The focus of this concern has been on commodity markets, and the role that speculation played in the steep rise in world food prices in 2007-8. While it is impossible to say for sure what share of the price spike it caused, Steve Suppan (pp.9-10) and Julian Oram (pp.7-8) report the growing consensus that it played a hefty part. As investors stampeded away from failing US subprime mortgage investments, they needed somewhere else to park their capital. Because financial institutions had been exempted from limits designed to check speculation by traditional traders, they swamped food and other commodity futures markets, with knock-on effects for the real price of food around the world.

The UN has described this transformation of commodity markets as ‘financialisation’. Others, like the International Union of Food-workers’ Peter Rossmann, ‘use the same term to describe how a looser regulatory environment has made capital more mobile and increased the bargaining power of investors. As a consequence, they routinely demand double-digit returns that can rarely be met long-term in the food sector, and are achieved by asset-stripping, outsourcing and eroding workers’ rights. Kraft’s takeover of Cadbury, and the threat of job losses that has come with it, raises just those concerns.

One consequence of financialisation has been that many multinational food companies have restructured their supply chains to reduce their tax burden. As David McNair (pp.11-12) explains, ‘tax efficient supply chains’ see company subsidiaries in tax havens eat into the profits and therefore the tax bill in operational parts of the business, for instance by charging high fees for intellectual property. The result, says McNair, is around $160 billion in lost tax revenue to poorer countries – more than the global aid budget and enough to save the lives of 350,000 under-fives each year.

While big food businesses have been suffering the effects of an abundant and fluid investment market, at the other end of the spectrum many farmers are starved of credit. According to Carl Atkin (p.17), access to finance is a key issue for UK farmers – wealthier businesses may be able to count on support from their banks but smaller farms cannot. In poorer countries, where credit terms can be a matter of life and death, access to microloans remains the exception rather than the rule.

So the tightrope’s wobbly, it seems, because it’s increasingly out of reach to people who need it on the ground, and detached from what they’re growing, making and selling. How can we bring it down to earth?

Part of the answer, argue Alexia Clay and Sophia Tickell (pp.4-6), is to find better ways of valuing nature or ‘ecosystem services’. Yet, working out how to ensure we pay to preserve biodiversity or marine life is an extraordinary technical challenge. Furthermore, Clay and Tickell point out, it is an ethical minefield. Privatising nature to protect it is rightly controversial, whether you’re talking soil carbon or rainfall. Where private and state investors have started valuing parts of nature, snapping up swathes of productive land in some of the world’s poorest countries, it has prompted serious concerns over food sovereignty.

Many commentators agree that finance must slow down to be sustainable. In commodity markets, say Oram (pp.7-8) and Suppan (pp.9-10), that could mean reinstating controls on trading that had been relaxed since the 1990s, and introducing a City register to keep speculators out. For Guy Watson (p.18) and Helen Browning (p.19), both farmers, sustainability depends on investors backing them for the long-term. Banks who do this remain few and far between, so there may be a case for developing new funds to fill this role. Annie Shattuck (p.17) gives an example - Pennsylvania’s Fresh Food Finance - a public-private partnership that has brought fresh food and jobs to deprived parts of the state.

The bottom line is that governments need to make the link between food security and financial regulation, to support long-term investment everywhere from the biggest companies to the smallest farmers around the world. Better rules and practices could speed us towards a sustainable food system. Right now, though, our financial institutions have their feet on the brakes.

INTRODUCTION

Knives turned honest
Can 21st century finance sustain 21st century agriculture?

ALEXA CLAY and SOPHIA TICKELL ask whether finance is in a position to value ecosystems services, support a sustainable food system and protect against hunger.

Predator-prey relationships, host species and parasites, and more mutually rewarding interactions like those between plant and pollinator all illuminate patterns by which species have learned to co-evolve over time. Less familiar, but equally intriguing, is the symbiotic relationship between finance and sectors of the economy, and food is no exception. From agricultural derivatives in Ancient Greece, to forward contracts used by medieval French merchants, to today’s commodity index funds – financial tools have underpinned the development of our global food markets throughout the ages.

Global food demand is set to rise sharply in the coming decades. Population growth, changing diets and environmental constraints will combine with declining global agricultural productivity to further pressurise the food system. It is likely that there will be an investment boom in agriculture and agribusiness infrastructure to meet this forecast demand. How might the finance industry and policy makers respond in a way that does not lead to further ecosystem destruction, yet deploys the required capital into primary production infrastructure and the broad range of technologies across the value chain? We hone in on two specific challenges: the urgent need to protect ecosystems services and the equally pressing challenge of ensuring the purchase of hard assets does not increase hunger in already vulnerable societies.

Unwelcome symbiosis: eco- and food price inflation

Our food system relies heavily on what are known as ecosystem services: pollination, high quality soil, and freshwater. Globally, of the 1,330 crop plants grown for food, beverages, fibres, condiments, spices, and medicines approximately 1,000 – or 75% – are pollinated by animals. 3 Of every three mouthfuls of food we eat and beverages we drink, at least one is the result of services delivered to us by pollinators. Good quality soil is essential to agricultural production, and without fresh water, there is quite simply, no life. Despite the vital importance of these services and notwithstanding impressive conservation efforts over the past decades, we are doing nothing near enough to protect or safeguard them in the long run. The Millennium Ecosystem Services Assessment4, a groundbreaking study of global ecosystems, argues that 68% of the benefits provided by natural ecosystems are currently being degraded or used unsustainably. This year a new report, The Economics of Ecosystems and Biodiversity (TEEB), – heralded as the equivalent to the Stern report on the economics of climate change – is likely to amplify calls for a more systemic approach to secure and invest in the ecosystem services that underpin the food supply base.

Investing in ecosystems services

There is already interest in this space, as evidenced by the emergence of investors such as Generation Asset Management, Eko Asset Management and Earth Capital Partners. Likewise, food companies and agribusiness investors, concerned about the risks of ecosystem degradation to supply chain resilience, are committing to longer contracts and more stable prices for key input commodities. Such approaches need to be the norm, not the exception, but creating investment instruments capable of recognising such services will not be easy. Although natural assets and ecosystem services are calculated to be worth US$33 trillion4, quantifying and then marketing this value has so far eluded investors. To break the deadlock, two barriers need to be overcome. The first is the need to create a recognisable market based on a clear understanding of the asset. The second is the need for a radical shift in emphasis from privileged conservation sites, to a focus on sustainable agriculture. While pure-play conservation will still be necessary, it is the challenge of establishing an investment approach that captures the full value of all contributing factors (farmers’ livelihoods, water, food security, biodiversity, and carbon sequestration) in a sustainable agricultural system that is the greater challenge.

Defining and monitoring the offer

To identify the asset – as was also the case in carbon finance and microfinance initiatives – it is necessary to aggregate projects to sufficient scale to be a viable investment proposition. It is also important to create a trusted intermediary body able to identify appropriate projects and monitor and report on their activities. This, for example, is the role that Blue Orchard plays in the microfinance world, permitting bigger firms, like Morgan Stanley, to invest in loans. 4

To support these activities it would be possible to develop an ICT platform to act as a market clearing house for local project financing. This could not only overcome deal-flow barriers, but also ensure a degree of accountability if environmental monitoring was integrated into the platform. The real-time data monitoring of environmental indicators across project sites could provide investors with assurance that carbon and other environmental claims were being met.

A third component of ecosystem services investment could be to exploit a logical adjacency, namely carbon market infrastructure. As many institutions are already geared up to manage natural assets for carbon outcomes, expanding that management to more holistic environmental criteria would be a win-win for carbon sequestration and agricultural sustainability. There are numerous examples of this approach, from investing in sugar production that ‘avoids’ carbon emissions and improves soil quality, to enhancing the energy efficiency of water transport in agricultural systems. This sort of approach would also allow ecosystem services to achieve some sort of price discovery through the cost of carbon.

