Management Public Comment to SASB

“There is a need to develop disclosures regarding social and environmental standards for tobacco cultivation and processing. This was included in the provisional standards but not in the final exposure draft, apparently as there was no clear evidence of company cost savings.”

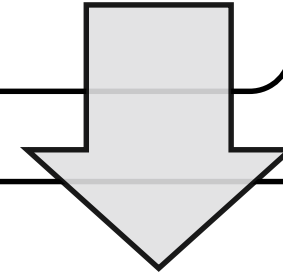
Environmental and societal externalities are very large in the broad agricultural sector and institutional investors have several engagement initiatives (including through PRI) asking companies to improve their practices and policies. This shows investor interest, as the environmental externalities of agricultural production have material negative impacts on other aspects of an investors' holdings.

As well, the UK Modern Slavery Act and California Transparency in Supply Chains Act require investors (as listed companies) to publish steps taken to ensure supply chains are free from slavery. Schroders (Aug 2016) concluded that much tobacco production comes from countries with high modern slavery risks plus MSCI 2015 found only 20% of listed tobacco companies have programs to audit suppliers' code of conduct compliance. This demonstrates the **need for improved disclosure of social practices in the tobacco supply chain, including how companies address and manage Green Tobacco Sickness**

# Project plan

## Staff Research & Market Consultation

- Conduct market consultations to understand current perspectives on the issue and the decision-usefulness of disclosures on this topic for investors (Mission Alignment criterion)
- Develop understanding of any evolving market and regulatory perspectives on the issue



## Determine appropriate revisions for the standard

- Determine appropriate GIC for topic and metrics
- If applicable, coordination with *Human Capital Project*

**Staff resource:** Food & Beverage analyst; support by associate analyst(s)

**Estimated timeline:** 6 months to one year to provide potential proposed revision to the Tobacco Industry Standard

# Supply Chain Management in the Tobacco Industry

## Recommendation / Discussion Questions

*Standard-setting Project Proposal*

### **Problem Statement**

Tobacco cultivation results in environmental and social externalities. Tobacco manufacturers monitor and engage with their suppliers on these issues, and investors have indicated interest in disclosures on tobacco supply chain management. The Tobacco Industry Standard does not currently include any topics or metrics on supply chain management and material sourcing.

### **Recommendation**

Staff seeks Standards Board approval of a standard-setting project to reevaluate adding supply chain management and/or material sourcing topic(s) and metric(s) to the Tobacco Industry Standard.

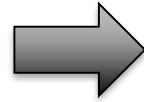
Appendix

Feb. 25 2020 Standards Board Meeting



# Fragmented growers for a concentrated industry

Tobacco Growers



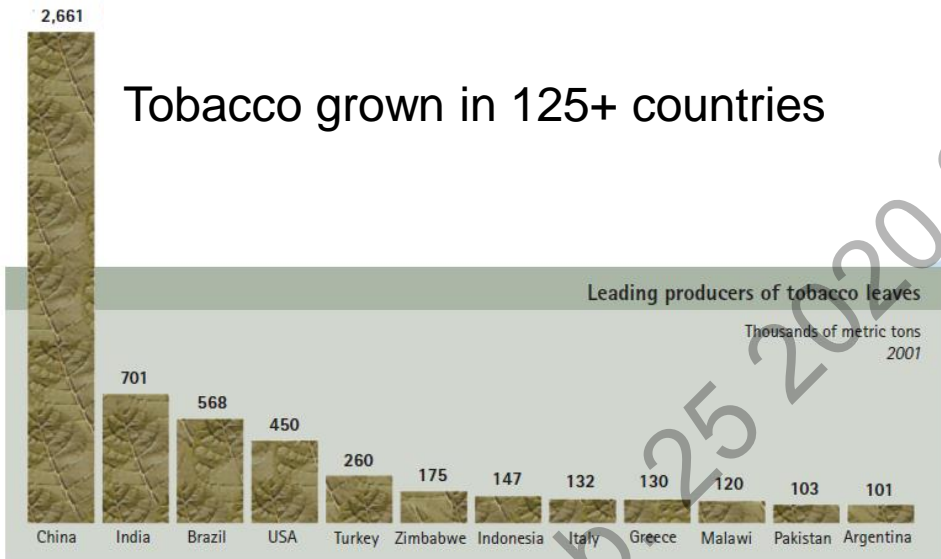
Tobacco Manufacturers

Small, independent tobacco farms, who typically sell their crops to tobacco merchants or to manufacturers under contract

**Tobacco Manufacturing**  
China National Tobacco Corp  
Philip Morris International Inc  
Japan Tobacco Inc  
British American Tobacco PLC  
Altria Group Inc  
Imperial Tobacco Group PLC

*= 80%+ of total cigarette market share*

Tobacco grown in 125+ countries



# Public Comment on *Exposure Draft to the Provisional Standards*

## Tobacco

Industry SICS number	Name and/or Affiliation of Respondent	Topic (Metric Code)	Comment Excerpts	SASB Response
CN0301	Maia Kutner/CDP	General Comment	We recommend that SASB includes Greenhouse Gas Emissions and Energy Management in the list of topics covered in this standard. Within the emissions topic- in addition to the requirement to report Scope 1 emissions- provide the option to report Scope 3 emissions. See the general comment on page 2 of this document	Comment noted. SASB's research process did not identify the Tobacco industry as a significant greenhouse gas emitter or as a significant consumer of energy (either in absolute terms or relative to its cost of sales). SASB's research and stakeholder consultation did not identify other risks or opportunities associated with greenhouse gas emission or energy management for this industry such that the topics would warrant inclusion in the Tobacco Standard.
CN0301	Maia Kutner/CDP	Environmental & Social Impacts of Supply Chains (CN0302-05)	.18 General comments: The U.S. Tobacco GAP Program includes environmental criteria to safeguard water supplies through responsible farming techniques by growers: Water Management: • Safeguard water supplies by: – Not mixing or applying agrochemicals near surface water or waterways. – Not allowing fertilizers or agrochemicals to enter waterways. – Protecting irrigation water sources from contaminations of agrochemicals and fertilizers. – Avoiding wastage of water by monitoring water usage. – Not allowing fertilized water from greenhouse seedling float production and other sources to contaminate water supplies. – Following all State and Federal Environmental Protection Agency labelled requirements. – Maintaining buffer area between farmland and environmentally sensitive areas. – Strategically placing buffer strips	SASB has withdrawn the "Environmental & Social Impacts of Supply Chains" topic from the provisional standard for the Tobacco industry, due to lack of strong evidence to suggest that performance on this issue is likely to have significant financial impacts for U.S.-listed companies in the industry.
CN0301	Maia Kutner/CDP	Environmental & Social Impacts of Supply Chains (CN0302-05)	.18 We would also recommend that SASB ask for companies to state what percentage of suppliers they engage with or collect information on water risks and management of those risks so the data user understands how robust any risk assessment on supplier is (see W1.3 in CDP 2015 water questionnaire) as part of line disclosure .20 and .21 under CN0302-06. (The 80% limit is recognised).	SASB has withdrawn the "Environmental & Social Impacts of Supply Chains" topic from the provisional standard for the Tobacco industry.

