Together Towards Zero – a focus on the beverage sector

Six-packs of beer held together by glue instead of plastic rings, silver inks on bottle labels to improve the recycling potential of packaging materials, and a crystal-clear pilsner called PU:REST brewed using purified wastewater; these are just a few examples of how innovation is set to deliver on the ambitious sustainability program of Carlsberg Group, *Together Towards ZERO*.

Source: Carlsberg[1]

This quarter, BIER (Beverage Industry Environmental Roundtable) had its annual spring meeting at Heineken (Amsterdam). Bier is a global association where sustainability managers from across the beverage industry come together to discuss water stewardship, energy efficiency, scenario analysis, benchmarking and stakeholder engagement. The working group encourages direct competitors to work together on key issues and move the whole industry forward. Carlsberg are clearly not the only company in the brewing industry looking to put sustainability at the core of their strategic plans.

AB InBev's *Better World Task Force*[2], Heineken's *Brewing a Better Future*, and CCEP's *This is Forward* strategies are slowly becoming key marketing tools and hopefully the new reality for a sector which has had a less than positive environmental reputation to date. Indeed, at this year's Super Bowl, Budweiser's much talked about Wind Never Felt Better advertisement was centered around achieving 100% renewable energy.

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[1] https://www.carlsberggroup.com/media/28929/carlsberg-sustainability-report-2018.pdf

[2] https://www.ab-inbev.com/content/dam/universaltemplate/ab-inbev/investors/reports-and-filings/annual-and-hy-reports/2019/190321_AB%20InBev%20RA2018%20EN.pdf

Source: AB InBev

It's easy to see why in today's world, sustainability has become the go to marketing tool, but are companies really putting their sustainable goals into action? Our systematic model of resource efficiency, which offers an objective lens through to a company's resource efficiency, can provide some of the answers.

Managing and reducing GHG emissions are, understandably, a focus for the sector. The upgrading of machinery and other energy efficiency projects, especially within cooling installations, combined with an increased reliance on renewable energy sources have resulted in commendable carbon intensity reductions over the past decade. Brewer AB InBev has kept their emissions level constant, despite almost tripling their revenues in the last decade. The sector is still relatively energy intensive with refrigeration, heating, distillation, and drying just some of the processes that need improvement. However, technological advancement and retro-fitting of existing infrastructure have helped companies differentiate themselves. In 2018, Diageo [3]plc executed four heat recovery projects in Europe, Africa and North America, including boiler replacements and heat recovery with mechanical and thermal vapour recompression. These projects will contribute to an estimated annual emissions saving of 9 000 metric tons of CO_2e, as well as half a million GBP of annual savings on energy costs. Additionally, increased disclosure of some key Scope 3 emission categories, including downstream transportation and distribution, will likely provide future insights into the resource efficiency of companies. Initial analysis shows that over 60% of the industry provides meaningful data on these new indicators.

In an industry centred around drinks, careful water management is key. This is showcased by high-level partnerships, such as Stella Artois' with Matt Damon's Water.org[4]. While water, and water security, is a highly local issue, and a lot of beverage companies have specific policies for operations in water stressed areas, the overall water consumption intensities have been declining in recent years. According to our model, Coca-Cola European Partners (CCEP)[5] has reduced its water consumption by over 50% since 2010, by investing in more efficient bottle washers and introducing new systems to reuse waste water. Water is the primary ingredient in all CCEP's products and is vital in the

[3] https://www.diageo.com/PR1346/aws/media/6212/b0000391_diageo_ar-2018_interactive.pdf

[4] https://water.org/

[5] http://ir.ccep.com/~/media/Files/C/Cokeccep-IR/annual-reports/CCEP_2018_Integrated-Report_WEB.pdf

manufacturing processes. These actions have enabled them to reduce their water use ration to 1.61 litres of water consumed per litre of product produced.

Waste is also a material topic for the industry although a lot of the focus is on packaging and recycling rates, topics which due to local context and specific regulations are often poorly reported on. An emphasis on recycling the waste, especially brewing by-products which can be reused as animal feed or fertilizer, are common place but do not contribute to the overall efficiency of the operations. To gain a better understanding of efficiency in this area, and provide an additional revenue source, the attention needs to shift to the manufacturing waste from a company's direct operations. Within the beverage sector there are a few companies who are doing this really well. Heineken[6], for example, provides clear data tables in line with the GRI guidelines, with details of waste broken down by destination as well as by beverage production plant, malting plants and other operations. This level of granularity enables us to compare specific business segments or activities, improving the accuracy of our model. Encouraging better disclosure in this area will be a key feature of our company engagement program going forward.

Over 70% of companies in the beverage industry provide enough data to be included in our Model of Resource Efficiency, making it one of the better industries for sustainable disclosure. However, the two dominating soft drinks players, The Coca-Cola Company and PepsiCo are excluded from our investment universe due to insufficient waste disclosure. The complex nature of their corporate structures probably holds the answer to why key environmental data points are unavailable, as various local entities fail to report on their own operations much of the data remains at system level. Still, such lack of disclosure is surprising, especially when you consider the recent increase in public scrutiny regarding their plastic waste. We have reached out to both companies through our engagement program to try and address some of these issues. The Coca Cola Company have responded with a commitment to provide more detailed data going forward, and in fact, as we write, have provided Osmosis with the extra disclosure information that we asked for. Our team are currently analysing this and will produce an RE score for the company for the first time. Pepsi Co, on the other hand, is yet to respond. So, in this particular Pepsi v Coke challenge coca cola is the current winner. Time will tell if taste wins over disclosure transparency.

For more information please visit www.osmosisim.com

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[6] https://www.theheinekencompany.com/Sustainability/Reporting?Skip=0&Take=10

IMPORTANT INFORMATION

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