

MORE PEOPLE ARE

The importance of sustainability amongst consumers has experienced rapid growth over the last few decades. More and more consumers want to know where their food comes from, how it's made, and what impact it has on the environment, animals and communities.

Consumers have a range of interests in relation to sustainability, and so do our customers.

Lara Phillips, Fonterra's Senior Manager Sustainability Solutions, says, "At Fonterra, our approach focuses on doing what's right, protecting our people, supporting the communities where we live and protecting and regenerating our environment so that we can continue to be a sustainable business for generations to come."

But to translate this into successful products, we need to ensure we can meet expectations, whether it's for organic, grass-fed, or sustainably produced products.

What is important to consumers and customers?

We need to take into account a range of stakeholder needs when it comes to sustainability.

"Our customers are particularly focused on climate change, sustainable farm practices, and animal health and welfare," says Lara.

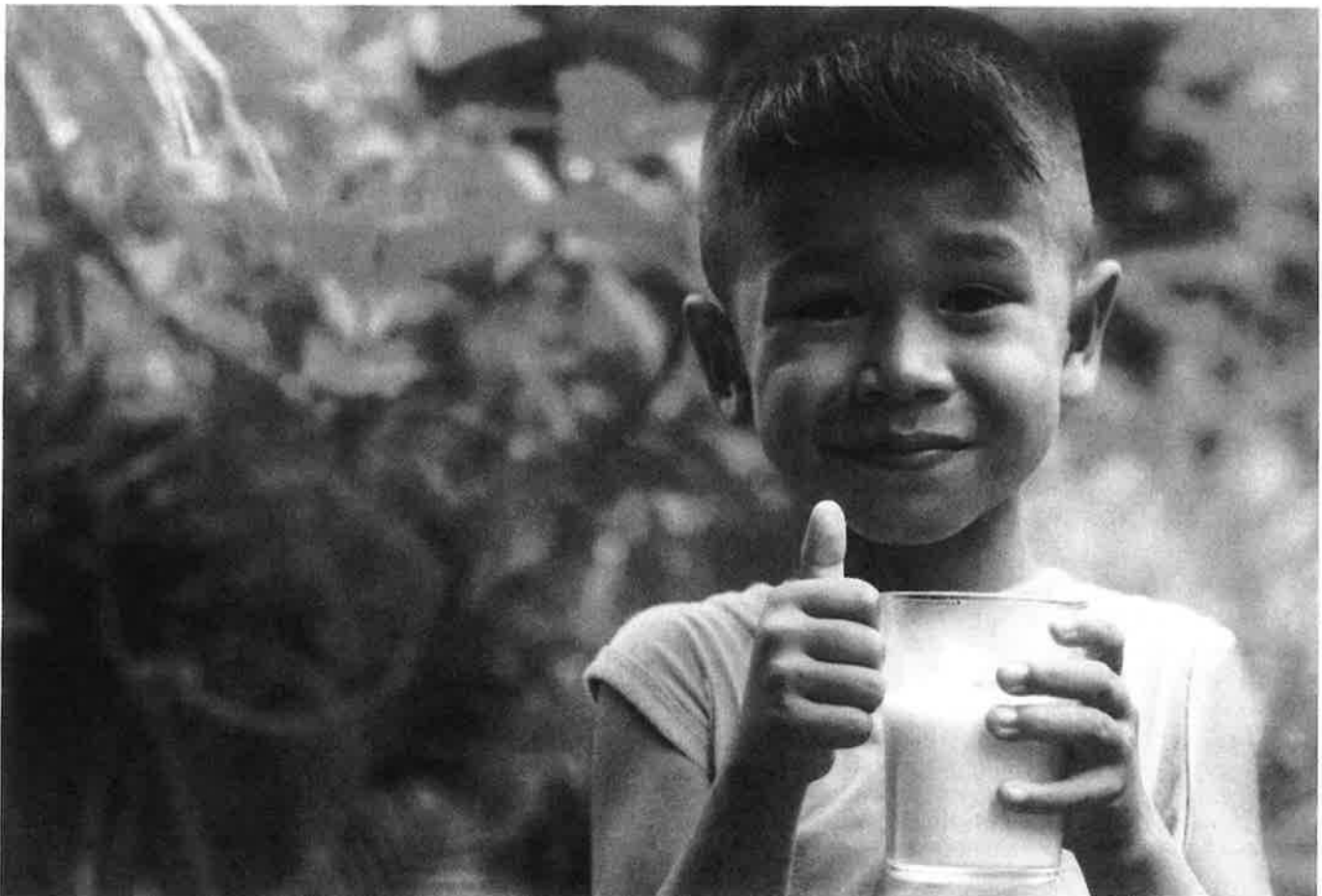
"Climate change is a topic that is universally relevant to both consumers and customers. Often the biggest environmental footprint for our customers comes from the dairy ingredients or

products they buy so they can't reduce emissions if we don't. Providing sustainable solutions that they can pass on to consumers is critical for maintaining our market share and attracting new customers."

Sustainability can be confusing so we need to consistently inform the conversation with examples and tell human stories that consumers can connect with. Farmers can help consumers understand what sustainability looks like in action, so showing how they farm, what they do and how they act can help us bring our sustainability story to life and differentiate in market.