# Public Comment on *Exposure Draft to the Provisional Standards (Contd.)*

Industry SICS number	Name and/or Affiliation of Respondent	Topic (Metric Code)	Comment Excerpts	SASB Response
CN0301	Maia Kutner/CDP	Environmental & Social Impacts of Supply Chains (CN0302-05)	.18 Although this industry is not consider water-intensive in its manufacturing compared to its supply chain, some companies have identified direct water use as important to their processes, especially when located in areas of water stress as this may impact production for market. Competing demands for water in these locations may also impact on their brand reputation with local communities. (See British American Tobacco, Imperial Tobacco and Philip Morris International 2014 water responses on <a href="http://www.cdp.net">www.cdp.net</a> ). We would recommend that SASB include water management metrics for withdrawals in water stressed regions at a minimum for this industry and ideally consumption and discharge/compliance metrics as proposed for other agricultural dependent industries in the Consumption sector.	SASB has withdrawn the "Environmental & Social Impacts of Supply Chains" topic from the provisional standard for the Tobacco industry as additional research indicated that this topic is not likely to constitute material information for most companies in the industry.
CN0301	Maia Kutner/CDP	Climate change	We would recommend that SASB ask for companies to report on how they are managing risks from climate change.	In its metrics and briefs submitted to the Tobacco Industry Working Group (IWG) SASB put forth the topic of "Climate Change Adaptation" following stakeholder feedback received from the IWG, SASB withdrew the "Climate Change Adaptation" topic from the Tobacco Standard prior to releasing its draft standards for the Public Comment Period. SASB's additional research indicated that this topic is not likely to constitute material information for most companies in the industry



# Tobacco manufacturers have direct impact on growers

**PMI:** direct contracts with 21,000 tobacco farmers; 20 third-party suppliers representing 329,000 farmers

**BAT:** 68% from 18 BAT leaf operations, which source from over 90,000 farmers; 32% from 20+ third-party suppliers, which source from over 260,000 farmers

----

**Good Agricultural Practices (GAP) programs commonplace in industry**

# Tobacco manufacturers are managing and disclosing this topic

### The four strategic focus areas

<p><b>PRODUCTS AND SERVICES</b> We will be a total tobacco company offering consumers an even greater choice of products by focusing on quality, innovation, and reduced-risk potential.</p> <p><b>WITH TARGETS SET FOR: REDUCED-RISK PRODUCTS</b></p>	<p><b>SUPPLY CHAIN</b> We will reduce environmental and social risks, and enable transparent and responsible practices across our supply chain.</p> <p><b>WITH TARGETS SET FOR: GREENHOUSE GAS EMISSIONS WATER AND WASTE, FORESTRY AGRICULTURAL LABOR PRACTICES SUPPLIER SCREENING</b></p>
<p><b>PEOPLE</b> We will be the employer of choice by investing in people.</p> <p><b>WITH TARGETS SET FOR: ZERO INJURIES COMMUNITY INVESTMENT EMPLOYER OF CHOICE</b></p>	<p><b>REGULATORY ENVIRONMENT AND ILLEGAL TRADE</b> We will ensure the Company is included in policymaking leading to fair and balanced regulation, and enhance our cooperation with governments to combat illegal trade.</p> <p><b>WITH TARGETS SET FOR: ENGAGEMENT ILLEGAL TRADE</b></p>

### Altria's Responsibility Priorities and Goals

**Managing Our Supply Chain Responsibly**

**Developing Our Employees and Culture**

### Sustainability at BAT

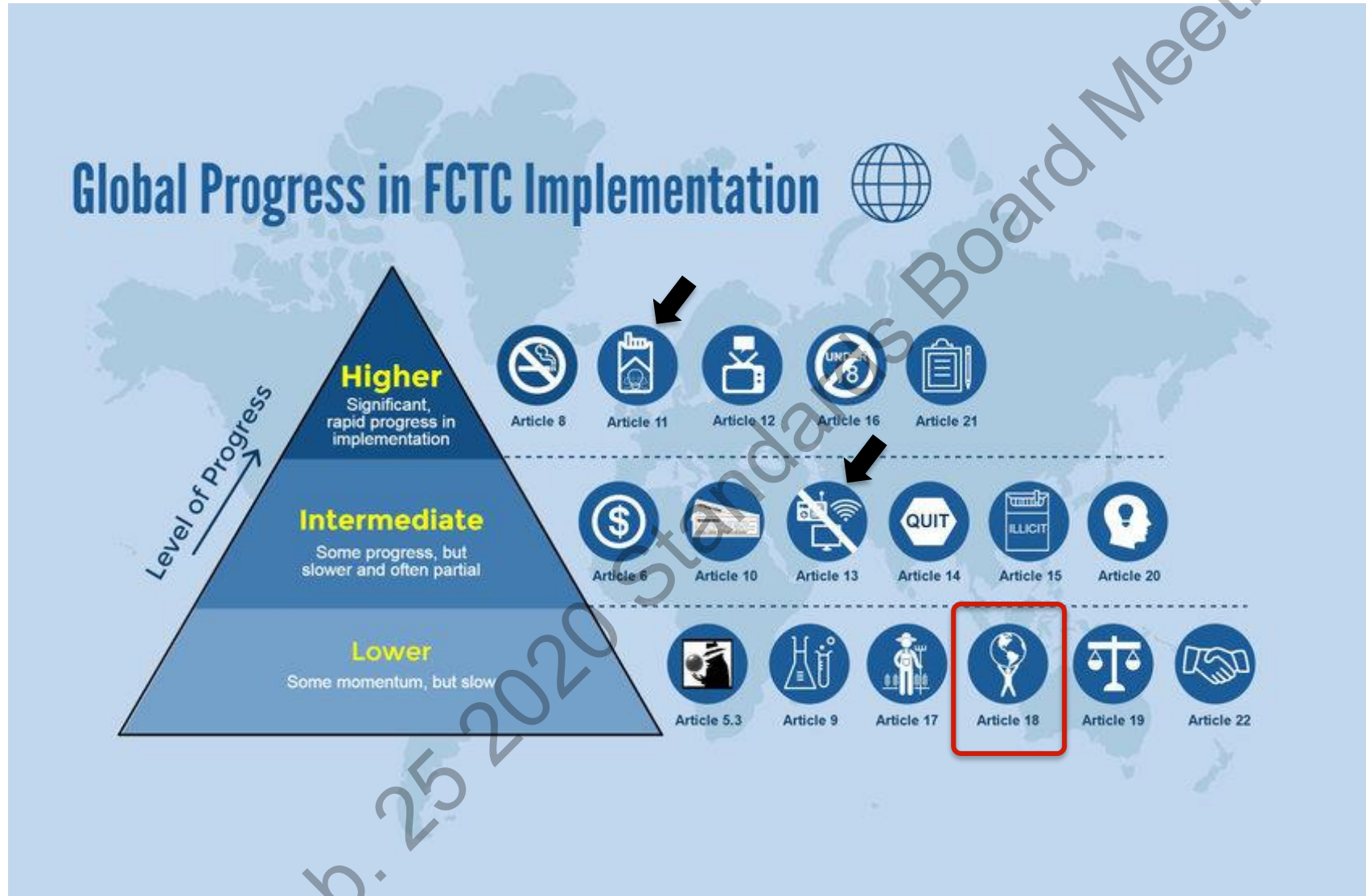
Through a detailed materiality process, we have identified three sustainability priorities that have the greatest significance to our business and our stakeholders:

