

FUTURE OF FOOD

an exploration of the global food system

Sustainability will become pre-competitive **Report of the Future of Food seminar**

28th of April 2010, London
Chair: Kees van der Graaf



Contents

4

Summary: sustainability will become pre-competitive in the global food system

6

Gerda Verburg: “New European food system”

9

Sanjeev Asthana: “Connecting farmers and consumers”

12

Paul Kelly: “Retail: a sustainable business model?”

15

Daniela Mariuzzo: “Financial institution with a long-term vision”

18

Gerhard Prätorius: “Sustainability in mobility”

21

Jason Clay: “Not price, but availability is the future issue”

24

Dialogue A: “Working together for real results”

27

Dialogue B: “Retail as a link”

30

Dialogue C: “Looking for innovation in its broadest sense”

Introduction

The seminar, that is reported here, took place in London on the 28th of April 2010, as a second seminar in the Future of Food initiative. The Future of Food seminars are organised by communication consultancy Schuttelaar & Partners, in order to explore future developments in the global food system. The first seminar focused on the role of technology to bridge the growing gap between increasing consumer food demands and limited natural resources. The second seminar discussed the roles and responsibilities of food retail and finance in a more sustainable future of the global food system. A number of 50 senior experts from food business, retail, financial institutions, government, science and NGOs, participated in the seminar and contributed to the stakeholder dialogue sessions.

The following speakers contributed, under chairmanship of Kees van der Graaf (IMD Business School, Lausanne, Switzerland):

- *Gerda Verburg, Dutch minister of Agriculture, Nature and Food Quality*
- *Sanjeev Asthana, CEO of Reliance Retail (India)*
- *Paul Kelly, ASDA's External Affairs and Social Responsibility Director (UK)*
- *Daniela Mariuzzo, CSR-Manager, Rabobank Brazil*
- *Gerhard Prätorius, Head of Coordination CSR and Sustainability, Volkswagen Group (Germany)*
- *Jason Clay, Senior Vice President Market Transformations, the World Wildlife Fund (USA)*

The seminar was realised in cooperation with the Dutch Ministry of Agriculture, Nature and Food Quality. Partners were Oxfam Novib, Oxford University and the Global Environmental Change and Food Systems network (GECAFS).



Ministry of Agriculture, Nature and Food Quality



ENVIRONMENTAL CHANGE INSTITUTE

Summary: sustainability will become pre-competitive in the global food system

In the Future of Food seminar fifty senior experts from the global food system, from business, government, civil society and science, took part in an exciting dialogue on the role and responsibilities of retail and finance when it comes to creating a sustainable global food system.

Many international companies active in the global food system have grown from multinationals to global players. Acting in a global playing field that is developing in a tremendous pace and where international regulation is almost completely non-existent, the companies have to operate with a much more complex set of responsibilities. They have to respect diversity, and have to interact according to local surroundings.

In this fast changing context, sustainability in the food system has entered a completely new phase. Sustainability is no longer related to specific steps in the food chain, but regards the food chain in total. Sustainability is developing from a product or producer related issue or 'product plus' to a *conditio sine qua non*, a demand that is indispensable for production in the long run. Also, it is developing from a supplier or producer issue to an overarching quality.

The most important implication of this shift is that players, that have the best overview and strongest influence in the whole food chain, are the ones to take the lead in sustainability actions. Retail and finance have this position. Speakers at the seminar illustrated this. Indian retail CEO Sanjeev Asthana showed how his company took responsibility for complete supply chains gaining in both cost reduction, better rewards and sustainability. Rabobank Brazil's sustainability manager Daniela Mariuzzo described how intimately sustainability and financing are interrelated. Sustainability of a bank is directly related to sustainability behaviour of its clients: depletion of resources due to unsustainable behavior could make it impossible for companies to pay back their loans. A bank also runs the risk of reputation damage for financing unsustainable activities.

The changing role of sustainability in the food system has important consequences. Not only NGO and government participants, but also business people like UK retail speaker Paul Kelly (ASDA), stressed that, in the case of sustainability, we have to move away from competition. It has to be a pre-competitive element for which cooperation is the key. This cooperation (already taking place in frontrunner initiatives such as the Roundtable on Sustainable Palm Oil RSPO) is not only about carbon and water reduction or including small scale farmers. WWF vice-president Jason Clay stressed that ultimately sustainability has to do with availability, with protecting one's raw material supply in the long run.

Buying certified products is booming. More and more global players in the food system commit themselves to sustainable sourcing and to high percentages of certified raw materials such as coffee, tea, cocoa, palm oil and fish. Expecting a huge increase in demand for food products and 'biomass', sustainable sourcing can be seen as a useful instrument to establish long-term supplier relationships. These can help continue the food supply in the long run and apply to the quality aspects that are needed.

During the seminar, it became clear that the business sector must take the lead in sustainability actions. If they do that well, consumers and government will follow.





Gerda Verburg: “New European food system”

By outlining her vision on a more sustainable food system Gerda Verburg, the Dutch Minister of Agriculture, Nature and Food Quality, set the scene for a day of speeches and debate. In the Netherlands, she has set up a dedicated programme for sustainable food which is the basis for the Ministry’s participation in the Future of Food initiative.

