



3rd April 2025

To our Investors, Directors, Owners and Creditors,

We are writing as professionals working within some of the UK's biggest food producers, manufacturers and retailers. Most of us have decades of experience and hold or have held senior professional roles across a range of functions in UK food businesses accounting for more than half of UK groceries sales.

We are releasing this Memo because we have reached a moment of threat to food security like none other we have seen. Yield, quality, and predictability of supply from many of our most critical sourcing regions is not something we will be able to rely upon over the coming years. The data on degrading soil health, water scarcity, global heating and extreme weather events back up what we are seeing from within the system: an interconnected set of crises.

These crises will have a meaningful commercial impact on our businesses. And yet we feel that there are a number of structural and cultural issues that are preventing the severity of this challenge being fully accepted by industry or fully shared with our investors.

The results of work to map significant (for some single-commodity reliant companies existential) corporate risk could and should be critical to strategy. Instead the valuable insights from TCFD, TNFD and CSRD processes are being treated as compliance.

Mitigation strategies meanwhile are simply not commensurate with the level of the risk we are facing. And yet they are being presented to investors as a fitting 'solution' to the situation we are in. We hope that you will consider taking the questions we have suggested below to the companies you own or lend to in order to see if you agree with our analysis.



We believe that your engagement on these issues could drive action internally that can protect our businesses, our customers, our sourcing communities and your investments.

We recognise that there is personal risk to each of us involved in sharing this note with you but we feel we have to do it nonetheless. We each played our role in the incredible response our industry provided to the COVID crisis. This crisis will be even more significant with the difference that this time we can see it coming.

The state of the world is not something to blame on food company CEOs or Boards. But they are going to need to properly respond to it for the sake of our companies, the customers we serve, and the communities from which we source. In an intensely competitive industry we need to find the energy and intention of 2020 in order to guide us through the incredibly turbulent period we are now entering.

What We Want to Tell You

The climate risk reports of major food companies are filled with casual mentions of threats to the viability of our supply chains over the short to medium term. The strategies to mitigate these risks, however, are simply not material compared to the scale of the threat.

Acknowledgement of these risks, which are too often taken as isolated in an interconnected world, are accompanied by:

- stories about resilience/sustainability initiatives that are positive but sub-scale and therefore insufficient;
- proclamations about transitioning to different products or ingredients which exist as paper plans but are not being invested in to deliver the scale of change required;
- passing mentions to moving to other sourcing regions that simply have not been stress tested or worked through well enough to be considered viable.



What was a long term threat is now a short term threat. The balance of action needs to change. However, the risk is that we are entering a policy environment where companies are stepping back from rather than into the kind of action that is needed to secure their resilience.

Some points to draw your attention to:

- Deteriorating Supply Chains: scientific advisory suggests we can expect increases in drought and flooding, extreme heat and extreme weather events and depletion in soil health in the established growing regions most critical to UK food supply. The capacity of our most established sourcing regions to produce food will only decrease in terms of predictability, yield and quality from here;
- Inability to Source: we have seen in the past three years major shortages in certain crops based on environmental changes connected to climate change, water shortages and soil degradation. Already in Spain drought and flooding have directly impacted our ability to source salad, tomatoes and broccoli. Global shocks have had significant impact on cocoa, coffee and sunflower oil supply chains and whilst to date this has primarily been experienced as a price issue, moving forward it is a more fundamental issue of ability to reliably source quality produce or commodities;
- Wishful Strategy: companies are increasingly alluding to a strategy of simply finding new sourcing regions as our current ones become untenable. This strategy is light on detail and fails to appreciate that multiple actors will be attempting to make the same transition in order to source multiple crops. It also misses the need for huge investment in order to develop new sourcing regions. And yet it has become an opt out against robust plans to invest in our existing supply chains and has become an opt out against robust plans to invest in sustainably managing our existing supply chains;
- A Failure to See Systems: each producer, manufacturer and retailer is individually able to defend their strategy because they are looking at their data



in isolation. When you start to piece together the cumulative approach of all producers, manufacturers and retailers to buy from the same depleting regions or shift sourcing to new regions it quickly becomes evident that the strategy is deeply flawed. We cannot all source everything from somewhere else at a time when other companies and other countries are seeking to do the same;

- Commodities at Risk: for food manufacturers that are deeply reliant on single crops from regions that are under threat, the commercial risk is even greater than for retailers who will simply not be able to stock ranges that rely on that particular product.