Hungry for land

How any ecosystem arrangement affects the livelihoods of poor people who share a reliance on these services will determine the success or failure of the mechanisms. Rainforest protection schemes that do not address the needs of migrants who clear the land to feed their families have failed. Likewise, if the overuse of soil by poor farmers does not tackle why they attempt to eke out so much from the land, then desertification will continue.

If financial players are to enter the field of sustainable agriculture they will find the imperative of addressing social concerns as vital as ecological need. The limp finale of the recent Copenhagen climate talks was due to human development arguments not climate science. And the issue of access to productive agricultural land is likely to be as thorny as they come.

A lack of access to credit has plagued agricultural workers for centuries. It is only in recent years with the evolution of microfinance that the first tentative steps have been taken to address the sector’s abysmal record in providing credit to the rural poor across the globe.

The recent recession has proved a backward step and has led to a further drying of credit flows. Predatory lending agencies offering financial products to domestic farmers at exorbitant interest rates are now far more commonplace than offers of microfinance. In India, with interest rates on loans as high as 13 to 14%, it is cheaper for a farmer to purchase a car than to buy seeds, while recent surveys in Honduras, Nicaragua, and Peru show that nearly 40% of agricultural producers are credit constrained. 5 This lack of access to affordable financial products means that more farmers are being pushed into debt or forced to sell land. Extending credit to farmers at reasonable interest rates is a vital first step in protecting local livelihoods.

Larger and more mainstream investors have not, however, ignored land. The desire to fund alternative investments in soil and carbon sequestration, wildlife habitat and scenery) in a sustainable agricultural system that is the greater challenge.

The opportunities are huge and the ethical perils commensurate, making conversations about the ethics of fair trade pale in comparison. Aware of growing needs to secure food for burgeoning populations and of the environmental limitations within their own borders a number of governments are seeking to secure food supply from other countries. Increasingly known by the condemnatory term “land grabs” – richer nations and investors are buying agricultural land from poor countries - many of them in Africa - to secure long term food supply for their people.

The sellers are amongst the poorest countries on the UN
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Human Development Index. Ethiopia, Mozambique and Sudan all rank amongst those with histories of famine and ongoing problems of hunger for large swathes of the population. Ethiopia’s 2008 contract to export large amounts of agricultural land to Saudi Arabia was signed at the same time that UN reports indicated 75,000 Ethiopian children under age five were at risk from malnutrition and an estimated eight million people in Ethiopia were in need of food relief. Saudi Arabia also bought 500,000 hectares in Tanzania at the same time. India has lent money to over eighty companies to buy land in Africa.

There are development experts who argue that this is not necessarily a bad thing. African governments are making rational choices about valuing their assets, and the foreign agricultural investors with whom they are making deals offer the opportunity to boost land productivity, build infrastructure, transfer technology, and create jobs. These are all laudable outcomes, but in a world of hunger, the legal access to their agricultural resources by the poor at times of need and the degree to which domestic food markets are protected under such schemes becomes critical. As the politics of food heat up, the question becomes: what levers in the financial system can be utilised to positively shape the international food trade?

Agreements like the Equator Principles, which provide banks with environmental and social guidance on project financing, is one lever, but tends to be overly focused on “what not to do.” Alternatively, low-cost certification of project financing might actually be a stronger channel for creating the right incentives. If deals were certified along dimensions of producer inclusion, recognized land rights, and environmental sustainability, foreign investment could help to transform farming in developing countries. In addition, creating domestic stakes in foreign land investments either through joint-venture ownership structures, not only provides an opportunity for wealth inclusion, but allows domestic countries to play more of a ‘watchdog’ function - ensuring that local food production needs are not being by-passed.

The extension of credit to farmers and domestic firms will also be critical to ensure domestic producers are given the same responsibility for their protection will be disputed.

Second, more practically, the experience of carbon markets shows how the lack of a long-term strategy on the ‘commodity’ at hand leaves markets unstable and volatile. In the weeks since the Copenhagen talks ended, the lack of hard numbers has led the bottom to fall out of the carbon market. And ecosystem service markets are likely to have similar challenges. The value of the different services will be difficult to define and responsibility for their protection will be disputed.

Finally, the ethics of consolidating a privatised approach to public commons – water, food and land – are important to consider. The assumption that common goods have to be privatised or managed by a central authority is the subject of considerable dispute. The 2009 Nobel Prize for Economics was awarded to Elinor Ostrom who demonstrates that the best managers of natural resources can, in fact, not be the owners, but the users of those resources. The full implications of this should be built into proposals for how to sustainably manage agriculture.

The financial community’s recent forays into healthcare, microfinance and renewable energy show that if capital can be channelled differently and more equitably it can play a tremendously positive role in addressing urgent sustainable development challenges. Looking at the cross-section of food and finance, it will be equally vital to ensure that the relationship that develops is one of symbiotic benefit and not one in which the parasite wakes up one morning to find that its host has expired.

The commodity market’s recent history is one that includes the collapse of a year ago – is still unable to think long-term. Governments will have to assume a central role in defining the value of the services, regulating their usage and aligning incentive structures that permit the markets to evolve in a way that builds environmental protection and social equity into outcomes.

A happy ending is not assured. First, there is a question of leverage. How have modelled develop appropriately to deliver sustainable agriculture? The consequence is that the market must be tempered. Government policies will have to assume a critical role in defining the value of the services, regulating their usage and aligning incentive structures that permit the markets to evolve in a way that builds environmental protection and social equity into outcomes.

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The real spike in staple foods prices on world markets began in earnest in late 2006. This was partially triggered by a sharp increase in oil prices (leading to higher fertilizer, packaging and transport costs), and bad harvests in Australia, one of the world’s biggest wheat exporters.

But even coupled with the longer-term trends, these factors fail to adequately explain the price increases for wheat (60%), corn (30%) and soybeans (40%) that occurred over a relatively short space of time. The end of 2006 and March 2008, the United Nations Food and Agriculture Organisation’s (FAO) food price index increased by 71%, then fell back after July 2008 to essentially the same level it had been in 2006. The food import bills of poor countries rose from $139bn in 2006 to $325bn in 2007. This anomaly can only be accounted for by a wholly different phenomenon: commodity speculation.

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The great hunger casino

When controlling commodity speculation is needed to avert the next food crisis

The food crisis of 2007-2008 revealed an alarming lack of regulation in commodity speculation, writes JULIAN ORAM. But have we heeded those warnings, or are we headed for another speculation-driven price spike?

“We all blew it, including me when I was president.” This was the frank admission of former US President Bill Clinton at a high-level UN gathering on October 23, 2008 about the culpability of world leaders for the global food crisis. Clinton was referring to deregulatory measures under his administration that allowed food commodities to be treated “like colour TVs”, instead of as a fundamental right. Under sustained pressure from financial lobbyists, unhappy regulators and the Republican Party, Clinton agreed in late 1999 to repeal the long-standing Glass-Steagall Act, and subsequently acquiesced to the Commodity Futures Modernization Act of 2000. Together, these legislative changes enabled complex financial instruments and risky investment practices to blossom in food commodity markets, ultimately contributing to the spike in food prices that led to rioting around the world, and the global financial crisis.

Causes of the 2007-2008 crisis

Despite Clinton’s public candour, the tale of how financial markets contributed to catapulting world agriculture into a major global crisis was never really told in the mainstream media. Since the mid-1970s, the value of most globally-traded food commodities experienced a long period of uneventful but protracted decline. But this began to change towards the middle of the last decade, when the price of some goods - notably cereals, oils and dairy products - started to rise.

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The commodity casino opened for business Speculation over agricultural commodities started to boom in various forms for centuries; the first formalised market for the trading of agricultural futures established in Chicago in the mid-19th century. A futures contract - a guarantee of sale or purchase certain amount of a standardised commodity, at a certain date in the future, at a pre-determined price - can provide certainty of income for food producers, and certainty of costs for processors, distributors and retailers.