Verburg identified trends to be tackled in the food system:

- Increasing world population set to reach 9.5 billion by 2050 means there are more mouths to feed.
- Growth in prosperity leads to people eating more meat and dairy products.
- Rapid urban growth, particularly in the developing countries, results in a worldwide loss of biodiversity, reduced amounts of clean water and impoverished soils.
- The cost of raw materials will rise in the next decades as they become increasingly scarce. Climate change has already affected food security in Sub-Saharan Africa and parts of Asia.
- Existing agricultural production is no longer adequate. Some regions turn into deserts while others have to deal with floods. In the same regions, three quarters of the population live from agriculture.

According to Minister Verburg, there is only one way to deal with this. She would like to see us “throw wholeheartedly into making production and consumption chains more sustainable and to invest in the process both nationally and internationally.” As we speak, one billion people in the world suffer from hunger or malnutrition, while another billion people are overweight or suffer from obesity. The amount of plant and animal species is declining rapidly. We are reaching a point where we will no longer be able to mitigate the negative effects on health and welfare of humans, plants and animals.

“There is an urgent need for investments,” says the minister. “It is my ambition to ensure that by 2025, the Netherlands is among the top ten most sustainable producers and consumers. To achieve that, I will bring stakeholders together in public private partnerships or roundtables. To get consumers to buy more sustainable products, I will promote the use of health and sustainability logos, dialogue and information sharing.”

Society's response

The Future of Food seminar in 2008 suggested that we should not focus on how to feed the world rather than ask what the world wants to eat. We learnt that technology has potential to deal with the widening gap between increasing consumer demands and limited natural resources. The next step is to examine how the retail and finance sectors can help the food system develop sustainable solutions.

“Retail and finance already show responsibility in making the food system more sustainable,” Verburg points out. Retail is increasingly working with the private sector on labelling, making its supply chains more transparent and engaging in dialogues with other stakeholders. The financial sector has also become aware of its role in promoting sustainability. It also understands sustainability as a value for its image and customers. In January 2010, the world's biggest investors appealed to all countries to speed up the process towards low-carbon economy.

According to the recent ING report on the third industrial revolution, a growing number of businesses address issues such as human rights, good governance and responsible use of raw materials. Minister Verburg is pleased to see that the Dow Jones sustainability index is becoming an important indicator for investors, encouraging these multicommitted companies, as ING calls them.

The agricultural minister would also pay attention to waste. “One in every five shopping bags of food ends up being thrown away,” she reminds. “It is not only the consumer who wastes food, it happens all through the food chain. Retail could assume an important role in dealing with this challenge,” she concludes.

The future role of retail and finance

Minister Verburg is convinced that both the retail and financial sector can, and should, play a big role in a sustainable future.

“Both the sectors are powerful. They operate worldwide and they can show direction. These challenges go beyond national borders, they affect the entire world. I hope that the financial sector will take responsibility and steer supply chain partners towards a more sustainable direction. I also hope that they refrain from investing in financial projects that are unsustainable and remind their fellow financiers, particularly those kept afloat by billions of governmental support over the last few years, of their moral duty.”

The role of governments

Apart from retail, finance and food industry, government has its responsibility as well. The minister invited a number of European countries to make a concerted effort to improve sustainability of our food system. Directors of the food ministries of Denmark, Sweden, Belgium, Germany, Spain and the United Kingdom meet in May 2010 to lay the foundation for what will become the new European food cooperation.



Sanjeev Asthana: “Connecting farmers and consumers”

Finding new business models in retail is part of the challenge to make the food chain more sustainable. Sanjeev Asthana, president & chief executive, Agri & Food Supply Chain, Reliance Retail, created a supply chain connecting small Indian farmers directly to consumers.

More and better food

The growth of the world population, although slowing down, will continue in the next years to an expected peak of nine billion by 2050. Growth will largely take place in urban areas and in developing countries. This urban population will demand more and better food. Population growth and economic development will predominantly be seen in Asia which gradually becomes the world’s most important food import region. The Asian society shows both good and bad lifestyles which will become more tangible in the future. Already, India is being called the diabetes capital of the world.

With income growth, diets change. Many global food companies are adjusting their menus according to countries they operate in. Despite the differences, one similarity remains – an increase in meat and dairy consumption. While larger amounts of food are needed, it would need to be produced sustainably and take into account soil, water, climate and health aspects. It is alarming that while demand has increased, the annual growth rates of cereal yields per hectare have fallen, and per capita food production in the world has stagnated in the last six years. Food prices have increased in the same period. According to FAO, ten per cent of the needed yield increase must come from area expansion, 20 per cent from intensification and 70 per cent from innovation.



Food distribution will also be a great challenge. Grain production mostly takes place in the Americas and Australia, whereas consumption is the highest in Africa and Asia. In India and China, food chains used to be domestic but are quickly becoming global.

Climate change will impact food security strongly. It will hit farmers in developing countries the hardest. Temperature limits are being reached already for most major crops while farmers do not have money to invest and have limited access to irrigation technology or weather tracking systems. The resulting crop failures push many farmers off their land to cities. In addition to technological solutions, we would need to focus on conceptual and political change in line with international treaties such as those on Plant Genetic Resources and on Livestock Breed. When training small farmers, attention should be paid to indigenous breeds, self-reliance on seeds, fertilisers and agro forestry.

Indian challenges make an attractive market

India will be the world's third largest economy by 2040. Household incomes will rise sharply, mainly in urban areas. Compared with other Asian countries and the industrialised world, the Indian population remains relatively young. It is estimated that in 2050, more than 85 per cent of the population will be under 65. This will create more demand, increase quality and change the ways of consumption. India will also be forced to deal with reduced availability of natural resources, such as land, water and fertilisers for agriculture, and has to minimise the negative effects of agriculture on the environment.