- Harm reduction** 06  
We are committed to working to reduce the public health impact of smoking, through offering adult consumers a range of potentially reduced-risk products (PRRPs).
- Sustainable agriculture and farmer livelihoods** 4  
We are committed to advancing sustainable agriculture and working to enable prosperous livelihoods for all farmers who supply our tobacco leaf.
- Corporate behaviour** 22  
We are committed to operating to the highest standards of corporate conduct and transparency.

<p><b>SUSTAINABLE SUPPLY</b></p> <p>How do you support farmers to diversify and maintain a sustainable business?</p>	<p><b>REDUCED HARM PRODUCTS</b></p> <p>How do you encourage adult smokers to transition to potentially less harmful alternatives?</p>	<p><b>RESPONSIBLE PEOPLE AND OPERATIONS</b></p> <p>How do you keep your people safe on the roads?</p>
--	---	---

<b>PILLAR 1</b> Transforming our business	<ul style="list-style-type: none"> <li>Addressing product health impacts 21</li> <li>Providing access to smoke-free products 29</li> <li>Product addictiveness 37</li> <li>Responsible R&amp;D 38</li> </ul>	
<b>PILLAR 2</b> Driving operational excellence	<ul style="list-style-type: none"> <li>Responsible commercialization, and youth access and usage prevention 40</li> <li>Maintaining a strong ethics and compliance culture 43</li> <li>Delivering on our commitment to human rights 47</li> <li>Sourcing raw materials and other supplies responsibly 52</li> <li>Maintaining data privacy 59</li> <li>Tackling the illicit tobacco trade 60</li> </ul>	
<b>PILLAR 3</b> Managing our social impact	<ul style="list-style-type: none"> <li>Eliminating child labor and improving labor conditions on tobacco farms 65</li> <li>Supporting fair working conditions 74</li> <li>Promoting health, safety, and well-being 79</li> <li>Furthering diversity and inclusion 83</li> <li>Engaging with our communities 86</li> </ul>	
<b>PILLAR 4</b> Reducing our environmental footprint	<ul style="list-style-type: none"> <li>Reducing our energy usage and carbon emissions 88</li> <li>Conserving biodiversity and combating deforestation 93</li> <li>Minimizing waste and littering 99</li> <li>Managing water 106</li> </ul>	

# Progress on WHO FCTC article implementation has varied



Break until 12:45pm PT

Feb. 25 2020 Standards Board Meeting



# Research Project Proposals

- Alternative Meat & Dairy



Feb. 25 2020 Standards Board Meeting

# Alternative Meat and Dairy



Feb. 25 2020 Standards Board Meeting

# Alternative Meat and Dairy

## Executive Summary

Research Project Proposal

### Problem Statement

Alternative meat and dairy products are growing as consumer demand for products with reduced environmental impact increases & companies are adapting to this changing consumer preference. Alternative meat and dairy products are not currently addressed in the SASB Standards.

### Proposed Project Scope & Anticipated Course of Action

Seeking approval to initiate a Research Project to establish an evidence-based view of the following:

- 1) The relevance of this trend for each of the Food and Beverage SICs industries
- 2) How consumer demand for alternative meat and dairy products fits within the SASB's General Issue Categories within the Food and Beverage Sector
- 3) Whether to proceed to standard setting

### Criteria for Standard-Setting Project

- ? **Mission Alignment** - *Is there an opportunity to significantly improve communication by companies to investors of decision-useful sustainability information?*
- ? **Scope / Prevalence** – *Is the issue pervasive, including scope of industries or geographies impacted?*
- ✓ **Capacity** – *Does Staff (and the Board) have sufficient capacity to formally address the issue; and does the issue warrant prioritization of resources over alternatives.*
- ? **Feasibility:** *What is the likelihood that there would be a proposed solution to put to the Board in a timely fashion.*

# Research Agenda Prioritization

- ↑ 1. Governance Documents
- ↑ 2. Thematic Issue – materiality
- 3. Thematic Issue – measurement
- 4. Industry Standard: reevaluating existing content – materiality
- ↓ 5. Industry Standard: reevaluating existing content – measurement
- ↑ 6. Industry Standard: evaluating new or emerging issues
- 7. Industry scope and structure issues, including new industry standards
- ↑ 8. Globalization
- ↓ 9. Technical Protocol Issues
- ↓ 10. Standards Application Guidance
- ↑ 11. Alignment



# Agenda

- 1) **Evidence:** Emerging Issue, Alignment with TCFD, Investor Interest, Standards Advisory Group Input
- 2) **SASB Standards**
- 3) **Proposed Project Overview**

Feb. 25 2020 Standards Board Meeting



Evidence

Feb. 25 2020 Standards Board Meeting



# Overview of Alternative Meat and Dairy Products

## Consumer Demand

65% of Global Consumers

Eating more plant-based foods and beverages for:

- 1) Health
- 2) Animal Welfare
- 3) Environment

## Products

Plant Based

Fermented

Cell Culture

## Reduced Environmental Impacts of Alternative Meat & Milk

Impact	Reduced Impact (Meat)	Reduced Impact (Milk)
Land Use	47% - 99%	90-95%
GHG Emissions	36% - 90%	75-90%
Water Use	72% - 99%	45% - 90%

Sources: FAIRR, "Appetite for Disruption"; FoodDive, "Plant-based Eating Makes Consumers Feel Healthier, Study Says"; BBC "Climate Change: Which Vegan Milk is Best?"; Good Food Institute "Plant-Based meat for a Growing World"

# Consumer Demand is Driving Growth for Alternative Meat

Protein Alternatives Market - Market Size, by Region, Global, 2018

U.S. Grocery Store Sales of Meat Substitutes \$750M 2019 → \$7.2B by 2025

European Plant Protein Market to reach \$2.6B in 2024 with a CAGR of 7.5%

14% of U.S. Consumers regularly use plant-based alternatives, 86% of which are NOT vegan or vegetarian