For many years, speculation on food commodities happened primarily on regulated exchanges. This changed in the early 2000s, when deregulation in the financial and commodity markets in the US allowed investors with no involvement in physical food trading, such as hedge funds, private equity funds and merchant banks, to enter the commodity casino. The real boom began in earnest in early 2007, when things started to go awry in the sub-prime US housing market. When further speculation in the housing derivative market became untenable, financial traders seeking quick returns withdrew from equities and mortgage bonds, and invested in food, mineral and energy commodities.

The result was a sudden surge in demand for agricultural futures. In 2007, the trade in agricultural futures increased by 32%, while the value of dealings in ‘over the counter’ commodity derivatives (those traded directly between private traders such as hedge funds, without going through a traditional exchange) increased by almost 146% between June 2005 and June 2007. The unprecedented inflows of speculative investment in commodity futures increased price volatility and prompted a rise in ‘spot prices’ (the quoted price in wholesale markets for payment and delivery of a commodity within an immediate timeframe), causing the cost of food to skyrocket around the world.

The disastrous impacts globally for poor consumers prompted food riots across Asia, Africa and Latin America. But by the summer of 2008, food prices began to fall sharply on global markets. As the banking crisis spread, investor capital fled to the safe haven of US Treasury bonds, and commodity prices temporarily crashed.

Prices stayed low for the next year, but in recent months have begun to creep up again. With the injection of massive public...
Commodity market deregulation and food prices

The view from the US

STEVE SUPPAN takes a hard look at the relationship between big business and US Government, and asks whether the ‘revolving door’ of American politics will ever allow effective regulation of commodity markets.

The 200 million person increase in global food insecurity since 2006 – over one billion according to UN Food and Agricultural Organization (FAO) – did not result from global production failure or a shortage of supply. Global food production increased on a per capita basis throughout the past decade and 2008 saw a record global cereal harvest.1 The trigger for food riots in at least 30 countries has been rising food prices brought about by speculative activities such as short selling, and preventing index funds and exchange-traded funds from dealing in agricultural commodity derivatives.

In March 2008, US Commodity Futures Trading Commission (CFTC) rules limited commercial users of commodities to owning 11 million bushels of Chicago Board of Trade (CBOT) maize futures contracts, while Goldman Sachs and Morgan Stanley investors, exempted from contract limits, controlled 1.5 billion bushels of wheat and bought new ones. CBOT and other US agricultural futures market prices are globally influential, not only because futures and cash contracts are denominated in dollars, but because US prices are used by policy makers in agricultural export and import planning. Futures contracts became ineffective price risk management tools not only for developing country importers, but also for commodity users in developed countries.

In orderly and transparent markets, futures contract prices should converge to set a predictable cash price based on supply and demand fundamentals. Explaining what the UN Conference on Trade and Development calls the “financialisation of commodity markets” is a necessary first step in understanding how the deregulation of commodity and financial markets led to a food price crisis. Without strict regulation and enforcement, spikes in food prices could be repeated in the near term.

Disorderly markets: some origins and consequences

Following the global decline in agricultural futures prices from their June 2008 peaks, the FAO Food Index has risen each month since August 2009. FAO notes that agricultural markets remain structurally susceptible to price volatility originating from non-agricultural markets. What do oil and gold prices have to do with agriculture prices?

On June 24, 2009, the US Senate Subcommittee on Investigations published “Excessive Speculation in the Wheat Market.” The report concludes that price volatility in wheat futures contracts in 2007-2008 could not be explained by supply, demand and other fundamental factors. The Senate investigators found that commodity index funds had driven up wheat futures prices from US$3/bushel in 2006 to over US$11/bushel in mid-2008, collapsing to US$3.50/bushel by the end of 2008. Investors in commodity index funds, such as those of Goldman Sachs or Morgan Stanley, bet on the price movements of indices bundling up to 24 commodity futures contracts, including energy, agricultural, base metal and precious metal contracts. Bush administration CFTC waivers exempted index traders and other financial institutions from rules governing how many contracts could be held in a given commodity for a given time period. Rules governing contract position limits were designed to prevent any trader or group of traders from inducing price volatility or otherwise manipulating markets.

Furthermore, under the “Enron Loophole” successfully defended during the Bush administration, the CFTC exempted financial service energy trades from reporting, so CFTC regulators couldn’t effectively monitor dominant market forces. Most index fund contracts are traded “Over the Counter,” (OTC) in “dark markets” not subject to commodity exchange regulation. As a result, the oil future dominates Goldman index fund and other index funds induced price spikes in wheat and other agricultural commodities until June 2008, when the investment bubble burst and aggregate commodity prices fell.

What do oil and gold prices have to do with agriculture?

In the financial sector, investment banks such as Morgan Stanley, Goldman Sachs and Barclays Capital, as well as hedge funds and private equity funds, have recently been returning to commodity derivatives trading. Considering this from the private investor focused Dynamic Wealth Report:

“Trading commodities is arguably the hottest investing trend to hit the market in years. Ten years ago everyone was focused on the stock market and sexy technology companies… Operating in the background almost completely unnoticed at this time were commodities. Investors saved about this money making opportunity, and hedge funds hand over fist. Now the commodity markets are finally receiving the attention they deserve. The question is, “why?” It’s simple, the potential for amazing returns are huge.” (emphasis original). 4

Despite the trauma of the recent food and financial crises, little has been done to re-regulate the activities of banks and other institutions involved in commodity trading. In fact, in the words of the editor of the Dynamic Wealth Report, “trading commodities is now easier than ever.” This raises real fears that another commodities price bubble could be looming, putting millions of poor people at risk of hunger as basic foods become unaffordable.

Preventing a future food crisis

Regulatory action is undoubtedly needed to close the dangerous and dysfunctional elements of the commodities casino, before a new speculative bubble arises and causes millions of people to go hungry. One proposal has been to introduce a financial transaction tax (or so-called ‘Tobin tax’) on commodity transactions; a very small tax levied on futures contracts. This would reduce volatility of the market by dampening the incentives for speculative behaviour. Revenue generated from this levy could also help fund a number of agricultural development initiatives, enabling farmers to diversify production, or invest in ecologically sustainable and climate resilient farming systems.

As a hub of global commodity trading, Britain is in a powerful position to push dangerous speculation. Two relatively simple short-term measures that could be instigated in the City of London are the introduction of a commodity trade register at the stock exchanges, and a corresponding regulation of authorised persons to give the public a better idea of the scale of the market and who knows the market and are subject to stock exchange supervision would be permitted. Hedge funds and other speculative investment vehicles would not be admitted. Additional measures to compliment this system would include an outright ban on speculative activities such as short selling, and preventing index funds and exchange-traded funds from dealing in agricultural food commodity derivatives.

Similar ideas feature in proposed legislation in the US, where several bills have been put forward as part of the package of financial reforms being looked at by the Obama administration and US Congress. The European draft Alternative Investment Fund Managers (AIFMD) directive is also exploring how to ensure that transactions between private financial traders are made transparent and more closely regulated.

Similar proposals have yet to emerge from Whitehall, or the Financial Services Authority. MPs have been surprisingly quiet on the issue, despite fears that another food or fuel crisis is looming.

The time to act is now. With oil prices rising and commodities including sugar and cocoa recently reaching 30-year high prices, a repeat of the 2007-2008 food crisis is an imminent threat. According to economic historian Dr Peter Timmer, a visiting professor at Stanford University with 40 years’ experience in food policy analysis, another speculation-driven price spike is almost a certainty the next time a food commodity shortage arises. Speaking in an interview on the World Food Programme website, Dr Timmer warns:

“If we see another shortage, a drought for wheat or a virus in rice, or … a commodity shortage start to develop, I think we’ll see renewed interest [from commodity traders] …[followed by] spiking again. So I’m really worried that the fact that the financial markets have figured out that they can make money under certain circumstances means that we’ll see that volatility in the future.”

Continued inaction by the UK government would not only represent a massive failure to tackle an ongoing source of systemic risk to the global food system, but could also create a significant regulatory disjuncture between the US commodity markets and the City of London. At a time when the public is crying out for action to stop the impacts of unchecked, reckless greed from jeopardising the well-being of ordinary people (particularly the poor), proposals to reign in one of the grossest manifestations of that greed is one that politicians of all persuasions should seek to further.