Because of its high market potential and economic and political stability, India is a very attractive market for retailers that has witnessed a ten per cent annual growth in the past five years. All leading global retailers are in India but organised retail is still in its infancy. Next to small retailers, organised retail has less than two per cent share of the market.

How should we deal with the growing consumption? India is both a large producer and a large consumer of food. The country is globally the leading producer of dairy, tea and pulses, and second in food grains and sugar cane. India would need to organise the supply chain in order to cope with high food demand in the future.

The largest part of the Indian food supply lacks organisation and shows losses in quantity, quality and value. There are too many players operating unprofessionally and inefficiently, and there is a shortage of cold storage facilities.

140 million tonnes of fruits and vegetables are produced annually while storage capacity is only enough for 13 million tonnes.

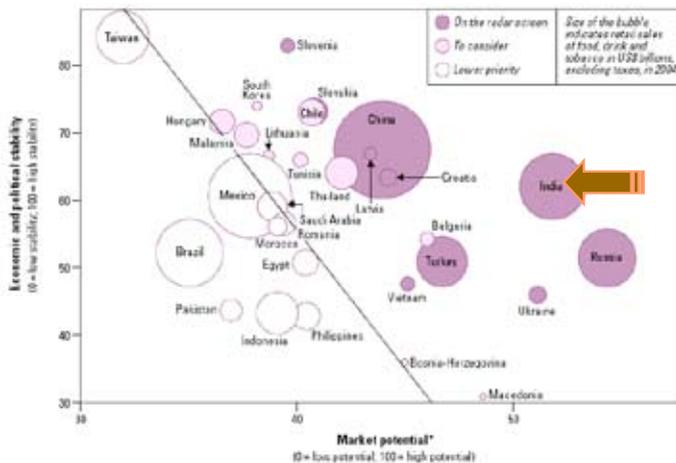
Effective business model for retail

As responsible retailer, Reliance Retail looks for new approaches for food security, for example, structural links between a farm and consumer. Reliance Retail set up a well-organised supply chain and a structured interface with small producers. All three key constituents of the food economy, a small producer, a small consumer and a small retailer, benefit. Farmers receive higher prices for their products, consumers get better quality food at competitive prices and small retailers access an organised supply chain.

Reliance Retail was a pioneer in 2006. Well-organised food chains were very scarce. Often this is still the case. Now, agriculture is diversifying and supply chains are disjointed. In order to balance the investments once made to building the chain, Reliance Retail tries to make the chain increasingly cost-effective. That would bring additional benefits for farmers, consumers and retailers.

In the global food system an integrated view is lacking, while the Reliance Retail example shows the importance of bringing the actors of the food chain together. Too many solutions are only partial. Stakeholder dialogue is urgently needed to bring different views together and to create broader strategies.

Most attractive retail market !



Source:
AT Kearney
Global Retail
Development
Index (GRDI)

India's retail market has grown by 10% on average for past 5 years
...steadily rising to top position in GRDI

Paul Kelly: “Retail: a sustainable business model?”

In front of the great global challenge of making the food system more sustainable, retailers have their share of responsibility. As Paul Kelly, the external affairs and social responsibility manager, Walmart’s UK branch ASDA, says, responsibility comes with size, and collaboration is the key word.

“A week is a long time in retail.” Paraphrasing Lord Wilson shows the difficulty of dealing with a crisis that is unfolding in slow motion with players that do not look ahead too far by nature. “Looking ahead for fifteen years is looking ahead several lifetimes”, as Kelly puts it. Only recently we witnessed the outstanding organisational capacity of supermarkets as the Icelandic volcano did not noticeably interrupt the supply chains in April 2010. Based on this capacity, the retail sector should be able to make these chains both reliable and sustainable.

Food, food, food!

The public sector has a tendency not to look ahead far enough to deal with the issue of the food crisis although they have a crucial role in several aspects. The view on land use needs to be optimised, the debate with the general public should be initiated and definitions made. “Politicians dreaming of a healthy sustainable diet for everyone is good, but what do we mean by sustainable?”, asks Kelly. A shared definition of



sustainability is necessary. It is not enough though. The free market is not able to sort everything out, government should play an active role in the debate.

The fundamental point is that food is not a sufficiently important political issue. “In the 1997 general elections in the UK, the slogan was: Education, education, education! Wouldn’t it be great if the slogan for the 2010 elections had been: Food, food, food!”, Kelly continues.

A drive for efficiency

Walmart is currently in transition from an American to a multinational and global company. Being a global player is challenging as it brings broader and more differentiated responsibilities, as well as taking local circumstances into account.

The big changes in retail take place in developing countries. Access to sustainable healthy food is a human right and retailers should do their share in guaranteeing that. Walmart aims to source products in Africa for at least 50 million pounds between 2010 and 2014. To make that possible, the company invests in capacity building and knowledge transfer in Africa.

To enable retail to fulfill its contribution to sustainability, it is necessary for supermarkets to collaborate. In the first place with their suppliers, but also with their competitors. Like food safety, this is an issue that should be dealt with prior to competition. “Only when one has a clear view on sustainability, is it possible to shape viable food chains. Analyse the food chains from farm to fork and from fork to farm and build them as envisioned”, Kelly advises.

