ESG Research

ESG Materiality Map
Consumer Products - Food

Oct. 27, 2022

Customer health and safety and sustainable products and services are the most material factors. Social factors are generally more material than environmental factors in this industry.

This report does not constitute a rating action

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In line with the research report "Materiality Mapping: Providing Insights Into The Relative Materiality Of ESG Factors," published on May 18, 2022, S&P Global Ratings is publishing research on the ESG materiality map for the consumer products - food sector. We provide an illustration of our current view of the relative materiality of certain environmental and social (E&S) factors, from both the stakeholder and credit perspectives, for the sector. The materiality map does not represent any new analytical approach to the treatment of E&S factors in our credit ratings. See our ESG criteria for more information on how we incorporate the impact of ESG credit factors into our credit ratings analysis.

Consumer Products - Food Sector

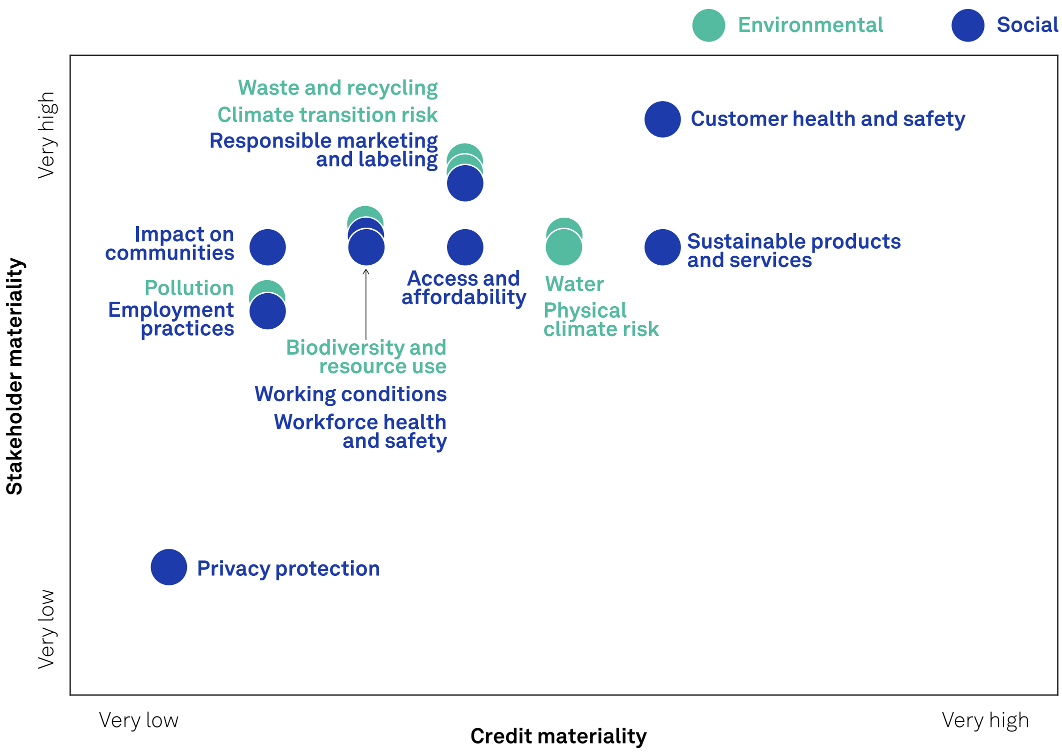
The consumer food sector covers a wide variety of companies in the consumer food and beverage segments, both branded and private labels and includes alcoholic and nonalcoholic beverages, packaged food and tobacco products.

Key Takeaways

- Stakeholder materiality is greater than credit for both environmental and social factors. However, topics like health and safety and plastic waste are more material from a credit perspective. Consumer food companies' ability to pass higher cost to retailers and consumers moderates credit impact, but this varies by subsegment.
- Waste and recycling, and climate transition have high stakeholder materiality given the contribution of consumer food products to plastic pollution and emissions, which potentially have broad-reaching consequences and could be subject to further regulation.
- Working conditions in the supply chain are material for stakeholders as consumer food companies typically rely on labor-intensive jobs in which workers are vulnerable to worker and human rights risks. This has been less material to credit historically, but new legislation will make it more material in the future.