2 IBBC News Online www.ibbc.com/peoplesreformvictoriagov
3 BBC’s Andrew Marr Show http://www.bbc.co.uk/1/hi/uk_politics/9144106.stm
4 Wahl, Peter. Jan 2009
5 Mikes, Brian March 2009 www.dynasourceinvestor.com/researchreport.aspx
6 ibid

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about 60% by mid-November 2008. On January 14, the CFTC proposed a rule, which if approved, would impose the first position limits on energy futures contracts. Two of the five CFTC commissioners who voted to release the rule for public comment expressed US financial industry warnings that even the generous position limit rule would drive energy trades overseas, especially to their London branches. It almost goes without saying that proposals to regulate European markets are met with industry threats that trades will be executed in US markets.

Won’t get fooled again?

What have investors, legislators and regulators learned since the financial market crisis following the mid-September 2008 bankruptcy of Lehman Brothers? Market analyst John Authers writes, “Usually after such an explosive episode, investors stay away for a while. But this time, they are rushing back into the same places where bubbles burst barely a year ago.” In January, Goldman reversed more than barely a year ago.”

In January, Goldman reversed more than a decade of advice to clients, when it wrote “we do not recommend a strategic allocation to a commodity futures index.” Although the analysts charted price data going back to 1845 and cited academic analysis, their climb down from recommending index investments was more plausibly dictated by the withering analysis and Congressional testimony about this massively destructive financial instrument. Nevertheless, Goldman recommends continued investments in commodities, above all in oil, the underlying asset of their lucrative energy trades, which will affect agricultural prices indirectly in their continued investments in commodities, leaving their energy trades overseas, especially to their London branches.

However, the economic and political dominance of the “too big to fail” banks hardly resides in trading commodity derivatives, which include using futures contracts, e.g. oil, to hedge various financial instrument risks. The value of COT (off-exchange) commodity derivative contracts is less than one percent of the estimated US$592 trillion 2009 global market of OTC derivatives, which include trades in interest rate, foreign currency exchange, debt and other financial instruments. The new CFTC chair Gary Gensler, formerly a Goldman manager, said that OTC commodity and financial derivative trades were at the heart of the financial crisis, and Preventing effective regulation of the OTC derivatives market is crucial to the banks’ power. Some corporate commodity end users have played the role of “useful idiots” in the banks’ strategy.

On December 11, the US House of Representatives passed financial services reform legislation that includes provisions to regulate OTC trades. Financial markets analyst Adam White estimates that legislative loopholes will exempt at least 40-45% of OTC trades from clearing on exchanges or other regulated venues. Prominent among these exemptions is one for trades between banks and non-bank derivatives “end-users.” Signatories to a Coalition of Derivatives End User letter in support of the exemption include agribusiness firms such as Bunge, Cargill and John Deere. The exemption would allow banks and non-banks to gain competitive advantage from commodity exchange price information while maintaining their own trades in dark markets and part of their debt off balance sheet financing vehicles. Deja vu - unless the US Senate closes the House loopholes, the coming financial crisis and food security obstacle for a sustainable and transparent financial system to underwrite trade dependent food security isn’t good. First, the US needs to know why the system failed, in order to fix it. Consonant with the Obama administration’s stated interest in the future, not the past, the budget for the just launched congressional Financial Crisis Inquiry Commission, scheduled to report December 15, is just $8 million.

The Wall Street lobbiling budget for defending financial reform legislation is thus far $344 million, a tiny investment for protecting $35 billion revenue from derivatives trades. Given the thus far successful resistance of Wall Street and its revolving door of government allies to reform, Simone Johnson, former chief economist of the International Monetary Fund, predicts another financial crisis within twelve months. If half of all derivatives continue to trade in dark markets, Wall Street self-regulation is unlikely to prevent another US financial crisis, and a consequent repatriation of capital flows from developing countries, leaving their treasuries bare of hard currencies to pay for food imports.

Two thirds of all developing countries remain import dependent for a critical margin of their food security. Twenty years ago, Solon Baralouche wrote on how an unstable global monetary system intensified commodity price volatility to the detriment of food security. Since then, “financial innovations” have only exacerbated this instability. Advocates of yet greater dependency on trade liberalisation for food security can only hope that the global financial services industry is regulated before it destroys what remains of the liberalisation project.

SUPPLY CHAIN RESTRUCTURING

Tax efficient supply chains

Catch them if you can

Food companies can set up elaborate structures to avoid tax in developing countries, depriving them of much needed revenue, writes DAVID MACNAIR.

In 2007, the Guardian newspaper reported an elaborate scam used by banana companies to avoid the tax man. The three companies that supply several UK supermarkets and between them control more than two thirds of the worldwide banana trade, generated over US$500m of sales and US$1.4bn in global profits between 2002 and 2007, yet paid just US$200m in taxes.

The Guardian reported that subsidiary companies importing bananas into the UK were being charged hefty fees by related subsidiaries in secretive tax havens such as the Cayman Is. For a fee of use, brand, insurance services, and distribution networks. As a result, the companies paid minimal tax on profit in the country of origin and at the point of sale. This might make business sense for companies trying to keep the shareholders happy, but these practices are often conducted in a way that neglects the human costs.

Christian Aid estimates that efforts by multinational companies to reduce their tax bill costs developing countries as much as US$140bn each year. This is greater than the global aid budget. If this money was invested according to current spending patterns it could save the lives of 350,000 children under the age of five each year. In September 2010, the world’s governments will meet to discuss progress towards the millennium development goals aimed at halving world poverty by 2015. This is looking increasingly unrealistic. Yet, companies are using elaborate structures to avoid tax in developing countries, depriving them of much needed revenue.
There's often an incentive to inflate or deflate the prices of their products

Big companies, little tax

There are huge challenges in raising tax. Many developing countries don't have the expertise or capacity to tax their own citizens effectively, particularly when the majority of population isn't formally employed. However, when it comes to taxing large companies, the problems can be of a different scale. The companies may contribute to development through providing employment, creating infrastructure, and doing charitable work, but in the long term, they must also invest in the state through paying tax.

Big companies aren't just efficient at avoiding tax. They are also becoming increasingly aggressive in their attempts to shift it overseas. Tax scrutiny is still not the norm (yet). The headlines are dominated by the lack of tax paid by companies that have dodged tax in jurisdictions where they are based, and the secrecy of their tax affairs as they are published in the annual reports of companies that pay tax in countries in which they are based.

Complex structures

However, the major damage is done through the way in which companies can structure their operations and, in the process, minimise tax payments. When related companies trade across borders, a system called 'transfer pricing' governs intra-company trades. A company trading internationally is required to observe the arm's length principle: the price that such a product would gain on the open market. Yet there's often an incentive to inflate or deflate the prices of their products. For example, in setting up a new operation, it may make business sense to sell it at a lower price than the subsidiary at less than market value. More aggressive companies may use transfer pricing specifically to avoid tax. Whatever the motivation, there is a tax consequence.

With an estimated 60% of world trade occurring within rather than between multinationals, this is a significant problem. A report published by Christian Aid in 2009 showed that an estimated £81bn was shifted from EU countries to the EU and US between 2005 and 2007. Much of this occurred in the trade of food products: £245m on cocoa and cocoa preparations, £413m on prepared vegetables and nuts, and £443m on tobacco, and £1.2bn on beverages, spirits and vinegar. What's more, with so-called intangibles such as intellectual property becoming increasingly important in the operation of multinational companies, it's incredibly difficult to determine what an arm's length price really is, leaving the system open to abuse.

Companies can locate valuable intellectual property in tax havens (they're also called secrecy jurisdictions) and shift profits by charging subsidiary companies a royalty for their use. Or a company can simply be pumped full of debt to minimise taxable profit through a process called thin capitalisation. For example, on a recent trip to Ghana, a senior tax official from a major accounting firm told me of a subsidiary company he which had audited for 10 years, but which had never made any taxable profit.