Sustainability can also be a driver for efficiency, for example when it comes to energy and waste reduction. This could save costs and help the environment as well. Concepts on dealing with waste could be developed in cooperation. Dealing with waste is another key as it is the enemy of food security and sustainable consumption. “If retail is able to develop the necessary cooperation it is ready for the future. The business model in itself has the potential of being sustainable”, reminds Kelly.

Engage the consumer

Sustainable food production needs collaboration in a comprehensive debate with all stakeholders. Do not leave it to retail, but make it much broader. Not only between governments, competitors and supply chains but also with NGOs and consumers. All of these parties have to show commitment. NGOs should stop demanding retailers to educate the consumers and be more constructive.

In addition, the consumer should be actively involved. Simply trying to change the lifestyle of consumers with logos and information panels in supermarkets is not realistic. The consumer is confused with logos. He makes his choice in the supermarket in two seconds. The question of trying to change lifestyles or make existing lifestyles more sustainable does not exactly make the point, we have to work on both. Expecting Western consumers to reshape their lifestyle dramatically is not realistic.

Politicians and business have failed to make the issue of food sustainability relevant. In order for the debate to be successful, the language of politicians should change. Instead of a negative and blaming tone, we need to emphasise that when business, politics, NGOs and consumers cooperate, sustainable food supply is possible to obtain.

Investments for sustainable companies

The financial sector can help create drive for change by investing in and rewarding companies that value natural resources in a sustainable way. Some NGOs would even like to see investors refrain from financing companies with unsustainable operations, but that is not the solution. Investors should not step away completely, but help companies to meet sustainability criteria.

3 Aspirational Goals



ENERGY
To be supplied 100% by
renewable energy



WASTE
To create zero waste



PRODUCTS
To sell products that
sustain our resources &
environment

"Our mission of 'saving people money so they can live better' starts with low prices...but it doesn't end there. It extends to being a leader in how we take care of our world."

*Mike Duke, President & CEO, Wal-Mart Stores Inc
Sustainability Summit, October 22, 2008*

Daniela Mariuzzo: “Financial institution with a long-term vision”

“From being one of the villains of global warming, farming could become one of the victims,” says Daniela Mariuzzo, CSR manager, Rabobank Brazil. But why should a bank care and what can it do to help the agri food sector deal with the increased food demand and environmental problems that come with it?

Latin America is gradually becoming the most important agri food supplier of the world. According to OECD and FAO, the continent’s sharp increase of net food trade of 200 per cent between 2000 and 2010 is expected to continue in the next decade. However, the continent still counts 53 million undernourished people.

Climate change and the world temperature rises are estimated to lead to forest decline in the Amazon basin. Consequences for food crops could be different. Productivity of some food crops and coffee are projected to decrease while soybean and sugarcane production may rise.

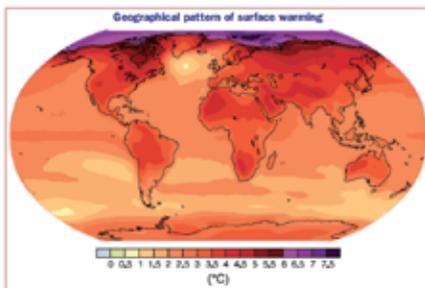
Reasons to care

Sustainability is a factor for financial institutions to take into account. The reasons for that are threefold: First, there is the reputation risk. Especially in times of financial crisis, with banks in defense on their behavior, unsustainable investment is a risk. A damaged image, fines, demonstrations, increasing collection costs and ultimately loss of deposits are issues financial institutions do not want to be confronted with.

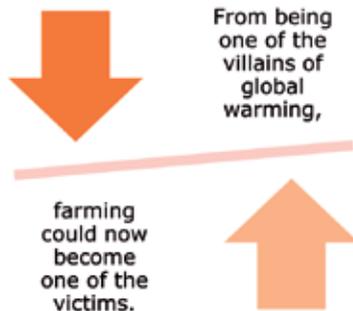


Second, increased attention of governments on environmental issues and scarcity of resources increase the financial risk as well. Environmental fines or depletion of resources due to unsustainable behaviour could make it impossible for companies to pay back their loans or the interest that they owe. Investors have to take these issues into account in their risk management.

The biggest challenge: face the consequences this paradox brings



Climate Change 2007: Synthesis Report
Summary for Policymakers, IPCC



Third, and perhaps the most important reason is that the sustainability of the bank depends directly on the sustainability of the activities of the clients. For a food & agri bank, that provides services directly to the farmers and food producers, it is imperative that its clients know how to manage the environmental impacts of their activities, otherwise there will be no fertile land or water for food production in the future and consequently no "clients" for Rabobank.

The bank's response

In order to minimise risks, banks participate in various initiatives to improve food production. We have seen financial institutions become members of, for example, the Roundtable on sustainable palm oil and the one on responsible soy and the Marine and Forest Stewardship Councils. Rabobank developed and implemented several sector policies thanks to which it was rated highest by BankTrack, an NGO that helps the private financial sector in social accountability.

Underlying Rabobank's approach are its five food and agri principles:

- 1 Aiming for food safety and food security
- 2 Using natural resources responsibly
- 3 Promoting social welfare
- 4 Treating animals responsibly
- 5 Consumer and citizen awareness

In screening its clients, Rabobank Brazil applies 16 exclusion criteria that relate to legal, sustainable and social behaviour. It also actively promotes sustainable behaviour of the agricultural producers. In collaboration with NGOs, criteria are defined for sustainable production in 'sensitive sectors' which are based on local conditions. All companies or farmers the bank invests in or who receive credit are assessed on these criteria. If clients score well, their interest rates are reduced. If one or more criteria are not reached, Rabobank helps the client draft an action plan to improve. It has also drafted a corporate social responsibility manual for farmers and organised sustainable field days.