How Did We Get Here

Environmental degradation and climate change are the key reasons that we are facing the insecurity ahead of us. However, there are several key factors within our industry that have prevented a robust response:

1. Insufficient consideration given to 'long term' issues. When many of these issues were first considered within our businesses they were less material and less imminent. The tools and frameworks that can help with long-term planning are too often being kept as separate, technical compliance processes rather than integrated into strategy;
2. A challenge to business model: All of our assets and processes as well as our culture are deeply tied up in the status quo. Our companies are designed for hyper-efficiency in the short term – driving as hard a bargain as we can with a laser focus on short term production. To think differently about relationships with land, suppliers, communities and risk is a cultural challenge for our businesses;
3. Business is telling government that we can not be asked to act in isolation and that we need a level playing field. However, when any policy or regulatory suggestions are made to provide this they are lobbied against by business, either directly or via Industry Associations;



4. Senior teams and boards are not equipped for this. We operate under immense short term pressures and live and die by quarterly reports, market share and year on year performance. In a highly pressurised industry, the culture is anchored to concentrate on the financial and competitive analysis. Issues that present a fundamental threat to our operations in the mid-term have are not prioritised at board meetings, AGMs, SLT/ExCo meetings;
5. The competitive nature of UK food companies creates fear around having 'real' conversations connected to these issues. The stringent nature of our Grocers' code of conduct, combined with competition law and a highly competitive sector means that we are often unwilling or unable as a sector to pool our insights and come up with joint strategies. There are industry working groups and conferences but they get dragged into the superficial rather than the fundamental;
6. There is a bias toward pleasing rather than being honest with our Directors, shareholders, owners and creditors. We share the good news and are incentivized to create good news in the short term but this comes at a long term cost of ignoring and underplaying systemic risk;
7. Unsuitable auditing process. Investors, owners, creditors and board members are being given false confidence by the fact that many environmental risk-related reports are being assured by our auditors as part of our annual accounts. No one is deeply questioning the auditors' capacity to truly audit and assure risk reports, their interest in doing so, or their incentives to do so. We are not seeing a meaningful level of scrutiny involved in these processes. The industry has a critical role to play and yet there has been next to no investment in supporting auditors to better understand the robustness and resilience of food systems and what does and doesn't count as meaningful risk mitigation;
8. Legal teams unprepared for dealing with complex culpability. We are taking confidence from the fact that no individual food business is singularly responsible for the environmental degradation that is happening in certain regions and so feel protected against legislation such as CSDDD (for those of us with European operations). This, however, fails to appreciate the potential for our cumulative legal responsibility. It is not hard to find communities who could



bring a case under CSDDD where UK food companies are the community's major sourcing partner. Exposure to shareholder action and civil claims are also likely to increase over the coming years yet this is still to inform corporate strategy.

What We're Asking of You

We are asking you not to take our word for it that these issues are imminent, material and overlooked. Rather that you ask our suggested questions below in order to test your own confidence in your investments by assessing whether you believe that:

1. Our sourcing regions and key commodities are likely to provide stable supply over the next ten years.
2. The collective plans of businesses and government to improve the robustness of supply over the long term in these regions are material enough to manage the risks posed by declining soil health, water scarcity, climate shocks and global heating.
3. Our alternative plans have enough investment and thought that if we do have to find alternative sourcing we will be able to sustain our sourcing in a competitive market on a planet with shrinking capacity for production.