- High
- Medium
- Low

**Global Plant-Based Meat Market**

**Global Meat Market**

Current (2018/2019)	CAGR (Next 5 years)	2029 (estimated)
\$12.1B	12%	\$140B
\$945.7B	3.1%	\$1.4T

Sources: FAIRR, "Appetite for Disruption" MarketWatch, "Meat Market 2020 to Showing Impressive Growth by 2024 | Industry Trends, Share, Size, Top Key Players Analysis and Forecast Research"; Mordor Intelligence, "Europe Plant Protein Market – Growth, Trends and Forecast (2020-2025)"; Mordor Intelligence, "Protein Alternatives Market – Growth, Trends and Forecast (2020-2025)"; PR Newswire "Meat Substitutes Market Worth \$3.5 Billion by 2026 - Exclusive Report by MarketsandMarkets"; UK Investment Guides "Barclays Analysts Predict x10 Growth Of Alternative Meat Market"



# Consumer Demand Drove Growth in Alternative Dairy Industry

## Industry Example

U.S. Markets	Percent Change in Sales (2012-2017)	Market Value (2017)
Alternative Milk	↑ 61%	\$2.11B
Traditional Milk	↓ 15%	\$16.12B

Sources: Bloomberg Terminal, Danone, Dean Foods, FAIRR "Plant-Based Profits: Investment Risks & Opportunities in Sustainable Food Systems"; Food Dive "Non-Dairy Milk Sales Surge as Shoppers Sour on the Popular Cow-Based Alternative"



# Companies are Acting Based on This Trend

SASB Industries

Companies Acting Based on Changing Consumer Demand

Agricultural Products	
Alcoholic Beverages	
Food Retailers & Distributors	  
Meat, Poultry & Dairy	   
Non-Alcoholic Beverages	   
Processed Foods	    
Restaurants	    
Tobacco	

# Alignment With TCFD

## TCFD Implementation Recommendations for Agriculture, Food & Forest Products Group

- 1) Increasing efficiency by lowering level of carbon and water intensity per unit
- 2) Reducing inputs and residual waste
- 3) Developing new products and services with lower carbon and water intensity

Sources: FAIRR, "Appetite for Disruption"; FoodDive, "Plant-based Eating Makes Consumers Feel Healthier, Study Says"

# There is Evidence of Investor Interest in Alternative Meat



“KFC and the Beyond Nuggets and the extent to which you view this as sort of **sustainable versus a short-term** be a very healthy lift but maybe less of the core part of the menu.”

- Sara Senatore, AllianceBernstein, Yum Q3 2019 Earnings Call



“You guys started to test out the **beyond plant-based burger in Canada**. I'm wondering as the quarter unfold, did you , I think that not having a meatless burger was a headwind to your sales. **How are you thinking about that opportunity here.**”

- Katherine Fogertey, Goldman Sachs, McDonalds Q3 2019 Earnings Call



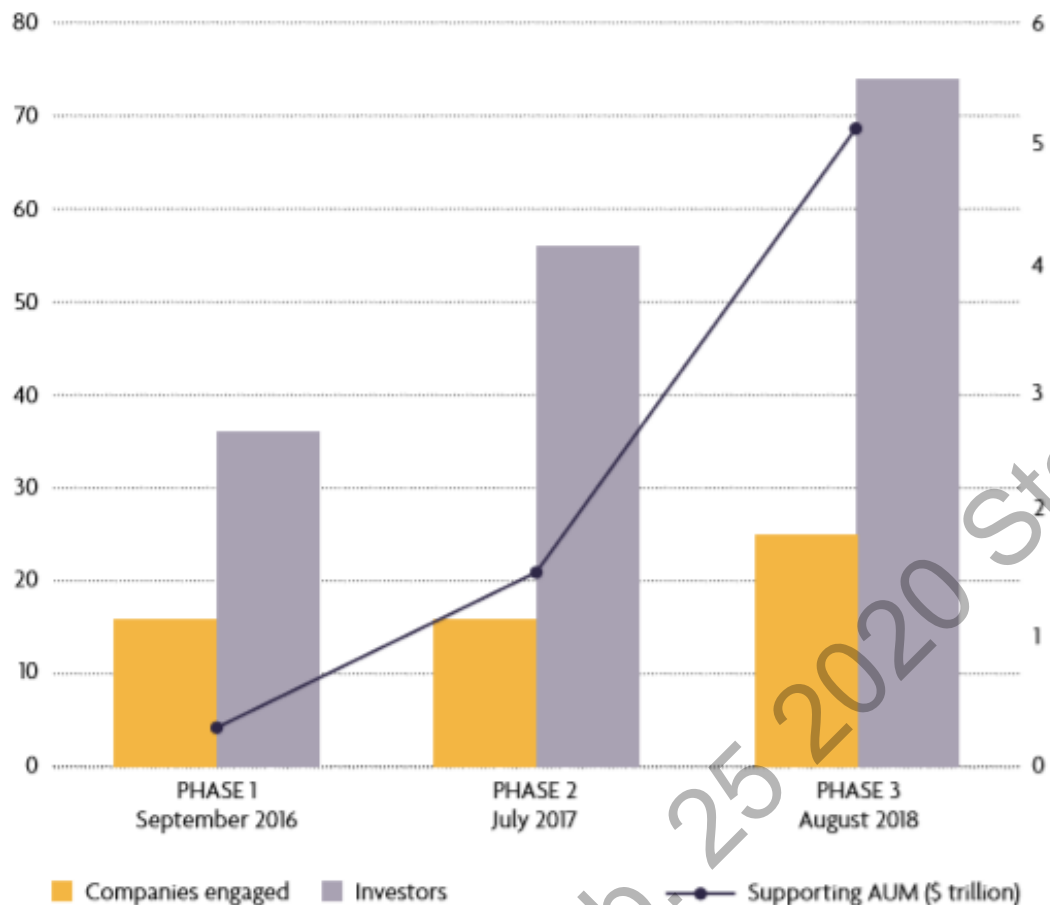
“I wanted to follow up on Happy Little Plants launch that you guys discussed at the Analyst Day. I was curious **what type of retailer and foodservice interest** you're seeing so far? And how you guys are thinking about the contribution from this launch this year?”

- Rupesh Parikh, Oppenheimer & Co., Hormel Foods Corp Q4 2019 Earnings Call



# Investor Interest Has Grown Since 2016

FAIRR, is a non-profit whose "mission is to build a global network of investors who are focused and engaged on the risks linked to intensive animal production within the broader food system. FAIRR helps investors to exercise their influence as responsible stewards of capital to engage and safeguard the long-term value of their investment portfolios..