The combination of personal approach, help for improvement and discounts on interest rates, provide a blueprint for sustainable investing.



Gerhard Prätorius: “Sustainability in mobility”

In the mobility sector, Volkswagen is one of the early adaptors of sustainability. Gerhard Prätorius, head of coordination, CSR and sustainability, Volkswagen Group, explained how sustainability was driven at the company and what it means in practise.

Between now and 2050, the global challenges related to the business environment of Volkswagen will be manifold. Climate change, scarcity of resources, growing inequity, ageing, a fast growing middle class in almost all world regions, a fast rising number of overcrowded megacities, emergence of China and India as global economic leaders and the expected peak in oil production will all have a dramatic impact.

Sustainability in corporate culture

Volkswagen started moving towards sustainability years ago. Due to being technologically driven, the current decisions in car industry have an impact in the following ten years. Volkswagen aims to become the global automotive leader by 2018, not only economically but also environmentally. This means both sales increase of 47 per cent, and continuous innovation in sustainable products, production methods and structural development around manufacturing locations. The core element of sustainable automotive is increased fuel efficiency and the use of renewable energy sources. We already see an intensive innovation competition between different technological solutions. Volkswagen wants to offer a more sustainable way of mobility.

For Volkswagen, sustainability is a part of corporate culture. As for products development, Volkswagen focuses on a full spectrum of fuel and power technologies in an ongoing effort to reduce carbon emissions and increase fuel efficiency. It uses a three level approach. At this moment, energy efficient technologies are included in all models under BlueMotion Technology. Additional technologies that are extra environmentally friendly, such as hybrid, are available in specific models. Volkswagen has set up an electrification strategy to come to complete electro traction. Next to innovations, Volkswagen focuses on consumer awareness by the campaign “Think blue” which aims at changing driving behaviour.

Volkswagen has also made sustainability a leading principle in process innovation with the ‘green factory’ concept. Volkswagen keeps investing in R&D to continue these developments. It is investing in all types of technologies without having certainty of the best solution in the future.

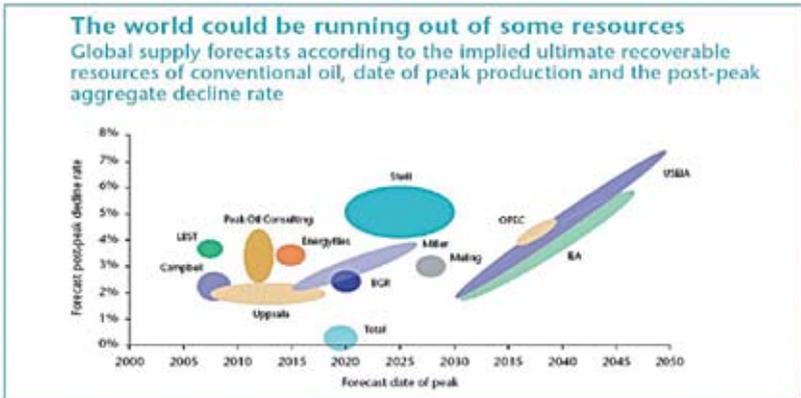
Responsible corporate citizen

Besides technical innovations, Volkswagen has a clear vision on responsible citizenship. In structural development, the manufacturer focuses on the surroundings of its production sites. It aims to develop the regions by developing people and their talents through, among others, supporting school education, HIV/Aids prevention and setting up day care centres. Company programs also include job security, competitiveness and the environment. With environmental projects, such as the Biodiversity Initiative on wildlife breeding and reforestation, Volkswagen makes use of the company thinking of helping others.

From philanthropy to core business

In its CSR strategy, Volkswagen has moved from ‘classical’ philanthropy to integrating social responsibility into its core processes. For a global company, CSR is a strategic concept. In the words of Prätorius: “In the age of a globalised economy and intensive social change, companies are required to operate more and more in a political space. In the absence of global regulatory frameworks, the challenges for the companies become more ‘political’.”

Stakeholder dialogue and transparency are essential parts of Volkswagen’s CSR strategy. The company is engaged, among others, in Global Compact, CSR Europe, the German nature and biodiversity conservation union NABU, and Econsense. In addition to NGOs and government, Volkswagen’s employees and suppliers are involved in these dialogues that contribute to the company’s license to operate.



Source: UKERC, *The Global Oil Depletion Report*, 2009
of WBCSD Vision 2050, p. 2

Volkswagen reports on sustainability according to the Global Reporting Initiative which promotes and requires accountability and transparency. The reporting has also led to new internal control and information systems.

Strategic CSR is how the corporate ethics are implemented and is an important part of the company's contribution to a sustainable social market economy. Volkswagen has succeeded in combining the environmental, social, and economic performance. In the Dow Jones Sustainability Index 2009, Volkswagen scored clearly above the industry average.



Jason Clay: “Not price, but availability is the future issue”

“Should consumers have a choice about buying unsustainable products?”, Clay asks. “I think not,” he replies. “Should producers have a choice to make them? No. Why should we have unsustainable products at all? The only way out, is for industries to work together,” says Jason Clay, WWF’s Senior Vice President of Market Transformations.