So what of the solutions?

Given the opacity that has grown up around this system, shining a light on company practices would enable governments and civil society alike to hold companies to account for how much tax they pay, and hold governments to account for how this revenue is used. Christian Aid is campaigning for all multinational companies to report financial activities on a country-by-country basis, so that profit shifting could be spotted early. In addition, breaking the secrecy of tax havens by forcing them to automatically share information regarding those holding assets on their shores would be a great deterrent to the tax dodger.

Of course, this is a long-term process and developing countries need technical assistance to enable them to tax effectively. But this would be a great step towards transparency, accountability and social responsibility when it comes to companies paying their way.

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Michael Newman
Jon Whitton

of field extension has left farmers in an information vacuum. To credit will more than cover the costs of the standard. I have some crops and regions, the improved productivity resulting Fairtrade? Donor funds have also played an important role. In would make a u-turn on years of ideological opposition to significant outlays. And who would have guessed that Nestlé is at first glance rather odd. If supplies are tight and prices are competitive advantage.

In traditional open commodity markets, this would have been a reversing of historic trends of declining share of retail price food insecurity challenges. The first is the limited reach of business. The majority of farmers who are not connected to the leading businesses will not be helped by the privatization of the sustainability agenda. The Foresight workshop notes that food chain initiatives generally cannot reach the most serious natural resource or food insecurity challenges.

The second is fairness and justice in trade. Sustainability must be built on firm economic underpinnings. This requires a reversing of historic trends of declining share of retail price getting back to growers. I’ve noted before in this magazine that it costs – of compliance, of training, of upgrading, of certification and of audits – are being asked of suppliers without associated price premiums or cost-sharing, then “sustainability” can undermine rather than sustain. Something has to give, especially when prices return to historical trends, and when donor funds dry up. What gets left out may be investment in the business, or improvements in conditions for wage labour.

There is at last a serious probability of legislation to establish an ombudsman to oversee trading relationships between retailers and suppliers. Without wider attention to fairness and justice in trade, producers will be facing a storm with very little in the way of protection or insurance. And it’s worth considering that, in competing with emerging economies in a world of limited supplies, fairness and justice could become a competitive advantage.

Such voluntary approaches can however get seriously over-hyped, to the extent that it becomes expedient for government to shirk politically difficult roles and pass them to the private sector. Nowhere is this clearer than in the government’s Vision 2030. A brave new world of sustainability, food security, health and profitability is to be ushered in “wherever possible” through “voluntary industry-led and owned measures.” The message is of deregulation “to allow food businesses to get on with the job.” But as the Foresight workshop noted, markets balance supply and demand, but do not necessarily deliver on policy objectives. The workshop reflected on how both the political and the business domains are characterised by very short-term horizons. Business is driven by consumer and shareholder value, and government is driven by political expediency. The fact that the food industry has discovered a richer vein of self-interest in sustainability should not imply that the state can now sit back while food businesses ‘get on with the job.’

Even if rough weather does not become a ‘perfect storm’ – the brands and governments are both going to have to concede that enlightened self-interest and ‘sustainability’ standards are not going to live up to their promises, without attention to two issues.

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1 Bill Verkleij is head of the Sustainable Markets Group at the International Institute for Environment and Development (IIED) in London.
industry. The average age of a Ghanaian strategy. Take for example the cocoa commitment rather than less. So, as the strong relationships are formed. Once this.

forces that will lead to increased growth wane? I believe there are three driving commitment in such circumstances or is whether business will increase its growth, to name just a few of our challenges. My feeling is that there will be a redoubling of efforts by new stakeholders collaboration.

Third, the sustainable development agenda is on the state. Governments and institutions such as the UN may be failing to address the big issues of climate, water, health and population growth, to name just a few of our concerns. My feelings is that there will be a redoubling of efforts by new stakeholders collaboration.

An analysis of the effect of the recession on Fairtrade

The Fairtrade movement in the UK has achieved considerable success over the last decade, not least in persuading mainstream retailers and brand owners to make major commitments to it.

It began by getting mainstream retailers to sell independent brands in their stores, swiftly followed by ‘own brand’ Fairtrade. Most recently we’ve seen companies converting entire product lines to Fairtrade, kicking off with The Co-operative’s own-brand Fairtrade chocolate range in 2002, and followed with products as diverse as chocolate, bananas, sugar and clothing. As a result, Fairtrade sales in the UK have soared from £3 million in 2000 to £713 million by the end of 2008.

Even during the recession, Fairtrade appears to have stood its ground, with the figures for the 52 weeks to September 2009 showing a 5.5% increase in consumer expenditure.2 However, in a survey of more than 1,000 consumers, two-thirds said they would spend less on ethically sourced foods such as Fairtrade in future as a result of the recession.

A recent survey of 50 UK companies showed that 54% said the recession had had no impact on their Corporate Responsibility (CR) budgets, and another 15% said their budgets were being reduced by less than 10% a fourth. So Fairtrade’s success in turning around the fortunes of mainstream brands in recent years could have undermine category conventions should be in the strongest position, as choice editing means consumers can’t shift to a non-Fairtrade product.

However, retailers are not required to abide by the Fairtrade Labelling Organisation’s (FLO) trading standards, even for own-brand Fairtrade products. They don’t have to give their direct suppliers any assurance of future purchases. As retailers typically order on a ‘just in time’ basis, this can leave suppliers in a difficult position when faced with a downturn in consumer interest, or competition from other suppliers.

This creates pressures in the entire Fairtrade value chain which can undermine the benefits of Fairtrade for participating farmers. As long as the FLO trading standards are not sufficiently developed to ensure sustainable livelihoods.

But more encouraging evidence shows that when all actors in global value chains work together to build mutually beneficial trading relationships, mainstreaming can both expand and deepen the impact of Fairtrade.

Enter Fresh Food Finance, an institutional model for partnership between government and the private sector to provide funding for locally-owned food-related businesses. The concept was piloted in the state of Pennsylvania in 2004, and in four years helped develop 68 supermarkets and fresh food outlets in underserved areas, creating or retaining 3,700 jobs and leveraging $165 million in private investment. The state only contributed about $16 million in public funding.

The need for Fairtrade is now greater and more urgent than ever before. We in Fairtrade must respond to this need by strengthening our systems, broadening our reach and deepening the impact for producers, consumers and business. It is in our grasp to take a lead in creating a better world. We cannot afford to let this, the Fairtrade moment, pass us by. Around the world, people like John in Kenya deserve a future that is more promising.

Despite their abundant fresh produce selection and nearly 100% mark-up, in West Oakland, California’s ubiquitous corner liquor stores are often the primary food outlet for low income families. The neighbourhood, one of Oakland’s poorest, spends some $35 million per year on food that leaves the community. Local entrepreneurs are looking to change that, and in the process keep more of recession-ravaged Oakland’s precious dollars at home. Mandela Foods, West Oakland’s new worker-owned co-operative grocery is expecting a 26% return on investment over the next five years, while purchasing the majority of their product from local sustainable farms.

This story is playing out from New York to Detroit and Los Angeles. Small banks and credit unions are springing up to address both the need for fresh food and an economic boost in our urban cores. Attracting traditional financing is potentially one of the movement’s biggest hurdles.

How can finance best support sustainable food?

‘Sustainability’ is a word often associated with environmental concerns. Although significant, the environment is not the only subject that needs to be addressed. Fairtrade is sustainable in the long term. Sustainability is a balance between businesses, the environment and consumers.

Farmers need to receive enough funding in the short term to continue trading and enough in the long term to make their continued operation attractive, otherwise farming will stop.

The current economic conditions mean that the core agricultural activities of farms are performing well. However, as the economy begins to grow, opportunities will arise to diversify and it is important that lenders recognise that investment in agriculture supports both core agricultural activity and their interest payments.

