Agritask

CSRD & The Food Value Chain

What food and beverage companies need to know about the Corporate Sustainability Reporting Directive

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Background

“What gets measured, gets managed”, states business-school common wisdom. The same is doubly true for what gets mandatory measured in a standardized manner and set against industry KPIs. This is, to some extent, the logic behind the Corporate Sustainability Reporting Directive (CSRD), new regulation that will apply to EU (and some none-EU) companies. For food and beverage companies – like any company whose supply chain includes agriculture production – the CSRD can have substantial implications.

Since its inception, sustainability reporting had been in the twilight zone of regulation, with few voluntary guidelines to be followed. Before, companies that chose to burden themselves with clear sustainability metrics and reporting duties have often did it on their own expense, and reported it in dedicated sustainability reports.

The European Union, a leader in sustainable development and regulation, started tackling the issue in 2014 with the adoption of the Non-Financial Reporting Directive (NFRD). The directive established important principles and sustainability reporting rules that applied to ~11,700 large companies, required to disclose sustainability information on an annual basis. As revolutionary as it was at the time, the NFRD was largely voluntary, supplying companies interested in reporting with an appropriate framework.

Soon enough, regulators in the EU – supported by executive surveys and interviews – understood that there is a need for a mandatory, common reporting framework.

The Corporate sustainability reporting directive, CSRD, was created for just this purpose.

What does the CSRD entail?

The CSRD extends the scope and reporting requirements of the NFRD, and aims to ensure businesses report comparable and reliable sustainability information in order to orient investors and other stakeholders to favor more sustainable companies. Among other things, the CSRD covers issues of climate change mitigation efforts and KPIs, social responsibility across the value chain, and governance issues such as anti-corruption and diversity.

The CSRD is oriented by some new key concepts:

Double materiality

companies must not only consider and report on the material impact they have on the environment and society, but also to disclose the risks posed to the company itself from climate change, geopolitical instability, etc.

Long-term goals and policies

As was long the costume in voluntary sustainability reports, companies must set clear ESG goals and annually publish their progress. Sustainability considerations, therefore, must be incorporated into the companies' long-term strategies.

Value Chain due diligence

under the CSRD, companies will be held accountable for the social and environmental impacts resulting in activities throughout their supply chain, and will be required to report on metrics such as resource use, GHG emissions, pollution and working conditions for both upstream and downstream activities, wherever they may be in the world.

Integrated reporting, Digitalization, and external audits

The information required by the CSRD must be included of the company's annual report, to be audited by an external party. Furthermore, the data must be presented in a standardized XHTML format in accordance with the European Single Electronic Format (ESEF) Regulation and to 'tag' reported sustainability information according to a digital categorization system. This is in order to enable easy comparisons and analysis across companies through the European single access point system.

Supply chain due diligence

In a Study on due diligence requirements through the supply chain, by the European Commission, Directorate-General for Justice and Consumers, it was found that:

37.14%
Of business undertaking due diligence which takes into account all human rights and environmental impacts

33.71%
Currently undertake due diligence only in certain areas

16%
Cover the entire value chain

51.8%
Who undertake due diligence indicated that third party impacts are included for first tier suppliers only

What do companies consider as due diligence?

- Contractual clauses and codes of conduct (largely unverified yes/no statements)
- Audits by internal and third parties (certifications, inspections, etc.)
- Engagement or leverage with suppliers
- Training on human rights and environmental impacts
- Selected termination of relationships for non-compliance with standards

The EU Taxonomy & ESRS

The EU Taxonomy & The European Sustainability Reporting Standards (ESRS)

The CSRD states that reporting must be conducted in line with the EU taxonomy, a classification system that defined environmentally sustainable economic activities. The taxonomy lists 6 environmental objectives:

- Climate change mitigation
- Climate change adaptation
- The sustainable use and protection of water and marine resources
- The transition to a circular economy
- Pollution prevention and control
- The protection and restoration of biodiversity and ecosystems

For an activity to qualify as sustainable, it must substantially contribute to at least one objective without significantly harming the other five, all while complying with minimum social safeguards. Activities that harm communities, workers or individuals, cannot therefore be considered sustainable under the EU taxonomy.