Business as usual is not enough

We have to wake up and realize that we would need three planets instead of one if we continue business as usual. With a growing population and increased consumption, we already need 1,25 planets, which shows that the global food system is already unsustainable. Agriculture uses 33 per cent of the land, increasing that amount by 0,6 per cent each year. By 2050, we will need 24 per cent more land for agriculture. That is not possible, so we have to double production on all agricultural land.

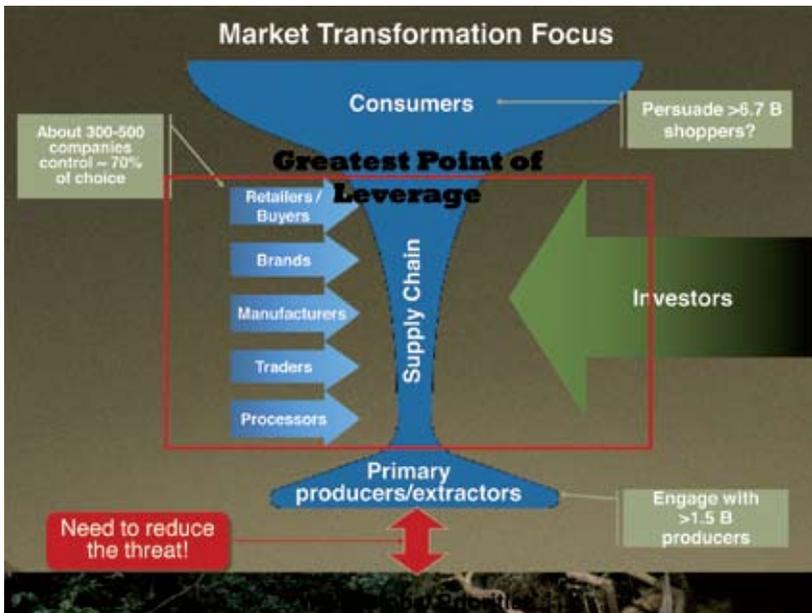
It’s not only about land, it’s also about water. Climate change will make production more unpredictable. Crop losses will increase from both drought and floods. Banks will find agriculture very risky. From a resource perspective, food is too cheap if you put a price on water, land use, fair wages, etc. Yet, today, one billion people don’t have enough food. And, about half of the world’s farmers aren’t able to feed themselves.

The development of a country depends on food security. If we continue business as usual, in 2050, food security will have decreased dramatically for many countries. Consequently, infant malnutrition and mortality will rise; many children will not achieve their full mental capacity. Development will be held hostage to food shortages. There will be more diseases and more severe epidemics. Social conflicts, famines, food refugees and failed states will increase.

Focus on the largest producers

The main threats to biodiversity and key nature areas of the world come from how 15 commodities are produced. About 300 to 500 companies worldwide control 70 per cent of the trade of each of these commodities: buyers, processors, brand manufacturers, retailers and investors. However, just 100 companies control the trade of 25 per cent of all 15 commodities. We must focus on these companies and how they manage their supply chains if we want to reduce the impacts of producing commodities in key places like the Amazon, Coastal Eastern Africa and Borneo. WWF is already engaged with 40 of these companies.

While working with these companies, it is important to be strategic. What can each company do? This also holds for retail and the financial sector. What are you big to, what is big to you, what is the biggest risk to you, what is the biggest risk to your industry, what's reducing the risk worth to you? And most important, where are the biggest opportunities to reduce key impacts and improve financial performance? These are the questions to answer in order to make strategic decisions.



Working together on precompetitive issues

Within a sector, companies have to work together on precompetitive issues. One company is rarely big enough to shift an entire industry and on average 85 per cent of the key impacts in the value chain are outside the control of retailers and brands. Still they have responsibilities in their supply chain. By working together, companies can exert pressure as an entire industry. Examples are the application of the Equator Principles for finance, the development of global standards for key commodities that all companies can use to purchase products, a soy and beef moratorium on deforestation in Brazil and an overarching, open-source sustainability index.

By 2025, availability rather than price will be the issue driving food supply chains. The organizations in a supply chain will be partners more than adversaries, and companies will make fewer spot purchases and have more longer-term contracts. Coca-Cola for example already does that through 17-year contracts with Turkish farmers, because their fruit trees live 17 years. As a result of the contracts, the farmers have access to longer term, cheaper credit. Coca-Cola is even pursuing the ability to purchase carbon credits from the farmers in addition to the fruit.

Measuring impacts

We manage what we measure. But what impacts should we measure? What is acceptable now, won't be with 9 billion people. We have to shift our thinking from maximizing one variable to optimizing a number of variables. This will likely lead to an index which will allow us to define what is acceptable and what isn't, as well as help producers improve their performance beyond what is required by government regulation. The government, for its part, can then redouble its efforts to improve the performance of those at the bottom.

Dialogue A: “Working together for real results”

Waste is a waste

Waste was considered as one of the most urgent issues the food retail sector needs to address to make the food system more sustainable. A first step is to reduce packaging. The changes in the western eating behaviour have led to consumers wanting instant ready food in small packages. Larger packages could help reduce waste but may increase the amount of food waste at the other end. Perishable and non-perishable foods demand different solutions.

Most retailers profile themselves with chilled products which leads to consumers preferring them. From dietary and waste point of view, it would be important for consumers to understand that, according to scientific studies, frozen food is better than chilled food. A change of mindset is needed.