Phase 1: 16 global retailers/manufacturers & 36 Investors with \$1.25T AUM

Phase 2: 16 global retailers/manufacturers & 57 Investors with \$2.3T AUM

Phase 3: 25 global retailer/manufacturers & 74 investors with \$5.3T AUM

Phase 4: 25 global retailers/manufacturers & 88 investors with \$11.2T in AUM

Sources: FAIRR, "Appetite for Disruption"

# Standards Advisory Group Preliminary Engagement

Standards Advisory  
Group Workshop  
(December 2019)



Stakeholder	Feedback
Food and Beverage Analyst	View that company strategy around this trend could help mitigate risks and create opportunities to capture market share
Restaurant	This trend was not a priority
Industry Group	Willing to engage with SASB on this trend (changing viewpoint from the workshop)
Non-profit	Actively working with investors in this space & interested in engaging with SASB

# SASB Standards

Feb. 25 2020 Standards Board Meeting



# Industry Standards Do Not Include Environmental Impacts of Alternative Meat and Dairy Products

## Environmental Impacts of Alternative Products

SASB Industry	Health/Nutrition	Animal Welfare	Environmental Impacts of Alternative Products
Agricultural Products			
Alcoholic Beverages			
Food Retailers & Distributors		Disclosure Topic: Animal Care & Welfare	
Meat, Poultry & Dairy		Disclosure Topic: Animal Care & Welfare Disclosure Topic: Antibiotic Use in Animal Production	
Non-Alcoholic Beverages	Disclosure Topic: Health & Nutrition		
Processed Foods	Disclosure Topic: Health & Nutrition		
Restaurants		Disclosure Topic: Supply Chain Management & Food Sourcing	
Tobacco	Disclosure Topic: Public Health		



# Companies in Five Industries Have Strategies Related to Alternative Meat and Dairy Products

## Environmental Impacts of Alternative Products

SASB Industry	Health/Nutrition	Animal Welfare	Environmental Impacts of Alternative Products
Agricultural Products			
Alcoholic Beverages			
Food Retailers & Distributors		Disclosure Topic: Animal Care & Welfare	
Meat, Poultry & Dairy		Disclosure Topic: Animal Care & Welfare Disclosure Topic: Antibiotic Use in Animal Production	
Non-Alcoholic Beverages	Disclosure Topic: Health & Nutrition		
Processed Foods	Disclosure Topic: Health & Nutrition		
Restaurants		Disclosure Topic: Supply Chain Management & Food Sourcing	
Tobacco	Disclosure Topic: Public Health		



# Research Project Objectives



Feb. 25 2020 Standards Board Meeting

# Objectives of a Research Project is to Answer Questions Related to Scope of SASB Industries

## Standard-Setting Criteria

*Mission Alignment:* Investors find this topic relevant

*Scope / Prevalence:*

- 1) The relevance of this trend for each of the Food and Beverage SICs industries
- 2) How consumer demand for alternative meat and dairy products fits within the SASB's General Issue Categories within the Food and Beverage Sector
- 3) Whether to proceed to standard setting

*Capacity:* Lead Analyst and Associate Analyst within the Food & Beverage Sector

*Feasibility:* SASB estimates that this research project will take between 9-12 months



## Expected Outcomes

Identify applicable SICs industries and potential disclosure topics

Understand how this topic fits into SASB General Issue Categories

Recommendation for Standard-Setting Project(s)

# Alternative Meat and Dairy

## Recommendation / Discussion Questions

Research Project Proposal

### Problem Statement

Alternative meat and dairy products are growing as consumer demand for products with reduced environmental impact increases & companies are adapting to this changing consumer preference. Alternative meat and dairy products are not currently addressed in the SASB Standards.

### Recommendation / Discussion Questions

*SASB Staff recommends approval of a research project on this subject.*

- 1) Do you agree that the scope/prevalence as it relates to the SASB industries is the right focus area for this project?
  - Defining the issue through the lens of industries and general issue categories
- 2) Do you agree that this should move forward as a Research Project?



Appendix

Feb. 25 2020 Standards Board Meeting



# This Issue Arose to Our Attention with the Increase in Media Coverage of the Alternative Meat Industry

## Disruptor of the Year: Beyond Meat

The company made 2019 the year of the plant-based burger with products appearing in grocery stores and restaurants nationwide and one of the year's hottest IPOs.



- FoodDive

## BURGER KING LAUNCHES THREE NEW PLANT-BASED BURGERS FOLLOWING IMPOSSIBLE WHOPPER SUCCESS

- NewsWeek

## Moral Money: 20 things to watch in 2020

### 19. Beyond Meat

The terrifying images of the **burning Amazon forests** in 2019 marked another setback in the battle to slow global warming and **insatiable demand for beef was blamed as a root cause of the fires...**As alternative proteins become ubiquitous, **2020 should be the year diners can casually pair combating climate change with tasty meals.**

- Financial Times

Sources: Financial Times, "20 things to Watch in 2020"; FoodDive, "Disruptor of the Year: Beyond Meat"; NewsWeek, "Burger King Launches Three New Plant-Based Burgers Following Impossible Whopper Success"; Starbucks, "Starbucks Commits to a Resource-Positive Future"

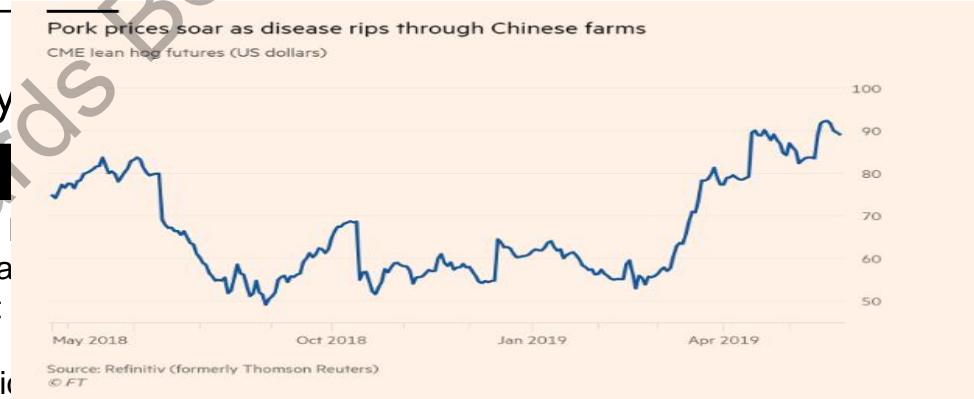
# Remaining Status Quo Can Increase Risk to Companies

## Environmental/Supply Chain Risk

Industry	Risk	Effect
Meat, Poultry & Dairy & all downstream industries	Restaurants putting downward pressure on meat, poultry & dairy producers → McDonalds has committed to source deforestation-free beef	If JBS, a leading processor of beef, and other customers of McDonald's do not change practices, they could lose business affecting <b>revenue</b> & their ability to operate
Meat, Poultry & Dairy & all downstream industries	Increased GHG Emissions from production	Increase cost of revenue, cost of capital & capex (?)