Questions you may wish to ask of companies:

1. Of risk teams: How has the viability of our top ten sourcing regions changed over the past ten years and how do we believe it will change in terms of predictability, yield and quality over the next ten years? How are the viability and profitability of the business impacted in worst case and medium likelihood scenarios?
2. Of policy/government affairs teams: Where are there material inconsistencies between our sustainable sourcing practices and our Industry Association memberships and how are these being managed? Are there any inconsistencies between our sustainable sourcing



practices/commitments/statements, and our industry association memberships advocacy and lobbying positions? How are these being managed? How does the business engage with governments in the key sourcing countries where the risk of supply failures is increasing?

3. Of legal teams: Which communities from which we source (if any) does our legal counsel believe could have the strongest claims against the company under CSDDD or comparable legislation?
4. Of sourcing teams: Is investment in activities to prevent or provide for these risks commensurate with the scale of it? Is what we are doing truly material enough to mitigate them or adapt to their impacts? How much is our total investment in resilience and adaptation initiatives as a percentage of our annual expenditure? What is the reach of these initiatives and what is the materiality in terms of providing for predictability, yield and quality? What percentage of our supply chain is currently covered by long-term sourcing agreements?
5. Of commercial teams: If we were to have to move to a new sourcing region for any of the commodities under risk, where would that be and what feasibility studies have been done to show that it could provide for us and for our competitors during a time of reduced global capacity? And do we have the data to show that such an investment is justified over the long term? What changes are being made to product range based on your SBTis? What percentage of sales does this represent, what is your desired sales percentage and what is the pathway to reach it?
6. Of finance departments: How do the costs of meaningful action on these issues compare with the potential cost of increasing shocks and disrupted supply?
7. Of shareholder relations teams: Does the company have further briefing notes or research that exists internally that is pertinent to risk of regional supply failures, or failures of specific crops or commodities? If so, why have these have not previously been shared with shareholders/owners?



8. Of audit teams: What work was done to audit and assure the risks being reported in TCFD/TNFD/CSRD reports? What was the process to assure the materiality of actions to mitigate listed risks?
9. Of boards: What would be the difference in your approach if you were to treat this issue as a disaster preparedness exercise for a high likelihood and high impact impending crisis? How do the time and energy dedicated to this compare with that which the Board provided in other crises, e.g. Covid?

What Needs to Change

The point of asking the questions above is not to 'corner' companies or prove them wrong. It is to open up meaningful conversations on what could be done if we accept that we are walking into inevitable crisis, for example:

1. A candid view on the viability of our businesses if we continue as we are, as a means to open up the conversation about the scale of change we need to consider and to understand the economic value of that change over the medium term;
2. Covid response-style Government convening of food industry leaders in the businesses' home country as well as in their key sourcing countries (including farmers, growers and local authorities) to take collective action on these issues. This would need to be alongside government investment. Industry needs both support that would be unprecedented were it not for COVID and mandating of action to provide a level playing field;
3. Playing a key part in longer-term investment in improving drought and flood resistance, soil health and climate resilience in communities from which we source as well as supporting action on dietary shift;
4. Upskilling and demanding more of auditors to provide thorough assurance to Boards – or introduction of new third parties who can do this;
5. A significant increase in dedicated executive and board-level focus so that these issues do not get lost in short term commercials.



Your Position

If you own, are invested in or are lending to a number of major producers, manufacturers, and retailers, we suggest you consider the risk to your portfolio of global shocks to the food supply system and of the implication of a continuation on the path of decline.

We suggest that investors, owners, creditors and board members consider commissioning expert analysis into viability and profitability based on current models entering a new era of disruption.

If you are able to do this, you will see that the reassuring answers given by companies as standard simply do not add up against the deeply worrying scenarios provided by anyone looking at industry as a whole. We cannot let isolated scenario planning give us false confidence when material systemic risks sit behind it all. We are facing a food and land 'bubble' that must be taken seriously.

We are proud professionals and this is not a divestment campaign, it is a call for engagement in order to better secure our industry for the world we are now in. We can see a path for our industry to play a critical role to support this time of transition.

We hope you will take these questions forward with companies in your portfolio.

For more information we release on this subject, get in touch with ned@insidetrack.org.uk.