Besides waste, quality of food was discussed. Today’s consumers are more quantity than quality-oriented. However, quality often comes at a price and consumers are reluctant to pay. Consumer education should begin already with school children teaching them how to cook, to use vegetables and to judge by themselves if food is spoiled.

Retail actions

In the retailer-supplier interface, retailers could start requesting for certifications and have an immense influence on the whole food system. Pricing is another efficient tool. We saw this when shopping bags had a price tag, consumers thought twice before buying them. However, information sharing is not always enough to change purchasing behaviour. For retail to act, the clients need to become more conscious and demanding. How about putting a higher price on unsustainable products? In order to do that, we would need to be able to define what sustainable product is like.

New business models

New business models are needed for a more sustainable food system. The business model of Reliance Retail of connecting small farmers with consumers, is an encouraging example of a contribution to sustainable food systems. It greatly reduces the price increase between farmer and consumer, by giving both the farmer and the consumer a better price. Also, large retail companies cooperating directly with small farmers help guarantee a secure income for the latter and food for consumers. At the end, it is also about self-interest: retailers need food to sell. The business model has a high potential. Prerequisite to this kind of partnerships is that both parties at the end benefit. New types of business models can be used to cooperate with new partners. A new type of competition has to be created, and old competitors will have to cooperate.

Retailers have power and responsibility

In the food chain, retailers, especially large ones, have power but also responsibilities. They should take leadership in influencing their partners to make sustainable change in the food chain happen. Now the time is right to seize the opportunity of consumers demanding sustainable food, in the same way as high oil prices were a starting point for acceleration in fuel efficient technology by the car industry. Seizing the opportunity first can give competitive advantage.

Consumer demand

In the end, consumers are the key to change. By being responsive, individual retailers can easily get competitive advantage. We have seen that when Tesco asked for carbon labelling or Albert Heijn in the Netherlands moved to selling free-ranged eggs only, the other retailers had to follow.

Making longer-term decisions

At the heart of sustainability is to make decisions on the longer-term. Rabobank makes decisions based on long-term risks for certain crops, related to climate change. It clearly shows a vision on sustainability, and it is well communicated.

The British Stock Exchange FTSE set up the FSTE4GOOD index to identify frontrunners in sustainability. When a company meets the criteria, a threshold, it will be included in the index. The indexes can be set up by a sector or by elements across sectors. So far, sustainable food or retail do not have an index due to the lack of international standards for sustainable food. These criteria must be measurable and achievable.

Microfinance and other financial means

The food system can also be influenced by the financial sector through microfinance. The system has become expensive due to large organisations involved. To distribute money cost effectively is a great challenge. Oxfam is taking initiatives in this field, because it feels that the financial sector is not delivering sufficiently. Rabobank works together with local partners that understand the financial culture of the group it wants to reach.

In addition to international banks, other sources of finance, such as regional development banks, can help improve food chain sustainability, especially for farmers.

Working together

Sustainability issues are often considered as soft, not requiring urgent response. Crisis situations often help speed up cooperation. Still, all stakeholders need shared objectives and/or goals to work on. A good example is Efficient Consumer Response (ECR), a platform that helps companies in supply chains to work together and make them more efficient. The financial sector can accelerate steps towards sustainability by making such investments in the food chain.

Dialogue B: “Retail as a link”

The discussion focused on the role of retail as a link between food chains and consumers. In this position, the retail is expected to show leadership and bring stakeholders together for dialogue. It is also given responsibilities in sustainable sourcing and consumer communication.

Responsible sourcing

Sustainable sourcing is entering a new phase. Initially sustainable products had a premium price, as it is often still the case, but they should be treated equal to other products. Rules and regulations are needed to promote sustainable, animal friendly production. The implementation of food safety in the past decennia is an example of a food issue that has been handled with regulations, not by means of consumer choice. The consumer does not always have to be burdened with paying a premium for sustainability as cost reduction remains an important element in sustainable production.

The relation between price and sustainability is complex. In practice, there is often a difference in orientation between the purchasing department and sustainability managers within the same company, that has to be bridged: price and short term profits versus sustainability and long time rewards. Sustainability must be embedded in the values of the company. This would also assure that purchasing decisions are based, not just on cost but also on environmental, social and economic criteria. Sustainable sourcing has shown to lead to long-term sourcing relations based on trust and empowering the (small scale, less developed) supplier. NGOs can help develop criteria for this responsible sourcing.

Consumer communication on brands

Product packages present a lot of information related to sustainability. However, the variety of logos is often confusing and their quality or credibility may differ due to varying aims and agendas. According to some brand manufacturers, this undermines the trust that consumers put in brands.

For companies like Unilever, sustainability is an important element of its brand architecture. It is also considered as a development that is not only wished for, but also unavoidable and irreversible. To gain lasting positive effect, the company has committed some of its brands to a fully responsible sourcing of key ingredients by 2015. Retail has, according to the participants, an important responsibility to communicate on sustainability to consumers to create awareness and have dialogue

on sustainability decisions. Stakeholder involvement helps make communication reliable. One of the UK retailers has started organising consumer panels to discuss possible withdrawal of products for sustainability reasons.

Role of finance in bringing about sustainability

Many business people have experienced the discrepancy between short-term financial gains and long-term sustainability rewards: “We need to be profitable as a company and be able to bring returns for shareholders. We need to be able to prove that sustainability brings us benefits before we can go sustainable.”