## Volatility in Supply

Industry	Risk	Effect
Meat, Poultry & Dairy & all downstream industries	African Swine Fever Hormel in China to a cut Pork prices	over ting
Meat, Poultry & Dairy & all downstream industries	Droughts, Floods & Storms	Australia lost \$72M and 43,000 cattle. Supply could decrease, profits could decrease, prices to restaurants could increase
Meat, Poultry & Dairy & all downstream industries	Droughts & Floods	Feed costs are volatile and could be higher with flooding impacting grain supply for Egg producers
Restaurants; Food Retailers & Distributors; Process Foods	Poor management of ESG impacts in supply chain	Lose market share (?) , reputation risk (?)



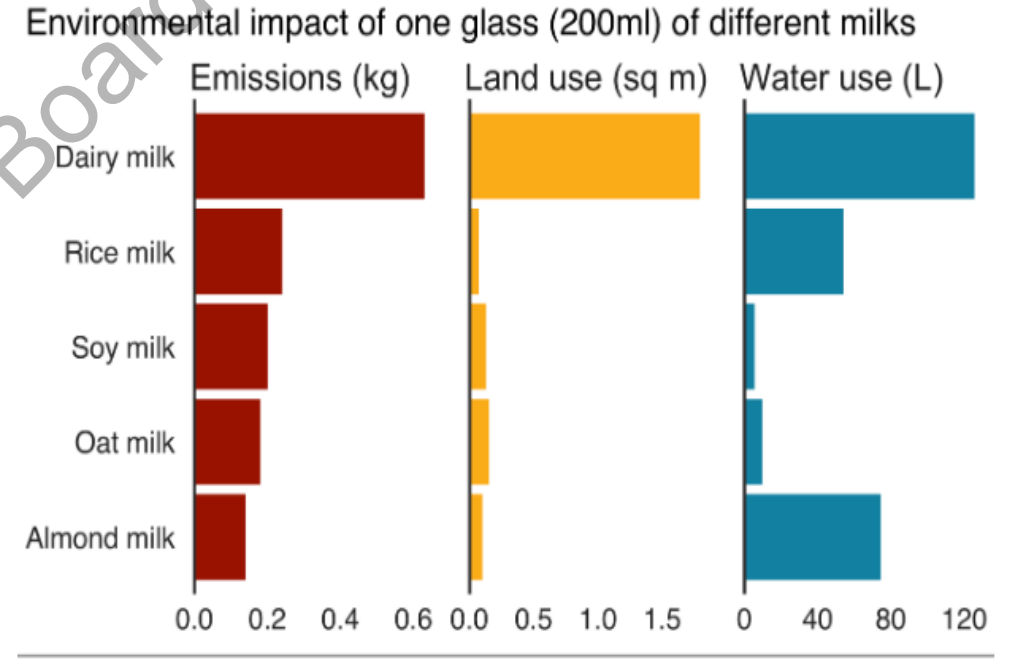
Sources: Financial Times, US Food and Restaurant Chains Hit by Rising Pork Prices; Bloomberg "Climate Change is Already Costing Meat and Dairy Producers a Lot", Harvard Business Review "A Look Inside the World's Largest Beef Producer: Is JBS Slaughtering Cows – or the Environment?"

# Alternative Proteins and Milk Provide an Opportunity to Lessen Environmental Impacts

## Alternative vs. Conventional Meat

Eating this plant-based meat	instead of this conventional meat	reduces this environmental impact by this much.					
		Land use	Greenhouse gas emissions	Water use	Aquatic eutrophication potential		
		m <sup>2</sup> -y/kg	kg-CO <sub>2</sub> -eq/kg	L/kg	g-PO <sub>4</sub> <sup>3-</sup> -eq/kg		
Impossible Burger 2.0 <sup>7</sup>	Beef burger*	96%	89%	87%	91%		
Beyond Burger <sup>8</sup>	Beef burger**	-	89%	99%	-		
Grillers Original Burger <sup>9</sup>	Beef burger*	93%	85%	95%	77%	Land Use	PLANT-BASED MEAT Harm: Greatly Reduced Certainty: High
Spicy Black Bean Burger <sup>9</sup>	Beef burger*	97%	89%	96%	76%	Climate Change	Harm: Reduced Certainty: High
Roasted Garlic & Quinoa Burger <sup>9</sup>	Beef burger*	93%	88%	98%	73%	Water Pollution	Harm: Greatly Reduced Certainty: High
Grillers Crumbles <sup>9</sup>	Ground beef**	99%	90%	96%		Antibiotic Resistance	Harm: Eliminated Certainty: High
Original Sausage Patties <sup>9</sup>	Pork sausage patties*	47%	30%	81%	51%		

## Alternative vs. Conventional Milk

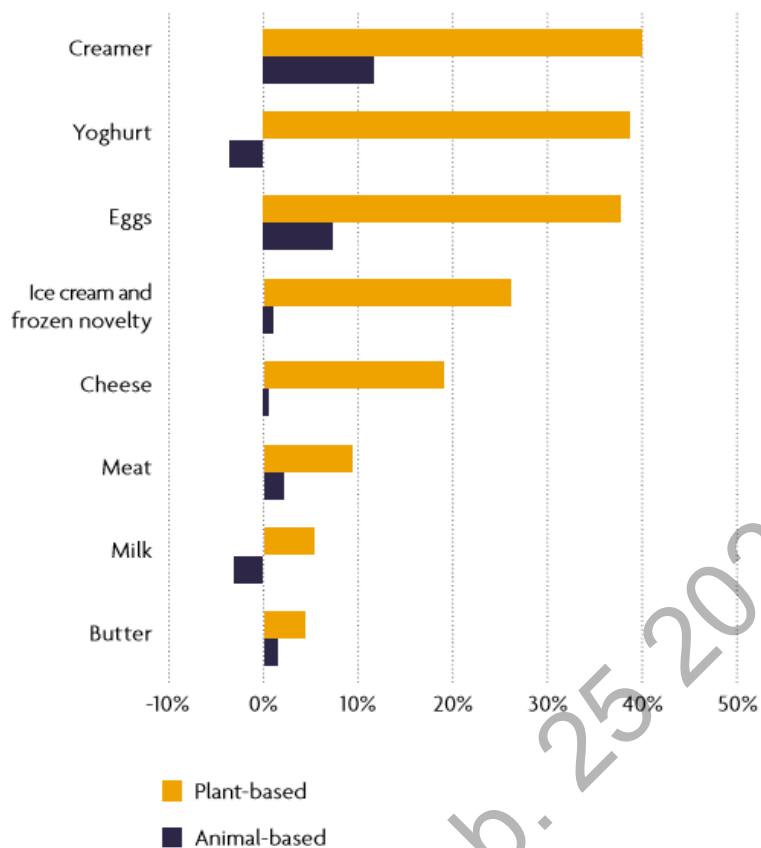


Sources: BBC, "Climate Change, Which Vegan Milk is Best"; Good Food Institute, "Plant-Based Meat for a Growing World"