For a business to be sustainable it needs to grow with consumer tastes and it is essential that it has capital to invest. Accessing capital to continually develop is often a challenge. It is clear that lenders and farmers benefit when lenders know how the agricultural sector is evolving and build long term relationships with their farming customers.

Legislators have a big role to play in sustainable food and farming too. Ultimately both banks and farmers will respond to market signals. If food is to be sustainable, it is important that UK competition is fair. Where double standards are applied to markets it is inevitable that fair trading will flourish for businesses with poorer welfare practices to the detriment of welfare, consumers, environment and UK agriculture.

Small-scale agriculture can play a key role in addressing the world food shortage. However, small-scale farmers find it very difficult to raise the investment they need to manage, offer lower levels of return over a longer time period. Managing the immediate harvest is tough enough for growers, let alone the essential medium and longer-term projects which need to be funded in order to strengthen their businesses, improve yields and improve product quality in order to gain higher prices.

For Cafédirect, the term ‘sustainability’ is about a sustainable livelihood for everyone in the supply chain. We need to support the sustainable use of Earth’s limited natural resources. Paying fair prices is an absolute minimum, it is just the starting point. Businesses need to work in partnership with growers to build sustainable and balanced supply chains which are mutually beneficial to both farmers and businesses.

A major part of sustainable food production is dealing with the impact of climate change, which is already having devastating effects with some of our grower partners reporting up to 40% crop reduction. In response, Cafédirect has been reinvesting profits into a research project called ‘AdapCC’, which has developed strategies and farming methods that enable growers to reduce the impact of climate change. The project is also helping to reduce the effects that farming has on the environment. This has resulted in one of the pilot groups cutting its energy consumption by 30%.
I spent an interesting time on one of the UK’s high street banks’ websites looking for comment on the sustainability of its agricultural services, but didn’t get much further than “We understand the financial challenges facing farming businesses in the UK, and we have a wealth of experience in delivering finance to those who invest in the countryside is just one area where banks should be scrutinised and shouldn’t be. Banks wield huge power, and while the impact of poor financial decisions have been made all too clear by the financial crisis, it is often forgotten that money can also be a powerful force for good. Triodos Bank exists to use money in a way that is better for people and the planet. We actively support ethical food enterprises - in the UK we finance nearly 250 organic farms, as well as leading fair trade businesses like Cafédirect. By putting our money where our mouth is, we have played a role in helping the industry grow from niche sector to mainstream.

Banks should be scrutinised and asked about their role in developing a more sustainable society, especially given how much power they have to support or at least help sustainable food.

A sustainable food system is one that is sustainable in all respects and that is best promoted by contributions from all sectors of the economy, including those that provide the raw materials, finance, and technology to ensure that the importance of these objectives. Triodos Bank are a fine example of how the financial sector can be more than just a financial institution.

The best way for finance to help sustainable food production is for it to value the environmental, human and animal welfare outputs, both positive and negative, and reflect these within the economic framework of our food system. Then the market mechanism would have a chance to work as it should, driving best practice through, and rewarding those practices that contribute to the long-term sustainability of our food systems. This is a tall order, but it can be done.

We can use the funds that are available to the food system, such as the Common Agricultural Policy, Rural Development Agency and public funded research budgets, to explore and support the most sustainable approaches, and seek to ensure that best practices of these funds are understood by a budget slashing Treasury.

We must understand the investment pressures and constraints of small businesses, because that’s where much of the innovation and drive for better practices tend to come from. We already value the technical and market innovation of small and medium sized enterprises which are then cannibalised by larger players, but even that scenario is under threat as finance gets harder to find in these risk-averse times.

And anyway, innovative incubators being taken over by larger companies is perhaps an imperfect model for many farming and food businesses who see themselves more as custodians of values than serial entrepreneurs. The chances of success for values-motivated enterprises could instead be substantially enhanced in ownership, scale and purpose. Food starts with farming and farming should start with soil, where today’s management decisions have implications for fertility a decade hence. This is in marked contrast to the approach of most of our banks who have displayed greed and a focus on the short term that is the antithesis of sustainability.

How can finance best support sustainable food?

Sustainability implies taking a long view, investing for a period of time greater than the financial gain rather than the restless pursuit of short term profit. In my experience how long that view turns out to be is normally determined by two things, how confident you are that what you are planning will remain relevant (that is, regarding the risk that it will also cause the future systems that society needs and wants. This is a tall order, but it can be done.

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Despite the recession, corporate social responsibility is thriving in big food businesses, says JANE FIONA CUMMINGS, and it’s all down to the triple bottom line: people, planet and profit.

In June 2009, CIES - The Food Business Forum issued a mid-year update to its annual Top of Mind report which showed that Corporate Social Responsibility (CSR) had fallen from its number one spot in the list of priorities for the international food business sector. Evidence that CSR has become a victim to the recession?

Gareth Ackerman, CIES Summit Committee Chairman, took a more optimistic view. “While the fall of CSR may initially look troubling, I personally don’t feel there is cause for concern. Between January 2008, when leaders gave it top priority, and now, retailers and manufacturers alike have completely rebuilt their business models to incorporate environmental and social sustainability into the DNA of their companies. Going forward, all business decisions must pass through the sustainability filter, or be rejected.”

Is that the case? Is CSR now so deeply embedded within the food industry that there is no cause for concern if it drops down a short-term agenda? Has CSR become a long-term given?

Before we answer that, perhaps we should consider what we mean by CSR. In the words of Lisbeth van den Bogaard in a publication entitled Corporate Social Responsibility in the Food Industry: “CSR is based on three interrelated pillars: the economy, the environment and social aspects. In other words, the triple bottom line, people, planet, profit. Entrepreneurial activity in the triangle where these three dimensions come together is truly CSR in the broad sense of the word”.

In practice, the triple bottom line gives rise to a raft of issues concerning not just what organisations do but also how they do it (and, as we will see later, why they do it). In no particular order, those issues include: the use of resources (operational and administrative), waste (immediate and consequential), greenhouse gas emissions, employee welfare and engagement; supply chain practices; community impacts (local and global). Taken together, they chime with a focus on long-term profitability not short-term profit-taking.

For the food industry this has to raise questions, amongst others, about land use, the depletion of natural resources, soil erosion, waste from agricultural production, the impact of energy use on the climate, and the interests of everyone involved in the entire process – farm to fork, globally. According to a report issued by Business in the Community in June 2007: “Land for agriculture occupies approximately one third of the Earth’s total landscape yet land available for food production is decreasing every year. Other natural resources are also in decline – put simply, fewer resources to produce more food means practices need to change for food production to be sustainable.”

So there can be no doubting the significance of CSR. But to return to our original question – can we be confident that CSR is so embedded in organisational thinking that everything will turn out alright despite the recession? Well, there are some grounds for optimism.

For a start, no self-respecting business of a certain size would these days be without some form of CSR or sustainability policy statement and many produce extensive annual CSR reports. And that is unlikely to change given the pressure that has grown over the years from trade and regulatory bodies, the media, customers and employees. We are living in a world of changing values and businesses have to respond to that whatever the economic climate.

In a recent exercise undertaken for one of the UK’s leading supermarket chains, we were asked to assess their supply chain operations, particularly focusing on labour issues, the media, customers and employees. We are living in a world of changing values and businesses have to respond to that whatever the economic climate.

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In other words, CSR now touches every area of business operations. When we asked another of our clients, a leading manufacturer of food ingredients, about their sustainability strategy and its effects, they said that it “has had an impact throughout the business; we have won new customers, it has also positively affected recruitment, and by promoting responsible trade, we not only forge close partnerships with suppliers, but also maintain the integrity of our supply chain.” Or this from another Article 13 client, a speciality food producer: “It is clear that new customers have come to us in part because we have a good record on sustainability, environmental management and care of our people”.

Moreover, an increasing number of organisations have come to recognise that CSR, once embedded within the business model, can unlock opportunities for real innovation. In a project we undertook with a leading fruit juice company, we were asked to deliver a business case and a marketing plan for a new fair trade drink that would contribute to the lives of growers. Research showed that with its strong ‘sustainable development’ credentials, consumers would be willing to pay a premium price.

