

Danone

Taking action in the supply chain



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Quotes attributable to Eric Soubeiran, Vice-President Nature & Water Cycle, Danone, CEO of the Danone Ecosystem Fund.

Action: promoting regenerative agriculture

As part of its goal to become net zero by 2050, multi-local food and beverage company Danone is promoting regenerative agricultural practices across its supply chain, including with the 58,000 farmers it works with directly.

Rationale: emission reduction and resilience

Danone's focus on its agricultural supply chain is motivated by the substantial percentage of its carbon footprint (around 62 per cent) that derives from the production of milk and other agricultural raw materials in its supply chain. As well as reducing its indirect emissions, regenerative agriculture promises to make Danone's supply chain more resilient to increasing temperatures and other climate shocks.

A second, more systems-oriented motivation behind Danone's policy relates to the trajectory of modern agriculture. By developing alternative models to intensive farming and demonstrating their economic viability, the multi-local food and beverage giant hopes to do its part to transform the food system and drive the 'food revolution' underway. These alternative farming models regenerate rather than deplete nature, disrupting dependency on chemical inputs.

"Transitioning our agricultural supply chain to a regenerative model is beneficial not only because of the environmental impacts, but also because of the long-term economic gains for farmers."

Challenge: entrenched carbon intensity

Promoting regenerative agriculture means going against the tide of long-standing industry practices and market trends. In developed economies in particular, the food industry has promoted an industrial model of agricultural production that places short-term yields above climate mitigation and other environmental concerns. At present, almost one-quarter (24 per cent) of all greenhouse gas emissions derive from agriculture and land use change. Despite the sector's substantial carbon footprint, this model continues to be encouraged by government policies, most notably in the form of subsidies for fertilisers and other intensive farming inputs. Even with subsidies, however, modern industrialised agriculture is only economically viable because the same policy framework allows the environmental damage it causes to go un-costed. As the market currently stands, farmers are not remunerated for the carbon they reduce or capture, or for the other benefits they bring to

ecosystems. This limits the attractiveness of climate-oriented regenerative techniques such as those Danone is trying to promote.

“Our system today has commoditized agriculture, which means farmers are paid only for product quantity and nothing for the way in which these raw materials are produced.”

Supplier engagement: positive persuasion

Danone’s approach is rooted in working closely with its farming suppliers to persuade them of the long-term advantages of regenerative agriculture. Common regenerative farming techniques include a reduction in tillage, limiting chemical inputs and using cover crops. From a climate perspective, these measures and others like them increase carbon sequestration in soils, but also strengthen biodiversity and improve water retention. For farmers, fundamental benefits revolve around enhancements to soil health and fertility, which in turn lead to higher and more sustainable yields.

Switching to regenerative agriculture includes some upfront costs and may result in an initial reduction in yields, but farmers typically reach a break-even point within two to three years, according to Danone. In addition, farmers stand to become more resilient and efficient as they reduce costs linked to chemical-based inputs and their ability to operate autonomously grows. Last but not least, clear economic incentives exist, both linked to demand from consumers for healthy and climate-safe foodstuffs, which is growing exponentially, and to the ways in which farmers can monetise positive externalities, for example via carbon credits.

Where specific suppliers have successfully pursued a regenerative model, Danone shares their experience as an encouragement and learning tool for others. An illustrative case in point is the Brazilian sugarcane producer Native, part of Balbo Group, which developed a harvester that strips off leaves from the plant and returns them to the field as a natural fertiliser. This novel solution has helped Native generate savings by eliminating the need for chemical inputs and mechanical irrigation, while also giving rise to a 20 per cent jump in yields.

“Our farmers are telling us that their agricultural model is becoming more resilient because they are less reliant on chemical inputs, for instance, and they are better prepared for erratic weather conditions.”

Financial assistance: a helping hand

Over half of all the raw agricultural materials that Danone procures come from farmers with whom it has a direct relationship. A relatively rare phenomenon in today’s highly commoditised global food market, this close connection between buyer and seller facilitates conversations about Danone’s climate objectives. Even so, the company does not expect its suppliers to automatically switch to regenerative practices without collaboration and support.

Danone invests in training and advisory programmes to assist farmers in the transition process to a more regenerative style of farming. For example, it has invested €40 million over recent years in its attempt to move its entire French supply chain onto a fully regenerative footing by 2025. Danone

also relies on social innovation funds to help develop and scale regenerative agriculture projects. These include the Danone Ecosystem Fund, which leverages local partnerships with Danone business units, non-governmental organisations (NGOs) and institutions like the Inter-American Development Bank to roll out regenerative agriculture practices in various regions where Danone is present (including Mexico, Morocco, Romania and France).

“It takes two to three years for farmers to transition to a fully regenerative system and that transition needs to be financed somehow.”

Digitisation: improving transparency and decision-making

In total, Danone has earmarked €2 billion for climate-related initiatives between 2020 and 2022. A proportion of this huge investment is destined for digital solutions. Danone hopes that the use of artificial intelligence and other cutting-edge digital technologies will increase its capacity (and that of its farmers) to measure and monitor the carbon emissions in its agricultural supply chain. This will provide it with a more accurate, real-time overview of its carbon footprint, which it can feed into its internal modelling as well as its external reporting. Access to this baseline data should also assist farmers in making more evidence-based decisions about the carbon intensity of their production methods. This promises to be especially impactful for smallholder farmers, who typically lack the digital instrumentation required to make decisions on this basis.

Future: greater market incentives

To accelerate the move towards a net zero agriculture system, the market will need to start fully remunerating farmers for pursuing more climate-friendly practices. Increases in consumer demand for climate-friendly foodstuffs will certainly assist in creating such a market incentive. To help build that demand, Danone is communicating to consumers how its brands are produced and what the benefits are for the environment. To really shift the market, however, reforms to existing agricultural policies will be required. One important step would be to reorient the current agricultural subsidy system so that it supports regenerative farming.

“We need to redesign the current agricultural model so that it reflects the value of ecosystem services such as carbon sequestration.”

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