See materiality map on the following page.

ESG Materiality Map For The Consumer Products - Food Sector



The materiality map provides an illustration at a point in time, of our findings on the relative materiality of certain environmental and social (E&S) factors, from both the stakeholder and credit perspectives, for the sector. It does not represent any new analytical approach to the treatment of E&S factors in our credit ratings. See our ESG Criteria for more information on how we incorporate the impact of ESG credit factors into our credit ratings analysis. Source: S&P Global Ratings.

How To Read The ESG Materiality Map

The stakeholder materiality (Y axis) reflects our assessment of the relative level of impacts and dependencies of the sector on the environment, society, and economy.

The credit materiality (X axis) reflects our assessment of the relative level of potential and actual credit impact for the sector. The credit implications for the factors positioned on the left side to the middle of the X-axis would be more limited and absorbable. On the right side, there is higher potential for these implications to be more disruptive. We assess credit implications for an entity based on its individual characteristics.

Assessing E&S factors' materiality: We consider both the likelihood of the impact from a given factor, as well as the magnitude of the impact. The materiality of the factors varies depending on the perspective (stakeholder or credit) as well as the evolving and dynamic interactions between these two dimensions.

The main areas of the map:

- The upper-right quadrant displays the most material, on a relative basis, E&S factors identified for the sector from both a stakeholder and credit perspective.
- The upper-left quadrant presents factors that are more material from a stakeholder than credit perspective. These factors have the potential to become more material from a credit perspective.
- The bottom-left quadrant shows factors that are less material for both stakeholders and credit. Their materiality may evolve over time and this dynamic may not be linear.

Examples Of Material Factors

Below we provide the rationale of some of the material factors to illustrate the above findings.

Customer health and safety

Customer health and safety is material for both stakeholders and credit for this sector. Certain food categories have negative health impacts on consumers when consumed in quantities beyond medical professionals' recommendations. Most significantly for tobacco but also for alcohol and products containing high sugar, salt, or fat, there are important stakeholder impacts linked to global health concerns. We believe the tobacco subsector, in particular, has the highest social risk impact among the broader consumer food products sector. In general, food product categories are subject to regulations and shifting consumer preferences, making customer health and safety an increasingly more material factor from a credit standpoint. However, food-related health regulation tends to be regional and hence not all consumer markets exhibit the same trends (e.g., declining preference for sugary products), which partially explains the somewhat lower credit materiality relative to stakeholder materiality. Further, we recognize credit materiality is not uniform across the sector, but rather focused on companies with a high degree of concentration in unhealthy categories and in geographies (typically developed markets) where sales volumes for such products are declining and regulatory impacts are more likely.

Waste and recycling

We believe waste and recycling is highly material for stakeholders but slightly less for credit. Stakeholders including governments and the public are pushing for tighter restrictions on food and plastic waste from packaging, which contribute to systemic problems including climate change and plastic pollution from the bioaccumulation of plastics within ecosystems and the food chain. More efficient food production and transportation systems will help eliminate food loss and waste while reducing the impact on the environment, especially since about 14% of the world's food is lost before reaching supermarket shelves according to UN research. In 2022, a new international binding agreement to tackle plastic pollution was signed in Nairobi, with regulation expected to target plastic across the value chain, including oil and gas producers, petrochemical companies, manufacturers using plastic, retailers, consumers' use of products, and waste collection and management companies. Cigarette butts are one of the most collected items in coastal litter according to the Ocean Conservancy. We expect future policy responses, including taxation, could affect margins for consumer food companies, making credit impacts more material relative to other E&S factors as the industry adapts.

Sustainable products and services

We see sustainable products and services to be material for the sector from a credit and stakeholder perspective. Sustainable product alternatives, including more nutritious options or more environmentally friendly products, such as from organic agriculture, are responsive to consumer demand and could have significantly improved outcomes for consumers, communities, and the environment. We have observed an increase in stakeholder pressure at many companies, as well as greater regulatory pressure pushing toward more sustainable products, particularly in certain major consumer markets, driving product and production innovations. This includes efforts to reduce packaging and supply goods that are more sustainably sourced, produced, and recyclable. From a credit perspective, failure to offer sustainable products could harm brand reputation or reduce competitiveness. Although consumers still broadly prioritize value, convenience, and quality, we believe sustainable products can help to capture new or expand existing customer markets, and thus drive revenue growth, or improve margins in the more premium segments.