And that search for opportunities that capitalise on our changing values is not going to go away. Indeed, the recession might even give added impetus to finding ever more innovative ways to respond to the shift in thinking that has been taking place. After all, it is worth remembering that in many people’s minds much of the blame for our current economic woes should be laid at the door of outdated, short-termism; what one might call pre-CSR values.

But our optimism should be set against some harsh economic realities. CSR-friendly consumer concerns should be set against some understandable but less CSR-friendly consumer demands. Demands for convenience, for all-year-round availability, and, particularly in a recession, demands for cheap food. Take consumers out of the orchestra of voices calling for a more sustainable approach and it is all too easy for food industry PR departments to finesse their arguments and justify their companies’ avoidance of some of the big CSR issues.

However - and here we return to a point we raised earlier - CSR isn’t just about what we do and how we do it. It’s also about why we do it. It’s about the values that underlie our behaviour. And there is much that can be done, even in straitened economic times, if our hearts and minds are in the right place. Consider this response from an Article 13 client when asked what new CSR initiatives they were planning to launch: “For 2010 the issues of our Carbon Footprint are an area of focus with better methodology, clearer data and a better understanding of our operational impacts. We will continue to grow the overall business and are debating how we can grow without increasing our impacts.” Important initiatives, progress in the right direction, and yet no major cost involved.

Of course the recession will have an effect on CSR activities. And we should not be surprised to see a decline in the number and scope of CSR initiatives that require significant financial investment. However, the existing embeddedness of CSR (i.e. the extent to which cultural change has already taken place) combined with the fact that not all CSR initiatives are cost-intensive, gives us confidence to believe that the recession will be more of a minor delay than a major reversal in the onward progress towards a more sustainable future.

And in Article 13’s opinion, now is precisely the time when organisations should be seeking to advance on the low-cost option of changing values even if some of the investment-intensive activities have to wait.

Jane Fiona is co-founder of Article 13 who work with food and retail companies on realising their sustainability opportunities. Article 13 are experts in business responsibility, CSR, sustainability, governance and innovation.
CARL ATKIN assesses the state of UK agriculture in the face of recession.

2009 will be remembered as a tough year in UK agribusiness. The impacts of the financial crisis, challenging weather and new issues to contend with, including a reduced pesticide armoury and the need to formulate strategies for more sustainable production have tested many businesses. At primary production level for combinable crop farmers a bumper global harvest pushed prices down to or below cost of production. Fresh produce has also been squeezed by the continued pressure of the multiple retailers, especially those businesses which are vertically integrated to their supply chains. It is therefore not surprising to see the headlines of the latest Plimsoll report into the UK fresh produce sector highlighting poor profitability levels (£444 million less profit that the previous year), the need to restructure and the likelihood of further consolidation in 2010. It is perhaps ironic that this is against a background of increasing concern about food production globally and domestically. Agriculture and food is clearly more "recession proof" than most other sectors of the economy, and at a generic level demand for most agricultural commodities remains strong looking forward globally during 2010 with increases in direct consumption and the use of products for biofuels more than offsetting reductions in livestock feeding. However the effects of the recession however have not happened evenly across the agribusiness sector. Producers of staple root and vegetable crops were benefiting by increasing volumes, whereas anything premium or prepared has experienced the opposite. Many of these changes have been surprisingly transitory, with consumers often returning to upmarket retailers and premium own label offerings quickly as well. All this shows that widely held 'truths' do not substitute for quality data on consumer habits, and that perceptions of wealth are more important than reality - the reality being that those lucky enough to keep their jobs have more disposable income due to reduced mortgage payments and unemployment. Similarly movements in exchange rates had substantial impacts on some businesses – the extent determined by what proportion of production is located where and to which market place it is destined. The traditional model of a UK fresh produce business producing for the domestic market in season, reliant upon overseas operations to maintain year round supplies, has been hard hit by the weakening of Sterling. Retail competition is more ferocious than ever with the recession changing some trajectories. The inevitable continuation of the value focus from the big four means there is no solace for vertically integrated agribusinesses in the short to medium term. For packing and processing businesses 2009 and 2010 saw some temporary respite from having to match the opportunity costs of growing arable commodities and being the jam in the sandwich between retailer and a strengthening supply base. Access to finance is a key issue. Businesses with strong asset bases, especially at the primary production level, have generally found continued support from their bankers (although interest costs have risen by a few % compared to the very low levels seen recently). Agriculture is now "back in vogue" amongst high street banks – for many years seen as a low return sector, its low risk features are now more appreciated. For those businesses which are less asset rich and where lending is based on the robustness of future cash flows bankers have clearly been more cautious, asking searching questions about the competence of management teams and risk management strategies. UK sector borrowing has risen quite considerably: Bank of England figures show that lending to agriculture increased by 3.4% in the quarter to September 2009 to £11.2 billion, largely a response to increased working capital requirements. UK agriculture is a net borrower on a considerable scale but it tends to borrow over longer terms, where rates are at historically low levels. So where does this all leave the UK agri-business sector in 2010? There will be some businesses who manage to turn challenges like water, sustainability and pesticide removal into opportunities (such as profiting from waste through anaerobic digestion). Some capital intensive projects have been delayed as a result of the economic crisis. But in general, investment in more sustainable production makes both economic and environmental sense and this trend has continued despite the downturn. Some of the upstream squeeze on primary production and supply chain businesses to take a hit on costs and margins may have been partially justified, but it won't wash going forward. A whole supply chain collaborative approach is increasingly required, whether to remove further cost or produce greener chains and products. Whole supply chain initiatives are challenging – much more than pressurising suppliers on price – and they require trust to get buy in and implementation. Experience also suggests that you need to be focused and supported by the retailer. The proposed appointment of an ombudsman is more a reflection of the current unsatisfactory state of affairs than an effective solution. Unless the sector can persuade retailers to move from price driven adversarial trading patterns to a more strategic approach we will not retain world class agricultural and food supply chains in the UK. This is in nobody's interest.

Valuing natural capital

Making the case for a new economic landscape

ECOLOGIC DEBT IS SPIRALING OUT OF CONTROL, SAYS OLIVER GREENFIELD.

And unless we tackle it, the economic consequences will be dire.

Credit crunch. Recession. Economic meltdown. Call it what you will, the financial crisis has hit everyone hard. But the world will survive and the money will keep going round. It always does. The planet, on the other hand, is at far greater risk. This, from the Government’s Food 2030 visioning paper (published in Jan ’09) is clear recognition that the problem is huge: “Our whole economy has been built on the base provided by the environment, which has itself been shaped by the economic use we have made of it. Many ecosystems provide benefits that are still essential to our economy. As we use natural resources to produce food and other goods, we create economic benefits. But we can also incur costs on the natural environment by over-exploiting its resources, and damaging its ecosystems. These make us poorer in the long term by limiting our ability to continue in this cycle.”

More than 60% of ecosystems are in decline and new research on planetary boundaries identifies nine key frontiers, three of which is it proposed are already breached: climate change, nitrogen cycles, and biodiversity. WWF’s own research shows a formidable and consistent rise in humanity’s ecological footprint. Our footprint first exceeded the Earth’s biocapacity in the 1980s, and now we exceed it by 50%.

If this ecological debt continues to deepen, there will also be severe economic consequences: resource limitations and ecosystem services, including current unsatisfactory state of affairs. This is a clear recognition of the problem is huge: “Our whole economy has been built on the base provided by the environment, which has itself been shaped by the economic use we have made of it. Many ecosystems provide benefits that are still essential to our economy. As we use natural resources to produce food and other goods, we create economic benefits. But we can also incur costs on the natural environment by over-exploiting its resources, and damaging its ecosystems. These make us poorer in the long term by limiting our ability to continue in this cycle.”