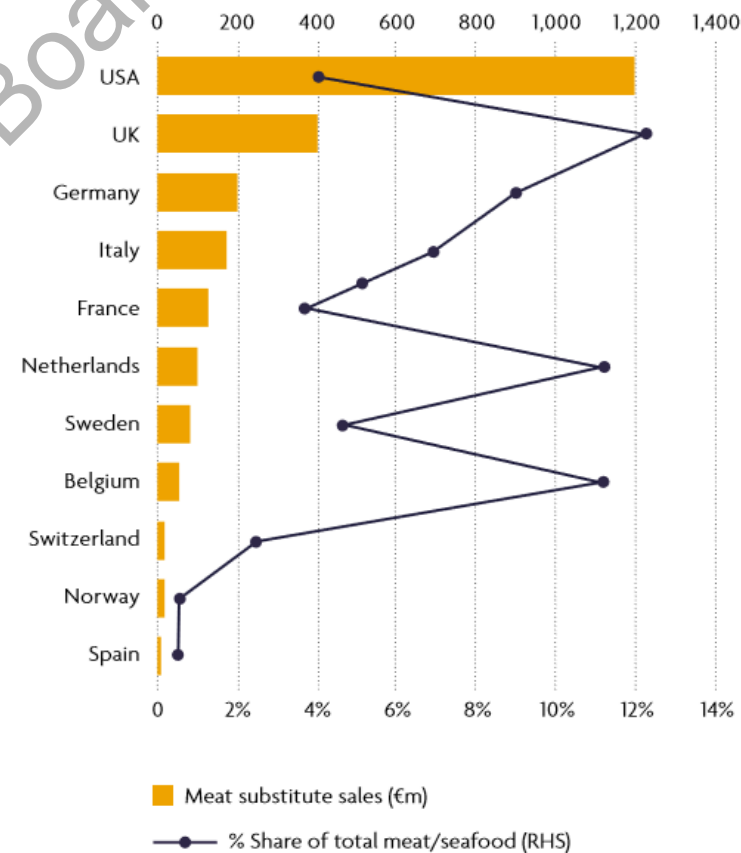


# Growth of Plant – Based Categories Exceeds Animal Based Categories in 2019





Dollar sales growth (%) in plant-based categories compared to animal-based categories, year ending April 2019



Globally, meat substitutes share of total meat/seafood purchases



# The Meat & Poultry Industry

Company	Activity	Impact
	Investment	Created own plant-based protein products
	Disrupter	IPO outperformed Uber & Lyft's IPO, annual revenues expected to grow from \$16M in 2016 to \$200M by end of 2019
	Disrupter	Founded in 2016, is now available in 17,000 restaurants including Burger King, and launched in U.S. Grocery Stores
	Creator	September 2019, announced creation of Happy Little Plants, a plant-based food product line, already seeing interest from retailers

Sources: FAIRR. "Appetite for Disruption." 2019. Greenbiz. "Rebekah Moses of Impossible Foods says its products are a climate mitigation tool." 2019.

# Processed Food Companies

Company

Activity

Impact



Investor

Created own product line, Incogmeto, in 2019 to be launched in 2020.



Investor

Incubator 301 Inc. Invested in Beyond Meat and Kite Hill, a plant-based dairy company.



Nestlé

Creator

"To take the lead on this urgent issue [climate change], we're transforming our business to reduce GHG emissions, end deforestation, reduce food loss and waste, improve soil health and move toward offering more plant-based proteins."



Creator and Investor

"By promoting plant-based alternatives and committing to sourcing 100% of our agricultural raw materials sustainably, we will reduce our environmental impact and provide people with more choice."



Acquired

Acquired Gardin which has 11% market share in alternative meat industry and Pinnacle Foods which helped raise net sales by 35.7% and led to best single-day gain in share prices since 1989.

Sources: FAIRR. "Appetite for Disruption." 2019.; Nestlé. "Climate change leadership."; Unilever. "More plant-based options."

# Food Retailers

Company

Activity

Impact



Creator

“The biggest impact we can make as individuals, for our health but also that of the planet, is to eat more plants. At Tesco we’re making that easier than ever by providing the widest and best range of plant-based options available on the UK high street. We’ve turbo charged our innovative original Wicked Kitchen snacks and meals. For those looking for everyday **delicious meal swaps**, we’re launching the exciting **Tesco Plant Chef** range. To make these foods easier to find we will be launching dedicated plant-based and vegetarian zones in stores.



Creator

Launched a vegan sausage roll & **total sales rose by 7.2%** year-on-year in 2018 to £1.03 billion, compared with £960 million in the previous year. **Since the launch**, the company’s **share price has enjoyed a record high**, trading at £24 in July 2019 (vs. £10 same time last year)



Creator

Created their own alternative protein line

Sources: Tesco. “Tesco launches affordable new range of plant-based family favourites to cater for UK’s biggest food Trend.”, FAIRR. “Appetite for Disruption.” 2019.







# Restaurants

Company	Activity	Impact
	Seller	Started selling the impossible whopper → Q3 2019 was the <b>strongest quarterly same-store sales growth since 2015</b> . For a store in St. Louis, sales increased by 28% and the number of unique customers grew by 15% in 5 weeks in April 2019.
	Seller	Started selling Impossible Sliders -> <b>4% increase in same-store sales growth</b> in 2 months
	Seller	“Our aspiration is to become <b>resource positive</b> – storing more carbon than we emit, eliminating waste, and providing more clean freshwater than we use...we will <b>expand plant-based options</b> , migrating toward a more <b>environmentally friendly menu.</b> ”
	Seller	First national fast food chain to introduce plant-based chicken potions. KFC sold the equivalent of a <b>week’s worth of popcorn chicken</b> in <b>beyond chicken nuggets and wings in a day</b> compared

Sources: Restaurant Business. “Burger King St. Louis Sales Surged, Thanks to Impossible Whopper.”; CNBC, “Shares of Burger King’s Parent Fall after Tim Hortons’ Performance; Starbucks. “Starbucks Commits to a Resource Positive Future.; Disappoints.”; Los Angeles Times, “Beyond Meat tests plant-based fried chicken in KFC trial.”