However, the taxonomy does not actually list requirements. For that reason, EFRAG (the European Financial Reporting Advisory Group) has been tasked with creating clear and detailed reporting standards – the European sustainability reporting standards, or ESRS, which are currently pending the EU commission's approval.

The ESRS had built on the EU taxonomy, as well as previous voluntary reporting requirements such as the IFRS, GRI, TCFD and more, resulting in overall 12 reporting parameters covering environmental, social, governance, and cross-sectional requirements.

Who does the CSRD apply to?

The CSRD requirements will apply to EU companies that meet two of the following 3 criteria:

- €40 million in net turnover
- €20 million in assets
- 250 or more employees

However, the directive also applies to global companies with EU-based subsidiaries, or companies with an annual turnover of over €150 million in the EU.

Not all companies will have to start reporting at the same time. Companies currently subject to NFRD will start reporting for FY2024, large EU companies will have to start a year later (FY2025), and non-EU and subsidiaries have until FY2028 to start their reporting.

What will the CSRD mean for food and beverage companies?

Food and beverage companies are likely to be significantly impacted by the **CSRD**, owing to its focus on value chain accountability. The food value chain is notoriously fragmented, and often accounts for the lion's share of food and beverage companies environmental impact. Scope 3 GHG emissions (supply chain emissions) can account for up to 90% of a company's emissions. Food and beverage agricultural supplies, in particular, often make up over 25% of a company's scope 3 emissions, with some companies reporting even 50% and 70% figures.
GHG emissions, however, are only a part of the picture.

ESRS and The Agri-Food Value Chain

EFRAG recognizes that some industries may have highly complex value chains, and have expressed their ambition to avoid exaggerated reporting burdens. However, the considerable environmental impact and social fragility common in the food value chain will likely tip the scales in favor of wide inclusion in the reporting requirements.

The ESRS state that companies must identify and assess impacts, risks and opportunities in problem-prone areas, based on the nature of the activities, geographies or other risk factors. Companies must include material impacts and risks in their upstream and downstream value chain based on their materiality assessment and due diligence activities and in accordance with sector-specific requirements, due to be approved in early 2024.

The ESRS does not require information on each and every entity in the value chain, but material value chain information. Links in the value chain that may prove problematic, however, will need to be assessed according to the double materiality principle to account for impacts and risks to the company.

Collecting Data in Fragmented Value Chains

Recognizing the reporting burden for food and beverage companies and other highly fragmented and distributed value chains, the requirements make some discounts, preferring accurate industry benchmarks and estimations to inaccurate measurements. This may seem like good news for F&Bs, yet there are several problems with this type of reporting discount. Sector average data and other generalized proxies err on the side of caution, stating high emission and resource use metrics and lumping together companies which make substantial sustainability efforts with the ones that have yet to do so. Thus, companies that have invested in promoting sustainable agriculture or grower empowerment programs stand to lose their advantage in the eyes of investors and regulators.

Furthermore, these discounts only apply after the company had demonstrated it invested "Reasonable effort" in obtaining these metrics and qualifications. This can be, for instance, by collaborating with other companies and leveraging its influence over its value chain. The CSRD state that companies must identify the external parties that will take part in realizing their ESG efforts. This not only applies to the companies auditing sustainability data, but also to obtaining sustainability data in the first place.

Companies will need to detail the efforts made to obtain value chain information in the first 3 years after the ESRS comes into force, and account for why the information could not be obtained and how they intend to rectify the situation in the future. Companies that already have value chain information are encouraged to use it within this time period.

What are the reporting criteria?

The **ESRS** states that only the part of the value chain holding material impacts, risks or opportunities must be reported on. This means that not every requirement will apply for every part of the value chain, and to every sector's value chain.