A series of reports from FMCG Gurus and Mintel - companies that investigate and track consumer attitudes, behaviours and trends across the food, beverage and supplement markets worldwide - make for interesting reading, with some compelling statistics.

- **57% of global consumers** say they research the environmental pledges of brands, manufacturers and retailers
- **72% of German consumers** look out for Non-GMO claims when buying food, drinks or supplements
- **73% of Mexican consumers** would like to see claims of initiatives around the ethical treatment of farmers and animals on dairy products
- **74% of South Korea consumers** would like to see claims of a reduced or non-existent carbon footprint on dairy products
- **78% of Indonesian consumers** would like to know more information about initiatives on environmental pollution from brands/products and retailers



People want assurances that their food is safe

CONSCIOUS CONSUMERS

What is Fonterra doing?

Sustainability is at the core of Fonterra's strategy and the last couple of years in particular have seen our Co-op make some important strides and set some lofty, but achievable targets across our business, including:

- Committing to a target of net zero emissions at our manufacturing sites by 2050. We are making progress by:
 - Delivered a 20% reduction in energy intensity at our manufacturing sites since 2003 - enough to power all the households in New Zealand for 1.5 years
 - The conversion of the boiler at our Brightwater site to co-fire on wood biomass
 - Switching to wood pellets at our Te Awamutu site, saving more than 84,000 tonnes of carbon emissions – the same as taking 32,000 cars off the road
- Launching The Co-operative Difference – a straight-forward way of bringing together what farmers need to know for today, recognising farms who go above and beyond and providing guidance on things to consider in future planning
- A target of zero waste to landfill with all packaging to be reusable, recyclable or compostable by 2025
- A target of 100% of manufacturing sites treating wastewater to leading industry standards by 2026
- In 2020 we launched Simply Milk, the first carbon zero milk in the Southern Hemisphere and have now extended that to include specialty milks - Anchor Organic, Protein+, Zero Lacto, Silver Top, and Calci+
- Launched carbonzero™ organic butter
- Launched New Zealand's first plant-based milk bottles, made from sustainably sourced sugarcane
- Provided all Fonterra suppliers with farm specific GHG emissions profiles
- Investigating breakthrough technologies that could provide a significant reduction in biological emissions produced by cows
- More than 40% of Fonterra farmers have a tailored Farm Environment Plan, with all farmers to have one by 2025
- Fonterra farmers are required to uphold high standards of animal welfare, comply fully with the latest regulations and codes of welfare and establish an Animal Health Plan approved by their vet

What impact has COVID-19 had on sustainability?

COVID-19 has brought unprecedented changes that will permanently alter consumer behaviours.

Prior to the pandemic, consumers were focused on companies' corporate social responsibility (CSR) and viewed sustainability as traditionally associated with environmentally friendly practices. In recent months, this consumer definition of sustainability has evolved beyond environmental.

COVID-19 has also made health and hygiene a top priority for many consumers around the world, affecting the information they look for when selecting products. People are also now more aware of the need for ethical claims, human and animal welfare and the reduction of food waste. Transparency through all stages of the supply chain is increasingly valued by consumers, from sourcing and manufacturing to packaging and distribution, ensuring the safety and quality of the products they buy.

SUSTAINABILITY HELPING TO SEAL THE DEAL WITH STARBUCKS

Our sustainability credentials have played a big part in getting a deal with Starbucks China across the line.

Starbucks continues to grow at a rapid pace with a goal of 6,000 stores across 230 cities in China by the end of FY2022. It also has a goal of a 50% reduction in carbon emissions in their direct operations and supply chain by 2030.

The dairy industry makes up nearly a quarter of Starbucks carbon emissions so when choosing suppliers, the ability to help them meet their sustainability targets is an important factor.

Until recently part of our supply to Starbucks has come from our China farms. But with these being sold, we're sourcing an additional 7,000 tonnes from our UHT sites in New Zealand. We've been able to keep the contract partly because despite us having to ship the milk to China, we still have lower carbon emissions than locally sourced milk.

Some of the post-COVID trends we have seen include:

- **80% of Chinese internet users** aged 18-49 agree reducing product waste is more important than reducing packaging waste
- **81% of African and Middle East consumers** want safety assurances on the handling of food and drink products as a result of COVID-19
- **63% of UK consumers** prefer products with packaging that will protect the contents from COVID contamination
- **49% of Italians** say the pandemic has made them worry about the safety of unpackaged food
- **56% of Mexican consumers** have made attempts to reduce food waste more frequently as a result of COVID-19
- **49% of Canadian consumers** would like to see retailers and brands help provide products to hospitals and other key workers who are helping address COVID
- **83% of Chinese consumers** say they will pay more attention to products containing natural ingredients as a result of COVID-19

Lara says COVID has also increased the number of people wanting to buy local products and support their local food producers.

"As an exporter, the challenge for Fonterra is to go above and beyond to show how our products are made sustainably and responsibly. This means we must make the most of our provenance proof points and consistently tell our story of how we have one of the lowest on-farm carbon footprints of any dairy producer in the world and how farmers uphold the highest animal welfare standards."

As the pandemic's impact will be felt in many countries for a while longer, consumers will want to ensure the safety of their communities and seek more transparency from brands on how their activities help protect and sustain their communities in the long term. Consumers will demand that companies care beyond revenue - with protecting the health and interest of society and the planet the new expectation. Helping to reshape the world in a more sustainable way.