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SUSTAINABLE ECONOMICS

The management and governance of ecosystems to provide services will be a growth industry over the next few years. Food companies are naturally placed to play a part in that work and see the direct benefits to their ongoing production. Sensible finance organisations will be looking for these activities from the food sector to safeguard their investments or underwriting. When it comes to food, UK financial institutions have different options available to promote change through:

● engagement with clients in the food supply chain based on social and environmental criteria;
● engagement with companies in the food chain (including involvement in roundtables);
● preferential financing for new, groundbreaking developments.

They can also play a constructive role with regard to sustainable agriculture and financial companies, which aim to develop new, more sustainable technologies or products. Finding sufficient investment funds is often a major hurdle for such initiatives. Smaller, more specialised financial institutions such as Co-operative Bank and Triodos Bank are active in this field. The latter has financed Organic to launch its ‘Fish 4 Ever’ brand that hopes to reduce the damage caused by conventional fishing.

Ecological debt is spiraling out of control, says OLIVER GREENFIELD. And unless we tackle it, the economic consequences will be dire.

Some already are. We’re working with a leading global insurance company to understand the systemic risks posed by insuring certain industry sectors. The company was partly prompted into action through big losses insuring an aquaculture business that was destroyed due to an unprecedented algal bloom. They wanted to know whether this algal bloom related to floods and farming nitrate wash off, as a consequence of both irregular rainfall and agricultural behavioural issues also insured by the same company. What’s more, they wanted to know what insurance safeguards could have helped reduce risk across these industries.

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Food is very much at the heart of the issue: the combination of the recent food crisis and the climate change challenge means that domestic agriculture and fisheries policy, development policy and global environmental policy are becoming increas-
SUSTAINABLE ECONOMICS

SUSTAINABLE ECONOMICS

Growth isn’t possible

Why rich countries need a new economic direction

In a unique study, published in the science journal Nature in September 2009, a group of 29 leading international scientists identified nine processes in the biosphere for which they considered adaptation necessary to “safeguard stability.” Of the nine, three boundaries had already been transgressed: climate change, interference in the nitrogen cycle, and biodiversity loss. Clearly, anyone who thinks the Earth can take another doubling of the population or another timber harvest should famously state, “a madman or an economist.”

To illustrate this, and in the context of climate change, a new report from nef looks in detail at the relationship between economic growth and the need to avert catastrophic climate change. Based on the leading models for climate change and the global economy’s use of fossil fuels, the report - called Growth Isn’t Possible – comes to a seemingly inconceivable and self-explanatory conclusion.

It asks whether global economic growth can be maintained, while keeping a good likelihood of limiting global temperature rise to 2°C – the agreed political objective of the European Union, and widely considered the maximum rise to which humanity can adapt without serious difficulty.

The report shows that none of the scenarios studied, including the most optimistic variations of low-carbon energy and efficiency, could square the circle of endless global economic growth with climate safety. This is in part due to the fact that over the last decade, carbon intensity (carbon per unit of GDP) has not gone down; rather has generally flat-lined and, in some years, even gone up. This is the result of rapid global economic growth in developing nations such as India and China who fuelled their economic boom with carbon intensive coal.

However, globally, there has also been a lack of investment into low carbon energy infrastructure such as solar or wind energy.

At the same time improvements in energy intensity of the economy (energy per unit of GDP) has slowed – implying we may be approaching efficiency limits in both the supply side (for instance power stations) and demand side (such as domestic appliances). So, for all the promise of magic bullet technologies such as biofuels, carbon capture and storage and nuclear, as well as ever improving energy and resource efficiencies, continual growth draws energy and natural resource efficiency gains.

Unending global economic growth, it would seem, is therefore neither possible, nor desirable or necessary. If you have any doubts, ask a hamster.

For more information about nef’s report Growth Isn’t Possible, please go to nef’s website – neweconomics.org. To view an animation of the Impossible Hamster, created by Andrew Simms and Victoria Johnson and animated by Leo Murray, please go to impossiblehamster.org.

Oliver Greenfield leads the WWF (World Wildlife Fund) in the work of Sustainable Economics. Specifically, he leads efforts on One Planet Business, One Planet Economy, One Planet Finance, and One Planet Business.}

Samuel Johnson is a senior researcher at the New Economics Foundation, a leading independent think-and-do-tank. Dr Victoria Johnson is a senior researcher at the New Economics Foundation, a leading independent think-and-do-tank.
FOOD ETHICS RESEARCH DIRECTORY

We aim to build the definitive directory of people offering research or other consultancy on environmental and wider ethical issues relating to food and farming. To join visit: www.foodethicscouncil.org/researchdirectory.

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The ethics of intensification
Thompson, P.B. (ed.) | 2008 | Springer
ISBN 9781402087219

Is intensification in agriculture good or bad? This publication reflects on the effects of technology development towards higher productivity on farmers’ livelihoods, affordability of food, environmental health and animal welfare. The authors argue for the need to bring ethical issues into mainstream discussions on agricultural development and for the development of accessible tools and methodologies to bring ethical questions to the centre of development. SR

GM food on trial: Testing European democracy
Lieveld, L. and Carr, S | 2009 | Routledge
ISBN 9780415955418

Recent public debates on GM and biotechnology in general have exposed the contradiction embodied in western democracies between their support for biotechnology and their responsiveness to citizens’ concerns. Further, it has highlighted the faltering of a solely technical apologetic expertise to guide policy-making. To navigate through future controversies there is a need to acknowledge the social and environmental aspects of innovation and deepen quality democratic engagement in debates on technology. SR

Hot, flat and crowded: why the world needs a green revolution
Thomas L. Friedman | 2009 | Penguin
ISBN 9780141036663

This interesting book examines the impact of our reckless behaviour on the planet, and argues for a Green Revolution led by the United States. In this revised edition, Friedman connects the environmental and recent economic crises as being rooted in the same problems, but optimistically calls for us to learn from this and repair the Market and Mother Nature by bringing sustainability to both realms. BP

The globalization of food
David Inglis and Debra Gimlin (eds) | 2009 | Berg
ISBN 9781845202820

As the editors note, this book could more aptly be titled ‘Globalisations’ of food, to reflect the multiplicity of experiences within globalization processes. From Tasmanian Atlantic salmon to Indian food in Manhattan to Hispanic foodways in Colorado, the authors reveal the central role of food in examining the growing interaction between local and global, and explore the controversies of production, distribution and consumption in a rapidly changing world. BP

The taste for civilization: food, politics and civil society
Janet A. Flammang | 2009 | Uni. of Illinois Press
ISBN 9780252076732

In this book Flammang examines the social and political costs of the erosion of food rituals due to a lack of time, competition

with screen culture. She analyses the impact of the dying art of conversation, and highlights the need to ‘degender’ foodtalk in households. A thoughtful and in-depth look at the significance of food rituals in North America. BP

Trade, food, diet and health
Hawkes C., Blouin C., Henson S., Drager N., Dubé L. (eds) | 2010 | Wiley Blackwell
ISBN 9781405199865

To what extent can we draw links between the trade process, diet and health? Against a backdrop of increasing obesity and rising chronic health problems, this critical analysis unmasks the drivers behind these trends, the advantages and the dangers that trade brings to dietary trends. Without doubt, an insightful read for anyone working in the food or public health sector. AC

Market orientation: transforming food and agribusiness around the customer
Lindgreen A., Hingley M., Harness D., Custance P.(eds) | 2010 | Gower
ISBN 9780566020848

Although Marketing Orientation is a major concern for food producers, it often fails to make it through to the implementation stage. This book argues that the implementation of Market Orientation is in fact fundamental to ensuring customer satisfaction and to running a prosperous business. It warns, however that this is no small feat and may require a complete overhaul of existing working and producing structures. AC

Fair trade, corporate accountability and beyond: experiments in globalizing justice

This volume examines the potential of fair trade and CSR initiatives to contribute to a fairer and more just trading system that respects fundamental human and social rights. The contributors advocate a globalised system of social justice, exploring this subject by way of indepth case studies, both in the context of the industrialised and the developing worlds. AC

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