However, the agricultural production segment of the value chain does touch upon multiple criteria. Here are some of the main criteria relevant for the agri-food value chain:

Environmental Standards

Topical standard	Topic	Sub Topic	Implication in the agri-food value chain
ESRS E1	Climate change	• Energy • GHG emissions • Climate-related financial effects	Companies must assess GHG emissions throughout their value chain, including from agricultural activity such as fertilization, tilling, or deforestation. In addition, they must address risks to the company posed by extreme weather events and disruption in agricultural production.
ESRS E2	Pollution	• Pollution of water (including groundwater) • Pollution of soil • Pollution of living organisms and food resources • Substances of concern	The use of agrochemicals such as insecticides and herbicides needs to be quantified and addressed. How does the company intend to reduce the risk of soil pollution and chemical runoffs?
ESRS E3	Water and marine resources	• Water consumption • Water use • Water discharges in water bodies and in the oceans	For irrigated crops, the company needs to assess the amount of water being used and ask if it is being used efficiently and safely enough to prevent significant chemical runoffs.
ESRS E4	Biodiversity and ecosystems	Direct impact drivers of biodiversity loss: • Climate Change • Land-use change • Pollution • Land degradation	Companies need to ask if their sourced crops are being grown in deforested areas. Is the use of agri-chemicals for crops such as coffee and cacao damaging wildlife and biodiversity?
ESRS S2	Workers in the value chain	Working conditions: • Adequate wages • Health and safety	Are the smallholder farmers who grow ingredients being compensated fairly? Are they exposed to health risks as a result of their work? The company must concern itself with these questions and offer possible solutions.

Topical standard	Topic	Sub Topic	Implication in the agri-food value chain
ESRS S2	Workers in the value chain	Human rights: • Child labor • Forced labor	Had the company conducted thorough due diligence to ensure its supply chain is free of child labor or forced labor? How does it intend to leverage its influence to encourage responsible and humane sourcing?
ESRS S3	Affected communities	Communities' economic, social and cultural rights: • Water and sanitation • Land-related impacts	By operating in a certain region, among communities of smallholder farmers, had the company assessed the impact of its supply demands and practices on the health, safety and wellbeing of the community?

Agricultural production visibility challenges

The ESRS admits that for information to be accurate, It does not have to be perfectly precise. It does require as few material errors as possible, defined and well-reasoned methodologies and descriptions, and a "reasonable effort" to obtain as much orderly, quality information as possible.

However, achieving this type of information is not a trivial task. Marks and Spencer, the British retail giant, has been one of the first companies to attempt to secure an ethical value chain and ensure responsible sourcing. The company managed to map its sourcing operations across the globe, including in notoriously complex supply chains such as agriculture and garments. While not complete, the map showcases social metrics such as gender, number of workers, and the existence of workers' unions, and enabled the company to achieve 100% fair trade-certified sourcing. While commendable, M&S achievement only covers the social conditions of workers within the supply chain – and not the far more complex environmental impacts.

To achieve an accurate gauge of these, a different type of dataset is needed, taking into account the actual farming practices in the value chain. For some crops, this could be a nearly impossible task.

Cacao, for example, poses a huge challenge in assessing input use and fair labor conditions. Cacao is grown by hundreds of thousands of smallholder farmers, distributed across many remote geographies. Measuring sustainability metrics – not to mention impacting change in growing and labor practices – requires company involvement, financial investments, and technological tools that can both document and streamline the process.

Next steps

The CSRD was designed to have globally reaching implications, creating regulatory obligations for companies and players all over the world. Furthermore, the CSRD, while a groundbreaking EU initiative, is not the only mandatory sustainability regulation currently under discussion. The United States' Securities and Exchange Commission (SEC) has recently published its own set of mandatory climate risk and impact disclosure directives. The SEC's directive is expected to incorporate the double materiality principle, as well as value chain accountability, and will apply to publicly traded US companies.