Working conditions

Driving the high stakeholder materiality is the sector's heavy reliance on labor-intensive production and manufacturing supply chains in which workers in processing facilities, on farms, or in other packing facilities and distribution channels remain vulnerable to abuses of fundamental worker rights. This includes child and forced labor, wage underpayment, and excessive working hours, among others. Additionally, there are about half a billion small farmers who supply around a third of the planet's food (according to the Food and Agricultural Organization), making stakeholder materiality of this factor particularly significant. To date, companies facing reputational issues because of their exposure to supply chains with poor labor practices have not faced lower demand or revenue meaningful enough to negatively affect their creditworthiness. Looking forward, however, as consumers become more aware of and sensitive to supply chain practices and as the regulatory environment evolves (see for example, supply chain human rights due diligence legislation in the EU, use of Withhold Release Orders in the U.S.), these issues will likely become more credit material over time.

Physical climate risks

Physical climate risk is material for both stakeholders and credit. Acute physical risks--such as floods, storms and wildfires--may disrupt supply chains and distribution networks, and companies' operations and workers at manufacturing sites. Additionally, chronic risks like changing temperature and precipitation patterns may affect the production and availability of products--for example, through changing seasonality and temperatures. Stakeholders, such as workers, suppliers and consumers, could face severe injuries, lower availability of raw materials, and rising prices due to shortage of goods. From a credit perspective, the sector could face margin volatility or product substitution risk as costs rise because of reduced availability and quality of input commodities and ingredient sourcing. However, companies may be able to pass on additional costs to a varying degree.

Climate transition risks

Climate transition is currently more material for stakeholders than credit. From a stakeholder perspective, along with agribusiness and forestry, the food system contributes to 22% of global GHG emissions. Many food products brands are adopting decarbonization strategies in the face of increased investor and customer awareness. Reducing emissions will likely require investment in manufacturing technologies, logistics, and supply chains toward less carbon-intensive products. Since food waste is linked to GHG emissions, regulation of raw material production and sourcing may grow. Packaging created from oil derivatives could face pressure from consumers or governments as the impact of climate transition accelerates beyond the energy sector, possibly leading to higher input costs if production is curbed. These could affect credit, either through changing consumer preferences affecting revenues, or more intense regulation and investment affecting operating costs and free cash flow, but will vary depending on local market conditions and companies' ability to pass on these costs to consumers.

What is our approach to research on the ESG materiality map?

Referring to the research report "Materiality Mapping: Providing Insights Into The Relative Materiality Of ESG Factors," published on May 18, 2022, this research is built on the ESG materiality concept that considers ESG issues as material when they could affect stakeholders, potentially leading to material direct or indirect credit impact on entities. It considers that all businesses, through their activities and interactions, impact and depend, directly or indirectly, on stakeholders such as the environment (natural capital), society (human and social capital), and economy (financial capital). Using this ESG materiality concept, S&P Global Ratings has worked toward identifying a common, global, cross-sector set of E&S factors that we believe are material to stakeholders, and either are already, or have the potential to become, credit material for entities. The materiality map we propose provides an illustration at a point in time, of our findings on the relative materiality of those factors, from both the stakeholder and credit perspectives.

How does the sector ESG materiality map relate to credit ratings or ESG evaluations?

The sector materiality map is a visual representation of the factors that we consider impactful to the sector from a stakeholder and credit perspective for the purposes of this research. It does not represent any new analytical approach to the E&S factors in our credit ratings.

The relative materiality of the factors indicated on the materiality maps may inform the E&S Risk Atlas scores and the weights of the E&S factors used in ESG evaluations.

They may also inform our discussions with issuers on those factors' existing or potential credit materiality.

Related Research

- Materiality Mapping: Providing Insights Into The Relative Materiality Of ESG Factors, May 18, 2022
- Environmental, Social, And Governance Principles In Credit Ratings, Oct. 10, 2021
- ESG Evaluation Analytical Approach, Sept. 20, 2022