# Non-Alcoholic Beverages

Company	Activity	Impact
	Acquisition	Bought WhiteWave (producer of Silk) in 2016 after WhiteWave had 19% CAGR from 2012-2015
	Acquisition	Bought AdeS plant-based beverages from Unilever in 2017 Coca-Cola to expand offerings in Latin America
	Acquisition & Investment	Acquired Health Warriors, a plant-based protein bar company in 2018; created an accelerator program and collaborates with Sophie's Kitchen (a plant-based seafood company) and Torri Labs (a plant-based beverage company)
	R&D	Raised \$225M in its most recent round of funding in 2019-2020. Provides alternative milk to Starbucks

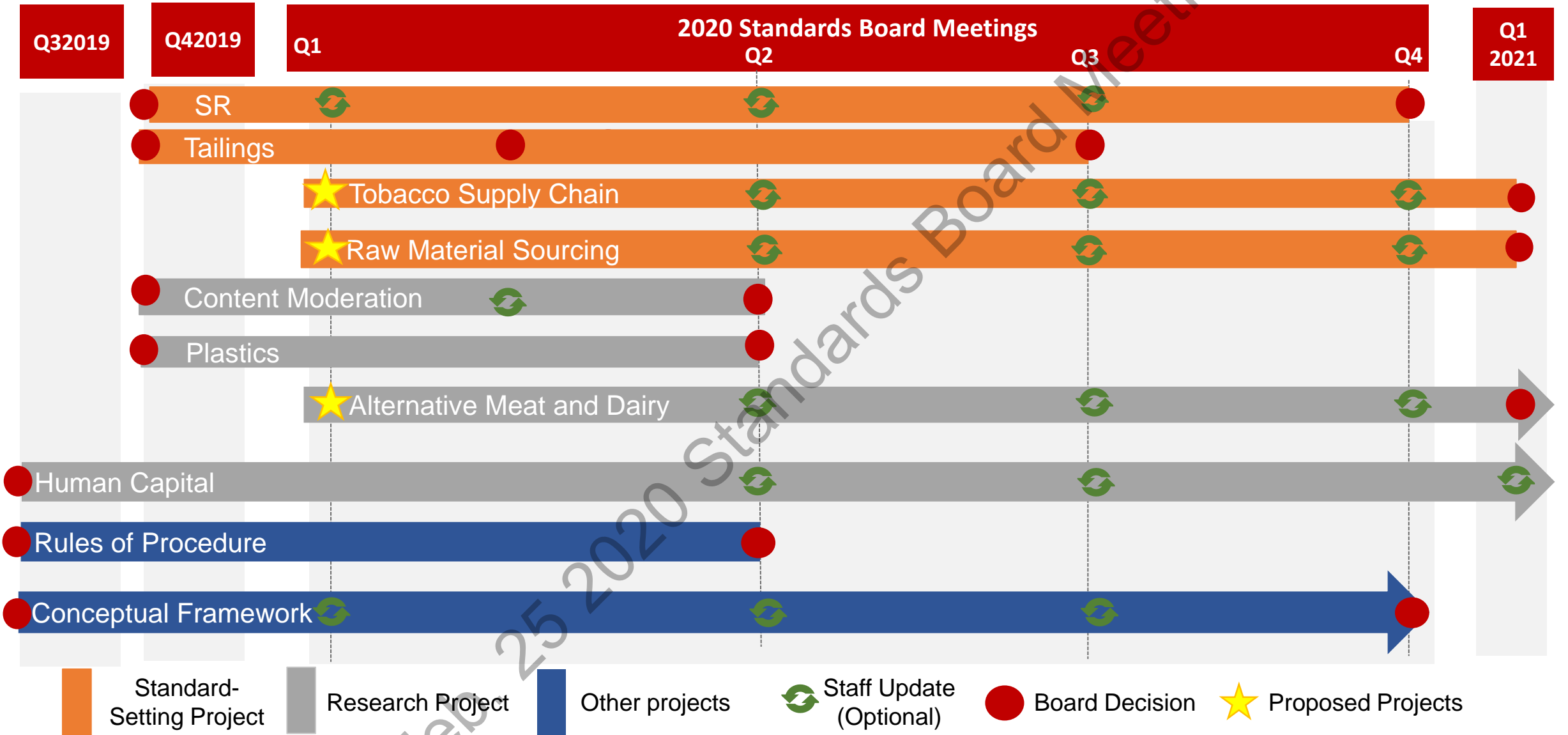
Sources: Food Dive "Non-Dairy Milk Sales Surge as Shoppers Sour on the Popular Cow-Based Alternative"; Coca-Cola. "Coca-Cola Closes Acquisition of Ades Plant-Based Beverages." Forbes, "PepsiCo Continues Health Kick, Reveals First Startups For Its Accelerator Program." PepsiCo. "Meet the Inaugural Class of PepsiCo's Nutrition Greenhouse North America.," TechCrunch, "Plant-based milk substitute market gets frothy with \$225 million for Califia Farms."

# Agenda Planning

Feb. 25 2020 Standards Board Meeting



# Project Pipeline – 2020 Project Timelines



Note: One or more standard setting projects may be proposed upon completion of a research project.

2/18/2020

© SASB

# Standard-Setting Process Overview



\*Indicates that a Standards Board decision is required in order to proceed

## **Project screening** – input from:

- Market & public engagement
- Standards Advisory Group
- Standards Board
- Staff research

# Example Issues in Project Screening Stage\*

- Climate transition risk in Extractives, Transportation, and Infrastructure sectors
- Climate physical risk in Extractives and Infrastructure sectors
- Climate risk and opportunity in bank loan portfolios
- Scenario analysis metrics in Extractives sector
- Biodiversity metrics in Oil & Gas - Midstream industry
- GHG emissions in Multiline Retail and/or E-Commerce industries
- Aquaculture or fishing industry standard development
- Data security metrics
- Customer privacy metrics
- Responsible use of AI and Big Data in technology
- E-Commerce industry structure
- Commercial Banks, Consumer Finance, and Investment Banks industry structure
- Apparel and textile manufacturing industry structure
- Access and affordability in Biotechnology & Pharmaceuticals industry

*\*Issues represent those in a staff preliminary research phase with no stated timeline on when, or if, such issues will develop into research and/or standard-setting projects or activities. SASB is receptive to unsolicited input from the public on these issues or any other issues in the SASB standards.*

# 2020 Standards Board Meetings\*

- June 22<sup>nd</sup> & 23<sup>rd</sup>
- September 17<sup>th</sup> & 18<sup>th</sup>
- December – TBD

*Standards Board Meeting Calendar & Archive page contains full details of meeting dates and registration links to access live stream of the public meetings. Recordings and a summary of meeting outcomes are available shortly after each meeting.*

*\*Dates are tentative. Public Standards Board meetings are announced a minimum of 10 days prior to the meeting date.*





# Accounting for a Sustainable Future

Feb. 25 2020 Standards Board Meeting