While approval of the US measure is uncertain, and the CSRD will come into effect only between FY2024 and FY2028, companies are widely advised to start preparing soon.

Food and beverage companies are advises to focus their efforts on several key strategies:

1 Mapping the value chain

companies are advised to outline their upstream and downstream value chain and identify important stakeholders that may help in data aggregation and in leveraging F&Bs influence over other supply chain participants.

2 Identify problem-prone links in the value chain

Based on their internal assessments, companies need to detect and focus on the parts of the value chain that may prove troublesome in the future – either due to their social fragility, environmental footprint, or climate-volatility – and seek systematic documentation and remediation.

3 Involve corporate leadership

The CSRD is not merely a measurement and reporting tool – some of its requirements and many of its implication concern the long term strategies of companies, requiring the involvement of executive decision makers. The directive also states the duty of directors to set up and oversee the implementation of due diligence processes.

4 Digitize corporate ESG and involve corporate leadership

The many requirements listed by the ESRS, coupled with the mandatory digital formatting required by the CSRD, will necessitate a rich and detailed ESG database that can passively capture information flowing from the value chain.

5 Identify technologies and partners

The directive urges companies to assign specified roles both within the organization and outside it. These include, of course, external auditors, but also technologies and tools that can help accurately capture sustainability metrics across the value chain and facilitate improvement initiatives.

Achieving CSRD Compliance Through Technology

Agricultural production poses a particular challenge to corporate sustainability. Many crops are cultivated by smallholder farmers, operating far from company headquarters. The supply chain itself is filled with aggregators, buyers and other mediators that may obscure conditions in the field. Furthermore, assessing resource use in agricultural production requires agronomic knowledge and detailed understanding of the inputs and processes involved. While assessing the carbon footprint of distribution is a simple equation of time, distance and fuel type, agricultural production consists of multiple variables, chemicals, compounds and mechanical and situational variables.

Deciphering the material impacts of a value chain that includes agricultural production requires two critical components – reliable, engaged reporting to aggregate data, and agronomic intelligence to interpret it.

> **“The market for sustainability information is rapidly growing, and the role of data providers is gaining in importance with the new obligations that investors and asset managers need to fulfil"**
>
> The European commission, amendment 5 to the CSRD

Agritask’s CSRD Compliance Application

Unlocking Sustainable Reporting and Compliance

Designed to meet the stringent requirements of the Corporate Sustainability Reporting Directive (CSRD), Agritask empowers food and beverage companies to streamline data collection, simplify compliance, and elevate sustainability across agricultural supply chains. Agritask seamlessly manages multiple surveys and plot due diligence assessments within a single, intuitive interface. This unified approach streamlines operations and supports you in your journey to comply with the CSRD.

Benefits

- **Supply Chain Visibility**
  Accurate emissions calculation: Calculate Scope 3 emissions with reliable and precise measurements using tested protocols.
- **Accurate Data Collection**
  Ensure precision in your corporate sustainability reporting. We help you gather precise metrics, avoiding industry averages and approximations.
- **Integration and Reporting**
  Seamlessly integrate GIS data and various data layers, cross-reference surveys, and generate comprehensive, ensuring accurate and efficient reporting.

Features

- **Survey Management and analytics**
  Efficiently run surveys using Agritask's platform including our mobile app, supported by dashboards and insights.
- **Carbon Accounting**
  Tackle significant carbon emission reduction in agriculture with simplified, digitized carbon reporting and calculations.
- **Plot Due Diligence**
  Integrate databases of your choice to gather comprehensive data on deforestation, biodiversity and water risks, providing a comprehensive view of environmental impact.
- **Chemical Accounting**
  Seasonal agronomic monitoring for documenting chemical input usage and track pollution levels.

Use case flow

- Grower database setup
- Sustainability risk assessments (biodiversity and water risks)
- Carbon emissions measurement
- Resource-use surveys
- Remediation and mitigation strategies
- Reporting and compliance

Want to learn more about Agritask?

Request a demo

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