Financial institutions will get involved if they get a clear understanding of the problems and evidence of how sustainability measures can pay back. Tangible and measurable criteria, such as water reduction or carbon emission, must be used to demonstrate the effects.

Financial institutions can boost sustainable development also through investment decisions. Sustainability requirements can be set as part of their general set of investment criteria.

Criteria are also needed for ethical investment which goes beyond sustainability. In terms of the triple P approach, it is not only about planet but also about people: fair trade, human rights and justice.

Systems approach

Instead of only focusing on relations with individual companies and products in short-term, WWF urges financial institutions to work on an approach they call sustainability light. Entrepreneurs would sit together and deliberate on conditions and circumstances by which they operate. This would help the move from product-related approach towards a broader systems approach.

Finance and retail, as well as many shareholders, are primarily focused on short-term gains. There is a need to create space for longer-term planning, credits and commitment. Agricultural credits are generally given for one growing season. A system of premium investments could help shift to longer-term operations.

As Rabobank’s Mariuzzo indicated, money lenders can play an important role in sourcing from smallholder farmers. When farmers are required to produce in sustainable way, the credit and financial services should assist, not only with money but also with advice. Financial institutions should also take a task of educating smallholders and clients. Education will raise production quality and quantity and reduce risks on repayment of the credit.

To summarise, five levels of finance leading to large scale, long-term, broad spectrum forms of sustainability can be distinguished. Each level has a key success factor contributing to sustainability.

Level of finance	Key success factor
Charity	Time limited
Microfinance	Combine with education
Investment	Long term perspectives
Sustainable investment	Develop criteria
Ethical investment	Develop criteria

Final remarks

The food industry has expressed a contradiction between its knowledge and actions. Industry is fully aware of problems caused by the lack of sustainability. The rise in obesity or the clashing objectives related to biofuels were expected. We all know the threat of water shortage or the need to reduce carbon emissions. The fact that the food industry (like other industries) has been slow in its sustainability actions, has created problems for the industry itself. It is always more beneficial to be proactive than wait until action is unavoidable. This also applies to legislation. It is better to anticipate regulation, as this creates more room to manoeuvre.

Now that we are reaching the limits of our planet and population growth, we can ask if we are coming to an end of the current model of economic growth which has been a fundamental driver for development. Do we have an alternative?

Dialogue C: “Looking for innovation in its broadest sense”

Sustainable sourcing

Sustainable sourcing is about fairness both in terms of prices paid for goods and involving minor stakeholders in the debate on sustainability as much of the current problems have to do with unequal power relations in the chain.

The fairness is primarily an issue for governments as they do not operate in a competitive market. However, the retail should take the lead as it operates over entire chains. The retail sector adopted sustainability some 15 years ago. It has been a factor of competition since. Now, it would be time for the retail to take the next step and deal with unfairness, especially when the food prices are expected to rise again.

Involving consumers

There is a debate about involving consumers in improving sustainability. Some consider lacking time and resources while others think consumers should have freedom to choose unsustainable products if they like. We should also acknowledge that if we want politicians to make the right decisions, we need voters that are well informed.

The fact that sustainability became a competitive factor, distorted communication. That resulted in things like overvaluation of food miles or beliefs of fresh food being better than frozen. We need measurable criteria and evidence-based communication. Retail should assume its role as it has much bigger communications resources available as NGOs or governments.

In the future, among the new boost for CSR and competitiveness could be the provision of healthy food for people with lower incomes, investing in communities in poorer areas and hiring local people.

Innovation as a solution

It has been estimated that some seventy percent of the increase in food production should come from innovation. This means we currently do not have the solution in our hands. Secondly, we should not expect too much from the food industry itself. Never in history has a company disrupted its own market by innovation. E.g. a car company is not likely to innovate in public transport systems as an alternative for cars. Currently, a great deal of the food industry innovation is lead by consumer demand. It would be desirable that at least part of the R&D budget would be used for innovations for more sustainable production. Another issue is the fact that lots of innovative solutions (especially production focussed) are there, but they are not put into practice yet for several reasons. That mostly has to do with the inability for companies to compete on the results and thus the return on investment.

In order for consumers to participate in the debate, they would need to be equipped with clear information. Currently, the information is in many places contradicting and confusing. What we truly need, is innovation in communication. Perhaps that could also cause more students to see 'how to feed the world' as a challenge instead of an upcoming crisis.

We need innovation. Without it the food prices on the market will solve the issue, but the costs will be higher and more long-term.

Governance

Politically, food sustainability is not high on the agenda, because it is not considered crucial for consumers/voters. We need the debate for decision-makers and public to encourage each other to become more sustainable.

Governments can provide performance based regulation. For example, the regulation in food safety has brought positive outcomes. However, governments cannot and should not be the only actors in the process. For durable results in food sustainability, a broad stakeholder involvement is a key.

Future of Food Initiative

This seminar is the second activity of the Future of Food initiative. It aims to develop a stakeholder dialogue on the future of the global food system by means of a series of seminars and a book, in cooperation with organisations and companies that are active in the global food system.

For more information: see www.future-of-food.com

About Schuttelaar & Partners

Schuttelaar & Partners is a large and rapidly growing consultancy firm helping clients to build public support for sustainable innovations in food, agriculture, and human health. We join our clients in encouraging communication and dialogue on issues such as changes in the global flow of natural resources and innovative types of international co-operation. Our list of clients includes large and small companies, governments, research institutions, and non-profit organisations.

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