

ACTION 3: QUANTIFY THE NET ZERO BUSINESS CASE

Many companies, across sectors, struggle to promote climate action as a corporate priority because it often looks like a large additional investment with no financial upside. Our analysis of the economics for the food sector shows that, on the contrary, delaying corporate-wide action to reach net zero and become nature positive risks adding suddenly and significantly to future business costs. By the same token, early action can make sure food companies stay ahead financially.

Companies need to model the financial outcomes of alternative net zero plans in detail, so the C-suite can compare their costs and possible financial benefits against the costs of inaction.

Graphic 6 summarises an analysis of the cost per tonne of GHG mitigated for a range of technical and nature-based levers available to an average food company with a portfolio heavy on meat and dairy products. The findings are presented as a marginal abatement cost curve. Levers below the x-axis (for example, enhancing energy

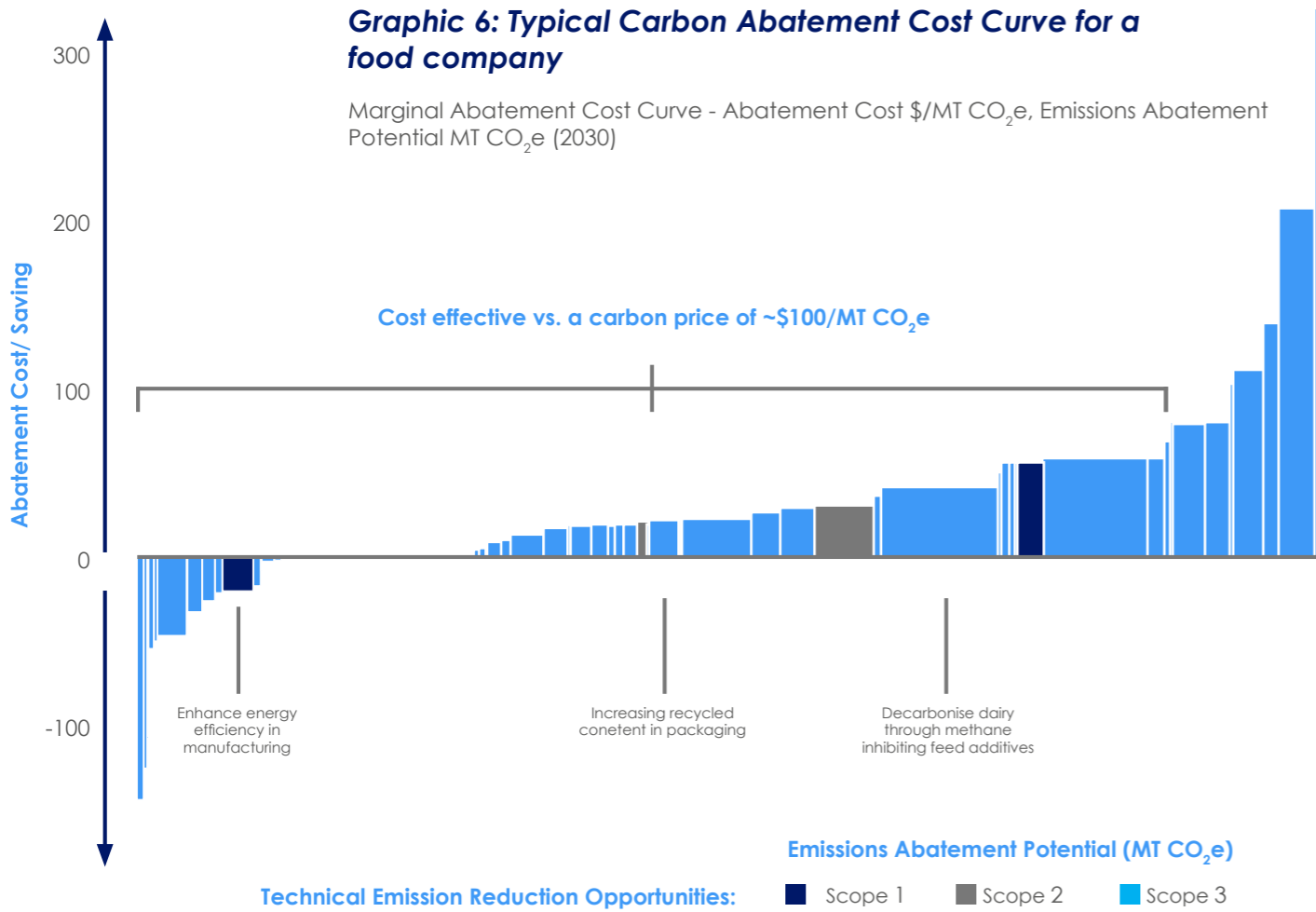
“Our analysis for various food brands suggests that the majority of levers have an average cost of roughly \$60-70/t CO₂e”

efficiency in manufacturing processes) are cost-saving for companies today. Levers above the x-axis (such as methane-inhibiting feed additive for dairy cows) represent a net cost at today's prices. Our analysis for various food brands suggests that the majority of levers have an average cost of roughly \$60-70/t CO₂e.

Clearly, more levers add to company costs today rather than save them, but this could change over the medium term. The margin between low-emission food production unit costs over the costs of current practices is likely to shrink or disappear over the coming decade, as grants for switching to green practices become common, green technology development accelerates, and it becomes more normal for players in the industry to share the costs of financing net zero initiatives.

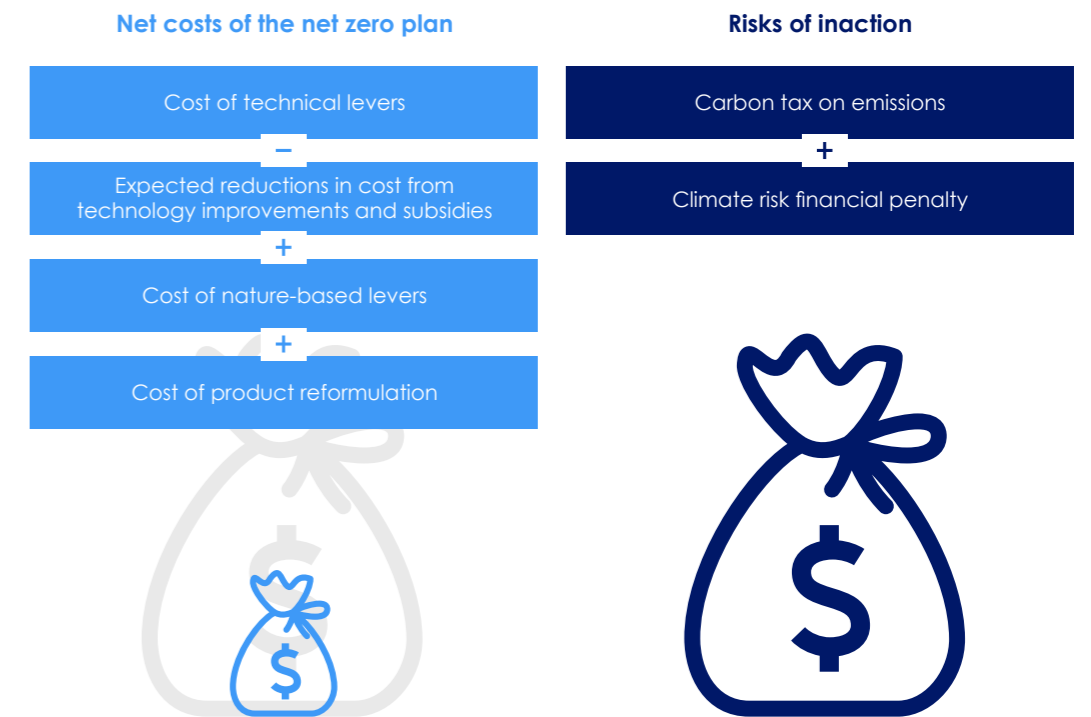
In contrast, the costs of inaction will surge if a carbon tax is imposed. At that point, companies that have delayed reducing emissions will face big bills as they scramble to find lower-carbon suppliers. IEA forecasts anticipate a price of \$140/t CO₂e in 2030 in advanced economies pledged to reaching net zero, and \$90/t CO₂e in those emerging markets with net zero pledges. This will add costs to the average global food company that are significantly higher than the costs of deploying the majority of technical levers today, according to our analysis in Graphic 6. Companies could suffer further financial penalties for inaction on climate. They will be more exposed than better-prepared competitors to increasing physical climate risks, such as higher insurance costs and higher prices for commodities and other inputs.

Applying this kind of scenario analysis to alternative net zero recipes, and studying their detailed financial implications, can help company leaders to identify the optimal recipe for their corporation.



Notes: Based on today's pricing, does not account for inflation.
Source: Systemiq Analysis

Graphic 7: Building the business case for net zero



Source: Systemiq Analysis